



# 'Diversifying' Social Investment

European welfare states and immigrant integration  
in the wake of the COVID-19 crisis

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# Contents

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- Executive Summary** ..... 1
  
- 1 Introduction** ..... 3
  
- 2 Is More Welfare the Answer to Crisis? Insights from the Great Recession for Future Welfare Reform** ..... 6
  
- 3 The Social-Investment Approach: Balancing Social and Economic Goals in Times of Uncertainty** ..... 10
  - Social investment and the post-pandemic recovery ..... 14
  
- 4 Social Investment and Immigration** ..... 15
  - A. Migration and diversity: The weak spot of social investment? ..... 19
  - B. Integration policy: A laboratory for social investment? ..... 20
  
- 5 Conclusion: Social Investment and the Future of Diverse Societies** ..... 25
  
- About the Author** ..... 26
  
- Acknowledgments** ..... 27

## Executive Summary

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The COVID-19 pandemic has strengthened awareness of the importance of robust, well-functioning welfare states in helping individuals, families, and communities weather external and unpredictable threats to their lives and livelihoods. In Europe, the initial response to the pandemic and the associated economic fallout was much more vigorous at both the EU and Member State level than responses to other economic shocks in the past 15 years, such as the Great Recession and the European debt crisis. Since the onset of the pandemic in early 2020, European governments have invested in extraordinary (and extraordinarily costly) emergency measures—from cash transfers to support households' and companies' liquidity, to massive short-time work schemes to save jobs, to sizeable public investments to rekindle economies. Pandemic-related fiscal support by Member States in 2020 amounted to around 8 per cent of GDP—significantly more than what was provided in 2008–09 during the early stages of the Great Recession. Meanwhile, EU institutions and Member States agreed on the largest stimulus package ever financed by the bloc, amounting to 1.8 trillion euros in funding and including NextGenerationEU, a temporary recovery instrument of 750 billion euros.

While these responses have signalled a departure from the austerity politics of the past ten to 12 years, they have been mostly temporary, aimed at minimising the immediate social and economic damage of lockdowns and at kickstarting recovery. Therefore, it is too early to exclude another 'austerity reflex' at later stages of crisis management. Yet there is a case for using this moment of

reckoning to catalyse a more permanent rethinking of European welfare states: both to avoid the potentially durable scars of the crisis, especially for the most vulnerable groups in society, and to protect individuals, households, and communities from future shocks—including those resulting from economic, technological, demographic, and environmental change. Even as the pandemic's grip on Europe eases, its long-term effects risk being felt for years to come. The crisis has also shed light on how inequalities within European societies are accumulated along a variety of (often, intersecting) lines—for example, with job losses hitting low-educated and low-wage, young, female, and immigrant jobseekers and workers disproportionately hard. And the accelerated pace of change in industries and labour markets may marginalise groups lacking the skills and resources to navigate this transformation.

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The shift in the structure and goals of welfare spending since the start of the pandemic can be understood through the prism of 'social investment'. Especially since the late 1990s, welfare states in Europe have moved away from a predominantly reactive focus on financial 'safety nets' that protect individuals during periods of unemployment and illness, and towards investing in people's human capital and employability to drive growth and competitiveness in advanced knowledge economies. One of the drivers of this shift was the growing understanding that, in post-industrial societies, individuals' educational, professional, and family biographies have become more varied and unpredictable, and thus they need targeted support to boost employability and productivity throughout their lives. A central component of the social-investment approach is 'stepping-stones': policies and services that help individuals navigate transitions in their life

course that could otherwise threaten their employment and career prospects. For example, parental leave allows individuals to bridge periods of work and family life; access to lifelong learning prevents skill depreciation and job losses; and minimum-income benefits work as safety nets to help people get through spells of unemployment. Social-investment policies have been central to Member States' pandemic response—from Italy's early measures to improve workers' access to parental leave, to the emphasis in many national recovery and resilience plans on strengthening child-care and elder-care provision, supporting youth employment, and ramping up lifelong-learning opportunities.

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Indeed, as the pandemic accelerates transformations in the fabric of European economies linked to technological change and globalisation, welfare policies that focus on developing, preserving, and activating human capital may provide the recipe to balance social protection with economic recovery and growth. But this will depend on these policies' ability to account for immigration and diversity, which

have become increasingly prominent features of European societies in recent decades and are central to understanding the nature and development of socioeconomic inequalities. Migrants and minorities are at particular risk of suffering from the ripple effects of the COVID-19 crisis. While the pandemic has thrown into sharp relief immigrant workers' key role in the functioning of European labour markets and services, it has also exposed many migrants' interlinked vulnerabilities—such as their concentration in precarious work, thinner financial safety nets, and insecure social rights. Social investment, with its focus on preventing difficult life transitions from becoming long-term disadvantages, holds promise as a way to help immigrants (alongside other vulnerable groups) weather tumultuous periods, with resulting economic benefits for the broader society. Yet research suggests that typical social-investment policies, such as early child care, active labour market policies, and lifelong learning, are often harder to access for migrants and/or less effective in improving their employment and career prospects. This can be due to eligibility barriers, information gaps, weaker social networks, and financial constraints, as well as a limited supply of services and (both institutional and individual) discrimination.

Ensuring that social-investment policies work for immigrant populations will therefore be vital to preventing the short-term damage caused by the pandemic from resulting in lasting inequalities and growing marginalisation. At the same time, strengthening the employability and participation of all workers within Europe's increasingly diverse workforces will likely prove of high strategic value in the coming years as a means to address looming labour shortages that could hamper economic recovery. Failing to do so, by contrast, could take a severe toll on European welfare states by compounding pressures that had been building well before the pandemic began: population ageing, but also the difficult task of supporting sizeable numbers of newcomers and promoting their employment.

Welfare policymakers and reformers interested in tailoring social investments to the needs of diverse societies will find a wealth of valuable knowledge and expertise in the field of immigrant integration

policy, particularly as it has evolved in recent years. In what was essentially a social-investment calculus, European governments in countries at the receiving end of large-scale mixed migration of migrants and asylum seekers in 2015–16 reacted with sizeable and sustained integration spending, combined with newly designed interventions to promote rapid labour market insertion and long-term autonomy. More systematic cross-fertilisation between integration and welfare policy could generate important win-win solutions at a time of recovery planning. On the one hand, it would allow for improvements in the effectiveness and sustainability of social investment in diverse, immigrant-receiving societies. On the other hand, it would place migrant-inclusion objectives at the heart of welfare states, lessening their exposure to political volatility and the risk of disinvestment. EU institutions have important levers to drive this cross-fertilisation: for example, by exploring greater coordination—not just in terms of political declarations, but also implementation and monitoring—between the European Pillar of Social Rights and the EU Action Plan on Integration and Inclusion.

The welfare state of the (near) future will find it more difficult than ever to afford the costs associated with persistent forms and patterns of marginalisation; these threaten its very economic sustainability, while also curtailing the development of advanced knowledge economies. Far from being an afterthought, making welfare states inclusive of immigrants and refugees is key to the successful transition to a social-investment approach—perhaps Europe's best chance to reconcile social cohesion and economic resilience aims in times of crisis and recovery.

## 1 Introduction

The COVID-19 pandemic has hit the European Union hard, with a dramatic impact on both health and livelihoods. It has resulted in more than 750,000 virus-related deaths,<sup>1</sup> separated families from loved ones, driven many workers into un- and underemployment, and kept many children from attending school in person for an extended period. Yet it has also ushered in some of the most ground-breaking experiments in social welfare seen in recent years.

European countries' welfare responses to the pandemic have been extraordinary in their volume, scope, and rapidity.<sup>2</sup> Across the European Union, governments recognised the urgency of addressing the public-health crisis head on by introducing lockdowns, social-distancing rules, and other restrictions. To control the inevitable economic fallout of 'freezing the economy', European governments enacted an array of income-protection and fiscal-stimulus measures: from cash transfers to support households' and companies' liquidity, to wage subsidies and short-time work schemes to save jobs, to public investments aimed at kickstarting the recovery.<sup>3</sup> For example, in Germany, a record 5.99 million workers benefited from the country's short-time work scheme in April 2020, compared to an average of 1.14 million workers in

1 European Centre for Disease Prevention and Control, 'COVID-19 Situation Update for the EU/EEA, as of 9 September 2021', accessed 9 September 2021.

2 European Commission, 'One Year since the Outbreak of COVID-19: Fiscal Policy Response' (COM [2021] 105 final, 3 March 2021).

3 Organisation for Economic Cooperation and Development (OECD), 'Job Retention Schemes during the COVID-19 Lockdown and Beyond' (OECD Policy Responses to Coronavirus, 12 October 2020); OECD, 'Policy Responses to the COVID-19 Crisis' (data file, summary table and charts, 24 July 2020).

2009.<sup>4</sup> Estimates have suggested that COVID-19 protection schemes across European countries—from unemployment benefits to rent and mortgage suspensions—are likely to have drastically reduced the risk of destitution among low-income individuals and households.<sup>5</sup> Companies and entrepreneurs have also received urgent financial support, especially in highly affected sectors.<sup>6</sup> Meanwhile, the European Union offered Member States financial support on an unprecedented scale, in the form of a recovery package of 1.8 trillion euros,<sup>7</sup> both to cushion the pandemic's short-term impact and to finance investments for longer-term recovery.<sup>8</sup> It also deepened EU fiscal solidarity with a boldness and ambition that were sorely lacking in the wake of the eurozone sovereign debt crisis in the early 2010s.

These and other measures played a key role in preventing the loss of livelihoods—and of lives, as they helped ensure widespread compliance with lockdowns and social distancing. After the summer of 2020, as a second and then third wave of infections raged, an element of disillusionment, grief, and anger took root, and people took to the streets of several European cities—from Berlin to London, from Paris to Brussels—to protest against the restrictions.<sup>9</sup> However, broad majorities continued to support lockdown and social-distancing measures. Since Spring 2021, a sense of hope has been gathering across the continent that the darkest days of the crisis may be behind us. Within a year, a number of effective vaccines were created and vaccination campaigns rolled out.<sup>10</sup> The economic recovery is gathering steam: while the EU economy shrank by 6.0 per cent in 2020, recent surveys predict a 4.8 per cent rebound in 2021 and 4.5 per cent in 2022.<sup>11</sup> EU unemployment figures, meanwhile, rose from the pre-pandemic low of 6.4 per cent in March 2020 to 7.7 per cent in September 2020, but they have receded to 7.3 per cent in March 2021 and to 6.9 per cent in July 2021.<sup>12</sup> At the same time, significant uncertainty remains, both around the public-health situation (e.g., due to the emergence of new viral variants) and the long-term nature of the pandemic's socioeconomic impacts.

