The Politics of Social Investment: A Global Theoretical Framework

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A GLOBAL THEORETICAL FRAMEWORK

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2.1. INTRODUCTION

The overarching ambition of the research project leading up to this book and its twin volume has been to map and explain the way in which welfare states in a variety of world regions have been adapted to the continuing—and ever accelerating—shift toward knowledge economies as constitutive economic and social conditions of the 21st century. Of course, not all countries rely strongly or even predominantly on cognitive work, and baselines of occupational patterns differ massively across countries and regions; but a trend toward economies placing "a greater reliance on intellectual capabilities than on physical inputs or natural resources" (Powell & Snellman, 2004, p. 199) is indeed ubiquitous, as we demonstrate in Chapter 8 in this volume. This greater reliance on intellectual capabilities implies a certain shift toward a production regime in which cognitive work becomes the key source of productivity and value creation, while a major purpose of manual and non-cognitive service work is then to sustain the production capacity of the knowledge economy. This shift, although at different levels and speeds, is very much real and material (cf. the sharp divide that emerged in the 2020 COVID-19 crisis between those able to work from a distance and those whose work was tied to manual labor, i.e., physical presence; see Hatayama et al., 2020). But the change is also ideational and thereby translates into an emerging economic and intellectual framework that informs policymakers' and citizens' analyses, diagnoses, and policy preferences across the world regions.

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Social investment policies are *one* way in which many governments have addressed the challenges and opportunities of the transformation of capitalisms since the end of the 1990s. Social investment policies aim to prepare, mobilize, and equip individuals in a way that increases their chances of supporting themselves in the knowledge economy (notably through employment) and reduces their future risks of income loss and poverty. The two volumes at hand define social investment policies as policies that aim to create, mobilize, and/or preserve human skills and capabilities. The social investment perspective (Bonoli, 2005; Esping-Andersen, 1999, 2002; Hemerijck, 2013; Morel et al., 2012) has always emphasized the necessity to invest in, mobilize, and renew human capital and human capabilities along the entire life course in order to address social risks. The core idea is to "prepare rather than repair," that is, to equip individuals ex ante with the skills and education needed to cope with risks over the life course, rather than to merely compensate for the incidence of such risks ex post. Social investment as a policy strategy hence involves proactively avoiding social risks and overcoming the intergenerational transfer of disadvantage and poverty (Esping-Andersen, 2002; Jenson, 2010). Today, the social investment "paradigm" (Morel et al., 2012) is providing orientation in welfare reform discussions in a vast array of countries and across highly different contexts.

Adapting to the changing economic and societal conditions via social investment policies is, however, by no means the *only* policy option. We see three main alternative strategies that have gained some degree of prominence in the early 21st century: market liberalism, social protectionism, and basic income strategies. *Market liberalism* denotes a strategy of retrenchment, individualization, and privatization of protection against risks, based on the assumption that the economy will not yield the mass employment and productivity growth (also in lower- and medium-skilled work) that would be necessary to sustain wage compression and universal, equalizing social transfer schemes. Rather, according to this policy strategy, welfare states need to adapt to the conditions of changing capitalism by forcing or pushing commodification, on the one hand, and by allowing for more choice, flexibility, and stratification, on the other hand. For large parts of the society, such a strategy de facto implies stronger incentives for or constraints on commodification under market conditions, without effective support in achieving stable and well-qualified employment. Even though social investment and market liberalism share a focus on employment, it would be wrong to equate the two approaches as they are distinguished by, among other things, the active or passive role the state takes in supporting people's opportunities in the labor market and the valorization of their human capital and capabilities.

Aside from market liberalism, two additional strategies seem possible. First, a welfare strategy of *social protectionism* privileges compensation over investment and decommodification over activation. This is indeed the portfolio of welfare state policies that has been predominantly used traditionally and that comes to most minds intuitively when thinking about "social policy." The key goal of these policies is to shield people from the changing labor markets through ex post material compensation, in case they do not manage to support themselves and their families through employment. The main idea is to focus on "repairing" rather than "preparing" them for (future) labor market or other socioeconomic losses.

Finally, some voices favor *basic income strategies*, such as the universal and/or unconditional basic income (UBI). Such a strategy, more theoretical to date than actually empirically observable, can be seen in some respects as the actual antagonistic paradigm to social investment as UBI entirely cuts the reciprocal link between employment and welfare benefits and implies no concept at all of the state providing specific services, such as childcare, education and training, or care for the elderly.[1]

While not the only strategy available, social investment policies have certainly become *the* key toolbox for policymakers facing the challenges of rapidly changing markets and social inequalities. As our two volumes document, the social investment paradigm has entered the discourse of international organizations, national political arenas, scholarly debates, and the general public both at an astounding pace and with an impressive global reach, despite the different world regions exhibiting strongly divergent levels of capitalist development, welfare states, and reform challenges. This is why we devote these two volumes to the study of the politics of social investment across world regions.

The goal of the World Politics of Social Investment project is twofold. First, we seek to *map* the development (or absence) of social investment reforms in different countries and world regions comparatively, from conditional cash transfers in Latin America to expanded educational opportunities in the Baltic states to early childcare and education reforms across the OECD (Organisation for Economic Co-operation and Development) countries and support for female employment in North East Asia and Western Europe. To grasp the range and variance of these policies, we introduce a *novel typology of social investment reforms* based on their functions (creating, mobilizing, or preserving human skills and capabilities) and distributive effects (inclusive, stratified, or targeted). The new typology should allow us to move beyond a lumped—and often maximalist—definition of social investment in order to understand these policies as having different welfare effects, just like social compensation policies have been understood since the early milestone contributions of the 1980s and early 1990s (Korpi & Palme, 1998; Esping-Andersen, 1985, 1990, 1992). It should facilitate integration of the study of social investment into the regular scholarly canon of comparative welfare state and public policy research.

The project's second goal is to introduce an encompassing theoretical framework to *explain* the dynamics of *the politicization of social investment* (i.e., the

1. In this sense, Gough's (2019) concept of a "universal basic service" welfare state is closer to the idea of universally providing inclusive social investment than to the idea of a UBI.

extent to which and the terms in which social investment becomes salient on reform agendas) and *social investment reforms* (i.e., which concrete policies and which distributive profiles social investment reform strategies pursue). Politicization and reforms are the two main phenomena we explain (i.e., the "dependent variables" of our project), whose findings are presented in the two volumes at hand. Distinguishing them is important as they combine in different ways and are driven by distinctive factors. Politicization (i.e., the contentiousness of social investment reforms in political debates, demands, and proposals) depends largely on structural factors such as the maturity of welfare states and democratic institutions, socioeconomic development and context, and the societal implications of these developments on political demand for and supply of public policy responses. Whether and how social investment demands and proposals then materialize in actual reforms, though, are matters of politics (i.e., of coalitional dynamics), which in turn are structured by policy legacies. Politicization can occur without being followed by actual reforms, if initiatives are aborted, hindered, or vetoed or simply do not find the relevant majorities (as, e.g., in several Southern European cases of failed reform attempts). And reforms can happen without widespread politicization if they are driven by international or national technocrats (as, e.g., in the case of cash transfer programs in certain Central and Latin American countries).

Against the background of changing structural dynamics, the probabilistic framework we propose points to the interaction of societal demand and political supply in the politicization of social investment and theorizes about the role of domestic politics in the dynamics of coalition formation and decision-making. Our approach departs from and complements the rich body of research on aspects of social investment welfare reforms that tends to be narrower in geographical scope, the policy fields addressed, or the explanatory factors studied. We strive to show that the study of social investment across world regions opens our eyes to the systematic variation of the functions and distributive effects of social investment policies. Despite this variation, the large-scale comparison also shows that social investment is indeed a meaningful concept of welfare reform as all these reforms adapt social policy by implementing a consistent set of mechanisms according to which welfare policies are and should be aimed at the active development, use, and care of human capital and capabilities.

The purpose of this particular chapter is to introduce and explain our theoretical framework (in Section 2.2) and to develop concrete hypotheses that could explain social investment politicization and reforms (in Section 2.3). Hence, we begin the next section by establishing which factors and developments we need to take into account when theorizing about welfare state change in the 21st century in general: structural societal, demographic, and economic change; the actual development and level of maturity of the welfare state itself; ideational changes; changing preferences and concerns among the general public; and political transformations such as electoral de- and realignment of party systems. Based on this, we present and explain our integrated theoretical framework. We thereby also discuss how our approach deviates from other theoretical perspectives on welfare state development in the knowledge economy, such as structural determinism or a universalistic conception of median voter politics. Contrary to these approaches, we emphasize and theorize about the role of agency and coalitions at the level of both citizens and political elites.

We then proceed to develop specific hypotheses regarding the determinants of social investment politicization and regarding the substance and likelihood of political coalitions forming in favor of or against particular types of social investment policies (i.e., "protagonists," "antagonists," or "consenters," borrowing Korpi's [2006] terminology). In a nutshell, we argue that while a modicum of programmatic-democratic politics and state capacity are scope conditions for the politicization of social investment, the development of the knowledge economy and the maturity of the welfare state contribute to shaping political demand and supply in such a way as to bring social investment to the political agenda as a contested issue. The specific ways in which social investment is thus politicized depend on the interaction between institutional legacies of the existing welfare state and structural-economic developments. By "ways" we mean the functions and goals associated with social investment and the main social policies at stake. Finally, we theorize about the distributive profile of social investment reforms (inclusive, stratified, or targeted) as being conditional on political power configurations and coalitional dynamics among interest groups, political parties, and, in some contexts, experts and bureaucrats. Hence, ultimately, our key argument is that *politics*, both mass politics and producer group politics (themselves endogenously rooted in structural and institutional developments), are key to explaining both the politicization of social investment and the choice of social investment reform strategies. The chapters in this volume then focus on particular factors or sets of factors of our theoretical framework (i.e., our "independent variables") to assess the validity of our hypotheses and to evaluate the relative importance of the factors shaping the salience and occurrence of social investment reforms and their distributive profile.

2.2. A THEORETICAL FRAMEWORK FOR UNDERSTANDING WELFARE POLITICS IN THE 21ST CENTURY

Comparative welfare state research is a long-established field at the intersection of political science, sociology, and economics that has achieved a cumulative stock of knowledge on the factors that explain differences in the types, generosity, design, and effects of social policies being adopted and implemented in various contexts. When theorizing about the development of social investment reforms, we can draw on this knowledge while also considering the inherent and contingent specificities of social investment policies. At the most general level, we know that any explanation of social policy development in democratic settings needs to pay attention to both citizens and organized collective political actors, their action repertoires and resources, and their interactions in the context of ideas (such as perspectives on social justice), institutions, and structural constraints (such as budgetary limits). Hence, at least within democratic contexts, the building blocks for theorizing about and explaining social policy development are largely universal across time and regions. Yet, one still needs to integrate, adapt, and reconceptualize these elements to account for the particular ideational, structural, and institutional conditions of welfare politics in the 21st century.[2]

2.2.1. Explaining welfare politics in the 21st century

The existing scholarly knowledge on welfare state development tells us that the historical context—and "time" more generally (Pierson, 2004)—is key for understanding the incentive structures, belief systems, preferences, and strategies of political actors and how they are likely to use their room to maneuver (Bonoli, 2007). When theorizing about welfare politics in the 21st century—generally, not specific to social investment—two aspects thus need to be considered: the specific structural social and demographic changes that mark this particular era and the existing institutional policy legacies that differ across countries and contexts.

