WELFARE STATE OR WORK? THE INTERACTION OF WAGES, SOCIAL PROTECTION AND FAMILY CHANGE

GOSTA ESPING-ANDERSEN

1. THE PROBLEM

It has become part of received wisdom that the postwar harmony of welfare state growth, equality and full employment has turned negative-sum. The erstwhile capacity of OECD countries to sustain full employment was based on a combination of circumstances that no longer obtain — and are certain not to return. For one, it was anchored to an economy driven by industrial mass production and consumption. Secondly, income redistribution, high wages and a high social wage helped consolidate and smoothe demand. Thirdly, the full employment commitment was basically limited to the male breadwinner.

Expanding world trade, it is said, causes a loss of competitiveness among domestic OECD mass-production industries. Hence, de-industrialization since the 1970s has created mass unemployment and has severely eroded the position of less-skilled workers. The emerging service society is, of course, an alternative source of worker demand. Yet, reliance on services faces two constraints. One, a large share of services — in particular business and health services — tend to be high-skilled. Labor intensive demand will mainly come from personal or social services (say, restaurants, laundries; day care or home helpers), but these often require social and cultural skills. Two, following Baumol (1967), the gap in productivity growth between services and manufacturing implies that service jobs will grow only if labor costs are lower or, alternatively, if subsidized (i.e. government employment). The "welfare state" solution, as we have seen in Scandinavia since the late 1960s, can compensate for stagnant market services and can also boost aggregate participation levels via its promotion

of women's employment. But in an egalitarian wage regime, as in the Nordic countries, the long run effect is mounting fiscal crisis or a drain on the tradables sector.

Prevailing theory therefore posits that a return to full employment will require more unequal wages, enhanced labor market flexibility, and a relaxation of social entitlements. The alternative is high and chronic unemployment that will adversely affect youth and the less skilled.[1] In the postwar "golden age", the mass of unqualified workers migrating from agriculture could easily find well-paid and stable factory jobs. In "post-industrial" society, the excess of less-skilled workers can count on neither.

The great contrast is usually drawn between Europe and North America. European labor markets are characteristic for their high wage costs, earnings compression, and strong job protection. In the EC countries, average *legislated* labor costs are three times higher than in the United States, and the ratio of unskilled to skilled worker earnings hover around 80 percent, compared to 50-60 percent in the United States (OECD, 1994).[2] Also, the guaranteed social minimum — whether measured in terms of minimum wages or in terms of social welfare benefits — is substantially higher in Europe (excluding the U.K.). In the United States, the minimum declined in real terms over the 1980s; this did not happen in Europe (Blank, 1994; McFate, 1995; OECD, 1994). And job protection (worker dismissal rules, for example) is clearly much stronger and more rigidly enforced in Europe. Thus, on the OECD index of labor market rigidity, the Anglosaxon nations score an average of 1.6 compared to 8.0 in Scandinavia, and 10.8 in the European continent (OECD, 1994).

The European response to the unemployment challenge has, in other words, prioritized worker protection and social welfare. The standard view among economists is that this is self-defeating.[3] The strategy, if we may call it so, has however been motivated by two key considerations. The first is to safeguard *family* welfare. Where the male breadwinner model remains dominant, not only individual workers but their entire family would be severely threatened by wage erosion and job insecurity — both statically

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[1] Too much equality, it is said, may also adversely affect human capital development if there are no adequate returns to more education (Lindbeck, 1993).

[2] The difference is much smaller (and disappears almost entirely) within the American "primary" economy where employer occupational benefits run up to 25 percent of wages. However, not only less-skilled jobs, but generally a large share of all job growth in the United States occurs in firms and sectors not covered by occupational benefit plans (Burtless, 1990; Mishel and Bernstein, 1993).

