



THE SOCIAL INVESTMENT APPROACH

UNDER-ESTIMATED POTENTIALS & OVER-ESTIMATED COSTS

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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 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. 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 orientation and a systematic approach of the role social policies play in the education via work/unemployment to sickness and old-age.

3 'S'



Brussels, 20.2.2013
COM(2013) 83 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Towards Social Investment for Growth and Cohesion – including implementing the European Social Fund 2014-2020

{SWD(2013) 38 final}
{SWD(2013) 39 final}
{SWD(2013) 40 final}
{SWD(2013) 41 final}
{SWD(2013) 42 final}
{SWD(2013) 43 final}
{SWD(2013) 44 final}

3 S = WFS REQUIREMENTS & INTER-LINKAGES

Social Protection
when we are vulnerable



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

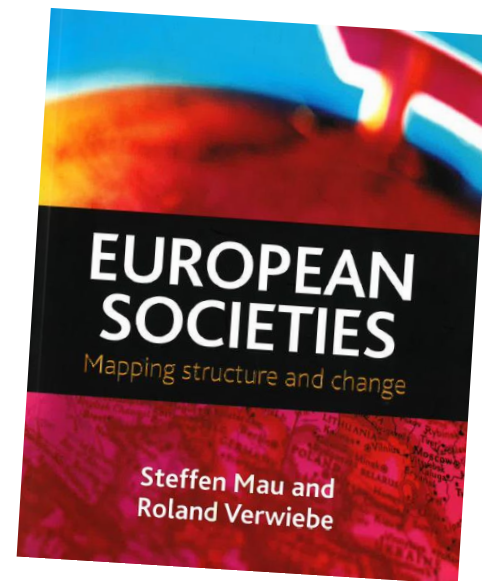


Social Investment
social infrastructure, education/training,
support in different ways
= „key“ to employability & life satisfaction & ...

WFS – DIFFERENT REGIMES & TRADITIONS

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

Comment: Redistributive capacity: tax progressivity, benefit equality.



DEVELOPED WFS – BETTER RESULTS

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 Economist

FEBRUARY 2ND-8TH 2013

Economist.com

Immigration: Obama gets it right

The rift between China and North Korea

Can Egypt's revolution be rescued?

How to reform America's lawyers

The mystery of the Birdmuda Triangle

The next supermodel



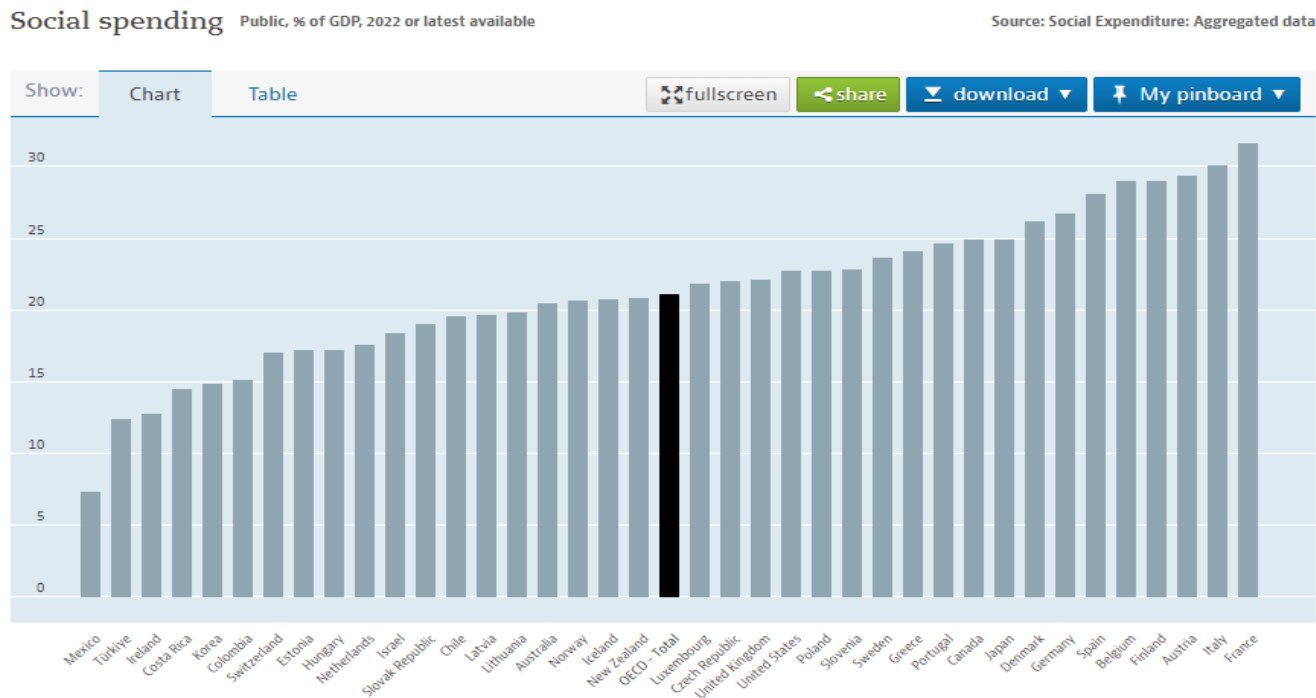
**Why the world should look at
the Nordic countries**

