Assessing Social Investment Returns – The Case for Methodological Pluralism

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OUTLINE

1. Conceptualizing social investment
2. Social investment ***stocks, flows and buffers*** in **institutional complementary** (literature review)
3. Towards measurement: five methodological caveats
4. Social investment return assessment – the example of ALMP:
   - Growth
   - Productivity
   - Poverty-reduction
5. Towards a layered 'practical-pluralist' methodology
6. For discussion – **proof** or **plausibility**?

SOCIAL INVESTMENT: A DEFINITION

Social investment policy aims at *'preparing'* individuals, families and societies to respond to novel risks, rather than simply *'repair'* damages after moments of economic or personal crisis. Welfare states in advanced economies are pressured to raise the *quantity* and *quality* of enabling or '*capacitating'* social services (family services, care provision and rehabilitation) **alongside** social security, not easily provided for by markets, to equip and assist people to surmount the increasingly uncertain hazards of the labour market and the life course.

WHY WE NEED A NEW WELFARE STATE (2002)

$$\frac{\textit{Number supported by provision welfare}}{\textit{Number of workers (hours worked)}} \times \frac{\textit{Average consumption per welfare client}}{\textit{Average production per worker}}$$

Dominant focus on **'numerator'** *distributive* side of equation in aging societies (**them** and **us, here** and **now**).

Long-term strength economy and welfare provision depend on potential social policy contribution to the (dynamic) *productive* human capital **'denominator'** side of the welfare equation.

2. 'CARRYING CAPACITY' THROUGH RAISING "STOCKS", EASING "FLOWS" AND UNIVERSALIZING "BUFFERS"

Social risks of the life course and the labor market have become less predictable – and therefore less insurable by employment based social insurance alone.

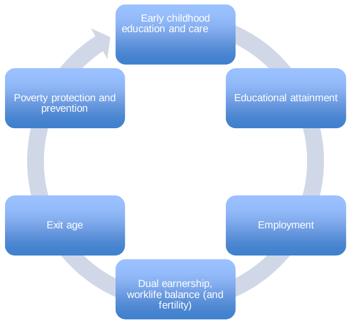
1. Raising the quality of human capital ***'stock'*** over the life course from the young to the old (cumulative returns)
2. Easing the ***'flow'*** of contemporary labour market transitions in line with (gendered) life course dynamics
3. Upkeeping/upgrading strong minimum-income universal safety nets as social (income) protection and macro-economic stabilization ***'buffers'*** over risky transitions

From (un-)employment insurance to ***life course insurance***

INSTITUTIONAL COMPLEMENTARITIES *WITHIN* AND *BETWEEN* PRIMARY AND SUBSIDIARY FUNCTIONS

	Stock	Flow	Buffer
Stock	***Skills to complement existing human capital stock and further learning***	Skills to enter and change jobs in competitive labour markets	Skills to live healthy and safe during risky transitions of inactivity
Flow	Facilitates transitions from training to work and vice versa	***Facilitates labour market transitions in sync with worklife balance***	Facilitates transitions to secure market income (including social insurance requalification)
Buffer	Provides income security to uphold skills and health. Provides income security necessary for "innovative risk taking" in training	Provides income security to enable successful job search and risk-taking	***Provides income security after social risk contingencies and during rehabilitation and/or care obligations and job search***

21ST CENTURY KNOWLEDGE ECONOMY SOCIAL INVESTMENT LIFE COURSE MULTIPLIER



3. METHODOLOGICAL CAVEATS

1. *Multi-dimensionality* (*stocks*, *flows*, and *buffers* in *institutional complementarity*): operationalization inputs, outputs and outcomes
2. Interaction effects and multiplicity of returns making (dynamic) *causal attribution* difficult
3. *Temporal uncertainty* about future payoff in growth, employment and poverty mitigation: how to value and assess an appropriate 'discount rate' for modeling (very) long-term 'returns' (cf. climate)
4. Time-series cross-section aggregates, micro-*data lags* and *insufficiencies* (social investment is 'new kid on the block').
5. Inherent difficulties of *ex ante* policy analysis (compared to *ex post*)

