The Politics of European Union's Social Investment Initiatives

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4.1. INTRODUCTION

Like the Organisation for Economic Co-operation and Development (OECD) and the World Bank at the global level (see Chapter 3 in this volume), the European Union institutions have been important protagonists for social investment initiatives at the EU level since the mid-1990s. In 2013, the European Union adopted the ambitious Social Investment Package, which proposed policies to invest in human capital throughout the life course. The package focuses on and identifies policies with a high social investment orientation, including developing early childhood education and care policies, active labor market policies, education and lifelong learning, as well as housing support, rehabilitation, healthcare, and long-term care services. The Social Investment Package is the apex of a series of initiatives taken at the EU level since the mid-1990s aimed at providing EU member states with a common vision for the modernization and reform of their welfare states and labor markets that is compatible with the EU growth strategy. The Social Investment Package builds on these earlier EU initiatives that developed from the mid-1990s onward in a series of politically significant sequences.

With its initiatives, the European Union contributed to elaborating and legitimizing the social investment perspective in Europe. As shown in previous work, the European Union has ideational influence on member states (Moreno & Palier, 2005). Moreover, in contrast to the OECD, which works exclusively

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through soft power (see Chapter 3 in this volume), the EU level is a higher tier of governance for the EU member states, exercising political influence, especially in socioeconomic policy. The European Union has various means of regulation, ranging from legislation in areas where it has exclusive or shared authority with member states to soft regulation, especially policy coordination, in areas of member state competency (such as labor market and social policies). At the EU level, social investment issues are mainly addressed through policy coordination, which consists of political agreement among the EU member states on common policy aims, key benchmarks, member state reporting, and country-specific recommendations (de la Porte & Pochet, 2012). Through various channels documented in the Europeanization literature, EU policy coordination has been instrumental in leading to changes in members states in the domain of social investment policies, especially when EU orientation and the political priorities of governments converged (Barcevicius et al., 2014; de la Porte & Pochet, 2012; Erhel et al., 2005; Graziano et al., 2011; Jessoula & Madama, 2018). Here, we focus not on member states' policies but on the EU's social investment initiatives.

This chapter maps and then explains the metamorphoses in the European Union's social investment welfare state reform strategy, following the general theoretical framework of the World Politics of Social Investment (WOPSI) project (see Chapter 2 in this volume). To start, we show that there have been five main sequences in the development of the European Union's social investment initiatives. Each sequence is identified inductively by a significant political reorientation of the strategy, promoting a particular type of social investment. The social investment perspective proposed by the EU institutions started with a focus on labor market participation (hence focusing on the skill mobilization function of social investment) before being broadened in 2000 to a perspective that included skill creation as much as skill mobilization and preservation. It then changed again toward a return to workforce mobilization and experienced a specific "social investment moment" with the Social Investment Package (de la Porte & Natali, 2018), before being embedded within a broader European pillar of social rights (EPSR) in 2019.

In order to explain the adoption of and subsequent changes in the social investment strategy proposed by the European Union, we then examine the politics of EU social investment. To understand the content and variation of the EU social investment framework, we focus on why and how key protagonists among relevant actors (EU commissioners and directors-general, EU political parties, heads of state and ministers of EU member states, as well as European intellectuals) have influenced EU social investment ideas and initiatives.

We argue that two main dynamics explain the metamorphoses of the European Union's approach to social investment. First, there is an "internal" dynamic, consisting of internal battles within the European institutions between

what we call (following de la Porte & Pochet, 2002) "economically oriented" actors[1] and "socially oriented" actors.[2] The general dynamic is that through various spillover effects, and at different moments, the economically oriented actors try to capture the labor market and social policy fields and impose their market-liberalizing view on them, pushing for labor market deregulation, cost containment and privatization in social policies, while the socially oriented actors react and negotiate compromises that allow for a more social solution in order to maintain equitable welfare states and fair labor markets (de la Porte & Pochet, 2002). Since social investment combines both an economic perspective (investing for the knowledge-based economy) and a social preoccupation (to avoid the reproduction of inherited inequalities and to promote gender equality as well as autonomy and social progress for all), it became essential to elaborate "ambiguous agreements" (Palier, 2005) that allow each of these antagonistic actors to claim achievement of its objectives.

However, we also need to look at a second dynamic to fully understand the politics of social investment at the EU level; that is, we need to look at the support or opposition on the part of member states to the Commission's initiatives. Coalitions of member states and/or political parties on particular issues do indeed explain the content of EU initiatives, as has been demonstrated by Tallberg (2008) and Tallberg and Johansson (2008) regarding the adoption of the Lisbon Strategy in 2000. As Tallberg (2008) has shown, for socioeconomic issues the left–right divide does matter; and depending on the political center of gravity of the European Council, different perspectives will be taken on labor market and social policies. In these political dynamics, the reference to national socioeconomic models that are perceived to be successful at a particular moment in time will be key to achieving compromises between various EU actors and member states.

This chapter is organized as follows. In the first part, we present EU social investment initiatives in five distinct sequences, underlining each one's primary orientation in terms of social investment functions and distributive profiles, following the WOPSI typology. In the second part, for each sequence, we analyze, first, the politics behind the EU social investment initiatives and, second, the substantive content of EU social investment policy and the national socioeconomic model(s) associated with it.

1. The Directorate-General in charge of economic affairs at the Commission, the Economic Policy Committee (providing analyses for the Economic and Financial Affairs Council), the European Central Bank, and employer organizations.
2. The Directorate-General in charge of social affairs, the Employment Committee, and the Social Protection Committee (the latter two providing analyses for the Employment and Social Affairs Council), plus some left-leaning members of the European Parliament. The two terms "economically oriented" and "socially oriented" correspond to the vocabulary used by the actors themselves (at least in interviews) and have been used in different studies (see de la Porte & Pochet, 2002; Mandin, 2001).

4.2. FIVE SEQUENCES IN THE DEVELOPMENT OF SOCIAL INVESTMENT INITIATIVES AT THE EU LEVEL

Prior to the launch of the European Monetary Union (EMU), social policy at the EU level mainly concerned equal treatment, which related primarily to labor market policies, or highly technical areas, such as health and safety at work, that were not part of the core domains of welfare states. In these areas, the Court of Justice of the European Union played a very active role in interpreting EU law (Leibfried & Pierson, 1995; Martinsen, 2015).

By the 1990s, however, labor market and social policy had entered the EU agenda. Welfare state reforms, previously considered to be in the realm of member states' sovereignty, began to be addressed at the EU level, due to a spillover from the preparation and then implementation of the EMU. In 1993, by adopting the Maastricht Treaty, member states agreed to have sound macroeconomic policy, including low inflation, yearly balanced budgets (low budget deficits), and relatively stable (and low) public debt. Yet, the Maastricht Treaty should not be seen as imposing only technical criteria for the single currency (limiting the level of inflation, public deficit, and debt). It also meant that all the European countries accepted a profound shift in the economic policy paradigm, with implications for welfare states and labor markets: Welfare state expenditures were supposed to be kept at bay and markets to be more competitive, favored by low inflation. For labor markets, this meant wage moderation, ensuring labor costs were not too high, which implied reducing non-wage labor costs (de la Porte & Pochet, 2002; Palier, 2010). In the context of the Maastricht Treaty, welfare transfers and services were more often seen as comprising an element of rigidity and as a burden for companies (labor cost) and states (budget deficits). Those supporting Maastricht criteria–based monetarism increasingly denounced passive and costly welfare programs as impediments to the competitiveness of firms and countries in this new context. New policies aimed at retrenching social expenditure and liberalizing labor markets were promoted as necessary to meet the Maastricht criteria.

Increasingly, the focus of welfare reforms was on adapting and realigning the social policy paradigm to the new economic paradigm that had gained prominence at the EU level. With increased economic integration, the European Union started to take more and more initiatives to try to harmonize welfare state reforms among member states (at least ideationally; see Moreno & Palier, 2005; Palier & Pochet, 2005). As Morel et al. (2012) show, the social investment perspective is explicitly aimed at combining economic objectives (increasing labor market participation and preparing the workforce of the knowledge-based economy) with social policy concerns (addressing new social risks that the old welfare states were neglecting) and instruments (childcare, active labor market policies, reconciliation policies, and the like). The social investment perspective

thus appeared to be a fitting starting point for building a new European vision that could realign the region's welfare states with the new European economic context and policies.

Before analyzing the political processes that led to such EU social investment initiatives, we present the (cognitive) social policy framework(s) developed to reconcile welfare states and labor markets with the new economic context. We identify five institutionally significant sequences of social investment and relate them to the human capital mobilization, creation, and preservation functions of social investment, as well as the redistributive profiles that were adopted.

