Taking Social Investment Seriously in EU Cohesion Policy

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Final report
April 2023

Contract No. 2022CE16BAT111

Group of high-level specialists on the future of Cohesion Policy

The European Commission, the Directorate-General Regional and Urban Policy (lead) and the Directorate-General Employment, Social Affairs and Inclusion (associated) have set up a Reflection Group on the future of Cohesion Policy. The group includes high-level members from academia and practice and in 2023 will meet nine times to reflect on current and future needs and the functioning of Cohesion Policy.

The group will offer conclusions and recommendations that will feed the reflection process on Cohesion Policy post-2027 including through the 9th Cohesion Report in 2024 and the mid-term review of Cohesion Policy programmes in 2025.

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Disclaimer

Key words

Social investment, EU Cohesion Policy, life-course multiplier, capacitation

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Acronyms

ALMP	Active labour market policies
CEE	Central and eastern Europe
ECEC	Early childhood education and care
EU	European Union
HTC	Human capital theory
LLL	Lifelong learning
LTC	Long-term care
NGEU	Next Generation EU
NRRP	National Recovery and Resilience Plan
OECD	Organisation for Economic Co-operation and Development
RRF	Recovery and Resilience Fund
WLB	Work-life balance

1 The subnational correlates of the social investment welfare state

European Union welfare states have experienced a groundswell of reform over the past decades, in response to intensified global competition, widening, and deepening European integration, post-industrial family change and accelerating population ageing (Taylor-Gooby, 2004; Bonoli and Natali, 2012; Häusermann, 2010; Bonoli, 2013; Hemerijck, 2013). Since the new millennium, the notion of 'social investment' gained purchase as a policy compass to address structural challenges in an integrated fashion (Morel et al., 2012). Today, international organizations, from the EU (European Commission, 2013) and the OECD (2015) to the World Bank (World Bank, 2013), associate social investment with strategies of 'inclusive and sustainable growth' (European Commision, 2023).

The objective of social investment-oriented policies is to enhance people's opportunities and capabilities to resolve social risks typical of post-industrial societies ex-ante, while ensuring the high levels of (quality) employment necessary to sustain the 'carrying capacity' also of the popular instrument of income protection and social security. Early childhood education and care (ECEC), vocational training over the life-course, (capacitating) active labour market policies (ALMP), work-life balance (WLB) policies like (paid) parental leave, lifelong learning (LLL) and long-term care (LTC), transcend the compensatory logic of postwar social security, designed to ensure, and protect (predominantly male) workers and their (stable) families against market pitfalls. More important, however, is that capacitating services in the areas of family care, early education, adult training, labour market activation, and long-term care are locally provided for. To the extent that social investment welfare provision in the post-industrial knowledge economy is geared towards maximizing employment, employability, and productivity, this ipso facto bolsters the economic sustainability of the modern welfare state. Yet, social investment success is – more than ever – contingent on effective subnational delivery and governance.

Following this introduction, the rest of our policy brief proceeds in four sections. Section 2 kicks off with the specter of 'territorial drift' facing post-industrial European economies. Section 3, next, presents the theoretical logic of social investment from a life-course perspective and its subnational governance implications. Section 4 surveys the overall glass half-full social investment record in EU cohesion policy. Section 5 then points to key improvements in EU cohesion strategies to make them more social investment proof. In conclusion, Section 6 draws lessons for EU cohesion policy to equip European citizens and regions to effectively counter territorial drift.

2 The specter of post-industrial territorial drift

As the EU transitions into the post-industrial economy, the territorial dimension of public policy in general, and of welfare policy, has taken centre stage. Some interrelated but analytically distinct processes have borne significantly on this development. The first is one of economic agglomeration. That is, the EU is experiencing concentration of economic activity in fewer places. The Eighth report on economic, social and territorial cohesion illustrates this vividly in relation to EU NUTS-2 regions since 2000, using GDP per capita in purchasing power parities as measure of economic activity. The most developed regions of the EU have grown more slowly than the least developed regions, but faster than the moderately developed regions (European Commission, 2022, p. 36). Such a non-linear trend constitutes a violation of convergence theory and may be interpreted as evidence for arrested development. Further, only a dozen regions, located primarily around the capital cities of eastern member states, have upgraded their development status relative to the EU average. By contrast, about a hundred regions, scattered across the entire EU, including eastern member states, have either downgraded their status or have failed to move out of backwardness (European Commission, 2022, p. 38). Overall, while in the twenty-first century the EU has experienced moderate growth, fewer EU regions seem to have offered an attractive environment for economic activity.

