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Disappointing poverty trends: is the social investment state to blame? An exercise in soul-searching for policy-makers

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Disappointing poverty trends: is the social investment state to blame? An exercise in soul-searching for policy-makers[1]

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ABSTRACT

Should we explain the disappointing outcomes of the Open Method of Co-ordination on Inclusion by methodological weaknesses or by substantive contradictions in the "social investment" paradigm? To clarify the underlying concepts, we first revisit the original "Lisbon inspiration", and subsequently relate it to the idea of the "new welfare state", as proposed in the literature on new risks in post-industrial societies. We then discuss two explanations for disappointing poverty trends, suggested by critical accounts of the "social investment state": "resource competition" and a "re-commodification". We do not find these explanations convincing *per se* and conclude that the jury is still out on the "social investment state". However, policy makers cannot ignore the failure of employment policies to reduce the proportion of children and working-age adults living in jobless households in the EU, and they should not deny the reality of a "trilemma of activation". Finally, we identify policy conditions that may facilitate the complementarity of social investment and social inclusion.

Keywords: social investment, poverty, inequality, Lisbon strategy, social protection

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Introduction

In March 2000, the Lisbon European Council set a new strategic goal for the European Union for the next decade. Part and parcel of this objective was the modernization of the European social model: "Investing in people and developing an active and dynamic welfare state will be crucial both to Europe's place in the knowledge economy and for ensuring that the emergence of this new economy does not compound the existing social problems of unemployment, social exclusion and poverty". Thus, the rhetoric referred quite clearly to the concept of social investment. Aspirations were high, as the Council conclusions spoke of "the eradication of poverty" as a strategic social policy goal within the Union.

The Lisbon Summit not only promoted social policy as a distinct focus of attention for European co-operation; it also laid the methodological foundations for a new Europe-wide approach to social policy-making, called "open co-ordination". Fighting poverty became one of the key ambitions in this process, translated in a set of common objectives for social inclusion and a common measuring rod, specified in an agreed set of social indicators (Atkinson et al, 2002).

Expectations ran high after the Lisbon Summit. Now, disappointment prevails. Poverty has not decreased in the Union (Social Protection Committee, 2009). This sober assessment merits some soul-searching among "believers", as we were back in 2000. Have we been naïve about the methodological potential of open co-ordination, or naïve about the substantive potential of social investment, or even both? In the past ten years much scholarly work has been devoted to the new methodology: whether or not open co-ordination has proven to be effective, is a matter of much research and controversy (Heidenreich and Zeitlin, 2009; Armstrong, 2010; Marlier et al, 2010). Bea Cantillon focuses on an explanation for the failure that is substantive rather than methodological: the transition from the old distributive welfare state to a new social investment state is more difficult than expected, and this is at least in part responsible for disappointing poverty trends (Cantillon, 2011). We believe that the argument leading to that conclusion needs qualification. Yet, it is necessary to refocus on the distributive agenda of the social investment state.

In this contribution we first return to the initial inspiration for the social dimension of the Lisbon Agenda, as it was conceived in 2000. We revisit Lisbon because the concept of social investment allows multiple interpretations: some are rather one-sided, other interpretations are more balanced. In a balanced approach, an "investment strategy" (i.e. preventing risks from materialising) and a "protection strategy" (i.e. compensating for risks that have materialized) constitute the twin, complementary, pillars of an active welfare state. In the second section, we argue that, analytically, a social investment strategy cannot be conflated with a shift in the policy focus from "old" to "new" social risks: it

is not true that, as a matter of fact, old social risks are only manageable through compensation and new risks only through prevention. These conceptual clarifications are important with a view to understanding some of the difficulties of the social investment strategy that Cantillon points at. In the third section we formulate two possible explanations for why the social investment strategy may be responsible at least in part for disappointing poverty trends. Finally, we identify policy conditions that may facilitate the complementarity of social investment and social inclusion.

1. The Lisbon inspiration and the "social investment state"

The idea of a "social investment state", aptly described by Jenson as a "quasi-concept", allows multiple interpretations (Jenson, 2009, p. 41). Giddens's chapter on the social investment state in his book on the Third Way (Giddens, 1998) is often cited as the canonical reference. In his view social investment strategies would come to replace traditional welfare state strategies. Before and after the Lisbon Summit, we have repeatedly stressed – Giddens – that social investment is not a substitute for social spending (Vandenbroucke, 2002, p. x). In our view a distinct European co-ordination process on social inclusion was needed precisely because we did *not* believe that enhancing employment opportunities was the one and only recipe for fighting poverty. Since more employment would not automatically lead to less poverty, two interrelated yet distinct processes were indicated: the European Employment Strategy and a new co-ordination process on social inclusion.

In a book on "The New Welfare State", written in the context of the new Lisbon process, Esping-Andersen argued: "The Third Way may be criticized for its unduly selective appropriation of [Nordic] social democratic policy. First, it has a tendency to believe that activation may *substitute* for conventional income maintenance guarantees. This may be regarded as naïve optimism, but, worse, it may also be counterproductive. (…) [T]he minimization of poverty and income security is a *precondition* for an effective social investment strategy. Second, (…) a truly effective and sustainable social investment strategy must be biased towards preventative policy." (Esping-Andersen, 2002:5). In the context of "preventative policy" Esping-Andersen refers to child poverty, among other challenges. However, this warning certainly also holds for education policy at large: making education a vehicle for equality of opportunity is more difficult in an inegalitarian society than in an egalitarian one. So conceived, a social investment strategy is only productive if a virtuous circle can be created whereby social protection and social investment are mutually reinforcing. In other words, an investment strategy and a protection strategy constitute the indispensable twin pillars of the new welfare state. For this reason, we considered "active welfare state" to be more adequate than "social investment state" as an umbrella term for the

new welfare state approach. But that terminological battle should not exercise us today. The substantive battle is highly relevant though.

Admittedly, our account of the Lisbon inspiration is a personal one[2]. Lisbon practice was more one-sided than our initial Lisbon theory. With hindsight, it is clear that the social inclusion objective has received less priority. Target-setting for social inclusion, unlike for employment, was left to the Member States. In 2004 the Kok report recommended that overriding priority be given to growth and employment policies. This change in direction was reflected in the Mid-term Review of the Lisbon Agenda (Zeitlin, 2010; Atkinson, 2010, p. 14-15). In many Member States government policies were more one-sided than a balanced approach would have warranted. Yet, the "active and dynamic welfare state" as originally introduced in the Lisbon Strategy was certainly not a copy and paste of Giddens's Third Way concept. To the extent that the Lisbon believers of our variety were adherents of a specific model of welfare states, they might be seen as adherents of the Nordic model, where poverty had traditionally been lower than in the Continental, Southern and Anglo-Saxon models. However, the proposed recipe was not a copy and paste of the Scandinavian model either. In a book published for the then Portuguese presidency, Ferrera, Hemerijck and Rhodes (2000) emphasized that in each of the existing welfare state models there were interesting examples of successful adaptation. Hence, the strategy they suggested to welfare state policy-makers was "hybridization" rather than "everybody becoming Scandinavian". Nonetheless, the example of the Nordic welfare states, which had succeeded in combining low levels of poverty with high levels of employment, certainly constituted an important source of inspiration in Lisbon.

2. The three dimensions of the new welfare state

In the past ten years, a vast academic literature has been published on the emergence of a "new welfare state" (Taylor-Gooby, 2004; Armingeon and Bonoli, 2006; Esping-Andersen et al, 2002). Social investment was a hallmark of the new approach, but it was not the only new dimension. One should distinguish three dimensions of the new architecture that was called for: the new-risk dimension (i.e. welfare states must address the new social risks), the investment dimension (i.e. welfare states must develop investment in human capital rather than passive cash transfers) and the service dimension (welfare states must follow the Scandinavian example and become more service-oriented and less transfer-oriented). All three dimensions are linked to the changing nature of the employment challenge in post-industrial societies, yet they do not necessarily overlap.

[2] Frank Vandenbroucke was Belgian Minster of Social Affairs between 1999-2003. During the second half of 2001 Belgium presided the European Council of Ministers.

Unemployment, old age, ill health, sickness and disability, the financial burden of raising children constitute the "old" risks, which have been increasingly catered for by welfare states since the Second World War. Bonoli (2006: 5-7) defines the "new" social risks welfare states have to address as follows: (i) reconciling work and family life; (ii) single parenthood; (iii) having a frail relative; (iv) possessing low or obsolete skills; (v) insufficient social security coverage. Overcoming skill deficits in post-industrial labour markets is intrinsically linked to social investment, i.e. investment in general education and training: in this respect, "new risk" and "need for investment" coincide entirely. However, the other new social risks in Bonoli's list are not intrinsically linked to strategies of investment in human capital. If one considers each of them separately, they may be addressed through systems of cash transfers or services, which are as much or as little oriented to investment in human capital as existing benefits or services of traditional welfare states are. For instance, reconciling work and family life may be pursued by extensive systems of parental leave with generous benefits, rather than by investing in childcare. And even if the reconciliation strategy is primarily based on childcare, the childcare sector may be regarded as instrumental in successfully socialising children – an investment objective *par excellence*, requiring a high quality of childcare – or, alternatively, it may be seen as no more than a practical solution for families to find a place for their children to stay during working hours (Morgan, 2009). Thus, the investment imperative and new-risk imperative are interrelated as they originate from common ground, but they do not totally overlap.

