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The financial crisis, poverty and vulnerability: from social investment to an EU social union

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Lucifermeisje (Matchstick girl) by Floris Arntzenius (1864-1925), who lived and worked much of his life in The Hague, the Netherlands.

Painting of a disabled girl, who sold matches, probably standing at one of the entrances of the 'Passage' shopping mall, which opened in 1885. (Haags Historisch Museum, The Hague)

**She is what the welfare state has tried to support:
a disabled child selling matches on a street corner
in one of the richest cities in western Europe.**

Abstract

The financial crisis of 2009 has had a devastating impact on the people of Europe, throwing millions into unemployment and poverty. The impact was most severe in the Southern and Eastern members of the EU. The EU's response was more concerned with the impact of the crisis on the viability of the banking and financial sector than on employment, poverty and livelihood. Following a brief discussion of the empirical evidence on the social impact of the crisis, this paper provides a critical appraisal of a major EU initiative in 2013: the Social Investment Package (SIP). The social investment (SI) approach to social policy has its origin in the social democratic response to the Great Depression of the 1930s. In Sweden Ava and Gunnar Myrdal argued for a new approach to social policy that would focus on social investment in human capital. Notwithstanding the intrinsic merits of a SI approach this paper argues that it is a policy paradigm without a foundation in any specific economic theory, and its adoption has been influenced by country specific historical, social and economic institutions and developments.

The SIP has been primarily focused on the supply side of the labour market in order to increase people's skills and their participation in the labour market and society at large. It also covered other related key areas of early childhood education, housing and social protection. The SIP has been complemented by the launch of the European Pillar of Social Rights that if backed up by appropriate legislation and setting up of rules similar to the European Monetary Union would strengthen the social dimension of the EU leading to a European Social Union. The EU has to balance its plan for economic and monetary union based on free market with its desire for social cohesion and a social union. The latter requires some degree of fiscal union to provide support for regions and people who have been left behind and have been negatively affected by the economic policies of the EU and member states. Social cohesion calls for asymmetric solidarity and redistributive policies. A Europe that has defined itself by its enlightenment and progressive ideas since the French revolution has to go back to the basics and invoke the rich intellectual heritage that aspired to 'equality, fraternity and liberty' for human kind. The idea of a social contract between citizens and the state should be put at the heart of economic and social policies at European level in order to mitigate and eventually eliminate not only the negative social impact of the crisis but move towards a more equitable, democratic and prosperous Europe.

Keywords

EU, Financial Crisis 2009, Inequality, Social Investment, Social Policy, Social Investment Package.

The financial crisis, poverty and vulnerability[1]
from social investment to an EU social union?

1 Introduction

In the aftermath of the Global Financial Crisis of 2009, the EU entered its fifth year of worse ever sustained and deep economic crisis in 2014 that has been followed by unprecedented increases in unemployment and poverty across much of the EU. There was very little sign of economic recovery, except very modest growth in the richer northern countries. Even there the economic recovery was very weak with no indication that fruits of recovery would be shared by the majority of population, the share of wages in GDP has been declining steadily in several northern European countries, notably in Germany. Austerity has been the order of the day in countries like the NL, Germany and Austria that had weathered the crisis. Centre right governments in these countries had legitimized their austerity programmes and imposed cuts in public expenditure or pushed down workers' claim for higher wages or better living standards by arguing that budgets had to be balanced lest a Greek style crisis and adjustment would follow, despite the fact these countries, unlike Greece, had some of the most diversified and export-oriented economies with strong central government finances, sophisticated tax structures and tax collection administration in the world. Above all, the relatively progressive taxation of these countries had political legitimacy and public support that would have further legitimized more and not less public spending in order to cushion the social and economic impacts of the crisis.

The EU data reveals the scale of social impact of the crisis on the people of Europe. Table one provides a snapshot of the extent of poverty in the EU and some other European countries. Based on various measures of poverty (income poverty – less than 60 percentage of the median of equivalised disposable income after social transfers, severe material deprivation, or a low work intensity household) nearly a quarter (or 122.3 million) of EU population were considered to be poor in 2014. By 2016 the percentage of the poor dropped slightly to 23 per cent whilst the number of the poor stood at 118 million.

There were wide variations across the EU with Romania and Greece having the largest percentage of the poor at 38.8 and 35.6 per cent respectively; and Czech Republic and Denmark having some of the lowest at 13.3 and 16.7 per cent respectively. The other important feature of poverty since the crisis has been its concentration among the children and adults of working age.

[1] The author likes to thank Jeremy Leaman and Robert Salais for inspiring discussions on the macroeconomics of social policy in the EU. Earlier drafts of the papers were presented at the periodic conferences of the RE-InVest and the Euromemorandum conferences of 2017 and 2018 (www.euromemo.eu). Comments of participants in these conferences are gratefully acknowledged.

Table 1
Percentage of people at risk of income poverty (after social transfers) by different age groups in the EU countries, 2016.

People at risk of poverty or social exclusion, by age group, 2016
(% of specified population)

	Total	Children (aged 0-17 years)	Adults (aged 18-64 years)	Older people (65 years and over)
EU-28	23.5	26.4	24.2	18.2
Euro area (EA-19)	23.1	25.3	24.3	17.3
Belgium	20.7	21.6	21.7	16.4
Bulgaria	40.4	45.6	37.2	45.9
Czech Republic	13.3	17.4	13.0	10.1
Denmark	16.7	13.8	20.2	9.2
Germany	19.7	19.3	20.2	18.3
Estonia	24.4	21.2	20.3	41.4
Ireland	24.2	27.3	24.4	17.4
Greece	35.6	37.5	39.7	22.0
Spain	27.9	32.9	30.4	14.4
France	18.2	22.6	19.2	10.0
Croatia	27.9	26.6	26.9	32.8
Italy	30.0	33.2	31.5	23.2
Cyprus	27.7	29.6	28.1	22.9
Latvia	28.5	24.7	25.0	43.1
Lithuania	30.1	32.4	27.3	37.4
Luxembourg	19.8	22.7	21.0	9.1
Hungary	26.3	33.6	27.2	15.1
Malta	20.1	24.0	17.3	26.1
Netherlands	16.7	17.6	18.4	10.0
Austria	18.0	20.0	18.6	13.7
Poland	21.9	24.2	22.7	16.1
Portugal	25.1	27.0	25.6	21.8
Romania	38.8	49.2	37.0	34.0
Slovenia	18.4	14.9	19.1	19.9
Slovakia	18.1	24.4	17.6	12.3
Finland	16.6	14.7	18.2	13.6
Sweden	18.3	19.9	18.1	17.0
United Kingdom	22.2	27.2	21.8	18.0
Iceland	12.2	14.4	12.7	6.3
Norway	15.3	14.9	17.1	9.5
Switzerland	17.8	20.5	15.0	25.5
Former Yugoslav Republic of Macedonia	41.1	46.1	40.8	34.6
Serbia	38.7	40.3	40.5	31.2
Turkey (¹)	41.3	48.2	38.5	37.8

(¹) 2015.
Source: Eurostat (online data code: ilc_peps01)

eurostat

Source: EU (2019a) Eurostat. [https://ec.europa.eu/eurostat/statistics-explained/index.php/People_at_risk_of_poverty_or_social_exclusion#Number_of_people_at_risk_of_poverty_or_social_exclusion] [Accessed: 13/02/2019]

A similar picture of the social impact of crisis on households emerges from the data on unemployment. The financial crisis increased the unemployment rate from 7.2 per cent of the pre-crisis level of 2007 to a peak of 10.9 per cent in the EU28 and to 12 per cent in the EU17 (or Eurozone) countries by 2013, with the most severe impact on Greece and Spain where a quarter of their labour force were unemployed (Table 2). By 2013 the level of unemployment in EU27 stood at 26 million of whom 19 million were in the EU17 (the Eurozone). More alarming is the number and percentage of those who are below the age of 25. In EU27 the young unemployed numbered 5.7 million of whom 3.6 million were in the EU17 area. These figures represented about 23 per cent (nearly one in four) of the youth in these areas. In recent years the unemployment rate has started to decline in most EU countries approaching its pre-crisis rate, except for Greece, Spain and Italy that in 2018 still suffered unemployment rates that were nearly double the pre-crisis rates. (EU, 2019b) It should be noted that historically female unemployment rate has been higher than the male's but the gap has narrowed in recent years. (See Table 3 and EU, 2019b)

Poverty and unemployment are closely related, nearly half the poor are unemployed. In 2010, 45 per cent of the unemployed in the EU-27 were at-risk-of-poverty, a figure that reaches 48 per cent by 2016. (See Table 4, EU, 2019b) Employment however provides no guarantee against poverty, as the percentage of at-risk-of-poverty in employment in table 4 reveals. In 2016 almost one in ten poor people in the EU were in employment that reveals the inadequacy of wage and employment contracts to prevent people falling into poverty. This is further reinforced when we consider the precarious situation of those who are in employment.

2 Precarious work and vulnerability to poverty

The financial crisis and the ensuing economic downturn have heavily tipped the balance further against labour and worsened employment conditions that have come in the aftermath of decades of deregulation of labour market following neo-liberal policies in most EU countries. Flexibility of labour and deregulation of labour market have been on the agenda of the EU countries well before the crisis, in part a consequence of the spectacular entry of low cost labour of Asia into the world market and the international competition to cut labour costs. The financial crisis and continuing recession consolidated this trend towards more flexible contracts and other changes to working conditions that have greatly weakened labour's bargaining position vis a vis capital. The reserve of army of labour, potential or actual, does wonders for restructuring and profits!