[3] There are notable exceptions such as Soskice (1994), Freeman (1994) and Blank (1994).

and dynamically. In a static sense because day-to-day living standards rely on the "family wage" principle; in a dynamic sense because a stable (and well paid) life-long career is necessary for pensions and other social entitlements.[4] Clearly, trade unions and the median voter will, in this context, safeguard existing rights. The second has to do with "competition strategies". Contrary to the de-regulation approach, EC nations have in great part chosen a high-wage based quality production strategy. And it was assumed that the productivity dividend of slimming the workforce would pay for early retirement.

Nevertheless, the European choice in favor of "equality" has been pursued in two distinct, even opposite, ways. The Nordic group avoided (until recently) mass unemployment with a mix of government service growth and active labor market policies. The consequence is a massive rise in womens' employment (now at 80 percent in Denmark and Sweden) and a comparatively much smaller decline in (older) male participation. Hence, aggregate employment/population ratios are 15-20 percentage points higher than in the EC. An integral element is the consolidation of the two-earner, dual career family model. Social policy has sought to harmonize women's family and work responsibilities, thereby securing stable and even rising fertility.[5]

The Continental European group, in contrast, has favored a labor reduction approach, largely premised on early retirement. The concommitant discouragement of female labor supply in many countries, both via tax treatment and via "familialistic" social policy (e.g. reluctance to provide public care services), means that activity rates remain low and even decline.[6] With rising educational attainment women regardless decide to pursue careers. But since this occurs in a hostile environment from the point of view of harmonizing careers and family responsibilities, the result is delayed family formation and *declining and even record-low fertility*. Paradoxically,

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[4] The urgency of job protection is obviously enhanced where, as in most of Europe, delayed job entry and early retirement reduce possible active years. The number of active years for males has, on average, declined by 8-10 years in the past decades.

[5] Generous paid leave provisions combined with extensive day care services allow (indeed, encourage) women to combine family and work. Thus, in Denmark and Sweden the participation rate of mothers with small children (less than 6 years of age) exceeds 80 percent. And Sweden today has Europe's highest fertility rate.

[6] Public or semi-public child care for small children covers 30-50 percent of children in Scandinavia but less than 5 percent in EC countries, except France and Belgium where coverage is 15-20 percent (Esping-Andersen, 1996). The share of elderly living with their children is less than 10 and even 5 percent in Northern Europe, but around 40 percent in Italy and Spain and 65 percent in Japan.

in postindustrial society, a pro-family policy may reproduce family depen-
dencies but may actively discourage family formation.

The lack of dynamism in either public or private services in most EC
countries means a stronger tendency towards "insider-outsider" labor
markets, in which the high wages and job security enjoyed by male
breadwinner "insiders" in essence causes unemployment and exclusion for
their sons, daughters, and wife. This, in turn, promotes additional family
dependency. In Southern Europe today, more than 50 percent of adult
youth continue to live with their parents. Among unemployed youth, the
figure rises to 90 percent (Esping-Andersen, 1996).

Considering the different employment performance of Europe and the
Anglosaxon countries, the argument that "equality" and "jobs" are at
loggerheads seems compelling. North America and the Antipodes, with
rising inequalities, enjoy much stronger job growth, relatively lower unem-
ployment and, perhaps most importantly, less entrapment in long-term
unemployment. Scandinavia has managed to secure employment growth
and modest exclusion until the mid-1980s, after which however there is a
convergence with EC at least in terms of unemployment; and the EC
countries score extremely high on any indicator of exclusion.

2. THE BASIC ARGUMENT

Is there, then, no positive-sum or Pareto optimal solution to the trade-
off? In this paper I argue, firstly, that the trade-off is less evident than often
claimed. More importantly, the trade-off appears very differently if we, so
to speak, endogenize the family in our analysis. The core of the argument is
the following. The growth of service employment is not solely a matter of
wage costs but also of household decisions. Inherently, services compete
with household "self-servicing": we can cook, launder, or amuse ourselves
at home or, alternatively, consume restaurants, laundries, or theaters.[7] In the
postwar golden age, families created domestic jobs by consuming cars and
TVs. Today, they create jobs by externalizing their servicing needs.

