

minimal. These information problems provide a very good economic justification for universal social insurances. From the standpoint of social equality, this has the advantage of including the segment of the population who, from their 'market wage', never would have had the chance to afford these services.

It should be added that among the OECD countries which today carry the most malignant deficits in their public finances (Greece, Spain, Portugal, the UK, Ireland and the US), one will find none of the countries with relatively high public expenditures; while those with more egalitarian policies (Denmark, Finland, the Netherlands, Norway, Sweden), and thus much higher spending on social services and social insurance systems in general, have their public finances in good order. In other words, the main theme of neo-liberalism – that we need to choose between 'fairness' and 'effectiveness', and that large public expenditures would be damaging for the public economy – proves erroneous.

Fifth, *do not excuse political defeats by blaming structural factors* such as the media, globalisation, international finance or patriarchy. If the pioneers of social welfare policies had done this, they would never have started. Structural conditions may make things difficult but, at the end of the day, I am convinced that they can be defeated by clever forms of institutional design.

## CHAPTER 7

# Progress and Social Policy: Two-and-a-Half Cheers for Education

Lane Kenworthy

Tony Blair's assertion in 1996 that New Labour's top three priorities would be 'education, education, education' encapsulates a view that schooling and learning should be at the core of social democratic economic and social policy.<sup>1</sup> However, the New Labour Governments' subsequent failure to reduce income inequality or increase social mobility in the UK has led to scepticism about education's importance. This feeling has been compounded by the EU's seeming failure to meet the Lisbon Agenda's goal of becoming 'the most dynamic and competitive knowledge-based economy in the world ... by 2010'.

Sceptics are right to suspect that education is not a cure-all. Yet that should not diminish its centrality to the social democratic project. Good and broadly dispersed schooling is not sufficient to achieve low inequality, high mobility, high employment or rapid economic growth. But it helps. Moreover, schooling is key to achieving other social democratic aims. It ought to be front and centre in a social democratic agenda for the twenty-first century.

## Income Inequality

Let's begin with income inequality. Social democrats are right to worry about high inequality. It is objectionable on normative grounds, given the massive impact of luck in determining where each person ends up in the distribution. It may also have ill effects on other social, economic and political outcomes, such as health and democracy. If we compare across individuals in a society, we find that those with more education tend to earn more. This would appear to suggest that increasing the education of others might reduce income inequality.

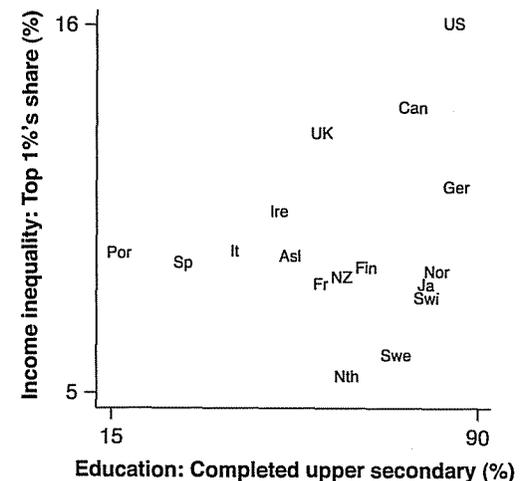
Unfortunately, while equalising schooling almost certainly would help to reduce income inequality, its influence is likely to be constrained by other factors.<sup>2</sup> One is differences in cognitive abilities and non-cognitive traits produced by genetics, parents, peers, neighbourhoods and so on. Another is structural features of the economy, such as the intensity of product market competition, immigration, trade and the sectoral structure of employment. A third is institutional factors. Wage-setting arrangements – collective or individual, centralised or local – play an important role in determining wage gaps, particularly between the low end and the rest. Corporate governance practices are an important influence on the pay of CEOs and other high-level executives. The development of winner-take-all markets arguably accounts for some, perhaps much, of the skyrocketing pay for those at the top of the labour market. Finally, government regulation of labour markets, of the financial sector, and of other aspects of the economy matters.

