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Social Investment, Social Services, and Economic Performance of Welfare States

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Introduction

- **The purpose of the study**
 - Identifying ‘social service’ rather than specific policy areas as the key instrument of social investment
 - Providing empirical evidences on economic results of social investment strategy

 - **Economic effect of Welfare states, an old issue**
 - Voluminous quantitative & qualitative research
 - **Negative** (Weede 1991, 1986; Nordström 1992; Hansson & Henrekson 1994; Persson & Tabellini 1994), **positive** (Korpi 1985; McCallum & Blais 1987; Castles & Dowrick 1990) or **ambiguous results**
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Introduction

□ What's the matter of the old issue?

- ... Not just the inconsistent conclusions *per se*
 - ... Rather, their focus on aggregate effect of total welfare spending under the tacit assumption that 'welfare state' can be understood by the size of total welfare spending
 - ... Theoretically insensitive to the various welfare strategies, and their different characteristics and economic implications
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Introduction

□ **The structure of welfare state or ‘social service’ matters**

... European welfare states reforms have reduced cash programs towards financial sustainability but expanded social services against new social risks (Bonoli 2007; Taylor-Gooby 2004)

... Increasing academic sensitivity to cash/service division (OECD 2010; Castles 2008; Jensen 2008; Ahn 2007; Kautto 2002)

e.g. Ahn(2007) classified welfare states based on the composition of cash/service spending among total social expenditure

Introduction

□ **Social investment perspective explains that..**

... Welfare states has shifted their focus from passive income compensation to active social policy support and services

... Social investment policies can promote economic growth and employment (Morel, Palier & Palme 2012; Hemerijck 2012; Taylor-Gooby 2006; Esping-Andersen 2002; Giddens 1998)

□ **What is still insufficient to be a paradigm?**

... Debates and consensus on how to grasp the key instrument of social investment strategy

... Empirical evidences on social investment outcomes

Social Investment & Social Services

□ **Social Investment Strategy**

- ... Social policies which pursues both social problem solving & economic performance (Lundvall & Lorenz 2012)
 - ... New consensus on welfare states' re-direction towards social investment strategy (Morel, Palier & Palme 2012)
 - ... But two types of social investment strategy exist : liberal and social democratic (Morel et al. 2012; Esping-Andersen 2002)
 - ... That's why contrary views compete : “it subordinates social policy under economic goals, similar to neo-liberal approach” (Perkins et al. 2004) v. “it is positive-sum solution to achieve welfare and growth” (Esping-Andersen 1996)
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Social Investment & Social Services

- **What is the key instrument of social investment strategy?**
 - Aim approach... social policies to support human capital development and labor market participation etc.
 - Area approach... social policies related to education, training, family or child support, care and health etc.
 - Limitations of current approaches
 - Seem to emphasize intervention in labor-supply side only :
'Social investment perspective ignores job creation, and agrees to neo-liberals' macroeconomic view' (Perkins et al. 2004)
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Social Investment & Social Services

- Insensitive to different implications of policy forms (cash v. service) even in the same policy area
e.g. Case of elderly care : cash allowance for family care v. formal care services
 - **Identifying social service as the core means**
 - Direct effect on job creation as well as employment support
 - Service spending has more social investment effect than cash transfer spending
 - Service as a common denominator of social investment policies : simple summary and comprehensive implications
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Social Investment & Social Services

- **Beyond black-and-white dichotomy**
 - : **“Service-orientedness”**
 - Social service = productive v. cash transfer = consumptive?
 - Debates on productiveness of cash transfer (Bradley & Stephens 2007; Esping-Andersen 2002)
 - The matter of the degree of productiveness rather than black-and-white dichotomy
 - The matter of proper balance between cash and service rather than substitution of service for income compensation
 - In short, social investment strategy = social service-oriented strategy = Relative emphasis on social service spending
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Economic Performance of Social Investment : Hypothesis

□ **Keynesian and neo-liberal paradigm**

(Morel, Palier & Palme 2012; Hemerijck 2012)

- Keynesian hypothesis : “the more total social expenditure, the more economic growth and employment will be”
 - Neo-liberal hypothesis : “the more total social expenditure, the less economic growth and employment will be”
 - Insensitive to cash/service-oriented spending, but explanations for negative effects of welfare states in neo-liberal paradigm are applied better to cash-oriented spending
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Economic Performance of Social Investment : Hypothesis

- **Social investment perspective**
 - Social investment is good for the economy because of
 - Support for labor market participation through formalization of women's work, human capital enhancement
 - Less work disincentive effect and discouraging employer less from employment due to labor cost
 - Job creation
 - Hypothesis
 - “The more social service-oriented, the more economic performance will be”
-

Data, Measurement & Analytic method

□ **Data & measurement**

- 15 OECD countries in 1990~2007 (Australia, Austria, Belgium, Denmark, Finland, France, Germany, Ireland Japan, New Zealand, Norway, Sweden Switzerland, UK and US)
 - Dependent variables : log real GDP (economic growth M), unemployment rate, women's employment rate (labor market M)
 - Independent Variables : Total social spending, social service-orientedness (social service spending ratio % of total social spending)
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Data, Measurement & Analytic method

- Control variables: capital investment, labor force rate, current account (economic growth M) labor demand, real interest rate, labor productivity (labor market M) + inflation, government consumption (both M)
 - **Analytic Method**
 - Pooled time-series analysis
 - Estimation methods : Panel-Corrected Standard Errors (PCSE) as well as FE & RE
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Results

Economic growth performance 1.