Importantly, the divide between thriving and stagnating regions cannot accurately be transposed to one between cities and the country. As the Report shows, only in southern member states have metropolitan regions grown significantly faster than non-metropolitan regions, and against a backdrop of widespread stagnation. As noted earlier, in eastern member states capital regions, as opposed to metropolitan regions more generally, have sustained growth. In north-western member states, by contrast, metropolitan and non-metropolitan regions have grown at similar rates (European Commission, 2022, p. 34). Thus, the widening gap between thriving and stagnating regions in the EU is best characterised not as a urban-rural divide, but as the combined result of two processes: one of divergence between regions, with some regions becoming more integrated in European and global markets; and another of divergence within regions, with some people and places becoming more integrated in the European and global circuits of supply and demand (della Porta, Keating and Pianta, 2021, p. 326).

The changing geography of post-industrial economies is not a policy problem per se, for two reasons. First, although they are likely to have negative externalities, notably congestion, pollution, and higher housing rents, the benefits of agglomeration may still outweigh the costs. Besides, public policies can be made to bring the costs down, including investment in network infrastructure and environmental quality in urban regions, and housing policies. Second, agglomeration of economic activity may not necessarily result in territorial divergence in socioeconomic outcomes. For example, within a set of territorial units, such as regions, each unit might specialise in some economic activity, according to its comparative and/or competitive advantages vis-à-vis the global economy. This is, in fact, the philosophy behind the European Commission’s place-based approach to entrepreneurship and innovation, known as Smart Specialisation. Furthermore, some of the benefits from concentrating economic activity in certain regions might spill over into other regions, including in the form of fiscal redistribution. However, territorial agglomeration of economic activity and territorial divergence in socioeconomic outcomes often come in tandem. Since the global financial crisis, the dominant narrative in academia and public policy has been about a widening gap between core places that thrive and peripheral places that are left behind. The latter are left behind not only in economic terms, but also in social, political, institutional, infrastructural, environmental, and cultural terms (Pike et al., 2023).

Along the post-industrial logic of spatial divergence, the EU has also gone through a process of territorial rescaling, which has redefined the role of national government with respect to public policy. Rescaling has two analytically distinct dimensions: a vertical dimension, and a horizontal dimension. Along the vertical dimension, responsibilities for public policy have been reassigned to organisations located above the national government, notably the EU, and below it, such as regional and local administrations. Along the horizontal dimension, responsibilities have been reassigned to organisations outside government, including agencies with different degrees of independence from government, businesses, and third-sector organisations. Put differently, the national government has become as a central node in a wider policy network.

Importantly, there are diverse ways of reading the process of territorial rescaling. Both the literature on fiscal federalism in public economics and the literature on multi-level governance in EU studies have taken a functionalist orientation. That is, they have portrayed rescaling as a way of making public policies more efficient and/or equitable. For example, national governments are expected to delegate responsibilities to the EU to address cross-national externalities. Similarly, they are expected to empower local organisations, whether within and/or beyond government, to better tailor policy outputs to individual demands, which in the post-industrial society tend to be heterogenous and volatile, and to make the policy process more participative. Alongside its functional dimension, however, territorial rescaling also has a political dimension. In other words, responsibility for public policy may be reassigned not on efficiency and/or equity grounds, but to acquiesce to the emergence of new political spaces, often rooted in (re)surfacing territorial identities (Keating, 2021). In short, the process of territorial rescaling of public policy institutions is simultaneously functional and political.