Unemployment and precarious employment are the background to the debate on policies to reduce the social impact of crisis. To begin with it is important to ask what should be the founding principle of intervention by any social welfare system. Should it be based on actual state of poverty that has to be defined according to some criteria as used in the EU approach (based on income, material deprivation or employment deficiency of household) and targeted? Or should it be based on 'vulnerability' to poverty that requires intervention before people become 'poor'?

What is meant by 'vulnerability'? According to the Shorter Oxford English Dictionary (1977) ''vulnerable' comes from the Latin word for wounding, *vulnerabiris*, and one of its meaning refers to 'that may be wounded; susceptible of receiving wounds or physical injury'. In figurative speech it also means 'open to attack or injury of a non-physical nature.' (P. 2494.) Going beyond the literal definition of vulnerability let us investigate how this concept is used in social policy.

Spicker (2014) has defined vulnerability as 'the possibility that when adverse events happen, the vulnerable person might suffer harm' (p. 481). This is a rather circular definition, an adverse event by definition would cause 'harm', otherwise it is not called 'adverse.' It would be better to define vulnerability by the ability of an individual or household to cope or manage in the face of an adverse event; that draws our attention to the potential of people and resources available to them to absorb the impact of an adverse event. For example, in the event of an adverse shock of food price inflation a worker on fixed wages for the duration of a contract will be vulnerable to a decline in her purchasing power (a decline in real wage) but any entrepreneur who can adjust price of goods that she sells will be able to pass on the cost of higher food prices to her customers. The worker is vulnerable to a price shock but the traders is not.

Historically social welfare provisioning whether of mutual type, charity based or state provided have been selective with a narrow focus on those who were perceived to be 'vulnerable' and in need of support, for examples orphans, people with disability and unable to work, widows who depended on their late husbands for livelihood of their family. This is the context of targeting in social provisioning on the basis of vulnerability.

It was this concept of vulnerability that has also been used in the shift from 'needs-based' to 'risk-based' approach in social provisioning in the era of re-organising the welfare state. 'Risk-based' approach would focus on the 'vulnerability' and the 'vulnerable' who would be more at risk of certain adverse events and therefore in need of social protection.[2]

Another approach to vulnerability that is more in line with the universalist and welfare state approach to social policy and poverty reduction views vulnerability *not* an attribute of individual *but* a group that is large enough to warrant a non-targeted approach. *The development of welfare state was a response to mass vulnerability.* Social policies that emerged out of the mutual and faith-based organisations underpinned by strong solidarity aimed to reduce vulnerability by not only improving living conditions through investment in health, sanitation and infrastructure, but also through establishing legal infrastructure to protect workers, provisioning of free mass education, support in old age, etc. The reduction in vulnerability was the key to the reduction of poverty over time.

This is what we learn from history of social policy and social security in Europe. According to Spicker (2014):

> "Social security developed, in much of Europe, from mutual aid societies or trade unions, in which members agreed to pool their risks and share responsibilities for support. The idea of **solidarity** is seen in many countries as the basis of collective social provision: for example, the French Code of Social Security declares that the 'organisation of social security is founded on the principle of national solidarity. It guarantees workers and their families against risks of every kind liable to reduce or suppress their ability to earn.' **But solidarity is not only about mutual aid; it can also be seen as principle of 'fraternity' which takes welfare as a form of collective activity and so the responsibility of the wider society rather than of individuals"** (p. 217, my emphasis).

In France as elsewhere in Europe, social policy aimed to:

> "…gradually extend the range and scope of solidarisitc network, a process of generalization. This has led to a patchwork quilt of services, provided on many different terms but seeking to ensure that nearly everyone is included. The approach to policy, then, has centred on two strategies: trying to identify and work within existing patterns of support, and seeking to integrate or 'insert people at the margin into the available networks. In the process, **a principle which initially referred primarily to insurance has come increasingly to refer to redistribution**." (Ibid., pp. 217-18, my emphasis)

It is regrettable that social policies based on solidarity with a strong redistributive objective has been undermined, for nearly two decades, by the introduction of risk-based approach, targeting and privatization of many areas of social provisioning, whilst at the same time precarity has increased in the labour market and with it vulnerability to poverty. It is important to unpack the concept of precarious work to understand its multi-dimensional facets and implications for vulnerability.

There is no agreed definition for precarious work, there are certain elements of working conditions, like length of contract or uncertainty about labour law and dismissal that could turn a working situation precarious. That is why precarity has to be contextualized within a given set of legal and regulatory framework governing industrial

[2] For further details see Kemshall (2002) pp. 77-79. The disable girl who is pictured in the opening page of this article is a case of a vulnerable person.

relations as well as rights to social security and variety of social policy instruments (like unemployment benefit, free or subsidised health care and education, rent subsidy) that provide for a decent living compatible with the standard of living in a country. (McKay, et al., 2102, European Foundation 2013, ITUC, 2011) With this in mind let us turn to some of the main indicators of precarity:

> "… inability of individuals to enforce their rights, where social insurance protection is absent, where health and safety is put at risk and where work does not provide sufficient income to enable people to live decently. Insecurity is another key element of precarity. It encompasses work uncertainty, income insufficiency, lack of protection against dismissal, an unknown length of employment and where there is uncertainty about future employment. Another factor that promoted precarious work was the issue of the lack of qualifications or a mismatch between the qualifications that workers have and those required where jobs are available. Thus the issue is not just one of under-qualification but increasingly, in a Europe whose citizens are possibly in possession of higher formal qualifications than ever, of over-qualification in relation to the jobs on offer" (McKay, et al., 2012, pp. 8-9).

In addition to the above we could also note what the International Metal Federation succinctly counts as the characteristics of precarious work:

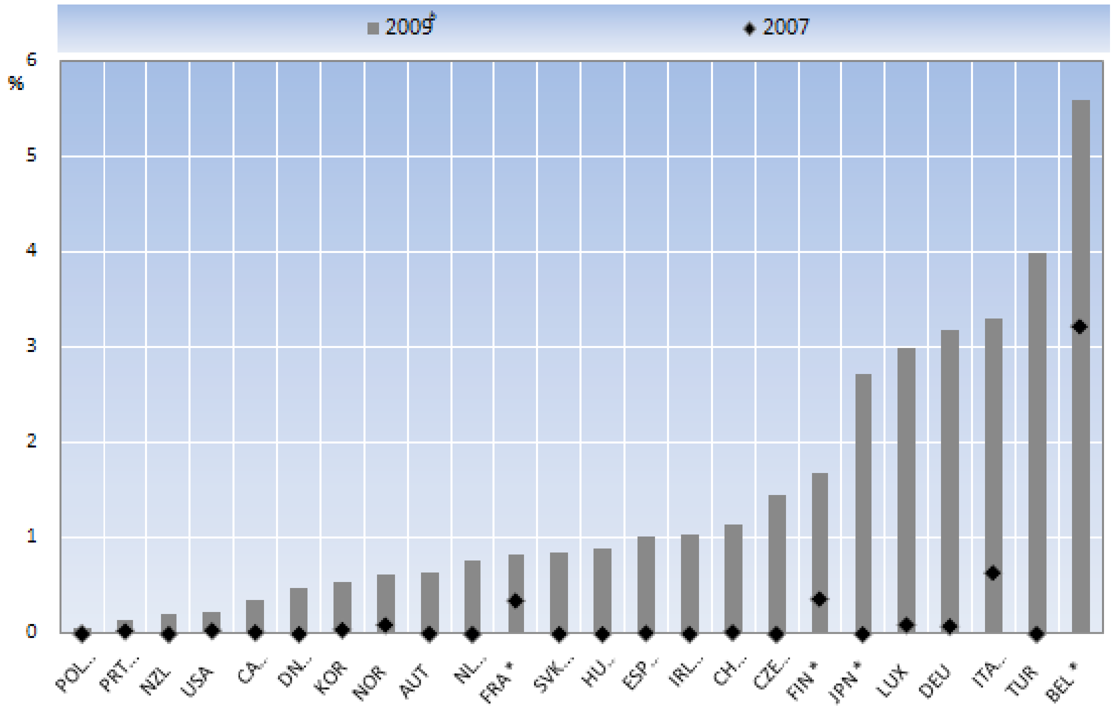
- "Direct hire on temporary labour contracts,
- Hiring in labour via employment agencies or labour brokers,
- Contracting out functions to other companies,
- Personal labour contracts as bogus 'self-employed' workers,
- Abusive probationary periods,
- Disguised employment training contracts,
- On call / daily hire,
- Illegal or involuntary part-time work,
- Home work" (ITUC, 2011)

In 2010 the European Working Conditions Survey reported that 80 per cent of employment contracts in the EU27 were of indefinite duration, leaving 20 per cent or one in five contracted workers in a different situation (McKay, et al., 2012). The latter group are not all in precarious condition but their sheer number had warranted further investigation. Recent studies have all confirmed not only the precarious situation of this large cohort of workers but their worsening situation.

Taking short-term (referred to as short-time work in figure 3) as one of the indicators of precarity figure 3 reveals the dramatic increase in short-term, non-permanent work in selected OECD countries in the early years of the crisis. The rising unemployment since 2009 must have made the situation worse by making an ever-increasing numbers of people to turn to short-term work, precarious work.

Figure 3
Increase in short-term work as an indicator of precarity,
selected OECD countries, 2007 and 2009.