Moreover, the policies that respond to the various new social risks in Bonoli's list are not *necessarily* linked *with one another*. One cannot postulate *a priori* that governments focusing on (i-ii) will also be working on (iii), or (iv) or (v), or *vice versa*. For sure, the underlying social and employment challenges of post-industrial societies are interrelated, but they are also complex and multifaceted. History teaches us that problem pressure does not necessarily lead to reform; it is even more true that a multifaceted problem pressure does not necessarily lead to comprehensive and consistent reform responding to all the aspects of the problem at hand. Governments may pursue some new goals, but not others. Or, they may pursue them in a way that is inconsistent and partially self-defeating. Policies facilitating the combination of family responsibility and paid work – to take that example once again – may be more or less "productive" in terms of enhancing employment rates and activating the unemployed. The reality of welfare state reform is heterogeneous and disparate.

The third dimension of the new welfare state that is described in the literature – a reorientation towards services, as exemplified in Scandinavia – is related to responding to some of the new social risks, but again not in a deterministic way. Reconciling work and family life, supporting long-term care, etc. may be based to some extent on new cash transfers (e.g. to facilitate parental leave) rather than on new services. Welfare states may pursue quite different policies in this respect.

Furthermore, the reality of welfare state reform is not only heterogeneous with regard to the dimensions of investment, risks and services. Looking more closely at one of the prominent instruments of social investment, active labour market policies, Bonoli rightly asserts that we witness "varieties of social investment", depending on the way in which they combine protection, investment and re-commodification (Bonoli, 2009). We will return to this when we examine the (supposed) contribution of the social investment concept to disappointing results with regard to poverty.

These conceptual points may seem obvious, yet we stress them because one should not discuss the distributive impact of "the social investment strategy" as if it was a unique and inseparable set of sub-strategies (and well-defined instruments) that can never be dissociated. The issue is not so much that the pace of welfare state reform has been very uneven, with some welfare states still far removed from a social investment strategy (Bonoli, 2007; Nikolai, 2009; Jensen, 2007). It is rather that there has not been a single, consistent, direction of reform. Our discussion of the example of childcare in Belgium's Flemish Community and Sweden (see section 3 below) illustrates the importance of that observation.

Taylor-Gooby, in his discussion of "the new welfare settlement in Europe", makes an analogous observation, starting from an even broader perspective on the social investment approach, which he describes as a search for a new solution to the problem of balancing economic growth and social justice. The new policy directions follow some but not all of the elements of the EU strategy: in most countries the investment in knowledge and employment mobility-enhancing benefits that were distinctive parts of the new approach are not effectively pursued (Taylor-Gooby, 2008). For lack of space, we will not develop these specific elements of criticism, though they can be linked to some of the issues discussed below (notably to the "re-commodification explanation") and should be taken on board in a full assessment of the merits and demerits of the social investment paradigm.

3. Why should the social investment strategy be responsible for disappointing poverty trends?

Why should a strategy that focuses on social investment and new social risks be in part responsible for disappointing poverty trends in a number of EU Member States? Given the historical experience of relatively low levels of poverty in the Scandinavian welfare states, Cantillon's hypothesis is, at first sight, quite puzzling (Cantillon, 2011). According to Huber and Stephens (2006) the Nordic welfare states experience low levels of poverty *because* they have incorporated essential elements of the "new" welfare state for decades: they had already built up the most effective poverty prevention and poverty reduction programmes among new risk groups by 1980. Why would the EU average of national poverty rates

remain stable when non-Scandinavian welfare states are prompted to emulate the Scandinavian example?

As the discussion focuses on poverty in the working-age population, the analysis should start from the fact that the proportion of children and working-age adults living in jobless households has hardly decreased in the EU, despite rising employment rates. Admittedly, this is the crucial failure in the actual implementation of EU employment and inclusion strategies, since the risk of poverty is much higher in jobless households than in households where at least one person is in work (Social Protection Committee, 2009). In Cantillon's "paradox of the investment state" (Cantillon, 2011) one can distinguish two additional explanations for upward pressure on poverty: a "resource competition" explanation and a "re-commodification" explanation. They identify mechanisms that reinforce the adverse distributive consequences of the stand-still with regard to jobless households. They are associated with policies that are intrinsic – so the argument may go – to the social investment paradigm.

The resource competition explanation has the greatest relevance to the non-Scandinavian welfare states. It postulates that, given tight budgetary constraints in existing welfare states in the 1990s and 2000s, the shift in focus from "old" to "new" risks and from passive protection policies to active investment policies has moved resources away from "old" programmes (social protection and healthcare) that are relatively more redistributive to "new" programmes (childcare, education, elderly care, leave systems) that are relatively less redistributive.

The re-commodification explanation refers to policy discourse and justification. It postulates that the emphasis on "making work pay", which has been part and parcel of the social investment strategy, justified – and thus contributed to – the retrenchment of traditional unemployment benefit programmes (in nearly all welfare states, the Scandinavian welfare states included); and that the retrenchment of unemployment benefit programmes generated poverty. Put in a more forceful way, the argument may be that social investment fundamentally and necessarily implied a re-commodification of individual citizens' *rapport* with labour markets, with detrimental effect on the living conditions of vulnerable people.

Both the shift of resources towards programmes that are less redistributive and re-commodification may be seen as the redistributive "downside" of a social investment/new risk strategy. The redistributive "upside" would then follow from the creation of jobs, since jobs are supposed to lift people out of poverty. Whether or not such a strategy enhances, *on balance*, social inclusion crucially depends on the type of households that benefit from the new jobs, that is, whether they are work-poor or work-rich. If the individuals who benefit from employment growth mostly belong to work-rich households (defined here as

households in which at least one person already has a job[3]), the income of those households will increase but the poverty headcount may not improve (De Beer, 2007). Hence, a *worst-case* scenario for a social investment/new risk strategy would be one in which the poverty headcount increases, because (i) the average income of the work-rich households increases, (ii) the relative proportion of the number of work-poor households does not change, (iii) the poverty threshold increases because median household income increases, and (iv) social programmes become less redistributive as the new risk-programmes mainly benefit work-rich households and unemployment benefits are cut.

3.1. Assessing the resource competition explanation

The resource competition explanation prompts two questions. First, are "new" programmes relatively less redistributive? Second, have we witnessed a significant shift in budgetary resources from "old" to "new" programmes? The reader may object that if the answer to the second question is negative, the first question is rendered futile. In our conclusions we will argue that that is not the case.

3.1.1. Is spending on "new" social programmes necessarily less redistributive?

Intuitively it seems plausible that spending on "new" social programmes, such as childcare, parental leave systems and education, is less redistributive than "old" spending. Some of these programmes typically enhance the choice set only for families who have access to jobs; obviously, this reduces their redistributive impact. Moreover, the value of services to people depends on people's own decision to make effective use of them, contrary to cash transfers distributed automatically to citizens who are entitled to them. These limitations do not hold for compulsory education, but the real value of education – in terms of the qualifications young people acquire – depends on their socio-economic and cultural background, as successive OECD PISA studies have illustrated. It thus seems a plausible hypothesis that so-called Matthew effects are intrinsic to the services cherished by the social investment state. "Matthew effect" refers to the phenomenon, widely observed across advanced welfare states, that the middle classes tend to be the main beneficiaries of social benefits and services.

Whether or not welfare services are less redistributive than cash benefits is a moot question. Castles argues that cross-national differences in poverty among advanced nations are to a very large degree a function of

[3] To conform to De Beer's analysis, we here define the expression "work-rich" in a different way than Cantillon (2011), who defines "job-rich households" as households where the work-intensity, as measured by EUROSTAT, equals 1.

the extent of cash spending on programmes catering to the welfare needs of those of working age (Castles, 2008; Goudswaard and Caminada, 2010). As a matter of fact, in a bivariate analysis, *ex post*, low poverty is associated with high spending on cash benefits for working age people. However, assessing the relative effectiveness of cash spending versus spending on services in *changing* the primary income distribution is a complex matter. It raises considerable methodological problems, given the inherent endogeneity between primary incomes and the welfare state, as argued by Esping-Andersen and Myles: "To really estimate redistribution we would need to invent a counter-factual 'virgin' distribution that was unaffected by social policy altogether (Esping-Andersen and Myles, 2009, p. 641). They conclude that "all told, services are generally redistributive in an egalitarian direction, albeit it less so than are cash transfers" (p. 654). In the research to which they refer, the impact of services on income distribution depends on two factors: the aggregate size of public expenditures on services and the distribution of these services according to the income of the individuals receiving them (Marical et al, 2008). Hence, this is a judgement about the actual *total* impact of spending on services vis-à-vis spending on cash transfers, rather than about the *relative* redistributive efficiency of spending on services vis-à-vis spending on cash transfers. Relative efficiency refers to the distributive impact of one euro spent on services vis-à-vis one euro spent on cash benefits. To assess relative efficiency one should look at the distribution over households of both categories of spending *per euro*. This approach is developed by Ghysels and Van Lancker (Ghysels et al 2010; Van Lancker et al 2011) in the context of child policy; they study the distribution of public budgets for childcare in Belgium's Flemish Community and in Sweden, taking into account parents' contributions.