The contributing factors noted above compete with education in determining the degree of inequality in earnings across individuals. Further weakening education's impact is the fact that earnings are then pooled in households. Household size and composition therefore play an important role, as does the distribution of employment across households. Some households have no one in the labour market; others have a low-earning full-time worker and a part-timer; still others have two high-earning full-timers, and so on. Last, but certainly not least, there is government redistribution via taxes and transfers.

There are at least two distinct aspects of income inequality. To capture them we are forced to use two different types of data. The standard approach uses income data from country surveys. The degree of inequality is measured by the Gini coefficient (an indicator ranging from zero to one, with larger values indicating greater inequality). But these data include little or no information on the top 1% of the distribution. This is a problem, as an important development in recent decades has been growing separation between the tip-top and the rest of society. To get a handle on this, researchers use data from tax records, with the measure being the share of income going to the top 1%. These data aren't so good on households at the bottom, many of whom don't owe taxes.

The separation between the top 1% and the rest of the population is unlikely to owe much to education. The super-rich include CEOs, financial analysts and traders, entertainers and athletes, entrepreneurs and some people who provide legal and other important services to them. The difference in educational attainment between these people and the upper-middle class tends to be minimal at best.

Combining these considerations, it is no surprise that education cannot be a silver bullet for inequality reduction.<sup>3</sup> If we look across the world's affluent countries, we see little or no relationship between education and income inequality. Figure 7.1 shows these data. Education can be measured in a variety of ways; I use the share of the population aged 25 to 64 that has completed upper secondary education or better.<sup>4</sup> Income inequality is measured as the share of income going to the top 1%.



**FIGURE 7.1** Income inequality by education

*Note:* The axes are truncated. Income inequality is the top 1%'s share of pre-tax income excluding capital gains, as of the early 2000s; data are from Atkinson, A. B., Piketty, T. and Saez, E. 'Top Incomes in the Long Run of History,' Working Paper 15408, National Bureau of Economic Research, 2009. Education is the share of the population aged 25–64 having completed upper secondary schooling or more, as of 1997 (the earliest year for which such data are available); data are from OECD, *Education at a Glance*, 2010.

A similar story holds if we examine developments over time. Since the 1970s, educational attainment has risen in most of these countries, yet income inequality has increased in many.<sup>5</sup>

## Capabilities and Opportunity

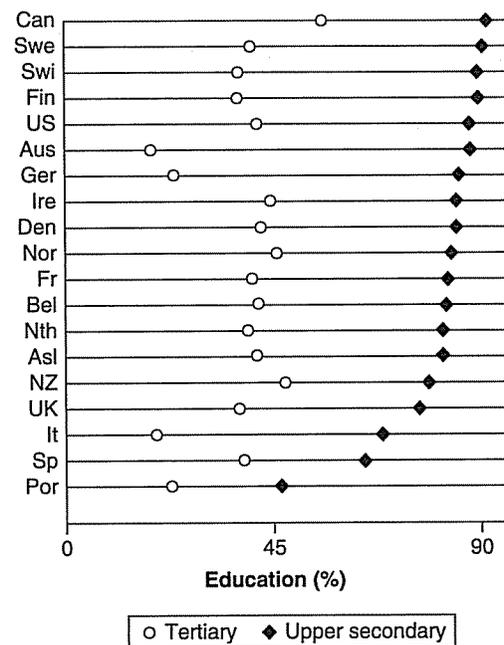
For many, what matters is equality of opportunity rather than of outcomes. But equal opportunity is a chimera; it cannot be achieved. Because parents' resources affect children's capabilities, true equality of opportunity would require something close to equalisation of assets and incomes among households with children. Social democrats should not want such equalisation, as it would sharply reduce incentives. Moreover, truly equal opportunity would not be realised even if assets and incomes were equalised. Individuals' opportunities are influenced by genetic endowments, parents and other adults, peers and a variety of chance occurrences throughout childhood and adolescence. No liberal society – one in which families and other institutions retain a sizeable degree of autonomy – can ensure that its members reach adulthood with equal capacities for success.

