EUI DEPARTMENT OF POLITICAL AND SOCIAL SCIENCES

The Welfare Economics and Politics of Childhood Social Investment

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Brussels, European Commission, 20 June 2023

erc European Research Council

WellSIre Wellbeing Returns on Social Investment Recalibration

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Outline

1. Seeing 21st century welfare provision in a different light – ***from default trade-offs***
2. Social investment and twenty-first-century welfare provision – ***to positive synergies***
3. Lessons from the ***Great Recession*** and the ***COVID-19*** pandemic
4. The Youth Guarantee *revisited* – ***two studies***
5. Early childhood ***social investment now*** and E(M)U fiscal governance

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1. Can we afford a welfare state in the twenty-first century? - *default policy theory* (1982 - 2013)

Angela Merkel's speech at the World Economic Forum:

- *Europe accounts for:*
  - *7% of world population*
  - *25% of global GDP*
  - *50% of the world's social spending*
- The (unspoken) implication: Europe is not competitive because social overspending!

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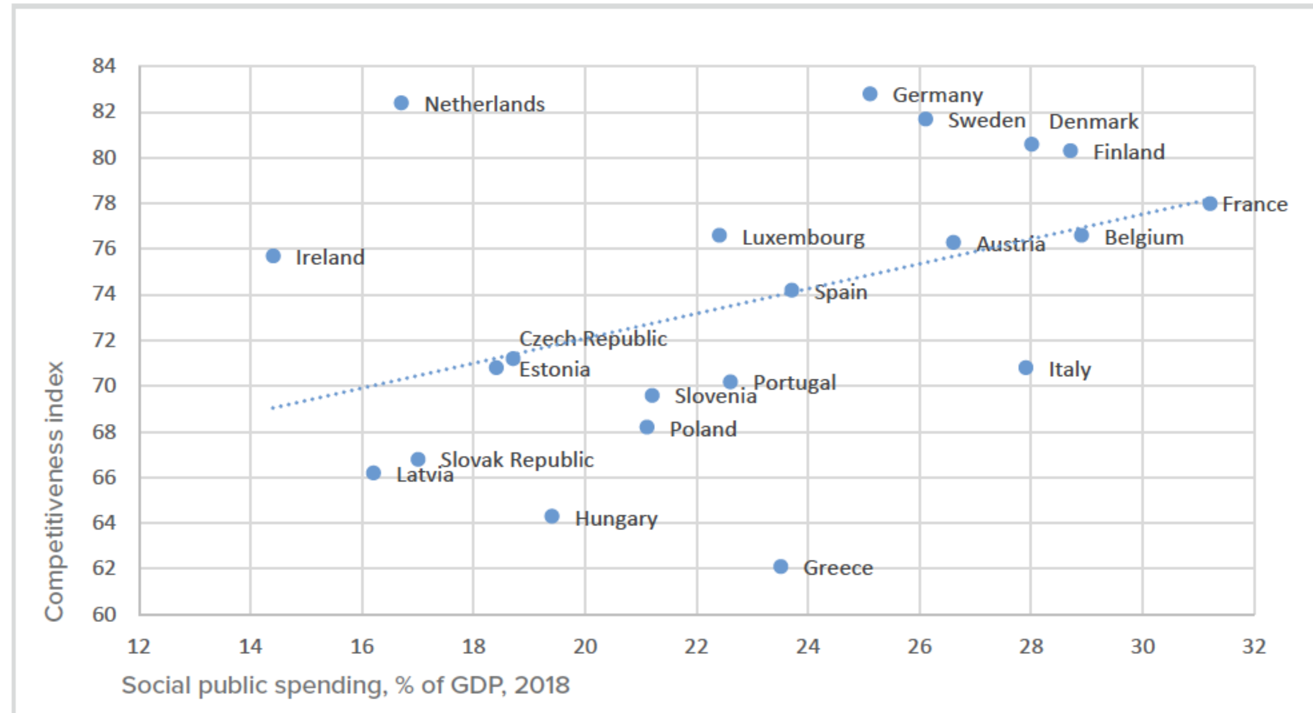
Do high levels of social protection undermine economic competitiveness?



Source: http://reports.weforum.org/global-competitiveness-report-2015-2016/competitiveness-rankings/

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Poverty rates and competitiveness

Poverty rates

At-risk-of-poverty-rates after social transfers

50% of equivalized median disposable income, 2013

20
15
10
5
0

RO EL BG ES HR LT PT IT PL EE HU SE DE SI AT IE BE SK FR NL FI CZ

0 2000 4000 6000

Competitiveness

Global Competitiveness Index

final index, 2013

6
5.5
5
4.5
4

SE DE FI NL AT DK BE FR IE EE ES PL LT CZ PT IT BG SI RO SK EL

0 2000 4000 6000

Unemployment transfers and social assistance spending

per capita PPS, cumulative figures between 2007 and 2012

Do robust and inclusive welfare states make job creation costly?