1) *The European Employment Strategy* (1993–1997). The first sequence in development of the EU series of initiatives began in the early 1990s and ultimately led to the adoption of Title VIa on Employment in the Amsterdam Treaty in 1997. The title specifies an overall EU objective of mobilization of human capital ("high level of employment") and preservation of human capital ("trained and adaptable workforce"). These policies were to be implemented in member states via policy coordination (an iterative policy cycle of common objectives, national reports, evaluation, and peer review), later called the Open Method of Coordination (OMC). Within the framework of the European Employment Strategy (EES), the first set of specific employment policy guidelines were adopted at the end of 1997, organized around "employability," "entrepreneurship," "adaptability," and "equal opportunities." The "employability" policies of the employment guidelines encourage a lifelong learning approach and comprehensive training but also policies to enable rapid labor market integration. The EES also included "equal opportunities" objectives aiming to increase the employment rate of women by promotion of measures for reconciling work and family life, mainly by ensuring access to affordable and high-quality day care but also ensuring equal wages for men and women. The promoted policies were centered on labor market policies, and childcare was included to support labor market participation. Thus, the main approach taken by the EU social investment initiatives during this first phase was skill mobilization, and the distributive profile was a combination of targeted policies (for those out of the labor market) and inclusive ones (lifelong learning for all).
2) *The Lisbon Strategy* (1998–2004). The second sequence pertains to the adoption and first implementation of the Lisbon Strategy, a growth strategy that implied specific labor market but also welfare state reforms. With preparation already begun in 1998, the Lisbon Strategy was adopted in March 2000 by the European Council. It aimed to make the European Union "the most competitive and dynamic

knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion" by 2010. It was first implemented under the Prodi Commission (1999–2004). With this strategy, the perspectives on mobilization of human capital were reinforced, with quantitative employment rate targets for the European Union to be reached by 2010: a 70% overall employment rate and 60% female employment rate (European Council, 2000). There was also a strong focus on quality in work, highlighting in particular the importance of decent wages. Moving beyond employment and labor market policy, it expanded the social investment perspective to human capital creation. The focus on childcare, previously a subelement of the EES, was strengthened, and childcare targets (at least 30% of children aged 0–3 attending childcare) were agreed in 2002 (European Council, 2002). Higher education was also high on the agenda, with specific targets set for completion of tertiary education. A social inclusion strategy was also developed which included integration through work and a rights-based approach to fighting poverty. An annual (spring) summit, exclusively concentrating on social and economic issues, was institutionalized to discuss progress in social investment–type policies.

3) *Constricting the Lisbon Agenda* (2005–2010). The third sequence comprises a reformulation of the Lisbon Strategy under the first Barroso Commission (2004–2009) in a more liberal direction. It led to a stronger focus on mobilizing human capital, while creation and preservation became less significant. The notion of flexicurity became flagged by the European Union as a means for European countries to ensure competitiveness on labor markets but also protection and skills. It was partly inspired by the Danish and Dutch labor market models (i.e., a combination of flexible labor markets, training, and decent unemployment benefits). Quality in employment and quality of social protection were no longer on the agenda. Reconciliation of work and family life and childcare became side issues. When adopting the new "Europe 2020" growth strategy in 2010, only three (limited) social investment objectives survived: further increasing labor market participation (in any jobs), increasing the level of tertiary education, and reducing the number of people at risk of poverty or social exclusion. The Europe 2020 growth strategy was integrated with the "European Semester," the governance procedure around the EMU, which is driven by economic and financial affairs ministers and European Commission directorates-general. EU commitment to inclusive social investment was weakened and refocused on targeted workforce mobilization.
4) *The Social Investment Package* (2011–2013). The fourth sequence leads to the adoption of the Social Investment Package. It was an attempt

by experts to counteract increasing economic pressures on social policies coming from the new EU economic governance. Social investment protagonists, who had been active in previous sequences, were keen on developing a more inclusive and comprehensive social investment policy. The resultant Social Investment Package, adopted in 2013, encouraged member states to develop and strengthen policies such as early childhood education and care, education, active labor market policies, training, and lifelong education. It also mentioned the social protection aspects of the comprehensive social investment policies that had been key between 2000 and 2004. These included housing support, rehabilitation, healthcare, and long-term care services. The life-course perspective, entailing lifelong learning but also possibilities to have temporary periods away from the labor market for childcare, was emphasized more than in the previous periods (de la Porte & Natali, 2018). The focus of social investment was thus on creation and mobilization of human capital and capabilities and, to some extent, preservation. However, as will be shown, despite much activity by social investment protagonists and the actual adoption of the Social Investment Package, there were no strong political commitments among member states or within the second Barroso Commission (2009–2014) to develop and strengthen instruments for social investment.

5) *Toward European Social Rights?* (2014–2019). The fifth sequence represents a reorientation of EU social policy toward a focus on rights and principles, with little emphasis on social investment. It begins with the Juncker Commission, which took office in 2014. Juncker aimed to boost the social dimension of Europe following austerity, high unemployment (especially among young people), and sluggish growth. Part of this response was to tackle the youth unemployment that resulted from the Eurocrisis through a "youth guarantee," a co-funded EU activation scheme for young people not in education, employment, or training, so-called NEETs (Tosun, 2017). The Juncker Commission also launched the European Pillar of Social Rights (EPSR), adopted as a solemn declaration by all EU institutions in November 2017 in Gothenburg. According to its Article 14, the EPSR "expresses principles and rights essential for fair and well-functioning labor markets and welfare systems in 21st century Europe. It re-affirms some of the rights already present in the Union acquis and includes new principles which address the challenges arising from societal, technological and economic developments." It identifies 20 principles in three areas: access to the labor market, fair working conditions on the labor market, and social protection and inclusion. Some of the social investment orientations which had been developed during the fourth sequence

were included in the pillar (namely education, training and lifelong learning, active support to employment, work–life balance, childcare, and support to children). Announced as a series of rights that should become accessible to all citizens, hence potentially promoting inclusive social investment, these principles remain vague since, as Article 14 states, "For them to be legally enforceable, the principles and rights first require dedicated measures or legislation to be adopted at the appropriate level". The social investment aspects of the pillar were not the central focus of the Juncker Commission.

4.3. THE POLITICAL PROCESSES EXPLAINING THE METAMORPHOSES OF SOCIAL INVESTMENT AT THE EU LEVEL

EU social investment initiatives thus started with labor market concerns; then comprised a comprehensive approach to skills, equality, and social cohesion during the late 1990s and early 2000s; and then shifted to a narrower perspective, mostly focused on labor force mobilization within an agenda concerned with austerity. It ended up being absorbed (and diluted) within the broader European Pillar of Social Rights. We now analyze the politics of social investment metamorphoses in the five sequences we identified. Before presenting our analysis, we present the various types of actors that have played prominent roles in these politics and the mechanisms through which their influence operates.

The European Union's social investment ideas have been influenced by various European intellectuals and experts and by what appeared to be the "successful" models provided by different EU countries. Perspectives depended on the economic context: relative economic growth during the late 1990s and the early 2000s, deep economic crisis in 2008 and 2009 followed by the EU debt crisis starting in 2010, and the subsequent dualization of Europe (Palier et al., 2018). In these various contexts, countries fared differently, providing a succession of "models" that were perceived as having been successful. The European Union's social investment initiatives were initially strongly influenced by the (Anglo-) Nordic successes of the 1990s. From 2005, the German model gained traction, a trend that was strengthened following the financial crisis beginning in 2008 and the EU austerity policies after 2010. Various waves of EU enlargement and the changes of political leadership in the European Commission (and in the directorates-general) have also contributed to shaping EU social investment.

In order to understand how these influences have translated into concrete EU initiatives, we look at the political activity of specific and relevant actors. European intellectuals have been central in framing social investment at the EU level. However, the extent of their influence has been highly dependent on whether

they found political support within EU institutions and among member states. We thus also analyze the role of EU actors within EU institutions (such as EU commissioners, functionaries, or members of the European Parliament) and especially the political activity of the Commission leadership and the Commission directorates-general,[3] as well as various technical issue-specific committees, the European Parliament, and experts. As mentioned in the introduction, de la Porte and Pochet (2002) have shown that these actors can be separated into two distinct groups: the "economically oriented" actors (directorates-general and issue-specific committees focusing on financial and economic matters, favoring a liberal approach involving welfare state retrenchment and labor market deregulation) and "socially oriented" actors (directorates-general and issue-specific committees focusing on employment and social protection, favoring a strong social dimension of Europe). The content of the EU social investment perspective partly varies according to the power of one of these groups over the other one. But these European Union actors are not autonomous as far as EU concrete actions are concerned; they rely on the decisions taken by the member states. These decisions depend on the political orientation of the EU institutions that reflect the composition and varying coalitions among member states. Hence, the EU social investment framework has been substantively influenced by the political orientation of the EU decision-making institutions, in particular the European Council (gathering the heads of states and of governments, who give the general orientation to EU policies), the Council of the European Union (which passes legislation and is composed of ministers from the member states[4]), and the European Commission (which is the executive branch of the European Union, has the monopoly on policy initiatives, and has become more and more politicized since the early 2000s). We thus look at the left–right orientation of the political leaders within the European Council (see our tables), and we also checked that the political composition of the Councils of Ministers corresponded to the main political orientation of the European Council of heads and governments (for this we use the Armingeon et al. [2019] database; see appendix).[5]

3. The Commission is organized into policy departments, known as "directorates-general," which are responsible for different policy areas. They develop, implement, and manage EU policy, law, and funding programs.
4. Its composition varies according to the policies at stake. The Ecofin Council gathers national ministers of economy and finance (and sometimes budget) and deals with economic and financial issues and policies; the Council of Social and Employment Affairs gathers national ministers in charge of social and employment affairs and deals with the corresponding issues. It can sometimes convene both, such as during the Spring Summit institutionalized in 2000.
5. Other scholars have conducted a more advanced analysis of preference heterogeneity in the Council and other European institutions, but we focus mainly on the social investment protagonists here, where the left–right composition of the European Council and member states is the most important dimension to be considered (Tallberg & Johansson, 2008).