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- 4 Eurofound, 'Easier Access to Short-Time Work (Measures in Germany)' (COVID-19 EU PolicyWatch, case DE-2020-10/541, Dublin, 2020). Other Member States, such as Hungary, Lithuania, Luxembourg, Poland, and Spain, introduced new furlough schemes from scratch. See Nora Krokavay, 'Policy Responses from Government and Social Partners to the COVID-19 Pandemic', Eurofound, 22 April 2021.
- 5 Catarina Midões and Mateo Seré, 'Millions of Europeans Would Fall into Vulnerability If It Were Not for COVID-19 Unemployment Benefits', VOX EU, 6 February 2021.
- 6 This ranged from bank guarantees to favour businesses' access to liquidity (e.g., in Italy, 200 billion euros) to tax deferrals for companies (e.g., in Germany, 246 billion euros); from direct revenue compensation (e.g., in Denmark, 40 billion DKK, or approximately 2.4 billion euros) to protecting independent workers (e.g., in Belgium, 1.5 billion euros). See Julia Anderson et al., 'The Fiscal Response to the Economic Fallout from the Coronavirus' (datasets, Bruegel, 24 November 2020); European Commission, 'One Year since the Outbreak of COVID-19: These fiscal measures were made easier by the activation of the escape clause of the EU Stability and Growth Pact in March 2020.
- 7 This figure is in 2018 prices. In 2021 prices, it amounts to 2.018 trillion euros. See European Commission, 'Recovery Plan for Europe', accessed 23 August 2021.
- 8 European Commission, 'Overview of the Commission's Response', accessed 3 August 2021.
- 9 The drivers of these protests have been very diverse, ranging from the perceived limitation of fundamental freedoms and (more or less radical) antivaccination views, to frustration resulting from the social and economic effects of restrictions to curb the spread of the coronavirus.
- 10 As of mid-August 2021, more than 62 per cent of the EU population had received at least one dose of vaccine and 54 per cent are fully vaccinated. Moreover, the European Commission announced in late July that more than 70 per cent of all adults in the bloc had received at least one dose, surpassing the United States' vaccination rate. See *Financial Times*, 'Covid-19 Vaccine Tracker: The Global Race to Vaccinate', accessed 19 August 2021; European Commission, 'Safe COVID-19 Vaccines for Europeans', accessed 19 August 2021; Jemima McEvoy, 'The EU Just Hit Its 70% Vaccination Target—Here's How It Overcame a Slow Start and Passed the U.S.', *Forbes*, 27 July 2021.
- 11 European Commission, 'European Economic Forecast, Summer 2021' (institutional paper 156, Publications Office of the European Union, Luxembourg, July 2021).
- 12 Eurostat, 'Unemployment Statistics', updated July 2021.

Even when the pandemic is brought under control and economies are fully reopened, governments and communities will have to contend with deep social and economic challenges. Far from being a 'great equaliser', the crisis has exacerbated many pre-existing inequalities in European societies: youth unemployment skyrocketed; many atypical and self-employed workers fell into poverty; home-care burdens intensified significantly for working parents, often mothers; migrant workers were left facing high risks of unemployment and poverty;<sup>13</sup> and school closures and remote learning likely compounded migrant learners' educational disadvantage.<sup>14</sup> Moreover, while emergency responses have been key to alleviate social, economic, and health-related vulnerabilities during the crisis, they will not suffice to protect individuals, households, and societies from long-term risks and future shocks—for example, those linked to technological change and digitisation, demographic shifts as European populations age, and global warming.

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These combined challenges call for welfare state modernisation—in the care economy, in health and education systems, and with respect to social security, health, and disability coverage for gig workers and the self-employed. But to foot the bill for measures taken so far—health-care expansion, unemployment benefits, short-time work, and easy credit to firms—as well as for longer-term reform, there is a need to raise revenue.<sup>15</sup>

The fiscal sustainability and protective coverage of the European welfare state<sup>16</sup> is therefore once again under intense scrutiny. But while periods of economic strife often precipitate economic austerity, there is a case for using this moment as an opportunity to transform welfare systems, invest heavily in individual human capital, and rethink support systems for families, drawing on the idea of 'social investment'. Rather than focusing on passive transfers, social investment aims to give individuals and families the tools and capabilities to navigate risky transitions throughout their life course—for example, by investing in human capital—to improve their employability and social mobility prospects.<sup>17</sup> This approach could be especially promising for Europe's immigrant and minority populations, who stand to lose most from the aftershocks of the pandemic. And it could help future welfare systems strike a balance between protecting the vulnerable and raising employment participation and prospects, especially in a context of transformation and uncertainty.

13 Francesco Fasani and Jacopo Mazza, 'Being on the Frontline? Immigrant Workers in Europe and the COVID-19 Pandemic' (IZA Discussion Paper no. 13963, Institute of Labour Economics, December 2020).

14 Nina Langer Primdahl et al., "'It's Difficult to Help When I Am Not Sitting Next to Them": How COVID-19 School Closures Interrupted Teachers' Care for Newly Arrived Migrant and Refugee Learners in Denmark', *Vulnerable Children and Youth Studies* 16, no. 1 (2021); Ellen Kollender and Maïssam Nimer, 'Long-Term Exclusionary Effects of COVID-19 for Refugee Children in the German and Turkish Education Systems: A Comparative Perspective' (policy brief, Istanbul Policy Center-Mercator, July 2020).

15 Today, remarkably, the European Union and the United States, under President Biden, are joining forces to fight the race to the bottom in corporate taxes, to close international tax loopholes, to raise fair progressive income taxation, and to experiment with wealth taxes.

16 While European welfare states have different characteristics and therefore elude a clear and unequivocal definition, many observers have spoken of a 'European social model' with features such as strong social protections, safety nets against poverty, and transfers during phases of nonemployment (such as pension, sickness, or maternity). See Anton Hemerijck, 'The Self-Transformation of the European Social Model(s)', in *Why We Need a New Welfare State*, eds. Gøsta Esping-Andersen with Duncan Gallie, Anton Hemerijck, and John Myles (Oxford: Oxford University Press, 2002); Andrew Martin and George Ross, eds., *Euros and Europeans: Monetary Integration and the European Model of Society* (Cambridge: Cambridge University Press, 2004).

17 Thomas Leoni, 'Social Investment as a Perspective on Welfare State Transformation in Europe', *Intereconomics* 51, no. 4 (2016).

This report examines whether the social-investment approach to welfare states could serve as a tool for post-pandemic recovery—particularly in diverse, immigrant-receiving societies. It begins by reviewing the evidence on how welfare systems fared and adapted during the Great Recession (Section 2), before briefly introducing the social-investment approach and exploring its potential for the post-COVID-19 recovery (Section 3). Section 4 then explores the challenges and opportunities of applying such an approach in countries of immigration, and Section 5 provides final reflections.

## 2 Is More Welfare the Answer to Crisis? Insights from the Great Recession for Future Welfare Reform

Almost overnight, annus horribilis 2020 ushered in a major reappraisal of the European welfare state. In March 2021, exactly one year after the coronavirus outbreak was declared a pandemic, an article in *The Economist* described the COVID-19 fiscal stimulus packages as the greatest expansion of the welfare state 'in living memory', making 'even the interventions of the global financial crisis look like minnows'.<sup>18</sup> Although responses differed to some extent across European countries—owing in part to the varied characteristics of their welfare models<sup>19</sup> and what types of adjustments and corrective measures these institutional features required<sup>20</sup>—all reacted through swift and massive deficit spending and expansionary fiscal policy to protect incomes and jobs. To be sure, emergency fiscal stimulus packages were also central in the response to the global financial crisis that began in 2008. Yet even those observers highlighting elements of continuity in the management of the two crises have acknowledged the extraordinary agility, size, scope, and innovation of COVID-19 responses—especially as concerns support for low-income groups and the unemployed.<sup>21</sup>

Two factors help explain this watershed policy change: the existential impact of the pandemic as a health crisis and the experiential legacy of the Great Recession. COVID-19 quickly became recognised as an immediate, existential threat to human health and well-being across nearly every country on the planet. Initially at least, as people became more aware of the fragility of health and life, the pandemic spurred a collective reckoning of values and aspirations that went far beyond the appreciation of and compliance with behaviours to curb the contagion. This existential shock drove national policymakers across Europe to

18 *The Economist*, 'Covid-19 Has Transformed the Welfare State. Which Changes Will Endure?', *The Economist*, 4 March 2021.

19 The most popular—if inevitably oversimplified—distinction between different models of European welfare states is between the Nordic, the Continental, the Mediterranean, and Anglo-Saxon models. Nordic countries (e.g., Denmark, Finland, and Sweden) are characterised by high levels of social protection spending and universal welfare provision. Continental regimes (e.g., Austria, Belgium, France, and Germany) are centred on insurance-based benefits and old-age pensions, and they rely on strong labour unions. Anglo-Saxon countries (Ireland and the United Kingdom) include mostly last-resort social assistance, make access to benefits conditional on activation measures and employment, and feature a weaker role for unions. Lastly, in the Mediterranean model (Greece, Italy, Portugal, and Spain), social spending is concentrated in old-age pensions, and access to benefits is largely based on membership in occupational or social groups, leading to a high segmentation of entitlements and status. See André Sapir, 'Globalisation and the Reform of European Social Models' (Bruegel background document for a presentation at ECOFIN Informal Meeting, Manchester, 9 September 2005). At the same time, the boundaries between these models have become more blurred in the past decade, as they adapted to the financial crisis and recession. See Kees van Kersbergen, 'The Welfare State in Europe', in *The Search for Europe: Contrasting Approaches* (Bilbao: BBVA, 2015).

20 See the special issue: Daniel Béland et al., eds., 'Social Policy in the Face of a Global Pandemic: Policy Responses to the COVID-19 Crisis', *Social Policy and Administration* 55, no. 2 (March 2021).

21 For a deeper discussion of elements of continuity and difference between the initial crisis responses to COVID-19 compared to the Great Recession in industrialised countries, see Amílcar Moreira and Rod Hick, 'COVID-19, the Great Recession and Social Policy: Is this Time Different?', *Social Policy and Administration* 55, no. 2 (March 2021).

adopt a frame of national solidarity and collective effort. Beyond the immediate concern of saving lives, the subsequent policy priority was to save livelihoods: in the European Union, the strengthening of social safety nets received near-unanimous support across the political spectrum.

As such, the experience of the COVID-19 crisis has differed markedly from that of the Great Recession. The global financial crisis that started in 2008 followed a far more indirect and lengthier sequence of intensifying troubles, which did not inspire the same intense sense of community purpose and social justice. And yet, the legacy of the Great Recession has played an important role in the choice to put the reassertion and expansion of welfare systems at the heart of the pandemic response. At least to some extent, European crisis management can be seen as efforts to avoid the 'past mistake' of austerity that predominantly characterised the reaction to the Great Recession. Compared to the years following the global financial crisis, Member State governments had very little hesitation about expanding the public purse following the onset of the pandemic, with fiscal support in 2020 amounting to around 8 per cent of GDP across the European Union (including both automatic stabilisers and ad hoc measures)—significantly more than the fiscal support provided during the early stages of the Great Recession in 2008–09.<sup>22</sup> Meanwhile, measures such as the

*The legacy of the Great Recession has played an important role in the choice to put the reassertion and expansion of welfare systems at the heart of the pandemic response.*

temporary suspension of EU fiscal rules controlling national deficit and debt levels to afford greater leeway for Member States' public spending<sup>23</sup> and the historic introduction of EU bonds to finance recovery by borrowing on capital markets contrast sharply with the bickering and delay that plagued the management of the eurozone crisis after 2010.

To be sure, these measures have been largely temporary in nature, aimed at minimising the immediate social and economic damage of lockdowns and at providing initial recovery stimulus. Therefore, learning from the Great Recession, it is still too early to exclude another 'austerity reflex' at later stages of crisis management, as governments will be confronted with swelling public debts and other political pressures.<sup>24</sup> Yet in their expansionary boldness, these responses stand in clear discontinuity with the austerity-centred, fiscal-consolidation politics of the past decade. They may even invite a wider departure from a notion that has enjoyed popularity ever since the late 1970s: namely that Europe's 'feather-bedded' welfare states—based on high taxes, with generous pensions, high unemployment benefits, and trade union influence—are economically unsustainable and politically counterproductive. At the core of this notion is the belief that there is a fundamental tension between welfare states' social and economic priorities, that efforts to reduce inequality by redistributing income lead to labour market distortions as generous benefits may reduce individuals' motivation to search for jobs and/or participate in skill development.<sup>25</sup> Austerity, and the related

22 These timely and sizeable fiscal measures have been estimated to have cushioned GDP contraction by around 4.5 percentage points over the course of the year. See European Commission, 'One Year since the Outbreak of COVID-19'.