3 The social investment multiplier logic in a life-course perspective and subnational capacitation

The modern welfare state is based on the principle of a social citizenship contract, providing policies to minimize social risks and mitigate economic hardship for everyone as matters of social right. The social contract is based on the solidarity between the healthy and the sick, the young and old, the able bodied and disabled, and between genders, in terms of both social rights and obligations, including the fair sharing of the costs between the rich and poor. In the shift to post-industrial knowledge economies, characterized by more heterogeneous – flexible and precarious – employment relations in an expanding service economy, skill-biased technological innovation, less stable dual-earner families, more single and more single parent households, against the backdrop of ageing, more tailored welfare provision is called for. Most profoundly, as women have entered the labour market in vast numbers, a key policy orientation is to assist families and people of working age with more caring services and work-life balance support. More heterogeneous and less standardized working and family lives require an equally differentiated portfolio welfare provision that is sensitive to personal conditions and household circumstance and their territorial correlates. This is where the social investment approach gains portent.

To support people at all stages in life, making sure that no one falls between the cracks, it is imperative to adopt a life-course perspective. We know that childhood, working life and old age are intimately linked. Retirement in good health correlates with a good childhood, and vice versa. Across the life course, there will always be moments of transition that can cause cumulative deprivation and disadvantage, this should be prevented by the provision of 'stepping-stone solidarity' as a backstop against disadvantage and springboard for human flourishing and resilience. In an attempt to overcome the unwarranted opposition between passive, ex-post compensatory social policies versus active, ex-ante capacitating social policies, Anton Hemerijck has elaborated a conceptual heuristic of social investment policy around three key welfare functions: (1) fostering life-long human capital "stock" development; (2) easing the "flow" of family life-course and labour market transitions; and (3) upholding inclusive social protection "buffers" in times of need (Hemerijck, 2014; 2017).

It is crucial to acknowledge that real-world social investment successes critically depend on how social protection "buffers", work-life balanced "flows" and lifelong human "stocks" are aligned and operate in sync to reap synergetic wellbeing returns. Based on the available academic evidence in economics and sociology, it is possible to conjecture a social investment 'life-course multiplier' cycle, whereby social investment returns reaped over the life-course generate a positive cycle of positive well-being returns, in terms of employment opportunities, gender equity, with positive results on intra- and intergenerational poverty mitigation, as presented in Figure 1 (Hemerijck, 2017; Hemerijck, Ronchi, and Plavgo, 2022).

The virtuous cycle starts off with investments high quality ECEC, which then leverages higher educational attainment, which later, together with vocational training support, spills over into higher and more productive employment later in life. To the extent that employment participation is sustained by work-life balance policies, including adequately funded and publicly available childcare, higher levels of (female) employment and lower gender gaps can be anticipated. In addition, more opportunities for women and men to combine parenting with paid labour could have a dampening effect on the 'fertility gap', the difference between the desired number of children (aspirational fertility) and the actual numbers. A final return pertains to longer careers and a higher effective retirement age, provided the availability of active ageing and lifelong learning policies, including portable and flexible pensions.

From an institutional perspective, "stock", "flow" and "buffer" policies must operate together. To ease successful transitions or 'flows' from one life-course stage to another depends on increasing the 'stock' of adaptive skills, but actors will only be able to learn what is needed to increase their adaptability if they are 'buffered' through social assurance and the provision of support services from economic shocks that can overwhelm them. In practice, "stocks", "flows", and "buffers" are hardly ever perfectly aligned. There can be incongruities, for instance, when "buffers" generate financial disincentives in terms of the "flow" of seeking employment. Also, long maternal leaves easily undermine gender-equity in the labour market. Furthermore, punitive workfare may frustrate satisfactory labour market allocation and thus incur human capital depletion.