A 14-PAGE SPECIAL REPORT



WIEN

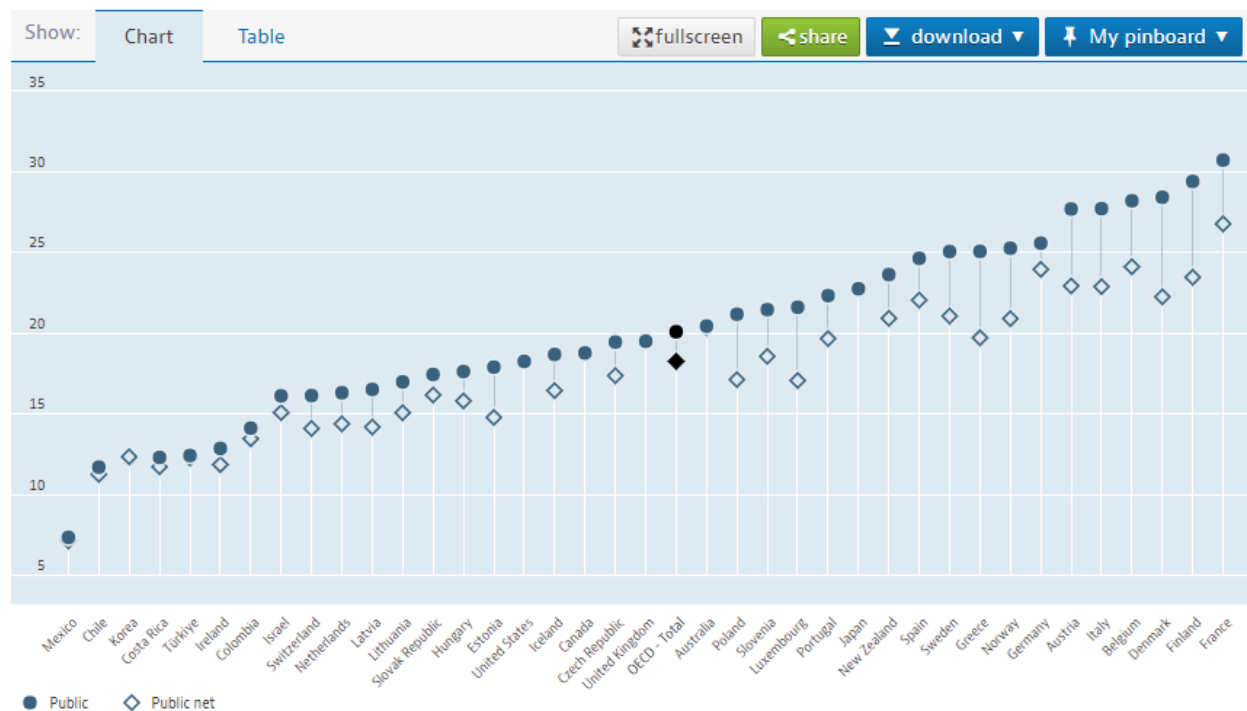
SOCIAL SPENDING (% OF GDP, GROSS, 2022)



