

**Towards social investment  
and social innovation  
in EU member states?  
First observations of recent  
developments in Austria**

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## **Abstract**

This paper aims to shed light on the relative importance of the discourse on social investment and social innovation in Austrian social policy by examining their role in academic and civil society discussions and presenting some evidence of current empirical developments. It is shown that the idea of social innovation is increasingly being promoted by industry, the media and civil society. In terms of social investment, the perspective has only recently been taken up by some researchers and interest groups. Depending on its very definition, however, empirical data on social investment expenditures suggest – also in comparison with other conservative welfare states – increasing or decreasing trends of this type of social security expenditures in Austria.

**Keywords:** social investment, social innovation, Austrian welfare state

**JEL codes:** H55, I33, I38, L31, O15, O35

# 1 Introduction

From an analytical point of view, social policy instruments may be clustered around three paradigms: *'elephants'*, conceptualised as the nurturing state that not only targets old social risks but also provides more universal services in the realms of health and housing. *'Lions'*, also referred to as *'social investment'*, *'active social policy'* or *'productive social policy'*, highlighting preventative policies and investment in human capital that aim at preparing people for changing demands on the labour market. Finally, *'butterflies'*, also known as *'social innovation'*, cover projects that usually target new social risks and unmet social needs and are provided bottom-linked by NGOs at a small scale and for a limited period of time. If proved successful, butterflies should ideally become fully fledged social policies.

Whereas the latter two paradigms figure prominently in EU discussions and are rendered as important components of the European social model – not least against the background of the crisis – they are to different degrees identified or even adopted within member states. More specifically, in Austria, the concepts of social investment and social innovation appear to have been largely ignored by politics and the public administration. The perspective of social investment, however, has recently been taken up by some researchers and interest groups, while the idea of social innovation is increasingly being promoted by industry, the media and civil society. This paper aims to shed light on the relative importance of lions and butterflies in Austrian social policy by examining their role in academic and civil society discussions and presenting some evidence of current empirical developments – some of which are derived from preliminary hypotheses that were generated in the context of the European research project ImPROVE.

The paper proceeds as follows. First, we start with a literature overview to give a first idea of how the concepts of social investment and social innovation have been discussed in research and European politics in recent years. Secondly, we follow the discussions and current developments in Austria and thereby also compare public expenditures for investment-related and compensatory social policies for the period after 1990/1995. This allows identifying whether the share of expenditures dedicated to *'lions'* as compared to *'elephants'* has increased in Austria. We close with a brief assessment of the current standing of lions and butterflies in Austria and suggest a more strategic absorption of these concepts by politics and the administration.

## 2 Academic and EU debates on social investment and social innovation

### 2.1 Social investment

The *'social-investment-state'* has been identified as an emerging new paradigm within welfare state developments. It is either argued to represent – after a period of welfare state construction and expansion (1945-mid-1970s) and one of consolidation and retrenchment (mid-1970s – 1990s) – a third major readjustment of welfare states from the 1990s onwards (e.g. Hemerijck 2012). Alternatively, it is viewed as a mix of the two alternative paradigms (e.g. Jenson/ Saint-Martin 2003, Bonoli 2013). Whereas important features of the *'social investment perspective'* (Morel et al. 2012, 1) already existed prior to the 1990s (see, for example, Morel et al. 2012, 3-5, Nolan 2013, 462-463), the social investment state has been identified as a distinct welfare state paradigm only in the 1990s

and 2000s (e.g. Giddens 1998, Esping-Andersen et al. 2002, Jenson/ Saint-Martin 2003, Vandenbroucke et al. 2011). There is disagreement, however, in how far social investment policies ought to substitute (e.g. Giddens 1998) or complement traditional social policies (e.g. Esping-Andersen 2002, Morel et al. 2012). Moreover, Vandenbroucke and Vleminckx (2011, 452f) remind us that three dimensions are relevant in the contemporary debate on the “new” welfare state:

*The new-risk dimension (that is, welfare states must address the new social risks), the investment dimension (that is, welfare states must develop investment in human capital rather than passive cash transfers) and the service dimension (welfare states must follow the Scandinavian example and become more service-oriented and less transfer-oriented).*

While they state that these three dimensions may overlap, they define social investment as comprising measures that contribute to (an improvement of) human capital formation. In this respect, it has been shown that (public) measures improving human capital at a very early age generate the highest returns on investment (e.g. Heckman 2000, 2008). Other scholars insist that social protection as such is a productive force, which implies that virtually all social policy measures are ultimately investment measures (for a discussion, see Nolan 2013).

While social investment became a paramount ingredient in much of the pertinent literature on welfare state change, the OECD and the EU clearly favour this perspective too (e.g. OECD 1997, 2001-2012, 2007, 2012, European Commission 2013a). The European Commission recently published the ‘social investment package’ (European Commission 2013a, 2013b, 2013c, 2013d) and encourages its member states to implement and/or expand social investment policies. Whereas some member states started to reform policies accordingly<sup>1</sup>, others appear to be more reluctant to change. Austria is among the latter group, and has, for example, been identified as a “slow mover” (Morgan 2012, 160) concerning work-family policies.

## **2.2 Social Innovation**

Social innovation has become an influential discourse in politics (see below), research (e.g. Howaldt/ Jacobson 2010, Nicholls/ Murdock 2012, Moulaert et al. 2013) and civil society (see chapter on Austria). Debates in different fields and academic disciplines are, however, weakly demarcated and social innovation thus remains a rather vague concept (Howaldt/ Schwarz 2010, 2011). One of the first German working papers on social innovations (Gillwald 2000) dealt with topics as diverse as the practice of cohabitation, the establishment of fast food chains and the creation of the welfare state; a key characteristic from this perspective is less the novelty of the innovation than the fundamental change of a lived reality. In contrast, the current *Handbook on Social Innovation* (Moulaert et al. 2013) rather excludes standard business praxis and concentrates on innovations in the public administration (Lévesque 2013) or the social economy (Defourny/ Nyssens 2013). Nicholls and Murdock (2012) tried to subdivide the existing literature into “five categories of scholarship” (ibid., 13), i.e. *research design challenges, changes in social structures, changes in patterns of work, diffusion of social change and urban studies*, indicating that due to different traditions of theory and

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<sup>1</sup> The Netherlands have become renowned in 2013 for announcing the end of its post-war welfare state and the introduction of a “participation society” (<http://www.amsterdamherald.com/index.php/rss/982-20130917-king-willem-alexander-participation-society-must-replace-welfare-state-netherlands-dutch-recession-royals-politics>).

units of observation, there is hardly a chance for a clear and undisputed concept. Mulgan (2012) asks for potential theoretical framings, and by referring to Schumpeter and several major thinkers of the 20<sup>th</sup> century, he also emphasizes the concept's vagueness. Also Hochgerner (2011a) problematizes the overhang of small empirical examples and a lack of theory that stands in marked contrast to the political hope of finding revolutionary ways of meeting major societal challenges. He observes a desire for instrumental solutions and, thus, critically evaluates the semantic shift from tackling problems to confronting challenges. From his point of view, social innovations need to leave space for systems critiques when major social problems such as inequality and poverty are confronted.

