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HOUSING PROPERTY AND WELFARE STATE CHANGE: SOCIAL INVESTMENT AND
ASSET-BASED WELFARE AS COMPATIBLE SOCIAL POLICY APPROACHES

—
Christian Lennartz & Richard Ronald
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Housing property and welfare state change: Social investment and asset-based welfare as compatible social policy approaches

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Abstract

Structural economic and family-demographic shifts, as well as socio-economic integration processes at the EU level have led to profound transformations of the established social policy models in Europe in the past two decades. Notwithstanding the considerable variations across nations and regime types, two salient developments could be observed here. In the first place, many governments have implemented a strategy of proactive ‘social investment’ [SIS], either alongside or in replacement of their established social security programmes. By applying a life-course approach to protecting citizens against new social risks, the core of this strategy is to combine public investments in individuals’ human capital with measures that aim to maximize the utilisation of such skills, primarily by easing the reconcilability of work and family life. Simultaneously, there has been a shift towards the increased macroeconomic and political importance of private property assets in defining the economic well being of individuals. Facilitated by the rapid growth of property values and the financialization of housing markets prior to the Global Financial Crisis of 2007/2008, households have been encouraged and expected to take on high levels of mortgage debt with the promise of holding high levels of housing wealth in the future. At first glance, it seems that we are dealing with two conflicting policy developments here; after all, social investment relies on a strong welfare state, while the accumulation of private property wealth as a welfare resource realigns with the notion of policy retrenchment. This contribution aims to illustrate that the fault lines between the two approaches are, however, not that clear-cut. More precisely, using comparative national-level statistics for all OECD member states, it will show empirically and discuss theoretically in which contexts and under which circumstances they may instead be understood as complementing welfare readjustment strategies towards a more radical form of productive welfare capitalism.

Keywords: Welfare State Change, Social Investment, Asset-based Welfare, Comparative Social Policy, Homeownership

Introduction

Up until the early 2000s, welfare state change has been primarily understood as a process of retrenchment, deregulation and withdrawal from the traditional social protection functions of the state (e.g. Gilbert, 2002; Pierson, 2001; Pierson 1994; for an overview see Starke, 2006). However, in addition to the well-described developments of, *inter alia*, diminishing employment protection, social benefit cutbacks, and privatization of pension systems, social policy researchers have become increasingly aware of two other salient transformations. First, many governments have implemented a strategy of proactive ‘social investment’ [SIS], either alongside or as an alternative to established social security programs. With the aim of protecting citizens against social risks and welfare shortfalls over the life course, the focus of this strategy is to combine public investment in individual human capital with measures that aim to maximize the utilization of such capacities, primarily by better reconciling work and family life (Bonoli & Natali, 2012). Second, there has been a concomitant shift towards an increased macroeconomic and political emphasis on ownership of private property assets in defining the economic well being of individuals. Indeed, facilitated by the rapid financialization of housing markets prior to the Global Financial Crisis increasing numbers of households have been expected to and supported by policy makers in taking on high levels of mortgage debt against the promise of higher levels of housing wealth in the future. The rationale is that this asset will function as a private welfare resource at all life stages, including enduring periods of economic need and income loss (Ansell, 2012).

At first glance, it seems as if we are dealing with two conflicting policy approaches here. After all, the social investment strategy relies on a strong welfare state, while the accumulation of private property wealth as a welfare resource realigns better with the notion of a withdrawal of collective welfare provision. This paper, however, promulgates the inverse position. Using comparative national-level statistics for 26 OECD member states, it aims to empirically demonstrate as well as explicate theoretically where and under which circumstances these two policy approaches should be understood as mutually reinforcing welfare readjustment strategies towards a more radical form of productive welfare capitalism. By doing so this paper will contribute to two key contemporary debates. On the one hand it speaks to the social policy literature, providing a more nuanced understanding of how policy processes and trajectories are diverging across countries and regime types. On the other hand, it offers new insight on the dynamic relationship between housing systems and welfare regimes, and in particular on the significance of increasing property ownership and individual housing equity wealth for welfare state restructuring and political coalitions.

The paper proceeds as follows: The next section examines key contributions to debates on the emergence of the ‘social investment strategy’. It goes on, based on social spending data, to investigate empirically where and to what extent this policy approach has actually materialized. Hereafter, we engage in a detailed review of the asset-based welfare model and the position of homeownership in the welfare state. The fourth section is a synthesis that interlinks the two policy developments both empirically and theoretically. Finally, we will summarize the argument and discuss the main limitations to the ‘compatibility thesis’ that we set out in the paper.

Welfare state change and the social investment strategy

Advanced economies have undergone rapid and profound changes in the past 30 years. In a period of postindustrialization, demarcated by the tertiarization and destandardization of employment, enormous increases in female labor participation, family demographic transitions, as well as integration processes at the European Union level, new forms of social risks have proliferated at both the individual and the societal level (Bonoli, 2007). Changes in the labor market and economic structures in particular helped advance a new class of low-skill individuals who experience prolonged periods of unemployment or are employed in the low-value service sector and are thus often affected by in-work poverty. Shifts in family structures and the growing presence of women in the labor market, of course, represents no social risks as such. Yet, it is the consequences of not being able to reconcile work with the family life as well as the demographic shift towards a higher number of lone parents (mainly single mothers) that increases the likelihood of being affected by poverty (Taylor-Gooby, 2008).

