THE SOCIAL INVESTMENT APPROACH

UNDER-ESTIMATED POTENTIALS & OVER-ESTIMATED COSTS

Adi Buxbaum, European Centre for Social Welfare Policy and Research, 13 June 2023
OUTLINE

- The Social Investment Package (SIP) (EC, 2013) – 10 years later
  - Requirements for effective & successful Welfare States (WFS) & Varieties of Welfare State Regimes
  - Developed Countries are performing better! → Lessons learned?

- Experience from national/European debate
  - Childcare / LTC / Selected research results
  - Benefits & returns > costs (over time)!? Do we have the patience? We have the funds …
  - Cost of Inaction

- Recent drivers of the debate

- Social Investment as a comparative advantage

- Summary & Conclusions
SOCIAL INVESTMENT PACKAGE – 10 YEARS LATER
SOCIAL INVESTMENT (SI) – FUNDAMENTALS

- Launch Social Investment Package (EC, 20 Feb 2013) …
  = Reaction to failed austerity!
  = Renaissance of social policy in Europe!? 

- Criticism of the approach is justified, if SI is not complementary 

- Positive impact of SI: employment effects, self-financing (at least to a significant degree), addresses the goals of the European Pillar of Social Rights (EPSR) and people’s needs 

- Volume and benefits/impact highly depend on WFS traditions & an overhaul of political/economic mainstream
SOCIAL INVESTMENT = COMPLEMENTARY

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 have 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. In particular, social investment helps to ‘prepare’ people to confront life’s risks, rather than simply ‘repairing’ the consequences. Modernisation of social policies requires systematic introduction of ex-ante result orientated and a systematic approach of the role social policies play in the dis-education via work/unemployment to sickness and old-age.
3 S = WFS REQUIREMENTS & INTER-LINKAGES

Social Protection
when we are vulnerable

Stabilization
in times of economic downturns (incl. ‘automatic stabilizers’)

Social Investment
social infrastructure, education/training,
support in different ways
= „key“ to employability & life satisfaction & …
## WFS – DIFFERENT REGIMES & TRADITIONS

<table>
<thead>
<tr>
<th>Model</th>
<th>Liberal</th>
<th>Social-democratic</th>
<th>Conservative</th>
<th>Post-socialist</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of protection</td>
<td>Residual; self-provision</td>
<td>Universal provision</td>
<td>Contribution- and status-oriented</td>
<td>Contribution- and status-oriented</td>
</tr>
<tr>
<td>Basis of eligibility</td>
<td>Need</td>
<td>Citizenship</td>
<td>Employment</td>
<td>Employment and indigence</td>
</tr>
<tr>
<td>Goal</td>
<td>Fighting poverty</td>
<td>Mitigation of inequality</td>
<td>Status preservation</td>
<td>Rudimentary protection</td>
</tr>
<tr>
<td>Decommodation</td>
<td>Low</td>
<td>High</td>
<td>Medium</td>
<td>Very low</td>
</tr>
<tr>
<td>Primary locus of welfare provision</td>
<td>Market</td>
<td>State</td>
<td>Family</td>
<td>Family</td>
</tr>
<tr>
<td>Social stratification</td>
<td>High</td>
<td>Low</td>
<td>Medium</td>
<td>Very high</td>
</tr>
<tr>
<td>Level of redistribution</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>Very low</td>
</tr>
<tr>
<td>Share of private expenditures on old age and health</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Role of the state in structural change</td>
<td>Market activator</td>
<td>Employer</td>
<td>Compensator</td>
<td>Reformer, market activator</td>
</tr>
<tr>
<td>Example</td>
<td>United Kingdom</td>
<td>Sweden</td>
<td>Germany</td>
<td>Czech Republic</td>
</tr>
</tbody>
</table>

Comment: Redistributive capacity: tax progressivity, benefit equality.
J. Barroso (State of the Union 2012 Address)

"… Yes, we need to reform our economies and modernise our social protection systems. But an effective social protection system that helps those in need is not an obstacle to prosperity. It is indeed an indispensable element of it.

