Greifswald Comparative Politics

Working Paper No. 8
November 2014

Kati Kuitto

Trends of social investment and compensating welfare policies in Europe: A life course perspective

Kati Kuitto (2014). Trends of social investment and compensating welfare policies in Europe: A life course perspective. Greifswald Comparative Politics Working Paper No. 8.

Corresponding author: Kati Kuitto (kuitto@uni-greifswald.de)

University of Greifswald
Department of Political Science and Communication Studies
Chair of Comparative Politics
Baderstraße 6/7
17487 Greifswald
Germany

http://comparativepolitics.uni-greifswald.de

Greifswald Comparative Politics
ISSN 2195-6502

Trends of social investment and compensating welfare policies in Europe: A life course perspective

Kati Kuitto

Abstract

Social investment has become an influential notion in the social policy debate in past decades. Most of the advanced welfare states have implemented new programs and tools aiming at activation and capacitating citizens instead of merely offering compensation in times of loss of income. This paper contributes to a better understanding of the forms and characteristics of social investment policies and their potential trade-off with more traditional social security schemes by assessing developments of welfare spending profiles in 23 European welfare states in the 2000s. I argue that if a social investment turn has occurred indeed, it is not necessarily at the cost of the "old" compensatory policies as such. Rather than this, social investment policies and their relation to compensating welfare policies alter with regard to policies targeted at different life-stages and to the type of welfare regime. The results indeed attest to a path-dependent trend within the welfare regimes, the Nordic countries remaining clear forerunners both in terms of level and dynamics of social investment policies. European social investment strategies manifest mainly in policies targeted at childhood and youth, while a trade-off between social investment and compensating policies is evident in working age policies.

Keywords: social investment, social protection, disaggregated welfare expenditure, life course, welfare regimes

Content

1 Introduction 5
2 From compensating social security to social investment 6
2.1 Conceptions and rationales of the "social investment turn" 6
2.2 A trade-off between social investment and compensation? 7
2.3 Social investment and compensating policies in the life course perspective 8
2.4 Measuring the "social investment turn" 10
3. Trends and patterns of social investment and compensating welfare policies in Europe 12
3.1 From passive social security towards social investment? 12
3.2 Social investment and compensating welfare spending in the life-course perspective 12
3.3 A trade-off between social investment and social protection? 17
4. Conclusion – much ado about nothing? 20

List of Tables and Figures

Figure 1. Composition of the social investment and compensating welfare policy measures per life-stage 10
Figure 2. The relation of social investment to compensating welfare spending in 23 European countries, 2000-2010 15
Figure 3. Social investment and compensating welfare spending (weighted, % of GDP), chance from 2000 to 2010 18

Table 1. Social investment and compensating spending in 2000 and 2010 (% of GDP), means of welfare regimes 16
Table 2. Correlations between changes in welfare spending 2000-2010 19

1 Introduction

Social investment has not only become an influential notion in the social policy research of recent years, but also in the political agenda of the European Union (EU) since the adoption of the Lisbon Agenda in 2000 and the Social Investment Package in 2013 (European Commission, 2013). Advanced welfare states are said to experience a paradigmatic change from an old focus on social security to a novel focus on social investment and activation as a reaction to labour market and demographic change in the post-industrial era (Esping-Andersen et al., 2002; Morel et al., 2012c; Hemerijck, 2013). As a political agenda, the social investment strategy is seen as a promising and sometimes also the only possible answer to the challenges of the post-industrial era. While lots of evidence exists on welfare policy transformations and on the growing importance of social investment policies as such, there have only recently been attempts to study the "social investment turn" from a macro-comparative perspective (for example Hudson and Kühner, 2009; Nikolai, 2012; Hemerijck et al., 2013; Hemerijck, 2013). Specifically, empirical evidence of the spread and patterns of social investment policies across a greater number of countries is still sketchy and in part contradictory, not least because of heterogeneous measures and unspecific conceptualization of social investment policies (DeDeken, 2014). The key question from the macro-comparative perspective is how the welfare architecture has changed in the course of the "social investment turn" and whether there is even a path-departing transition towards active welfare policies across the welfare regimes (Bonoli, 2013).

This paper investigates the magnitude and forms of the alleged paradigmatic change from passive social security to social investment welfare state in Europe from a macro-comparative perspective. Is there really a trend towards a greater emphasis on social investment policies across European welfare states and if yes, do different welfare regimes pursue such policies in a similar way? Is there a trade-off between social investment policies and "traditional", compensatory social policies? The study thereby pays specific attention to the life-course targets and effects of welfare policies and their change. Much of the social investment literature emphasizes the greater importance and returns of social investment in early stages of life, mainly because of the focus on generating and facilitating human capital (e.g. Esping-Andersen, 2002a, Esping-Andersen, 2009; Kvist, 2013; Heckman, 2000). We would therefore expect a "social investment turn" not only to lead to a shift from compensating social security to social investment policies, but also possibly to a greater emphasis on policies directed to earlier stages in the life course. In times of "permanent austerity" where social expenditure expansion seems unlikely, this would result in a double trade-off of welfare policy recalibration: the first between compensating and investment social policies, the other one between policies targeted at the young and the elderly.

The empirical analysis of this paper employs the disaggregated expenditure approach. The clear advantage of social spending data is its good availability for many countries and time series, but it also indicates important budgetary priorities of governments especially in times of austerity. Furthermore, as previous studies have

shown, patterns of welfare spending distinguish fundamentally between different types of welfare states. This is especially true for the targeting of social benefits for different populations in need along the life course (Jensen, 2008; Castles, 2009; Kuitto, 2011). With an appropriate conceptual attribution of what is social investment and compensatory social protection spending, disaggregated welfare spending can thus be applied for assessing policy shifts in a specifically fruitful way.

The framework is applied for analyzing spending trends in 23 European countries from 2000-2010. If a paradigmatic change has taken place, it should become observable during the 2000s, the "decade of social investment". It is also the decade of continuing strict budgetary constraints in most of the countries, so that the importance of budgetary shifts in welfare spending should indicate even clearer intended and possibly contested policy choices. In including both the old member states of the EU and the Central and Eastern European (CEE) new member states, the analysis for the first time also brings empirical insights in the welfare policy shifts of the new member states in the context of the social investment paradigm and allows for comparisons of all European welfare regimes.

The concepts and the assumed paradigmatic change from compensating social security to social investment in different life-stages are first discussed in the next section. Section three introduces a conceptualization for measuring social investment and compensating welfare policies in different life stages by utilizing disaggregated expenditure data. In section four, descriptive empirical evidence is used to show that no general "social investment turn" has emerged in the European welfare states, but instead, policy shifts vary both along policies targeted at different life stages and across welfare regimes. Trade-off The last section concludes by discussing inasmuch there really is evidence of a social investment turn in the European welfare states and what does it mean for the role of compensating welfare benefits.

