

THE INCOMPLETE REVOLUTION

Adapting to Women's New Roles

Gøsta Esping-Andersen

polity

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To cite a similar example, in the late 1990s the Blair government embarked on a massive expansion of day care, establishing 600,000 new places within a few years. The policy was based on commercial centres and, since the public subsidy was modest, families had difficulty accessing the service. As a result, almost half of all were subsequently closed due to 'lack of demand' (Evers et al., 2005).

Increased spending on family services must be considered as a realistic scenario. The very simple point that needs to be driven home is that (a) if we *do* want to realize such welfare goals, this added financial burden is inevitable, however we combine private and public. And (b) if the added spending is not forthcoming we should expect major welfare lacunae, such as lower family income and fewer children.

The added financial burden will inevitably vary across the EU. In countries like Denmark and Sweden a very large slice of the added spending needs has already been effectuated considering that child and elderly care is now virtually universal. The additional outlays that will be required over the coming decades will therefore be limited to population size adjustments or to possible quality improvements. At the other extreme are countries like Italy and Spain where catch-up needs to be huge. In between lie countries like Germany and France where additional spending requirements will be somewhat more modest but nonetheless significant, given large shortfalls in childcare provision and even larger ones in old age care.

In short, we need a consolidated system of accounts that allows us to (a) identify real (and not misleading) public spending, and (b) examine the joint expenditure trends in markets and government alike. It is total GDP use that matters. The really important value of such an approach is that it puts us in a far better position to assess the distributional aspects of our social model. The relevant question is not *whether* we can afford more welfare spending because this will happen anyway. The really relevant question has to do with *who* are the winners and losers, and what may be the second-order consequences, when we opt for one or another public-private mix. If we could also develop a credible system for measuring the implicit cash value of family self-servicing, we would be able to approach a genuine system of welfare regime accounts.

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Investing in Children and Equalizing Life Chances

The standard critique of the welfare state is that it sacrifices efficiency in its quest for equality. The claim is that welfare guarantees erode the work incentive, reduce our propensity to save and lower productivity. We face a cruel trade-off if, indeed, social protection eats the hand that feeds it.¹

The trade-off theory rests more on a basic belief than on hard evidence. Serious empirical assessments have generally failed to uncover any serious efficiency losses that can be ascribed to the welfare state.² There are equally plausible arguments for why it may actually contribute to a stronger economy. Healthy and well-educated citizens are more productive, and if they feel secure they are more likely to accept rapid change. The globalization of trade and rapid technological change will, almost inevitably, provoke more job insecurity. Many have therefore argued that globalization requires a strong welfare state (Katzenstein, 1984; Garrett, 1998). In a similar vein, it is held that the need for more flexible employment regulation needs to be matched by stronger individual welfare guarantees (Hemerijck, 2002; Kvist, 2002; Schmid, 2008).

The debate has been characterized by considerable confusion, much of which stems from the lack of any succinct definition of the 'equality' side of the trade-off. To arrive at a minimal level of

¹ This chapter is a revised and expanded version of G. Esping-Andersen (2007), 'Childhood investments and skill formation', *International Tax and Public Finance*, 15: 14–49.

² See Barr (1998), Atkinson (1995) and Atkinson and Viby-Mogensen (1993).

clarity we need at least to distinguish between equality of outcome and equality of opportunity. We also need to recognize that the connection between equality and social policy is ambiguous and often even contradictory.

Equality of outcome is usually measured by comparing the income distribution before and after taxation and welfare spending. There is of course no doubt that welfare states are redistributive, but much of this is simply due to income reallocation over the life cycle, in particular from younger to older ages. It is also clear that large slices of the social budget favour the rich over the poor. This is certainly the case for higher education and the most expensive items in health care. Generally speaking the primary aim of the welfare state was never income redistribution for its own sake but rather to provide insurance and protection. To the extent that the welfare state has ever committed itself to an egalitarian ideal, it has predominantly been to advance equal *opportunities* rather than actual outcomes. In the distant past this was framed in social class terms and the promise was to ensure that class origins should not dictate a person's life chances.

Even the staunchest advocates of the trade-off theory will agree that equal opportunities are important for efficiency, at least to the extent that they are pursued in the spirit of investing in a nation's human capital. To this end, post-war reformers believed that education reforms would, at once, raise productivity and eliminate the vestiges of social inheritance. Towards the end of the twentieth century it became increasingly evident that universal and free education had failed in its mission to equalize life chances. With the accumulation of high-quality comparative research, such as Erikson and Goldthorpe's *The Constant Flux* (1992), we have been forced to conclude that in virtually all advanced countries there has been no significant equalization of opportunities: the link between social origins and children's life chances is basically as strong today as it was in the time of our grandfathers.³

³ Comparative research concludes that the Nordic countries may be a sole exception to this 'constant flux' scenario. These countries have, without doubt, succeeded in equalizing educational attainment across the social strata. It is, however, doubtful whether we can ascribe this squarely to education reforms.

A great paradox of our times is the lack of any serious equal opportunities progress despite so much effort invested in the pursuit thereof. As is typical of most paradoxes, they vanish once we arrive at a better understanding of the true mechanisms that guide social life. What is now firmly understood is that education systems, no matter how progressive and egalitarian in design, are institutionally ill equipped to create equality. Pierre Bourdieu (1977) has provided one explanation, namely that the school milieu is inherently biased in favour of a middle-class culture that unintentionally penalizes children from lower social strata. In recent years has emerged an alternative and surely more powerful explanation. Grounded in developmental psychology, the argument is that the crucial cognitive and behavioural foundations for learning are cemented very early in childhood. What occurs in the *pre-school* ages is fundamental for children's ability and motivation to learn when they subsequently embark on formal education. The imprint of social origins is therefore already firmly established before either schools or the welfare state play any major role in our lives. The logical conclusion is that we should centre our attention more on what happens within the family than on education policy.

The quest for more equality of opportunities faces, in many ways, rising obstacles that are inherent in the advancing knowledge economy. In fact, there is a good argument to be made that the knowledge economy alters the nature of the 'equality-efficiency' trade-off.

The New Challenges

The international PISA studies have provoked intense public debate precisely because they provide us with an excellent opportunity to gauge how well prepared we are for the knowledge economy. The gist of these studies is to measure the cognitive skills among youth, aged about 15. Cognitive skills are, in the first place, *sine qua non* for school success. And virtually by definition they must be central to the knowledge economy insofar as they capture the ability to understand information and solve problems. In many countries, unfortunately, the debate about the PISA results

has focused on the national average. The media became obsessed about whether, say, the Germans are really inferior to the French. There are surely country differences but they pale in importance compared to the degree of *dispersion* of skills within any given country. Whether we mainly care about social exclusion or about our future economy, our primary concern should be directed to the size of our population which is de facto dysfunctional.

There are two basic 'efficiency' reasons why we need to ensure minimal inequality of skills and human capital. The first is demographic. Due to prolonged low fertility the coming youth cohorts are, and will continue to be, very small. Over the next decades, the working-age population of the EU will shrink by 50 million. These small cohorts must support a large and rapidly growing elderly population. Hence, we need to invest maximally in the productive potential of contemporary youth in order to guarantee a sustainable welfare state over the decades to come.

The second reason has to do with the rapidly rising skill requirements in the knowledge-intensive economies. While everyone agrees that skills are ever more decisive, there is substantial controversy over what types of skills matter most. Formal educational credentials surely remain crucial. We can, as a rule of thumb, pretty much predict that someone with no more than a lower secondary degree will fare very poorly in tomorrow's labour market. In virtually all advanced economies today, early school leavers suffer three times more unemployment than do those with higher degrees, and they are hugely overrepresented among the long-term unemployed. Viewed in life-course terms, the low educated are unlikely to accumulate much pension wealth and are, accordingly, at risk of old age poverty.

