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Social investments in the knowledge economy: The politics of inclusive, stratified, and targeted reforms across the globe

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Abstract

As countries transition from industrial to post-industrial knowledge economies, education and skills are crucial. Consequently, policy-makers around the globe have increasingly focused on social investment, that is, policies aiming to create, mobilize, or preserve skills. Yet, countries around the globe have developed social investments to different degrees and in highly different forms. Our goal is twofold: First, we introduce a new typology of social investment policies, distinguishing nine types along two dimensions: three distributive profiles (inclusive, stratified, targeted) and three functions (skill creation, preservation, mobilization). This differentiation allows fine-grained analyses of the causes and consequences of different kinds of social investments, thus offering a perspective to study the relationship between efficiency and inclusiveness in a way that goes beyond the mere discussion how social investment policies *grosso modo* affect inequalities ('equalizing' versus 'Matthew Effects'). Second, we theorize on the *politics* of social investment. We argue that the interaction of policy legacies and

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socioeconomic factors is the main explanation for which *functions* of social investment policies are introduced, whereas their *distributive profiles* are crucially shaped by political coalitions. We illustrate with empirical material from democracies around the globe.

KEYWORDS
politics of social and public policies, welfare politics, welfare states

1 | INTRODUCTION

The great transformation of our time is the transition from industrial to post-industrial knowledge economies. This also implies a major challenge for welfare states. Social policy-makers, experts, and other stakeholders have accordingly put much thought into ways to recalibrate welfare states to fit the needs and new risks of today's skill-focused knowledge economies (Bonoli, 2007a). Many argued that 'social investments', that is, policies that aim to create, preserve, or mobilize human skills and capabilities (Garritzmann et al., 2017), are the most fitting social policy response (Bonoli, 2007b; Esping-Andersen, 2002; Morel et al., 2012). In this approach, education policy becomes a crucial part of social policy, as argued in this special issue. Many other policy areas can qualify as social investment, too, including early childhood education and care, skill-focused active labour market, or family policies facilitating work-family life transitions—to name but three examples. Social investment has become a buzzword among policy-makers and has spread globally (Garritzmann, Häusermann, & Palier, 2022a, 2022b; Jenson, 2010; Midgley et al., 2017).

This special issue identifies tensions between 'efficiency' and 'inclusion' in education policy, arguing that the respective efficiency-inclusiveness ratio is politically mediated through four political arenas (Carstensen & Emmenegger (forthcoming), in this issue). We show that this applies more generally to social investments. Proponents of social investments have argued that these policies simultaneously address *efficiency*, as their goal is to increase human skills to put more people into (good) jobs, and *inclusion*, as they can contribute to equality of opportunity (Esping-Andersen, 2002; Hemerijck, 2018). However, critics argue that social investment policies are coming short especially on the goal of inclusion. A prominent argument is that social investments increase rather than decrease inequalities by overly benefitting the already better-off, creating so-called 'Matthew Effects' (Cantillon, 2011; Nolan, 2013). Moreover, some social policy scholars have stated that social investments might be introduced at the expense of social compensatory policies, simply sugar-coating retrenchment. The debate is ongoing on the effects and usefulness of social investment (e.g., Bonoli & Liechti, 2018; Nolan, 2013; Pavolini & Van Lacker, 2018; Plavgo & Hemerijck, 2021; Vliet & Wang, 2015).

In order to advance these debates and connect them to the focus of this special issue, we make two contributions: First, we propose a typology distinguishing nine types of social investments, differentiating three 'functions' (skill creation, preservation, mobilization) and three 'distributive profiles' (targeted, stratified, inclusive). Acknowledging that social investments come in many shapes helps to advance our understanding of the variation in efficiency and inclusion of skill-focused policies. Each of the nine types has different effects, politics, and normative implications. In our view, simply talking about 'social investment' as if all of these policies were identical brushes over too much relevant variation. For example, we show that the intense debate on Matthew Effects can be resolved when distinguishing different kinds of social investment. Our typology also provides a clear analytical language to analyse the efficiency-inclusion relationship, as each of the nine types has a different relationship between the two (e.g., inclusive and targeted social investments might be efficient and inclusive while stratified investments might be efficient but create Matthew effects).

Second, we offer a theory on why countries around the globe have chosen different social investment strategies, that is, why they took different positions in the efficiency-inclusion tension. We argue that socio-economic factors and their interaction with pre-existing policy legacies are the main factor affecting which *functions* of social investment become politicized whereas the policies' *distributive profiles* are crucially shaped by the respective sociopolitical coalitions. We illustrate this with empirical evidence from countries around the globe, based on Garritzmann, Häusermann, and Palier (2022a, 2022b). Overall, we—like the other contributions in this issue—aim at contributing to a better understanding of welfare states in the knowledge economy.