2 From compensating social security to social investment

2.1 Conceptions and rationales of the "social investment turn"

Meanwhile, a considerable scholarly body of literature is dedicated to social investment policies and the "new" welfare state. The notion of social investment in the current academic debate was first most notably proposed by Esping-Andersen (1999; 2002) and Giddens (1998) in search for strategies to encounter new social risks, needs and pressures arising from post-industrialization, atypical employment and labour market insecurities, increasing female labour market participation, demographic ageing and costly maturation of social security systems (Taylor-Gooby, 2004; Bonoli, 2006; Hemerijck, 2013). Post-war industrial welfare states which were designed first and foremost to protect incomes via cash transfer programs are ill-suited or incapable of dealing with the challenges of the post-industrial era. The social investment strategy can thereby be seen as an alternative paradigm to Keynesianism of the Golden Age of the welfare state and to Neoliberalism of the 1980s (Jenson, 2012); see also (Hemerijck, 2012, Hemerijck, 2013).[1] In the political

[1] For a critical review of the use and misuse of the notion of social investment, see Nolan 2013.

arena, the notion of social investment or activating welfare state is related to new social democratic ideas put forward most notably by Tony Blair, Gerhard Schröder and Frank Vandenbroucke since mid-1990s, but also came up in the agendas of several international organizations like the World Bank (World Bank, 2001) and the OECD (OECD, 2005).

According to the definition by Morel et al., the social investment approach accounts for post-industrial pressures as it "rests on policies that both invest in human capital development (…), and that help to make efficient use of human capital (…) while fostering greater social inclusion" (Morel et al., 2012a: 2). Pivotal is thus the idea that promoting labour market participation is a social policy goal in itself and that social policy should be viewed as a productive factor fostering employment and economic growth rather than a burden (ibid., an idea also inherent in the Varieties of Capitalism approach; Hall and Soskice, 2001). Old social protection policies are in some views not only seen as incapable to answering to new social demands in the post-industrial era, but also as a hindrance for effective labour markets and economic growth (cp. Nolan, 2013). Social investment is closely related, but not identical to further notions predicting and describing the "new" welfare state such as productive, capacitating, enabling and active social policies. Each of these terms stems from differing ideological roots and policy advocates and stress partly different goals while proposing a variety of overlapping instruments (Nolan, 2013).

2.2 A trade-off between social investment and compensation?

The assumed "paradigmatic change" in general implies a shift from protective welfare state with emphasis on ex-post remedies to productive welfare states with focus on ex-ante prevention (DeDeken, 2014: 265; Hudson and Kühner, 2009). Besides the differing ideological foundation of social investment and social protection welfare policies, there are two further reasons to expect a trade-off between both types of policies in terms of spending. The first is related to fiscal pressures; in times of "permanent austerity" welfare policy expansion causing more fiscal burden is unlikely (Pierson, 2001; Bonoli, 2013: 3). Implementing new welfare policy measures means more costs, and with restricted budgets, expenditure must be cut in another field. The trade-off should be the more pronounced the greater the fiscal pressures are. However, as active, social investment-type policies tend to be less expensive compared to compensating programs like old-age pensions, the costs of the implementation are comparably low. This would relativize the retrenchment pressures for old programs resulting from implementation of social investment instruments.

The second trade off-assumption is based on an argument about the importance of timing and political power relationships for the implementation of social investment policies. According to the crowding-out argument by Bonoli, countries which entered the post-industrial era earlier (and thus where pressures resulting hereof were present early) faced less obstacles for implementing active social policies, because actors fighting for policies for the new demands of post-industrial societies could rely on the support of the pro-welfare expansion powers (the Left, trade unions). Late deindustrializing countries, in contrast, had it considerably harder to implement active social policies. The demands for active policies were in strong

competition with demands for the preservation of protection levels because of a) the increasing austerity due to maturation of the social security systems and demographic ageing, and b) the growing power of pro-protection electorates such as the pensioners. Vote-seeking politicians were therefore rather defending protection levels than in favor of implementing new social investment policies (Bonoli, 2013: 66–7). The trade-off between social investment and compensating social policies should thus be most pronounced in countries where deindustrialization took place later and where social investment policies have been less prominent in past decades. In the European contest this applies particularly to the Southern European countries, but also to the post-communist welfare states. The Nordic welfare states, in contrast, have for longer followed social investment strategies and therefore the political and fiscal trade-off between social investment and compensation policies should be less visible in past years.

In general, the patterns of social investment versus compensation policies presumably vary across the welfare regimes. This is also due to the fact, that both social investment and compensation policies include a range of tools and programs over the life course, which different welfare states emphasize to a varying degree. In the following, I discuss how distinguishing between policies targeted at different life stages may help in assessing welfare state change in more general.

2.3 Social investment and compensating policies in the life course perspective

As the term and definition of social "investment" suggests, policies subsumed under the umbrella of social investment should generate returns for the investor. This idea is clearest with regard to the role of education as an investment in human capital which is expected to pay off in the future in form of better labour market chances at the individual, and higher employment rates and economic growth at the macro-level.[2] Furthermore, the idea of returns to investment implies that social investment policies targeted at different phases in the life course also have different gains, the returns of investment in childhood being the greatest (Heckman, 2000; Esping-Andersen, 2002a; Kvist, 2013). However, like with social security benefits, there is a variety of social investment policies, too, targeted at population at different stages of the life course. The life course perspective therefore seems particularly fruitful for assessing possible substantial welfare policy shifts and it is wondrous that only few comparative analysis on social investment policies have focused this perspective so far (Kvist, 2013). A focus on life-stage-related investment and compensating welfare policies may also contribute to the debate on the politics of new welfare state, as policy measures targeted at different populations also appeal to and affect layers of the electorate with unequal bargaining power (cp. Bonoli and Natali, 2012; Häusermann, 2012).

Although many of the policies subsumed under social investment strategies are overlapping in terms of life course effects, we can identify social investment policies which are targeted at particular life stages. Childcare and pre-school education con-

[2] However, we can also argue that welfare policies in general always generate positive returns for the society, be it in reducing poverty or creating greater equality and social peace (Bonoli 2013: 18; Nolan, 2013: 461–2).

stitute an important part of social investment strategies in childhood, as, according to Kvist, succeeding policies rest on the cognitive skills learned in these formative years (Kvist, 2013: 95). Day care also smooths out social inequalities, enabling children from socially excluded families to catch up in terms of their social and cognitive skills. Education is the most important policy providing children and youth with general and specific skills and qualifying them for the labour market and society in more general. On the compensation side, child benefits and family allowances represent a more traditional "old" logic of providing financial support for the needs of children and families.

In working age, social investment policies consist first and foremost of active labour market tools such as training and employment services, aiming at facilitating human capital and (re)integration to the labour market. But also services for disabled and socially excluded can be considered as capacitating policies in this life stage. These policies address the needs of the most vulnerable persons in the society, usually not eligible for other kinds of social benefits or assistance by offering material and institutional help in terms of boarding houses, reception families or treatment of alcohol and drug dependency. Such measures help socially excluded to (re-)participate in societal life and in best case also in the labour market, and investment in socially excluded arguably thus contributes to the goals of the EU social investment strategy discussed above. Compensating policies in working age, in turn, entail a range of income-replacing cash transfers from sick pay and unemployment insurance to parental leave benefits, all aiming primarily at income-securing.[3]

For elderly, old-age pensions, but also survivor's cash benefits represent traditional compensation policies with enormous volume and political-societal importance. Social investment policies in the third life stage include care facilities, home help and other social services which capacitate and enable independent living even with increasing fragility and disabilities.