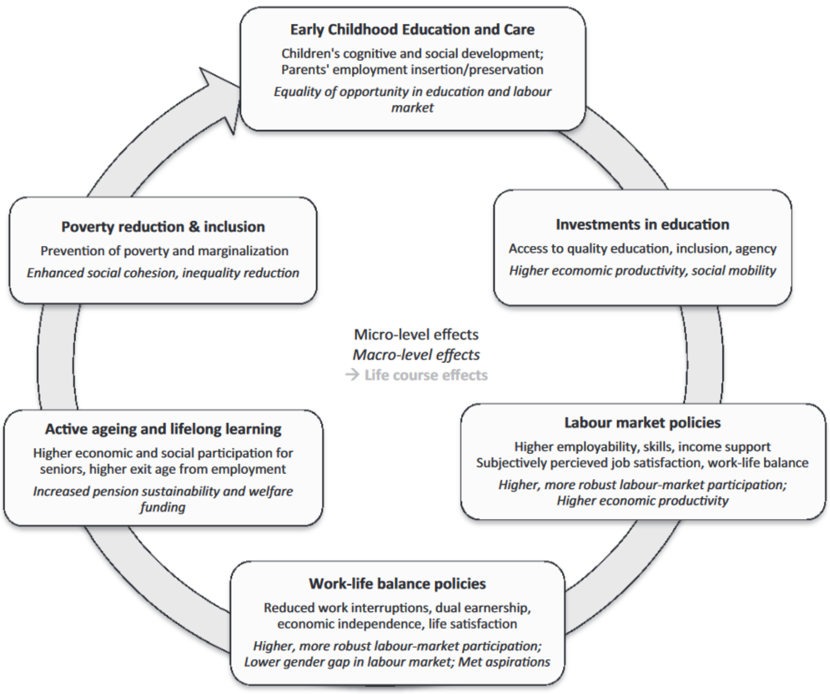

Figure 1 The Social investment life-course multiplier at a micro and macro level

Source: A. Hemerijck, S. Ronchi, I.Plavgo, Social investment as a conceptual framework for analysing well-being returns and reforms in 21st century welfare states, Socio-Economic Review, 2022, https://doi.org/10.1093/ser/mwac035

More fundamental is that the social investment multiplier logic links intervention and regulation at the level of the national polity, mostly buffers and labour market regulation, to policy interventions at the subnational – regional and/or local – levels of administration. In other words, the proposition of the social investment life-course multiplier dynamic, is highly contingent on subnational implementation and governance. This has become increasingly explicit in the last decades, with the shift towards a more service-oriented welfare state, which has triggered a progressive expansion of the stakeholders involved in the territorial service provision. These institutional and organizational transformations reveal that the future of regional policy is about subnational capacitation and the social investment response fits into such multi-layered institutional configuration, building on solid national social protection foundations and well-coordinated territorial articulations of capacitating services.

Consequently, the life-course multiplier spill over effects and associated wellbeing returns result from the horizontal alignment of the policy functions of stocks, flows, and buffers - as they fall under the authority of several ministries and institutions - and from the vertical commitment to facilitate subnational discretion in local welfare provision, balanced by learning-by-monitoring policy feedback mechanisms. As people are most vulnerable over critical transitions in the life course - such as when they move from education into their first job, after a parental leave, separation, or sickness - it is through capacitating and complementary territorialized services that such temporary conditions are prevented to become ‘chronic’, forestalling cumulative social risk and boosting long-term and continuous employment. Capacitating services, tailored and customized to the needs of individuals in these transition stages, bring together constantly adjusted packages of assistance from different policy domains (e.g., educational, housing, childcare, and training services in the case of unemployment) (Sabel et al. 2017).

The upshot is that subnational institutional capacity and autonomy are essential for effective social investment delivery. Although regions and municipalities are nested in the national policy framework and the central state’s coordinating function is crucial for ensuring overall coherence, local discretion and cross-sectoral alignment across the stocks, flows, and buffers functions define the quality-of-service delivery. Exploratory research on subnational social investment delivery demonstrates how a calibrated balance between a functional vertical coordination and metropolitan autonomy with a strong focus on operational alignment foster greater capacity to provide capacitating services which support citizens’ life course transitions (Scalise and Hemerijck, 2022; Kazepov and Ranci, 2016). For this purpose, it is imperative to investigate the network proficiency of social investment (supranational, national, and local) actor-constellations.