The question, then, is how to nurture out-servicing? A first condition is
adequate family income. Widespread poverty or low incomes are prohibi-
tive from this point of view. A second has to do with relative costs, that is
if wages are too high, many services will price themselves out of the market.

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[7] See Gershuny (1978) for a developed analysis of "self-servicing". My argument deviates
considerably from that of Gershuny which stresses the displacement effect of household capital
goods (washing machines, video equipment, etc.).

A third condition has to do with need and capacity. The traditional family, with a full-time housewife is, as we know, a good hedge against poverty and an effective institution for social integration. But it is suboptimal for the service economy. In contrast, "a-typical" households, especially single person and dual-earner families, are much more prone to externalize services. The dual-earner family, moreover, is an even better hedge against poverty.[8] It follows that women's economic integration may hold the key to a Pareto optimal resolution to the equality-jobs trade-off. For this to happen, however, an active welfare state is necessary.

The analyses to follow are hampered by lack of data. This constrains me to a set of simple cross-sectional correlational analyses that permit little more than suggestive conclusions. I proceed in a series of steps: first, I examine the correlations between unemployment, focusing especially on the unskilled, and standard indicators of inequality and job protection. The second step is to examine family expenditure patterns. The final step is an attempt to connect household consumption to job growth.

3. UNEMPLOYMENT AND EQUALITY

It is widely recognized that the equality-jobs dilemma is especially severe as regards the employment prospects of youth and less skilled workers (Blank, 1994; Drèze and Snessens, 1994; Bjorklund and Freeman, 1994; OECD, 1994; Wood, 1994). Indeed, the unemployment rate among the unskilled is almost everywhere higher than the average, and in many countries (especially in the EC), youth unemployment is exceptionally high. It is also the case that unemployment among young unskilled is higher than among unskilled generally. The following cross-sectional analyses, admittedly inconclusive, do not lend much support for the trade-off theory.

Dependent variables.

I divide this part of the analyses into three distinct problems: firstly, explaining variations in overall unemployment rates; secondly, explaining

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[8] The incidence of poverty is everywhere substantially lower among dual-earner families. In Italy, the poverty rate among one-earner units is 18.3 percent, compared to 9.6 for double-earner units; in Germany, 7.8 and 1 percent, respectively; in the U.K., 10.1 and 2.5 percent, respectively; and in the U.S., 9.5 and 2.1 percent, respectively (own calculations from LIS data using the OECD equivalence scale and the 50 percent of median income poverty line). Non-aged single person households tend to have higher poverty rates, but single-parent families are everywhere *except in Scandinavia* most at risk.

adult unskilled unemployment; thirdly, *youth* unskilled unemployment. Adults and youth are treated seperately because, one, adult unskilled unemployment is affected by early retirement; and, two, job protection means that unemployment among the adults might be less severe than for youth.

Independent variables.

I include most standard variables that are said to influence unemployment variation: wage differentials (ratio of low-skilled to persons with tertiary level education); the OECD synthetic rigidity index; and unemployment benefit replacement levels (all derived from OECD, 1994 and 1995). I also include a number of relevant "policy" variables that should influence unemployment (growth and level of private and public services; active labor market policy expenditures as a percent of GDP; aggregate employment growth; overall level of employment as a percent of the working age population; and early retirement, measured as participation rates of males aged 55-64). The following estimations are generally based on simple bivariate regressions, although in a few cases multi-variate estimates are included. The cross-section of 17 OECD countries does not permit more complex tests.[9]

National variation in overall unemployment, as is clear from Table 1, is unrelated to wage inequalities and job protection, as well as also active labor market policies or early retirement. While the sign is, as expected, negative for active policies, it is indeed positive for early retirement. From Table 1 it is evident that the unemployment problem among the unskilled accounts for a large share of the total variance in unemployment. Moreover, unemployment seems mainly to be a function of overall employment growth.

