Opinion of the European Economic and Social Committee on 'The impact of social investment on employment and public budgets' (own-initiative opinion)

(2014/C 226/04)

Rapporteur: **Wolfgang GREIF**

On 19 September 2013, the European Economic and Social Committee, acting under Rule 29(2) of the Rules of Procedure, decided to draw up an own-initiative opinion on

The impact of social investment on employment and public budgets

(own-initiative opinion).

The Section for Employment, Social Affairs and Citizenship, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 12 March 2014.

At its 497th plenary session (meeting of 26 March), the European Economic and Social Committee adopted the following opinion by 205 votes to 6 with 3 abstentions:

1. **Summary**

1.1 The EESC welcomes the Commission's social investment package, and above all the declared paradigm change of no longer regarding social investment purely as a cost but rather as an investment in the future.

1.2 Building on this, the EESC will examine the multiple positive effects of social investment, particularly for the labour market and public finances, in the following areas:

— Social services and childcare

— Education and tackling youth unemployment

— Promoting employment

— Promoting good health and active ageing

— Construction of social housing and a barrier-free society

— Social entrepreneurship.

1.3 The opinion will explain positive causal relationships, demonstrating that:

— the expansion of social services throughout Europe has a significant impact on employment;

— well planned, effective and efficient social investment can permanently reduce pressure on public finances and is thus not incompatible with fiscal consolidation;

— failing to act in the social sphere also has a cost, and the long-term cost of a lack of social investment can often be much higher;

— investment in the welfare state not only brings social progress but is also worthwhile in economic and fiscal terms.

1.4 The better social investment is embedded within a credible macroeconomic and institutional framework, the higher the social, economic, fiscal and social benefits, i.e. the 'multiple dividends' of those investments will be.

1.5 The EESC believes that consistent and successful implementation of a broad-based social investment package is associated with the following key requirements:

— A credible change of course towards (preventive) social investment means rejecting one-sided strict austerity policies. The EESC underlines its call for a European stimulus and investment programme to the tune of 2 % of GDP.

— Without secure financing and the right conditions, it will not be possible to exploit the potential of social investment fully. With fiscal consolidation measures due, in addition to increasing the efficiency and effectiveness of public spending it is imperative that new sources of revenue be identified.

— Social investments must be fixtures in the Europe 2020 Strategy and the European Semester. They should be explicitly taken into account in the Annual Growth Surveys and country-specific recommendations.

— The EESC supports the debate taking place at the Commission on excluding social investments from the calculation of net government deficits under the EMU's fiscal rules, in line with the financial 'golden rule'.

— Efforts should be made to ensure methodical progress and the development of suitable tools to measure the (positive) effects of increased social investment and refinement of social indicators in the institutional framework of EMU.

— The EESC calls on the Commission to provide for a more ambitious and longer-term policy roadmap to implement the social investment package by at least 2020.

2. **Introduction**

2.1 The EESC takes the view that, particularly in times of crisis, there is an enormous need for social investment in order to counter the increasing risk of poverty; this also has significant Europe-wide employment potential, which must be mobilised by private and public investment ([1]).

2.2 The EESC has therefore welcomed the Commission's social investment package ([2]), which calls on the Member States to focus more strongly on social investment, and above all on the declared paradigm change of no longer regarding social investment purely as a cost but rather as an investment in the future ([3]).

2.3 The document also states that consistently implemented social investment, which is impact or results-driven, improves people's long-term employment opportunities and makes an important contribution to achieving the Europe 2020 employment policy goals.

2.4 The EESC therefore also called on the Commission to submit a specific implementation plan for the social investment package.

2.5 As the weak point of the Commission initiative, open questions regarding financing were identified, and it was pointed out that, without a change in the prevailing policy of one-sided expenditure cuts, successful implementation of the proposals for increased social investment was not realistic.

2.6 This opinion builds on this, focusing on the many positive effects of social investment, above all for the labour market and public finances, and highlighting specific requirements and recommendations for implementing the social investment package.

3. **General comments on the multiple dividend of social investment — social, economic, fiscal and societal benefits**

3.1 The Commission assigns three key roles to social policy ([4]): to support people in various risk situations, to stabilise the economy and to provide social investment. This distinction is not to be viewed as a reciprocal division; rather it shows the possibilities for active policy-making. In this connection, attention should be paid to the complementarity both of policy areas and (institutional) conditions, which ultimately will make social cohesion possible.