2 | NINE TYPES OF SOCIAL INVESTMENTS

Social scientists are well familiar with the idiomatic criticism of 'comparing apples and oranges'. Yet, most work on social investment does just that by exploring causes, effects, or normative implications of social investments *grosso modo*, brushing over large variation. On the one hand, this is understandable, since social investment has emerged as a 'new paradigm' (Hemerijck, 2018; Morel et al., 2012), triggering debate about '*the* social investment state' (Vandenbroucke & Vleminckx, 2011). On the other hand, this simplification is surprising since social policy scholars know that there is no such thing as '*the* welfare state' as social policies come in many different forms with different politics, effects, and normative implications. In our view, the literature could benefit from recognizing that there are different kinds of social investments policies—just like there are different kinds of social compensation policies.

Conceptual clarity can help to move the debate forward. All social investment policies have in common a focus on human skills and capabilities (Garritzmann et al., 2017; Morel et al., 2012). In Collier et al.'s (2012, p. 223) criteria for good typologies the skill-focus is the 'overarching concept' of our typology. But in order to differentiate among the various policies and help to see and identify patterns that we otherwise would not see, we propose a typology based on two dimensions: functions and distributive profiles (Palier, Garritzmann, & Häusermann, 2022a; Palier, Garritzmann, Häusermann, & Gimelli, 2022b). Inspired by Morel et al.'s (2012) definition of social investment policies, we distinguish three *functions* of social investment: skill creation, mobilization, and preservation; and we add three *distributive profiles*: targeted, stratified, or inclusive; resulting in nine types of social investment (Table 1). In Collier et al.'s (2012) terms, we offer a 'multidimensional conceptual typology' (and not an explanatory one), characterizing nine types of social investment according to their attributes along two dimensions. We focus on these two dimensions, because they constitute two of the most important and influential characteristics of social investment policies. The three functions have different socio-economic consequences (e.g., on economic growth or labour marker outcomes) while the distributive profiles have far-reaching consequences for inequalities (e.g., wage, gender, educational inequality).

Social investments by definition aim at *efficiency* as understood in this special issue: they aim to prepare people for the labour market by offering the skills that employers demand (Carstensen & Emmenegger (forthcoming), in this issue). Extending arguments by Morel et al. (2012), we can differentiate three functions: Some policies mainly aim at *creating* skills and capabilities. Obvious examples are education and skill formation policies as well as cash transfers conditional on children's school attendance. Other social investments mainly aim at *mobilizing* already existing skills

TABLE 1 Nine types of social investment

		Distributive profile		
		Inclusive	Stratified	Targeted
Function	Skill creation			
	Skill mobilization			
	Skill preservation			

for the labour market. The goal here is to put people's skills to use; social investments—like well-paid and gender-neutral parental leave policies—aim at facilitating labour market (re)entry and putting/keeping people in (quality) jobs. Third, social investments can *preserve* skills and capabilities, for example, by helping people overcome life-course transitions like unemployment (Kvist, 2015). While creation and mobilization are clearly commodifying, preservation has a de-commodifying aspect to it. We posit that distinguishing these three functions is helpful, as skill creation, mobilization, and preservation follow different political and socio-economic logics and characterize different policy approaches. While the three functions are not strictly mutually exclusive (i.e., childcare policies simultaneously create children's skills and mobilize parents' skills), we posit that most policies de facto do have one main function and accordingly can be categorized with resemblance to one of the three functions.

Furthermore, we pick up an established vocabulary from traditional welfare state research and distinguish three (mutually exclusive) *distributive profiles*: Social investments can be *inclusive*, meaning they are designed and funded in a way to provide entitlement and provision to everyone, thereby being encompassing and egalitarian, including all or large sections of society. Second, they can be *stratified*, providing social rights and services to a limited set of potential beneficiaries, often in the middle- or upper-middle classes (read: 'Matthew Effects'). Third, they can be *targeted* and needs-based, providing entitlements and services to disadvantaged groups like poorer, less educated, outsider, or NEET groups. As should be obvious, the three distinct distributive profiles are likely to result in different distributive effects, with some social investments being redistributive, while others contribute to persistence or even increases in inequality.