First, most societies, not only in the Western world but also in North East Asia and parts of Latin America, have experienced transformative changes since the 1980s when it comes to demographics, gender roles, and family structures. On the one hand, the aging or "graying" of societies as a result of medical advances, wealth, lower fertility, and particular social policies has become a major cause for concern, especially in advanced democracies, challenging labor markets and social security systems in particular in Europe and in the countries of North East Asia (Vanhuysse & Goerres, 2013). Also, the massive educational expansion across all world regions (traced empirically in Chapter 8 of this volume) has contributed to the emergence of a longer early age span (i.e., "youth") in people's biographies, but youth-specific social risks often remain only weakly addressed by existing welfare states (Chevalier, 2016). On the other hand, the changing role of women in society (not least via more education and labor market participation) challenges the very fundamentals these capitalist labor markets and familialist welfare states were built upon (Lewis, 1992; Orloff, 2009; Sainsbury, 1996). Family structures (think of fertility, divorce, single parenthood, and dual-earner families) and patterns of labor market attachment (e.g., discontinuous

2. The reference to the century is not used here as a precise temporal indication but rather indicates the "contemporary" era of welfare state restructuring that started in most world regions in the last decade of the 20th century, when demographic, economic, and political changes created a new context of welfare politics (Hall, 2020).

employment biographies and family-to-work transitions) are no longer the same. In the advanced capitalist democracies, "new social risks" (Bonoli, 2007; Esping-Andersen, 1999) such as working poverty, precarious employment, long-term unemployment, structural youth unemployment, difficulties of school-to-work transitions, and increasing difficulties in reconciling family and work life have given rise to new (or renewed) welfare demands. In less developed countries, these forms of precariousness have, of course, always been present, especially in labor markets; but changing demographic patterns and gender dynamics give them renewed importance. These sociodemographic transformations and their implications for the type and prevalence of social risks are challenges that *all* welfare reforms in the 21st century need to come to terms with, irrespective of the specific reform orientation (social investment, market liberalism, social protectionism, or basic income strategies).

Second, *any* theorization of welfare politics in the 21st century needs to pay close attention to the ways in which existing welfare institutions influence these politics. Indeed, a key theoretical insight (based on Lowi, 1972; see also Longstreth et al., 1992) in comparative welfare state research after the 1980s was that institutional policy legacies shape politics. The politics of reforming existing social policies (i.e., the "new politics of the welfare state") are by no means the same as the "old politics" of creating and introducing new policies (Pierson, 1996, 2001). For one, policy legacies fundamentally and structurally affect the actual problems at hand which welfare reform is supposed to resolve. The extent and distribution of risks, poverty, inequalities, and employment opportunities are largely endogenous to institutional legacies (Scharpf & Schmidt, 2000). Hence, when addressing the issue of single-parent poverty, for example, the existing supply of either public, private, or interfamilial care services makes a massive difference regarding the problem at hand and regarding the functionality and availability of different policy responses.

Moreover, the "new politics" differ from the old because existing institutional legacies shape the actual or perceived fiscal leeway for welfare state expansion (Bonoli, 2012; Stephens et al., 1999). For mature welfare states, such as the conservative social insurance regime in continental Europe or the productivist welfare state in North East Asia (Kim, 2016), reforms that imply an investive policy logic that deviates from the established protectionist or productivist models represent more of a disruption, or budgetary trade-off, than they do for welfare states whose degree of development is widely perceived as "still incomplete" or "fragmented." Depending on the legitimacy an existing regime or equilibrium enjoys, such a disruption or reinvention may even be perceived as a budgetary or political zero-sum choice in a reform process.

Legacies are a key factor of any theory of welfare state politics in the 21st century also because they shape both actors and their power resources through positive or negative institutional feedback effects (Pierson, 1992; Skocpol, 1992). This holds for both societal "actors" such as classes or risk groups as well as collective, organized political actors such as political parties, employer associations, or trade unions. With respect to societal groups, welfare policies not only endogenously affect risk structures; they also "produce" welfare constituencies that may either support or challenge the welfare state. For the mature welfare states of Western Europe, Esping-Andersen (1993) theorized how the distinctive welfare regimes shape class structures, and Oesch (2015) has followed up on this by demonstrating how closely intertwined the type of welfare institutions and the expansion of the new middle classes are. Similarly, potential welfare constituencies such as labor market "insiders and outsiders" are themselves endogenously forged by the welfare state (Esping-Andersen, 1999; Häusermann, 2010; Rueda et al., 2015), for example, by the crucial and defining difference between formal and informal labor market status in Latin America (Barrientos, 2009; Pribble, 2013). Skocpol (1992) and Pierson (1992, 1994, 1996) pioneered this reasoning while applying it to the emergence of veterans and particularly the elderly and pensioners as a relevant social and political constituency in welfare politics.

But institutional legacies also more immediately shape the role and preferences of collective political actors. In the corporatist, insurance-based welfare regimes of the coordinated market economies of continental Europe, for instance, employer organizations and trade unions are essential actors that control not only positions of power but also concrete organizational resources of the welfare state (Palier, 2010; Palier & Martin, 2009). They thereby become stakeholders of existing social policy, and their preferences regarding further reform are shaped by existing institutional arrangements and incentives. In particular, the distributive and stratifying effects of institutional legacies shape the payoffs of particular policy reforms. This is why actor preferences are conditional on the institutional framework (Ansell, 2010). Thus, for example, trade unions in dualized and stratified welfare states might be more resistant to inclusive and equality-oriented reforms (Clegg, 2007; Gingrich & Ansell, 2015), as is analyzed systematically in Chapter 10 of this volume. Similarly, teachers' unions or private sector providers in Latin America might oppose equality-oriented reforms of the educational system (Bogliaccini & Madariaga, 2020; Chambers-Ju & Finger, 2016).

2.2.2. Explaining social investment politics in the 21st century

As we have seen, both societal demographic transformations and existing institutional arrangements are key variables of *any* theory of welfare state change in our times. However, existing frameworks (such as the power resources or "new politics" approaches) are by no means sufficient to understand social investment as a *particular* strategy of welfare state development. We are indeed in need of a specific theoretical framework to address the politics of social investment because *transnational ideational dynamics*, the development of the *knowledge economy*, and the *transformation of party competition in advanced democracies* all bear massive and distinctive significance for the politics of social investment in ways that do not apply to other welfare reform strategies. We address each of them sequentially.

First, regarding ideational dynamics, as retraced by Jenson and Mahon in Chapter 3 as well as by de la Porte and Palier in Chapter 4 of this volume, the practices of various international governmental organizations involved in social development began to cohere around new ideas, including social investment, in the mid- to late 1990s, producing since then early-life intervention and child-centered strategies and emphasizing investment in human capital to promote economic growth, well-being, and social development (Jenson, 2010). More recently, these organizations have gathered around the concept of "inclusive growth," promoting a more encompassing understanding of human capacities and a preoccupation with reducing inequalities, while maintaining a focus on skills and social investment. In the Global South, international organizations (in particular UNICEF, the World Bank, and regional development banks) have played key roles in the development and diffusion of the social investment perspective. In their discourse in relation to social investment policies, they recommended policies that had the potential to break the intergenerational cycle of disadvantage and poverty. Similarly, in the Global North, the OECD and the European Union (from the Lisbon Strategy launched in 2000 to the Social Investment Package adopted in 2013 and the European Pillar of Social Rights proclaimed in 2017; see Chapter 4 in this volume) have engaged in similar capacity-building-oriented visions of welfare state discourse, with the OECD in particular turning ever more strongly toward a focus on reducing inequality and expanding opportunities in the context of economic structural change from the early 2000s onward (Chapter 3 in this volume). The approaches behind these capacity-building-oriented policies were developed—in different variants—by intellectuals such as Anthony Giddens and Gøsta Esping-Andersen and have framed what has been called a new social policy paradigm (Hemerijck, 2017; Jenson & Saint Martin, 2003; Morel et al., 2012). These ideational influences have deeply marked the perspectives and ideas for addressing economic and social transformations in all the regions our project covers.

The second—and possibly most important—factor that affects the politics and development of social investment is the emergence of the knowledge economy as both a political reality and a cognitive framework. *Knowledge economies* can be defined as economies placing "a greater reliance on intellectual capabilities than on physical inputs or natural resources" (Powell & Snellman, 2004, p. 199). The social investment perspective (Bonoli, 2007; Esping-Andersen, 2002; Hemerijck, 2013; Morel et al., 2012) always emphasizes the necessity to invest in human capital and human capabilities to address social risks not met by the existing welfare state. Hence, our understanding of social investment against the background of economic-structural change relates it necessarily to concepts of human capital investment and productivity. However, while employability is an important goal of social investment, it is not enough. The emphasis on both economic and social returns that social investment policies need to pursue in order to qualify as such brings our concepts closer to the notion of "human capabilities" than strictly that of human capital because "human capabilities" brings with it the idea of capacitating individuals to actively shape their own lives (Sen, 2001; see also Morel & Palme [2017] on the relationship between social investment and the capabilities approach). Nevertheless, there is indeed a close nexus between changing incentives and payoff structures in the economy and the politics of social investment. To some extent, social investment has often been seen as the "natural correlate" of the knowledge economy because this economy places heightened value on cognitive and interpersonal skills for both individual well-being and welfare, as well as for macroeconomic performance. Today, the importance of skills and skill formation systems is widely accepted as integral to countries' politico-economic systems (Estévez-Abe, 2008; Hall & Soskice, 2001; Iversen, 2005; Müller & Shavit, 1998; Schneider, 2013; Thelen, 2004), as well as social mobility and inclusion (Becker & Hecken, 2009; Breen & Jonsson, 2005).

Hence, the structural and institutional underpinnings of the politics of social investment need to be understood with reference to processes of educational expansion, occupational upgrading, and the conditions of an "era of knowledge-based growth" (Hall, 2020). This increasing focus on human skills and capabilities is not necessarily built into the traditional welfare states that have emerged throughout the 20th century, nor is it essential to the politics of welfare reform when it comes to alternative strategies such as social protectionism or market liberalism. However, for understanding the politics of social investment, the changing demand for skills in the labor market and the transformed social structure that results from educational expansion and occupational change need to be placed front and center.

Finally, there is a third development whose significance is distinctive for theorizing about social investment as a welfare reform strategy: the transformation of party competition in advanced democracies. In the early 21st century, the mass political context of welfare state politics could hardly be more different from what it was in the mid-20th century (Häusermann et al., 2013). During the heyday of Western welfare state expansion in the second half of the 20th century, parties of the mainstream left and right had dominated the landscape, and in all the advanced democracies they had counted on joint vote shares of 70%–80% or even more; the early decades of the 21st century, however, have seen massive and transformative changes in the system of collective interest representation. This transformation regards not only the substance of the most important programmatic dimensions of party competition but also the size of political parties and, associated with this, the role and opportunity structures for their allies among trade unions and employer organizations. In terms of substantive transformation, the emergence in the 1980s of a new dimension of deeply divisive sociocultural policy choices regarding minority rights, gender equality and diversity, environmentalism, immigration, as well as internationalism and supranational integration has led to an increased heterogeneity within both the left and the right, with some parties taking universalistic and culturally liberal positions and others opting for more traditionalist and communitarian stances (Bornschier, 2010; Häusermann & Kriesi, 2015; Kitschelt, 1994; Kitschelt & McGann, 1997; Kriesi et al., 2006, 2008; Marks & Steenbergen, 2004).