Social innovations are strongly context-driven, e.g. there are different innovation dynamics (BEPA 2011) or types of social enterprises (Kerlin 2012) in different welfare systems; institutional embeddedness is decisive (Moulaert 2009). Some key features differentiate social from technological innovations (Howaldt/ Schwarz 2010, 2011): these are less the focus on solving societal challenges or the orientation on an abstract common good than the requirement to find new and lasting governance mechanisms beyond clear-cut business or research solutions; in contrast to technological innovations, there is an immaterial, intangible structure that does not result in new products but new practices. In a more narrow understanding, Mulgan et al. (2007) describe social innovations as activities by organizations with social purposes to meet social needs; they are driven by or across the public sector, academia, movements, markets and social enterprises. Social innovation is understood as the institutionalized, diffused or disseminated result of an intentional reconfiguration of social practices in order to meet targets, solve problems or satisfy needs. These routines, however, also reflect group interests and thus have ambiguous effects. Building strategic alliances, balancing interests and reflective action is essential (Howaldt/ Schwarz 2010, 2011, Hochgerner 2011a). From the perspective of social network analysis, social innovations depend on a culture and praxis of exchange among actors and institutions from different backgrounds; they are often initiated at the margins (Katzmair 2010, 168). Strategic alliances seem to be particularly required for the implementation of radical innovations (Howaldt/ Schwarz 2010, 233).

Perhaps due to its conceptual openness, social innovation has become a buzzword in politics and also led to the establishment of new institutions and policies. Hochgerner (2011b, 179-180) illustrates the milestones from 2000 onwards:

*In an Anglo-Saxon context, it started with the foundation of the Center for Social Innovation at Stanford University in 2000, the Centre for Social Innovation in Toronto in 2004 and the creation of the Young Foundation in London and its platform Social Innovation Exchange in 2005. On the continent, the Netherlands Centre for Social Innovation was opened in 2006 and the Business panel on future EU innovation policy appointed by the Directorate General for Enterprise and Industry in 2008. Under the heading 'Reinvent Europe through innovation – from a knowledge society to an innovation society' they proposed "to base EU action around compelling, societal challenges, to finance venture and social innovation funds, to incentivize large scale community level innovations, to transform the public sector and to unlock the potential of new infrastructure and new types of partnerships". (Vasconcelos et al. 2009)*

This logic became even more dominant as the consequences of the economic and financial crisis deepened. While President Obama established an *Office of Social Innovation* in the White House in 2009, President Barroso hoped for social innovations to foster growth, secure jobs and boost competitiveness. In 2010 social innovation became not only a research field in the 7<sup>th</sup> Framework

*Programme*, the notion of social innovation in *Europe 2020* (European Commission 2010) also laid the basis for its mainstreaming in the *European Social Fund* and the planning of a *European Social Innovation Pilot*. In 2009 and 2010, also the *Australian Centre for Social Innovation* and the *Social Innovation and Social Entrepreneurship Research Centre* at Massey University in Auckland were established.

In the context of EU policies, the *Bureau of European Policy Advisors* published a more developed conceptualization of social innovation in 2011 (see BEPA 2011). There social innovation should compensate for the structural weaknesses in the existing policy framework that the evaluation of the Lisbon strategy and the financial crisis laid bare, i.e. growth and jobs do not suffice to move people out of poverty. A stronger re-orientation towards the social dimension of EU policies would thus be necessary.

*At a time of major budgetary constraints, social innovation is an effective way of responding to social challenges, by mobilising people's creativity to develop solutions and make better use of scarce resources. (ibid., 7)*

The social challenges to be approached cover a broad range of topics from climate change to social justice and aging. As many challenges have cross-border or multi-level governance dimensions, the EU is seen as a powerful player to provide coordinated actions. In this context, social innovations are defined as:

*New ideas (products, services and models) that simultaneously meet social needs (more effectively than alternatives) and create new social relationships or collaborations. They are innovations that are not only good for society but also enhance society's capacity to act. (ibid., 9)*

Three types of social innovations are differentiated, i.e. grassroots initiatives for vulnerable groups, innovations with less clear boundaries between social and economic goals (such as the Open University) and more systemic innovations (such as awareness raising for climate change). Using the capacities of structural funds may help to overcome the problems of risk-averse public administrations and single-issue solutions. An *European Social Innovation Initiative* should facilitate up-scaling. Parts of these recommendations have already become effective with the adoption of the new *European Structural and Investment Funds* for the period 2014-2020 and the *EU Programme for Employment and Social Innovation* (see Sabato 2014).

Besides this policy discourse, social innovation has been an issue of EU-funded research for more than a decade (see MacCallum et al. 2009, Moulaert et al. 2010, Moulaert et al. 2013). In a number of projects, a group of researchers around Frank Moulaert – a Belgian Professor for Spatial Planning – developed an understanding of spatialized communities as drivers of social innovation. Based mostly on empirical evidence from European cities, urban initiatives were analysed as progressive actors of change. Due to their diversity and concrete life-experiences, neighbourhoods and communities are expected to position themselves as important advocates of citizenship in search of a democratic state (Moulaert 2010). Their potentials, however, are dependent on the multi-scalar institutional context of innovative initiatives in which different state levels play important roles as enabler of social innovation and guarantor of territorial balance (Moulaert 2009). The conceptualization of social innovation within ImPRovE considerably builds upon the work of this group of researchers:



*It refers to locally embedded practices, actions and policies that help socially excluded and impoverished individuals and social groups to satisfy basic needs for which they find no adequate solution in the private market or macro-level welfare policies. It does so through processes of social learning, collective action and mobilization and awareness raising. Social innovation works towards the transformation of social relation on various spatial scales. [...] Social innovation thus has three basic components: (a) the satisfaction of basic social needs (content dimension); (b) the transformation of social relations (process dimension) and (c) empowerment and socio-political mobilization (linking the process and content dimension). (Oosterlynck et al. 2013, 3)*

Inherent to this definition is a bottom-linked understanding of social innovation, indicating the requirement for a strong exchange between different levels of statehood and bottom-up initiatives.

### **3 Social investment and social innovation in Austria - recent developments**

Across Europe, the financial and economic crisis of 2008 and 2009 has deeply shaken the economy and created enormous challenges that are still noticeable. Also the Austrian economy, in particular the banking sector, has been hit considerably by the crisis. Measures to support the Austrian banking sector, a substantial drop in exports, a decline in tax revenues and measures to alleviate the negative consequences of the crisis led to sharply increasing public debts (from 60.2% in 2007 to 74.5% in 2013). Given that welfare state expenditures are the largest proportion of public spending, it is not least the welfare state that comes under pressure in the government's attempt to reduce public debts. In addition to economic and fiscal problems, demographic changes are widely seen as a major challenge for the development of the welfare system. Most importantly, the ageing of the population and the change in the relative proportion of older people and those in the employment age are regularly cited as endangering the sustainability of the existing welfare system (Eurostat 2008).

