**The welfare state through the lens of the social investment perspective: transformations and challenges**

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*Abstract*:

The paper examines the transformations in modern welfare states and the use of social investment as an approach to limit and overcome the major challenges to the European social model. The conceptual development of the approach to the needs of the EU political engagement in the social sphere is built on the basis of the links between economy, employment and social policy. The research interest in the issue has been provoked by the activity of the EU to restart its social dimension in an attempt to give a new impetus to the idea of a social and inclusive Europe for its citizens.

*Keywords*: social state, social policies, social investments

Welfare states in modern European societies face serious economic, political and demographic challenges. This requires them to make changes to their design and scope to respond to the changing structure of social risks on the one hand, and to ensure financial sustainability on the other. In recent decades, the debate on the necessary transformations has brought the perspective of social investment to the fore. This perspective has found a place in the EU's platform for inclusive and sustainable growth and has gradually made its way to nation states. This has influenced the way EU member states use social investment as part of the state's toolkit to address challenges through investment in human capital to enhance competitiveness; development of social services and policies to support the labour market: early childhood education and care; higher education and lifelong learning; active labour market policies; policies to support women's employment; and flexible security. The EU has used social investment as a cornerstone of the modernisation debate, presenting it as a core function of the welfare state in the 19th century, alongside labour market regulation and social protection (ЕC 2023:1).

*The welfare state: welfare orientations*

Modern European societies have a market economy and a democratic political system. The market economy is regulated in accordance with the general level and development of political, civil and social rights. Citizens' social rights are protected by a system of redistribution through the state which is socially justified and within acceptable limits for a market society at a certain stage of its development. This system limits the absolute freedom of the market in terms of its social effects and allows a certain degree of independence of individual existence from the real market position. It is the institutional result of social commitments by the state to intervene in or relate to the system of factors concerning the welfare of society. Established public institutions regulate both the income and behaviour of each individual in the event of risks such as unemployment, work accidents, sickness, maternity, advanced age, poverty, as well as some specific spheres of activity which, because of their importance for the individual welfare, must be protected to a certain extent. Such areas are employment, health, education, housing. In addition, the behaviour of communities (family and territorial communities) is also subject to regulation, so as to encourage the community to care for its own members and to be an effective source of security for them.

Also, European societies have adopted certain socio-political practices[[1]](#footnote-1), which are a product of the political process and are enshrined in legislation. According to the type of social benefits, socio-political practices are generally classified into:

* *Social practices* that support incomes (provide direct transfers in case of disconnection from work or in case of insufficient income). With regard to these, three strategies of social regulation have been adopted in modern market societies, which are not applied in a pure form. The first strategy is associated with the model of *social assistance,* where social transfers are received as a result of proven need. At the political level, the criteria against which the need is proven are fixed. Such a criterion is the level of income, defined as a limit consistent with some minimum standard of living in the particular society. Income fixation separates the social assistance clients from others. The second strategy is based on the *social security* model, where social transfers are based on the employment and labour market position. Social security as a socio-political practice guarantees individual existence in the event of interruption of employment. At the political level, the rules of access are fixed, which usually include certain parameters of the necessary employment, the way of recruiting the necessary resources, as well as the level of social benefits. The third strategy replicates the model of *universal transfers* based on citizenship. Universal social programs cover the entire population without setting conditions related to social status, previous employment or income. The access to them is a direct implementation of civil law. The universal principle of social regulation has been adopted by developed market economies, but it is more often used as an *adjustment* to social assistance and insurance programs and rarely as the main principle of an independent program.
* *Social services* (public non-market sphere with free/quasi-paid access to healthcare, education, provision of housing, personal social services). These services outline the public sphere, which offers services not for money, but for recognized rights. The conditions of access to them are the same as for the income maintenance practices. They may follow the logic of social assistance, and in this case the outlined sphere of social services is intended for the socially disadvantaged. This logic usually follows the provision of personal social services. Social services can follow the logic of provision. In this case, the outlined public sphere is available only to those who receive insurance rights. Such is the logic of the prevailing health systems. Universal access is also possible, outlining a broad public sphere for the provision of services. The universal principle is usually embodied in educational systems. According to the type of the organization of the provision, social services can be organized directly by the state, by local authorities or by charitable or economic organizations that conclude contracts with public authorities for the implementation of a certain activity. In the first case, there are maximum conditions for expenditure control and mobilization of the funds necessary for development, but the funding of social services weighs entirely on the state budget. In the second case, decentralization is applied in the sphere of social services. In this way, it loses its equalizing effect and reproduces territorial-economic inequalities. In the third case, the state uses a privatization strategy to relieve itself of some of its social functions and transfer them to the private sector.
* *Social practices* *that support access to market positions* (employment policy, income policy, tax policy, price control, provision of education). They are aimed at creating conditions for successful market behaviour of individuals and easing and guaranteeing the access to favourable market positions. Employment policies occupy an important place here. They strive to maintain a balance between labour supply and demand. The unemployment rate is an indicator of the severity of the conflict between the interests of the people seeking work and the economy, which at any given time offers a certain number of jobs. The capacity of employment policies to correct unemployment is severely limited. Active and passive policies are used in different proportions in different market economies. Passive policies are related to the protection against the loss of employment income and relate to the amount of benefits and the terms and conditions for receiving them. Active policies concern the improvement of the opportunities for employment and self-employment; subsidizing the creation of jobs and employment for representatives of risk groups on the labour market; motivation and professional qualification for job seekers and the employed; implementing specific measures to encourage the adaptability of the employed. The active labour market policy is implemented by state employment agencies, which offer opportunities for inclusion in programs and measures for employment. In the short run, active policy measures affect incomes in a way, similar to passive policy cash transfers, but in the long run, the provision of subsidized employment, for example, can lead to higher individual incomes than social transfers. The long-term effects of the active policy are related to the reduction of labour resource losses. The various schemes help the unemployed to acquire skills for secure employment, to return to the labour market, to get out of the vicious cycle of "unemployment - unstable work - poverty - dependence on the state".