It is, nonetheless, ever more evident that cognitive and non-cognitive skills are gaining in importance. Cognitive skills stipulate how effectively children learn in school but there is also evidence that they remain crucial throughout people's careers. It has, for example, been demonstrated that formal education matters most for a person's initial career moves, while cognitive abilities continue to exert a powerful influence over the entire working life (Warren et al., 2002). The case for non-cognitive skills is being powerfully argued by James Heckman, the economics Nobel prize

winner.⁴ The core argument is that traits like leadership abilities, communication skills, initiative or the capacity to plan ahead are increasingly decisive for success in modern firms.

Both cognitive and non-cognitive skills are partially transmitted genetically and partially the result of nurturing – that is, of environmental stimulus (Bowles et al., 2001, 2005; Bjorklund et al., 2005). It may be futile to aspire towards an exact differentiation between nature and nurturing effects but there is little doubt that the impact of the latter is very large. Since cognitive (and non-cognitive) abilities influence school success and, subsequently, adults' life chances, the policy challenge is to ensure a strong start for all children. Investing well in our children will yield very large returns both for individuals' life chances and for society at large.

Any serious consideration of equality and efficiency must realize that children are a positive collective good. It is certainly not easy to arrive at any precise estimate of their social value. Preston's (2004) estimate for an average child (on a lifetime basis) of \$100,000 may be indicative of the magnitudes. But the question is whether the high social gains that wonder-kids produce are offset by the costs to society of the failures. The Urban Institute estimates, discussed in chapter 3, suggest that child poverty creates social costs equivalent to 4 per cent of GDP in the US. This is in great part caused by the strong link between poverty, school failure and juvenile delinquency.

We might imagine two radically contrasting versions of the knowledge society. The inegalitarian scenario would look like 'islands of excellence in a sea of ignorance', i.e., a knowledge elite surrounded by a large mass of low-skilled populations. I think we can assume that most would favour the alternative scenario of minimal ignorance and a high average. The proportion of today's youth with inadequate skills signals the likely size of tomorrow's social exclusion problem.

I present two telling indicators in Table 4.1: the share of young adults with no more than lower secondary education (ISCED

⁴ The importance of cognitive abilities is reviewed in Farkas (2003). The case for non-cognitive skills is presented in Heckman and Lochner (2000) and in Carneiro and Heckman (2003).

Table 4.1 A skill profile of tomorrow's workforce in representative OECD countries

| | % with only ISCED 1-2 (age 20-24) | PISA (Math) Performance | | |
|---------|---|--------------------------|-------------------------|------------------|
| | | mean score natives | % below PISA minimum | %PISA 'Elite' |
| Denmark | 4 | 526 | 5 | 4 |
| Finland | 8 | 547 | 7 | 19 |
| France | 14 | 507 | 7 | 4 |
| Germany | 15 | 527 | 9 | 5 |
| Spain | 31 | 487 | 19 | 4 |
| Sweden | 10 | 518 | 12 | 11 |
| UK | 8 | 511 | 13 | 16 |
| US* | 20 | 499 | 18 | 12 |

Data source: ISCED data from OECD (2003: Table C5.2). PISA data directly from raw data files. PISA elite refers to the percentage scoring in the top 5th level (in mathematics).

*The US figure refers to those who did not complete high school (12%) plus those who obtained only GED diplomas (8%) (Haveman et al., 2004: Table 4.8).

1-2), and the 'cognitive' performance among 15-year-olds from the 2000 PISA study. Falling below the PISA minimum means that respondents have difficulty in understanding even basic information; this is accordingly a measure of cognitive dysfunction. A quick glance at the table suggests that Denmark and Finland score well on homogeneity while Spain and the US lie closer to the 'islands of excellence' scenario. France and Germany fall between the extremes with an average rate of early school leavers but with a fairly homogeneous distribution of cognitive abilities.

Since it would be silly to argue that some nations are genetically superior to others, these huge country differences, both in school drop-out rates and in the distribution of cognitive abilities, must be ascribed to institutional factors. In principle, Spain should be able to limit school drop-out rates to below 10% and its dysfunctional population to 5%. A striking feature is that the skill dispersion seems unrelated to a country's mean performance. In other words, greater homogeneity need not be achieved at the expense of inferior standards. Finland suggests that polarization can be minimized even when the average performance is record high, and even if a country produces a large 'cognitive elite'.

Another way of capturing the inequalities of cognitive abilities would be to calculate 'cognitive Gini' coefficients. These, again, line up very well with the profile presented in Table 4.1. The US Gini (0.160) is exactly twice as large as the Danish (0.08).⁵

That cognitive abilities matter for labour market success is clear. Using the IALS data, cited above, I estimate that the likelihood of unemployment more than doubles for low-scoring young workers in the UK. In the Netherlands and Scandinavia, countries in which low-skilled jobs are scarcer, the likelihood jumps to four to five times higher than for those with an average cognitive performance. Similarly, when we include information on cognitive test scores in an analysis of wage determination, we find that test scores have, independently of educational attainment, a substantial impact on earnings (Green and Riddell, 2003).

The Mounting Obstacles

Rising Income Inequality

One menace comes from rising income inequality and how it influences the opportunity structure. At one extreme we see top-income households distancing themselves from the middle, in part because of rising returns to skills and, in part, due to concentrations of high-earning dual-career couples at the top of the income pyramid. At the bottom of the pyramid, less educated couples face strong probabilities of low income and joblessness (Katz and Autor, 1999; Gregg and Wadsworth, 2001; Hyslop, 2001). With the notable exception of France, the Gini coefficient of (market) income inequality has risen throughout the advanced societies, in some (like Germany, Sweden, the UK and the US) by more than 20%. Perhaps the single most troubling trend lies in the often substantial rise in child poverty. It has doubled in Italy, Germany and the Netherlands, but has remained fairly stable (at about 8%) in France (Esping-Andersen and Myles, 2008).

As inequality widens, parents' capacity to invest in their children's fortunes will become more unequal (Solon, 1999). This

⁵ Estimated from the International Adult Literacy Survey (IALS), conducted by Canada Statistics.

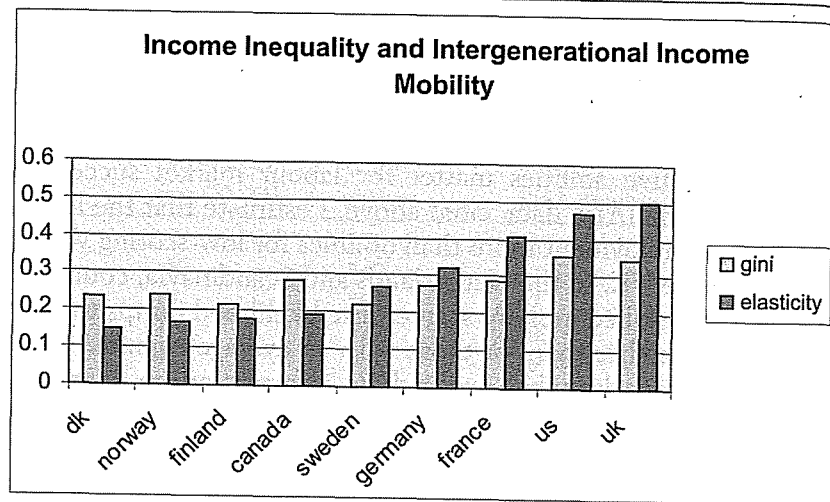


Figure 4.1 Income inequality and intergenerational income elasticities*

*Income inequality is the Gini coefficient for disposable household income in the mid-1990s. Intergenerational mobility is the elasticity of parental income on children's income

Source: Ginis are from Luxembourg Income Study, Key Figures; Parent-child income correlations from Corak (2005)

means that social inheritance is reinforced. This phenomenon has been researched extensively in recent years by estimating the direct link between parents' and offspring's (as adults) income (Corak, 2004, 2005). What we find are truly large differences among countries – differences that are closely related to prevailing income inequalities. As shown in Figure 4.1, the correlation between parents' and children's income is three times stronger in the UK and US than in Denmark and Sweden. France's income distribution is comparatively quite unequal and this spills over to social inheritance. Although not as strong as in the US, the French correlation (0.4) is nonetheless more than twice as strong as the Danish (0.15). Publicly financed education will, of course, help soften the impact of parental income but it will not eradicate it.

