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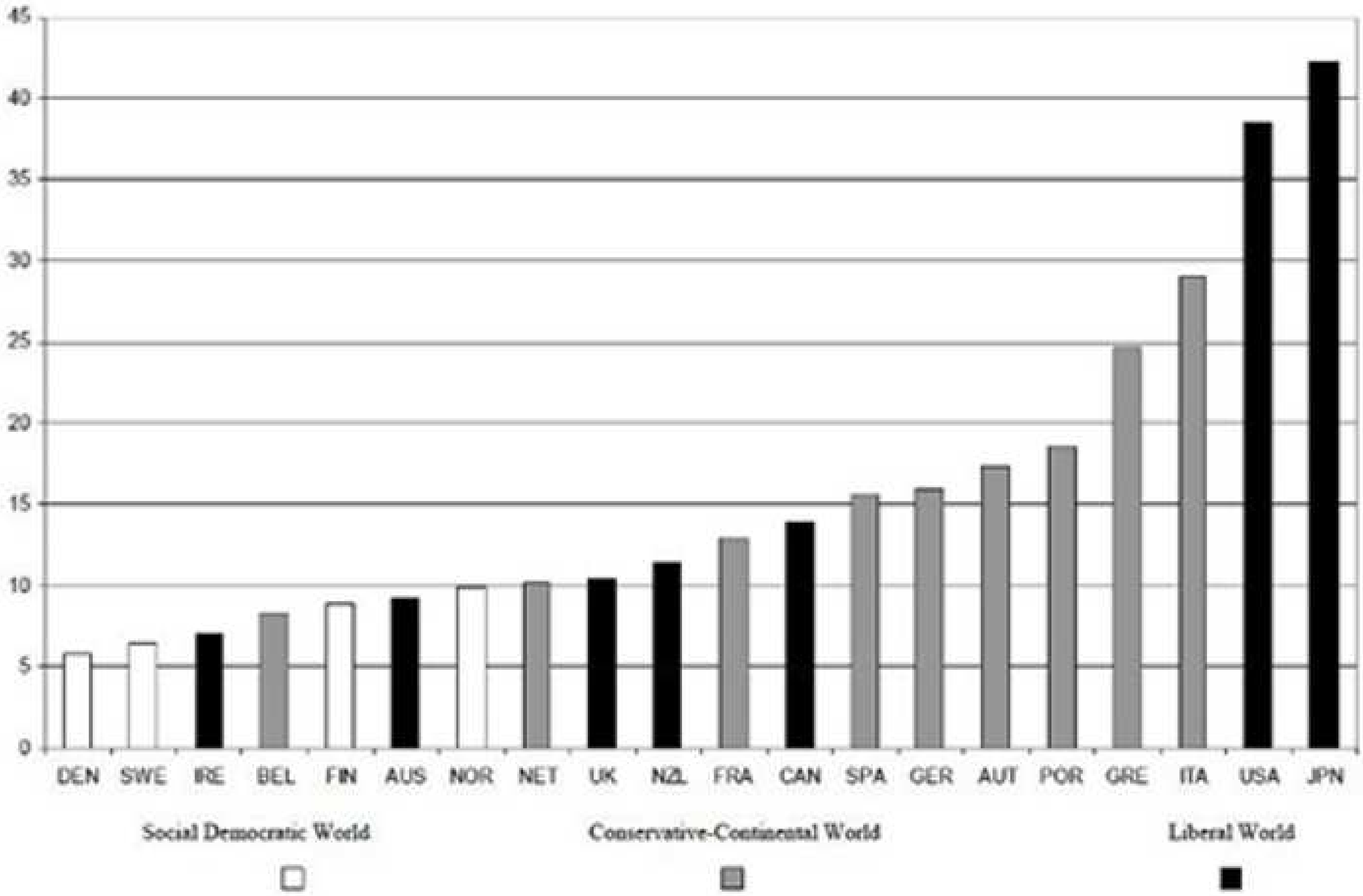
Fighting new intergenerational and skill inequalities will also sustain new, knowledge intensive growth

As the OECD points out, the risk of poverty for older people has fallen, while poverty of young adults and families with children has risen. Those worst hit are children (born in work-poor families), unskilled young people, especially women, single mothers and migrants. Moreover, during the crisis, the elderly, the pensioners are faring much better than the young. Yet, despite these changes in the distribution of poverty and life chances, the redistributive structure of our welfare states has not changed. Worse, it has increasingly concentrated its expenditure on the elderly. At the heart of the problem lies the fact that public spending on healthcare and pensions, which primarily benefit the elderly, is disproportionately higher than spending on childcare, education and training, which by nature are geared more towards younger generations.

Figure 1: Ratio of per capita spending on the elderly to per capita spending on the non-elderly



SOURCE: Julia Lynch, Age in the Welfare State.

While public expenditure on pensions has increased from 6.6% of GDP to 8.3% on average between 1980 and 2007 in the 21 richest OECD countries, public expenditure on education has gone from 5.6% to 4.8% during the same period, while spending on vocational training has diminished almost everywhere (even in Nordic countries) over the recent period.

This of course reflects demographic changes in our societies, characterised by the fact that people are living longer (hence benefiting from longer pension periods), more people are retiring (the baby boom has turned into a papy boom, and the papy boomers have been lucky enough to have lived and worked during a period of exceptional growth with almost no unemployment, thus having a full career entitling them to expensive pensions), while fertility has gone down leading to a shrinking active population, and thus the tax base is smaller. Spending may be driven by demography, but it does not have an answer to a new set of corrosive social problems. In most of Europe, the poor are no longer the elderly, but the young and the children.