Combining both dimensions, we distinguish nine types of social investments (Table 1). This analytical grid has several advantages. First, it provides a clearer analytical language to study the political dynamics of different types of social investment. We posit, and demonstrate below, that each of the nine types has a distinct politics. The typology thus helps to move beyond social investments *grosso modo*, on the one hand, and beyond analysis of single social investment policies or policy areas, on the other hand. Second, the typology helps to disentangle the *effects* of social investments. Each type of social investments has different effects: the distributive profiles matter particularly for inequalities (e.g., income, gender, education, etc.), while the functions matter e.g. for economic growth or labour market outcomes. Third, the typology provides the analytical language to normatively evaluate social investment. Different social investments have different normative implications. Finally, distinguishing between different functions and distributive profiles allows us connecting the analysis of social investment policies to the 'traditional' conceptual toolbox of welfare state research: the functions-dimension relates to decommodifying vs. commodifying effects of social policy, and the distributive functions relate to the effects of the policies on egalitarianism vs. stratification.

Our typology thus aims at moving the literature forward by helping to more clearly analyse different welfare reform strategies and how policy-makers take different positions in the efficiency-inclusion tension. Elsewhere (Garritzmann, Häusermann, & Palier 2022a, 2022b) we discuss more attributes of this typology and also relate this approach to the main alternative welfare typologies, for example Hemerijck's (2018) stock-flow-buffer model, which also builds on Morel et al. (2012), but has a much broader understanding of social investments (also including social compensation in our reading) and neither distinguishes different distributive profiles nor spells out the political dynamics.

3 | WHY HAVE COUNTRIES CHOSEN DIFFERENT SOCIAL INVESTMENT STRATEGIES?

Countries around the globe differ considerably in the kinds of social investments they have established—and the degree to which they have done so (Garritzmann, Häusermann, & Palier, 2022a, 2022b; Jenson, 2010; Midgley et al., 2017). We argue that two factors are particularly relevant to understand why: The interaction of socio-economic factors with policy legacies helps understand which *functions* of social investment countries have developed while the reforms' *distributive profiles* can be explained mainly by the respective sociopolitical coalitions. That is, while many things matter politically (e.g., international organizations, demographic change, or types of political systems), focusing on legacies and sociopolitical coalitions allows us to explain 'a lot with a little'. Also, legacies manifest themselves empirically to a large extent in the type of policies and policy instruments that prevail on the political agenda (i.e., whether social investment is discussed mostly around education, labour market policies, childcare, etc.). This agenda-shaping relates closely to the previously established 'menu' of welfare policies in a context, that is, to the legacies. Distributive profiles, on the other hand, pertain to the equalizing versus stratifying effects of policies, a more universal question of distributive principles, which political actors fight over across all policy fields and instruments. For this reason, we relate the functions mainly to the legacies and the distributive profiles mainly to the actor preferences and coalitions. We thus focus on these two main factors below and substantiate this argument in the remainder of this paper.

3.1 | Policy legacies and socioeconomic factors shape the politicization of different social investment functions

We argue that the interaction of countries' policy legacies with socioeconomic factors affects which of three social investment functions become politicized. Politics at time *t* is affected by legacies, that is, by policies enacted prior to *t*. Historical institutionalists show that and why legacies matter for welfare politics (Pierson, 2001; Skocpol, 1997): Legacies structure socioeconomic needs and political demands and shape policy-makers' room-for-manoeuvre. Countries' social policy legacies shape the type and prevalence of social risks and of the respective socio-economic problems (Häusermann et al., 2022). We are particularly interested in countries' *social policy* legacies, understood as the relationship of countries' previous welfare commitment regarding social compensation and investive policies (see also Beramendi et al., 2015). To simplify, we can display these legacies in a two-by-two table (see Table 2) where countries have either strong or weak legacies on compensation, on the one hand, and investive policies, on the other. The 'compensation legacy' consists of countries' effort in the traditional compensatory social policies such as pensions, health care, and unemployment benefits. The 'investment legacy' should empirically be thought of particularly in terms of educational investment and educational enrolment, since many countries expanded access to primary and secondary education already throughout the 19th and 20th century (Garritzmann, Häusermann, Kurer, et al., 2022), while the social investment paradigm and related reforms have mainly become prominent since the 1990s related to the increasing spread of the knowledge economy (Hall, 2020).

We argue that the ratio of compensation and investment legacies shapes both the problem diagnosis by policy-makers and the range of possible institutional answers they may consider. While not claiming a deterministic functionalistic relationship where legacies determine policy reforms, we argue that legacies contribute to different kinds of socioeconomic and political challenges, needs, and demands, which create incentives for policy-makers. We try to think through what kinds of social investment reforms policy-makers would choose if they were to use a social investment strategy—though they could also follow other, non-social investmen reform strategies, especially social protectionism, market liberalism, or basic income strategies (Palier, Garritzmann, & Häusermann, 2022a).

