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Trends in the Swedish Social Investment Welfare State: 'The Enlightened Path' or 'The Third Way' for 'the Lions'?

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Abstract

The concept of social investment has gained ground on the EU-level, manifested among other things in the launching of the 'Social investment package' by the EU Commission in 2013 and subsequent engagement in the follow up of that initiative. In this context, the Nordic experience has no doubt played an important role and Sweden is an interesting case in point for discussing the social investment approach. We argue that Sweden has long tradition of social investment which has contributed to a number of positive outcomes, such as low poverty and high employment. However, our examination of more recent trends suggests that the achievements are now jeopardised by the trend towards a cheaper 'Third Way' version of the social investment approach. Since the investment quality of policy interventions has been diluted, not least in the field of active labour market policy, and old redistribution policies are at drift, it has become difficult to combat old as well as new inequalities and social divisions. Still, a more enlightened development path is open but requires serious recasting of the social investment policy package.

Keywords: Social investment, welfare state, Swedish reforms, poverty, redistribution, work intensity.

JEL codes: H53, I32, I38, J21

1 Introduction

This working paper starts from the observation that the EU discourse on social policy has become increasingly focused on capacitating strategies. Over the past decade, social investment has been identified as a strategy not only to promote equality of opportunity but also social inclusion, not least by preparing people to be integrated and functioning on changing labour markets. The social investment strategy thus responds to both key dimensions identified by the President of the Commission, José Manuel Barroso, when he in 2005 defined his and the Commission's approach to the European Social Model (ESM) in terms of 'equality of opportunity' and 'social inclusion'. Interestingly enough, Barroso had his version of the European Social Model defined in goal dimensions and not with specific policy instruments, while it can be argued that the focus of the social investment is on the policy instruments.

It can be also argued that the present 'future agenda' of the Union, *EU2020*, is different from Barroso's ESM in the sense that it mixes elements of policy goals and instrument. Skills and other forms of human capital development are part of 'inclusive growth' and compatible with not only smart growth but also sustainable ('green') growth. In more than one way it can be seen as congruent with a social investment approach, although in its final formulation in June 2010 it was clear that the one sided focus on expenditure control was alien to the social investment agenda's preoccupation with securing the future tax base by actually spending (investing) more in the short and medium term.

Why and how did the social investment agenda end up on the European agenda? It goes beyond the scope of the present paper to provide a full account of how social investment became part of an EU policy. However, a few notes in the margins on the phenomenon as Nordic 'uploading' appear warranted. The influence of the fact that both Sweden and Finland, in addition to Denmark, became Member States in the mid-1990s should not be overestimated. Yet it is difficult not to see that the modernisation agenda for social protection that was formulated during the second half of the 1990s bore obvious Nordic imprints with its emphasis on gender equality and changing employment structures (in addition to pension reform).

It is difficult to understand the growing interest in the concept of social investment without recognizing the influence of the Lisbon Agenda and the way it came into being. The Lisbon Agenda also served as a context of the important contribution of Esping-Andersen and colleagues in the report to the Belgian Presidency of the EU during the fall of 2001, later to be published with the title *Why we need a new welfare state?* (Esping-Andersen, Gallie, Hemerijck, & Myles, 2002). It appears to be another example of Nordic uploading in EU policy making. Somehow parallel to Esping-Andersen, Anthony Giddens (1998) developed the 'Third Way' as an alternative approach to welfare state reform. This is interesting, not only because of the many similarities with Esping-Andersen (et al., 2002) but also because of the differences (to which we will devote most of the attention): They differ in their understanding of what constitutes productive and unproductive social expenditures, in their view of equality, in the role they ascribe to social policy, and how they appear to want to strike a balance between rights and responsibilities (Morel, Palier, & Palme, 2012a, cf. Andersson, 2010). Where Giddens emphasizes the moral hazards and unproductive character of unemployment benefits and similar programs, Esping-Andersen sees the productive values of such programs, for example by cushioning job transitions. Where Giddens values the incentives created by inequalities, Esping-Andersen problematizes the effects of lack of equality. These are all relevant differences for the discussion of the changing Swedish welfare state model. We see it as a choice between two versions of the social investment approaches, as the subtitle alludes to. Yet the 'lion' label calls for an explanation. It refers to a discussion started in the ImPRovE project about different kinds of social policy approaches, where a distinction first was made between the 'elephants' and the 'butterflies' referring to social protection kind welfare states vs. social innovation kind ditto (Oosterlynck, Kazepov, Novy, Cools, Barberis, Wukovitsch, Sarius & Leubolt, 2013). Bea Cantillon then suggested that the social investment welfare states could be labelled the 'lions'.

In connection to the discussion about the post-Lisbon Agenda, the concept of social investment (re-)surfaced (Morel et al., 2009). This was at a time when there was a quest for policy agendas that could respond to the crisis in a sustainable way, i.e. without jeopardizing the long term ability of Member States to deal with social and other needs in Europe with its ageing populations. The social investment approach was formulated in human capital terms, emphasizing the ability of good policies to have a beneficial effect on the distribution of human capital 'from the cradle to the grave'. This meant that the notion of life-long learning from age 1 had to be manifested in a series of good policy interventions following the individual over the life course. This approach to social investment had the focus on the supply side in common with Neoliberalism and the trust in state intervention in common with Keynesianism. The launch of these ideas in connection to the Swedish Presidency of the EU in 2009 appeared to have little influence on the policy discussion. Still, the new agenda EU2020 eventually came to include several components that were compatible with a social investment approach, especially the focus on skill formation and inclusive high employment growth (European Commission, 2010).

Eventually, however, the social investment concept as such has penetrated the policy agenda of the EU Commission. In February 2013, the Commissioner for Employment, Social affairs and Social Inclusion, László Andor launched what was called the *Social Investment Package (SIP)* (and appointed 'The Social Investment Expert Group for Growth and Social Cohesion' including some of the contributors to the 2009 report referred to above). The Package was building on earlier packages such as those on early childhood, employment, and elderly care. Later the 'youth package' has been added (sort of) under the SIP umbrella. This means that the policy packages cover the entire 'economic life-cycle' of the individual in a consistent way. The aim was to spur Member States to make 'investment' part of the social policy reform agenda in order to better respond to increasing social and political imbalances, or rather; emergencies, caused by the economic crisis in interaction with globalisation and the ageing of populations, but also with the way that Member States had responded to this. The idea was to help reaching the EU2020 targets by linking social policy reforms (recommended in the European semester) with relevant EU funds.

The purpose of this working paper is to identify the core assumptions and propositions in the Swedish social investment discourse and monitor policy changes as well as policy outcomes. The Swedish case study can hopefully contribute to further discussions about the potential of the social investment agenda in European social policy making. In order to somehow evaluate the strengths and weaknesses of the approach, we try to identify the results achieved so far. This will open up for a discussion of potential goal conflicts (trade-offs) and thus for conflicting views. The paper is organised in the following way: First comes a section about the origins of the Swedish social investment approach, including subsections on policy instruments, core assumptions and expenditures. Then comes a section on different critical voices about the social investment approach, which includes the activation trilemma, gender and redistribution perspectives. Section 4 is devoted to various poverty related factors; employment, work intensity and redistribution. The working paper concludes with some reflections on how social investment could be reinforced by social protection and social innovation, arguing that these approaches are best seen as being complementary rather than mutually excluding alternatives.

2 Origins of a Swedish social investment approach and its core assumptions

In Sweden, the origins of the social investment agenda can be traced back to the 1930s with the Great Depression and what came to be labelled the 'Crisis of the Population Question' (i.e. the falling birth rates). In the midst of these crises, Alva and Gunnar Myrdal developed an approach to social policy aimed at mitigating production and reproduction, which opened up for an investment perspective on social policy (Morel et al., 2012). The background was the following; falling fertility was seen in the context of increasing costs for households in light of the demands of prolonged education and the subsequent expansion of the school system. The Myrdals advocated policies that would combine direct economic support to families with children with indirect support to housing as well as the provision of opportunities for female labour force participation. The population question was not only about the 'quantity' but primarily about the 'quality' of the population in terms of the social conditions for human capital formation. The two Myrdals made up a powerful combination: Gunnar was an economist who belonged to the Stockholm School and she was a pedagogue and feminist. Both became cabinet members at various times and received the Nobel Prize (he in economic sciences and she the Peace Prize). Together they became the two of the most important Swedish policy intellectuals in the 20th century.

The Myrdals were also concerned with economic growth and productivity of the economy. This is also true for the post World War II continuation of the social investment perspective in Sweden. Part of the post war continuation is very closely intertwined with Myrdals, even if the actual policy implementation came with a delay of (about four) decades. Part of the continuation was developed in a different context and by other actors in the labour movement, namely the trade union economists Gösta Rehn and Rudolf Meidner (Morel et al., 2012a). The Rehn-Meidner Model of economic policy was designed to support a kind of Schumpeterian creative destruction and transformation of the economy but at the same time promoted 'social construction' with selective but massive labour market measures including re-training of the labour force to make workers fit for the new economic structures. These investments in education and training of the labour force can no doubt be labelled as 'social' due to their distributional properties and inclusive effects. It was also underpinned by an egalitarian wage policy. In the 1960s, this approach was complemented with what was called 'life-long education' which geared the regular education systems towards combining social and economic objectives.

While Keynesianism grew in importance and dominated as an economic paradigm in the Western hemisphere until the late 1970s, its function as a public spending device was mainly as a macro-economic balancing mechanism rather than as a social investment instrument. The focus on female labour market participation and gender equality is something which belongs to the Myrdal imprint on the Swedish version of Keynesianism rather than being (male-)mainstream Keynesianism. Gradually from the 1970, the various components of what can be labelled the 'dual-earner model' came into place; including separate taxation of spouse income improving incentives for a second earner, expansion of cradle to the grave social services enabling women to combine paid work with family responsibilities and high labour supply in not only the expanding public sector but also the private sector. These policies where vital to enable the harvest, on the part of individuals and society, of the investment in women's human capital that had taken place during the first three post war decades, and that would continue to expand (Palme, 1999).

To sum up, starting in the 1930s and continuing in the post war period a social policy agenda was formulated based on the core assumption that the trade-off between equality and efficiency can be bridged by social policies that also have economic objectives and by economic policies that also have social objectives. Thus fighting poverty was about enhancing the productivity and employment of the population, and counter-cyclical policies was about fighting poverty and inequality. Redistribution was seen as an irrigation system (G. Myrdal), not a leaky bucket (Okun) (cf. Korpi, 1985). The goal was equality and not mere poverty reduction (Erikson, 1993). The goal was equality not only between social classes but also between the two genders.

2.1 Policy instruments

The social investment paradigm is not only characterised by its particular goals, core principles, and assumptions, but also by the specific set of policy instruments on which it relies. In this section we explore these policy instruments, with particular reference to the case of Sweden and the somewhat diverging trends that the country has seen over the past decades ('Giddens vs. Esping-Andersen'). To be more concrete about the policy instruments it appears useful to briefly introduce some of the most important building blocks. These are: child care, universal schools, life-long education and active labour market policy (ALMP). But it is absolutely vital to also see the positive interactions these social investment policies have with social service and social insurance programs.

