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Enabling Social Policy

Lane Kenworthy

The social investment approach to social policy emphasizes skill development and facilitation of employment alongside the traditional focus on provision of income to people not in employment. Policy tools include early education, improved K-12 schooling, affordable and good-quality universities, active labour market programmes (training, retraining, job placement), accessible lifelong learning, mentoring and other individualized assistance to those who need it, paid parental leave, encouragement of flexible work scheduling, and public employment.

All affluent nations have been moving in the direction of social investment (Morel, Palier, and Palme 2012c; Hemerijck 2013). The Nordic countries were the first movers. Much of continental Europe has begun to join in. Even in the United States, long a proponent of expecting employment but providing little support for it, policies such as early education, paid parental leave, college affordability, a higher wage floor, and a more robust employment-conditional earnings subsidy are now squarely on the agenda in a number of states and are gaining interest among national policymakers.

Should we promote employment? Does social investment work? Which policies and policy configurations are most effective? How should we pay for it?

7.1 Promoting Employment

Some believe social policy should aim to reduce people's reliance on employment. This sentiment is understandable. The need for a pay check can get us stuck in careers that divert us from more productive or rewarding pursuits. Paid work can be physically or emotionally stressful. It can be monotonous and boring. It can be alienating. Some jobs require a degree of indifference, meanness, or

dishonesty towards customers or subordinates that eats away at one's humanity. Perhaps most problematic of all, work can interfere with family life.

Yet employment has significant virtues (Ferrera, Hemerijck, and Rhodes 2000; Scharpf and Schmidt 2000; Esping-Andersen et al. 2002; Kenworthy 2004, 2008; Layard 2005). It imposes regularity and discipline on people's lives. It can be a source of mental stimulation. It helps to fulfil the widespread desire to contribute to, and be integrated with, the larger society. It shapes identity and can boost self-esteem. With neighbourhood and family ties weakening, the office or factory is a key site of social interaction. Non-employment tends to be associated with feelings of social exclusion, discouragement, boredom, and unhappiness.

Just as important, in countries that have made commitments to pensions for their elderly, health care for all, and assorted other services and transfers, there is a need for additional government revenue. Some can come from raising tax rates, but that has become a tall order in a world with mobile capital. Increasing the share of the population in paid work can help to ensure the fiscal viability of a generous welfare state. It provides an increase in tax revenues without requiring an increase in tax rates. High employment eases the fiscal crunch another way too, by reducing the number of people fully or heavily reliant on government benefits.

If employment is worth promoting, what kinds of jobs should we foster? My answer: all of them, including low-end service positions. Manufacturing jobs have been declining steadily for decades, and that is almost certain to continue. Even if we do a superb job with schooling, high-end services won't employ everyone. Imagine a high-skill, high-employment economy of the future with 85 per cent of the working-age population in paid work. Suppose 65 per cent complete university and end up in high- or middle-paying service jobs. That optimistic scenario still leaves 20 per cent in other jobs. A few will work in manufacturing or farming, but for the rest we need low-end services.

Some favour minimizing low-end service jobs. One way to do that is to set the wage floor at a very high level, perhaps supplemented by heavy payroll taxes, in order to reduce employer demand for low-end positions. Another possibility would be to offer an unconditional basic income grant at a level generous enough to reduce the supply of people willing to work in a low-paying job.

I don't think that's the best way to proceed. As we get richer, most of us are willing to outsource more tasks that we don't have time or expertise or desire to do ourselves: changing the oil in the car, mowing the lawn, cleaning, cooking, caring for children and other family members, advising, educating, organizing, managing, coaching, transporting. And improved productivity and lower costs abroad will reduce the price we pay for food, manufactured goods, and some services, leaving us with more disposable income. So we'll want more people teaching preschool children, coaching and mentoring

teenagers, helping adults find their way in the labour market or through a midlife career transition, caring for the elderly, and so on, and we'll be better able to purchase such services. If there is demand for these services and a supply of people willing to perform them, why discourage them? Low-end service jobs can be especially valuable for the young and immigrants, two groups who tend to struggle in the labour market.

If a low-end service job pays a modest wage, that need not mean a person's income also is low. A subsidy such as America's Earned Income Tax Credit (EITC) or the UK's Universal Credit (formerly Working Tax Credit) can boost household incomes while simultaneously encouraging employment.