The overlapping character of goals and multiple gains of social investment tools over the life course become obvious in case of child and elderly care services, though (Kvist, 2013; DeDeken, 2014). Children day care can be perceived as a measure for investing in skills formation and thus be targeted primarily at childhood and youth as it is primarily perceived in this study, but it also plays a great role for working age population in reconciling work and family (cp. Bonoli, 2013). Similarly, social care and activation measures for elderly are primarily targeted at old age, but also facilitate labour market participation of working age, particularly female, population by reducing the domestic care liabilities.

In the next section, I discuss how capacitating, social investment and compensating, social security welfare policies targeted at different life-stages can be operationalized and measured using disaggregated welfare expenditure data for cross-national comparative analyses.

---

[3] In some views, parental leave benefit is seen as a social investment tool aiming at reconciling work and family. Yet its activating or passive impact depends on the length and the conditions of the leave (see also Bonoli, 2013; DeDeken, 2014). Therefore, parental leave benefit is considered here as a compensating program.

2.4 Measuring the "social investment turn"

In order to trace whether a "paradigmatic change" in welfare policies has actually taken place, we need measures that allow us comparisons over as many countries and time periods as possible while being conceptually precise enough to distinguish between capacitating and compensating social policies. Despite its well-known and broadly discussed caveats, social expenditure has two important advantages for this kind of analytical endeavor. Spending profiles indicate the budgetary emphasis of governments and their general welfare policy orientation (Saunders and Klau, 1985; Siegel, 2007; Castles, 2004). DeDeken hits the spot by referring to Schumpeter's analogy; "The budget is the skeleton of the state, stripped of all misleading ideologies…" (DeDeken, 2014). Especially in times of economic hardship, the allocation of governmental budgets and the costs of social provision become particularly contentious in political debates. Using disaggregated data offers insights into the asymmetries between different domains of welfare policy and makes it possible to account for volatility in the structure of welfare policies over time. Furthermore, modern welfare states clearly cluster in distinct types with regard to their spending profiles (Kautto, 2002; Jensen, 2008; Castles, 2009; Kuitto, 2011, 2015).

Some of the previous research on social investment policies, particularly those focusing on broader patterns and trends, has drawn on social expenditure data (see among others Hudson and Kühner, 2009; Tepe and Vanhuysse, 2010; Bonoli, 2010, Bonoli, 2012; Jensen, 2011; Vandenbroucke and Vleminckx, 2011; Nikolai, 2012; Hemerijck, 2013; Hemerijck et al., 2013). Four of them – Vandenbroucke and Vleminckx 2011, Nikolai 2012 and Hemerijck 2013, Hemerijck et al. 2013 - explicitly address the question of trends and proportions of expenditure on "new" or "social investment" and "old" welfare policies, though with slightly deviating compositions and denominations of the measures. Regardless the countries included in the analysis or the time period, all of them end up with rather ambiguous results.

Figure 1. Composition of the social investment and compensating welfare policy measures per life-stage

Welfare policies				
	Compensating	Child/family cash benefits	Unemployment, sickness, invalidity, social exclusion cash benefits; parental leave and birth allowance cash benefits	Old age and survivors cash benefits
	Social investment	Family benefits in kind, education	Active labour market policies, benefits in kind for socially excluded and invalidity	Old age benefits in kind, benefits in kind for survivors
Life course		**Childhood and youth**	**Working age**	**Old age**

Note: Expenditure categories according to Eurostat ESSPROS, Labour market policy and Education statistics

In composing the indicators for measuring the social investment turn, I distinguish between social investment and compensating spending. Social investment spending reflects governments' emphasis in activating and capacitating strategies by offering public care facilities, supporting active employment strategies and education. Compensating welfare policies, in turn, contain income replacing cash transfers in case of unemployment, old-age, sickness, parenting, disability, invalidity and need for non-insurance based social assistance. Such benefits correspond to the social security strategy to address typical risks of income and job loss that were prevalent in the industrial era (cp. "old" and "new" welfare policies by Häusermann 2012 and "service-oriented capacitating" and "benefit-transfer compensating" social spending by Hemerijck 2013). Figure 1 presents the composition of the social investment and compensating social policy measures in three stages of the life-course. Besides the investment and compensating indices in each life-stage, I also analyse the aggregated indices of social investment and compensating spending over all life-stages. The categories in Figure 1 refer to the disaggregated social, labour market and education expenditure data categories offered by Eurostat on an annual basis (Eurostat ESSPROS, Labour market and Education statistics; extracted June 2014).[4]

Using social expenditure data as policy indicator for cross-country comparisons requires adjusting the data for needs pressures, because levels of expenditure are highly dependent on population in need of and eligible for benefits and services (Saunders and Klau, 1985; Clayton and Pontusson, 1998; Huber and Stephens, 2001; Siegel, 2007; Kangas and Palme, 2007; Kuitto, 2011; Vandenbroucke and Vleminckx, 2011; Hemerijck et al., 2013). I therefore account for cyclical and structural needs through weighting the disaggregated expenditure figures by respective structural and demographic variables.[5]

The following analysis includes 23 European democracies for which data for spending categories is available from 2000 on. These countries are: Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and United Kingdom.

---

[4] An important spending category that should be included in social investment spending measure in conceptual terms is preventive health care. Health status is named as one of the important factors for capacitating people and combatting poverty according to the current "Towards Social Investment for Growth and Cohesion" strategy of the European Commission and prevention plays a key role in enhancing the overall health of the population (2013). However, as the standard sources for cross-country disaggregated social expenditure data do not allow for distinguishing between preventive and curative health care spending and health care as such can be classified neither capacitating nor compensating, health spending is not included in the analysis.

[5] In the absence of exact numbers of (potential) recipients of each welfare policy program, I use proxy variables which come closest to the needs pressures. Those are: Unemployment rate for unemployment and ALMP spending, the ratio of population over 65 years for old-age-related spending, the ratio of population under 16 years for family cash benefits, the ratio of population between 0-6 years for family benefits in kind and the ratio of population between 7-16 years for education spending (cp. Kangas and Palme, 2007). For all other expenditure categories, no weighting was made due to lack of adequate data on recipients for time series and across the countries. The data for the weighting variables stems from World Bank WDI database and from Eurostat.