Despite these challenges, however, the development of the Austrian welfare system in the past two decades may be characterised by continuity rather than paradigmatic change (Österle/Heitzmann forthcoming). Concepts that moved to the centre of welfare debates in many other countries, such as the social investment state or social innovation, had some impact in this country, but apparently to a much smaller extent than elsewhere.

#### **3.1 Social investment**

The concept of social investment is largely ignored by the political elites in this country. This also applies to the social investment package of the European Commission (2013a). After its publication, it has neither been reflected by political parties or the media. Only a few publications deal with the social investment state or the paradigm of a productive welfare state. They have mostly been authored by members of the WIFO, i.e. the Austrian institute for economic research (Aiginger 1986, Bock-Schappelwein et al. 2009, Famira-Mühlberger 2014) and the Viennese Chamber of Labour (Filipič/ Beer 2013, Buxbaum 2014). Both of these organizations have more or less close links to the Austrian social democratic party rather than the conservatives<sup>2</sup>.

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<sup>2</sup> These two parties form a coalition government in Austria since 2007.

Research related to social investment and conducted by members of the WIFO clearly favours this perspective. For example, in a study commissioned by the *Federal Chancellery of the Republic of Austria*, Julia Bock-Schappelwein et al. (2009) investigate the effects of social policy measures on economic growth and employment (known as *'feeding-in'* according to the EU social inclusion nomenclature). They provide broad empirical evidence that suggests that many social policy measures help to increase productivity in Austria. They particularly emphasize the role of the Austrian tax system, of education policies, care policies and labour market policies. They argue that these measures may positively affect economic growth and – if organized appropriately – simultaneously reduce inequality. Also Karl Aiginger (2012), the director of the WIFO, stresses the productive potential of social policy measures, especially in times of fiscal crises. He thus proposes to accompany the fiscal compact at EU-level by a social compact. Similar ideas are forwarded by other scholars of the WIFO (Mayrhuber 2013, Famira-Mühlberger 2014). For example, Famira-Mühlberger (2014), in a paper commissioned by the Viennese chamber of Labour, emphasizes the positive economic effects of specific social policy measures (e.g. educational programmes). However, whereas all of the publications cited identify specific branches as particularly apt to enhance labour force participation and productivity and thus might be labelled *'social investment branches'* (e.g. education, research, active labour market policies, care policies), they also insist that social investment cannot replace social protection, but needs to be complemented by the latter.

Members of the (Viennese) Chamber of Labour progressively favour social investment measures. To support their arguments, they provided scenario calculations for specific policy branches. For example, Buxbaum and Pirklbauer (2014) calculated the effects an expansion of child care in Austria would have for the period between 2014 to 2024. Depending on the scenario chosen, they argue that a quantitative (number of children in child care) and qualitative (enhanced opening hours, smaller rate of children per teacher) expansion of child care would not only result in an increase of employment (concerning both staff within child care facilities and parents), but also an increase of net public income despite higher costs. Similar calculations have been made for two other social policy measures in Austria: an expansion of apprenticeships in public training centres (*überbetriebliche Ausbildung*) and an expansion of all-day schools. Depending on the scenarios chosen, the authors show (higher or lower) positive employment and income effects up until 2024 (Hofbauer et al. 2014, Kremzar 2014).

Also the Federation of the Austrian Industries, a lobbying organization of the larger industries in Austria and a close ally of the Austrian conservative party, published a report on *'Social investment'* (Industriellenvereinigung 2011). However, they use this notion to refer to possibilities of privately financing the social economy (e.g. through CSR initiatives or issuing social bonds). In this context, it is important to note that Austria has some tradition of evaluating the *'social returns on investment'*, particularly for services provided by third-sector organizations (see, for example, Schober/ Rauscher 2014).

In how far has the Austrian welfare state implemented social investment policies? How does the country compare with other conservative welfare states? These questions ought to be answered in the following paragraphs. In examining the development of social investment policies within welfare states over time, two methodological problems occur. The first refers to the definition of social investment policies. It involves clarifying which welfare measures qualify as social investment and which do not. The second problem refers to the choice of indicators that operationalize social investment. They must meet two requirements. First, they must match the definition of social

investment chosen. Second, sufficient data of good quality must be available for these indicators to allow for both cross-national comparisons and dynamic analyses.

Concerning the issue of defining and operationalizing ‘social investment policies’, De Deken (2014) elaborated a helpful approach in conceptualizing relevant measures. He suggests that:

*a social investment state entails policy changes along three interrelated dimensions, namely: (1) from ‘old’ to ‘new’ social risks; (2) from ‘cash benefits’ to ‘social services’; (3) from ‘ex-post’ remedies to ‘ex-ante’ prevention. (De Deken 2014, 262).*

On the basis of these dimensions, he proposes to position social policies alongside a continuum concerning the extent to which they can be expected to raise labour force participation and productivity. He argues that the social investment paradigm seeks to generate these two kinds of returns.

De Deken defines policies that compensate exit of labour market participants as compensatory policies. Social policies that are defined as social investment policies are distinguished according to three aspects: (i) policies that help to maintain or restore the capacity of labour market participants; (ii) policies that facilitate entrance of new labour market participants, and (iii) policies that invest in the capacity of new labour market participants. The latter policies are likely to generate the highest returns concerning a rising labour force and rising productivity. Examples of social policies that he clusters into this dual (or quadruple) separation are included in Table 1.

**Table 1: Linking social investment to identifiable policy categories**

Compensatory policies		Social investment policies	
Compensating exit of labour market participants	Maintaining or restoring capacity of labour market participants	Facilitating entrance of new labour market participants	Investing in the capacity of ne labour market participants
Old age pensions Survivor pensions (Long-term) incapacity benefits Early retirement Unemployment assistance Social assistance (Long-term) maternity leave (Long-term) unemployment insurance Housing benefits Sickness pay Health care	(Short-term) unemployment insurance (Short-term) maternity and parental leave Reintegration of work incapacitated Active labour market policies	Care for elderly and frail Child care Active labour market policies	Active labour market policies Child care Education (from pre-primary to tertiary education)

Source: adopted from De Deken (2014, 266)

Unfortunately, data on the dimensions presented in Table 1 are often not available in a comparative perspective and/or available data do not allow for comparisons over-time. However, several approaches that classify social policies according to similar categories do exist in the literature. For

example, in her attempt to examine developments of social investment within OECD states, Rita Nikolai (2012) differentiates between two types of welfare state policies: compensatory social policies and social investment social policies. Following her analysis, active labour market policies, family policies and education policies are categorized as social investment. Old-age (including survivors) and passive labour market policies are defined as compensatory social policies. Whereas this dual categorization is debated, it is important to make two observations: First, Nikolai does not consider all policy fields traditionally attributed to welfare state policies. Most notably, she does not include health care or long-term care policies. This also applies to measures related to poverty and social exclusion. Consequently, only parts of the activity fields that usually form part of social protection within a country are included in her assessment. Second, with the exception of labour market policies, Nikolai categorizes the remaining activity fields as either being compensatory or investment policies. However, the policy fields assessed may include compensatory and investment aspects. This particularly refers to family policy, which is identified as investment by Nikolai. Also passive labour market policies, which are qualified as compensatory social policies may qualify as investment, particularly concerning unemployment benefit for the short-term employed (see, for example, De Deken 2014).