There is no fundamental incompatibility between different socio-political practices. Various combinations are possible between them. As Braykova points out, "... the different, nationally specific is in the adopted organization of the protective scheme, in the specific technological forms and is a consequence of a number of random factors that have influenced their formation as a political decision" (Braykova 2000:114).

Within the united European space, there are different variants of public organization of the social sphere, which outline different strategies of change and adaptation to the global environment, but also to the particularities of the specific society. The circle of decisions is determined by the economic characteristics that set the material opportunities of the society; the political features that reproduce the current political interests and power resources; the cultural characteristics that influence public attitudes and expectations. The specific national model of socio-political regulation represents a country-specific combination of universality, social security, social assistance, public and private provision of services, tax benefits and labour market policies. The application of one or another instrument depends on the burden of public expenditure, the demographic structure of the population, the poverty, the composition of the labour force, the level of economic development, the culture and the political will. Along with this, however, there is a tendency, characteristic of each specific national society, to adopt a certain model of socio-political regulation (Braykova 2000:128). There are different models that limit the free market in different ways. In general, three models can be outlined – socio-democratic, liberal and conservative. (Esping-Andersen 1990) Researchers (Manning 2004; Mau and Verwiebe 2010) are of the opinion that Esping-Andersen's classification should be supplemented with another - a fourth model of socio-political regulation. This is the so-called post-socialist model. It was formed in the countries of Central and Eastern Europe and combines in a specific way elements of the conservative and liberal models, and also contains residual paternalistic elements, a legacy of the socialist past. All models implemented in the European countries are characterized by public services, compulsory insurance, comprehensiveness of social programs, financing from public funds, institutionalization of social relations, as well as ideas of compensatory justice and solidarity. As Mau and Verwiebe point out, regardless of the national characteristics and differences, "the welfare state in Europe takes a specific form" (Mau and Verwiebe 2010:45).

Taking into account the similarities as well as the common challenges they face (related to globalization, the development of new technologies, population ageing, poverty and social exclusion, migration, etc.), European countries are synchronizing their political commitment in the social sphere. They reform their social systems following a common trajectory of change. This trajectory in previous decades was determined by neoliberal ideas and was associated with a reduction of state intervention to the minimum acceptable for community cohesion. In recent years, however, there has been a growing influence of the social investment perspective, which again addresses the idea of a strong welfare state, but seen as proactive from a human life cycle perspective. "The welfare state is an investment with a long-term but strong and profitable return (EC 2023: VIII).

*Social investment: transformations and challenges for the welfare state*

Social investment is the subject of research in areas related to social development, management of non-profit organizations, community development, social innovation, and employment. They are used in various discourses with a view to increasing the quality of human capital and filling existing deficits in social systems. They usually aim at ensuring a positive social impact, as well as a return on the initial investment. They apply to solving issues traditionally associated with the public sector with a social and/or environmental focus through funding from the public and/or private sector. Investors deliberately seek to achieve both financial and social returns by measuring the social impact achieved.