Instead of equal opportunity, social democrats should aim to raise the opportunity floor. This is another way of describing Amartya Sen's notion of maximising individuals' capabilities.<sup>6</sup> We want people to be able to make informed choices about life goals and to be able to ably pursue those goals. Ideally, lifting the floor will also reduce inequality of opportunity.

Education is central here. Schooling enhances cognitive skills and non-cognitive traits, it facilitates adaptation to labour market shifts, and it contributes to network ties through which people can better pursue their economic and social goals.

At a minimum, the aim should be to ensure that all young people complete upper secondary education or its equivalent. As Figure 7.2 shows, some rich countries are approaching this goal, but none has yet reached it.

For many people, a university education is key to full development of analytical and communication skills needed to, first, make and pursue truly informed preferences and, second, shift course later in life if need be. Although higher education is not good for everyone,



**FIGURE 7.2** Education: secondary and tertiary completion among 25–34-year olds (2008)

*Note:* Share of persons aged 25–34 having completed tertiary schooling or better and upper secondary schooling or better, as of 2008. Data are from OECD, *Education at a Glance*, 2010.

on average it significantly enhances capabilities and opportunity.<sup>7</sup> A number of affluent countries have made considerable progress in boosting the share attending university, but others have not.

From the perspective of capability-enhancement, the most important years of schooling may be the 'preschool' ones. Evidence is still emerging, but James Heckman and his collaborators have made a strong case that years 1–6 are the most critical for the development of both cognitive skills and non-cognitive abilities.<sup>8</sup>

Some home environments are less helpful to children's development than we would like them to be. Evidence on the US summer vacation suggests that during those three months out of school, the cognitive skills of children in lower socio-economic status (SES) households tend to stall or actually regress.<sup>9</sup> Kids in high-SES

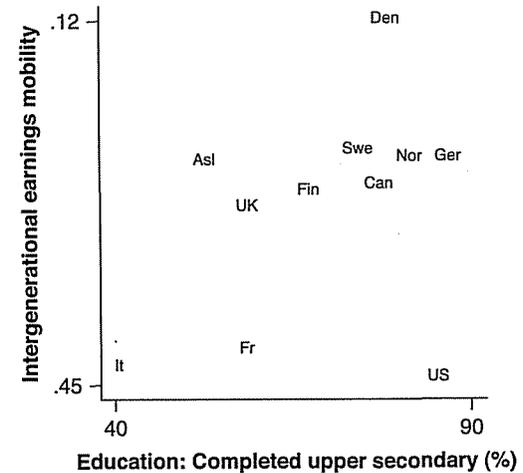
households fare much better during the summer, as they are more likely to spend it engaged in stimulating activities. Cognitive psychologist Robert Nisbett concludes that ‘much, if not most, of the gap in academic achievement between lower- and higher-SES children, in fact, is due to the greater summer slump for lower-SES children.’<sup>10</sup>

This is relevant also for inequality of opportunity. Some argue that schools actually worsen inequality, because children from high-income households benefit more than their less advantaged counterparts, thereby widening the disparity. As the evidence from summer breaks attests, that is wrong. Without schools the gap in cognitive and non-cognitive abilities almost certainly would be greater. Though they can’t possibly produce full equalisation, schools do *help* to equalise.

## Mobility

By social mobility we usually mean the degree to which people’s incomes are uncorrelated with those of their parents. Social scientists call this ‘intergenerational mobility’. It is not easy to measure, but the data we have suggest non-trivial differences across the affluent countries. Does education affect the degree of mobility?<sup>11</sup> Cross-country comparison is difficult, as we lack education data from a generation ago, when today’s adults were in school. Figure 7.3 here uses the share of 25–64-year olds having completed upper secondary education as of the mid-1990s. The pattern may or may not support the hypothesis that education promotes mobility. Overall, there is no association; but if we discount the United States as an exceptional case, the pattern looks more supportive.

Expansion of education and changes in the structure of schooling—for instance, a shift towards later tracking—appear to have contributed to increases in intergenerational mobility in Sweden and Finland.<sup>12</sup> However, in the United States and United Kingdom, mobility seems to have stagnated and possibly decreased in recent decades, despite educational advance.<sup>13</sup> That doesn’t mean education makes no contribution, but it does suggest that whatever contribution it makes hasn’t been powerful enough to outweigh developments pushing in the other direction.