SOCIAL SPENDING (% OF GDP, 2019), TAX SYSTEM MATTERS: NET < GROSS

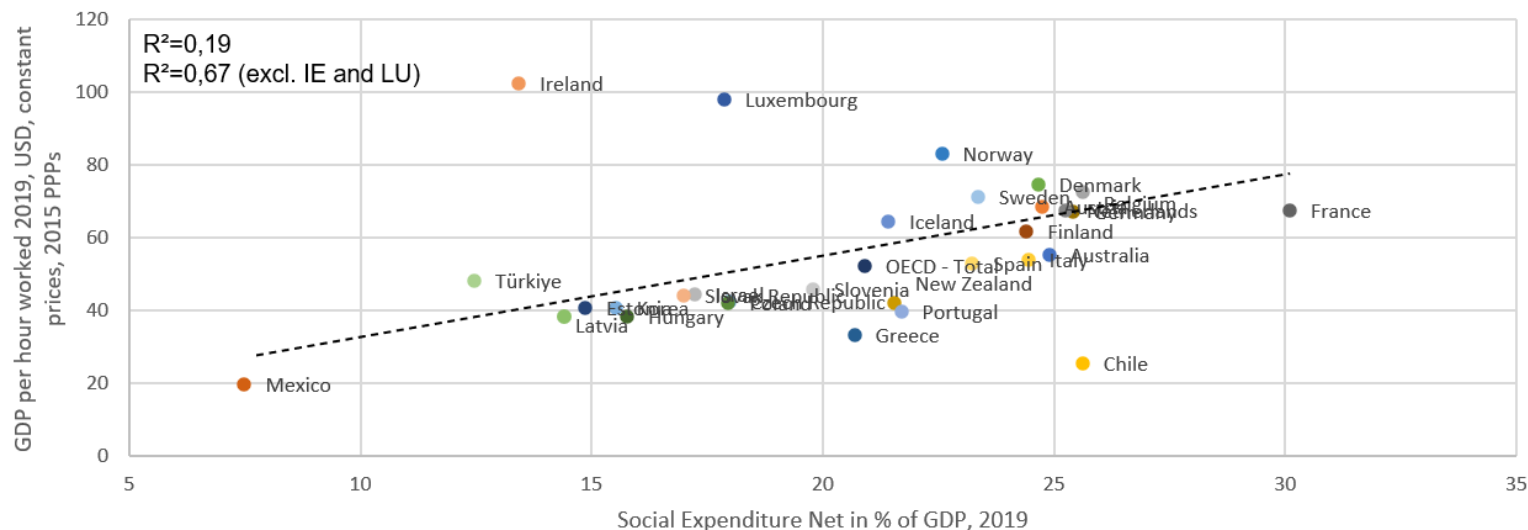
Social spending Public / Public net, % of GDP, 2019

Source: Social Expenditure: Aggregated data



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 !?

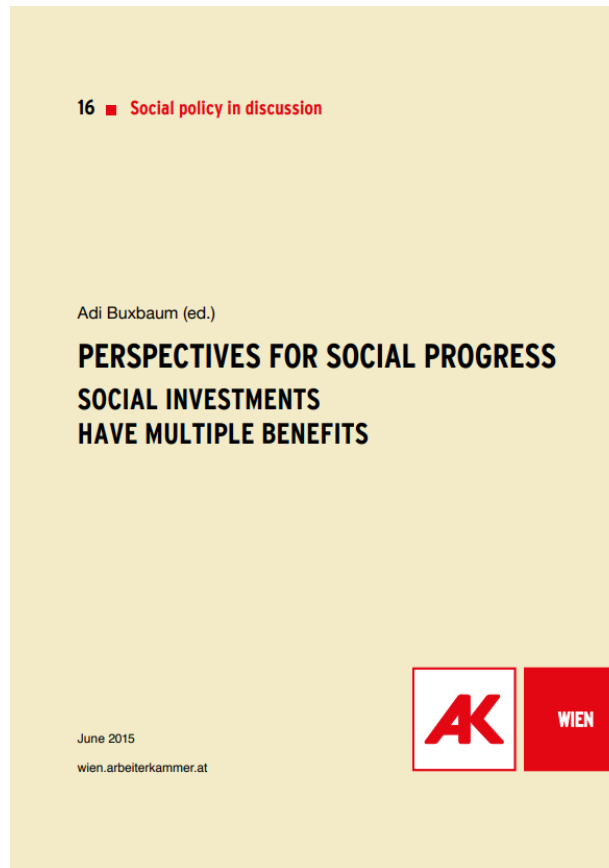


Social Investment

Growth, Employment and Financial Sustainability

Economic and Fiscal Effects of Improving Childcare
in Austria

www.akeuropa.eu

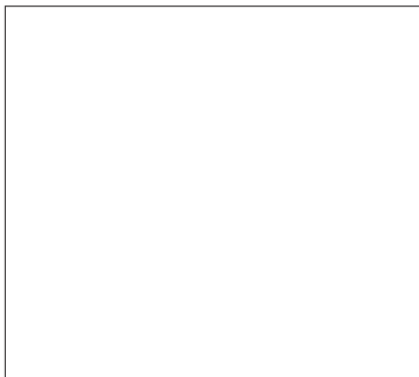


AK PUBLICATIONS – (LIMITED) IMPACT !?



