

## *Chapter 2.*

### **The Life-course Perspective and Social Policies: An Overview of the Issues**

Arij Lans Bovenberg<sup>1</sup>

*A number of trends are changing the nature of social risks and increase the importance of human capital, adaptability and flexibility. This chapter discusses the usefulness of a life-course perspective in developing proactive social policies that better fit the changing life cycles of individuals who combine formal work with other activities on transitional labour markets. It pays special attention to the accumulation and maintenance of human capital over the life course and stresses that reconciliation of work and family goes beyond child-care facilities and parental leave, and involves the entire life course. In particular, longer and deeper involvement in paid employment allows people to exploit their longer life to reconcile the two ambitions of, first, investing in the next generation as a parent and, second, pursuing a fulfilling career in paid work in which one keeps learning. Greater flexibility of working time over the life course requires more individual responsibility for financing leave. Moreover, rather than shielding older insiders through employment protection, labour-market institutions should enable parents of young children to easily enter and remain in the labour market. Finally, more activating social assistance and in-work benefits should replace the passive income support for breadwinners that results in high minimum wage floors.*

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1. CentER Research Institute, Faculty of Economics and Business Administration, Tilburg University, P.O. Box 90153 5000 LE Tilburg, Netherlands. The author thanks Bas Jacobs, Roel Mehlkopf and Gerardo Soto y Koelemeijer for research assistance.

## 1. Introduction

Life courses are becoming more heterogeneous in terms of the distribution of time over working, caring, learning and resting. As a consequence of the feminisation of work, workers increasingly combine a career in the formal labour market with family obligations. Moreover, in transitional labour markets, workers move between periods of full-time work to periods of voluntary (part-time) absence from the labour market to enjoy leisure, educate themselves, set up a business, or care for children or frail relatives.

These developments are changing the nature of social risks at a time when traditional institutions for insuring social risks are under pressure. In particular, firms can offer less job security to their employees in a dynamic economy with constant innovation and creative destruction. At the same time, governments find that insuring human capital through ex-post income replacements becomes increasingly costly in terms of harming the incentives to accumulate and maintain that capital.

This chapter discusses the usefulness of a life-course perspective in developing proactive approaches to social policy that better fit the changing nature of social risks over the life cycle. We pay special attention to the accumulation and maintenance of human capital over the life course as well as reconciliation of work and family. Human capital becomes more and more the key to personal fulfilment, stable personal relationships and social inclusion on a micro level, and to high levels of employment and labour productivity on a macro level. Human capital is produced not only in schools but also in families and firms. Reconciliation of work (including workplace learning in firms) and family (including informal care for young children) is therefore essential for safeguarding durable labour supply and an adaptable labour force generating substantial productivity growth. This chapter stresses that the reconciliation of work and family goes beyond child-care facilities and parental leave during the family phase, and involves the entire life course.

Section 2 considers a number of trends that are changing the nature of social risks and call for a life-course perspective. These trends point to an increased importance of human capital, adaptability and flexibility. The most important components of human capital – the ability to learn, emotional resilience and the capacity to work well with others – are shaped early in life. Section 2 also considers a number of challenges that endanger the level and quality of human capital at a time when corporations and governments are withdrawing from their traditional roles as insurers of human-capital risks.

To investigate the role of social policy, Section 3 investigates the market and institutional failures that damage human capital accumulation and hamper flexibility and adaptability over the life cycle. Traditional social policies, such as compressed wage scales and job protection, are becoming increasingly counterproductive in generating security. This calls for institutional innovation in developing new proactive approaches to social protection over the life cycle. Section 4 employs the life-course perspective to describe various elements of such approaches. Section 5 concludes by focusing on the political economy of reform.

## 2. Trends and challenges

### 2.1. Trends

#### *Female human capital stronger*

Female labour force participation has increased strongly in almost all OECD countries over the last few decades (see Figure 2.1). A major factor is the increased supply of female human capital as a result of better-educated women, improved birth control, better household appliances, and changing female aspirations (Golden and Katz, 2002). At the same time, increasing employment shares of the service sector and technological developments have boosted the demand for female labour by facilitating part-time work and by raising the demand for communication and creative skills at the expense of raw muscle power in the industrial sector (Golden, 2006). The increased potential earnings of women in the formal labour market reduce the scope for specialisation in home production between male and female partners and encourage more gender equality (Jones *et al.*, 2003). As a direct consequence, both male and female employees increasingly combine a career in the formal labour market with family obligations (see Table 2.1). About half of the working European workforce combines paid work with unpaid work of at least 12 hours a week (Groot and Breedveld, 2004). Moreover, life courses become increasingly heterogeneous in terms of the distribution of time over working, caring, learning and resting, as people are more and more able to construct their own choice biographies.

In eastern European countries, in contrast, women's participation rates have not increased, as the transition weakened the labour-market position of young women and reduced family-related supports and benefits. Moreover, in contrast to most other European countries, the traditional male breadwinner model remains the preferred model in several eastern European countries. Table 2.2, which provides the results of a survey of preferences on gender role models carried out in 2002, illustrates this.

Large cross-country differences in the levels of female participation exist, especially for low-skilled women. Whereas participation ratios of high-skilled women (with tertiary education) exceed 75% in all EU countries, participation ratios of low-skilled women (with less than upper secondary education) vary substantially from above 50% in Nordic countries and France to close to 35% in southern and eastern Europe (see Figure 2.2).<sup>2</sup> Although the presence of young children depresses the participation rates of women, employment rates of both mothers with young children and other women rise strongly with the educational level, even though high-skilled mothers opt for part-time work much more often than their childless peers (see Tables 2.3 and 2.4). Indeed, highly educated women appear to combine work and family by reducing their working time rather than by exiting employment, thus remaining in touch with the labour market. These data bear out the close complementarity between human capital (as measured by the level of education), on the one hand, and the employment level, on the other hand.

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2. Portugal is an exception in southern Europe. These participation ratios are based on participation in the formal sector and thus do not include the participation of low-skilled women in the informal, grey economy (for example, by providing cleaning services).

### *Human capital more important*

The importance of the educational level as a crucial determinant of female labour participation points to human capital as the key to a successful career in a modern knowledge-intensive economy. Indeed, several studies indicate that the skill premium has increased as human capital has become scarcer (Autor and Katz, 1999). The additional demand for skills on account of rapid technological change outstrips the additional supply of skills as a result of a better-educated workforce.

At the same time, work and career are increasingly important for personal fulfilment and development, life-long learning, the maintenance of social networks and (mental and physical) health. This holds true not only for men but also increasingly for women. Indeed, well-educated women aspire to the independence and fulfilment that paid employment brings. Access to employment, and thus workplace learning, prevents not only social exclusion but also depreciation of skills as a result of rapid technological change.

### *Longer life and rapid innovation call for life-long learning*

Increased longevity implies that human capital has become more durable. Average life expectancy at birth has increased by about 2½ years per decennium since 1950 in the countries included in Table 2.5. Life expectancy at age 65, which is more relevant for the costs of pensions, rose by on average one year per decennium (Table 2.6). At the same time, knowledge and specific skills age faster on account of creative destruction associated with fierce competition and rapid innovation. The combination of a longer life combined with faster obsolescence of skills and the increased importance of human capital implies more need for life-long learning.

### *An adaptable labour force enhances the legitimacy of competition*

Also the creative destruction associated with a competitive, innovative economy requires greater adaptability and employability of the workforce to prevent a competitive market economy from losing its social legitimacy. By absorbing the idiosyncratic shocks associated with creative destruction, an entrepreneurial workforce empowered with sufficient skills safeguards the legitimacy of a dynamic market, thereby boosting productivity growth. Moreover, an adaptable labour force can embrace risk, thereby raising the supply of risk-taking capital for additional R&D and risk-taking entrepreneurs who experiment and challenge existing firms. More generally, in a continuously changing and highly competitive environment of a modern economy, intellectual flexibility, emotional resilience and the capacity to work well with others are at a premium.

### *Non-cognitive skills are becoming more important and are shaped early in life*

Adaptability and the ability to learn are important components of human capital. The same holds true for non-cognitive skills (such as social and communication skills facilitating stable relationships, self-discipline, self-control and self-esteem, perseverance and other virtues, emotional security, time preference, motivation to learn, openness to change) and values stressing creativity, personal growth, responsibility, and readiness to meet challenges. These skills and values, which enhance adaptability and the ability to learn throughout the adult life, are shaped early in life, mainly in families.<sup>3</sup> Early child

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3. See Heckman (2000) and Cunha *et al.* (2005) for the theory and evidence on human-capital formation over the life cycle and the key role of the family as the producer of skills.

development therefore gains in importance in accumulating key skills for successful careers in paid work and stable, supportive personal relationships in two-parent families easing the stresses of life (Council of Economic Advisers, 1997). In order to lay the basis for life-long learning through child development in families, while at the same time maintaining the marketable skills of parents, workers should be able to reconcile work with family obligations. Indeed, work is important to maintain skills because an important part of skill formation occurs on the work floor through on-the-job training.

### *Aging makes human capital more valuable*

Aging raises the importance of human capital. More funding of pensions raise capital-labour ratios, thereby depressing returns around the world and at the same time raise wages (Boersch-Supan *et al.*, 2006; Aglietta *et al.*, 2001). Moreover, if commodities and services are not perfectly tradable, shifts in the real exchange rate and real wages imply that the return on pension saving fall – even in a small open economy that is perfectly integrated in world financial markets. Intuitively, as the older, inactive generations become larger in number compared to the active working generation, a tight labour market raises real wages, thereby depressing the real value of the capital that the older generations have accumulated (Knaap, 2005). Aging thus makes human capital more valuable. Accordingly, investment in human capital becomes more attractive compared to that in other capital. Aging thus increases the need to not only save more in the form of financial capital but also invest more in human capital. In particular, high levels of human capital and employment ensure that the additional financial savings that result from more funding do not result in low rates of return.

## **2.2. Challenges**

We can identify several challenges involving the need to create more room for investments in human capital, particularly those that foster the adaptability of parents and their children.

### *Maintaining the intergenerational contract*

A first challenge is to maintain social cohesion in the face of a population that is aging on account of increased longevity and declining fertility. In particular, aging threatens the intergenerational contract according to which each generation invests in the human capital of the next and is taken care of at the end of its life by the generations in which it has invested. Hence, each generation cares twice (once for the previous and once for the next generation) and is taken care of twice (as a child and in old age). Within a family context, women are the traditional brokers of the intergenerational contract, providing most of the informal care to children and aged relatives.<sup>4</sup> The higher potential earnings of women in the formal labour market have increased the opportunity costs of these activities at a time when most elderly have fewer younger relatives who can care for them as a result of shrinking family size. Moreover, the middle aged face a heavy tax burden as the large baby-boom generation starts to take advantage of pay-as-you-go (PAYG) pensions and health care provisions. This threatens the

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4. Time surveys indicate that women in couples still provide the bulk of informal care and work within the household (see Table 2.1). Even women in full-time work spend about twice as much time on these activities as their male partners do (OECD, 2001a). Women older than 50 provide a lot of informal care to aged relatives.

sustainability of the public intergenerational contract according to which the middle-aged must care not only for the very old but also for the very young.

### *Stopping the vicious circle of early retirement and rapid depreciation of human capital*

The so-called work-age paradox exacerbates this threat. Whereas life expectancy increases and people enjoy better health at 65 years of age than ever before in history, the effective retirement age, in Europe especially, has fallen substantially below 65. Biological aging and social aging have thus moved in the opposite direction. As a direct consequence, the expected retirement span has increased substantially while the working life is being compressed. Indeed, many OECD countries depreciate their human capital quickly (see Figure 2.3). Across the OECD, the number of years that men can expect to spend in retirement has increased from an average of 11 years in 1970 to 18 years in 2004. For women, the corresponding numbers are 14 and 23 years (see Figure 2.4).

### *Maintaining investments in younger generations*

With increased longevity, earlier retirement and the compression of the working life, the aging European continent risks becoming entangled in a vicious circle of early retirement and lower fertility in which politically strong older generations favour generous passive spending on pensions and health care at the expense of investments in the human capital of younger generations. The decline in fertility in various European countries implies that current generations are investing less in future generations (see Table 2.7).<sup>5</sup> The opportunity costs of raising children in terms of foregone career possibilities seem excessive for many high-skilled women, who opt for a career in paid work rather than raising children.<sup>6</sup> Low-skilled women, in contrast, make the opposite choice. Indeed, highly educated women feature the lowest fertility rates, while more than a quarter of high-skilled women remain childless (Schoenmaeckers and Lodewijckx, 1999). Moreover, countries featuring the largest increases in female participation rates tend to show relatively large declines in fertility rates (Chart 4.1 in OECD, 2001a). The low fertility rates of high-skilled women have adverse consequences for the future quality of human capital, because the skill level of children tends to be closely related to that of their parents (Plug en Vijverberg, 2003).

Families face difficulties in reconciling work with rearing children. In particular, the Employment Options of the Future (EOF) survey carried out in 1998 in EU member

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5. Actual fertility levels are not a good measure of the true level of fertility because they are sensitive to changes in the timing of births. Also completed fertility, which measures the average numbers of live births at the end of the childbearing years, indicates that fertility has dropped below replacement levels in almost all European countries (Schoenmaeckers and Lodewijckx, 1999).
  6. Recent research shows that the gender gap in wages is to a large extent a “family gap”. In the United Kingdom, for example, the gender wage gap (that cannot be explained by other observable factors) for men and women without children is 10%, but increases to more than 30% for those with children and stays at 25% for those whose children have grown up (Paull, 2006). Similar consequences of motherhood are found for hours worked, with little shrinking of the work gap when children have grown up. Rather than a time when many mothers return to work, school entry of the child is in fact a time of high labour-market turnover – with mothers both moving into and out of work and changing their working patterns. Indeed, substantial gender wage and work gaps persist 30 years after birth. Motherhood thus substantially harms the human capital of women, especially for high-skilled women (Anderson *et al.*, 2002).

states shows that many couples with children under the age of six prefer to work shorter hours, even taking into account the need to earn a living (see Tables 2.8 and 2.9). About half of the working population in the EU would prefer to reduce their working hours with a corresponding cut in pay (EFILWC, 2003). Moreover, European women would like to bear more children than they actually have. In some countries, the difference between desired and actual number of children is as large as  $-0.7$  (Schoenmaeckers and Lodewijckx, 1999). When considering options for combining work with other activities, European workers consider flexible working times and time-bank arrangements to save overtime as the most promising options (see Table 2.10).

### *Insuring human capital while protecting the incentives to maintain human capital*

Various developments increase the dangers of moral hazard and hence make human-capital risks less insurable. As the economy shifts from blue-collar work in industrial sectors to white-collar work in service sectors and knowledge-intensive activities, mental causes of sickness and disability become more prominent. These types of sickness and disability can be less easily verified than physical disabilities. Moreover, an increasing number of workers now move between periods of full-time work to periods of voluntary absence from the labour market to enjoy leisure, educate themselves, set up a business, or care for children or frail relatives. In such a transitional labour market with a growing diversity of life courses, it becomes more difficult to separate voluntary periods of inactivity from involuntary unemployment. At the same time, individuals can increasingly affect the probability that they become unemployed or sick by investing in their own employability or by the way in which they organise their life. In other words, the dividing line blurs between the contingencies that people are responsible for (the so-called manufactured or voluntary risks) and those for which they are not (the so-called external risks). More and more periods in which people experience a cut in income are in part “manufactured”, increasing the risk of moral hazard in social insurances that protect people against these losses in income.

These changes in the nature of and the responsibility for social risks make it more costly to insure human capital through ex-post income replacements in terms of harming the incentives to accumulate and maintain that capital. At the same time, a more dynamic world economy and a decline of the extended family as an insurance device have increased the demand for such insurance as people experience more substantial economic insecurity.

### *Empowering workers to become less dependent on corporations*

Also corporations can offer people less job security. Fewer and fewer employees work for 40 years for the same company. More intense competition implies that companies exhibit shorter life spans. In a dynamic economy, constant innovation results in substantial creative destruction. Firms can thus offer less security to their employees. Within firms, employees have to update knowledge and qualifications regularly as they move between different jobs on the internal labour market. These developments point again to the importance of continuously maintaining and updating skills in order to guarantee income security. Making workers less dependent on their employer requires more employable workers through more general human capital.

### *Protecting social cohesion*

The labour-market position of unskilled workers (including many unskilled migrants) weakens as a result of technological and other developments. Together with the relatively high minimum-wage floors in European labour markets, this produces structural

unemployment yielding social exclusion of the unskilled. These minimum-wage floors are compatible with high levels of employment for vulnerable groups only if expensive and intrusive active labour market policies assist disadvantaged adults in entering the labour market and if early-intervention programmes help disadvantaged children to accumulate sufficient skills. By reducing the budgetary room for such activating and preventive policies, the large call of the elderly on public resources threatens not only intergenerational but also intragenerational solidarity protecting disadvantaged adults who lack human and social capital.