While the education is not always part of the definition of the welfare, there are good reasons for including it here. Even if the first universal component in the education system dates back to 1842, many elements remained that contributed to a 'pillarization' of the school system between the urban and rural areas as well as between social classes. However, the Swedish post war development brought continued 'universalisation' of the schools (Lindensjö & Lundgren, 2014). In the late 1950s the two track school system (one occupational track and one academic track) was also unified and compulsory education prolonged to 9 years. Secondary education was expanded more gradually, including the extension of specific programs for adult education. In the mid-1990s, youth education (secondary education) was also universalised in the sense that also the occupationally oriented two year tracks were prolonged to three years, making it possible for these students to continue at university. The big public resources made available for vocational training and other investments in the adult labour force via the active labour market policy (ALMP) measures came to cover a substantial part of the labour force (especially in connection to economic downturns). In this context it is also important to emphasise the big sums invested by the Swedish employers in their employees (Lindh & Palme, 2006).

Child care centres used to be part of the 'social services' and belonged to the Ministry of Health and Social Affairs and it is interesting to note that it was transferred to the Ministry of Education and became part of Early childhood education in the mid-1990s (Jenson, 2012). Child care can of course be seen as a social service to the parents. There are also good reasons for seeing social services as a precondition for social investment kind policies. In the absence of adequate social services, individuals and families with caring responsibilities will be hampered in their labour market participation and there are obvious risks of deskilling coming as consequence of extensive leaves of absence from the labour market. Here the provision of elderly care is of great importance as well. The expansion of these services (provided by the municipalities) was massive until the late 1970s in terms of reaching out to a very large part of the elderly population. Since then, a shrinking proportion of the elderly receive services and it has not only to do with the improved health among old people. Social services from the cradle to the grave should be seen as an important complement to social investment instruments (Palme, 1999).

It is furthermore important to make a distinction between social insurance and other cash benefits, on the one hand, and social investment policies, on the other hand. In the ALMP system, unemployment insurance came to be seen as the second best solution in the sense that 75 percent of the expenditures were typically ‘active’ (ALMP) and 25 percent ‘passive’ (UI). Unemployment insurance was still seen as an important mechanism for reducing poverty and inequality. The same could perhaps be said about sickness benefits but that kind of thinking has not been as strong when it comes to health related programs. Family related benefits have also been important for reducing child poverty and even a precondition for social investment kind policies oriented towards children by providing a second income (parental leave insurance) for families with infants and by making it possible to have a second earner also in families with small children (in kind benefits for child care).

We argue that there is a certain kind of policy logic when it comes to fighting poverty in the Swedish context that follows the core idea in the social investment approach: prepare rather than repair. The emphasis on enabling market participation with investment has been complemented not only with social services but also cash benefits in different forms.

2.2 Core assumptions

Hence, the emergence of an approach that resembles a mature social investment approach was stepwise. The nature of the approach and how it is related to other concepts is an on-going discussion where the concept of social citizenship, around which so much of the social policy discourse has revolved for half a century, also figures prominently. In our view, there some core principles and targets that sort of defines the ‘enlightened’ Swedish approach in a way that justifies them to be described as core assumptions.

Here Jenny Andersson (2010) has, on a discursive level, identified interesting differences between Swedish Social Democracy, on the one hand, and New Labour in the United Kingdom, on the other hand. One way to interpret her rich analysis is to say that New Labour tilted the balance between rights and responsibilities in the direction of responsibilities, whereas in Sweden that kind of tilt did not happen until the Social Democrats lost the election in 2006. This notwithstanding, it is clear that also in the traditional Swedish social investment model there are a number of examples where there are very explicit responsibilities of citizens to take part in training programs or relief work, rather than taking up benefits. One example is the economic mobility benefits supporting individuals and families to moving where the jobs were, rather than getting benefits for staying behind. The basic formula before the crisis of the 1990s was that most of the public labour market spending would go to active measures. This all changed with the fall of the full employment regime in the 1990s, which is something that we will return to below.

In 1985, Gøsta Esping-Andersen published a book entitled Politics against markets (1985). The book is about the political economy of the Nordic experience. It is a catchy title and sort of a nice follow up of Charles Lindblom's book Politics and markets (1977) but it is slightly misleading in terms of catching the dynamics between politics and markets in the Swedish case. The risk is that the market making of many of the policy interventions is lost. This is true when it comes to not only the capacity of social services to enable women with small children or frail elderly relatives to work on the market but also with the market conforming aspect of active labour market policies. Education is of course also about providing the market with a productive labour force. Hence, the Swedish politics (policies) appear to be as much 'and' as 'against' markets. Public policy (in-)/compatibilities with markets need to be spelled out in much more specific terms than the usual stereotypes indicate. Here public policies have to be judged from how they affect bargaining powers of capital and labour.

While the Swedish model, at least until recently, has been hailed for its successful fight against poverty, we believe that it is fair to argue that very little of the policy discussion has been about poverty (at least in the post war context) and that the focus instead has been on combatting inequalities. The fight against inequalities has not only been a goal in itself but also an instrument in a strategy aimed at creating an open society with high social mobility and fluidity (cf. Erikson, 1993). Moreover, full-employment can be seen as a core assumption of the model and a sort of pre-emptive strategy to fight poverty. And it is a strategy of ensuring that earnings-related social insurance can work as an efficient instrument of poverty reduction and even eradication.

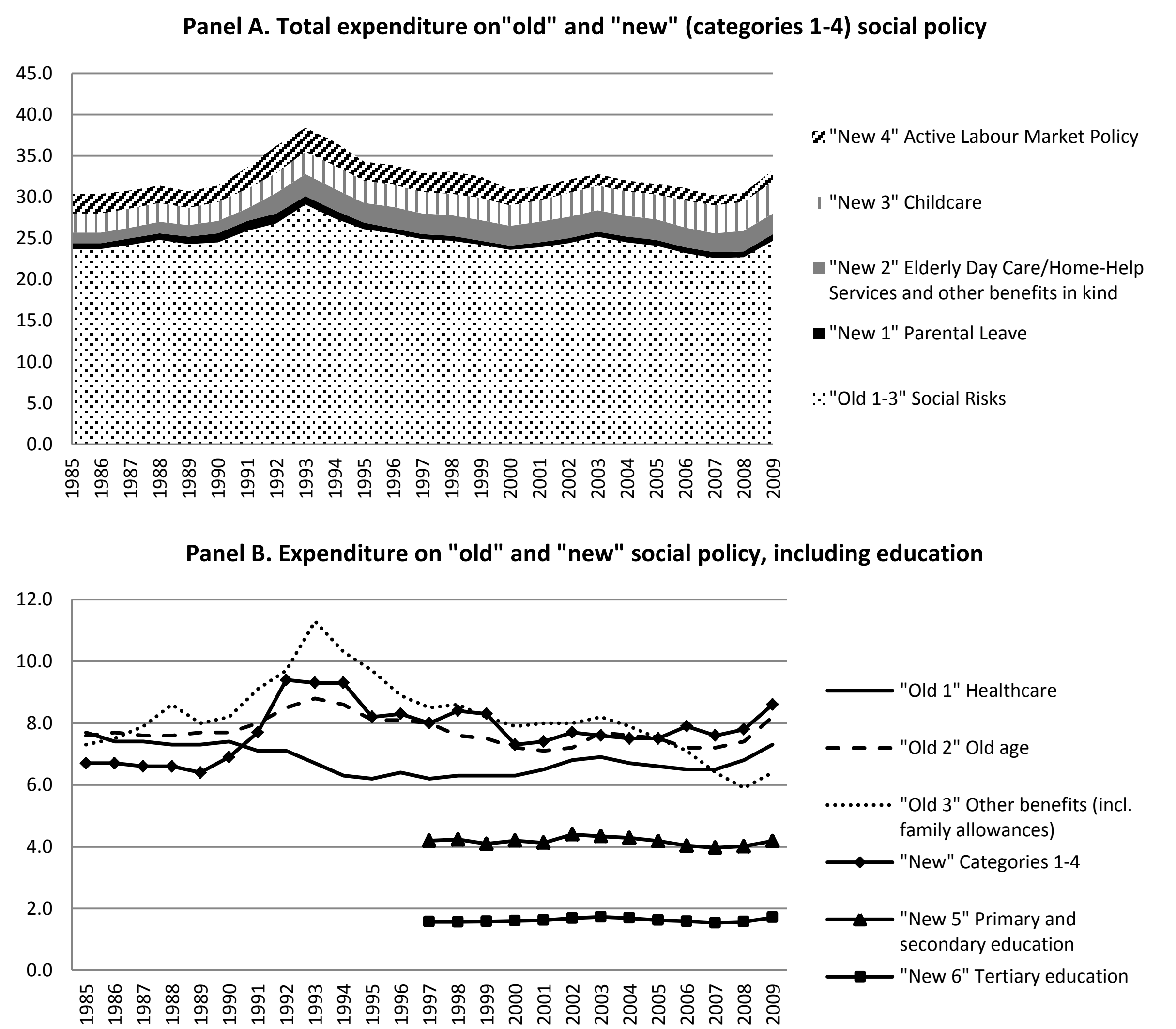
2.3 Expenditures: from expansion to dilution

In what follows, we look closer at expenditure developments in some of the different policy areas discussed above in Sweden over the past three decades. The aim with this exercise is to get a grip on the policy trends and identify policy changes with regard to social investment and other social expenditures. A general overview of social expenditure as share of GDP may provide a first illustration of the historical and current prevalence of social investment oriented policies in Sweden. Following the categorization developed by Meeusen and Nys (2012), these policies broadly corresponds to those which are denoted "new" social expenditure areas. From a first glance at Figure 1 below, the story told about social expenditure in Sweden over the past decades is one of overall stability rather than one of noticeable change. The 25 year period between 1985 and 2009 saw one distinct increase in total spending in the beginning of the 1990s. This sudden increase coincided with the outburst of the severe economic crisis in 1992, and reasonably was driven rather by the fact that GDP decreased in 1992 as well as in 1993, than by any intentional increase in welfare state effort (even though it is evident that the increased number of unemployed persons spurred expenditure expansion in real terms both for cash benefits and ALMP). The same pattern is repeated in the end of the period as Sweden saw a negative GDP growth in both 2008 and 2009, in the wake of the eruption of the global financial crisis.

Yet, among the disaggregated policy areas some interesting long-term trends can be distinguished. From panel B of figure 1 we learn that among the "old" social policy areas, "other benefits" have decreased steadily since its sharp peak in the early 1990s. This development mirrors a number of social policy changes in Sweden. First, there was a gradual reduction of the number of early retirement beneficiaries, which followed upon the recovery of the 1990s crisis. The high long term sickness absence around the turn of the century translated into increased inflow into early retirement during the first years of the new millennium but was eventually broken, at least partly as a result of more stringent testing. Second, retrenchments have been made within a number of other branches of social protection, including the unemployment insurance and the social assistance.

When collapsed into one category, expenditure on the "new", social investment oriented policy areas has seen a slight increase over the full period. Among those policy areas, however, there are distinct and diverging trends, some of which give a more pessimistic account of the social investments in Sweden. Whereas childcare expenditure increased gradually since the early 1990s, education expenditure remained stable and spending on active labour market policy saw a steady drop.

