Social investment in human capital

Revisioning Australian social policy

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Introduction

In 2006, the Council of Australian Governments accepted the proposition that a third wave of national economic reform was needed, but acknowledged that it would require major new investment in human capital in order to achieve greater economic participation and productivity. Could this provide the occasion for a sorely needed reinvention of social policy and its reintegration with economic policy? The aspiration for reintegration has informed European public policy for some time. However, the policy commentaries indicate that the goal of a greater harmony between economic and social goals is proving elusive. This paper takes account of the reasons for this failure but finds that, properly understood, the concepts of social investment and human capital potentially provide key building blocks for a successful reintegration of economic and welfare policy in Australia.

The national reform agenda

The emergence of the social investment agenda at the level of national social policy has been quite recent and somewhat unexpected. In 2004, for example, Perkins, Nelms and Smyth (2005), after noting the emergence of the social investment paradigm in the international literature, together with its impact on the policy framework of the Lisbon Strategy, went on to find only limited impact in Australia. They found little influence at the federal level but some among the state governments—in Victoria, for example, notably in early childhood services and neighbourhood and community renewal. Indeed, at the national level, other analysts have observed a work-first approach to welfare reform which is quite at odds with the kind of social investment approach evident in the United Kingdom and other European countries. Australia today, according to Carney (2007) ‘has embraced a narrow “work-forcing” and disciplinary approach to welfare reform, in order to drive more people off welfare into whatever jobs, of whatever quality, which the labour market can create for them’. At the same time, this approach to welfare reform has to be seen in the light of some very significant increases in social expenditure, especially in the area of family policy.

The February and July 2006 announcements by the Council of Australian Governments of a ‘new national reform agenda’ embracing the development of Australia’s human capital clearly strike a distinctive policy note. The new agenda had been developed in a number of policy papers (see *Governments working together a new approach to workforce skills for a more prosperous Australia* (2005); *Governments working together: infrastructure investment for a more prosperous Australia* (prepared by Allen Consulting)(2005); *Human capital reform: report by the COAG National Reform Initiative Working Group* (2006)) and most comprehensively set out in the proposals of the Victorian Premier entitled *A third wave of national reform* (DPC & DTF 2005). This last report described the success of the first two waves in reinvigorating a national economy after significant decline in the 1980s. Thus the first wave opened up the economy in that decade principally through tariff reductions and financial deregulation; while the second focused on microeconomic reform and was driven through the National Competition Policy framework established in 1995. While emphasising the ongoing value of these reforms, the report insisted that participation and productivity had now emerged as the critical drivers of future prosperity. ‘The most effective way’, it said,

> to boost productivity and participation is to develop our human capital. Improving health, learning and work outcomes is how we build a healthy, skilled and motivated society, and a high income economy that is among the world's best' (p.8).

Its first tranche of human capital initiatives was to be in the areas of early childhood, diabetes, literacy and numeracy, and child care; and it presented high level outcomes indicators, not only in these areas but also in relation to increasing workforce participation among particular 'target groups' and increasing work arrangement flexibility. These two latter outcomes were to balance the long-term interests of the individual with those of the economy.

What is noteworthy is the extent to which these reforms are presented in terms of economic rather than social reform. From a social policy perspective, there seems to be no clear framework of social policy principles or criteria informing the human capital agenda. In the *Third wave* report, for example, there is a brief but promising discussion of Sen's theory of capabilities as a way of understanding the human capital approach. This approach, says the report,

> considers not only incomes, but also health and education outcomes … A human capital approach therefore supports not only economic outcomes, but also the public interest more broadly (DPC & DTF 2005, p.30).

Do we have here a key to more integrated social and economic policy settings? Elsewhere the social policy dimension is simply vague. For example, on the key question of how human capital investment will be organised, we read variously of people being 'encouraged to manage their own capabilities'; of flexible and responsive public services; of the role of strong communities in policy design and delivery; and of incentives to encourage people to act in both their private and the public interest. How these responsibilities might be allocated is not discussed. All the documents tend to contain strong claims of the economic benefits of two waves of what social policy researchers have tended to call economic rationalism. What is not clear is how this third wave—or is it the 'third way'?—will combine a new focus on social issues with the kinds of economic principles which informed policy in the 1990s.