Log Real GDP

	Model 1			Model 2			Model 3		
	pcse	re	fe	pcse	re	fe	pcse	re	fe
Capital investment	0.011** (3.000)	0.033*** (9.064)	0.031*** (8.372)	0.011** (2.730)	0.035*** (10.006)	0.035*** (10.025)	0.008** (2.781)	0.011* (2.525)	0.003 (0.713)
Labor force	0.016*** (10.269)	0.036*** (11.578)	0.042*** (12.515)	0.016*** (9.964)	0.036*** (11.506)	0.041*** (12.174)	0.012*** (6.648)	0.025*** (7.801)	0.028*** (8.136)
Inflation	-0.009** (-2.701)	-0.028*** (-6.184)	-0.031*** (-7.332)	-0.009** (-2.730)	-0.025*** (-5.310)	-0.028*** (-6.161)	-0.008** (-2.906)	-0.022*** (-5.582)	-0.024*** (-6.456)
Current account	0.012*** (6.419)	0.012*** (5.444)	0.011*** (4.633)	0.011*** (6.049)	0.013*** (5.917)	0.012*** (5.766)	0.014*** (7.275)	0.007*** (3.518)	0.003 (1.597)
Gov't consumption	0.004 (1.810)	0.004 (0.731)	-0.005 (-0.730)				0.004 (1.896)	-0.005 (-0.850)	-0.018** (-2.802)
Total social spending				0.003 (1.268)	0.007 (1.933)	0.006 (1.383)			
Social service orientedness							0.011*** (8.113)	0.020*** (8.096)	0.023*** (8.436)
Constant	8.934*** (43.773)	7.061*** (25.384)	6.842*** (23.233)	8.956*** (39.222)	6.972*** (27.883)	6.594*** (25.533)	8.871*** (47.456)	7.740*** (29.566)	7.807*** (27.817)
R ²	0.998	0.295	0.269	0.998	0.296	0.293	0.998	0.339	0.270

Results:

Labor market performance 1.

Unemployment Rate

	Model 1			Model 2			Model 3		
	pcse	re	fe	pcse	re	fe	pcse	re	fe
Labor demand	0.021 (0.891)	-0.079 (-1.690)	-0.169** (-3.016)	0.009 (0.455)	-0.129** (-3.237)	-0.172*** (-4.142)	0.032 (1.673)	-0.027 (-0.667)	-0.066 (-1.417)
Real Interest rate	0.059 (1.306)	0.126 (1.562)	0.154 (1.850)	0.105* (2.494)	0.104 (1.499)	0.097 (1.404)	0.105* (2.519)	0.151* (2.282)	0.174* (2.552)
Labor productivity	-0.158** (-2.911)	-0.303*** (-5.323)	-0.325*** (-5.499)	-0.133** (-2.997)	-0.342*** (-6.941)	-0.373*** (-7.548)	-0.036 (-0.835)	0.033 (0.557)	0.055 (0.875)
Inflation	-0.063 (-1.053)	-0.141 (-1.402)	-0.127 (-1.263)	0.015 (0.288)	0.064 (0.720)	0.092 (1.055)	-0.025 (-0.571)	-0.006 (-0.075)	0.010 (0.117)
Gov't consumption	0.424*** (9.786)	0.633*** (5.853)	0.964*** (6.325)				0.341*** (11.268)	0.500*** (5.152)	0.681*** (5.335)
Total social spending				0.369*** (10.604)	0.655*** (10.623)	0.794*** (11.517)			
Social service orientedness							-0.208*** (-9.010)	-0.364*** (-9.571)	-0.383*** (-9.427)
Constant	1.148 (0.492)	7.092* (2.048)	6.618 (1.834)	0.976 (0.493)	8.503** (2.890)	8.919** (3.057)	6.866*** (4.015)	11.451*** (3.933)	10.384*** (3.501)
R ²	0.547	0.234	0.221	0.599	0.275	0.271	0.619	0.347	0.334

Results:

Labor market performance 2.