23 Council of the European Union, 'Statement of the EU Ministers of Finance on the Stability and Growth Pact in Light of the COVID-19 Crisis' (press release, 23 March 2020).

24 Moreira and Hick, 'COVID-19, the Great Recession and Social Policy'.

25 John T. Addison and Stanley W. Siebert, 'Labour Markets in Europe: Issues of Harmonization and Regulation', *Industrial and Labour Relations Review* 51, no. 2 (January 1998).

notion that crises are best managed by cutting public expenditure and keeping government deficits at bay, also springs from this ideological terrain.<sup>26</sup>

In the European public consciousness, the Great Recession has come to be inextricably linked with austerity. Yet there is another side to the story. Evidence shows that the so-called Keynesian–Beveridgean welfare state<sup>27</sup> (in a nutshell, the standard overarching model of European welfare states after the Second World War, with an emphasis on social protection and based on compulsory social insurance) proved critical in absorbing the shock. By protecting household income throughout the recession, it prevented consumption from dropping too harshly, thus cushioning economic recession. Additionally, the measures taken by many advanced political economies to temporarily expand welfare allowed them to save jobs and skills. To be sure, not all European welfare states performed equally well. The most deep-pocketed and inclusive ones, especially in countries in northern and western Europe (i.e., Nordic and Continental ones, including such as Austria, Denmark, Finland, Germany, the Netherlands, Norway, and Sweden), were able to protect people's livelihoods while at the same time stabilising national economies. In contrast, states such as Greece and Italy, with their more segmented Mediterranean welfare states (i.e., regulating access to benefits based on membership in occupational or social groups, rather than based on needs or rights) were less successful. To this day, many 'big' welfare states in continental and northern Europe are able to reconcile the world's highest employment rates with comparatively low levels of inequality, as shown in Figure 1.<sup>28</sup>

Therefore, in hindsight, Europe's inclusive welfare state could even be considered the unsung hero of the Great Recession. Undoubtedly, austerity featured prominently on the welfare agenda of European countries, resulting in cuts especially for passive benefits such as income compensation, and the overriding priority of saving banks eventually prevented post-crisis recovery policies from being shaped around progressive social reform. Yet, a look at measures taken in four European countries with different welfare regimes in the years following the Great Recession shows that austerity was never the only game in town.<sup>29</sup> For example, important spending on measures aimed at work-family reconciliation (such as early childhood education and care, which benefits both child development and parental labour market participation) and activation (such as active labour market policies, or ALMP) still happened across the Union.

26 The 'liberal turn' that started in the late 1970s and 1980s also had its merits: in a context of sluggish growth, its emphasis on worker activation and labour market flexibility likely helped cure some of the ailments of European welfare states, such as mass unemployment. Moreover, while the liberal paradigm did indeed lead to cost-containment across very different European welfare states (what scholar Paul Pierson termed 'the onset of permanent austerity'), it generally did not jeopardise their core structures, and the intensity and direction of adjustment differed significantly between countries. See Anton Hemerijck and Werner Eichhorst, 'Whatever Happened to the Bismarckian Welfare State? From Labour Shedding to Employment-Friendly Reforms', in *A Long Goodbye to Bismarck? The Politics of Welfare Reform in Continental Europe*, ed. Bruno Palier (Amsterdam: Amsterdam University Press, 2010); Paul Pierson, 'Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies', *Revue Française de Sociologie* 43, no. 2 (2002).

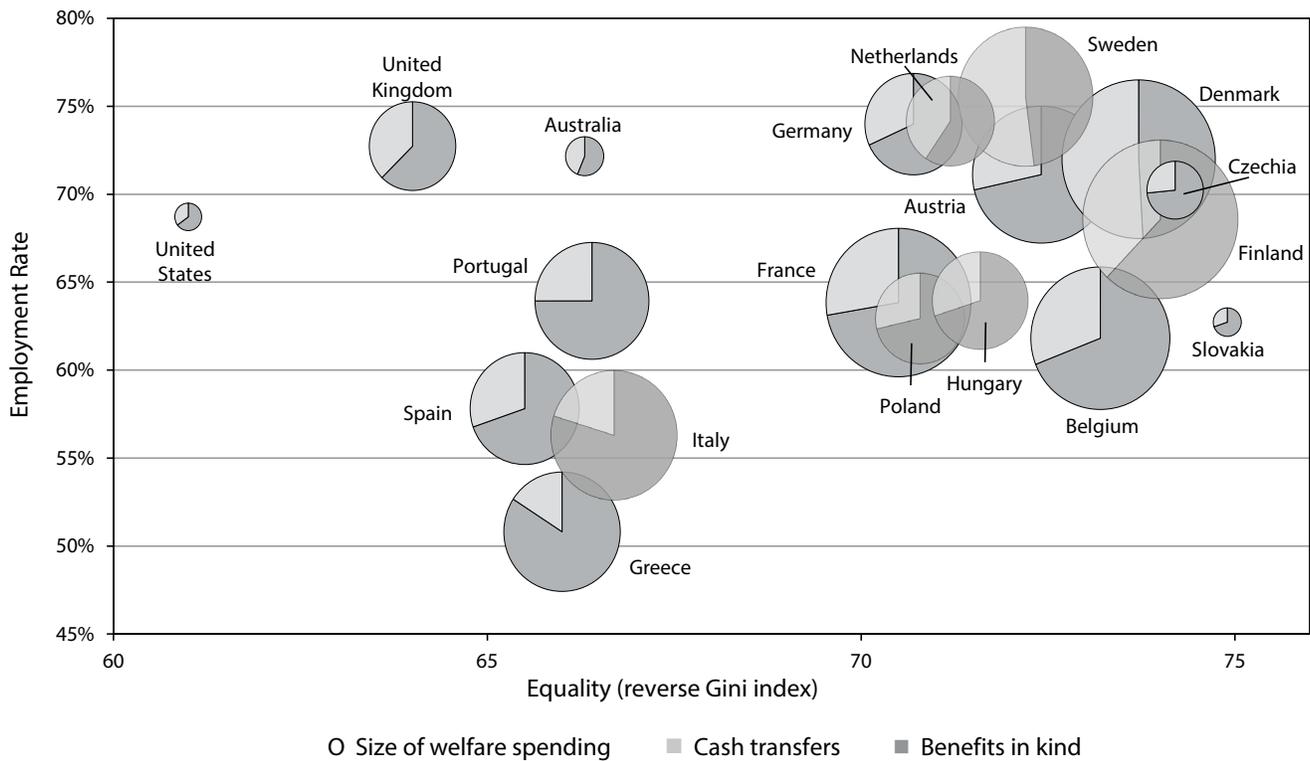
27 The policy theory of the postwar welfare state in Europe combines John Maynard Keynes' macroeconomic principles of upholding full employment through countercyclical fiscal and monetary policy that stimulates demand with William Beveridge's proposition of a compulsory social insurance as a stabiliser in times of recession, meant to protect families from cyclical unemployment crises and economic hardship. See Anton Hemerijck, 'Social Investment as a Policy Paradigm', *Journal of European Public Policy* 25, no. 6 (2018).

28 If anything, the alleged trade-off between economic efficiency and social equality appears to be the exception rather than the rule: The United States and, to a lesser extent, the United Kingdom and Australia attain relatively high employment levels at the cost of high inequality, given their lean welfare states. See the size of the country markers in Figure 1, which is proportional to welfare spending. See Anton Hemerijck, 'WellSIRe: Wellbeing Returns on Social Investment Recalibration' (grant application document, ERC Advanced Grant 2019 for the WellSIRe project, 2020).

29 Kees van Kersbergen, Barbara Vis, and Anton Hemerijck, 'The Great Recession and Welfare State Reform: Is Retrenchment Really the Only Game Left in Town?', *Social Policy and Administration* 48, no. 7 (2014).

FIGURE 1

**Employment Rate, Equality, and Welfare Spending in Selected OECD Countries,\* Averages for 2010–15**



\* Only Organisation for Economic Cooperation and Development (OECD) countries with at least 5 million inhabitants are shown. Data are missing for Canada.

Notes: Cash transfers include passive labour market policies, disability, family and housing allowances, old-age and survivor pensions, and other social assistance transfers. Benefits in kind include active labour market policies, care and rehabilitation services, home help, child-care and day-care services, and public spending on all levels of both public and private education. The reverse Gini index refers to levels of equality after taxes and transfers; it is obtained by subtracting the Gini index from 100.

Sources: Adapted by the authors from a diagram originally created for Anton Hemerijck, 'WellSIRe: Wellbeing Returns on Social Investment Recalibration' (grant application document, ERC Advanced Grant 2019 for the WellSIRe project, 2020), with kind permission from Stefano Ronchi and Anton Hemerijck. Data on employment rates are from OECD, 'Short-Term Labour Market Statistics', accessed 21 December 2019. Data for the Gini index are from OECD, 'Income Distribution Database', accessed 21 December 2019. Data on welfare spending and reference GDP are from OECD, 'Social Expenditure Database (SOCX)', accessed 21 December 2019. Data on educational expenditures are from OECD, 'Educational Expenditure by Source and Destination', accessed 21 December 2019.

The factors and processes behind the global downturn of 2008–09 are extremely different from those that caused today's crisis, and this limits the comparability between the two. Yet some lessons from the Great Recession, especially those deriving from the oft-neglected role of European welfare states in cushioning the crisis' impact and defining a way out of recession, are still applicable. One such lesson is that social protection and economic recovery objectives can go hand in hand—even in times of economic and social hardship. The second, crucial lesson is that reconciling these goals relies not only on the quantity but also on a particular quality of welfare spending. As the next section will explore more in detail, the key to success is an active welfare state committed to the centrality of paid work and to breaking patterns of disadvantage by giving individuals and households the capabilities to navigate change. The alternative to belt-tightening is not a spending spree, but rather long-sighted investment.

### 3 The Social-Investment Approach: Balancing Social and Economic Goals in Times of Uncertainty

European welfare states, far from being a static construct, have experienced ongoing reform in recent decades. As scholars have highlighted, starting in the late 1970s and especially since the late 1990s, a new policy paradigm started to take hold in Europe and developed into the foundation of a new social policy: social investment.<sup>30</sup> At its core, this trend marked a progressive shift away from a ‘reactive’ welfare state focused on redistribution and passive transfers toward a ‘proactive’ one centred on elevating all groups’ ability to achieve their potential—especially by helping them access and maintain high-quality jobs.<sup>31</sup> To this end, social investment introduced an understanding of welfare policy that goes well beyond social protection, for example encompassing policy levers from fiscal, education, labour market, and wage policy.<sup>32</sup> The influence social investment has exerted on welfare policy, especially over the last two decades, is evident in several European countries—for example, in the Nordic countries but also in Austria, Belgium, France, Germany, the Netherlands, and others.<sup>33</sup> The global financial crisis and the austerity-driven response to it marked a setback in this welfare paradigm’s diffusion and maturation,<sup>34</sup> but throughout the 2010s, social investment regained popularity in policy circles across the European Union.<sup>35</sup>

At its origins, the model emerged as a response to the transformations of postindustrial societies and advanced knowledge economies, which create new social risks that individuals and families are exposed to during their life course—risks that may lead to widening inequalities over time. For example, in ever more fluid labour markets, many workers have to frequently move between spells of full-time employment, part-time employment, self-employment, unemployment, and precarious gig work. Moreover, against the backdrop of population ageing and changing family structures, workers (especially women) may experience career interruptions as a result of child- and elder-care responsibilities. In this context, human capital may be wasted or underused if learners, jobseekers, and workers fail to adapt to these complex life transitions between work, education, and family care and thus struggle to access (or maintain) good-quality, high-

30 For a discussion on the progressive development of social investment in Europe, see Kees van Kersbergen and Anton Hemerijck, ‘Two Decades of Change in Europe: The Emergence of the Social Investment State’, *Journal of Social Policy*, 41, no. 3 (July 2012). See also Leoni, ‘Social Investment as a Perspective on Welfare State Transformation in Europe’; Nathalie Morel, Bruno Palier, and Joakim Palme, ‘Beyond the Welfare State as We Knew It?’, in *Towards a Social Investment Welfare State? Ideas, Policies and Challenges*, eds. Natalie Morel, Bruno Palier, and Joakim Palme (Bristol: Policy Press, 2012).