Employment rate (%)

85
80
75
70
65
60
55
50

1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021

Netherlands
Germany
Denmark
Sweden
UK
Poland
Latvia
US
France
Spain
Italy

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Redifining the welfare state *beyond redistribution*

A welfare “state” employs politics, public policy and administration to ***modify the play of market forces in at least five directions***:

1. By ***guaranteeing*** individuals and families a ***minimum income*** irrespective of the market value of their work or property – *Robin Hood solidarity*
2. By ***narrowing the extent of insecurity*** by enabling individuals and families to meet (…) "social contingencies" (sickness, old age and unemployment)– *Piggy Bank solidarity*
3. By ***ensuring*** that all citizens without distinction of status or class are offered the ***best standards available in relation to a certain agreed range of social services*** (health and education) – *Stepping-Stone solidarity*
4. By ***structuring life course transitions*** through ***regulation*** (compulsory education, legal retirement age, leaves, etc.)
5. By ***stabilizing the macro-economy*** during recessions in advanced economies

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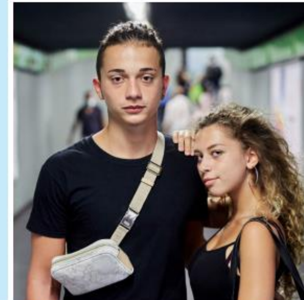
2. HLG Future of Social Protection Megatrends

- *Demographic ageing*
- *Digitalization*
- *Changing world of work*
- *Climate change*

THE FUTURE OF SOCIAL PROTECTION



AND OF THE WELFARE STATE IN THE EU

The social investment paradigm

- The aim is to rebalance inclusive welfare provisions along three complementary policy functions:

1. *raising and maintaining the ‘**stock**’ of human capital and capabilities throughout the life course (skills and health)*
2. *easing the ‘**flow**’ of gendered labour market and family life-course transitions (maximise female employment)*
3. *providing access to inclusive income safety-net ‘**buffers**’ (income support against poverty and unemployment)*

- Social investment as a contribution to prosperity in a competitive global knowledge economy for ageing societies

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The social investment multiplier

Source: Hemerijck (2017)

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The Heckman Equation

Invest in early childhood development: Reduce deficits, strengthen the economy.

James J. Heckman is the Henry Schultz Distinguished Service Professor of Economics at The University of Chicago, a Nobel Laureate in Economics and an expert in the economics of human development.

"The highest rate of return in early childhood development comes from investing as early as possible, from birth through age five, in disadvantaged families. Starting at age three or four is too little too late, as it fails to recognize that skills beget skills in a complementary and dynamic way. Efforts should focus on the first years for the greatest efficiency and effectiveness. The best investment is in quality early childhood development from birth to five for disadvantaged children and their families."

James J. Heckman
December 7, 2012

Those seeking to reduce deficits and strengthen the economy should make significant investments in early childhood education.

Professor Heckman's ground-breaking work with a consortium of economists, psychologists, statisticians and neuroscientists shows that early childhood development directly influences economic, health and social outcomes for individuals and society. Adverse early environments create deficits in skills and abilities that drive down productivity and increase social costs—thereby adding to financial deficits borne by the public.

Early childhood development drives success in school and life.

A critical time to shape productivity is from birth to age five, when the brain develops rapidly to build the foundation of cognitive and character skills necessary for success in school, health, career and life. Early childhood education fosters cognitive skills along with attentiveness, motivation, self-control and sociability—the character skills that turn knowledge into know-how and people into productive citizens.

Investing in early childhood education for at-risk children is an effective strategy for reducing social costs.

Every child needs effective early childhood supports—and at-risk children from disadvantaged environments are least likely to get them. They come from families who lack the education, social and economic resources to provide the early developmental stimulation that is so helpful for success in school, college, career and life. Poor health, dropout rates, poverty and crime—we can address these problems and substantially reduce their costs to taxpayers by investing in developmental opportunities for at-risk children.

Investing in early childhood education is a cost-effective strategy for promoting economic growth.