In sum, the two main political dynamics that shape the European Union's social investment initiatives are the internal struggle between economically and socially oriented actors and the variation in the political center of gravity of the European Council. The general dynamic of the EU politics of social investment is the following: the more left-leaning[6] the EU member states, the more inclusive are the social investment initiatives introduced by the European Union (strongly influenced by socially oriented actors), and the more right-leaning, the more focused on activation and mere human capital mobilization (strongly influenced by economically oriented actors). We now turn to our analyses of the politics of each sequence.

4.3.1. Sequence 1: The European Employment Strategy (EES)—An Anglo-Nordic model (1993–1997)

4.3.1.1. Politics: A spillover effect from EU economic integration supported by left-leaning European actors

The discussions on core redistributive policy among EU member states, that is, on how to maintain national welfare states in the context of the EMU, began following the 1992 signing of the Maastricht Treaty, which institutionalized the EMU. During national debates regarding whether to adopt the Maastricht Treaty, many European governments discovered that European integration was not always perceived as a good thing by their citizens, who saw only economic constraints, not social advantages. This is reflected in the referendums on the EMU, including in France, where the Maastricht Treaty was barely approved, and in Denmark, where it was rejected. In these circumstances, some European actors tried to promote a more social Europe, aimed at full employment in a period of economic recession (1992–1993), in order to increase the Union's legitimacy.

Within the European Commission, the Directorate-General for Employment and Social Affairs (called DG V at the time, but was renamed DG EMPL in the mid 1990s) had prepared two recommendations on social protection that were adopted by the European Council in 1992. The first concerned ensuring sufficient resources and social assistance in social protection systems (European Council, 1992a). The second proposed a convergence of social protection objectives and policies, aimed at "improving and modernizing national social protection systems." This recommendation advocated the reduction of "social burdens" (i.e., social contributions) on firms in order to make social protection more employment-friendly. It proposed to move from a passive to an active social policy framework and promoted the notion of "productive" social policy (European Council, 1992b). As for employment policies, the idea of using the

6. "Left-leaning government," as coded by Armingeon et al. (2019), denotes when a party from the socialist or social democratic party family dominates the governmental coalition.

classic European method of integration was given up in favor of a softer approach, elaborating common objectives for different national policies.

In December 1993, after several months of consultation and despite a political context unfavorable for a European social turn (right-wing parties were dominant in 1993 and 1994; see Table 4.1), Commission President Jacques Delors published a white paper on growth, competitiveness, and employment that called for greater concern about unemployment at the EU level and for linking European macroeconomic policy with welfare reforms aimed at raising employment levels (European Commission, 1993).

Table 4.1 Left-leaning heads of state and government in the European Council, 1993–1997

	1993	1994	1995	1996	1997
Left-leaning heads of state and government	3	4	8	8	9
Number of member states	12	12	15	15	15

Source. Armingeon et al. (2019).

In parallel, as part of the first program of the newly founded Party of European Socialists, the European Employment Initiative was launched. Influenced by its Nordic members, the European Socialists attempted to better connect issues of welfare and employment (Wincott, 2003). With an active employment policy becoming a focal point of the party, attention turned to activation, productivity, and high employment rates. This turn reflected a shift to the "new left" perspective that was emerging among Democrats in the United States under Bill Clinton (elected president in 1992) and the United Kingdom's "New Labour" under Tony Blair (who took over leadership of the Labour Party in 1994 and was elected prime minister in 1997) and that was also visible in the evolution of Nordic social democrats in the mid-1990s. The debate was informed by the Delors white paper but also by a 1993 report written by Allan Larsson for the Party of European Socialists, entitled "Put Europe to Work," also known as the "Larsson Report" (de la Porte, 2011; Lightfoot, 2003). The issue of how to develop labor market policy to support the aims of the EMU was central. The orientation proposed in the white paper and reiterated in the Larsson Report were eventually adopted in 1994 at the Essen European Council, which was the last attended by Delors as Commission president (European Council, 1994).

At that meeting, the European Council approved five axes around which to organize the convergence of national employment policies: improving employment opportunities, increasing the employment intensity of growth, developing active labor market policies, targeting measures to reactivate the long-term unemployed, and reducing non-wage labor costs to encourage employers to hire low-skilled workers (de la Porte & Pochet, 2002). However, because of political

blockages from conservative governments, there was no real political push toward concrete implementation of policies along these axes.

There was a wind change with the 1995 enlargement. As shown in Table 4.1, the political composition of the European Council changed dramatically in 1995. When Sweden and Finland became EU members along with Austria, a strong momentum eventually emerged for developing a common European employment policy. Allan Larsson, former finance minister of Sweden, member of the Party of European Socialists, author of the party's Larsson Report, and designated director general of the European Commission's DG EMPL in 1995, worked with Swedish Prime Minister Ingvar Carlsson (1994–1996) to develop EU employment policy. An influential protagonist at the time, Larsson presented a paper, "A Vision for the IGC [Intergovernmental Conference]: A European Employment Union—To Make EMU Possible," as part of the preparations for treaty revisions that were planned for 1997. In the paper, he introduced the idea of developing an employment union alongside the EMU, emphasizing that "the creation of an Employment Union would be the expression of a common European commitment to give a central role to the battle against unemployment" (Larsson, 1995, pp. 5–6). In the paper, active labor market policy was identified as a necessary means to enhance skills and to increase labor market participation.

However, until 1997, no commitment was made at the EU level to follow through on these new proposals, especially because of continuing blockages from conservative governments in member states such as Germany and Spain. It is the deepening of the competition over welfare issues between "economically oriented" and "socially oriented" European actors and a change in majority within the European Council that permitted increasing involvement of European institutions in social policies.

After the 1994 Essen summit, the Directorate-General for Economic and Financial Affairs (DG ECFIN, previously called DGII) seized on the European Council's new interest in employment policy to promote its own views on these policies, shaped by monetarism: In various communications, it repeatedly proposed to liberalize the labor market and make it more flexible in order to reduce unemployment (following here the perspectives adopted in the OECD job studies of the early 1990s; see Mahon, 2011). Meanwhile, in some reports, the Economic Policy Committee (EPC) was calling for a more flexible labor market and more liberal employment policies. In response, the Directorate-General for Employment and Social Affairs (DG EMPL) tried to counteract these trends by using the term "security" next to "flexibility" in Commission texts. Meanwhile, it lobbied national governments to make employment an explicit, positive goal of the Union. The DG EMPL claimed that otherwise national ministers of employment would be stripped of their role by the Council of Economic and Finance Ministers (Ecofin Council) (Mandin, 2001).

The battle for shaping employment policy was strongly influenced by the newcomers to the European Union. Austria, Finland, and Sweden who joined

the European Union in 1995 had pro–social policy traditions. Sweden, with strong support from Finland, supported a common EU employment and social policy. Employment policy coordination, including active labor market policy, at the EU level was presented to the national electorates of Sweden and Finland as a means of safeguarding national social standards (de la Porte, 2011). Meanwhile, left/social democratic governments were increasingly numerous across Europe. In June 1997, the recently elected French Socialist prime minister, Lionel Jospin, pressed European countries to take action in this field even before the treaty was adopted.

In this context, a new chapter section on employment (Title VIa) was included in the Amsterdam Treaty signed in October 1997 so that Europe explicitly recognized the goal of full employment. The "Employment Title" contained the main ideas proposed by Larsson. An exceptional European Council summit on employment was organized in Luxembourg in November 1997 to launch the EES, even before the Amsterdam Treaty was ratified by all EU countries. It is the shift toward left-wing governments and prime ministers among the powerful EU countries, in particular the United Kingdom (Blair, Labour Party) and France (Jospin, Parti Socialiste), that enabled agreement on the Employment Title. This left-leaning political coalition in the Council also then promoted the development of an EU employment policy (Tallberg & Johansson, 2008). Helmut Kohl (Christian Democratic Union, Germany), who had been opposed to the Employment Title since the 1994 Essen summit, and Jose Maria Aznar, representing the conservative coalition in Spain, agreed to include the title in the treaty because of its soft law character. Wim Kok, then prime minister of the Netherlands and later to be a key protagonist in reorienting the EES and the Lisbon Strategy, signed the Treaty of Amsterdam for his country. The title represents a legal commitment to the political objective of a high level of employment through an iterative policy cycle based on soft governance (de la Porte, 2011).

The Nordic economic and employment models were at the time perceived to be the most successful in the European Union and would thus serve as a blueprint for the EES, which represents the foundation of the European Union's social investment policy. Allan Larsson, who was director of the DG EMPL from 1995 to 2000, argued, based on his idea of an employment union, that an active labor market policy was essential for employment growth. The focus at the time was on the mobilization of human capital (enhancing employment rates) but also on the creation and preservation of human capital through training and active labor market policy, particularly based on the Swedish model. Although inspired by the Nordic model, this policy proposal was also congruent with the "new left" approach to the "investment welfare state" (Giddens, 1998) promoted especially by UK Prime Minister Blair, who supported the supply-side type of employment policies which were central in the EES. The compromise was to increase employment rates by deregulating labor markets but also by ensuring that

the labor force was equipped with the necessary skills. This entailed a shift from a passive to an active labor market policy, rather than an increase in expenditure, in order to remain on target with the budget deficit limits of the EMU. It was the countries with low employment rates, especially among women and older workers (i.e., corporatist-type welfare states) that were targeted implicitly.