([1]) OJ C 11, 15.1.2013, p. 8.
([2]) COM (2013) 83 final.
([3]) OJ C 271, 19.9.2013.
([4]) COM(2013) 83 final, p. 3.

3.2 There is a growing recognition, not only at the EESC but also in research studies ([5]) and in EU policy, that investment in the welfare state not only brings social progress but is also worthwhile in economic and fiscal terms ([6]). At the same time, there is a lack of comparable standards which help to record and assess all the positive external effects of social investment.

3.3 However, it is beyond dispute that well planned, effective and efficient social investment — depending on its country-specific design and the scope of the measures — has multiple positive effects: existing social needs are met and employment opportunities created, equal opportunities — also between the sexes — are promoted, and rising employment and falling unemployment compensate for the costs to a great extent. In most cases, the investment aspect of social investment manifests itself in a positive impact over time (e.g. investment in education, childcare, health promotion, working conditions adapted to different stages of life), not necessarily in the expectation of immediate 'returns'.

3.4 The better social investment is embedded within a complementary, institutional and integrated political framework, the higher the 'multiple dividend' of that investment will be. Strategic planning and structured monitoring are needed, in line with the Europe 2020 objectives.

3.5 In view of the current dramatic level of unemployment, which is unlikely to show much improvement in the near future, emphasis on social investment can make an important contribution to more growth and employment. Making full use of existing employment potential requires consistent implementation of a policy that opens up opportunities for participation in the economy and society. Social, future-orientated investment, which is impact or results-driven, particularly the development of social services, to which much greater employment effects are ascribed than to any other use of public resources, has a key role to play here.

3.6 In addition to having positive effects on the labour market, social investment can reduce pressure on public finances in a way which is not incompatible with fiscal consolidation. The EESC has already pointed out that the attempt to achieve budgetary consolidation during a recession simply by cutting expenditure is widely seen as having failed ([7]). The advantage of a medium and long-term balance between revenue and expenditure is that structural problems are addressed by investment, thus in the long term increasing public budgetary room for manoeuvre once again. Current analyses show that the promotion of inclusive growth and increases in employment rates in line with the Europe 2020 objectives would create additional scope for national budgets EU-wide of up to EUR 1 trillion ([8]).

3.7 It should be borne in mind that failing to act particularly in the social sphere also has a cost, and the long-term cost of a lack of social investment can often be much higher. This idea, that cure is more expensive than prevention, is found in a number of Commission communications ([9]). Although social investment involves short-term costs, in the medium to long term it brings welfare gains for society and higher revenues for state budgets which significantly reduce future costs ([10]).

3.8 Not all social expenditure is social investment per se. In principle, some welfare benefits have an effect on consumption (e.g. pensions, unemployment benefit). The EESC has, however, always stressed the importance of investment in robust social security systems for supporting consumption and economic activity (especially at times of crisis) given that they act as an automatic stabiliser, supporting incomes and demand and thus contributing to Europe's emergence from the crisis ([11]).

([5]) Social and employment policies for a fair and competitive Europe — Background paper, Foundation Forum 2013, Eurofound, Dublin, p. 16.
([6]) see footnote 4.
([7]) see footnote 3.
([8]) EPC Issue Paper No. 72, Nov. 2012.
([9]) MEMO/03/58 v. 19.3.2003 or COM (2013) — IP/13/125.
([10]) inter alia COM(2013) 83 final, p. 2.
([11]) OJ C 133, 9.5.2013, p. 44, point 4.4.2.

4. **Examples of the effect of social investment**

4.1 **Investment in social services**: Greater investment in the provision and support of social infrastructure (including nursing care, care for the elderly, health, services for people with disabilities, sheltered housing, advice centres etc.) creates jobs at the same time as making an important contribution to boosting labour market participation rates ([12]). It also helps relieve pressure on public finances ([13]) over the medium and long term and stimulate the regional economy. According to Commission calculations, with an annual growth rate of 0,5 % for jobs in the health sector, employment growth of at least 1 million jobs can be expected in that sector by 2020 ([14]). The EESC has repeatedly pointed out that, in both the public and private sectors, these must be jobs with high-quality conditions of employment and fair pay ([15]).