**FIGURE 7.3** Intergenerational mobility by education

*Note:* The axes are truncated. Social mobility is the correlation between fathers’ earnings and their sons’ earnings, with the axis values reversed so that higher on the vertical axis indicates more mobility; data are from Björklund, A. and Jäntti, M. ‘Intergenerational income mobility and the role of family background,’ in *The Oxford Handbook of Economic Inequality*, Oxford: Oxford University Press, 2007, Figure 20.1. Education is the share of the population aged 25–64 having completed upper secondary schooling or more, as of 1997 (the earliest year for which such data are available); data are from OECD, *Education at a Glance*, 2010.

One argument sometimes made about the UK is that expansion of university education has hindered intergenerational mobility by enhancing upper- and middle-class families’ ability to pass on their human capital advantages.<sup>14</sup> Yet the mobility trend in the US appears to be similar – stagnant or declining – despite only a small increase since the late 1970s in the share of a typical cohort obtaining a college degree. Moreover, university degrees have risen sharply in the Nordic countries, and mobility has increased.

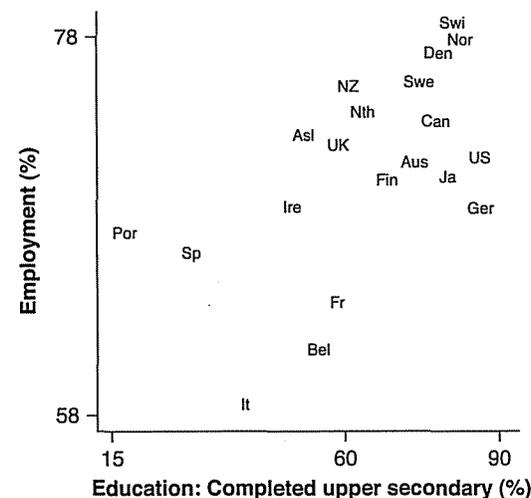
It is important to caution against assuming that more intergenerational mobility is necessarily better. We want a society with sufficient openness and opportunity that people from less advantaged backgrounds are able to move up. But an extremely high level of mobility might well be discouraging. If children’s fortunes appeared to be determined by lottery, parents’ incentives to invest in their children would surely be weakened.

Nor can we assume that the degree of intergenerational mobility is a straightforward indicator of equality of opportunity. Imagine there were more or less perfect equality of developmental opportunity. Child care centres, schools and other institutions compensate for genetic differences by giving more attention to those with less genetic ability. Children enter Scandinavian-style (high-equality, high-educational content) preschools at a very early age, the school year is lengthened considerably, and other steps are taken to reduce the impact of parents' non-cognitive traits and parenting practices. Thus, everyone reaches their 18th birthday with more or less the same ability. Such a society nevertheless could end up with limited intergenerational mobility if parents pass on preferences for things such as work versus leisure, type of occupation and geographic location.<sup>15</sup>

## Employment

An emphasis on the value of employment is one of the things that distinguishes social democracy from other progressive or leftist approaches. Employment has intrinsic benefits for individuals, and it contributes to economic advance, tax revenues and gender equality.

To what degree would increasing skills for those in the bottom half of the distribution increase employment? The story here is similar to that for income inequality. On average, individuals with better skills – as measured by years of schooling completed or literacy – are more likely to be employed. But when we look across countries or over time within countries, we observe only a modest association between education and employment. Figure 7.4 shows employment rates as of 2007 by countries' share with upper secondary education. Overall there is a positive association, but among the nations with more than 60% upper secondary completion the association disappears. Moreover, since the 1970s, employment rates have tended to increase more in countries with less improvement in educational attainment than in those with more improvement. Here, too, the problem is that the impact of education is swamped by that of other factors, such as macro-economic conditions, technological change, global competition, and labour market institutions and regulations.<sup>16</sup>



**FIGURE 7.4** Employment by education

*Note:* The axes are truncated. Employment is employed persons aged 15–64 as a share of all persons aged 15–64, as of 2007; data are from OECD.Stat. Education is the share of the population aged 25–64 having completed upper secondary schooling or more, as of 1997 (the earliest year for which such data are available); data are from OECD, *Education at a Glance*, 2010.