For some, a low-end service job might be a career. Others will want it to be merely a stepping-stone. Government can help ensure that people have the capability to move up, via health care, early education, elementary and secondary schooling, lifelong learning opportunities, retraining, job placement assistance, special services for the mentally or physically disabled, language assistance for immigrants, targeted programmes for the young and the elderly, assistance with transportation, and help in organizing formal job ladders.

Mobility between jobs need not be confined to upward moves. It's very difficult to predict at age 18 or even 22 what kind of interests and capabilities you will have at age 35 or 50. Policy should facilitate people's ability to change job, occupation, or entire line of work at various points in the life course, even if the switch is simply to something different, rather than something better. This calls for counselling, mentoring, and perhaps several sabbaticals (every adult, not just parents of new-born children, should have access to several one-year paid leaves). It also means eligibility for pensions, unemployment insurance, sickness insurance, parental leave, holidays, and other non-wage benefits should be contingent on employment, but not on the particular job or employer you have.

If most people are expected to be in employment, policy also ought to improve the quality of work life. Low-end service jobs may offer limited mental stimulation or opportunity to participate in decision-making, and some are stressful. There is a limit to the amount of stimulation that some of these jobs will ever be able to provide, but most could do better, and we should try to figure out how and to push firms in that direction. Indeed, we should aim to improve working conditions in all jobs, rather than assuming that higher-skilled, better-paying positions automatically have decent work quality. I like the idea of an auditing procedure whereby government sets outcome standards for work conditions, leaves it up to firms to decide how to meet the standards, and monitors their efforts to do so.

Finally, policy ought to limit the degree to which job inequality spills over into social inequality and segregation. We want a society that is modestly rather

than severely unequal. Jobs inevitably come with inequalities of status. If they also have profoundly unequal pay, this can easily spill over into social segregation and inequality of respect. Policy should push against this. Neighbourhoods should be designed or redesigned to encourage class mixing. Parks, beaches, libraries, and public transport ought to be attractive to all. And we might do well to consider a mandatory year of national service to ensure that everyone gets an experience of genuine social mixing as they embark on adulthood.

7.2 Does Social Investment Work?

Does a social investment strategy boost employment? Figure 7.1 shows employment rates in the rich longstanding democracies in 1989 and 2014. (A proper assessment would include employment hours, but we lack cross-nationally comparable data.) The figure includes the working-age population as a whole (age 25–64) and three groups among whom employment has tended to be comparatively low—prime-working-age women, the near-elderly, and the least-educated. Nearly all countries have higher employment rates now than they did twenty-five years ago, despite just recently emerging from the deepest economic crisis since the Great Depression. Moreover, Sweden, Denmark, and Norway, consistent practitioners of social investment since the 1970s, tend to be at or near the top in employment. While we don't know for certain how much of the common employment rise or the Nordic countries' success owes to social investment, these patterns suggest grounds for optimism that a social investment strategy can help (see Rueda 2015 for a different conclusion).

A second criterion favoured by many in assessing social investment is relative poverty. The relative poverty rate is, in effect, an indicator of income inequality between households in the middle (median) and lower parts of income distribution (Kenworthy 2011a). The hope is that social investment will produce larger employment increases in households at the bottom than in the middle, yielding larger growth in household income.

This is asking a great deal, as it isn't clear why social investment programmes would boost employment more in low-income households than in middle-income ones. Moreover, an array of economic forces—new technology (computers and robots), globalization, heightened product market competition in domestic services, increases in low-skill immigrants—have been putting downward pressure on wages at the low end (Bailey, Coward, and Whittaker 2011; Cantillon, Collado, and Van Mechelen 2015). In the period leading up to the 2008 economic crisis, as more countries were embracing social investment, relative poverty rates did not tend to fall (Cantillon and Vandenbroucke 2014).

Yet that doesn't mean household incomes were stagnant. In many countries, particularly the Nordics, lack of improvement in relative poverty rates