A short history of the social investment state

As Jane Lewis and Rebecca Surender (2004) observe, the concept of social investment in human capital is emerging as a defining theme of third way social policy. Both are complex and controversial concepts and will be examined in turn. Certainly, social investment was initially a thin concept, lacking systematic theory and used in a variety of ways which were not consistent in terms of policy orientation.

The first significant usage was in the manner of a manifesto produced by the Commission on Social Justice (1994) in the United Kingdom, which forged the notion of an 'Investors' Britain' as an alternative to the Britain of the Deregulators and the Levellers. Giddens (1998) did most to popularise it as he sought to reframe the role of welfare within his sociological vision of a risk society. The welfare state morphed into a social investment state enabling responsible risk takers to chart their individualised life projects beyond the traditional life worlds. In the United States, Michael Sherraden (2003) also used the term to express his thinking around the role of government investing in asset-based rather than passive welfare, while James Midgley (1999) drew examples from development economics to show how what were termed social policies in welfare state countries (for example, education) could be usefully thought of as economic investments for people concerned with the failing legitimacy of the postwar welfare states. In view of recent post-Washington Consensus affirmations of the positive and indispensable role of social policy in economic development, this may prove a particularly prophetic inflection on the social investment theme (Mkandawire 2004; World Bank 2006; Global Social Policy Forum 2006; Collier & Dercon 2006).

The early and eclectic usage of the term has since given way to a more consistent identification of the concept with a distinctive approach to social policy associated with the EU's Lisbon Framework of integrated economic and social goals and with particular emphasis on welfare-to-work policies. Green-Pedersen, van Kersbergen and Hemerijck (2001), for example, declared that something distinctive had emerged in Denmark and the Netherlands around the turn of the twenty-first century. It was neither old-style social democracy nor neo-liberalism, but a third way focused on employment creation and high rates of participation. It was about turning welfare into work, took a positive view of the ability of the market to provide certain outcomes and had what they called a 'strong emphasis on an active "social investment state" '. Green-Pedersen and his colleagues saw this emergence of the social investment approach as part of a welcome revival of social democratic politics in Europe. For others, however, the concept had gathered some specifically 'third way' connotations which provoked strong critique.

The most systematic accounts of the social investment state are found in the works of Canadians Jenson, St Martin and Drobolowski, and of Lister in the United Kingdom. Lister (2002, 2003, 2004) highlights the work of Esping Andersen for the European Commission post Lisbon and for the New Labour group in the UK in developing a child-centred investment strategy as the leading edge of the social investment state in third way politics. She identifies as key elements:

- a discourse of social investment, in place of 'tax and spend'
- investment in human and social capital, with children and community as emblems
- children prioritised as citizen-workers of the future and adult social citizenship defined by work obligations
- future focus
- redistribution of opportunity to promote social inclusion, rather than of income to promote inequality
- adaptation of individuals and society to enhance global competitiveness and to prosper in the knowledge economy
- integration of social and economic policy, but with the former still the 'handmaiden' of the latter
- a preference for targeted, often means-tested programs

Lister distinguishes this ‘third way’ form of the social investment state from a more genuinely social democratic politics. Notably it implies fiscal austerity and a commitment to equality of opportunity, rather than to equality here and now. She takes a fundamental objection to the way in which the role of social policy is made ‘essentially instrumental to economic ends’. In her view, the focus on investing in the child as a worker of the future detracts from other, less economic concerns: a child-as-citizen approach should be concerned with children’s health, with their present happiness, with their participation in social life and their overall self-realisation. While Lister is not against investing in the citizen-worker of the future, she is keen to assert that policy should not reduce children to little units of production and consumption.

