

Flexibility and Security on the Labor Market: Managing and Sharing Parental Risks¹

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Abstract: *Growing job insecurity in advanced economies affects mainly women whose increasing labor force participation correlates strongly with non-standard employment relations such as part-time work, fixed-term contracts, solo-self-employment, marginal jobs or jobs with low wages or limited career opportunities. Women combining unpaid and paid work during the life course are still punished in terms of income, social security, and career development; men – apart from deeply ingrained cultural predispositions to “male role models” – are not yet stimulated by proper economic and social incentives to meet women half way in contributing to family responsibilities. However, there are some signs that men are also increasingly affected by this “feminization” of the labor market. Social security institutions are not well adapted to this trend. On the contrary. On the one hand, failure of innovation in social security induces employers as well as employees to “escape” into non-standard employment; on the other hand, flexibility (especially of the functional internal and external type) might be hampered by ill adapted social security regulations.*

The argument developed in this essay is that the mismatch between labor market trends and social security institutions affects mainly young adults (especially young adult women) who intend to combine family and elderly care work with labor market careers. I argue further that flexibility and security can be reconciled and to some extent even transformed into a mutually supportive relationship through the application of the principles of transitional labor markets and social risk management. In developing this argument, I proceed by addressing three questions. First, what exactly are the risks related to parenting from a labor market point of view? Second, why is social insurance generally to be preferred to individual savings in managing these risks? Third, how can these considerations be applied in particular to sharing parental risks?

Introduction

Recent decades bear witness to a silent revolution: women increasingly participate in gainful employment, reflected in women’s rising rates of labor force participation and in the narrowing gap between the rates of male and female labor force participation. However, it would be too hasty to forecast equalization for the near future. In some countries such as the United States and Sweden, the narrowing of the gap has come to a halt. In Sweden, the gap between men and women’s rates of labor force participation narrowed from about 12 percentage points in the mid-1970s to less than 5 percentage points in the mid-1990s but then the gap remained almost constant, even increasing slightly in the last few years. In the United States, a study based on the American Time Use Survey observed that the average

¹ Keynote speech to the Fifth International Research Conference on Social Security, to be held from 5 to 7 March 2007, in Warsaw, Poland. The paper draws heavily on some former publication, especially on Schmid (2006a).

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time mothers spent doing paid work jumped from 9 hours per week in 1965 to almost 26 hours per week in 1995. Time spent on housework fell commensurately from 32 to 19 hours, and then the trend stalled. From 1995 to 2003, mothers, on average, spent about the same amount of time on household chores, but their work outside the home fell by almost four hours per week. From 1965 to 1995, the amount of time that mothers spent on child care remained almost constant (about ten hours per week), but since then their weekly time spent for child care has increased by four hours. Even fathers increased their time spent for child care from 4.2 hours per week (1995) to 7 (2003), but they simultaneously increased total paid work from 39.5 to 42.9 hours. Employed mothers, on average, work at home and on the job a total of 15 hours more per week and sleep 3.6 fewer hours per week than non-employed mothers do. Women thereby hit a wall regarding the amount of work they can pack into a week (Bianchi et al. 2005). Maureen Dowd (2005) even observed a backlash and renaissance of traditional role models among men and women in the United States.

On the other side of the coin, men still do not much participate in unpaid family work. One indicator for this is the persistently wide gap between men and women in part-time work. In the EU-15, for instance, the share of male part-timers in total employment increased from 4.2 in 1992 to only 6.6 percent in 2002 as compared to a rise from 28.8 to 33.5 percent over the same period for women (European Foundation, 2005, p. 3).

Why is this so? Why is it that growing job insecurity in advanced economies affects mainly women? Increasing labor force participation of women correlates strongly with non-standard employment relations such as part-time work, fixed-term contracts, solo-self-employment, marginal jobs or jobs with low wages or limited career opportunities? Women combining unpaid and paid work during the life course are still punished in terms of income, social security, and career development; men – apart from deeply ingrained cultural predispositions to “male role models” – are not yet stimulated by proper economic and social incentives to meet women half way in contributing to family responsibilities. However, there are some signs that men are also increasingly affected by this “feminization” of the labor market. Social security institutions are not well adapted to this trend. On the contrary. On the one hand, failure of innovation in social security induces employers as well as employees to “escape” into non-standard employment; on the other hand, flexibility (especially of the functional internal and external type) might be hampered by ill adapted social security regulations.

The argument developed in this essay is that the mismatch between labor market trends and social security affects mainly young adults (especially young adult women) who intend to combine family and elderly care work with labor market careers. I argue further that flexibility and security can be reconciled and to some extent even transformed into a mutually supportive relationship through the application of the principles of transitional labor markets and social risk management. In developing this argument, I proceed by addressing three questions. First, what exactly are the risks related to parenting from a labor market point of view? Sec-

ond, why is social insurance generally to be preferred to individual savings in managing these risks? Third, how can these considerations be applied in particular to sharing parental risks?

1. Labor market risks related to parenting

#From a labor market point of view, what exactly are the risks related to parenting? In the stylized traditional labor market, women worked for a while after education, left the labor market when they married and perhaps went back for some occasional work when their children had grown up. Men entered the labor market and worked full-time throughout their lives, possibly with the same employer. They received a family wage and an income that rose steadily with age, and they possibly experienced brief intervals of joblessness, which unemployment insurance covered. Risks related to the labor market were shared among men and governed by the state or trade unions organized as industrial risk communities.

