An EU 'golden rule' for childhood social investment [1]

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Excerpts

Looking back on the long decade since the Great Recession, it is undeniable that, far from 'crowding out' scarce resources, well-funded and active welfare states have proved a sine qua non of the resilience of liberal democracies, knowledge economies and ageing societies.

In the aftermath of the global financial crisis, social-security support mechanisms designed for demand-deficient recessions with high unemployment really did kick in: as earnings fell, welfare benefits were there to mitigate poverty and cushion the economy, precisely as John Maynard Keynes and William Beveridge had anticipated in the 1930s and 40s.

The pandemic then ushered in the unthinkable—a truly assertive reappraisal of the European welfare state. Inclusive welfare states providing broad and well-organised access to sickness and unemployment benefits and to short-time working for all citizens—regardless of their employment status, the type of job they do or the sector in which they work—swiftly bounced back into good health.

For Beveridge and Keynes, the postwar welfare state held out a promise of full employment (admittedly only for men), comprehensive social insurance and universal access to good-quality healthcare and education. Over the past decade, this latter function, of skills and health 'capacitation', has become more prominent.

'Life-course multiplier'

In recent years, the notion of 'social investment' has gained purchase as a policy compass for recalibrating the welfare state. Today, international organisations, from the European Union to the Organisation for Economic Co-operation and Development and the World Bank, associate social investment with strategies of 'inclusive and sustainable growth'.

The objective is to enhance individuals' opportunities and capabilities to address ex ante social risks typical of post-industrial economies, while ensuring the high (quality) employment needed to sustain the fiscal 'carrying capacity' of the welfare state, which relies on the number in employment and their productivity. Early-childhood education and care, training and learning over the life-course, active-labour-market policies, (paid) parental leave and long-term care all transcend (though do not replace) the compensatory logic of postwar social security.

Based on the available evidence from my European Research Council research project WellSIre ('wellbeing returns on social investment recalibration'), one can postulate a 'life-course multiplier'. Social investment reaps over the life-course wellbeing returns in a virtuous circle, in terms of employment opportunities and gender equity and the mitigation of intra- and intergenerational poverty.

The life-course multiplier features prominently in the recent report by the High-level Group on the future of social protection and the welfare state in the EU (of which I was a member). At the micro-level of individuals and households, it suggests how social investments, from early childhood, improve material wellbeing (employment and income) and help mitigate social risks later in life, through opportunities for skills acquisition and the easing of (gendered) labour-market transitions. At the macro-level, the multiplier entails a 'double dividend', of greater and more gender-balanced employment and productivity gains supporting fair, adequate and sustainable social protection.

Fresh impetus

Despite the growing evidence for the efficacy of social investment, up to the mid-2010s fiscal austerity carried the day within the EU. As social-affairs commissioner, László Andor challenged the oxymoron (to a Keynesian) of 'expansionary austerity', giving fresh impetus to 'social Europe'. And in 2017 the European Pillar of Social Rights set out 20 key principles for a fine balance of protective and social-investment policies for well-functioning labour markets and welfare systems.

The early days of the pandemic brought back haunting memories of the eurozone crisis and the subsequent 'refugee crisis', when solidarity among member states was in high demand but short supply. Yet at the EU level, the Covid-19 policy response was remarkably assertive and surprisingly well co-ordinated.

In March 2020, the European Commission activated the 'general escape clause' of the Stability and Growth Pact, allowing member states to depart from the fiscal constraints of its medium-term budgetary objectives. The next month, a new quasi-automatic fiscal stabiliser called SURE was created to support member states with short-term work schemes related to the pandemic. Finally, in July 2020 the European Council reached agreement on NextGenerationEU, to mitigate the socio-economic consequences of the Covid-19 health shock. The €800 billion Recovery and Resilience Facility marked an unprecedented leap in EU fiscal solidarity, paving the way for a more inclusive, investment-led recovery from the pandemic.