Lister’s critical take on the investment policies for the early years has been amplified by others concerned that the general trend of the third way has reflected a tendency for social goals to be neglected in favour of economic. Dean (2004), for example, noted the widening trend to emphasise work as the best form of welfare and the strong emergence of the ‘human capital approach’. In his view, ‘the metaphor “human capital” accords recognition of the productive potential of every citizen and to the ideals of self-development and individual empowerment’. However, he thought that the human capital agenda highlighted ‘the role of the citizen as an economic rather than a social actor and as a competitive individual rather than as a cooperative social being’ (p.192). In similar vein, Surender (2004) found a diminishment of protection of citizens from market forces and quoted in agreement the authoritative conclusion of Liebfried and Pierson that ‘never before has the construction of markets so visibly and intensively shaped the development of social policy initiatives’. Lewis’ (2004) assessment was similar: arguments for the economic returns on investment had put social polices back on the policy table more firmly than they had been for many years. Emphases on the economic benefits of health and education expenditure, as well as protection against a range of social risks, and of measures to facilitate adaptability in the labour market had been positive. The problem remained, she thought, that in this approach, social investment could be justified only to the extent that it is necessary to sustain competition and growth. For these authors, social policy remained subordinate to the economy and an early optimism associated with the reformist potential of the social investment agenda had given way, in Wickham-Jones’ (2003) words, to ‘resignation’.

Politics against markets – the shadow of the welfare state

These commentaries on the brief history of the social investment state suggest that the reintegration of social and economic policy will be no easy task. The differentiation of social from economic policy that occurred in the postwar period casts a long shadow which remains apparent in the current debate. Most importantly, to adapt Dean’s terms, the roles of citizen as an economic and as a social actor tend to be conceived as at odds; with the former understood in terms of individualistic competition and the latter in terms of cooperative social relations. I will suggest that social policy must take a more integrated view of welfare and economic policies, one in which the former is a junior partner in influencing well-being and in which the dividing line between individualism and cooperation is not between economic and welfare policy but between integrated political economies of welfare.

Elsewhere I have written of the differentiation of social from economic policy in the postwar years (Smyth 1994). Social policy became established as the specialised study of the social services and systems of income support. Social policy scholars and economists were soon talking about each other, not to each other, and developed distinct intellectual traditions (Smyth 1994). The key early figures in the English-speaking social policy world were, of course, Titmuss and Marshall. Titmuss understood the role of social policy in terms of developing what he called the gift society and this to balance the egoism of the market (see Riesman 2005). Marshall's parallel influential sociological account of the postwar welfare state as the expression of a third tranche of citizenship rights—adding social to civil and political rights—remains fundamental to our question. Browne, Deakin and Wilkinson (2004) have explained the tension Marshall saw between these social rights and the market order. The social rights, they say, were understood by Marshall to displace the market. The process of incorporating social rights in the status of citizenship involved creating 'a universal right to real income which is not proportionate to the market value of the claimant' (p.206). In this understanding, there was a basic conflict between social rights and market value, which the authors indicate has not been resolved.

In this Fabian phase of social policy, welfare was seen not so much as hostile to the market as indifferent. In the theoretical turn which followed from the latter 1970s, the gathering fiscal crisis of the welfare state was interpreted as indicative of a fundamental conflict between the redistributive (social welfare) role of the state and its productivist (economic) role in supporting capital accumulation. Social policy began to be interpreted as politics against markets. In the early 1990s, with Esping Andersen's classification of the worlds of welfare according to their degree of de-commodification and de-stratification, this view became entrenched within social policy research. From this viewpoint, the triumph of the free market in economic policy under Thatcher and Reagan could only be understood as a subordination of social rights of citizens to their status in the market.

Jordan (2006) has recently noted how this tradition meant that social policy was left without an adequate economics of services. When public services came under attack from an economics hostile to the public provision of services in the 1980s, defenders

> were thrown back on a political justification of their advantages (in terms of equality and democracy) rather than an economic one. It was easy for economists committed to individual choice in the construction of institutions and to markets as the basis of allocations, to argue the merits of the new approach (p.210).