Potentially, EU cohesion policy represents one of the most powerful tools to support social investment capacitating services and to gain long-term wellbeing returns, supporting the logic of complementarity in social provision aimed at investing in human capital, education, childcare (*stock*), housing, social infrastructure (*buffer*) and training, reskilling, upskilling, long-term care (*flow*). While some returns already occur in the short run (e.g., new employment through active labour market policies), most returns occur in a longer temporary horizon, but they also have a lasting impact on territories (e.g., high quality care impact immediately on cognitive development, but on the long term on productivity and employment returns).

4 A glass half-full: the social investment record of accomplishment in EU cohesion policy

Cohesion policy is the policy framework through which the EU pursues its objectives of economic, social and territorial cohesion. Although traditionally more focussed on economic convergence, the social dimension has been significantly strengthened relative to the economic dimension since the beginning of the fifth programming period, 2014-2020 (Fargion and Profeti, 2016; see also Mendez, 2013). This trend appears to have continued in the current programming period (Graziano and Polverari, 2020). The importance of cohesion policy is indicated by its budget allocation, which amounts to around one-third of the EU budget. In the 2014-2020 programming period, this amounted to €355 billion. When national (co-) financing is included, the total rises to €482 billion (European Commission, 2021, p. 270). Thus, cohesion policy is today an important complement to national welfare states, particularly when it comes to supporting projects which deliver capacitating services under the Social Europe banner and consistent with the logic of social investment.

As societies have emerged from the Covid-19 pandemic, attention has been focussed on Next Generation EU (NGEU) and the development and delivery of member state National Recovery and Resilience Plans (NRRPs) financed through the Recovery and Resilience Fund (RRF). The EU-level response to the Covid-19 pandemic, to facilitate increased public investments, is a welcome contrast to the fiscal austerity response to the financial crisis, from which some regions – particularly those in southern Europe – had not recovered when the pandemic hit. However, it should be noted that this is a temporary instrument which is designed on a largely sectoral basis. (We shall come back to this point in the next section.) Cohesion policy continues to be the main permanent instrument to reduce territorial inequalities and support long-term territorial economic and social development.

By investing in projects and infrastructure through cohesion policy, territories are better equipped to deliver capacitating services which are integral to the functioning of post-industrial welfare states. This applies particularly to territories in southern Europe and central and eastern Europe (CEE), the two main geographic beneficiaries of cohesion policy funding – and the member states in which poverty and social exclusion remain highest (European Commission, map 5.12, p. 152). In the absence of cohesion policy, it is likely that less developed member states would have few resources left to dedicate to investments in capacitating services after meeting their commitments on social security *buffers*. Cohesion policy is therefore a key EU-level instrument for making progress on the recommendations of the *Future of Social Protection and of the Welfare State in the EU* (2023) report. In particular, the recommendations to improve equal opportunities for education and training, ensure lifelong learning and support longer working lives (European Commission, 2023, pp. 83–86). It should be cautioned, however, that cohesion policy should not substitute for member state investment – as stated in the principle of *additionality*, introduced in the 1998 revision of cohesion policy and still in effect today.

Cohesion policy further provides an ideal learning opportunity for member states. As intimated earlier, post-industrial welfare states have a strong territorial dimension. Policymakers in member states are therefore confronted with the same challenges as those confronting cohesion policy: how to reduce territorial inequalities and support long-term territorial economic and social development? The success of cohesion policy in achieving these objectives to date provides ample evidence from which policymakers in member states could learn. Infrastructure and expertise developed to support the delivery of cohesion policy may also be later repurposed to support domestic member state objectives to strengthen stocks and ease *flows*. Those designing cohesion policy may also learn from successful initiatives carried out in member states. As we argue for cohesion policy to take seriously social investment, social investment successes at the member state level may be drawn on to inform the future design and delivery of cohesion policy.