An alternative approach in clustering social investment and compensatory measures is provided by Meeusen and Nys (2014), following conceptual work by Vandenbroucke and Vleminckx (2011) and De Deken (2014). They distinguish between three social policy categories that target 'old' social risks (health care, old-age and survivor programmes, as well as working-age cash benefits, which include, for example, unemployment compensation and early retirement), and six 'new' categories, referring to the new risk dimension mentioned earlier. Even though they end up with a duality of compensatory (the old risk categories) and social investment policies (the new risk categories), their clustering enables to separate programmes within activity fields. In contrast to Nikolai, they also consider more activity fields related to welfare state expenditures.

Concerning the second methodological puzzle, choosing appropriate indicators to operationalize 'social investment', de Deken (2014, 261) suggests that:

*(t)he metaphor of investment makes the analysis of expenditure data an obvious choice.*

Expenditure data are available for a variety of countries which allows for analyses of cross-national differences. They are also available for a sequence of years, thus enabling analyses of longitudinal changes within the same country. Consequently, in both of the definitional approaches cited above, expenditure data are used to operationalize 'social investment policies'. However, also expenditure data have its flaws, as discussed at length by De Deken (2014). To just mention one example: welfare states differ considerably in terms of whether programmes are paid (solely) publicly or privately. If the public share of financing a welfare programme is rather low, assessment of expenditure data suggests a low level of programme activity in comparison to other countries – even though this must not necessarily mirror the actual supply of a programme.

In what follows, we present information on social investment expenditures in Austria as classified by the two approaches cited above (Nikolai 2012, Meeusen/ Nys 2014). Primary data sources were the OECD social protection expenditure database, SOCX, and the OECD's education database. To identify the relative position of Austria in terms of the extent and development of social investment policies, data are compared with those of four other conservative welfare states (Belgium, France, Germany and the Netherlands).

### 3.2 Development of social investment policies in Austria, based on the categorization of Rita Nikolai (2012).

Data for Austria reveal that the proportion of compensatory social policies has been larger than social investment policies in all years assessed (see Table 2). Moreover, the percentage increase of the former has been higher than the latter in both 1990-2000 and 2000-2009, suggesting that the gap between the two categories is indeed increasing – with compensatory social policies gaining an even more prominent share as compared to social investment policies. However, whereas growth in compensatory social policies was pretty constant between 1990-2000 and 2000-2009, the growth rate almost doubled with regard to social investment policies: expenditures increased by 4.6 per cent between 1990 and 2000, and by 8.4 per cent between 2000 and 2009. This may hint to an increasing relevance of social investment measures in Austria.

In terms of activity fields, education expenditures form the largest share of investment-related policies (5.7 % in 2009). Expenditures for active labour market programmes have been comparatively low (0.8 % in 2009). However, their growth rate was largest as compared to the other activity fields.

**Table 2: Social investment and compensatory social policies by sub-categories, Austria, 1990-2009; %-changes 1990-2000 and 2000-2009 (based on the conceptualization of Nikolai, 2012)**

Austria	1990	1995	2000	2005	2009	1990-2000 %-change	2000-2009 %-change
Old age and survivors	11.5	12.5	12.7	12.9	14	+10.4	+10.2
Passive labour market policies	0.9	1.3	0.9	1.1	1.1	0.0	+22.2
<b>Compensatory social policies</b>	<b>12.4</b>	<b>13.8</b>	<b>13.6</b>	<b>14</b>	<b>15.1</b>	<b>+9.7</b>	<b>+11.0</b>
Family policies	2.6	3.1	2.8	2.8	2.9	+7.7	+3.6
Active labour market programmes	0.3	0.4	0.5	0.6	0.8	+66.7	+60.0
Education	5.4	5.9	5.4	5.2	5.7	-0.3	+6.1
<b>Investment social policies</b>	<b>8.3</b>	<b>9.4</b>	<b>8.7</b>	<b>8.6</b>	<b>9.4</b>	<b>+4.6</b>	<b>+8.4</b>

Source: OECD SOCX database, OECD education database, own calculations

In comparison with Belgium, France, Germany and the Netherlands, Austria occupies a (lower) middle position in terms of social investment policies (see Figure 1 in the Annex). Whereas it was in fourth position concerning expenditures for social investment policies in 1990 (with only Germany spending less), it ranged third in 2000 and 2009 (with Germany and the Netherlands spending less). This contrasts with Austria's position regarding compensatory social policies. It was second in 1990, first in 2000 and second again in 2009.

Compared to other conservative welfare states, Austria had the second largest growth rate of compensatory social policies between 1990 and 2009, but only the fourth rate regarding social investment policies (see Table 3). These results suggest both that Austria lags behind other conservative welfare states in this respect and that it continues to follow rather traditional welfare policies.

**Table 3: Social investment and compensatory social policies in comparison of 5 conservative welfare states, %-changes between 1990- 2000, 2000-2009 and 1990-2009 (based on the conceptualization of Nikolai, 2012)**

	<b>1990-2000 % change</b>	<b>2000-2009 % change</b>	<b>1990-2009 % change</b>
<b>Compensatory Social Policies</b>			
Austria	9.7%	11.0%	21.8%
Belgium	-1.7%	17.8%	15.8%
France	8.0%	15.6%	24.8%
Germany	15.9%	4.8%	21.5%
Netherlands	-27.8%	5.7%	-23.7%
<i>Average of 5 countries</i>	<i>1.7%</i>	<i>11.5%</i>	<i>13.4%</i>
<b>Social Investment policies</b>			
Austria	4.6%	8.4%	13.4%
Belgium	0.0%	20.5%	20.6%
France	15.3%	0.8%	16.2%
Germany	16.3%	0.9%	17.3%
Netherlands	-16.4%	14.7%	-4.1%
<i>Average of 5 countries</i>	<i>3.3%</i>	<i>8.9%</i>	<i>12.5%</i>

Source: OECD SOCX database, OECD education database, own calculations

Development of social investment policies in Austria, based on the categorization of Meeusen and Nys (2014).

As mentioned earlier, Meeusen and Nys (2014) distinguish between three social policy categories that target 'old' social risks (health care, old-age and survivor programmes, as well as working-age cash benefits) and six 'new' categories (one of which includes family allowances, New 3). Table 4 presents data concerning these dimensions of 'compensatory' and 'social investment'.