Whereas the post-World War Two welfare state expansion primarily addressed the risks of unemployment, old age, ill health, and the monetary burdens of having children, the accumulation of old and new social risks has increasingly challenged established social policy models and required a change within the traditional welfare state model (Bonoli & Natali, 2012). In the 1980s and up until the early 2000s many social policy commentators predicted that the dismantling of European welfare states would converge around a residual, low-expenditure regime reminiscent of the US social policy model (Pierson, 1994; Pierson, 2001). And indeed such a view has been supported by various policy shifts that have typically been qualitative in nature and have addressed the reduction of the encompassing character of some social programs. To name but few, a first key marker here has been the convergence towards multi-pillar pension systems in all welfare states (e.g. van Kersbergen & Hemerijck, 2012). Where first-pillar reforms implied a roll back of early retirement schemes, lower benefits, and more limited eligibility for universal protection, second- and third-tier pensions have become more prominent, resulting in a rapid shift from benefit-defined to contribution-defined pension plans. Labour market policies, on the other hand, were reoriented towards stronger activation measures stricter conditionality for unemployment benefits, and, most importantly, the implementation of a *flexicurity* model. The latter has aimed to recombine labour through the promotion of temporary, de-unionised contracts, particularly in low-skilled, low-income sectors, thereby fabricating a 'dualizing' division between labour market insiders and outsiders (see Emmenegger, 2012; Häusermann, 2012). Meanwhile, on a macroeconomic policy level, governments have followed the belief that balanced budgets, the reduction of public debt, hard currencies and low inflation are the only way to economic growth and sustainable market economies (Starke et al., 2013).

However, more recently, various authors have noted that despite of these retrenchment policies large welfare states have endured. Looking at public social expenditure alone the direction of change has clearly not been an all-out 'dismantling of the welfare state' (Pierson, 1994), but rather a *convergence to the top* has taken place (see Obinger & Starke, 2014). One explanation for this development is the emerging reorientation of social policies towards a more productive welfare state (Hudson & Kühner, 2009), in which it is considered as an inherent part of wider

socio-economic settlements and may have a supporting role vis-à-vis economic policies. The key to understanding the multi-faceted nature of welfare state change thus is to understand that social policy is not only geared towards income protection and poverty reduction (i.e. addressing ‘old social risks’), but it may be equally concerned with economic development and growth in high-quality employment (Bonoli & Natali, 2012).

From a policy practice perspective, many prominent social policy scholars have subsumed the transformation towards a more productive welfare state under the label ‘social investment strategy’ (SIS) (e.g. Esping-Andersen, 2002; Morel et al., 2012; Vandenbroucke & Vleminckx, 2012). Building on public investments in the current and future employability of risk bearers, the social investment state integrates two policy strategies: First, it seeks to endow the (potential) workforce with skills and human capital that can prepare them for the insecurities and constantly changing demands of deindustrialized, knowledge-based economies. Second, it aims to prevent the materialization of new social risks by giving citizens, and in particular women, opportunities to utilize their human capital in the labor market and maximize their employment efforts (Hemerijck, 2012). Also motivated by the idea of equal opportunities for, and participation of, men and women in the labour market, governments have pursued the implementation of generous family benefits (e.g. expansion of paid parental leave or more generous child benefits), as well as the growth of public and publicly subsidized private care facilities, including both childcare and elderly care services (Morel et al., 2009). In the social investment state, social policy takes a life course perspective on social problems and risks, where the focus lies on the prevention of the materialization of old and new social risks rather than protecting citizens once an adverse social or economic event occurs (Morel et al., 2012). On a societal level, the fundamental idea is that the persistence of the welfare state, and to a certain extent also its reason for existence, is to guarantee an abundance of productive taxpayers now and in the future (Hemerijck, 2012).

Though the main idea of the SIS is easy to discern in the welfare state literature, the question of where exactly and to what extent a shift towards the social investment strategy and a reorientation towards productive welfare state has really taken place is more contested. Hemerijck (2013) has proposed a straightforward approach to measuring the directions of welfare state change in a cross-country comparison, by distinguishing service-oriented capacitating welfare provisions as more productive social investment spending and more protective compensating old social risk policies (see also Nikolai, 2012). Here, the former comprises public expenditures on active labor market policies (ALMP), family policies, childcare, education and in-kind rehabilitation services for the elderly. The latter is constituted of public spending on old age, unemployment, survivors, as well as disability pensions transfers.¹ This paper largely follows this distinction as it analyzes OECD data on aggregate social spending on productive versus protective spending (as defined above) in 26 countries from 1995 to 2007. The year 1995 was chosen because it is the first year in

¹ Healthcare spending is particularly difficult to place in this dichotomy. While it could be seen as a desirable social investment, since at least parts of it are prevention measures and occupational healthcare that augment labor market attachment, it is evenly about the protection of people from income drops in times of sickness and/or have little to do with labor markets as such. Whereas Nikolai (2012) has proposed to subsume it under traditional compensating spending, this paper follows Hemerijck’s (2013) approach to omit healthcare from the analysis of welfare state change, as we cannot clearly assign it to one function or the other

which Eastern European countries are present in the dataset. The year 2007 was selected because there was a strong uptick in social spending in all OECD countries as a result of temporary public policy programs after the Global Financial Crisis of 2008; we would thus argue that the last year before the crisis better represents emerging trends in the late 1990s and 2000s (the results for using 2009 instead of 2007 are similar though). All countries for which data on social spending and mortgage debt (see next section) was available in 1995 and 2007 were included in the empirical analysis –Iceland was the only exception here, since it was excluded due to being a major outlier in the data.