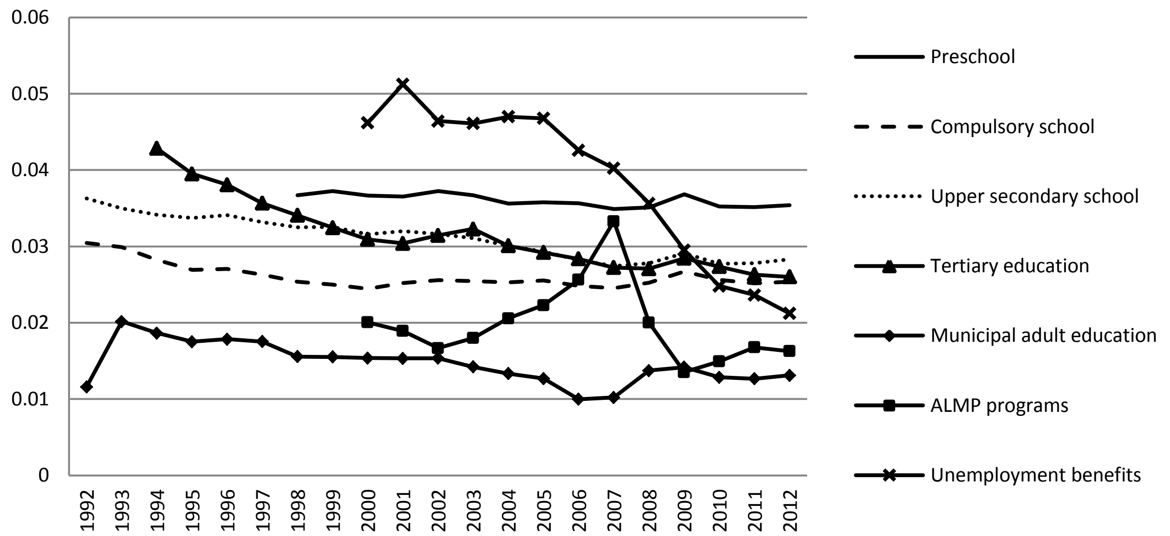
Figure 1. Expenditure on "old" and "new" social policy in Sweden, 1985-2009 (% of GDP)



Public and private social expenditure as percentage of GDP. The categorization follows the framework developed by Meeusen and Nys (2012). Source: OECD (2014a).

The gloomy picture of the investment content in social expenditure is reinforced when one takes into account the number of beneficiaries. Figure 2 displays the average <u>public</u> social expenditure as share of one ppm of GDP per beneficiary in a number of policy areas. When it comes to education, preschool (age 1-6) and compulsory school (age 7-15) are the only schooling types that have not seen a drop in expenditure per pupil since the mid-1990s. Upper secondary school has seen gradually decreasing expenditure per student throughout the studied period whereas the most notable dilution has taken place in tertiary education. Municipal higher education is the only schooling type that has seen a slight increase since the mid-2000s, yet expenditure per student was nevertheless lower in 2012 than in it was in the mid-1990s. In regards to public expenditure on unemployment benefits, figure 2 demonstrates that the drop in total expenditure on "other benefits" displayed in panel B of figure 1 is not only a matter of decreasing caseloads but that public expenditure per unemployed has decreased sharply since the early 2000s.

Figure 2. Expenditure per beneficiary as share of one ppm of GDP in seven policy areas, Sweden, 1992 – 2012



Public expenditure is expressed as share of one ppm of GDP per beneficiary. For tertiary education, the average cost for a full time, fully performing student in a technical track is presented. For ALMP programs, average cost per participant and year is presented. Costs and participants for programs for disabled individuals are omitted. For unemployment benefits average cost per unemployed and year is presented. The indicator includes public expenditures related to unemployment insurance and activity support. Sources: Arbetsförmedlingen (2000 – 2012, 2014), Swedish National Agency for Education (2014), Swedish Association of University Teachers (2012).

The increase and subsequent sharp decrease in active labour market policy expenditure per program participant during the 2000s contrasts to the gradual overall decrease displayed in panel A of figure 1 and deserves some further elaboration. The bulk of the increasing per program participant expenditure can be accounted for by two expensive programs – a free sabbatical year (*friår*) and a job creation scheme (*plusjobb*) – that were enacted by the social democratic government in 2005–2006 and that were immediately revoked by the centre-right government that came in to power following the 2006 election. The introduction of these programs coincided with an economic boom during which the overall number of participants in the ALMP programs dropped, hence the relative stability of the total ALMP expenditure during those years.

Before we move into a critical discussion of social investment policies it appears warranted to also introduce a new policy instrument in the Swedish tool box. First introduced in 2007 and increased in size four times since, the earned income tax credit, EITC (*Jobbskatteavdrag*), has lowered income taxes for employees across the wage distribution. In 2011, the average income tax rate for a single person at 67 % of average earnings with no child was 15 percent – that is 6.5 percentage points lower than in 2006 (OECD, 2014b). While these tax reforms have increased disposable income for all working, and arguably increased employment and extended the tax base[1], they are far from self-financed. As a result, resources available for public expenditure have significantly decreased. For 2014, the total costs of the EITC amounts to approximately 95 billion SEK (€ 10.7 billion) (Regeringen, 2012, 2013a). To illustrate, this amount is roughly equivalent to 3.5 times the size of the budget devoted to active labour market programs (Regeringen, 2013b).

3 A critical account of the social investment paradigm

In this section we will move beyond the ideational and historical account of policy developments and present a critical account of the achievements and shortcomings of the social investment paradigm which goes beyond how it has been implemented in Sweden but which raises some general issues relevant also for the Swedish case. It goes perhaps without saying that the account at this stage is preliminary and suggestive rather than being a confirmatory evaluation. Upon outlining such an account, it is moreover instructive to begin by pointing to the malleability of the central concept of social investment, which could paradoxically prove a vital strength as well as a potentially fatal weakness of the paradigm. As pointed out by Jenson (2010), the polysemic nature of the concept has enabled it to accommodate a Nordic, 'social democratic' approach, promoted by inter alia Esping-Andersen et al. (2002) and Vandenbroucke and Vleminckx (2011), as well as a 'Third Way' approach (Giddens, 1998). Perhaps this is what enabled its broad adoption at the EU level as part of the Lisbon Strategy (Morel, Palier, & Palme, 2012a). At the same time, however, the scholarly debate of the recent years has shown that the ambiguity of its scope and content has made the social investment paradigm vulnerable to a perhaps unnecessarily broad variety of critiques, as some of the concerns raised about the paradigm in its entirety have carried weight on mainly one of its interpretations, or the other.

As argued below, several of the important concerns which have been raised regarding the social investment paradigm have been directed towards the core principles of the social investment model. Other points of criticism have actually been relevant primarily for either the particular principles or policy prescriptions linked to the Third Way approach to social investment, or for the consequences of 'activation' reforms introduced across Europe over the past two decades; most of which have had very little investment content (De la Porte & Jacobsson, 2012). To be sure, some scholars have also raised concerns about the Nordic approach in particular, primarily in regards to its economic and political sustainability. For the purpose of analytical clarity we try to distinguish these different types of concerns in the account that follows. In terms of assessing the outcomes of social investment, this contribution is devoted to employment and at-risk-of-poverty in Sweden, as compared to Belgium and the EU-27 average. For a more comprehensive discussion on the development and the outcomes

[1] Simulations have estimated that the EITC has increased the number of working hours by between 1.5 and 2.5 percent (Bergvall et al., 2011; Ericson, Flood, & Wahlberg, 2009). Yet, these estimations could not be confirmed in an empirical evaluation by the Institute for Labour Market Policy Evaluation (IFAU) (Edmark, Liang, Mörk, & Selin, 2012). Also, it has been shown that the public awareness of the EITC is poor, which implies that the theorized economic incentives may not live up to their full potential (Flood, Nordblom, & Waldenström, 2013).

of social investment across OECD, see for example Hemerijck (2012a, chp. 7) and Morel, Palier, and Palme (2012b).

We first recall the three perhaps most central points of criticism aimed at the core of the social investment paradigm as outlined above: its exposure to the trilemma of activation, its incapacity to moderate gender inequalities, and the adversely distributional profile of the social investment measures.

3.1 Social investment and the trilemma of activation

Providing economic support and in other ways clarifying the responsibility for individuals to search for, move to, and take up new employment became part and parcel of the Swedish social investment approach as a complement to education and training programs (Palme, 1999). Vandenbroucke and Vleminckx (2011) have argued that when budgetary resources are scarce, and therefore the opportunities for costly positive economic incentives (such as in-work benefits for those at the bottom end of the wage dispersion) are limited, there is a trade-off between imposing negative economic incentives (such as cuts in the replacement rate or the duration of benefits) and establishing a close monitoring of people's willingness to work. This trade-off, they argue, may entail a trilemma "between three objectives that egalitarian believers in social investment may wish to pursue: (1) ensuring that the unemployed people are not poor; (2) ensuring that administrative monitoring systems are not excessively intrusive and cumbersome; (3) ensuring employment growth in order to reduce benefit dependency" (Vandenbroucke & Vleminckx, 2011, p. 461). It is obvious that this interpretation of what the social investment approach should be about comes very close to the core assumption of the Swedish version.

Clearly, there is some considerable merit to this argument, in particular in the presence of budget constraints, in particular when job availability is low, and in particular in regards to certain vulnerable groups such as those in need of rehabilitation (Palme, Nelson, Sjöberg, & Minas, 2009) and others with a particularly weak attachment to the labour market (Malmberg-Heimonen, 2005), for which activation policies tend to be less efficient or even counterproductive.

While certainly admitting the existence of the trilemma, we want to stress that it could be mitigated in a number of ways. First, the scope of the trilemma is narrowed to the extent that the social investment oriented policies increases the proportion of the population who are able to rely on the labour market for their provision in the first place. With expanding employment, the budgetary resources available for positive economic benefits, high quality labour market programs etcetera increases as the tax base expands and the aggregate need for income support decreases. Correspondingly, the proportion of the population that is unemployed and therefore subject to the monitoring systems and the increased risk of being poor that comes with unemployment decreases. The latter point, however, only holds as long as the employment expansion is not driven by a low wage strategy. Such strategies tend to entail increased risk of in-work poverty for those previously unemployed and might therefore not offer a viable way out of the trilemma.

Second, the considerable room of manoeuvre that policymakers have in designing the incentives and control mechanisms is of importance for the trilemma. For instance, putting Torfing (1999) distinction between 'offensive' and 'defensive' strategies of activation to use, it is reasonably the case that monitoring by means of obliged participation in a futile work-for-the-sake-of-working project is perceived as more intrusive and cumbersome than obliged participation in an activity which has an actual potential of improving the employment prospect of the unemployed. This is particularly likely if the unemployed has a right to choose between different such activities. Moreover, all systems of social protection appear to be linked to various forms of duties (Sjöberg, 2000) and as there are countless ways to combine entitlement conditions, job search and availability requirements, monitoring, and sanctions linked to unemployment benefits, those combinations that are the most bothersome to the unemployed are not necessarily the most employment-friendly. For instance, the disincentive effect from generous benefits can be offset by active labour market policies that are well-designed and implemented effectively (OECD, 2006). Hence, as long as benefits are of limited duration and linked to strong activation incentives and obligations the nuisance caused by cuts in replacement rates or stepwise reductions in replacement rates over time might prove to be an unnecessary evil. The fact that work commitment in the labour force appears to be largely unaffected by generous replacement levels in unemployment insurance programs in the OECD-countries is congruent with this view (Esser, 2005). In the long term, poor unemployment insurance might even be detrimental, as such institutions tend to form part of a low-wage strategy which in the long run might inhibit the overall productivity growth of the economy. In case of a prolonged period of economic crisis a limited duration of unemployment benefits may spill over in increased poverty unless complemented by training programs or other active measures entailing adequate economic remuneration.