Should we just let things go, and see expenditure be driven by demography and not political choices or social justice? Should we do nothing collectively for the younger generation? This is a crucial political dilemma for European Social Democratic parties. Those who could contribute more to the welfare state (the baby boomers) are more likely to vote. They have the feeling that they deserve their social benefits (they indeed worked and paid for it) and do not feel selfish since most of them take care of their own children and grandchildren (and sometimes also of their frail parents). But should one leave redistribution to be organised within families, thus letting rich grandparents help enormously their grandchildren, leaving poorer elderly equipped to do very little for their children and grandchildren, hence reproducing social inequalities through intergenerational intra-family transfers?

Moreover, behind this question about social justice and redistribution, there is a political question. Should the social democrats become the party of the baby boomers, defending only those who benefit from the best Social democratic invention so far (the post-war Keynesian welfare state), without reaching out to new constituencies, enduring new difficulties on the labour market, without being properly represented and taken care of?

The sacrificed groups of current welfare systems

More and more individuals are at a particularly high risk of being in atypical employment (short-term contracts, or interim or undesired part-time jobs) or unemployment. This means low levels of pay, low levels of social benefits and low levels of employment protection.

Furthermore, some societal groups are over-represented among labour market and social protection outsiders in all OECD countries: women, young labour market participants, low-skilled workers (especially in the service sector), immigrants and workers of migrant origin.

These groups are more likely to be unemployed or atypically employed, and they are more likely to be poor and to suffer from insufficient social rights. The available evidence suggests that their inferior status is persistent over time. And yet we have increased our spending on the elderly, on health, and decreased our spending on the youth (in education) and the unskilled (in training).

In order to address these new inequalities, we need to rewrite the social contract between generations and invest massively in childhood and youth services.

Does this mean adding to the welfare state burden, next to already existing social expenditure? Not so much if those who can contribute do so – not only the very rich but also new pensioners, who continue to benefit from fiscal derogations created for their much poorer predecessors despite the fact that they are not so poor anymore themselves.

Furthermore, in a longer perspective, it has to be recognised that spending on children and young people does not constitute 'sunk social costs', but rather qualifies as social investment. Here, social justice coincides with economic efficiency.

Indeed, providing all children and young people with much-needed qualifications is also an employment policy at a time when qualifications are required to succeed in knowledge-based economies.

Under-qualification is a pressing social risk

In today's economy, qualifications are more important than ever. In this context, the lack of adequate qualifications has become a new social risk. Indeed, unemployment rates are much higher for the unskilled than they were a couple decades ago, and much higher than for those with tertiary education. As the European Commission's "New skills for new jobs" report underlines, the employment rates across Europe as a whole in 2008 for those with high skills was 83.9%, that for medium skill levels was 70.6%, but that for low skill levels was only 48.1%. Not only this, but the wages of the low-skilled have also fallen relative to the more skilled despite falling numbers of low-skilled individuals in the labour force, suggesting that there has been a fall in the demand for low-skilled labour.

The fact that the unemployed are predominantly unskilled and that vacant jobs require high skills shows the importance of the formation, maintenance and updating of skills policies that prepare individuals for the current and future economy.

Social investment: Equality and quality

While specific policies are needed to support the least skilled, social investment strategies cannot be based exclusively on programmes targeted at "the unskilled" or other disadvantaged groups, but should be based in the first place on the provision of universal, quality education and training programmes throughout the life-course. Equality and quality must be at the centre of the social investment approach in order for the programs to deliver good returns.

At stake here is both equality of access (to childcare, education, life-long training, and healthcare services) and income equality. As the Scandinavian countries illustrate, egalitarian societies perform better. They are more successful at implementing social investment policies and at achieving many of the desired outcomes linked to this strategy.

Gender equality should also be a central goal on the social investment agenda. Raising female employment rates cannot be enough. Persistent gender inequalities such as the division of unpaid care and household labour, the gender wage gap, labour market segregation and the "glass ceiling effect" for women must also be addressed. This means that special attention must be paid to the specific design of policies that seek to promote women's employment and to policies for reconciling work and family life.

Early childhood education and care and other services create jobs for women as well as allowing mothers of young children to work for pay and to enable families to balance work and family life. Increasing women's labour force participation obviously responds to women's desire for economic autonomy but it goes beyond that. It also helps reduce child poverty, because poverty is always lower when two parents are employed, and it increases the employment rate, such that revenues are higher for states and for insurance-based social programs.

Policies "for women" have to do more than simply allow work-family balance; they must also provide gender equality and equality of opportunity. This means, in other words, changing men's trajectories as well as women's and altering the gender division of labour within the household.

"Quality" should be another crucial component of a social investment strategy. This relates both to the quality of jobs but also to the quality of services. Only high quality childcare can foster good cognitive skill acquisition amongst all children and help reduce social inequalities. Participation in a course of education does not directly translate into high achievement: the quality of education matters more than simple participation for skill accumulation, particularly at the low end of the capability distribution.

The future of social democracy

If European social democrats want to avoid becoming the voting preserve of the now retiring beneficiaries of the golden age of social democracy, they need to renew their vision of the welfare state towards a more future-oriented social investment strategy that is willing to invest in children and youth. Investing in youth means reaching out together to those who are currently in most need but who will become the tax base of the future, and may become the new electorate of a renewed social democratic political force.

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