Once the Employment Title had been integrated into the Amsterdam Treaty and the EES launched, the DG EMPL under Larsson's leadership focused on identifying goals that would form the basis of a Commission communication (European Commission, 1997). In the communication, 20 employment policy aims were proposed under four headings: entrepreneurship, adaptability, employability, and equal opportunities. In addition, the Commission communication proposed a quantitative employment rate target—70%—for the European Union. The Commission's strategy, defined by the DG EMPL but also supported by the DG General Secretariat and the DG ECFIN, was to place more pressure on member states to increase their employment rates. The employment rate across the European Union at the time was 60%, due to a large extent to low rates of employment among women, youth, and older workers, especially in the corporatist-type welfare states where a labor shedding strategy was implemented all along the 1980s and early 1990s (Palier, 2010).

On the basis of the Commission's proposals, the Commission worked together with member states to agree on employment policy aims. All 20 guidelines proposed by the Commission were accepted, with employability—embodying mobilization of human capital—prioritized most by member states. The objectives for the EES and its European employment guidelines were endorsed at the extraordinary Jobs Summit, held in Luxembourg in November 1997 (European Council, 1997). However, the proposal to have a 70% employment rate benchmark was not accepted by the Council at that time.

4.3.1.2. Social investment output: An Anglo-Nordic policy model

With Larsson as the first EU social investment protagonist, the Swedish model, with its focus on mobilization and creation of human capital, was a strong source of inspiration for the EES. But the first sequence of EU social investment also reflects the UK approach to labor market participation, especially under Prime Minister Blair. Thus, the initial EU social investment, with a legal basis for policy coordination in the Employment Title and specific employment policy aims in the EES, reflected the Anglo-Nordic approach to labor market policy. Employment and labor market policy focused on encouraging employment participation among all categories of citizens through an active approach to labor force participation, including upskilling policies, such as vocational training and lifelong learning. At the same time, workers and labor markets were encouraged to be flexible (adaptability) and entrepreneurial. Furthermore, there was a strong focus on gender-equalizing policies to support women, including enhancing the supply of childcare. Through the EES, an Anglo-Nordic approach to social

investment started to emerge and was institutionalized at the EU level through policy coordination. This implied that the continental and Southern European countries had to reform their welfare systems. The European Union encouraged and, where politically viable, would partially shape, or at least inspire, national reforms (de la Porte & Jacobsson, 2012; Palier, 2010).

Thus, initially, EU social investment combined an inclusive social investment distributive profile focused on mobilization of human capital for all with a targeted distributive profile, aiming to mobilize groups that were not active on the labor market (women and older workers), especially in conservative corporatist-type welfare states. There was also a focus on preservation and upskilling human capital since the proposed policies entailed high-quality training and lifelong learning so that workers would be able to respond to shifts in the labor market. This approach was based on the Nordic model where traditionally training was central to active labor market policies but also integrated other active labor market policies aimed at facilitating rapid (re-)entry into the labor market, more in line with the liberal type of active labor market policies. The ideas were thus influenced by the Nordic model as well as by the "third way" thinking—emphasizing social rights and responsibility for all to contribute to the labor market.

4.3.2. Sequence 2: The Lisbon Strategy—The (Anglo-) Nordic model (1998–2004)

4.3.2.1. Politics: The consolidation and broadening of the EU social investment perspective

In the late 1990s, the European Union accelerated preparations for the single currency which would be launched in January 1999. To ensure that all the countries participating in the EMU would follow a similar economic policy that would guarantee the strength and stability of the Euro, the Stability and Growth Pact (SGP) was adopted in 1997. The SGP defined a process of policy coordination with EU benchmarks and policies, national reports, and EU surveillance, as well as corrective mechanisms in case of deviation from the agreed-upon aims. Most important in this initial institutional architecture are the limits for public debt (maximum 60% of gross domestic product [GDP]) and budget deficits (maximum 3% of GDP) and the pursuit of low inflation. The SGP thus asserted that a stable single currency needed sound public finance. The economically oriented European actors (especially DG ECFIN and the EPC, under the Ecofin Council) understood that they had a responsibility to guarantee that member states balance their budgets. They promoted an extensive version of the pact, imposing the view that public expenditure had to be controlled or even diminished for the sake of a stable euro. Multiple reports and studies from the EPC and the DG ECFIN showed that for many European countries public spending increased most for health and that demographic aging would soon cause a sharp increase

in public pension expenditure. They started to suggest cost containment and structural reforms of health and pension systems. These reforms often meant a partial privatization of health and pension systems (Crespy & Vanheuverzwijn, 2019; de la Porte & Heins, 2015; Palier, 2009). The challenges were present in all EU countries but were more acute in the conservative-type welfare regimes, where public debt was higher than the 60% limit and where social protection expenditure, especially on pensions, was high (Palier, 2010).

However, the economically oriented actors could not totally win this battle. The Santer Commission (1995–1999) and the Prodi Commission (1999–2004) supported a more left-wing agenda. Under these two Commission leaderships, the DG EMPL had significant resources and was very strong. In reaction to the fiscal consolidation and structural reform agenda put forward by the DG ECFIN, the DG EMPL argued that, left to unfold, these dynamics would lead to the dismantling of national welfare systems and the demise of the European social model. Socially oriented actors thus argued that, instead of keeping social protection formally outside EU competence but in reality under the control of purely budgetary constraints and economic actors, it was time for Europe to endorse some common action in order to preserve and modernize European welfare systems. This argument was received in a politically favorable context: Between 1998 and 2002, left-leaning governments were in the majority in the European Union (see Table 4.2). These circumstances paved the way for the Lisbon Strategy that incorporated guidelines for welfare state reforms very much inspired by a social investment approach (Mandin, 2001; Palier, 2009).

Table 4.2 Left-leaning heads of state and government in the European Council, 1998–2004

	1998	1999	2000	2001	2002	2003	2004
Left-leaning heads of state and government	11	11	11	9	8	5	5
Number of member states	15	15	15	15	15	15	15

Source. Armingeon et al. (2019).

In July 1999, just before it resigned, the Santer Commission published a communication proposing "A concerted strategy for modernizing social protection" aimed at combining economic efficiency with social justice. The communication put forward "social protection as a productive factor" and "employment policy as a bridge between economic and social policy." The focus was on adapting social protection to aging populations, making social protection systems more employment-friendly, and adapting social protection to greater individualization of rights (European Commission, 1999). Key protagonists within the

Commission from Nordic countries, in particular Allan Larsson but also Juhani Lönnroth, a Finn and director of employment within the DG EMPL at the time, were active in developing the European Union's social dimension on the basis of social investment policies that are inherent in the Nordic model (de la Porte, 2011). These ideas resonated with the "new left" initiatives concerning social protection, as presented by Tony Blair and Gerhard Schröder in their paper published on the eve of European elections in June 1999, "Europe: The Third Way/Die Neue Mitte," in which they call for the transformation of the "social safety net of entitlements into a springboard to personal responsibility" (Blair & Schröder, 1999, p. 10). The DG EMPL was, at the time, the authoritative actor that shaped EU social policy to accompany economic and monetary policy in the EMU.

While the broader debate on social protection was being framed mainly in the DG EMPL, other actors also played a significant role. In particular, the European Anti-Poverty Network (EAPN), a non-governmental platform for networks of organizations battling poverty and social exclusion, also provided input to the debate on what was termed "social inclusion" policy (i.e., fighting social exclusion through labor market participation) in dialogue with the Commission and EU member states. The EAPN underlined the risk of poverty and social exclusion that would arise with public policy reforms designed to comply with the convergence criteria of the SGP if the focus would exclusively be on the financial sustainability of social protection. Thus, the EAPN emphasized social exclusion as a multifaceted problem and proposed a rights-based approach to inclusion that also focused on (re-)entry into the labor market. Partly due to the active role of the EAPN, one of the main objectives of the 1999 Commission communication on social protection was to develop a social inclusion policy, where work was identified as the best way to combat social exclusion (European Commission, 1999).

The Finnish, Portuguese, and French governments were also quite active in the debate on social inclusion in the 1999–2000 period. The Finnish government, with a prominent role of the minister of social affairs, Marja Perho, pushed for having social exclusion as one of the issues on the agenda of its presidency in the second half of 1999. The Finns advocated developing an EU social protection strategy, comparable to the one in employment policy. In view of Portugal's forthcoming presidency in early 2000, the country's minister of social affairs, Eduardo Ferro Rodrigues, supported an EU social inclusion strategy, while Prime Minister António Guterres (1995–2000), who was also president of the Portuguese Socialist Party, presented to the Party of European Socialists already in January 1999 a plan for a European growth strategy and, with it, a social inclusion strategy. This was met with strong support among the left-leaning governments in the European Union, which were in strong majority at the time (see Table 4.2).