Clearly, a test of the "theory" should focus on the unskilled. Analyses for adult (ages 25-64) unskilled unemployment are presented in Table 2. Surprisingly, there is once again no support for the common view. Neither wage differentials, nor unemployment benefits (the reservation wage) have any influence on the unemployment of unskilled adults. On the "policy" side, the same goes for early retirement and active programs. The only variable of some influence is "rigidity", i.e. job protection but, oddly enough, the sign is *negative* meaning that the (relative) probability of unemployment for adult unskilled workers is much greater in the deregulated labor markets than in rigid "European-type" labor markets! One

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[9] For different reasons, Japan and Ireland have been exluded from the sample. For key variables, simple tests of robustness were performed (not shown in the tables).

Table 1. *Total Unemployment, 1984-92.*

Independent variables:	Coeff.	t-stat.	R-squared
wage differentials	10.860	.90	.051
reservation wage	-.010	-.14	.001
employment rigidity	.160	1.12	.077
early retirement	.110	1.37	.111
Active policies (AMPE)	-.209	-1.51	.132
Unskilled unemployment	.604*	2.97	.370
Employment growth	-.311*	-3.98	.513
Employment ratio	-.424*	-5.38	.659

Note: analyses exclude Ireland and Japan. A (*) indicates significant.

Table 2. *Unskilled Adult Unemployment.*

Independent variables:	coeff.	t	R-squared
wage differential	-.655	-.82	.040
reservation wage	.001	.18	.002
Employment rigidity	-.022*	-2.69	.326
Early retirement	-.004	-.71	.033
AMPE	-.098	-1.04	.067
Employment growth	.006	.77	.038
Employment ratio	.016	1.97	.205
Public service growth	-.054	-1.11	.076
Public service share	.003	.26	.005
Private service growth	-.038	-.68	.030
Private service share	.017	1.94	.201

Note: Dependent variable is the ratio of unskilled unemployment over all unemployment. AMPE is active labor market program expenditure as a percent of GDP.

possible explanation is that de-regulated economies suffer from a much larger stock of unskilled.

In this case, overall employment levels or growth do not have any influence, nor disaggregated service employment variables. Indeed, the only variable that approximates significance (private services as a share of total employment) has a *positive* sign, indicating that an expansion of market services as such is not a cure for (adult) unskilled unemployment. In fact, this is to be expected since unskilled adult males are most likely to be industrial workers (and thus unlikely to possess the social skills demanded in services). Government services show a (insignificant) negative sign, which suggests that welfare state job creation is not a very effective antidote to unskilled male unemployment.

Turning to the unskilled youth (in Table 3), the results are almost identical to those for adults: their unemployment is unrelated to wages, unemployment benefits, and active policies. Again, we arrive at the paradox that de-regulated labor markets tend to produce a comparatively higher risk of youth unskilled unemployment. And, again, the most likely explanation is that these nations are burdened with an extraordinarily large stock of unskilled.[10]

4. The Trade-off Revisited: Families and the Welfare State

Employment growth today depends mainly on services. These fall into three distinct groups:

1. *Business services*, including finance, insurance, real estate, and professional services. Their growth, mainly a function of corporate out-servicing, has been substantial in all countries and account in large measure for the rising professional and technical occupations.

2. *Social services*, including health, education, and welfare services. Their growth is in large part, but not exclusively, driven by the welfare state. Health and education has expanded everywhere. Welfare services (such as care) have expanded very powerfully in Scandinavia, but have enjoyed some growth also in North America within the private market.

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[10] If this hypothesis is true, the causal relations may require a complete rethinking. It is, for example, possible that de-regulation strategies (as pursued in Britain, Australia and New Zealand) are a means to clear the market of huge masses of low-skilled workers. The result, however, is a "low-skilled equilibrium". In contrast, where (as in Germany) the stock of unskilled is small, competition policies are more likely to favor a high-quality production strategy. The result here is a "high skilled equilibrium" (see especially Soskice, 1994).