By the end of the century, this absence of economic justification had left social policy with the reputation, as Kangas and Palme (2005) write of the Nordic countries, of being a 'harmful spender'. At that time, as Paul Pierson's (2001) authoritative overview reflects, even social policy researchers had begun to feel that the expansion of the welfare state had been something of a luxury allowed only by favourable postwar economic circumstances. The passing of these circumstances meant a future for social policy could be accurately expressed in terms of an adjustment to 'coping with permanent austerity'.

Social policy researchers in this tradition have largely overlooked the dependency of the welfare state itself on what I have called the underlying Keynesian economic state. Indeed, we can say that welfare was as subordinate to or dependent on economic policy then as now. Significantly, for contemporaries like J F Cairns and R I Downing (see Smyth 1994) in the 1950s, there was no questioning the policies which had done most to eliminate poverty and raise the living standards of working Australians. These were, of course, the economic polices associated with the achievement of full employment—principally, but not solely, fiscal and monetary policy.

Moreover, because the restoration of the market order was seen to require a certain socialisation of investment, what we might call today 'social investment in human capital' had as much economic legitimacy as did social investment in roads and bridges. In this pre-welfare state period, no artificial division appeared between social and economic investment. Thus Downing:

> Certain social expenditures can contribute directly or indirectly to increasing productivity and equality; particularly expenditures on all levels of education, health and housing. Such expenditures not only make producers more productive and more nearly equal in their capacity to exploit their own abilities; more important, they produce a social environment of human dignity and cooperativeness which makes for better industrial relations and therefore again indirectly for higher productivity. (p.48)

Today we need to step outside the shadow of the welfare state. We have to take an integrated view of welfare and economic policies, acknowledging that the latter have more significant impacts on well-being than the former. From this perspective, I think that criticism of social investment in terms of subordination of welfare to the economy is misplaced; rather, the real issue has been the loss of those values that once informed economic as much as welfare policy. In terms of the National Reform Agenda, the critical issue will be the extent to which economic policy merely continues the deregulatory thrust of the first two waves, or in fact inscribes new social criteria for investment decisions. For social policy, the challenge will be to find ways to reframe the purposes of social policy so that it can support as much as subvert markets.

Social policy and the variety of economic institutions

In embarking on this task, we note several strands in the international social policy literature which suggest a new, more positive, phase of thinking about the relationship of social to economic policy. The evidence on the effects of globalisation on national social policy regimes is failing to support the permanent austerity scenario. Second, recognition of the new risk profile of post-industrial societies is leading away from defending older, no longer functional welfare regimes and toward the exploration of new welfare state types adapted to the post-industrial society. In this section, we highlight recent work directly concerned with the circumstances in which social policy systems assist with superior economic as well as social outcomes.

There is, of course, a long history of debate concerning the relationship between equality and efficiency. With the charge of 'harmful spender' in view, Kangas and Palme (2005) rehearse much of the evidence to refute the claims of an inherent clash between these goals in the Nordic countries. Lindert's (2004) two-volume study of social spending and economic growth in OECD countries since the eighteenth century actually associates strong growth with universalist approaches to welfare. He concludes that 'for all the pronouncements to the contrary, there has been no "crisis" or "demise" of the welfare state since the dawn of the Reagan–Thatcher era'; and he asks why should there have been when 'high budget welfare states have achieved much the same growth with greater equality'. A key lesson from Lindert's work is the way tax and transfer systems can be designed to avoid compromising growth; and in particular the way in which universal systems can foster growth better than strictly means-tested ones.

