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POLICY BRIEF

4/ 2023 — Social

Comprehensive social investment – The key to a feminist and progressive Europe!

Key Points

- The 10th anniversary of the EU-Commission's Social Investment Package (SIP) should be used to invigorate the discourse on social issues in Europe and to demonstrate the benefits of various areas of social policy.
- The Spanish and Belgian presidencies are setting progressive priorities for a progressive and feminist Europe. These potential policy measures are not new (cf. EPSR), but it is important to set credible social priorities now.
- The fiscal framework is too tight. Adequate room for manoeuvre for social investments is needed - without playing them off against other social benefits. The statistical „investment concept" should be defined more broadly than it has been to date.
- The costs of social investments continue to be overestimated, while the positive effects are sometimes underestimated or too often forgotten from an analytical point of view.
- Inaction – i.e. accepting the continuation of problems - is not for free! The costs of inaction are sometimes very high (cf. NEETs) and cross-generational.
- Many issues – social issues, twin transition, etc. – also require social investment as an answer. After all, social policy is always part of the solution.

Background

Following the failed austerity policy in the wake of the financial crisis, the EU-Commission finally picked up the concept of social investment in 2013, namely with the launch of the Social Investment Package (SIP) in February 2013. Since then, social investment has often been part of the political discourse at national and EU level. In reality, however, there has often been a lack of political will, of an adequate weighting of budgets, of the competence to recognise the systemic context or simply the patience to wait and evaluate the positive effects.

The term „social investment" is generally used as a theoretical notion for public spending that is expected to have sustainable impact in the future. This ranges from welfare gains for the society to increases in productivity and a discharge for public budgets. In terms of content, it includes expenditures on social infrastructure (from primary education to care), active labour market policy and healthcare. However, there is still no conclusive definition. A social taxonomy complementing the environmental taxonomy, which is currently implemented, is also not in sight yet.

The concept of social investment still has great potential for setting the political course in Europe in a progressive way. Social policy must finally be seen as part of the solution to many of the problems of our time. This is also largely shared by the High-Level Group on the Future of Social Protection and of the Welfare State, which presented its report on behalf of the EU-Commission in February 2023. Many gender equality goals – which were also addressed by the Spanish Council Presidency in the second half of 2023 – are virtually dependent on investments that finally enable women to play an equal role in the world of work or relieve the burden of exhausting and unpaid care work in families. In this sense, it is very welcomed that the idea of „social investments" is finally being actively taken up again along the revision of the EU's economic policy framework.

Main findings

Underestimated benefits - overestimated costs

On the one hand, the fact that there is currently no conclusive and accurate definition of social investment is an advantage. This has allowed many ideas with high added value to be put forward in budget debates. On the other hand, this "breadth" of possibilities is also a disadvantage, as in the context of economic governance and other policies it is prevalent to apply clear definitions and indicators. For example, it has not yet been conclusively clarified whether the necessary expansion of childcare or nursing care only covers material investments or also personnel costs. In fact, both expenses are necessary if we want to achieve functioning care systems. That is good and bad at the same time.

In any case, the benefits of social investments are clear: they cover existing needs throughout lifetime – from elementary education to vocational training, health, social inclusion, improved labour market opportunities and care. They also open up large windows of opportunity in fiscal terms, because often the costs of investments are overestimated and the returns and employment effects are underestimated. For quite a time, this limited view has hampered social progress in Europe. Many of the positive effects are also described in the European Pillar of Social Rights.

In general, social investments often "pay off". There are many different calculations and scenarios for the expansion of care infrastructure. They include costs, (direct and indirect) employment effects, returns and finally the medium-term income. In some cases the returns far exceed the costs and many projects are largely self-financing. This makes necessary investments more "affordable". For example, one euro invested in the care sector in Austria is self-financing at 70 cents, while at the same covering important social needs. The fact that investment into education makes sense has long been undisputed.