Table One shows the results of our analysis and suggest the following structural diversities and transformation processes across countries and welfare regimes in the given time period: Within the OECD as a whole, we can see that in relative terms (i.e. spending on capacitating policies as a share of total social expenditure, excluding healthcare) a minor shift towards social investment spending had occurred between 1995 and 2007. This was, however, not due to higher public expenditure on the more productive functions of the welfare state, but rather the result of lower spending on traditional welfare policies, such as old age and unemployment benefits. Depicting the country-specific differences, there appear to be substantial divergence within and between different types of welfare regimes. Generally, most conservative continental countries, the Eastern and Central European New Member States and particularly Southern European nations have retained a prevalence of their traditional old risk social policy model. The main distinction here is that this has happened in the context of a broader (public spending) retrenchment or welfare protectionism process (see Häusermann, 2012) in the Continental and Central/Eastern European regimes, and within a welfare expansion environment in the Mediterranean countries. By contrast, the already social investment oriented Northern European nations and liberal welfare states, as well as the Netherlands, Luxemburg, Spain, have (further) readjusted their social policies, fostering a more employment- and new social risk-oriented approach (see columns 5 and 6 in Table 1). Interestingly enough, it is particularly the Northern European countries in which the readjustment towards more productive social policies has occurred in a retrenchment context. We can see that all four Nordic countries were spending relatively less on both productive and protective policies in 2007, but still the shift towards prioritizing education, care and family support is apparent, mostly so in Denmark and Sweden.

INSERT TABLE ONE HERE

It should be noted, of course, that measuring welfare state transformations in the way done here is not without problems. First, there is a potential shortcoming of the distinction between capacitating productive and compensating protective spending (see also Nolan, 2013). For example, unemployment benefits do not only serve the purpose of cushioning a household's path to lower income, but in its aggregate function, also retains the purchasing power of the society in the short run, particularly in times of mass unemployment. Similarly, in the sphere of family policies, generous child benefits and parental leave schemes clearly protect the income of young parents against the risk of having a child, and in effect often discourage mothers from returning to work on short notice. On the other hand, the provision of childcare facilities and the availability of parental leave arrangements that do not discriminate between mothers and fathers

predominantly serve as employment activation measures. Second, the more fundamental challenge in empirically tracing potential shifts towards the SIS model is the multidimensional character of welfare state change. This comes down to the *dependent variable problem* (Green-Pedersen, 2004) in defining what is actually meant when talking about welfare state change. Is it changes in public spending, regulation, financing mechanisms, or any combination of the three? While there has been much dispute about the issue, Bonoli and Natali (2012) argue that there are three dimensions of analysis. First, the traditional quantitative dimension measures the size of welfare states through comparing public expenditure, welfare generosity data, and quantitative regulation measures (which are difficult to both identify and obtain). Second, one can measure the relative balance between active and passive policies. And third, is the extent to which social programs provide coverage to the whole population. Ideally, a study on the transformation of the welfare state combines all three of them. Admittedly, an isolated view on change through shifts in spending potentially misses or at least underestimates welfare retrenchment through institutional change; after all cutbacks or expansion in expenditure are possible without changing the institutional setting and vice versa (Seeleib-Kaiser, 2008).

While we are well aware of these shortcomings, we nonetheless contend that our analysis of shifts in public social expenditures is still meaningful in that it can give an impression of shifting *policy priorities* across mature welfare states and welfare regimes. We thus conclude then that most mature welfare states have undergone significant and multifaceted transformation processes. Rather than being a case of simple social policy retrenchment in the past 30 years, welfare state change has also encompassed the adaptation of new functions and entering new policy territories. As a result, the notion of a ‘social investment strategy’ as a new welfare state approach has gained foothold. However, our analysis of changing policy priorities in 26 OECD countries between 1995 and 2007 tentatively suggest that in terms of social spending an adoption of the social investment agenda can only be observed in the Northern European nations and liberal welfare states, as well as some individual countries. And this is where the welfare state literature has offered no satisfying answer to date. Why is it that social investment has gained a stronger stance in some countries and not others? This paper argues that part of the explanation is to be found in the diverging developments of housing and mortgage markets and homeownership access in advanced economies, a process which has largely been neglected in the wider welfare literature.

Housing property assets as a welfare resource

The previous section has shown that although welfare state change has, in many countries, reflected a readjustment towards the social investment strategy, the role of welfare retrenchment should, of course, not be downplayed. Indeed, in almost all welfare states in the OECD a shift in responsibilities from public to private domains – in regards to both private providers of welfare services and private households as welfare consumers – can be observed over the past two decades. In particular, in the context of demographic change towards social ageing, relatively smaller workforces, and the resulting diminishing public funding and resources, an increasing discussion among policy-makers has been the question of how to make best use of the existing and potential private means. In this respect, the role of families and private households in guaranteeing socially acceptable living standards has come to the fore.