From then onward, the economic-distributive dimension of party competition pitting state interventionist left-leaning parties against market liberal right-leaning parties was not only complemented by a salient "second dimension" of sociocultural politics debating individual and societal organization and liberties; in most countries, this second dimension has clearly surpassed the economic one in terms of both salience and polarization (Hutter & Kriesi, 2019; Kitschelt & Rehm, 2015; Kriesi et al., 2008, 2012). However, not only have existing mainstream parties been enlarging their programmatic profile to accommodate either universalistic or particularistic positions, but new challenger parties on both the left-libertarian and the right-authoritarian sides have increased their vote shares at the expense of the mainstream parties, to the extent that center-left and center-right parties in many countries no longer hold dominant positions even within their own ideological camp. This diversification of what it means to be "left-wing" or "right-wing" has also complicated the relationship between mainstream left parties and trade unions, as well as between mainstream right parties and business, as complex trade-offs have emerged, for example, between insider protection and universalism on the left (Pribble, 2013; Rueda, 2005) and between economic liberalism, integration, and migration control on the right (Dancygier & Walter, 2015). This reconfigured landscape of mass politics in advanced democracies is impacting all politics of welfare reform, of course, through the altered relative salience of economic-distributive versus sociocultural topics, as well as through the altered coalitional options that result from a multidimensional political space and an increasingly fragmented party system (Bonoli & Natali, 2012; Häusermann, 2010; Manow et al., 2018).

The emergence of a polarizing and salient second dimension of political competition is *particularly* relevant for the politics of social investment for at least three reasons. First, there is a substantive affinity between cultural liberalism and inclusive social investment which relies on the universalistic-egalitarian foundations of both policy goals. The extended time horizon and the less predictable distributive gains of inclusive social investment—as opposed to social protectionism—resonate with the universalistic goals of equal rights and opportunities that underlie many of the left-libertarian claims (Beramendi et al., 2015). Second, there is a substantive overlap between the electoral constituencies of left-libertarian and right-authoritarian parties and the constituencies supportive of social investment and social consumption or social compensation, respectively. The educated middle class, especially in the post-industrial, public, and semi-public sectors, tends to be both the key electorate of the New Left and the key advocate of social investment policies (Beramendi et al., 2015; Garritzmann et al., 2018; Häusermann & Palier, 2017; see Chapter 12 in this volume). Evidence points to a range of explanations for this: from its universalistic values to economic opportunities to political trust and to a self-interest in the expansion of (semi-)public services (Busemeyer & Garritzmann, 2017; Häusermann et al., 2021; Kitschelt & Rehm, 2013). On the other hand, both the petty bourgeoisie and voters of the skilled working class and lower middle class are champions of social protectionism, as well as the key constituencies of the far right (Häusermann et al., 2020; Oesch & Rennwald, 2018; Zhen et al., 2019). While the reasons for this overlap are still being debated, its empirical occurrence has been shown consistently. Irrespective of its causes, these overlaps imply at least two consequences that are relevant for understanding the politics of social investment. First, social investment is most likely to be politicized at least partially in sociocultural terms, with strong references to, for example, gender equality and "new" risk groups and minorities. Furthermore, programmatic choices between social protectionism and social investment may entail significant trade-offs in advanced welfare states (Busemeyer & Garritzmann, 2017; Häusermann et al., 2020), much like the dilemmas between focusing on their traditional and new core electorates that the second dimension has created for the left on sociocultural policy choices since the 1980s (Oesch & Rennwald, 2018).

Hence, a theoretical framework for understanding the politics of social investment needs to pay specific attention to 1) actors and processes fueling ideational diffusion and learning worldwide; 2) the economic consequences and implications of the emergence of the knowledge economy, especially in the form of changing demand for particular skills; and 3) the emergence of new political preference divides at the level of public demand and political supply (i.e., organized action).

2.2.3. The theoretical framework: Explaining social investment politicization and reforms

Figure 2.1 depicts the theoretical framework that will guide our analyses of both the politicization of social investment and coalition formation and decision-making in concrete social investment reform strategies across different world regions in both this volume and its sister volume. It highlights ideational, structural, and institutional context conditions that affect the interaction of political supply and demand, as well as the dynamics of coalition formation among antagonists, protagonists, and consenters of social investment. Figure 2.1 also emphasizes that our analytical focus is on the politics of social investment, rather than on the implementation and effects of social investment reforms.

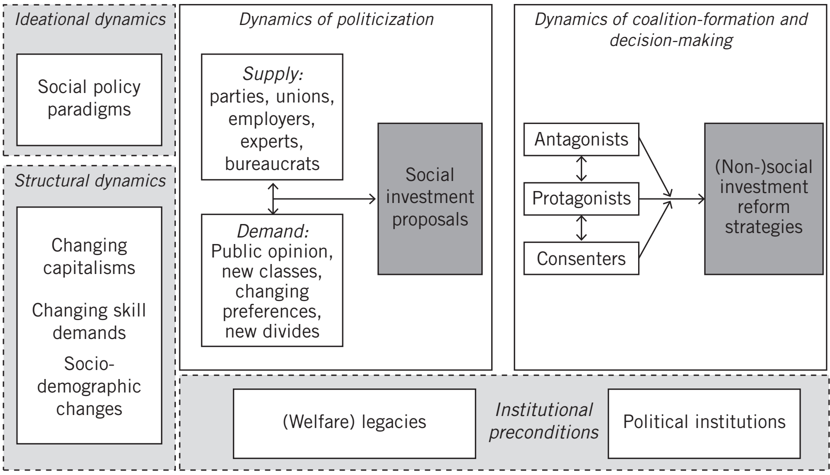

Figure 2.1 Theoretical framework of the "World Politics of Social Investment" project.

2.2.3.1. Context conditions

Figure 2.1 shows how much we emphasize the structural, ideational, and institutional context conditions that affect politics. Somewhat paradoxically, acknowledging the fundamental and transformative effects of these context conditions is indeed key for understanding the relevance of and leeway for political choice, voluntarism, and agency that we highlight in the explanation of both the politicization of social investment proposals and the decision-making process in social investment reform strategies. Not carefully theorizing about these context conditions would not only preclude a comparative analysis across world regions but also entail a risk of neglecting the ways in which context shapes actors, their preferences, and power relations. In the following, we explain how in different institutional contexts, ideational and structural change affects political demand and supply both at the societal level and at the level of organized actors.

As mentioned, capitalist systems around the world are changing. At the core of these ongoing transformations is an increasing focus on human skills and capabilities, which is also reflected in the discourses and perceptions of international and national epistemic communities that increasingly define skills and capabilities as key to individuals', families', and countries' prosperity and welfare. Depending on both the level of development and the preexisting institutional framework, this shift occurs at different speeds and levels in different countries, but the underlying structural dynamic is virtually universal across capitalist democracies. Technological change, deindustrialization, and globalization/financialization are structural economic and political dynamics that (can) contribute to and accelerate this shift toward skill-centered economies. Technological change triggers changes in occupational patterns across economic sectors, strongly impacting the distribution of opportunities and constraints across social classes (Oesch, 2013) as it increases returns particularly for higher-skilled groups in both services and industry (Acemoglu, 2002; Autor et al., 2008). Technological change is also leading to ever-increasing premiums on education and a "race between education and technology" (Goldin & Katz, 2008). It has been argued that automation (of routine work) will have similar effects in the near future as its consequences are likely to be skill- and task-biased too (Frey & Osborne, 2017; Thewissen & Rueda, 2016).

Closely related but not identical to processes of technological change, deindustrialization in the advanced economies (Iversen & Cusack, 2000; Oesch, 2013) and the transformation of industrial production in the developing and emerging economies result in ever more complex global value chains that are changing the opportunities citizens are presented with in labor markets worldwide (Iversen & Wren, 1998; Wren, 2013). In all deindustrializing countries, high-skilled jobs particularly in the service sector are expanding massively (e.g., Oesch, 2013) at the expense of medium-skilled, lower middle-class jobs especially in the manufacturing sector (Autor et al., 2003; Peugny, 2019). In less developed economies, occupational upgrading may take place at a lower echelon, with the main focus being on the expansion of post-secondary education and vocational skills (e.g., see Chapters 7 and 8 in this volume). Even there, however, structural economic change over time prizes educational expansion.

The globalization of goods (trade), money (finance), and people (migration), implying a strengthening of (transnational) financial institutions, also feeds into this increased attention to skills and human capital. Along the lines of the compensation thesis that globalization ultimately leads to welfare state expansion because risk-averse workers demand stronger welfare protection (Cameron, 1978; Katzenstein, 1985), Busemeyer and Garritzmann (2018) show the positive effect of globalization on demand for public education spending, an effect that—at least in the most advanced economies—is even stronger than the effect on demand for traditional compensatory social policies. Furthermore, (transnational) financialization and the interdependence of labor markets and production chains fuel the complexity of production processes and the transformation of occupational structures.

In such a context of rapidly changing capitalism and changing demand for skills across economic sectors, two developments are of political significance. First, governments more or less explicitly have to determine a specific strategy of economic growth (Hassel & Palier, 2020a). And second, the structural change itself affects the preferences of firms, different sectors of employers, and producer interests, as well as the composition and preferences of social classes and the democratic public. This is precisely why taking structural developments into account is so crucial to understanding the politics of social investment.

Let us first look at government choices. The recent and burgeoning literature on political-economic models, growth strategies, growth models, and growth regimes (Beramendi et al., 2015; Baccaro & Pontusson, 2016; Hall, 2020; Iversen & Soskice, 2019; Hassel & Palier, 2021a; Thelen, 2014) illustrates that the rapid transformation of economic production structures requires attention to agency and political steering. The term "strategies" should not suggest an overly rationalistic assumption but simply the shared idea in these political economy approaches that governments have "some intention" (Hassel & Palier, 2020b) when it comes to how they intend to support (employment) growth and that there is some coherence in policy decisions. To understand the choices governments make, all the above-mentioned approaches consider ideational influences, as well as preexisting institutional legacies as important, even though they tend to emphasize somewhat different factors: While growth regime theories such as those of Thelen (2014) and Hassel and Palier (2021b) emphasize the effects of the institutions organizing the economy (market regulation, industrial relations, modes of financing the economy, skill formation, and welfare institutions), more structuralist approaches, such as those of Beramendi et al. (2015) and Baccaro and Pontusson (2016), focus mainly on the composition of aggregate supply and demand. Equally important are the political institutions such as the electoral system, the development of democratic linkages, and the representative institutions since they condition the leeway governments have in orienting policies and government accountability. Thereby, these institutions are relevant scope conditions for our argument as well (see, e.g., Chapter 6 in this volume).