3.2 Social investment and gender equality

The social investment paradigm has also been criticized for not taking issues of gender equality sufficiently to heart. Jenson (2009) has demonstrated that while the level of awareness about women and their circumstances by the social investment agenda sets it apart from the gender-preserving Keynesian model and the essentially indifferent neo-liberal perspective, policies to promote gender equality have been pursued not in their own right but because of their importance for the sustainability of the new political economy and the productivity of the future labour force. Whereas the social investment paradigm caters well to the needs of children – including girls – little is done about the concerns of adult women of today, other than those linked to their reproductive capacity. Jenson (2009) points out that the gender oriented policies of the Keynesian era, which provided vulnerable women, notably widows and lone mothers, with a substitute to the male breadwinner by ensuring them a minimum income never actually challenged the power relations between women and men. While gender awareness today, she argues, prompts other types of policy interventions, "now as before it has only the weakest of commitments to equalizing relations between women and men by challenging power relations" (2009, p. 472).

Refraining from making any general claims about the degree of commitment among social investment oriented policy makers to the dismantling of gender power inequalities, we nonetheless claim that there is a crucial difference between the Keynesian policies for gender equality and those pursued within the social investment paradigm in regards to their prospect of re-balancing gender power relations. Traditional income support through family allowances, survivors' pensions, or means-tested social assistance is *de facto* conditional on a woman's maternity, marriage history or exhaustion of means. Contrastingly, female earned income, as promoted by the social investment paradigm, is unconditional on any link to a man and therefore at least in principle more conducive to a moderation of the gender power gap. In this context, we find that Orloff's (1993) notion of the 'capacity to form an independent household', as an indicator of women's agency and power, is of critical importance.

That being said, there are clearly still substantial gender inequalities across the advanced democracies, despite that many of them have seen increasing female employment rates. Such inequalities include a gender-biased division of unpaid care and domestic work, labour market segregation, feminized part-time work, the gender wage gap and the 'glass ceiling effect' for women (Morel et al., 2012a). The persistence of these inequalities prompts us to take on the gender oriented scholars' limited expectations about the capacity of the basic social investment policy prescriptions to alleviate them. Addressing these issues thoroughly would require new policies, such as paid parental leaves that are available to both women and men, father-only parental leave time, equal rights to part-time and full-time work, or other measures that enable or encourage men to take on more domestic responsibilities (Morgan, 2012). However, when it comes to the real world of policy implementation, the 'dual earner-carer' model comes in different versions. The 'light' versions tend to be associated with part time work of women and an unequal division of unpaid care work. Here the social investment approach appears to be useful in terms of clarifying the individual and societal losses of an underutilization of women's human capital, in addition to the impairments of women's agency.

3.3 Social investment and redistribution

In the recent debate about the merits of the social investment paradigm it is perhaps the distributive consequences of its policy recipe and in particular the consequences for poverty, which have received the most scepticism. A number of issues have been brought up, which are held to be intrinsic to the social investment paradigm, and which might have had a detrimental effect on poverty across EU. First, it has been suggested that the consumption of those public services that are associated with the social investment paradigm are typically work-related and earnings-related, they have a less redistributive profile than traditional cash transfers, giving way to 'Matthew effects'[2] and increasing inequalities (Cantillon, 2011) in social investment oriented states. Second, it has also been suggested that the shift on the political agenda from passive income support policies to active investment policies has resulted in a reallocation of resources away from the more redistributive policy areas to the less so. Third, it has been argued that the discursive emphasis on 'making work pay' has justified, and perhaps even necessitated, a re-commodification of individual citizens by means of retrenchment of benefits, with detrimental consequences for the more vulnerable (Vandenbroucke & Vleminckx, 2011). Fourth, it has been argued that while on an aggregate level these consequences could have been mitigated in case the policies were successful in moving unemployed people into employment, the proportion of people living in jobless households has hardly decreased in the EU in the wake of the employment and inclusion strategies, despite rising

[2] Coined with reference to the Matthew's Gospel (25:29): "For to all those who have, more will be given, and they will have an abundance; but from those who have nothing, even what they have will be taken away" (Vaalavuo, 2011), 'Matthew effects' has been referred to the phenomenon that unless mitigated by thoughtful policy design, social benefits and services among advanced welfare states tend to benefit mainly the middle classes (Cantillon, 2011). Matthew's Gospel has also been used to capture the political economy of welfare states: unless the interests of the middle class are met on the benefit side of the welfare state, it will be very difficult to create a broad coalition to fund the programs and be generous to the poor (Korpi & Palme, 1998).

overall employment rates. This has raised doubts about the complementarity between the goals of increasing employment and decreasing poverty underlying the social investment paradigm (Cantillon, 2011; Corluy & Vandenbroucke, 2014; de Beer, 2007).

Turning first to the distributive profile of services, we do not question the results of Esping-Andersen and Myles (2009, p. 654) that “services are generally redistributive in an egalitarian direction, albeit less so than are some cash transfers services”, and those of Cantillon (2011) that parents with a low educational attainment may make less use of formal childcare services because of the higher probability of one of them not having a job. Yet an agreement among scholars seems still to be wanting about the distributional effects of services, and the importance of institutional context in causing variations. In a comparison of childcare services in Belgium and Sweden, Van Lancker and Ghysels (2012) argued that the larger redistributive effect found in Swedish childcare was explained by the guaranteed and sufficient access to the services and the higher employment level among low-skilled women in Sweden. In a study of family services across Europe, Vaalavuo (2011) found that a shift towards social investment oriented spending has not adversely altered the redistributive profile of welfare state spending. Only in a minority of countries, she concluded, the top quintiles benefit the most from family services. Verbist & Matsaganis (2014) found that the poverty reducing effect of services is much larger than the one of cash transfers to the working age population among 21 EU countries. This is attributed to the fact that whereas the *design* of cash transfers in most cases make them more oriented toward lower income groups, services are much more important in *size*. Vandenbroucke and Vleminckx (2011, p. 457) concluded that “the redistributive impact of the services that are instrumental in the social investment paradigm depends on the overall context and the coherence of the social investment strategy pursued and on the ‘capacitating quality’ of the services”. They further suggested that regressive Matthew effects may be countered by a quasi-universal provision of services, combined with labour market conditions that enhance female employment at all skill levels. These two features, in our opinion, are at heart of an ‘enlightened’ social investment strategy.

Since a social investment strategy also include expansions of non-tertiary and tertiary education, life-long learning opportunities and active labour market policy programs, also the quality, provision, and use of these services need to be taken into consideration when assessing the general redistributive profile of the social investment paradigm. It has for instance been suggested that active labour market policies may be expected to have a pro-poor profile as they typically target the unemployed (Vaalavuo, 2011). The overall redistributive effects of the social investment paradigm, and the importance of the institutional context in shaping these effects, are clearly important topics for future research. For the time being, however, they must be considered unresolved cases.

The second and the third concerns above, labelled resource-competition and re-commodification respectively by Vandenbroucke and Vleminckx (2011), warrant a recollection of an important distinction between the Nordic and the Third Way approach to social investment. Whereas for Giddens and the Third Way, welfare state restructuring is indeed about bringing about a shift from ‘passive’ social policies to ‘active’ social policies (Morel et al., 2012a), the Nordic approach to social investment stresses that ‘social promotion’ must be combined with ‘social protection’ (Hemerijck, 2012b). From the latter perspective, unemployment benefits constitute a productive factor by means of rewarding formal labour force attachment, improving matching, catering to macroeconomic stabilization and promoting economic restructuring (Palme et al., 2009). Thus, on an ideational basis, the resource-competition and re-commodification critiques are primarily relevant to the Third Way approach to social investment.

Turning to the empirical thrust of the argument, Vandenbroucke and Vleminckx (2011, p. 460) concluded their analysis of change in social expenditure over two decades in 14 countries by noting that "if there was pressure on traditional redistributive budgets because of competing claims, it came more from healthcare (and in a number of countries from old age spending) than from the new [social investment oriented] programmes" and by pointing out that "in most countries long-term evolutions are in play, rather than a sudden policy change prompted by the [social investment oriented] Lisbon agenda". They did not refute, however, that given the context of relatively tight budgetary constraints; the making work pay component of social investment may have justified and reinforced pressures for retrenchment in the field of unemployment benefits.

It is clear that such a justification would necessarily hinge on a selective reading of the social investment paradigm as outlined in this paper, given the important role it assigns to unemployment benefits. Nevertheless, it has been argued that it is a weakness of the Nordic social investment paradigm if it allows for a partial implementation of this kind to be conducted in its name. Here it is important to emphasize that we need to go beyond the political rhetoric and analyse the (investment) content of policies. This should apply to all policies and whether they are implemented within or outside the Nordic hemisphere.

4 Social Investment and at-risk-of-poverty: the case of Sweden compared

When evaluating the fourth concern, regarding the poverty reducing capacity of the social investment paradigm, it is once again important to distinguish between the Nordic and the Third Way approach to social investment. This is particularly critical in the case of Sweden, since while historically the country has been the ideal case of a Nordic social investment state, the developments since the early 1990s tell of an important shift of path. As described above, over the past two decades Sweden has seen a drift, if not altogether away from the social investment paradigm, then at least away from Nordic social investment towards a Third Way approach.

To illustrate some important aspects of the relationship between the social investment paradigm and outcomes in terms of employment, household work-intensity and poverty, we use the cases of Sweden and Belgium to explore levels of poverty and changes in levels of poverty between 2004 and 2012 (these being the full set of years for which comparable EU-SILC data is currently available for the two countries). For comparative purposes we also for most part include data on the EU-27 average. The choice of Belgium as the main case for comparison is motivated by the fact that historically its social policy orientation has differed markedly from that of Sweden. In particular, whereas both countries have devoted a comparably large share of GDP to "old" social policy areas, Belgium has spent – and spends – considerably less on the "new" social expenditure areas associated with the social investment agenda[3]. We suggest that, given the significant time lag between

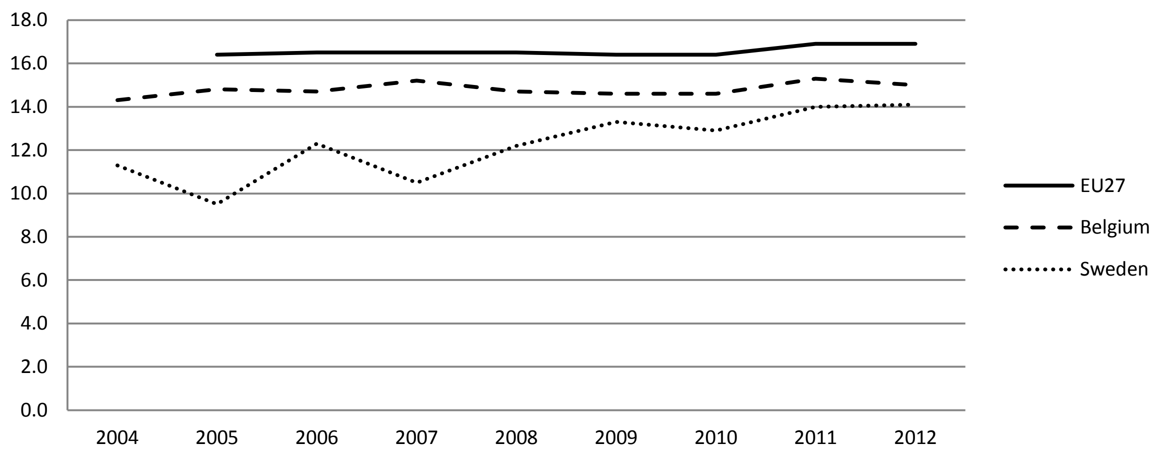
[3] The OECD social expenditure data provided by Meeusen and Nys (2012) shows that the average expenditure on health care, old age benefits and other working-age benefits (including family allowances) in the years 1985 – 2009 was 24.0 % of GDP in Belgium and 22.4 % of GDP in Sweden. The corresponding averages of expenditure on elderly care, child care, and active labour market policies were considerably more disparate: 2.20 in Belgium and 7.75 in Sweden.

investments and yields inherent in the social investment paradigm, the difference between the two countries in terms of the levels of the studied indicators in the beginning of the period may – roughly – be ascribed to the historical differences in social policy orientation. Second, we suggest that a comparison between the patterns of change in levels in Sweden since the beginning of the period, and the corresponding changes in Belgium and the EU-27, may give some insights into the consequences of Sweden's gradual shift towards a Third Way approach of social investment.