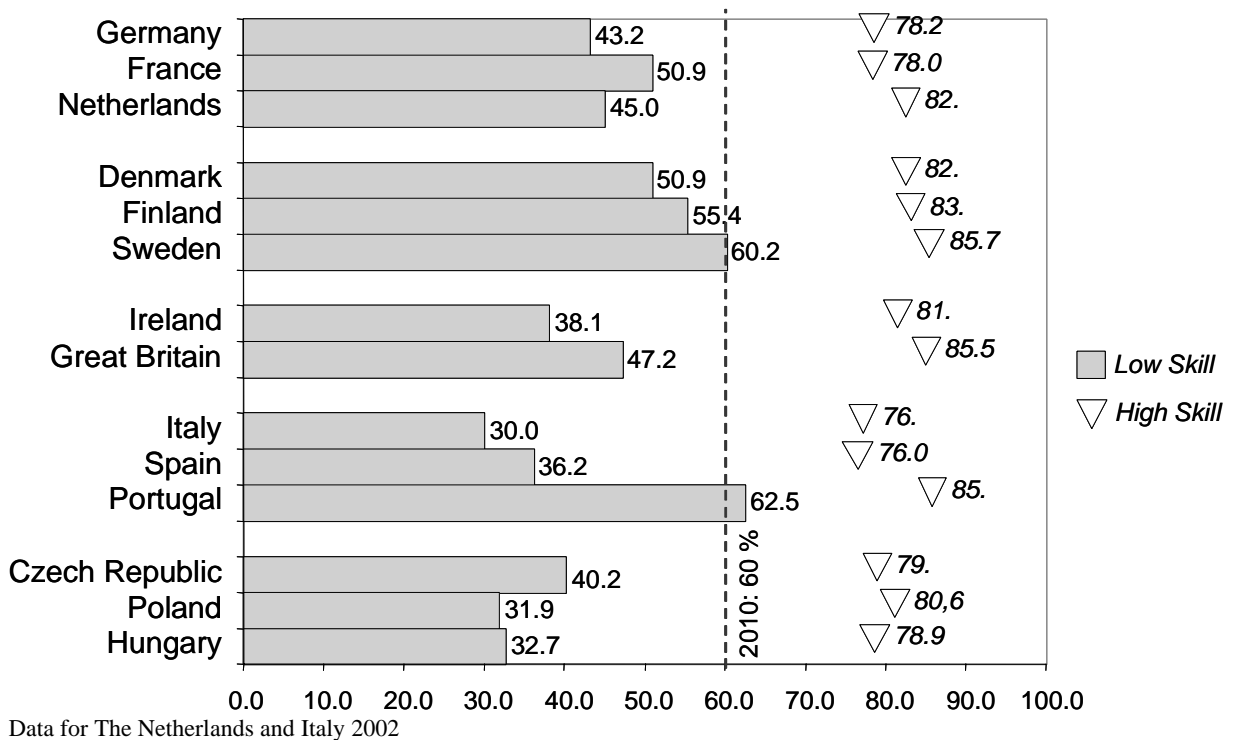
This picture has changed dramatically. In the modern labor market, the male breadwinner model is eroding, and the borderlines between women's unpaid family work and privately or publicly provided family work are blurring. Work organization predominantly based on manufactured mass production is shifting to services organized in many cases as projects pursued through changing networks. During the life course, men and especially women experience an increasing number of risky transitions between various employment statuses, transitions for which traditional insurance systems provide only incomplete social protection, if any at all. In the modern labor market, there are three main risks related to parenting: the human capital risk, the risk of nonstandard employment relationships, and the risk of reduced work capacity due to care obligation within the family. In the following, I briefly recapitulate these risks by emphasizing their importance for women.

1.1 *The human capital risk*

If we take the European Employment Strategy's main goal of full employment, namely, to reach an overall employment rate of 70 percent by 2010 and an employment rate of at least 60 percent for women, then the breakdown by qualification immediately shows where the main problem lies. Highly skilled women already surpass the benchmark of 60 percent by 15 to 25 percentage points almost regardless of the kind of welfare regime involved. It is the low-skilled women whose opportunities for participation in the labor market are seriously compromised. Sweden and Portugal are the exceptions, with employment rates of women already over the "benchmark" of 60 percent. For the German low-skilled women, the employment rate amounted only to 43.2 percent in 2003, 35 percentage points

below the employment level of 78.2 percent among the highly skilled (see Figure 1).³

Fig.: 1: Employment rates of women (25-64 years old) by skill level, 2003



Source: Data from various editions of the OECD Employment Outlook, Table D; author's own composition

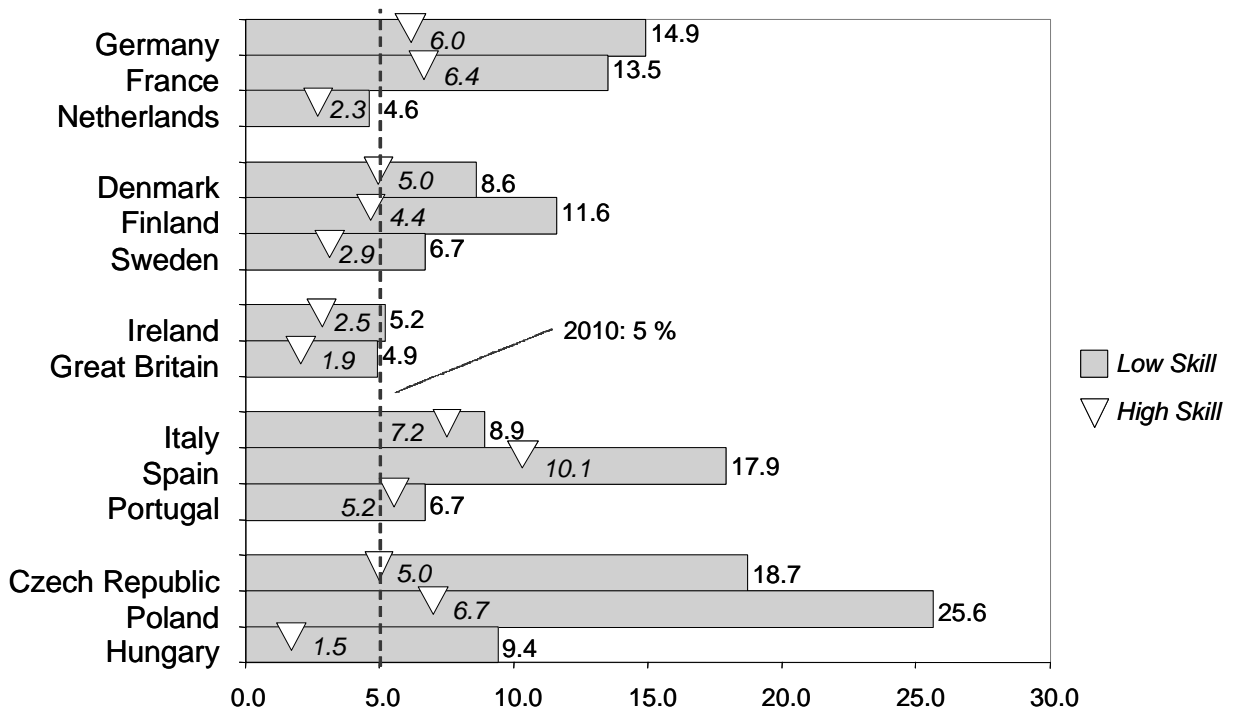
It is also important to look at the other side of the coin, the unemployment rates, which are, unfortunately, not well reflected in the European Employment Strategy. If only the Lisbon summit had set the benchmark at halving the unemployment rate to about 5 percent by 2010 (which, unfortunately, did not), then with a few exceptions, the statistics show that highly skilled women are already at that level or even below. In some countries, such as The Netherlands, Sweden, Ireland, Great Britain, and Hungary, highly skilled women are already below Lord Beveridge's "full employment" level of 3 percent unemployment.⁴ Even in Germany, the unemployment rate of highly skilled women is less than half of the unemployment rate of the low skilled. However, in most EU Member States, the

³ The difference between high-skilled and low-skilled employment rates is also present among (German) men but is slightly less marked.