### 2.3. *A life-course perspective*

#### *Reconcile career and family in longer life*

A modern knowledge-intensive economy requires longer periods of learning so that young adults start their working lives later. At the same time, older workers terminate their working careers earlier as effective retirement ages decline or stagnate, even though life expectancy increases. People thus concentrate work effort increasingly in the relatively short life season in which they also raise children (see Table 2.11 and Figures 2.5 and 2.6). At the same time, many parents wish to look after their children, especially immediately after childbirth. The key challenge is to accommodate these preferences by allowing parents to strengthen family life while also maintaining their human capital through continued attachment to the labour force so that they can enjoy long, fulfilling careers.

#### *From dividing tasks in breadwinner model to combining work and family*

The traditional breadwinner model relies on a strong division of labour between men and women. In the face of an eroding comparative advantage of men in paid work, young generations increasingly combine various activities by engaging simultaneously in learning, working, caring and relaxing. The relative importance of these activities varies during the life course, depending on family obligations and idiosyncratic and macro-economic shocks.

#### *Spring and fall complement summer and winter*

In the modern longer life course, adults spend considerable time in households without young children as a result of delays in family formation and parenthood as well as death. Indeed, in the “spring” of the modern life course (or early adulthood phase or “playtime of life”), young adults first experiment with relationships and jobs before they take responsibility for raising children during the “summer”, the family season when adults bear the responsibility for raising minors. After their children have grown up, adults typically spend considerable time in good health in the “fall” season of their life course (or the active senior phase) before they enter “winter”, the last phase of life in which people suffer from serious health problems. The modern life course is most apparent in northern Europe. In this region, many people in the age brackets between 20 and 30 and between 50 and 60 live as singles or as couples without children. In southern Europe, in contrast, the extended family is still dominant in these age groups. Figure 2.7 illustrates these different household patterns over the life course for Denmark (representing northern Europe) and Spain (representing southern Europe).<sup>7</sup>

7. Kalle *et al.* (2002) provide these data for twelve other EU countries.



The summer season in the modern life course is quite hot. The costs of living are high while time is scarce, as parents invest not only in their children but also in their careers. During this so-called “rush-hour of life” people may experience “combination stress”. Compared to other European household types, families with co-residing children are least satisfied with living conditions, including their work (or main activity), income, housing, and leisure time (Avramov, 2002). Time pressure can result in broken relationships and burn out. Especially single-parent households face both a “time crunch” and a “money bind”. In the spring and the fall, in contrast, the climate is more moderate. Adults thus do not have to care for young children and enjoy relatively high purchasing power. Figure 2.8 presents the purchasing power (corrected for the number of persons in the household) for the dominant household type for each age group in a typical northern and southern European country (the Netherlands and Italy, respectively). The figure clearly shows the relatively affluent spring and fall seasons. In Italy, in contrast, the main transition is between leaving the family of the parents and starting a family with children oneself.

### 3. Economic theory and empirical evidence

To explore the role of social policy, this section investigates relevant market and institutional failures in the accumulation of human capital over the life cycle.

#### 3.1. Market failures

##### *Liquidity constraints*

Agents cannot borrow against the future value of human capital because of adverse selection and moral hazard. Indeed, financial institutions cannot use human capital as collateral to ensure that loans are paid back. Liquidity constraints discourage parents from investing in the human capital of themselves and their children and tend to increasing the time pressure on young parents (Apps and Rees, 2004).

Capital-market imperfections also prevent agents from smoothing consumption over time in the face of various shocks. This stimulates precautionary saving because the presence of a financial buffer helps agents to optimally diversify temporary risks over time. Indeed, precautionary motives rather than saving for retirement tend to be the main reason why young households save (Cocco *et al.*, 2005).

##### *Externalities of children*

By socialising the intergenerational contract, PAYG pension and health insurance systems insure against childlessness. Children who have been reared by others support the elderly without children. By bearing children, parents thus generate positive external effects for the childless. This provides an argument for public support of children through family support and publicly funded primary education and child care (Sinn, 2000). This public support should increase with the opportunity costs of raising children (due to, *e.g.*, loss of career opportunities and higher costs of raising children in a complex society), the social benefits of investing in the non-cognitive skills of young children, and the PAYG benefits provided to the elderly.<sup>8</sup> The case for public support for households

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8. These latter external effects of children are measured by the net tax burden on unborn generations computed by so-called generational accounting (Auerbach *et al.*, 1999). These measures account for all

with children is stronger if these households cannot finance investments in children because they face capital market imperfections, including liquidity constraints. Table 2.12 reveals how much governments spend on family services and benefits compared to pension spending and other spending on the elderly.

In the case of grants to families, the traditional arguments based on consumer sovereignty in favour of cash grants over in-kind subsidies are modified because children do not have a say in how parents spend cash grants. In order to ensure that the public resources benefit the children, the government may thus want to provide benefits in kind. Indeed, the key market failure is that children cannot choose their parents, are not able to buy services from them, and cannot ensure against being born in a disadvantaged family (Cunha *et al.*, 2005).

As regards externalities of parental leave on children, Ruhm (2000) and Tanaka (2005) find on the basis of panel data for 16 European countries (and in the case of Tanaka, 2005, also for Japan and the United States) that job-protected paid parental leave enhances pediatric health. Parental time thus is an important investment in the human capital of young children. Care responsibilities can be outsourced, for example through formal child care. However, some more personal dimensions involving emotional attachment and care are difficult to contract out, especially in the beginning of a child's life (Plantenga, 2005). Blau (1999), Cunha *et al.* (2005) and Blau and Currie (2004) find that the features of the home environment are especially important in shaping the cognitive and non-cognitive abilities and talents of young children.

The relationship between maternal employment and the cognitive development of children has been studied for the United States, which features only limited statutory maternity leave and publicly funded child care. These studies find that maternal employment tends to hurt the child's development during a child's first year. As regards the impact on the mother's employment on older children, evidence is less conclusive and depends on the nature of the work performed by the mother and the child-care and school arrangements<sup>9</sup> (Blau and Currie, 2004). Ruhm (2002) finds that children appear to perform better when their mothers work part-time rather than full-time during their second and third years of life. An additional 20 hours per week of mother's employment during the first three years of life harms the reading and mathematics performance of five- and six-year olds by about 0.10 standard deviation.

### *Externalities of human capital formation*

Welfare states protect the living standard of citizens who lack sufficient human and social capital to maintain a minimum standard of living. The implicit income insurance provided by the intragenerational social contract harms the incentives to accumulate human capital, supply labour, and form stable personal relationships. This provides arguments for public early intervention in case of disadvantaged groups and dysfunctional families (Haveman and Wolfe, 1995) and public support for basic education more generally (Bovenberg and Jacobs, 2005).<sup>10</sup> These instruments can help to ensure that

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public spending and taxation. For a survey of the literature of the effects of family policies (such as parental leave, child benefits and subsidised childcare) on fertility (Björklund, 2007).

9. To illustrate, adolescents tend to suffer as a result of maternal employment if they are left unsupervised after school.
10. Also other market imperfections, such as monopsony power of employers, a compressed wage structure, liquidity constraints, lack of contractibility of training, may prevent the efficient sharing of costs and

citizens enter adult life with sufficient human capital and interpersonal skills. These citizens thus do not have to rely on social assistance but are productive enough to earn the minimum standard of living. The welfare state insuring against a lack of human capital makes human capital (including a work ethic) a merit good that yields positive externalities in terms of lower welfare payments for society at large.

Learning is a dynamic process exhibiting increasing returns to scale: learning begets learning, as skills acquired early in life facilitate further learning (Knudsen *et al.*, 2006). Empirical evidence indeed suggests that learning is most effective when it begins at a young age: marginal returns on schooling are highest for the young (Council of Economic Advisers, 1997). For elderly workers whose skills have become obsolete and who lack marketable skills, in contrast, in-work benefits rather than public training programmes are typically the most efficient way to attach them to the labour market and to build human capital through learning-by-doing in private firms (Heckman, 2000). Indeed, adults prefer to learn through learning-by-doing in a work setting. Heckman *et al.* (1998) estimate that post-school learning in firms accounts for almost half of all skill formation in modern economies. Indeed, life-long learning is implemented primarily outside the formal education system in firms.

A related market failure involves the impact of the tax system on work. Redistributive taxation harms labour supply, which yields underinvestment in human capital. It also encourages individuals to substitute time away from taxed formal work into untaxed home production (Sandmo, 1990). This is an argument in favour of subsidising child care. Blau and Currie (2004), however, argue that the best available evidence suggests that the effects of child-care subsidies on labour-force participation tend to be rather small, as formal care crowds out informal care.

### *Adverse selection in labour markets*

Privately negotiated labour contracts may yield inefficient solutions due to adverse selection. To illustrate, firms may not voluntarily offer socially optimal leave schemes if low-risk individuals who are not likely to take advantage of these schemes signal their status to employers by agreeing to contracts providing little or no leave (Aghion and Hermalin, 1990). Government mandates forcing firms to offer leave schemes (*e.g.* parental schemes) combat this adverse selection. The same holds true for collectively negotiated mandates applying to a whole industry. These mandates may encourage the development of more inclusive and flexible workplace cultures in which workers who temporarily work shorter and more flexible hours remain employable and can enjoy fulfilling careers. This, in turn, is likely to strengthen social norms facilitating the combination of work and family obligations.<sup>11</sup>

Most of the recent evidence suggests that public parental leave mandates increase female employment, but that lengthy entitlements depress the relative wages of women. Based on a panel of nine European countries (Ruhm, 1998), for example, finds that job-protected leave paid by the government raises female participation by about 3%. Apparently, women enter the labour force in order to qualify for leave benefits, while job-protected leave accelerates the return to work of young mothers. Brief leave

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benefits of training and thus result in underprovision of training (see OECD, 2003, Chapter 5, Section 2). Liquidity constraints may hurt training especially for low-skilled workers. Low-skilled workers may lack funds also to invest in the human capital of children (*e.g.* by reducing working time).

11. For how changes in work patterns can change preferences and social norms (Lindbeck, 1997).

entitlements (three months) do not affect women's earnings, but lengthier leave (nine months and longer) depresses relative wages by about 3%. Indeed, with longer leave entitlements, employers face higher rescheduling costs in replacing young mothers during leave, especially in countries that restrict temporary fixed-term contracts. Moreover, a woman bearing multiple children depreciates her human capital by being away from her job for several years.

### *Lack of foresight*

Behavioural economics is gathering more and more evidence that individuals suffer from myopic behaviour and that they have difficulty planning for the future. To illustrate, many individuals believe that they should be saving more for retirement but are unable to do so (Laibson *et al.*, 1998). People apparently lack the self control that is required to implement a savings plan. Individuals may thus experience an unanticipated drop in consumption when their incomes decline as a result of retirement or the birth of children.

A convenient way to model this behaviour is hyperbolic discounting. With this type of discounting, nearby events are discounted more heavily than events that are still far away. These preferences imply time-inconsistent behaviour and cause individuals to seek ways to commit themselves by restricting their discretion to reverse earlier decisions. Hyperbolic discounting can explain why women may understate the importance of remaining attached to the labour force in terms of protecting their future earning capabilities.

## **3.2. Institutional failures**

### *Early retirement...*

Various schemes encouraging early retirement have resulted in workplace cultures that fail to maintain human capital. Various schemes facilitating early exit from the labour force have also produced an early retirement culture setting in motion a vicious circle: workers retire early because their skills are obsolete, while human capital is not maintained because people can retire early and thus feature only a short time horizon and a low utilisation rate of human capital. Indeed, cross-country data show a strongly positive correlation between spending on training and the effective retirement age (OECD, 2006a). In Europe, additional leisure time after retirement is not used actively but rather for home-centred leisure activities and watching TV in particular (Avramov and Maskova, 2003).

The waste of human capital as a result of early retirement originates in the erroneous belief that early retirement reduces unemployment because the amount of work is fixed: the so-called "lump-of-labour fallacy". In fact, early retirement has contributed to unemployment by putting a heavy financial burden on companies and families with young children.<sup>12</sup> Moreover, early retirement has nurtured working place cultures in which careers must be made during the time when people bear family responsibilities for young children, thereby creating time pressures in the family season of life in the age range between 30 and 45. By thus preventing men from taking on more household duties and caring for children, these cultures have fostered gender inequalities in employment and earnings patterns. Indeed, fathers often cite workplace cultures as the key reason why

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12. Indeed, countries with the lowest participation rates (and thus labour supply) feature the highest unemployment rates (Burniaux *et al.*, 2004) and (OECD, 2006a).

they are not more involved with their families (EFILWC, 2003). This explains why the European countries with the lowest effective retirement age also feature the lowest female participation and fertility rates. In this connection, early retirement has also worsened liquidity constraints in early adulthood by transferring resources away from this early phase in the adult life cycle to the active senior phase of the life course.

### *...and lack of wage flexibility*

An important factor explaining the low effective retirement age in Europe is the lack of wage flexibility for elderly workers, which reduces labour demand and thus results in a weak labour-market position of these workers. Since many social benefits (provided by unemployment and disability insurance, for example) are directly linked to previously earned wages through fixed replacement rates, elderly workers who have experienced a decline in their earning potential are hard pressed to find a job that is acceptable to them, and therefore reduce their search intensities.

Wage rigidity explains the increase in structural, long-term inactivity in Europe following adverse macro-economic shocks and in the face of more idiosyncratic shocks to earning potentials of individual workers due to more creative destruction. Whereas European displaced workers experience smaller income losses than their American colleagues, they face smaller reemployment probabilities, resulting in further rapid depreciation of their human capital rather than restoration of old levels through on-the-job learning (Lunqvist and Sargent, 1998).

Another factor weakening the demand for older workers is the implicit labour contract according to which workers are underpaid when young and overpaid later on. This contract can encourage young workers to invest in firm-specific human capital and promote workers' effort and cooperation. At the same time, however, it ties older workers with golden chains to their employer. Moreover, it makes older workers dependent on the survival of the firm they work for and discourages entrepreneurship. These workers thus experience a lack of security associated with "fear of falling" in a dynamic economy in which creative destruction causes companies to exhibit shorter life spans. Indeed, the implicit contract creates a gap between the *insiders* who are lucky enough to work for a surviving firm and the *outsiders* whose firms have not survived.

Another drawback of the implicit contract is that it requires a mandatory retirement age at which workers are laid off (Lazear, 1979). Hence, the speed and extent of phased retirement cannot act as a buffer for absorbing aggregate financial market and aggregate longevity risks. In an actuarially neutral pension system, working one year longer (and thus receiving annuities one year later) tends to raise their pension by about 8%. The speed and timing of retirement is thus a powerful instrument for absorbing risks.

### *Employment protection*

Social insurance systems in various European countries protect breadwinners against income shocks through employment protection legislation and social insurance linked to previous earnings. These systems shielded families against poverty at a time when the earning potential of women was low and men could look forward to a continuously increasing wage profile in a single-track full-time career. In modern economies that rely on creative destruction and feature a large potential labour supply of female skilled workers who aim for careers in paid work, these systems protecting insiders are increasingly costly in terms of wasting human capital of outsiders, tying older incumbents to the fortunes of their employer, and discouraging these insiders from moving into new

jobs that better fit their life season. Paradoxically, workers seem to feel more secure in those European countries in which employment protection is lowest (Cahuc and Kramarz, 2004). One reason is that employment protection discourages not only firing but also hiring, thereby reducing the turn-over in the labour market and thus the jobs that are opening up for new entrants to the labour market and those that want to get out of their current jobs. Rather than the difficulty of being laid off from the current job, the ease with which a worker can find a new job is becoming increasingly important in determining the sentiment of security in a transitional labour market.