**Table 4: Social investment and compensatory social policies by sub-categories, Austria, averages from: 1990-1994, 1995-1999, 2000-2004, 2005-2009, percentage points change from 1990-1994 until 2005-2009 (based on the conceptualization of Meeusen and Nys, 2014)**

	<b>1990- 1994</b>	<b>1995- 1999</b>	<b>2000- 2004</b>	<b>2005- 2009</b>	<b>ppt-change (90-94)-(05-09)</b>
<b>Austria</b>					
Old 1: Health care	5.72	6.22	6.58	6.88	1.16
Old 2: Old age + survivor	11.78	12.32	12.52	12.54	0.76
Old 3: Other benefits (without family allowances)	4.38	4.46	4	3.6	-0.78
New 1: Parental leave	0.56	0.5	0.34	0.12	-0.44
New 2: Elderly care	0.2	0.24	0.36	0.42	0.22
New 3b: Child care plus allowances	2.2	2.32	2.66	2.74	0.54
New 4: ALMP	0.24	0.34	0.54	0.72	0.48
New 5: Primary + secondary education	3.65	4.12	3.66	3.53	-0.12
New 6: Tertiary education	NA	1.35	1.13	1.2	

<b>Total Old</b>		<b>23</b>	<b>23.1</b>	<b>23.02</b>	
<b>Total New</b>		<b>8.87</b>	<b>8.69</b>	<b>8.73</b>	
<b>Total</b>		<b>31.87</b>	<b>31.79</b>	<b>31.75</b>	

Source: Meeusen and Nys (2014, 328ff)

In comparison to the four other conservative welfare states, Austria's rank does not change much as compared to the conceptualization put forward by Rita Nikolai, despite the different conceptualization of social investment and compensatory policies and the inclusion of more activity fields (see Figure 2 in the Annex). In terms of compensatory social policies, it ranks second (behind France) within all three period analysed. Not least due to generous family allowances, which are categorized as a new risk<sup>3</sup>, it was in second place concerning social investment policies in 1995/1999 and 2000/2004 and third in the period between 2005 and 2009. Indeed, whereas expenditures for compensatory social policies remained stable between 1995/1999 and 2005/2009, data suggest that they even decreased with regard to social investment policies.

### 3.3 Social innovation

In some respects, Austria can be regarded as social innovation pioneer. The *Zentrum für Soziale Innovation (ZSI; Center for Social Innovation)* has been established as early as in 1990 as a private, self-financed research institute. Despite its name, however, research on social innovation was rather marginal in the 1990s. From the point of view of the center's founder and long-time director, Josef Hochgerner (2011, 242), this might be explained by the fact that despite increasing stress in the Austrian welfare system from the 1980s onwards, social innovation has not been discussed as possible solution. As a consequence, only one research project conducted by ZSI in the course of the 1990s – in the field sustainable development – had social innovation in its title. Today ZSI is organized along three thematic fields of activity that also define the internal structure of work teams; these are *work and equal opportunities* (with a focus on labor markets and integration), *research policy and development* (mostly co-operation projects with Central and Eastern European countries) and *technology and knowledge* (focusing on the social embedding of new technologies) (ZSI 2008).

Besides ZSI, social innovation has become a research topic and a broader discursive field from the 2000s onwards. The *Vienna University of Economics and Business* has been involved in the series of European research projects coordinated by Moolaert (see above). In this context, Vienna-based researchers contributed a periodization of social innovation in the Austrian welfare state (Novy et al. 2009), analyzes of bottom-linked social innovation projects (Novy et al. 2010) and suggestions for transdisciplinary methodologies for social innovation research (Novy et al. 2013). The group of researchers has also worked on innovative ways of disseminating the ideas of social innovations for social cohesion in the context of the European research project *Social Polis* (see <http://www.socialpolis.eu/>). From 2005 onwards, politics, civil society and industry also started concrete initiatives for the promotion of social innovation in Austria. Hochgerner (2011, 243-244) sees the following milestones in this respect:

<sup>3</sup> Meeusen and Nys (2014) also provide alternative calculations, in which they categorize family allowances as expenditures for old risks. If categorized accordingly, Austria is in third position regarding expenditures for social investment within all three periods analysed (see Figure 3 in the Annex).

- In 2005 the private *Unruhe Foundation* established *SozialMarie*, an annual award (with main prizes between 15,000 and 5,000 Euro) for social innovations in the public, private and third sectors in Austria and a number of neighboring countries. The annual ceremony is organized in cooperation with the public broadcast station (ORF).
- In 2010 *Platform Innovation Management*, a co-operation between Austrian companies, research institutions and innovation promotion agencies, set social innovation on their agenda.
- The federal government published a *strategy for research, technology and innovation* in March 2011 with the aim to make Austria an innovation leader by improving policy co-ordination and support – especially for basic research – for innovation, including societal and social innovation.

In a research project that a team from the *Applied University for Social Work* in Vienna conducted already from 2007-2009 (Hammer/ Diebäcker 2009, 1-8), the understanding of social innovation among the applicants for *SozialMarie* was analyzed. The study was based on a content analysis of 876 project descriptions submitted from 2005 to 2008, an additional web-based survey in which 116 initiatives participated and several group discussions. In this early stage, 80 percent of applicants were from civil society or the third sector and – at least in a broad definition – doing social work. Social innovation was first of all understood as something new – be it new topics that are taken up, new target groups that are identified, new methods, approaches or solutions that are experimented with or novel regional solutions. Even more important from many initiatives' points of view, however, were normative aspects of innovation such as the reduction of inequality or the promotion of equal chances, integration, individual autonomy and social cohesion. They mostly aimed to improve the situation of socially disadvantaged groups. From a process point of view, the participation and empowerment of the target group, networking among target groups, consideration of needs and institutional sustainability were regarded as crucial. In the assessment of Hammer and Diebäcker (*ibid.*), the normative dimension was essential to give actors motivation and legitimization for their activities which they regard necessary to fill the gaps in the supply of social services.

As Hammer and Diebäcker (*ibid.*, 13-14) explain, this version of social innovation needs to be understood against the background of an Austrian social sector that is increasingly under the pressure of economization and where service providers confront unstable budgets and rising competition. Most projects that apply for *SozialMarie* were therefore small in size with a high share of part-time employees and voluntary work, mostly carried out by women and often paying low salaries or offering only temporary work contracts due to limited project durations. In contrast to former framework conditions where the third sector was mostly funded by public resources, the production of participation opportunities, the problematization of (in-)justice or – to put it differently – the advocacy role of initiatives are becoming more and more difficult in an increasingly market-driven environment. In general, there is a feeling that with the restructuring of the welfare state and despite the increasing pressure for creative solutions there is less and less room to maneuver.

In this environment, also major non-profit organizations such as Caritas have felt the pressure to adapt to the logics of social innovation and the language of business for quite some time (Küberl 2006, 246-249). In the emerging market for social services they are confronted with an increasing number of stakeholders and a diverse group of competitors that – at least in attractive fields of activity – not only include other NPOs but also public sector units and an increasing number of private for-profit companies. More concretely, there is a competition for (shrinking) public funds, (contested) private donations, clients, volunteers (with decreasing long-term commitment) and



employees (who need to be motivated by other means than remuneration). As Küberl (ibid., 254-256) explains, finding the right position in this competition and adapting to needs and desires of clients requires a certain degree of creativity, innovation and experimentation, something that is crucially dependent on personal motivation (often of volunteers) and cannot be realized if the only criterion for success is to win the competition for the cheapest offer. Funding of research and development in the social sphere is still rather erratic and hardly available from the side of public contracting authorities. The tension between the requirement of having rational management systems in place and the philanthropic self-understanding of organizations thus requires reflexivity in the relations with the public sector (between critique and cooperation) and the delivery of everyday services (between professionalization and compassion).