Indeed, it is precisely those European countries with the most effective social protection systems and with the most developed social partnerships, that are among the most successful and competitive economies in the world.”
The next supermodel

Why the world should look at the Nordic countries

A 14-PAGE SPECIAL REPORT
SOCIAL SPENDING (% OF GDP, GROSS, 2022)
SOCIAL SPENDING (% OF GDP, 2019), TAX SYSTEM MATTERS: NET < GROSS
SOCIAL SPENDING & ECONOMIC PERFORMANCE ARE POSITIVELY INTERLINKED

LABOUR PRODUCTIVITY VS. NET SOCIAL EXPENDITURE SHARES

Source: OECD.Stat (PDB_LV and SOCX_AGG)  
Graph: Michael Ertl (AK Vienna, June 2023)
EXPERIENCE FROM NATIONAL/EUROPEAN DEBATE
AK PUBLICATIONS – (LIMITED) IMPACT !?
Caring for children and dependants: effect on careers of young workers

Background paper

SOC/496
Impact of social investment

Brussels, 26 March 2014

OPINION
of the
European Economic and Social Committee
on
The impact of social investment on employment and public budgets
(own-initiative opinion)

Rapporteur: Wolfgang Greff
FRUITFUL DEBATE – OBSTACLES

- Politicians with short-term agendas & impatient populists
- Policy advisers with a pure neoliberal mindset that oppose the merits of social policies in general
- Methodological limits – e.g. Ageing Reports, where only gross costs are considered in long-term projections (excluding obvious returns and taxes of social expenditure)

Austrian example: 1 € invested in LTC/LTC services → 70 Cents return (only via taxes & contributions) = highly self-financing (see WIFO, 2018, p15)

Aktuelle und künftige Versorgungsfunktion der mobilen Pflege- und Betreuungsdienste in Österreich (wifo.ac.at)
Why invest in social services?
Social investment - an ingenious circle!

Positive effects through better childcare provision

- Universal provision with high standards
- More budgetary leeway for investment
- Additional childcare places
- 10,000+ (new) jobs
- More favourable income progression
- Lower expenditure for unemployment benefits
- More equal recognition of paid & unpaid work

Repayments into public budgets

Investments

Employment

Higher earnings

Mid- & longterm returns on investment

Better career perspectives, lower levels of unemployment
How to calculate the 'effective/net costs' of childcare investment

Returns

Costs

RELEVANT COSTS

RELEVANT RETURNS

Taxes & Contributions
Direct Employment
Employment in other Sectors
More Parents in Employment

Balance over time possible?
THE AK-MODEL: RELATIONSHIP BETWEEN DIFFERENT VARIABLES & SCENARIOS

**Measure: Improvement of childcare provision (in AT)**

"Costs" - Gross

A  Personnel costs
B  Construction costs (incl maintenance)
C  Training costs
D  Financing costs

E  (Gross) Costs - Total sum
   Sum A-D

Employment effects

1  Direct effect: childcarers
2  Indirect effect 1 (construction ind./training sect.) via macro-multipliers
3  Indirect effect 2 (better reconciliation of work and family life)
4  Through increased consumption [only direct employment considered = underestimation]

5  Employment effects
   Sum 1-5

Lower expenditure and additional revenue

F  Revenue (taxes/contributions) from 'direct' employment effect
G  Revenue (taxes/contributions) from 'indirect' employment effect

G1-G3  [different scenarios (optimistic/average/pessimistic)]
H  Lower expenditure for unemployment benefits (UB)

I/J/K  Lower expenditure and additional revenue per scenario
      Sum F-H

Costs (net) or exceeding returns over costs (current year, nominal values!)