The income effect is especially pronounced at the top and the bottom of the income distribution (Couch and Lillard, 2004). As far as the top is concerned, the rich can buy a secure future for even the least gifted offspring. Indeed, here we encounter

substantial over-investment in children that is clearly an inefficient use of our economic resources. The effect at the bottom is potentially much more severe. We know from US research that there is a 42 per cent probability that a child of poor parents will, as adult, also end up poor (Jantti et al., 2006). Child poverty, as I noted earlier, has major social costs but it also constitutes a massive barrier to individual opportunities.

Demographic Challenges

Ongoing change in family structure may also contribute to polarization. To begin with, families are more unstable and the share of children growing up in lone-mother households is rising. Lone-mother families now account for 15–20% of all child families in Northern Europe and the US. The consequences for children's well-being are decidedly negative in the US, but the evidence for Europe is more ambiguous. This has undoubtedly something to do with underlying social selection. In the US (and UK), lone motherhood and divorce is increasingly concentrated within the lower social strata, while this is less so in most of Europe. There are two main reasons why lone-mother families create negative child outcomes. One is that they are at high risk of poverty. In the US, half of all lone-mother families are poor, but as we would expect the risk is lower in Europe: 29% in France, 38% in Germany and a low of 13% in Sweden (Esping-Andersen and Myles, 2008). The containment of poverty in Scandinavia is probably less due to generous welfare state support and more to the fact that virtually all lone mothers work (in Denmark, 81%). Another reason why children of lone parents fare poorly lies in the potential 'nurturing deficit' due to less parental time dedication. This, of course, is especially likely when lone mothers are employed.

A second trend is the increase in marital selection, particularly with regard to educational homogamy. This is especially pronounced at the top and the bottom of the social ladder so that, at one end, we see a concentration of two parents with strong human capital and, at the other end, a concentration of parents with little education. This should widen inequalities, not only because of the gap in earnings power, but also due to employment patterns. As I discussed in chapter 1, in most countries the revolution of

women's roles remains incomplete in the sense that the lifetime career commitment that higher educated women now embrace has not extended to the less educated. When we add to this the far greater probability of male unemployment at the bottom, we see here a major source of polarization. The key lies in the degree to which women's participation is socially skewed. Where, as in Scandinavia, virtually all women work, polarization is muted; where, as in most countries, female employment is concentrated at the top, the gap becomes large. To exemplify, in France women in the top income quintile earn nine times more than women in the bottom quintile, mainly because the latter work very little. In Denmark, top-income women earn only four times as much. Marital homogamy is also likely to polarize parental dedication to their children. As mentioned earlier, there is clear evidence that highly educated mothers *and* fathers dedicate much more time to their children, in particular with regard to what we might call developmental time, that is, active stimulation.

A third demographic challenge comes from large-scale immigration. A curious facet of immigration is that second-generation immigrants tend to converge with local populations in terms of demographic behaviour, such as fertility, but not in terms of education and skills. To illustrate, even in Sweden where the school system is extraordinarily committed to rectifying immigrant children's learning disadvantages, the probability of school failure is nevertheless five times higher for immigrants than for natives.⁶ A more general illustration comes from the PISA data which show generally very large gaps in cognitive abilities between native and immigrant youth (see Table 4.2).

In the table I distinguish between raw and adjusted effects. The latter takes into account the possibility that the gap may reflect characteristics that are not strictly related to being immigrant, such as low parental education or family income. But even when we adjust for such factors, the immigrant deficit remains very substantial. In Belgium, Germany and the Netherlands, immigrant children score about 13% lower than native children after

⁶ This evidence derives from the author's participation in an OECD mission to Sweden in February 2005.

Table 4.2 The immigrant deficit in different countries (difference from country mean)

| | Raw immigrant effect | Adjusted immigrant effect |
|-------------|----------------------|---------------------------|
| Austria | -60 | -36 |
| Belgium | -82 | -56 |
| Denmark | -33 | -17 |
| Finland | -18 | -22 |
| France | -33 | -20 |
| Germany | -68 | -40 |
| Ireland | +15 | +13 |
| Netherlands | -73 | -43 |
| Spain | -21 | -23 |
| Sweden | -37 | -25 |
| UK | -21 | -21 |
| US | -35 | +14 |

Data source: PISA 2000 data files. Adjusted effect includes controls for mother education, parental SEI, sex and the number of books in the home

adjusting for such factors. In France, immigrant children score 7% lower. We note, however, that immigrant kids do well – once we correct for compositional effects – in Ireland and the US.

Identifying the Causal Mechanisms Behind Social Inheritance

We now realize that the effort to equalize opportunities through education policy failed because policy makers erroneously believed that the roots of unequal life chances lay in socially skewed access to education. This obviously does not imply that differences in educational design make no difference whatsoever. It is well established that early tracking in schools intensifies social selection, that integrated comprehensive schools do help diminish social class differences in upper-secondary school attendance and that income subsidies for higher education can help boost enrolments of less privileged students (Erikson and Jonsson, 1996; Machin and Vignoles, 2005).

In any case, there is now a general consensus that the really important mechanisms of social inheritance lie buried in the pre-school ages. For most children this is also the period where they

are most 'privatized', depending almost exclusively on the family milieu. In fact, just about any elementary school teacher can testify to the huge differentials in children's school preparedness already from the very first day of classes. Schools and, more generally, the education system, are inherently poorly equipped to remedy such gaps and we also know from a huge amount of evaluation research that later remedial policies are rather ineffective – and costly as well (Carneiro and Heckman, 2003). This all suggests one crucial point. Whether our aim is to create more equality or simply to raise the productivity of tomorrow's workforce, our analytical lens should be focused on what happens behind the four walls of the family. This is where the really important effects lie buried.

We must distinguish three kinds of family effects: the 'money' effect, the 'time investment' effect, and the 'learning culture' effect. An interesting aspect of these is that they do not necessarily coincide: the rich are not necessarily those who dedicate most time or stimulation to their children; school teachers earn very little, but they read books.

The Importance of Money

The influence of income inequality on life chances is inherently ambiguous. Inequality should, on one hand, create incentives for people to invest in more human capital and, more generally, to be more motivated to get ahead. On the other hand, the prevailing level of inequality in the parental generation will influence parents' capacity to invest in their children. The impact of family origins on children's life chances should be positively associated with the degree of inequality. The standard assumption behind post-war policy was that equalizing access to all levels of the education system (especially via public financing and targeted subsidies) would cancel out the effect of parental resources on human capital acquisition with no need to alter the earnings or income distribution.

Recent research on intergenerational income mobility suggests that this has been an overly optimistic assumption.⁷ As discussed earlier, the association between parents' and children's income (as

⁷ For an overview, see Solon (1999) and Corak (2005).

adults) is exceptionally strong in countries, like the US and the UK, where income inequalities are especially pronounced. We can say nothing about the causal direction between inequality levels and mobility. The twain are bound to reinforce each other in any case. The point is that welfare and efficiency concerns coincide. From an equity perspective, children's life chances should depend less on the lottery of birth than on their own latent abilities. From an efficiency point of view, high parent-child income correlations imply that society is under-investing in a sizeable share of its children (and possibly also over-investing in some).