In addition to preserving the status quo when innovation requires new work practices, employment protection discriminates against outsiders by slowing down turnover in the labour market. The lower probability of finding a good job in a dual labour market depresses the labour supply of secondary workers and raises the opportunity costs of bearing children for young, highly educated women. In countries with strict employment legislation in which workers hold permanent highly protected jobs, women face both higher unemployment risk and the prospect of lower future wage growth (through foregone experience and delayed wage growth) if they temporarily (or on a part-time basis) exit the labour market during the childbearing years. Indeed, worsened future career prospects rather than foregone earnings during the relatively short period spent with the baby account for the bulk of the opportunity costs (in terms of lower lifetime income) of becoming a mother (or of sharing household work and caring for a child as a father). Thus, whereas the literature has traditionally focused on maternity benefits and child care as the key towards reconciling work and family life, an inclusive labour market is at least as important because in such labour markets young workers do not have to engage in costly rent seeking to acquire highly protected jobs when they build a family.<sup>13</sup>

On the basis of a panel of OECD countries for the last 35 years (Adsera, 2004a) shows that countries with labour-market institutions facilitating women's exit and entry in the labour market combine high fertility rates with high female labour supply. This third factor of rigid labour markets protecting insiders at the expense of younger workers explains why the cross-country correlation between fertility and female labour-force participation, which has traditionally been negative (conforming to the theoretical predictions), became positive in the mid-1980s (Da Rocha and Fuster, 2006). In particular, fertility dropped in southern European countries (with traditionally low female participation rates) when structural unemployment rose. In the same vein (Kugler and Pica, 2003) find that employment protection in Italy raises employment for men, who are more likely to be insiders, at the expense of women, who are likely to be outsiders. Indeed, employment protection substantially depresses the hiring of young women.

Bertola *et al.* (2002) show that employment protection and wage compression price women as well as young and elderly men out of employment and into other states (the informal economy, home making, education and retirement).<sup>14</sup> By discouraging employment of young adults and the elderly, these labour-market institutions thus contribute to the compression of the working life. Moreover, young adults stay in full-time education longer than would be optimal. As a direct consequence, social

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13. Using the European Community Household panel for 13 European countries (Adsera, 2004b) finds that, compared to maternity benefits, flexible labour markets that do not penalise part-time work are more effective in stimulating fertility.
14. OECD (2006a, Chapter 3) also shows a significant negative relationship between employment protection and the employment rate of the population aged 50-64 across OECD countries.

adulthood and the responsibility for supporting oneself is increasingly postponed beyond the age of biological maturation.

Using aggregate evidence for 12 European countries (Becker *et al.*, 2004) find that low job security of children compared to their parents prevents young people from leaving the parental home and starting their own family. In particular, if the 20-30 year olds would have secure rather than insecure jobs, co-residence rates of children with their parents would decline by 13 percentage points. For parents aged 50-59, co-residence rates with their children rise by 9 percentage points if they have secure rather than insecure jobs.

### *Housing market: insiders versus outsiders*

Young households often face difficulties entering not only the labour market but also the housing market. To illustrate, rent control protecting incumbent renters typically reduces the rental housing supply for new entrants and results in the rationing of rental properties. As a direct consequence, workers find it difficult to move around. This hurts their job prospects and, more generally, the flexibility of the labour market.

Tax incentives that are not targeted at new entrants may drive up house prices. High house prices reallocate resources from young households who have not entered the housing market towards older incumbents. Imperfect capital markets that prevent young households with insecure jobs from taking out mortgages add to the strain experienced by youngsters. The difficulty of entering the labour and housing markets discourages young people from starting a family. This lengthens the period of social adolescence, thereby postponing the establishment of a durable relationship and parenthood.

### *Internal flexibility of firms*

Workplace practices and cultures in many countries are still oriented towards the full-time male breadwinner who can devote all of his time and energy to his career. Senior male management and unions (often dominated by older male workers) sometimes lack leadership in introducing family-friendly workplace measures. These measures include flexible leave policies (parental leave, emergency leave to care for sick elderly relatives or children); flexible working hours (*e.g.* school-holiday adjusted working hours; part-time work; flexi-time); flexible working arrangements (like tele-working); support with child-care and eldercare; and provision of training during or after leave so that the allocation of work over the life cycle is better adjusted to the biological clock of women.<sup>15</sup> Even if some of these facilities are present, workers sometimes fail to take advantage of them because they fear that doing so would harm their careers (Groot and Breedveld, 2004).<sup>16</sup> Indeed, employers may perceive women who take time off for childbirth as less committed to their career than male breadwinners, and are therefore less likely to invest in female career opportunities. This produces a vicious circle, as many women do not pursue a career in view of a limited likelihood to advancement.

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15. Some countries are more successful than others in more fully reintegrating mothers into the labour market when their children have grown older (Klammer, 2005).
  16. Employee surveys suggest that workers especially value flexible working hours and short-duration leave schemes (see Table 2.10 but also OECD, 2001a). For an overview of indicators of these arrangements see OECD (2001a), Table 4.8. Access to part-time work boosts female labour-force participation see OECD (2003), Chart 3.3.

Empirical evidence suggests that the career effects of taking parental leave differ substantially across countries, reflecting different workplace cultures. To illustrate, Kunze (2003) finds that taking parental leave substantially reduces future wage growth in Germany. In Sweden, in contrast, women do not experience much smaller wage growth after taking parental leave (Albrecht *et al.*, 1999). Apparently, since taking parental leave is so common in Sweden, it does not signal anything about career commitment. Whereas the Swedish labour market for women is thus the outcome of a pooling equilibrium, the corresponding German market is better described by a separating equilibrium.

### *High wage floors*

Welfare payments and minimum wages in many countries are based on a breadwinner having to care for a dependent adult and young children. The need to provide an income for two adults results in high minimum-wage floors and compresses the wage scale. Moreover, the limited wage flexibility at the bottom of the labour market puts the unskilled out of work, resulting in social exclusion and further loss of skills and morale. Indeed, high minimum wages act as a tax on employers who employ low-skilled labour. The absence of a low-wage sector prevents families (and also the elderly) from contracting-out household services (cleaning and housekeeping, small repairs around the house, child minding, old-age care).<sup>17</sup> Women thus reduce their labour supply as households face more difficulties in reconciling work and family life.

The idea that a minimum wage should be sufficient to provide for a dependent adult and young children is increasingly inappropriate for two reasons (see also Section 2). First of all, the potential earnings of the secondary earner have increased because of the stronger labour-market position of women. Second, in the modern longer life course, adults spend considerable time in households without young children. In the spring and fall of the modern life course, adults thus do not have to care for young children and therefore can make do with lower incomes and social protection. In any case, a higher minimum wage floor raises the human-capital requirements of those entering the labour force. If agents do not have sufficient capabilities to earn the minimum wage, they risk ending up in welfare schemes.

### *Equity versus efficiency*

Redistribution from rich to poor and social insurance against income losses are basic functions of the welfare state. In modern welfare states, however, a large part of the taxes levied to finance social transfers merely redistributes resources from one stage in an individual's life cycle to another. Hussénius and Selén (1994) estimated that for the average citizen in the early 1990s only about 24% of the taxes levied to finance social insurance in Sweden accomplished interpersonal redistribution. Pettersson and Pettersson (2003) recently updated and refined the estimates by Hussénius and Selén, estimating lifetime incomes with the aid of a dynamic micro-simulation model and including the value of important public services such as education, health care and care for the elderly in a comprehensive measure of lifetime income. With this extended concept of income, Pettersson and Pettersson found that only 18% of the taxes levied to finance social

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17. High-skilled households and low-skilled agents can get around the minimum-wage floors by contracting household services on the black market, where social protection and quality of service are (very) limited. Moreover, this raises moral issues, as unskilled workers complement social assistance benefits with additional labour income in the informal sector.



insurance transfers and social services in Sweden can be categorised as interpersonal redistribution. Falkingham and Harding (1996) found a degree of interpersonal redistribution of almost 50% in Australia and about 30% in Great Britain. For Ireland and Italy, O'Donoghue (2001) estimated a degree of interpersonal redistribution of 45% and 24%, respectively. Sørensen *et al.* (2006) found that the degree of interpersonal redistribution in Denmark amounts to 26% across all taxpayers.

These studies show that a considerable part of the tax bill does not redistribute lifetime income from the lifetime rich to the lifetime poor but is essentially income that the taxpayer transfers to himself over his own life course. In the absence of an actuarial link between (social security) taxes paid and social transfers received, taxes and transfers inevitably distort labour supply. Moreover, transfer programmes often create moral hazard, as taxpayers have no incentive to reduce their reliance on transfers.

In a transitional labour market with a growing diversity of life courses, individuals increasingly experience periods of voluntary inactivity during their life course (to enjoy leisure, educate themselves, set up a business, or care for children or frail relatives). As noted above, the danger of moral hazard increases in such an environment. Moreover, annual incomes (on which many transfers and taxes are based) become an increasingly poor indicator of lifetime needs. Indeed, more efficient capital markets allow individuals to smooth their consumption over their life courses themselves without the help of the welfare state.

## 4. Policy recommendations

The trends and challenges outlined in Section 2 and the market and institutional failures in Section 3 call for social innovation. Traditional social policies, such as high minimum wages and job protection, are increasingly counterproductive in generating social protection. At a time when corporations and governments are withdrawing from their traditional roles as insurers of human-capital risks, new institutions should be created to offer workers more durable social protection and lasting security. Indeed, a more dynamic world economy and a decline of the extended family and the firm as insurance devices have raised the demand for new ways to absorb social risks over the life cycle. These new institutions should operate in a transitional labour market in which human capital is the key determinant of macroeconomic performance and personal fulfilment. Each country, depending on its history, institutional framework, industrial sector, and worker's preferences, will opt for different solutions. As most countries face similar challenges, however, we can outline some common policy conclusions for the OECD countries. These policy conclusions apply to most countries albeit not to the same extent.

### 4.1. *A longer working life*

#### *Raising retirement age in line with increased longevity*

A higher effective retirement age is crucial for a number of reasons. First of all, it raises the return on human capital by lengthening the horizon for investments in human capital. Indeed, raising the retirement age in line with longevity capitalises the benefits of increased longevity in terms of more durable human capital. Increased longevity is then turned into an economic opportunity rather than a financial threat. In fact, one can argue that all ages that are used to measure old age should be linked to longevity so that one in fact measures old age from the end rather than the beginning of life. In this way, society

ensures that social aging and biological aging do not diverge further and people age actively rather than passively. Moreover, fulfilling work that provides stimulus and companionship prevents social exclusion of the elderly, while better maintained human capital allows the elderly to bear more risk. Indeed, in many countries, tomorrow's elderly can be expected to be healthier, wealthier and better educated than every before.

Measuring age appropriately stabilises pension systems, as increased longevity puts financial stress on not only PAYG-schemes but also funded pension schemes if retirement ages are not raised in line with life expectancy. Indeed, funded pension schemes are particularly vulnerable to increased longevity. The reason for this is that the longer life spent in retirement calls for more financial saving, which depresses the return on capital and thus hurts funded pension schemes. Indeed, aging calls for more accumulation, better maintenance and more intense use of human capital in addition to fiscal discipline and additional private saving. With better maintained human capital, effective retirement ages can be raised in line with longevity, thereby protecting long-run labour supply.

Linking retirement ages to longevity also enables the government to issue longevity bonds so that insurance companies and pension funds are better able to provide retirement security to retired generations. This is because linking the age at which citizens first receive their public pension to life expectancy reduces the exposure of the government balance sheet to longevity risk. Hence, it becomes less unattractive for the government to acquire more longevity risk on behalf of younger and future generations. Indeed, these generations are best able to absorb these risks through a longer working life associated with more human-capital investment.

The rule of automatically linking public pensions and tax privileges to life expectancy avoids the political costs of discretionary decisions to limit eligibility to public pensions and tax benefits if longevity increases further. Agreeing on a risk-sharing rule *ex ante* also reduces the political risks associated with collective discretionary decision-making. Moreover, it allows individuals and firms to adapt gradually to a longer working life by better maintaining human capital and adjusting the organisation of work to the needs of older workers. An increase in spending on disability pensions and unemployment benefits is thus avoided.

### *Decompressing the working life*

Another benefit of a higher effective retirement age is that it allows people to exploit their longer life to reconcile the two ambitions of, first, investing in the next generation as a parent and, second, pursuing a fulfilling career in paid work in which one keeps learning and applying new technologies. A longer active working life better fits the biological clock of women; whereas some men of about 45-50 years of age already look forward to their retirement, women in the same age group would like to return to work as their children are leaving the household. Indeed, a better reconciliation of work and family goes beyond child-care facilities and parental leave schemes during the family phase, but involves the way the entire life course is organised.

By decompressing the working life, a longer working life facilitates greater flexibility in employment patterns over the life course by loosening the link between age and career progression. This reduces career pressure at the biologically determined time when parents care for young children, thereby promoting gender equality, fertility and child development. Parents of young children can continue to invest in the human capital of their children without having to depreciate their own human capital. Rearing children and reducing work

effort somewhat, or taking a career break during the family season thus becomes less costly in terms of depreciated human capital of the parents.<sup>18</sup> In this way, increased longevity can help to bring fertility back closer to replacement levels so that countries do not get entangled in a vicious circle of early retirement and lower fertility in which politically stronger older generations favour generous passive spending on pensions and healthcare at the expense of investments in the human capital of younger generations.

More generally, a longer working life reduces the need to transfer resources from the summer season of life to the fall season either through intergenerational transfers (such as PAYG pension systems) or through the allocation of resources over the life cycle (for example, through forced pension saving). This reduces the time and income squeeze in the hot summer of the modern life course and helps to relieve the liquidity constraints in this life season. Resources are used to proactively to maintain and invest in human capital rather than to reactively provide additional transfer income as a compensation for the premature depreciation of human capital.

*A higher and more flexible effective retirement age requires actuarially fair systems...*

More adaptability and employability facilitating a longer effective working life requires people to bear more individual responsibility for the maintenance of their own human capital, thereby stimulating life-long learning in firms.<sup>19</sup> To that end, retirement schemes should be actuarially fair. This gives workers also more individual choice about when and how to retire. Indeed, actual retirement ages should be flexible and adjust to individual circumstances and preferences. To illustrate, blue-collar workers who started to work early and exhibit lower life expectancy than others may want to retire earlier.<sup>20</sup>

*....tighter eligibility criteria for passive unemployment and disability benefits,...*

As another way to stimulate the maintenance of human capital, the eligibility criteria for passive unemployment and disability benefits facilitating early retirement and rapid depreciation of human capital should be tightened and should not depend directly on age. Moreover, by no longer allowing firms to shift the costs of reorganisations onto public disability or unemployment schemes, governments encourage firms and social partners to invest more in older workers (instead of getting rid of them) and to adapt work and workplace cultures to the needs of elderly workers. Indeed, for some types of social insurance (such as disability and unemployment insurance), large firms can become the insurer of the first period of inactivity.

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18. A longer working life also helps to spread human capital risks, such as a spell of unemployment, over a longer working career.
19. See OECD (2006a) for a comprehensive three-pronged approach to increasing effective retirement ages: getting labour-supply incentives right; raising demand for older workers by changing employment practices; and promoting employability.
20. Actuarially fair retirement systems that link pension benefits to longevity not only on a macro level but also on the level of homogeneous group of workers can facilitate retirement ages that are better tailored to the health of workers. Indeed, life expectancy typically differs substantially across various socioeconomic groups with low-skilled workers featuring lower life expectancy than high-skilled workers.

*...and flexible wage setting and employment practices*

A more flexible labour market for elderly workers ensures that additional demand for older workers matches additional supply generated by improved labour-supply incentives. Together with less employment protection, wages that are more closely related to labour productivity (for example, by diminishing the role of seniority-based pay increments and rigid worker classification systems) reduce the need for mandatory retirement. Hence, workers can use the speed and time of retirement as an instrument to buffer risk. As the elderly become better educated, their human capital is better maintained during the life course and individuals anticipate the possibility of a declining wage, rewarding elderly workers on the basis of their marginal productivity can become socially acceptable.

More generally, if workers are no longer paid more than their productivity when old, the labour-market position of elderly workers becomes stronger so that elderly workers enjoy more discretion to adjust working conditions to their specific needs. More flexible retirement patterns (e.g. part-time and gradual retirement) and more opportunities to change jobs and work patterns (so that elderly workers become less dependent on their current job and the talents of elderly workers can be better used) then become possible.<sup>21</sup> The flexibility to change one's working conditions to better suit changing needs and to find new challenges in fulfilling work can help to extend fulfilling working lives. The positive effect of flexibility on labour-market attachment holds true also for women between the ages of 50 and 70, who often provide informal care to aging, fragile relatives and friends. This informal care is likely to remain important in the future due to shrinking family sizes and budgetary pressures on formal care provided by the public sector.

#### **4.2. More flexibility of working time over the life course**

*More flexibility of working time over the life course protects labour supply*

More flexibility in allocating working time over the life course can prevent stress and excessive time squeeze when workers bear substantial family responsibilities. Moreover, it helps women, who still carry most of the family obligations (see Table 2.1), to remain attached to the labour force. Their human capital is thus maintained better, thereby strengthening their labour-market position and raising their labour-force participation when the children have grown up. The opportunity to alter one's working patterns to better fit changing private circumstances is thus an important instrument to protect the labour supply of not only older workers but also young parents. Greater flexibility in employment and career patterns can also encourage men to take up more family responsibilities in middle age. Indeed, Europeans show a keen interest in more flexible working-time regimes (EFILWC, 2003) and Table 2.10.

