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Can social investment policies increase labour market participation? Analysing policy interplay

Vincent Bakker and Olaf van Vliet

Leiden University

Now that many countries are confronted with tight labour markets, policymakers are looking for solutions to fill the growing numbers of vacancies. Several policy directions are being considered, such as immigration or stimulating investments in technology, but the most discussed option is stimulating labour market participation. In a new study, we examine the impact of a broad range of labour market and social policies, so-called social investment policies, on labour market participation. A novelty of our study is that we not only examine the employment effects of individual policies, but that we also focus on the interplay between different policies.

Social investment policies

Social policies aimed at activation and human capital development have been presented as a way to stimulate labour market participation and realise higher employment levels. Within policy debates and the academic literature, these policies are collectively referred to as social investment policies. In our recent study in *Journal of Social Policy* (Bakker and Van Vliet, 2022), we analyse employment outcomes associated with government effort on social investment policies. We obtain positive associations between activation policies and employment, but for other social investment policies findings are less clear-cut.

In addition to activation policies, we analyse the employment outcomes associated with: early childhood policies concerned with education and care; services for the elderly and frail such as residential care and home help; education; and parental leave. What these policies have in common is they aim to increase the quantity and quality of employment through activation and human capital development. Social investment has therefore been characterised as a supply-side approach to social policy. By enabling people to participate on the labour market (quantity) and improving their skills (quality) employment could be stimulated.

The employment effects associated with these different policies can, however, be expected to differ as they are targeted at different groups of society and operate through different mechanisms. Still, they operate in a comparable manner; by enabling people to reconcile work and care responsibilities and through investments in human capital, these policies stimulate people to engage in paid employment.

Building on an earlier study in which we developed measures of effort on social investment that account for demographic and economic conditions (Van Vliet, Bakker and Van Doorn, 2021), we use indicators that capture the generosity of government spending per recipient on these policies for 26 OECD countries. The results of the analysis show a significant association between effort on activation policies and employment. Increases in effort (expressed as more money spent per recipient) on these policies is associated with higher employment.

The absence of similarly convincing findings for other policies is somewhat surprising in the context of the positive employment effects ascribed to these policies in both policy and academic work. Nevertheless, our analyses capture mainly short-term effects, while several policies are likely to require longer time horizons to capture their effect (notably policies concerned with education). In addition, some of the policies we study may yield effects for specific groups only (e.g. early childhood policies for young parents) which may not be revealed in analyses of overall employment rates.

Diminishing marginal returns of policy combinations

In addition to analysing employment effects of individual policies, we also examine the employment outcomes associated with combinations of policies. This stems from earlier work that stresses that the outcomes of individual policies are highly dependent on their interdependence with other policies and the institutional context in which they operate (Hemerijck et al., 2016). An important insight from the social investment literature is that the employment outcomes of individual policies can be reinforced by complementing them with effort on other, related social investment policies.

Remarkably, our results suggest that there is little evidence for increasing returns between social investment policies. The only policy combinations for which we observe signs of policy interdependence are (a) activation policies and early childhood policies and (b) activation policies and services for the elderly and frail. Here, one would expect that activation policies are more effective in stimulating employment when the government simultaneously provides for a generous system of care for young children, the elderly and frail members of society as this would enable workers to reconcile work and family.

Surprisingly, the results do not point at such reinforcing effects, but rather at diminishing marginal returns. In the presence of relatively high efforts on education and care for young children and on services for the elderly and frail, the positive effect of activation policies on labour market participation becomes smaller. As the different policies have a similar goal, the stimulation of employment, the effects of these policies substitute each other. This does, however, not imply that social investment has no or negative effects in relation to employment. In terms of policy implications, these findings do therefore not render social investment ineffective. Rather, it implies that for those policies that show no signs of interdependence the returns of this policy are not reinforced when efforts on a complementary policy are increased. Hence, increased efforts on both policies might therefore entail lower efficiency.

Finally, it is important to note that our results show that the interplay between social investment policies varies across countries. This shows that the employment outcomes of combinations of social investment policies are also dependent on a broader set of other policies and institutions. From a more general and theoretical perspective, these results indicate that in order to be effective the implementation of social investment requires a more custom-made approach that takes account of the institutional context in a particular country.

References

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