Referring to Ghysels and Van Lancker, Cantillon (2011) argues that the new risk paradigm is bound to generate Matthew effects in child policy. Given the social stratification of women's roles, public resources employed to facilitate the combination of work and family life (such as childcare or parental leave) tend to flow to higher income groups, mainly double-income families with better educational backgrounds and a higher earnings capacity. Yet, the data provided by Ghysels and Van Lancker (2010) allow a somewhat different reading, at least when we distinguish between formal childcare and parental leave systems. Countries with the highest provision of formal childcare services (Denmark and Sweden) have a very equal distribution of care use, while in those with the lowest provision the distribution is highly skewed towards households with a high-skilled mother. However, while childcare is hardly skewed against the low skilled in Denmark, Norway and Sweden, the use of parental leave clearly is. In other words, *if* the emphasis is on childcare services rather than on parental leave, and *if* there is a high provision of formal childcare, linked with high female employment rates at all skill levels, *then* the Matthew effect in child policy may be weak or non-existent. These conditions are largely fulfilled in Denmark and Sweden. Van Lancker and Ghysels (2011) show that the bulk of government spending for childcare

in Flanders is allocated to higher income families, while the exact opposite is the case in Sweden, where the two lowest income quintiles benefit more than twice as much from government subsidies than the highest incomes. In addition to the data provided by Van Lancker and Ghysels (2011), one should consider the gap in employment rates between high and low-skilled women in the 25-64 age bracket: in the EU-15 it is 36.5 percentage points; in Belgium 44.6, percentage points, compared to 27 percentage points in Denmark and 28.4 percentage points in Sweden. The combination of *guaranteed* childcare places in Sweden and the much higher employment rate of low-skilled women explains the contrasting redistributive impacts of spending on childcare in Flanders and Sweden.

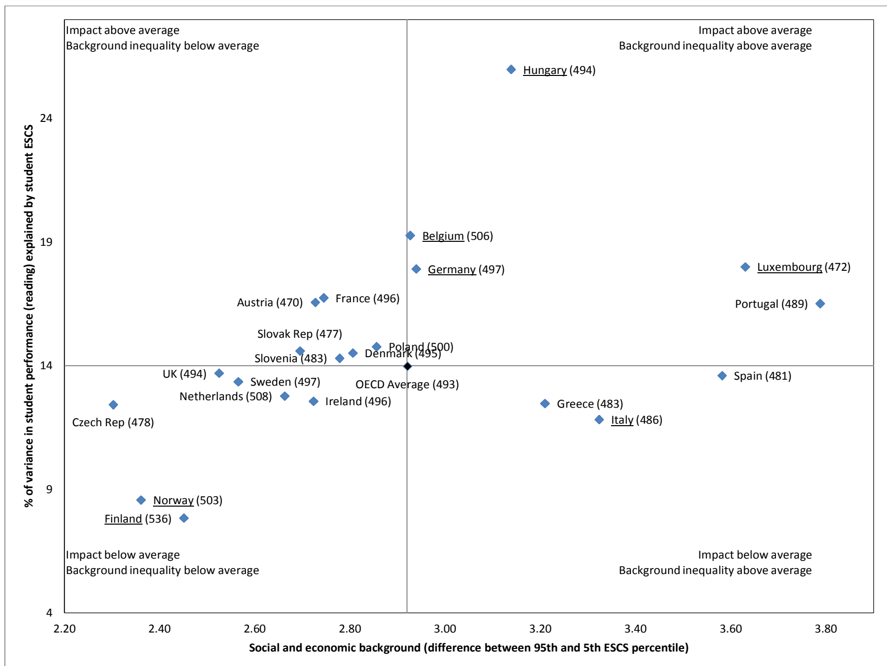
The example of childcare suggests that, ultimately, a consistent policy (i.e. a policy that focuses on a quasi-universal provision of services, combined with labour market conditions that enhance female employment at all skill levels) may beat Matthew effects when pursued with persistence and determination. The main problem in the Belgian example, as discussed by Van Lancker and Ghysels (Ghysels et al 2010; Van Lancker et al, 2011), is not situated in the area of childcare *per se*, but in the labour market, i.e. the inegalitarian access to jobs. The Belgian welfare state has adopted deliberate strategies, resolving some new risks more or less adequately (notably the reconciliation of work and family life, but also long-term care dependency and insufficient social security coverage for atypical employment-contracts). Compared to other welfare states, the budgetary shift to "new programmes" was relatively important, as we see in Table 1 below. But Belgian policy has been barely responsive to other new social risks, not very consistent and successful in activation, and largely ineffective with regard to the challenge of low skills, with labour market conditions that make high employment rates for low-skilled women difficult to achieve (Vandenbroucke, 2010; Marx, 2008; van Vliet, 2010). So conceived, it is the inconsistency of Belgium's social investment/new risk policies that is to blame, rather than the social investment/new risk policies *per se*.

In relation to childcare, the difficulty of the social investment strategy referred to by Cantillon (2011) seems foremost a difficulty of perseverance and consistency, notably in linking childcare opportunities with labour market opportunities for low-skilled women. That difficulty is very real – certainly when it forces policy-makers to envisage fundamental labour market and/or tax reforms –, but it constitutes an identifiable political challenge. Returning to the point made by De Beer (2007) and the Social Protection Committee (2009), a crucial question in this respect is whether a social investment strategy reaches work-poor households with the jobs it creates. This requires clever targeting of employment policies and perseverance, but it is not *per se* impossible.

When it comes to spending on education, we are confronted with a deep-rooted socio-cultural challenge. In comparison with childcare, it is much more complex and harder to translate into any ready-made political

strategy. The input provided by public spending on compulsory education may be much more productive for some children than for others, depending on their social background and the architecture of the education system. Returning to a point we made earlier, and formulating it schematically, education may be a driver of a virtuous egalitarian circle or, it may be a driver of a vicious inegalitarian circle. The social context in which a national education system operates may be more or less inegalitarian. Moreover, some national education systems reproduce background inequality to a much larger extent than other education systems. Within the EU-27, there are remarkable differences in this respect. To illustrate this divergent "reproductive" quality of compulsory education systems, Figure 1 summarizes PISA 2009 results concerning students' performance in reading for most of the EU-27 Member States and Norway in comparison with the OECD average (OECD, 2010a). We focus on the heterogeneity of the social, economic and cultural background of the students (by means of the difference between the 95th and the 5th percentile of the ESCS, the OECD's Index of the Economic, Social and Cultural Status of the student's family) and on the impact of that background on students' performance (as measured by the percentage of the variance in student performance explained by the variance in the ESCS). It appears that in four of these countries the impact of students' background (as measured by the OECD's ESCS) is above the OECD average, in a way that is statistically significant (Germany, Hungary, Belgium and Luxembourg). In three countries the impact is below the OECD average (Finland, Norway and Italy). In Finland and Norway, there seems to be a virtuous circle of background equality and "egalitarian investment functions" in education (note that one should not conclude that in all Nordic countries the education system is superior on all accounts, which is why we have added the mean student score between brackets.)

Figure 1. Background inequality and impact of inequality on performance in reading (PISA 2009).



Countries in which the impact of students' background (as measured by the OECD's ESCS) is above or below the OECD average, in a way that is statistically significant, are underscored. Mean student score is provided between brackets

Source: OECD, PISA 2009

Whether or not an increase in spending on compulsory education will lead to egalitarian outcomes depends on (i) the social, economic and cultural background conditions in society and (ii) the impact of this additional spending on the inequality-reproducing features of the education system. For sure, spending less on education will not contribute to greater equality in society. But spending more on education will not automatically advance egalitarian goals either.

For an evaluation of the social investment paradigm one should also examine how equity in education has evolved over time. A comparison of the PISA 2000 and 2009 results in reading can shed some light on this matter. In many European countries background inequality, as measured by ESCS, decreased between 2000 and 2009. The decline is most notable in the Nordic countries (except Sweden), where social inequality in students' background was already below average. In countries such as Hungary, Italy, Belgium and Portugal, background inequality further increased. Perhaps even more interestingly, though, we observe that many European countries have been able to reduce the variability in students' learning outcomes in reading. One cannot easily disentangle

contextual changes from policy impact in these matters. Yet, it would appear that educational reforms in Germany and Poland were effective in diminishing variability in students' performance and, hence, improved equity in their educational systems. The same seems true for Denmark, Norway and Portugal. These countries may be contrasted with Sweden, where both background inequality and the variation in students' performance increased between 2000 and 2009 (OECD, 2010b;2011; forthcoming).[4]

In general, we may conclude 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. Although childcare and education policies have to confront deeply entrenched realities of social stratification that are hard to overcome, the social scientist's circumspection should not unduly overtake the policy maker's voluntarism (see, for instance, Sabel et al, 2010, for an interesting account of reform in education, placed in a broader welfare state perspective).

3.1.2. Has there been a significant shift in resources from "old" to "new" programmes?

In a period marked by overall budgetary constraints, a shift in budgetary resources to "new" social spending might explain downward pressure on "old" cash benefit programmes, which many consider *prima facie* more redistributive. But has such a shift really taken place? We analyse information on social expenditures provided by the OECD's Social Expenditure database for the period 1985-2007, for the US and 13 European countries selected on the basis of availability and comparability of data: five Continental welfare states (Belgium, France, Germany, Luxembourg, the Netherlands), four Southern Welfare States (Greece, Italy, Portugal, Spain), three Scandinavian welfare states (Denmark, Finland and Sweden) and the UK.