A more relevant development for our purposes is concerned less with showing that the social and economic policy can coexist peacefully and more with demonstrating how good social policy can have positive economic effects. The key development in this regard has been the influence on social policy of the 'varieties of capitalism' (VoC) school of comparative political economy associated with the work of Hall and Soskice (2001). It focuses on the way firms resolve coordination problems in five spheres: industrial relations, vocational training and education, corporate governance, inter-firm relations and relations with their own employees. Two types of political economy emerge from their analysis: the liberal market economies and the coordinated market economies. The former are characterised by what they call arms-length relationships, governed by competition and formal contracting, in which actors adjust their behaviour on the basis of price signals 'often on the basis of the marginal calculations stressed by neoclassical economics'. The coordinated market economies depend more on non-market relationships, entailing extensive relational or incomplete contracting, networking, collaboration and a setting of outcomes less by market-given equilibria and more by strategic interaction among forms and other actors.

From this VoC perspective, a number of social policy scholars have challenged the usual interpretation of the role of the social policy institutions within capitalist societies. In the dominant power resource school, the rise of welfare states has been explained in terms of effective trade unionism and labour representation in parliaments. It was assumed that employers would resist social legislation as a source of extra costs. But, as historians like Iversen (2005), Swenson (2002), Isabela Mares (2003) have shown, there has in fact been a propensity for employers to support social policies as a way of improving the operation of labour markets. Notably, security derived from generous unemployment benefits has been a way of securing and retaining labour with high or specific skills. The studies suggest that coordinated market economies tend to develop social security systems designed to secure labour pools with high and specific skills related to strategic industry development goals, while liberal market economies encourage individuals to develop general rather than specific skills.

The VoC approach has definitively challenged the view of the role of social policy as being against markets. For example, in his *Capitalism, democracy and welfare*, Iversen (2005) notes how Esping Andersen's analysis of the worlds of capitalism was based on the test of decommodification, that is, whether a person can maintain a livelihood without reliance on markets. Indeed, in this view, welfare states were meant to 'set the worker free: free to organize, free to oppose capital, free to be an individual rather than a commodity' (p.6). Isabela Mares (2003) also underlines these assumptions of the Esping Andersen analysis and with Iversen points to the claim that 'employers have always opposed decommodification'. For these authors, the evidence suggests that employers as well as employee organisations have also in certain circumstances been builders of welfare states, if only to protect their investments in human capital. Iversen concludes 'we need a "politics of markets" rather than a "politics against markets" ' or, more precisely, a theory that social protection can improve the operation of markets as well as undermine them' (p.8). Pontusson (2005) has applied the VoC framework most recently to a comparison of 'social Europe' and 'liberal America' and has shown why the mainstream view of a European economy doomed to economic mediocrity by excessive social spending has not materialised.

The VoC approach suggests how a politics of markets framework can afford a more integrated approach to thinking about social and economic policy. Its emphasis in social policy terms has been on education, training and labour markets, but it suggests a broader principle: that to really understand the role of welfare we have to see it as part of the pattern of public policy as a whole. Clearly the coordinated market economies have as much an emphasis on social or collective action in the economic sphere as they do in the welfare sphere; and one could not be understood without the other. Equally, the individualistic and competitive orientation of welfare in the liberal model complements its economic regime. Importantly this suggests that we can no longer persist with the assumption of the welfare state period that welfare policies are the site of social rights as against the commodifying, egoistic market economy. This might be the case, of course, but welfare policies can also be used to promote commodification and reduce welfare entitlements in order to promote economic participation. Equally some production regimes can be highly individualistic and competitive, but others can be more collaborative, socialised and decommodified.

Social policy and economic policy today

Turning from the literature of institutional analysis to the content of economic policy, it must be said that third way economics remains an uncertain quantity in terms of features relevant to social policy. As Lister (2004) noted, one of the key features of the third way is the 'no' to 'tax and spend' but 'yes' to social investment. The former reflects what Dolowitz (2004) observed in the international policy community at the turn of the century: a generalised belief that the ability of any government to engage in classic Keynesian economic management had been eliminated. While it remains true that 'tax and spend' Keynesianism no longer affords the basis of an integrated approach to economic and social policy, it does appear that the economics of 'social investment' may be opening a door to a new and more positive dialogue.