2.2.3.2. Political demand and supply

However, these institutional context factors do not determine policies as governments indeed make choices, which may depart from previous arrangements depending on, for example, the performance and legitimacy of the previous institutional arrangements. In this sense, all of these recent approaches to different degrees go beyond the more static regime typologies they respond to, such as the welfare capitalism regimes (Esping-Andersen, 1990) or the varieties of capitalism (Estévez-Abe, 2008; Hall & Soskice, 2001; Nölke & Vliegenhart, 2009; Schneider, 2013). Good examples of this renewed attention to agency and choice within our project are the divergent strategies pursued by governments in the Baltic countries and the Visegrád states (see Chapter 9 in Volume II [Garritzmann et al., 2022]) or the different post-industrial growth strategies in the North East Asian welfare states, which integrate the legacies of the productivist welfare model in different ways (see Chapters 10–13 in Volume II [Garritzmann et al., 2022]).

But not only do governments need to make choices; they also need to make these choices in the context of—and sometimes under the pressure of—new political claims by the public, voters, producer groups, trade unions, and political parties. Our theoretical framework focuses on both political demand (structural societal and economic demands) and political supply (aggregated, politically organized interests), which are interdependent in complex ways.

Regarding political demand, we focus on the societal and economic changes that economic tertiarization, the emergence of the knowledge economy, and educational expansion have brought about. In particular, we build on these trends to identify the relevant socioeconomic groups we need to look at, their preferences, and the political divides that are likely to shape the politics of social investment in the contexts of changing capitalism (see Figure 2.1). To start with labor markets, one consequence of technological change, tertiarization, and societal changes (across both more advanced and developing economies, see Chapter 5 in this volume) is the massive increase of employment in skilled occupations. This trend has been fueling the emergence of a strongly expanded middle class, especially in the more advanced capitalist democracies (Manning, 2003; Oesch, 2013). This expanded middle class needs, in turn, to be subdivided into "new" and more "traditional" parts. The new middle class is characterized by employment in the (cognitive-creative and/or interpersonal) skilled and high-skilled service sector, a high degree of feminization, and more frequent atypical and non-standard work contracts (Emmenegger et al., 2012), whereas the more traditional or "old" middle class refers to the petty bourgeoisie, as well as skilled and high-skilled employees predominantly in the manufacturing industry. It is important to acknowledge that the expansion of high-skilled middle-class jobs is not purely a result of tertiarization as skill-upgrading has also taken place in (diversified) industrial production.

On the opposite end of the new middle class lies a relative decline in labor demand for medium-skilled and routine manufacturing production workers and for mid-skill routine-based services (Autor et al., 2003; Kurer, 2020; Oesch, 2013). This decline is more specific to the most advanced political economies of Western Europe, the Baltics, North America, and North East Asia (which have become service economies to an overwhelming extent; see Wren [2013]), while demand for skilled routine work remains relatively more important in Latin America and parts of Central and Eastern Europe. Even in the more manufacturing- and export-oriented countries of Western Europe (such as Germany), mid-skilled industrial jobs have declined massively, with employees in services outnumbering employees in industrial production by a ratio of 2:1 as of the late 2010s (see Chapter 8 in this volume). However, this is not to say that low-skilled work is generally in lower demand as a considerable—and in some places growing—share of workers remains employed in low-paid (service) jobs, resulting in an increasing gap between high-skilled and low-skilled workers. The overall pattern might thus be best described as "polarized upgrading" (see Goos et al., 2014; Spitz-Oener, 2006; Oesch & Rodriguez-Menes, 2010; see also Chapter 8 in this volume).

Scholars have attempted to capture these broader societal transformations and changing occupational structures with new class schemes. The class schemes that capture the occupational structure of post-industrial economies best help us make sense of the politically relevant dynamics in these countries. Oesch (2006,

2013) as well as Kitschelt and Rehm (2013), in particular, introduce not only the divide within the higher-skilled middle-class occupations but also a potential divide within the working class between the production workers, on the one hand, and a newly growing service sector working class, on the other hand (Beramendi et al., 2015). The latter shares with the new middle class both the higher degree of feminization as well as weaker labor market protection and social rights.

These occupational transformations are closely intertwined with the massive educational expansion that all capitalist economies have experienced since the 1980s (see Chapter 8 in this volume). In the more advanced capitalist democracies, we see near-universal enrollment in secondary education by the early 21st century, with large shares of young cohorts attending tertiary education as well, especially in the Anglo-Saxon countries, Nordic Europe, and North East Asia but increasingly so also in Continental, Southern, Central and Eastern Europe. In the less developed and developing economies, the bulk of educational expansion has taken place at the secondary and post-secondary levels (see Chapter 6 in this volume).

These socio-structural transformations in the relative size, significance, and dynamic of the different labor market sectors and occupational categories bear direct political relevance for theorizing about the politics of social investment and welfare state reforms more generally. The new middle class is both the product and the main beneficiary of the massive expansion of education and human capital formation and is therefore—contrary to the traditional conceptualization of labor as the key pro-welfare state force—likely to be a (new) pivotal actor in welfare politics (Beramendi et al., 2015; Busemeyer & Garritzmann, 2017; Häusermann & Palier, 2017). The declining medium-skilled lower middle class (formerly working class) belonged and still belongs to the main beneficiaries of social protectionism or "compensatory social policies" (Beramendi et al., 2015), such as unemployment benefits, pensions, health insurance, and accident coverage, which historically were built targeted to their needs (Esping-Andersen, 1990; Huber & Stephens, 2001). Hence, while one could imagine their demand for upskilling to rise (to update their skills for the new economy), an equally plausible scenario is to see this class hold on most tightly to established compensation-oriented policies, particularly when challenged by the rise of the knowledge economy. Similarly, in developing economies, middle-class voters and their children are the main beneficiaries of expansion of (post-)secondary and partly tertiary education, whereas the poor continue to be more reliant on poverty-relieving compensatory policies, on social investment that relates to basic social services (healthcare, primary education), or on clientelistic benefits (Chapter 6 in this volume).

However, beyond the implications these socio-structural and economic changes have for the policy preferences and priorities of these social classes, one key insight here is that the relative size of these (old and new) social classes and their political representation—via political parties and interest groups—will vary greatly across regions and countries as a function of the structural changes undergone. Hence, the relative weight of their different demands is also likely to vary, which is a crucial factor in our theoretical framework (see Chapter 12 in this volume).

At the same time, these rapidly and deeply transforming context conditions are equally likely to shape preferences among supply-side actors (i.e., organized collective political actors such as interest groups and political parties) not only through aggregation effects but also more directly. This is most visible when it comes to the interests of employers and trade unions because they represent distinctive economic interests. The emergence of the knowledge economy and occupational polarization tend to change the demand for skills in the workforce in terms of both level and type. In most advanced democratic economies, there are shortages of highly skilled labor, both generally and specifically skilled. At the same time, the demand for lower- and medium-skilled labor is generally declining, most clearly so regarding manual and specific skills. This should affect the preferences of businesses in these contexts, reinforcing their interest in the creation and mobilization of cognitive skills through public policies (see Chapter 2 in Volume II [Garritzmann et al., 2022] and Chapters 9 and 14 in this volume). This is not to say that we should expect business associations to wholeheartedly support an encompassing social investment agenda as they may contest both the inclusiveness and the quality of service provision (see Chapter 15 in this volume). But it does imply that where the most productive sectors are knowledge-intensive, business may more strongly support social investment—at least much more strongly than more traditional theories of welfare politics would assume. These effects of structural change on the preferences of capital again depend very much on the speed and level of the economic-structural transformations, as well as on the growth strategies pursued by governments (see Chapter 8 in this volume). Also, as shown in volume II, there is considerable regional variation in these growth strategies, with, for example, some Visegrád countries explicitly countering the emergence of knowledge economy structures by reinforcing manufacturing production.

On the side of labor (i.e., trade unions), the changing demands for skills and occupational polarization also raise interesting questions regarding the likely preferences and heterogeneity of unions' demands (Becher & Pontusson, 2011). In particular, trade unions should have an incentive to push for public educational investments in order to support and represent their rising middle class and medium/high-skilled membership (and in order to appeal more systematically to women), while at the same time claiming stronger social compensatory policies to mitigate the consequences of declining demand for mid-skill level and routine labor (see Chapter 10 in this volume).

Like trade unions, political parties experience both pressure to adapt to the changing representational patterns and the need to position themselves strategically in the transformed space of party competition outlined in Section 2.2.2.

Again, like trade unions, most centrist parties across developed democracies represent increasing shares of middle-class and high-skilled voters, which affects their incentives to support social policies that support these classes and their interests (Gingrich & Häusermann, 2015). At the same time, parties try to hold on to traditional segments of the (working class) electorate for both ideological and strategic reasons since most countries by now have left and right challenger parties competing for their votes (Manow et al., 2018).

Finally, experts and bureaucrats are important actors on the political supply side. They are less interdependent with socio-structural demand-side changes than interest groups and parties are. However, they have an important role in structuring in particular agenda-setting dynamics and the politicization of social investment reforms because they tend to be more tightly connected to national and international epistemic communities, particularly when it comes to international organizations. Hence, understanding and including experts and bureaucrats is crucial for taking ideational dynamics into account. Furthermore, in terms of scope conditions, bureaucrats can be decisive political actors especially in the context of countries with lower levels of democratic development (see Chapter 15 in Volume II [Garritzmann et al., 2022]) and in highly centralized and statist countries.

2.2.4. Specificities and distinctiveness of our approach

Is our theoretical framework too generic and encompassing as it integrates ideational, structural, institutional, and political factors? No, we contend, it is not. Our framework needs to be encompassing in order to suit very different political and regional contexts. Yet, it has a clear, testable, and distinctive argument: *politics, both mass politics and producer group politics—themselves endogenously rooted in structural and institutional developments, as well as ultimately political choice—are key in explaining the politicization of social investment or lack thereof, as well as social investment reform strategies*.

This argument is non-deterministic, implying a range of potential outcomes that can be systematically accounted for. In this sense, our framework differs clearly from structurally deterministic, functionalist, culturalist, as well as politically monocausal rival explanations (for a discussion of different perspectives on social investment, see Hemerijck [2017]).

First, we clearly diverge from structurally deterministic models of capitalism, capitalist development, and economic institutions. We do not assume that there is a universal and uniform trend of capitalist development toward liberalization (Streeck, 2009) or toward the knowledge economy, let alone toward an inherent expansion of complementary social policy (i.e., an "updated" Wagner's law). More importantly even, we depart from functionalist hypotheses or claims according to which deindustrialization and the (exogenous) emergence of the knowledge economy would inevitably lead to expanded educational systems (Jensen, 2011).

In our model, both political institutions supporting and sustaining the development of a knowledge economy and the expansion of social policies that would sustain the creation, mobilization, and preservation of human capabilities and skills are matters of political choice, which is neither straightforward nor necessarily coherent.