⁴ In a famous report to the British government, Lord William H. Beveridge (1945) defined "full employment" not in terms of the employment rate but in terms of an unemployment rate of 3 percent.

benchmark of 5 percent unemployment is utterly out of reach for low-skilled women (see Figure 2).

Fig. 2: Unemployment rates of women (25-64 years old) by skill level, 2003



Source: Data from various editions of the OECD Employment Outlook, Table D; author's own composition

Yet the times have vanished when high education was an insurance against low income or income volatility over a person's life course. The risks of proper returns from high human capital investments are multiplying but are scarcely reflected in the current discussion. The high employment and low unemployment rates of the highly skilled obscure the fact that these people may also be at risk of falling into poverty or of avoiding it only at the cost of displacing lower skilled people. It is not only that one's skills may become obsolete because of new technologies during one's life course, it is also the fact that uncertainty is mounting because of eroding national borderlines of labor markets, often imprecisely addressed with the catchword "globalization."

The erosion of protective borderlines of the labor market has direct and indirect consequences for individual labor market opportunities. The direct consequences are increasing competition through migration. The indirect consequences are increasing human capital investment risks through capital mobility or informa-

tional asymmetries. If, for instance, an Indian girl in Calcutta receives higher education, she might devalue the educational investments of my son in computer science because his potential high-priced services can now be bought at a low price in India. Furthermore, the higher and more specialized the skills, the more difficult it is to assess their quality. Reputation, then, becomes partly a functional equivalent to solve this information asymmetry. If, for instance, your daughter invests heavily in playing the violin, a Chinese boy in Beijing might do the same, win the musical competition, and receive many more subsequent engagements due to reputation. As Paul Krugman (1999, p. 203) has noted, the new economy is not only a knowledge economy but also a celebrity economy: good luck and reputation seem to be determining employment careers and life-course income more and more in a borderless global labor market.

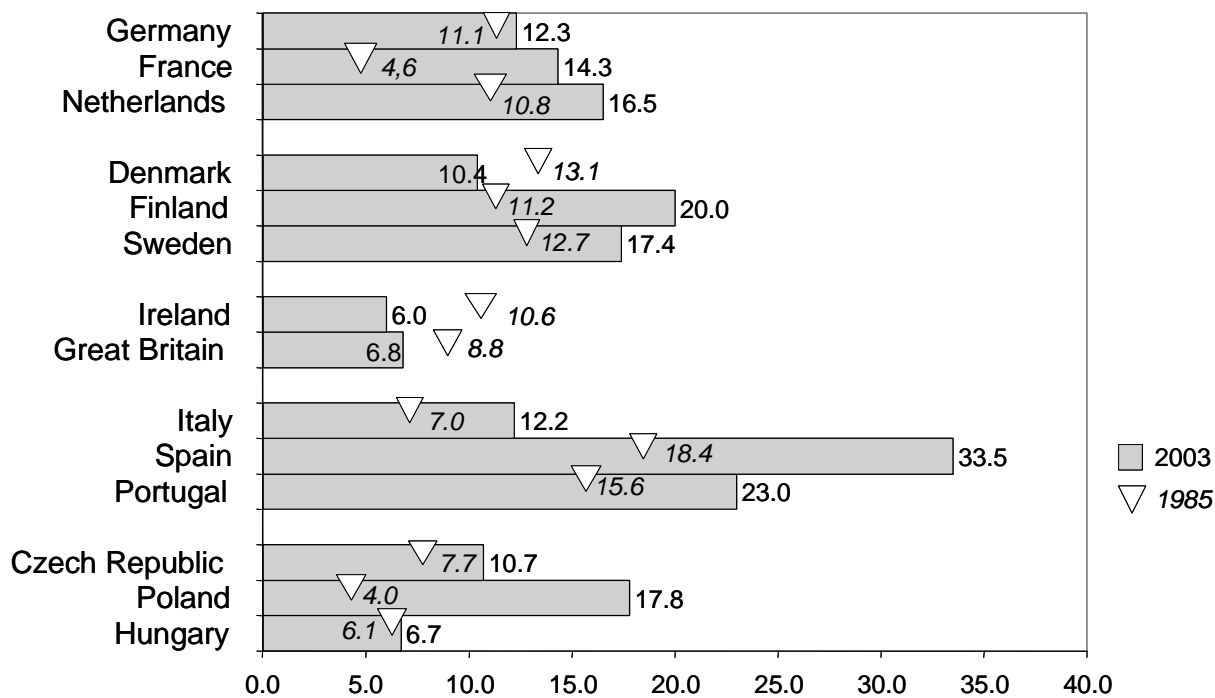
The impact of escalating risks associated with returns on human capital investment is twofold and ambiguous. On the hand, it feeds the tendency toward credentialing that leads to *overinvestment* in formal education or training. On the other hand, it encourages risk aversion that leads to *underinvestment* in education or training, especially among people who gravitate to the low-skill labor market or among mature-aged people with short employment prospects.

2.2 *Risks related to nonstandard forms of employment*

The second concern is the swelling number of nonstandard jobs in the form of (marginal) part-time work, fixed-term contracts, temp-agency work or contract work, often disguised as self-employment. This is a vast field impossible to cover in all its facets here. Part-time work would be the first candidate to deal with in this context. However, research and literature abound, so that the facts are well known (e.g., O'Reilly and Fagan 1998; Quack 1993; European Foundation 2005). I therefore draw attention only to two points: the increasing number of fixed-term contracts, and the phenomenon of compressed work careers.

Figure 3 displays a clear trend of increasing fixed-term contracts. Why is this trend almost uniform in all European Union Member States? It seems that firms need added internal or external flexibility to adjust to the ever more competitive environment and new technologies. However, job protection is strong in the family-centered employment systems of southern Europe (Italy, Spain, and Greece) and a bit less strong, but still important, in the conservative or corporate employment systems of other continental European countries (e.g., France, Germany, and The Netherlands).

Fig. 3: Women employed in fixed-term contracts as a share of all employed women (15-64 years old), 1985 and 2003



Source: Data from European Commission, *Employment in Europe* 2000, 2004; author's own composition.