*Savings accounts provide more individual discretion over working times...*

More individual discretion in allocating working time (*i.e.* time sovereignty) over the life course requires more individual responsibility for financing periods of (part-time) leave. This ensures that more flexibility in selecting work times results in more rather than less hours worked over the life course as a whole. In this connection, tax-favoured savings accounts for financing (part-time) parental leave can supplement minimum public

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21. The health of the elderly seems to benefit from being engaged in a variety of activities (Avramov and Maskova, 2003).

income provisions (such as child and child-care benefits and publicly financed parental leave schemes) to protect purchasing power during the summer of the family season without resulting in excessive consumption of leave and childcare and large budgetary costs. In this way, tax incentives help internalise the externalities of children at relatively low costs, while at the same time stimulating the labour supply of younger workers in the spring season of life. Savings accounts that are the property of the individual worker also strengthen the position of the worker vis-à-vis the employer and thus contribute to the emancipation of workers. Whereas the employer creates flexible work arrangements and career paths, the worker can offer to finance (part of) the actual leave taken.

To further protect overall labour supply over the life cycle, personal savings accounts can be integrated with tax-favoured (early) retirement accounts. In particular, individuals can be allowed to withdraw funds from these accounts before retirement – for example, to care for children or to update skills.<sup>22</sup> Hence, rather than taking leave only at the end of the working life to facilitate the rapid depreciation of human capital through passive social insurance (and early retirement) benefits, individuals can use the funds already in the stressful and expensive family season of life to invest in the human capital of their children or their own human capital so as to prevent the obsolescence of skills. In this way, individuals save for old-age risks in the form of not only financial but also human capital; by investing in human capital earlier in life, individuals are able to work longer.

By helping agents to take more responsibility for drops in income, savings accounts can stimulate not only a more flexible working life but also a more flexible labour market and better management of human resources. In particular, individuals can self-insure a larger part of the shocks to the value of their human capital by using personal savings accounts. For example, older workers can draw on the account to retire gradually or supplement a reduction in the hourly wage at an advanced age. This facilitates wage flexibility of older workers, thereby strengthening their labour-market position.

### **4.3. *Workplace cultures aimed at employability and flexibility***

#### *More flexible and inclusive workplace cultures aimed at employability...*

Social partners should nurture more inclusive, flexible workplace cultures that reconcile the needs of individual employees who balance work with family obligations with the needs of employers to flexibly respond to fluctuations in demand in increasingly competitive markets. In order to remain competitive in an aging labour market and to promote themselves as good places to work, firms should attune work conditions to the needs of employees who want to remain employable despite substantial family obligations and rapid innovation and creative destruction. They should aim to create workplaces in which workers develop and maintain their talents, skills and health. Moreover, firms should help their workers to think and plan ahead about how they can remain productive in fulfilling work when they grow older (*e.g.* by taking education leave in mid-career). Reducing excessive stress or physical strain at an early stage can help to extend working lives. Proactive thinking aimed at preventing human-capital risks later in life is called for in aging societies in which human resources become increasingly scarce and early retirement schemes are being phased out.

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22. The government may want to subsidise some withdrawals if these withdrawals are used to finance care activities with positive externalities.

*....with wage flexibility*

Employees should accept more wage flexibility, internal flexibility in work practices, less employment protection for full-time male breadwinners, and more personal responsibility for financing leave and their own personal development (including early retirement and the costs of training). Rather than engaging in general, rigid working-time reductions, social partners should allow more flexible working times tailored to the needs of individual workers and firms. This may require changes in the way work is structured. The necessary changes in cultures and organisations aimed at better managing human resources will happen only gradually as many companies still base their working conditions on a male breadwinner who is freed from other duties and can retire early.

**4.4. More inclusive labour and housing markets***Protection through flexibility to enter and to adjust*

To allow young adults to build a family, European labour markets should become more inclusive so that workers do not have to be continuously employed full time in order to enjoy a successful career. Rather than shielding insiders through employment protection, labour-market institutions should enable parents of young children, secondary workers and young people to easily enter and remain in the labour market (e.g. through job-protected parental leave) and adjust their working conditions to changes in family conditions. This helps to reduce the opportunity costs in terms of foregone career prospects of becoming a mother and of sharing household work for fathers. Various privileges for full-time male breadwinners should be replaced by facilities that allow parents to raise young children while maintaining their own employability. Employability is the best employment protection.

*Portable arrangements diversify firm-specific risks*

Basing their security on employability and portable saving, retirement and social insurance schemes rather than on employment protection helps workers to better diversify their human and financial capital; emancipated workers become less dependent on the firm for which they work. Endowed with sufficient human and financial capital, adaptable individuals are empowered to embrace the non-verifiable, idiosyncratic risks associated with creative destruction in a dynamic competitive world economy and a transitional labour market. Moreover, workers enjoy greater flexibility in adjusting working conditions to changing needs during their life courses and in finding fresh challenges from which they can continue to learn.

*Decompressing the working life by shortening social adolescence*

A more inclusive labour market can help reverse the trend towards a compression of the working life and postponement of social adulthood by facilitating the first entry into the labour market. Condensing the period of full-time education, combining learning with work at an earlier state, and spreading learning more over the life cycle by integrating it better with work could also be helpful in shortening the period of social adolescence, decompressing the working life, and bringing forward parenthood.<sup>23</sup> Activating social

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23. For early school leavers with few skills, the obligation to either work and/or learn can help to inculcate a work ethic and generate human capital.

policies should induce young adults to build up their human capital through education, work or both. Indeed, some form of education (possibly combined with work) could be compulsory until a young adult has achieved some minimum qualification.

### *Role of housing*

Also a well-functioning housing market can reduce the stress that young adults experience in the early reproductive stage of their lives. Moreover, tax facilities for home ownership may have to be targeted better at new entrants into the housing market. Equity in housing can also help the old to supplement their pension – for example, to pay for their medical expenditures and other consumption needs. Financial innovation (for example, through reverse mortgages) may be needed to turn home equity into an income stream.

## **4.5. From breadwinner support to in-work benefits for parents**

### *In-work benefits and mutual obligations strengthen labour-market position of low skilled ...*

Lower minimum-wage floors boost the supply of reliable household services for families and the elderly, while at the same time improving the employment prospects of low-skilled women in the formal labour market. To accomplish this while protecting the income position of vulnerable households, more activating social assistance should be combined with in-work benefits (including child-care benefits) for parents caring for young children. In particular, social assistance based on mutual obligations should be conditional on each adult (including low-skilled women) being available to the labour market – possibly on a part-time basis while parents care for young children who are not yet of school age.<sup>24</sup> Work and search obligations should thus be credibly enforced for both lone mothers and secondary earners within a two-adult household. In this way, parents would realise that living on passive long-term social benefits (supplemented by black market activities) is not an option. They are thus encouraged to maintain their marketable skills so that they are able to re-enter the labour market in a full-time job when their children are older. This would boost labour supply.

### *... by decoupling income policy from the allocative role of wages*

With less wage compression, in-work benefits can be better targeted at low-skilled workers with children whose productivity is insufficient to earn a minimum standard of living, without the phasing-out of these in-work benefits resulting in very high marginal tax rates higher up the income scale. By moving away from breadwinner support (in which the breadwinner needs to earn sufficient wage income to provide for a dependent adult and children) towards targeted in-work benefits for families with young children, governments decouple income policy from the allocative role of wages. This creates more low-wage jobs in the formal sector.

### *Subsidised child care can protect human capital*

Subsidised (or publicly provided) child care for households with low earnings helps women (including single mothers) to escape poverty, and alleviates liquidity constraints during the summer season of life. At the same time, school times should be attuned to the

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24. Box 3.5 in OECD (2003) contains some valuable suggestions on how this could be done.

needs of working parents, with affordable after-school care for children of working parents with low labour incomes. Subsidies for high quality child care internalise the externalities of child development and alleviate the distortions of the tax system on female participation and human capital accumulation in the formal sector and the production of labour-intensive goods and services in the untaxed household sector. In view of their higher rates of labour-force participation, high-skilled women tend to benefit most from general child-care subsidies. Targeting child-care subsidies and child benefits (and other family benefits) at low-income households alleviates poverty but yields high marginal tax rates and thus disincentives to increase the earnings of the secondary earner in the phase-out range.<sup>25</sup> Hence, governments face a difficult trade-off between poverty alleviation and gender equality. The same trade-off bedevils the choice between household income or individual income as a base for redistribution.

### *Early intervention in disadvantaged families*

Activating policies facilitate social integration of low-skilled migrants and their children, especially if work obligations for women are combined with programmes supporting the development of young children. Indeed, early intervention in dysfunctional families is the key to preventing social exclusion, raising the participation rates of unskilled men and women alike, and encouraging durable two-parent families. A proactive social policy aims at creating equal opportunities at the start of life through an equal distribution of human capital. Early interventions aimed at enriching the family environments of disadvantaged children can carry a high economic return in terms of raising school performance in adolescence and boosting wages and labour-force participation in adulthood (Cunha *et al.*, 2005; and Blau and Currie, 2004). At early ages, therefore, a trade-off between equity (targeting the most disadvantaged children) and efficiency (targeting training at those individuals who yield the highest return on learning) is absent. Once skills have been formed at later ages, returns on schooling are the largest for the most able, so that a trade-off between equity and efficiency exists. Accordingly, social policy can become more efficient by redirecting skill investments in disadvantaged groups from adults to young children.

### **4.6. *Shift public support from the old to the young***

The aging of the population is due to increased longevity and lower fertility. Whereas both funded and PAYG pension systems are vulnerable to increased longevity, PAYG pension schemes are especially vulnerable to lower fertility because PAYG systems rely on human capital of the young to finance the pensions of older generations. As generations invest less in the human capital of the next generations by reducing fertility, they should invest more in financial capital. Hence, lower fertility calls for gradually shifting from PAYG financing to funded pension schemes (Sinn, 2000). In this way, public support is gradually shifted away from the fall and winter seasons of life towards the spring and summer seasons.<sup>26</sup> This is consistent with a gradual move from a reactive social policy

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25. Targeting may also stimulate the breaking up of families. The associated damage to role of the family as an institution for buffering risk and providing mutual care reduces the effectiveness of targeting in alleviating poverty.
  26. Whereas increased saving and more public support for young parents at the expense of the elderly is the appropriate response to lower fertility, increased longevity calls primarily for a higher retirement age and more investment in human capital.



that provides passive income support to those who have depreciated their human capital to a proactive social policy that helps people to build up and manage human talents better. Stimulating private saving for retirement by shifting public PAYG benefits from the old to young parents is thus not only the appropriate response to declining fertility but also helps to halt the decline in fertility and to internalise the positive externalities of additional children in PAYG pension systems (van Groezen *et al.*, 2003).

Countries with large PAYG systems should consider focusing the public scheme on poverty alleviation by gradually reducing earnings-related PAYG benefits for those earning higher incomes. This would yield a better balanced portfolio between funded and PAYG schemes, as workers with middle- and higher incomes substitute private, funded pensions for public PAYG benefits (OECD, 2001b, Chapter 6). Reducing PAYG benefits for, and increasing the tax payments by, the more affluent elderly is consistent with the trend towards a more heterogeneous older population. When PAYG schemes were established, the economic depression of the 1930s and the Second World War had impoverished the older generation. Since poverty was thus concentrated among the elderly, poverty alleviation called for transfers from the younger to the older generation. At present, in contrast, age is generally no longer a good indicator of poverty, as many elderly have accumulated substantial financial wealth and more risks have shifted to the beginning of the life cycle. Hence, information on age should increasingly be supplemented by other information (particularly on incomes and family status) to identify those most in need of income support.<sup>27</sup>

The currently retired generation has not been able to anticipate lower public PAYG benefits. Moreover, this generation cannot adjust easily because it has already depreciated its human capital. Accordingly, a strong case can be made for changing the rules of the game (*i.e.* reducing PAYG benefits and increasing taxes on the elderly) only gradually.<sup>28</sup> Extensive grandfathering provisions protecting those who are currently old are expensive, however, and would eliminate benefits in terms of enhanced fiscal sustainability. Indeed, grandfathering implies that younger generations have to pay not only for their own private benefits but also for the public benefits of the currently old. The government thus faces a trade-off between flexibility and stability. To enhance confidence and trust in a stable social contract while at the same time facilitating timely adjustments, governments should announce as early as possible any prospective changes in the social contract. This would allow the large baby-boom generations to anticipate reduced public transfers in retirement by starting to build up more funded pensions.

#### 4.7. *Individual accounts in social insurance*

##### *Self insurance ...*

Social security can in part be based on mandatory contributions to individual accounts.<sup>29</sup> These accounts can in fact be viewed as a self-insurance device against human

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27. Dang *et al.* (2006) argue that social spending (taxation) can be reallocated from the old (young) to the young (old) without compromising the objective of preventing old-age poverty.
28. Relative PAYG benefits can be reduced gradually by indexing benefits to prices rather than wages.
29. See Orszag and Snower (1997) and Stiglitz and Yun (2002), who propose replacing part of unemployment insurance with mandatory individual savings accounts. These savings accounts can also be in the form of so-called notional accounts. The implied PAYG financing avoids a costly transition.

capital risk over the life cycle (due not only to old age, but also to unemployment and obsolescence of human capital during the working life). Agents become stakeholders in their own social security. If individuals bear more financial responsibility for the maintenance of their own employability, they face better incentives to work and train than under regular social insurance. By allowing people to shift the payment of deductibles in social insurance to the periods in which these costs can be more easily afforded, the schemes continue to offer security even though human-capital risks have become less easily insurable.

*... with liquidity insurance and lifetime income protection ...*

The government in effect provides liquidity insurance and alleviates capital-market imperfections by allowing individuals to make withdrawals from the accounts even if the account balance is negative. Moreover, the government can protect the lifetime poor by bailing out individuals who end up with a negative account balance at the end of their working lives. In this way, the government provides insurance against catastrophic shocks that substantially harm lifetime incomes. Redistribution is thus targeted more closely at the lifetime poor who are suffering a combination of low wage incomes and frequent adverse shocks during their lives.

*... yields more efficient insurance ...*

The accounts, in fact, combine a number of risks that occur during different periods of an individual's life in a single insurance contract with a deductible that is conditioned on the aggregate loss during the life course. Gollier and Schlesinger (1995) show that an umbrella insurance policy that adjusts the deductible on each separate loss to the outcome of the other risks in the form of a straight deductible based on the aggregate loss provides the best protection against large aggregate losses for a given insurance budget. Compared to separate insurance policies, the umbrella insurance contract provides better protection in the worst-case scenario of a succession of adverse shocks during the life course in exchange for less protection in other cases.

*... but requires compulsion and active labour-market policies, ...*

Lifetime redistribution as well as liquidity and lifetime income insurance still give rise to some moral hazard; agents have an incentive to minimise their contributions and maximise their withdrawals. The government must therefore regulate withdrawals so that they can be made only for pre-specified purposes. Especially the lifetime poor will continue to face high marginal tax rates as a direct consequence of the lifetime income guarantee. Hence, the government should focus its active labour-market policies (including workfare) on this group and employ instruments other than financial incentives to activate the lifetime poor. Savings must also be mandatory – at least until a specific upper limit is reached. In addition to moral hazard, lack of self control and myopia are other reasons for making saving mandatory. Compulsory savings accounts in effect extend mandatory saving aimed at retirement to precautionary saving aimed at social insurance for individuals of working age.

*... uncorrelated shocks and inclusive labour markets, ...*

The potential of individual accounts in improving the trade-off between insurance and incentives depends crucially on the extent to which individuals face correlated shocks during their lifetimes. The potential welfare gains of individual savings accounts are large if

various income shocks are uncorrelated across time and among each other. In that case, annual incomes are poor indicators of lifetime incomes, and income shocks are in fact only small in the context of an entire lifetime. If shocks are strongly positively correlated, in contrast, risks do not become much smaller in a lifetime context (compared to an annual context). Risks then remain catastrophic, even when viewed over the entire life course. For each type of human capital risk, another combination between insurance and self-insurance through saving is optimal, depending on the magnitude of the risk in terms of the potential drop in lifetime income and the potential danger of moral hazard because of endogeneity and non-verifiability of the insured risk. Self-insurance should be relatively important for non-catastrophic risks that people can affect through non-verifiable actions (Stiglitz and Yun, 2002). Hence, individual accounts become more attractive in fast-moving transitional labour markets in which people experience short involuntary unemployment spells in addition to voluntary periods of absence from the labour market. The opposite is true in the presence of dual labour markets in which insiders enjoy high incomes throughout their lives while disadvantaged outsiders must make do with insecure jobs and tend to suffer from frequent and long-lasting unemployment.