Our framework also differs explicitly from culturalist and predominantly ideational models of policy development. While we acknowledge the role of framing, discourse, and ideational influences, we consider them a conditioning factor and part of the political process, seen as conflictive and coalitional dynamics between actors whose preferences diverge. Social investment policies are neither the direct result of a diffusion of best practices among policymakers and technocrats nor an inherent correlate of the progressive expansion of a knowledge-based world society (Meyer et al., 1997). They are also by no means the result of political-cultural "narratives" of sustainable political responses to economic development (Piketty, 2019). Rather, our framework emphasizes the role of economic structures, material preferences, as well as political conflict over these preferences and over the distributive effects of social investment policies. As any other policy, social investment reform strategies entail winners and losers, and the distribution of gains and losses is first and foremost a matter of power and coalitional politics.

Finally, we take a multidimensional approach to the explanation of social policy. Just as welfare states can be reformed via a variety of strategies, policy debates involve several dimensions, for example, social investment versus compensation or inclusiveness versus stratification and targeting. Voters, interest groups, and political parties take different positions along these multiple dimensions. Hence, we depart both from a straightforward median voter story of policy development (Iversen & Soskice, 2019) and from predominantly structural-elitist neo-Marxist models of institutional choice and development (Amable, 2017; Baccaro & Pontusson, 2019). Iversen and Soskice (2019) argue that the preferences of the median voter for capitalist development, economic modernization, and educational expansion will eventually prevail in the political process over elite preferences for pure liberalization, on the one hand, and preferences for exclusive social protectionism, on the other hand. By contrast, Baccaro and Pontusson (2019) claim that policy choices are ultimately made by a narrow, hegemonic "social bloc" of elite capitalist interests of the dominant economic production sectors, with any deviation or complement to their main interests being mere concessions and side payments to minor allies of this "bloc."

Since our model is multidimensional, it is inherently probabilistic. We argue that social investment policies, just like any social policy, differ on several dimensions, including eligibility, generosity, provision, and financing—in short, regarding their functions and distributive profiles, as discussed in Chapter 1 of this volume. Furthermore, various strategies of social policy development are debated simultaneously (e.g., social investment and social protectionism). Hence, variable coalitions can form both in the arena of electoral politics and in the arena of producer group politics (as well as, of course, across these arenas).

Therefore, our model is radically non-deterministic. It allows for agency and choice, as well as for potentially inconsistent or incoherent policy strategies. From this more open and probabilistic perspective, which results from placing politics and coalitional dynamics front and center, our approach is closest to two related theoretical contributions on mass politics and producer group politics in contemporary political economy: "constrained partisanship" and "growth strategies." The constrained partisanship framework (Beramendi et al., 2015) theorizes about institutional reform options of political parties and governments—called "feasibility sets"—in different contexts of institutional legacies and structural demands. In this model, social investment is a feasible, but never necessary, option in most contexts, but not in all, depending on the preexisting ratio of consumption to investment spending and on the relative size and power of new versus old middle-class voters (Beramendi et al., 2015, p. 29). The framework acknowledges the multidimensionality of the political space and thus the indeterminacy of coalition formation and outcomes.

The growth strategies framework similarly theorizes the leeway and choice sets of political decision-makers in different varieties of export- or demand-led production regimes (Hassel & Palier, 2021a). It focuses on producer groups—employers and trade unions—as key actors in political decision-making but also places political choice front and center. Again, social investment is one political strategy but only one among others; and its prevalence is highly conditional on the production regime, actor preferences, and other policy choices regarding the institutions organizing the economy.

While these two approaches confer very different theoretical and empirical weight on electoral and producer group politics, they are similar in their focus on agency and coalition-building and in the acknowledgment that social investment reforms are the result of political conflict and power asymmetries, that they are only one among several possible strategies, and that their actual design will reflect the coalitional politics that brought them about.

All chapters in the two volumes that present the output of our project situate their analysis and their findings in this theoretical framework. They usually focus on a subset of factors and specific dependent variables, but they adhere to the joint frame of reference in order to produce an integrated understanding of the political factors that are conducive to or prohibitive of particular social investment reform strategies. The following section develops more concrete, testable hypotheses to explain the politicization of social investment, the type of policy field and function that is likely to prevail in a particular context, and the coalitional politics that are likely to lead to a particular distributive profile of social investment reforms.

In order to address and test such a wide range of research questions, our project relies on a mixed-methods strategy, of course. Depending on the particular aspect of the theoretical framework chapters seek to explain, they make use of administrative, media, or public opinion data for large-*N* statistical analyses, they content-code reforms for more mid-range quantitative analyses, or they rely on case studies to causally trace the prevailing coalitional dynamics.

2.3. DETERMINANTS OF SOCIAL INVESTMENT POLITICIZATION AND SOCIAL INVESTMENT REFORM STRATEGIES

This section develops a range of hypotheses at a relatively abstract level, both with regard to the factors driving social investment politicization as well as with regard to the social investment policy fields and their functions (skill creation, preservation, and mobilization) that are likely to prevail in different contexts. The hypotheses also involve the actors and actor coalitions that we would expect to drive particular distributive profiles (inclusive, stratified, or targeted) of social investment reform strategies.

2.3.1. Social investment politicization

The first question we are interested in is under what conditions social investment is likely to become a politicized issue on the welfare reform agenda. In other words, how does social investment—among the many different options on the menu of welfare reform strategies in the 21st century—become a visible and explicit option on a country's reform agenda, if at all? We refer to this as the "politicization" of social investment. Broadly defined, *politicization* refers to the rising importance of issue competition around a topic (Green-Pedersen, 2007), that is, whether political actors address the issue, formulate particular positions on it, and devote attention to defending these positions (against opponents) in the political arena. Politicization goes beyond mere agenda-setting as it implies the development of political debate and some level of political conflict. It also goes beyond mere salience as it also refers to competing stances of political actors, which are specific to the policy field in question. At this point of the development of our theoretical framework, however, we focus on salience because the specific policy fields and actor configurations will depend on more proximate factors that we will theorize about in Section 2.3.2. of this chapter.

2.3.1.1. Necessary scope conditions

When theorizing about the politicization of social investment, it makes sense to think about scope conditions, that is, whether there are necessary conditions that are required for social investment to be meaningfully politicized (i.e., contested between different political actors as a genuine policy option). We argue—and test in Chapters 5–7 of this volume—that a certain level of state capacity and democratic politics are indeed such scope conditions.

Regarding *state capacity*, the key element to consider is that social investment requires effective services to be provided to the target populations. Conditional cash transfers, for instance, cannot be considered social investment policies unless they are accompanied by the services that allow for the implementation of the—usually health- and education-related—conditionality (see Chapters 7 and 13 in this volume). As long as states cannot provide these services or cannot even reach the target populations to implement policies, social investment cannot become a real policy reform option; that is, it cannot be effectively politicized in the policymaking arena (e.g., see Chapter 15 in Volume II, [Garritzmann et al., 2022]).

The potential to effectively enact social investment through services is also the mechanism that explains why *programmatic democratic competition* is a scope condition for the politicization of social investment. Clientelistic linkages between patrons and voters not only crowd out resources that would be needed for the development of social investment but also undermine the actual enhancement of human capital and capabilities that is at the very heart of any social investment policy (e.g., see Chapter 6 of this volume). To be clear, full-grown democracy is not a precondition for human capital-developing policies. Even autocratic regimes in lower- and middle-income countries can and have expanded investment-oriented social assistance schemes (see Chapter 5 in this volume). However, we argue that while democracy in itself is not relevant for the politicization of social investment (and countries' reform effort), *within* democracies the quality of democracy, understood as the political linkages between voters and parties, does matter. Consequently, the focus of our project on democratic countries is not because autocrats by definition could or would not pursue human capital expansion. Rather, we chose this focus because we conceive of *politics* (and mass politics in particular) in a way that presupposes democratic interest representation and competition, as well as programmatic competition between different parties or interest representatives. Hence, if social investment proposals are brought forward in the absence of state capacity and programmatic competition, they fulfill alternative political functions (e.g., clientelistic ones) and cannot be seen as the actual, valid politicization of social investment.

2.3.1.2. Probabilistic scope conditions

Beyond state capacity and a certain level of programmatic democratic linkages, we identify no other necessary scope conditions for social investment to become a real political option. Rather, institutional legacies (notably the level of welfare state "maturation") and structural change (notably the state of capitalist development) appear to be *probabilistic* factors, which may enhance or reduce the likelihood that social investment would become politicized, but should not be considered necessary.

Let us first discuss the role of *institutional legacies*. While in the more advanced, mature welfare states of Western democracies, social investment is oftentimes conceptualized in terms of a "further development" or "next stage" relative to the preceding compensation-oriented welfare state (Hemerijck, 2017; Morel et al., 2012)—a stage ridden with hard choices and trade-offs (Garritzmann et al., 2018; Häusermann et al., 2021)—a mature welfare state is not a precondition for the politicization of social investment. There is no reason to assume that welfare states would necessarily have to go through a phase of "compensation maturation" for social investment to be politicized or that such a compensation-oriented phase would necessarily lead to the politicization of social investment. In the "truncated welfare states" of many Latin American countries (Holland, 2018), for instance, the focus of the social policy agenda in the first two decades of the 21st century has focused strongly on social security and poverty relief for the lower classes, in particular for people in the informal sector. This may lead to a "residual"—or, better, targeted—expansion of social policy, but these policy goals can be pursued by either social compensation or social investment or both at the same time (see Chapter 14 in Volume II [Garritzmann et al., 2022]). Hence, there is no (logical or temporal) precedence of a fully developed compensatory welfare state on social investment. Furthermore, several countries in Central and Eastern Europe, especially in the Visegrád region, indeed have developed, "mature" social insurance welfare states (Cerami & Vanhuysse, 2009; Inglot, 2008) and yet largely avoid the politicization of social investment (see Chapter 8 in Volume II [Garritzmann et al., 2022]). Hence, a certain type or level of preexisting welfare state is not a scope condition for the politicization of social investment.

The development of the *knowledge economy* and more so the adoption of a "knowledge economy strategy" by governments are somewhat stronger (but still probabilistic) factors affecting the politicization of social investment. The link is more political than functionalist, even though the demand for skilled labor might explain why economic tertiarization correlates positively with social investment even outside of democracies (see Chapter 5 in this volume). Politically, however, the stage of tertiarization, as well as educational and occupational upgrading, affects both the size of different constituencies that might claim or oppose social investment and the stakes of these policy choices. Hence, it is in the most advanced capitalist democracies that preferences toward traditional consumptive social policies differ most strongly from preferences toward social investment (e.g., Busemeyer & Garritzmann, 2017; Fossati & Häusermann, 2014; Garritzmann et al., 2018). In particular, it is mostly knowledge economies that display the sizeable and politically mobilized new middle-class constituencies that articulate societal demands for social investment explicitly and distinctively (Häusermann & Palier, 2017; see Chapter 12 in this volume for an empirical overview of the differences in the relative size of different occupational groups and their preference profiles). Where the knowledge economy is less developed, other actors such as experts and bureaucrats are likely to become the key actors in the politics of social investment (if social investment appears on the public agenda at all). In such conditions, the link between socio-structural transformations and political demand regarding social investment is likely to be less tight, and policymaking is supposedly driven more strongly by other factors (e.g., ideational influences, international organizations, and the like[3]) than by the bottom-up political and societal demands that are to some extent endogenous in the knowledge economy.