31 This is not to say that social investment emerged as an immediate and direct response to the expansive, redistributive welfare states that characterised postwar Europe, based on compulsory social insurance and high levels of social provision. The break with the Keynesian welfare state towards a greater neoliberal focus on cost-efficiency, activation, and privatisation of social insurance had already begun in the late 1970s and 1980s, as a result of the ‘great stagflation’ that followed the 1973 oil crisis. In this context, some have characterised social investment as the synthesis of these two previous phases, due to its emphasis on welfare states’ role in promoting both equality and efficiency/competitiveness. See Anton Hemerijck, ‘Two or Three Waves of Welfare State Transformation?’, in *Towards a Social Investment Welfare State? Ideas, Policies and Challenges*, eds. Natalie Morel, Bruno Palier, and Joakim Palme (Bristol: Policy Press, 2012); Leoni, ‘Social Investment as a Perspective on Welfare State Transformation in Europe’.

32 van Kersbergen and Hemerijck, ‘Two Decades of Change in Europe’.

33 Denis Bouget et al., *Social Investment in Europe: A Study of National Policies* (Luxembourg: Publications Office of the European Union, 2015).

34 Stefano Ronchi, ‘Which Roads (If Any) to Social Investment? The Recalibration of EU Welfare States at the Crisis Crossroads (2000–2014)’, *Journal of Social Policy* 47, no. 3 (2018); Bouget et al., *Social Investment in Europe*.

35 European Commission, ‘Towards Social Investment for Growth and Cohesion—Including Implementing the European Social Fund 2014–2020’ (COM [2013] 83 final, 20 February 2013); European Commission, *Employment and Social Developments in Europe. Sustainable Growth for All: Choices for the Future of Social Europe* (Luxembourg: Publications Office of the European Union, 2019).

productivity jobs. To further complicate matters, failing to master one of these transitions risks durably and negatively affecting an individual's life chances later on—what is known as cumulative disadvantage.<sup>36</sup> This, in turn, threatens the long-term financial sustainability of the welfare state, which rests on the number (quantity) and productivity (quality) of future employees and taxpayers.

As European welfare states are confronted with increasingly heterogeneous individual biographies and professional trajectories, the social investment paradigm proposes addressing these challenges through interventions aimed at giving all members of society the capabilities and resources to avoid falling through the gaps of risky life transitions: in other words, 'stepping-stones' (see Box 1). Stepping-stones are the linchpin in the synergy between economic productivity and social equality on which social investment is based.

## BOX 1

### Understanding Social Investment: 'Stepping-Stone' Solidarity and the Mix of Buffers, Stocks, and Flows

According to the economist Nicholas Barr, European welfare states operate not simply as an instrument to provide poverty relief by redistributing income and wealth across society to reduce social exclusion ('Robin Hood' solidarity) but also by redistributing income across individuals' life course to cover periods of higher need or lower income ('piggy bank' solidarity), such as through social insurance based on past contributions and earnings. Yet, the limitations of these two forms of solidarity have become evident in contemporary industrialised societies. The model of insurance-based social security (piggy bank) draws its sustainability from stable employment and regular contributions. It may therefore fail to reflect the reality of advanced knowledge economies characterised by growing atypical employment and frequent career changes. Meanwhile, basic safety nets such as a minimum income (Robin Hood) may protect people momentarily but do not necessarily give them the means to improve their economic and social participation going forward.

The social investment approach, by contrast, does not primarily aim to compensate for disadvantage but instead seeks to promote individuals' prospects to *sustain* well-being over heterogeneous, risky life-course transitions, all in a context of rapid transformation. To this end, social investment includes a third type of solidarity: stepping-stone solidarity. In this context, the term 'stepping-stone' refers to interventions that help individuals and families develop the capabilities to navigate potentially rough transitions in their lives from early childhood through to old age—in income, health care, housing, education, or employment—amid volatile labour markets and fluid family structures (see Figure 2). While Robin Hood and piggy bank solidarity, inspired by John Rawls' *A Theory of Justice* (1971), are usually defined in terms of access to social security and levels of income benefits, stepping-stone solidarity, by contrast, emphasises 'capabilities', defined as what people can do or be in life. In this, stepping-stone solidarity is more inspired by Amartya Sen's approach, which views adequate housing, child care, education, and training as well-being freedoms that support individual agency, rather than as compensation for social misfortune.

It is important to stress that social investment does not represent a radical departure from the previous priorities and design elements of European welfare states. Rather, it seeks to combine their strengths by proposing three complementary types of social policy interventions: (1) **buffers**, such as income-protecting safety nets; (2) **flows** to help individuals bridge critical life-course transitions and (re-)enter or retain employment; and (3) measures to raise the **stock** of human capital and capabilities—arguably the core of

36 Thomas A. Diprete and Gregory M. Eirich, 'Cumulative Advantage as a Mechanism for Inequality: A Review of Theoretical and Empirical Developments', *Annual Review of Sociology* 32, no. 1 (2006).

**BOX 1 (cont.)**

**Understanding Social Investment: 'Stepping-Stone' Solidarity and the Mix of Buffers, Stocks, and Flows**

social investment. A social-investment approach to promoting the labour market participation of women, for instance, would typically include a mix of family cash transfers (the buffer element), adequate parental leave arrangements (the flow element), and access to high-quality child care (the stock element). This example helps illustrate the synergies between these three types of policies, or stepping-stones, and how they can act as a life-course multiplier.

Indeed, aggregate evidence confirms that countries with welfare states combining these three institutional components are best able to reconcile economic competitiveness and social inclusion. Unsurprisingly, the Nordic countries, with their inclusive safety nets and strong social service traditions, have done the most to protect social-investment progress since the 2008 global financial crisis and the Great Recession that followed it. By contrast, eurozone countries, under the European Fiscal Compact, have taken a back seat on social investment, except for Germany, which was able to fast-forward social-investment reform in child care and work-family reconciliation. The combination of inadequate unemployment protection and low rates of female employment has rendered Mediterranean single-breadwinner welfare states particularly vulnerable, especially in the wake of the EU fiscal austerity reflex after 2009.

Sources: Nicholas Barr, *The Welfare State as Piggy Bank: Information, Risk, Uncertainty, and the Role of the State* (Oxford: Oxford University Press, 2001); John Rawls, *A Theory of Justice* (Cambridge: Belknap Press, 1971); Amartya Sen, *Development as Freedom* (Oxford: Oxford University Press, 1999); Amartya Sen, *The Idea of Justice* (London: Allan Lane, 2009); Anton Hemerijck, 'Social Investment "Stocks", "Flows" and "Buffers"', in *Politiche Sociali* 1, no. 1 (2014): 9–26; Anton Hemerijck, *Changing Welfare States* (Oxford: Oxford University Press, 2012); Anton Hemerijck, 'When Changing Welfare States and the Eurocrisis Meet', in *Sociologica* 1 (2012).

These stepping-stones can take a variety of forms, as shown in Figure 2. Early investments in children through high-quality early childhood education and care can translate into better levels of educational attainment and, in the medium term, higher-quality and more productive employment.<sup>37</sup> Investing in lifelong education and training is also likely to produce important returns in terms of career prospects, social mobility, and productivity, as technological change will continue to increase labour market demand for workers with higher skill levels. Meanwhile, against the backdrop of increasingly fluid family structures, policies aimed at improving work-life balance—such as publicly available child care, adequate leave, and gender equity policies—can lead to lower gender gaps in wages and employment,<sup>38</sup> protecting households against worklessness and poverty.<sup>39</sup>

Aimed at preventing the downward spiral of cumulative disadvantage, social investments may even turn into the opposite: a positive 'life-course multiplier' that, exploiting the synergies between education, employment, gender equity, and social participation, generates a virtuous cycle of well-being (see Figure

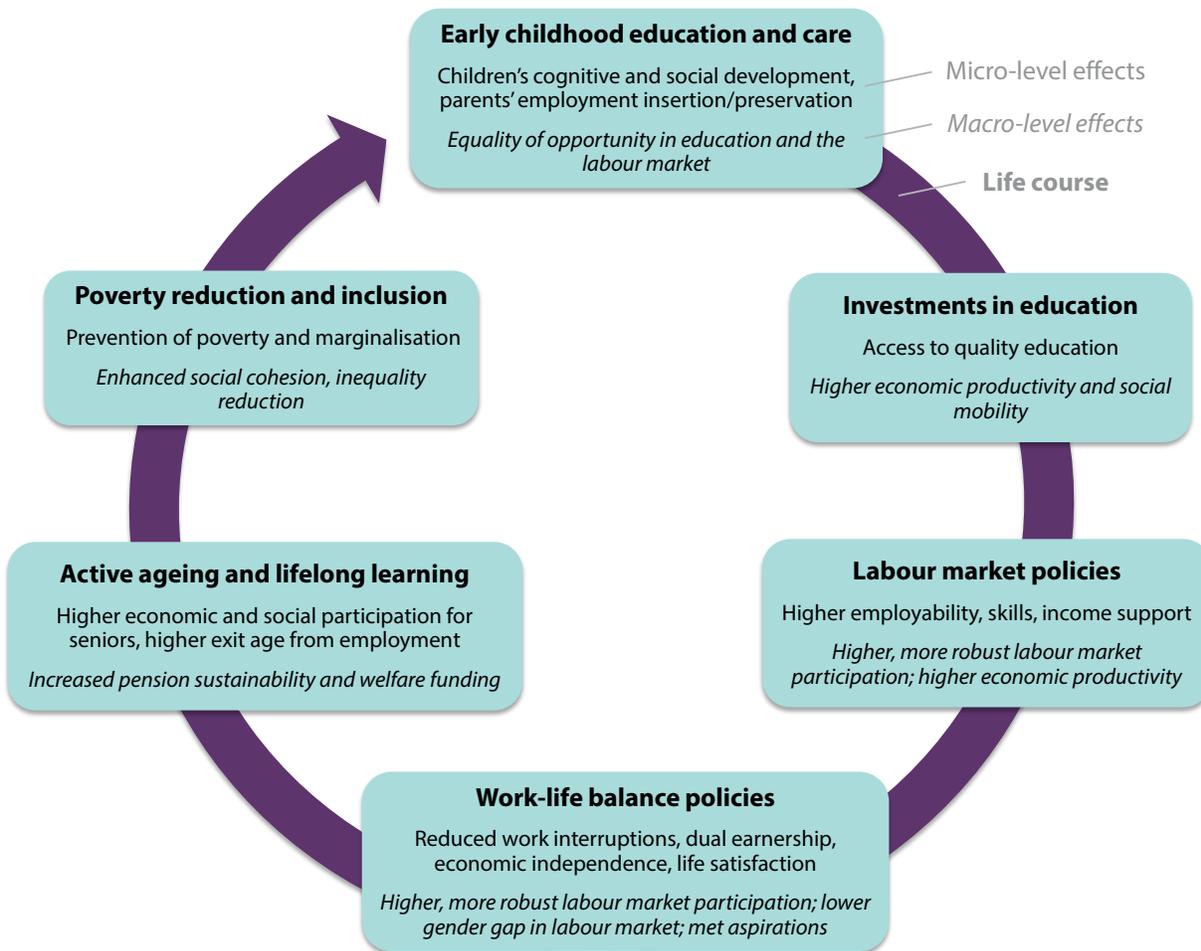
37 Flavio Cunha and James Heckman, 'The Technology of Skill Formation', *American Economic Review* 97, no. 2 (2007); Ylenia Brilli, Daniela Del Boca, and Chiara Pronzato, 'Does Child Care Availability Play a Role in Maternal Employment and Children's Development? Evidence from Italy', *Review of Economics of the Household* 14, no. 1 (2016).