And we should not forget that the income effect is especially strong at the top and bottom. This is why child poverty warrants special attention. US research concludes that poor children will have two years less schooling than the non-poor. They are also far more likely to suffer from poor health, engage in crime, and fall into unemployment as adults (Mayer, 1997; Duncan and Brooks-Gunn, 1997). Perhaps worst of all, they have a high probability of ending up as poor parents. In other words, the syndrome is perpetuated from one generation to the next. The impact of poverty is perhaps a little less severe in Europe, but this does not mean it matters less (Gregg et al., 1999; Maurin, 2002). For the UK, Gregg et al.'s (1999) data show that financial difficulties during childhood reduce by about a half children's likelihood of advanced vocational training, and poor children are three times less likely to attain higher academic degrees. Their study controls for cognitive test scores at age 7, which means that the effects are independent of abilities. The picture is fairly similar in France. The likelihood of leaving school with no completed degree is four times higher for children from poor as compared to non-poor families (CERC, 2004: 107).⁸ Poverty is probably not simply a question of parental spending power. An additional effect comes from income insecurity which produces risk adversity and may lead parents to curtail children's schooling prematurely. In either case, the result is pretty much the same. Hence, if child poverty and parental economic insecurity rise we should expect adverse

⁸ Unfortunately the French estimates do not control for children's abilities (via, for example, cognitive test scores).

consequences for educational attainment and, further along, for employment and earnings in adulthood.

Poverty is particularly prevalent in lone-mother families. The problematic effects of growing up in lone-mother families have been widely documented for the United States (McLanahan and Sandefur, 1994) and the UK (Gregg et al., 1999). Coleman (1988) reports that US school drop-out rates are 30 per cent higher in these families. While the effects are clear, it is less easy to sort out the precise reasons. Biblarz and Raftery (1999) argue that the adverse effects are mainly related to poor socioeconomic conditions rather than to solo parenthood per se. Gregg et al. (1999) conclude similarly that the negative lone-parent effect disappears when controlling for financial distress. Bernal and Keane (2005), in turn, emphasize negative nurturing and socialization effects.

Most research on lone-mother effects refers to the US and we should be cautious about generalizing to Europe. For one, in the US there is a large overrepresentation of teenage and minority (black) mothers; for another, divorce in the US is more skewed towards low-income couples than in Europe. We should also not forget the very high incarceration rate among young (especially black) American males. In fact, from my own analyses of the PISA data, the strong negative effect of lone motherhood (controlling for immigrant status, socioeconomic status, and mother's education) on children's test scores in the US does not extend to most EU countries. Indeed, the results for countries as different as Denmark, the Netherlands and the UK suggest that children of lone mothers score comparatively better *if* the lone mother is employed. This is almost certainly due to good quality external child care.

If income matters, one would expect welfare state redistribution to have a major effect on opportunities. Government income support to families with children varies tremendously across countries both in scope and generosity. The poverty reduction effect is relatively minor in the US (about 4 percentage points) and very substantial in the Nordic countries (a 13 point reduction in Sweden) and in France (almost 20 points). The pre-redistribution poverty rate is of course exceptionally high in the US, and this means that there remain, post-transfer, 22% child families in

poverty. In comparison, post-transfer child poverty in the Nordic countries is, in all cases, below 5%.⁹

The merits of redistribution are evident if the aim is to minimize poverty, but will it also equalize opportunities? This depends on the degree to which family income genuinely influences educational attainment. Mayer (1997) presents a sceptical view, arguing that it may have more to do with those characteristics of parents that produce income poverty to begin with. And even if money matters, a redistribution strategy may incur second-order effects such as reduced parental work incentives. As I shall discuss in the final section, the macroeconomic cost of lifting all child families above the poverty line is surprisingly modest, and the impact on labour supply is probably not major. But in terms of cost and poverty-reduction effectiveness there is a much stronger argument in favour of, alternatively, supporting mothers' employment, especially at the low end of the income distribution. The incidence of child poverty falls by a factor of 3–4 when mothers work – in particular in the case of lone mothers (Esping-Andersen, 2002).

The case for anti-poverty redistribution to improve education outcomes is quite strong. Erikson and Jonsson's (1996) examination of the international evidence concludes that the Scandinavian countries' success in diminishing social inheritance over the past decades must be, at least partially, ascribed to their success in curtailing child poverty and ensuring broad economic security within families. If this is so, we arrive at a very important conclusion regarding the welfare state and equality debate, namely that equality of opportunities requires at least some degree of equality of outcomes. The argument that 'here-and-now' equality is irrelevant and that we need only be concerned about opportunities is clearly mistaken.

Still, as I explore below, the efficacy of a redistribution strategy – at least if not accompanied by other measures – is doubtful. Indeed, family income may not be the *most* decisive mechanism that drives child outcomes. A formidable rival lies in the familial learning milieu and also in parents' time dedication.

⁹ Calculations are from Luxembourg Income Study data. Here and throughout I measure poverty as less than 50% of adjusted median household income. See also Esping-Andersen and Myles (2008).

The Importance of Parental Time Investment

The income advantage that employed parents produce may be cancelled out by a nurturing loss due to less time dedicated to the children. If that were so, children at the bottom end of the social pyramid should be relatively advantaged since labour supply among less educated mothers tends to be far lower. This, however, depends on three other factors. One, on sibling size: with the exception of the Nordic countries, low-educated women have more children. It depends, secondly, on differences in the quality of parent-child interaction and, thirdly, on the quality of external care. There is no doubt that the quality of parental stimulus is powerfully related to the level of education – and of course to ‘unobserved’ parenting talents. The trend towards increased educational homogamy at the top and bottom may widen the ‘quality gap’ of nurturing.

This seems, in fact, to be the case. The patterns and intensity of parental time investment are undergoing rather profound – and surprising – changes. Data from several countries show that, on average, total *parenting* time has actually risen since the 1960s. This, as discussed in chapter 1, derives primarily from the surge in fathers’ participation. Maternal care experienced a small decline in the 1980s but has seen a recovery in the past decades. Averages are, however, misleading since they obscure widening gaps in parenting (Bianchi et al., 2004, 2006). Among the highly educated – where mothers typically work – we find that fathers’ time investment has risen spectacularly in the past decades. In the US and Denmark it has doubled, and in the UK almost tripled (Hook, 2006). We even see an, albeit smaller, increase in highly educated mothers’ time dedication. Additionally, the time increase is especially centred on ‘developmental’ type activities with the children. This suggests that highly educated parents are discounting the value of income or leisure in order to maximize investments in their children. Yet this does not appear to be the case among lower educated parents and, accordingly, we witness a growing social gap on one crucial dimension of children’s cognitive and non-cognitive stimulation. And the gap is surely non-trivial. The highly educated parents contribute 20 per cent more developmental time than those with less education (Bonke and Esping-Andersen, 2008).

The impact of mothers’ employment on child outcomes is a controversial issue, in particular with regard to the trend towards minimizing career interruptions around births. There is considerable evidence that external care during the child’s first year can be harmful. The good news, however, is that mothers’ employment *after* the first year has no harmful effects, that is, *if* external care is of good quality and *if* her job conditions are stable and not stressful (Gregg et al., 2005; Ruhm, 2004; Waldfogel, 2002; Mayers et al., 2004). Also from the PISA data we see that mothers’ employment (including full-time jobs) has positive rather than negative consequences in most countries.¹⁰

The Influence of the Family Learning Culture

The quality of parental investment in children is related to the family’s ‘cultural capital’ or learning milieu. This has been shown to have a powerful influence on children’s school success (de Graaf, 1998). The learning culture is not simply a by-product of either parents’ education or income, and it operates through various channels. One, emphasized by Bourdieu (1977), is the transmission of a proper ‘middle-class’ cultural baggage – such as self-presentation or language skills – to the children. A second has to do with parents’ knowledge and appreciation of education and how this helps them make the best school choices for their offspring. Low-educated parents may have difficulties in navigating their children through the complexities of an education system, especially if they were early school leavers. A third refers to the quality of parental stimulation and, more generally, to parents’ ability to actively stimulate their child’s learning skills. The international PISA data, once again, help shed light on such effects since they include three indicators of ‘culture’, among which ‘number of books in the home’ is by far the strongest in terms of explanatory power.¹¹

¹⁰ A rider on these findings is needed since it turns out that the mother-employment effect is mainly positive for girls. In a few countries, in fact, her employment appears to affect boys negatively. This may, nonetheless, be countered by the fact that fathers are more likely to care for male children.

¹¹ One measure taps elite culture such as attending theatres and concerts, but this has virtually no effect on cognitive skills.