4.1 At-risk-of-poverty and employment by age: levels and trends

As demonstrated in figure 3, on an aggregate level the at-risk-of-poverty rate in Belgium, using 60 % of the median income as cut-off point, has been fairly stable over the period[4]. In Sweden, levels have gradually increased, although from a lower starting point, and by 2012 they were just below those of Belgium. The lower level displayed in Sweden in the beginning of the period are in line with the expectation that the Swedish social investment oriented welfare state historically has performed comparably better than the Belgian, social protection oriented counterpart. The decreasing performance of Sweden however calls for an explanation.

Figure 3. At-risk-of-poverty rate after social transfers in Sweden, Belgium, EU-27, 2004 – 2012



Percentage of population, all ages. At-risk-of-poverty rate after social transfers. Cut-off point: 60% of median equivalised income. Source: Eurostat (2014b)

First, broken down by age, as in figure 4, the data reveal important differences between the countries. In the age group between 18 and 24, poverty rates in Sweden are considerably higher than the EU average, and almost twice as high as in Belgium. This surprising figure reasonably has to do with the expansion of higher education, the early household formation of youth and the prolonged transition from education to the labour market that signifies the Swedish development trajectory.

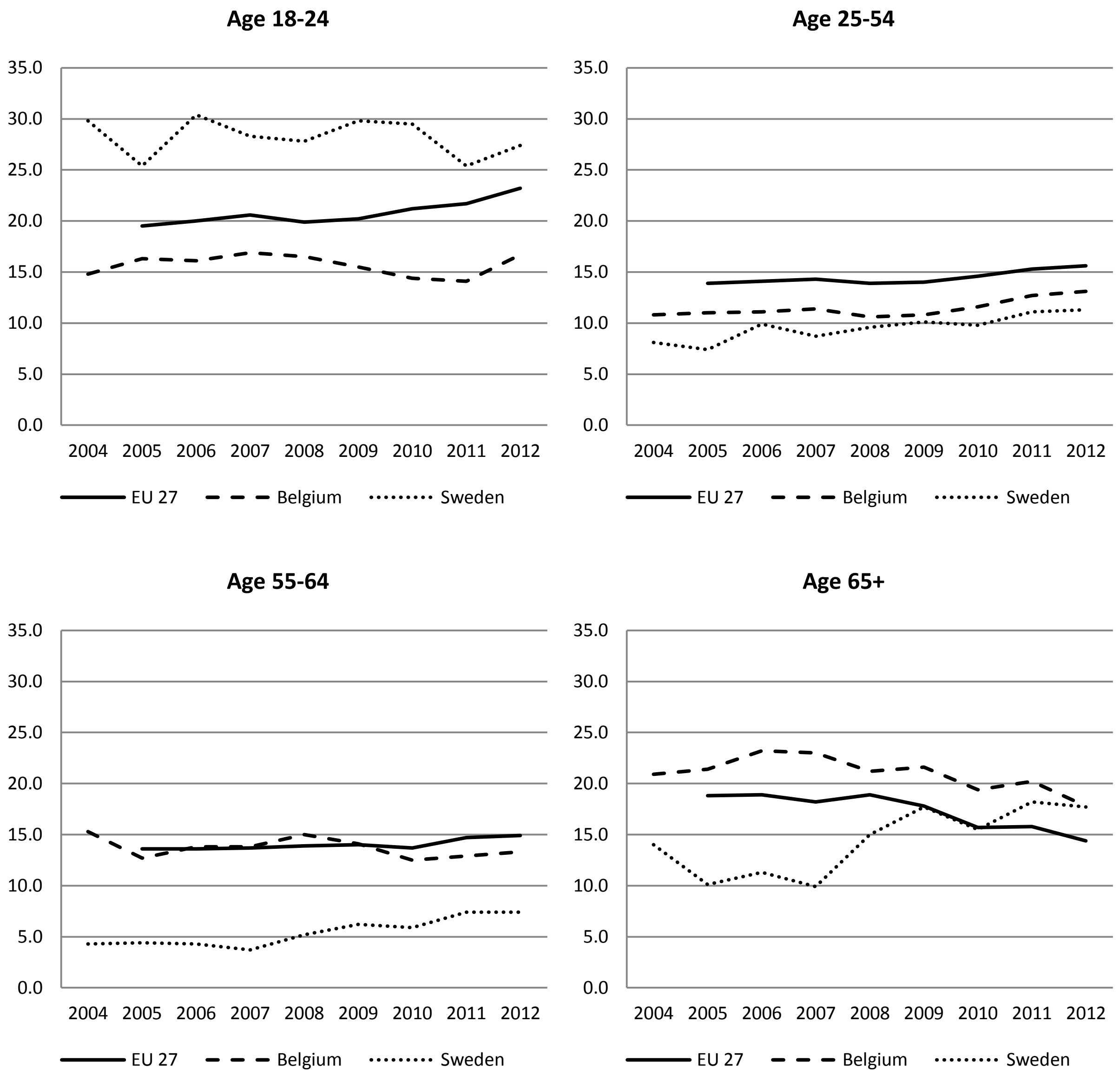
For the other age groups, poverty rates are higher in Belgium than in Sweden, although there are clear patterns of convergence over the period. The sharp increase in poverty among Swedes 65 and above reflects the fact that the extensive earned income tax credit described above does not apply to pensions. Thus, whereas it has caused a rise in median disposable incomes since 2007, those

[4] Unless otherwise noted below, the trends are similar if the cut-off point is set to 50 % of the median income.

whose primary source of income is pensions are not affected, which in many occasions pushes them below the 60 % poverty line. By contrast, at the 50 % poverty line the at-risk-of-poverty rate for Swedes 65 and above has seen no particular trend over the period.

The social investment paradigm rests on the idea that widespread employment and decent wages are the best guarantees for avoiding poverty and other socio-economic ills. When the data on employment rates presented in table 1 below is added to the information about poverty presented above, there is a clear indication that for the overwhelming majority of the working population, those between 25 and 64, employment rates are higher and poverty rates are lower in Sweden than Belgium and the EU-27. The causal mechanisms behind poverty are profoundly complex and no alternative explanations are discussed here; yet the observed correlation is in line with the optimistic expectation articulated within the social investment agenda.

Figure 4. At-risk-of-poverty rate by age in Sweden, Belgium, and EU 27, 2004 – 2012



Percentage of population, by age. At-risk-of-poverty rate after social transfers. Cut-off point: 60% of median equivalised income. Source: Eurostat (2014b).

Table 1. Employment rates by age in Sweden, Belgium, and EU-27, 2000 and 2012

	Sweden			**Belgium**			**EU-27**		
Age	*2000*	*2012*	*Δ*	*2000*	*2012*	*Δ*	*2000*	*2012*	*Δ*
15 to 24	36,9	40,2	+3,3	30,3	25,3	-5	37	32,9	-4,1
25 to 54	82,5	85,2	+2,7	77,9	79,3	+1,4	76	77,2	+1,2
55 to 64	64,3	73	+8,7	25	39,5	+14,5	36,8	48,9	+12,1
65 or over	4,9	8,2	+3,3	1,6	2,3	+0,7	5	5	0

Source: Eurostat (2014f).

However, two observations at first seem to contradict the suggested poverty inhibiting capacity of the social investment paradigm. First, among Swedes that are between 18 and 24 years old, the at-risk-of-poverty rate is notably higher than among those of the same age in Belgium and in the EU-27, despite higher employment levels in the ages 15-24. Second, for those aged 65 or over, Sweden saw a sharp increase in at-risk-of-poverty rate after 2007, despite a concomitant increase in employment in the age group.

4.1.1 Is there an employment-poverty trade-off in play for Swedish youth?

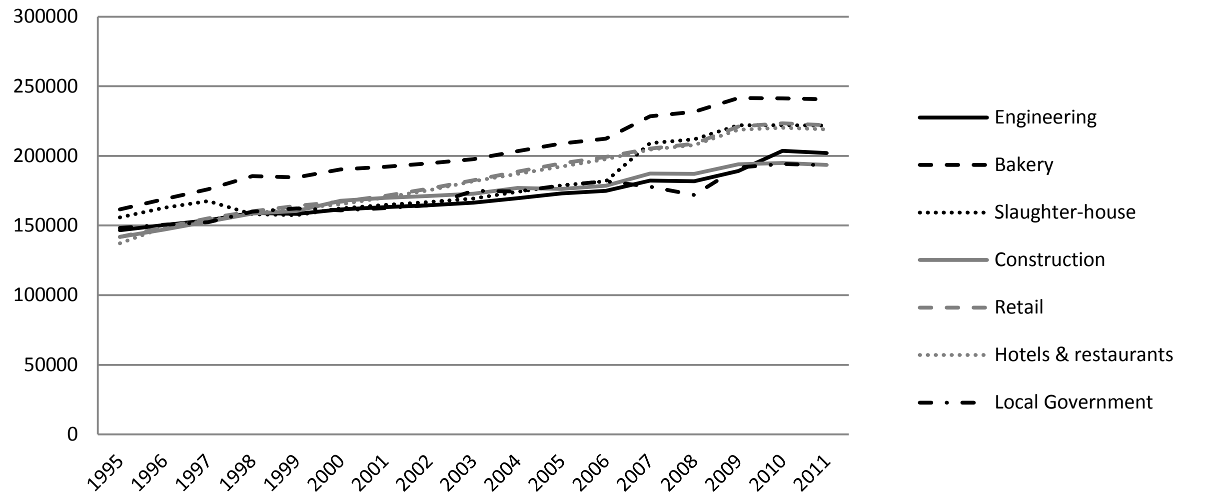
The first observation raises the question if there is perhaps a sizeable portion of working poor among Swedish youth. Atkinson (2010) has pointed out that it cannot be taken for granted that a goal of low poverty is complementary to the goal of high employment. He presented two potential strategies for achieving a high employment among workers with low productivity, a group in which youth are assumed to be overrepresented: 1) lowering the cost of job creation (which generally requires mobilization of public resources) and 2) reducing reservation wages by reducing the generosity of social protection. While the second strategy is less expensive, it may come at the cost of increasing the number working poor, i.e. if reservation wages are set below the poverty line. To illustrate this strategy, one could point to the German experience before and after the Hartz reforms in the first half of the 2000s. Between 2000 and 2010, employment among those aged 20-64 in Germany increased by a notable 6.1 percentage points (Eurostat, 2014g). In 2010, however, the overall relative poverty rate at 50 % (60 %) of the median income was 9.6 % (16.4 %), which corresponds to a 26 % (29 %) increase over the said period[5] (Eurostat, 2014b, 2014g, LIS, 2015). Data on minimum wages and taxation do not tell of any low wage strategy being in play in the Swedish case. Contrastingly, as is demonstrated in the following, the work required to reach a disposable income above the poverty line has decreased over the past decade.