Caring for children and dependants:
effect on careers of young workers

Background paper



European Economic and Social Committee

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 Greif**

FRUITFUL DEBATE – OBSTACLES

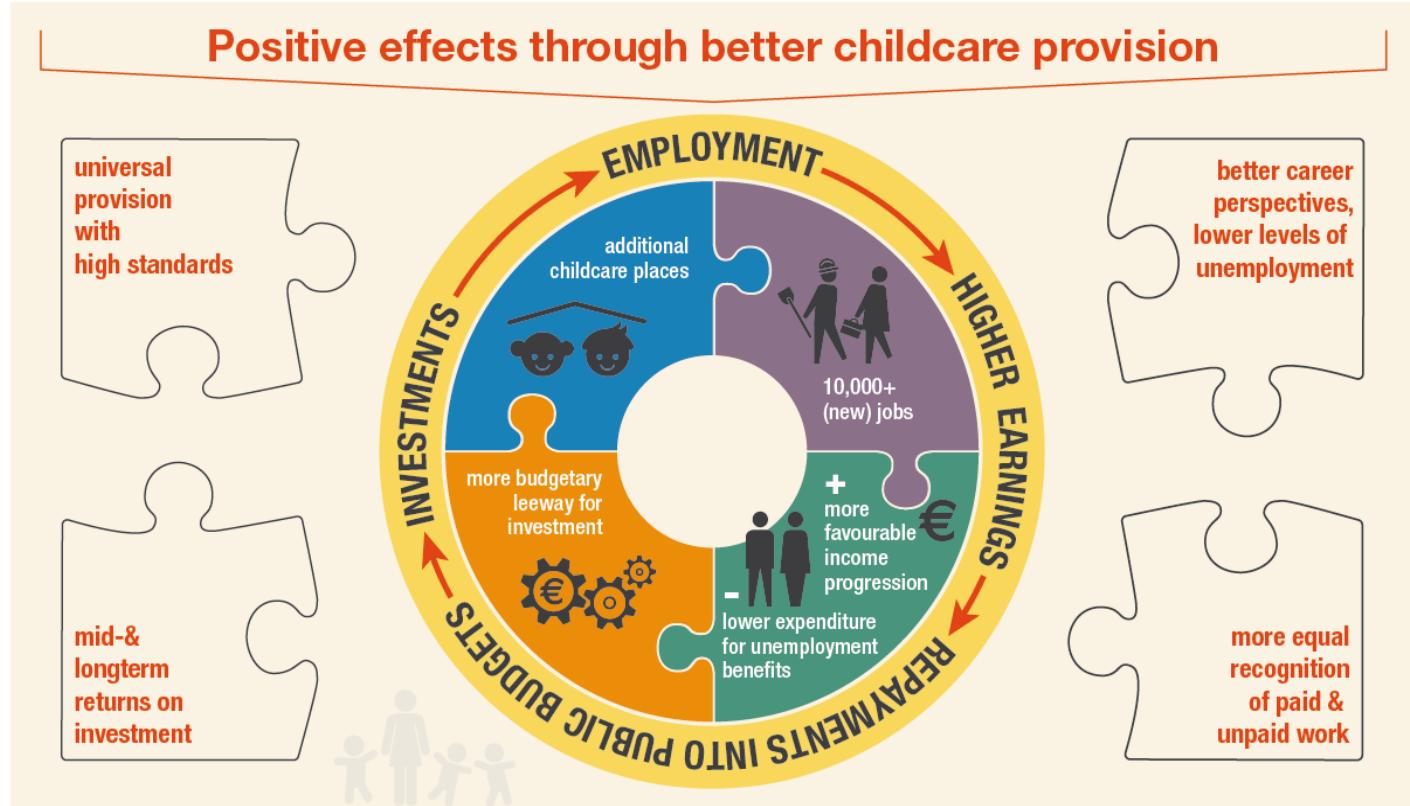
- Politicians with short-term agendas & impatient populists
- Policy advisers with a pure neoliberal mindset that oppose the merits of social policies in general
- Methodological limits – e.g. Ageing Reports, where only gross costs are considered in long-term projections (excluding obvious returns and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