Assessments of economic policy under New Labour are diverse and conflicting, as Driver and Martell (2006) report, and also Whyman (2006) and Burkitt (2006). There is a view that this third way economics is no different from the neoliberalism of the Thatcher years. The role of social policy is simply to give it a 'human face'. However Driver and Martell conclude that there is a difference, although there is no new single school of economic thought with which that difference can be identified. They refer to an 'eclectic blend of sound money, macro-economic pragmatism and New Keynesian ideas' (p. 85). The blend, according to Dolowitz (2004), is strongly influenced by a post-Keynesian reading of endogenous growth theory. Here governments address the tendency for under-investment in human capital accumulation and technological advancement created by the short-term horizons of individual market actors. They act to encourage deliberative decision-making and longer term horizons regarding the kinds of activities that impact on economic growth.

From this perspective, the operation of New Labour's Comprehensive Spending Review with its 'golden rule (borrowing over cycle must be for investment financing only) and commitment to sustainable investment (maintain a stable debt-to-GDP ratio over the cycle and at a prudent and sensible level) is not just about eliminating public investment and balancing budgets, but is about refocusing social policy on what Dolowitz calls the dictates of endogenous growth. This strategy, he continues, effectively directs investment towards public sector investment and the attainment of full employment, both of which were lost in the neo-liberal agenda of the 1980s and 90s.

The more common view among social policy writers is to associate trends in economic policy with the tradition of Schumpeter. Rebecca Surender (2004), for example, writes that the 'direction of EU reform has been consistently away from a Polanyian "protective reaction against market relations" and towards policies directly connected to labour market participation' (p.9). In similar vein, Taylor Gooby (2003) notes how the EU's Growth and Stability Pact strictly constrains the capacity of states to 'promote employment or to deficit finance public provision' (p.546). According to Taylor Gooby, these policy settings reflect a Schumpeterian vision of capitalism as a 'chaotic and fitful process of creative destruction, led by entrepreneurial risk-takers, who require minimal interference from government and other social institutions to be able to pursue innovations and invest resources where they can best be used'. In this view, growth comes from innovation and is driven by individuals. Market capitalism is a positive sum game in which both sides of industry benefit, and policy should support a regime which expands opportunities for entrepreneurs and allows the chaotic vitality of capitalism to operate untrammelled.

This Schumpeterian reading has been most fully promoted by Bob Jessop (2003). He famously contrasted the Keynesian National Welfare State with the Schumpeterian Workfare Post National Regime. The former is said to have focused on demand management and supported mass consumption in a way that ensured all could share the fruits of growth. The chief locus of policy management was the nation state, with the role of government understood as a supplement to free markets. The SWPNR, by contrast, focuses on stimulating innovation in relatively open economies. It intervenes on the supply rather than demand side in order to strengthen structural competitiveness. Its regime of workfare subordinates social policy to the demands of labour market flexibility and industry competitiveness. Social policy, Jessop writes, follows human capital theory by becoming a form of human resource management. It is more relaxed about inequalities, although it will act to reduce social exclusion. The subjects of social policy become defined less in terms of citizenship and more as partners in the entrepreneurial economy. They become more autonomous and self-reliant. Finally, the locus of government is less focused on the nation state and more on forms of meta-governance through networks and self-governing agencies.

All of these authors emphasise the way in which contemporary economic policy has assigned social policy the more limited role of 'manager of human capital'. Nevertheless, Jessop would allow that neo-Schumpeterian thinking, especially as found in institutional and evolutionary economics, can afford social policy a less constrained role and this may be found in the confluence with endogenous growth models. As Room (2005) writes, these provide an appreciation of the process of dynamic innovation and cumulative change characteristic of the knowledge-based economy, which is not found in mainstream economics. They suggest active roles for governments in human capital development and research. But, according to Aghion and Williamson (1998), it can also require attention to inequalities limiting growth through poor human capital development and social cohesion problems. Finally, rather than merely freeing the market, the model suggests the need for governments to attend to the 'institutional matrix' as an ingredient in growth performance, especially as it relates to the flow of information in the economy.