In Sweden, minimum wages are not regulated by law but are subject to sector-specific negotiations between employers and trade unions. Settlements on minimum wages are found in the numerous collective agreements which in total cover approximately 90 percent of the Swedish workers. Whereas workers who are not covered by a collective agreement are typically not entitled to occupational pensions and other benefits, their wages tend to match the collectively agreed levels.

[5] Due to problems with the comparability and reliability of the German ECHP/EU-SILC data (see Decancq, Goedemé, Van den Bosch, and Vanhille (2014)), poverty rates that are based on the German Socio-Economic Panel and published by the Luxembourg Income Study Database (LIS) are reported here instead.

Figure 5 describes the development of the annual gross real minimum wage for a comparable fulltime working "standardized worker"[6] within seven among the largest collective agreements, signed by six unions whose membership amounts to approximately 74 percent of the total membership of the Swedish Confederation of Trade Unions (*Landsorganisationen*, LO) (Skedinger, 2010).

Figure 5. Annual gross real minimum wage for a fulltime worker by sector, Sweden, 1995 – 2011



Currency is SEK at constant prices of 2011. Annual gross wages are computed based on salaried work for 40 hours per week, 52 weeks per year, including paid contractual vacation. Nominal data on hourly wages are retrieved from Skedinger (2010), except for data on wages for Bakery, Slaughter-house, and Construction in 2010 and 2011, which are compiled by the authors. Data on prices (Consumer Price Index, CPI) are retrieved from Statistics Sweden.

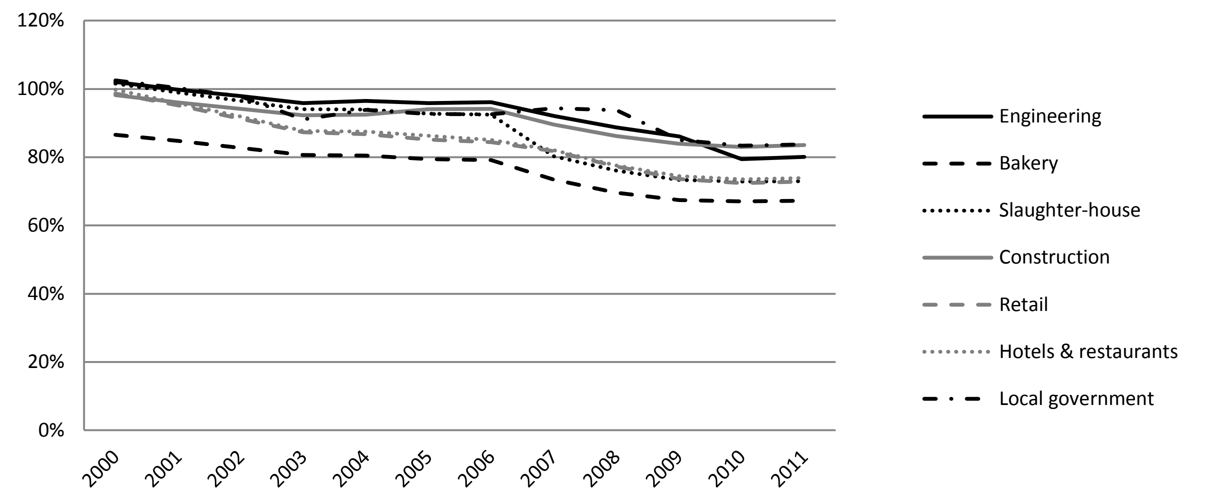
Using Skedinger's (2010) data on nominal minimum wages, information on average income tax rates and employee's social security contribution rates from the OECD (2014b), and information on the median disposable income from Statistics Sweden, we have computed for each of the seven sectors the share of annual full time employment (including contractual vacation) that is needed for a standardized worker with no dependent child to yield a disposable income above the 60 percent of median poverty line by force of his or her own labour in the years between 2000 and 2011. The results are presented in figure 6.

Over the period there has been a downward trend in the amount of work required to reach out of poverty across all sectors, although the trend has flattened towards the end. Notably, with the exception for those employed by local government, there was a distinct drop between 2006 and 2007. This is a consequence of a shift in Swedish tax policy brought about by the centre-right government which assumed office in 2006 by means of the broadly encompassing earned income tax credit (EITC) discussed above. As the sectors studied here include those through which youth typically enter into the labour market, it seems fair to conclude that the comparably high at-risk-of-poverty rate among Swedish youth is not a story of a working poor young population emerging as a consequence of a strategy of high employment at the cost of low reservation wages. The institutions

[6] The standardized worker is at least 20 years of age, has no work experience and works in an unskilled occupation in a non-metropolitan area. A worker with these characteristics is expected to earn the lowest minimum wage for an adult worker in each agreement (Skedinger, 2010).

of collective bargaining have managed to keep minimum wages well at par with living costs, and the explanation for the high at-risk-of-poverty rate among Swedish youth needs to be sought elsewhere (see above).

Figure 6. Share of fulltime, taxed, minimum waged work required to reach out of poverty, 2000 – 2011



Required work as share of full time employment is computed as the net annual wage for a full time standardized worker as share of income at the poverty line. The poverty line is computed at 60 percent of the median equivalised disposable income for a given year, as retrieved from Statistics Sweden. Net wages are computed as gross wages multiplied by (1-t), where t = sum of average income tax rate and average rate of employee's social security contribution for a single person at 67% of average earnings with no child. Taxation data is available for year 2000 on from the OECD database Taxing wages (OECD, 2014b).

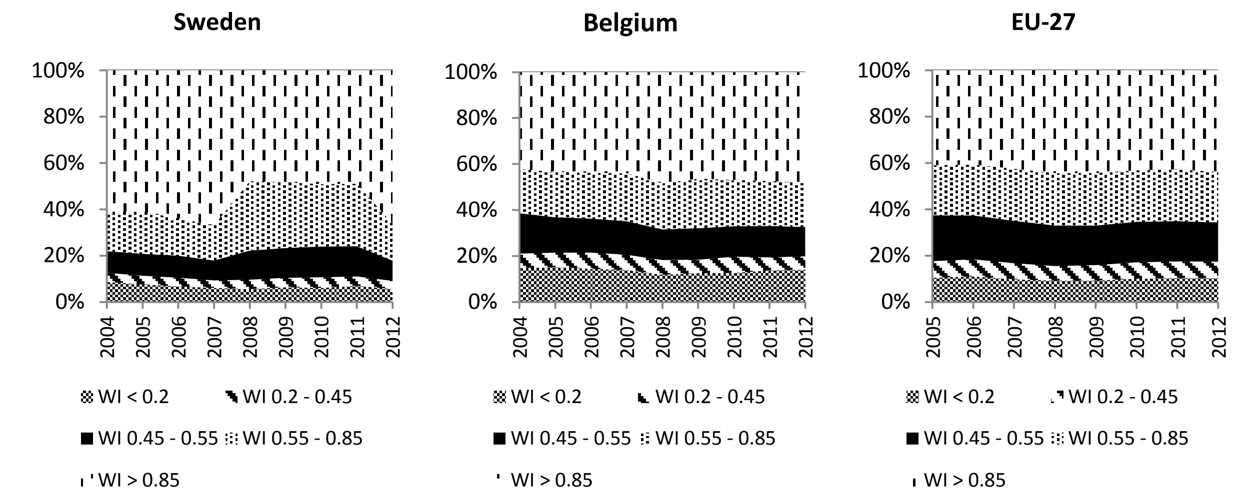
Turning now to Swedes aged 65 or over, the at-risk-of-poverty rate at the 60 % threshold saw a sharp increase for this group after 2007, despite a concomitant increase in employment. This, we argue, reflects the fact that the nominal median disposable income grew by 7 percent in 2007 as compared to around on average 3 percent annually the decade before. To a large extent, this increase was driven by the introduction and stepwise enlargement of the earned income tax credit, which due to its design is not applied to income from pensions. These changes has sort of mechanically pushed a large group of retirees below the 60 % at-risk-of-poverty threshold, while the at-risk- of-poverty rate at the 50 % threshold has been considerably more stable over the period. As far as the 50 % threshold is concerned, the observations match the overall pattern for the working populations in Belgium, Sweden, and the EU-27: that a higher employment rate corresponds to a lower at-risk-of-poverty rate. What can also be noted in this context is that, while minimum wages by and large have followed the real growth of the economy the social assistance scale rate has lagged behind. It used to be close to 60 percent of the median income but is now below 50 percent (Kuivalainen & Nelson, 2010). This implies that long term recipients of social assistance are likely to show up as poor in the income distribution statistics and are an important source for the recent rapid increase in poverty rates at the 50 percent threshold (Fritzell, Bacchus Hertzman, Bäckman, Borg, Ferrarini & Nelson, 2013).

4.2 Work intensity of the household and at-risk-of-poverty

It has been rightly argued that whether a strategy to increase employment enhances overall poverty depends on how the new jobs are distributed across households depending on the initial work-intensity of these households (Cantillon, 2011; de Beer, 2007). If new jobs primarily benefit households which are already comparably work-rich, poverty may increase as median income increases while the number of work-poor households as well as the income of those households remains stable.

In congruence with expectations from the social investment paradigm, figure 7 demonstrates that Sweden has a lower share of people in the ages 0-59 living in households with very low (<0.2), low (0.2 – 0.45), or medium (0.45 – 0.55) work intensity than does Belgium and the EU-27[7]. The differences are particularly striking in the lower end of the distribution: In 2012, the probability of living in a household with very low work intensity was almost twice as high in the EU-27 and 2.5 times as high in Belgium as in Sweden.

Figure 7. Distribution of population by work intensity of the household, 2004 – 2012



Refers to the population in the ages 0-59. For details regarding the calculations, see footnote 7. Source: Eurostat (2014e).

Moreover, while the data for the entire period 2004-2012[8] corroborate the meagre results in terms of reducing the number of work-poor households in the EU-27 reported in Cantillon (2011), Sweden stands out by seeing a reduction in the share of household with very low work intensity by 3 percentage points, from 8.5 percent in 2004 to 5.5 percent in 2012. This corresponds to a decrease of more than one in three households. Data on changes over the period are presented in table 2.

[7] Eurostat (2014a) defines the work intensity of a household as "the ratio of the total number of months that all working-age household members have worked during the income reference year and the total number of months the same household members theoretically could have worked in the same period". A working-age person is a person aged 18-59 years, with the exclusion of students in the age group between 18 and 24 years. Households composed only of children, of students aged less than 25 and/or people aged 60 or more are excluded from the indicator calculation (Eurostat, 2014a).