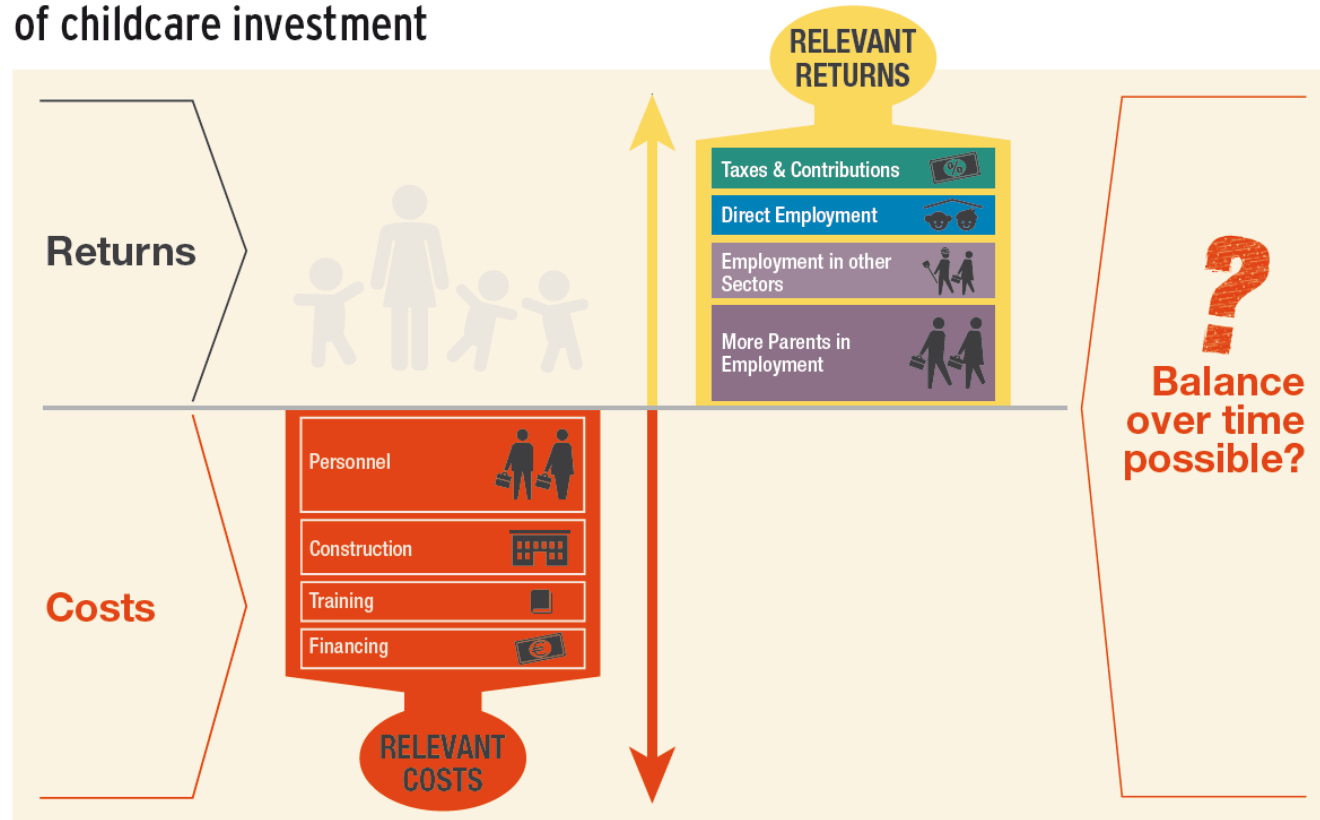
Why invest in social services?

Social investment – an ingenious circle!

Positive effects through better childcare provision



How to calculate the 'effective/net costs' of childcare investment



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

L/M/N	Balance: (I/J/K) minus E
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if balance (-): annual costs of investment > annual return