Social investment is implemented not only by the state, but also by different agents and institutions working at different levels (Midgley 2017). As Todorova (2021) notes, the philosophy of the role and place of social investment, in the context of the question of whose responsibility it is to provide welfare, focuses on the shared responsibility between the market, the family, the state and the community. The state is seen as responsive to community needs and wants. It has the responsibility to invest in human capital to support participation in the labour market or to adequately respond to social risks.

In view of the development of European welfare states, social investment came within the scope of research interest at the end of the 1990s. Its use was mainly connected with the activating policies of the labour market, and their consideration in relation to social protection was presented as an alternative or as a complementary element of social transfers to maintain incomes. Within the debate on the future of the welfare state, social investments are presented as allocations to social programs that produce returns and are aimed at future social welfare. They benefit individuals, households and communities as well as the society as a whole. (Midgley 2017). Furthermore, social investment is investments (inputs) in human capital, implemented through policies, the purpose of which is to increase people's skills and abilities for full participation in employment and social life (EP 2013). They create both social and economic returns. They also have the capacity to increase the size and productivity of the current and future workforce (Hemerijck, Ronchi and Plavgo 2023).

The development of social investment as a perspective reflects the changes in the structures of social risks as a result of the flexibility, uncertainty and destandardization of life processes. The changed risk typology is manifested in an increase in the size of social groups at risk, as well as in an increase in the probability that certain groups will be affected; social risks become more heterogeneous, less predictable and more difficult to ensure; they are more directly related to life events and employment thus introducing a different type of social stratification (Leoni 2015, 2016).

A number of researchers (Hemerijck 2012, 2013; Pintelon et al. 2013; Leoni 2015, 2016) point out that the evolution of social risks, viewed through the prism of social stratification and the life cycle, confirms the importance of origin, gender, ethnicity for the transmission of disadvantage between generations, as well as inferring the importance of biographical life events as determinants of welfare. It also pays particular attention to life transitions (transition from education to employment, transition from care to employment) and risky life events (family breakup, health problems) that can lead to welfare losses. It has been recognized that the problems encountered during each phase of the life cycle may be either a consequence of earlier difficulties or a precursor to later problems. It has also been reported that the so-called “new” and “old” risks exist in parallel and are potentially complementary, connected through various interdependencies during the life cycle (Leoni 2015, 2016). This implies expanding the capacity of welfare states to implement interventions in the various stages of people's lives. Social expenditure for them cannot be fully accepted as an expenditure factor. They have the potential to increase the economic efficiency and at the same time to promote equality and social inclusion, without forgetting that "no form of social expenditure is purely investment, without an element of current consumption" (Leoni 2015:14).

The defining features of the social investment perspective are based on the understanding that the socio-political regulation should ensure long-term social and economic returns. As Leoni notes, "...instead of insuring and redistributing and thus largely 'compensate' and 'repair', social protection systems should pay more attention to 'preparation' and 'prevention'" (Leoni 2015:12). Achieving this requires a shift in the focus to social risk prevention. The main areas of policy intervention are the formation of human capital in all phases of life, the relationship between family and working life, work relations, with interventions grouped around the phases of the life cycle – childhood and youth, adulthood, old age. These interventions can represent investments that, in the medium and long term, generate returns by increasing welfare and avoiding dependency on social benefits. Functionally, the focus is on workforce productivity, increasing employment and employability. Priority is given to social services and practices that support access to favourable market positions, prioritising them on the basis of recognising the crucial role of early interventions and the interdependence of social risks throughout the life course.

In this respect, social investments generate returns with different time horizons and are designed to perform preventive functions regarding welfare. Their structure is built on mutually complementary functions: a) increasing and maintaining "stocks" of human capital and abilities throughout the life cycle (*human capital throughout life*); b) easing gender-based labour market "flows" and life-long transitions (*work-life balance flows*); and c) providing inclusive safety nets (*including buffers*) (Hemerijck 2013, 2017; Hemerijck, Ronchi and Plavgo 2023). Combining them implies synergistic welfare returns. Modern welfare states should combine the performance of different functions in a balanced and mutually reinforcing way. The range of their interventions includes ex post income compensation as well as risk prevention and capacity building. Human capital and the labour market are at the heart of individual welfare. Skills acquisition and upgrading are recognised as important for securing employment opportunities and employment is the best prevention against social risks. As Leoni (2016:197) notes, "...effective prevention is important to alleviate the pressures on the welfare state and ensure its long-term sustainability", but it must be implemented on the basis of effective minimum income guarantees. Furthermore, employment should be reconciled with the achievement of other life goals. This implies that, in addition to objective indicators such as employment and poverty, the assessment of returns should also cover outcomes such as increased activity and qualifications, employability, improved quality of life.