*... and equal distribution of human capital*

Mandatory individual savings accounts can thus be a useful component of an overall social policy package that includes policies aimed at creating equal opportunities at the start of life through an equal distribution of human capital and early intervention. It should also provide some form of lifetime income guarantee. By using information on lifetime incomes, redistribution implicit in such an income guarantee can occur at lower efficiency costs. Moreover, actuarially fair links between contributions and expected benefits alleviate the labour-market distortions associated with social insurance for middle- and high incomes. Finally, by facilitating consumption-smoothing through saving schemes offering liquidity insurance, the government increases the scope for self-insurance, thereby combating moral hazard in social insurance. Through all of these channels, savings accounts support social policy by reducing the costs that are associated with an effective mix of redistribution, social insurance and consumption smoothing.

## 5. Conclusions

The policy conclusions imply transforming passive benefits compensating the loss of human capital into preventive, proactive social policies that build and maintain human capital. Another common thread in these conclusions is the importance of flexibility in wages and work practices. As workers increasingly combine their work with other activities (caring, resting and learning), new social-protection institutions should facilitate various transitions and changing combinations of activities during the life course. Among other things, an adaptable labour force provides the legitimacy for competitive open markets and the creative destruction associated with rapid innovation and growth. Moreover, substantial human capital contributes to a high level of labour-force participation as the basis for ensuring solidarity with vulnerable elderly, children and disadvantaged adults of working age.

The required reforms confront politicians with a major challenge because these reforms often run against vested interests and the perceived short-term interests of powerful insiders. Moreover, transforming passive, reactive social policies into more proactive policies yields a transitional problem similar to that associated with a shift from

a PAYG to a funded pension system. In particular, society still has to pay for passive benefits to the currently old generations; these generations have typically depreciated their human capital because they have not profited from more proactive social policies. At the same time, the human-capital investments in the young generations, which reduce social spending and increase tax revenues only with a lag, must be financed. The combination of passive old-age benefits and proactive spending aimed at especially the human capital of younger generations can create fiscal pressures and gives rise to difficult political choices.

As people gain more discretion to construct their own biographies, they become more responsible for their life courses. A challenge in this respect is to better prepare people for more responsibility for their employability, social insurance and financial planning. Schools, employers and unions can play an important role in helping people acquire the necessary financial competences and life and work skills. This may also make voters more aware of the fundamental trade-offs in social policy, thereby enhancing the quality of the political debate and policymaking (Boeri and Tabellini, 2005).

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**Table 2.1. Time spent on four different obligations in hours per week, working population EU-15, 2003**

	Men					Women				
	Total of all obligations	Paid work	Household and looking after children	Voluntary work	Education	Total of all obligations	Paid work	Household and looking after children	Voluntary work	Education
EU Total	58.4	42.6	13.3	0.8	1.7	59.5	34.7	22.6	0.8	1.8
Finland	55.1	40.8	10.5	1.5	2.4	59.9	37.3	18.3	1.3	2.6
Sweden	56.9	40.4	13.6	2.0	1.2	59.1	37.0	18.9	1.6	1.6
Denmark	57.2	40.8	13.3	1.7	1.2	62.5	36.5	22.4	1.1	2.3
Germany (West)	59.1	42.2	13.3	0.7	2.2	57.2	32.1	22.3	0.8	1.8
Germany (East)	60.6	42.9	13.1	0.5	3.2	59.6	35.4	21.8	0.4	2.2
Netherlands	54.9	39.8	11.6	1.4	1.9	53.4	27.4	23.8	1.8	1.2
Great Britain	57.5	42.2	13.7	0.6	1.6	55.4	28.6	25.9	0.6	1.3
Northern Ireland	54.5	41.1	11.5	0.8	1.2	61.2	32.7	24.6	1.0	2.4
Ireland	56.2	43.7	11.0	0.7	1.0	59.6	33.7	23.8	1.3	2.6
Belgium	59.5	42.3	13.7	0.8	1.3	60.7	36.4	21.5	0.6	1.2
Luxembourg	66.0	43.2	19.0	2.4	1.9	69.4	32.9	32.0	3.5	2.3
Austria	60.3	46.2	11.5	1.3	1.8	62.2	37.7	22.2	0.9	1.4
France	52.7	40.0	10.4	0.9	0.9	55.5	35.9	18.2	0.6	1.6
Portugal	54.1	45.1	8.4	0.4	0.4	64.6	41.9	21.4	0.3	1.0
Spain	59.0	44.0	13.4	0.1	1.7	67.9	39.9	23.8	0.2	3.1
Italy	66.0	45.0	18.0	0.8	1.8	66.3	39.5	25.3	1.1	2.0
Greece	61.5	46.9	13.0	1.0	2.0	69.8	41.2	26.8	1.3	1.7

Source: Eurobarometer 60.3.

**Table 2.2. Preferences on gender role models, 2002**

	<i>A man's job is to earn money; a woman's job is to look after the home and family</i>			<i>A pre-school child is likely to suffer if his/her mother works</i>		
	Strongly agree or agree	Neither agree or disagree	Disagree or strongly disagree	Strongly agree or agree	Neither agree or disagree	Disagree or strongly disagree
Australia	21.6	22.0	56.4	Australia	40.2	38.9
Austria	29.5	24.6	45.9	Austria	64.6	20.5
Canada				Canada		
Czech Republic	47.1	23.1	29.9	Czech Republic	48.1	36.2
Germany - East	14.6	10.6	74.8	Germany - East	32.7	56.0
Germany - West	23.3	15.6	61.1	Germany - West	55.8	30.1
Hungary	39.2	30.6	30.2	Hungary	66.1	17.9
Ireland	18.5	55.2	67.7	Ireland	35.5	52.0
Japan	30.9	20.6	48.5	Japan	30.8	45.9
Netherlands	12.4	20.2	67.5	Netherlands	39.8	35.4
New Zealand	19.8	17.7	62.5	New Zealand	46.4	34.7
Poland	45.7	19.2	35.0	Poland	66.8	31.8
Spain	24.7	8.9	66.4	Spain	52.2	36.8
Sweden	7.6	14.7	77.7	Sweden	23.7	54.2
United Kingdom	19.8	18.3	61.7	United Kingdom	38.4	42.9
United States	23.6	23.9	52.5	United States	38.4	36.8

Source: International Social Survey Programme (2002), *Family and Changing Gender Roles III*, pp. 134-135, pp. 146-147.

**Table 2.3. Maternal employment rates, women aged 15-64, 1996-2006**

	By age of youngest child				By number of children under 15		
	0-16	<2	3-5	6-16	One child	Two children	Three children
Australia	63.1	48.3 <sup>1</sup>		70.5	63.5	58.1 <sup>2</sup>	
Austria	64.7	60.5	62.4	67.5	67.7	60.1	46.5
Belgium	59.9	63.8	63.3	56.9	58.3	58.5	39.4
Canada	70.5	58.7	68.1	71.1	70.1	73.2	66.3
Czech Republic	52.8	19.9	50.9	67.6	57.4	52.5	34.4
Denmark	76.5	71.4	77.8	77.5			
Finland	76.0	52.1	80.7	84.2	71.2	70.9	60.1
France	59.9	53.7	63.8	61.7	62.2	57.6	38.1
Germany	54.9	36.1	54.8	62.7	58.4	51.8	36.0
Greece	50.9	49.5	53.6	50.4	48.4	44.4	37.4
Hungary	45.7	13.9	49.9	58.3	53.7	48.3	24.6
Iceland	84.8	83.6 <sup>1</sup>		86.5	88.5	82.3 <sup>2</sup>	
Ireland	52.8	54.8 <sup>1</sup>		60.5	55.4	52.5	42.3
Italy	48.1	47.3	50.6	47.5	48.3	41.0	27.4
Japan	52.4	28.5	47.8	68.1			
Luxembourg	55.4	58.3	58.7	52.7	56.0	49.8	33.8
Netherlands	69.2	69.4	68.3	69.4	70.1	70.6	59.9
New Zealand	64.6	45.1	60.6	75.3	64.1	64.5	56.7
Poland	46.4				42.7	35.6	28.5
Portugal	67.8	69.1	71.8	65.4	63.5	59.2	46.1
Slovak Republic	48.4	23.1	46.6	60.4	56.4	49.4	31.5
Spain	52.0	52.6	54.2	50.9	51.1	44.7	38.5
Sweden	82.5	71.9	81.3	76.1	80.6	84.7	75.6
Switzerland	69.7	58.3	61.7	77.0	69.5	65.4	58.0
United Kingdom	61.7	52.6	58.3	67.7	67.1	62.4	42.3
United States	66.7	54.2	62.8	73.2			
OECD average	61.5	51.9	61.3	66.4	60.6	57.0	44.0
EU-19	59.2	51.1	58.2	63.2	59.4	55.2	41.2

1. By age of youngest child under five.

2. Two or three children.

*Source:* Australian Bureau of Statistics (2005); Statistics Canada (2001); Statistics Denmark (1999); Statistics Finland (2002); Statistics Iceland (2002); Japanese authorities (2001); Swiss LFS (2006); UK Office of National Statistics (2005); US Current Population Survey (2005); all other EU countries, European Labour Force Survey (2005), except for Italy which concerns 2003; and OECD (2005).

**Table 2.4. Female employment rate and the presence of children, 2000 (persons aged 25-54)**

	Total		No children		One child		Two or more children	
	Employment rate	Gender gap <sup>1</sup>	Employment rate	Gender gap	Employment rate	Gender gap	Employment rate	Gender gap
Australia	66.8	20.0	68.4	16.1	55.3	33.3	43.2	47.5
Austria	73.5	16.2	76.0	10.5	75.6	18.5	65.7	29.0
Belgium	67.8	20.1	65.6	17.4	71.8	23.5	69.3	24.7
Canada	74.0	11.8	76.5	6.0	74.9	14.9	68.2	23.6
Czech Republic	73.7	15.6	80.8	5.4	72.3	21.2	59.4	33.5
Denmark (1998)	80.5	7.7	78.5	7.7	88.1	3.5	77.2	12.9
Finland (1997)	77.6	7.0	79.2	0.1	78.5	11.8	73.5	19.7
France	69.6	17.7	73.5	9.6	74.1	18.7	58.8	32.9
Germany	71.1	16.3	77.3	7.2	70.4	21.2	56.3	35.6
Greece	52.6	35.9	53.1	31.1	53.9	40.3	50.3	45.4
Hungary	61.7	16.0	-	-	-	-	-	-
Ireland	53.1	29.0	65.8	14.1	51.0	33.2	40.8	43.2
Italy	50.7	33.9	52.8	26.2	52.1	40.9	42.4	49.9
Japan (1999)	62.7	31.6	-	-	-	-	-	-
Luxembourg	63.0	29.8	68.7	21.3	65.8	30.4	50.1	46.1
Netherlands	70.9	21.4	75.3	15.6	69.9	24.3	63.3	30.8
New Zealand (2001)	70.6	17.0	80.7	5.7	66.9	20.2	58.9	30.9
Poland	72.0	9.6	-	-	-	-	-	-
Portugal	73.9	16.4	72.6	13.4	78.5	16.6	70.3	24.8
Slovak Republic	64.8	13.7	-	-	-	-	-	-
Spain	50.6	34.8	54.6	26.0	47.6	44.7	43.3	48.6
Sweden	81.7	4.1	81.9	-0.4	80.6	9.8	81.8	9.4
Turkey	-	-	-	-	-	-	-	-
United Kingdom	73.1	14.4	79.9	5.4	72.9	17.1	62.3	28.2
United States (1999)	74.1	14.8	78.6	7.2	75.6	17.4	64.7	29.0
Unweighted average	69.0	18.6	73.7	11.8	70.6	22.9	61.9	32.3

1. Gender gap: percentage point difference between the employment rates for men and women.

Source: OECD (2002b), Table 2.4, p. 77.

Table 2.5. Life expectancy at birth, 1950-2050

	1950	1960	1970	1980	1990	1995	2000	2004 <sup>1</sup>	Change 1950-2004	2020 <sup>2</sup>	2050 <sup>2</sup>	Change 1950-2050
Austria												
Male	61.9	65.4	66.5	69.0	72.4	73.3	73.7	76.4	+14.5	79.4	83.6	+21.7
Female	66.9	71.9	73.4	76.1	78.9	79.9	81.1	82.1	+15.2	84.9	87.7	+20.8
Belgium												
Male	65.0 <sup>3</sup>	66.9	67.8	69.1	72.0	73.4 <sup>4</sup>	74.6	75.1	+10.1	78.9	82.3	+17.3
Female	70.1 <sup>3</sup>	72.6	74.3	75.7	78.6	80.2 <sup>4</sup>	80.8	81.1	+11.0	85.0	88.3	+18.2
Canada <sup>5</sup>												
Male	66.3	68.4	69.3	71.9	74.9	75.3	76.0		+9.7 <sup>6</sup>			
Female	70.8	74.2	76.4	79.0	81.2	81.3	83.0		+12.2 <sup>6</sup>			
Czech Rep.												
Male	62.3	67.9	66.1	66.8	67.6	69.7	71.7	72.6	+10.3	75.9	79.7	+15.4
Female	67.0	73.4	73.0	73.9	75.4	76.6	78.4	79.0	+12.0	81.3	84.1	+17.1
Denmark												
Male	67.8	70.4	70.6	71.2	71.9	72.7	74.5	75.2	+7.4	78.0	80.9	+13.2
Female	70.1	73.8	75.4	77.2	77.7	77.8	79.3	79.9	+9.8	81.6	83.7	+13.6
Finland												
Male	58.6	64.9	65.9	69.2	70.9	72.8	74.2	75.3	+16.7	78.7	81.9	+23.3
Female	65.9	71.6	73.6	77.6	78.9	80.2	81.0	82.3	+16.4	84.2	86.5	+20.6
France												
Male	63.4	67.0	68.4	70.2	72.8	73.9	75.3	76.7	+13.3	79.4	82.7	+19.3
Female	69.2	73.6	75.9	78.4	81.0	81.8	82.7	83.8	+14.6	86.2	89.1	+19.9
West Germany												
Male	64.6			69.9	72.6	73.3	75.0	75.7	+11.1	78.9	82.0	+17.4
Female	68.5			76.6	79.0	79.7	81.0	81.4	+12.9	84.2	86.8	+18.3
Greece												
Male		67.3	70.1	72.2	74.6	75.0	75.5	76.6	+9.3 <sup>7</sup>	78.1	80.3	
Female		72.4	73.8	76.8	79.5	80.3	80.6	81.4	+9.0 <sup>7</sup>	83.1	85.1	
Hungary												
Male	59.9	65.8	66.3	65.5	65.1	65.3	67.4	68.6	+8.7	72.8	78.1	+18.2
Female	64.2	70.1	72.0	72.7	73.7	74.5	75.9	76.9	+12.7	79.8	83.4	+19.2
Italy												
Male	63.7	67.2	69.0	71.1	73.6	74.9	76.6		+12.9 <sup>6</sup>	80.1	83.6	+19.9
Female	67.2	72.3	74.9	77.8	80.2	81.3	82.5		+5.3 <sup>6</sup>	85.6	88.8	+21.6
Netherlands												
Male	70.4	71.5	70.8	72.5	73.8	74.6	75.5	76.4	+6.0	78.1	80.2	+9.8
Female	72.7	75.4	76.5	79.2	80.1	80.4	80.5	81.1	+8.4	82.2	83.6	+10.9
New Zealand <sup>5</sup>												
Male	67.2	68.4	68.6	70.4	72.9	74.3			+7.1 <sup>8</sup>			
Female	71.3	73.8	74.6	76.4	78.7	79.6			+8.3 <sup>8</sup>			
Poland												
Male	58.6	64.8	66.8	66.9	66.5	67.6	69.7	70.0	+11.4	74.6	79.1	+20.5
Female	64.2	70.5	73.8	74.4	75.5	76.4	77.9	79.2	+15.0	81.3	84.4	+20.2
Portugal												
Male	55.5	60.7	64.2	69.1	70.5	71.6	73.2	74.9	+19.4	77.1	80.4	+24.9
Female	60.5	66.4	70.8	76.7	77.4	78.7	80.0	81.4	+20.9	83.9	86.6	+26.1
Spain												
Male	59.8	67.4	69.2	72.5	73.4	74.3	75.7	77.2	+17.4	79.1	81.4	+21.6
Female	64.3	72.2	74.7	78.6	80.5	81.5	82.5	83.8	+19.5	85.9	87.9	+23.6
Sweden												
Male	69.0	71.2	72.2	72.8	74.8	76.2	77.4	78.4	+9.4	80.7	83.3	+14.3
Female	71.6	74.7	77.1	78.8	80.4	81.4	82.0	82.7	+11.1	84.5	86.5	+14.9

1. 1951, 1961, 1971, 1981, 1991; 2. 1955; 3. Provisional value; 4. [www.europa.eu.int/comm/eurostat](http://www.europa.eu.int/comm/eurostat), yearbook 2006-2007; 5. Eurostat Europop, 2004, baseline; 6. Change 1950-2000; 7. Change 1960-2004; 8. Change 1950-1995.