Annual average stock of employees participating in short-time work schemes as percentage of all employees[a]



* indicates that data are from national sources; ** indicates that data are OECD estimates using flows data from the OECD-EC questionnaire or from national sources.

a) Countries shown in ascending order of the share of participants in short-time work schemes in 2009.

b) Until 2009 Q3 for Austria and the Netherlands; August 2009 for Portugal and Spain; September 2009 for the Slovak Republic; and October 2009 for Luxembourg and New Zealand.

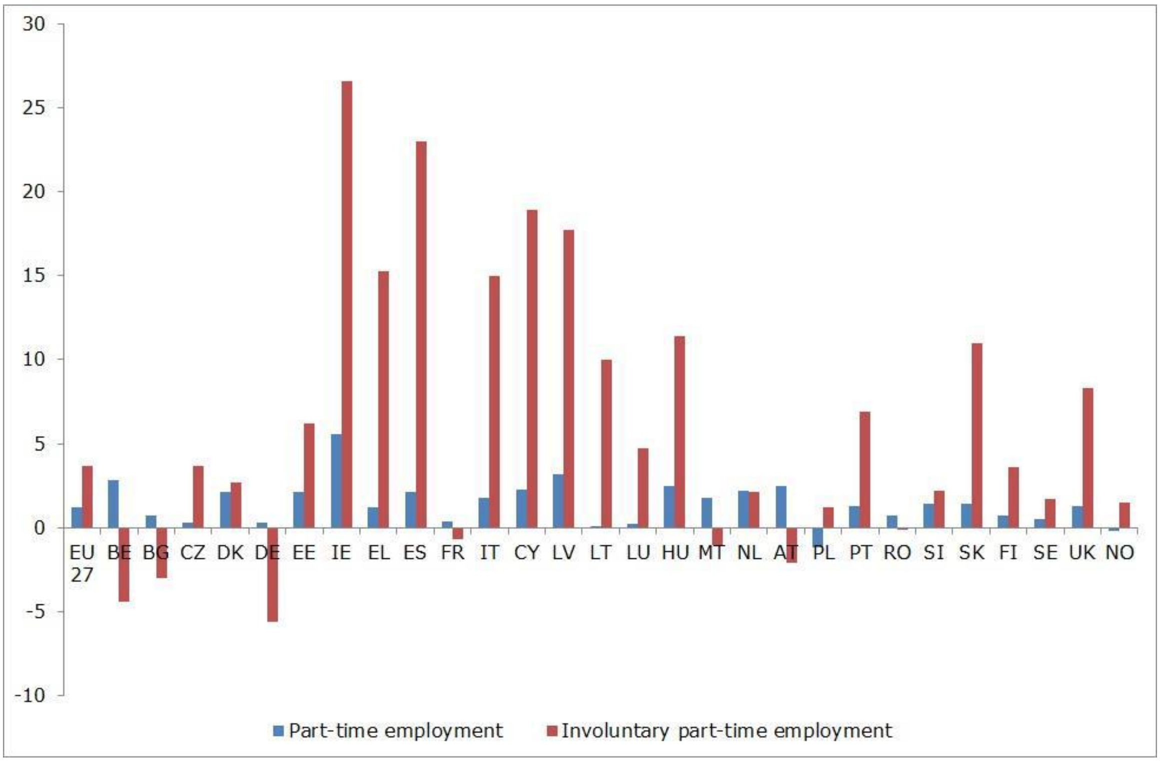
Source: OECD (2010), *OECD Employment Outlook*, OECD Publishing, Paris.

Source: OECD (2010) quoted in ITUC (2011), p. 15.

A similar picture of precarity emerges if we take the proportion of workers with indefinite contract as a measure of precarity. McKay, et al (2012) report that by 2010 only 57 per cent of workers in Greece, 61 per cent in Ireland and 68 per cent in Spain had indefinite length contracts compared to 80 per cent on permanent and 20 per cent on temporary contracts for the EU27.

There is also a gender dimension to precarity – women are affected more than men. Because the crisis has accelerated the process of informalisation of work, especially in sectors where women are overrepresented in insecure forms of work. (ITUC, 2011) More recent figures of the population working in precarious conditions is difficult to obtain, because of the lack of agreed definition on precarity across the EU, but taking short-term work and part-time work (see figure 4) as indicators it is clear that precarity has been on the increase since the crisis.

Figure 4
Trend of increasing part-time and involuntary part-time employment during the crisis, 2007-2011



Notes: "Part-time employment: change in percentage of people employed in part-time employment between 2007 and 2011.
Involuntary part-time employment: change in percentage of people in part-time employment between 2007 and 2011) who were in part-time employment because 'they could not find full-time employment'."

Source: European Foundation for the Improvement of Living Conditions (2013), Figure 9, p. 30. [Data from the Eurostat].

Precarious work is taking hold in the EU whilst the formal state social support and social security system are cut back with devastating effect in the Southern European crisis countries. A report by the International Federation of Red Cross and Red Crescent makes a powerful case on the human dimensions of the financial crisis. (IFRC, 2013)

> "Compared to 2009, millions more find themselves queuing for food, unable to buy medicines nor access health care. Millions are without a job and many of those who still have work face difficulties to sustain their families due to insufficient wages and skyrocketing prices. Many from the middle class have spiraled down to poverty. The amount of people depending on Red Cross food distributions in 22 of the surveyed countries has increased by 75 per cent between 2009 and 2012." (IFRC, 2013: 2)

Nearly ten years after the crisis several indicators of social stress such as overall unemployment rate, youth unemployment rate, gender gap in unemployment, people at risk of poverty have hardly changed in most EU countries whilst the crisis countries such as Greece, Portugal and Spain still experiencing large scale unemployment and poverty rates.[3]

Table 2
Unemployment Rate, EU and selected non-EU countries, 2007-2017 (%)

Unemployment rate 2007-2017 (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EU-28	7.2	7.0	9.0	9.6	9.7	10.5	10.9	10.2	9.4	8.6	7.6
Euro area	7.5	7.6	9.6	10.2	10.2	11.4	12.0	11.6	10.9	10.0	9.1
Belgium	7.5	7.0	7.9	8.3	7.2	7.6	8.4	8.5	8.5	7.8	7.1
Bulgaria	6.9	5.6	6.8	10.3	11.3	12.3	13.0	11.4	9.2	7.6	6.2
Czech Republic	5.3	4.4	6.7	7.3	6.7	7.0	7.0	6.1	5.1	4.0	2.9
Denmark	3.8	3.4	6.0	7.5	7.6	7.5	7.0	6.6	6.2	6.2	5.7
Germany	8.5	7.4	7.6	7.0	5.8	5.4	5.2	5.0	4.6	4.1	3.8
Estonia	4.6	5.5	13.5	16.7	12.3	10.0	8.6	7.4	6.2	6.8	5.8
Ireland	5.0	6.8	12.7	14.6	15.4	15.5	13.8	11.9	10.0	8.4	6.7
Greece	8.4	7.8	9.6	12.7	17.9	24.5	27.5	26.5	24.9	23.6	21.5
Spain	8.2	11.3	17.9	19.9	21.4	24.8	26.1	24.5	22.1	19.6	17.2
France	8.0	7.4	9.1	9.3	9.2	9.8	10.3	10.3	10.4	10.1	9.4
Croatia	9.9	8.6	9.3	11.8	13.7	15.8	17.4	17.2	16.1	13.4	11.1
Italy	6.1	6.7	7.7	8.4	8.4	10.7	12.1	12.7	11.9	11.7	11.2
Cyprus	3.9	3.7	5.4	6.3	7.9	11.9	15.9	16.1	15.0	13.0	11.1
Latvia	6.1	7.7	17.5	19.5	16.2	15.0	11.9	10.8	9.9	9.6	8.7
Lithuania	4.3	5.8	13.8	17.8	15.4	13.4	11.8	10.7	9.1	7.9	7.1
Luxembourg	4.2	4.9	5.1	4.6	4.8	5.1	5.9	6.0	6.5	6.3	5.6
Hungary	7.4	7.8	10.0	11.2	11.0	11.0	10.2	7.7	6.8	5.1	4.2
Malta	6.5	6.0	6.9	6.9	6.4	6.3	6.4	5.8	5.4	4.7	4.0
Netherlands	4.2	3.7	4.4	5.0	5.0	5.8	7.3	7.4	6.9	6.0	4.9
Austria	4.9	4.1	5.3	4.8	4.6	4.9	5.4	5.6	5.7	6.0	5.5
Poland	9.6	7.1	8.1	9.7	9.7	10.1	10.3	9.0	7.5	6.2	4.9
Portugal	9.1	8.8	10.7	12.0	12.9	15.8	16.4	14.1	12.6	11.2	9.0
Romania	6.4	5.6	6.5	7.0	7.2	6.8	7.1	6.8	6.8	5.9	4.9
Slovenia	4.9	4.4	5.9	7.3	8.2	8.9	10.1	9.7	9.0	8.0	6.6
Slovakia	11.2	9.6	12.1	14.5	13.7	14.0	14.2	13.2	11.5	9.7	8.1
Finland	6.9	6.4	8.2	8.4	7.8	7.7	8.2	8.7	9.4	8.8	8.6
Sweden	6.1	6.2	8.3	8.6	7.8	8.0	8.0	7.9	7.4	6.9	6.7
United Kingdom	5.3	5.6	7.6	7.8	8.1	7.9	7.5	6.1	5.3	4.8	4.4
Iceland	2.3	3.0	7.2	7.6	7.1	6.0	5.4	5.0	4.0	3.0	2.8
Norway	2.5	2.7	3.3	3.7	3.4	3.3	3.8	3.6	4.5	4.8	4.2
Turkey	9.1	10.0	13.0	11.1	9.1	8.4	9.0	9.9	10.3	10.9	10.9
United States	4.6	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.9	4.4
Japan	3.8	4.0	5.1	5.0	4.6	4.3	4.0	3.6	3.4	3.1	2.8

: Data not available

Source: Eurostat (online data code: une_rt_a)

Source: EU (2019b) Eurostat. [https://ec.europa.eu/eurostat/statistics-explained/images/8/85/Unemployment_rate_2007-2017_%28%25%29_new.png] [Accessed: 13/02/2019]

[3] For a very good and recent analysis of in-work poverty of full-time and part-time workers during the crisis see Horemans, et al, (2016).