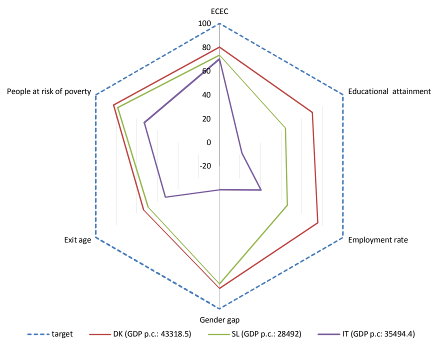
NEED FOR METHODOLOGICAL COMPROMISES

1. Linking social investment effort to social policy spending by function ('compensating' versus 'capacitating' social spending (Vandenbroucke and Vleminx, 2011; Nicolai, 2010; Hemerijck, 2013; De Deken, 2014).
2. Correlate output variables: labour force participation and poverty and inequality mitigation to social investment policy effort (Huber and Stephens, 2009; Cantillon, 2013; Van Vliet, 2015).
3. Assess services (in-kind benefits) by imputing income (production cost) as a way to gauge their distributive impact (Vaalavuo, 2011; Verbist et al., 2012; Verbist, 2016).
4. Single policy-specific interventions as proxy for social investment (Heckman) without taking into account network externalities

IMPERFECT ***LAYERED PRACTICAL PLURALISM*** (RECOGNITION CAVEATS) *WORK IN PROGRESS*

1. Mapping social investment effort over life course and aggregate socioeconomic performance
   - Bar and line graphs of policy change
   - Comparative radar chart analysis inputs and outputs
   - Social investment contribution to employment growth and productivity
2. Mapping aggregate socioeconomic performance
   - Time-series analysis of selective policy interventions (ALMP, ECEC)
   - Long-term effects on redistribution and relative poverty
   - Worklife balance wellbeing and GDP?
3. Triangulation macro- and micro-level analysis for job-intensive growth in ageing societies. Urge in-depth institutional analysis beyond first layers of quantitative inference (giving up on singular elasticity/discount rate?)

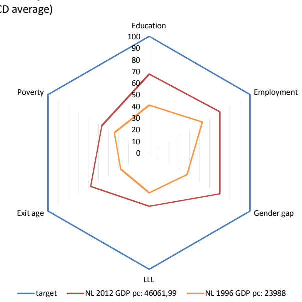
4. LOOKING AT OUTCOMES (2011)



OUTCOMES OVER TIME - *NETHERLANDS*

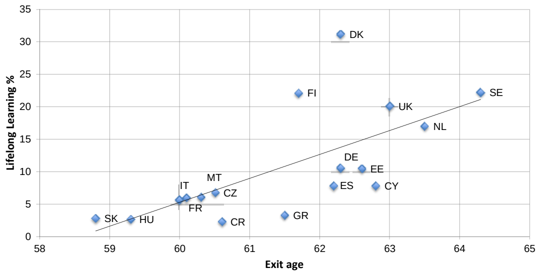
Some figures:

- PISA score **519** - higher than the OECD average of 497
- Higher life expectancy 81 yrs (80 OECD average)