On the basis of detailed OECD country data different categories of "old" and "new" welfare spending were constructed. Public health expenditures ("old welfare 1"), public spending on retirement and survivor pensions ("old welfare 2"), and public social cash benefits except pensions ("old welfare 3"), are considered to be linked to "old social risks". As categories of "new" welfare expenditures, linked to new social risks and the social investment paradigm, we selected public expenditures on parental leave ("new welfare 1"), public expenditures on elderly care ("new welfare 2"), public expenditures on childcare and pre-primary education (new welfare 3"), active labour market policies ("new welfare 4") and, finally, public

[4] We are grateful to Dirk Vandamme (OECD) for providing background figures and developing this point.

expenditures on primary and secondary education ("new welfare 5"). Table 1 compares the average levels of spending as a percentage of GDP for each of these categories for the years 2005-07 with the average levels for the years 1985-89 (row A-H). Contextual information that may explain part of the spending dynamic, is added: the change in the employment rate and the unemployment rate between 1985-89 and 2005-07 (rows L-M).

Expenditure changes can be driven by demographic change (or change in unemployment levels), but they can also reflect a deliberate effort to invest in a specific function of the welfare state. To distinguish demographic and unemployment impacts from "budgetary effort" we calculated four indicators, based on the following ratios:

- spending on retirement pensions ("old 2") divided by the number of people older than 64, compared to GDP per capita;
- spending on childcare and pre-primary education ("old 3") divided by the number of children younger than 5, compared to GDP per capita;
- spending on ALMP ("new 4") per unemployed, compared to GDP per capita;
- spending on primary and secondary education ("new 5") divided by the population from 5 to 19 years old, compared to GDP per capita.

In Table 1, row N-Q, we compare the average value of these ratios for the years 2005-07 with their average value for the years 1985-89 (1985-89 = 100). These indices can be read as measuring a country's effort in investing resources (or the willingness to disinvest) in specific functions of the welfare state. One should note that this "budgetary effort" is not to be conflated with a consistent and effective policy effort: e.g. increased spending on ALMP does not imply the development of a consistent activation policy.

Table 1. Changes in public spending on « old » versus « new » welfare, 2005-07 compared to 1985-89.

		BE	DK	FI	FR	GER	GR	IT	L	NL	PT	SP	SW	UK	EU-13 (*)	US
A	"Old 1" Healthcare	1.26	1.30	0.49	1.14	1.24	1.93	1.29	1.83	0.78	3.73	1.47	-0.85	1.98	1.35	2.76
B	"Old 2" Retirement Pensions	-0.38	0.78	1.08	2.01	0.92	2.93	2.61	-1.41	-1.29	6.23	0.65	-0.31	0.23	1.08	-0.21
C	"Old 3" Other social transfers	-1.65	-1.53	-0.20	-1.88	0.29	-0.65	-1.15	-0.43	-5.04	0.96	-0.11	-1.34	-1.92	-1.13	0.24
D	"New 1" Parental Leave	0.10	0.14	-0.11	0.04	0.03	0.04	0.06	0.23	-0.05	0.14	0.13	-0.13	0.21	0.06	0.00
E	"New 2" Elderly care	0.19	-0.36	0.30	0.19	-0.17	0.07	0.09	-0.13	0.30	0.08	0.35	1.11	0.18	0.17	-0.01
F	"New 3" Childcare + pre-primary	0.83	0.07	0.19	1.31	0.50	0.38	0.65	0.28	0.81	0.44	0.70	-0.46	0.64	0.49	0.30
G	"New 4" ALMP (**)	-0.04	0.81	0.10	0.23	0.08	-0.02	0.10	0.15	-0.12	0.36	0.11	-0.59	-0.36	0.06	-0.13
H	"New 5" Prim. & Sec. Educ. (***)	0.57	0.02	-0.56	-0.55	-0.34	0.68	0.01	0.08	-0.36	0.88	-0.45	-0.26	0.90	0.05	0.55
I	**Total "Old 1-2"**	**0.88**	**2.08**	**1.57**	**3.15**	**2.16**	**4.86**	**3.90**	**0.44**	**-0.51**	**9.96**	**2.11**	**-1.16**	**2.21**	**2.43**	**2.55**
J	**Total "New 1 – 5"**	**1.65**	**0.68**	**-0.08**	**1.22**	**0.10**	**1.15**	**0.91**	**0.61**	**0.58**	**1.90**	**0.84**	**-0.33**	**1.57**	**0.83**	**0.71**
K	**Total "Old" & "New"**	**0.88**	**1.22**	**1.29**	**2.49**	**2.55**	**5.35**	**3.64**	**0.62**	**-4.97**	**12.82**	**2.85**	**-2.82**	**1.86**	**2.14**	**3.49**
L	Employment rate	8.51	1.14	-2.92	2.82	4.58	5.78	6.24	4.54	17.43	2.99	17.25	-6.82	3.78	5.02	1.07
M	Unemployment rate	-3.16	-2.24	3.03	-0.84	3.67	1.29	-4.65	1.62	-5.88	0.76	-9.55	4.64	-4.67	-1.23	-1.46
N	("Old 2" / 65+)/(GDP/CAP)	80	117	91	96	83	96	85	79	68	176	82	97	104	96	94
O	("New 3" / <5)/(GDP/CAP)	815	92	137	540	394	3454	791	219	297	5699	3195	84	286	1231	240
P	("New 4"/ UN)/(GDP/CAP)	124	286	68	137	50	65	206	46	183	176	208	23	92	128	58
Q	("New 5"/ 5-19)/(GDP/CAP)	130	107	95				133		91	204	145	97	138	127	122

A-K: percentage point change in public spending as % of GDP (2005-07 vs. 1985-89)
L-M: percentage point change of average employment and unemployment rate (2005-07 vs. 1985-89)

"Budgetary effort indicators" in rows N-Q compare the average value of the following ratios for the years 2005-07 with their average value for the years 1985-89 (1985-89 = 100):

N: spending on retirement pensions (old 2) divided by people aged > 64, compared to GDP/capita;
O: spending on childcare and pre-primary educ. (new 3) divided by children aged < 5, compared to GDP/capita;
P: spending on ALMP (new 4) divided by number of unemployed, compared to GDP/capita;
Q: spending on prim. and sec. education (new 5) divided by children aged 5-19, compared to GDP/capita.

(*) Unweighted mean for selected EU Countries. Row Q: excluding France, Germany, Greece and Luxembourg.
(**) Estimations were made for: Denmark (1985), Italy (1985-89), Portugal (1985)
(***) Estimations were made for: France (1985-93), Germany (1985-94), Greece (1985-1993; 1997-1998), Luxembourg (1991-1993; 1997-2000), Sweden (1985-1986; 1992-1993)

Source: see Appendix.

Compared to 1985-89, spending on cash benefits for people of working age and their children as a percentage of GDP ("old 3", row C) is lower and in many countries significantly lower in 2005-07. Exceptions are Germany, the US, and Portugal in particular. To some extent this decline can be explained by lower levels of unemployment (though not for Sweden, Finland and Luxembourg), but declining benefit generosity is undoubtedly also part of the story. However, to the extent that cash benefit programmes for non-retirees were under pressure *because of* "competing claims", the competing claims originated predominantly in increasing spending on healthcare (with considerable increases in all countries, except Sweden, the Netherlands and Finland), and in spending on retirement pensions (which increased in all countries except the Netherlands, Luxembourg, Belgium, Sweden).

For sure, there was a considerable increase in "new" spending too (row J, total for "New 1-5" in Table 1), dominated by childcare and compulsory education. But comparison of row J and row I (the sum of the change in "old" spending on healthcare and pensions) reveals that it would certainly be wrong to say that "new" spending crowded out "old" spending, i.e. that the pressure on the third category of "old" spending, cash benefit programmes for non-retirees, is to be explained by the dynamic of the "new" programmes. Leaving out the Netherlands and Sweden, where total spending decreased, only in two countries the percentage point change in "new" spending is larger than the change in "old" spending on pensions and health: Belgium and, marginally, Luxembourg. Source data, for more periods, allowing a comparison of 2005-07 with the years immediately preceding the Lisbon Summit, can be found in Table A1 in the Annex to this paper. Closer inspection of these data reveals that in most countries long-term evolutions are at work, rather than a sudden change in policy prompted by the Lisbon agenda (but see van Vliet, 2010; van Vliet and Koster, 2011, for the impact of the European Employment Strategy and EMU on spending patterns).

Obviously, the effort indicators in Table 1 (rows N-Q) tell a different story than the percentage point changes in the share of public spending in GDP for old and new programmes. The effort indicators illustrate that the increase in public spending on pensions was mainly driven by demography (but with pension spending in Portugal catching up spectacularly, and with a considerable retrenchment of public pension spending in the Netherlands). For childcare they illustrate an important, even spectacular, dynamic in Belgium, Greece, Italy, the Netherlands, Portugal, Spain, the UK and France. For AMLP the picture is mixed, with increased effort in a number of countries, and diminished effort in other countries (most notably in Sweden, which had a high level of spending at the start of the period under observation). The same holds true for spending on primary and secondary education. Nevertheless, it seems fair to conclude 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 programmes.