Table 3
Youth Unemployment as a Percentage of Youth Labour Force (Youth Unemployment Rate) and as a Percentage of Total Labour Force (Youth Unemployment Ratio), EU, 2007-2017

Youth unemployment figures, 2007-2017 (%)

	Youth unemployment rate				Youth unemployment ratio			
	2007	2015	2016	2017	2007	2015	2016	2017
EU-28	15.8	20.3	18.7	16.8	6.9	8.4	7.8	7.0
Euro area	15.6	22.3	20.9	18.8	6.7	8.8	8.3	7.4
Belgium	18.8	22.1	20.1	19.3	6.4	6.6	5.7	5.4
Bulgaria	14.1	21.6	17.2	12.9	4.2	5.6	4.1	3.4
Czech Republic	10.7	12.6	10.5	7.9	3.4	4.1	3.4	2.5
Denmark	7.5	10.8	12.0	11.0	5.3	6.7	7.9	7.0
Germany	11.8	7.2	7.1	6.8	6.1	3.5	3.5	3.4
Estonia	10.1	13.1	13.4	12.1	3.8	5.5	5.8	5.6
Ireland	9.3	20.5	17.0	14.5	6.4	9.6	8.5	6.7
Greece	22.7	49.8	47.3	43.6	7.0	12.9	11.7	10.9
Spain	18.1	48.3	44.4	38.6	8.7	16.8	14.7	12.9
France	19.5	24.7	24.6	22.3	7.2	9.0	9.0	8.0
Croatia	25.4	42.3	31.8	27.0	9.2	14.0	11.6	9.8
Italy	20.4	40.3	37.8	34.7	6.3	10.6	10.0	9.1
Cyprus	10.2	32.8	29.1	24.7	4.2	12.4	10.8	9.0
Latvia	10.6	16.3	17.3	17.0	4.5	6.7	6.9	6.8
Lithuania	8.4	16.3	14.5	13.3	2.3	5.5	5.1	4.6
Luxembourg	15.6	16.6	19.1	15.3	4.0	6.1	5.8	4.7
Hungary	18.1	17.3	12.9	10.7	4.6	5.4	4.2	3.5
Malta	13.5	11.8	11.0	10.4	7.3	6.1	5.7	5.5
Netherlands	9.4	11.3	10.8	8.9	4.3	7.7	7.4	6.1
Austria	9.4	10.6	11.2	9.8	5.6	6.1	6.5	5.5
Poland	21.6	20.8	17.7	14.8	7.1	6.8	6.1	5.2
Portugal	21.4	32.0	28.2	23.8	8.6	10.7	9.3	8.1
Romania	19.3	21.7	20.6	18.3	6.1	6.8	5.8	5.5
Slovenia	10.1	16.3	15.2	11.2	4.2	5.8	5.1	4.4
Slovakia	20.6	26.5	22.2	18.9	7.1	8.4	7.2	6.3
Finland	16.5	22.4	20.1	20.1	8.8	11.7	10.5	10.7
Sweden	19.2	20.4	18.9	17.8	10.1	11.2	10.4	9.8
United Kingdom	14.3	14.6	13.0	12.1	8.8	8.6	7.6	7.0
Iceland	7.1	8.8	6.5	8.2	5.6	7.1	5.4	6.5
Norway	7.3	10.5	11.3	10.7	4.4	5.5	6.1	5.6
Switzerland	:	:	:	:	:	:	:	:
Turkey	17.2	18.6	19.6	20.7	6.3	7.7	8.2	8.9
United States	10.5	11.6	10.4	9.2	:	:	:	:
Japan	7.7	5.5	5.1	4.7	:	:	:	:

: data not available
* The quarterly youth unemployment rate is seasonally adjusted.

Source: Eurostat (une_rt_a)

eurostat

Source: EU (2019b) Eurostat. [https://ec.europa.eu/eurostat/statistics-explained/images/8/85/Unemployment_rate_2007-2017_%28%25%29_new.png] [Accessed: 13/02/2019]

According to the EU data (see table 2) by 2017 the overall unemployment rate in most EU countries had dropped to 7.9 per cent which is very close to the pre-crisis figure of 7.2 per cent. In the Euro area it is still well above pre-crisis rate of 7.5 – it stood at 9.1 in 2017. In countries that have severely been affected by the crisis (e.g. Portugal, Spain, Italy) the 2017 unemployment rates are at least about twice as high has the pre-crisis rate. Even more worrying is the youth unemployment in these countries that reveal a similar pattern across the severely affected crisis countries (see table 3). Gender does not seem to have any bearing on the unemployment rates which are very close for men and women (See table 4).

Table 4
Unemployment Rates by Gender, EU, 2007-2017

Unemployment rates, EU-28, 2007-2017 (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Male	6.6	6.6	9.0	9.7	9.6	10.4	10.8	10.1	9.3	8.4	7.4
Female	7.9	7.5	8.9	9.6	9.8	10.6	10.9	10.3	9.5	8.8	7.9
Less than 25 years	15.8	15.9	20.3	21.4	21.8	23.3	23.8	22.2	20.3	18.7	16.8
Between 25 and 74 years	6.1	5.9	7.6	8.3	8.3	9.1	9.5	9.0	8.3	7.5	6.7
Long-term unemployment rate	3.0	2.6	2.9	3.8	4.1	4.6	5.1	5.0	4.5	4.0	3.4
Male	2.8	2.4	2.8	3.9	4.1	4.6	5.1	5.0	4.5	3.9	3.3
Female	3.3	2.8	3.1	3.7	4.1	4.6	5.1	5.0	4.5	4.0	3.5
Very long-term unemployment rate	1.8	1.5	1.5	1.8	2.2	2.5	2.9	3.0	2.8	2.5	2.1

(:) data not available

Source: Eurostat (une_rt_a, une_ltu_a)

Source: EU (2019b) Eurostat. [https://ec.europa.eu/eurostat/statistics-explained/images/8/85/Unemployment_rate_2007-2017_%28%25%29_new.png] [Accessed: 13/02/2019]

It is not surprising that the continuing impact of the crisis would be reflected in the share of people at risk of poverty. As note earlier children (0-16 years of age) and adults (17-64 years of age) had the highest risk of poverty in 2016 (see table 1). But disaggregating poverty by employment status reveals that inactive and unemployed people had some of the highest risk of poverty in 2016 (see table 5), with nearly half (48 per cent) of the unemployed population being at risk of poverty; with Germany, surprisingly, registering the highest figure at 70 per cent. Moreover, nearly one in ten of employed population (9.6 per cent) were also at risk of poverty, with some countries registering higher figures: Greece at 14.1 per cent and Romania at 18.9 per cent.

Table 5
Percentage of People At-Risk-of-Poverty after Social Transfers by Most Recent Activity Status, EU, 2016

At-risk-of-poverty rate after social transfers by most frequent activity status, 2016
(%)

	Total population	Employed persons	Not employed	Unemployed	Retired	Other inactive persons
EU-28	16.5	9.6	24.0	48.6	13.8	28.9
Euro area (EA-19)	16.6	9.5	23.9	48.7	13.0	27.8
Belgium	14.9	4.7	24.5	45.9	13.3	33.3
Bulgaria	22.0	11.4	32.7	54.6	24.7	32.3
Czech Republic	8.6	3.8	14.7	52.2	8.1	14.5
Denmark	12.5	5.3	21.5	38.7	8.8	34.5
Germany	17.1	9.5	26.6	70.5	18.0	28.8
Estonia	22.4	9.6	41.4	54.8	45.0	32.3
Ireland	15.8	4.8	28.1	40.8	16.1	30.7
Greece	19.9	14.1	23.6	47.1	9.7	25.4
Spain	20.7	13.1	27.4	49.2	11.2	24.4
France	11.9	7.9	16.4	38.4	7.0	27.2
Croatia	19.3	5.6	29.3	43.6	21.8	32.3
Italy	19.4	11.7	25.5	45.8	12.8	28.8
Cyprus	15.7	8.2	23.7	37.2	19.8	19.4
Latvia	22.5	8.3	40.3	55.7	41.9	29.8
Lithuania	21.0	8.5	36.0	60.5	30.6	35.2
Luxembourg	14.9	12.0	18.5	44.8	8.0	23.1
Hungary	12.9	9.6	16.6	48.5	7.1	23.5
Malta	15.5	5.8	26.0	45.1	21.0	27.2
Netherlands	12.2	5.6	20.5	44.1	9.8	28.6
Austria	13.5	8.3	19.8	47.8	12.2	26.5
Poland	16.6	10.8	23.1	47.1	12.3	29.6
Portugal	18.2	10.9	25.4	42.0	16.0	31.2
Romania	22.3	18.9	26.2	50.2	15.9	41.8
Slovenia	14.3	6.1	22.6	44.8	16.9	21.0
Slovakia	10.9	6.5	16.8	47.6	6.0	19.8
Finland	12.3	3.1	21.1	37.2	12.0	28.8
Sweden	15.2	6.7	27.7	50.8	17.9	42.9
United Kingdom	15.1	8.6	24.9	46.1	18.4	30.9
Iceland	*8.4*	*6.5*	*14.3*	*27.1*	*9.9*	*15.2*
Norway	11.8	5.7	21.7	38.0	10.1	34.0
Switzerland	13.7	7.3	24.5	38.1	26.0	20.3
Former Yugoslav Republic of Macedonia	20.1	9.0	28.7	41.1	7.1	29.4
Serbia	24.4	12.6	30.9	48.0	15.4	34.7
Turkey (¹)	18.0	13.7	21.7	37.4	4.5	24.1

Note: for persons aged 18 or over.
(¹) 2015.
Source: Eurostat (online data code: ilc_li04)

eurostat

Source: EU (2019) Eurostat. [https://ec.europa.eu/eurostat/statistics-explained/images/8/85/Unemployment_rate_2007-2017_%28%25%29_new.png] [Accessed: 13/02/2019]

3 The EU response to the financial crisis

The previous section provided a brief outline of the consequences of the financial crisis for employment, poverty and in general livelihood chances of the European citizens.