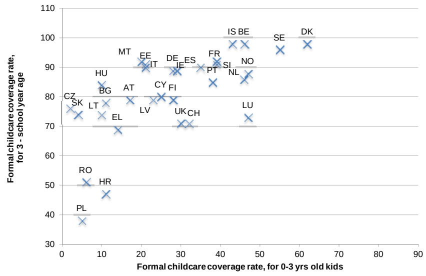


Source: Eurostat

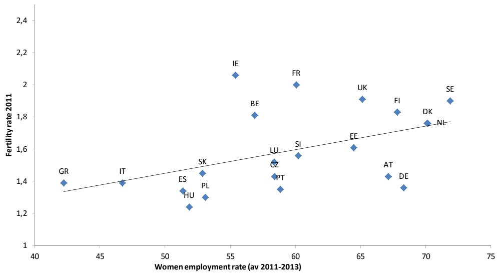
SHARE OF LIFELONG LEARNING PARTICIPATION AND EXIT AGE FROM WORK - 2009



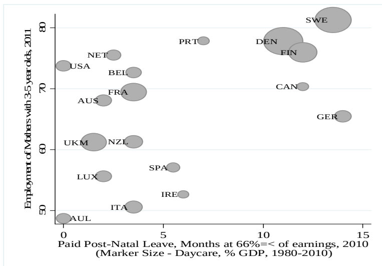
CHILDCARE EFFORT

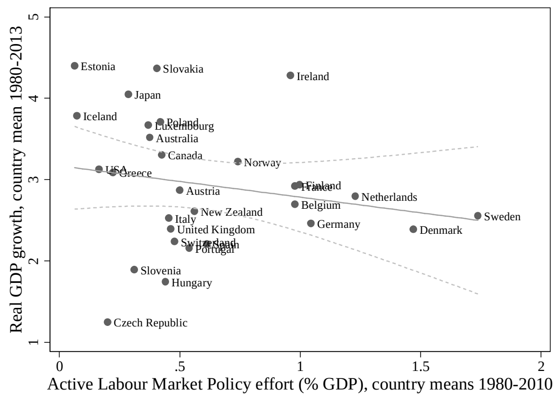


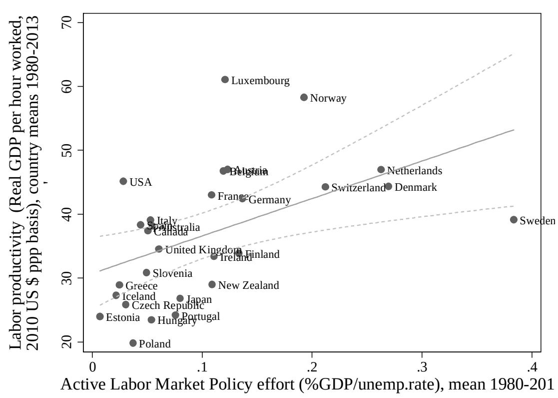
FEMALE EMPLOYMENT RATE AND FERTILITY RATE