Against this background, a more focused social innovation discourse has gathered momentum in recent years. While *SozialMarie* still applies the broad definition of social innovation represented by ZSI – i.e. involving innovations in different sectors and fields –, nowadays the discourse seems to be increasingly driven by the idea of social entrepreneurship. And despite the wide range of interpretations of the concept of 'social entrepreneurship' in the field – with possible foci on the social agenda or entrepreneurship and innovation or transformation to meet social ends – a recent mapping of Austrian social entrepreneurs showed that 75 percent of 273 identified organizations were only active for less than 4 years (see Schneider/ Maier 2013). They are particularly active in the fields of education, regional and local development, labor market (re-)integration, international development and environmental issues. From an annual budget of only 30,000 Euro on average, 52 percent are generated from private donations, 34 percent from market income and only 14 percent from public funding (subsidies and remuneration of services). This dominance of private and market funding and a rather open selection of legal forms of organization are the most significant differences when compared with established NGOs – which derive a significant share of funding from public sources and are clearly dominated by associations.

Without intending to problematize the shift from public to private funding in the social innovation concept at this point, one needs to be aware that the potentials for institutional private funding in Austria's third sector are rather marginal when compared with many highly developed societies (see Schneider et al. 2010). Out of more than 3,000 private foundations in Austria, only 200 follow a charitable purpose, even if some foundations reserve parts of their income for social ends. The high number of private for-profit foundations is a consequence of a law adopted in 1993 that defined tax advantages for this legal form of asset management. These numbers are in stark contrast to other European countries such as Germany where 95 percent of foundations follow a non-profit target. Besides legal reasons, also the perception that social services are a public duty and a lack of role models seem to be barriers to more ambitious activities by private foundations in Austria.

In 2008, however, following the example of *SozialMarie* another Austrian family established the *Essl Sozial Prize* for social innovations, social entrepreneurs and handicapped persons. In 2009, the *Institute for Entrepreneurship and Innovation* at the *Vienna University of Economics and Business* established the *Social Impact Award*, a competition for social and ecological project ideas that earns participants not only professional feedback and support in the development of their ideas but also funds the best ideas with 4,000 Euro start-up capital; in the meantime eight European countries reaching from Switzerland in the West to Greece in the South-East are included. They also entered a co-operation with *Impact Hub Vienna*, the Vienna branch of a company that was founded in London in 2005 and has established an international network covering more than 50 offices on all continents

since then. The Vienna office was opened in 2010 to provide shared office space, infrastructure, networking opportunities and events for the development of innovative project ideas; the Vienna office became the global headquarter in 2011. In the same year *Ashoka Austria*, the Austrian branch of the international *Ashoka* organization, took up its activity. In co-operation with a number of Austrian and international companies and the *Federation of Austrian Industry* they support promising social enterprises and aim to create networks and strengthen civil society initiative. *Ashoka* was established in 1980 in the United States; nowadays it is represented in about 70 countries worldwide. Other initiatives include *good.bee*, a support programme for social entrepreneurs organized by *Erste* (the largest Austrian bank) and *Erste Foundation, Pioneers of Change* (a training and consulting programme for innovative business ideas) and *Trigos* (a prize for corporate social responsibility). With the creation of these different initiatives, a new network of social entrepreneurs and organizations seeking to actively support social innovation seems to have formed that increasingly gains visibility and receives more and more attention, also on behalf of politics.

The most recent initiatives for the promotion of social innovation include ‘*Ö1 Open Innovation Forum*’ (a co-operation between Austria’s primary radio channel *Ö1* and ZSI), a *multi-stakeholder summit on social innovation and social entrepreneurship* and a new master’s program:

- In spring 2013, the radio audience of *Ö1* was invited to nominate innovative projects in their communities that they consider relevant for serving the public good. Representatives from about 400 submitted initiatives were finally invited develop suggestions for the support of social innovation in Austria at the *Ö1 Open Innovation Forum* in October 2013; moreover, prizes were awarded to selected initiatives.
- In the first half of 2014, a co-operation of *Ashoka Austria, Hub Vienna, the Federation of Austrian Industry* together with *Austria Wirtschaftsservice* (a public bank for business development and financing), the *Austrian Council for Research and Technology Development* (a consultation body of the Austrian government) and *bdv Austria* (an umbrella and advocacy organization of social enterprises) prepared a *multi-stakeholder summit on social innovation and social entrepreneurship*. Preliminary conclusions were presented in June 2014: Spurring social innovation in Austria would therefore require specialized incubator programs, further education opportunities, support programme for social entrepreneurs and the mobilization of private capital by tax incentives as well as the implementation of the *European Social Business Initiative* and the *Directive on public procurement*.
- A new master’s programme in social innovation has just started in October 2014 in a co-operation between ZSI and the *Danube University Krems*.

Concluding, although Hammer and Diebäcker (2009) showed that most initiatives that are awarded a *SozialMarie* prize survive their first years of activity, precarious funding limits mainstreaming potentials. Preliminary results of the research project *ImPRovE* indicate that despite the fact that many social innovations that aim to fight exclusion and poverty receive financial support from public institutions, many initiatives remain fragmented and access to them rather limited. Long-term solutions and bigger outreach seems more likely when core policies of the welfare state are affected. The more an initiative is at the margins or focused on specific target groups, the less likely seem to be chances for longer-term funding. Nonetheless, as the governance of the Austrian welfare system is still much more characterized by logics of negotiations and consensus than by competition, innovations in the environment of established players could facilitate broader dissemination.

## 4 Conclusions

Social investment and social innovation need to be regarded as rather young concepts in the analysis of welfare state transformation that urge for clarification and theorization. As could be shown, the perspectives of social investment and social innovation are also relatively weakly established in Austrian social policy networks. In the case of social investment, some research institutions and the Austrian Chamber of Labour have taken up the discussion and presented first studies. However, the proportion of social investment policies is still small as compared to other conservative welfare states – with compensatory policies still growing more considerably than the former. Indeed, depending on the operationalization of social investment policies, expenditures for these measures even decreased within the last decade. The understanding of social innovation – despite its long institutional history – increasingly seems to be driven by networks in which the Federation of Austrian Industry, a number of Austrian branches of international social business incubators and representatives of social businesses play prominent roles. The perspective on social innovation is therefore more and more also related to the logics of competition, entrepreneurship and attracting private investment. This resembles a discourse where social innovation is increasingly discussed as remedy against budgetary distress and shrinking rooms to maneuver of the national welfare states. In contrast, first hypotheses on social innovation in an Austrian welfare state context that were generated in the research project ImPRovE indicate that while entrepreneurial activity may give a first impetus to innovation such as opening new fields and practices of social work or modifying existing ones, their sustainability and success in the longer run should depend on the availability of public funding. Despite creating more visibility for a sector that has traditionally earned relatively little attention, thus, the logics of competition that are promoted by awards and prizes seem to contradict a governance model in the delivery of social services that is mostly based on negotiations and consensus. In some way or another, politics will have to react on these new discourses in social policy and the initiatives that have been taken on this basis; to us it seems that a more strategic positioning of welfare state actors will be required.