The EU's initial response to the financial crisis was more concerned with the impact of the crisis on the viability of the banking and financial sector than on employment, poverty and livelihood. Financial stability, however, has important implication for the stability of the real economy, employment and ability of states to tackle poverty.

In the aftermath of the 2009 crisis, the EU Commission launched the Europe 2020 strategy that explicitly put some social issues – 'the fight against poverty and social exclusion' - as part of the long term economic objectives of 'employment, research and development (R&D), climate change and energy, education' (EU, 2014, p. 3).

As far as social targets of poverty, social exclusion, inequality and unemployment are concerned it is highly unlikely that they will be met by 2020. Let us recall that there has been an increase, in the number of people at risk of monetary poverty or experiencing material deprivation or living in jobless households, from 114 million in 2009 to 118 million in 2016. In 2014 the Commission admitted that 'there is no sign of rapid progress to remedy this situation'…with… 'the number of people at risk of poverty might remain close to 100 million by 2020.' (EU, 2014, p. 14)

To tackle this deprivation, effective **social protection** is needed. This task, it has to be emphasized, **remains the responsibility of member states** which, as a result of the financial crisis, experienced some of the worst economic crisis since the WWII. Yet the member states have to design policies to achieve a broad set of social targets like reducing the school drop-out rates, unemployment and poverty, with some EU support on education and training through the EU Social Fund. Otherwise all resources have to come from national sources such as taxes and state spending that come under direct scrutiny of the EU Commission through its economic surveillance and monitoring institutions and budgetary rules. It is also important to note that the EU members like the UK which are not in the Eurozone would be affected, albeit indirectly, by these budgetary rules via the financial markets. A deteriorating budget and balance of payments deficit, especially if they fall outside the EU recommended norms, may well increase the cost of borrowing at home and abroad for any member state that would in turn limit their room to increase public expenditure counter-cyclically.

Therein lies the fundamental contradiction at the heart of the EU approach to welfare and social policy: meeting the needs of people is a national responsibility but the means, i.e. national finances, are directly managed and regulated at EU level (the European Central Bank), international financial institutions (such as IMF), or indirectly through the international financial markets. Breaking financial rules and objectives are met with sanctions, whilst social objectives remain just ‘objectives’ with very little financial backing provided by the EU to achieve them.

It was against this background that the EU launched it Social Investment Package in 2013 to tackle the growing poverty and social exclusion resulting from the Financial Crisis. We now turn to a critical appraisal of the social investment approach to social policy and its EU adaptation in the Social Investment Package.

4 What is social investment?

Let us begin with a brief discussion of the genealogy of social investment in relation to social policy. Social investment approach to social policy has its origin in the social democratic response to the Great Depression of the 1930s, and interestingly in the debate on how to tackle fertility decline in Sweden, (Morel, et al., 2012) that according to Ava and Gunnar Myrdal, required a fresh approach to social policy in order to organise production and reproduction of an economy and society at large. More importantly, the Myrdals viewed social policy interventions as an investment and **not** as an expenditure, and coined the concept of 'productive social policy'.[4] A concept that was further developed by Esping-Anderson (1992) to argue against the trade-off between equality and efficiency – an important rationale, as far as the neo-classical economists are concerned, for reducing public expenditure in general and social expenditure in particular:

> "Equality was not promulgated as merely compatible with efficiency. It became, indeed, a precondition for its optimization: more equally distributed purchasing power is a precondition for macroeconomic performance; family policy is an investment in future human capital; the equalization of resources, such as health or education, is the foundation for optimal labour productivity; solidaristic wage policy and active manpower programs spur industrial modernization; income security helps overcome workers' natural resistance to rationalization; preventive social policy diminishes human waste and economic costs." (Esping-Anderson, 1992)

In passing we should also note another remarkable foresight of the Myrdals on the causes of fertility decline in the rich countries in the first half of the 20th century that has had an echo in the debate on fertility decline in the middle-income countries in the late 20st century. They argued that 'the decline in fertility was due to socioeconomic hardship brought about by industrialization and fast urbanisation: children were no longer seen as extra labour but as an extra cost for households and an extra burden in overcrowded housing. Policies were therefore needed to provide economic support to families – both through cash transfers and through **policies supporting a dual breadwinner model** – and to improve housing standards in order to promote fertility.' (Morel, et al., 2012, p. 3, my ephasis) More importantly, and to the point with regard to social investment agenda of today, they argued against the eugenic ideas of genetic and biological determinants of quality of children by focusing on the socioeconomic and educational determinants of

[4] It should note that in developing countries Myrdals' view provided the theoretical foundation for investing in health and education of population and the development of human capital. (See Mkandawire, ed., 2004).

quality of children. In short: social investment in human capital leads to human development and improve the quality of labour force. They proposed a range of policies on day care centres, education, health care, various types of support to families and women in particular in order to improve female labour force participation. These are some of the policies that are currently advocated in many northern European countries to increase fertility and female labour force participation.

Notwithstanding the theoretical and historical linkages between social investment, *a la* Myrdals, and the post WWII emergence of welfare state social policies and their importance for economic growth, there are some notable differences between the two. The most important one is the Keynesian demand side foundation of the post WWII welfare state and supply side focus of social investment. It should be noted that the supply side focus of Myrdals' social investment is fundamentally different from the neo-classical supply side economics. The Myrdals' supply side focuses on increasing the productive capacity of the economy through investment in human capital and increasing flexibility of the economy through social welfare, whilst the latter focuses on role of markets in increasing the productive capacity of the economy that requires reducing the role of state by cuts in expenditure (in particular social expenditure that are considered as 'consumption' rather than 'investment') and the general deregulation of the economy and markets, including the labour market.

The Keynesian demand side approach has had a counter-cyclical objective to reduce the negative impacts of the Great Depression on aggregate demand, and as such it took the social organisation of household – the male breadwinner model – as the basis of its social policy and social intervention. The Myrdals' social investment approach went beyond a male breadwinner model by trying to increase female labour force participation.

The other important difference between Keynesian demand side and Myrdalian productive social policy approach relates to the treatment of *time*. The Keynesian approach, in so far as employment creation and social expenditure is concerned, is more focused on current and short-term results, encapsulated in Keynes' famous phrase 'We are all dead in the long-run'! Productive social investment, on the other hand, takes a long view of time by focusing on the long-term returns on social investment. (Jensen, 2012) Such a view of Keynesian approach, however, ignores the Keynesian public investment in infrastructure that not only creates *current* demand but also adds to the capital stock that will generate, if productively employed, a return in the *future*.

Social investment, as a supply side policy, has seen a revival since the late 1970s with the ascendancy of neo-liberal macroeconomic paradigm and policies and their impact on social policy. The neoliberal paradigm with its emphasis on deregulation and budgetary restraint was coupled with a reform of traditional social security/income security to 'encourage' more labour market engagement through stringent conditionality of benefits payments and tax incentives, whilst at the same time retraining and reskilling were meant to make the labour force more flexible.

However, despite the overlap between neoliberal supply side paradigm and the supply side orientation of social investment, there are important differences between the two approaches to social policy. Social investment starts with a critique of the post-war male breadwinner household/family oriented welfare state model that provided social insurance for mostly men in stable jobs, that was inadequate for a changing world of post-industrial economies; where 'new' social risks have emerged resulting from rapid technical change, skill obsolescence, new family structure of single parenthood, population ageing and care of elderly and inadequate social security support for families and in society at large. (Hemerijk, 2012, p. 48) Those who were impacted most by these changes have been the young, working women, low-skilled workers, low-income families with children and low-income migrants. The underlying reasons for the impact relate to mismatch of skills of people and what market demands, hence poor access to well paid jobs, lack of adequate social support for women and men to combine family responsibilities with work, and labour market and social discrimination against immigrants. In this context life chances of children born into low-income, unemployed and work-poor and immigrant households would seriously be compromised, contributing further to the transfer of poverty from one generation to the next; undermining the achievements of the post-WWII welfare state.

It was against this background of changing risks and life chances being compromised that a call has been made for a life-course approach in social policy. According to Esping-Andersen (2002) and others a life-course approach would build a relationship among different types of poverty – child poverty, working poverty, skill obsolescence and old age poverty – and life-chances of an individual. Whilst welfare and education of children, from an early age, are the focus of the life-course approach, new policies have to accommodate women's desire for family and their work aspirations; thus blurring the line between private (family) and public (work) spheres, that were demarcated in the old male-bread-winner model that linked social protection to risks associated with male employment. (Hemerijck, 2012) The advocates of a life-course approach to social policy would argue for a redirection of 'social expenditure away from pensions and social insurance towards family services, active labour market policy, early childhood education and vocational training' (Hemerijck, 2012, p. 48)

All in all 'social investment' like 'welfare state' is a policy paradigm rather than a coherent and homogenous body of policies. How it influences welfare provisioning and design of social policies depends very much on a particular historical and institutional context that have shaped the 'path dependency' of the welfare state.