As Portugal prepared its presidency, it sought to convince European governments that national welfare reforms should be coordinated through a balanced compromise between economic requirements and social objectives, in particular tackling poverty and promoting social inclusion. Prime Minister Guterres' aim was to develop a more comprehensive socially oriented growth strategy that would prepare Europe to better compete with the United States in the knowledge-based economy and that would include strong social protection. At the same time, he wanted to institutionalize a means to develop a common policy approach regarding national reforms of research and development, education, and social policy. To reach that aim, he appointed Maria Rodrigues, who had been minister of employment from 1995 to 1997, as his special advisor. To elaborate a new compromise between economic and social policy, several major studies were commissioned from European experts. As a result of one of these, Maurizio Ferrera, Anton Hemerijck, and Martin Rhodes prepared a publication on the future of welfare states ("recasting the welfare state"), calling for recalibration, rather than retrenchment, of social and employment policies (Ferrera et al., 2000). They proposed modernization of social protection but at the same time argued for an active shift of welfare states to include a stronger component of social investment, especially creation and mobilization of human capital. Thus, the Lisbon Summit of March 2000 was prepared with a focus on the knowledge-based economy and reforming social policy (de la Porte, 2011).

At the Lisbon Summit,[7] member state leaders met to agree on a socioeconomic strategy for the European Union for the coming decade. The resulting Lisbon Strategy set out the European Union's goal of becoming the world's most competitive knowledge-based economy, with more and better jobs. In this new approach, social policies were supposed to focus more on prevention and social investment than on compensating for immediate difficulties. Social policy is constructed as a necessary feature of a well-functioning modern economy, particularly one that hopes to position itself in the high stakes of the knowledge economy. In its declaration, the European Union promotes the notion of "quality" as a way to reconcile economic and social policies. For the European Union, promoting quality in employment and social policy is a key element in reaching the goals of building more and better jobs, creating a competitive and cohesive knowledge-based economy, and ensuring a positive mutual interaction between economic, employment, and social policies (Jenson & Pochet, 2002).

This signified that the skill creation and mobilization goals of social investment were center stage at the EU level. Importantly, member states committed to achieving an average employment rate of 70% by 2010, a target they had not agreed to at the launch of the EES. Member states also agreed to strive for

7. This was the first so-called Spring Summit. Since then, the European Council has held a meeting every spring devoted to economic and social questions.

an average female employment rate of 60% and an employment rate for older workers (aged 55–65) of 50%. Also during the Lisbon Summit, the principles of the OMC were adopted, in order to address common challenges through benchmarking, policy coordination, and monitoring of member state policies. Following the Lisbon Summit, the OMC was applied in various areas of social protection (social exclusion/inclusion, making work pay, pensions, and healthcare) and in other areas related to the knowledge economy (research and development, education).

In institutional terms, the Ecofin Council formally (legally) carried the most weight in the Council of the European Union,[8] but politically—supported by a strong representation of left-leaning governments (see Table 4.2)—the Employment and Social Affairs Council (EPSCO) had considerable influence at the time as well. As for employment policies, in the field of social protection, the Nordic model and the "new left" approach were the strongest sources of inspiration for EU policies. Recently arrived in power, left-leaning political leaders from corporatist-type welfare states (including Germany and France) also supported social investment since they wanted EU policy commitments to be able to drive changes domestically (Palier, 2010). Parallel to the framing of social protection on the EU agenda, the Commission, politically supported by Employment and Social affairs Council (EPSCO), initiated a process to institutionalize the intergovernmental Social Protection Committee, which was formally included in the Nice Treaty (adopted in 2001). Even the skeptical member states—Denmark and Germany—agreed to set up the working group to advise EPSCO, as long as it would not intervene in national welfare systems.

France, which held the EU presidency in the second half of 2000, was very keen on an EU social inclusion policy. On this basis, and with still a solid majority of left-leaning governments and prime ministers in the European Union, the social inclusion OMC strategy was adopted in December 2000. Its aims were to promote participation and integration through employment, reduce social risks, target actions toward vulnerable groups, and mobilize relevant actors to formulate and implement social inclusion goals. This OMC was of particular importance for the United Kingdom in light of its focus on children in poverty and for Portugal due to its relatively high rate of poverty.

The momentum to develop social policy initiatives successfully continued for the remainder of this period. In the first half of 2001, during the Swedish presidency, the OMC was launched in the area of pensions, whereby the economically and socially oriented actors worked together to propose reforms that would be fiscally responsible but also socially fair ("sustainable and adequate pension"). Under the Belgian presidency in the second half of 2001, a framework for investing in quality in employment and social policies was adopted (European Commission, 2001). Furthermore, Frank Vandenbroucke, Belgian minister of social affairs, commissioned Gøsta Esping-Andersen and colleagues to write a

8. See note 4.

report about a new welfare architecture for Europe. It was later published as a book, *Why We Need a New Welfare State*, advocating for social investment, especially focusing on investing in children from a young age and in female labor market participation (Esping-Andersen et al., 2002). The academic work by Esping-Andersen and colleagues reinforced Larsson's idea of "social protection as a productive factor" and offered policy recommendations on how to reform social protection toward social investment.

Childcare had been on the EU agenda since the launch of the EES, but there were initially no headline targets on this. In 2002, during the Spanish presidency, the European Union specified two benchmarks: 90% of children from age 3 until mandatory school age and 33% of children 0–2 years old should be in childcare by 2010 (European Council, 2002). The policy proposal supported the dual-earner model that became central to the EU social investment approach, with a strong focus on mobilizing (female) human capital to participate in the labor market. At the same time, the strategy also underlined the importance of childcare for human capital creation (investing in children's cognitive skills).

4.3.2.2. Social investment output: A "new left"–oriented (Anglo-)Nordic model

This second sequence in EU social investment focused on dual earners, with employment rate targets for the European Union (70% overall employment rate to be reached by 2010), in particular a female employment rate target (60% female employment rate to be reached by 2010). This focus is accompanied by an emphasis on creation of human capital for children (early childhood education and care) as well as for those who can participate in the labor market (lifelong learning). The Nordic model is the main source of inspiration, especially pertaining to the creation and mobilization of human capital. At the same time, however, the focus on children and child poverty entailed policies targeted at families with poor children based on the UK model. Social protection was seen as a productive factor but should be made more effective, among other ways, by enabling labor market participation of many groups of citizens. This type of goal is central in the Nordic countries, which focus on a strong relationship between universal social investment rights and responsibility to contribute to the labor market (see Chapter 2 in Volume II [Garritzmann et al., 2022]). The overall policy orientation of social investment at this time was inclusive.

4.3.3. Sequence 3: Constricting the Lisbon agenda—Toward an (Anglo-)German model (2005–2010)

4.3.3.1. Politics against inclusive and broad social investment

The political context among member states changed in 2004 in conjunction with the eastward enlargement of the European Union. With the arrival of the

Table 4.3 Left-leaning heads of state and government in the European Council, 2005–2010

	2005	2006	2007	2008	2009	2010
Left-leaning heads of state and government	10	9	10	11	10	9
Number of member states	25	25	27	27	27	27

Source. Armingeon et al. (2019).

new member states, the liberal political agenda weighed heavily in the Council, and right-wing parties and coalitions dominated the EU institutions (see Table 4.3). The social dimension of Europe was no longer central, partly because the left-leaning political parties in the European Council had lost ground (see Table 4.3). Already during the first term (2005–2009) of Jose Manuel Barroso, a former center-right Portuguese prime minister, the Commission itself became more center-right in its orientation.

André Sapir, an academic, contributed to shifting the political debate at that time. The Sapir Report, gathering the views of a high-level expert group, emphasized the need to strengthen competitiveness (Sapir et al., 2003). This resonated well with member states' political priorities in the enlarged configuration and their center-right political orientation. The focus on competitiveness in the Sapir Report strongly influenced the assessment of the Lisbon Strategy conducted in 2004–2005, under the leadership of Wim Kok, a former prime minister of the Netherlands who had strongly supported the EES in the 1990s. The *Jobs, Jobs, Jobs* report produced by the Employment Taskforce led by Kok shifted the debate from growth, employment, and social cohesion (including high-quality jobs and high-quality training) toward competitiveness, growth, and jobs. It recommended that the link between economic and employment policies (EMU and employment policy coordination) be strengthened, while the social inclusion OMC and other social policy initiatives were to continue but without the same political weight. In the mid-term revision of the Lisbon Strategy adopted in 2005, this orientation was supported by the center-right political majority among member states in the European Council and in the European Parliament (see Table 4.3). This meant that mobilization of human capital, especially focused on increasing employment rates, was central. Policies focused on initial and inclusive creation of human capital were sidelined, as were gender equality concerns (Jacquot, 2015).

Following the financial crisis late in the first decade of the 21st century, this workfare-based policy agenda became even more pronounced. The economies of the peripheral countries suffered dramatically, leading to sovereign debt crises whereby these countries were at risk of not being able to pay back their public debt without financial aid. When the second Barroso Commission began its tenure in 2009, the main issue on the EU agenda was regaining stability in the

Eurozone area. The emphasis at the EU level was on fiscal consolidation to contain the effects of the crisis in the Eurozone.