Be that as it may, the exceptions to this rule are revealing. In Denmark, Ireland, and the United Kingdom (UK), for instance, the share of fixed-term contracts has even decreased, and dismissal protection is almost unknown. Nonetheless, Denmark compensates for the lack of job protection by granting generous unemployment transfers combined with strong activation measures, and Ireland as well as the UK have been somewhat able to protect against precarious jobs by instituting New Deal programs and a successful job-creation machinery.⁵

A growing concern is the concentration of precarious jobs among the young. At the Eurozone level, 48.8 percent of the young workers (15-24) had a fixed-term contract in the second quarter of 2005 as opposed to only 12.5 percent of adults (25-54) and 6.7 percent of the mature adults (55+) (see Eurostat 2005, Table 9, p. 7). The case is especially striking in Germany, where the burden of risks related to fixed-term contracts lies almost completely on 15- to 25-year olds and on the young adults aged 25 to 35 (Schmid 2004, p. 385). We know from many studies that fixed-term contracts are often useful bridges to regular work. For many young people, though, and in some countries even for the majority, fixed-

⁵ Another factor might be the UK's successful macroeconomic policy for stimulating employment growth.

term contracts are, unfortunately, also traps leading to permanently disrupted job careers and often ultimately to social exclusion.

The risks that young adults run as they try to make the transition from precarious to stable jobs are often aggravated by “compressed work careers,” the phenomenon of having to fulfill several social roles simultaneously within a short period of working life. It mainly affects young women between 20 and 35 years of age. Since labor market participation is becoming the norm for these women, they must cope with at least five social tasks at almost the same time: They have to acquire a good education, look for a suitable job, plan a sustainable career, select a suitable partner, and set up a family at considerable expense in housing and furnishings. The way in which work, education, and welfare (including the housing market) are organized today scarcely helps them master these diverse tasks. Their transition to a sustainable career is seriously endangered. The attention given to this problem where young adults are concerned is relatively limited compared to what it receives when mature adults are at issue – a serious defect in the European Employment Strategy.

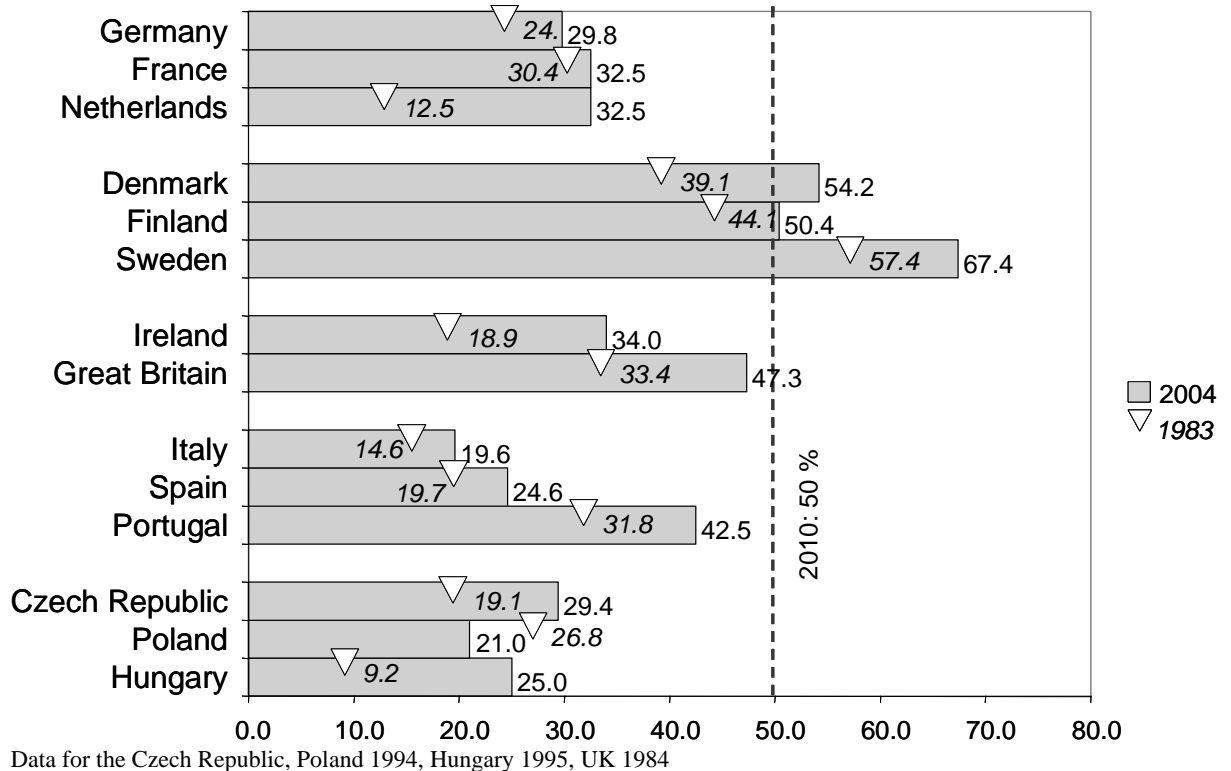
2.3 *Risks related to reduced earning capacities over the life course*

Of course, this imbalance is not an argument for discontinuing the efforts to deal with the third risk related to critical events during the life course. Again, the first candidate for reduced work capacities is the family-related risk when it comes to the care for children. This risk is known as the “family trap” and refers to the difficulty women experience in dividing their time and energy between family and career. In the current risk-sharing model, it is a fact that men gain resources when they have a family; women more often have to invest resources in the same situation. The impossibility, for example, of combining a business-consulting career with a family was by far the most frequent reason given by managers when questioned as to why female career development in this branch seems to be so difficult and therefore tends to be the exception (Rudolph 2004, p. 12).

Less well known and even less well acknowledged in the present rhetoric of “active aging” is the risk of mature aged women having to take over care obligations for the frail elderly if their own children might have left the home. A reflection of this risk is the employment rate of women ranging in age from 55 to 64, which in most EU Member States is far below the Lisbon 50 percent benchmark (see Figure 4). Apart from the new Member States, especially family-oriented countries like Germany, Italy, and Spain are lagging behind this goal. Only about 30 percent of 55- to 64-year-old women in Germany are employed, in stark contrast to the Scandinavian countries that are passing the “benchmark” easily.⁶ However, with the exception of Poland, the situation in all Member States has improved since 1983, in some countries impressively (especially The Netherlands).

⁶ The low employment rate of women especially in the family centered economies goes of course also back to the large share of women leaving the labor market after the first child and not returning anymore.

Fig. 4: Employment rates of women (55-64 years old), 1983 and 2004



Source: Data from OECD-Employment Outlook 2005, 1997, 1995; author's own composition

A notable exception is Sweden, where 67.4 percent of the mature adult women are actively participating in the labor market. What is the explanation for this “anomaly”? The first reason is that Sweden included mature adults in continuing education and training (for example, through the massive “knowledge-lift program” from 1997 to 2002). Second, all monetary incentives to retire early have been dismantled in that country. Third, soft forms of governance have been established through “work-adjustment groups” in Swedish firms with more than 50 employees. If work capacity at these firms declines, they have to start negotiation and problem-solving procedures to relocate or rehabilitate their mature adults. Finally, gender-related differences in mandatory retirement (and probably the very institution of mandatory retirement) are out of date. Women in Sweden accumulate pension rights independently from the working career of their “breadwinning” spouse, an arrangement that Sweden has in common with Switzerland, among other countries.