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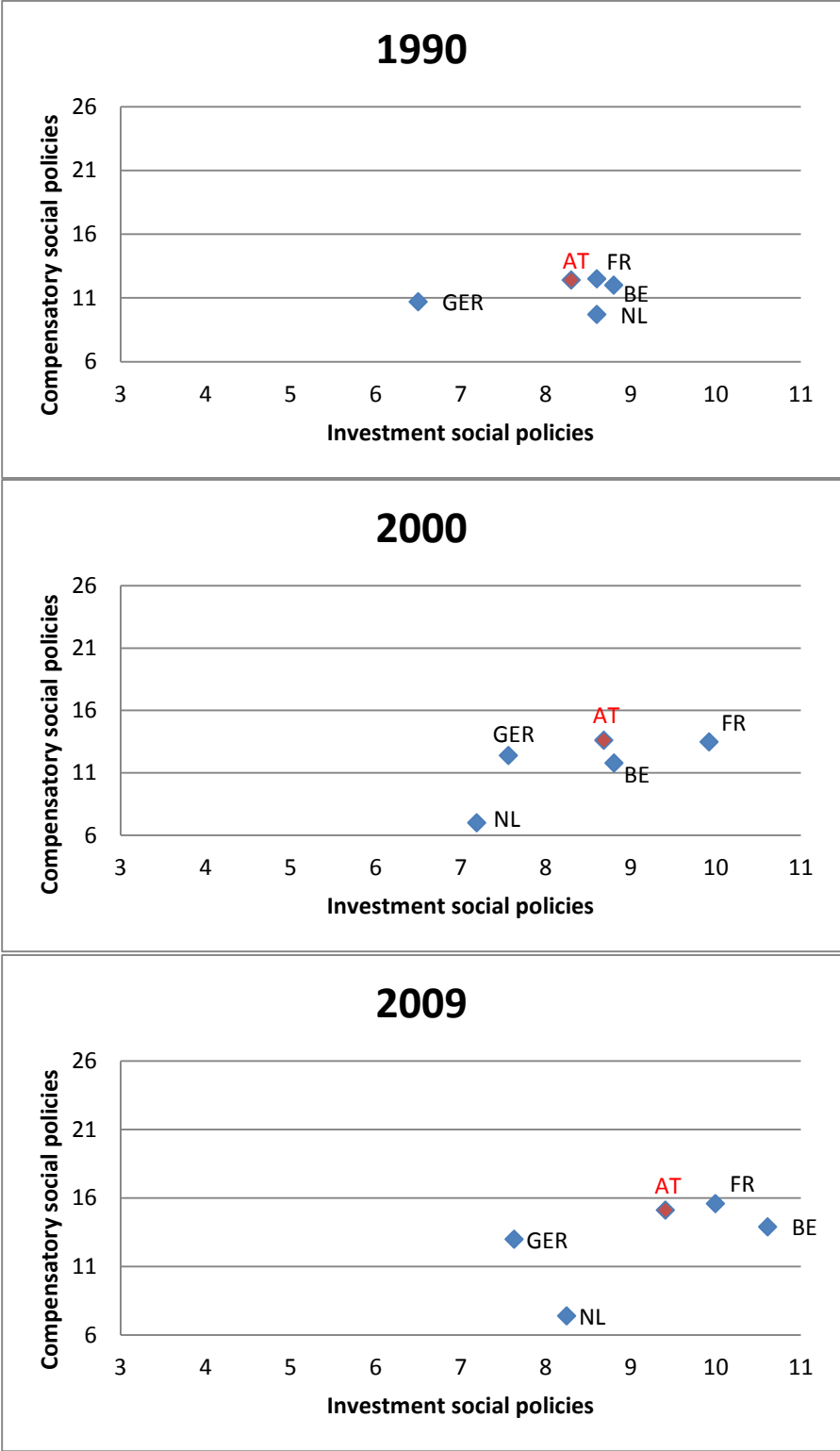
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**Annex**

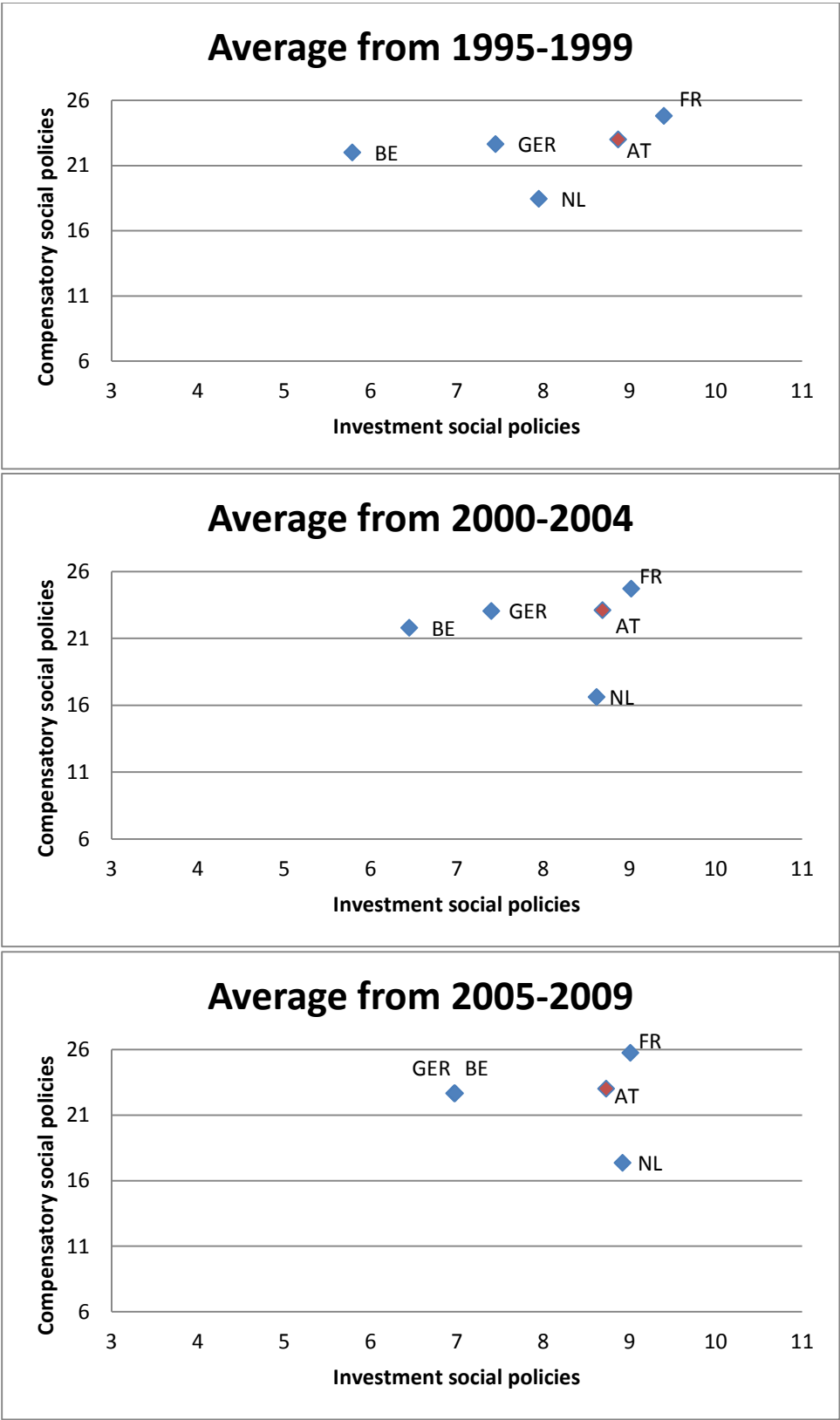
**Figure 1: Social investment and compensatory social policies in comparison of 5 conservative welfare states, 1990, 2000 and 2009 (based on the conceptualization of Nikolai, 2012)**