3. Trends and patterns of social investment and compensating welfare policies in Europe

3.1 From passive social security towards social investment?

The question whether the alleged shift towards social investment policies actually has taken place in Europe in the past decade can best be investigated by looking at the ratio of social investment to compensating welfare spending. The trends across the welfare regimes are presented in Figure 2.[6] In general, there is no clear trend towards more social investment spending in the 2000s of such a magnitude which would justify referring to the change as "paradigmatic". The average emphasis of welfare spending has shifted towards social investment slightly in the Nordic, Anglo-Saxon and Conservative regime, while compensating spending has become relatively more important in the Southern European and the CEE regimes. The post-communist welfare states feature an interesting trend of clearly increasing shift towards social investment in the first half of the 2000s, but in all countries except for Poland, the trend reversed clearly thereafter. Not surprisingly, the social investment-to-compensation spending ratio is still clearly highest in the Nordic welfare regime, followed by the Anglo-Saxon countries. As the UK and Ireland feature completely opposing trends, and as the other countries of the Liberal regime were not accounted for here, we cannot say much about the development of the Liberal welfare policies as such. Of all European countries, in only Norway and in the very latest years, Denmark, the spending on social investment policies exceeds the fiscal emphasis on compensating welfare benefits.

3.2 Social investment and compensating welfare spending in the life-course perspective

When looking at the development of welfare spending on policies targeted at different life-stages, we find a more nuanced picture of the assumed social investment turn. Table 1 presents the figures in detail across welfare regimes in 2000 and 2010. In all regimes, the average spending in social investment policies is higher at the end of the decade than at the beginning, but the relative change varies greatly both across the regimes and with regard to policies targeted at the different life-stages. With regard to policies concerning children and the youth, we can observe a slight overall trend of increasing investment in early childhood care and education across all European welfare regimes. While the Nordic countries clearly show the highest levels of social investment spending on children and youth, the Anglo-Saxon countries UK and Ireland have been increasing their investment in this domain proportionally the most. The growth of investment in child care and education is lowest in the CEE and the Southern European welfare regimes and even slightly negative in Hungary, Poland and Portugal in the period under scrutiny. Given the expected

[6] Referring to five welfare regimes commonly identified in comparative welfare state research (Esping-Andersen, 1990; Ferrera, 1996). While the affiliation of the Western European countries to the four welfare regimes is less contested, the CEE countries do not form a unique, homogeneous welfare regime (see for example Cook, 2010; Kuitto, 2011, 2015). For sake of simplicity, though, the CEE countries except for Slovenia are subsumed under "Central Eastern European welfare regime" here. Slovenia clearly shows attributes of the Southern European cluster and is therefore included in the Southern group (ibid.).

highest future returns of social investment of this kind (Esping-Andersen, 2002a; Kvist, 2013; Heckman, 2000), a social investment turn of the European welfare states might thus show with regard to policy emphasis on the skills formation and investment on the youngest in the society. On average, social investment spending in childhood and youth amounted to 5.17 % of GDP in 2000 and 6.03 % in 2010. Child-care and education spending thus makes out around between a quarter and a third of welfare expenditure and is the second highest post after spending on compensating old age cash benefits (on average 8.84 % in 2010). On average, social investment spending in childhood and youth was 17.7 % higher in 2010 compared to the level of 2000.

The picture of spending emphasis is more mixed with regard to the trends for working age and old age population. While capacitating welfare policies targeted at working age population have gotten increasing fiscal emphasis in all European welfare regimes in the past decade, some countries like the high spenders Denmark, the Netherlands and Sweden but also Germany and Italy have decreased their respective spending consisting mainly of ALMPs for this life stage. Due to stagnating levels of the Nordic high-spenders, the Continental welfare regime has almost reached the levels of working age activation spending previously typical for the Nordic regime. Both regimes are also converging in their levels for compensating spending in this life-stage, resulting from relative cuts in spending in cash benefits in the Nordic countries. The CEE countries are continuously catching up from their previously low levels and thus investing more on supporting the employment chances of their labour force. In 2010, European countries spent on average 1.00 % of GDP on social investment policies and 3.21 % of GDP on compensating policies targeted at working age population. On average, social investment spending in working age was 69.7 % higher in 2010 compared to the level of 2000.

The level of social investment in old age in terms of care facilities, home help and other social services for elderly and survivors is over three times higher in the Nordic welfare states (1.58 % in 2010) than in the regime with the second highest levels of spending, the Anglo-Saxon countries (0.44 % in 2010). The remarkable service-orientation of old-age targeted policies thus remains the trade-mark of the Nordic regime. However, except for the CEE countries, the other regimes have strengthened their financial emphasis in social investment policies in old-age, and this to a greater extent than in compensating policies. This suggests a general trend towards a more capacitating approach in many welfare states despite or perhaps exactly because of the demographic ageing of the society. The overall meaning of social investment spending in old-age remains low, though, with 0.58 % of GDP spent on average in social services, home help etc. for elderly in contrast to 8.84 % on cash pensions (2010).

The divide between the service- and activation-oriented Nordic countries and the social security-oriented Conservative and Southern European welfare states thus not only persists with respect to welfare policies targeted at old age, but more broadly also during the whole life course of the population. The spending gap between social investment and compensating measures targeted at working age population is getting smaller in both the Nordic countries and the CEE countries, but while this is due to decreasing cash transfer spending in the Nordic regime, the CEE

countries are indeed investing more in ALMPs, although still at a low level. The gap between social investment and compensating spending for elderly has only become smaller in the Anglo-Saxon and Southern European welfare states, but only slightly. In general, the gap between social investment and compensating welfare spending continues being lowest in the Nordic welfare states (11.31 % to 12.53 % in 2010) and still highest in the Continental welfare states (7.53 % to 15.62 % in 2010). Welfare regimes thus still feature differing spending profiles with respect both to the relation of social investment and social security measures and the primarily target groups during the life-course. This observation seems to support the path dependency assumption and the relative rigidity of the European welfare models. When clustered along the life-stage-related social investment and compensating welfare spending measures, the European welfare states still group very much along the well-known welfare regimes.

Figure 2. The relation of social investment to compensating welfare spending in 23 European countries, 2000-2010