My analyses of the PISA data, shown in Table 4.3, suggest that 'cultural capital' overpowers socioeconomic status in accounting for cognitive differences in all countries. Statistically speaking, the 'culture' effect is always highly significant and generally far stronger than income-related effects. To illustrate, I find that children from a family with less than 10 books would enjoy a 9% improvement in their reading comprehension if parents were to arrive at the national average in terms of books in the home.

The magnitude of the 'culture' problem is related to the size of the parental generation that lacks the resources to adequately stimulate their children's learning abilities. In some EU countries – like Spain and Italy – there remain a very large number of adults with only minimal education. Within the typical parenthood age bracket (35–44), 54% of Spanish mothers have no more than compulsory education – compared to only 12% in Sweden (OECD, 2003). The leap in female education will diminish this gap in the decades to come. In Spain, for example, the percentage of women 10 years younger with only obligatory schooling is 13 points lower. But we also face counter-tendencies that emanate from the large waves of generally low-educated immigrants that, in addition, face multiple cultural and educational disadvantages that can seriously jeopardize their children's chances.

Table 4.3 measures children's literacy abilities at age 15. Except for the gender effect, the results would have appeared very similar had I instead used the mathematics test scores. The table confirms the points made earlier. The immigrant effect is strongly negative (and always statistically significant), and mother's employment has, in most cases, a positive impact on children's cognitive abilities. In separate analyses, not shown, I find that the employment effect among lone mothers tends to be especially positive in countries as diverse as Denmark, France, the Netherlands and the UK. Here, of course, we must remember that mothers' employment is measured when the children are teenagers. Parental education has clearly important effects, but primarily via mothers' education. The table displays the unstandardized regression coefficients. Standardizing the coefficients (not shown here) allows us to gauge the relative importance of the family effects. Of particular interest is the fact that, everywhere,

Table 4.3 Family characteristics and literacy scores among 15-year-olds: OLS regressions

| | USA | UK | Germany | Spain | Denmark | Norway | Sweden |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Constant | 425.11*** | 444.87*** | 375.85*** | 452.77*** | 388.89*** | 405.21*** | 433.43*** |
| Gender | 18.96*** | 15.55*** | 25.58*** | 15.49*** | 20.24*** | 29.69*** | 27.53*** |
| Immigrant | -16.26* | -14.01** | -40.87*** | -19.04** | -25.48*** | -35.50*** | -35.81*** |
| Father education | 3.50 | 0.76 | 7.54*** | 2.32** | 8.19*** | 3.02* | -0.26 |
| Mother education: Secondary | 13.80* | 10.31 | 43.58*** | 19.44*** | 37.88*** | 30.62*** | 20.63* |
| Mother education: Tertiary | 14.58* | 15.42* | 49.93*** | 14.12*** | 52.73*** | 20.48** | 17.16* |
| Socioeconomic status | 1.06*** | 1.17*** | 0.90*** | 0.60*** | 0.50*** | 1.01*** | 1.06*** |
| Cultural capital | 33.26*** | 40.65*** | 36.40*** | 39.74*** | 34.18*** | 38.78*** | 30.87*** |
| Mother part-time | 16.51** | 12.92*** | 4.96 | -17.75*** | 8.21 | 4.99 | 5.21 |
| Mother full-time | -8.15 | 5.99** | -3.22 | -6.03*** | -0.78 | 3.04 | 7.48 |
| Lone mother | -17.82*** | -0.10 | 1.72 | 0.36 | -0.59 | 8.57 | 3.92 |
| R ² | 0.189 | 0.201 | 0.249 | 0.227 | 0.201 | 0.173 | 0.172 |
| N | 2571 | 7458 | 3933 | 4780 | 3933 | 3470 | 3836 |

Data source: OECD PISA study

Notes: reference for mothers' education is less than secondary (ISCED 0-2). Reference for mothers' part-time/full-time employment is not employed. To improve upon comparability of education systems, for the United States we include 'some college' (usually two years) with upper secondary education. * = $p < 0.05$; ** = $p < 0.01$; and *** = $p < 0.001$.

the 'cultural capital' effect is roughly twice as strong as 'socio-economic status'.

If, as I claim, these are the key mechanisms that explain inter-generational social inheritance, we can also see more clearly why ongoing societal trends are worrisome and potentially a source of polarization. We know that income inequalities are widening and that child poverty is rising. The gap in parental time investment is, likewise, growing between the high- and the less educated. Worst of all, there appears to be a strong coincidence between the two, suggesting the possibility of compounding effects.

A Social Investment Strategy

How may policy influence positively on children's life chances? In terms of the 'money' effect, this is perhaps not difficult to envisage, but can we realistically propose that the welfare state should regulate parenting behaviour?

In a sense, the question is as old as our civilization. Plato was seriously worried about the quality of Athenian soldiers and advocated that children of incapable parents should be removed from their family and be raised by the state. The kibbutz ideology was surely more egalitarian with its stipulation that *all* children should be ensured an identical stimulus and, hence, be raised collectively. Such kinds of measures are clearly excluded from any realistic policy menu in the advanced democratic nations. Parents have children because this is their desire, and our societies are founded on the firm principle that the sanctity of the family is inherently inviolable. How, then, might we design a workable equal opportunities strategy?

Reducing the Income Effect

The link between low income and children's life chances suggests the relevance of income redistribution. There are both social and individual costs associated with child poverty. The former are clearly very difficult to assess since the mechanisms are very indirect. The Urban Institute study, previously mentioned, focuses on three major macro-level effects: productivity, the costs of crime and the impact on health. The study estimates a total cost equivalent

to 4% of GDP, of which 1.3% is attributable to reduced economic output, another 1.3% to crime, and 1.2% to health effects.¹²

Redistribution can be an effective tool for combating child poverty. Yet, we should not forget that family transfers are motivated by other concerns, such as collectively recognizing the positive externalities of parenthood. The seemingly effective poverty reduction we find in France and the Nordic countries comes, of course, at a price. Public spending in favour of families is 3–4% of GDP in the Nordic countries and 2.8% in France, compared to 0.4% in the US and 1.1% in the Netherlands (calculated from OECD's SOC-X data).

At first glance, heavy redistribution does not appear to be a sufficient instrument. France ends up with a post-transfer child poverty rate around 8% despite dedicating resources of Nordic magnitudes. This is to be expected considering that French pre-transfer poverty is about 10 percentage points higher.

An income redistribution strategy would seem attractive for a number of reasons. If the objective were to fully eradicate child poverty (defined as less than 50% of equivalent median income), the price tag is actually surprisingly small. For the US, with record child poverty, I have estimated it to cost only 0.4% of GDP (Esping-Andersen, 2002). This happens to be exactly ten times less than the estimated social costs of US child poverty. But such redistribution would have to be repeated year after year and the *net* benefit should be considered against possible second-order effects (such as reduced parental labour supply). Also, a targeted transfer approach may fail to command broad citizen support, and it clashes with another basic equity principle: if (quality) children produce a sizeable social externality while most of the cost of children is internalized to the parents, an equity calculus would conclude in favour of universal, non-income graduated and fairly generous child and family allowances. If those without children are free-riders, they should be asked to pay.¹³

¹² Testimony by Harry Holzer (Urban Institute) before the US House Committee on Ways and Means, 24 January 2007.

¹³ As discussed in chapter 3, Klevmarcken (1998) estimates that the value of parenting in Sweden is equivalent to 20% of GDP.

Child benefits should therefore not be confused with anti-poverty policies. If our aim is to minimize or, indeed, eradicate child poverty, we might introduce some form of a guaranteed minimum to families that supplements standard family benefits. If the cost were, say, 0.4% of GDP, we would then need to match this against possible second-order effects. Would parents respond by working less? Would it effectively narrow the school attainment gap of poor kids? As to the latter, there is cause for scepticism since the schooling gap is surely not solely the effect of income but also of unobservable factors, some of which need not be correlated with being poor, and some of which (say, poor health or teenage pregnancy) may provide the explanation of poverty to begin with.