Source: own illustration based on data from the OECD SOCX database, the OECD education database and own calculations

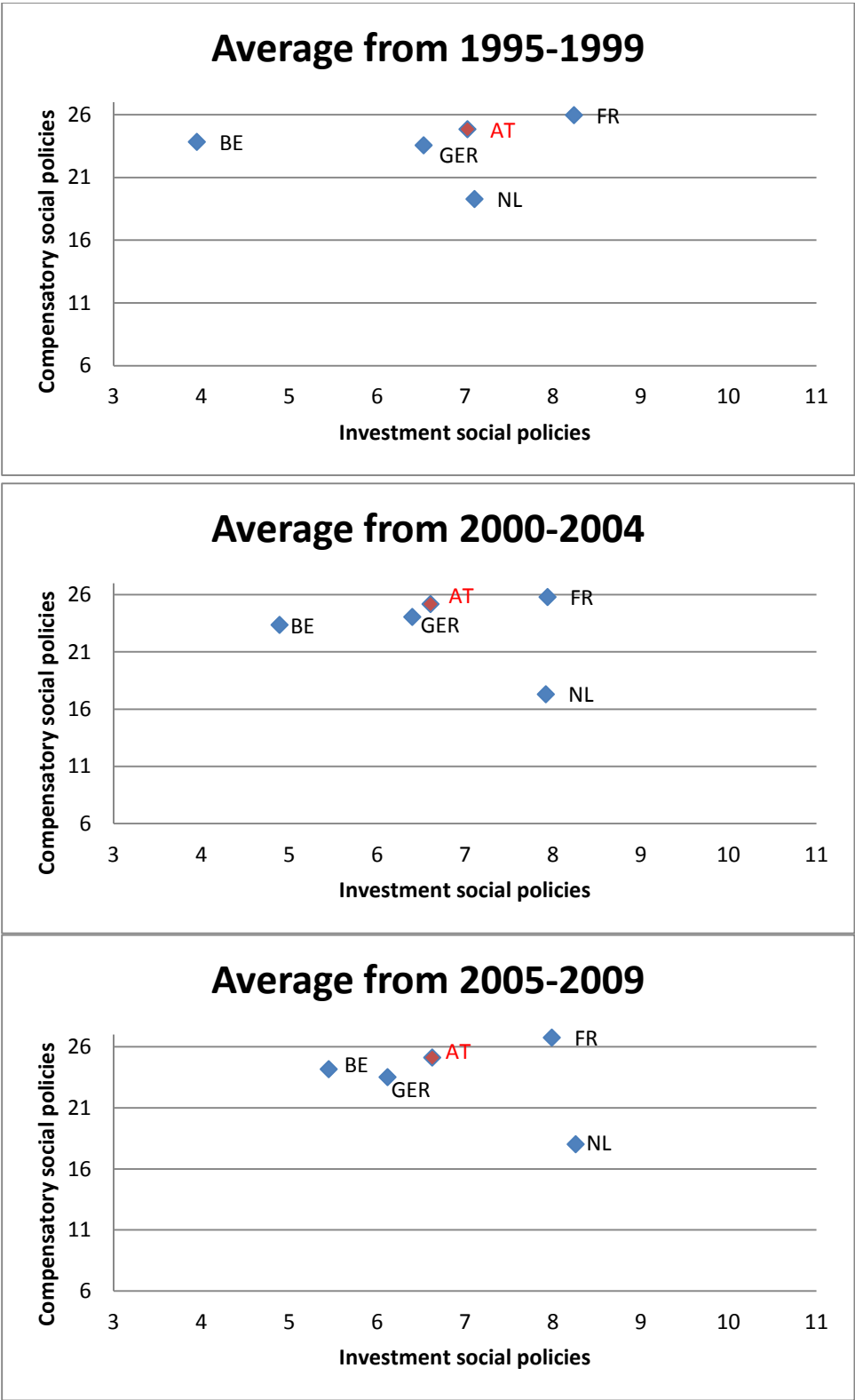


Figure 2: Social investment and compensatory social policies in comparison of 5 conservative welfare states, averages from 1995-1999; 2000-2004 and 2005-2009 (based on the conceptualization of Meeusen and Nys, 2014): family allowances are categorized as investment social policies



Source: own illustration based on data prepared by Meeusen and Nys (2014, 328ff)

Figure 3: Social investment and compensatory social policies in comparison of 5 conservative welfare states, averages from 1995-1999; 2000-2004 and 2005-2009 (based on the conceptualization of Meeusen and Nys, 2014): family allowances are categorized as compensatory social policies



Source: own illustration based on data prepared by Meeusen and Nys (2014, 328ff)

## **ImPRovE: Poverty Reduction in Europe. Social Policy and Innovation**

Poverty Reduction in Europe: Social Policy and Innovation (ImPRovE) is an international research project that brings together ten outstanding research institutes and a broad network of researchers in a concerted effort to study poverty, social policy and social innovation in Europe. The ImPRovE project aims to improve the basis for evidence-based policy making in Europe, both in the short and in the long term. In the short term, this is done by carrying out research that is directly relevant for policymakers. At the same time however, ImPRovE invests in improving the long-term capacity for evidence-based policy making by upgrading the available research infrastructure, by combining both applied and fundamental research, and by optimising the information flow of research results to relevant policy makers and the civil society at large.

The two central questions driving the ImPRovE project are:

How can social cohesion be achieved in Europe?

How can social innovation complement, reinforce and modify macro-level policies and vice versa?

The project runs from March 2012 till February 2016 and receives EU research support to the amount of Euro 2.7 million under the 7<sup>th</sup> Framework Programme. The output of ImPRovE will include over 55 research papers, about 16 policy briefs and at least 3 scientific books. The ImPRovE Consortium will organise two international conferences (Spring 2014 and Winter 2015). In addition, ImPRovE will develop a new database of local projects of social innovation in Europe, cross-national comparable reference budgets for 6 countries (Belgium, Finland, Greece, Hungary, Italy and Spain) and will strongly expand the available policy scenarios in the European microsimulation model EUROMOD.

More detailed information is available on the website <http://improve-research.eu>.

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