Source: Before 1995: [www.unecce.org/ead/pau](http://www.unecce.org/ead/pau). The Population Activities Unit (PAU) of the United Nations Economic Commission for Europe (UNECE) is a United Nations office specialising in population issues in Europe and North America. Source: 1995 and 2000: [www.europa.eu.int/comm/eurostat](http://www.europa.eu.int/comm/eurostat).

Table 2.6. Life expectancy at 65, 1950-2050

	1960	1970	1980	1990	1995	2000	2002	Change 1960-2050	2020 <sup>1</sup>	2050 <sup>1</sup>	Change 1960-2050
Austria											
Male	12.0	11.7	13.7	14.3	14.9	16.0	16.3	+ 4.3	18.1	20.9	+8.9
Female	14.7	14.9	16.3	17.8	18.6	19.4	19.7	+ 5.0	21.8	24.0	+9.3
Belgium											
Male	12.4	12.1	13.0	14.3	14.8	15.5	15.8	+ 3.4	18.1	20.5	+8.1
Female	14.8	15.3	16.9	18.5	19.1	19.5	19.7	+ 4.9	22.2	24.8	+10.0
Canada											
Male	13.6	13.8	14.6	15.7	16.0	16.9	17.1	+ 3.5			
Female	16.1	17.4	19.0	19.9	20.0	20.5	20.6	+ 4.0			
Czech Rep.											
Male	12.5	11.1	11.2	11.6	12.7	13.7	14.0	+ 1.5	15.5	18.4	+5.9
Female	14.5	14.2	14.3	15.2	16.0	17.1	17.4	+ 2.9	18.8	20.9	+6.4
Denmark											
Male	13.7	13.7	13.6	14.0	14.1	15.2	15.4	+ 1.7	16.8	18.6	+4.9
Female	15.3	16.7	17.6	17.8	17.5	18.3	18.3	+ 3.0	19.2	20.5	+5.2
Finland											
Male	11.5	11.4	12.5	13.7	14.5	15.5	15.8	+ 4.3	17.8	19.9	+8.4
Female	13.7	14.3	16.5	17.7	18.6	19.3	19.6	+ 5.9	21.5	23.3	+9.6
France											
Male	12.5	13.0	13.6	15.5	16.1	16.7	16.9	+ 4.4	19.1	21.7	+9.2
Female	15.6	16.8	18.2	19.8	20.6	21.2	21.3	+ 5.7	21.5	23.3	+7.7
West Germany											
Male	12.4	12.0	13.0	14.0	14.7	15.7	16.0	+ 3.6	18.0	20.1	+7.7
Female	14.6	15.0	16.7	17.6	18.5	19.4	19.6	+ 5.0	21.4	23.5	+8.9
Greece											
Male	13.4	13.9	14.6	15.7	16.1	16.3	16.3	+ 2.9	17.6	19.2	+5.8
Female	14.6	15.2	16.8	18.0	18.4	18.7	18.7	+ 4.1	19.8	21.3	+6.7
Hungary											
Male	12.3	12.0	11.6	12.0	12.1	12.7	13.1	+ 0.8	15.4	18.6	+6.3
Female	13.8	14.3	14.6	15.3	15.8	16.4	17.0	+ 3.2	18.5	21.1	+7.3
Italy											
Male	13.4	13.3	13.3	15.1	15.8	16.5	16.5	+ 3.1	18.6	22.2	+8.8
Female	15.3	16.1	17.1	18.8	19.6	20.4	20.4	+ 5.1	22.8	26.1	+10.8
Netherlands											
Male	13.9	13.3	13.7	14.4	14.7	15.3	15.6	+ 1.7	16.5	17.8	+3.9
Female	15.3	16.1	18.0	18.9	19.0	19.2	19.3	+ 4.0	19.9	20.9	+5.6
New Zealand											
Male	13.0	12.4	13.2	14.7	15.4	16.5	16.5	+ 3.5			
Female	15.6	16.0	17.0	18.3	19.0	19.8	19.8	+ 4.2			
Poland											
Male	12.7	12.5	12.0	12.7	12.9	13.6	14.0	+ 1.3	15.9	18.8	+6.1
Female	14.9	15.3	15.5	16.9	16.6	17.3	17.9	+ 3.0	18.1	20.4	+5.5
Portugal											
Male	13.0	12.2	12.9	13.9	14.6	15.3	15.6	+ 2.6	18.0	21.5	+8.5
Female	15.3	15.0	16.5	17.0	17.8	18.7	19.0	+ 3.7	19.2	21.5	+6.2
Spain											
Male	13.1	13.3	14.8	15.4	16.0	16.5	16.5	+ 3.4	18.5	20.1	+7.0
Female	15.3	16.0	17.9	19.0	19.8	20.4	20.4	+ 5.1	22.6	24.2	+8.9
Sweden											
Male		14.2	14.3	15.3	16.0	16.7	16.9	+ 2.7 <sup>2</sup>	18.3	20.0	+5.8 <sup>3</sup>
Female		16.8	17.9	19.0	19.6	20.0	20.0	+ 3.2 <sup>2</sup>	21.3	22.8	+6.0 <sup>3</sup>

1. Eurostat Europop, 2004, baseline.

2. Change 1970-2002.

3. Change 1970-2050.

Source: OECD (2005).

**Table 2.7. Fertility rate, 1980-2004, and mean age of women at childbearing first child, 1980-2003**

	Total fertility rate				Mean age of women at childbearing first child (years)			
	1980	1990	2001	2004	1980	1992	1998	2003
Austria	1.7	1.4	1.3	1.4	26.30	27.30	28.00	28.80
Belgium	1.7	1.6	1.6	1.6	26.60	28.09		
Canada	1.7	1.7	1.5	1.5		28.40		
Czech Republic	2.1	1.9	1.1	1.2		24.82	26.64	28.10
Denmark	1.5	1.7	1.7	1.8	26.80	28.77	29.52	30.10
Finland	1.6	1.8	1.7	1.8	27.70	28.95	29.55	29.80
France	2.0	1.8	1.9	1.9	26.80			
Germany	1.4	1.5	1.4	1.4	26.40	27.93 <sup>1</sup>	28.58 <sup>1</sup>	29.10 <sup>1</sup>
Greece	2.2	1.4	1.3	1.3	26.10	27.55	28.70	29.40 <sup>2</sup>
Hungary	1.9	1.8	1.3	1.3		25.80	26.86	28.00
Ireland	3.2	2.1	2.0	1.9	29.90	30.01	30.30	30.60
Italy	1.6	1.3	1.2	1.3	27.40	29.21	30.30 <sup>3</sup>	
Luxembourg	1.5	1.6	1.7	1.7	27.50	28.58	29.25	29.90
Netherlands	1.6	1.6	1.7	1.7	27.70	29.67	30.25	30.40
Poland	2.3	2.0	1.3	1.2		26.38	27.19	27.90
Portugal	2.2	1.6	1.5	1.4	27.10	27.60	28.40	29.00
Slovak Republic	2.3	2.1	1.2	1.2		25.13	26.39 <sup>3</sup>	27.30
Spain	2.2	1.4	1.3	1.3	28.20	29.25	30.55	30.80 <sup>2</sup>
Sweden	1.7	2.1	1.6	1.8	27.60	28.87	29.73	30.30
Turkey	4.4	3.0	2.5	2.2				
United Kingdom	1.8	1.8	1.6	1.8	26.90	27.84	28.32	28.80
United States	1.8	2.1	2.1	2.1				

1. Including former East Germany.

2. 2002

3. 1999.

Source: OECD Social Indicators database; Eurostat.

**Table 2.8. Preferences for hours worked, 1998<sup>1</sup>**

Total hours in couple families where the respondent was aged 20-50 years with a child under six

Perceived financial situation <sup>2</sup>	Hours worked at present time	Hours worked (preferences)	Change in hours needed to meet preferences	Percentage of families in this situation
Austria				
Well off	67	58	-9	64
Just manage	59	48	-11	33
Belgium				
Well off	67	55	-12	64
Just manage	58	52	-7	34
Denmark				
Well off	73	62	-11	80
Just manage	60	51	-9	18
Finland				
Well off	72	56	-16	64
Just manage	60	41	-19	34
France				
Well off	61	49	-12	32
Just manage	60	49	-11	55
Germany				
Well off	62	49	-13	52
Just manage	55	45	-10	42
Greece				
Well off	65	50	-16	30
Just manage	64	47	-17	37
Ireland				
Well off	66	53	-13	28
Just manage	55	37	-18	67
Italy				
Well off	62	50	-12	32
Just manage	55	45	-10	58
Luxembourg				
Well off	56	48	-8	73
Just manage	58	49	-9	26
Netherlands				
Well off	58	47	-11	82
Just manage	47	37	-10	16
Portugal				
Well off	78	57	-21	21
Just manage	68	61	-7	62
Spain				
Well off	61	48	-13	20
Just manage	46	38	-8	68
Sweden				
Well off	70	58	-12	69
Just manage	59	45	-14	27
United Kingdom				
Well off	66	50	-16	29
Just manage	60	45	-15	63

1. The table provides information on average hours worked and preferred hours, according to the perceived financial situation of a household in 1998. The information about preferred hours is derived from questions about a “free choice” of hours by the respondents and his/her partner, “taking into account the need to earn your living”.

2. The financial perceptions are responses to the question, “Taking into account the income that the members of your household receive from different sources, would you say that your household is financially well off, that you just manage or that you have difficulties”. The proportion of respondents indicating “difficulties” is not shown. It was under 10% in all countries, except France, Greece, Portugal and Spain.

Source: OECD (2001c), Table 4.4, p. 138.



**Table 2.9. Actual and preferred hours of men and women with and without children in the same household, 2002**

	With children in the same household			Without children in the same household		
	Current hours	Preferred hours	Difference	Current hours	Preferred hours	Difference
Austria						
Men	45.7	39.9	-6.5	44.6	39.3	-5.4
Women	32.2	29.3	-3.1	39.2	34.8	-4.4
Belgium						
Men	40.7	35.9	-3.9	40.1	38.1	-1.9
Women	32.9	29.8	-3.0	34.5	32.9	-1.7
Denmark						
Men	40.6	35.1	-5.4	36.9	34.6	-2.3
Women	35.8	29.5	-6.3	31.8	30.1	-1.8
Finland						
Men	42.3	36.4	-6.0	40.3	35.2	-4.5
Women	37.8	33.0	-4.8	36.7	33.2	-2.9
France						
Men	40.8	36.1	-4.6	40.5	35.7	-4.6
Women	34.0	31.1	-2.8	35.0	33.4	-1.5
Germany						
Men	43.4	37.4	-6.1	40.8	36.2	-4.7
Women	28.9	27.8	-1.2	35.4	32.2	-3.3
Ireland						
Men	42.7	37.1	-5.7	41.9	37.7	-4.2
Women	31.6	26.0	-5.7	37.1	35.3	-1.8
Italy						
Men	39.9	36.9	-3.0	39.3	36.9	-2.3
Women	34.2	29.6	-4.5	34.2	31.3	-3.0
Netherlands						
Men	43.2	37.6	-5.7	36.4	34.2	-1.9
Women	21.2	21.3	0.1	29.3	28.7	-0.8
Portugal						
Men	43.3					
Women	35.8	33.4	-2.1	36.6	33.9	-2.7
Spain						
Men	40.8	36.2	-4.6	41.6	37.7	-3.8
Women	34.4	33.1	-0.9	35.4	35.3	-0.1
Sweden						
Men	42.9	36.2	-6.5	39.6	36.6	-3.1
Women	35.0	31.5	-3.3	34.9	33.5	-1.3
UK						
Men	46.9	38.3	-8.5	40.6	36.6	-4.1
Women	28.3	25.8	-2.7	34.3	30.8	-4.2
Norway						
Men	41.9	34.9	-7.0	39.9	35.8	-4.1
Women	32.4	28.5	-1.3	31.7	31.0	-1.3
EU-15 + NOR						
Men	42.5	37.1	-5.4	40.3	36.5	-3.8
Women	31.3	28.8	-2.5	34.7	32.1	-2.7

Source: Bielenski *et al.* (2002), p. 61.

**Table 2.10. Opinions on importance and availability of different options for combining paid and unpaid work, percentage of the working population, EU-15, 2003**

	Importance			Available	Difference important/available
	Men and women	Men	Women	Men and women	Men and women
Which of these options are important to you personally for combining paid work with other activities					
Working more or less hours if needed	59	58	60	44	14
Saving up overtime to take as extra time off	38	38	39	29	10
Carrying over holidays to next year	32	32	31	24	7
Early retirement	25	27	23	9	16
Taking extra paid time off to look after relatives	25	22	28	12	12
Early retirement but with the option of still working part-time	24	23	25	7	17
Taking extra pay instead of holiday	23	25	21	14	9
Taking unpaid leave	21	20	22	19	2
Taking extra paid time off for study	19	18	19	11	8
Childcare facilities at your workplace	15	11	21	4	11
Teleworking	15	16	14	8	7
Taking a sabbatical, career break	15	14	16	7	8
Don't know	7	47	6		
Others	4	4	4		

Source: Eurobarometer 60.3.

**Table 2.11. Changes in lifetime allocation of labour and leisure, 1965-2000**Percentage deviations<sup>1</sup>

	Period	Men			Women		
		Childhood & education	Length of working life	Length of retirement	Childhood & education	Length of working life	Length of retirement
Australia	1970-2000	-0.7	-5.5	6.3	-1.8	-1.9	3.7
Belgium	1990-2000	-0.3	-1.8	2.0	0.9	2.1	-3.0
Canada	1980-2000	-0.2	-3.1	3.3	-0.5	-1.9	2.4
Denmark	1990-2000	0.1	-7.1	7.1	2.6	-8.6	6.0
Finland	1970-2000	0.2	-3.9	3.8	-0.2	-2.7	2.9
France	1970-2000	0.8	-6.8	6.1	-1.6	-4.4	6.0
Germany	1975-2000	2.0	-6.5	4.6	0.2	-4.9	4.7
Greece	1990-2000	1.0	-1.0	0.0	1.3	0.4	-1.7
Ireland	1985-2000	0.6	-1.1	0.4	0.7	-3.5	2.8
Japan	1970-2000	-0.3	-3.4	3.6	0.4	-3.8	3.4
Luxembourg	1990-2000	1.5	-4.6	3.1	7.0	-8.6	1.6
Netherlands	1975-2000	-0.3	-2.1	2.4	-0.3	-3.2	3.5
New Zealand	1990-2000	0.2	-0.9	0.7	3.2	-5.7	2.5
Portugal	1980-2000	1.8	-5.6	3.8	0.1	-5.2	5.1
Spain	1980-2000	1.8	-4.4	2.6	1.7	-6.1	4.4
Sweden	1970-2000	0.2	-3.8	3.6	-2.9	-0.7	3.6
Turkey	1995-2000	-0.2	-11.0	11.1	-0.8	-7.2	7.9
United Kingdom	1990-2000	0.3	-3.9	3.6	-2.5	0.6	1.9
United States	1965-2000	-0.4	-4.3	4.7	-2.4	-0.3	2.7
OECD average	1990-2000	0.2	-3.3	3.1	0.0	-2.3	2.3

1. Changes in lifetime allocation of labour and leisure across OECD countries, normalised over (several periods) a ten years period.

Source: Burniaux *et al.* (2004).