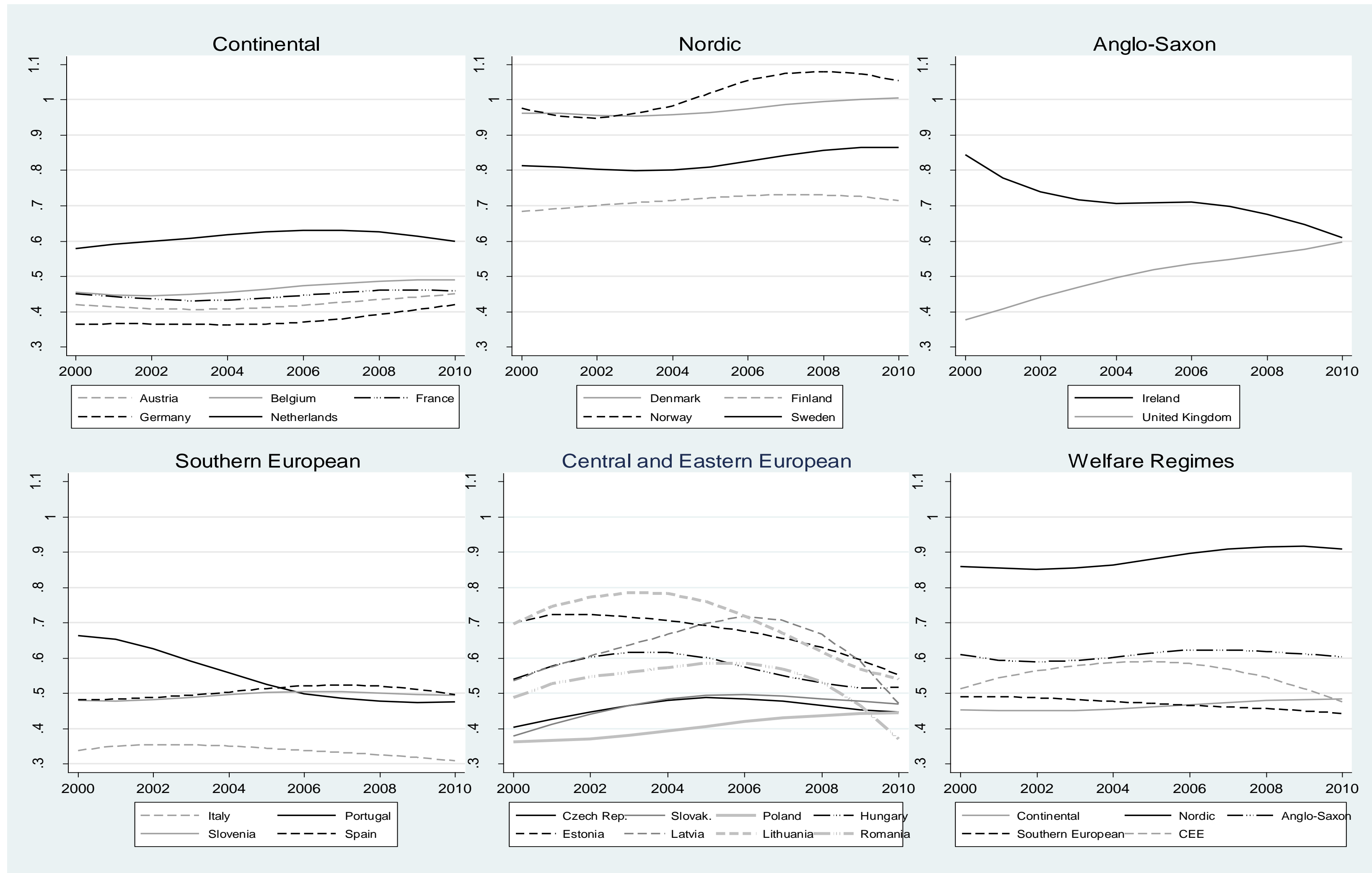


Table 1. Social investment and compensating spending in 2000 and 2010 (% of GDP), means of welfare regimes

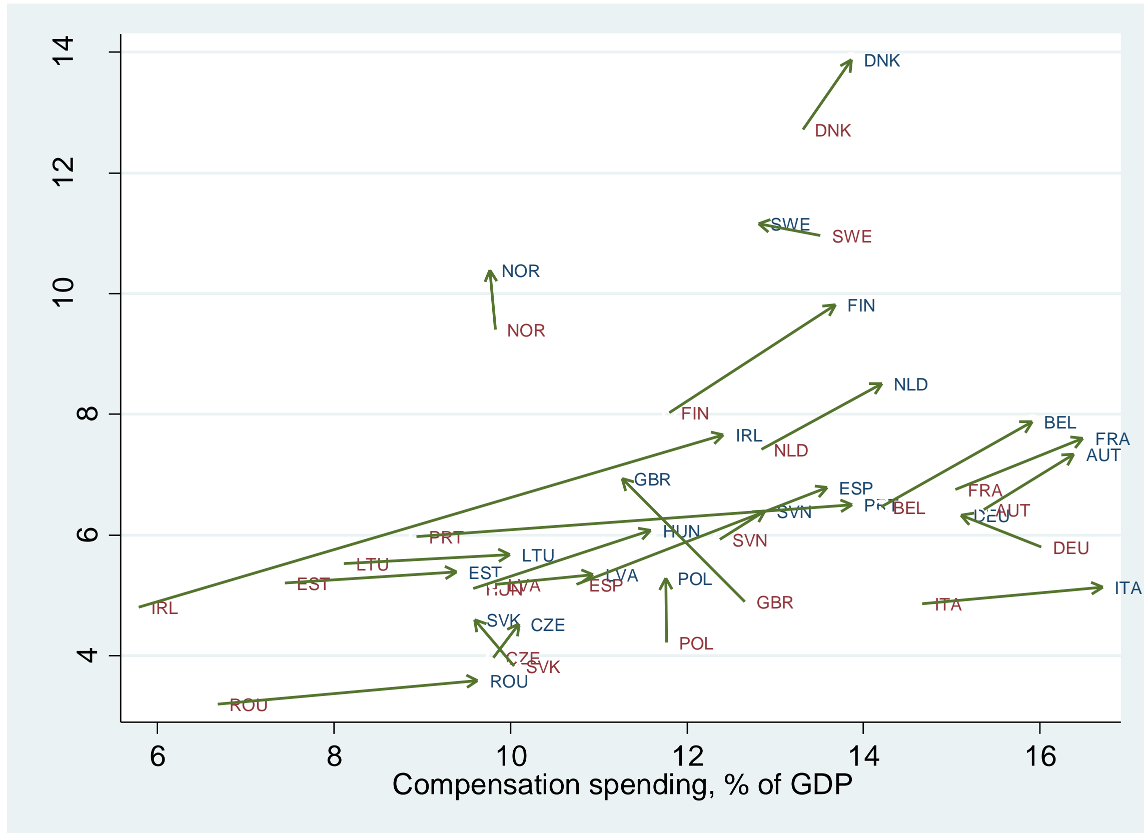
	Childhood and youth						Working age						Old age					
	Investment			Compensation			Investment			Compensation			Investment			Compensation		
	2000	2010	*Δ**	2000	2010	*Δ**	2000	2010	*Δ**	2000	2010	*Δ*	2000	2010	*Δ**	2000	2010	*Δ**
Continental	5.21	5.92	*13.7%*	1.37	1.28	*-6.6%*	1.24	1.40	*13.2%*	3.34	3.74	*11.9%*	0.25	0.35	*39.6%*	9.87	10.50	*6.5%*
Nordic	7.41	8.38	*13.0%*	0.84	0.74	*-11.3%*	1.54	1.57	*2.1%*	4.50	3.88	*-13.8%*	1.52	1.58	*3.9%*	6.78	7.91	*16.7%*
Anglo-Saxon	4.15	6.19	*49.2%*	0.78	1.25	*60.0%*	0.57	0.84	*48.2%*	2.02	3.48	*72.2%*	0.29	0.44	*51.7%*	6.41	7.10	*10.8%*
Southern	4.85	5.25	*8.2%*	0.46	0.50	*8.3%*	0.59	0.71	*21.0%*	2.03	2.78	*37.2%*	0.15	0.32	*119.1%*	9.22	11.02	*19.5%*
CEE	4.23	4.42	*4.4%*	0.64	0.51	*-19.8%*	0.14	0.50	*264.0%*	1.95	2.18	*12.1%*	0.22	0.23	*1.6%*	6.57	7.68	*16.9%*
Mean all	5.17	6.03	*17.7%*	0.82	0.86	*6.1%*	0.82	1.00	*69.7%*	2.77	3.21	*23.9%*	0.49	0.58	*43.2%*	7.77	8.84	*14.1%*

