Does social investment reduce or increase poverty?

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In February 2013, the European Commission urged the member states of the European Union to ‘Better reflect social investment in the allocation of resources and the general architecture of social policy’ (European Commission, 2013: 9). The member states have committed themselves to social investment through the adoption of the Lisbon Strategy in March 2000, in which they agreed upon a more equal society with greater social cohesion and less poverty. In order to reach that goal, the Lisbon Strategy promoted a transition from the traditional welfare state to a new social investment state. This transition implied reforming redistributive social policies into activate social policies which are aimed at higher labour-market participation. Ultimately, the idea was to get people out of poverty by moving them into work. The commitment to social investment policies was reconfirmed through the adoption of the Europe 2020 strategy by the European Council in June 2010.

Since the adoption of the Lisbon Strategy, most European countries reformed their labour-market policies into policies with a more active approach. In most of these countries, employment rates have increased. However, despite the fact that European countries experienced rather favorable conditions such as moderate economic growth and increased employment rates, poverty rates have not declined but stagnated or even increased. One explanation for these outcomes is that poor people have not sufficiently benefited from employment growth. Employment has not been as beneficial for the
jobless households as for the households where at least one person was already in work (Marx et al., 2012).

Furthermore, the disappointing poverty rates have triggered a fierce debate about the effectiveness of social investment in the welfare state literature. Interestingly, it has been argued that the focus on social investment policies is even partially responsible for the disappointing poverty rates. According to Cantillon (2011: 440), the ‘shift from passive social protection to activation and investment has been even more problematic than anticipated and is arguably partially responsible for disappointing poverty trends.’ Two explanations for this negative effect of social investment policies have been formulated in the literature. The first explanation presumes that the shift in focus from old social risks to new social risks and investments in human capital has moved away resources from traditional passive welfare state programmes to new active welfare state programmes which are relatively less redistributive. A second reason why the social investment strategy would be partially responsible for the increased poverty rates is that the focus on activation and ‘making work pay’ has implied that unemployment benefit programmes have become less generous.

To date, any empirical insight into the relationship between social investment policies and poverty is has been rather limited. Van Vliet and Wang (2015) analyse the distributional effects of shifts in the expenditures on traditional welfare state programmes and social investment policies in 15 European countries for the period 1997–2007. The results suggest that shifts in resources from traditional welfare state policies to new social investment policies are not associated with lower poverty rates. However, the results provide no convincing empirical evidence for the argument that the disappointing poverty rates across Europe are partially attributable to a greater focus on new welfare state programmes either.

One explanation for this finding seems to be that the magnitude of the shifts in expenditures between old and new social policies has been relatively limited. Another explanation for our finding might be that, for a number of reasons, there is no
generalisable relationship between new welfare state policies and poverty and income inequality at the macro level. The distributive effect of new welfare state programmes strongly depends on the specific policy context and on the socio-demographic structure of a country. Hence, our results indicate that, for countries other than the Nordic welfare states, there might be a positive relationship between expenditure shifts towards social investment programmes and stagnating or even increasing poverty trends. Further research should provide more insight into the country-specific associations between social investment policies and poverty trends.

Finally, a notable limitation of empirical research on the effects of social investment policies is that it might be the case that it is still too early to expect and so to find either poverty-reducing or poverty-increasing effects. For a number of policy areas, such as primary and secondary education, measurable results could only be expected after 20 or 30 years. Hence, the current study is mainly focused on the short-term effects of labour market related social investment policies. Future studies should shed more light on the broader concept of social investment.

References

