Joakim Palme

Comment on Anton Hemerijck/5. The Quest for Social Investment Policies

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Essays

Comment on Anton Hemerijck/5

The Quest for Social Investment Policies

by Joakim Palme

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The purpose of Anton Hemerijck's contribution is to assess and contextualize the prospects for social investment policies. With this aim, he has written a text that in many ways is remarkable. He helps us to identify and understand the important phases in the still ongoing economic, political and social crisis. He is synthesizing different policy perspectives by putting the current crisis in the context of the longer-term process of reforming mature European welfare states, which casting new light on the challenges ahead. In this setting, he is also able to formulate an elaborated agenda for the future, basing it on the social investment perspective and including both normative and positive arguments.

In general, the welfare state literature has negativity bias. It tends, quite naturally, to focus on negative aspects of life, such as poverty, unemployment, ill-health and other forms of misfortune. Since the oil-crises, the negativity bias has come to include the welfare state institutions as such, with the "welfare state in crisis" label sticking very hard to the discourse and "welfare state retrenchment" label to the realities. In the light of the past decades's strong trend of rising inequalities, and coming decades's ageing of populations, the negativity bias has also come encompass the present as well as the future.

Hemerijck's text is different, which is interesting (as such but) primarily because of the arguments he raises for being optimistic about both the past and the future. He takes a positive view on what has been achieved in the reform work and he sees further opportunities created by the current economic crisis. Here, it is almost like he is on a mission, preaching the gospel of the social investment approach. As a believer in this approach, I find it difficult to argue against his vision and to play the devil's advocate would simply not be trustworthy. This being said, I will take the liberty of expressing some concerns with the advancements of the social investment approach and also to offer some remarks on Hemerijck's discussion of it.

My first concern is about the assumed advances in terms of actually expanding social investment type policies. Whereas Hemerijck has identified country cases where there has been a change in the spending ambitions on social investment kind policies, in my view the general pattern is less promising. It appears that the rhetorical advancements with few exceptions have not been matched by policy expansion [Morel *et. al.* 2012]. Furthermore, with the policy recommendation to invest heavily in the future tax payers, based on the observation of a causal structure where education is the central driving variable for GDP increases in Europe, we should be deeply worried about the negative correlation between growth and education spending as proportion of GDP [Lindh and Palme 2006].What this suggests is that the richer we get, the less we spend on education and this is a legacy that we have to break with.

Then there are good reasons not to expect that success is automatic from high expenditures. More attention deserves to be given to the ways money is spent on education. Social science can make a contribution to the discussion and reform of not only education programs but social policy programs in general. We can sort out the normative and positive arguments for and against various approaches. Our analyses of how institutions affect the conditions and behaviour of individuals are highly relevant for examining both the intended and unintended consequences of welfare state programs. Comparative institutional research can contribute by contrasting different policy interventions in order to assess the impact of different kinds of policy programs. This is a sound basis for policy learning.

Moreover, estimates of the statistical macro relations between income, education and fertility have been undertaken to further illuminate the quantitative trade-offs that need be taken into account when designing sustainable social policies for Europe [*ibidem*]. We have to combine different policies in order to avoid trade-off when it comes to the expansion of education and fertility. Raising children in modern societies is linked to a social dilemma since children impose a costly economic burden on parents but are very valuable to society as a whole. Yet, the economic benefits of having children are small and if provided with efficient means of controlling their fertility, most parents will restrict their fertility in a way leading to population decline [Lindh *et al.* 2005]. Governments have an interest in supporting family formation. But then they have to recognize another dilemma; modern women want to be engaged in paid employment and not only carry unpaid reproductive work.

Welfare state programs can hence be seen as attempts to solve different kinds of collective action problems, the increasing costs of raising children in modern societies being one obvious example. Hence, the time has come to reflect on how the various components of the "social investment" strategy fit this new setting. At the heart of this is the urgent need to find new ways to reconcile production and reproduction. This is what the new gender balance is about. Working life needs to be made more flexible also when it comes to the needs of families to balance the two spheres. These matters are clearly on Hemerijck's agenda, but if we, like him, are discussing these challenges with terms such as "maternity benefits" and not "parental benefits" the progress is however likely to be limited.

The redistributive role of the welfare state over the lifecycle is also mediated by the structure of the tax system. The important role of income and consumption taxes within industrial nations implies that high-income middle-aged people contribute more public resources than other age groups. However, the redistributive effects of welfare states on the economic situation of different age groups are highly dependent on the exact design of taxes and benefits. Hemerijck advocates more progressive taxes, which is breaking with the standard recommendations from international organizations such as the OECD. While I find this refreshing, it is hard to believe that progressive elements as such will raise enough resources for a serious upgrading of the social investment approach.

There is no way around the fact that investment today means fewer resources for consumption today. Whether or not it is possible to extract the necessary taxes now and in the future will depend on what people want, and probably on international co-operation. This makes the modernisation of our social an economic policies a democratic problem with national as well as international dimensions. Over the past decade or so, to mention increased taxes has been somewhat of a "third rail" in European politics. Recent trends and event suggests that there is room for change. That it is possible to think the unthinkable. The simple fact that it is the high tax – high spend economies in Northern Europe that have the best public finances and the best economic performance suggests that we can afford the systems of social investment if we design the various programmes in an adequate fashion.