In any case, the burden on income redistribution would be lessened significantly if, through alternative means, maternal employment were to increase within low-income households.

As mentioned, the probability of child poverty drops by a factor of three or even four when mothers are employed. The effect is potentially strongest in lone-parent families. It makes a big difference whether, as in Denmark, the lone-mother activity rate is 81% or, as in the UK, only 35%. Kangas and Ritakallo (1998) provide particularly suggestive evidence in this regard. They simulate what France's poverty rate would be with Scandinavia's transfer system and demographic structure. Considering, as we have seen, that France approximates the Nordic countries in terms of poverty-reduction – but not in terms of post-transfer child poverty – it is not surprising that any serious convergence with Scandinavia's low child poverty would have to come from increments in French mothers' employment rate. But as is well recognized, maternal employment depends crucially on access to affordable child care.

Homogenizing the Learning Milieu

We now realize that truly effective policy needs also to address the family 'culture' effects. But if we exclude any Platonian solution this would, to most, appear to be entirely outside the competence of policy. How, we might ask, can policy induce parents to read with their children or censure television viewing?

One important clue is found in the extensive evaluation research on early childhood intervention that has been conducted

in the US. The main – and very systematic – finding is that high-quality intervention on behalf of at-risk pre-school age children has substantial and lasting effects in terms of improved social integration, less delinquency and more schooling (Carneiro and Heckman, 2003; Kameron et al., 2003; Karoly et al., 2005). The Perry pre-school programme, which emphasizes early intervention with high-quality services targeted at underprivileged children, appears particularly effective in terms of both child outcomes and cost effectiveness. Barnett and Belfield (2006) identify large and persistent effects. Participation in the ABCedarian programme, widely celebrated for its quality, is associated with a 32 per cent drop in high school drop-out risks, and it increases the chance of attending college by a factor of three. Carneiro and Heckman (2003: 165) suggest that through to age 27, it yields a \$5.70 return for every dollar spent – in part due to less criminal behaviour and, in part, due to substantially improved learning abilities among the children. Early learning begets better learning later on; a poor start translates into persistently inferior learning abilities.

The logic behind this cost-benefit analysis is very compelling since it incorporates the positive synergy effects (learning begets learning) of early investments into the cost of later ones. The rate of return rises exponentially the younger the child, suggesting that pre-school and early-school investments yield disproportionately high net returns. If the standard monetary rate of return on schooling hovers around 10 per cent, we could anticipate returns on pre-school investments that are possibly more than twice this magnitude. And if the marginal returns are much greater for those who are most likely to fail in school, then early investments should produce a homogenization pay-off, an equal opportunities gain.

Such findings should not be uncritically generalized to Europe where inequalities in child conditions are less extreme. But the crucial point is that early intervention programmes that include strong behavioural and cognitive stimulus can be effective in equalizing outcomes, especially to the advantage of the most at-risk. There is accordingly a very strong case to be made in favour of financing early high-quality child care.

Here again, the experience of the Nordic countries can be of relevance – for good and bad. Denmark and Sweden began in the

late 1960s a massive – and very rapid – expansion of pre-school institutions aimed at securing universal access – a goal by and large achieved by the 1980s. The policy was actually not cast in terms of investing in children but rather as an instrument to reconcile motherhood and careers. But in order to cater to the tastes of middle-class families, it ensured that standards were high. As we saw in chapter 3, Denmark boasts a ratio of three children per carer for the under-3s.

Nordic childcare policy learned many lessons along the way. Until the 1990s, for example, children were not eligible if the mother was on maternity leave or in receipt of unemployment compensation. This had the undesirable consequence that many of those children who might benefit the most were excluded, considering the selection effects behind unemployment, inactive status of mothers and high fertility. In recent years, policy makers have tried to make it especially attractive for immigrant and unemployed parents to place their children in public centres. A second lesson was that parental leave and child care needed to be better synchronized. Until the 1990s, the combined maternity/parental leave in Denmark was little more than six months, which meant that a very large percentage of infants were placed in crèches very early.

For these countries we lack systematic impact studies of childcare policy.¹⁴ Indirectly, however, there is evidence to suggest that the arrival of universal pre-school attendance is associated with a significant equalization of school attainment and, one can argue, also with the comparably quite homogeneous performance on PISA (and similar) tests. There is also some more direct evidence. Using the 2003 PISA data, we can compare the cognitive performance of youth who participated more than one year in pre-school education with those who did not participate at all. In the US, participation is associated with a gain of almost 40 points on the literacy test; in most countries, the effect is even larger: a 90-point improvement in Germany, a 60-point gain in the UK.

¹⁴ Andersson (1992) provides a rare exception showing that, in Sweden, day care has positive consequences for child development, especially in the case of less privileged families.

Table 4.4 Low-educated father effects: upper-secondary level attainment, controlling for cognitive test scores, sex and immigrant status (log odds ratios)

| | USA | UK | Denmark | Norway | Sweden | Germany |
|----------|---------|---------|---------|---------|---------|---------|
| Cohort 1 | .115*** | .185*** | .449** | .661* | .320** | .094*** |
| Cohort 2 | .097*** | .153*** | .248*** | .447** | .164*** | .067*** |
| Cohort 3 | .133*** | .162*** | .213*** | .205*** | .091*** | .098*** |

Data source: Statistics Canada, IALS, International Adult Literacy Survey Database, Catalogue 89-588, 1996. Cohort 1 was born 1970–75; cohort 2, 1955–64; cohort 3, 1945–54. The cognitive test scores refer to reading comprehension. Reference group for estimations is fathers with ISCED 3 or more.

Significance levels: * = 0.5; ** = 0.1; *** = 0.05 or better.

In Table 4.4, I use the IALS data to compare social origin effects on the probability of completing upper-level secondary education across birth cohorts. I concentrate my analyses on children of low-educated fathers. It is vital that we estimate the social origin effect net of children's abilities if we want to capture the essence of social inheritance. Similar to Gregg et al.'s (1999) study, I therefore control for the children's cognitive test scores as well as for sex and immigrant status. The analyses follow three cohorts, the oldest born in the late 1940s and early 1950s; the youngest in the 1970s. And I compare 'social inheritance' trends in the three Nordic countries with Germany, the UK and the US.

The results are very consistent with a *constant flux* scenario in Germany, the UK and the US. In these countries we see no decline whatsoever in the impact of origins on educational attainment across the cohorts – which is to say, over a half-century. In the US, for example, the odds of completing upper secondary education are roughly a tenth (0.115 for the youngest cohort) of those that come from higher educated parents. In contrast, there is a very significant decline in the association in all three Scandinavian countries, and the drop occurs primarily in the youngest cohort – the first to enjoy near-universal participation in child care. To exemplify, the probability of attaining higher education was, for the oldest cohort, a fifth as great as for those whose parents had high education. For the youngest Danish cohort, the relative probability has declined to only a half. Or, if we compare across countries, the Danish

youth of low-educated fathers now enjoy an almost five times greater chance of finishing upper secondary education as their American (or German) counterparts.

These results do not, of course, tell us whether equalization was due to child care, income redistribution or, most likely, a combination of both. Unfortunately, the IALS data provide no income information. But the coincidence of timing is very suggestive. It is evident, especially in Denmark and Sweden, that the big leap in equalization is centred in the youngest cohort. This is, in fact, the first cohort in which the majority of children came to be enrolled in pre-school institutions in either country.

The PISA data provide some additional supportive evidence. From these data we can see whether participation in early child care has any effect on children's cognitive test performance at age 15. For most countries such attendance is associated with a major improvement in test scores. To illustrate, in Denmark early childcare enrolment produces a 40-point (or 10 per cent) gain.¹⁵ Additionally, childcare participation diminishes the explanatory importance of socioeconomic origins, of parents' 'cultural capital', of being an immigrant child, and of having a low-educated mother.