All three risks – underutilized, obsolete or eroding human capital; job instability; and reduced work capacity – must be considered against the background of

eroding internal labor markets. From the perspective of risk management, the backbone of internal labor markets has been an implicit insurance contract, with the employer offering the male breadwinner a family wage, job security, and earnings stability over the life course in exchange for the acceptance of wages below the productivity level at the peak of the work career. This implicit insurance contract is breaking down without a clear alternative in sight yet.

A plausible conclusion would be to extend the principle of insurance to cover these new risks at least to some extent. But why would it be suboptimal to leave people alone with these new risks and to expect solutions through private savings or private insurance? This is the question to which I turn now.

2. On the advantages of social insurance compared to private savings

Why is social insurance generally to be preferred to individual savings against social risks? To answer this question, I call to mind the basic principles of social insurance, both from a social science and an economic perspective.

Even from a legal point of view, the peculiarity of social insurance was reflected 80 years ago by the labor lawyer Hugo Sinzheimer, who attributed a completely new principle of law to social insurance. Social insurance, in his view, is not based on private law or individual property rights but on collective law based on universal human rights to participate in the production and distribution of society's prosperity. To ensure that people are not only "free from want" (which means having ensured access to basic necessities) but also "free to act," the state is authorized to intervene in property rights and – to put it bluntly – to redistribute between those who are lucky and those who are not lucky in the lottery of natural endowments and the whims of the market (see Sinzheimer 1928/1976).

There are also macroeconomic arguments for genuine social insurance. Let me start with some definitions. Social risks – I am not talking about tsunamis, hurricane Katrina, earthquakes, or other types of exogenous catastrophes – are likely events related to social actions that imply individual losses of calculable probability if they occur and gains if they do not occur. Each individual could insure him- or herself against these losses by means of savings or precautionary measures.

In most cases, however, insuring oneself is more costly than pooling risks. Nobody keeps his own fire brigade; we all contribute to the community fire brigade instead. Furthermore, precaution or prevention may become costly and may tie up too many resources. For instance, trading ships used to be accompanied by convoys to ward off pirates; insurance proved to be cheaper. In modern times, many labor markets are heavily regulated to protect against opportunistic resignations or dismissals, but it probably turns out that generous wage and employability insurance may not only be cheaper but also more equitable. I come back to this point later.

If the risks are individually unrelated and distributed equally by chance, the potential losses can be privately insured. The insurer thereby organizes redistribution between those hit by the cost-causing event and those not hit by it. *Ex ante* – that is, before anyone knows who will be hit, before the veil of ignorance is lifted – insurance is a cooperative game of sharing risks. *Ex post*, after that veil has been lifted, insurance is redistribution from the lucky to the unlucky. If the insurance is effective, it establishes a win-win game.

To be efficient and equitable, however, insurance has to meet some conditions. The three most important ones are well known: no moral hazard, no adverse selection, and no correlation of the risks. If risks are correlated or even infectious, as with unemployment, no private insurance can guarantee liquidity high enough to compensate for the losses. If risks are unequally distributed, bad risks will tend to overcrowd and good risks will tend to opt out. Consequently, either bad risks will have to pay deterrent high premiums, or private insurance will not be established. If moral hazard exists and is difficult to detect for informational asymmetries, then control will have to be exercised by legitimate power over which private insurers normally do not dispose.

These are the reasons why no civilized country has private unemployment insurance that sufficiently covers the risk of involuntary unemployment. Only the state can guarantee liquidity in the event of correlated risks. Only the state can force good risks to participate in the insurance or alleviate the burden of premiums for the bad risks. Only the state can ultimately exercise legitimate control over moral hazard.

However, if we argue for a wider application of the insurance principle, we must go beyond the risk of unemployment. We must ask why the welfare state in effect provides or organizes risk-sharing for many more life-course risks than it does for involuntary unemployment. Even liberal welfare states have some kinds of mandatory social insurance – such as those against the risks of low-income (poverty), illness, disability, work accidents, and old age. They at least play a strong regulatory role in supervising or supporting various kinds of private insurance.

The few mainstream economists who dare to deal with this question agree that the welfare state plays an indispensable role as a risk-sharing institution.⁷ Why? First, social insurance can enhance efficiency by stimulating otherwise risk-averse people to engage in prosperity-enhancing activities. Historical examples abound. In fact, Peter Bernstein argues in his stimulating book *Against the Gods* (1996) that it was the invention of insurance that propelled modern capitalism. The rise of Venice to become the world's richest city in the 14th and 15th centuries would have been inconceivable without the invention of a modern insurance system. Henry Ford once said that New York would not have been built without the help of the insurance system.

7 The best references are Agell (1999, 2002), Atkinson (1991, 1999), Barr (2001), and Sinn (1995, 1996).

Apart from traditional arguments concerning market failure, political economists provide additional important reasons for universal and at least publicly ensured risk-sharing institutions. Hans-Werner Sinn (1996, pp. 263-264) especially stresses the timing problem related to risks over the life course. Typically, private insurance companies deal only with contingent risks that affect clearly distinguishable groups of people. Such risks include the risk of fire, theft, or traffic accidents. They are not correlated with a person's lifetime. Social insurance, by contrast, is an all-inclusive insurance that protects against multiple and interdependent risks of lifetime careers. The insurance provided by the public tax and transfer system is an insurance against the randomness of career opportunities and of nature's lottery of innate abilities. Because of time dependencies, private insurance contracts would have to start right at the beginning of human life, maybe even with conception. How should a private insurer determine the premiums and the indemnities for such complex and interrelated risks? Only public social insurance can deal with this time problem, and it will probably be much cheaper than private insurance given that a system of fiscal taxation is considered inevitable anyway.

Tony Atkinson (1991) hints at another important reason for the advent of social insurance, one that cannot be explained by the traditional economic focus on information asymmetries and adverse selection. It is the distinction between risk and uncertainty, which harks back to the classic work by Frank Knight (1921/1964). When social risks cannot be calculated, no private insurance can do the job of compensating for severe and irreversible damages. Faced with uncertainties such as wars, riots, epidemics, demographic imbalances, large-scale accidents, and other unforeseeable challenges, social insurance contracts have to be flexible enough to mobilize quickly the resources to mitigate such risks and cope with them.⁸

Jonas Agell (2002) adds another important argument. Proponents of rolling back the welfare state should be aware that social insurance did not develop mainly as a rent-seeking behavior of interest groups but as substitution for the erosion, weakness or even disappearance of traditional self-insurance institutions such as the extended family, the "hinterland" of small farms providing economic subsistence, the neighborhoods, and the communities or trade unions organizing mutual self-help. The shift to universal social insurance systems occurred especially in countries exposed to rapid structural change and characterized by a relatively homogeneous population.