[8] The years 2005-2012 for the EU-27.

Table 2. Changes in distribution of population by work intensity of the household, 2004 – 2012

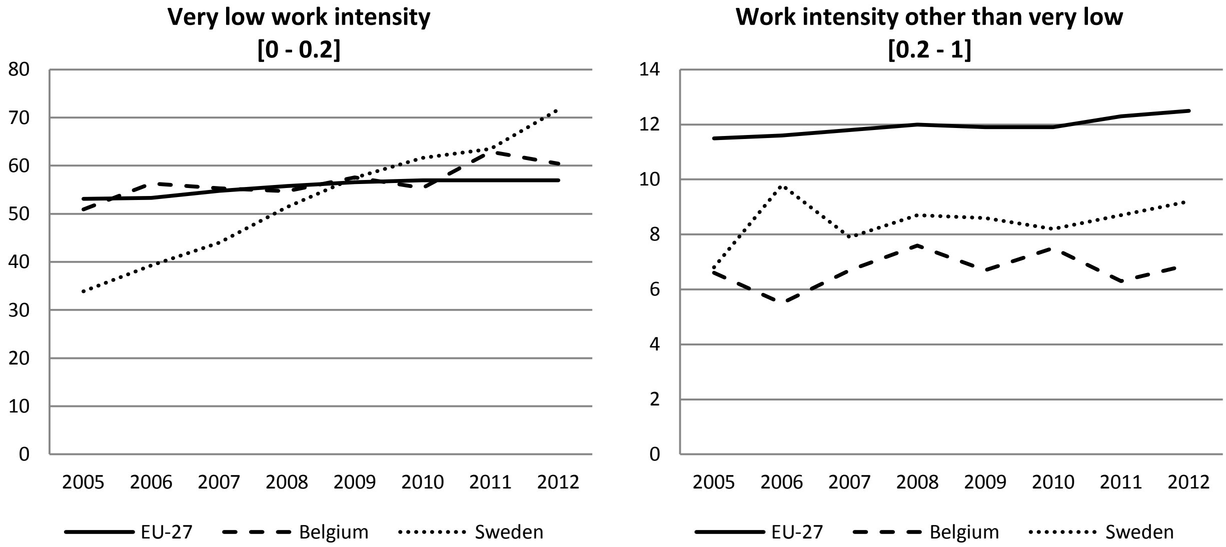
	Sweden *Percentage points*	**Belgium** *Percentage points*	**EU-27**[a] *Percentage points*	**Sweden** %	**Belgium** %	**EU-27**[a] %
WI > 0.85	5,2	5,9	3	9%	14%	7%
WI 0.55 - 0.85	-1,1	-0,1	0,1	-7%	-1%	0%
WI 0.45 - 0.55	-0,6	-4,8	-2,8	-7%	-27%	-14%
WI 0.2 - 0.45	-0,4	-0,5	-0,2	-11%	-8%	-3%
WI < 0.2	-3	-0,7	0	-35%	-5%	0%

[a] Changes for EU-27 refers to changes between 2005 and 2012. Source: Eurostat (2014e).

Lack of data on flows prevents us from knowing if these households moved further up in the work intensity distribution than to the next level, and how many of their members simply grew older than 59 and left the studied population. Nevertheless, the findings are compatible with an interpretation that the increasing scope of activation efforts introduced in Sweden over the period has been successful in rising employment, also among work-poor households.

In the light of the lower overall at-risk-of-poverty-rate in Sweden as compared to Belgium and the EU-27 reported in figure 3 above, it is rather paradoxical to find that when decomposed by level of work intensity of the household, at-risk-of-poverty rate in the population aged 0 to 59 years has now grown *higher* in Sweden than in Belgium. The at-risk-of-poverty rates at the 60 % threshold are presented in figure 8 below for two groups of households: those with very low work intensity and those with a work intensity other than very low[9].

Figure 8. At-risk-of-poverty rate by work intensity of the household, 2004 – 2012



Refers to percentage of the population in the ages 0-59. For details regarding the calculations, see footnote 7. Source: (Eurostat, 2014c)

[9] The pattern holds also at the 50 percent threshold and at each other level of work intensity that is reported by Eurostat: Low (0.2 – 0.45), Medium (0.45 – 0.55), High (0.55 – 0.85) and Very high (0.85 – 1).

The figure above, paired with previous figures on employment and work-intensity of the households supports the understanding that the historically lower overall at-risk-of-poverty rate in Sweden as compared to Belgium and the EU-27 is due to Sweden's success in promoting employment at sufficiently high wages and in achieving a comparably even distribution of work across households. It is the fact that a larger share of the population is found in households with higher levels of work intensity in Sweden, instead of there being a lower risk of poverty at any given level of work intensity, that is responsible for the lower overall at-risk-of-poverty rate.

4.3 The poverty reducing capacity of social transfers

Yet, the increase in the overall at-risk-of-poverty rate in Sweden still calls for an explanation. After all, the 2 (2.8) percentage point increase in at-risk-of-poverty rate at 50 % (60 %) threshold corresponds to a relative increase of 34 % (25 %) between 2004 and 2012. Whereas we have already noted that the increasing at-risk-of-poverty rate at the 60 % threshold for the elderly to a large extent can be explained by pension income not being subject to the earned income tax credit, it is still the case that poverty has increased among all groups of adults except for those between 18 and 24, and among all categories of household work intensity except for the top category. Among people in households with low or very low work intensity the increase is particularly striking.

Exploring the EU-SILC data on at-risk-of-poverty-rate before and after social transfers, we get a clue to what we believe is the key explanation to the poor Swedish development: the diminishing level of protection provided by the unemployment insurance, the sickness insurance and the social assistance system, as described above.

While the indicator of at-risk-of-poverty before transfers should be interpreted with caution[10], figure 9 gives a basic indication that it is a decrease in the poverty reducing capacity of the social transfers, rather than an increase in pre-transfer poverty rates, that is reflected in the increasing post-transfer poverty rates among Swedish adults as reported previously in this section.

This pattern holds for all age-groups, except for those 65 or above, who naturally are not subject to the unemployment insurance, the sickness insurance and, in practice (due to the universal pension benefits), the social assistance system. The fact that the sharp decrease in poverty reduction from social transfers among those aged 18 to 24, displayed in figure 9, has not translated into increasing post-transfer at-risk-of-poverty rate implies that for this group, the pre-transfer at-risk-of-poverty rate has decreased. This is possibly because earnings are lower among younger workers and that therefore the earned income tax credit (which is not included in social transfers[11]) has brought about a relatively larger increase of disposable income for this particular group. In the EU-27 and Belgium,

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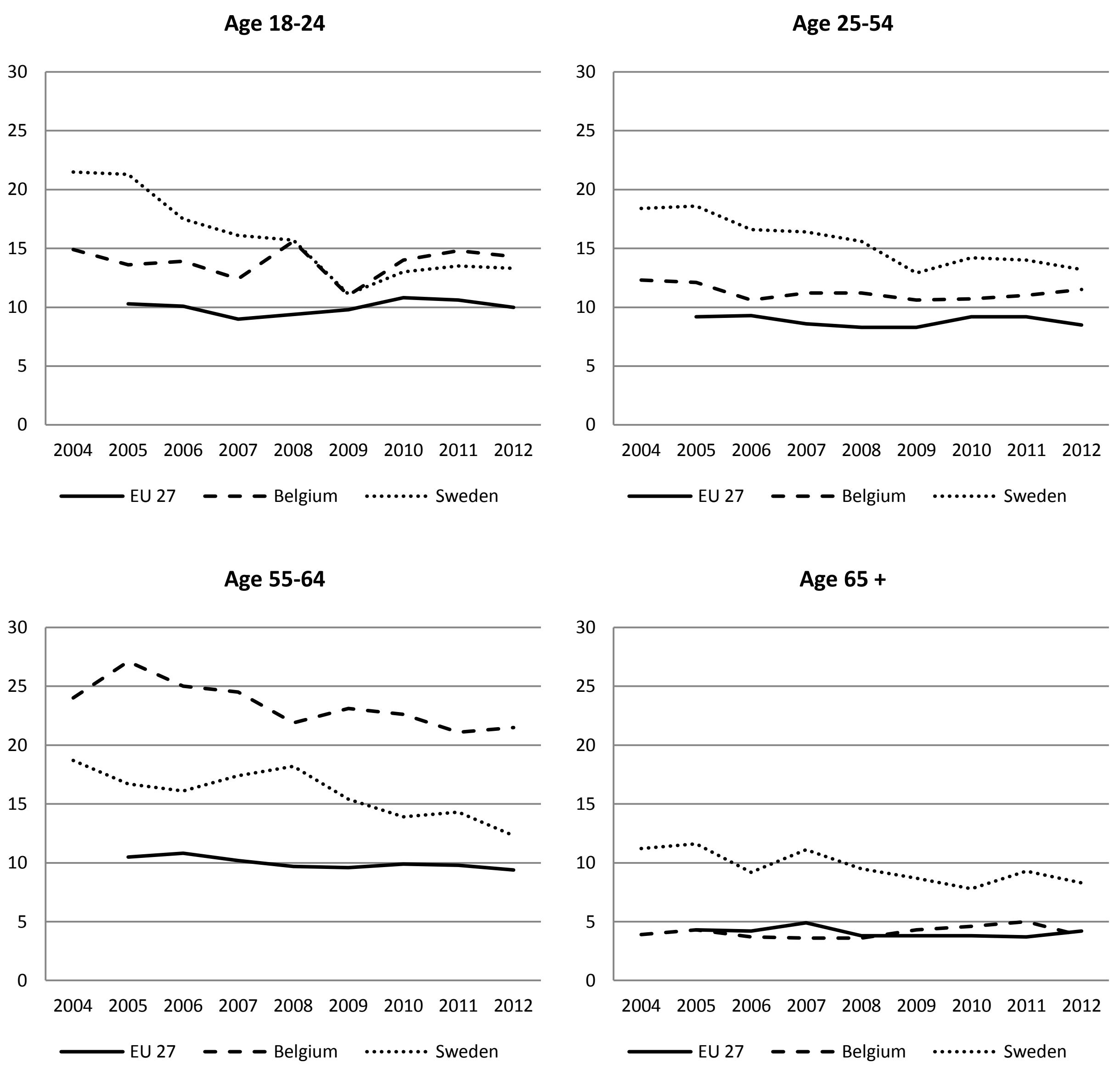
[10] A basic before-to-after comparison does not take into account tax benefits, tax allowances or transfers in kind, which also are policy measures that tend to increase disposable income. Second, such a comparison assumes that social transfers do not affect household behaviour, which leads to an overestimation of the poverty reducing capacity of social transfers (Caminada & Goudswaard, 2009).

[11] In the EU-SILC data, social transfers are defined as "current transfers received during the income reference period, which are intended to relieve them from the financial burden of a number of risks or needs, made through collectively organized schemes or outside such schemes by government units and Non-Profit Institutions Serving Households. In order to be included as a social benefit, the transfer must be (a) compulsory for the group in question and (b) based on a principle of social solidarity. /…/ Social benefits do not include tax rebates, benefits in kind or benefits paid from schemes into which the recipient has made voluntary payments only, independently of his/her employer or government." (Eurostat, 2014h, p. 148)

in contrast, the poverty reducing capacity of social transfers has been considerably more stable over the period. The notable exception is the group between 55 and 64 in Belgium. For this group, there is a clear downward sloping trend from a notably high starting level. This trend is most probably due to a gradual change in the composition of individuals in the particular age span. The high initial level reflects a historically large share of early retirement beneficiaries among Belgians in this age span. However, as these beneficiaries year-by-year flow out of the age span and are replaced by younger cohorts, among whom early retirement is less prevalent, the average poverty reducing capacity of social transfers in this particular age group decreases correspondingly.