4.2 **Investment in childcare:** Many studies have shown, using the example of childcare, that with targeted investment, social progress can be combined with increased competitiveness ([16]). New estimates show that public investment aimed at achieving the Barcelona childcare objectives, in addition to generating substantial employment effects, also boost government revenues significantly. For example, a study ([17]) for Austria shows that, even allowing for a weak economic outlook, after four years investment costs are lower than revenue generated. In the process, public finances benefit from complementary effects: cyclical and regional policy impulses, rising direct employment, falling unemployment benefit costs, etc. The EESC would welcome greater research activity and the more intensive exchange of best practice in this area too.

4.3 **Investment in children:** The Commission is calling for preventive measures in the form of early investment in improving children's opportunities for development and participation (not only those from disadvantaged socio-economic backgrounds) ([18]). In its Recommendation entitled Investing in children, the Commission shows that preventive investment in combating child poverty can be achieved by means of a range of measures. The positive effects of developing high-quality childcare facilities are highlighted: promoting talent, reducing the risk of dropping out of school, better employment opportunities for women in particular and an impetus to growth at regional level ([19]).

4.4 **Investment in education and combating youth unemployment:** a Europe which is prepared for the future can only succeed by having a higher level of education and reducing shortcomings in general and vocational education. Investment in education, which meets the needs of people and the economy, leads to higher productivity and higher tax and social security revenues. OECD estimates of the rate of return on public investment in education point to an average figure of 7,8 % ([20]). The promotion of youth employment must be a central plank of national social investment strategies. Member States are rightly being urged to develop effective measures for young people, especially those who are not in education, employment or training (NEETs). The economic losses arising from young people being excluded from the labour market or the education system are estimated by Eurofound at over EUR 150 billion annually, or 1,2 % of European GDP ([21]).

([12]) Drivers of Female Labour Force Participation in the OECD, OECD Social, Employment and Migration Working Papers 145, OECD Publishing, Thévenon, Olivier (2013).

([13]) 'Result of study: every euro invested in mobile services in 2010 creates the equivalent of EUR 3,70 (p. 9)'. *Studie zum gesellschaftlichen und ökonomischen Nutzen der mobilen Pflege- und Betreuungsdienste in Wien mittels einer SROI-Analyse* (Study on the social and economic benefits of mobile nursing and care services in Vienna using a SROI analysis), Schober, C. et al, Vienna (2012).

([14]) SWD (2012) 95 final.

([15]) OJ C 11, 15.1.2013, point 4.7.5.

([16]) *Zur ökonomischen Notwendigkeit eines investiven Sozialstaates* (Economic necessity of social investment), WIFO (Austrian Institute for Economic Research), Famira-Mühlberger, U (2014), Vienna.

([17]) *Investiver Sozialstaat Wachstum, Beschäftigung und finanzielle Nachhaltigkeit Volkswirtschaftliche und fiskalische Effekte des Ausbaus der Kinderbetreuung in Österreich*, (Social Investment Growth, Employment and Financial Sustainability Economic and Fiscal Effects of Improving Childcare in Austria) AK Europa (2013), Brussels and Eurofound (Ref.: EF1344).

([18]) See: The rate of return to the HighScope Perry Preschool Program, Journal of Public Economics, , Heckman, J.J., et al. (2010), Vol. 94 (1-2), p. 114-128.

([19]) COM(2013) 778 final.

([20]) see footnote 18.

([21]) Young people and NEETs in Europe: First findings, Eurofound (EF1172EN).

4.5 **Investment in promoting employment:** High unemployment — above all youth and long-term unemployment — not only places a significant burden on those who are affected and their relatives. For public finances too, the entrenchment of unemployment poses a major challenge, which must be met through measures to boost skills and promote employment ([22]). The longer unemployment lasts, the more difficult it is to achieve a suitable match between labour supply and demand. Particularly in a knowledge and technology-based economy, skills shortages and lack of work experience are a significant barrier to long-term success in the labour market.