The crisis is increasing uncertainties and pressures on governments as well as ordinary people. The difficulties to raise new resources for long term spending purposes are obvious. We can be sure that it will become even more difficult in many countries with the tax bases be eroded and the public debt accumulating. Taxation is thus of critical importance. It is not enough be an optimist like Hemerijck when it comes to tax competition. It is clear that we see a downward trend when it comes to corporate tax rates in Europe and a number of countries have abolished wealth taxes. If EU Member States do not engage in serious cooperation on these matters they are likely put a serious break on any serious attempt to formulate a sustainable exit strategy. The same thing can be said about the EU 2020 Agenda with its focus on controlling expenditures rather than raising the revenue side.

The history of the various European social models is about attempts to apply strategies of cooperation. The rise of neo-liberalism and the fall of the Iron curtain shifted the balance between "capital" and "labour" that had provided the basis for these various forms of cooperation. Even if the neo-liberal rhetoric appears to have lost steam, the tilt of power in favour of "capital," resulting from the exit options offered to it in the wake of the deregulation of financial markets over the past decades, might be here to stay. The exit option offered to capital appears to put the question to the employers if they want to cooperate in a different light. It also raises questions about the possible effect of a re-regulation of financial markets. The implications of the global financial crisis might increase the interest of "capital" to foster cooperation as way of achieving positive sum solutions.

But will the threat of a continued and aggravated downturn really force governments to rethink past policy paradigms? In more than on way, the global crisis in the financial system changed our views on what is possible. In our recent history we find other interesting examples of how also big policy changes suddenly may appear possible, or even inevitable. The unification of Germany is one example; the enlargement of the EU is another. How can we rethink the European future; beyond the big spending on the Common Agricultural Policy and Structural Funds, and with the time horizon being prolonged by the issue of climate change? Whereas investment in physical capital, such as infrastructure, has figured quite prominently as policy instrument, investments in human and social capital have been getting less attention in the debate. Hemerijck gives us good reasons to change that.

The notion of social investment is an interesting response to the political crisis of European integration. Further economic and political integration can only be successful if the European populations support it. This will only happen if there is trust in governments to handle the social consequences of production and service markets being exposed to competition. The "destructive" forces of market competition have simply to be met by "constructive" and investment oriented policies. The sophisticated market making policies of the EU have to be matched with policies and mechanisms that deal with market imperfections.

Here it should of course be recognized that Hemerijck is brave, too. Commenting on a crisis that is on-going is like chasing a moving target: It is not easy to paint a precise picture. It is equally difficult to get an accurate analytical grip if the object is moving. Looking forward is difficult too: We have a tendency to make the projections based on the current trends and often fail to capture the cyclic patterns of development dynamics. We tend to underestimate the pace of change, both downwards and upwards. Faced with a crisis, we often resort to denial and fail to acknowledge the severity of deep crises. If you ask historians, they would say that if a crisis is deep enough, it will end with war. This is of course something that not least Europeans have strong reasons to remember. Are we up to the task to deal with the aftershock? In my view, this is about three different questions: Do we know what could help? Can we agree? Can we make sure that all parties implement? The answers to these questions will be critical for the future of Europe. The economic crisis has with some brutality illustrated that a weak economic performance of the Single European Market has repercussions for all Member States.

The development of the social dimension of European integration is a long story with unclear future. History shows that social policy reforms are responses to changing economic and social structures but that they never occur without political mobilization. This suggests that if we want to improve our understanding about the prospects for social investment, we need to understand the politics of social investment better, which is a research agenda that now calls for our attention.

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Comment on Anton Hemerijck/5

The Quest for Social Investment Policies

Abstract: In Europe, and elsewhere, the on-going economic crisis has triggered a quest for a new policy paradigm. In his contribution, Anton Hemerijck is not only providing a good case for making social investment policies an important part of such a paradigm, he is also optimistic about the prospect for such a policy shift. In this context, I am deeply worried about the negative correlation between growth and education spending as proportion of GDP; the richer we get, the less we spend on education. The fact that we also can observe a negative correlation between education expansion and fertility, suggests that we have to be more serious about modernising family policy than Hemeijck gives expression to. And there is no way around the fact that investment today is putting a pressure on higher taxes. This comes into conflict with the EU 2020 Agenda, with its focus on controlling expenditures rather than raising the revenue side.

Keywords: Social investment, education spending, fertility, modern family policy, taxation.

Joakim Palme is professor at the Department of Government at Uppsala University since 2009, where he also is one of the founding fellows of the Uppsala Centre for Labour Studies (UCLS). He has a background in sociology at the Swedish Institute for Social Research, Stockholm University, where has been engaged in comparative welfare state research since 1980. He chaired the Swedish Welfare Commission 1999-2001. He was the Director of the Institute for Futures Studies from 2002 to 2011. His current research interests include the study of the tension between population change and public policy; global economic crisis, institutions and inequality; and, the European social model. He co-edited *Towards a Social Investment Welfare State?* (Bristol: Policy Press) with Nathalie Morel and Bruno Palier.