When preparing the successor of the Lisbon Strategy, the aim of the new Commission was to narrow the focus of the EES and OMCs to better support competitiveness and jobs. The OMCs were not central on the EU agenda, and social protection reform was seen mainly from the perspective of financial sustainability. Economic and employment policy were tied closely together in national reform programs that each country had to write and send to the Commission every year. They embodied the leaner version of social investment, which was a prelude to what would feature in "Europe 2020," the new growth strategy that would be adopted in 2010, where the general goals are organized around key priorities (fiscal consolidation, employment, climate, training, anti-poverty) but weakly institutionalized.

By the time the Europe 2020 strategy was agreed upon in 2010, it had an extremely low status. Since the global financial crisis hit Europe, the European Union's agenda was mostly occupied with reacting to the crisis and strengthening EMU governance. The European Union had moved toward requiring much tougher fiscal consolidation, embodying the thinking in Germany, developed among others by Wolfgang Schäuble, who became German minister of finance in 2009. Europe 2020 was integrated with the more centralized European Semester that was to govern economic and public policy. With the European Semester, the DG ECFIN's role as promoter of stable finances and consolidation was strengthened, while the DG EMPL was weakened considerably (de la Porte & Heins, 2015).

In the Europe 2020 strategy, the European Union adopted new headline targets in the areas covered by the Lisbon Strategy. The aim to increase labor market participation is stronger than ever: The previous target of an average overall employment rate of 70% was raised to 75% (to be reached by 2020). It also emphasizes ensuring that workers are skilled and can adapt to changes in the labor market. Human capital mobilization and creation are both present during this sequence. In terms of creation, there are two headline targets: to decrease the rate of school dropouts to 10% and to increase the proportion of young people with a tertiary education to 40% by 2020. However, attention to the quality of jobs was dismissed in favor of a high rate of (any) jobs, including low-wage service jobs.

In the years of the Great Recession, there was virtually no room for social policy initiatives. Significant dossiers, such as labor markets, were temporarily shifted from the DG EMPL to the DG ECFIN. This signified that the targets for employment rates and flexibilization, linked closely to the EMU, were prioritized, whereas quality in work, high-quality childcare, and lifelong learning were de-emphasized (de la Porte & Natali, 2018). During the financial crisis, employment subsidies and targeted reductions of non-wage labor costs as well as the promotion of self-employment—arguably of precarious character in the context of a

major economic crisis—were among the measures proposed in the Europe 2020 strategy to stimulate job creation (de la Porte & Heins, 2015; Morel, 2015).

4.3.3.2. Social investment output: Toward an Anglo-German model

During this sequence, social investment at the EU level shifted from the (Anglo-)Nordic model to an Anglo-German model. This development mirrors developments in member states, where policy focused on enabling the creation of low-wage service jobs. This shift is embodied in the landmark Hartz reforms in Germany of the early 2000s, which dualized the labor market and whereby stratified and targeted social investment policies were reinforced (Emmenegger et al., 2012; Palier & Thelen, 2010). The focus was on the mobilization of human capital readily available in the labor market, and the principal aim was to increase employment rates. The focus on more jobs crowded out any effort to produce better jobs. Flexicurity—with some reference to the Danish model but also to the Dutch one (more focused on workfare than the Danish case)—was again flagged at the EU level as a means to combine flexible labor markets, investments in human capital through training, and relatively generous unemployment benefits (preservation of human capital). However, it was flexibility that was actually central, with little attention to skills and training or protection. Labor markets have been flexibilized in the eastern European countries and partially flexibilized in corporatist-type welfare states, but mostly for the low-skilled and in the service sector, while the middle class and skilled workers maintained secure positions in the labor market. Overall, activation has mainly been pursued through incentive reinforcement and employment assistance, which is strongly focused on mobilization of workers to enter the labor market, while upskilling, focused on the creation of human capital, has been under-prioritized (Bengtsson et al., 2017).

Thus, the social investment strategy at the EU level has, during this sequence, shifted more toward the mobilization of human capital. Furthermore, in corporatist-type welfare states, social investment is taken on board; but it is mainly stratified and targeted, and in liberal countries (among which we would include central and eastern European countries) it is targeted and meager (de la Porte & Jacobsson, 2012; see Chapter 8 in Volume II).

4.3.4. Sequence 4: A social investment package with no national political anchor (2011–2013)

4.3.4.1. Politics: The desperate attempt to revive social investment

In the period after 2010, center-right parties continued to dominate among EU countries (see Tables 4.4 and 4.5). This facilitated, in 2011–2013, rapid decisions to strengthen the governance of the EMU, which enhanced the surveillance

Table 4.4 Left-leaning heads of state and government in the European Council, 2011–2013

	2011	2012	2013
Left-leaning heads of state and government	8	9	12
Number of member states	27	27	27

Source. Armingeon et al. (2019).

capability of the DG ECFIN vis-à-vis member state budgets (de la Porte & Heins, 2015). The general approach mirrored the German growth strategy focused on exporting capacities and the moderation of labor costs (Scharpf, 2021). There was no questioning of the fiscal restraint underlying this model. Its pursuit led to austerity in most EU countries, especially in the countries at the Union's periphery that were most severely hit by the financial crisis (Dukelow, 2015; Pavolini et al., 2015; Theodoropoulou, 2015).

The political response to austerity policy in the south has been the strengthening of far-left parties, while the north has seen a strong shift to populist-nationalist movements (Palier et al., 2018). In this context, several actors in and around the Commission sought to develop alternative policy responses to austerity, such as social investment, but also social rights, to respond to increasing political dissatisfaction in countries strongly affected by the financial crisis.

Academics were first-movers in proposing a more inclusive and pro-active approach to social investment. In 2011, Frank Vandenbroucke, Bruno Palier, and Anton Hemerijck wrote an opinion paper, "The EU Needs a Social Investment Pact," intended to influence policymakers (Vandenbroucke et al., 2011). These three academics were also very active in advocating social investment as a policy frame in the European Commission and in the European Parliament. Hemerijck presented the opinion paper to the European Parliament, which debated the issue and later adopted a resolution on this topic (European Parliament, 2013).

Laszlo Andor, who became commissioner for employment and social affairs under the second Barroso Commission in 2009, wanted to move beyond the fiscal consolidation agenda being pursued by the economically oriented actors. When he entered office, most of Europe 2020 had already been planned, and its salience was low as attention was placed on the tightening of governance of the EMU (de la Porte & Heins, 2015). To facilitate progress with his social policy ambitions, Andor appointed high-level staff in the DG EMPL, including in 2011 Lieve Fransen as director for social policy and Europe 2020. Andor and Fransen decided, following interaction with key intellectuals on social investment, to explore the possibility of developing an EU social investment policy and to establish an expert group for this purpose. Fransen became leader of the ad hoc social investment expert group, to which she recruited various academics, including Joakim Palme, Frank Vandenbroucke, Maurizio Ferrera, and later on Bruno

Palier (European Commission, 2017). The expert group had a clear objective to reach consensus on a strong narrative about social investment and to elaborate a series of indicators aimed at tracking the social and economic return of social investment policies. The social investment protagonists hoped that social investment would contribute to adding a social dimension to the European Semester, like the EES and social OMC had added a strong social dimension to the Lisbon Strategy (de la Porte & Natali, 2018). The slight increase in left-leaning leaders in the European Council in 2012 and 2013 (see Table 4.4) signified that there might be more interest in EU social policy initiatives.

On the basis of the expert group's work and influenced by the legacy of earlier social investment experience in the European Union, the Commission developed a new social investment narrative. The EU Social Investment Package (SIP) issued by the Commission in February 2013 was shaped by the policies discussed in the expert group (de la Porte & Natali, 2018). The centerpiece of the SIP was a communication stressing "the need to invest in human capital throughout life and ensure adequate livelihoods" (European Commission, 2013). It included policies focused on creating (lifelong learning, education, training, and childcare), mobilizing (facilitating entry to the labor market, active labour market policy), and to a lesser extent preserving human capital (healthcare). While the aims were not new, presenting social investment as a unifying framework was novel as the SIP proposed to merge the EES and the social policies of the Lisbon Strategy in one overarching policy framework. Similar to the Commission's thinking in 1999, social investment was framed as a complement to social protection. Compared to the EES and the Lisbon Strategy, there is more emphasis on the life-course perspective on social investment and on starting investment in human capital very early.

However, within the Commission, and especially since the introduction of the new economic procedures agreed upon between 2009 and 2011, the balance of power had shifted even more in favor of the DG ECFIN. The DG EMPL was simply not able to convey its social investment vision to the rest of the Commission. While the SIP included a range of initiatives, no agreement could be reached on the (new) social investment indicators that were to be integrated into the European Semester. Only the targets for employment rate, childcare, training, and higher education from previous sequences were still present in the European Semester (de la Porte & Natali, 2018).

The DG ECFIN's strength is reflected by the indicators centered around fiscal consolidation and budgetary restraint. It is especially the 0.5% structural budget deficit indicator that has become the new focus of the DG ECFIN, leaving little room for expansive fiscal spending, including for social investment. In 2011, the DG ECFIN designed a macroeconomic imbalance procedure (MIP), which comprises 14 key indicators—although this number has changed over time—as well as an elaborate system of DG ECFIN-driven analyses and instruments enabling the European Union to require that member states take corrective action when not meeting MIP targets. The MIP includes key labor market indicators such as activity rates,

long-term unemployment rates, and youth unemployment rates, which are framed from an economic rather than social perspective (de la Porte & Heins, 2015).