Table 2.12. Public spending on families and on elderly, 1998<sup>1</sup>

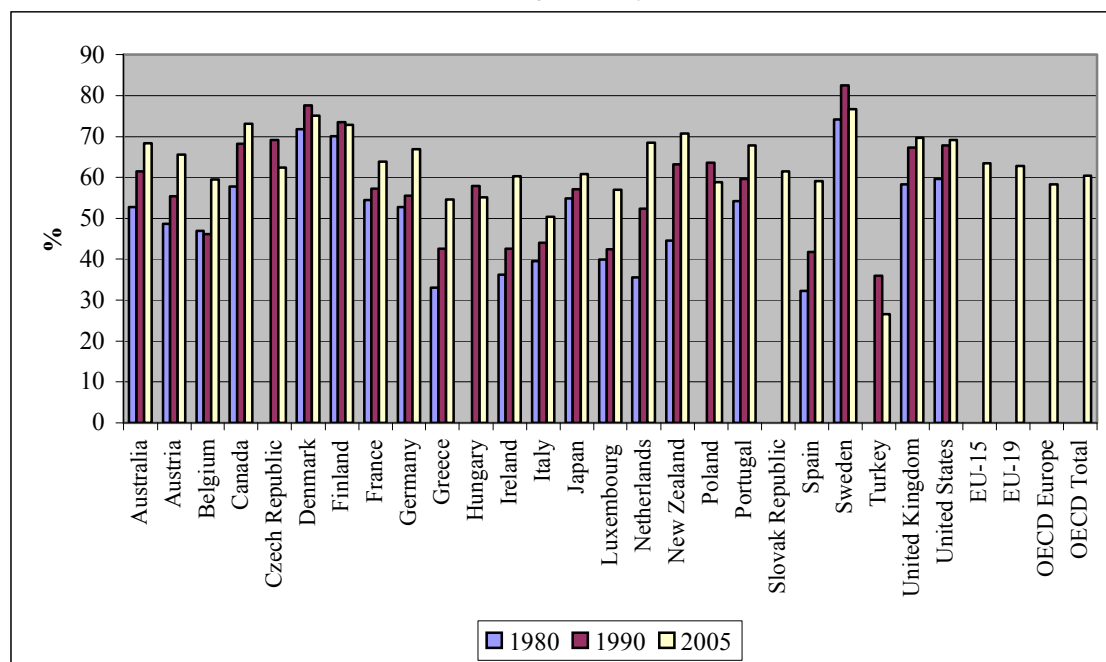
	Public spending on families	Cash benefits	Family services	Public spending on elderly	Old age cash	Services for the elderly	Spending on families versus spending on elderly
	(1) = (2)+(3)	(2)	(3)	(4) = (5)+(6)	(5)	(6)	(7) = (1):(4)
Australia	2.60	2.19	0.41	5.06	4.30	0.76	0.51
Austria	3.03	1.92	1.11	10.86	9.94	0.92	0.28
Belgium	2.22	2.06	0.16	7.50	7.37	0.13	0.30
Canada	0.76	0.76		5.10	5.10		0.15
Czech Republic	1.61	1.61		6.85	6.37	0.48	0.24
Denmark	3.77	1.54	2.23	9.77	6.82	2.95	0.39
Finland	3.36	1.92	1.44	8.53	6.99	1.54	0.39
France	2.69	1.46	1.23	11.25	10.59	0.66	0.24
Germany	2.73	1.93	0.80	11.21	10.46	0.75	0.24
Greece	1.91	1.18	0.73	10.49	10.22	0.27	0.18
Ireland	1.74	1.58	0.16	2.90	2.54	0.36	0.60
Italy	0.88	0.58	0.30	13.01	12.84	0.17	0.07
Japan	0.47	0.21	0.26	5.98	5.67	0.31	0.08
Luxembourg	2.81	2.40	0.41	8.53	8.02	0.51	0.33
Netherlands	1.21	0.81	0.40	7.51	6.21	1.30	0.16
New Zealand	2.65	2.55	0.10	5.47	5.47	0.00	0.48
Poland	0.93	0.93		8.25	7.97	0.28	0.11
Portugal	0.98	0.65	0.33	6.58	6.31	0.27	0.15
Slovak Republic	2.19	2.10	0.09	5.62	5.20	0.42	0.39
Spain	0.40	0.29	0.11	8.41	8.12	0.29	0.05
Sweden	3.31	1.63	1.68	11.17	7.46	3.71	0.30
Turkey	0.98	0.91	0.07	4.31	4.22	0.09	0.23
United Kingdom	2.22	1.73	0.49	10.58	9.77	0.81	0.21
United States	0.51	0.22	0.29	5.20	5.15	0.05	0.10

1 Cash amount for a two-earner family with two children as a percentage of GDP. A blank means that there is no scheme; a "0.00" means that a scheme exists but is not visible as a percentage of GDP.

Source: Author's calculations using the OECD Statistical database.

**Figure 2.1. Female labour force participation, 1980-2005**

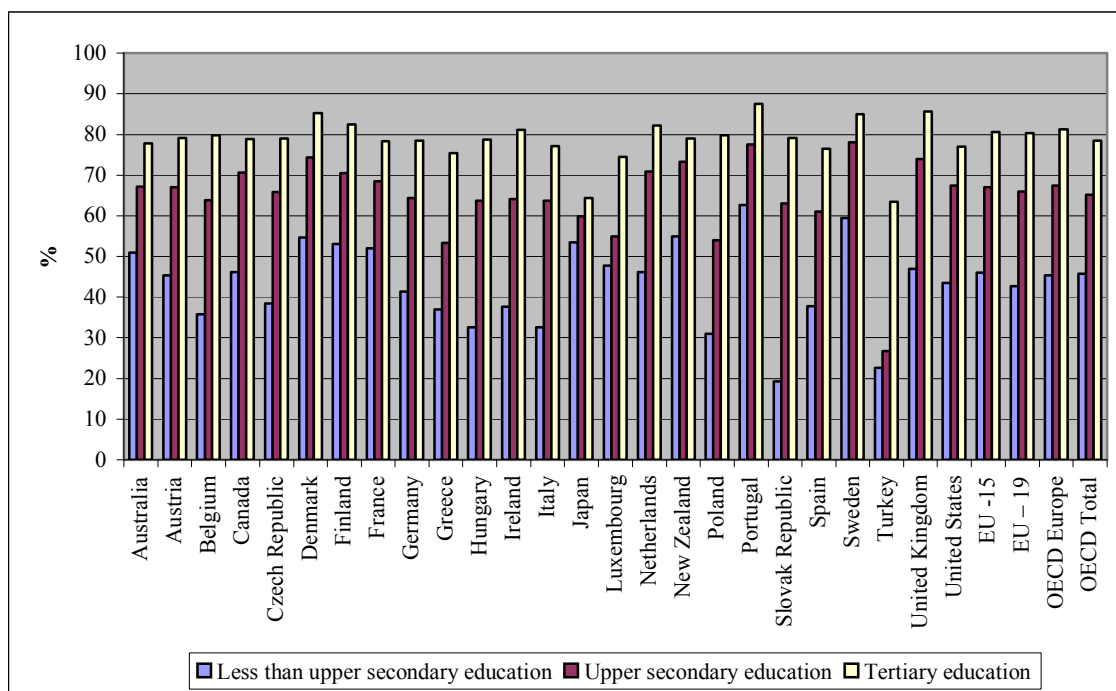
Persons aged 15-64 years



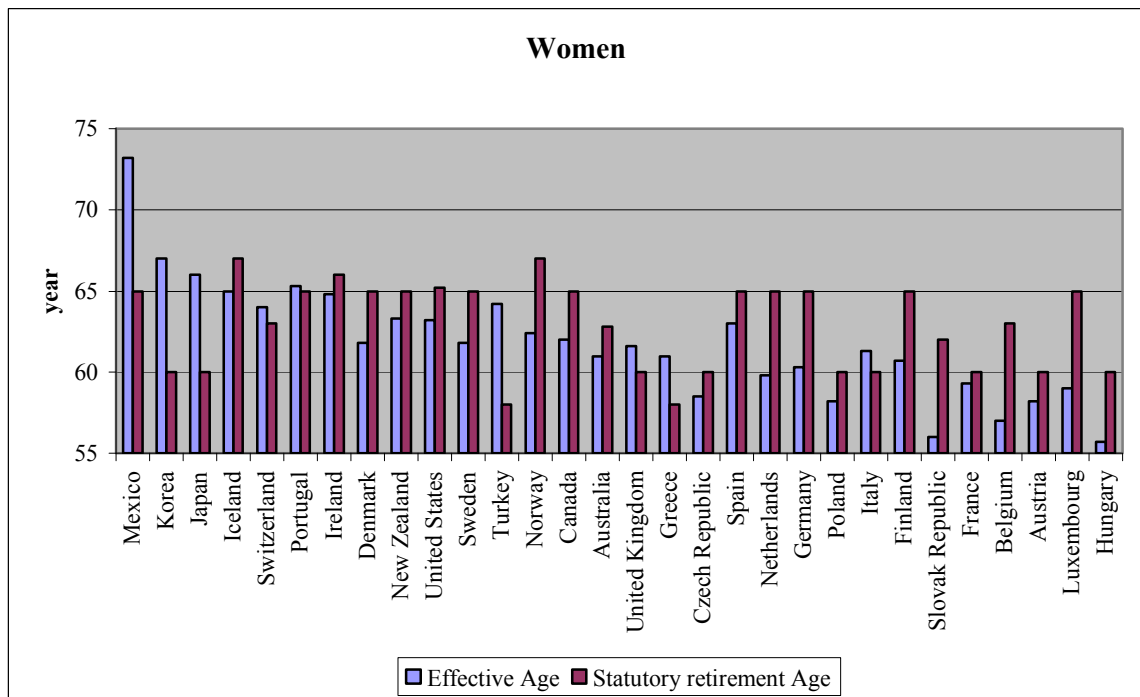
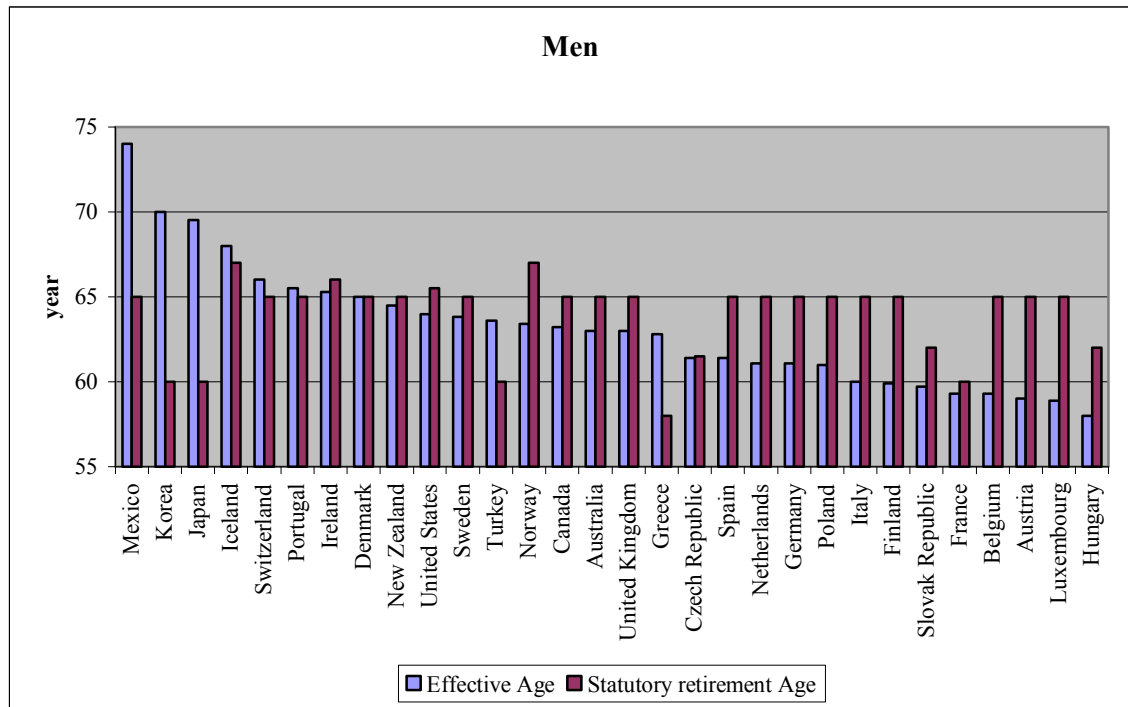
Source: OECD (2002a & 2006a), Statistical annex, Table B, p. 250; European Union Labour Force Survey. Before 1990: *OECD Labour Force Statistics*.

**Figure 2.2. Female employment rates by educational attainment, 2004**

Persons aged 25-64 years

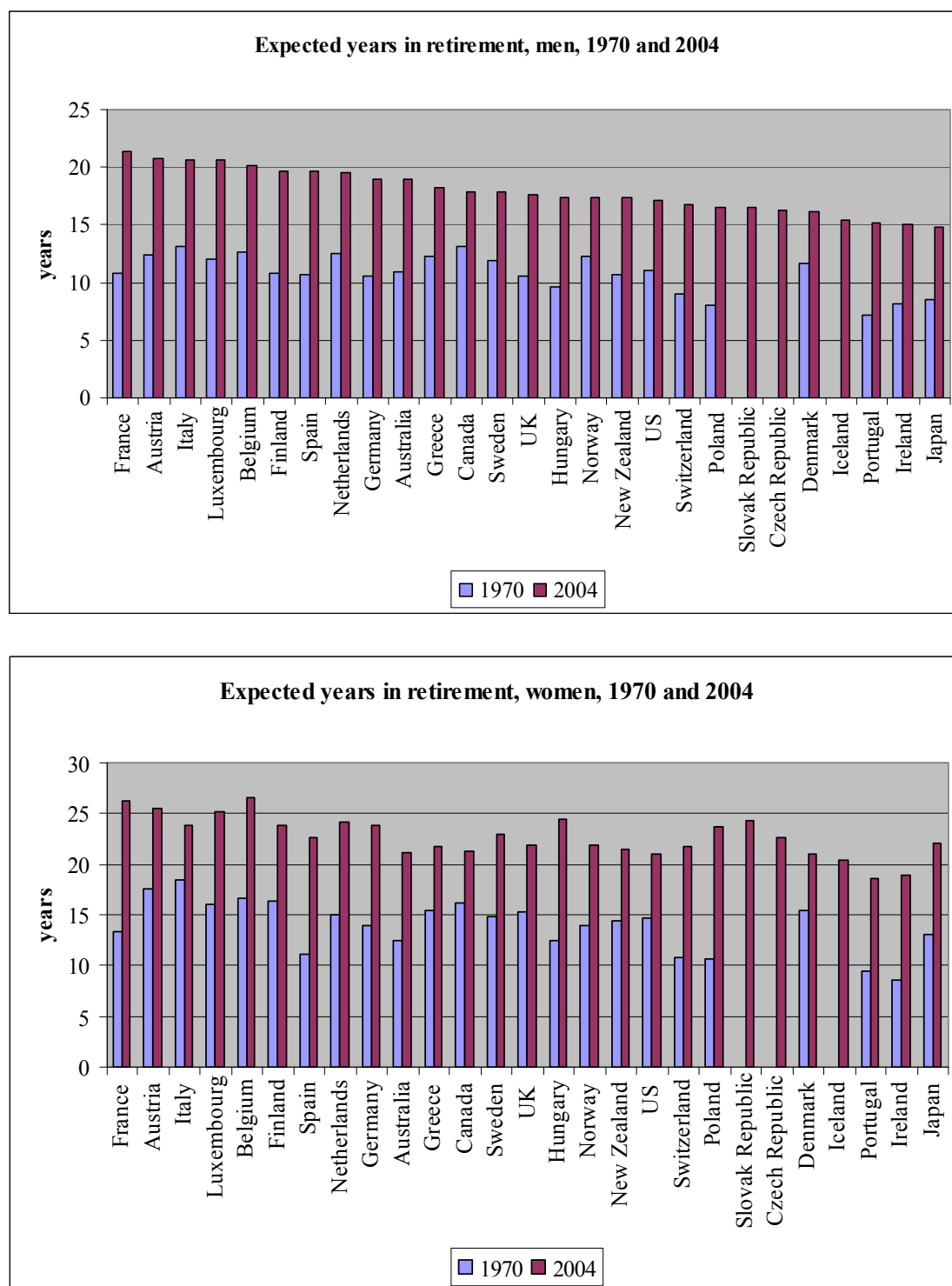


Source: OECD (2006b), Statistical annex, Table D, pp. 260-262.

Figure 2.3. Effective age of retirement versus statutory retirement age,<sup>1</sup> 1999-2004

1. The effective age of retirement refers to the average at which persons aged 40 and over left the labour force during the period 1999-2004. The official retirement refers to the earliest age in 2004 at which workers are entitled to a full old-age public pension irrespective of contributions and work history.

Source: OECD estimates based on the European Union Labour Force Survey and other national labour force surveys.

Figure 2.4. Expected years in retirement,<sup>1</sup> 1970 and 2004

1. The data refer to life expectancy at the average effective age of retirement.

Source: OECD estimates. See also OECD (2006a), p. 35.