Throughout its history, EU cohesion policy has channelled public and private resources into distinct types of capital investment. Since its inception, it has heavily invested in *physical* capital – including transport infrastructure, broadband and digital devices, healthcare, and education facilities, among other things – and human capital as described in the preceding paragraph. To date, the main understanding of *human* capital within cohesion policy has been consistent with human capital theory (HCT) approach, which defines human capital as "the abilities and qualities of people which make them productive" (Becker, 1975, p. 14). This is an approach which runs the risk of sacrificing the individual on the altar of the labour market. The human capabilities approach offers an alternative to HCT (Bryson, 2010). Originating in Amartya Sen's capabilities approach (1999), the human capabilities approach proposes that investments in human capital stocks should ideally enhance each individual's ability to choose their career and to fulfil their potential. According to this approach, investments in human capital stocks have the potential to play an emancipatory function and can improve individual well-being rather than – or in addition to - merely their value within the labour market (Bryson and O'Neil, 2010, p. 25). More recently, and especially since its territorial reorientation following the Barca Report, cohesion policy has also targeted social capital, understood as people's capacity and propensity to establish meaningful social relationships. Since each of these three types of capital is necessary in the post-industrial economy, the capacity of cohesion policy to diversify investment in capital stocks constitutes a major asset, one that should be retained after 2027.

In sum, cohesion policy has been a success of the European project. In its current form, it plays an important role in supporting subnational territories to deliver capacitating services in the form of investing in projects which develop and upgrade human capital *stocks* and ease labour market transitions (*flows*) and complements the welfare state functions of national governments within member states. Nonetheless, and despite the achievements of cohesion policy, territorial inequalities remain. A new category of territories in a 'regional development trap' – a term inspired by the middle-income trap in international development theory – has also emerged in recent years (Diemer *et al.,* 2022). This suggests that cohesion policy has ample room for improvement. It is to that which we now turn.

5 A glass half empty: the limitations of cohesion policy in relation to social investment

In the present section, we discuss cohesion policy's room for improvement in two core respects: mismatching, and project governance. By mismatching, we mean instances in which cohesion policy fails to account for the broader environment in which it operates. For analytical purposes, we distinguish between two types of mismatching, based on whether the environmental features with which cohesion policy collides are exogenous or endogenous to cohesion policy itself. First, mismatching may arise as cohesion policy fails to consider the exogenous environment in which it intervenes. For example, it is often argued that cohesion policy has financed physical infrastructure – such as buildings and roads – in places where there is little local demand for such infrastructure. As a result of this practice, many "cathedrals in the desert" have arisen across the EU, understood as pieces of physical infrastructure that are systematically underutilised by the local community (Morgan, 2007,

p. 496). Although cathedrals tend to be easily recognisable, thus, to generate clamour, they are not the most concerning sign of mismatching within cohesion policy.

Arguably, more problematic is mismatching between policy interventions and labour market needs. Cohesion policy has widely invested in human capital stocks to prepare individuals for integration into the post-industrial labour market. For this purpose, it has prioritised skills that are commonly associated with the post-industrial economy, such as digital and "green" skills. By contrast, it has ignored that local labour markets demand different skillsets, producing divergence in needs on both the supply and the demand side. This neglect is bound to produce skill mismatches, thereby frustrating the returns on investment in human capital.

Mismatching also arises endogenously, that is, between distinct policy interventions delivered in the framework of cohesion policy. We saw earlier that social investment crucially relies on policy complementarities between stocks, flows, and buffers. In a similar fashion, the Barca Report argued for "the production of bundles of integrated, place-tailored public goods and services" (Barca, 2009, p. 5). While cohesion policy has indeed invested in both goods and services and has stressed the need to tailor them to people and places, the emphasis on integration has gone missing. Too often cohesion policy interventions operate in silos, with little regard to other interventions being delivered in neighbouring sectors and/or places.

A particularly concerning instance of mismatching materialises as policy intervention delivers goods and/or services in contexts where these cannot be put to good use. Thus far, cohesion policy has assumed that policy recipients, such as the recipients of digital skill training, can engender their own opportunities – in other words, that people who are provided with added resources will develop new environments where those resources can be put to beneficial use. This assumption, however, is flawed on two accounts. First, not everyone has sufficient resources and/or motivation to generate her own opportunities. Second, she may be tempted to relocate to more stimulating environments, where relevant opportunities already exist, and which often correspond to large metropolitan areas. It follows that, in the absence of adequate opportunities in the local environment, siloed investment may add to pressures for territorial agglomeration, thereby working against one of the core objectives of cohesion policy, that of equitable territorial development. In sum, for each place where policy intervention is required, cohesion policy should shift from investing in many distinct silos of goods and services to investing in a network of goods and services.