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

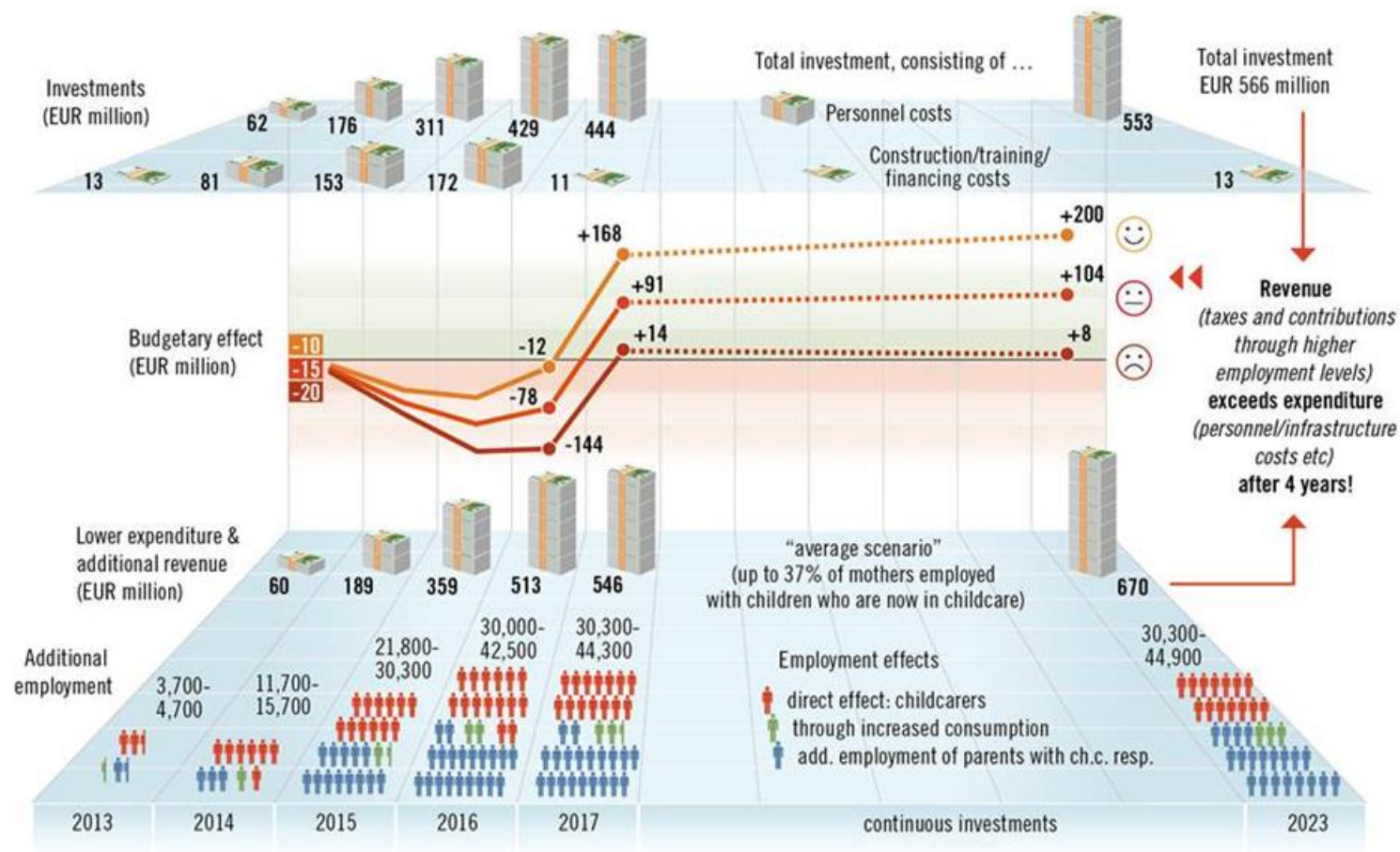
as a "rule/interpretation": investments pay off after X years ...

Overview - Impacts from improved childcare provision								
		2013	2014	2015	2016	2017	2018 - 22	2023
Improved childcare provision (places, cumulative)								
	Additional childcare places	0	7,500	22,500	35,000	35,000	↔	35,000
	Extended opening hours of childcare places	30,000	60,000	70,000	70,000	70,000	↔	70,000
	Better childcarer : children ratio	15,000	33,000	50,000	70,000	70,000	↔	70,000
Costs (gross)								
	Annual personnel costs (EUR million) - cumulative	62	176	311	429	444	↑	553
	Annual construction costs incl maintenance (EUR million)	0	45	91	80	2	↔	2
	Training costs for additional personnel (EUR million)	12	31	53	70	0	↔	0
	Financing costs (10y bonds)	2	5	9	12	9	↑	11
Total sum of investments needed (EUR million)		75	257	464	591	455	↑	566
Impact on employment (cumulative, dep. on scenarios)								
	Direct effects+indirect (I): childcarers + construction/training sector	2,400	6,800	11,700	15,300	14,000	↔	14,000
	Effects through ↑ consumption	300	900	1,600	2,200	2,300	↑	2,900
	Additional employment for parents with childcare responsibilities (indirect II)	1,000 bis 2,000	4,000 bis 8,000	8,500 bis 17,000	12,500 bis 25,000	14,000 bis 28,000	↔	14,000 bis 28,000
Employment effects (range derived from different sceanrios)		3,700 bis 4,700	11,700 bis 15,700	21,800 bis 30,300	30,000 bis 42,500	30,300 bis 44,300	↑	30,300 bis 44,900
Lower expenditure and additional revenue (cumulative)								
	Optimistic scenario: up to 50% of mothers employed with children who are now in childcare	65	209	403	579	624	↑	766
	Average scenario: up to 37% of mothers employed with children who are now in childcare	60	189	359	513	546	↑	670
	Pessimistic scenario: up to 25% of mothers employed with children who are now in childcare	55	170	316	446	469	↑	574
Budgetary effect								
Optimistic scenario (EUR million)		-10	-48	-61	-12	168	↑	200
Average scenario (EUR million)		-15	-68	-104	-78	91	↑	104
Pessimistic scenario (EUR million)		-20	-87	-148	-144	14	↓	8