Agell (2002) also suggests functional equivalents as second- or third-best solutions if tax-financed universal social insurance is not feasible. In addition to insurance against the hazards of volatile wages directly through minimum-wage laws or unemployment insurance, there are also indirect ways of narrowing and stabilizing wage distribution by means of centralized wage bargaining.⁹ Agell

8 The Contergan case in the late 1950s and early 1960s (also known as the scandal caused by Thalidomide) might serve as an instructive example of such internal social risks that cannot be calculated.

9 In addition, totally flexible wages would aggravate cobweb-like (and therefore quite unstable and costly) adjustments to external shocks (see Arrow 1971, for example).

uses a formal model to show that the insurance benefits from a small compression of the wage structure will outweigh any costs in terms of unemployment and reduced output. Furthermore, surveys persistently report that the state and collective social insurance systems are politically accepted, even strongly supported. The representative worker is willing to accept a lower expected wage in exchange for a wage structure that offers insurance against the uncertainty of who will be in the wage distribution.

Of course, there is a trade-off. On the one hand, people protected by the welfare state engage in risky and profitable activities that they otherwise would not have dared to undertake. Risky occupations might not be chosen without the protection of the welfare state, and it would be difficult to find entrepreneurs willing to undertake risky investment if debtor's prison were all that society provided should the venture fail. On the other hand, the welfare state may, in fact, make people too eager to jump, to become careless, and to take excessively dangerous short-cuts in the mountainous paths of life (Sinn 1996). This is the moral hazard to which an overwhelming majority of policy advisors call attention.

How to balance productive risk-taking by avoiding careless risk-taking and its moral hazard in a way that maximizes efficiency and equity is an old conundrum of welfare state theory. In any case, risk-taking has important repercussions for the observable degree of inequality in the economy. If people choose more risks *ex ante*, they will typically be more unequal *ex post*. Risk-averse societies may exhibit relatively little inequality but also little economic dynamism. By contrast, risk-taking societies may indeed exhibit high economic income at the cost of high inequality, as the liberal U.S. regime seems to show. Denmark, however, has recently received increasing applause for its achievement of high risk-taking and low inequality both before and after taxes – the “flexicurity” model par excellence (see Auer 2000 and Madsen 2005, for instance). It therefore does not seem that social insurance necessarily drives the “big trade off between equality and efficiency” (Okun 1975). Under certain circumstances it may well also drive a “virtuous marriage between equality and efficiency” (Schmid 1994). The question of how such a complementary relationship might work shall be tackled in the next step.

3. Application of risk-sharing to parental risks

How can these general principles and reasons for social insurance be applied to parental risks? The social construction of risk is clear in this area. The time problem already mentioned is best understood from the perspective of parents-to-be because for them the veil of ignorance has not yet been lifted. These parents do not know which abilities their children will be endowed with. They may fear that their children will suffer from illness and injuries. They may worry about bad teachers and bad friends. They are concerned about a lack of job opportunities and

about bad choices. They are afraid that their children may become unemployed. And they hope, but cannot be sure, that a successful marriage will be possible.

It is inconceivable that private insurers could cover these risks. They could do this only with contracts that would come close to bondage – as Hans-Werner Sinn (1996, p. 263) starkly put it. It would have to be acceptable for parents to allocate substantial portions of their children's future incomes to private institutions without their offspring having the chance to nullify or even modify the decision when they become adults. Private insurance contracts would therefore have to wait until a person comes of age, but by then most of the veil of ignorance would have been lifted. If both the insurer and the insured have the same knowledge about the inequalities then existing, they will not be able to find mutually agreeable redistribution contracts. And if the insured person has superior knowledge, the typical adverse selection problem will exist.

In fact, the solution may be simpler than this overly sophisticated economic talk. Children are wonderful. Their risks cannot be calculated, and uncertainty cannot be insured privately. The solution for the lifetime risks of children can only be the family as an insurance device, or – if families are poor or family relationships become unstable – the state. The welfare state cannot eliminate these risks. But by offering a redistributive social contract between successful and unlucky children, it can help mitigate the consequences. All welfare states therefore offer more or less social protection against child poverty, equal access to primary and secondary education, and health and disability insurance. However, new risks arise, and that circumstance has much to do with endogenous changes related to values, families, labor markets and with maladjustments of institutions to the new risks.

Let us examine value changes first. As long as the role (i.e., the responsibility) of parenting is socially ascribed to women, child-bearing and child-rearing is not a risk that goes beyond the boundary of the family. However, as soon as it is accepted that both men and women should have the free choice of engaging in this task and that both should have the opportunity to earn their own income, caring for children involves a career risk as well as an income risk for both parents. A science fiction novel even went so far as to imagine conception being randomly distributed between men and women. In a way, of course, this idea is seriously misplaced, for most children are consciously planned. However, accepting the thought experiment that men, too, can become pregnant would cast new light on the need to increase the mutual compatibility of family work, education, and labor market work, and men would certainly be much more open to the concept of equally sharing risks related to parenting (Pateman 1988).

But as a recent German report on family policy correctly notes, to see it would be a mistake to regard the drop of fertility rates only as a change of values or preferences (Biedenkopf et al. 2005, pp. 78f.). The wish of having at least one if not two children is still fairly widespread. Thus, it is reasonable to see the reduced birthrates largely as an outcome of opportunity constraints on the labor market, of inflexible work organization, and of inappropriate incentives in the

system of taxes and benefits. The increasing tendency toward the single-child or even (especially among academics) no-child family therefore has to be assessed as a dramatic decline in the quality of life.

I now turn to changes in the family and in the labor market. Not every child entering the world is hit by the related risks in the same way as all the others. Whether and how much men or women are affected depends on the employer, the occupation, the work tasks, the neighborhood, and so on. These factors are ones that individuals normally cannot determine or predict. Some people, such as academics and people living in intact families or functioning neighborhoods, can manage to combine labor market work and family work more easily than others. Some of these other people, such as those who cannot work at home, those who must live in broken families, or those who are not integrated into a functioning neighborhood, are less fortunate. Furthermore, the number of single-parent families is climbing in almost all modern welfare states, exacerbating the vulnerability of children and single parents alike.