This paid off. Employment rose and unemployment quickly fell below pre-pandemic levels. In particular, Mediterranean eurozone economies grew admirably, with debt coming down much faster than after the Great Recession, precisely because of favourable growth dynamics.

The existential Covid-19 challenge ensured an important political distinction with the sovereign-debt crisis: it could not be framed in terms of 'sinful debtors' versus 'virtuous creditors'. But the more effective policy response was not just down to a symmetricrather than asymmetric shock. The hard lessons learned in the wake of the Great Recession critically informed the rapid, assertive and socially progressive reaction. If the pandemic was the 'tipping point', the economic, social and political aftershocks unleashed by the Great Recession provided the experiential 'game-changer'.

Besieged by two major shocks, adversity strengthened the policy salience of macroeconomic buffers, public health, poverty relief, social security, work-life balance, childhood development and lifelong learning. Ultimately, EU fiscal solidarity, leveraged by SURE and NextGenerationEU and underpinned by the principles of the European Pillar of Social Rights, created a supportive 'holding evironment' for European welfare states to prosper.

Shared understanding

Of course, many issues are unresolved. Faced with high deficits and debts, governments will have to increase taxes to foot the bill for healthcare and social-security expansion. This against the background of Russia's invasion of Ukraine and related inflationary pressures. Yet there is room for optimism. There now is a shared understanding that welfare systems should be improved, not retrenched. This positive re-appreciation of social policy as a formidable 'productive factor'—a term from the 1990s—should take pride of place in the debate on the future of EU fiscal and monetary governance. In essence, a stable and equitable inter-generational welfare contract is needed, assuring the wellbeing of the elderly in ageing societies withoutcrowding out productive resources for the young to prosper in a dynamic knowledge economy.

If the principal success of mid-20th-century welfare was to guarantee economic security in old age, the overriding objective in this century is to foster strong life-chances for the young. In 2021, 19.5 per cent of children in the EU were at risk of poverty, compared with 9 per cent of the working-age population. The former European commissioner and Italian prime minister Mario Monti, although never a great fan of trade unions, once called the EU the trade union of the next generation. If so, it is not doing a good job.

The political conundrum is that discretionary spending on social investments is often sacrificed on the altar of popular welfare transfers for adults and pensioners. Political cynics even maintain that as the returns on social investment only materialise in the long run, they inevitably clash with short-sighted electoral competition. Nonetheless, unless we invest now in high quality and affordable childhood education and care, governments will soon need to tax shrinking labour forces to fund ailing pensions and healthcare systems. At some point, young dual-earner couples will, against their wishes, effectively give up starting a family—indeed, this is already happening.

Special vehicle

There is a need for a special EU financing vehicle for public investments, with a triple-A rating and strong knock-on effects on long-term growth and debt sustainability. If there ever were merit in having a 'golden rule' in EU fiscal governance to safeguard public investment, early-childhood investment is a no-brainer. It is cheap, it immediately creates jobs, it directly reaches out to young families, it puts EU citizens in the spotlight and it is where social investment provides the biggest multiplier.

A financing instrument for early-childhood social-investment should not be seen as a pro-natalist proposition to counter demographic ageing. Rather its objective would be to help EU citizens pursue fuller and more satisfying lives, which includes supporting genuine fertility aspirations. Eurofound reveals higher subjective wellbeing in countries with good-quality and affordable early-childhood education and care.

The notion that the EU can advance as a mere project of market integration and fiscal austerity has been abandoned. In his 1599 play As You Like It, William Shakespeare came up with the marvellous line 'Sweet are the uses of adversity'. Over the last 15 years, European welfare states and the EU have had more than their fair share of adversity. As a result, we are wiser though not sadder.

Hopefully, we will no longer hear the false claim that the welfare state is a luxury we cannot afford in hard times. Inclusive and active welfare states make European societies less unequal, their economies more dynamic and their democracies stronger. But we have no time for complacency: on childhood social investment, EU policy-makers must act now.

Region: Europe [3]

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