4.6 **Investment in the management of demographic change and improving the employment opportunities of older people:** The EESC has repeatedly stated that the labour market is the key to getting to grips with demographic change. If the employment potential that exists is used more effectively, the balance between contributors and beneficiaries can largely be maintained despite the increase in the number of older people ([23]). Despite a foreseeable shift in the age structure, in many EU countries there has been insufficient investment in creating the conditions for workplaces that are adapted to workers as they grow older (creation of working conditions geared to different stages of life) and in improving labour market participation.

4.7 **Investment in preventive healthcare and rehabilitation:** Positive effects can also be achieved by promoting health in the workplace and throughout companies, as employability and the risk of unemployment are closely correlated with physical and mental health. If risks are not identified in time and action taken, this results not only in individual suffering but also heavy social costs. Greater investment in preventive measures is needed to ensure the long-term sustainability of public finances.

4.8 **Investment in construction of social housing:** Like the European Parliament and the Committee of the Regions, the EESC sees the construction of social housing as a key to social cohesion and calls for a European framework for this to be established ([24]). In this connection, the subsidiarity principle must be safeguarded so that the Member States can continue to set the criteria for construction of social housing themselves. This kind of investment meets a pressing social need (particularly in connection with combating poverty and social inclusion) while also creating jobs in the regions and thus stabilising the economy and, for example, helping to tackle climate change and energy poverty through investments to improve thermal efficiency) ([25]).

4.9 **Investment in a barrier-free society:** The EESC has repeatedly underlined the need to promote a barrier-free society ([26]). In this connection, social investment should be geared towards creating public spaces and housing which meet age-related needs and those of disabled people, relevant infrastructure to promote mobility and easily accessible, affordable and high-quality social services for disadvantaged groups in society.

4.10 **Investing in social entrepreneurship:** The EESC welcomes the fact that the Commission recognises the important role of the social economy in implementing the social investment package. It is often directly involved in implementation. To provide support for these tasks, public funds and private capital have to be made available in a simpler way, suitable for social enterprise business models. The Member States are to make more use of innovative approaches to financing in the form of private sector participation, for example, which could also lead to savings in public expenditure ([27]). However, the EESC stresses once again that this must on no account lead to a commercialisation of or a fragmented approach to social policy. The state must not shirk its responsibility for social policy ([28]).

5. **Policy recommendations**

5.1 *A change of course towards preventive social investment means rejecting one-sided strict austerity policies.*

5.1.1 As regards increasing employment, the expansion of social services has a greater effect, the EESC believes, than any other form of public expenditure. It therefore urges that the welfare state in Europe be developed further in a progressive and sustainable way so that it can fulfil its potential as an additional productive force for the European economy.

([22]) Why invest in employment? A study on the cost of unemployment, Brussels, Idea Consult (2012).
([23]) OJ C 376, 22.12.2011, p. 74.
([24]) EP Resolution of 11.6.2013 (2012/2293(INI)), OJ C 9, 11.1.2012, p. 4.
([25]) EP Resolution on the Commission communication on social investment (PE508.296v01-00).
([26]) See, inter alia, TEN/515 'Accessibility as a human right' (not yet published), and OJ C 44, 15.2.2013, p. 28.
([27]) see footnote 3.
([28]) OJ C 271, 19.9.2013, p. 91.

5.1.2 Successful implementation of a broad-based social investment package requires a credible macroeconomic and institutional basis. Without a change in the policy of one-sided expenditure reductions it will above all not be possible to achieve successful labour market integration and fair social and economic participation for the broadest possible sections of society.

5.1.3 In view of the social investment package and the challenges it entails, the EESC underlines its call for a European stimulus and investment programme to the tune of 2 % of GDP ([29]).

5.2 *Without secure financing it will not be possible to exploit the social and economic potential of social investment fully.*

5.2.1 A credible paradigm shift towards strategies of investment and prevention in central policy areas (including education, social, labour market and health policy) will only be achieved when secure financing is made available in both the EU budget and the budgets of the Member States.

5.2.2 The EESC reiterates its conviction that, in the context of forthcoming fiscal consolidation, attention should therefore not only be paid to the expenditure side, but new sources of revenue must be identified in conjunction with moves to increase efficiency and effectiveness of public spending ([30]). In this connection, the EESC believes that Member States' tax base will have to be broadened, not least by imposing financial transaction taxes, closing tax havens, ending tax competition and taking measures to tackle tax evasion. In addition, a general re-think of tax systems is needed, with due regard for questions of contributions from different kinds of income and assets ([31]).