Notes: *Continental*: Germany, Austria, France, Belgium, the Netherlands; *Nordic*: Sweden, Denmark, Norway, Finland; *Anglo-Saxon*: UK, Ireland; *Southern*: Spain, Italy, Portugal, Slovenia; *CEE*: Czech Republic, Slovakia, Hungary, Poland, Estonia, Latvia, Lithuania, Romania. * Change 2000-2010 in percentage of the levels in 2000.

3.3 A trade-off between social investment and social protection?

Even in the absence of a clear paradigmatic change towards social investment welfare state in terms of spending, the question remains whether the observed shifts towards more social investment spending have been accompanied by cuts in spending on compensating cash benefit schemes. According to the resource competition hypothesis, at least in times of tight budgetary constraints as has been the case in the 1990s and 2000s, "a shift in budgetary resources to new social spending might explain downward pressure in old cash benefit programs" (Vandenbroucke and Vleminckx, 2011: 458; see also Cantillon, 2011). The data in Table 1 suggest, however, that compensatory welfare policy spending has not systematically decreased either. Figure 3 plots the change in social investment and compensating spending from 2000-2010 in the 23 countries. Only in six countries, namely the UK, Germany, Slovakia, Sweden and to a minor extent also Norway and Poland, increasing relevance of social investment spending has been accompanied with decreasing levels of compensation spending. A great majority of the European welfare states spend more on both types of programs relative to GDP. When looking at the correlations of annual change rates over the period under scrutiny at the level of programs in different life-stages (Table 2), there is no evidence of a trade-off between the differentiated social investment-type and compensating spending, either. Growing emphasis on a social investment-kind of program targeted at one life-stage is not negatively related to spending on programs targeted at other life-stages. However, increases in the relative importance of social investment spending correlate particularly high with positive changes in investment in childhood and youth, pointing once again to the major role of investment in the earliest stage in the life-course in the current European shifts towards new welfare policies.

Figure 3. Social investment and compensating welfare spending (weighted, % of GDP), chance from 2000 to 2010



Source: Eurostat, own calculations.

Table 2. Correlations between changes in welfare spending 2000-2010

	Δ Investment	Δ Compensation	Δ Inv. Children	Δ Comp. Children	Δ Inv. Working age	Δ Comp. Working age	Δ Inv. Elderly	Δ Comp. Elderly
Δ Investment	1							
Δ Compensation	0.596***	1						
Δ Inv. Children	0.952***	0.565***	1					
Δ Comp. Children	0.245***	0.453***	0.260***	1				
Δ Inv. Working age	0.471***	0.290***	0.221***	0.040	1			
Δ Comp. Working age	0.610***	0.851***	0.569***	0.262***	0.294***	1		
Δ Inv. Elderly	0.542***	0.339***	0.437***	0.076	0.122	0.369***	1	
Δ Comp. Elderly	0.465***	0.911***	0.443***	0.357***	0.243***	0.578***	0.259***	1

Notes: Pearson's r, * p<0.05, **p<0.01, ***p<0.001. Adjusted expenditure in % of GDP.

The overall increasing trend of total social expenditure suggests that despite the strict budgetary limits and permanent austerity during the 2000s, no retrenchment of welfare state has taken place (see also Kuitto, Jahn and Düpont 2012). Consequently, there is no indication of "resource competition" or trade-off between old and new welfare policies (Cantillon, 2011). Figure 3 shows that rather than a trade-off, there is (still) a distinction between those countries spending less on welfare policies in general (most of the CEE countries) and those spending more in both compensating and social investment policies. Moreover, the growth of compensating spending has been higher in the low-spending countries, probably resulting from greater demand for social protection and the need for catching up in terms of welfare policies in general.[7] The absence of a clear trade-off is in line with the findings by Hemerijck (2013: 266) and Vandenbroucke and Vleminckx (2011: 460). The latter authors show additionally that if anything, there seems to be a trade-off between increasing spending on health care – a variable which is neglected here – and spending on traditional cash transfers.

However, the argument about a possible trade-off between social investment and compensating cash transfer programs only indirectly implies alternating levels of expenditure. The rationale behind the trade-off-argument is that governments reduce the generosity of compensating social security benefits for two reasons; first, there is an intentional policy shift from income replacement towards activation, and second, additionally or alternatively, scarce budgetary frames force governments to reduce cash benefits while spending more on social investment policies in order to meet new social needs. Consequently, income replacing cash benefits should become less generous, resulting in re-commodification (cp. Vandenbroucke and Vleminckx, 2011). Nevertheless, this does not automatically mean sinking expenditure on passive welfare policies, since generosity of welfare entitlements is not strongly correlated with levels of the corresponding expenditure (Palme et al., 2009; Kuitto 2015). However, there is only little evidence on shrinking generosity levels as such and cuts are furthermore program-specific.

4. Conclusion – much ado about nothing?

The results of this study by large confirm findings of many previous studies, stating that no uniform shift towards a social investment welfare state can be observed in cross-country comparison at least in terms of governmental spending (cp. Morel et al., 2012b; Nikolai, 2012; Hudson and Kühner, 2009; Vandenbroucke and Vleminckx, 2011; Hemerijck, 2013; Hemerijck et al., 2013). This result holds true independently of the conceptualization and measurement of social investment spending. Moreover, where social investment policies have gained more budgetary importance, those shifts have not come at cost of compensating welfare policy spending. The latter is only partly true for policies targeted at working age population, though. The empirical evidence thus does not support the resource compensation hypothesis or the assumption, social investment measures would go hand in hand with re-commodification and retrenchment (cp. Vandenbroucke and Vleminckx, 2011; Nolan, 2013). One explanation for the absence of such a trade-off

[7] In the CEE countries, this might also be an effect of the EU accession process.

(and consequently, of a paradigmatic change within the European welfare states) can be found in the dynamics of the impacts of social investment and compensatory policies. While investing in human capital generation and capacitation seems attractive to large parts of the electorates and political agencies, cutting benefits particularly in social insurance based systems easily raises political opposition (Häusermann, 2012; Vis, 2010). Consequently, it is easier for governments to implement active welfare policies and social services than to cut income replacing benefits. Another explanation relying on a rather strong assumption of rational actors would be that policy makers acknowledge the future gains of social investment strategies in the middle and long run and hope that capacitating welfare policies will lead to diminishing need for compensating benefits in the future, so that no need for risky benefit cuts in the present appears. Also, in Esping-Andersen's words, "income security is a precondition for an effective social investment strategy" (Esping-Andersen, 2002b: 5).