If early child care were to compensate for unequal cultural capital, we would expect that the latter's explanatory importance would be systematically weaker in the Nordic countries than elsewhere. The reasoning is that participation in child centres that are of similar quality across the board should, so to speak, help cancel out the stimulus gap that children from low-educated and culturally weak homes suffer. Utilizing once again the PISA data, this is in fact what we find. The influence of parents' 'cultural capital' (and socioeconomic status) is systematically lower in the Scandinavian countries than elsewhere.

High-quality child care and pre-school participation may, accordingly, constitute a truly effective policy in the pursuit of more equal opportunities. Since access to child care is concomi-

¹⁵ Pre-school enrolment does not, however, have any statistically significant effect in the UK or the US, perhaps because child care in these countries is of more uneven quality or because of selection effects whereby attendance in quality programmes is biased in favour of already resourceful children.

tantly a precondition for maternal employment – which yields positive income effects – the promotion of child care would appear a perfect win-win policy. We need therefore to examine this nexus in closer detail.

Mothers' Employment and Child Outcomes

The income gain that comes from mothers' employment may be offset by potentially adverse consequences for 'nurturing'. If we take seriously the finding that external care during the child's first year can be harmful, policy would need to ensure a combination of *paid* maternity and parental leave that approaches the one-year duration. In both Denmark and Sweden, leave schemes permit the parents to remain home with the infant over the entire first year – with full earnings' compensation. The norm in most of the EU is no more than 4 months.¹⁶

Very brief leave arrangements can be doubly problematic. They may push mothers back to work very early. To illustrate, 60% of new Dutch mothers return to work within 6 months of birth (Dutch paid leave is only 4 months), while virtually all Danish mothers return within 10–14 months (Simonsen, 2005). Overly brief leave-taking may also provoke exit from employment. About 25% of Dutch mothers simply disappear from the labour market while the Danish percentage is negligible (Gustafsson and Kenjoh, 2004).

The cost of providing a one-year leave system is substantial. Using Denmark as a benchmark, it equals 0.6% of GDP. This must be held up against the benefits. According to Ruhm's (1998) calculations, paid leave increases female employment rates by 3–4%, and post-leave wages are higher. In part, therefore, the cost of longer leave is recuperated further on via enhanced career

¹⁶ Here paid leave implies a benefit that is superior to 50% of earnings. This criterion is important since the opportunity cost of extended leave would become very high for most mothers in the case of replacement levels inferior to this level. If we were to include unpaid leave entitlements and policies that provide substantially lower income replacement, most countries (including the US) would appear more generous, some extremely so. France, for example, permits up to 36 months' parental leave (but at low replacement rates). For an overview, see OECD (2006: Table 1.1).

earnings and tax payments. We should also evaluate the cost in terms of the positive child effects of parental presence during infancy. As discussed, maternal employment during the first year can be harmful for child health and cognitive development. Waldfogel et al. (2002) find that such negative effects are especially accentuated within low-income families.

If we look beyond the first year, the major obstacle to mothers' employment lies in access to child care. As discussed in chapter 3, childcare costs become a *regressive tax* if fees are independent of mothers' (or household) earnings. Tax deductions are commonly used in many nations, but these are unlikely to eliminate the regressive incidence since they are of less relevance for low-income families to begin with.

Kindergarten (age 3-plus) attendance is near-universal in many countries and is often defined as integral to the education system (and thus free of charge). The key question has to do with the under-3s. In large parts of Europe, the conventional solution has been familial care – the grandmother. This option is becoming obsolete because the reservoir of available family carers is in rapid decline. Private childcare markets can thrive, as in the US, because of high price and quality differentiation. But in most of the EU, the market for quality child care is very limited due to high costs. The Nordic countries and, to a lesser degree, Belgium and France subsidize child care for the under-3s. But due to design differences, the outcomes vary substantially. For a standard two-earner couple in France, the cost of one child approaches 25% of their earnings, compared to only 10% in Denmark (Immervol and Barber, 2005). This is surely one explanation for why Danish childcare attendance at age 1 is double the French.

The potential learning impact of early care is also likely to differ. French childcare coverage for the under-3s amounts to approximately 40%. Only half of these children are enrolled in centre-based care, while the other half is placed with individual carers. The Nordic approach (and especially the Danish), in contrast, is premised on high-quality, full-day care with guaranteed access for all children. This requires, unsurprisingly, heavy subsidies: the parental co-payment is only 33% of cost and disappears for lower income parents.

In order to evaluate whether public subsidies for child care are warranted, we need to examine two distinct cost-benefit logics: how child care affects female employment and earnings, and how it affects child outcomes. As to the former, we have clear evidence that childcare availability raises maternal employment levels. A Danish study shows that a 100-euro decrease in childcare costs produces a 0.8% increase in employment (Simonsen, 2005). Since child care allows mothers to return quicker to their jobs, the lifetime income penalty of motherhood is lowered substantially. As I showed in chapter 3, the lifetime income gains and the associated larger tax payments to the exchequer will, over the years, basically defray the initial public subsidy to child care.

The cost-benefit calculus in terms of child outcomes may, in one sense, be unnecessary if child care practically pays its own way due to superior female lifetime earnings. Any positive learning or behavioural effect that it yields comes, so to speak, gratis. In such a context, the evaluation exercise need only examine the marginal learning effects of any improvement in the quality (say teacher-child ratios or pedagogical content) of the system, or of any outreach to needy children (such as those from immigrant origin). The good news here is that the returns to high-quality early childhood programmes are potentially huge. Carneiro and Heckman's (2003) calculation that each \$1 yields a \$5.60 return may even be overly conservative. More recent estimates suggest a return in excess of \$12.00. But again, these estimates refer to underprivileged children who we already know will benefit disproportionately.

Should we therefore favour a targeted rather than Danish-style universal policy? If our primary aim is to level the playing field, a targeted approach would appear the more cost-effective alternative. The choice for or against targeting depends, firstly, on the value we place on equity in the broadest sense. Targeting services to the most underprivileged children can, as US experience shows, narrow the performance gap for those at the very bottom, but unless targeting is very ample it will not necessarily result in overall greater homogeneity of life chances. The US Head Start programme reaches only about 7% of 3 year olds and thus falls far short of reaching the entire at-risk population (we recall that child poverty hovers above 20% and that the share falling below

the PISA minimum score is 18%). The remaining 93% of any child cohort will receive care options that to a large extent mirror parents' purchasing power. The huge unevenness of US early care is well documented (Blau, 2001).

More generally, the basic dilemma of targeted policy is how to ensure that it does reach the needy. Here a comparison of the US approach to Britain's Sure Start is of interest. While the former targets problem families, the latter targets high-risk communities. Neither approach can ensure that need is adequately addressed: identifying problem families is only easy when their problems are visible; and in the case of Sure Start it is far from certain that all the needy live in high-risk communities. The real obstacle to effective targeting lies in the multiple mechanisms that produce adverse child outcomes. While income poverty is easily identifiable, this is certainly not the case for parental nurturing practices.

Opting in favour of universal coverage has the great advantage of ensuring that all children, irrespective of origin, come to enjoy similar (high) standards. And if the system helps mix children from different backgrounds, so much the better. US evaluation research shows that disadvantaged children reap very positive effects when mixed with stronger kids (Hanusheck et al., 2003). Yet, the obvious shortcoming of an across-the-board universal model of the Nordic variety is that the most underprivileged children might require additional resources and attention. One example of this problem is the lower participation rate of children from immigrant families. Some form of affirmative action, including perhaps special incentives to target groups, may therefore be called for to accompany a universal approach.

Conclusion: Helping Families to Invest in Their Children

Human capital investments have, over the past half-century, been almost exclusively directed at formal education. It is only quite recently that we have come to realize that the foundations of learning – as well as the chief mainsprings of inequalities – lie buried in the pre-school phase of childhood and that schools are generally ill equipped to remedy a bad start. For policy-making, the learning-begets-learning model takes this insight one impor-

tant step forward since it helps identify the relative rates of return to skill investments across the early life course of children. It is now evident that investments yield the highest returns in the pre-school stage, 0–6 years, and decline exponentially thereafter. The model is concomitantly relevant for an equal opportunities policy since the returns are especially high for underprivileged children.