38 Daniela del Boca, Marilena Locatelli, and Daniela Vuri, 'Child-Care Choices by Working Mothers: The Case of Italy', *Review of Economics of the Household* 3, no. 4 (February 2005); Rense Nieuwenhuis, Ariana Need, and Henk Van Der Kolk, 'Institutional and Demographic Explanations of Women's Employment in 18 OECD Countries, 1975–1999', *Journal of Marriage and Family* 74, no. 3 (2012); Walter Korpi, Tommy Ferrarini, and Stefan Englund, 'Women's Opportunities under Different Family Policy Constellations: Gender, Class, and Inequality Tradeoffs in Western Countries Re-Examined', *Social Politics* 20, no. 1 (March 2013).

39 Juho Härkönen and Erik Bihagen, 'Occupational Attainment and Career Progression in Sweden', *European Societies* 13, no. 3 (2011): 451–479; Frank Vandenbroucke and Bea Cantillon, *Reconciling Work and Poverty Reduction: How Successful Are European Welfare States?* (Oxford, UK: Oxford University Press, 2014).

2). At the micro level, this life-course multiplier can benefit individuals and households by promoting their career development, social mobility, and resilience to individual setbacks as well as wider economic transformations and shocks. At the macro level, it can lead to cumulative gains for advanced knowledge economies as a whole, thanks to improved productivity and employment, lower gender gaps, and reduced intergenerational transmission of inequality.<sup>40</sup>

**FIGURE 2**  
**Social Investment as a Life-Course Multiplier**



Source: Adapted from Anton Hemerijck, Stefano Ronchi, Ilze Plavgo, and Jan Karremans, 'Understanding Twenty-First Century Welfare Provision: An Analytical-Methodological Approach for Analysing Social Investment Complementarities, Wellbeing Returns and Institutional Prerequisites' (paper presented at ESPAnet2021 Conference, Network for European Social Policy Analysis, Leuven, Belgium, 1 September 2021).

<sup>40</sup> Anton Hemerijck, Stefano Ronchi, Ilze Plavgo, and Jan Karremans, 'Understanding Twenty-First Century Welfare Provision: An Analytical-Methodological Approach for Analysing Social Investment Complementarities, Wellbeing Returns and Institutional Prerequisites' (paper presented at ESPAnet2021 Conference, Network for European Social Policy Analysis, Leuven, Belgium, 1 September 2021).

## *Social investment and the post-pandemic recovery*

Even as the grip of the pandemic eases in Europe, its long-term effects risk being felt for years to come. The crisis has shed light on how inequalities in European societies are accumulated along a variety of (often, intersecting) lines.<sup>41</sup> Employment losses have hit low-educated and low-wage, young,<sup>42</sup> female,<sup>43</sup> and migrant jobseekers and workers disproportionately hard.<sup>44</sup> Moreover, the pandemic is likely to accelerate changes in economic sectors and labour markets—including faster digitisation and a renewed focus on the transition to low-carbon economies, which will require adaptation from many industries—that may further marginalise groups lacking the right skills and resources to navigate these transformations.<sup>45</sup>

Committing to social investment may help offset accumulating disadvantages and widening inequalities, while cultivating and activating the skills to power economic transition. While it is too early to tell whether the pandemic will lead to a social-investment turn, policy responses so far suggest that governments no longer view social-investment priorities as middle-class niceties for northwestern European welfare states, with more taking them seriously as part and parcel of general economic policy. This is evident when looking at the repertoire of EU Member States' welfare policy responses to COVID-19, which have emphasised a mix of inclusive buffers (e.g., extending emergency relief and social protection to self-employed workers),<sup>46</sup> more gender-balanced employment measures (e.g., facilitating work-life balance for young parents, investments in child care),<sup>47</sup> and a strong commitment to human capital development (e.g., ensuring pupils' participation in remote learning, strengthening the provision of ALMP, and improving opportunities for work-based learning for young workers).<sup>48</sup>

Italy is a telling example, as the first EU country to be heavily affected by the coronavirus and to enact a national lockdown. The 'Cure Italy Decree' from March 2020—the first of several decrees aimed at responding to the pandemic with emergency and stimulus measures—introduced, among other things, a cash allowance for self-employed workers that was accessed by 2.8 million people within the month.<sup>49</sup> It also launched several measures to support families, including babysitting vouchers and reinforced parental-leave and remote-working rights for employees, and it increased funding for schools to improve digital innovation and distance teaching.<sup>50</sup>

41 European Commission, *2020 Strategic Foresight: Charting the Course Towards a More Resilient Europe* (COM [2020] 493 final, 9 September 2020).

42 Maarten Verwey, Mirko Licchetta, and Alexandru Zeana, 'Beyond the Pandemic: From Life Support to Structural Change', VOX EU, 8 July 2021.

43 European Commission, *2021 Report on Gender Equality in the EU* (Luxembourg: Publications Office of the European Union, 2021).

44 Francesco Fasani and Jacopo Mazza, 'COVID-19 and Migrant Workers' Employment Prospects in Europe', VOX EU, 25 January 2021; Zsolt Darvas, 'The Unequal Inequality Impact of the Covid-19 Pandemic' (working paper 06/2021, Bruegel, 30 March 2021).

45 Liam Patuzzi, *Taking the Long View: Options for Inclusive Post-Pandemic Labour Markets* (Brussels: Migration Policy Institute Europe, 2021).

46 European Commission, *Employment and Social Developments in Europe: March 2021* (Luxembourg: Publications Office of the European Union, 2021).

47 Ilze Plavgo and Anton Hemerijck, 'The Social Investment Litmus Test: Family Formation, Employment and Poverty', *Journal of European Social Policy* 31, no. 3 (12 September 2020).

48 OECD, 'What Have Countries Done to Support Young People in the COVID-19 Crisis?' (OECD Policy Responses to Coronavirus, 6 July 2021); OECD, 'Scaling Up Policies that Connect People with Jobs in the Recovery from COVID-19' (OECD Policy Responses to Coronavirus, 29 April 2021).

49 European Commission, *Employment and Social Developments in Europe: March 2021*.

50 Italian Ministry of Economy and Finances, 'The Measures Introduced by the Italian Government to Support Families', updated 30 December 2020.

Meanwhile, at EU level, the July 2020 European Council agreement allowing the Union to borrow in the markets to fund crisis-related expenditure and the subsequent establishment of NextGenerationEU, a temporary, 750-billion-euro<sup>51</sup> instrument to promote recovery, represent an important leap forward in EU solidarity. The Recovery and Resilience Facility—the core element of NextGenerationEU, endowed with almost 90 per cent of the initiative’s funding—emphasises public investment and reform in key areas such as education and skills, health, employment, and economic, social, and territorial cohesion. Its explicit goals go beyond mitigating COVID-19’s fallout and seek to make EU economies more sustainable, inclusive, and resilient.<sup>52</sup> The emphasis on social investment is clear also in many Member State recovery and resilience plans, which underscore the economic importance of gender equality, adequate parental leave, preschool child care and elder care, and employment and (digital) skill development for youngsters: a recipe that aims to increase both the labour supply and the quality of human capital. France’s recovery plan, for example, earmarks 4.6 billion euros for jobs and training for young people.<sup>53</sup> Belgium’s plan envisages a series of reforms and investments to promote gender equality, including by strengthening child-care capacity (particularly for the benefit of vulnerable households and young parents).<sup>54</sup> To further support families, Spain’s recovery plan also emphasises the provision of elder care—through reforms and investments in institutionalised care, but also by leveraging home-based and community care.<sup>55</sup>

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*Promising signs point to a new phase of maturity for social investment in Europe, based on policymakers’ acknowledgement that austerity has run its course economically as well as politically.*

As mentioned above, it is early to tell whether the (extraordinarily expensive) emergency responses and temporary welfare changes made by European governments since March 2020 will inspire long-term welfare reform, or whether debt considerations and other political pressures will again lead to an austerity backlash. And yet, promising signs point to a new phase of maturity for social investment in Europe, based on policymakers’ acknowledgement that austerity has run its course economically as well as politically. The potential of social investment to inform the economic and social recovery from the pandemic will stand or fall on welfare states’ ability to adequately account for migration, a phenomenon that is increasingly central to understanding the nature of inequalities and life-course risks in European societies.

## 4 Social Investment and Immigration

Migration has significantly shaped European economies and societies since at least the end of the Second World War. Yet especially after the turn of the century, accelerating globalisation, growing international mobility, and recent displacement crises have placed it at the top of European policy agendas and highlighted its importance as a factor in constant interplay with the demographic, economic, technological, and environmental megatrends that are reshaping Europe. The pandemic has thrown into

51 The amount of 750 billion euros, which EU leaders agreed at a meeting on 17–21 July, is in 2018 prices and is equivalent to more than 800 billion euros in 2021 prices. Along with the agreed EU long-term budget for 2021–27 (1.074 trillion), this amounts to the largest stimulus package ever financed in Europe. See European Commission, ‘Recovery Plan for Europe’; European Council, ‘A Recovery Plan for Europe’, updated 10 September 2021.

52 European Commission, ‘Recovery and Resilience Facility’, accessed 13 September 2021.

53 European Commission, ‘France’s Recovery and Resilience Plan’ (fact sheet, June 2021).

54 European Commission, ‘Analysis of the Recovery and Resilience Plan of Belgium’ (SWD [2021] 172 final, 23 June 2021).

55 European Commission, ‘Analysis of the Recovery and Resilience Plan of Spain’ (SWD [2021] 147 final, 16 June 2021).

sharp relief the vital role of immigrant workers in ensuring the continuation of key sectors and services in the European Union, from health care to the food industry.<sup>56</sup> At the same time, Europe's immigrant and refugee populations have been heavily affected by the pandemic, which has exacerbated many of their vulnerabilities. It has highlighted their overrepresentation in precarious work; thinner financial cushions to weather income losses; frequently inadequate housing and working conditions, resulting in higher mental and physical health risks; challenges in accessing social services, benefits, and skill-building opportunities; educational inequalities; and exposure to discrimination and xenophobia.<sup>57</sup>

Several European governments took rapid and exceptional measures to better protect their immigrant and refugee residents from the impacts of the pandemic, while also pursuing other core goals such as controlling the spread of the virus and protecting key sectors such as agriculture from labour shortages. Many of these measures were aimed at securing migrants' legal residence status and improving their access to social protection buffers such as subsistence or unemployment benefits and universal health care.<sup>58</sup> Portugal, for example, granted all migrants and asylum seekers with pending applications for legal status temporary access to full residence rights, thus allowing them to access health care and welfare benefits.<sup>59</sup> Italy's regularisation programme gave unauthorised immigrant workers in agriculture, domestic work, and social care access to labour and social protections.<sup>60</sup> And many other EU countries have also given irregular migrants access to emergency health care, often also covering the costs of testing and treatment for COVID-19.<sup>61</sup> Interestingly, many of these measures signalled a temporary departure from the principle of reciprocity that is at the heart of many European welfare states. For example, Belgium and Spain temporarily waived the requirement that immigrants work in the country for a minimum period of time to qualify for unemployment benefits—a measure likely to benefit recently arrived migrant workers.<sup>62</sup>

Beyond immediate concerns, however, the pandemic's fallout may condemn immigrants and refugees to spiralling disadvantage for years to come. Estimates for Western Europe (the EU-14 plus the United Kingdom) have suggested that about one-third of all non-EU migrant workers—approximately 6.1 million people—may be affected by job losses as a result of COVID-19-induced labour market shocks.<sup>63</sup> In Italy, for example, the number of non-EU migrants in employment decreased by 6 per cent in 2020—and as much as 10 per cent among non-EU migrant women—against a dip of 1.4 per cent among Italian nationals.<sup>64</sup>

56 OECD, 'COVID-19 and Key Workers: What Role Do Migrants Play in Your Region?' (OECD Policy Responses to Coronavirus, 26 November 2020).

