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Comment on Anton Hemerijck/4. Making Social Investment Work

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Essays

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by Giuliano Bonoli

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Anton Hemerijck has written a truly magisterial piece that presents in a very encompassing way, the challenges currently facing Europe and its social model. At the same time, it puts forward a strategy to successfully overcome them. Two qualities of this article are particularly worth mentioning. First, its capacity to cover, in a comprehensive yet synthetic way, a very broad range of interconnected issues. These include employment and social problems, macro-economic steering issues, policies that promote human capital formation, how to maintain social cohesion, EU governance etc. and these are only a few. In Hemerijck's account different lines of reasoning pertaining to these and other issues are brought together in highly coherent and intelligible story. Second, Hemerijck proposes a strategy, built around the notion of social investment, that is utterly convincing. Investment as a way to get out of a profound economic crisis is nothing particularly original. What is new in this account is the fact that the target of investment is not infrastructure, industry, or the military. Instead, governments should invest in society. How can a government invest in society? The article contains a long list of interventions that have been shown to improve the capacity of a society to generate wealth but also its internal cohesion, understood in terms of a minimum level of equality, both in outcomes and in opportunities. They include high quality childcare services, active labour market policies, education, lifelong learning, and so forth.

In this comment, I would like to focus on two conditions that I believe are essential for a social investment strategy to succeed.

Policy Coherence

For a social investment strategy to be successful, coherence among different interventions is essential. This is a point made in the article that in my view can be somewhat developed, particularly in relation to southern Europe. Why is coherence importance? Of course, policy coherence is a general principle of good government, but when it comes to the social investment strategy this notion acquires a particularly crucial meaning. In fact what social investment can promise is to increase the potentialities of individuals. For these potentialities to be turned into actual economic growth, certain conditions in terms of economic dynamism must be fulfilled. If the (sizeable) effort made in terms of social investment cannot be translated into additional economic growth, then of course the strategy may well turn out to be rather wasteful.

Parts of Europe, particularly in the South, have experienced endemic low economic growth for several decades. This appalling performance is only partially due to the absence of proper social investment policies. Most analysts instead believe that there are some structural weaknesses that make economic activity difficult. Social investment in this context is unlikely to be effective unless the structural obstacles to growth are successfully removed in the first place.

From this point of view it is important that the type of economic incentives set by policy support the objectives of the social investment strategy. This is not always the case. Employment protection laws that guarantee jobs for life to insiders may act as a disincentive to lifelong learning. Tax systems that penalize dual earner couple may offset much of the incentive to increase employment for parents of young children. Labour market divisions between insiders and outsiders may reduce the impact of investing in disadvantaged people who may remain confined in a labour market segment characterized by short term contracts and insecurity.

True, as Hemerijck has argued, much has been made in Europe to improve the overall employment friendliness of social policies. Yet, in the spring of 2012, reformist governments in Italy and Spain are still finding it extremely difficult to introduce more flexibility in their labour markets. As a result, economic insecurity remains distributed in a very unbalanced way, with outsiders bearing the brunt of the economic downturn. Investing in younger people, women and the unemployed in general, when a dual labour market has only second class jobs to offer them, is insufficient. What is more, parts of Southern Europe have to solve the additional problems of making the public administration more efficient, improving tax collection, reduce corruption and, in the Italian Mezzogiorno, organized crime. This is not to say that social investment will not be of help to Southern Europe. However, the overall credibility of an economic strategy in this part of Europe will depend on its ability to get rid of the obstacles that have prevented growth in the past. Social investment alone is not going to solve these problems.

Southern Europe needs what one could call "supporting" reforms if the social investment strategy is to pay off. These include getting read of the obstacles mentioned above, but also the development of a public sector capable of delivering the social investment strategy. "Capacitating" interventions in the field of active labour market policy require efficient public employment services, which today do not really exist in southern Europe. Developing this administrative infrastructure will not be an easy task, and is likely to be costly. Yet it is a precondition for many intervention inspired by the notion of social investment.

The Effectiveness of investment

Many of the policies subsumed under the label of social investment have a strong appeal. Who can be against training low skilled unemployed people, so that instead of depending on benefit they can enter more productive jobs and contribute to wealth creation? The reality of evaluation research over some twenty years, however, suggests that many of the promises made by active labour market policies have not materialised. Training, for instance, in the end has been found to be of limited impact in increasing the chances of re-entering the labour market for low skilled unemployed people [Heckman 2006]. Lifelong learning is certainly a good thing, but for various reasons those who are most in need of it, the low educated, are also those who are least likely to receive it. Childcare has expanded over the last ten years throughout Europe. But many think that this has come to some extent at least at the expense of quality.

The point I want to make here is that our capacity to design effective social investment policies is far from perfect. An effective social investment policy, for instance, must get to the target group it intends to serve, and pursue realistic ambitions. Up-skilling should be the preferred option wherever possible, but it is very likely that in many cases other interventions be more appropriate. Available research, for example, suggests that only a minority of low skill unemployed people are likely to benefit from vocational training programmes, consisting usually of less disadvantaged people (usually younger, non-immigrants, with a comparatively high level of education) [Lechner 2004]. Other people may benefit more from job subsidies and job search assistance schemes. An effective social investment strategy must be intelligently tailored so as to have maximum impact. In addition, not all training and lifelong learning programmes are useful. Again, micro-evaluation of training programmes provided to unemployed people suggests that much of what has been offered has proved rather ineffective. It is courses that are tightly linked to a profession and/or lead to diplomas that are recognised by the labour market that are most likely to be effective [Martin and Grubb 2001].

An intelligent and effective social investment strategy will require substantial funds, but it won't necessarily cost more than an "ideology" based alternatives. Evaluations of ALMPs for instance have shown that the most effective programmes, from a micro-economic perspective, are generally those that help unemployed people in their job search efforts [Kluve 2006]. These are also the ones that tend to cost less.

Effective social investment policies must be based on sound empirical research. The social investment project is largely based on a promise: that monies spent today will pay off at some point in the future. The extent to which this promise is credible depends on the availability of empirical studies showing that returns do materialise. As a matter of fact, the success of social investment as a policy idea is already very much based on empirical studies that have shown, for instance, the importance of investing in child development. One example is the much quoted Perry preschool study, in which a group of randomly selected disadvantaged US children was offered to participate in a state-of-the-art preschool programme. They were followed until the age of 27 and, in comparison to a control group, did significantly better according to many indicators [Barnett 1998].

This type of research is extremely useful in developing a social investment strategy. First, research of this type is needed in order to identify the most promising interventions. Second, evidence is needed in order to make the promise of the strategy credible. In the absence of hard evidence in support of the notion that given policies produce returns, it will be difficult to convince governments (and voters) to invest in them.

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Comment on Anton Hemerijck/4

Making Social Investment Work

Abstract: This comment discusses two essential conditions in order to make the social investment strategy proposed by Hemerijck successful. First, a certain administrative capacity must be in place. This may be problematic in some southern European countries. Second, social investment policies must be designed and targeted so as to maximise returns. Empirical research on this aspect is arguably crucial in determining the success of the social investment strategy.

Keywords: Social investment, social policy, labour market policy, children, Southern Europe.

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