Table 3. *Unskilled Unemployment, Young (25-34) Workers.*

Independent variables:	coeff.	t	R-squared
Wage differentials	-1.137	-1.05	.069
Unemployment benefits	.000	.06	.000
Employment rigidity	-.032*	-2.95	.368
Early retirement	-.009	-1.30	.102
AMPE	-.056	-.43	.011
Employment growth	.009	.90	.051
Employment ratio	.029*	2.95	.368
Public service growth	-.085	-1.30	.100
Private service growth	-.068	-.90	.051

Dependent variable is ratio of unskilled unemployment over all unemployed in age group.

They have been stagnant in EC Europe. They combine professional and also a large pool of lower skilled workers (hospital cleaners, home helpers, etc.). Welfare service growth is related to family externalization and women's entry into paid employment.

3. *Personal services*, including leisure, restaurants, and consumer services. Their growth is almost exclusively in the market and are characteristic for their labor intensiveness and low skill profile. They have been stagnant and even declining in both Scandinavia and most EC Europe, but are quite dynamic in North America. Their dynamism is a function of household servicing choices. Where wage costs are high, this sector may survive and even grow on the basis of self employment or irregular employment, as is the case in Southern Europe.

The growth of personal and social services depends on the micro-choices of households. In turn, as is well known, families' decision whether to externalize or internalize service consumption is a function of three variables: income (Engel's law); relative costs (the Baumol "cost-disease" problem); and needs.

Examining this micro-link, I will limit analysis to market services with unusually labor intensive employment: personal services in general, and

restaurants, cafes, and hotels in particular. Let us begin with the well-known income effect. Table 4 shows income-consumption elasticities for major items of family consumption. What is clear, at least in the case of Italy, is that elasticities are steeper (and "entry-level" income requirements, higher) for services than for material goods. Health and education is, in Italy and elsewhere in Europe, mainly provided by the welfare state and private consumption is logically modest. From a comparative point of view, Italians spend a large amount on eating out and rather little on other personal services. These cultural traits are evident in Table 4.

A confrontation with the United States is here informative.[11] As we move from the lowest to the highest income quintiles, the American "elasticities" are much flatter than the Italian. Lacking a national health service, American families are constrained to spend a good deal on private health care (about twice as much as Italians, and 4 times as much as Swedes).[12] In Italy, private health consumption is more of a luxury for the rich. This holds to a lesser extent for restaurants where, in Italy, massive spending first begins around median income. The income-effect on eating out in America is, in contrast, less drastic — presumably because eating out is much cheaper.

Families' propensity to consume rather than self-service is related to income, but also to family structure. Singles and two-earner couples are, for a host of reasons, more prone to out-service — regardless of social class position. This is clear from Table 5. Within each socio-economic group, the two-earner unit consumes about 25-50 percent as much services as the traditional "male breadwinner, female housewife" family. We can thereby rule out class-effects in terms of consumption style. Here, then, we have identified a possible positive-sum solution to the equality-jobs trade off: on one hand, two earner families are optimal from the point of view of poverty; on the other hand, they generate jobs.

Still, as we have noted, families' decision to consume personal services and restaurants is constrained by relative costs. It is also possible that private service spending will be "crowded-out" because of high taxes (the welfare state effect) or, if not, because of the need to finance private welfare (as is the case in the U.S.). We examine in Table 6 the relative impact of these factors on household, personal and restaurant consumption. Wage

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[11] Detailed tables not included here.

[12] In fact, the lowest quintile in America spends 18 percent of income on health; the second lowest, 10 percent. The average American family spends almost 14 percent of total consumption on private health and other social welfare needs (calculated from Bureau of Labor Statistics, *Consumer Expenditure Survey*). It is important to note that the data in Table 6 are not adjusted for household size. They can therefore not be compared directly with the results of Table 5.