European welfare states still differ with regard to their overall commitment to welfare in general *and* their emphasis in different welfare policy objectives especially in the way welfare policies are targeted at population at different life stages. The Nordic model remains thereby most clearly committed to capacitating, social investment policies, investing even more especially in childhood- and youth-related policies. In the Anglo-Saxon welfare states, too, social investment policies gain ground especially by means of investment in education in childhood and youth, but the actual mix of policy tools is different from the universal one of the Nordic countries. Hints of an increasing importance of social investment strategies can also be found in the Conservative and Southern European welfare states, but this has not fundamentally challenged the dominance of social insurance based income transfers cumulated especially for old age and working age in the Bismarckian systems (but see also Palier, 2010). The CEE countries remain rudimentary in terms of both social investment and compensating welfare policies, although their investment in labour market activation policies and thus their active support for working age population has increased during the past decade. However, the CEE countries perform weakest in increasing human capital investment in childhood and youth, so that the welfare policies in CEE are less sustainable in the middle and long run than the ones of the other European countries when considering the anticipated pay-offs of social investment.

Altogether, the regime approach still seems valid for European welfare even when looking at the relative importance of new and old welfare expenditure. Reasons for the differing emphasis on social investment and compensating welfare policies as well as for the varying new welfare policy instruments may be found in the very same socio-economic, political-institutional and cultural factors that constitute the regimes in the first place. Path dependencies on the one hand and intra-regime diffusion on the other hand may play a significant role in the adaption of social investment measures, leading to regime-wise new welfare policy strategies.

Despite the lacking overall shift from compensating to social investment policies in terms of welfare spending, the kind of macro-comparative analysis performed in this paper may, of course, fail at identifying more nuanced institutional policy change. As dimensions of social investment policies are even ambivalent and con-

tradictory to some degree and were introduced in various phases reflecting different functional needs pressures in past decades, the face of already implemented social investment policies probably is more prevalent than revealed by plain relations of expenditure (cp. Vandenbroucke and Vleminckx, 2011: 452). Moreover, it will be interesting to see how new welfare policies have evolved in the medium-term after the recent economic crisis. As the results show, income compensating policies gained some renewed importance during and after the crisis. Finally, looking at governmental policy outputs in terms of spending priorities makes just half the case. The same proportion of spending may be deployed to a differing degree of efficiency depending on the institutional, administrational and cultural features in different countries (Castles, 2013; Hemerijck et al., 2013). Although the actual impact of social investment policies has been contested in many studies and the so-far achievements of activation and capacitating strategies show a rather sobering balance (Cantillon, 2011; Vandenbroucke and Vleminckx, 2011; van Lancker and Ghysels, 2014), in the longer run, paradigmatic change - or the lack of it - may also manifest itself in social outcomes.

Acknowledgements

The research presented in this paper was supported by a research grant from the German Research Foundation DFG (Grant No. JA638/12-2, "Welfare policies in the enlarged Europe"). The author would like to thank participants of the Stream "Social investment" at the ESPAnet Conference 2013 and the "Assessing the social investment strategy" conference at IDHEAP, Lausanne 2014 as well as Detlef Jahn, Nils Düpont and Jan Helmdag for their helpful comments on earlier versions of this paper.

References

Bonoli, G. (2006) 'New Social Risks and the Politics of Post-Industrial Social Policies', in K. Armingeon and G. Bonoli (eds) *The Politics of Post-industrial Welfare States: Adapting Post-war Social Policies to New Social Risks*, pp. 3–26. London, New York: Routledge.

Bonoli, G. (2010) 'The Political Economy of Active Labor-Market Policy', *Politics & Society* 38(4): 435–57.

Bonoli, G. (2012) 'Active labour market policy and social investment: a changing relationship', in N. Morel, B. Palier and J. Palme (eds) *Towards a Social Investment Welfare State?: Ideas, Policies and Challenges*, pp. 181–204. Bristol: The Policy Press.

Bonoli, G. (2013) *The Origins of Active Social Policy: Labour Market and Childcare Polices in a Comparative Perspective.* Oxford: Oxford University Press.

Bonoli, G. and Natali, D. (eds.) (2012) *The Politics of the New Welfare State.* Oxford: Oxford University Press.

Cantillon, B. (2011) 'The paradox of the social investment state: growth, employment and poverty in the Lisbon era', *Journal of European Social Policy* 21(5): 432–49.

Castles, F. G. (2004) *The future of the welfare state: Crisis myths and crisis realities.* Oxford: Oxford Univ. Press.

Castles, F. G. (2009) 'What Welfare States Do: A Disaggregated Expenditure Approach', *Journal of Social Policy* 38(1): 45–62.

Castles, F. G. (2013) 'The Real Issue for Future Comparative Policy Research: Does Government Matter?', in K. Armingeon (ed.) *Staatstätigkeiten, Parteien und Demokratie: Festschrift für Manfred G. Schmidt*, pp. 185–204. Wiesbaden: Springer VS.

Clayton, R. and Pontusson, J. (1998) 'Welfare-State Retrenchment Revisited: Entitlement Cuts, Public Sector Restructuring, and Inegalitarian Trends in Advanced Capitalist Societies', *World Politics* 51(1): 67–98.

Cook, L. J. (2010) 'Eastern Europe and Russia', in F. G. Castles, S. Leibfried, J. Lewis, H. Obinger and C. Pierson (eds) *The Oxford Handbook of the Welfare State*, pp. 671–86. Oxford: Oxford University Press.

DeDeken, J. (2014) 'Identifying the skeleton of the social investment state: defining and measuring patterns of social policy change on the basis of expenditure data', in B. Cantillon and F. Vandenbrouck (eds) *Reconciling Work and Poverty Reduction: How Successful are European Welfare States?*, pp. 260–85. Oxford: Oxford University Press.

Esping-Andersen, G. (1990) *The Three Worlds of Welfare Capitalism.* Princeton: Princeton University Press.

Esping-Andersen, G. (1999) *Social Foundations of Postindustrial Economies.* Oxford: Oxford University Press.

Esping-Andersen, G. (2002a) 'A Child-Centered Social Investment Strategy', in G. Esping-Andersen, D. with Gallie, A. Hemerijck and J. Myles (eds) *Why We Need a New Welfare State*, pp. 26–67. Oxford: Oxford University Press.

Esping-Andersen, G. (2002b) 'Towards the Good Society, Once Again?', in G. Esping-Andersen, D. with Gallie, A. Hemerijck and J. Myles (eds) *Why We Need a New Welfare State*, pp. 1–25. Oxford: Oxford University Press.

Esping-Andersen, G. (2009) *The incomplete revolution: Adapting to women's new roles.* Cambridge: Polity Press.

Esping-Andersen, G., with Gallie, D., Hemerijck, A. and Myles, J. (eds.) (2002) *Why We Need a New Welfare State.* Oxford: Oxford University Press.