TABLE 2 Policy legacies and social investment functions

		Investment legacy	
		−	+
Compensation legacy	+	Skill mobilization and preservation	Skill creation, mobilization, and preservation (sustainability)
	−	None, or (targeted) skill creation	Skill creation

In the context of extensive legacies in both social compensation *and* investment (top right corner in Table 2) we anticipate as the main challenge *sustainability* and *affordability* of these policies. In terms of politicization, we thus expect that the debate will centre around the affordability of *all* three functions, as taxation levels likely are high, but further skill creation, preservation, and mobilization will be socioeconomically and politically relevant for employees, employers, and the unemployed.

Empirically, Nordic Europe comes the closest to this scenario; here, social investments of all three functions have been introduced comparatively early. It is politically consensual that the three social investment functions should be maintained, but there is political debate on the degree to which social investments should be inclusive, particularly when it comes to integrating migrants as the radical right populists challenge the inclusive approach (Horn & van Kersbergen, 2022). That is, debate centres more on the distributive profiles, which are dependent on the type of sociopolitical coalitions, as we explain below, whereas it is uncontroversial that social investments should aim at skill creation, mobilization, and preservation.

Social investment in a second group of countries is politicized in a context with a legacy of high investment, but weak compensation (bottom right corner of Table 2). Empirically, we find this clearest in the Anglo-Saxon countries, but partly also in the Baltics. The United States (and partly Canada) were a world-leader in expanding education, particularly higher education (Heidenheimer, 1973), even if other social investments—and social compensation—remained underdeveloped (Prentice & White, 2022). The Baltic countries also chose a focus on skill creation after independence in the 1990s, trying to develop a growth model focused on high-skill services and the information, communication, and technology (ICT) sector (Avlijaš, 2022; Toots & Lauri, 2021).

These countries' economies and labour markets offer particularly good opportunities for the already high-skilled, whereas the low-skilled face worse employment situations, potentially precarious employment or even unemployment. Policy-makers are thus confronted with a context of high socioeconomic and educational inequalities while lacking policies compensating loser groups. We posit that in this context policy-makers facing the challenge of the emerging knowledge economy may be likely to respond with further skill creation policies, particularly targeted policies creating skills among the low-skilled, because of the more market-liberal coalitions explained below. Skill preservation and skill mobilization policies, in contrast, are likely to be less prominent.

We find the opposite constellation, namely strong compensatory but weak investment legacies, in continental Europe, North East Asia, and some of the wealthier Latin American countries. Here, social policies were well-equipped to protect the (male) industrial workers with vocational specific-skills but are increasingly challenged by deindustrialization (Jensen, 2011) and the emergence of the knowledge economy. Were policy-makers to respond with social investment policies, which would they chose? We argue that skill mobilization and preservation are particularly likely to become politicized. Skill preservation policies are crucial in a context of deindustrialization and sectoral and occupational change as skill redundancy becomes a concern, particularly for workers with specific skills. Skill preservation help overcome these challenges. Moreover, skill mobilization becomes important since there will be an increased demand for high-skilled jobs, particularly in the newly emerging service and knowledge sectors. These policies are moreover likely to particularly address women, since the compensatory welfare state and labour markets of the industrial era systematically excluded women in the traditional male-breadwinner model (Orloff, 1996). Facing the emerging knowledge economy, policy-makers in the compensation-heavy welfare states are thus likely to use skill mobilization policies in order to activate and integrate particularly women on the labour market, especially in the new high-skill service economy occupations.

Finally, a fourth scenario consists of countries with a weak compensatory *and* a weak investive legacy. Empirically, this is the case in the poorer Latin American countries, but also in the fragmented welfare states of Southern Europe, where poverty and precariousness are real risks. Like the continental European and North East Asian countries, they are ill-prepared for the emergence of the knowledge economy and accordingly face major challenges. Yet, because of their fragmented and dualizing welfare states the economic trend towards high-skill knowledge economies also appears more slowly, as there neither is the high-skilled workforce nor high employer demand for high-skilled workers (related also to the smaller size of the educated middle class, as explained below). Accordingly, we reason that a strong focus on skill creation policies is unlikely, since there is no legacy in this direction and the labour markets would not (yet) be prepared to pick up a large share of newly high-skilled workers, resulting in even more precarious work, under-employment, or youth unemployment (Garritzmann, Häusermann, Kurer, et al., 2022). Rather, we anticipate that social investments generally will not be politically salient, as other problems (low growth, poverty, structural unemployment) will be more pressing. If politicized, social investments could be framed and used in order to combat poverty and precariousness, that is, through conditional cash transfers.