Table 4. *Household Consumption Elasticities by Adjusted Income Levels in Italy, 1994 1).*

	constant 2)	B	Mean percent of total consumption
Basics	1.040	1.03	54.7
Non-essential goods	1.705	.66	23.8
Education	1.942	2.56	0.5
Health	1.882	1.63	3.0
Personal services	1.735	5.04	2.8
Leisure services	1.873	4.34	1.3
Restaurants etc.	1.750	1.19	11.0
Median adjusted income	1.761		

Source: Analyses on 1994 Italian Household Consumer Expenditure Survey. 1) Household incomes are adjusted for size using the square-root of number persons. 2) The constant is in '000 Lire.

Table 5. *Italy: Household Types and Expenditures on Personal and Restaurant Services by Social Class. Spending as a Multiplier of Mean.*

	Bourgeoisie	Middle Class	Working Class
Single person	1.9	1.3	1.1
One-earner couple	1.7	1.0	.7
Two earner couple	2.1	1.5	1.3
One earner child family	1.5	.9	.7
Two-earner child family	1.9	1.3	1.1

Source: Analyses of 1994 Italian Household Cunsumer Expenditure survey.

Table 6. *Expenditures on Personal and Restaurant Service: the Impact of relative Costs and Welfare "Crowding-Out" Effects. Cross-Section Analyses.*

Equation 1:	a	wage differentials	R-squared
	9.34	-.80	.01
	(1.75)	(-.25)	
Equation 2:	a	welfare state	R-squared
	16.40	-.340	.16
	(2.68)	(-1.40)	
Equation 3:	a	welfare state	private welfare
	24.70	-.540	-.400.17
	(3.00)	(-2.0)	(-1.50)

Wage differentials are measured as ratio of lowest quintile earners to mean. Welfare state is measured as expenditures as a percent of GDP, and private welfare in terms of percentage average household expenditures on health and education.

differentials, as a measure of relative costs, clearly do not affect household expenditure levels (although they might influence spending elasticities). Also, the crowding-out effect of welfare states or private welfare is not particularly strong. In other words, despite the very tentative nature of these analyses, it does not appear that our earlier conclusion is much affected by cost or welfare state crowding-out effects, at least as far as family *expenditure* is concerned. Put differently, if the cost of eating out is high, families will do so less frequently. But they will nonetheless do so.

5. FAMILY CONSUMPTION AND THE SERVICE EMPLOYMENT DIVIDEND

The final link in our argumentation concerns the employment dividend of family spending. A simple OLS cross sectional estimate of the impact of household expenditures and wage inequality is shown below (t-statistics in parenthesis). The dependent variable is employment in eating, drinking and lodging establishments.

employment = -2.86a + .25 (Spending) + 2.98 (wage diff.)
          (-3.41)   (5.64)   (6.80)
(adjusted R-squared = .865)

The household spending effect is significant and positive, also when controlling for relative costs (wage differentials). Notice, however, that wage inequality does promote employment. Family spending accounts for 24 percent of the explained variance; wage differentials, 76 percent. In other words, low costs are comparatively more important than household spending, but both are significant sources of job growth: one is tendentially capable of offsetting the other. If this is the case, a "Pareto-optimal" solution would have to be found by striking a balance between wage inequality and maximizing family out-servicing.

Large welfare states do have a dampening effect on *market* service employment (although not particularly on spending). In fact, when controlling for the welfare state, the household expenditure variable becomes less important.[13]

This is less the case for private welfare.

6. THE WELFARE STATE CHALLENGE

It is probable that de-regulation and more wage inequality are conducive to service employment growth. Yet, if the direct policy objective is to resolve the unemployment problem among the less skilled, the evidence is less compelling. De-regulating labor markets, we know, has positive effects in terms of creating more flexibility and limiting the duration of unemployment or exclusion. We also know that existing rigidities can be — and are — dodged by informalization, such as self-employment or undeclared employment. Hence, the extremely high unemployment rates in Southern Europe should not be taken at face value.