The lack of social insurance against these new risks will lead to three kinds of penalties: wage and career penalties for women, intra- and intergenerational equity penalties, and overall welfare penalties on society because of declining fertility rates and probably also because of skill deficits.

First, the calculated average risk of wage penalty incurred by, say, five years of full-time leave amounts to 1.5 to 2 percentage points yearly. The wage penalty declines to 0.5 percentage points only if part-time leave is taken, and it differs from one employment regime to the next. As compared to liberal regimes with medium public support for employment during the family phase (e.g., Canada), the wage penalty for interrupting full-time work is 7 percentage points in conservative regimes (e.g., Germany). This kind of difference likewise emerges in a comparison with social democratic regimes enjoying high public support (such as Sweden; see Gustafsson et al. 2002 and Stier et al. 2001).¹⁰ Such large wage penalties for complete employment interruptions can be taken as an argument for publicly financed or publicly provided institutions for child care during preschool and elementary school. They would not only broaden the occupational choices of parents (especially women) but would pay off economically as well. One must also figure in the risks of status loss and restricted occupational choice after expiration of the parental leave.

Second, the equity penalty is especially reflected in a massive redistribution of income from families with children to families without children over the life course. This effect is especially pronounced in Germany, where the ifo-institute calculated that the state would gain 76,900 Euros over the life course for one child

¹⁰ Complementary results come from the varieties-of-capitalism approach. Coordinated regimes are characterized by higher specific human capital investment, the effect being that the wage penalty of employment interruptions is higher than in liberal regimes, where firms do not invest much in specific human capital. Correspondingly, wage penalties are generally higher for the highly skilled than for the low skilled, whereby the regime types, again, compound the differences (Estevez-Abe et al. 2001; Rosenbluth et al. 2002).

(born in 2000) of an average-income family, an average income of the child, and an average fertility rate of the child.¹¹ In other words, raising a child induces a tax punishment of about 80,000 Euros, which leads de facto to an income redistribution of a corresponding amount over the life course to families or people without children and from the young to the medium and older generation. Apart from the inequity scandal, such a redistribution is largely inefficient, for the state's opportunity costs (forgone taxes and contributions) related to women's reduced labor force participation raises the amount to 119,800 Euros for one child (see Biedenkopf et al. 2005, Figure 5, p. 103).

Simple cost-benefit accounting systems would show that the state could gain by investing a substantial part of this forgone income into public or private day-care facilities or in improved preschool education of children. For instance, in a dynamic accounting of the costs and returns of day-care provision in Denmark, the treasury's net fiscal gain was estimated to be 260,000 Danish Kronors (about 35,000 Euro) if women work full-time for five years instead of fully interrupting their career for private child care (see Esping-Andersen 2005, Table 2).¹² A German cost-benefit analysis estimated, for example, a net fiscal gain of 12,500 DM (about 6,000 Euros) per year for each educating mother with a child younger than three years if that mother were to work instead of draw social assistance (see Spiess et al. 2002, p. 34).

Third, the welfare penalties of inadequate social insurance are no less severe. Whenever children's lifetime risks are not properly provided for, the lapse will have repercussions on the decision to establish a family with children. From this perspective it becomes plausible that the welfare regimes with the largest drop in fertility rates are those in which life-course securities for children are not properly covered. If parents or would-be parents are highly uncertain about how to protect against these risks, they will decide against children. The desire to have children – an important aspect in the quality of life – will continue to be blocked if the future of the would-be parents themselves becomes insecure. Unemployment of the parents or of people in their immediate environment is one of the most important predictors of low fertility (Schmid 2006b).

Summing up, if we accept the abolishment of traditional role ascription of who shall take care of children, we shroud ourselves in the veil of ignorance as described by John Rawls (1990, 2001). Would-be parents do not know where they will end up in the lottery of their own careers and that of their children's careers. Hence, the structural situation for risk-sharing through social insurance is given, and it legitimates redistribution between fortunate and less fortunate parents and their children.

11 For a detailed explanation of these calculations, see Hans Werner Sinn and the ifo-institute in Biedenkopf et al. (2005).

12 Assumptions: Mother aged from 30 to 35 has two children, does not interrupt employment except for one year of maternity, has a wage equal to 67 percent of an average production worker; continues working until age 60, and has a 1.5 percent per annum "Mincer estimate" of cumulative loss for a 5-year interruption of employment.

To the extent that societies value their children, there are strong arguments for redistribution through social insurance or direct state redistribution, albeit in a direction other than that pursued thus far (especially in Germany). Related to the intergenerational contract, this redistribution would be a decent lump sum to cover some of the immediate costs for children, for instance a non-means-tested child allowance. This tax financed allowance, however, has to be balanced against financing general investments in children – preschool education and child-care services.¹³ As with elementary and secondary schooling, it makes sense to provide these services largely cost-free or at least by ensuring affordable public or private child-care services through tax premiums. The Grand Coalition’s increase of the tax allowance from 3,648 Euros to 4,000 Euros per child and per year as of January 2006¹⁴ is certainly an improvement for medium and high-income families, although that amount probably does still not cover the real costs for the children, which include, for instance, financial costs of learning foreign languages, using modern communication technologies, and opening access to associations or clubs. However, such tax allowances offer no help to low-income families below or near the tax threshold. Moreover, pension entitlements for raising children would be another element of intergenerational redistribution.

Related to the gender and intragenerational contract, the new policy could be a wage insurance that compensates for the risk of child-care-induced reductions of earning capacities. This arrangement means paying a generous *and* universal wage replacement of, say, 80 percent for up to two years in case of parental leave instead of only a small and eventually even means-tested lump sum, which usually leads to parental leave being taken by low-income women. Subsidized life-course saving plans to compensate for reduced earnings for intermediate part-time work could add to this scheme. There are even strong arguments for introducing take-it-or-leave-it paternity leaves to share the risks between men and women equally, as already introduced on a small scale in Scandinavia (Rosenbluth et al. 2002).¹⁵

13 At the time of writing, Germany was embroiled in a debate inflamed in Germany over reducing the level of the non-means-tested 154 Euro child allowance in favor of cost-free child-care services. Germany pays 34 billion Euros in child allowances, 12 billion Euros more than in mid-1990. An increase of 10 Euros per month in the child allowance would mean an overall increase of 2 to 3 billion Euros in budget expenditures, enough to cancel all fees for public child care! Equity considerations (even low costs deter poor families from buying professional child-care services) as well as efficiency considerations (all studies confirm the high returns of very early investments in children) speak for trading some of the generous cash benefits for free high-quality in-kind services.

14 Loudly opposed by the Social Democrats, the original proposal to exempt the first 1,000 Euros (formerly 1,548 Euros) from the tax allowance for children under six years of age was dropped for obvious reasons of equity. To keep the total subsidy level to 460 million Euros, however, only two thirds of the costs can be deducted. Single-earner families can use this tax privilege only for children aged four to seven years (a rule that might change again because conservatives claim it discriminates against a specific family model).