57 See, for example, OECD, 'What Is the Impact of the COVID-19 Pandemic on Immigrants and Their Children?' (OECD Policy Responses to Coronavirus, 19 October 2020); *ApartTogether Survey: Preliminary Overview of Refugees and Migrants' Self-Reported Impact of COVID-19* (Geneva: World Health Organisation, 2020); Claudine Burton-Jeangros et al., 'The Impact of the Covid-19 Pandemic and the Lockdown on the Health and Living Conditions of Undocumented Migrants and Migrants Undergoing Legal Status Regularization', *Front Public Health* 8 (2020); Francesco Fasani and Jacopo Mazza, *A Vulnerable Workforce: Migrant Workers in the COVID-19 Pandemic* (Ispra, Italy: European Commission, 2020); Patuzzi, *Taking the Long View*.

58 European Migration Network and OECD, 'The Impact of COVID-19 in the Migration Area in EU and OECD Countries' (EMN OECD Umbrella inform, April 2021).

59 European Web Site on Integration, 'Portuguese Government Gives Temporary Residence to Immigrants with Pending Applications' (news release, 28 March 2020).

60 European Website on Integration, 'Italian Government Adopts Targeted Regularisation for Migrant Workers' (news release, 18 May 2020).

61 OECD, 'Labour Market Outcomes of Immigrants and Integration Policies in OECD Countries', in *International Migration Outlook 2020* (Paris: OECD Publishing, 2021).

62 OECD, 'Labour Market Outcomes of Immigrants and Integration Policies in OECD Countries'.

63 Fasani and Mazza, 'COVID-19 and Migrant Workers' Employment Prospects in Europe'.

64 Italian Ministry of Labour and Social Policies, *XI Rapporto Annuale: Gli stranieri nel mercato del lavoro in Italia* (Rome: Italian Ministry of Labour and Social Policies, 2021).

Moreover, the significant overrepresentation of non-EU migrant households among the recipients of 'emergency income'<sup>65</sup> in 2020 suggests a higher incidence of poverty within this group.<sup>66</sup> In Germany, too, immigrants and especially refugees were heavily affected by the loss of jobs and/or working hours during the first lockdown, and the interruption of public integration and training measures further contributed to a steep rise in those registered as unemployed. And although the employment rate of refugees in Germany grew again after the first lockdown, this growth was much smaller than in previous years.<sup>67</sup> Indeed, immigrant workers overall could take much longer than the native born to re-enter work for a number of reasons. For one, on slack labour markets, discrimination tends to increase, while in-country social capital becomes a more important predictor of finding a job.<sup>68</sup> Secondly, deep-seated educational disadvantages for migrant-background pupils and lack of access to upskilling opportunities for migrant workers means such individuals will struggle to seize new, high-quality job opportunities emerging from changes in the fabric of European economies.<sup>69</sup> And with COVID-19-induced school closures likely to have a stronger negative effect on immigrant and refugee learners than many native-born pupils, there is a risk that this period could result in inequalities that will accumulate and grow across generations.<sup>70</sup>

The logic of social investment, with its focus on providing individuals and households with the resources to weather those risky life transitions that may harm their human capital development, economic security, and labour market participation, appears in principle well-suited to effectively addressing challenges to immigrant inclusion.

Settling in a new country and seeking to enter the labour market constitute disruptive transitions in a person's life that, without timely and targeted support, can lay the foundations for long-term disadvantage.<sup>71</sup> For instance, educational barriers faced by migrant pupils can keep some from progressing on to higher education, reduce their labour market chances, and curtail social mobility.<sup>72</sup> Immigrants with skills and qualifications often struggle to have their human capital translated and recognised in their destination country,<sup>73</sup> which prevents them from resuming their education or re-

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*The logic of social investment appears in principle well-suited to effectively addressing challenges to immigrant inclusion.*

65 The Emergency Income, introduced in May 2020, is a scheme targeted at households in great economic difficulty due to the pandemic. It was paid in two instalments, each of an amount between 400 and 840 euros depending on the number and characteristics of household members. See Italian Ministry of Economy and Finances, 'The Measures Introduced by the Italian Government to Support Families'; Istituto Nazionale di Previdenza Sociale, 'Reddito di Emergenza' (fact sheet, 27 May 2020).

66 Italian Ministry of Labour and Social Policies, *XI Rapporto Annuale: Gli stranieri nel mercato del lavoro in Italia*.

67 Herbert Brücker, Lidwina Gundacker, Andreas Hauptmann, and Philipp Jaschke, 'Die Arbeitsmarktwirkungen der COVID-19-Pandemie auf Geflüchtete und andere Migrantinnen und Migranten' (research report 5/2021, Institut für Arbeitsmarkt- und Berufsforschung, Nuremberg, Germany, 2021).

68 OECD, 'What Is the Impact of the COVID-19 Pandemic on Immigrants and their Children?'

69 Patuzzi, *Taking the Long View*.

70 Sait Bayrakdar and Ayse Guveli, 'Inequalities in Home Learning and Schools' Provision of Distance Teaching during School Closure of COVID-19 Lockdown in the UK' (ISER Working Paper Series No. 09, Institute for Social and Economic Research, University of Essex, 2020).

71 See, for example, Anne-Laure Bertrand, 'Refugees' Trajectories in Switzerland: Impact of Residence Permits on Labour Market Integration', *Quetelet Journal* 7, no. 1 (April 2019); Kristian Rose Tronstad, Marit Nygaard, and Miia Bask, *Accumulation of Welfare Problems among Immigrants in Norway* (Oslo: Norwegian Institute for Urban and Regional Research, 2018); Raffaele Guetto, 'Employment Returns to Tertiary Education for Immigrants in Western Europe: Cross-Country Differences before and after the Economic Crisis', *Social Inclusion* 6, no. 3 (2018).

72 Merike Darmody, Delma Byrne, and Frances McGinnity, 'Cumulative Disadvantage? Educational Careers of Migrant Students in Irish Secondary Schools', *Race Ethnicity and Education* 17, no. 1 (2014).

73 In Germany, for example, immigrant academics experience high levels of overqualification, with those who have obtained a degree outside of Germany faring a lot worse than their counterparts with degrees earned in Germany. See OECD, 'How Attractive Is Germany for Foreign Professionals?' (OECD Migration Policy Debates No. 23, January 2020).

entering their profession.<sup>74</sup> The domino effect of cumulative disadvantage may be especially severe for asylum seekers and refugees, due to intersecting challenges such as temporary employment bans, living conditions in reception facilities, and mental health challenges (e.g., as a result of trauma, inactivity, and isolation).<sup>75</sup> Research on employment bans for newly arrived asylum seekers, for example, has found that even short periods of economic inactivity can translate into years-long disadvantage in the labour market.<sup>76</sup>

There is a further reason why social investment, in principle, could help align welfare state reform with the needs of diverse, immigrant-receiving societies: its emphasis on combining social protection goals with economic growth. Given the growing migrant-background share of many European populations, investing in immigrants' employability and human capital development has become essential to sustaining welfare expenditure.<sup>77</sup> Moreover, within

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*Given the growing migrant-background share of many European populations, investing in immigrants' employability and human capital development has become essential to sustaining welfare expenditure.*

the context of post-pandemic recovery, immigration may become an even more important factor to address labour and skill demands in EU Member States.<sup>78</sup> This is because the current, public-investment-heavy EU approach to crisis management—designed to enhance productivity and foster a rapid labour market rebound—has a major vulnerability: severe labour shortages would slow down economic recovery and thus reduce the returns on social investment. Such gaps are already emerging in several sectors, despite still-high unemployment, as displaced workers cannot always be quickly retrained for new jobs and skills mismatches arise.<sup>79</sup> Especially with national education and training systems still grappling with new modes of teaching and learning, the immigration of workers with in-demand skills will remain front and centre within the mix of policies seeking to supply transforming economies with the human capital they need.

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74 In terms of educational attainment, more than one-third of people residing in the European Union who were not born in the bloc had achieved at most a lower secondary level of education, compared to 16 per cent of native-born individuals residing in their Member State of birth. Across the European Union, the share of non-EU-born residents of Europe who were early leavers from education and training in 2019 was more than twice as high as among native-born individuals residing in their Member State of birth (approximately 23 per cent vs. 9 per cent). See Eurostat, 'Migrant Integration Statistics – Education', updated 7 July 2021.

75 Linda Bakker, Jaco Dagevos, and Godfried Engbersen, 'Explaining the Refugee Gap: A Longitudinal Study on Labour Market Participation of Refugees in the Netherlands', *Journal of Ethnic and Migration Studies* 43, no. 11 (2017); Bertrand, 'Refugees' Trajectories in Switzerland'.

76 A 2018 study found that an additional waiting time of seven months can reduce employment and income prospects for up to ten years after expiration of the ban. See Moritz Marbach, Jens Hainmueller, and Dominik Hangartner, 'The Long-Term Impact of Employment Bans on the Economic Integration of Refugees', *Science Advances* 4, no. 9 (September 2018).

77 A November 2020 report by the Joint Research Centre of the European Commission suggests through simulations that, next to the number and characteristics of migrants, a key factor that shapes migration's long-term contribution to the receiving-country welfare state is migrants' labour market integration as this generates higher fiscal gains. See Alain Belanger, Michael Christl, Jacopo Mazza, and Edlira Narazani, *Projecting the Net Fiscal Impact of Immigration in the EU* (Luxembourg: Publications Office of the European Union, 2020).

78 Terence Hogarth, *COVID-19 and the Demand for Labour and Skills in Europe: Early Evidence and Implications for Migration Policy* (Brussels: Migration Policy Institute Europe, 2021).

79 Alexander Weber, 'Europe Heads for Jobs Crunch That May Be Deeper Than the U.S.'s', Bloomberg, 20 May 2021. A 2021 study by Eurofound stresses that longer-term economic transformation may further compound the mismatch between the human capital in demand and on offer—for example, in sectors such as energy, transport, manufacturing, and construction, where the green transition will fuel demand for new types of skills and profiles. See Eurofound, *Tackling Labour Shortages in EU Member States* (Luxembourg: Publications Office of the European Union, 2021).