Moreover, bearing in mind that social investment approach has emerged as a critique of a Keynesian style state and demand led welfare and social provisioning, it shares some of the neo-liberal challenges to the welfare state, such as labour market rigidities, disincentive effect of unemployment benefits and other welfare support and supply-side rigidities in general. But the two depart with regard to the role of state in welfare provisioning and complementarity between social investment programmes and social protection measure. These differences are reflected in the adoption of social investment approach in different countries. For example, active labour market policies such as skill training, job search support and limiting unemployment benefit in neo-liberal welfare of regimes of the US is not necessarily combined with social support in other areas, unlike the same supply side social investment polies adopted in the social democratic welfare regimes of Nordic countries with.[5]

According to Hemerijck (2012) economic policies of social investment approach also differs from either Keynesian state-led demand management or neo-liberal retrenchment approaches, in so far as the social investment approach lacks a coherent body of economic theory. In my view the social investment approach could be characterized as heterodox by borrowing from different economic traditions, whilst being evidence based and context specific with regard to institutional settings (Hemerijck, 2012, p. 49). Relying on a Keynesian leg of countercyclical demand management, social investment approach argues in favour of social protection during recessions. Nevertheless, there is a neo-liberal tendency in the social investment approach when it comes to the reform of the welfare system arguing that 'high unemployment benefits of short durations, coupled to strong activation incentives and obligations, supported by active labour market servicing policy…[an] effective policy mix of this kind also have a moderating effect on wage developments.' (Ibid., p. 50.) Hemerijck, however, argues that time limited unemployment benefit or conditions on welfare support are not the same as 'making work pay'. Moreover, he also tries to distance the social investment paradigm from a neo-liberal agenda by emphasizing the productive nature of social investment, considering health and education as investment and not consumption, while emphesising the importance of the state in achieving the social and economic goals of a social investment oriented social policy. (Ibid., pp. 53-54.)

In my view the devil is in the details of how a social investment package is put together and implemented in a specific institutional setting and public finance constraints. The latter is well acknowledged by Hamerijck (2012):

> "The explicit reappraisal of the role of the state as a necessary social investor is confronted with the overriding public finance limitation, anchored in the Maastricht criteria and the Stability and Growth Pact. As long as the neoliberal doctrine of balance budgets and price stability continue to be viewed as sufficient conditions for overall macroeconomic stability, **the shift towards social investment remains heavily constrained**." (p. 54, my emphasis)

And one might add, the 'shift' is very selective of which social investment policies to pursue.

[5] This difference has to be born in mind when we discuss the EU social investment package and its adoption in different member states.

5 Social Investment Package of the EU and its critiques

In 2013 EU initiated its Social Investment Package in response to the growing poverty and social exclusion, as noted in the earlier sections. In a document titled 'Towards Social Investment for Growth and Cohesion' the EU sets out a social investment oriented agenda with the objectives of tackling poverty, social and labour market exclusions. (EU, 2013)

In a short discussion of the challenges facing EU, several structural problems are identified across the member states: welfare spending and pressure on the public finances; demographics and skill mismatches and the resulting labour market imbalances:

> "Welfare systems have contributed to improving social outcomes but are confronted with the consequences of demographic change and of the financial and economic crisis. The resulting **pressure on public budgets and the risk of structural labour market shortages in the future reinforce the need to modernise social policies to optimise their effectiveness and efficiency, and the way they are financed.** It is essential to ensure the best use of existing resources and to avoid potential lasting adverse effects of the crisis, both in countries with serious fiscal constraints, as well as in the Member States that have more fiscal space." (EU 2013, p. 1, my emphasis)

We should note that it is the modernisation of the welfare programmes and social policies in general that are the primary concern of the EU followed by the related labour market imbalances. Tackling the latter goes in some way in providing answers to the former. Implicit in the framing of the problem is the concern with the expenditure side of the public finances.

From the outset the emphasis has been on the supply side of the labour market with the objective of increasing people's skills in order to enhance their chances of participation in the labour market and society at large; whilst also considering other areas for social intervention such as health, childcare, education and housing:

> "The social investment package focuses on a number of central issues, including making sure that social protection systems respond to people's needs at critical moments throughout their lives. It calls for the provision of simpler and better targeted social policies to provide adequate and sustainable social protection systems. It points to the urgent necessity of upgrading active inclusion strategies in the Member States: such as affordable quality childcare and education, prevention of early school-leaving, and training and job-search assistance. Housing support and accessible health care are all policy areas with a strong social investment dimension." (EU 2013)

The SIP takes a life-course approach that uses two targeting principles: targeting specific age groups and targeting individuals on the basis of needs. Children are targeted for early childhood education support, but it is not clear whether all children would have access to childcare services, since affordability is added as a condition for provision. 'Affordable childcare' could require user charges and other cost recovery measures that may well curtail access. Access could also be limited if public finance constraints could not provide sufficient childcare facilities to meet demand under a universal access system.

To enhance its reach and success the SIP has been linked to a range of other EU initiatives. One of these initiatives is the EU Social Fund (ESF) that has earmarked 20 per cent of its fund for social inclusion and anti-poverty schemes. Other initiatives are the Employment Package, the Youth Employment Package, Cohesion Policy and the White Paper on Pensions. Given the complementarity between SIP and the ESF which has an important bearing on the success of the SIP let us provide a short discussion of ESF.

The origin of the European Social Fund dates goes back to the Lisbon Strategy which provided a well-argued case for this mainly neo-liberal labour market-based approach to alleviate poverty and inequality. It led to the creation of the European Social Fund which has become "the main instrument for supporting jobs, helping people get better jobs and ensuring fairer job opportunities for all EU citizens. It works by investing in Europe's human capital – its workers, its young people and all those seeking a job." With an initial budget of 10 billion euros a year it provided useful support to a wider range of projects (from supporting children with learning difficulties in Poland to tackling discrimination against Roma population) across the EU to enhance people's capacities for employment and integration into the labour market. It is certain that some individuals and regions would benefit from ESF projects but it is very doubtful whether ESF could make a notable impact on the life of the majority of the 100 million plus population who are poor in the EU or reduce substantially the number of unemployed people; especially in the Southern European countries of Spain and Greece with unemployment rates of 27 per cent and 24 per cent, respectively (Eurostat, 2014).

The reason is that unemployment in the EU is fundamentally about the lack of demand, rather than labour market rigidities, discrimination, etc.; though these conditions do play a role in unemployment among certain groups and regions. The other reason for the possible failure of ESF to tackle poverty, inequality, discrimination and unemployment is its project-based approach, that are not part of a strategic vision to tackle poverty and inequality which historically have always needed intervention in the market and de-commodification of goods and services that are essential to people's lives (e.g. health services, housing) and economic development (e.g. education and infrastructural development).

The introduction of a new EU investment initiative in 2018 - The InvestEU – is a further boost to other EU investment programme. The idea behind InvestEU is to have a one stop shop for EU funding of investment projects and make them not only simpler but more efficient and flexible in order to increase job creation and innovation. "The InvestEU Fund will support four policy areas: sustainable infrastructure; research, innovation and digitisation; small and medium-sized businesses; and social investment and skills. InvestEU will also be flexible: it will have the ability to react to market changes and policy priorities that change over time." (EU, 2018) However, it is notable that 'the social investment and skills' has the lowest budget allocation – 4 billion euros – compared with about 11.5 for each of the other areas.[6]

The labour market policies of the SIP have been closely linked to tax and benefits policies with a clearly stated objective of 'making work pay.' The SIP also has a gender agenda with the objective of increasing labour force participation of women.

The jury is still out on the SIP and its impact but analytical and theoretical critiques demand a major rethinking of the EU approach to social policy with the objective of moving towards an EU social union

An important criticism of social investment is that it is more concerned with its impact in the future. Investment by definition takes time to provide a return and more importantly supply does NOT necessarily create its own demand, unless we believe in J. P. Say's law! Demand conditions do matter. Moreover, a shift towards labour market activation policies of social investment during a period of tight public finance usually entails cuts in the overall social spending budget that undermines social spending on the current needs of families in economic and social distress in the hope of their increasing work effort and pay in the future. (Morel, et al., 2012, p. 15.) Under tight public finances active labour market policies are closer to a neo-liberal 'workfare' or 'make work pay' policy than re/up-skilling and the development of more and better paid jobs. (Bonoli, 2012) Further criticism of the social investment relates to its neglect of social inclusion and cohesion within and between member states that is a by-product of strict budgetary rules of the monetary union and soft proposal to achieve social objectives (Lundvall and Lorenz, 2012) that remain a responsibility of the member states under the rules of subsidiarity.

Critiques also point to the 'instrumentalist' approach of the social investment agenda both with regard to its objective of increasing flexibility in the labour market and increasing female labour force participation as well as its general objective of economic growth. The 'work-life-balance' oriented policies of social investment are less about creating a gender balance in family/home based unpaid work responsibilities than creating a more flexible labour market and increasing female labour force participation. The social investment focus on the importance of education and skills of current generation for their future contribution to growth objective, a valid goal in its own right, may well undermine the right-based approach of a universalist approach to social policy that focuses on the social rights of citizens, including children, their need and the importance of redistribution to achieve equality, solidarity and social cohesion. (Morel, et al., 2012, p. 16.)