L/M/N  Balance: (I/J/K) minus E

if balance (-): annual costs of investment > annual return
if balance (+): annual return > annual costs of investment

as a "rule/interpretation": investments pay off after X years …
# Overview - Impacts from improved childcare provision

## Improved childcare provision (places, cumulative)

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<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Additional childcare places</td>
<td>0</td>
<td>7,500</td>
<td>22,500</td>
<td>35,000</td>
<td>35,000</td>
<td>↔ 35,000</td>
<td></td>
</tr>
<tr>
<td>Extended opening hours of childcare places</td>
<td>30,000</td>
<td>60,000</td>
<td>70,000</td>
<td>70,000</td>
<td>70,000</td>
<td>↔ 70,000</td>
<td></td>
</tr>
<tr>
<td>Better childcarer : children ratio</td>
<td>15,000</td>
<td>33,000</td>
<td>50,000</td>
<td>70,000</td>
<td>70,000</td>
<td>↔ 70,000</td>
<td></td>
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## Costs (gross)

<table>
<thead>
<tr>
<th>Cost Type</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018 - 22</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual personnel costs (EUR million) - cumulative</td>
<td>62</td>
<td>176</td>
<td>311</td>
<td>429</td>
<td>444</td>
<td>↑ 553</td>
<td></td>
</tr>
<tr>
<td>Annual construction costs incl maintenance (EUR million)</td>
<td>0</td>
<td>45</td>
<td>91</td>
<td>80</td>
<td>2</td>
<td>↔ 2</td>
<td></td>
</tr>
<tr>
<td>Training costs for additional personnel (EUR million)</td>
<td>12</td>
<td>31</td>
<td>53</td>
<td>70</td>
<td>0</td>
<td>↔ 0</td>
<td></td>
</tr>
<tr>
<td>Financing costs (10y bonds)</td>
<td>2</td>
<td>5</td>
<td>9</td>
<td>12</td>
<td>9</td>
<td>↑ 11</td>
<td></td>
</tr>
<tr>
<td>Total sum of investments needed (EUR million)</td>
<td>75</td>
<td>257</td>
<td>464</td>
<td>591</td>
<td>455</td>
<td>↑ 566</td>
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</table>

## Impact on employment (cumulative, dep. on scenarios)

<table>
<thead>
<tr>
<th>Impact</th>
<th>Optimistic scenario (EUR million)</th>
<th>Average scenario (EUR million)</th>
<th>Pessimistic scenario (EUR million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct effects+indirect (I): childcarers + construction/training sector</td>
<td>2,400</td>
<td>6,800</td>
<td>11,700</td>
</tr>
<tr>
<td>Effects through ↑ consumption</td>
<td>300</td>
<td>900</td>
<td>1,600</td>
</tr>
<tr>
<td>Additional employment for parents with childcare responsibilities (indirect II)</td>
<td>1,000 bis</td>
<td>4,000 bis</td>
<td>8,000 bis</td>
</tr>
<tr>
<td></td>
<td>2,000</td>
<td>4,000 bis</td>
<td>8,000 bis</td>
</tr>
<tr>
<td></td>
<td>17,000</td>
<td>21,800 bis</td>
<td>30,300 bis</td>
</tr>
<tr>
<td></td>
<td>8,500 bis</td>
<td>28,000</td>
<td>44,300</td>
</tr>
<tr>
<td></td>
<td>14,000 bis</td>
<td>28,000</td>
<td>44,900</td>
</tr>
<tr>
<td>Employment effects (range derived from different scenarios)</td>
<td>3,700 bis</td>
<td>4,700</td>
<td>11,700 bis</td>
</tr>
<tr>
<td></td>
<td>15,700</td>
<td>21,800 bis</td>
<td>30,300 bis</td>
</tr>
<tr>
<td></td>
<td>30,000 bis</td>
<td>42,500</td>
<td>44,300</td>
</tr>
</tbody>
</table>

## Lower expenditure and additional revenue (cumulative)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Lower expenditure (EUR million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimistic scenario: up to 50% of mothers employed with children who are now in childcare</td>
<td>-10</td>
</tr>
<tr>
<td>Average scenario: up to 37% of mothers employed with children who are now in childcare</td>
<td>-15</td>
</tr>
<tr>
<td>Pessimistic scenario: up to 25% of mothers employed with children who are now in childcare</td>
<td>-20</td>
</tr>
<tr>
<td>Budgetary effect</td>
<td>Optimistic scenario (EUR million)</td>
</tr>
<tr>
<td></td>
<td>-10</td>
</tr>
<tr>
<td></td>
<td>-48</td>
</tr>
<tr>
<td></td>
<td>-61</td>
</tr>
<tr>
<td></td>
<td>-12</td>
</tr>
<tr>
<td></td>
<td>168</td>
</tr>
<tr>
<td></td>
<td>↑ 200</td>
</tr>
</tbody>
</table>