## A. *Migration and diversity: The weak spot of social investment?*

The arguments reviewed so far all seem to point in one direction: social investment appears both well-equipped to advance migrant inclusion and also has a strong interest in doing so to ensure its own financial sustainability. However, in the past few years a small but growing body of research has cast some doubt over social investment's ability to address inequalities affecting Europe's immigrants.<sup>80</sup> Some studies have highlighted migrants' underrepresentation in social investment policies focused on human capital development and activation, such as ALMP.<sup>81</sup> Others have underlined these interventions' tendency to prioritise less-disadvantaged clients (what is known as the 'Matthew effect'), favouring efficiency over equality,<sup>82</sup> which may help account for immigrant underrepresentation. Further research has identified challenges many immigrants face in accessing early childhood education and care and work-family reconciliation policies.<sup>83</sup> On this basis, some observers have even cautioned that a stronger turn towards the social-investment welfare state, while reducing overall inequality within society, may risk further deepening gaps between migrants and nonmigrants<sup>84</sup> (although this risk differs between different types of European welfare states).<sup>85</sup>

Different factors help explain migrants' lower participation in landmark social-investment policies such as child care, ALMPs, or lifelong learning. Formal eligibility may pose barriers in some countries, especially for recent arrivals who have not yet contributed to the system and for temporary residents.<sup>86</sup> The latter group, in particular, poses a real challenge to social investment's calculus that spending now will result in future savings, given it is often unclear whether and how long they will stay. Further barriers may result from the way programmes and policies are designed. In recent years, for example, analysts and governments have repeatedly emphasised the potential of vocational education and training (VET) to promote migrant and refugee employment. Yet despite some innovations to make VET more modularised and flexible, entry criteria and curricula are still mostly designed around the needs of individuals moving to the next stage of education within the same country rather than those transitioning into the country's education system.<sup>87</sup>

80 For an overview of the literature on migration and social investment, see Giuliano Bonoli, 'Immigrant Integration and Social Investment', *Journal of European Social Policy* 30, no. 5 (2020).

81 A 2018 review of evaluations of active labour market policies (ALMP) in 14 countries, for example, found that migrants are consistently underrepresented in labour market programmes that do not explicitly target them. See Giuliano Bonoli and Fabienne Liechti, 'Good Intentions and Matthew Effects: Access Biases in Participation in Active Labour Market Policies', *Journal of European Public Policy* 25, no. 6 (2018).

82 Daniel Auer and Flavia Fossati, 'Compensation or Competition: Bias in Immigrants' Access to Active Labour Market Measures', *Social Policy and Administration* 54, no. 3 (2019).

83 Manuela Naldini, Myra Hamilton, and Elisabeth Adamson, 'The Social Investment Paradigm and Migrant Families: The Australian and Italian Case Compared' (working paper, Carlo Alberto Notebooks no. 625, November 2020); Bonoli, 'Immigrant Integration and Social Investment'; Christina Felfe and Rafael Lalive, 'Does Early Child Care Affect Children's Development?', *Journal of Public Economics* 159 (March 2018).

84 See, for example, Marius R. Busemeyer, Caroline de la Porte, Julian L. Garritzmann, and Emmanuele Pavolini, 'The Future of the Social Investment State: Politics, Policies, and Outcomes', *Journal of European Public Policy* 25, no. 6 (2018).

85 In particular, it is important to note that these inequalities in access to and participation in social-investment policies have been found to be less marked in Nordic European welfare states. See Bonoli, 'Immigrant Integration and Social Investment'.

86 Research has suggested that formal barriers to social-investment policies such as early childhood education and care tend to be higher for migrants in the initial phase after arrival. Paradoxically, however, this phase is also often the riskiest and when newcomers are most in need of support. See Naldini, Hamilton, and Adamson, 'The Social Investment Paradigm and Migrant Families'; Bonoli, 'Immigrant Integration and Social Investment'.

87 For example, data for 2016–17 suggest that, despite a significant increase of migrant students entering vocational education and training in several EU countries, the share of successful entrants vs. all migrant applicants remained much lower compared to native students in countries such as Finland, Germany, Norway, and Sweden. See Shinyoung Jeon, *Unlocking the Potential of Migrants: Cross-Country Analysis* (Paris: OECD Publishing, 2019).

Another factor that may contribute to migrant underrepresentation is the low supply of social-investment services, such as child care: when there is competition for limited places, assets such as destination-country language skills, familiarity with administrative procedures, and social capital become even more important.<sup>88</sup> But access is not the sole problem. Even when migrants succeed in accessing stepping-stones such as upskilling and work-family policies, these investments may fail to generate the expected employability returns, for example due to employers' reservations about hiring immigrants or discrimination more generally.<sup>89</sup>

Therefore, aligning social investment with the needs of immigrant-receiving societies will require a coordinated strategy acting on different levers. Improvements in immigrants' formal access will need to be balanced with investments to expand the supply of services; incentives and nudges to increase demand for these stepping-stones among migrant populations;<sup>90</sup> as well as efforts to promote intercultural competence and reduce discrimination among employers, service providers, and administrations.<sup>91</sup> Governments will not be able to achieve this on their own. They will need close cooperation with other stakeholders, especially private employers and nongovernment organisations familiar with and trusted by migrant and refugee communities.

## ***B. Integration policy: A laboratory for social investment?***

Welfare policymakers seeking to tailor social investments to meet the needs of European immigrant-receiving societies will find a precious ally and a wealth of knowledge and experience in recent years' integration policy. Especially after 2015–16, as the arrival of large numbers of migrants and asylum seekers with highly heterogeneous profiles and needs caught mainstream welfare providers unprepared, immigrant integration policymakers stepped in and plugged the gap. Governments in major European destination countries opted to make sizeable upfront investments into integration supports—another notable departure from the principles of austerity. For example, in 2015, Sweden, the EU Member State where newly arrived asylum seekers accounted for the highest per capita ratio, spent around 6 billion euros.<sup>92</sup> Germany, after receiving nearly 1 million asylum seekers in 2015, spent approximately 14.6 billion euros (close to 0.5 per cent of GDP) on reception- and integration-related costs in the same year.<sup>93</sup> This spending was sustained (and at times, even increased) in the following four years.<sup>94</sup>

88 Bonoli, 'Immigrant Integration and Social Investment'.

89 Bonoli, 'Immigrant Integration and Social Investment'; Naldini, Hamilton, and Adamson, 'The Social Investment Paradigm and Migrant Families'.

90 For a discussion of how nudges and behavioural insights can increase the uptake of public services across diverse populations, see Meghan Benton, Antonio Silva, and Will Somerville, *Applying Behavioural Insights to Support Immigrant Integration and Social Cohesion* (Brussels: Migration Policy Institute Europe, 2018).

91 Bonoli, 'Immigrant Integration and Social Investment'.

92 OECD, 'Who Bears the Cost of Integrating Refugees?' (policy brief, Migration Policy Debates no. 13, January 2017).

93 The German federal government spent approximately 21.7 billion euros on asylum-related costs in 2016. However, 7.1 billion euros were spent on 'countering the causes of displacement' (i.e., on providing humanitarian and technical support in countries of origin). German Federal Ministry of Finance, 'Asyl- und Flüchtlingspolitik aus Sicht des Bundeshaushalts' (monthly report, January 2017).

94 Federal government spending on reception- and integration-related costs connected to asylum amounted to approximately 14 billion euros in 2017, 15 billion euros in each 2018 and 2019, and 12.6 billion euros in 2020. These figures are calculated by subtracting from the total yearly spending of the federal government in the area of refugees and asylum-related integration costs the amount spent on 'countering root causes of displacement' (which largely refers to interventions outside Germany). See Matthias Bau, 'Nein, die Bundesregierung gibt nicht pro Jahr 23 Milliarden Euro für Geflüchtete aus', CORRECTIV, 23 July 2021.

These politically sensitive choices were driven by governments' desire to avoid the mistakes of the post-war period, when failure to invest in the integration of migrant labourers and their families led to spiralling marginalisation that spanned generations. The calculus behind the more recent policies was that upfront investments would result in considerable cost-saving down the road, by promoting migrants' and refugees' autonomy from public support and by maximising their economic contributions in the long run. For this arithmetic to work, however, funding had to be channelled into interventions carefully designed to break patterns of cumulative disadvantage and to generate medium- and long-term returns along integration pathways. The key principles emerging from this phase of exceptional dynamism in integration policy closely reflect the logic of social investment:

- ▶ **Kickstarting integration pathways as early as possible.** Through a range of measures—from legal changes to public funding and support programmes—governments have sought to reduce periods of 'limbo' and inactivity for new arrivals. Given their large backlogs in asylum applications, several countries reduced the length of time asylum seekers with pending applications were barred from seeking employment. Between 2014 and 2015, for example, Germany reduced the waiting period for asylum seekers to enter the labour market from nine to three months, Italy from six to two months, and Belgium from six to four months.<sup>95</sup> Moreover, in recent years, some Member States have experimented with early interventions providing a range of services to asylum seekers who have not yet left arrival centres, including employment counselling,<sup>96</sup> or they have invested in measures to make migrants' skills (both formal and not) more rapidly visible to potential employers. For example, in Norway, NOKUT (the Norwegian Agency for Quality Assurance in Education) in 2014 created a 'Turbo Evaluation' that lasts only five days for employers interested in hiring a person with foreign-earned educational credentials.<sup>97</sup> Nowadays, several EU Member States have emphasised early interventions within their arsenal of immigrant integration measures. Meanwhile, the European Commission has stressed early intervention in its new Action Plan on Integration and Inclusion, and EU instruments such as the EU Skills Profiling Tool for Third Country Nationals (launched in 2017 and updated on an ongoing basis) aim to kickstart newcomers' labour market integration as soon as possible after arrival.<sup>98</sup> This emphasis on early interventions to reduce costs and maximise returns (financial as well as social ones) mirrors social investment's dynamic understanding of (dis)advantage, which calls for stepping-stones throughout individuals' life course.
- ▶ **Addressing risk factors in concert through integrated services.** Several recent integration policies and programmes have aimed to link interventions in separate spheres (such as housing, education and training, psychosocial support, and social integration) into more flexible and multidimensional packages of services. For example, Germany has simplified refugees' and asylum seekers' access to apprenticeships—often in combination with mentoring and language learning—as a way to support

95 Eurofound, *Approaches to the Labour Market Integration of Refugees and Asylum Seekers* (Luxembourg: Publications Office of the European Union, 2016); OECD, *International Migration Outlook 2017* (Paris: OECD Publishing, 2017).

96 European Commission, 'Integrated Labour Market Services for Asylum Seekers in Arrival Centres' (country fiche Germany, March 2018).

97 NOKUT, 'Turbo Evaluation for Employers', accessed 20 July 2021.

98 Gaia Testore, *Testing the European Union Skills Profile Tool for TCNs: An Evaluation Report Based on Pilot Testing Exercises Conducted in Austria and Greece in the Framework of the Expert Group of Skills and Migration of the Labour Int 2 Project* (Turin: Forum of International and European Research on Immigration, 2021).

language learning, skills development, social capital creation, and stabilisation of residence status, while also meeting the economy's rising skill needs.<sup>99</sup> Meanwhile, integration programmes specifically tailored to migrant and refugee women (for example, those in Austria,<sup>100</sup> Germany,<sup>101</sup> Spain,<sup>102</sup> and Sweden<sup>103</sup>) combine elements of preparation to enter the job market with psychosocial support and child care. This integrated approach to supporting integration borrows significantly from social investment, whose premise is that the effectiveness of any given policy depends on its interaction with other policies: for example, access to early child care can reinforce the benefits of ALMP on parents' employment.<sup>104</sup>

- ▶ **Giving migrants and refugees the skills for long-term autonomy and employability.** A common concern of European governments seeking to integrate newcomers with highly heterogeneous education and skill levels has been to not only help them rapidly find work but also to promote their long-term employability as labour markets evolve. To this end, many programmes have focused on cultivating transversal skills—such as interpersonal skills, critical thinking, and entrepreneurship<sup>105</sup>—to give immigrants greater autonomy and the capabilities to continue to improve their own integration beyond the timeframe of publicly funded support. Over the past few years, Sweden's refugee settlement programme has gradually prioritised interventions encouraging newcomers to take greater individual responsibility for their labour market integration, for example by providing training on how to apply for jobs and opportunities to build interpersonal skills and social networks.<sup>106</sup> In Flanders, Belgium, the GO! Education network has experimented with curricula for refugee and migrant pupils that include soft skills learning paths, such as social skills and behavioural patterns that will serve pupils well as they move through the country's education system and labour market.<sup>107</sup> The increasing value attributed to personal, social, and methodological skills within integration policy is occurring alongside the proliferation of (increasingly sophisticated) instruments to assess and measure these informal competences as well as formal qualifications and professional experience.<sup>108</sup> This is in line

99 German Federal Ministry of the Interior, Building, and Community, 'Gesetz über Duldung bei Ausbildung und Beschäftigung im Bundesgesetzblatt verkündet' (press release, 15 July 2019).