A new important variable in the equation of private welfare security has emerged in the form of an asset-based welfare (ABW) approach. While the buildup of diverse asset types have been envisioned as a basis for long term welfare consumption, the accumulation of housing property wealth has presented itself as a particularly suitable vehicle in context of the credit and property boom that preceded the Global Financial Crisis (GFC). The principle assumption of this approach is that, in times of curtailed unemployment benefits and defined contribution pensions, middle- as well as lower-income households can be encouraged to accept greater responsibility for their own welfare needs by supporting their investment in property assets – typically a home – which augment in value over time. In theory, the accumulated wealth can be tapped into at any stage of the life course to supplement consumption and welfare needs when income is reduced or becomes insufficient. Using this wealth has been linked to the financing of private healthcare and care needs, to the supplementation of public pension entitlements, and to the financial support for children and other family members to pay for educational qualifications or house purchase (Doling and Elsinga, 2013; Lowe et al., 2012; Ronald & Doling, 2012).

A crucial consideration here is that wealth and income do not necessarily have to be correlated throughout the life course. It might be true that higher incomes open up possibilities to accumulate assets, and vice versa; yet, in a dynamic perspective, the appreciation of assets can be much more rapid than the growth of real incomes: a development which could be specifically observed in the late 1990's and early 2000's leading up to the onset of the GFC (see Aalbers, 2008) This potential disconnection then means that, in theory, private property wealth can be used as a 'buffer stock' against increased risk of income poverty, where in its most extreme form the ABW model implies a shift from 'employment-lead' to 'asset-dominated' welfare stratification in Western societies (Ansell, 2012).

Key to understanding the rise of property ownership and ABW in the Western world is the financialisation of the banking industry and the adherent (political) liberalization of mortgage markets since the mid-1980s. Although there are different ways through which house purchase can be accomplished, taking a mortgage loan has become the main financing channel (Forrest & Hirayama, 2014). Since the 1990s the growing availability of easy credit offered households the possibility to take on large amounts of private debt with the promise that this debt would turn into a valuable, and highly tangible asset. Crouch (2009) argues that the rise of private mortgage debt became an economic model in itself. Where governments have largely withdrawn from the Keynesian model of using public investment to stimulate economic growth, often resulting in significant public debt, the primacy of balanced budgets in the Great Moderation period since the mid-1980's has meant that this obligation has been transferred to private consumers. In the era of 'Privatized Keynesianism', private debt is not considered as a problem but as a solution to stagnating economic growth. We would add that in this perspective housing property has become crucial element of productive welfare capitalism, in which the social and political aspects of housing are assigned a subordinate role to the economy. Watson (2009) points to the crucial role of appreciating property values in this model. Where house prices rise fast and continuously, debt appears to be risk free and the appreciation of the initial investment seems certain. And this is where the financialisation of the housing market becomes politicized. Whereas general price

inflation is perceived to be counterproductive to economic growth in neoliberal economies, a rise in asset prices is seen as corresponding rise in their value (and thus, does not contribute to general inflation). Consequently, governments have come to support the appreciation of property assets in political practice, be it through mortgage guarantees, mortgage tax deductibility, the deregulation of credit markets, backing the development and application of innovative financial products, or the dismantling of affordable rental housing to moderate tenure choice (Aalbers, 2008; Forrest & Hirayama, 2014; Schwartz, 2012).

INSERT FIGURE 1 HERE

Although this development was widespread across advanced economies, and similar to the implementation of the social investment strategy as described above, the political implementation of homeownership access through debt accumulation is far from universal. What has come to be a popular measure in describing the development of housing property markets and how individuals and families access it, is the aggregate outstanding mortgage debt as a percentage of GDP of a country in a given year. Certainly, it can merely be regarded as a proxy for the potential asset wealth of citizens in the future, and for that matter only says little about the present state, it does capture the policy orientation of governments towards supporting the accumulation of property assets through, for instance, homeownership subsidies and credit market deregulation. We use a similar approach of measuring welfare state change in the previous section, as we investigate the shifts in outstanding mortgage debt as a percentage of GDP between 1995 and 2007 in the 26 OECD countries. Firstly, Figure 1 shows that mortgage debt had increased substantially in the twelve-year period across all countries (except for Germany, Finland, and Japan). We can undoubtedly say that the growth of credit markets has been almost universal and extensive in this short time period. More precisely, however, we can see that the most indebted private household sector could already be found in most of Northern Europe (including the Netherlands) and all English-speaking countries in 1995, and have continued to be so in 2007. Indeed, the increases in mortgage debt as measured by percentage point change are particularly high in Ireland, the Netherlands, Australia and Denmark. Meanwhile, although some of the largest increases in debt levels can also be found in Spain and Greece, a pattern emerges in which most Continental, Eastern and Southern European countries have relatively low debt levels in 2007.

What this finding then suggests is that there is a considerable overlap between the countries where the debt-driven property access model had been pursued most explicitly between 1995 and 2007 and those countries where the social investment strategy had featured most prominently in the same period. In the remainder of the paper, we will argue that this is not a spurious empirical residue, but that there is a political and ideational rationale behind the development of the housing property market and emerging welfare state transformations across welfare regimes and individual countries.

Social investment and asset-based welfare as competing or compatible policy approaches?