In sum, we argue that the transition from industrial to post-industrial economies creates different structural challenges in different contexts. Pre-existing social policy legacies affect the specific socioeconomic challenges and risks policy-makers perceive, the political demands to which policy-makers can respond with social investment policies, as well as the instruments that they most likely fall back on.

3.2 | Sociopolitical coalitions shape reforms' distributive profiles

We argue that the main explanation for the three distributive designs are different sociopolitical coalitions. We conceive of sociopolitical coalitions in the broader sense (Häusermann, 2010), that is, not only the governing partisan coalition, but also their support among other collective actors (employers, unions, interest groups, or experts) and their societal backing in terms of socio-economic classes. We argue that different coalitions result in different social investment strategies and identify four main types of coalitions (Figure 1).

The introduction to this special issue (Carstensen & Emmenegger (forthcoming), in this issue) identifies four political arenas that are relevant to understand countries' education and social investment policies. We argue that in the *parliamentary* arena we find the strongest proponent of social investment among new-left parties (i.e., Greens, social democrats/socialists, or social liberals, depending on the respective party system) (Abou-Chadi & Immergut, 2019; Busemeyer et al., 2013; Garritzmann, Häusermann, & Palier, 2022d) and—relatedly—in the arena of *public opinion* among their voters in the new educated middle class. The new educated middle class is the strongest supporter of social investment expansions (Bremer, 2021; Garritzmann et al., 2018; Häusermann et al., 2020) for ideological and self-interest reasons, as they ideologically support this new type of welfare and are also main beneficiaries as they are more likely to be employed in skill-focused occupations and to benefit from emerging knowledge economy. As the electorate of (new) left parties increasingly stems from this class (Gingrich & Häusermann, 2015) it is also unsurprising that these parties are the most vocal social investment protagonists.

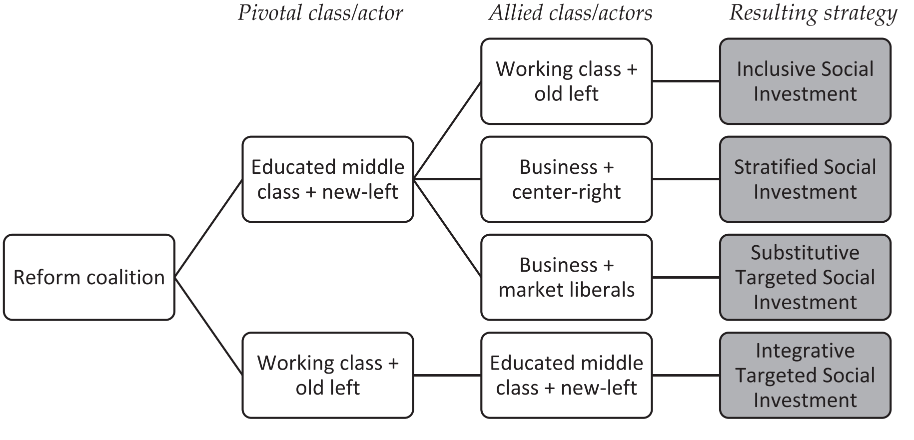

FIGURE 1 Four social investment reform coalitions

Coalitions where new-left parties are predominant are thus more likely to introduce and expand social investments. It is noteworthy that the size of the new educated middle class and the related electoral strength of new-left parties differs remarkably across contexts (Beramendi et al., 2015; Oesch, 2015), which is already a first explanation for differences in countries' social investment effort: The new educated middle class is much larger in Nordic Europe than in Southern Europe or Latin America; even in Nordic Europe, though, they never form a majority on their own, which is why a coalitional view is needed.

New-left parties can form two kinds of coalitions: Either, they team up with the working class and (old) left parties, creating a left-of-centre cross-class coalition (the top branch in Figure 1), or they align with business groups and centre right parties (the second branch in Figure 1). The first type of coalition, that is, the left-of-centre coalition, will result in *inclusive* social investments, as the working class will only agree on such expansions if they are also likely to benefit. Moreover, social investments are likely to be complementarily to social compensatory policies, since the working class and old left would oppose retrenchment, which the new-left might be more likely to accept. Empirically, we see this coalition most clearly in Nordic Europe, where a broad left-of-centre cross-class coalition has established inclusive social investment reforms, complementing social compensation (Horn & van Kersbergen, 2022).