Source: Austrian Federal Chamber of Labour (2013)



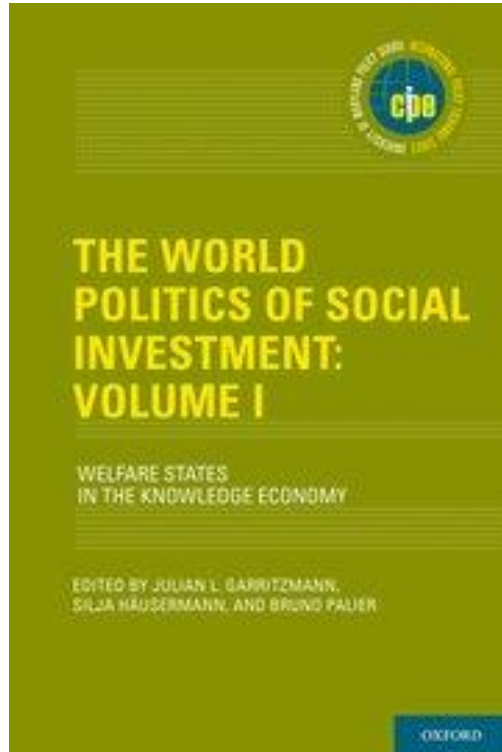
Impact (direct & indirect) from improved childcare provision in Austria