[6] "The InvestEU will run between 2021 and 2027 and it builds on the success of the Juncker Plan's European Fund for Strategic Investments (EFSI) by providing an EU budget guarantee to support investment and access to finance in the EU. InvestEU aims to trigger €650 billion in additional investment." (EU, 2018)

Active labour market policy (ALMP) of the SIP have also come under scrutiny. Bonoli (2012) argues that ALMP is an ambiguous policy framework because it can be shaped by different objectives and different passive unemployment benefit systems. His study of ALMP across six countries (Denmark, Sweden, Germany, France, UK and Italy) with different welfare regimes, and over three periods of rapid growth and labour shortages (1950 to mid-1970s), sluggish growth and industrial restructuring (mid-1970s to mid-1990s) and improved economic and labour market conditions (mid-1990s to late 2000s) yields interesting lessons for the analysis of SIP and its implications for ALMP.

For example, in the 1950s to early 1970s Sweden, Italy, Germany and France followed an **upskilling ALMP** in order to supply the necessary labour for the expanding industries. In the mid-1970s to mid-1990s slow growth and industrial restructuring, Sweden, Germany and France followed an **ALMP geared towards providing alternatives to market employment.** In the mid-1990s to late 2000s with improving economic and labour market conditions the thrust of **ALMP was towards employment assistance and work incentives**. The range of ALM policies differed across these periods and countries that included 'non-intervention' that paid 'passive benefits,' 'weak intervention' that covered job creation and non-employment related training programmes, and 'strong intervention' of provision of basic education. The 'non-intervention' type policies included 'incentive reinforcements' such as tax credits and various types of unemployment benefits conditionality (with regard to, e.g., duration and amount); 'weak interventions' types included 'employment assistance included placement services, job subsidies, counselling and job search programmes; whilst 'strong intervention' types included 'upskilling' included job-related vocational training. (Bonoli, 2012, table 7.1, p. 184.)

The above survey and categorization of ALMP policies shows that social investment type policies have been on the agenda of labour market intervention in different countries for a long time. That could provide important lessons for the current labour market problems in the EU which is facing a simultaneous shortage of high-skilled labour and over-supply of low-skilled labour; a situation which is similar to what some of the Bonoli's surveyed countries faced in the past.

During the growth period of 1950s and 1960s upskilling was a major plank of ALMP because a growing economy could pay for re/up-skilling and there were a lower skill gap between low-skilled and high-skilled labours of the past – it was easier and cheaper to retrain a forestery worker for an industrial job in Sweden than retrain the same worker for care/service or knowledge based industries of today. Current ALMP in the EU, in a period of austerity and retrenchment, on the other hand is more geared towards promoting entry into the low skilled segments of the labour market (Bonoli, 2012, p. 201) which, in my view, is facing an over-supply not only from within the national labour markets because of industrial restructuring and information based technologies, but also the mobility of low-skilled labour within the EU. In the words of Bonoli (2012) "standard compensatory measures (tax credits, family benefits) alone are unlikely to prevent poverty, child poverty and the transmission of disadvantage across generations: precisely the devils that social investment advocates want to get rid of." (p. 201)

6 From social investment to European social union: missing links?

In more recent years reflections on the SI in general and SIP in particular have been combined with the EU initiative of the 'European Pillar of Social Rights' (EPSR) as part of the debate on EU Social Union.

A fundamental question, that still hangs in balance, is whether the EU is stuck in an instrumentalist, piecemeal approach to social policy with its decades long adherence to the principle of subsidiarity "…[that it is the member] states' responsibility to tackle their nations poverty and inequality, albeit with EU support. A subsidiarity policy that has come unstuck because of the inherent contradiction, as I noted earlier, of 'the challenge of reconciling **adequacy of social protection** with **financial sustainability**, including for the self-employed and non-standard workers." (Vanhercke, et al., 2018, p. 12, my emphasis.) This contradiction was starkly demonstrated in the aftermath of the financial crisis of 2008 especially in the crisis hit countries of the Southern Europe. The introduction of the SIP was in part a response to this contradiction; that have been complemented by EPSR.

The EPSR (see Appendix 2 of this paper) which was ratified in 2017 is enshrined in 20 key principles in three areas of:

- Equal opportunities and access to the labour market;
- Fair working conditions;
- Social protection and inclusion.

This is an important step in the introduction of a right-based approach in social policy and social protection in the EU; (Ferrera, 2018) that if combined with other economic and social policies at EU and national levels could strengthen the social dimension of the EU and contribute to achieving a Social Union. Vanhercke, et al. (2018) consider several conditions for the success of EPSR: "(a) its capacity to 'revamp' the EU social agenda; (b) its capacity to steer the direction of Member States' policies, notably through the European Semester; and (c) the possibility of it influencing EU economic policies. The authors also compare the Pillar with the previous EU social policy framework – the Social Investment Package – to identify the elements of continuity and discontinuity." (P. 11, for further details see Sabato, and Corti, 2018) It is the linking of social objectives and social policies at EU level, on the one hand, and macroeconomic policies, on the other, that lie at the heart of an EU Social Union.

In this context an EU Social Union has to go beyond the social dimensions of the Single Market, and address the divergence of monetary and fiscal policies of member states under the European Monetary Union and the Eurozone rules, according to which monetary policy is centralised under the European Central Bank whilst the fiscal and structural policies continue to remain the responsibility of national governments, with no Eurozone budget (Andor, 2017). This divergence may not be a problem during the upswing of an economic cycle but would create problems during downswing and specially a crisis period, as experienced by the Southern members of the EU like Greece.[7]

The critical implication of a monetary union among nations with different economic and regulatory structures, not to mention different social and political histories, is the fact that currency devaluation would no longer be available to members as an instrument to deal with external and internal imbalances. The burden of correcting such imbalances would fall on the so called 'internal devaluation' which in plain English means retrenchment, reduction in real wages and real incomes in order to reduce domestic consumption and imports and to increase exports. This proved to be devastating for Greece post 2009 financial crisis.

Another important implication of a monetary union in the context of the Single Market with free mobility of goods, labour and capital has been the problem of what Stiglitz (2016) has noted as a 'place-based', i.e. country based, debt (in the single currency) and low capacity to service the debt in future, if indebted country faces large scale emigration and internal devaluation (a consequence of monetary union) whilst at the same it were to follow orthodox structural adjustment programmes of retrenchment, pro-cyclical cuts in public expenditure to reduce budget deficit.

The EU's response to the crisis was regulation of financial sector, fiscal consolidation and structural reforms that failed to raise demand for labour sufficiently. The consequences of a social investment package are yet to be assessed. Andor (2017) has correctly noted 'the disinflationary bias in monetary policy, and its bias towards internal devaluation' (p. 150) that in my view have made the response to the crisis rather ineffective at least with regard to increasing demand in general and demand for labour in particular, especially in the crisis hit Southern members.

Regarding the social impact of the crisis Andor (2017) makes two important and poignant observations. He does not consider the social crisis 'a matter of subsidiarity' (p. 151) that in the EU language means a matter for the member states to resolve. The national welfare systems could not provide an answer to the social consequences of the crisis, considering the budgetary and public finance constraints of a Eurozone macroeconomic response to deal with such Eurozone imbalances. Like the EU-wide reach of the Eurozone macroeconomic policies, the response to the social consequences of unemployment and declining welfare supports should also become EU-wide.

The main policy proposals that emerge from this discussion are to do with an EU-wide unemployment insurance scheme and the development of EU fiscal stabilisation instruments that could help countries during episodes of fiscal problems. (Andor, 2017, Stiglitz, 2016, Vanhercke, et al., 2018) These are doable and necessary measures to address asymmetric imbalance and divergences within the EU that have had very important and negative

[7] For further discussion of the problems of an economics of monetary union without a fiscal union and its impact on the EU see Andor (2017), pp. 146-148.

implications for the people in the EU as well as the very raison d'etre of the EU. It is legitimate to ask whether EU is an EU for competition and prosperity of capital or an EU for solidarity and prosperity of people?

7 Conclusion

The depth of the economic crisis and social pressures of high unemployment, low wages, falling living standards, not to mention the right-wing populist anti-EU nationalists knocking on neighbourhood doors as well as parliamentary doors across the EU call for urgent action on the part of the Commission to put the social objectives at heart of the EU short term and medium term economic policies.

What is required is a radical and differentiated approach to state finances and the strengthening of social programmes to prevent further fragmentation and re-commodification in the supply of public services through measures such as part-privatisation ('public-private partnership) and voucher schemes.

The EU in line with its 2020 programme anti-poverty programme should channel some of the ESF annual budget to support national level and state led welfare schemes in support of long term unemployed, disadvantaged and marginalised groups. To prevent financial profligacy, it could ask for matching fund/resource support by the recipient country. The Eurozone budgetary rules (3 per cent cap on budget deficit) should be relaxed for countries with high level of unemployment and high number of people in poverty or at risk of poverty (e.g. Greece and Spain) so long as the extra money available were to finance key health and welfare expenditures. To avoid profligacy such expenditure could be monitored as part of the EU financial surveillance infrastructure. In short the EU Semester should not be only about financial monitoring of Eurozone members but social monitoring in order to provide support to social policy where and when it is needed. This might help to change the current view of the EU in some member state where the EU is either seen as an over-bearing regulator or a financial watchdog.