And yet, education is critical, in four respects, to a country's ability to get to and sustain the right *type* of high-employment economy. First, as manufacturing jobs increasingly move to developing nations, rich-country economies have become reliant on services for new jobs. Some service jobs will inevitably be low-skill ones; that is particularly true for household and social services. But we want as many service jobs as possible to be the kinds of high-skill, analytical positions that pay better and offer more opportunity for autonomy and fulfilment. A highly educated population doesn't guarantee a skill-orientated employment structure, but it certainly facilitates it.

Second, though the jury is still out on this question, labour markets may function more effectively with modest rather than stiff regulations on employers' ability to hire and fire workers. A successfully flexible labour market requires cushions for those who are dismissed (hence the term 'flexicurity'). One such cushion is generous unemployment benefits and government services to tide people over while

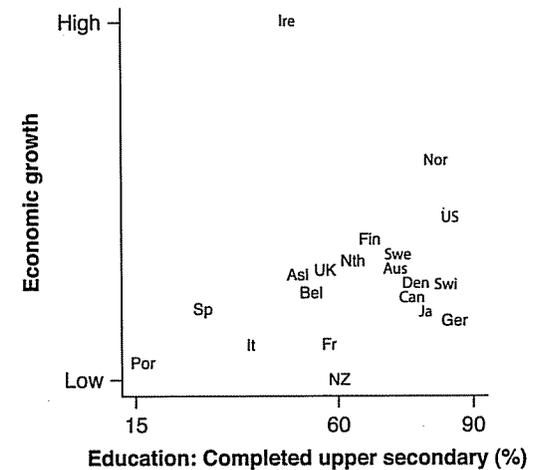
out of work and to help them get a new job. Another is workers' adaptability, which is enhanced by a sound basic education.

Third, we want those who begin their work career in a less-skilled job to be able to move to a higher-skilled one. We want, in other words, to facilitate upward mobility over the life course (intragenerational mobility).<sup>17</sup> A solid secondary education plus opportunity for retraining help with this. To be sure, they are not enough. Job ladders – formal structures within and across employers that provide clear routes to upward job movement – are needed. So, too, is individualised advice and assistance, particularly for people with cognitive, psychological or physical disabilities. We also need sources of income support for periods of non-employment. But education, conceived broadly as 'lifelong learning', is fundamental.

Fourth, employment should not come at the expense of children. If most working-age adults are in the labour force, someone must look after the kids. One way to solve this problem is to leave childcare largely unregulated. This is the American way. It allows for a proliferation of private childcare providers, from large firms with centres all over the country to the neighbour down the street. Because competition is intense and quality is unregulated, the price is low, so even adults working in relatively low-paying jobs can afford some version of care for their preschool-age children. However, some of this care, perhaps much of it, is less than ideal from the perspective of child development.<sup>18</sup> A better way is to make childcare part of the schooling system. In Denmark and Sweden, for instance, preschool teachers are required to have similar training and qualifications as elementary school teachers, and their pay is similar.

## Economic Growth

A key goal of social democrats is economic prosperity and growth, partly for its own sake and partly because other social democratic aims are more readily achieved in an affluent, growing economy. Education has long been seen as a key contributor to economic growth. At early stages of development, that almost certainly is true. What about in already-rich nations? There is good reason to



**FIGURE 7.5** Economic growth by education

*Note:* The axes are truncated. Economic growth is the average annual rate of growth of gross domestic product per capita, 1979 to 2007, adjusted for catch-up; Kenworthy calculations using OECD.Stat data. Education is the share of the population aged 25–64 having completed upper secondary schooling or more, as of 1997 (the earliest year for which such data are available); data are from OECD, *Education at a Glance*, 2010.

suspect education will help. After all, growth hinges on technological progress, which should be boosted by education, particularly in the modern knowledge-driven economy.

