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NOTE

From: Presidency

To: Permanent Representatives Committee/Council

Subject: Social Investment
- Policy debate
Social investment and EU fiscal rules
- Presentation by the Presidency

Delegations will find attached a Presidency steering note on the above subjects, with a view to the policy debate and presentation by the Presidency at the Council (EPSCO) on 27 and 28 November 2023.

Social investment

Steering note for the Policy debate

The purpose of this note is to steer the Council's policy debate on social investment by setting out some elements of the policy background (section I), suggesting some questions to guide the debate (section II) and presenting the Presidency's view on key elements of social investment and EU fiscal rules (section III).

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I) Policy background

The Spanish Presidency considers the issue of social investment to be of great importance. A political debate in the Council on this subject is timely.

However, given the complexity of the subject, it is appropriate that political reflections in this area can also be based on technical elements that require in-depth study and combine several dimensions.

On 14 July 2023, in their informal meeting, the Employment and Social Affairs Ministers exchanged views on how social investments and related reforms can efficiently support resilient economies and on the role of the European Pillar of Social Rights in the EU economic governance framework. Several Ministers supported the view that well-designed reforms and investments based on a social investment approach, and in particular those that foster human capital, can also yield productivity gains and higher economic growth in addition to advancing social objectives, calling for further evidence-based reflections.

Following the discussion, the Spanish Presidency and the upcoming Belgian Presidency of the Council of the EU launched an Informal Working Group on Social Investment (IWGSI). The main objective of such IWGSI, which brings together different institutional and national actors, is to foster a discussion from an academic perspective on the interplay between social investments and reforms, economic growth, macro-economic stabilization and upward social convergence.

24 EU countries have joined the working group: Austria, Belgium, Bulgaria, Cyprus, Croatia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovenia, Spain and Sweden. In addition, representatives from the European Commission's Directorate General for Employment, Social Affairs and Inclusion, the EMPL committee of the European Parliament, the chairs of the Employment Committee (EMCO) and the Social Protection Committee (SPC) and representatives of EU Social Partners have participated to the activities of the IWG.

Two main lines of work have been discussed in the IWGSI. The first one delved into the empirical evidence concerning the micro and macroeconomic returns of social investments. The second one concentrated on methodologies for monitoring and evaluating the returns to social investments.

The IWGSI met four times, on 5th September 2023, on 28th September 2023, on 19th October 2023, and on 3rd November 2023. On 8th November, a high-level conference entitled "Social Investments for resilient economies and societies: EU fiscal rules fit for future" was organized with representatives from academia, national and EU institutions to discuss the key findings of the IWGSI. The work will continue in the next months, with a view to contributing to the Presidency's reflections on the preparation of a joint policy debate of Finance Ministers and Employment and Social Affairs Ministers that will take place on 12th March 2023.

As a result of the work carried out so far and the exchanges held, a working document has been produced, proposing an operational definition of social investment, presenting the literature the economic and social returns of social investments, and proposing possible approaches to the evaluation of social investments as well as a wide array of methodological tools to measure their returns. Building on this work, the Presidency has drawn up a set of key messages which summarize the findings of the working document and identify some possible lines of action. The messages are reported below.

II) Ministers are invited to discuss the following questions:

1. The significant work in advancing the social investment approach within the EU's social agenda is noteworthy. Well-designed social investments can raise economic growth, thereby supporting fiscal sustainability, but also play a crucial role in promoting upward social convergence. Within the framework of the EU economic governance, what specific role can social investments and related reforms play? How can member states be effectively encouraged to invest in this direction? Moreover, in this context, what pivotal role can EPSCO play?
2. The key condition to supporting evidence-based social policy making lies in strengthening and improving the methodology for monitoring and evaluating economic and social returns. In recent years, various initiatives have been undertaken in this regard, such as the development of nowcasting methods to enhance the timeliness of social indicators. Many Member States have also strengthened their microsimulation capabilities or implemented other methods for (ex-ante and/or) impact assessments. What specific measures do you consider necessary to implement and materialize evidence-based social policies in the short and medium term in your country?

III) Social investment - Presidency Key messages

Key messages by the Spanish Presidency and the upcoming Belgian Presidency building on the work of the Informal Working Group on Social Investment

Message 1: A life-course perspective to modern welfare states

- The life- course perspective is at the core of 21st century welfare states. Modern welfare states are a balanced mix of two dimensions:
 - o **Social investments**, including policies aimed at raising and upkeeping the quality of the ‘stock’ of human capital and capabilities, as well as easing and improving the ‘flow’ of labour-market and life-course transitions.
 - o **Social protection**, including policies targeted at maintaining strong universal safety net ‘buffers’ for protection against the financial implications of social risks (such as illness, old-age, accidents at work and job loss) and macro-economic stabilization.
- The combination of these policy functions, which are complementary and mutually reinforcing, yields the so-called **life-course multiplier**. Over the life-course, social investments reap wellbeing returns in a virtuous circle, in terms of employment opportunities, well-being, and gender equality; and they help mitigate intra- and intergenerational poverty.

Message 2: Social investments as an engine of growth

- Well-designed social investments can raise **economic growth**, thereby also supporting fiscal sustainability, while at the same time promoting upward social convergence.
- Investments in **quality education**, including in early childhood education and care (ECEC), can directly impact on growth, by increasing employment opportunities (thus reducing the gender employment and pay gaps), innovation capacity and productivity, thus also expanding the tax base in future perspective to the benefit of public finances.