Andor (2017) distinguishes between the social dimension of the Single Market and that of the EMU [European Monetary Union]. In his view the social dimension of the Single Market is about legislations whereas the social dimension of the EMU is about fiscal and monetary instruments. That in turn calls for the monetary union to be aligned with the national welfare policies systems as well as paying attention to the automatic stabilisation roles of the monetary policy. Whilst the distinction is important in terms of the EU legal and administrative structure, in my view activation of EU legislation with regard to any Social Union issues, such as an EU-wide unemployment insurance has to be built into the relationship between the Single Market and EMU, in other words the Single Market should provide the legal basis of any intra-EU transfers in line with a restructured EMU rules; that at times of crisis, should go beyond the Stabilisation Growth Pact rules that limit Eurozone members' budget deficit to 3 per cent of GDP and national debt to GDP ratio of 60 per cent. It is no exaggeration that '[not only] the social dimension of the EMU is crucial for the legitimacy of the European project but also – given the deepening economic governance – for the legitimacy of Member States.' (Andor, 2017, p. 158)

As a final word one has to ask a basic question that relates to the way in which Europe wants to view itself. A Europe that has defined itself by its enlightenment and progressive ideas since the French revolution has to go back to the basics and invoke the rich intellectual heritage that aspired to 'equality, fraternity and liberty' for human kind. The idea of a social contract between citizens and the state should be put at the heart of economic and social policies at European level in order to mitigate and eventually eliminate not only the negative social impact of the crisis but move towards a more equitable, democratic and prosperous Europe.

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Appendices

Appendix 1: EU Social Fund (ESF)*

"What is the ESF?

The ESF is Europe's main instrument for supporting jobs, helping people get better jobs and ensuring fairer job opportunities for all EU citizens. It works by investing in Europe's human capital – its workers, its young people and all those seeking a job. ESF financing of EUR 10 billion a year is improving job prospects for millions of Europeans, in particular those who find it difficult to get work.

The European Union is committed to creating more and better jobs and a socially inclusive society. These goals are at the core of the Europe 2020 strategy for generating smart, sustainable and inclusive growth in the EU. The current economic crisis is making this an even more demanding challenge. The ESF is playing an important role in meeting Europe's goals, and in mitigating the consequences of the economic crisis – especially the rise in unemployment and poverty levels.

Setting priorities

The European Commission and EU countries in partnership set the ESF's priorities and how it spends its resources. One priority is to boost the adaptability of workers with new skills, and enterprises with new ways of working. Other priorities focus on improving access to employment: by helping young people make the transition from school to work, or training less-skilled job-seekers to improve their job prospects. Indeed, vocational training and lifelong learning opportunities to give people new skills form a large part of many ESF projects.

Another priority focuses on helping people from disadvantaged groups to get jobs. This is part of enhancing 'social inclusion' – a sign of the important role that employment plays in helping people integrate better into society and everyday life. The financial crisis has led to a redoubling of efforts to keep people in work, or help them return to work quickly if they lose their jobs.

Projects for people

The ESF is not an employment agency – it does not advertise jobs. Rather, it is funding tens of thousands of local, regional and national employment-related projects throughout Europe: from small projects run by neighbourhood charities to help local disabled people find suitable work, to nationwide projects that promote vocational training among the whole population.

* [Source: http://ec.europa.eu/esf/main.jsp?catId=35&langId=en] [Accessed 29 May 2019]

There is a great variety in the nature, size and aims of ESF projects, and they address a wide variety of target groups. There are projects aimed at education systems, teachers and schoolchildren; at young and older job-seekers; and at potential entrepreneurs from all backgrounds. People are the focus of the ESF."

Appendix 2: The European Pillar of Social Rights in 20 principles*

"The Pillar of Social Rights is about delivering new and more effective rights for citizens, built upon 20 key principles.

The Pillar of Social Rights is about **delivering new and more effective rights for citizens**. It builds upon 20 key principles, structured around three categories:

- Equal opportunities and access to the labour market
- Fair working conditions
- Social protection and inclusion

Chapter I: Equal opportunities and access to the labour market

1. Education, training and life-long learning

Everyone has the right to quality and inclusive education, training and life-long learning in order to maintain and acquire skills that enable them to participate fully in society and manage successfully transitions in the labour market.

2. Gender equality

Equality of treatment and opportunities between women and men must be ensured and fostered in all areas, including regarding participation in the labour market, terms and conditions of employment and career progression.

Women and men have the right to equal pay for work of equal value.

3. Equal opportunities

Regardless of gender, racial or ethnic origin, religion or belief, disability, age or sexual orientation, everyone has the right to equal treatment and opportunities regarding employment, social protection, education, and access to goods and services available to the public. Equal opportunities of under-represented groups shall be fostered.

4. Active support to employment

* Source: https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights/european-pillar-social-rights-20-principles_en [Accessed 30 May 30, 2019]

Everyone has the right to timely and tailor-made assistance to improve employment or self-employment prospects. This includes the right to receive support for job search, training and re-qualification. Everyone has the right to transfer social protection and training entitlements during professional transitions.

Young people have the right to continued education, apprenticeship, traineeship or a job offer of good standing within 4 months of becoming unemployed or leaving education.

People unemployed have the right to personalised, continuous and consistent support. The long-term unemployed have the right to an in-depth individual assessment at the latest at 18 months of unemployment.

Chapter II: Fair working conditions

5. Secure and adaptable employment

Regardless of the type and duration of the employment relationship, workers have the right to fair and equal treatment regarding working conditions, access to social protection and training. The transition towards open-ended forms of employment shall be fostered.

In accordance with legislation and collective agreements, the necessary flexibility for employers to adapt swiftly to changes in the economic context shall be ensured.

Innovative forms of work that ensure quality working conditions shall be fostered. Entrepreneurship and self-employment shall be encouraged. Occupational mobility shall be facilitated.

Employment relationships that lead to precarious working conditions shall be prevented, including by prohibiting abuse of atypical contracts. Any probation period should be of reasonable duration.

6. Wages

Workers have the right to fair wages that provide for a decent standard of living.

Adequate minimum wages shall be ensured, in a way that provide for the satisfaction of the needs of the worker and his / her family in the light of national economic and social conditions, whilst safeguarding access to employment and incentives to seek work. In-work poverty shall be prevented.

All wages shall be set in a transparent and predictable way according to national practices and respecting the autonomy of the social partners.

7. Information about employment conditions and protection in case of dismissals

Workers have the right to be informed in writing at the start of employment about their rights and obligations resulting from the employment relationship, including on probation period.

Prior to any dismissal, workers have the right to be informed of the reasons and be granted a reasonable period of notice. They have the right to access to effective and impartial dispute resolution and, in case of unjustified dismissal, a right to redress, including adequate compensation.

8. Social dialogue and involvement of workers

The social partners shall be consulted on the design and implementation of economic, employment and social policies according to national practices. They shall be encouraged to negotiate and conclude collective agreements in matters relevant to them, while respecting their autonomy and the right to collective action. Where appropriate, agreements concluded between the social partners shall be implemented at the level of the Union and its Member States.

Workers or their representatives have the right to be informed and consulted in good time on matters relevant to them, in particular on the transfer, restructuring and merger of undertakings and on collective redundancies.

Support for increased capacity of social partners to promote social dialogue shall be encouraged.

9. Work-life balance

Parents and people with caring responsibilities have the right to suitable leave, flexible working arrangements and access to care services. Women and men shall have equal access to special leaves of absence in order to fulfil their caring responsibilities and be encouraged to use them in a balanced way

10. Healthy, safe and well-adapted work environment and data protection

Workers have the right to a high level of protection of their health and safety at work.

Workers have the right to a working environment adapted to their professional needs and which enables them to prolong their participation in the labour market.

Workers have the right to have their personal data protected in the employment context.

Chapter III: Social protection and inclusion

11. Childcare and support to children

Children have the right to affordable early childhood education and care of good quality.

Children have the right to protection from poverty. Children from disadvantaged backgrounds have the right to specific measures to enhance equal opportunities.

12. Social protection

Regardless of the type and duration of their employment relationship, workers, and, under comparable conditions, the self-employed, have the right to adequate social protection.

13. Unemployment benefits

The unemployed have the right to adequate activation support from public employment services to (re)integrate in the labour market and adequate unemployment benefits of reasonable duration, in line with their contributions and national eligibility rules. Such benefits shall not constitute a disincentive for a quick return to employment.

14. Minimum income

Everyone lacking sufficient resources has the right to adequate minimum income benefits ensuring a life in dignity at all stages of life, and effective access to enabling goods and services. For those who can work, minimum income benefits should be combined with incentives to (re)integrate into the labour market.

15. Old age income and pensions

Workers and the self-employed in retirement have the right to a pension commensurate to their contributions and ensuring an adequate income. Women and men shall have equal opportunities to acquire pension rights.

Everyone in old age has the right to resources that ensure living in dignity.

16. Health care

Everyone has the right to timely access to affordable, preventive and curative health care of good quality.

17. Inclusion of people with disabilities

People with disabilities have the right to income support that ensures living in dignity, services that enable them to participate in the labour market and in society, and a work environment adapted to their needs.

18. Long-term care

Everyone has the right to affordable long-term care services of good quality, in particular home-care and community-based services.

19. Housing and assistance for the homeless

a. Access to social housing or housing assistance of good quality shall be provided for those in need.

b. Vulnerable people have the right to appropriate assistance and protection against forced eviction.

c. Adequate shelter and services shall be provided to the homeless in order to promote their social inclusion.

20. Access to essential services

Everyone has the right to access essential services of good quality, including water, sanitation, energy, transport, financial services and digital communications. Support for access to such services shall be available for those in need."