The homeownership/welfare state trade-off

Most of our understanding of the position of housing in the welfare state originates from Kemeny's hypothesis (1981) of a trade-off between owner-occupied residential property and the quantity and quality of public welfare provision, the argument being that smaller welfare states help sustain larger homeownership sectors, and vice versa. Kemeny posits that due to a temporal distribution of housing costs over the life course owner-occupiers face a front-loading of housing expenses through mortgage deposit requirements and high transaction costs at an early life stage. As a result, homeowners tend to have an aversion to higher taxes and consequently generous welfare states, with voters favoring conservative and market liberal parties. From a welfare state change perspective this implies that households would be likely to become more inclined to invest in property and home ownership in a policy retrenchment environment. And conversely, individual asset accumulation may be utilized as a political vehicle for welfare state retrenchment, particularly since private assets may ameliorate the impact of state withdrawal on individual welfare conditions (see André and Dewilde, 2014; Ansell, 2012; Malpass, 2008) Testing the empirical validity of Kemeny's thesis, Castles (1998) analyzed aggregate OECD data, suggesting that, rather than covering the whole welfare system, a negative relationship – or what he calls 'the really big trade-off' – can only be found between homeownership rates and public pension spending – and also the development hereof (see also Delfani et al., 2014). Schwartz (2014; 2012; Schwartz & Seabrooke 2008), in his excellent studies on housing in the political economy, explicates that the trade-off is actually caused by two different mechanisms. A financial mechanism that is grounded in the necessity of matching balance sheets on the economic level, meaning that financial institutions need to harmonize all financial assets with all financial liabilities. And a political mechanism, which is based on state interventions that would allow balance sheets to match; in practice these are typically the deregulation of financial markets and the state provision of subsidies and tax breaks to increase mortgage availability for new households.

What this trade-off debate and the discussion of housing property as a private welfare resource suggest is that social policy scholars should consider property assets as one crucial dimension of welfare state change. However, we contend that the housing and political economy literatures appear to be imprisoned by the notion that welfare state change may only take the retrenchment route. This view neglects the multidimensional character of welfare state transformation processes and the political repercussions of the implementation of the ABW model herein. Indeed, if one limits the directions of welfare state change to an expansion/retrenchment dichotomy, then seeing private asset-based welfare and state-provided welfare as mutually exclusive policy approaches seems inevitable. Yet, if one takes into account that welfare state change may imply the readjustment towards employment-oriented social investment and taking into account the simultaneous process of an increasing importance of property asset will we better understand how exactly, why and where welfare states are transforming the way they do.

Social investment and asset-based welfare as compatible policy approaches

A useful starting point for better understanding the relationship between the social investment strategy and the asset-based welfare approach is to ask which types of social risks the two paradigms are dealing with. Although they both have emerged from the same ruptures in the labor markets and shifts in the socio-demographic structures experienced by all advanced economies,

they should be understood as reactions to two different aspects of these developments. Whereas the social investment ideal is primarily addressing the emergence of new risks, asset-based welfare is basically a response to the (budgetary) strains of keeping old risk social policies in place. Simply said, this means that they are not competing policy logics per se, but they may exist alongside each other, with the relative balance between the two reflecting, or even reaffirming, socio-historic contingencies, welfare regime legacies and pathway dependence.

Integrating the separate empirical investigations as presented above, Figure 2 illustrates that there is indeed a positive association between social investment and asset-based welfare. From a geographical viewpoint the scatterplot indicates that nations with a relatively high share of social investment oriented (capacitating) spending in 2007 also had relatively high amounts of private outstanding mortgage debt in the same year (Pearson's correlation coefficient is 0.69, with a statistical significance of $p < 0.01$). This pattern includes all liberal regimes, the Northern European nations (except for Finland, but including the Netherlands as the country with the highest mortgage debt to GDP level). Conversely, we can see that the Continental regime, as well as the Eastern European New Member States and some Southern European countries are oriented towards welfare protectionism in their broader social policy models, which is associated with a more traditional, less financialized approach to homeownership access. Portugal and Spain, both countries with relatively high levels of mortgage debt and low levels of capacitating spending, and Estonia, which shows the inverse pattern, are the only major exceptions within the sample of 26 OECD countries. A similar, albeit slightly weaker positive relationship between the two variables exists if we consider them in a dynamic perspective. Countries that have readjusted their spending capacities towards SIS policies (see Table 1) in the period 1995 to 2007 the most, also tended to have the strongest increases in private mortgage debt in the same period (Pearson's correlation coefficient = 0.48 at $p < 0.01$ level; scatterplot cannot be shown here due to space limitation but are available on the authors' website).

INSERT FIGURE 2 ABOUT HERE

What these developments suggests is that the seemingly distinct policy shifts towards SIS and ABW might be considered as two sides of the same coin, where some governments have used citizens' increased ability and willingness to invest into private assets (mainly housing property) to redirect public resources to other welfare dimensions. Or in a more radical reasoning, one might even claim that the establishment of a welfare system in which income protection is to an increasing extent achieved through the accumulation of private debt that eventually amortizes into asset wealth, is one *necessary condition* to develop the social investment strategy model. The fact that these processes can only be ascribed to some countries but not others could mean that we are seeing the immersion of two distinct policy regimes. On the one hand, a regime in which social policy is reoriented towards the establishment of a more productive, investment-oriented form of welfare capitalism, which would be the case in Northern Europe (including the Netherlands) and the English-speaking nations. And on the other hand, the fortification of the more protectionist form of welfare capitalism in the rest of Europe (excluding Spain) and Japan, in which social policy still primarily addresses old social risks and aims to preserve a more familialistic model; here, the financialization of housing markets, and the easy access to cheap credit as the main

channel to finance house purchase in particular, appear to be less pressing and imminent issue.