Our economic future depends on providing the tools for upward mobility and building a highly educated, skilled workforce. Early childhood education is the most efficient way to accomplish these goals:

- Professor Heckman's analysis of the Perry Preschool program shows a 7% to 10% per year return on investment based on increased school and career achievement as well as reduced costs in remedial education, health and criminal justice system expenditures.
- Professor Heckman's most recent research analyzed Abecedarian/CARE's comprehensive, high-quality, birth-to-five early childhood programs for disadvantaged children, which yielded a 13% return on investment per child, per annum through better education, economic, health, and social outcomes.

www.heckmanequation.org

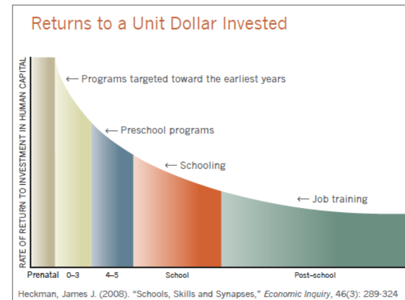
The Heckman Equation

Make greater investments in young children to see greater returns in education, health and productivity.

Keep these principles in mind to make efficient and effective public investments that reduce deficits and strengthen the economy:

- **Investing in early childhood education is a cost-effective strategy—even during a budget crisis.** Deficit reduction will only come from wiser investment of public and private dollars. Data shows that one of the most effective strategies for economic growth is investing in the developmental growth of at-risk young children. Short-term costs are more than offset by the immediate and long-term benefits through reduction in the need for special education and remediation, better health outcomes, reduced need for social services, lower criminal justice costs and increased self-sufficiency and productivity among families.
- **Prioritize investment in quality early childhood education for at-risk children.** All families are under increasing strain; disadvantaged families are strained to the limit. They have fewer resources to invest in effective early development. Without resources such as "parent-coaching" and early childhood education programs, many at-risk children miss the developmental growth that is the foundation for success. They will suffer for the rest of their lives—and all of us will pay the price in higher social costs and declining economic fortunes.
- **Develop cognitive AND character skills early. Invest in the "whole child."** Effective early childhood education packages cognitive skills with character skills such as attentiveness, impulse control, persistence and teamwork. Together, cognition and character drive education, career and life success—with character development often being the most important factor.
- **Provide developmental resources to children AND their families.** Direct investment in the child's early development is complemented by investment in parents and family environments. Quality early childhood education from birth to age five, coupled with parent-coaching, such as home visitation programs for parents and teen mothers, has proven to be effective and warrants more investment.
- **Invest, develop and sustain to produce gain.** Invest in developmental resources for at-risk children. Develop their cognitive and character skills from birth to age five, when it matters most. Sustain gains in early development with effective education through to adulthood. Gain more capable, productive and valuable citizens who pay dividends for generations to come.

Returns to a Unit Dollar Invested



Heckman, James J. (2008). "Schools, Skills and Synapses," *Economic Inquiry*, 46(3): 289-324

Early childhood education is an efficient and effective investment for economic and workforce development. The earlier the investment, the greater the return on investment.

www.heckmanequation.org

The Heckman Equation project is made possible with support from the Pritzker Children's Initiative.

Heckman
The economics of human potential.

Recent social investment reforms

- ‘Vanguard’ countries like Denmark and Sweden shifted towards a social investment-oriented rebalance of stock-flow-buffer functions well ahead of other countries;

- Other countries, such as the United Kingdom and the Netherlands, jumped (or tried to jump) on the active-inclusion ‘bandwagon’ in the 1990s, and did so by starting from different welfare settings;

- ‘Latecomers’ such as Germany and Spain, introduced social investment reforms in some policy domains later on, in the 2000s, again from different institutional starting blocks;

- Social investment ‘laggards’ did less, almost without reforming their arrangements of stock, flow and buffer policies (e.g., France and Italy).

- ‘Newcomers’ - new EU member states in Eastern Europe – had to rapidly adjust former socialist welfare provision to multiple post-transition challenges, and, in varying ways, picked up selectively on some social investment imperatives

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Recommendations from HLG report

- Higher employment and longer careers (later retirement) require greater support for health and safety at work, and more effective prevention of disability.
- Helping young couples create a family and have no fewer children than they desire requires quality, affordable childcare.
- Supporting women's aspirations to pursue rewarding careers requires employment and social policies that enable them to reconcile work and family responsibilities and nudge men towards taking up a more equal share of both.
- Promoting active ageing requires higher investment in health and long-term care.
- Giving all workers the chance to thrive requires the upgrade (in some countries: the radical overhaul) of skill formation and lifelong-learning systems.
- Sensible migration policies that enable newcomers from the global south to prosper can help rebalance Europe's demographic pyramid, averting a populist backlash.

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3. Lessons from the Great Recession

1. Overall, the last two decades of welfare reform have witnessed a general move towards social investment, which was interrupted by the austerity reflex following the Euro crisis.

2. Automatic stabilizers work, and so does social investment in acting as a kind of *ex ante* 'employment shock absorber' that reduces job loss in a preventative fashion.

3. Positive institutional complementarities emerge between social investment policies and more traditional social protection policies.