Compared to the very early stage, important conceptual and methodological progress is apparent. For example, the broadly available input-output tables could make the multiple effects for example positive multipliers of social investments clearly visible. They are available in all member states. However, the deficiencies in research are still considerable.

Social Investment Package - The turnaround

Let us take a step back in time: the EU-Commission's initiative 10 years ago, the SIP, was "historic" in a way, as it also marked a noticeable break with the austerity policy in the wake of the financial and economic crisis. In a statement by the European Economic and Social Committee, it was particularly welcomed as a pardigm shift.
Today it is clear: The Troika´s way to "solve" the crisis in some member states – above all in Greece – which was primarily based on dismantling the public sector and reducing labour and social standards, has failed. However, the EU-Commission's shift from austerity policy to an active social agenda was anything but obvious but quite remarkable. However, as social policy is primarily the competence of member states, unfortunately it did not directly guide their budget design.

Social investment - key principles

To this day, this quote from the SIP can be seen as trend-setting:

"Welfare systems fulfil three functions: social investment, social protection and stabilisation of the economy. Social investment involves strengthening people's current and future capacities. In other words, as well as having immediate effects, social policies also have lasting impacts by offering economic and social returns over time, notably in terms of employment prospects or labour incomes."

Such quotes give cause for hope. The perception, that countries with the best social systems and the most developed social partnerships are the also the most successful economically, cannot be emphasized enough. The reference to the importance of "automatic stabilisers" is also very welcomed. This term describes the effect of public pensions and unemployment benefits in supporting consumption and therefore economic demand and growth.

Empirical findings backing such conclusions prove once again that stable and reliable social security systems and institutions are needed particularly in times of crisis. Consequently, the crisis resolution mode during the pandemic was also significantly different from the one in 2009. Several political adjustments have been made to prevent an economic and social collapse. These include the jointly financed SURE and NextGenerationEU programmes, a relaxation of the state aid rules and the activation of the general escape clause. The latter means that the application of the - hopefully soon to be modernised – EU fiscal rules was suspended and will not resume until 2024.

The 3 Ss - the core of the welfare state

The SIP quote above also provides a conceptual simplification of the categories of certain social spending – the 3 S = Social Protection/Stabilisation/Social Investment – which still set the pace in debates about the future of the welfare state today:

S 1 – **Social protection** for people in difficult life situations or in phases in which they are vulnerable: such as children and people in old age, but also when faced with unemployment or illness.

S 2 – **Stabilisation:** In times of economic crisis, there is a need for reliable aid and consumption support.

This applies to monetary aid, but especially also to social benefits or crisis instruments such as short-time working.

S 3 – **Social investment** as key to windows of opportunity (e.g. budgets for social infrastructure from education to social services).

These three dimensions should consistently complement each other. They must not be put in competition with each other in a "scramble for budgets". Unfortunately, that mistake was made over many years and these three categories were even sometimes "played off" against each other! This proved to be extremely short-sighted. Today, the discourse seems to have moved on – at least in part. This is welcomed, as people will ultimately judge the welfare state by whether social policy helps them directly and also opens up prospects.

Might these progressive ideas be accepted?

Even in the EU, there are different variants and diverse ideas on how to deal with the current challenges by shaping the welfare state. How a welfare state actually works and which tasks it fulfils is ultimately a question of the social consensus and the political balance of power. These differ from country to country and change over time. In recent years, the Scandinavian countries, in particular, have shown that a well-developed welfare state can successfully fulfill many tasks: whether it is protecting people in difficult situations (such as illness, unemployment or the need for care), maintaining social peace, the inclusion of disadvantaged groups in the economy and society, economic and social stabilisation in times of crisis or support for an emancipatory economic and social project.

Some member states seem no longer able to fulfil the minimum requirements declared by the European Commission to adequately address the "3 Ss". The destabilisation of European-style democracies is often a near step if the social question is neglected. However, the priorities of the Spanish Council Presidency give hope that Europe will be given a positive perspective.