The new-left and new middle class can, however, also coalesce with centre-right parties and employer associations, connecting the *parliamentary* arena with the *corporatist* arena (cf. the special issue introduction). This coalition also likely results in social investments, since both new-left parties and employers are interested in a high-skilled workforce and an active welfare state; but the resulting reforms probably take a much less inclusive distributive profile: We reason that the new-left and centre right (plus business) coalition results in *stratified* social investment, as all coalition partners will be satisfied with the partial social investment expansion and with the fact that the middle class will be more likely to benefit. Empirically, we see this coalition most clearly in continental Europe and in North East Asia, where Christian democratic or conservative parties have opened up to coalitions with the new-left, targeting middle class voters and particularly women (Busemeyer & Garritzmann, 2022; Estévez-Abe & León, 2022; Morgan, 2013). It is noteworthy to highlight that the literature that identified Matthew Effects has found these effects only—or at least mainly—in continental European cases where social investments took a stratified form (e.g., Bonoli & Liechti, 2018; Pavolini & Van Lacker, 2018).

Besides these two coalitions, we identify two additional coalitions resulting in *targeted* social investment reforms: The third type of coalition exists when the new middle class joins forces with market liberal parties and business (third branch in Figure 1). While this coalition is also likely to instal social investments, two things stand out: First, these are likely to come at the expense of social compensation, that is, this coalition will conceive of social investment and social compensation as *substitutes*. Second, the policies are likely to take a non-inclusive form, resulting in targeted (or potentially stratified) social investment, since employers and market liberal actors will aim at a minimal welfare state. Empirically, we see this coalition, which we call 'substitutive targeted social investment reform coalition', the clearest in the English-speaking countries, particularly of North America and the UK.

Finally, the fourth type of coalition (lowest branch in Figure 1) also encompasses the working class and the new middle class, but in contrast to the inclusive coalition, the working class is much larger in this scenario and the new educated middle class and new-left parties the minor coalition partner. This is a left-of-centre coalition led by working class parties. We expect this type of coalition to instal some social investments, but not as actively as the inclusive coalition characterized above. Moreover, this working-class led coalition will ensure that their voters are particularly addressed, so that it is most likely that they take a targeted distributive profile. Moreover, this coalition will ensure that social investments are not installed as substitutes to social compensation but as complements, resulting in 'integrative (or "complementary") targeted social investments'. Empirically, we see this coalition most clearly in Latin America, where left-of-centre parties with strong electorates among the working class (often informal workers) have installed targeted social investment reforms, particularly need-based conditional cash transfers.

In sum: Predominant sociopolitical coalitions shape the type of social investment reform, particularly regarding the distributive profile, with crucial implications for social inclusion. Elsewhere (Palier, Garritzmann, & Häusermann, 2022a; Palier, Garritzmann, Häusermann, & Gimelli, 2022b) we also discuss coalitions resulting in non-social investment strategies, which empirically are present in the Visegrád countries (Szelewa & Polakowski, 2022), in Southern Europe (Bürgisser, 2022; Ronchi & Vesan, 2022), and most of the less wealthy Latin American, African, and South East Asian democracies (Barrientos, 2022; Huber et al., 2022). Here, social investments have hardly been established or been ineffective because they were watered down by clientelism or lacking state capacity (Bogliaccini & Madariaga, 2022; Chen & Kitschelt, 2022)—in the vocabulary of this special issue: they lacked efficiency.

4 | EMPIRICAL ILLUSTRATION: SOME FLESH TO THE BONES

Our theoretical model has a number of empirically observable implications, many more than we could possibly test in article-length. For example, the argument could be tested on the level of individual citizens' preferences, collective class preferences, and public opinion (the arena of 'public opinion' in the terms of this special issue); we could analyse party positions, party competition, and partisan effects on public policy ('parliamentary arena'), as well as their interaction with other collective actors, especially the social partners ('corporatist arena'); we could explore how and why different types of legacies affect the politicization of different types of social investment (connected to the 'state arena'). Obviously, we lack the space here to do this, let alone to test our causal claims in neat research designs (but interested readers can consult our two volumes Garritzmann, Häusermann, & Palier, 2022a, 2022b). Instead, we simply want to illustrate the argument with brief mini-case studies exemplifying the four different social investment reform scenarios. We do this by offering brief overviews on the predominant approaches in different world regions: (1) Nordic Europe, (2) continental Europe and North East Asia, (3) the Anglo-Saxon countries, and (4) Latin America. We use examples from different policy fields to illustrate the broad applicability of our typology and framework.