After the "social investment moment" that culminated in the SIP communication and other documents, it became "lost in translation" when trying to shift from ideational consensus to indicators and to renewed political commitment (de la Porte & Natali, 2018). The other social policy issue that Andor had mobilized for as political entrepreneur, a European Unemployment Insurance System, was stopped in its tracks before rising to decision-making levels due to its redistributive implications for member states. After Andor's term in the Commission ended in 2014, no strong social investment protagonists remained there. The social investment working group was dissolved, Fransen left the Commission, and the main intellectual entrepreneurs of social investment were no longer active in the EU arena.

Despite the formal adoption of the SIP, there was virtually no national backing or engagement with social investments among member states. The Nordics had become more euro-skeptic, and Eastern Europe had never bought into the idea of social investment. Most member states, especially the southern countries, which had frequently been under excessive deficit procedure since 2010, were cutting budgets for social protection and social investment (Palier et al. 2018; Pavolini et al., 2015). Thus, there were no national promoters of social investment (Ferrera, 2017) as there were in the period at the end of the 1990s and the early 2000s. By contrast, the political priorities in the early 2010s were centered around strengthening and improving existing EMU governance procedures, cost containment, and increasing growth. With the main implicit national models being either liberal (Anglo and Eastern Europe) or corporatist-dualized (especially Germany), social investment was de facto restricted to a lean targeted version. In view of the policies implemented, the second Barroso Commission (2009–2014) was even more liberal than the first one.

4.3.4.2. Social investment output: The domination of the German-liberal model

At the EU level, the 2011–2013 years were mostly characterized by a reinforcement of the German model, reflected in the strengthened governance of the EMU. As of 2010, Germany was no longer considered to be the "sick man" of Europe, but had become a symbol of stability and economic success, with a pragmatic conservative approach to social policy reforms, although it institutionalized dualism (Palier & Thelen, 2010). The EU response to countries experiencing a sovereign debt crisis represents the underlying German paradigm. The European Union supports "growth-friendly fiscal consolidation," which entails cutting public expenditure (especially social expenditure, including social investment) and limiting tax increases, which should in turn create market confidence and enhance private sector investment and economic growth.

The growth strategy for countries under Memorandums of Understanding since 2010 or 2011 (among them Ireland, Greece, Portugal, and partly Spain) was inspired by the German export-led growth strategy, that is, budgetary discipline, market credibility, and competitiveness (Scharpf, 2021). Ireland was the country that most clearly followed this strategy and was subsequently commended by the European Commission as a blueprint for other debt-ridden countries (Dukelow, 2015).

In contrast to the first two sequences, the EU social investment reform strategy that was put forward with the SIP did not resonate politically with priorities and reforms undertaken in member states. In corporatist-type welfare states, labor markets were dualized, particularly due to the Hartz reforms in Germany and its replicas in other countries. Across the countries of the European Union, especially those badly hit by the Great Recession, all areas of social protection, including social investment, were affected by austerity policy (de la Porte & Heins, 2016; Pavolini et al., 2015).

The adoption of the SIP (2013) had little political impact in member states, but it did encourage some protagonists in the Commission to make further efforts to develop a strong social dimension for EU social policy in the subsequent sequence and look for more political backing for their social policy initiatives. The work to prepare the SIP led to a new initiative in the following years.

4.3.5. Sequence 5: Toward social rights? (2014–2019)

4.3.5.1. The politics of the renewal of a social Europe

The year 2014 marks the beginning of the presidency of Jean-Claude Juncker in the European Commission. His agenda was focused, on the one hand, on rendering the EMU more solid (he chaired the Eurogroup from 2005 to 2013) and, on the other hand, on strengthening social rights. In light of his assessment that all the previous initiatives regarding a social Europe lacked a legal base, he sought to provide more comprehensive social rights for EU citizens. He proposed a European Pillar of Social Rights (EPSR) in 2016, arguing that fair, inclusive, and empowering welfare systems and labor markets are crucial for boosting productivity, strengthening social cohesion, and increasing standards of living. Thus, he integrated the thinking of social protection as a productive factor into the motivation to launch the EPSR (European Commission, 2016). The social (and social investment) ambition of the EPSR was not new as it has been omnipresent since the Lisbon Strategy, but the dominance of the rights-based language in the EPSR, which could imply more regulation prompted by the EU level, was novel.

Social investment policies that had been present in the early 2000s and revived with the SIP were partly included in the pillar. The European Parliament report on the EPSR concluded that it "will not deliver without social investment, especially in available and affordable high-quality infrastructure for caring for children and other dependent persons and also measures to combat

discrimination between women and men" (European Parliament, 2016, para. 37). Social investment is mentioned throughout the European Parliament report and is framed there as a productive factor, following the initial framing by Allan Larsson in the 1990s but covering a broader range of areas. The presence of social investment in the EPSR can be partially explained by the fact that some of the central individuals involved in developing it were key protagonists in the previous sequences of EU social investment. For example, Maria Rodrigues, a key protagonist behind the Lisbon Strategy, mobilized on behalf of social investment from her position as rapporteur in the European Parliament on the EPSR (European Parliament, 2016). Allan Larsson, one of the main actors in developing the EES, advised the European Commission on the EPSR (de la Porte & Natali, 2018).

This EPSR initiative was taken in a context of political polarization and ideological cleavages between member states and regions. On the one hand, left-wing populist parties emerged in countries most strongly affected by the financial and sovereign debt crises. In these economies that experienced stringent international and EU conditionality requiring reforms in areas of social protection (Pavolini et al., 2015; Sacchi, 2015; Theodoropoulou, 2015), a persistent demand for more EU solidarity surfaced. Even if the left was not in the majority in the European Council, its presence was somewhat more significant in 2014 and 2015 than before the crises (see Table 4.5). On the other hand, countries calling for fiscal conservatism, led by Germany, wanted to maintain stringent EU rules and policies, with strict macroeconomic policy and without further EU integration in social policy.

Table 4.5 Left-leaning heads of state and government in the European Council, 2014–2017

	2014	**2015**	**2016**	**2017**
Left-leaning heads of state and government	14	13	11	12
Number of member states	27	27	27	27

Source. Armingeon et al. (2019) (note that only data until 2017 is available).

The EPSR was eventually adopted in November 2017 in Gothenburg, in a solemn declaration, by the European Parliament, the Council of the European Union, and the European Commission (2017). It is notable that while the EPSR initially aimed to develop extensive (new) social rights, through hard regulatory instruments, at the end, the regulatory instruments used were mainly soft. For example, after formal consultation with the main stakeholders, it became clear that legislating a European minimum wage did not seem politically or institutionally feasible, considering the variety of wage-setting and welfare systems in

member states. Yet, in 2020 the Commission proposed a directive on minimum wages. In addition, there are three other directives: on work–life balance, on basic labor rights (information and consultation) targeted at the most vulnerable workers, and on health and safety. All three are updates of previous directives, which were at the origins of EU social policy. The remainder of the principles, including those on social investment, are to be implemented via soft law and integrated into the European Semester, where the economically oriented actors continue to dominate.

4.3.5.2. Social investment output: Integration in a broader framework, with low political salience for social investment

In 2016, when the Commission launched the consultation on the EPSR (European Commission, 2016), it echoed the Nordic-inspired discourse from the late 1990s: Social policy is a "productive factor" within well-functioning and fair labor markets and welfare systems, which in turn boosts productivity, strengthens social cohesion, and increases standards of living (European Commission, 2016). The European Parliament, the European Commission, and the Council of the European Union (2017) officially proclaimed their support for the 20 principles enumerated in the EPSR in a solemn declaration at the Gothenburg social summit in November 2017. The principles are organized under three headings: equal opportunities and access to the labor market, fair working conditions, and social protection and inclusion. Despite advertising the EPSR as a framework for "rights," most principles, in particular those pertaining to social investment, are to be implemented via soft law (policy coordination or the new "social scoreboard"). Some of the social investment policies proposed already in the 1990s and early 2000s and reiterated in the SIP developed in sequence 4 are picked up again in the EPSR: education, training and lifelong learning, active support to employment, work–life balance, childcare, and support to children.

The policies and outcomes associated with these policy orientations are monitored via the "Social Scoreboard," which comprises EU headline indicators, descriptions, and targets and tracks trends and performance. The process, although aiming to feed into the European Semester, is a secondary concern as the Semester focuses primarily on fiscal restraint and long-term reduction of public debt in the EMU. There are no linkages between the Social Scoreboard and the MIP, even if some of the indicators cover the same trends. Although the Commission can issue country-specific recommendations to member states in these areas, they are weak, due to a weaker legal basis. By contrast, until 2020 and the new COVID crisis context, the country-specific recommendations pertaining more directly to the EMU had a stronger legal base and are directly linked to the deficit and debt targets of the EMU.