The second area for improvement is the governance of cohesion policy projects. In its recent history, the policy has been caught in a difficult tension between a sectoral and a territorial approach to policy intervention. Broadly speaking, the sectoral approach advocates that policy intervention be designed to pursue the same sectoral objectives across all places, with little regard for the distinctive needs and preferences of each place. The territorial approach, by contrast, encourages tailoring policy intervention to each place, if sectoral needs and preferences only emerge after a detailed assessment of the place. It is difficult to say whether cohesion policy has privileged one approach over the other (see also Mendez, 2013, pp. 652–655). It has sought to strike a balance between the two. However, this has limited the capacity of sectoral advocates to decisively commit to sectoral development, and the capacity of territorial advocates to commit to territorial development: it is a low-yield equilibrium.

The ensuing question is which approach cohesion policy should follow in the future? To be sure, neither is superior a priori: in some cases, especially where the implications of policy intervention defeat the boundaries of specific places, the sectoral approach may prove more effective; yet the territorial approach may be preferable in other cases, such as where there is uncertainty or disagreement about the sectoral needs of places before policy intervention.

Notwithstanding, as noted earlier, NGEU has emerged as a EU-level instrument for public investment with a markedly sectoral orientation. Although it is a temporary instrument, it is plausible that it or analogous instruments will be rolled over for some time. Therefore, we argue that cohesion policy, to move out of the difficult balance in which it has been trapped, and to differentiate itself from Next Generation EU, should commit more decisively to the territorial approach to policy intervention.

Even within a territorial agenda, a debate is bound to arise about the governance of specific projects. In the social investment literature, two views have emerged in relation of the governance of domestic welfare services. One praises effective coordination between territorial levels, especially between the national level, which is usually responsible for budgeting and monitoring, and subnational levels, which by contrast are primarily concerned with tailoring policies to specific individuals or groups (e.g., Hemerijck, 2018). The other responds that welfare services are best delivered in piecemeal fashion, as local policy communities are allowed to experiment and learn from what works and what does not, with few contractual obligations beyond effective reporting (Sabel, Zeitlin and Quack, 2017). A similar debate has been observed in relation to cohesion policy, between proponents of territorial contractualism, analogous to the former, and proponents of territorial experimentalism, analogous to the latter (Mendez, 2013).

For the future of cohesion policy, we argue for a differentiated approach to the governance of projects. From a normative perspective, it can be argued that bottom-up experimentation is superior to close coordination, both because it better captures the needs and preferences of the local community, in line with the territorial approach, and because it elicits local participation and accountability in decision making. Thus, in places where bottom-up experimentation is expected to work well, such an approach should be privileged over top-down coordination.

The current design of cohesion policy is not very well suited for bottom-up experimentation. Among other things, the complex organisation of cohesion policy across territorial levels is likely to produce perverse incentives, such that the projects that are most easily completed receive funding, as opposed to those that are best suited to a territory’s needs. The *Eighth report on economic, social and territorial cohesion* recognises the need to streamline the delivery of cohesion policy for beneficiaries (European Commission, 2021, p. 8). While this is a welcome proposal, reforms should go further. To bring cohesion policy in line with the operating principles of post-industrial welfare systems, a greater degree of autonomy for subnational territories and support for more experimental projects should be encouraged. Greater autonomy and experimentation would support more placed-based solutions to territorial problems, both economic and social.

However, while bottom-up experimentation is superior to close coordination *in principle*, it must be recognised that it is not always effective *in practice*. This is not least because it requires favourable underlying conditions in terms of both agency – such as leadership from business, third sector, and policy entrepreneurs – and structure – such as effective institutions for eliciting local experiments, buffering entrepreneurs from failure, and organising collective learning. In turn, the territorial distribution of such conditions is likely to be quite skewed. It follows that we cannot expect all places to effectively engage in bottom-up experimentation. Thus, in places with lacking conditions for bottom-up experimentation, a more closely coordinated approach to project governance should be privileged, with more stringent contractual obligations across territorial levels. Meanwhile, cohesion policy should invest *additional* resources in building local conditions for bottom-up experimentation, with a view to gradually shifting to the latter approach in the long run.