4.1 | Type 1: Inclusive social investment

Nordic Europe is the prime example of how broad left-of-centre cross-class coalitions result in an inclusive social investment approach (Horn & van Kersbergen, 2022). The social democratic labour movement in Scandinavia was comparatively strong in the mid-20th century—yet, it was never large enough to form a majority on its own, resulting in necessary coalition negotiations and compromises. While the labour movement initially preferred social benefits and services targeted towards their own electorate, other vocal political voices at this time opposed such a targeted approach as they (rightly) feared to be excluded from the benefits. Somewhat ironically, inclusive universal social (investment) policies appeared as a politically feasible solution to these debates. Once established for some social policies, the inclusive approach was equally maintained and widened for other social (investment) policies as well, contributing to the increasing emergence of an inclusive social investment state where social investment at the same time was seen as a complement of, rather than a substitute for, social compensation.

The resulting inclusive and encompassing policy approach was, however, relatively costly as it required a large public sector. The solution chosen was to incorporate as many people as possible on the labour market with the ideal of full-employment of all societal groups and genders as a stated policy goal. Social investments in the form of skill creation, mobilization, and preservation policies took a key role in achieving wide labour market participation. In contrast to most other countries at this time, it also was an explicit goal to integrate women into the labour market, which was made possible through the provision of accessible, affordable, and high-quality early childhood education and care facilities, active labour market policies, and skill- and labour market-oriented family policies (Esping-Andersen, 2002; Horn & van Kersbergen, 2022; Huber & Stephens, 2000). Last but not least, the newly created social investment services also created many (public sector) job opportunities for women.

Politically, the inclusive and encompassing social investment approach quickly started to generate strong positive feedback effects (Pierson, 2001), so that the existing policies generated political support for maintenance and further extensions of the inclusive social investments. In Horn and van Kersbergen's (2022) terms the 'political flywheel' of inclusive social investments stabilized itself and contributed to further expansions along the inclusive policy path. More recently, however, this inclusive approach has been challenged, as radical right populists have begun criticizing the degree of inclusiveness, particularly regarding migrants (Horn & van Kersbergen, 2022). The encompassing approach highlighting all three social investment functions remains unchallenged though.

4.2 | Type 2: Stratified social investment

Both the continental European conservative welfare states and the North East Asian productivist welfare states were widely regarded as incapable of reform in general (Ferrera & Rhodes, 2000; Scharpf & Schmidt, 2000) and as least likely cases for the introduction of social investment policies in particular. Several factors made the introduction of social investments unlikely: Dominated by conservative governments, constrained by decade-long policy legacies and institutional complementarities with other socio-economic institutions, characterized by a high reliance on industrial production and a conservative society, many factors made the introduction of social investment unlikely—especially if at the expense of social compensation or higher taxation.

The late 2000s and 2010s, however, brought unexpected change: Germany, Korea, Japan, and other countries in this cluster began introducing social investments (Busemeyer & Garritzmann, 2022; Estévez-Abe et al., 2016; Estévez-Abe & León, 2022; Fleckenstein & Lee, 2014; Morgan, 2013; Seeleib-Kaiser, 2016). In line with our legacy-argument, the predominant focus was placed on skill mobilization and preservation, especially on the introduction of family and early childhood education and care policies that facilitated the labour market (re)entry of women (which the conservative governments grudgingly accepted as necessary in an ageing society). Confirming our coalition argument, the distributive profile of all of these reforms was stratified, that is, most policies offered high-quality services that were particularly picked up by the educated middle class. In Germany for example parents have a formally guaranteed right to receive a childcare place, but de facto provision is highly underfunded so that middle-class parents benefit in a first-come-first-serve principle, confirming fears about 'Matthew Effects' in this context.

A main reason for this change was that the mainstream right parties (e.g., LDP in Japan, CDU/CSU in Germany) shifted their policy positions leftwards, arguably for electoral reasons, that is, in order to fend off a leftwing shift especially in the cities (Estévez-Abe & León, 2022) or to stretch out to electorates in the new middle class, particularly among women (Morgan, 2013). Employer associations and unions likewise backed this stratified expansion (Durazzi & Geyer, 2022; Pavolini & Seeleib-Kaiser, 2022) as their members were likely to benefit from the more flexible labour markets and higher skill supplies.