4.4. CONCLUSION

In this chapter, we have traced five main sequences in the development of the European Union's social investment reform strategy. Each of these sequences promotes different types of social investment, but changes overall are cumulative and respond to different economic, societal, and political challenges. In a first sequence, during the late 1990s, social investment ideas emerge in relation to the mobilization of human capital, including labor market activation but also lifelong learning, quality training, and quality jobs. In the second sequence, in the early 2000s, the prominence of social investment at EU level is reinforced, goes beyond employment policies, and focuses on the creation and mobilization of human capital. During the third sequence, from the middle of the first decade of the 2000s, social investment is less salient on the EU and national political agendas, while the focus is on labor market participation and growth, as reflected in the European Semester, which strengthens EMU governance and distracts interest from Europe 2020. In the fourth sequence, which covers the years following the Great Recession, this trend continues, with a pronounced emphasis on austerity and labor market participation and less on quality lifelong learning. During this sequence, EU social investment policy is developed by intellectuals and Commission actors as a counterdiscourse to austerity and fiscal restraint. However, this did not reflect political priorities in member states, and the policy framework was not effective. During the fifth sequence, the new EPSR includes social investment aims from previous sequences but no great effort to pursue them in EU member states.

In 2020, the impetus for EU social policy instigated by the EPSR was reaffirmed in the Ursula von der Leyen Commission (2019–2024) (European Commission, 2019). In the economic crisis European Union set off by the COVID-19 pandemic, social policy initiatives in the EPSR and beyond seem to have taken center stage at the EU level. However, the north and the south continue to disagreee regarding how much the European Union should be involved in social policy, especially concerning fiscal matters (Vandenbroucke et al., 2020).

When tracing the development of social investment ideas and initiatives at the EU level, we found two political dynamics to be of importance. First, the political orientation of the European Union's socioeconomic strategy has been a battlefield between the European Union's socially and economically oriented actors, the former favoring a focus on fiscally sustainable yet fair welfare systems and labor markets and the latter favoring an exclusive focus on balanced budgets and supply-side policies. Social investment appeared to be a good candidate for enabling compromises, entailing ambiguous agreements (Palier, 2005) since it combines the aim of supporting an economic goal (i.e., favoring economic growth and the development of the knowledge-based economy through human

capital formation and mobilization) and a social goal (i.e., fostering social inclusion and preventing the reproduction of inherited poverty). Second, the changes in emphasis on social investment in the European Union over time reflects political priorities in member states. The higher the number of left-leaning governments within the European Union, as indicated by the heads of government in the European Council, the more inclusive and broad are the proposed social investment perspectives. Conversely, the higher the number of right-leaning governments, the more concentration there is on stratified and targeted social investment, focused merely on workforce mobilization.

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APPENDIX 1

Table A-4.1a Heads of state and government in EU member states, organized according to country (1993–2017)

Country	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Austria (AT)			L	L	L	L	L	L/C	C	C	C	C	C	C	C/L	L	L	L	L	L	L	L	L	L	L/C
Belgium (BE)	C	C	C	C	C	C	C/R	R	R	R	R	R	R	R	R	R/C	C	C	C/L	L	L	L/R	R	R	R
Bulgaria (BG)															L	L	L/R	R	R	R	R/L	L/R	R	R	L/R
Croatia (HR)																						L	L	L/C	C
Cyprus (CY)													R	R	R	R/L	L	L	L	L	L/R	R	R	R	R
Czech Republic (CZ)													L	L/R	R	R	R/Ind.	Ind./R	R	R	R/Ind.	Ind./L	L	L	L/R
Denmark (DK)	L	L	L	L	L	L	L	L	L/R	R	R	R	R	R	R	R	R	R	R/L	L	L	L	L/R	R	R
Estonia (EE)													R	R	R	R	R	R	R	R	R	R	R	R/C	C
Finland (FI)			L	L	L	L	L	L	L	L	L/C	C	C	C	C	C	C	C	C/R	R	R	R	R/C	C	C
France (FR)	R	R	R	R	R/L	L	L	L	L	L/R	R	R	R	R	R	R	R	R	R	R/L	L	L	L	L	L/R
Germany (DE)	C	C	C	C	C	C/L	L	L	L	L	L	L	L/C	C	C	C	C	C	C	C	C	C	C	C	C
Greece (EL)	L	L	L	L	L	L	L	L	L	L	L	L/R	R	R	R	R	R/L	L	L/Ind.	Ind./R	R	R	R/L	L	L
Hungary (HU)													L	L	L	L	L	L/R	R	R	R	R	R	R	R
Ireland (IE)	R	R/C	C	C	C/R	R	R	R	R	R	R	R	R	R	R	R	R	R	R/C	R/C	R/C	R/C	R/C	R/C	R/C
Italy (IT)	L	R	Ind.	Ind./C	C	C/L	L	L/Ind.	Ind.	R	R	R	R	R/L	L	L/R	R	R	R/Ind.	Ind.	Ind./L	L	L	L	L
Latvia (LV)													R	R	R/C	C	C/R	R	R	R	R	R	R	R/C	C

(*continued*)

Table A-4.1a Continued

Country	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Lithuania (LT)													L	L	L	L/R	R	R	R	R/L	L	L	L	L	L
Luxembourg (LU)	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C/R	R	R	R	R
Malta (MT)													C	C	C	C	C	C	C	C	C/L	L	L	L	L
Netherlands (NL)	C	L	L	L	L	L	L	L	L	L/C	C	C	C	C	C	C	C	C/R	R	R	R	R	R	R	R
Poland (PL)													L/R	R	R	R	R	R	R	R	R	R	R	R	R
Portugal (PO)	R	R	L	L	L	L	L	L	L	L/R	R	R	R/L	L	L	L	L	L	L/R	R	R	R	R/L	L	L
Romania (RO)															R	R	R	R	R	R/L	L	L	L/Ind.	Ind.	Ind./ L
Slovakia (SK)													C	C	C/L	L	L	L/C	C	C/L	L	L	L	L	L
Slovenia (SL)													L	L	L	L	L	L	L	L	L	L/R	R	R	R
Spain (ES)	L	L	L	L/C	C	C	C	C	C	C	C	C/L	L	L	L	L	L	L	L/C	C	C	C	C	C	C
Sweden (SE)			L	L	L	L	L	L	L	L	L	L	L	L/R	R	R	R	R	R	R	R	R/L	L	L	L
United Kingdom (UK)	R	R	R	R	R/L	L	L	L	L	L	L	L	L	L	L	L	L	L/R	R	R	R	R	R	R	R

Methodological notes.
1. A data set was retrieved from "Comparative political data set" (https://www.cpds-data.org) where government composition and heads of state are categorized according to left (L), center (C), and right (R). Technocratic or non-partisan caretakers are also considered.
2. Data for the period 1995–2017 was then coded according to the political spectrum. For the leaders of the European Council, the code options are L, R, C, or independent (Ind.), which refers to all extraordinary forms of government leadership, for example, non-partisan caretaker, technocratic government. Those were only considered if they exceeded a period of 6 months.
In the instance that elections led to a political shift, the change is indicated by a /. For example, if a left head of state was replaced by a conservative head of state the code for that year will read "L/C."
The government composition of member states was coded in descending order; this means that if the government is made up of more than one party, the first letter indicates the largest share of the coalition. For example, if the code reads "LRC," this means that the largest share of the government belongs to the left spectrum.
If there is a change in government, the code for year x reflects the newly elected government. For example, if a left government is replaced by a right government, the code for year x will read "R."
Source. *Comparative political data set* (https://www.cpds-data.org).

Table A-4.1b Heads of state of EU member states, organized according to various combinations of the L–R spectrum (1993–2017)

Political spectrum	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
L	4	4	8	7	7	9	11	9	8	5	4	3	7	6	8	8	8	6	3	5	8	9	9	10
L/R	0	0	0	0	0	0	0	0	1	2	0	1	1	2	0	2	1	2	1	0	1	3	1	0
L/C	0	0	0	1	0	0	0	1	0	1	1	0	1	0	0	0	0	1	1	0	0	0	0	1
L/Ind.	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	1	0	0	0	1	0
R	4	4	2	2	0	1	1	2	2	4	6	6	9	9	11	9	9	11	12	11	10	11	11	10
R/L	0	0	0	0	2	0	0	0	0	0	0	0	1	1	0	1	1	0	1	3	1	1	2	0
R/C	0	1	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0	1	1	1	1	2	3
R/Ind.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	0	1	0	0	0
C	4	3	4	4	5	3	2	2	3	3	4	4	6	7	5	6	6	5	4	4	2	2	2	3
C/L	0	0	0	0	0	2	0	0	0	0	0	1	0	0	2	0	0	0	1	1	1	0	0	0
C/R	0	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0	1	1	1	0	1	0	0	0
C/Ind.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ind.	0	0	1	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	1	0	0	0	1
Ind./L	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0
Ind./R	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	0	0	0	0
Ind./C	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
All variations including L	4	4	8	8	9	11	11	11	9	8	5	5	10	9	10	11	10	9	8	9	12	14	13	11
All other variations (C, R, Ind.)	8	8	7	7	6	4	4	4	6	7	10	10	15	16	17	16	17	18	19	18	15	14	15	17
Overall sum	12	12	15	15	15	15	15	15	15	15	15	15	25	25	27	27	27	27	27	26	27	28	28	28

Methodological note: After the governments were coded in Table A-4.1a, all variations were counted for each year, and all combinations including the code "L" were summarized, indicating changes in the political center of gravity in the European Council, 1993–2017. This was the data that we used in Table 1.5 in the analysis of the politics of the sequences of social investment.
Source. Comparative political data set (https://www.cpds-data.org).