Yet here, too, the cross-country evidence, shown in Figure 7.5, offers some reason for scepticism. There are many ways for economies to grow, and social scientists have surprisingly little understanding of what accounts for the variation among the rich nations in recent patterns of economic growth.<sup>19</sup> Even technological progress may owe more to the structure of research and development or regulation of product markets than to, say, the share of the population having completed secondary schooling or the literacy level at the low end of the population.<sup>20</sup>

## Social Inclusion

We sometimes think of social inclusion in terms of incomes, living standards or access to employment, but the group most at risk of

exclusion in contemporary rich nations is likely to be immigrants. Though not the only route to economic success, schooling is the most important source of economic opportunity and cultural assimilation for many immigrants, particularly second-generation ones. If rich countries are to continue to maintain a reasonably generous approach to inward migration, as they should, education will be central to their success in furthering community and social harmony.

Successful incorporation of immigrants has repercussions for other key components of social democratic policy, most notably the welfare state. A large and visible immigrant minority perceived as relying disproportionately on generous social benefits poses perhaps a bigger challenge to sustained welfare state generosity than do tax competition, capital mobility or neo-liberal ideology.

### Other Social Outcomes

Across individuals, education tends to be positively associated with health, non-criminal behaviour, civic engagement, political participation, trust and life satisfaction.<sup>21</sup> Once again, these individual-level associations do not necessarily carry over to countries as a whole, because other factors come into play. Yet they offer further reason for societies to ensure that the least-advantaged receive the best possible education.

The importance of schools is not simply instrumental. We spend a good deal of our time from age 6 (or 1) to 21 in schools. In a rich society, they ought to be safe, reasonably orderly, comfortable, attractive and intellectually stimulating places.

### Conclusion

Education is not a panacea. But it matters a great deal. It is, arguably, the single most important policy in the social democratic arsenal.

What features of the education system are most valuable in promoting learning and enhancing capabilities, particularly for children from less advantaged circumstances? We have some answers.<sup>22</sup> Teacher quality matters a great deal. High-quality early education

pays dividends. Later tracking ('comprehensive' system) is better than early tracking ('dual' system). Curriculum standardisation is good. A lengthy summer break is bad. Financial impediments to university attendance are harmful. On other prominent reform issues – such as school funding, school choice, decentralisation of decision making, the balance between general and vocation-specific skills, and the type of university user fees – the evidence is less conclusive.

Our knowledge about what makes for a good education system is much improved, but we still have a long way to go. Continued progress is vital. Getting education right is as important as anything social democrats can do.

## CHAPTER 4 The Mechanics of Markets: Politics, Economics and Finance

1. Further, see Gamble, A. 'Debt and deficits: the quest for economic competence' in this volume.
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4. See Hall, P. A. and Soskice, D. *Varieties of Capitalism*, Oxford: Oxford University Press, 2001.
5. See Kay, J. 'The future of markets', *Economic Affairs*, 2010.

## CHAPTER 5 Social Democracy at the End of the Welfare State?

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2. IPCC. Fourth Assessment Report, available at: [http://www.ipcc.ch/publications\\_and\\_data/ar4/wg3/en/spmssp-d.html](http://www.ipcc.ch/publications_and_data/ar4/wg3/en/spmssp-d.html), consulted 14.10.10, 2007.
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## CHAPTER 6 Equality, Social Trust and the Politics of Institutional Design

1. See my article 'Dead and Alive in Social Democracy' published in *INROADS: The Canadian Journal of Opinion*, 28, 2011. There are interesting exceptions, most notably in some developing countries, see for example