100 Austrian Integration Fund, 'Integrationsmaßnahmen für Frauen', accessed 25 August 2021.

101 German Federal Employment Agency, 'Frauen aus dem Ausland', accessed 25 August 2021.

102 Observatorio Igualdad y Empleo, 'Programa SARA, para la Inserción Sociolaboral de las Mujeres', updated 13 August 2020.

103 Friedrich Ebert Stiftung, "'Equal Entry" to the Swedish Labour Market for Migrant Women' (interview, 2021).

104 In other words, and as discussed in Box 1, only a careful combination of buffers, flows, and stocks can kick off the virtuous circle of the life-course multiplier. See also Verena Dräbing and Moira Nelson, 'Addressing Human Capital Risks and the Role of Institutional Complementarities', in *The Uses of Social Investment*, ed. Anton Hemerijck (Oxford: Oxford University Press, 2017); Vincent Bakker and Olaf van Vliet, 'Social Investment, Employment Outcomes and Policy and Institutional Complementarities: A Comparative Analysis across 26 OECD Countries' (research memo no. 2019.01, Leiden University, September 2019).

105 While there is a diverse array of definitions of transversal (or transferable/soft/key/core) skills, the term generally refers to competences that are not specific to a certain job (and are often not the focus of formal learning) but that encompass cognitive, interpersonal, digital, language, and entrepreneurial skills—from critical thinking and problem-solving to collaboration, negotiation, and information-sharing. See Deirdre Goggin, Irene Sheridan, Fjóla Lárusdóttir, and Gigja Guðmundsdóttir, 'Towards the Identification and Assessment of Transversal Skills' (conference paper, 2019).

106 Eva Wikström and Petra Ahnlund, 'Making Refugees Work? Individualized Work Strategies in the Swedish Refugee Settlement Program', *Nordic Journal of Working Life Studies* 8, no. S4 (November 2018).

107 Lotte Michielsen and Koenraad Vandebussche, 'Empowering Young Refugees through Citizenship Competences' (presentation slides, GO! Education network of the Flemish community, 19 November 2019).

108 See, for example, Bertelsmann Stiftung, 'MySkills to Job Skills: Competence Cards for Occupational Assessment' (Cities of Migration 'Good Ideas', 8 April 2019); Maria Tountopoulou, Fotini Vlachaki, and Maria-Eirini Triantafillopolou, 'Universal Skills Framework for Migrants, Asylum Seekers and Refugees – A Mapping on the Required Skills While Entering the European Labour Market', *International Journal of Social Science Studies* 9, no. 3 (May 2021).

with social investment's focus on equipping individuals and households with the capabilities to improve their future opportunities and prospects (particularly in the labour market), including the ability and resources to keep cultivating one's human capital throughout life.

At least in part, this experimentation was likely made possible by integration policy's lower degree of formalisation compared to the conventions that govern the welfare state, where institutional structures that have been built up over many decades tend to limit flexibility and rapid adaptability. Yet, integration policy's relative leeway and autonomy from 'general' welfare policy carry some risks. Spending on immigrant integration may be more exposed to retrenchment and downscaling—particularly at a time when European governments are focusing on promoting the educational and labour market participation of other groups, including women, youth, and the low skilled, and when targeted support for immigrants and refugees is politically sensitive. A YouGov survey carried out in July–August 2020 in 25 countries, including eight in Europe, found that anti-immigrant sentiment remained stable or increased almost everywhere compared to 2019, probably in part as a result of COVID-19-related insecurities and fears.<sup>109</sup>

Going forward, there is considerable promise in strengthening systematic communication and cross-fertilisation between integration policy and mainstream welfare policy. On the one hand, this could help ensure integration priorities are pursued more consistently, regardless of the ups and downs of migration-related political sensitivities, and protect them from defunding.<sup>110</sup> Moreover, this may be the key to making social-investment policies more reflective of the full range of life challenges facing residents of diverse societies, including immigrants, and how they may lead to widening inequalities.

Recent years provide a number of examples that point to the potential benefits of cross-fertilisation between integration and welfare policy. In several EU countries, integration policy innovations driven by the need to rapidly help newcomers into work have helped cultivate a more modular approach to curricula and skills building; greater care in mapping informal skills; and approaches to ALMP that are less rigidly sequential (i.e., that allow individuals to move more freely between phases of training and work, and/or to effectively combine the two). In Sweden, for example, the design of programmes for migrants' labour market insertion has contributed to a model of ALMP in which jobseekers with or without a migrant background can flexibly combine various types of support in a way that is tailored to their needs.<sup>111</sup> With EU Member States preparing to invest significantly in upskilling as part of their

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*With EU Member States preparing to invest significantly in upskilling as part of their recovery plans, they could draw on these models to ensure the resulting initiatives have the widest possible reach.*

109 Jon Henley and Pamela Duncan, 'European Support for Populist Beliefs Falls, YouGov Survey Suggests', *The Guardian*, 26 October 2020. On the other hand, the share of those who believe that the costs of immigration outweigh the benefits decreased, in what could be seen as a positive acknowledgement of integration policies' achievements.

110 However, previous research on mainstreaming of migrant integration in Europe calls for caution, suggesting that mainstreaming strategies can often work as a cover for funding cuts and government retrenchment. See Meghan Benton, Helen McCarthy, and Elizabeth Collett, *Into the Mainstream: Rethinking Public Services for Diverse and Mobile Populations* (Brussels: Migration Policy Institute Europe, 2015).

111 For example, jobseekers can combine vocational training with language learning, but also with subsidised employment or with the right to complete upper secondary education. See European Commission, 'Council Recommendation on Upskilling Pathways: New Opportunities for Adults' (SWD [2019] 89 final, 27 February 2019).

recovery plans, they could draw on these models to ensure the resulting initiatives have the widest possible reach, accessibility, and relevance to the skill-development needs of different categories of jobseekers and workers.

The European Union could help drive this push to deepen links between welfare planning and integration policy. Although the European Commission's 2021–27 Action Plan on Integration and Inclusion, published in November 2020, encouraged Member States to take into consideration the needs of migrants in broader recovery planning, some have criticised the document for being too vague on this point.<sup>112</sup> And indeed, while the social-investment paradigm is clearly recognisable in the national recovery and resilience plans Member States have submitted so far to the European Commission (as mentioned in Section 3), few of them explicitly address the inclusion of migrants. Meanwhile, another recent EU action plan—the March 2021 document laying out plans for the implementation of the European Pillar of Social Rights (EPSR)—highlights migration as a source of skills and talent, but is mostly silent on the labour market disadvantages many migrants and refugees experience in Europe and on their underlying causes.<sup>113</sup> Strengthening the links between these two EU policy frameworks—not only discursively, but also in strategic and operational terms—would help ensure that ambitious instruments of EU social policy, such as the reinforced Youth Guarantee and the European Child Guarantee (adopted in June 2021), succeed at improving educational chances, economic participation, and social cohesion in European immigrant-receiving societies. A further concrete step may be to link the two action plans' monitoring mechanisms (the EPSR's Social Scoreboard<sup>114</sup> and the joint scoreboard of integration policies proposed in the EU Action Plan on Integration and Inclusion<sup>115</sup>) to better identify and address social inequalities facing migrants, refugees, and other particularly vulnerable groups.<sup>116</sup>

112 Giacomo Manca, 'Op-Ed: The New Action Plan on Integration and Inclusion: Promising Elements, Rising Expectations', European Council on Refugees and Exiles, 11 December 2020.

113 European Commission, *The European Pillar of Social Rights Action Plan* (Luxembourg: Publications Office of the European Union, 2021).

114 The European Pillar of Social Rights includes a list of headline social indicators (proposed by the European Commission in early 2021 and endorsed by Member States in June 2021) monitored by a social scoreboard that tracks Member State employment and social performance and societal progress. See Eurostat, 'European Pillar of Social Rights – Overview', accessed 20 July 2021.

115 The Action Plan includes a commitment by the European Commission to explore with Member States different options to develop such a joint scoreboard of integration policies, which would complement existing tools to (1) provide an overview of national integration trends, (2) identify common challenges and promising practices, and (3) facilitate discussion between Member States. See European Commission, 'Action Plan on Integration and Inclusion 2021–2027' (COM [2020] 758 final, 24 November 2020); European Integration Network, 'Joint Scoreboard on Integration and Inclusion: Options for Discussion' (background note for the EIN Subgroup on Indicators, accessed 24 August 2021).

116 As some critics have pointed out, one important limitation of the Social Scoreboard is that it does not allow for the identification and measurement of social inequalities based on migration/refugee status and other criteria (ethnicity, age, gender). See Radost Zaharieva, 'Will the European Pillar of Social Rights Action Plan Solve Long-Standing Health Inequalities?', European Public Health Alliance, 3 May 2021.

## 5 Conclusion: Social Investment and the Future of Diverse Societies

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In the year and a half since March 2020, the pandemic has generated several massive challenges for welfare provision and exposed many pre-existing fault lines of inequality in diverse European societies. At the same time, this period has also ushered in an assertive reappraisal of the European welfare state for the 21st century. COVID-19 has reinforced recognition that the life domains of health, work, family, and education are deeply interdependent, and that governments, markets, families, and communities need to work together to mitigate social adversity and confront systemic inequality.

In marked contrast with the hesitant European reaction to the Great Recession, both national and EU responses to the pandemic and its economic fallout have reflected governments' determination to invest boldly and early, in order to prevent deleterious, enduring domino effects for individuals, families, and economies. A look at national recovery plans and their priorities—from child care and gender equality to equitable education opportunities and skills development—point to a stronger belief in social investment as the key to short-term recovery and long-term resilience.

Yet the success of the social-investment paradigm in modernising European welfare states will ultimately rest on its ability to account for immigration and diversity, and the heightened life-course risks and inequalities many migrants and refugees face. This remains one of the most important (and underexplored) open questions around social investment. To be sure, the tension between welfare and migration is not unique to the social-investment paradigm; admitting perceived outsiders into the community of solidarity on which welfare states are based has always been a sensitive question—all the more so in tough economic times. But addressing this open question is of existential importance for a paradigm basing its very sustainability on promoting high labour market participation and specialised human capital to sustain the growth of rapidly transforming economies.

Far from being an afterthought, ensuring that welfare states are inclusive of immigrants and refugees will be critical if they are to successfully transition to a social-investment approach—perhaps Europe's best chance at reconciling social cohesion and economic resilience aims in times of crisis and recovery.

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*The success of the social-investment paradigm in modernising European welfare states will ultimately rest on its ability to account for immigration and diversity.*

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