The social policy literature on the economics of the third way is clearly in its infancy. It does suggest, however, that welfare state researchers should not immediately assume that the economic production regime will be as individualistic as it was in the 1990s. New streams of economic theory, especially those associated with new growth or endogenous growth theory, clearly invite continuing and positive social intervention (in areas such as human capital formation, but also touching on inequality and social cohesion) as well as attention to the coordinating roles of government in relation to the institutional matrices affecting economic performance. In his assessment of the European economic performance, Aiginger (2004, 2005) sees in countries such as Denmark, Finland and Sweden an approach to economic policy which has moved beyond cost cutting and fiscal stabilisation. He sees here an emerging social investment model which seeks complementary appropriate macroeconomic policy adjustments, as well as attention to the key drivers of investment in innovation regimes, through industry policy, education and research. Within these regimes, the human capital management function identified for social policy by Jessop becomes less an exercise in disciplining individuals and more a matter of a social investment in human capabilities.

Social policy and human capital

A particular challenge for Australian social policy researchers engaging with the national reform agenda is that our conceptions of the Australian welfare state have paid little attention to the role of human capital and the social services generally. In part, this is a function of disciplinary silos. Australian educationalists have in fact long grappled with the policy implications of economic theories of human capital; however their writing has not impacted on more general understandings of the Australian welfare state. This section explores some of the key social policy implications of this literature. As with the concept of social investment, we find conflicting interpretations reflecting that underlying conflict between the views of social policy as either for or against the market.

If we lack an economics of the social services, we also lack an adequate history of the social services in Australia as a result of an over-identification of Australian social policy with wage policy and targeted income support. The figure of the wage earner has overshadowed the figure of the citizen. In this context it is surely remarkable that Australia, along with the United States and New Zealand, led the world in the period from the 1870s to 1910 in education performance measured by primary school enrolment rates (see Lindert 2004). We were indeed a 'social investment state' in this period. Education was a site of significant expenditure growth in the Keynesian period, particularly after the Martin report in the early 1960s, so that secondary and higher education had become entrenched as social rights by the 1970s. From this perspective, the historical context for understanding the reassertion of the human capital agenda today is not the end of wage regulation (as proposed in the literature of the Third Wave), but rather the breakdown of the Keynesian welfare state and ensuing compromises in citizenship-based entitlements.

Marginson (1997) has identified three different phases of human capital theory impacting on Australian education policy from the 1960s to the 1990s. The first phase is associated with the work of Schultz and introduced a method of the calculating the economic benefits of education in a way that reflected the economics of the neoclassical synthesis, that is, it allowed considerable scope for positive intervention by governments to correct for market failure. This allowed an elastic boundary around public spending and provided the economic rationale for a welfare state framework of education services. By the 1990s, this had been replaced by a market liberal human capital theory reflecting the influence of economists like Friedman and Becker. Here investment decisions regarding education were thought best left to individuals. As Marginson summarises, ‘the aggregated private individual investments in education, on a market basis, lead to the optimum level of social investment’ (p.116).

With this history, it is no surprise to find a concern in the education policy literature about the social investment in human capital agenda parallel to that identified earlier in the wider social policy commentary (see, for example, Lauder et al. (2006)). Bell and Stevenson (2006), for example, identify the human capital agenda as an accompaniment to globalisation, which forces nation states to enhance skill levels but in a way that makes economic values ‘first order’ while other educational and personal values become secondary. They identify human capitalism as a discourse of individualism which inscribes economic individualism as the primary determinant of social organisation; formulates success in terms of effectiveness, efficiency, value for money, choice and economic development; while subordinating the moral and cultural aspects of education. Education, they conclude, includes more than the production of human capital: it is about values and beliefs, ethics, social justice and the present and future nature of society.