In an attempt to provide a theoretical rationale for the provision of social investment, a 'social investment multiplier' has been conceptualised to track the complementarity of policies across different stages of human life. This complementarity potentially fuels a cycle of welfare returns throughout people's lives, while promoting employment levels so as to ensure the macroeconomic sustainability of social protection systems as a whole (Hemerijck, Ronchi and Plavgo 2023). At the micro level, the multiplier reveals how social investment improves the material welfare (employment and income) of individuals and households and helps mitigate social risks in later life through incentives to improve skills and ease labour market transitions. At the macro level, the multiplier accounts for cumulative societal benefits in terms of improved productivity, higher employment, reduced gender gaps, later retirement, less poverty (EC 2023; Hemerijck, Ronchi and Plavgo 2023).

The complementarity of different policies (early childhood education and care, education, training, lifelong learning, active labour market policies, work-life balance policies and long-term care provision) in terms of the life-cycle multiplier implies that social services for capacity building and activation should be seen as a complement to, rather than a substitute for, cash transfers for income maintenance. From the perspective of social investment, the welfare state maintains its attitude towards redistribution and social protection, but also invests in measures to help people realise their potential, prevent risks and combat intergenerational inequalities. It is also noted that the question of the effects of the interplay between the different compensatory, enabling and regulatory policies that constitute regimes of social policy regulation remains insufficiently understood, given the assumption of 'tightly coupled' integrative policy repertoires (Hemerijck, Ronchi and Plavgo 2023).

In practice, under the conditions of financial austerity, the social investment perspective has mostly been applied, in forms that approximate its narrow understanding (Leoni 2015, 2016), namely as activation-focused investments with a limited focus on human capital formation and a tendency to reduce social protection with a resulting overestimation of the activation potential and exclusion of social inclusion as a necessary and mutually reinforcing component.

Gradually, a lasting link between social investment and the significant deficits of modern societies has been observed, leading to the modernisation of social protection systems and, at the same time, to an economic model in which social and environmental models are the basis of competition and competitiveness.

The European Union has an important role in imposing social investment as a conceptual framework for understanding change and also as a normative idea to guide policies. There are indications to promote the implementation of more intensive social investments in health, education, employment, income and social protection, taking into account the national specificities of EU member states in terms of social vulnerability and institutional dynamics.

*Conclusions*

In the conditions of population ageing, increasing risk factors in people's lives and a growing need for social protection, a wide range of political interventions and investments at the different stages of people's lives are needed to increase the quantity and quality of employment. In this respect, the transformations of the welfare state are largely related to the labour market and are aimed at increasing employment and employability by increasing the employment of women, reconciling professional and family life and the active life of the elderly. They aim to increase the functional and financial sustainability of social systems.

Social investment is implemented through a set of policies and programmes aimed at reducing social and economic risk and vulnerability. They focus on human capital development and employment. These policies and programmes implement a wide range of interventions at all stages of people's lives, thus contributing to improving people's capabilities and opportunities to participate in modern labour markets, with a view to achieving high levels of employment, social inclusion, individual agency and life satisfaction.

The development of the social investment perspective is partly a reaction to neoliberalism, but it cannot be fully considered a socio-democratic project. Unravelling its intellectual underpinnings is important but beyond the scope of this article. The aim here is to emphasize the tendency of the European Union to use concepts that are relatively easily reflected in alternative visions of the welfare of society. Social investment can be used from the standpoint of different ideological orientations, which allows for different emphases on the one hand, and on the other hand - to merge different political traditions and conduct a dialogue between countries with different ideological orientations regarding welfare.

The European Union is building its political commitment based on the growing complexity of the multiple adverse consequences that affect the population; the need for better coordination between economy and social policy through the lens of employment; mobilizing everyone to participate with a view to expanding the financial opportunities to cover the risks. It assumes a coordination role in relation to the changes in the national welfare states by setting the general transformational framework built through the prism of the life cycle and including a combination of social services, income maintenance schemes, regulations to maintain favourable positions on the labour market.

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1. Socio-political practice: a bureaucratic procedure for recognizing and guaranteeing the right of a certain social group to have means and/or life chances that are not a projection of its market position. Its implementation presupposes the creation of a special organization and determination of the way to mobilize the necessary funds. (Braykova 2000:111) [↑](#footnote-ref-1)