15 The Grand Coalition in Germany is on the way to remedying the present situation in the direction suggested. The coalition agreement provides for an income-related parental allowance (*Elterngeld*) equal to 67 percent of previous net income up to 1,800 Euros (corresponding to the unemployment benefit) up to one year. Men and women can share this entitlement, however. Two months are individually allocated,

Last but not least, in terms of governance, parental risk-sharing as social insurance would have the advantage of reducing the fragmented, intransparent and often contradictory child-care subsidies that have mushroomed over the decades.¹⁶ The other side of the coin, however, would be the acceptance of cofinancing and the willingness to negotiate solutions to complicated problems of coordination between employers and employees.

4. Summary and Conclusions

How far have these reflections brought us? I have noted that the borderlines between labor market work and family work are becoming increasingly blurred or – as far they still exist and are even newly developing (e.g., unpaid care work for the frail elderly) – are being crossed by women through increasing labor force participation. One part of the solution is marketisation, which means the provision of originally unpaid household services by the market or the state; the other part of the solution is combining unpaid and paid work. Both “solutions” imply often volatile income and precarious career risks that are still carried mainly by women. There are few signs that this erosion of borderlines has been taken as an opportunity to define new role identities for men and women or to develop a new division of labor within the family. The reasons for this lapse are complex. One candidate, however, is the lack of institutional innovation in risk-sharing related to the formation of families with children. This hypothesis serves as the starting point of this chapter, and it crosses conventional borderlines of social and labor market policy.

The event of becoming a mother or father is normally not considered a risk. In traditional societies children are quite openly seen as an asset helping to insure against poverty or dependency in old age and against disability, and chronic illness. But the responsibility for ensuring that children exist and that they finally become able to perform this function is clearly allocated to women within the family or the clan. The rise of the modern welfare state and the continuing predominance of the romantic conception of marriage tend to glorify children as completely independent individual beings and obscure the interdependency of the gender and generational contracts. Externalizing the risk of old age and dependency from the family to the state does not eliminate the fact that it is eventually succeeding generations that ensure our social security in old age.

A logical consequence of this externalization would have been to reshape the responsibility of caring for children (or frail elderly), either to reallocate it away from the family to the state or mandate that both men and women share this risk equally within the family. But the fact is that the burden of parental risk still rests more or less on women and/or the paternalistic family with children in which the

which means that the twelve-month duration of the benefit is reduced by two months if the father, for instance, does not avail himself of this opportunity.

¹⁶ Germany has about 150 such child-care subsidies.

men are assumed to be the main breadwinner. As demonstrated in an excellent case study on business consultancies, this “family trap” remains one of the most important barriers to overcome if women are to have equal opportunities for careers in the labor market, especially when they involve time-consuming modern services that demand high skill levels (Rudolph 2004).

The consequence of this inconsequence is reflected – as I have demonstrated – by declining fertility rates and by striking inequities within and between generations. A satisfactory new balance in the gender and generational contract has not yet been found. This chapter has tried to make a small contribution to the search for that balance. By consulting the theory of social insurance about a balanced sharing of parental risks, I have concluded that there is no reason to roll back the welfare state. On the contrary, there are strong reasons to defend the principle of social insurance and the redistribution capacity of the state. By extending unemployment insurance through a kind of work-life insurance, through children-contingent tax and benefit rules, and through a care infrastructure ensured by the state, society could mitigate the risks of parenthood. It could thereby induce men in particular to share these risks and allow women to stay in the labor market. The increased costs of such work-life insurance and of extended state responsibilities for parental risks would easily be offset by reduced opportunity costs – which would shrink with expansion of female labor force participation, of childless people’s savings (and probably of fertility-induced growth rates), of child care, and of primary education.

There are a number of points to keep in mind. First, new social risks have evolved from familiar risks not yet well covered by unemployment insurance or other insurance arrangement. They include increasing social risks related to human capital investment. Job instability, too, is a growing social risk and is related to family, care, and life-long learning obligations. There is also an escalating threat to earning capacity. This risk stems from the obligations of young and aging families to provide care and from endogenous new ways of organizing work in a globalized labor market marked by eroding national, social, and technical borderlines.

Second, compared to private insurance, social insurance has the great advantage of keeping the rules of the game flexible. In addition, democratically legitimate governments can redistribute *ex ante* on the basis of social criteria or, to use an outmoded term, solidarity. Solidarity is fundamental to social insurance, as expressed in spirit by Lord Beveridge in his famous 1942 report entitled *Social Insurance and Allied Services*: “The term social insurance,” he wrote, “implies both that it is compulsory and that men stand together with their fellows.” This notion, which must now include women as well, of course, is precisely the reason for the fierce opposition to social insurance from neoliberal quarters.

Third, if we accept that the practice of ascribing the role of child care solely to women has been abolished, we cloak ourselves in the veil of ignorance described by John Rawls. Would-be parents do not know where they will end up in the lottery of their own careers and that of their children’s careers. In other words,

the structural situation for risk-sharing through social insurance is given, a circumstance that legitimates redistribution between fortunate and less fortunate parents and children. That redistribution could take place, for instance, through generous non-means-tested children allowances, public or affordable private child-care services, and universal as well as generous wage insurance during parental leave.

Fourth, an essential element in the new gender and generational contract would be the extension of the employment contract. It is necessary to have it adopt new social rights that go beyond dependent employment to include income and employment risks related to transitions between various employment statuses during the life-course, especially the parental risk. As forcefully presented in the Supiot Report (2001), these social rights are new in content, scope, and nature in that they cover subjects unfamiliar to industrial wage-earners: rights to education and training; to appropriate working hours; to a family life; and to occupational redeployment, retraining, or vocational rehabilitation. Their scope is also new because they would cover not only “regular” wage-earners but also the self-employed; the semi-self-employed; and temp-agency, contract, and marginal workers. The nature of these social rights is new because they often take the form of vouchers or social drawing rights, which allow workers to rely on solidarity within defined and perhaps collectively bargained limits when exercising their new freedoms.

We can no longer see these new securities as being given in exchange for subordination (as in the employment contract of old) but rather as the foundations of a new freedom to act. They can be regarded as active social securities that go hand-in-hand with worker’s initiatives to shoulder rather than restrict the risks of flexible employment relationships related to the care of children or the frail elderly. In this way, the erosion or crossing of conventional borderlines, especially gender borders on the labor market, could be seen as a chance for social innovation. Sharing parental risks equally between men and women would be an essential step to overcoming the “family trap” and to breaking both inequitable and inefficient gender segmentation.

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