Figure 9. Difference in at-risk-of-poverty rate before – after social transfers by age, 2004 – 2012



Poverty threshold is at 60 % of equivalised disposable income. Source: Eurostat (2014b, 2014d).

To summarize the empirical analysis of this section, the cross-country and over-time differences in employment rates, at-risk-of-poverty rates and household work intensity provide a number of indications regarding the relationship between the social investment paradigm and poverty reduction. First, among adults of all ages, employment rates are higher in Sweden than in Belgium and the EU-27. Second, for most adults, those between 25 and 64, the post-transfer at-risk-of-poverty rates are lower in Sweden than in Belgium and the EU-27, despite the fact that the poverty reducing capacity of social transfers for those age groups are higher or similar in Belgium. These results are in line with expectations based on Sweden's historical commitment to the social investment paradigm.

However, the fact that the at-risk-of-poverty rate among those between 18 and 24 are higher in Sweden than elsewhere, despite higher employment rates, has warranted the question of whether the employment promoting policies may have pushed reservation wages of this group markedly lower than those of other adults and brought about in-work poverty among young adults, as in the case of Germany. However, Swedish minimum wages are settled in broadly covering collective agreements, and the amount of work that is required of a young inexperienced worker to reach above the 60 percent of median income poverty line by force of own labour is less than fulltime. A more plausible explanation to the high at-risk-of-poverty rate in this age group is the size of the labour supply, simply meaning that they work too few hours rather than that they have too low pay. For Swedes aged 65 or over, the sharp narrowing of lead since 2007 in terms of low at-risk-of-poverty rate at the 60 percent threshold, reflects the fact that pension income is not subject to the earned income tax credit first introduced the same year.

The evidence put forward on the basis of the analyses in this paper is limited, but it supports the understanding that Sweden, under the social investment paradigm, has historically been able to achieve a reasonable complementarity between the goals of high employment and low poverty. The result is further supported by the fact that a considerably smaller, and shrinking, share of the population below the age of 60 live in work-poor households in Sweden as compared to Belgium and the EU-27. The analysis corroborates conclusions made by Hemerijck (2012a, p. 288) after having studied the effects of social investments across 19 European countries. According to his results, "it is safe to say that social investments are not successful merely in terms of stimulating employment participation, but also in actively keeping social inequality at bay". Contrastingly, a singular focus on passive social protection, he argues, "produces less employment with low rates of economic growth and perhaps even greater income polarization". In a way, this could be seen in contrast to the expectations from 'the service trilemma' (Iversen & Wren, 1998) since low deficits and debts are characteristics of the countries in the Nordic regime(even if Iversen and Wrenwere concerned with the size of the public sector as such rather than the balance of the public finances).

Third, the data on changes in levels between 2004 and 2012 give some insights into the consequences of Sweden moving away from the Nordic approach to social investment – in which high replacement rates in the unemployment insurance and the sickness insurance are crucial complementarities to an active labour market policy – towards a Third Way approach in which benefits are considered unproductive, pro-employment activation is the primary recipe for labour market policy reform whereas human capital investment oriented ALMPs are downplayed.

Since 2004, employment has increased slightly in most age groups, pre-transfer at-risk-of-poverty rates have decreased across all age groups, and the number of people living in work-poor households has been reduced by more than a third. Work has been made increasingly pay in a "positive" way, in the sense that less work is required to reach above the poverty line. Still, post-transfer at-risk-of-poverty rates have increased among all age groups except for those between 18 and 24, and among households of all work intensities except for those with very high work intensity. Moreover, the poverty reducing capacity of the social transfers has decreased sharply for all except for those above the age of 65.

Now, young adults, households with high work intensity and people above the age of 65 are precisely those groups that are least likely to be recipients of benefits from the unemployment insurance, the sickness insurance, and the social assistance system, and therefore those that are least affected by the retrenchments described above. Thus, it seems fair to suggest that the increased overall at-risk-of-poverty rates in Sweden are primarily driven by the gradual deviation that has taken place over the past decade, away from the Nordic approach to social investment, which combines social promotion with social protection, towards the Third Way approach in which social protection is not seen as productive.

This analysis hopefully points to the importance for scholars of social investment of distinguishing between its two dominant approaches when assessing the paradigm. A recent example points to the failure of scholars to establish a consensus on this distinction. In a thoughtful study on the conditionality of the effect of increasing unemployment on poverty, Rueda initially equated 'activation' and 'social investment' (2012, p. 364) and later concluded that the results of his analyses…

> "[…] clearly illustrate that the best way to control or even reverse the effects of unemployment on poverty is for welfare states to increase the generosity of their unemployment benefits at the same time that they increase their levels of ALMP. This is *not* a prescription of the workfare-social investment framework and, more important, it is not a prescription that is easy to implement in times of crisis." (2012, p. 382, emphasis added)

While Rueda's second point is certainly true, the discredit he directs towards the prescriptions of the social investment paradigm should reasonably be targeted to the Third Way approach to social investment rather than to the paradigm in its entirety. Interestingly, the recipe that Rueda finds most efficient in mitigating poverty effects of unemployment is precisely the balanced approach to social investment promoted by Esping-Andersen et al. (2002), Vandenbroucke and Vleminckx (2011) and Morel et al. (2012b), in which social protection and social promotion are combined.

Lastly, our findings may also shed some new light on two contested issues concerning the social investment paradigm, at least in regards to the case of Sweden: the alleged trade-off between spending on social protection and social promotion (Cantillon, 2011), and the long term sustainability of the social investment state. Streeck and Mertens (2011) have studied long-term trends in expenditure on "soft public investment" – which they perceive of as basically equivalent to social investment – in Sweden, Germany and the USA. Having identified a long term, slightly downward pointing trend in each of the cases, they suggested that fiscal stress and political austerity have caused, and will continue to cause a downward pressure on collective investment, which might in the end realize a "convergence on the lowest possible level" (2011, p. 25).

While the earned income tax credit introduced in 2007 has been far from self-financed (Ericson et al., 2009), it is admittedly difficult to assess with precision the importance of the reforms for increasing employment, preventing in-work poverty, and bolstering aggregate demand in Sweden.

Nevertheless, it is apparent that the fiscal condition of the Swedish public finances over the past seven years – marked by a severe financial crisis – has still allowed for a planned cut in tax revenue amounting to 3.5 times the size of the national budget for ALMPs. This, we suggest, indicates that the step recently taken, away from the Nordic variant of social investment towards the Third Way approach, is not singlehandedly a result of economic necessity or any inescapable trade-off between poverty reduction today and investments for tomorrow but also, to at least some extent, a matter of political choice. This is in contrast to the countries in southern Europe, and Ireland for that matter, which have been experiencing a sovereign debt crisis in the wake of the global financial crisis. But in line with Streeck and Mertens (2011) it may also be in contrast to the rest of Europe which is being strained by a combination of the increasing burden of entitlements to an ageing population and sharpened tax competition.

5 The lions versus the elephants and the butterflies: complementarities and trade-offs

This paper has been an attempt to identify the core assumptions and elements of the Swedish approach to social investment. We have furthermore tried to contribute to the discussion of the feasibility of the social investment approach by critically discussing not only the supposed achievements of the social investment approach but also following up on how the social investment content of the Swedish case has withstood the ongoing reform work. In this final section of the paper we will also discuss the relationship between social investment ("lions"), social protection ("elephants") and social innovation ("butterflies").

What appears to warrant further analysis is how social investment policies are dependent on traditional social protection policies for their effectiveness. In times of austerity and crisis, the policy dilemmas might be real and not only imagined, and in this context priorities have to be made with great caution. In the Swedish case it appears evident that the erosion of social protection and safety nets has happened during a period of a very solid development for the public finances and has been accompanied by rather massive tax cuts, not least since 2006. It has also coincided with a downplaying of traditional ALMP where employment has instead been promoted by tax expenditures primarily via a stepwise expansion of EITCs. In the Swedish case it is thus difficult to see any serious crowding out effect from social investment kind policies.

What is then the relationship between social investment and social innovation? In more than one way, social investment represents an innovation, not only in a historical sense and potentially including local initiatives. At the EU level, we may also see new forms of policy dynamics emerging from the forms of multi-level government, and governance for that matter, being pursued by the European Commission. The regional level is not only pressurised and incentivised to deal with the EU2020 but there are also clear incentives for engaging in what could be seen as social investment kind policy instruments. Social investment may be a weak paradigm with unclear outputs and outcomes but there is still some kind of movement going on.

In a way, the paper is an illustration of the fact that there in the Swedish case is an important degree of freedom of action (given the drastic tax cut that we have witnessed). What are then the policy choices about? It appears that there is an important choice to be made between tax expenditures vs.

public expenditures on social protection and social investment. If it is true that the return on the social investment policies are dependent on effective poverty reduction, then both kinds of expenditures have to be increased in the short term. It would in this context be a mistake to not utilise social insurance as a way to reduce poverty. An enlightened development path requires serious recasting of the social investment policy package and this also goes for social insurance programs.

In the end, this is of course not only about the design of the proper instruments for the pursuit of certain economic and social objectives but also about politics. Based on what we know about the political economy of the welfare state, the current trends with regard to both social investment and social protection threaten to erode the broad coalition between the working class and the middle class behind the old model: The middle class is not adequately insured for sickness and unemployment and the working class is not prepared well-enough to meet the productivity demands on the labour market. What will actually happen is however difficult to say. But it is always difficult to make predictions, especially about the future.

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ImPRovE: Poverty Reduction in Europe. Social Policy and Innovation

Poverty Reduction in Europe: Social Policy and Innovation (ImPRovE) is an international research project that brings together ten outstanding research institutes and a broad network of researchers in a concerted effort to study poverty, social policy and social innovation in Europe. The ImPRovE project aims to improve the basis for evidence-based policy making in Europe, both in the short and in the long term. In the short term, this is done by carrying out research that is directly relevant for policymakers. At the same time however, ImPRovE invests in improving the long-term capacity for evidence-based policy making by upgrading the available research infrastructure, by combining both applied and fundamental research, and by optimising the information flow of research results to relevant policy makers and the civil society at large.

The two central questions driving the ImPRovE project are:

How can social cohesion be achieved in Europe?

How can social innovation complement, reinforce and modify macro-level policies and vice versa?

The project runs from March 2012 till February 2016 and receives EU research support to the amount of Euro 2.7 million under the 7th Framework Programme. The output of ImPRovE will include over 55 research papers, about 16 policy briefs and at least 3 scientific books. The ImPRovE Consortium will organise two international conferences (Spring 2014 and Winter 2015). In addition, ImPRovE will develop a new database of local projects of social innovation in Europe, cross-national comparable reference budgets for 6 countries (Belgium, Finland, Greece, Hungary, Italy and Spain) and will strongly expand the available policy scenarios in the European microsimulation model EUROMOD.

More detailed information is available on the website http://improve-research.eu.

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