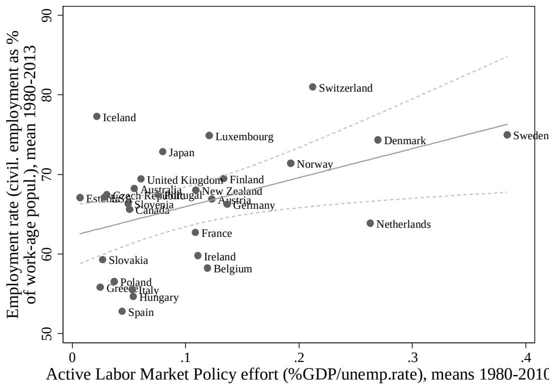


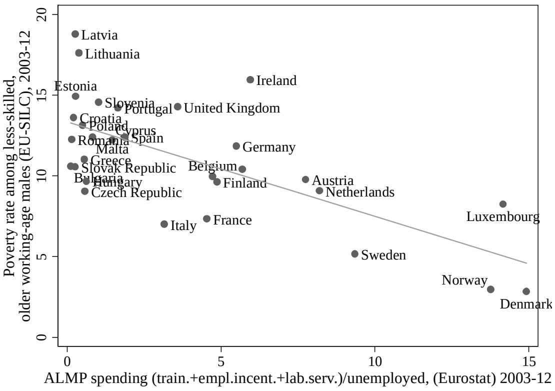
BOOSTING MATERNAL EMPLOYMENT



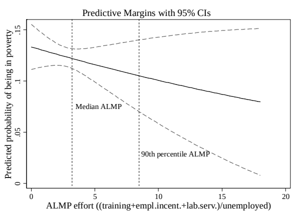




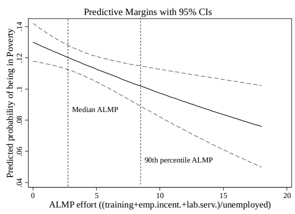


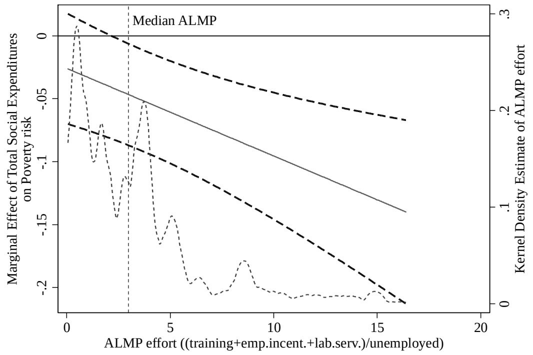


Not controlling for previous year's poverty



Controlling for previous year's poverty





Thick dashed lines give 95% confidence interval.
Thin dashed line is a kernel density estimate of ALMP effort.

GOOD NEWS AND A CONCERN

- Increasing empirical support (OECD), including the argument (also IMF) that ***inequality is bad for the economy*** through pre-emptive human capital and social mobility destruction in ageing societies.
- Adverse Matthew Effects and Dualization Drifts not 'givens' but institutional-political 'variables' open to social investment package mitigation
- Predicament of ***intellectual inertia/cognitive capture***: Social investment not (yet) positively embedded in E(M)U governance regime!

Proof or plausibility	**Social austerity *drift*** (axiomatic default theory)	**Social Investment *consolidation*** (empirically validated theory)
Policy problem	**Cost containment (cuts)**	**Revenue raising (returns)**
Policy imperative	Engineer **"risk shift" to private** sphere (Baumol cost disease)	**Maximize employment** in open economy (service productivity bonus)
Policy theory	Trade-off 'equity and efficiency' **"crowding out"** private economic initiative (efficient market hypotehis/**welfare moral hazard**	Social investments **"crowd in"** private initiative and competitiveness through higher employment and upskilling across life course (**devil in detail**)
Policy instruments	Labour market **deregulation**, **privatization** social services, and targeted minimum poverty protection *ex post* (inequality inevitable/fair in new economy)	Mitigate life (gender sensitive) cycle contingencies *ex ante* through human capital **'stock'** upgrading, labour market **'flow'** desegmentation, with strong universal safety net **'buffers'**
Macro policy	**Pro-cyclical balanced budgets**: Fiscal Compact, Troika, MoU, with sanctons (hysteresis best tackled through institutional liberalization)	**Economic stabilization is more** than fighting inflation and balanced budgets: Sailing - counter-cyclically - against wind) focus on inclusive growth
Theory state	**Negative:** *One-size-fits-all* **take out market barriers** through contracting out, while disciplining low-trust, rent-seeking 'distributive coalitions' (unions)	**Positive:** Diverse institutions both ***constraints*** and ***resources*** (public regarding social partners), 'productive coalitions' and quality public services help mitigate Baumol disease
Political discourse	TINA (**"European social model is dead"** – Mario Draghi 2012)	**Towards a capacitating, caring and dynamic Social Market Economy**

NEXT STEPS

- Similar macro-micro analysis for ECEC, with focus on gender specific employment patterns
- Same for PISA
- Control for relevant institutional complementarities
  - ECEC and parental leave
  - ALMP and labour market regulation
  - Vocational education and training links to labour market
  - Lifelong learning and retirement policy

CONCLUSION

Based on the ‘state of the art’ conceptualization, literature review, and available methodologies: there is no compelling reason to cast doubt over the **plausibility** of the social investment argument.

- Employment effects social investment self-evident
- Distributive effects social investment seemingly mitigate Matthew Effects
- Growth not hindered by social investment. If anything, social investment (well-calibrated institutional complementarities) supports employment-oriented economic growth more than any competing policy theory (neoclassical trade-off welfare economics and structural reform or traditional end-of-pipe social policy)
- Increasingly consistent with ***Inclusive Growth*** conjecture and evidence (Lisbon Treaty/Europe 2020/OECD/World Bank)