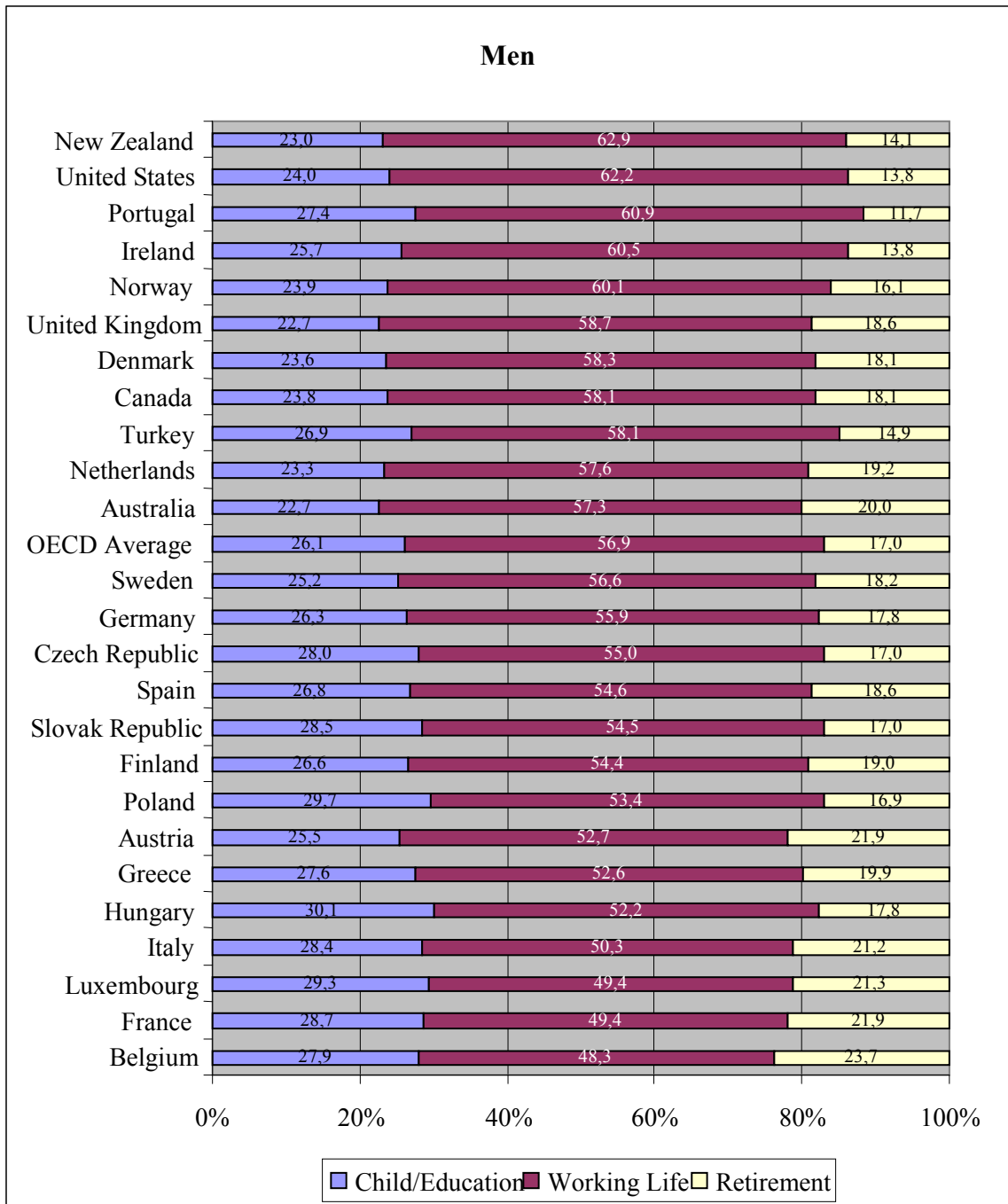
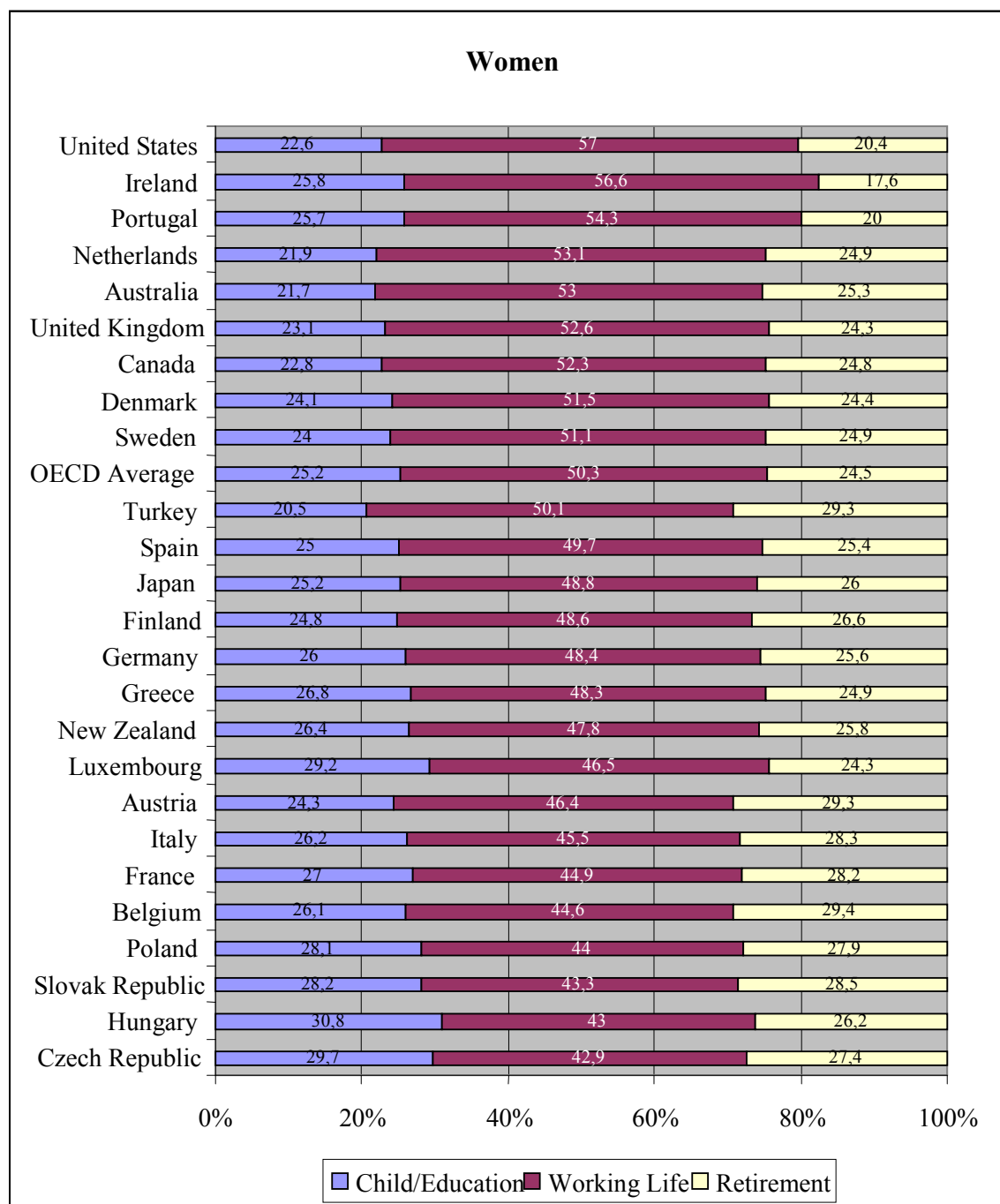
Figure 2.5. Lifetime allocation of labour and leisure, 2000<sup>1</sup>

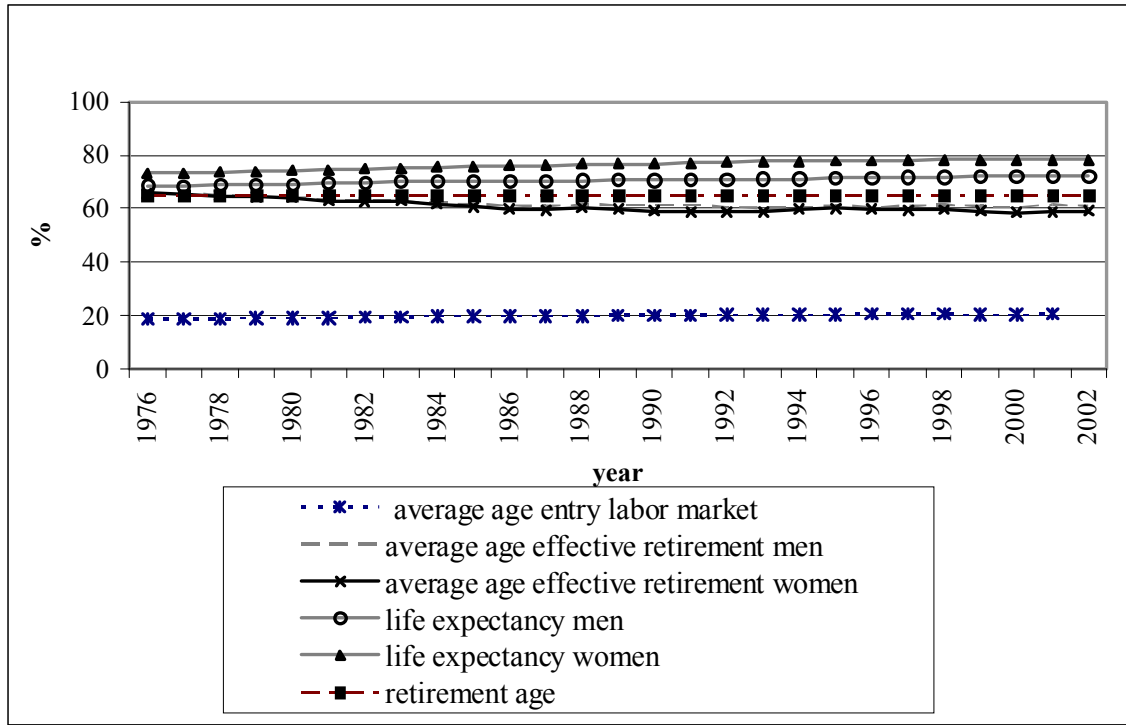


Figure 2.5. Lifetime allocation of labour and leisure, 2000<sup>1</sup> (cont.)

1. Based on average expected ages of entry and exit in 2000. The three periods (child/education, working life and retirement) amount to 100. Countries are ordered in increasing lifetime share of working life.

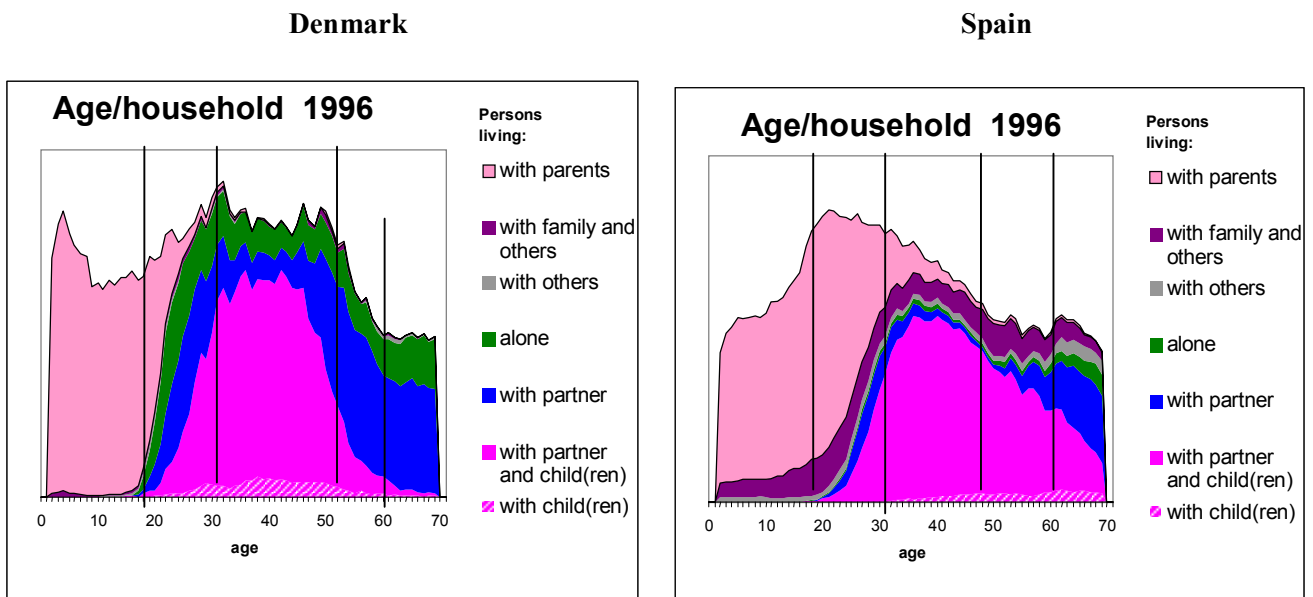
Source: Burniaux *et al.* (2004).

Figure 2.6. Learning, working and resting years in the Netherlands, 1950-2002



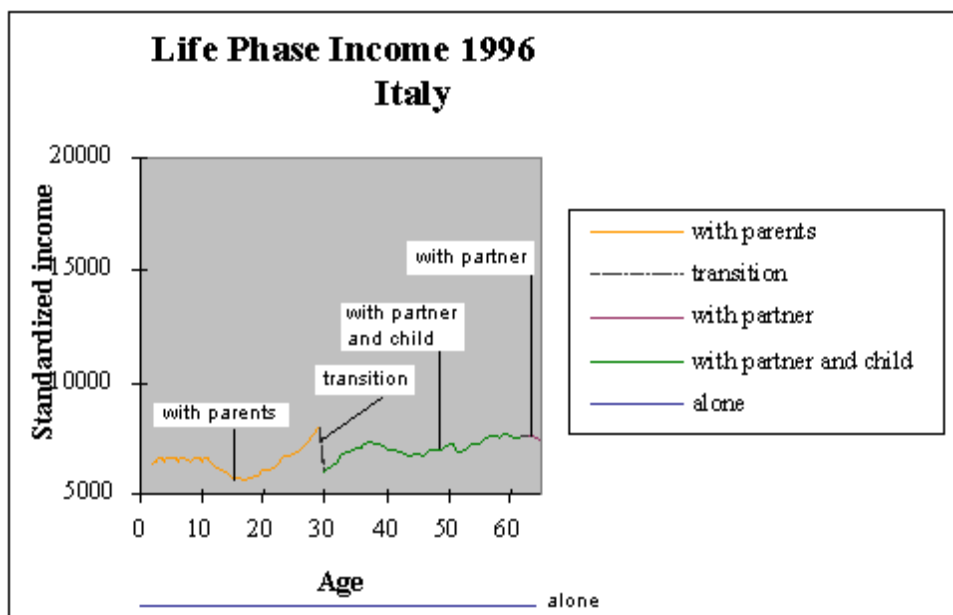
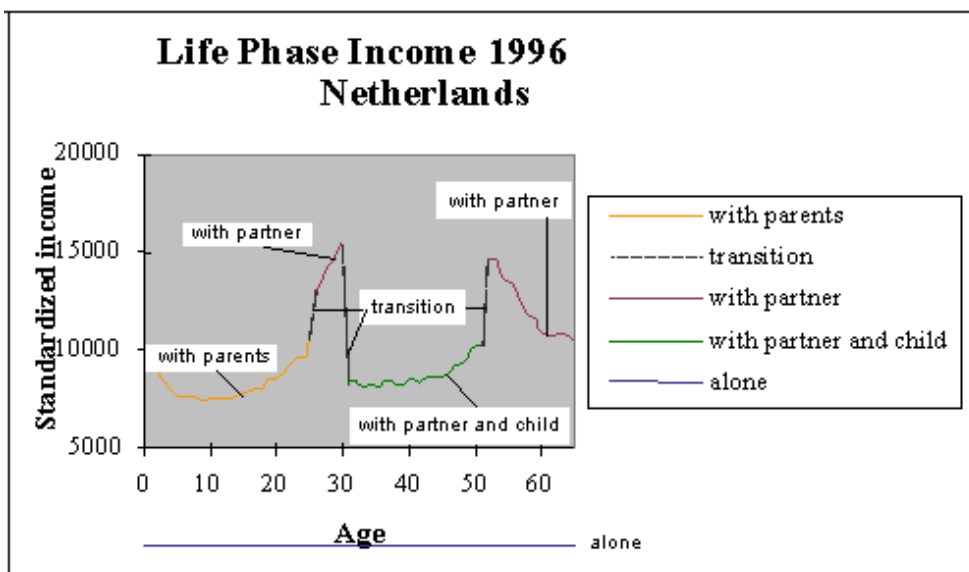
Source: OECD (2005); CBS (2004).

Figure 2.7. Age and household composition, 1996



Source: Kalle et al. (2002).

Figure 2.8. Age and standardised income, 1996



Source: Kalle *et al.* (2002).

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