This view of human capitalism clearly remains within the shadow of the welfare state outlined above. The economy is the site of individualism and competition; while educational sphere is a social site where social justice, ethics, culture etc. prevail. But clearly the lesson of Keynesianism itself is that other kinds of economic theory can call for more cooperative and just relations within the economy itself. In his eloquent Afterword to *Markets in education*, Marginson sets a very different challenge for educationalists engaging with economic policy:

> It is no longer viable for critics and opponents of markets in education to base their strategies on a return to the old non-market structures and conditions. The road to something better must now pass through the marketised systems ... and will be affected by their evolution and implosion. (p.280)

In this light, the key question in terms of reintegrating economic and social policy is the kind of economics informing today’s human capital agenda. Is it a continuation of the market liberal human capital theory, or have we moved through that phase?

It would seem that a new element in the human capital agenda of the NRA is the emphasis on addressing wider socioeconomic factors inhibiting human capital development and therefore participation and productivity—factors such as health and mental health. There is clearly considerable potential for bringing together social and economic goals. Thus Esping Andersen (2005) has written of the way in which 'citizens' life chances are powerfully over-determined by their social origins' and gives the Scandinavian example of ways to make equality of opportunity effective. Focusing on the long-term educational importance of cognitive skills which are mostly developed prior to formal learning, he argues that it is necessary to have, alongside a well-designed school system, an absence of child poverty through the guarantee of adequate income to families with children as well as universal, high-quality child care. With advanced economies increasingly characterised as knowledge economies, in which there is no future for the citizens without skill, Esping Andersen argues that we can no longer afford social inheritance.

If these emphases, first on the linkages between education and other social outcomes and second on optimising the human capital of all citizens, are signs of a new approach, then the National Reform Agenda reference to the work of Sen could be critical in recoupling the goals of better individual outcomes with the public interest more generally. Sen's approach, as Salais (2003) argues, allows us to reframe social policy in terms of a social investment in productive factors, thus linking justice and efficiency. In similar vein, Browne, Deakin and Wilkinson (2004) have argued that this approach enables us to overcome the unresolved conflict between social rights and the market, identified in Marshall. By institutionalising social rights on the basis of capabilities, they argue, social rights are designed not to replace or stifle market mechanisms but 'rather offer a framework for market-steering which results in better and fairer market transactions' (p.212).

Conclusion

Could the National Reform Agenda in Australia be the vehicle for a reintegration of economic and social policy? The British and European social policy literature on the third way registers a strong judgement that to date a similar-sounding agenda of integration has in fact resulted in the subordination of social to economic policy. This paper has argued that this kind of judgment can in part reflect the long shadow of welfare state thinking which cast the role of social policy in terms of politics against markets. The paper has proposed a new starting point which integrates welfare and economic policy and suggests that economic policies will always be more important than welfare policies in determining individual and social well-being.

From this perspective, the literature on the economics of the third way showed a more heterodox influence than was the case a decade ago, with endogenous or new growth theory expanding the scope for social investment, especially in relation to human capital development. Moreover, this implies a different, more networked model of economic governance than in the two earlier waves of national reform. The need for networking and coordination and steering of investment in this model clearly suggests the emergence of a more social dimension within contemporary economic thinking and policy development.

Parallel developments were identified in the human capital literature. The market liberal human capital theory of the second wave of national reform has been joined by new emphases on the need to address the social foundations of human capital development as an agenda for social equality but also of economic efficiency. The theory of capabilities developed by Sen, if taken up by the National Reform Agenda, could articulate a new basis of social entitlement which does not act not against the market but facilitates more efficient and fairer markets.

Currently the National Reform Agenda has been conceived in rather narrow economic terms. It has little sense of history in relation to social policy. There is little sense of how the social rights and responsibilities of citizenship might be recast through a more social approach to investment in human capital. What institutional processes might be needed to deliberate upon and govern a new set of human capital entitlements across the life cycle? In particular, what new forms of social regulation and governance might be required to complement the market ordering of human capital investment?

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