4.3 | Type 3: Substitutive targeted social investment

The Anglo-Saxon countries, especially the United States, were a world leader in expanding access to academic higher education (Garritzmann, Häusermann, Kurer, et al., 2022). At the latest since the famous G.I. Bill towards the end of the second world war, U.S. policy-makers aimed at providing high-quality skill creation policies to large parts of society (increasing racial inequalities, though). More specifically, basic school education was usually publicly provided and free of charge whereas postsecondary education highly privatized and tuition-depended (Ansell, 2010; Garritzmann, 2016). Besides education, however, social investments remained absent in the Anglo-Saxon countries, with at best some subnational initiatives (Prentice & White, 2022). Similarly, as social compensation was limited, a high degree of commodification prevailed (Esping-Andersen, 1990). The few federal-level policy initiatives that have seen the light of day take a targeted form, are clearly needs-based, often limited in scope, and raise concerns about quality of services (Prentice & White, 2022). When in the 1990s and 2000s, the New Left (New Democrats and New Labour) came to power and implemented some social investment policies, it was merely targeted to the poorest children or long-term unemployed, and the proposed policies were often replacing existing assistance cash benefits and often directly linked with simultaneous negative reinforcements aimed to push welfare recipients into the labour market (hence our labelling substitutive targeted social investment).

In line with our argument, Prentice and White (2022) trace this targeted profile to the predominant market-liberal coalitions. None of the mainstream parties in North America were protagonists of more inclusive social investments, and several actors (conservative family groups, employer associations, organized interests, and private sector lobby groups) actively mobilized against expansions. The focus on skill creation, rather than mobilization or preservation, moreover, can be traced back to the structuring influence of policy legacies, where universal school education has a long traditional and broad and strong political backing, but pre-school and post-secondary education have a long legacy of private provision, contributing to feedback effects that make shifts away from said system unlikely (Busemeyer & Iversen, 2014; Garritzmann, 2016).

4.4 | Type 4: Integrative targeted social investment

For a long time it was accepted wisdom that Latin American countries were caught in a 'low-skill trap' (Schneider, 2013), as neither the predominant multi-national corporations and domestic conglomerates, nor the often informally employed workers had incentives to invest in the public provision of skills. During the 1990s and 2000s, however, countries tried to break with this verdict by using social investment policies. More specifically, conditional cash transfers—where cash is handed out to families conditional on their children's school attendance or health checkups—spread quickly and widely throughout the region during the 'Pink Tide' wave of strengthening left governments (Huber et al., 2022). Politically, these policies were often initiated by governments and administrations representing the (often informal) working class as well as the (small) urban middle class to whom the benefits were targeted and who politically quickly became strong supporters of these reforms, creating positive feedback effects making future retrenchment unlikely (Huber et al., 2022; Rossel et al., 2022). Most of these policies focused on skill creation (school completion, but also expanding post-secondary education and improving educational equality). More recently, there has however also been an increased focus on early childhood education, but with large differences in affordability and quality of services (Altamirano & Zárate-Tenorio, 2022).

Importantly, these social investment reforms mostly took a targeted form (with a few noteworthy exceptions such as childcare in Chile and healthcare in Uruguay), focusing on the (often informally employed) working class and lower middle class, and concentrating mostly on skill creation. In contrast to the targeted social investment reforms in the Anglo-Saxon countries, however, they were usually not linked to restrictive or retrenching reforms at the same time, but genuinely redistributive. In line with our argument this can be explained by left-wing governments relying on working-class movements, allied with relatively less sizeable educated middle classes (otherwise the policies would have been more inclusive), as well as by the historical legacy of relatively meagre (and highly fragmented and dualized) social policies, which made poverty a the most prevailing policy problem.

5 | CONCLUDING DISCUSSION

Welfare states are constantly challenged, regularly debated, and sometimes recalibrated. One of the largest challenges is the transformation from industrial to post-industrial knowledge economies. Welfare states need to be readjusted in order to be able to meet the new risks, demands, and needs. Social investment policies have often been regarded as the 'natural corollary' and most fitting social policy response as their focus on creating, preserving, and mobilizing human skills and capabilities seems to simultaneously address social and economic as well as individual and collective needs in the emerging knowledge economies. Tensions between efficiency and inclusion are at the heart of these transformations.

This paper aimed to make two contributions. First, we proposed to distinguish nine types of social investment, each with different effects, political logics, and normative underpinnings. Disregarding these differences results in imprecise debates and constant misunderstandings—the idiomatic comparison of 'apples and oranges'. We believe that this typology can help to characterize, describe, and analyse social investment policies more systematically, allowing for more analytical clarity in these important debates. Second, we presented a theoretical model to explain why countries around the globe have established social investment policies to very different degrees and in very different forms. We pointed at the crucial role of sociopolitical coalitions in shaping the distributive profile of such reforms (i.e., inclusion), whereas their respective functions (i.e., efficiency) can mainly be explained by the interaction of policy legacies and socioeconomic structural factors. We illustrated these arguments with empirical material from countries around the globe.

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CONFLICT OF INTEREST

The authors declare no potential conflict of interest.

DATA AVAILABILITY STATEMENT

We fully support transparency and are happy to make all used sources and information available.

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