High demand for social investment - especially today

Social policy inaction not only has negative social consequences in the short term and exacerbates the immense inequality in the distribution of income and wealth but is also immensely "expensive" in the medium to long term. This is particularly the case when, for example, unemployment becomes long-term unemployment, poor children become poor adults or women are denied policies that promote equality. Furthermore, while the enormous need for investment to tackle the climate crisis is often quite rightly highlighted, social investment has often been overlooked. However, if the green transition is to succeed, climate investments must be complemented by social investments. Ultimately, investments must aim at green as well as at social sustainability. The EU-Commission rightly emphasises that "the transformation of the European economy will only succeed if it is done in a fair and inclusive way and if everyone can benefit from the opportunities that the green and digital transitions bring".

Unfortunately, however, current legislative initiatives at EU level show that the ideology of austerity and the neglect of social goals has been anything but overcome. In the course of the mid-term review of the Multiannual Financial Framework, the EU-Commission is proposing an increase in funding so that the EU budget can fulfil its most important tasks in view of the numerous crises. However, mainly investments in key technologies are considered here, while no increases in funding are planned for important social programmes.

The revival of the debate on social investment

In February 2023 – 10 years after the SIP – a high-level expert group released a report on "The future of social protection and of welfare state in the EU". Amongst others, the report states that social investment also represents a dividend for the welfare state and even calls for a "Golden Rule for Social Investment". In November 2023, the idea of "social investment" was also picked up during a conference organised by the EESC on the Recovery and Resilience Fund (RRF). The conclusion was that the RRF has increased the capacity for social investment. However, many National Recovery and Resilience Plans continue to invest unevenly in social programmes and the gender dimension is too weak.

However, the debate on social investment is also flaring up again in the course of the debate on the revision of economic governance. While the Commission's proposal is already unconvincing in terms of the scope for green and digital investments and some even fear a revival of austerity policy, the debate in the Economic and Financial Affairs Council (ECOFIN) is also proving difficult. However, a discussion on social investments is unfolding in the Council for Employment and Social Affairs (EPSCO). Specifically, it is about which criteria should be used in the planned national debt reduction plans so that the member states are given a longer period of time for fiscal consolidation. In addition to budgetary targets, these plans should also include reform and investment targets. The idea is that social investments should be given greater consideration in that context. After all, this would go hand in hand with higher growth potential and quality employment, which in turn is a prerequisite for a strong and therefore also fiscally sustainable social Europe.

Demands

- As pleasing as the current debate on social investment is, this concept must now also be implemented so that there are tangible improvements in areas such as housing, health, care and education.
- An active gender equality agenda is required, for which social investments are an important basis.
- In view of high geopolitical uncertainties, crises and wars, social investments must also serve to create a basis for social and economic resilience in the EU.
- More cost truth is required when it comes to social spending. Specifically, the Ageing Report could include necessary additions that show the net costs (gross costs minus returns/investment income) of the necessary social investments.
- The debates on green and social investments, which are often conducted separately, should be integrated. Social and green investment goals should not be placed in competition with each other. Instead, in the context of investments, both green and social sustainability should be taken into account.
- The revision of the fiscal framework must also provide scope for public social investment. The current debate in the EPSCO Council must be consistently pursued. In addition to social investments, the comprehensive operation of the automatic stabilisers must also be ensured.
- Overall, it is necessary for the public sector to meet its responsibilities both in the social sector and in the area of services of general interest. An essential basis for this is the creation of budget security for social investments so that these can be implemented.
- The concept of social investment should also be reflected in all other relevant policy areas of the EU, above all in the EU budget and, in particular, the Recovery and Resilience Facility. Here in particular, it is important to ensure a balance of objectives.
- As it is the case with shaping of social and economic policy as a whole, the debate on social investment also requires democratic involvement, i.e. the comprehensive involvement of the European Parliament, the European Economic and Social Committee and the social partners.
- In particular, the high level of expertise of workers´ representatives in this area must be taken into account. Employees are particularly negatively affected by a lack of investment, for example in education, housing or care, both in terms of working conditions and in the context of services of general interest.

Literature

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December 2023

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