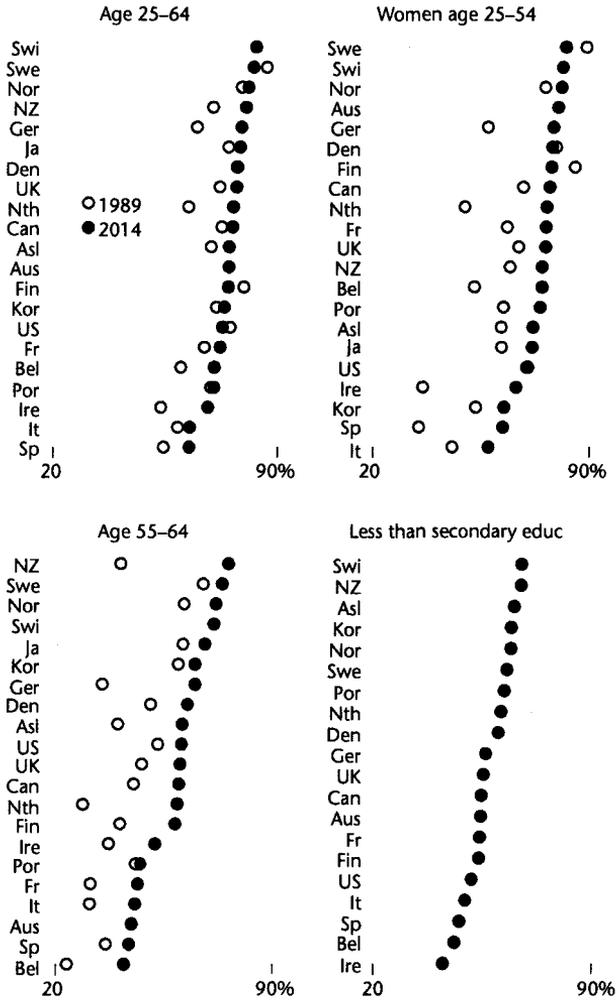


Figure 7.1. Employment rates

Note: The year 1989 is the earliest business-cycle peak year for which data are available for nearly all countries. ‘Asl’ is Australia; ‘Aus’ is Austria.

Source: OECD.

was a product of incomes at the low end rising but at roughly the same pace as incomes in the middle (Kenworthy 2011b, 2015a, 2015c). Relative incomes didn’t improve, but absolute incomes did. It also bears noting that the Nordic countries have the lowest rates of material hardship, a broader indicator of living standards (Kenworthy 2015b).

Since the early 1990s, policymakers have worried that there is a sharp trade-off between high employment and low or modest inequality. A high wage floor and generous government benefits, in this view, reduce employer demand

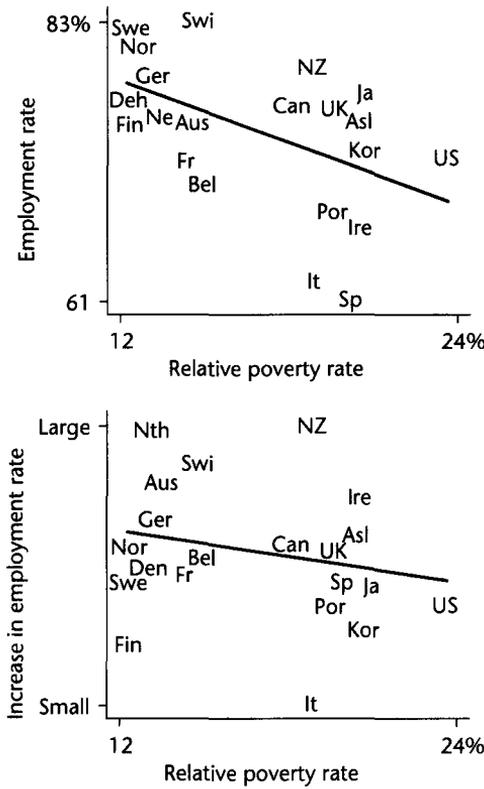


Figure 7.2. Jobs with equality

Note: Years 1979 to 2013. In the first chart, the vertical axis is the employment rate for persons aged 25–64 in 2013. In the second chart, the vertical axis is change in the employment rate for persons aged 25–64 between 1979 and 2013, adjusted for starting level. The relative poverty rate is the share of persons in households with an income (adjusted for household size) below 60 per cent of the country median, averaged over the period from 1979 to 2013. ‘Asl’ is Australia; ‘Aus’ is Austria. In the first chart, Denmark and the Netherlands occupy the same position.

Source: OECD; Luxembourg Income Study.

for workers at the low end of the labour market and reduce the incentive for benefit recipients to enter paid work (OECD 1994). A decade ago the cross-country evidence suggested that egalitarian institutions and policies might indeed have some adverse impact on employment, albeit not a large one (OECD 2006a; Kenworthy 2008).

A decade later there is greater cause for optimism. Figure 7.2 shows that countries with lower relative poverty rates have tended to do as well or better than their less egalitarian counterparts in achieving a high and rising employment rate.