European Commission (2013) *Towards Social Investment for Growth and Cohesion – including implementing the European Social Fund 2014-2020: Communication from the Commission to the European Parlament, the Council, the European Economic and Social Committee and the Committee of the Regions.* Brüssel.

Ferrera, M. (1996) 'The "Southern" Model of Welfare in Social Europe', *Journal of European Social Policy* 6(1): 17–37.

Giddens, A. (1998) *The Third Way: The Renewal of Social Democracy.* Cambridge: Polity Press.

Hall, P. A. and Soskice, D. W. (eds.) (2001) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage.* Oxford [England], New York: Oxford University Press.

Häusermann, S. (2012) 'The Politics of Old and New Social Policies', in G. Bonoli and D. Natali (eds) *The Politics of the New Welfare State*, pp. 111–32. Oxford: Oxford University Press.

Heckman, J. J. (2000) 'Policies to foster human capital', *Research in Economics* 54(1): 3–56.

Hemerijck, A. (2012) 'Two or three waves of welfare state transformation?', in N. Morel, B. Palier and J. Palme (eds) *Towards a Social Investment Welfare State?: Ideas, Policies and Challenges*, pp. 33–60. Bristol: The Policy Press.

Hemerijck, A. (2013) *Changing Welfare States.* Oxford: Oxford University Press.

Hemerijck, A., Dräbing, V., Vis, B., Nelson, M. and Soentken, M. (2013) *European Welfare States in Motion.* Amsterdam.

Huber, E. and Stephens, J. D. (2001) *Development and Crisis of the Welfare State: Parties and Policies in Global Markets.* Chicago: University of Chicago Press.

Hudson, J. and Kühner, S. (2009) 'Towards productive welfare? A comparative analysis of 23 OECD countries', *Journal of European Social Policy* 19(1): 34–46.

Jensen, C. (2008) 'Worlds of welfare services and transfers', *Journal of European Social Policy* 18(2): 151–62.

Jensen, C. (2011) 'The forgotten half: analysing the politics of welfare services', International *Journal of Social Welfare* 20(4): 404–12.

Jenson, J. (2012) 'Redesigning citizenship regimes after neoliberalism: moving towards social investment', in N. Morel, B. Palier and J. Palme (eds) *Towards a Social Investment Welfare State?: Ideas, Policies and Challenges*, pp. 61–87. Bristol: The Policy Press.

Kangas, O. and Palme, J. (2007) 'Social rights, structural needs and social expenditure: a comparative study of 18 OECD countries 1960-2000', in J. Clasen and N. A. Siegel (eds) *Investigating Welfare State Change: The 'Dependent Variable Problem' in Comparative Analysis.*, pp. 106–29. Cheltenham: Elgar.

Kautto, M. (2002) 'Investing in Services in West European Welfare States', *Journal of European Social Policy* 12(1): 53–65.

Kuitto, K. (2011) 'More than just money: Patterns of disaggregated welfare expenditure in the enlarged Europe', *Journal of European Social Policy* 21(4): 348–64.

Kuitto, K. (2015) *Post-Communist Welfare States in European Context: Patterns of Welfare Policies in Central and Eastern Europe*. Cheltenham: Edward Elgar Publishing (forthcoming).

Kuitto, K., Jahn, D. and Düpont, N. (2012) *Welfare policy institutions in the enlarged EU - convergence, divergence or persistence?* Greifswald Comparative Politics Working paper No. 1/2012.

Kvist, J. (2013) 'The post-crisis European social model: developing or dismantling social investments?', *Journal of International and Comparative Social Policy* 29(1): 91–107.

Morel, N., Palier, B. and Palme, J. (2012a) 'Beyond the welfare state as we knew it?', in N. Morel, B. Palier and J. Palme (eds) *Towards a Social Investment Welfare State?: Ideas, Policies and Challenges*, pp. 1–30. Bristol: The Policy Press.

Morel, N., Palier, B. and Palme, J. (2012b) 'Social investment: a paradigm in search of a new economic model and political mobilisation', in N. Morel, B. Palier and J. Palme (eds) *Towards a Social Investment Welfare State?: Ideas, Policies and Challenges*, pp. 353–76. Bristol: The Policy Press.

Morel, N., Palier, B. and Palme, J. (eds.) (2012c) *Towards a Social Investment Welfare State?: Ideas, Policies and Challenges.* Bristol: The Policy Press.

Nikolai, R. (2012) 'Towards social investment? Patterns of public policy in the OECD world', in N. Morel, B. Palier and J. Palme (eds) *Towards a Social Investment Welfare State?: Ideas, Policies and Challenges*, pp. 91–115. Bristol: The Policy Press.

Nolan, B. (2013) 'What use is 'social investment'?', *Journal of European Social Policy* 23(5): 459–68.

OECD (2005) *Extending Opportunities: How Active Social Policy Can Benefit Us All.* Paris: Organisation for Economic Co-operation and Development.

Palier, B. (2010) 'The Long Conservative Corporatist Road to Welfare Reforms', in B. Palier (ed.) *A Long Goodbye to Bismarck?: The Politics of Welfare Reforms in Continental Europe*, pp. 333–87. Amsterdam: Amsterdam University Press.

Palme, J., Nelson, K., Sjöberg, O. and Minas, R. (2009) *European Social Models, Protection and Inclusion.* Stockholm.

Pierson, P. (2001) 'Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies', in P. Pierson (ed.) *The New Politics of the Welfare State*, pp. 410–56. Oxford: Oxford University Press.

Saunders, P. and Klau, F. (eds.) (1985) *The role of the public sector: causes and consequences of the growth of government.* Paris: OECD.

Siegel, N. A. (2007) 'When (only) money matters: the pros and cons of expenditure analysis', in J. Clasen and N. A. Siegel (eds) *Investigating Welfare State Change: The 'Dependent Variable Problem' in Comparative Analysis.*, pp. 43–71. Cheltenham: Elgar.

Taylor-Gooby, P. (ed.) (2004) *New Risks, New Welfare: The Transformation of the European Welfare State.* Oxford: Oxford University Press.

Tepe, M. and Vanhuysse, P. (2010) 'Elderly bias, new social risks and social spending: change and timing in eight programmes across four worlds of welfare, 1980-2003', *Journal of European Social Policy* 20(3): 217–34.

van Lancker, W. and Ghysels, J. (2014) 'Who Benefits from Investment Policies? The Case of Family Activation in European Countries', in B. Cantillon and F. Vandenbrouck (eds) *Reconciling Work and Poverty Reduction: How Successful are European Welfare States?*, pp. 212–37. Oxford: Oxford University Press.

Vandenbroucke, F. and Vleminckx, K. (2011) 'Disappointing poverty trends: is the social investment state to blame?', *Journal of European Social Policy* 21(5): 450–71.

Vis, B. (2010) *Politics of Risk-taking: Welfare State Reform in Advanced Democracies.* Amsterdam: Amsterdam University Press.

World Bank (2001) *Social Protection Sector Strategy: From Safety Net to Springboard.* Washington, DC: World Bank.