While there is much to say about the entrenchment of protectivist welfare, the remainder of the paper focuses on the more productive regime type, thus coming back to the main question of whether social investment and asset-based welfare should be seen as compatible or competing policy strategies. The empirical examination has already shown that a competing logic does not necessarily exist. Establishing housing wealth as a pillar of welfare security particularly in old age does not imply an across-the-board retrenchment process but actually integrates with the readjustment towards other social policy priorities. However, the question remains whether this empirical relationship has any conceptual relevance; after all, could we not just be dealing with a spurious correlation between debt-driven homeownership access and relatively high social investment spending? Indeed, it seems highly unlikely that governments have such a precise understanding of how different policy dimensions could be integrated into one coherent policy regime, or that they would engage in the meticulous and far-sighted planning that such a regime requires. Moreover, both the social investment strategy and asset-based welfare are emerging rather than mature policy approaches, which are underdeveloped even in their respective academic literatures. When there is no consensus on what exactly they constitute in policy practice, it is hard to argue that they form one consistent policy regime. Nevertheless, we would argue that there are various reasons to consider them as compatible social policy ideas within the readjustment of liberal and Northern European welfare regimes.

First of all, even though politicians are not well inclined to think in terms of long-term policy outcomes, there is still a political rationale for a *compatibility thesis*. This mainly comes down to the question of why governments do what they do. Political parties are first and foremost interested in electoral success. Since the late 1980s, an increasing success factor for being re-elected has become the combination of robust economic growth with the ideal of balanced government budgets (Hay, 2011; Seeleib-Kaiser, 2008). This does, however, not mean that high government spending and social policy programs have become deal breakers per se; quite the opposite is true, as public welfare provision is still highly popular in most Western democracies (Vis et al., 2011). In trying to overcome this dilemma, governments in Northern Europe (again, this includes the Netherlands and excludes Finland) and in the liberal welfare states were keen to use a political strategy of ‘*affordable credit claiming*’ (see Bonoli, 2012). Allowing consumers to take up ever-higher levels of private debt secured, and by implementing relatively inexpensive and widely supported employment maximization policies rather than retaining relatively costly income redistribution measures, policy-makers have seemingly found an election-winning strategy of interconnecting balanced budgets, retained social spending and robust economic growth (see also Hay, 2013). In contrast, a different growth model is operated in protectivist European welfare states. Since the male breadwinner model still has a much stronger footing here, the orientation of public policies towards the protection from old risks and the conservation of traditional family models remains highly popular. Here, governments have tended to focus on high private savings rates, relatively low public investments, and increasing labor productivity through real wage stagnation rather than through better education, skill deployment, and innovations.

Our second argument for the compatibility thesis revolves around the structure and functionality of labor markets in the productive, investment-oriented model of welfare capitalism. Here, the tertiarization of national economies has led to a meaningful rise in female labor participation and the demise of the male breadwinner model. Dual income couples and families have attained a stronger market position and can cope with higher levels of private debt: i.e. they are better able to satisfy recurring mortgage repayments and to afford relatively high house prices. Conversely, this means that those who are burdened by high levels of mortgage debt need to maximize their employment efforts permanently. Consequently, in order to sustain their dual income position, the logical behavior by younger to middle-aged couples and families would be to support political parties that ensure public investments in care facilities for children and elderly alike. In short, there seems to be a self-reinforcing mechanism between property purchase through mortgage debt and policies that reinforce female labor participation, where causality runs both ways. Nonetheless, it should not be neglected that the SIS is not only geared towards employment maximization and gender equality but also relies on the flexicurity model of the labor market, implying a gradual reduction employment protection and job security. As a result, the upsurge in short-term contracts and constant job changes has led to severely limited mortgage borrowing capacities of younger adults (see also Forrest & Yip, 2012)

The final argument is a more conceptual reasoning than a factual deconstruction of policy links between the two models. Both the SIS and ABW approach take a life course perspective on the manifestation of social problems and their solution. Poverty, social exclusion, and inequality are primarily defined as individual rather than collective problems, which in turn require individualized solutions. Personal responsibility, risk-taking behaviour, long-term planning and treating life itself as a series of investment decisions (Langley, 2008) have become key ingredients in securing one's own welfare position. Social policy in this framework is reduced to the function of adapting people to the needs of the market instead of diminishing their dependency on it. This arguably reflects the neoliberal foundation of both the social investment strategy and the asset-based welfare model. As a result of this embedded market logic, both policy approaches share the same fundamental limitations in regard to guaranteeing welfare security. Firstly, employment- and human capital-oriented spending, as well as policies that support homeownership tend to cater for middle and higher income groups rather than the lower classes. Ample studies have illustrated how opportunities to gain access to high quality education and to accumulate housing wealth are distributed unevenly across social classes (e.g. Vandembroucke & Vleminckx, 2012; Dewilde & Lancee, 2013). Hence, the two policy approaches tend to exclude the unproductive and do not offer a solution to those who find themselves unable to undertake the necessary initial investments in education, vocational training, or property assets for future welfare security. Consequently, this may result in the perpetuation of the dualization of insiders and outsiders, which might generate adverse redistributive outcomes. Given the strong influence of family background on initial opportunities to invest in education and property assets, both models, henceforth, appear to reinforce rather than limit the intergenerational transmission of poverty risks and life chances (see also Cantillon & van Lancker, 2013; Nolan, 2013).