Beyond shaping the demand side of policymaking, however, the knowledge economy, of course, also affects the politicization of social investment through its effects on supply-side preferences and the priorities of bureaucrats, employers, and producer groups more generally. On the technocratic side, international and supranational organizations are increasingly likely to promote social investment policies as an integral part of a coherent political strategy furthering the development of knowledge economies (see Chapter 3 in this volume). On the side of producer groups, the demands from business organizations in particular are likely to be conditional on the interplay between their demand for enhanced human capital and skills and the existing supply thereof. Where the labor market demand for highly skilled labor is large and sustained (in extremis, a scarcity of skilled labor), we expect business to become a protagonist of the politicization of social investment (see Chapters 8, 9, and 14 in this volume), potentially stirring political conflict between market liberal and conservative forces within the right-wing political spectrum (see Chapter 6 in Volume II [Garritzmann et al., 2022]).

A final important remark here is, of course, that the development of a knowledge economy is itself not an exogenous influence on welfare politics. It can be part and parcel of a political growth strategy (Hassel & Palier, 2020a). Where this is the case, social investment is certainly likely to become a politicized reform option. However, it can also become politicized despite governments or economic elites, if the latter should actively choose to divest. In this case, whether social investment becomes politicized or is absent from the agenda of reform options depends on the level of friction between structural or external constraints and government strategies and on the presence of competing political entrepreneurs.

To conclude, a mature welfare state and the emergence of the knowledge economy are expected to be conducive, but not necessary, factors to the politicization of social investment as one option of welfare reform.

3. Ideational dynamics by themselves are likely to be neither necessary nor sufficient for the politicization of social investment at the level of countries. Certain countries implemented social investment long before international and supranational organizations put it on the agenda. Rather, ideational dynamics can acquire particular significance in certain domestic political contexts (e.g., if bureaucrats or strong political leaders are leading actors of social investment politicization) (see Chapter 15 in Volume II [Garritzmann et al., 2022]).

2.3.2. Social investment reform strategies

Once social investment has become politicized in a particular context, the second step in theorizing about the politics of social investment consists of explaining the variety of resulting substantive policy reform strategies.[4] We analytically divide this question into two: on the one hand, explaining the main *goals and functions* social investment reforms pursue and, on the other hand, the *distributive profile* of these reforms. We suggest that the prevailing goals and functions depend primarily on the interaction between institutional legacies and structural-economic and demographic developments and that the distributive profile inherent in policy reforms depends primarily on the political actors and coalitions driving these reforms and reform proposals.

2.3.2.1. Explaining goals and functions: Human capital creation, mobilization, or preservation

Social investment policies can pursue one or several of three goals and functions (see also Chapter 1 in this volume): investment in the development of human capabilities and skills (*human capital creation*), investment in the mobilization of human capital for labor market participation and individual as well as aggregate employment performance (*human capital mobilization*), and investment in the preservation and improvement of human skills and capabilities to better handle life events and transitions (*human capital preservation*). In order to be classified as a social investment policy in our understanding, a policy must aim to achieve at least one of the aforementioned goals and functions.[5]

Certain policy fields obviously coincide more closely or more loosely with these different goals and functions. Education policies, vocational education and training, early childhood education and care policies, cash transfers conditional on school attendance and health checkups, and investments in the quality of teaching staff are typical examples of human capital–creating policies. Active labor market policies, work–life balance policies, and policies of active aging belong to the realm of human capital–mobilizing reform strategies. Finally, short and well-paid parental leave schemes, social insurance for atypical work contracts, and certain types of retraining policies are part of the package of human capital–preserving policy instruments. However, we do not assign specific policy fields to functions or goals as the same instrument, for example, early childhood education and care policies, can pursue different or several goals at the same time (in this case human capital creation for young children and human capital mobilization for parents). Hence, when theorizing about the determinants of policy

4. Similar to Hassel and Palier (2021a), we do not use the term "strategy" in a purely procedural or instrumental way here, but as—with reference to Mintzberg (1978)—"a pattern in the stream of decisions." Hence, our focus here is on substantive policy decisions.
5. Negative employment incentives only such as sanctions and benefit reductions are precisely not part of our understanding of the social investment logic (cf. Bonoli, 2013; Taylor-Gooby, 2005).

strategies, the intentions and goals associated with a reform are more important than the policy field as such.

While several goals and functions can obviously appear on the reform agendas of countries and regions, the prevailing objectives and fields are likely to be context-specific. A country's policy legacies reflect the economic production strategy and related welfare state policies it has pursued in the past. They entail mechanisms of path dependency, but through interaction with structural developments, they also shape the type and prevalence of social risks and economic needs in a particular context.

We operationalize these legacies in terms of the ratio of welfare resources that are bound in policies entailing immediate (consumptive) versus future (investment) distributive effects (Beramendi et al., 2015). This legacy in terms of an investment/consumption ratio structures the relative salience of particular problem diagnoses and thus policy functions pursued in a country or geographic region (Beramendi et al., 2015; Hassel & Palier, 2020a). To stay in line with the terminology developed in this chapter, we label the dimension of consumptive policies "compensation" as they refer to income- and welfare-compensating policies. This allows us to deduce specific challenges that the welfare state is confronted with, and based on this, we can theorize what a "social investment" approach to these challenges would look like. Of course, this by no means implies that a country will follow such an approach. Functional problem pressure does not directly explain the type of problems policymakers perceive as relevant, the diagnosis they make, or the solutions they adopt. But the specific institutional context interacts with structural developments and leads to different ways of conceiving of the "problem" at hand for different types of welfare and production regimes (Iversen & Wren, 1998; Scharpf & Schmidt, 2000). Whether, to what extent, and with which distributive implications these problems are then addressed via social investment reforms in different countries will depend on political factors further theorized in the next section of this chapter. Figure 2.2 stylizes the profiles of such legacies in a two-dimensional space (loosely based on Häusermann & Palier, 2017), in which the quadrants—not by accident—tend to relate to established theories of institutional regimes.

In countries that build on a legacy of both consumptive and investive welfare policies (upper left quadrant of Figure 2.2), all three goals and functions are likely to be present on the agenda and in the political debate. The main challenge, however, refers to the *sustainability* of simultaneously maintaining these policies universally, in fiscal terms (e.g., tax levels) as well as in social and political terms (in light of political polarization, migration, and international integration). In these countries (think of the Nordic welfare states, for example), the politics of social investment are likely to center around the question *for whom* such an encompassing social investment strategy can and should be pursued (Lindvall & Rueda, 2014). Indeed, even though broad support for social investment goals in this context is the result of strong positive feedback mechanisms of existing (and

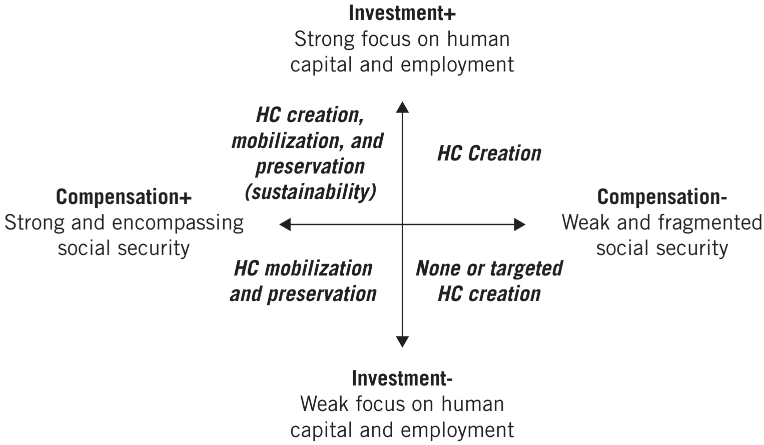

Figure 2.2 Institutional legacies and prevailing social investment functions in the political debate. Note: HC stands for "human capital, skills and capabilities".

long-established) policies, there is always a risk that a (growing, upwardly mobile) middle class would consider opting out of universal coverage by embracing policies that would allow for more choice or lower tax burdens (see Chapter 2 in Volume II [Garritzmann et al., 2022]).

The situation is very different where the policy legacy is weaker on compensation and relatively stronger on investment (upper right quadrant of Figure 2.2), a context exemplified by liberal Anglo-Saxon countries, partly by countries of North East Asia, and by the Baltics. As these countries tend to exhibit relatively good employment performance and flexible labor markets, mobilizing human capital is not the key challenge when considering the interaction of institutional legacies with economic structural change.[6] Rather, their relative emphasis on investment in the past and particularly the scarce provision of compensation policies[7] tend to bring skill development and education (how, by whom, and to whom it should be provided in what quality) to the center when debating social investment policies, possibly with a focus on the low-skilled who are likely to struggle particularly in this context.

6. At least as long as they experience a relatively sustainable demographic development. When the demographic development is very unfavorable, as in North East Asian countries, and this problem is reinforced by weak female labor market participation, human capital mobilization becomes, of course, a challenge as well.
7. Comparatively analyzing education and social policies in the United States and Europe, Heidenheimer (1981) theorized already in 1973 that education policies and social policies were functional equivalents so that some countries tilt more toward educational investments (the Anglo-Saxon world), whereas others focus on compensation (Continental Europe). In still other countries (e.g., Scandinavia), however, education and social policies are treated as complementary.

Countries that have relied more heavily on compensation policies in the past (lower left quadrant of Figure 2.2) generally have rather effective income protection schemes, but they face the challenges of rather weak employment rates as well as segmented or dualized labor markets (mostly continental European countries as well as North East Asian countries, specifically with regard to female employment rates, and several economically more advanced Latin American countries). These institutional legacies (and rigidities) create friction with the increasing demand for (and scarcity of) high-skilled labor, with the increasing demand for personal services, and with changing family and gender patterns. Given the prevalence of new social risks and dualization, the politicization of social investment in such a context will likely center on easing transitions into the labor market, increasing labor market participation (especially of women and outsiders), and preserving skills through periods of non- or atypical employment. Consequently, we would expect human capital mobilization and preservation to take a key place in discussions of social investment reform strategies.

Finally, Southern European countries and most Latin American countries generally have had a tradition of highly fragmented labor markets *and* welfare states (lower right quadrant of Figure 2.2). They tend to be only weakly productivity-oriented (i.e., they have hardly any social investment legacy to build on), and actual poverty and poverty risks remain a key challenge when it comes to welfare. Just like the North East Asian and continental European economies, they are relatively ill prepared to meet the structural challenges of changing capitalism toward knowledge- and service-based growth. However, not least because of their fragmented and dualized welfare institutions, economic-structural change tends to occur more slowly. Massive emphasis on human capital creation would not be met with adequate labor demand on behalf of employers (see Chapter 8 of this volume). Hence, social investment policies in these contexts are likely to remain comparatively narrow, focused on residual forms of outsider support and activation, and often of lower quality (empirically see Chapters 5 and 13 in this volume). In the case of the Latin American countries still plagued by high levels of poverty, the poverty-alleviating aspect of social investment programs is very important. The conditional cash transfer programs in Latin American countries (increasingly also in Africa and South East Asia) are among the most visible examples of such a debate centered on investment in breaking the intergenerational cycle of poverty.