It’s worth noting in particular the employment performance of the United States. The USA has pursued a ‘market liberal’ approach to employment growth: a low wage floor, very limited labour market regulations, relatively stingy government benefits, comparatively low taxes, steady deregulation of product

markets, and limited support for retraining, job placement, and work–family balance. Up to the turn of the century the ‘great American jobs machine’ was comparatively successful; the USA was among the rich world’s leaders in raising its employment rate. But fifteen years later, America’s employment record looks quite mediocre. Part of that is due to the 2008–9 crisis and its aftermath. But the problem began earlier. The period after the 2001 recession featured feeble job growth, and by 2007, the peak year prior to the crisis, the US employment rate had not yet recovered to its 2000 level (Kenworthy 2011c). A number of affluent nations with comparatively egalitarian institutions have been more successful than the United States at achieving and maintaining a high employment rate.

Another outcome of interest is economic growth. Does social investment increase growth? Part of the rationale for use of the term ‘investment’ is to emphasize that social investment expenditures can improve the economy’s productive potential. This is achieved by increasing the share of people in employment or by increasing their productivity, or both (Morel, Palier, and Palme 2012b).

Social scientists have very little understanding of what contributes to faster medium- and long-term economic growth in rich democratic nations. Apart from catch-up (countries that start behind tend to grow faster), the evidence points to hardly any consistent growth boosters. What little evidence we have on social investment’s impact on economic growth isn’t supportive. Apart from Norway, which because of its oil wealth isn’t useful in drawing inferences, the Nordic countries haven’t averaged faster growth over the past generation than other affluent countries. So either they weren’t executing the social investment strategy correctly, or they were and the resulting faster economic growth was offset by their other policies and institutions, or the comparative evidence so far does not support the claim that social investment boosts economic growth. I lean towards the third of these interpretations.

Even the theory behind social investment as growth-enhancing is questionable, as Brian Nolan (2013: 462) has pointed out:

The case for the social investment paradigm rests heavily on the argument that the world is changing rapidly so that in the new knowledge-based economy a skilled and flexible labour force is the key motor for growth, with social investment then central to producing such a labour force. It is not obvious, though, why even in such a changing environment economic growth could not be achieved via selective intensive investment in the highly skilled minority who will occupy the ‘quality’ jobs and drive aggregate productivity and economic growth, with a hollowed-out middle and many in much less-skilled employment or not working.

What, then, is the verdict on social investment’s impact? The evidence for the world’s rich countries over the past generation is supportive of hopes that social investment can boost employment and facilitate its coupling with low

relative poverty. It offers less reason for optimism about boosting economic growth or reducing relative poverty.

7.3 What Policies and Policy Configurations are Most Effective?

Suppose we embrace employment as a key aim of social policy and social investment as a useful strategy for promoting employment. We then need to know what policies to use. Should early education be universal or targeted to the poor? Should paid parental leave be for one year or three years? Should it include a 'daddy quota'? Should there be a statutory minimum wage? If so, how high? What is the best mix of carrots and sticks for social assistance recipients reluctant to enter or re-enter paid work? Should low market income be supplemented by an employment-conditional earnings subsidy? Is individualized assistance more helpful in the early years, the K-12 years, or later in the life course? What is the right balance between employment protection for workers and flexibility for employers? And so on.

Many of these questions don't yet have clear-cut answers. Getting the policy details right requires experimentation, adjustment, and learning from best practice. And since countries vary in political structure, economic institutions, culture, and in many other ways, optimal policies and policy combinations may well vary too.

7.4 Will Social Investment Be a Complement to Social Protection or a Substitute?

Finally, will social investment programmes be paid for by new revenues or by reallocating funds from 'old-risk' social programmes such as pensions, unemployment compensation, sickness insurance, social assistance, and the like? Some governments may be pushed towards substitution by fiscal constraints or by difficult-to-avoid increases in expenditures on big-ticket programmes such as health care and pensions (Cantillon 2011a; Streeck and Mertens 2011; Vandenbroucke and Vleminckx 2011). For others, such as centre-right or 'Third Way' centre-left governments, substitution might be the preferred path (Palme and Cronert 2015).

To avoid the substitution scenario, social investment proponents ought to forthrightly advocate for the social investment plus social protection approach and admit that it may require tax increases. They also would do well to encourage balanced budgets during economic upswings and to aggressively promote improvements in public-sector efficiency.

The Uses of Social Investment

Edited by
Anton Hemerijck

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