4. Social investment recalibration was hardly viable within the narrow fiscal space left by austerity.

5. Policy in-complementarities persist in those welfare states that did not reform before the Great Recession, and that found it hard to move towards social investment afterwards.

6. Social investment has long-term effects, which clash with the short-term politics and economics.

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Lessons from Covid-19 pandemic

- ✓ The pandemic led to an assertive reappraisal of the European welfare state for the twenty-first century.

- ✓ Policy-makers around the world quickly agreed to provide liquidity to businesses and to support household incomes and employment, protecting the financial system from meltdown, whilst buying time to develop vaccines.

- ✓ Ultimately, the EU departed from intrusive austerity, eased member states' fiscal efforts, rose to the occasion as a second line of defence for national welfare states, and paved the way for a more inclusive, investment-led recovery from the pandemic (NGEU *Recovery and Resilience Facility*)

- ✓ Overall, the welfare state supported economic resilience during the global financial crisis, and played an indispensable role as a lifeline for firms and families during the pandemic.

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4. Child guarantee *rivisited*

- 2013 Social Investment Package European (SIP) Commission recommendation “Investing in children: breaking the cycle of disadvantage”.
- 2017 Structural Reform Support Programme 2017- 2020 to support for member states to implement reforms in expanding accessibility, quality and inclusiveness of early childhood care and education services, prioritising the most disadvantaged children.
- 2017 “Pillar of Social Rights”, Principle 11: the right of children to affordable and quality childcare as a key element to ensure a reduction in the number of children at risk of poverty or social exclusion by at least 5 million and halving the gender employment by 2030.
- 2021 Child Guarantee: objective of ensuring that “every child in Europe at risk of poverty or social exclusion has access to the most basic of rights like healthcare and education”.
- 2022 “European Union Care Strategy” updating the so-called Barcelona targets on early childhood care and education, established in 2003, which demanded that member states guaranteed at least 33% of children below age 3 participated in childcare programmes, by increasing the target to at least 50% of children, whilst improving quality, inclusivity, accessibility, and affordability.
- EU Semester requires member states required to submit Child Guarantee National Action Plans (CGNAPs), identifying key actions to reach this objective, with means, financing and tools to assess progress.

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Delivering on the Child Guarantee (Leon, Morabito, Pavolini, and Vandenbroeck, 2023)

- Substantial inequalities in access, with low-income children disadvantaged;
- Lack of provision in marginalised territories;
- Costly, preventing the poorest families from affording the enrolment of young children;
- Placement criteria favouring working/ middle-income families;
- Low quality, with specific reference to workforce qualifications and working conditions.

Interpretation: **Child Guarantee not genuinely "seen" as a productive social investment despite political lip-service**

The Recovery and Resilience Facility to strengthen European social citizenship? (Corti and Ruiz, 2023)

- RRF unique opportunity for EU Member States to invest in ECEC services via a new EU (temporary) financial instrument that links funding disbursement to social reform.

- More effective ECEC Investments, also with respect addressing territorial asymmetries (Italy, Spain, Poland and Belgium). Portugal and Germany increase in public ECEC places but lack in territorial attention.

- Takeaway: ***RRF positive social reform conditionality works***

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4. Childhood social investment *now!*

- Public investments victim of fiscal consolidation in aftermath eurozone crisis. Since COVID-19 a qualified treatment for ‘productive public expenditures’ has gained traction.
- Social investment (HLG) should gain prominence in the current *E(M)U Economic Governance Review*
- Fiscal rules should privilege and incentivise SI policies with the highest returns.
- Need for:
    - *A coherent (evidence-based) framework that links the effort in public spending (input) with specific temporal social impacts (results) to identify social progress – wellbeing returns on social investment*
    - *Metrics for governance (data infrastructure, monitoring rules and quality provision) to assess country-specific compliance and benchmark progress within proper time-frames.*
- EU childhood social investment “lowest hanging fruit” because this is where the SI life-course multiplier works best.
- Not easy – long-term politics and policy discretion

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Average support for solidarity across the surveyed countries (2018-2022)
(0-10)

Looking ahead with (cautious) optimism

- We no longer hear trite claims that the welfare state is a luxury which in times of hardship we cannot afford.
- Contrary views have gained ground: that the welfare state is part and parcel of what makes Europe such an attractive place to work, live, raise a family, pursue happiness, and enjoy freedom.
- Investing in the welfare state makes societies less unequal, economies more dynamic, children and citizens happier, and political systems more stable.
- Greater public support for EU solidarity and Social Europe
- No time to waste 'low hanging fruit' public investments in E(M)U fiscal governance

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AND OF THE WELFARE STATE IN THE EU