Employment Rate

	Model 1			Model 2			Model 3		
	pcse	re	fe	pcse	re	fe	pcse	re	fe
Labor demand	0.094 (1.915)	0.140* (2.207)	0.140* (2.089)	0.125* (2.116)	0.145** (2.708)	0.139* (2.557)	0.109* (2.183)	0.020 (0.385)	0.008 (0.146)
Real Interest rate	-0.134 (-1.338)	-0.224* (-2.276)	-0.209* (-2.096)	-0.244* (-2.151)	-0.178* (-1.982)	-0.154 (-1.724)	-0.264* (-2.420)	-0.249** (-3.248)	-0.234** (-3.004)
Labor productivity	0.098 (0.842)	0.491*** (7.035)	0.509*** (7.219)	0.016 (0.147)	0.532*** (8.271)	0.554*** (8.594)	-0.206** (-2.644)	0.010 (0.145)	0.021 (0.286)
Inflation	0.022 (0.138)	0.306* (2.554)	0.322** (2.689)	-0.119 (-0.734)	0.104 (0.912)	0.124 (1.094)	-0.109 (-0.915)	0.130 (1.384)	0.147 (1.544)
Gov't consumption	-0.726*** (-10.214)	-0.878*** (-5.347)	-0.900*** (-4.944)				-0.576*** (-10.306)	-0.555*** (-4.141)	-0.536*** (-3.671)
Total social spending				-0.555*** (-10.588)	-0.718*** (-8.267)	-0.725*** (-8.082)			
Social service orientedness							0.458*** (11.402)	0.496*** (10.909)	0.494*** (10.614)
Constant	76.749** (14.236)	65.705** (14.556)	65.444** (15.178)	75.805*** (14.656)	63.468*** (15.640)	63.217*** (16.634)	63.594*** (15.203)	60.555*** (16.746)	60.595*** (17.862)
R ²	0.959	0.122	0.120	0.956	0.120	0.114	0.960	0.333	0.324

Results:

Labor market performance 3.

Women's Employment Rate

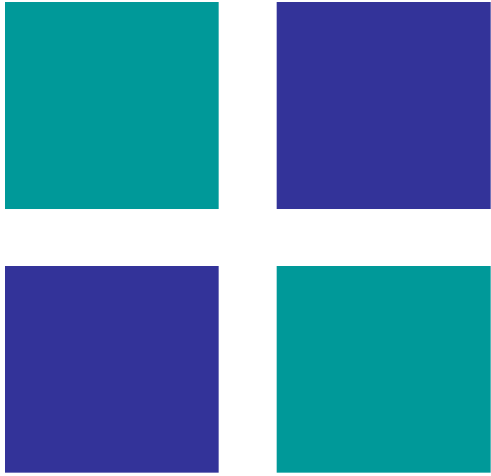
	Model 1			Model 2			Model 3		
	pcse	re	fe	pcse	re	fe	pcse	re	fe
Labor demand	0.070 (1.236)	0.220** (3.176)	0.245*** (3.386)	0.093 (1.476)	0.181** (2.881)	0.183** (2.871)	0.075 (1.290)	0.095 (1.700)	0.103 (1.772)
Real Interest rate	-0.049 (-0.448)	-0.188 (-1.754)	-0.194 (-1.797)	-0.095 (-0.815)	-0.140 (-1.328)	-0.127 (-1.204)	-0.151 (-1.284)	-0.219** (-2.632)	-0.220** (-2.609)
Labor productivity	0.268* (2.201)	0.746*** (9.803)	0.759*** (9.946)	0.226 (1.945)	0.774*** (10.267)	0.793*** (10.476)	-0.049 (-0.605)	0.224** (2.922)	0.233** (2.997)
Inflation	0.115 (0.688)	0.353** (2.715)	0.358** (2.760)	0.035 (0.203)	0.218 (1.631)	0.227 (1.705)	0.005 (0.037)	0.162 (1.577)	0.169 (1.638)
Gov't consumption	-0.337*** (-4.365)	-0.855*** (-4.740)	-0.968*** (-4.918)				-0.173* (-2.526)	-0.525*** (-3.560)	-0.577*** (-3.639)
Total social spending				-0.295*** (-4.964)	-0.538*** (-5.282)	-0.562*** (-5.326)			
Social service orientedness							0.501*** (11.897)	0.536*** (10.819)	0.531*** (10.512)
Constant	59.097** (10.148)	46.693** (9.433)	47.426** (10.174)	59.163*** (10.482)	43.777*** (9.170)	43.941*** (9.838)	44.896*** (9.191)	41.277*** (10.323)	42.215*** (11.467)
R ²	0.933	0.023	0.024	0.929	0.028	0.028	0.936	0.185	0.180

Conclusion

- Findings
 - Social investment strategy = social service-oriented strategy = Relative emphasis on social service spending
 - The hypothesis “the more social service-oriented, the more economic performance will be” has been proved empirically,
 - While the results suggest that the aggregate size of welfare state has a negative effect on economic growth and employment
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Conclusion

- Implication
 - Theoretically, this study fills up the social investment perspective 1) by identifying social services as a core means of social investment strategy, 2) by revealing “service-orientedness” matters, and 3) by providing empirical evidences on economic performance
 - Social service-oriented strategy is proved to be superior as many scholars have suggested (Sabel et al. 2010; Bonoli, 2007; Esping-Andersen, 1997; Taylor-Gooby, 2004)
 - From income security to livelihood security
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Thank you