Moreover, both the SIS and ABW models rely on an inherent belief that investments will pay off

in the future. However, the aftermath of Global Financial Crisis in 2008 build a clear case against continuous house price appreciation, while persistently high unemployment rates in Europe in the post-crisis period illustrate that human capital investments (quite literally) may not always be put to work. This is also a spatial component in defining how profitable these investments are. It is obvious that owning a house in the City of London is not the same as property ownership in a shrinking region in Eastern Germany. Similarly, there are stronger and weaker regional labor markets in each country. In conclusion, returns on human capital and property investments are conditional on time and space, or to put it more bluntly, having a job and a good education, as well as owning a house increases the likelihood but is not always enough to satisfy all welfare needs.

Conclusions

Welfare states in Western societies are not on the retreat but they have taken different forms through various transformation processes in the past two decades. Some policy dimensions – most notably public pension systems and labor protection – were targeted by retrenchment and deregulation, while other dimensions have been expanded, including family policies and the provision of care services. Various welfare state researchers have identified that the welfare state is shifting from its traditional function of income protection towards what has been labeled ‘a capacitating social investment state’; a policy strategy that primarily aims at employment maximization through the support individual skill formation and the reconciliation of work and family life. Although this development has been widespread, it is far from uniform across countries and welfare regime types. Indeed, the analysis of aggregate data on public social expenditure from 1995 to 2007 in 26 OECD countries revealed that the reorientation of policy priorities towards capacitating social investment spending had been most pronounced in Northern Europe (excluding Finland but including the Netherlands) and the liberal welfare states; in contrast, the conservative, Mediterranean and New EU Member welfare states have retained or even expanded their predominantly protectionist social policy approaches.

The key argument put forward in this paper then was that divergence in welfare policy priorities across different types of welfare states is strongly influenced by the extent to which property assets have become an essential private welfare resource in a nation’s political economy. In many countries, policy-makers have enabled and encouraged all types of households to use mortgage debt as a means to invest in residential property assets, which can be tapped into in times of need or when facing lower income in general. The fact that this development has been most pronounced in English-speaking contexts and Northern Europe suggests that the two policy developments are interlinked. Our contention is that through the implementation of an asset-based welfare approach, governments in these countries were seemingly able to channel freed-up public funds to policy dimensions, which they perceived to be more eminent threats to welfare security. Stimulating the accumulation of housing property wealth could thus be seen as an important component, if not necessary condition for realigning the welfare state towards a social investment strategy. To conclude, asset-based welfare and social investment appear to be compatible social policy concepts, which intertwine at the political, labor market, as well as ideological level, and

together advance the establishment of a more productive form of welfare capitalism, as opposed to the more traditional protective welfare state.

We would like to end this paper by discussing two potential limitations to this notion and the empirical findings that it relies on. On the one hand, focusing on relative spending on capacitating social investment policies neglects the absolute size of the welfare state and the provision of protective social policies in specific. As a result, this paper seems to suggest that liberal and social democratic welfare states have converged to become similar if not identical regimes. But, of course, the Northern European countries are still known to have the most redistributive and protective welfare states in all advanced economies (Esping-Andersen, 2002). Hence, the main argument needs to be limited to the idea that liberal and social democratic welfare states have become more similar in their social policy priorities. We fully agree with the view of Vandembroucke and Vleminckx (2012) that a more balanced welfare policy approach that secures citizens against all kinds of social risks combines capacitating productive policies with compensating protective ones. It follows that SIS and ABW should be seen as compatible yet not complementary policy models, simply because they face very similar limitations in providing a solution to all welfare needs.

On the other hand, the argument presented here might be challenged by the specific time frame chosen for the empirical analysis. One might argue, that it is only relevant as a pre-crisis evaluation of welfare state change – which would not be a problem per se, but would give the paper more of a historical sense – because post-recession policies in Europe since 2010 have been more strongly geared towards welfare state retrenchment and austerity. As a result, one might expect a complete retrenchment-guided turn towards private welfare settlements in which property assets take on an ever-more prominent role, while collective social investment spending is curtailed effectively. However, as van Kersbergen et al. (2014) argue, ‘*retrenchment is not the only game left in town*’, making it worthwhile to further examine how exactly mature welfare states have developed in the post-crisis period, and whether we might actually be able to observe the perpetuation of the dichotomous welfare state transformations described here.

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Table 1 Public social expenditure on different functions of the Welfare State, % of GDP, 1995/2007

	Capacitating spending as % of GDP, 1995	Capacitating spending as % of GDP, 2007	Compensating spending as % of GDP, 1995	Compensating spending as % of GDP, 2007	Relative spending on capacitating functions, 1995 (%)	Relative spending on capacitating functions, 2007 (%)
Social democratic						
NO	14.4	11.7	12.2	10.1	54.1	53.6
FI	14.0	11.4	17.8	13.4	44.0	45.9
DK	15.3	15.2	15.6	11.0	49.5	58.1
SE	15.5	14.4	16.4	10.7	48.6	57.4
Conservative						
FR	11.7	10.8	15.5	15.9	43.0	40.5
JP	4.8	5.4	7.4	9.1	39.3	37.1
AT	10.0	9.3	16.5	15.5	37.7	37.4
DE	9.2	8.2	13.8	13.3	40.0	38.3
BE	11.1	10.8	14.7	14.0	43.0	43.5
LU	7.1	8.0	12.4	9.3	36.4	46.3
NL	8.0	9.4	13.8	9.1	36.7	50.8
Liberal						
AU	9.1	8.0	7.4	7.0	55.2	53.4
US	5.8	6.5	7.9	7.6	42.3	46.2
UK	8.6	10.2	9.3	8.2	48.0	55.5
IE	8.9	9.1	8.9	6.6	50.0	58.1
NZ	9.1	9.9	9.5	7.2	48.9	58.0
Southern European						
IT	6.2	6.9	13.8	15.2	31.0	31.1
HE	4.1	5.6	10.9	13.4	27.3	29.5
ES	5.8	7.1	14.8	12.5	28.2	36.2
PT	6.5	7.4	10.4	14.1	38.5	34.4
New Member States						
CZ	7.3	6.8	9.0	9.6	44.8	41.3
HU	9.6	9.9	11.2	12.9	46.2	43.3
SK	8.4	6.1	8.8	7.9	48.8	43.7
EE	7.7	7.0	7.7	6.9	50.0	50.2
SL	7.2	7.1	13.9	11.9	34.1	37.4
PL	7.2	6.8	16.5	13.3	30.4	33.8
<i>OECD 26 – average</i>	8.9	8.8	12.2	11.0	42.2	44.6