5.2.3 The EESC agrees with the Commission that the European Social Fund (ESF) should be the main instrument for promoting social investment and 20 % of the ESF should be earmarked in each Member State for social integration and combating poverty. The Committee considers, however, that other EU funds should also be involved. Thus, substantial resources from the European Agricultural Fund for Rural Development (EAFRD) and the European Regional Development Fund (ERDF) should be used for social services such as childcare, long-term care and mobility in rural areas and be enshrined in the national agreements.

5.2.4 The EESC is extremely critical of conditionality in the framework of economic governance, the cuts in Cohesion Fund resources as a penalty for non-compliance with EU macroeconomic requirements. Not only does that restrict and have a pro-cyclical effect on economic development, it also impedes the necessary investment in the countries benefiting from the programmes. Instead of this, an impetus for growth and support must be provided and the European co-financing contribution should be increased further, especially in countries particularly affected by the economic crisis.

5.3 *Social investments must be fixtures in the Europe 2020 Strategy and the European Semester.*

5.3.1 The EESC calls for greater focus on social investment in the coordination process of the European Semester. This new focus must be explicitly taken into account in the Annual Growth Surveys and the country-specific recommendations. It must be made clear that greater social investment is compatible with growth-friendly fiscal consolidation.

5.3.2 In order to achieve this objective, the EESC supports the ongoing discussion in the European Commission on applying the financial 'golden rule', i.e. on excluding future-oriented public investments from the calculation of net public deficits under the EMU's fiscal rules. This will prevent investment which is profitable in the long term from being dropped. The EESC suggests discussing whether the 'golden rule' could also be applied to social investment supported by the EU Structural Funds.

5.3.3 The promotion of social investment must also be a key element of the revision of the integrated guidelines for growth and jobs in connection with the mid-term review of the Europe 2020 Strategy in 2014.

([29]) See: OJ C 133, 9.5.2013, p.77, point 3.2.4.

([30]) See: OJ C 143, 22.5.2012, p. 94, point 4.3.

([31]) See: OJ C 143, 22.5.2012, p. 23, point 6.1.3.1

5.3.4 For the EESC it is essential to consult and inform all actors responsible for social investment more than hitherto and to involve them in decision-making and monitoring at all levels.

5.4 *Improved methodology and more effective tools for measuring the success of strategy to increase social investment*

5.4.1 A higher-quality and more holistic basis is needed for decisions on the future direction of policy. In general, the aim should be an approach to social investment which is dynamic over time, life cycle-orientated and preventive, and which reflects costs more accurately than mere static cost-benefit analyses ([32]).

5.4.2 The complex relationship between different policy fields requires better methods of measuring success and greater transparency, e.g. in the form of cost-benefit relationships making use of a definition of the overall benefit to society or scenarios for various policy measures over time taking account of medium and long-term prospects.

5.4.3 A possible first step would be the methodical further development of existing standardised long-term projections in individual expenditure areas, including those related to population trends (e.g. education, care, health, pensions). The 2015 Ageing Report would be a suitable opportunity to determine the return of social investments required and budgeted for in accordance with national circumstances. This has in the past been neglected and has always led to distorted and exaggerated cost estimates.

5.4.4 Another open question is the importance that should be assigned to social indicators in the existing institutional framework of the EMU. If the indicators are to be assigned real importance in defining policy, they will need to be refined.

5.4.5 The EESC also considers interesting the Parliament's request ([33]) addressed to the Commission for a scoreboard of common social investment indicators with an alarm mechanism to monitor progress in the Member States, as well as the Parliament's call to the Member States to look at the possibility of signing a Social Investment Pact setting out investment objectives and establishing a control mechanism.

5.5 *Revising and fleshing out the policy roadmap for the implementation of the social investment package*

5.5.1 The EESC finds the Commission's proposed policy roadmap for implementing the social investment package too defensive and thus calls for a more detailed and longer-term roadmap (at least until 2020).

Brussels, 26 March 2014

The President
of the European Economic and Social Committee
Henri MALOSSE

([32]) See European Commission, Social Agenda, May 2013, p. 15.
([33]) see footnote 27.