- Investments in **upskilling and reskilling** can also foster economic growth by increasing competitiveness and productivity, including via stronger innovative capacity and absorption of new technologies, and also by ensuring a better matching between skills demand and supply, and improving employability prospects.
- Well-functioning and effective **active labour market policies** (ALMP) and public employment services can also provide economic returns by increasing the efficiency of the labour market, mitigating skills shortages and mismatches, and strengthening the labour market participation of under-represented groups.
- Investments in **outpatient and primary care and long-term care** can contribute to better healthcare and can also allow savings (via reduced costs to provide certain services) and thereby support fiscal sustainability.

Message 3: Social protection and economic stabilization

- Impact resilience, i.e., the country's capacity to absorb systemic shocks, is closely associated with high well-designed and inclusive social protection systems, in particular unemployment benefits and short-time work schemes.
- Evidence of economic returns of social protection spending can be seen:
 - at individual and household **micro** level: growth-enhancing effects can be expected mainly through the income and consumption channel, as well as by allowing the accumulation of productive assets (including human capital) and protecting productive capital after a shock. Moreover, social protection can foster entrepreneurship and innovation, by mitigating risk aversion at individual level and generate multiplier effects at community level.
 - At **macro** level: social protection can have growth-enhancing effects on the economy by increasing aggregate household productivity, stimulating aggregate demand and thus increasing employment, in particular through counter-cyclical spending during economic downturns.

- Economic returns of social protection spending have attracted relatively limited attention from researchers. There is a need for more empirical evidence on these returns and the boosting role that social investment can play in this context.
- A number of studies support the view that inequality hampers growth over the longer term. The literature also refers to a possible positive effect of inequality on growth through adverse incentives (for innovation and entrepreneurship) as well as through savings and investment.

Message 4: Approaches to measure social investments' returns

- As in any category of economic decisions, the opportunity cost of social investments has to be considered. Economists seek to address this issue by considering the costs and benefits linked to each option; cost-benefit analysis (CBA) is characterised by the attempt of measuring all effects of a policy option in monetary units.
- In the realm of social investments, it is particularly challenging to express costs, and especially benefits, in monetary terms. Some of the effects do not typically have a monetary value (for example, reduction in poverty or increased social inclusion, better health outcomes), even though there is an economic impact. A multi-criteria decision analysis (MCDA) allows considering a wide range of assessment criteria.
- Some of the returns to social investment can only be seen in the longer term. It is therefore important to have longitudinal data, from surveys and/or administrative sources, covering long periods of time.
- A complementary approach to CBA is Distributional Impact Assessment (DIA). This entails a quantitative analysis providing an assessment of the distributional effects of reforms and investments, hence of their impacts on the incomes of different groups, and ultimately on income inequality and poverty.

- The selection of the relevant approach and factors to be included in the modelling has limitations and challenges which are specifically linked to the domain of social investments. While no model can account for all these elements at once, it is important that the choices of assumptions are transparent, and methods are based on informed analysis.
- Common guidelines could be developed at EU level to identify clear links, promote and ensure a high-quality analysis of social investment and their economic and social outcomes and further explore underlying causalities.
- Different methods can thus be used to measure the returns to social investments, both at the micro and the macro level, such as:
 - Micro-level: Microsimulations, Randomized Control Trials, Matching methods, Regression Discontinuity Design, Difference in Difference, Qualitative methods (focus groups and in-depth interviews)
 - Macro-level: System Generalized Method of Moments, Frontier Efficiency Analysis, Social Accounting Matrix and computable General Equilibrium Models

Exploratory work could usefully be considered to assess the interactions between economic and social data with a view to providing a more comprehensive and multipurpose view of the interrelationships between the economy and societal well-being, taking as an example the most recent work on the System of Environmental-Economic Accounting (SEEA).

Message 5: Statistical capacity to evaluate social investments.

- In the realm of social investment, the management and access to data as well as statistical tools and capacity play a pivotal role in decision-making, enabling impact assessments, and better policy design. Social investment encompasses a broad range of policies, and access to appropriate data is instrumental for their evaluation.

- The question of data is closely linked to that of **formulating and evaluating public policy** and social investment. The accuracy and quality of the results provided by the various assessment tools available (whether they are macro or micro, ex-ante or ex-post) indeed largely dependent on the data available. It is also linked to **transparency** and **accountability**.
- To further extend the range of impact assessments more detailed data are often required. A comprehensive analysis requires a sizeable and representative sample that encompasses the requisite components of the various policies under examination. Enhanced availability of **administrative data** for ex-ante and ex-post policy impact assessments should therefore be a priority, together with enhancing complementarities with comparable survey data at national and EU level.
- To achieve this, it is important to adequately address concerns about **privacy, data security, bureaucracy, and a lack of incentives for transparency**, competition between institutions, etc. The General Data Protection Regulation (GDPR) adds a layer of complexity to data accessibility, presenting a notable challenge, particularly in a European context.
- It is essential to strike a balance between protecting privacy and data security and the need to evaluate public policies more effectively. Clear legal frameworks and regulations must be established to guide data sharing, and incentives must be created to encourage transparency and collaboration. In this context, full use should be made of the European Data Governance Act applicable since September 2023.
- Considerable progress has been made regarding the timeliness of EU social indicators. Yet, it is important to further improve this **timeliness, both through more timely data and by enhancing nowcasting capacities**. The Flash Estimates computed by Eurostat offer a very promising avenue in this regard.

At the provided link <https://www.inclusion.gob.es/documents/384697/3692129/IWGSII+-+Working+Document+14112023.pdf> the Working Document, jointly prepared by Spain and Belgium within the IWGSI framework, is available. This document delivers an operational definition of social investment, comprehensively explores the economic and social returns associated with social investments and suggests diverse approaches for evaluating such investments. Additionally, it introduces a wide array of methodological tools designed to measure these returns effectively.