A "low wage-deregulation" strategy, as pursued in North America and the U.K., risks producing a low-skill equilibrium in which declining earnings are matched with declining social protection. The result, as witnessed in the United States, is a large mass of below-poverty level earners (estimated at around 15 percent of the workforce). Of course, spouses can compensate with extra labor supply (as they have done) to maintain family living standards. Still, a large and growing mass of American households are in poverty (about 18 percent) or at very low incomes, thus precluding them from consuming those very services that

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[13] The analyses are not shown. There is no problem here of multicolinearity. However, a very high correlation between welfare state and wage differentials (.77) suggests that the welfare state variable may "pick up" wage equality. The correlation between private welfare and welfare state is -.50.

they, themselves, are likely to produce. The low-skill equilibrium leads easily to a Disraelian two-nation society in which masses of poor service the rich.

In contrast, the "high wage" strategy, coupled to extensive job protection for the insiders, promotes exclusion. Where, as in Continental Europe, families depend on the high earnings (family wage), job security, and pension rights of the male breadwinner, any major moves towards deregulation and wage inequality will clearly impose a major threat across the population. If, on the other hand, this very scenario causes exclusion and massive, long term unemployment among youth and women, the consequences are easily perverse: familialistic social policy, meant to encourage family formation and fertility, is now actively jeopardizing both. It is not accidental that Spain and Italy today suffer from the world's lowest fertility rates. Youth in general, and unemployed youth in particular, remain dependent on their parents and are thus forced to delay marriage and fertility. The "reservation wage" of unemployed youth becomes, so to speak, the living standard provided by the father-breadwinner.

The principal cause of youth unemployment is lack of job growth. This can be secured through a "low wage" approach, but at the cost of inequalities, poverty and, possibly, crime. It can also be nurtured by high incomes and a reorientation of family policy in favor of the two-earner, double-career household.

Rather than blindly de-regulate wages and labor markets, a "Pareto optimal" policy should therefore promote a balance between wage inequalities and family service consumption. The findings suggest that the need for wage inequalities (and thus also welfare state roll-backs) diminishes the more "a-typical" families become dominant. Since female employment is a key defining characteristic of our postindustrial society, some degree of optimism is called for.

The suggested "Pareto optimum" poses, however, two problems. Firstly, since the long-term future of the welfare state hinges on fertility, it is clearly necessary that women's integration in the economy be coupled to affordable care services. In a low-wage economy this is possible within the market — except for low income households.[14] In a high wage economy, the restoration of fertility levels will require an adequate welfare state provision of social care.

Secondly, if low pay and generally unattractive service jobs *are* needed and *will* grow, peoples' life chances are affected. The basic issue is how to

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[14] Hence, in the U.K. and in the U.S. the employment rate of single mothers is very low compared to Scandinavia. This is a major reason for their much higher poverty rates.

prevent that workers become trapped in "lousy" jobs; that career mobility is assured. Indeed, from a life course perspective, there are no welfare negatives as such associated with a spell in poorly paid employment. What we do know is that, for most, chances for upward mobility are closely related to education. For particularly disadvantaged groups, such as single parents, escape from entrapment requires also active income maintenance.

It is, then, obvious that contemporary welfare states will need to reorient their policies in favor of youth and working age adults. Yet, in many countries — Southern Europe, Japan, and the United States in particular — the welfare state bias in favor of the aged is not only extreme but also growing. On average, the Continental European welfare states spend 2.3 times as much on the aged as on the young; the Anglo-Saxon nations, 1.1 times as much; and the Nordic welfare states only .6 times as much. Not only does aged-spending crowd out programs for the young, but it also mis-allocates purchasing power from a job-creation point of view. The aged are intensive consumers of welfare state services, but the *least* prone to consume personal market services.

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