The figures corroborate Jensen (2008), who shows that the dynamic of healthcare spending affects welfare states independently of the welfare regime to which they belong. Technological change, healthcare consumerism, and population ageing lead to higher public healthcare expenditures across welfare states. Given the importance individuals attach to healthy life years, increased healthcare spending may well be the most important source of budgetary pressure facing welfare states in the future (Hall and Jones, 2007; Murphy and Topel, 2006).

3.2. Has the social investment strategy implied re-commodification and retrenchment?

An underlying assumption in the Lisbon process was that the goals of economic, employment and social policy are complementary. Atkinson (2010) argues that this is not *necessarily* the case: complementarity can only be assured with the proper design of policy. He contrasts two strategies to increase employment rates among less productive people: lowering the reservation wage (an option sociologists would qualify as "re-commodification") and reducing the cost of job creation. The first option increases the risk of poverty among working people, the second does not (we take it that the latter would be achieved, for example, with wage subsidies, hence by mobilising budgetary resources). Complementarity can be achieved, but it cannot be assumed, according to Atkinson.

Over the past two decades, we have witnessed retrenchment in unemployment benefit systems in welfare states as diverse as Denmark and Sweden, the United Kingdom and Germany, making benefits more selective and conditional, and diminishing their duration and replacement rates (Scruggs, 2008; van Vliet, 2010, Table 4; Caminada et al, 2008, Table 5; Hemerijck, 2011). These reforms started before social investment was generally accepted as a new paradigm and before the Lisbon Summit, yet they came to be seen as intrinsic to the new social investment strategy. Minimum income benefits have also decreased relative to the development of real wages since 1990 (Van Mechelen and Marx, 2010). The question is, therefore, whether this retrenchment was the inevitable downside of active labour market policies as promoted by the social investment paradigm. If it was, then a more pessimistic conclusion than that suggested by Atkinson imposes itself.

As Bonoli (2009) explains, one may in principle want to distinguish two types of active labour market policies: those which are about improving human capital, and those which use essentially negative incentives to move people from benefits into employment. However, according to Bonoli, "the novelty of the current approach to labour market policy lies in the simultaneous application of both approaches (…). By forcing policies into one of the two categories (…) we may fail to grasp what is distinctive about them." Moreover, "much of what is found in the toolbox of active

labour market policy cannot easily be classified under [these] binary classifications" (p. 56-57). And further: "Most of the tools of active labour market policy can be characterized by a peculiar mix of the three key principles of labour market policy: income (or status) protection; social investment and (re)-commodification" (p. 58). Bonoli conceptualizes a continuum of active labour market policies, emphasising protection (employment protection, early retirement, and passive unemployment benefits) at one extreme and re-commodification (retrenchment, workfare, and deregulation) at the other extreme. The clearest examples of investment-oriented labour market policy are found in the middle of that continuum.

Bonoli's analysis may be refined even further, since incentives can be introduced with three types of instruments:

- "negative" economic incentives, i.e. "making work pay" by retrenchment of unemployment benefits;
- "positive" economic incentives, i.e. "making work pay" by improving the net income of those in work, particularly at the bottom end of the wage distribution;
- "administrative" incentives, whereby generous offers of training and counselling are combined with a strict follow-up of each individual's willingness to accept training and counselling and jobs on offer, with sanctions at hand. In what follows, we refer to this approach as "*close monitoring*".

"Making work pay" is one of the fixed points in the social investment concept as formulated in EU documents and an explicit objective of the EU co-ordination processes in employment and inclusion. Whether or not positive economic incentives can be provided obviously depends on budgetary constraints. Increasing net incomes for those in work entails a budgetary cost, at least in the short run. When budgetary resources are scarce, the trade-off is between negative economic measures and close monitoring. Monitoring people's willingness to work is not an easy undertaking, certainly not if benefits are relatively generous in comparison with wages. Such policies are intrusive: they imply a continuous interference in unemployed people's daily lives, and frequently repeated and personalized assessments of people's "willingness to make an effort". The truth is that policy-makers of the social investment variety may be confronted with a real dilemma here. How can one make work pay without increasing poverty, when resources are scarce? To the extent that there is a readiness to monitor unemployed people's trajectories strictly and continuously, and to impose administrative sanctions if need be, negative *economic* measures can be applied moderately. However, if there is no readiness to monitor individual effort and impose sanctions, negative economic measures become the predominant instrument. Whichever balance is struck, experience teaches us that one inevitably needs a combination of the aforementioned approaches. A *trilemma* is a situation in which it is impossible to achieve three objectives simultaneously. It

seems that activation can entail a *trilemma* between three objectives that egalitarian believers in social investment may wish to pursue: (i) ensuring that the unemployed people are not poor; (ii) ensuring that administrative monitoring systems are not excessively intrusive and cumbersome; (iii) ensuring employment growth in order to reduce benefit dependency.[5]

Although some governments have applied cuts in unemployment benefits without any social investment in the realm of active labour market policy, it cannot be denied that the social investment paradigm may have contributed to re-commodification measures and retrenchment, thereby increasing poverty among the unemployed. In times of budgetary austerity, this negative dimension of activation policies may even have been inevitable. The question is whether a true (and balanced) social investment strategy has, in the long term, the potential to reduce – on balance – *overall* poverty in our societies, as structural unemployment and the proportion of work-poor households are reduced, and available resources are invested in childcare, education, increasing net incomes for families in low-paid jobs, improving care (and where necessary also pension benefits) for the elderly. That is, ultimately, the promise of the social investment strategy. We believe the jury is still out in this respect. But promoters of the social investment paradigm should not deny that they may be confronted with a *trilemma of activation*. This trilemma is harder to deal with in times of budgetary austerity. This link with the budgetary context also holds for Atkinson's analysis: if a government is not able to mobilize resources to reduce the cost of job creation, the complementary strategy may be impossible, at least in the short run. The trilemma is mitigated if targeted design of policies reduces the proportion of work-poor households.

4. Conclusion: policy conditions facilitating complementarity between social investment and social inclusion

Has the social investment paradigm contributed to disappointing poverty trends? The stability of the proportion of children and working-age adults living in jobless households signals a crucial failure in the implementation of the investment paradigm. Has the social investment strategy, by its very nature, reinforced the negative distributive consequences of this failure? Policy-makers who promoted social investment should examine this question seriously. Our reading of the various contributions to this debate is that the indictment of the social investment paradigm can be

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[5] Moreira (2008) studies the "dilemma of activation" with regard to minimum income schemes, i.e. the dilemma between respect for the right to personal development on the one hand, and employment effectiveness. He concludes that it is possible for such schemes to combine higher level of employment effectiveness with more respect for the right to personal development (with the exception of recipients' freedom to choose other activities besides paid employment). This does not, in our opinion, falsify the trilemma we sketch. It seems moreover difficult to generalize this conclusion, which is based on a limited number of cases.

divided into two specific allegations. First, the social investment paradigm may have shifted resources away from programmes that are more redistributive to programmes that are less so. Second, the social investment paradigm may have contributed to a re-commodification and retrenchment of unemployment benefits. Whether or not spending on childcare and education is less redistributive than traditional cash benefit programmes, the first allegation is unconvincing. Since the shift in resources towards "new" spending has been less substantial than the shift in resources to healthcare and retirement pensions, one cannot lay all the blame for a supposed lack of resources for traditional cash benefit programmes on "new" spending. The second allegation, however, is not so easily refuted. Given the context of relatively tight budgetary constraints, reinforced by the continuous need to increase healthcare and old-age spending, the making work pay component of social investment may have reinforced pressures for retrenchment in the field of unemployment benefits, thus increasing poverty risks in that segment of the population.

The question is whether a true social investment strategy has the potential to reduce *overall* poverty in our societies. Social investment is a long-term strategy *par excellence*. In the long term, its outcome may be positive, if structural unemployment and the proportion of work-poor households decrease, and if available resources are invested in quality childcare and education, in increasing net incomes for families with low-paid jobs, and in improving care (and where necessary also pension benefits) for the elderly. Although the jury is still out, we can identify five preconditions for a social investment strategy to be successful with regard to social inclusion.

First, we need a balanced approach, with an "investment strategy" and a "protection strategy" as complementary pillars of an active welfare state. Otherwise, it will be impossible to turn vicious intergenerational circles of disadvantage into virtuous circles of inclusion and emancipation. Second, in order for social investment to be a driver in virtuous circles of inclusion, the investment function itself should be egalitarian: rather than to exacerbate background inequalities, the impact of childcare and education should be to reduce inequality in society. Social services should be genuinely capacitating. This ambition must be part and parcel of the social investment strategy.

Third, creating virtuous circles of inclusion and emancipation presupposes that policies are sufficiently ambitious and mutually consistent. Atkinson (2010) rightly stresses that complementarity can only be assured with the proper design of policy. Where the choice of policies potentially affects all objectives (growth, jobs, and inclusion), policy-making has to be made in a unified way." (Atkinson, 2010, p. 4). In this contribution, we mentioned the example of childcare: if low-skilled women do not have access to jobs, a childcare strategy is bound to generate Matthew effects. Hence, reforming labour markets in order to enhance job opportunities for low-skilled women and to reduce the proportion of work-poor households is

crucial if childcare is to play its social investment role adequately. The example is corroborated by other ones: if the organization of the workplace does not change, "life-long learning" will not become a reality (Lundvall and Lorenz, 2010). *Reforming labour markets and workplace organization* is a complex yet crucial component of a social investment strategy. Intelligent labour market reform may contribute to reconciling job creation and equality, as Kenworthy argues thoughtfully and convincingly (Kenworthy, 2008). Labour market reform may be politically difficult to pursue, but it is a hurdle that has to be taken.