All this suggests that we need to re-evaluate human capital policy. As a starter, educational spending in *all* advanced countries goes in exactly the opposite direction from what the learning-begets-learning perspective prescribes. Per student spending rises monotonically from pre-school up to tertiary education.¹⁷ We spend on average twice as much *per student* on tertiary level as on pre-primary education. Moreover, pre-primary spending is, in most countries, concentrated in the ages 3–6. Except for the Nordic countries and, at some distance, Belgium and France, investment in the under-3s is truly marginal.

Concerns about equality of opportunities and future productivity coincide in policies that aim to raise the homogeneity of our human capital reservoir. The share of youth that ends up with insufficient skills is very large in many countries, be it in terms of either formal qualifications or cognitive and non-cognitive abilities. Here is cause for alarm considering that skill requirements continuously grow. Since nation differences cannot be ascribed to genetics, it is evident that policy and institutions matter greatly.

Departing from the dictum that the key mechanisms lie in very early childhood and are prevalently centred in the family, we need to identify how policy can aid families to give their children the best possible chances in life. A core issue lies in the persistence of strong social (as distinct from biological) inheritance mechanisms. Conventional theory has emphasized monetary effects in general and poverty in particular. This is without any doubt a major contributor to differential school success and, more generally, to unequal life chances. But social scientists as well as policy makers

¹⁷ See the OECD's Education Databases for detailed per student expenditure allocations. For tertiary-level spending one should exclude investment in research and development. To be sure, there are needs (chemistry labs, libraries and the like) that inevitably require heavier spending at the higher levels of education.

have paid far less attention to non-economic factors in the intergenerational transmission of disadvantage. Although research is on less than firm ground in this regard, there is a credible case to be made that non-economic mechanisms may be of equal if not greater importance than income. To a degree, the two coincide: teenage mothers, immigrants and low-educated parents are also more likely to be income poor. But we are almost certainly tapping two rather distinct dimensions, and this implies that a strategy based narrowly on income redistribution is unlikely to fully succeed.

The evidence suggests, instead, a two-pronged policy that would appear attractive both from the point of view of cost effectiveness and because it can produce a more equal start for all children. In a nutshell, the strategy condenses into an early childhood care policy. The case for income redistribution towards families with children is certainly evident and requires little additional comment save to stress the point that the burden on redistribution would be eased considerably if mothers were employed. There are multiple reasons why especially less educated women's activity rates are low and access to affordable child care is only one. Nevertheless, if accompanied by adequate maternity leave provisions and with a neutral taxation of spousal earnings, such policy should produce a non-trivial employment gain. And any such gain can produce a double advantage because it helps reduce poverty and, if external child care is of high quality, it may have positive effects on child stimulus. And even if high-quality child care were to have little effect on child outcomes, it is potentially cost efficient in the sense that more female employment together with higher lifetime earnings will enhance the revenue base.

Even if we were to agree that familial 'cultural capital' is crucial, it would appear difficult to conceive of a policy that corrects for differences in parenting quality and dedication. I have tried to pull together what is known about nurturing effects during early childhood. Two factors stand out. Firstly, outside care of infants during the first year can be harmful for later development. Secondly, if external care is of high quality, its effect on children's school outcomes is clearly positive, especially for the less privileged children. What is more, the positive effects persist beyond schooling into adulthood.

Parenting appears to be polarizing. Highly educated parents dedicate more time and effort to their children and the gap is rising. The nurturing gap is primarily due to differences in fathers' dedication which, in turn, has to do with the relative bargaining position of wives. Policy that augments mothers' bargaining power, via income transfers and/or by supporting their employment, should therefore help diminish social differences in child investment.

All told, policy that combines paid leave through the child's first year with affordable high-quality external care should yield important dividends in terms of homogenizing children's school preparedness. A major policy dilemma presents itself with regard to design. Since we know that the returns are exceptionally high for less privileged children, a simple cost-benefit calculus would suggest a targeted approach. What, then, would recommend a broad universal model?

In the first place, one should keep in mind the implicitly dual function of child care: supporting mothers' employment and child socialization. In lieu of the prevailing cost structure, the Danish policy of imposing a considerable but not prohibitive co-payment that diminishes linearly with income is clearly effective (full coverage) and equitable. It may incur deadweight costs at the top of the income distribution, but to Danish policy makers this is regarded as acceptable since, in return, it guarantees broad social inclusion in (and electoral support for) the same comprehensive system. There is also another equity issue at stake. If the positive externality of parenting is substantial, there is a clear case for redistribution in favour of *all* parents alike, rather than redistribution from some parents to others.

This brings us to a second standard argument in favour of universalism, namely that broad citizen support for the policy is considered essential for adequate financing. A third important consideration lies in the high transaction costs and the difficulties of identifying need. Targeting low-income families may be fairly simple to administer but here we must remember that learning deficits are also powerfully related to family 'culture' which is a dimension that is virtually impossible to identify by any public bureaucracy.

At the end of the day, the choice for or against targeting will depend very much on our aspirations regarding skill

homogenization. If our aim is limited to 'bringing up the rear' (which is how one might describe US policy in this regard), there is a better case for targeting than if we pursue a more general goal of minimizing, across the board, the impact of (non-biological) inequalities on children's opportunities. The possible shortcoming of a universal approach is that it may not succeed fully in 'bringing up the rear'. Truly disadvantaged children are likely to require an additional effort and this suggests that universal designs may need to be coupled with some form of 'affirmative action' interventions.

What remains to be resolved is the delicate question of reaching those that are hardest to attract and, very possibly, those who would benefit the greatest. Affirmative action policies have a long – and occasionally also successful – tradition in the US, but they would appear foreign to European policy makers. Affirmative action was to a large extent motivated as a means to overcome racial and ethnic discrimination and segregation. This was until recently not an especially urgent question in most EU countries, but now it is rapidly becoming so – not least in light of the visible education and skill gaps we register among large immigrant groups.

There are positive experiences from elsewhere that can help inform our thinking. The Danish government, inspired by US policy, is, with some apparent success, combating immigrant school and childcare segregation by bussing immigrant children to non-immigrant neighbourhood schools. We might also learn from Brazil's previous Cardoso government which introduced monetary incentives to parents to ensure that their children were certifiably present in schools. Even if participation is gratis, immigrant parents are often reluctant to send their children to non-obligatory schooling and this affects negatively their language acquisition and school preparedness. But considering that the marginal value of each additional euro can be very high for a low-income immigrant family, monetary incentives may succeed in raising enrolments.

I think the best way to conclude this chapter is to call upon our elected government representatives to consider how we, in Europe, might implement affirmative action where it is needed.

5

Ageing and Equity

Claims that the welfare state is in a hopeless crisis have come and gone with amazing regularity over the past half-century.¹ In the 1950s many economists were alarmed by its rapid expansion, believing this would harm the economy. Considering the following two decades of unprecedented growth, the diagnosis was clearly wrong. Ten years later the alarm was sounded by the Left which maintained that the welfare state was an utter failure since it had done little to eliminate poverty. But once again, the crisis was overtaken by events: poverty declined noticeably in the 1960s and 1970s, especially because pension reforms provided much more generous income support to the retired elderly. In the 1980s emerged yet another crisis that was even granted official international status via a highly publicized OECD conference bearing the title *The Welfare State in Crisis*. The economists and the neo-liberals had returned once again, claiming that the welfare state was the root cause of high inflation and economic stagnation. Our economies have grown by more than 25 per cent since and inflation has disappeared. Once again, the diagnosis appears a bit wrong.

Twenty years have passed and we face yet another welfare state crisis, this time provoked by demographic change. Projections indicate that population ageing will require additional social spending of such magnitudes that the welfare state becomes unsustainable.

¹ An earlier and different version of this chapter, co-authored with John Myles, was published in G. Clark, A. Munnell and M. Orzag (eds), *The Oxford Handbook of Pensions and Retirement Income* (2006: 839–58).