We do not adopt a functionalist perspective. The goals and functions that empirically prevail in a particular context do not directly follow and cannot be derived straightforwardly from either structural-economic developments or the preexisting institutional framework. Rather, it is the interaction between the two that allows us to theorize how (i.e., under what conditions) social investment reforms are likely to be politicized in terms of concrete reform proposals. Again, our argument is probabilistic: There can, of course, and most likely will be domestic or international actors pushing for other, contextually more deviant welfare reforms and strategies. Furthermore, political actors can actively promote economic growth strategies that defy endogenous tendencies. However, we would expect such claims to resonate less strongly in the respective domestic political arenas.

2.3.2.2. Explaining distributive policy designs: Inclusive, stratifying, and targeting social investment

As a final step in the theorization of social investment reform strategies, we address their *distributive policy design*. Reforms in very different policy fields and with very different policy goals in terms of creation, mobilization, and preservation of human skills can also vary significantly with regard to the distribution of benefits and costs they entail for different social strata. This distributive profile of reforms is, of course, a key dimension of any analysis of social policy—in some sense it is the very core of such analyses. We theorize that the choice of distributive profile depends primarily on the political actors and coalitions who propose, defend, or oppose these reforms and their alliances and coalitions. To be clear, this crystallization of our theoretical focus on distinctive sets of variables at the different stages of the theoretical framework is, of course, an analytical simplification. As developed throughout this chapter, the very actors themselves, their power relations, their preferences, and their alliances are structured and influenced by institutional legacies, by the structural and ideational imprints these institutions hold and perpetuate, and by exogenous structural and ideational dynamics. However, we focus more narrowly and immediately on political actors and their interaction here because we want to identify the coalitional dynamics that can be expected to underlie the distributive design of particular social investment policies.

Hence, this step of the theoretical framework mainly focuses on the meso-level of organized political actors (especially parties, employers, unions, interest groups, and experts) who participate directly in political decision-making processes. This actor-centered perspective is key also because political actors actively influence the framing of policy proposals, which is as crucial in the area of social investment as in any social policy reform. Policies, and certainly social investment policies, can embody different rationales, from activation to redistribution, education, human capital mobilization, gender equality, or social inclusion. Therefore, the processes of framing are key for coalition formation as they make actor alliances malleable and prone to political exchange and ambiguous agreements (Palier, 2005; Häusermann, 2010; Häusermann & Kübler, 2011). In this sense, the ambiguities of social investment instruments are an integral part of the politics of social investment (Busemeyer et al., 2018; Häusermann, 2018); therefore, a close empirical focus on actors and policymaking processes is required for their analysis.

The comparative welfare state literature distinguishes between three main distributive profiles social policies can take: they can be 1) *inclusive*, that is, encompassing and egalitarian, including all or large parts of society in a joint policy scheme, with benefits being widely and relatively equally distributed, thereby creating a large societal coalition of stakeholders; 2) *stratified*, distributing different benefits to different (vertical) segments of the society, thereby also creating a large coalition of stakeholders but a more fragmented one, stabilizing the existing stratification of society; or 3) *targeted* and needs-based, channeling benefits to lower social classes and precarious social groups only, which may target particularly pressing needs but at the same time lacks the political effect of broadening the societal support base for the policy as such.

These three distributive principles have been at the heart of welfare state analysis for many decades (with Esping-Andersen [1990] as well as Korpi & Palme [1998] providing probably the most relevant and renowned theorizations). However, their variety has so far been studied mostly with regard to social compensation policies (i.e., income stabilization and transfers). It is one of the central arguments of this volume that social investment policies should and can be conceptualized using the very same categories of distributive effects. As they simultaneously pursue the twin goals of social inclusion and economic prosperity, there is a risk—also rampant in the scholarly literature—of portraying social investment policies as a "magic bullet," devoid of distributive costs and flaws. Given the cumulative knowledge of comparative welfare state research, however, holding social investment policies to such a standard would be highly inadequate theoretically and implausible empirically. Just as pension systems or unemployment insurance can be more or less inclusive and more or less redistributive, so can social investment policies. But because of their distinctive functions regarding the creation, mobilization, or preservation of human capital and capabilities, the preferences of different political actors relative to the distributive profiles of social investment policies may differ from their preferences when it comes to consumptive policies.

When proposals are debated and decisions are made, organized actors may act either as *protagonists* (i.e., actively pushing in favor of some social investment policies), as *consenters* (agreeing to support such proposals if they believe that their constituencies would not lose or if they obtain some concession in other domains), or as *antagonists* (opposing such orientation of social policies) (see Figure 2.1).[8] In the following, we develop a few rather general hypotheses on who the relevant actors are in social investment reform politics and what positions they are likely to defend in terms of social investment reform strategies. The goal here is not—and cannot be—to theorize about the specific alliances

8. Following the contribution of Emmanuele Pavolini and Martin Seeleib-Kaiser to our project (Chapter 9 in this volume), we adopt the vocabulary suggested by Walter Korpi (2006) to define employers' position regarding the development of welfare states across history; however, we apply the vocabulary to all kinds of organized actors involved in the politics of social investment.

in every policy function and context. It is only the concluding chapters of this volume (Chapter 16) and its sister volume (Chapter 17 [Garritzmann et al., 2022]) that can take stock of all empirical findings regarding the specific actor configurations that are likely to lead to a particular social investment reform strategy. Rather, our goal here is to pave the way for empirically linking distinctive actor configurations to social investment reform strategies. When theorizing about the preferences of political actors, we focus mostly on the societal groups and constituencies whose interests these actors defend or represent. Here again we distinguish our approach from more culturalist approaches, which tend to consider ideational dynamics and hegemonic discourses to predominate in structuring actor preferences (e.g., Baccaro & Pontusson, 2019).

The set of actors who are politically relevant in social policy reform processes is not the same in every circumstance. When social investment is a salient, "loud" topic on the domestic reform agenda, the electoral arena of mass politics is the most important arena to consider. If mass politics is a decisive arena, then it is important to consider not only governments and political parties but also public opinion and attitudes in the respective electoral constituencies, to which parties in particular are sensitive (see Chapter 3 of Volume II [Garritzmann et al., 2022]). By contrast, when social investment is not a salient issue, interest groups and/or national and international bureaucrats and experts are likely to be the most important "quiet" actors, depending on the development of the intermediary representative system (Culpepper, 2010).

We start by discussing the roles of non-partisan actors, that is, those not associated with a particular political party (i.e., experts, bureaucrats, and interest organizations). Experts are relevant actors for political decision-making, especially when either the political-representative democratic system is relatively weak (such as in Latin American countries; see Chapter 15 of Volume II [Garritzmann et al., 2022]) or when there is a strong (financial) dependency of domestic politics on international organizations, which has been the case not only in Latin America but also in the development of social policy reforms in Central and Eastern Europe and, more recently, in several countries across Southern Europe. Under conditions of strong constraint and/or weak contestation and politicization, experts and bureaucrats can have more direct impact on policy proposals. There is no specific distributive profile of reforms that we assume to be associated with such a direct impact, however.

The role, importance, and position of interest organizations representing labor and capital are similarly context-dependent but somewhat more closely associated with distinctive distributive preferences. Labor organizations (i.e., trade unions) should at first glance be expected to be protagonists of inclusive social investment (see Chapter 10 of this volume) as these policies are conducive to higher employment rates (Kenworthy, 2017; Nelson & Stephens, 2012), particularly in permanent and high-quality jobs. However, our hypotheses in this regard need to be more differentiated. Ample research has shown that trade union preferences are sensitive to the type and composition of their (current and targeted) membership (e.g., Mosimann & Pontusson, 2018). Hence, the role and preferences of unions are likely to be conditional on their membership structure (i.e., representational concerns) as well as on institutional factors.[9] Where unions have weak legitimacy and highly selective membership, not only is their role supposedly more marginal to begin with but their position regarding social investment reforms is highly uncertain. Selective industrial sector unions or fragmented unions that organize specific and more privileged sectors of the labor market may well oppose inclusive social investment reforms as they would threaten the (insider) advantages of their members. Teachers' unions in Latin America (see Chapters 6 and 7 in this volume; Chambers-Ju & Finger, 2016) or industrial sector unions in the Visegrád countries (see Chapter 8 of Volume II [Garritzmann et al., 2022]) can be regarded as examples of such a dynamic. Moreover, social investment policies oftentimes target social risk groups that are not the core constituencies of trade unions and whose policy concerns are not a priority on the trade unions' agendas, such as early childhood education and care or education policies more generally (Bonoli, 2005; Häusermann, 2010, p. 5; Thelen, 2014). Hence, there is a risk that trade unions approach these policy fields with a more selective focus on the situation of the professionals in the respective services (schools, childcare centers), rather than with a (simultaneous) focus on the societal benefits for users.

Consequently, we would expect trade unions to be protagonists of inclusive social investment reforms when they represent encompassing membership, particularly in processes in which policies are closely related to labor market protection. However, when reforms are outside their key policy concerns, we would expect trade unions (even trade unions with encompassing membership) to act more in the role of consenters. We would then anticipate that more selective, fragmented trade unions would be protagonists or consenters of stratified social investment, in order to protect more narrowly the interests of their members. However, when confronted with a shrinking insiders' constituency, trade unions may endorse (inclusive) social investment in order to conquer new socioeconomic groups in a logic of influence (see Chapter 10 in this volume).

Business and employer organizations also hold a specific place in the theorization of actor configurations relative to social investment reform strategies. Quite distinctively from social compensation policies, the literature has theorized and found business groups to even be among protagonists of social investment reforms in some contexts, especially when such policies are intended to expand labor supply in times of scarcity (Fleckenstein & Seeleib-Kaiser, 2011; Korpi, 2006; see Chapters 9 and 14 in this volume). If social investment policies are

9. Therefore, Durazzi and Geyer (Chapter 10 in this volume) as well as Altamirano and Zarate-Tenorio (Chapter 11 in this volume) analyze how micro-, meso-, and macro-factors condition unions' preferences.

perceived as a (cheaper) alternative to income compensation policies, employer groups may also act as consenters of reform even when there is no immediate labor shortage. However, their primarily economic rationale for supporting these policies selectively implies three correlates. First, they will likely be more involved in social investment policies that are closely linked with labor market issues (such as parental leave or vocational training). The second correlate projects heterogeneity across employer associations, depending on their specific labor demand and occupational structure. Third, employer organizations are likely to support stratified (or perhaps targeted) social investment policies since reducing inequality is less important than creating specific and selective incentives for particular groups of beneficiaries. These hypotheses regarding employer preferences should be rather universal across institutional contexts, even though the actual prevalence of problems and incentives is likely to vary across regions.

When it comes to the electoral arena, governments appear to be highly important actors both because they convey a political demand via parties and because they respond to the ideational and structural demands of interest organizations and international actors. Hence, governments are likely to be policy protagonists if the electoral institutions allow them some leeway to initiate, frame, and manage reform processes, allowing them to shape social investments in line with their policy, vote, and office motivations. To understand the actual material and distributive social investment reform strategies governments promote, however, partisanship, on the one hand,[10] and growth strategies, on the other,[11] are key. Where governments start from a compensation-based welfare system and engage in a knowledge economy strategy, they are likely to act as protagonists and push (possibly among other proposals) for stratified policies of human capital creation and mobilization, not unlike employer organizations.