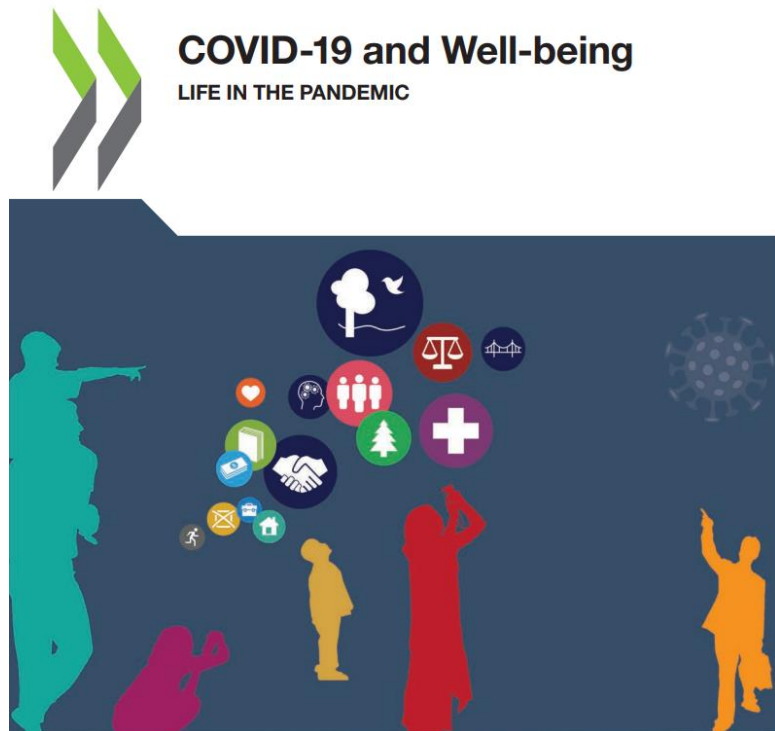


RECENT DRIVERS OF THE DEBATE

ACADEMIA & POLICY ADVICE



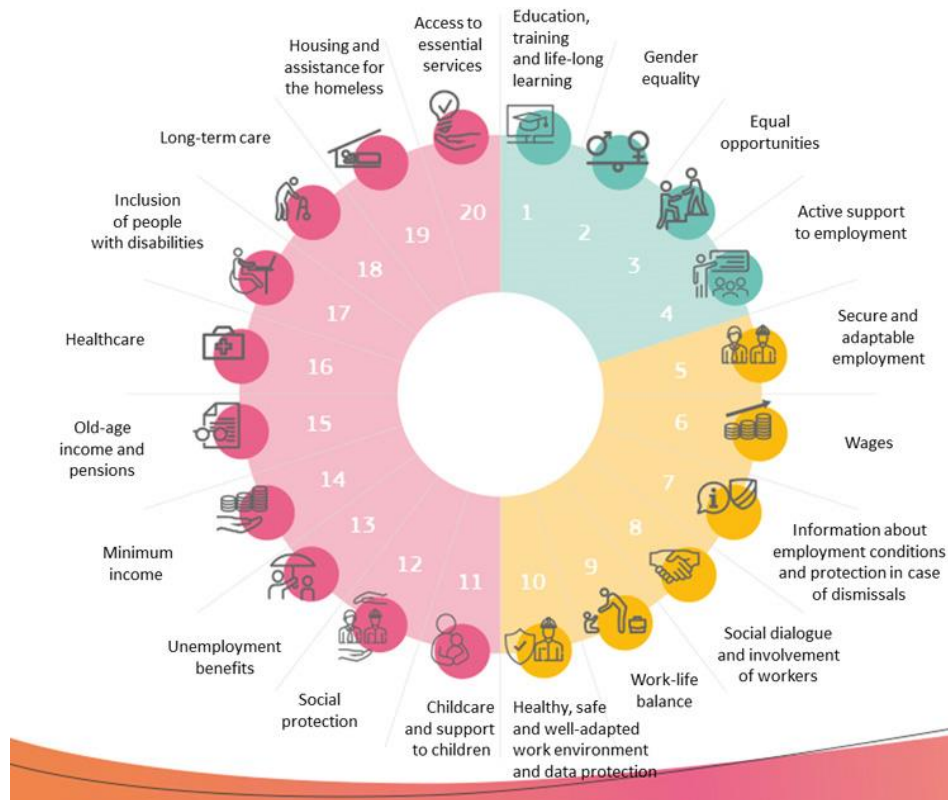
OECD & WELLBEING DEBATE



EPSR – 20 PRINCIPLES

#SocialRights

Your social
rights at a
glance



European
Commission

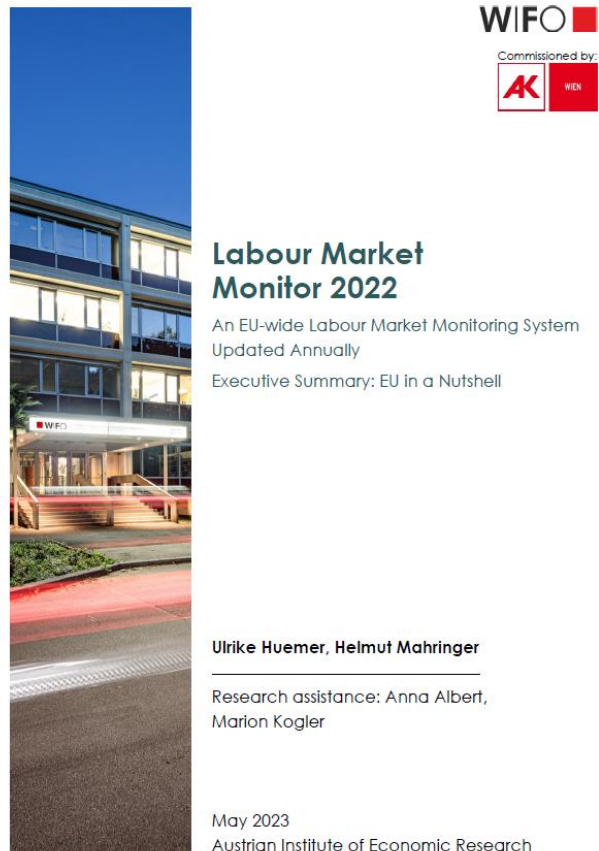


WIEN

A photograph of a modern, multi-story building with a grey facade and large windows. The building has a series of wide, grey stone steps leading up to the entrance. The windows are illuminated from within, showing a warm yellow light. A red logo is visible on the upper right side of the building. The foreground shows a paved sidewalk with white tactile paving and a few blurred figures of people walking.

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.
→ Methodological 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

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- **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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