Fourth, although the social investment paradigm has not "crowded out" traditional welfare programmes over the last two decades, a social investment strategy is not a cheap option that allows substantial budgetary savings. Simultaneously responding to rising needs in healthcare (and pensions) and implementing a successful transition towards fully-fledged social investment strategies will require additional resources. The erosion of the tax base and the imperative of budgetary austerity in the wake of the economic crisis of 2008-2010 is a dangerous threat to the social investment strategy. Believers in social investment will have to convince public opinion that budgetary discipline must not destroy the social investment perspective: additional tax revenues may be a necessity to overcome the current crisis without destroying social investment (Liddle, 2009). Simultaneously, and for the same reason, we will have to convince public opinion that the budgetary cost of ageing must be contained, in order to retain leeway for investment in youth: working longer (and thus, once again, reforming labour markets) is imperative.

Fifth, given the scarcity of resources, efficiency is paramount. Intelligent selectivity and targeting of policies will often be necessary, in the areas of both protection and investment. Although we are not convinced that a shift in resources towards "new spending" programmes has contributed to poverty in our welfare states, we should not be blind to the fact that some services are prone to generating Matthew effects. The first sub-question we formulated when discussing the "resource competition hypothesis" in section 3 is not futile. Welfare services should be subject to systematic "Matthew testing" by policy-makers and where necessary adjustments should be made.

Over the past years, more research has been devoted to the new methodology that was launched in Lisbon, known as the Open Method of Co-ordination (OMC), than to these substantive questions on social investment. Many shortcomings of the OMC have been listed, for instance its relative weakness – the lack of political bite – on social inclusion. The European Union has now given its EU 2020 strategy more bite with regard to social inclusion by introducing the reduction of the number of Europeans living in poverty or social exclusion by at least 20 million by 2020 as one of its headline targets (Council Conclusions, 17 June 2010). The European Commission launched an ambitious communication on a

"European Platform against Poverty". However, the future of the specific Open Co-ordination on Inclusion and Social Protection and its relation to the European Platform against Poverty is as yet unclear and undecided. If we want the fight against poverty to be a real success, this specific social OMC must not be lost, but should on the contrary be given a new role and purpose. Otherwise, we risk ending up with high quantitative ambitions, but no policy insight and no thematic substance.

In a report for the Belgian Presidency of the EU, Frazer et al (2010) formulated proposals to improve the governance of OMC. One of the problems of the OMC, so the report concludes, is that "feeding in" and "feeding out", i.e. the expectation that the Social OMC agenda should interact closely with the Growth and Jobs agenda, have been disappointingly weak (see also Marlier et al, 2010). This corresponds with the point made earlier about consistency as a condition for success. Indeed, our main frustration with the practice of open co-ordination is that it appears to have been unable to drive home the message that policies for employment and social inclusion must be mutually consistent and comprehensive to be successful. The Lisbon Agenda referred to a paradigm that may have been a "quasi-concept", ambiguous and open to multiple interpretations, but which allowed for an egalitarian and inclusive reading. Open co-ordination has not prevented national and regional governments and social partners from buying in selective bits and pieces of the new paradigm, but not its *gestalt*, *a fortiori* not the egalitarian and inclusive reading we pushed for in 2000. We can do better; we continue to believe that social investment can be a friend of inclusion rather than an enemy, but this friendship requires a deliberate and well-conceived effort in order for it to flourish. It is therefore important that the research community should try to link proposals for improving the policy methodology to substantive conditions for success.

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APPENDIX

Public expenditure variables are constructed on the basis of the OECD's Social Expenditure Statistics Detailed Data (Database) providing detailed expenditure data in national currency, in millions, covering the period 1985-2007. Different categories of "old" and "new" public welfare spending are aggregated:

"Old 1": Healthcare expenditures
"Old 2": "Retirement pensions", covering both "old age" (incl. "early retirement") and "survivor" benefits (cash).
"Old 3": "Other social transfers", covering family benefits, incapacity-related benefits, unemployment benefits, income maintenance, and other cash benefits, excluding "old 2" and housing.

"New 1": "Parental leave", covering both maternity and maternity leave
"New 2": "Elderly Care", covering residential care and home-help services.
"New 3": "Childcare", covering day-care and home-help services, and pre-primary education
"New 4": Active Labour Market Policies, covering employment services and administration, training, job-rotation and job-sharing, employment incentives, supported employment and rehabilitation, and direct job creation.
"New 5": Primary and Secondary education.

Hence, we did not include the following categories of public social expenditures, provided by the OECD: "housing", "family in-kind", "capacity in-kind", and "other benefits in-kind".

In addition, following sources are used:
GDP: OECD Social Expenditure: Reference series. Education data: OECD Education Statistics Database (Expenditure by Nature and Resource). Population Data: OECD Population Statistics (Historical Population Data). Employment rate as percentage of working-age population (15-64): OECD Factbook. Unemployment rate as % civilian labour force: OECD Population and Labour Force Database. Unemployment (1000s): OECD Annual Labour Force Survey (ALFS Summary Tables).

For "New 4" (ALMP) estimations were made for Denmark (1985), Italy (1985-89), Portugal (1985). For "New 5" (Primary and Secondary Education) estimations were made for France (1985-93), Germany (1985-94), Greece (1985-1993; 1997-1998), Luxembourg (1991-1993; 1997-2000), Sweden (1985-1986; 1992-1993).

The following ratios in Table A1 are calculated by the authors:
Row A-K: public spending as % of GDP (average for period)
Row L-M: employment and unemployment rate (average for period)
Row N: spending on retirement pensions (old 2) divided by people aged > 64, compared to GDP/capita.

Row O: spending on childcare and pre-primary educ. (new 3) divided by children aged < 5, compared to GDP/capita.
Row P: spending on ALMP (new 4) divided by number of unemployed, compared to GDP/capita.
Row Q: spending on primary and secondary education (new 5) divided by children aged 5-19, compared to GDP/capita.

Table A.1. Spending on «old» versus «new» welfare, 1985-2007.

		1985-1989	1990-1994	1995-1999	2000-2004	2005-2007
	BELGIUM					
A	"Old 1" Healthcare	6.06	6.76	6.49	6.92	7.31
B	"Old 2" Retirement Pensions	9.31	9.50	9.30	9.00	8.93
C	"Old 3" Other social transfers	8.63	7.91	7.46	6.82	6.98
D	"New 1" Parental Leave	0.07	0.17	0.16	0.18	0.18
E	"New 2" Elderly care	0.00	0.01	0.07	0.15	0.19
F	"New 3" Child-care	0.12	0.13	0.45	0.91	0.96
G	"New 4" ALMP	1.20	1.09	1.19	1.10	1.16
H	"New 5" Prim. & Sec. Education	3.51	3.35	3.57	4.01	4.08
J	*Total "New 1-5"*	4.90	4.75	5.44	6.35	6.57
K	*Total "Old" & "New"*	28.90	28.92	28.69	29.09	29.79
L	*Employment Rate*	52.86	55.70	57.16	60.02	61.37
M	*Unemployment Rate*	11.21	10.82	11.71	7.56	8.05
N	("Old 2" / 65+)/(GDP/CAP)	0.65	0.62	0.57	0.53	0.52
O	("New 3" / <5)/(GDP/CAP)	0.02	0.02	0.08	0.16	0.17
P	("New 4"/ UN)/(GDP/CAP)	0.26	0.25	0.25	0.35	0.33
Q	("New 5"/ 5-19)/(GDP/CAP)	0.18	0.18	0.20	0.23	0.23
		1985-1989	**1990-1994**	**1995-1999**	**2000-2004**	**2005-2007**
	DENMARK					
A	"Old 1" Healthcare	4.99	4.78	4.78	5.58	6.29
B	"Old 2" Retirement Pensions	4.74	5.45	5.88	5.32	5.52
C	"Old 3" Other social transfers	8.50	9.33	8.45	7.77	6.97
D	"New 1" Parental Leave	0.41	0.55	0.64	0.54	0.55
E	"New 2" Elderly care	2.16	2.17	2.01	1.79	1.79
F	"New 3" Child-care	1.77	1.98	1.95	1.87	1.84
G	"New 4" ALMP (*)	0.66	1.10	1.78	1.82	1.47
H	"New 5" Prim. & Sec. Education	4.36	4.23	4.23	4.24	4.38
J	*Total "New 1-5"*	9.37	10.00	10.62	10.26	10.04
K	*Total "Old" & "New"*	27.59	29.59	29.72	28.93	28.81
L	*Employment Rate*	75.66	73.86	75.02	75.96	76.80
M	*Unemployment Rate*	6.62	9.13	6.28	5.11	4.38
N	("Old 2" / 65+)/(GDP/CAP)	0.31	0.35	0.39	0.36	0.36
O	("New 3" / <5)/(GDP/CAP)	0.34	0.33	0.30	0.30	0.31
P	("New 4"/ UN)/(GDP/CAP)	0.22	0.23	0.54	0.68	0.64
Q	("New 5"/ 5-19)/(GDP/CAP)	0.22	0.24	0.25	0.24	0.24

(*) Estimations.