Source: Austrian Federal Chamber of Labour (2013)
Impact (direct & indirect) from improved childcare provision in Austria

Total investment, consisting of:
- Personnel costs: 553 EUR million
- Construction/training/financing costs: 13 EUR million

Total investment EUR 566 million

Revenue:
- (taxes and contributions through higher employment levels)
- exceeds expenditure
- personnel/infrastructure costs etc.

“average scenario”
- up to 37% of mothers employed with children who are now in childcare
- after 4 years!

Lower expenditure & additional revenue (EUR million):
- 2013: 60
- 2014: 189
- 2015: 359
- 2016: 513
- 2017: 546
- 2023: 670

Additional employment:
- 2013: 3,700 - 4,700
- 2014: 11,700 - 15,700
- 2015: 21,800 - 30,300
- 2016: 30,000 - 42,500
- 2017: 30,300 - 44,300
- 2023: 30,300 - 44,900

Budgetary effect (EUR million):
- -10
- -15
- -20
- -78
- -144

Economic scenario:
- optimistic
- average
- pessimistic

Source: Austrian Federal Chamber of Labour

Employment effects:
- direct effect: childcare workers
- through increased consumption
- additional employment of parents with childcare responsibilities

AK/APA-AUFTRAGSGRAFIK
RECENT DRIVERS OF THE DEBATE
ACEDEMIA & POLICY ADVICE
OECD & WELLBEING DEBATE

COVID-19 and Well-being
LIFE IN THE PANDEMIC
EPSR – 20 PRINCIPLES

#SocialRights

Your social rights at a glance
SOCIAL INVESTMENT AS A COMPARATIVE ADVANTAGE
DEVELOPED WFS ARE PERFORMING BETTER
SOCIAL POLICY/SI SUPPORTS TRANSITIONS

- Demographic Change → LTC
- A Just Transition / Digitalization → LMP / Training
- Relief for families → social infrastructure (CC/LTC) & education
- Ambitious Employment Goals (EC)
- NEETS
- Polarisation within Society
- People‘s needs
- ...


CONCLUSIONS
PROGRESSIVE DEBATE FOR THE FUTURE

- SI = not a substitute for social protection schemes, it must be seen as complementary and requires patience to see the benefits.
- Investment in childcare/LTC leads to substantial returns on a medium & long-term perspective → depending on the concrete measure they can be highly self-financing!
- Effective/net-cost-approach applies to other fields of (social) policy.
- Costs of social investment/social infrastructure are not over-estimated any more: = not only ‘gross costs/categories‘ are considered, but also ‘returns‘ are adequately treated. → Methodolgical progress is needed!
- Costs of NON-Action should be more considered in discourse on social policy.
- Social progress needs social rights – not only declarations!
SELECTED REFERENCES

- **EC (2023): European Pillar of Social Rights**
  The European Pillar of Social Rights in 20 principles - Employment, Social Affairs & Inclusion - European Commission (europa.eu)

- **EC (2023): Your rights country by country**
  Your rights country by country - Employment, Social Affairs & Inclusion - European Commission (europa.eu)

- **EC (2022): Employment and Social Developments in Europe 2022**
  Publications catalogue - Employment, Social Affairs & Inclusion - European Commission (europa.eu)

- **WIFO: Selection of Labour Market Monitor Publications**
  Arbeitsmarktmonitor | Arbeiterkammer Wien

- **EC (2021): Ageing Report 2021**
  The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019-2070) (europa.eu)

- **AK Wien (2023): Soziale Lage und Sozialpolitik in Österreich 2023**
  Sozialleistungen
THANK YOU!

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