In most contexts, however, we expect that the distributive profile of social investment policies is related primarily to partisanship. At the level of political parties, we suggest that left-wing parties advocate more inclusive social investment policies than right-wing parties, for both ideological and electoral reasons. "More inclusive" may mean egalitarian, but it may also mean to privilege stratified over purely targeted measures, in order to expand eligibility beyond the lower social strata and to build a broader support coalition. As explained in Section 2.2.2, the electorate of mainstream left-wing parties has changed significantly across developed democracies since the 1980s, with mostly middle-class voters prevailing among the core constituencies today (Gingrich & Häusermann, 2015). Given their stronger focus on the needs of new risk groups, women, and the

10. See, for example, Ansell (2010), Busemeyer (2015), Iversen and Stephens (2008), and Manow et al. (2018); see also various chapters from this project, for example, Chapters 13 and 15 in this volume and Chapters 12 and 13 in Volume II (Garritzmann et al., 2022).

11. See, for example, Hassel and Palier (2021b) and Kazepov and Ranci (2017); see also various chapters from this project, such as Chapters 5 and 7–9 in Volume II (Garritzmann et al., 2022).

high-skilled more generally, we would expect socioculturally progressive new left parties to place stronger emphasis on inclusive social investment, whereas more industrial worker–oriented left parties might prioritize social compensation and act merely as consenters to inclusive social investment reforms (Beramendi et al., 2015; Häusermann et al., 2021).

Electoral realignment is also relevant to consider when theorizing about the positions of right-wing political parties. Hypotheses regarding moderate right parties can follow lines similar to those of employer organizations. Overall they are rather unlikely to be protagonists of inclusive social investment, but they may consent to social investment (as an alternative to social compensation) and may even push actively for stratified provision of social investment services, not least to capture potential support from centrist (female) voters (e.g., Morgan, 2013; Schwander, 2018). In countries where targeted social policies have traditionally prevailed, right-wing parties are a priori unlikely to support any social investment. The case is somewhat different when it comes to the radical (populist) right or right-wing nationalist parties. In line with their strong electoral affinity to the industrial working class (and self-employed small business), as well as their opposition to economic and societal modernization and its correlates, these parties are expected to be the most vocal antagonists of social investment in general (Enggist & Pinggera, 2021; Häusermann et al., 2020; Michel & Lefkofridi, 2017; Pinggera, 2020; Rathgeb, 2021).

In terms of class coalitions, we hence argue that, in many countries, members of the educated middle class are most likely the key supporters of social investment. In the developed world, the educated middle class is predominantly represented by the left parties (social democrats, green, or social liberal parties, depending on the country). Even though the educated middle class is the main supporter of social investment, this class by itself is generally not big or strong enough to carry a policy re-orientation to success, not even in the most likely case of Nordic Europe (see Chapter 2 of Volume II [Garritzmann et al., 2022]). It is certainly true that the size of the educated middle class varies greatly across countries (depending itself strongly on the welfare state legacy; see Oesch [2015]): in the Nordic countries, for instance, educated people in interpersonal service occupations represent about a fourth of the workforce, whereas the same group remains way below 10% in the Southern European countries (Beramendi et al., 2015; see also Chapter 12 in this volume). Hence, there is a need for cross-class coalitions to press for actual policy change (Häusermann & Palier, 2017). We see potential for two main class coalitions: a middle class–business alliance, on the one hand, and a middle class–working class alliance, on the other hand. The policy packages likely supported and adopted by these two alliances obviously differ, especially in terms of the emphasis they are likely to place on different distributive profiles of the social investment reform strategy.

Based on these basic considerations regarding class and actor preferences, we would expect coalitions led by left-wing parties or governments to advocate inclusive social investment policies, especially if they ally with working-class constituencies. In such cases, business and possibly parts of the right may act at best as consenters. By contrast, when business or moderate right parties act as protagonists of coalition formation (even if with the left), we would expect more stratified reforms to prevail. Trade unions could be consenters in both scenarios, while (populist) radical right parties are expected to be the most important antagonists across institutional and economic contexts. It is more difficult to identify leading protagonists for targeted social investment reforms, especially in the more developed capitalist democracies. In less developed welfare states, where there is a stronger focus (domestically and by international organizations) on poverty and poverty relief and where existing (compensatory) policies fail to cover lower social strata (mainly because of informal labor markets, lacking resources, or state capacity problems), we would expect left-wing partisan actors and governments to be (the only) protagonists of targeted expansion of human capital creation among the poor.

2.4. CONCLUDING REMARKS

In this chapter, we have discussed the key concepts of this volume's approach to the politics of social investment. We examine social investment policies as one potential answer to the social, economic, and political challenges that welfare states are facing in the 21st century. Social investment is not the only possible response: Market liberalism, social protectionism, and basic income strategies are alternatives that governments, parties, and interest organizations can pursue. However, social investment policies are the most direct and explicit answer to the joint social and economic challenges that come with the emergence of the knowledge economy in 21st-century capitalism.

The politicization of social investment (i.e., the development of a conflictive, salient debate about the type and design of social investment reforms) is neither universal nor straightforward. To become a viable political and politicized option, social investment needs to rely on a modicum of state capacity, and—under conditions of democratic politics—it requires programmatic linkages between parties and voters. Beyond these two basic conditions, welfare state maturity, the emergence of a knowledge economy, and electoral realignment are probabilistic, but not necessary, conditions that are likely to contribute to the politicization of social investment on the menu of welfare reform strategies.

We have refrained explicitly from defining social investment policies via policy fields. Rather, the goals and functions of social investment are key, and they can be pursued by means of highly different social policies, for example, education policies, labor market policies, and even pension policies. As developed in this chapter, these functions are the creation, mobilization, and/or preservation of human capital and human capabilities. We expect social investment to be politicized in terms of one or several of these functions, depending mostly on institutional policy legacies that, in interaction with structural socioeconomic changes, shape both the challenges that emerge as well as the ways in which political actors perceive these challenges and potential solutions. Therefore, we mainly expect regional variation in the emphasis that different countries place on human capital creation, mobilization, or preservation.

Lastly, the distributive design of social investment policies can be as heterogeneous as the distributive design of social compensation policies, irrespective of the policy field and function concerned: Benefits can be targeted toward the poor, they can be stratified toward specific social strata, and they can be inclusive and thereby contribute to alliances between lower- and middle-class beneficiaries. As determinants of these distributive profiles, we point primarily to the likely coalitional alignments between political actors driving reforms, these actor configurations being themselves influenced by institutional legacies and structural developments.

By theorizing about the politicization, functions and goals, and distributive profiles of social investment policies sequentially in a combined framework (see Figure 2.1) as the outcome of a complex interplay of ideational and structural dynamics, institutional legacies, societal changes, the interaction of political supply and demand, and, ultimately, coalition-building, we have developed an explanatory framework that is encompassing enough to account for the politics of social investment across highly different world regions. At the same time, the framework is testable and distinctive in its emphasis on political agency and choice, against functionalist, structural-deterministic, and culturalist approaches that have a strong voice in the current scholarly literature.

On the basis of the above framework, we expect parties of the "New Left" (i.e., left-wing parties which emphasize cultural liberalism, universalism, and socially progressive values) to be the most ardent and most explicit protagonists of social investment policies. We foresee the radical (populist) right as the most likely and vocal antagonist. With these poles of a politicized debate, it becomes also clear why we would expect social investment to be most politicized where electoral realignment has progressed the furthest: The occupational and socio-structural effects of the emerging knowledge economy in terms of job polarization and new social needs and demands contribute to both electoral realignment and the politicization of social investment in terms of new electoral divides. Where social investment is less salient in the electoral arena, the same political divide can unfold in terms of antagonistic growth strategies between governments privileging the strengthening of dynamic, high-skilled services and those prioritizing economic growth through manufacturing or lower-wage production of goods and services. In less developed capitalist contexts, we expect left-wing partisan actors to promote inclusive or targeted social investment with a strong focus on poverty relief, against the interests of actors who defend stratification of old or new social policy schemes.

The roles and positions of trade unions and employer organizations are not straightforward as they depend on membership structure, the type of labor demand in a particular context, and macro-institutional factors. Overall, however, we would expect these actors—as well as moderate right parties—to be more likely to advocate stratified social investment policies that either preserve existing distinctions or mobilize or benefit specific social groups in a less inclusive and egalitarian way.

To what extent do the implications of our theoretical framework ultimately resonate with the alignments and predictions concerning traditional social compensation schemes? And to what extent do we expect the distributive profile of social investment policies to match the regime characteristics that have been conceptualized for decades on the basis of social compensation policies? To some extent, a match between existing welfare regimes and the politics of social investment indeed exists, as can be expected given the endogenous and interrelated nature of institutional and structural developments and their link to actors. We indeed expect political agency in favor of inclusive social investment to be strongest in the universal welfare states and to some extent in the most advanced capitalist economies. Similarly, we expect stratification to prevail more strongly where institutions and structures have reinforced stratified policies over decades, such as in Continental or Southern Europe, North East Asia, and the economically more advanced welfare states of Latin America. And we, of course, predict that stratification will be highly politicized and present (vs. inclusiveness or targeting) in those contexts where preexisting welfare states are truncated and fragmented such as in Latin America and to some extent Southern Europe.

However, we also anticipate important and notable deviations with regard to the determinants of social investment, three of which we point out here. For one, while trade unions have been conceptualized as key protagonists of inclusive policies of social compensation, they cannot be seen as the "natural" ally of left-wing protagonists of inclusive social investment since a) they may have reservations regarding the "commodifying" aspect of social investment policies and b) many trade unions do not represent the core constituencies of social investment. Rather they may be merely consenters of social investment or, depending on the context, protagonists of stratified social investment. Second, while employer organizations may be consenters to particular, insurance-based social compensation policies (Mares, 2003), at least some members of business groups are likely to become protagonists of human capital-creating or -mobilizing policies under conditions of labor scarcity. Such a more active role for capital is, of course, likely to remain selective and context-dependent, but—especially in combination with the transformed role of trade unions as key stakeholders of social compensation policies—such a more active role has the potential to alter coalitional patterns and alignments when there is a choice between social investment and social compensation.

Finally, inclusive, stratified, and targeted social compensation policies have been theorized as key policy strategies in social democratic, corporatist, and liberal welfare regimes, respectively. When it comes to social investment, however, there is little reason to expect targeted policies to become a key and prioritized strategy for any political actor. Targeted compensation policies represent the "basic security" that even liberal states provide for people who do not manage to provide for themselves in the labor market. In a social investment logic, targeted social investment policies are likely to be no actor's first choice. Rather, they are likely to be an explicit policy option only where social investment is more fundamentally oriented toward fighting poverty and its transmission in a sustainable and capacitating way. In the more advanced capitalist democracies, the main rival of inclusive or stratifying social investment as a political strategy is thus not targeted social investment but rather social protectionism, as a potential first choice for parts of the left, or market liberalism and commodification, as a potential first choice for the political right. In this way, the alternative options of welfare reform strategies in the 21st century may indirectly also affect the coalitions that drive social investment reform strategies.

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