		1985-1989	1990-1994	1995-1999	2000-2004	2005-2007
	FINLAND					
A	"Old 1" Healthcare	5.70	6.53	5.52	5.61	6.19
B	"Old 2" Retirement Pensions	7.31	8.75	8.43	8.04	8.39
C	"Old 3" Other social transfers	6.65	10.59	9.67	7.12	6.45
D	"New 1" Parental Leave	0.75	1.25	0.81	0.62	0.64
E	"New 2" Elderly care	0.66	0.82	0.84	0.87	0.96
F	"New 3" Child-care	1.17	1.44	1.38	1.29	1.36
G	"New 4" ALMP	0.79	1.34	1.32	0.88	0.89
H	"New 5" Prim. & Sec. Education	4.33	4.54	3.82	3.74	3.77
J	*Total "New 1-5"*	7.70	9.39	8.17	7.40	7.62
K	*Total "Old" & "New"*	27.36	35.26	31.79	28.17	28.65
L	*Employment Rate*	72.44	65.84	63.20	67.40	69.52
M	*Unemployment Rate*	4.65	10.93	12.88	9.20	7.67
N	("Old 2" / 65+)/(GDP/CAP)	0.57	0.64	0.58	0.53	0.52
O	("New 3" / <5)/(GDP/CAP)	0.18	0.23	0.23	0.23	0.25
P	("New 4"/ UN)/(GDP/CAP)	0.35	0.31	0.21	0.19	0.23
Q	("New 5"/ 5-19)/(GDP/CAP)	0.22	0.24	0.20	0.20	0.21
		1985-1989	**1990-1994**	**1995-1999**	**2000-2004**	**2005-2007**
	FRANCE					
A	"Old 1" Healthcare	6.46	6.54	7.29	7.44	7.60
B	"Old 2" Retirement Pensions	10.37	11.29	12.09	11.94	12.38
C	"Old 3" Other social transfers	6.04	4.63	4.44	4.35	4.16
D	"New 1" Parental Leave	0.29	0.30	0.38	0.39	0.32
E	"New 2" Elderly care	0.13	0.19	0.20	0.26	0.32
F	"New 3" Child-care	0.34	1.10	1.41	1.55	1.64
G	"New 4" ALMP	0.67	0.97	1.20	1.09	0.90
H	"New 5" Prim. & Sec. Educ. (*)	4.46	4.46	4.26	4.10	3.92
J	*Total "New 1-5"*	5.88	7.02	7.45	7.39	7.11
K	*Total "Old" & "New"*	28.76	29.48	31.28	31.11	31.25
L	*Employment Rate*	59.48	59.42	59.28	62.04	62.30
M	*Unemployment Rate*	9.36	9.33	10.48	8.29	8.52
N	("Old 2" / 65+)/(GDP/CAP)	0.78	0.78	0.78	0.73	0.75
O	("New 3" / <5)/(GDP/CAP)	0.05	0.17	0.23	0.25	0.27
P	("New 4"/ UN)/(GDP/CAP)	0.17	0.24	0.26	0.29	0.23
Q	("New 5"/ 5-19)/(GDP/CAP)			0.22	0.21	0.21

(*) Estimations.

		1985-1989	1990-1994	1995-1999	2000-2004	2005-2007
	GERMANY					
A	"Old 1" Healthcare	6.71	7.33	8.18	8.17	7.95
B	"Old 2" Retirement Pensions	10.17	9.90	10.98	11.46	11.09
C	"Old 3" Other social transfers	3.78	4.24	4.33	4.25	4.07
D	"New 1" Parental Leave	0.17	0.25	0.24	0.20	0.20
E	"New 2" Elderly care	0.19	0.06	0.01	0.01	0.01
F	"New 3" Child-care	0.24	0.68	0.74	0.73	0.74
G	"New 4" ALMP	0.75	1.21	1.21	1.19	0.83
H	"New 5" Prim. & Sec. Educ. (*)	3.27	3.27	3.41	3.19	2.93
J	*Total "New 1-5"*	4.62	5.47	5.61	5.32	4.71
K	*Total "Old" & "New"*	25.28	26.94	29.1	29.2	27.82
L	*Employment Rate*	62.66	65.40	64.52	65.26	67.24
M	*Unemployment Rate*	6.42	6.72	8.97	8.79	10.09
N	("Old 2" / 65+)/(GDP/CAP)	0.69	0.66	0.70	0.66	0.57
O	("New 3" / <5)/(GDP/CAP)	0.04	0.12	0.15	0.16	0.17
P	("New 4"/ UN)/(GDP/CAP)	0.33	0.40	0.28	0.29	0.16
Q	("New 5"/ 5-19)/(GDP/CAP)			0.21	0.20	0.19
		1985-1989	**1990-1994**	**1995-1999**	**2000-2004**	**2005-2007**
	GREECE					
A	"Old 1" Healthcare	3.94	3.89	4.48	5.17	5.87
B	"Old 2" Retirement Pensions	8.86	9.46	10.27	11.11	11.79
C	"Old 3" Other social transfers	2.32	1.83	1.80	1.71	1.67
D	"New 1" Parental Leave	0.05	0.08	0.08	0.08	0.09
E	"New 2" Elderly care	0.00	0.02	0.06	0.07	0.07
F	"New 3" Child-care	0.01	0.29	0.31	0.39	0.39
G	"New 4" ALMP	0.16	0.21	0.33	0.18	0.14
H	"New 5" Prim. & Sec. Educ. (*)	2.07	2.07	1.99	2.41	2.75
J	*Total "New 1-5"*	2.29	2.67	2.77	3.13	3.44
K	*Total "Old" & "New"*	17.41	17.85	19.32	21.12	22.77
L	*Employment Rate*	55.04	53.82	55.04	57.54	60.82
M	*Unemployment Rate*	7.54	8.52	10.65	10.24	8.82
N	("Old 2" / 65+)/(GDP/CAP)	0.66	0.66	0.65	0.64	0.64
O	("New 3" / <5)/(GDP/CAP)	0.00	0.06	0.06	0.08	0.08
P	("New 4"/ UN)/(GDP/CAP)	0.06	0.06	0.08	0.04	0.04
Q	("New 5"/ 5-19)/(GDP/CAP)				0.15	0.17

(*) Estimations.

		1985-1989	1990-1994	1995-1999	2000-2004	2005-2007
	ITALY					
A	"Old 1" Healthcare	5.50	6.03	5.34	6.20	6.79
B	"Old 2" Retirement Pensions	11.37	10.89	13.18	13.64	13.98
C	"Old 3" Other social transfers	3.66	2.95	2.62	2.43	2.51
D	"New 1" Parental Leave	0.12	0.11	0.11	0.15	0.18
E	"New 2" Elderly care	0.00	0.10	0.08	0.09	0.09
F	"New 3" Child-care	0.10	0.14	0.32	0.67	0.75
G	"New 4" ALMP (*)	0.41	0.27	0.41	0.67	0.51
H	"New 5" Prim. & Sec. Education	3.23	3.20	3.21	3.38	3.22
J	*Total "New 1-5"*	3.86	3.82	4.13	4.96	4.75
K	*Total "Old" & "New"*	24.39	23.69	25.27	27.23	28.03
L	*Employment Rate*	51.94	52.30	51.86	55.60	58.18
M	*Unemployment Rate*	11.59	10.90	11.75	9.26	6.94
N	("Old 2" / 65+)/(GDP/CAP)	0.83	0.70	0.76	0.72	0.71
O	("New 3" / <5)/(GDP/CAP)	0.09	0.06	0.09	0.18	0.18
P	("New 4"/ UN)/(GDP/CAP)	0.02	0.03	0.07	0.14	0.16
Q	("New 5"/ 5-19)/(GDP/CAP)	0.17	0.17	0.21	0.23	0.22
		1985-1989	**1990-1994**	**1995-1999**	**2000-2004**	**2005-2007**
	LUXEMBOURG					
A	"Old 1" Healthcare	4.80	4.94	5.21	6.21	6.63
B	"Old 2" Retirement Pensions	8.24	8.51	8.59	7.26	6.84
C	"Old 3" Other social transfers	5.63	4.82	5.32	5.70	5.20
D	"New 1" Parental Leave	0.19	0.45	0.56	0.50	0.42
E	"New 2" Elderly care	0.13	0.20	0.14	0.00	0.00
F	"New 3" Child-care	0.22	0.34	0.47	0.51	0.50
G	"New 4" ALMP	0.33	0.15	0.14	0.31	0.48
H	"New 5" Prim. & Sec. Educ. (*)	3.29	2.61	2.67	3.52	3.37
J	*Total "New 1-5"*	4.16	3.75	3.98	4.84	4.77
K	*Total "Old" & "New"*	22.83	22.02	23.10	24.01	23.44
L	*Employment Rate*	59.24	60.52	59.86	62.92	63.78
M	*Unemployment Rate*	1.45	1.49	2.38	2.19	3.07
N	("Old 2" / 65+)/(GDP/CAP)	0.62	0.63	0.61	0.52	0.49
O	("New 3" / <5)/(GDP/CAP)	0.04	0.05	0.07	0.08	0.08
P	("New 4"/ UN)/(GDP/CAP)	0.49	0.21	0.11	0.21	0.23
Q	("New 5"/ 5-19)/(GDP/CAP)	0.18			0.19	0.18

(*) Estimations.