- Sandbrook, R., Edelman, M., Heller, P. and Teichman, J. *Social Democracy in the Global Periphery*, New York: Cambridge University Press, 2006. For an overview of the current political debate see Meyer, H. 'European Social Democracy in Crisis', *Political Insight*, 1(2), 2010.
2. See for example Wilkinson, R. G. and Pickett, K. *The Spirit Level: Why More Equal Societies Almost Always Do Better*, London: Allen Lane, 2009.
  3. It may be added that there are a lot of interesting research results in this area that are not policy-relevant, such as what type of electoral systems different countries adopted a hundred years ago.
  4. *Just Institutions Matter: The Moral and Political Logic of the Universal Welfare State*, Cambridge: Cambridge University Press, 1998; *Social Traps and the Problem of Trust*, Cambridge: Cambridge University Press, 2006; and *The Quality of Government: Corruption, Inequality and Social Trust*, Chicago: University of Chicago Press, 2011.
  5. Personally, I am interested in generous and high-quality systems for vocational training and education (also known as Active Labour Market Policy) since this gives people hurt by unemployment caused by global economic competition a chance to come back. Another strong candidate, not least from a gender equality system, is a universal high-quality pre-school (day care) system.
  6. Increased equality in work and family life are also important, but for reasons of space I leave these out. I have treated these issues in other publications which I will be happy to send by email upon request.
  7. Rawls, J. *A Theory of Justice*, Oxford: Oxford University Press, 1971.

## CHAPTER 7 Progress and Social Policy: Two-and-a-Half Cheers for Education

1. Blair, T. *A Journey: My Political Life*, New York: Knopf, 2010, p. 104. See also Reich, R. B. *The Work of Nations*, New York: Knopf, 1991; Giddens, A. *The Third Way*, Cambridge: Polity Press, 1998; Esping-Andersen, G. 'Equal Opportunities and the Welfare State', *Contexts*, Summer 2007; Morel, N., Palier, B. and Palme, J. *What Future for Social Investment?*, Stockholm: Institute for Futures Studies, 2009; Hemerijck, A. *Changing Welfare States*, Oxford: Oxford University Press, 2012.
2. For more discussion see Wolff, E. N. *Does Education Really Help?* Oxford: Oxford University Press, 2006; Kenworthy, L. *Jobs with Equality*, Oxford: Oxford University Press, 2008, ch. 9.
3. A prominent recent argument for education as a key to reducing inequality is Goldin, C. and Katz, L. *The Race between Education and Technology*,

- Cambridge, MA: Harvard University Press, 2008. For a critique see Kenworthy, L. 'Reducing Inequality: Education to the Rescue?', *Consider the Evidence*, available at: [lanekenworthy.net/2009/04/14/reducing-inequality-education-to-the-rescue](http://lanekenworthy.net/2009/04/14/reducing-inequality-education-to-the-rescue), consulted 27.01.12, 2009.
4. Some other alternatives include average years of schooling in the working-age population; the share of the working-age population having completed tertiary education; the share of the adult population who lack basic literacy skills. Using any of these alternatives would not alter the conclusion.
  5. OECD, *Education at a Glance*, 2010; Luxembourg Income Study, 'LIS Key Figures', available at: [www.lisproject.org](http://www.lisproject.org); Atkinson, A. B., Piketty, T. and Saez, E. 'Top Incomes in the Long Run of History', Working Paper 15408, National Bureau of Economic Research, 2009.
  6. Sen, A. *Development as Freedom*, Oxford: Oxford University Press, 1999.
  7. Jan, O. Jonsson and Robert Erikson are sceptical that expansion of university slots in Sweden improved equality of opportunity, though they caution that this finding might be specific to Sweden. Jonsson, J. O. and Erikson, R. 'Sweden: why educational expansion is not such a great strategy for equality – theory and evidence'. See also Lind, M. 'The fantasy of a vast upper-middle class', *Salon*, available at: [www.salon.com/news/opinion/feature/2010/08/03/myth\\_upper\\_middle\\_class](http://www.salon.com/news/opinion/feature/2010/08/03/myth_upper_middle_class), consulted 27.01.12, 2010.
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  12. Breen, R. and Jonsson, J. O. 'Explaining change in social fluidity: educational equalization and educational expansion in twentieth-century Sweden', *American Journal of Sociology*, 2007, pp. 1775–1810; Björklund, A. and Jäntti, M. 'Intergenerational income mobility and the role of family background', in Salverda, W., Nolan, B. and Smeeding, T. M. (eds), *The Oxford Handbook of Economic Inequality*, Oxford: Oxford University Press, 2007.
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  17. Esping-Andersen, G. *Social Foundations of Postindustrial Economies*, Oxford: Oxford University Press, 1999.
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