A differentiated approach to project governance also requires updating the design of cohesion policy with respect to policy evaluation and learning. So far, the EU has gathered and presented a lot of evidence about successful projects financed in the framework of cohesion policy. Many of those are illustrated in some detail in the cohesion policy data portal. In the future, cohesion policy should carefully analyse those projects and places whose performance has exceeded expectations, with a view to understanding to what extent good performance was driven by effective templates for policy intervention as opposed to historical and geographical contingencies, and to what extent those templates can be replicated for other projects or places. Conversely, except for some evaluation reports by the European Court of Auditors, we know truly little about projects that have failed. Alongside successful cases, cohesion policy should take projects and places that have performed below expectations seriously and try to understand the reasons for their failure. Albeit less politically appealing, for the purpose of policy evaluation and learning, failure is as useful as success.

6 A way forward: levelling-up social investment in EU cohesion policy

Since the Great Recession, there is a growing interest among scholars and policy makers in territorial inequalities. Today we have a much clearer picture of territorial inequalities in the EU than we did a decade ago. However, the picture is not reassuring. Over the past two decades, the divide between places that thrive and places that are left behind has deepened. This has occurred against a backdrop of important institutional changes: across the EU, public policies have been rescaled to different territorial levels, a process driven by a complex mix of functional and political pressures. Taken together, territorial divergence, territorial rescaling, and the reorientation of the welfare system towards services, have put the territorial dimension of welfare policy into the foreground. It follows that EU cohesion policy, by virtue of being the single most important policy for territorial development in the EU, should embrace subnational social investment.

Already, EU cohesion policy is successful in supporting many regions to deliver capacitating services. Besides, there is little doubt that cohesion policy has improved over time. Today, we have a better understanding of its objectives, which include not only enhancing the competitiveness of specific places vis-à-vis the global economy, but also ensuring that territorial development proceeds equitably and sustainably. Thanks, especially, to major advancements in data collection and analysis, we have a better understanding of which projects are being delivered in which places, and of their performance. In several respects, however, the current design of cohesion policy has proved lacking, especially in relation to the challenges that are emerging in post-industrial knowledge economies, and to the social investment solutions that are being developed in response to these challenges. Empirical research has exposed less salutary mismatching, including mismatching between demand for and supply of policy intervention (e.g., cathedrals in the desert, poor responsiveness to local labour market needs), mismatching between distinct policy interventions, and between policy intervention supplying goods/services and local opportunities to put those goods/services to effective use.

In conclusion, we argue that the compound focus on competitiveness and equitable and sustainable development, on one hand, and accuracy in monitoring local projects, on the other – should be retained in the post-2027 framework. Furthermore, we advocate to bring

EU cohesion policy more fully line with the normative and policy principles of service-intensive post-industrial welfare state, a greater degree of autonomy for subnational territories in design and delivery and support with more leeway for experimental projects. Capacitating welfare provision is critically contingent on subnational delivery capabilities and local governance and civil society involvement in the co-production of capacitating services. EU cohesion policy could potentially be a powerful tool to support capacitating social investment and wellbeing returns, but it should serve as the enabler of the conditions for the improvement of the quality of the territorial institutional capital, which should be carefully monitored at the national and supranational levels to tease out the long-term successes of place-based experimentation. From a social investment perspective, it is reasonable to expect that reducing skills mismatches in knowledge economies and ageing societies would indeed mitigate regional economic divergence. In other words, greater alignment between skills supply and territorial labour market demands would support the convergence objective of cohesion policy. To reduce mismatches and maximise skills utilisation, supply side investments in human capital stocks must be balanced with wider subnational development plans which focus on the creation of good quality jobs. Finally, the objectives of cohesion policy and the position of cohesion policy vis-à-vis other EU policy instruments – in particular, NGEU – cohesion policy should be consistent with a territorial rather than sectoral approach.

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