		1985-1989	1990-1994	1995-1999	2000-2004	2005-2007
	NETHERLANDS					
A	"Old 1" Healthcare	5.16	5.88	5.40	5.49	5.94
B	"Old 2" Retirement Pensions	6.12	6.45	5.53	5.01	4.83
C	"Old 3" Other social transfers	10.71	10.48	7.83	6.22	5.67
D	"New 1" Parental Leave	0.05	0.00	0.00	0.00	0.00
E	"New 2" Elderly care	0.53	0.53	0.58	0.69	0.83
F	"New 3" Child-care	0.42	0.4	0.51	0.86	1.23
G	"New 4" ALMP	1.31	1.39	1.45	1.49	1.19
H	"New 5" Prim. & Sec. Education	3.96	3.30	3.32	3.69	3.60
J	*Total "New 1-5"*	6,27	5,62	5,86	6,73	6,85
K	*Total "Old" & "New"*	28,26	28,43	24,62	23,45	23,29
L	*Employment Rate*	55.88	63.24	68.10	72.04	73.31
M	*Unemployment Rate*	9.8	6.9	5.4	3.1	3.9
N	("Old 2" / 65+)/(GDP/CAP)	0.49	0.50	0.41	0.36	0.34
O	("New 3" / <5)/(GDP/CAP)	0.07	0.06	0.08	0.14	0.21
P	("New 4"/ UN)/(GDP/CAP)	0.32	0.44	0.60	1.00	0.58
Q	("New 5"/ 5-19)/(GDP/CAP)	0.19	0.18	0.18	0.20	0.20
		1985-1989	**1990-1994**	**1995-1999**	**2000-2004**	**2005-2007**
	PORTUGAL					
A	"Old 1" Healthcare	3.14	4.00	5.10	6.48	6.87
B	"Old 2" Retirement Pensions	4.34	5.77	7.40	8.84	10.58
C	"Old 3" Other social transfers	2.91	3.52	3.56	3.66	3.87
D	"New 1" Parental Leave	0.07	0.08	0.09	0.14	0.21
E	"New 2" Elderly care	0.00	0.03	0.04	0.13	0.08
F	"New 3" Child-care	0.01	0.09	0.19	0.55	0.45
G	"New 4" ALMP (*)	0.23	0.52	0.52	0.62	0.59
H	"New 5" Prim. & Sec. Education	2.66	3.22	3.68	3.80	3.54
J	*Total "New 1-5"*	2.97	3.94	4.52	5.24	4.87
K	*Total "Old" & "New"*	13.36	17.23	20.58	24.22	26.19
L	*Employment Rate*	64.72	66.28	65.14	67.98	67.71
M	*Unemployment Rate*	7.04	5.06	6.10	5.21	7.80
N	("Old 2" / 65+)/(GDP/CAP)	0.35	0.41	0.48	0.53	0.62
O	("New 3" / <5)/(GDP/CAP)	0.00	0.02	0.04	0.10	0.09
P	("New 4"/ UN)/(GDP/CAP)	0.08	0.23	0.18	0.24	0.15
Q	("New 5"/ 5-19)/(GDP/CAP)	0.11	0.15	0.19	0.23	0.22

(*) Estimations.

		1985-1989	1990-1994	1995-1999	2000-2004	2005-2007
	SPAIN					
A	"Old 1" Healthcare	4.49	5.40	5.33	5.40	5.96
B	"Old 2" Retirement Pensions	7.41	8.44	8.92	8.32	8.06
C	"Old 3" Other social transfers	4.93	6.46	5.05	4.63	4.82
D	"New 1" Parental Leave	0.05	0.07	0.11	0.14	0.18
E	"New 2" Elderly care	0.05	0.18	0.17	0.29	0.40
F	"New 3" Child-care	0.03	0.11	0.32	0.65	0.73
G	"New 4" ALMP	0.62	0.60	0.52	0.74	0.73
H	"New 5" Prim. & Sec. Education	3.39	3.65	3.50	3.03	2.94
J	*Total "New 1-5"*	4.14	4.61	4.62	4.85	4.98
K	*Total "Old" & "New"*	20.97	24.91	23.92	23.20	23.82
L	*Employment Rate*	48.28	49.90	51.14	59.68	65.53
M	*Unemployment Rate*	19.95	19.63	20.03	11.71	10.76
N	("Old 2" / 65+)/(GDP/CAP)	0.59	0.59	0.56	0.49	0.48
O	("New 3" / <5)/(GDP/CAP)	0.00	0.02	0.07	0.14	0.14
P	("New 4"/ UN)/(GDP/CAP)	0.08	0.08	0.07	0.14	0.17
Q	("New 5"/ 5-19)/(GDP/CAP)	0.14	0.17	0.19	0.19	0.20
		1985-1989	**1990-1994**	**1995-1999**	**2000-2004**	**2005-2007**
	SWEDEN					
A	"Old 1" Healthcare	7.45	6.94	6.30	6.64	6.60
B	"Old 2" Retirement Pensions	7.67	8.31	7.89	7.42	7.36
C	"Old 3" Other social transfers	6.79	8.00	6.82	6.29	5.44
D	"New 1" Parental Leave	0.79	1.10	0.62	0.60	0.66
E	"New 2" Elderly care	1.31	2.17	2.47	2.57	2.42
F	"New 3" Child-care	2.29	2.25	1.80	1.60	1.83
G	"New 4" ALMP	1.82	2.46	2.22	1.48	1.24
H	"New 5" Prim. & Sec. Educ. (*)	4.32	4.23	4.15	4.27	4.06
J	*Total "New 1-5"*	10.53	12.21	11.26	10.52	10.21
K	*Total "Old" & "New"*	32.44	35.46	32.27	30.87	29.61
L	*Employment Rate*	81.50	77.08	71.78	74.42	74.68
M	*Unemployment Rate*	2.36	6.03	9.01	5.72	7.00
N	("Old 2" / 65+)/(GDP/CAP)	0.44	0.47	0.45	0.43	0.42
O	("New 3" / <5)/(GDP/CAP)	0.39	0.33	0.30	0.31	0.33
P	("New 4"/ UN)/(GDP/CAP)	1.51	1.02	0.51	0.52	0.34
Q	("New 5"/ 5-19)/(GDP/CAP)	0.23	0.24	0.23	0.23	0.22

(*) Estimations.

		1985-1989	1990-1994	1995-1999	2000-2004	2005-2007
	UK					
A	"Old 1" Healthcare	4.79	5.43	5.46	5.97	6.77
B	"Old 2" Retirement Pensions	5.18	5.33	5.30	5.43	5.40
C	"Old 3" Other social transfers	5.07	4.25	3.87	3.37	3.15
D	"New 1" Parental Leave	0.07	0.09	0.07	0.09	0.28
E	"New 2" Elderly care	0.36	0.38	0.47	0.50	0.55
F	"New 3" Child-care	0.41	0.43	0.67	0.94	1.05
G	"New 4" ALMP	0.72	0.51	0.31	0.34	0.36
H	"New 5" Prim. & Sec. Education	3.09	3.37	3.34	3.89	3.98
J	*Total "New 1-5"*	4.65	4.78	4.86	5.76	6.22
K	*Total "Old" & "New"*	19.69	19.79	19.49	20.53	21.54
L	*Employment Rate*	68.70	69.84	70.40	72.46	72.48
M	*Unemployment Rate*	9.80	8.98	7.19	4.97	5.13
N	("Old 2" / 65+)/(GDP/CAP)	0.33	0.34	0.33	0.34	0.35
O	("New 3" / <5)/(GDP/CAP)	0.06	0.06	0.11	0.16	0.18
P	("New 4"/ UN)/(GDP/CAP)	0.15	0.12	0.09	0.14	0.14
Q	("New 5"/ 5-19)/(GDP/CAP)	0.15	0.18	0.17	0.20	0.21
		1985-1989	**1990-1994**	**1995-1999**	**2000-2004**	**2005-2007**
	US					
A	"Old 1" Healthcare	4.36	5.55	6.02	6.49	7.11
B	"Old 2" Retirement Pensions	6.16	6.26	6.10	5.98	5.95
C	"Old 3" Other social transfers	1.73	2.05	1.86	2.00	1.97
D	"New 1" Parental Leave	0.00	0.00	0.00	0.00	0.00
E	"New 2" Elderly care	0.05	0.05	0.04	0.05	0.04
F	"New 3" Child-care	0.25	0.28	0.43	0.60	0.55
G	"New 4" ALMP	0.25	0.20	0.17	0.14	0.12
H	"New 5" Prim. & Sec. Education	3.28	3.64	3.70	3.88	3.83
J	*Total "New 1-5"*	3.83	4.17	4.34	4.67	4.54
K	*Total "Old" & "New"*	16.08	18.03	18.32	19.14	19.57
L	*Employment Rate*	70.70	71.44	73.32	72.30	71.77
M	*Unemployment Rate*	6.23	6.59	4.93	5.20	4.78
N	("Old 2" / 65+)/(GDP/CAP)	0.51	0.50	0.48	0.48	0.48
O	("New 3" / <5)/(GDP/CAP)	0.03	0.04	0.06	0.09	0.08
P	("New 4"/ UN)/(GDP/CAP)	0.08	0.06	0.07	0.06	0.05
Q	("New 5"/ 5-19)/(GDP/CAP)	0.15	0.17	0.17	0.18	0.19

(*) Estimations.

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