Source: OECD Social Expenditure Database, own calculations

Capacitating spending: Public expenditure on ALMP, education (all levels), family spending, incapacity-related in-kind transfers, childcare and pre-schooling

Compensating spending: Public expenditure on old age, unemployment, survivor pensions, disability pension and paid sick leave

Relative spending on capacitating functions: The share of capacitating spending on total social spending as % of GDP (= capacitating + compensating spending)

Figure 1 Outstanding mortgage debt as % of Gross Domestic Product in 26 OECD countries, 1995/2007

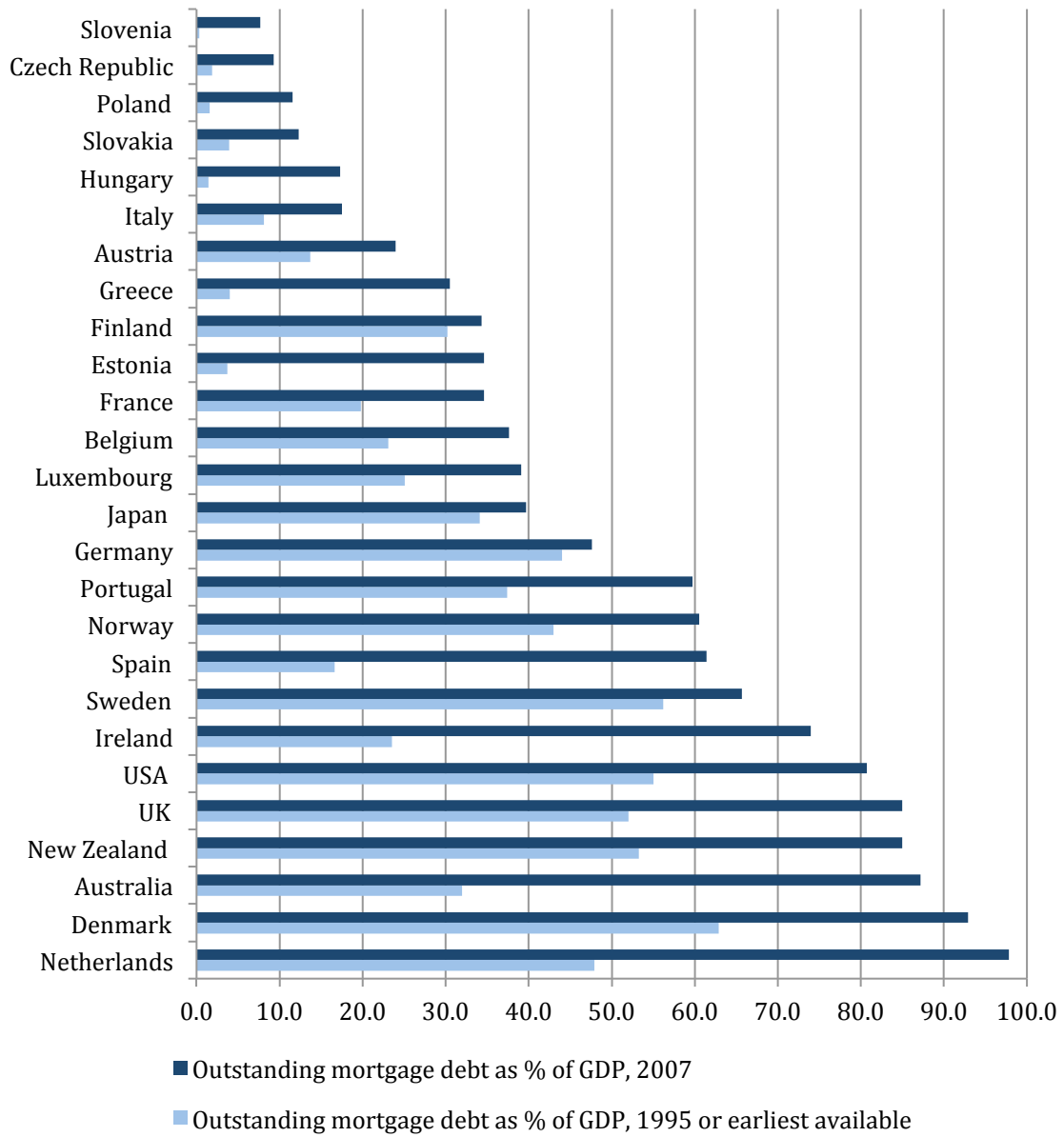


Figure 2 Productive vs. protective models of welfare capitalism

