

# Pathways



*a magazine on poverty, inequality, and social policy*

Spring 2009

## Going Global

**ANTIPOVERTY LESSONS FROM AROUND THE WORLD**

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Spring 2009

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## Editors' Note

**What makes the United States distinctive?** We like to think of ourselves as guided more than most countries by a commitment to core principles (democracy, liberty, equal opportunity) that are then expressed in our institutions and practices. Although there may be some conceit in the claim that we are *especially* principled, what arguably makes us distinctive is our willingness to continually reinvent ourselves to better realize our principles and commitments. We have no patience for those who are mindlessly wedded to existing institutions; instead, our institutions should be understood as mere vehicles, and insofar as they aren't working for us we are willing, indeed anxious, to reform them. The purpose of this issue of *Pathways* is to ask whether we are again approaching one of these moments of American reinvention.

There have, of course, been many such moments in our history. The institution of slavery was, for example, shed when it could no longer be reconciled with our egalitarian commitments (without gainsaying the equally important point that non-ideological forces were also at work). Some 70 years later, the New Deal was born amidst the Great Depression, and likewise amidst the rhetoric of generating for all citizens a "more equitable opportunity to share in the distribution of national wealth" (Franklin D. Roosevelt, Democratic nomination address, 1932). In the 1950s, our racially segregated school system came to be understood as inconsistent with a substantive and meaningful commitment to equal opportunity, and it too began to be dismantled. In each of these cases, economic or non-economic crises were important precipitants of the reforms, yet our ideological commitments surely informed how we responded to those crises and the types of reforms we considered.

We are confronting now another crisis, another opportunity to examine our shortcomings and attempt to better realize our principles and commitments. The question we thus posed to our contributors was how we might go about realizing our commitment to equalizing opportunity and to providing everyone with a pathway to full participation in U.S. society. In particular, we suggested that now might be an opportunity to look to other countries to cull for reforms that work, the idea being that U.S. policymakers haven't shopped as widely for new or innovative approaches as they might.

The resulting issue provides, if we may brag (another U.S. trait!), a package of startlingly smart and thoughtful reflections. In the first piece, Joshua Cohen and Charles Sabel argue for a Danish-style system of "flexicurity," one that combines flexibility and security in a 21<sup>st</sup>-century labor market. While Joshua Cohen and Charles Sabel look to "Old Europe," Jacob Hacker looks north, to Canada, to understand how "winner-take-all" inequality can be tamed and made palatable. By contrast, Martin Ravallion, Director of Research at the World Bank, looks to the developing world to explore how one can at once provide economic stimulus and take on problems of long-term poverty. Finally, Ray Boshara, Vice President of the New America Foundation, examines asset-building programs from around the world and draws key lessons for the United States from his tour.

The United States has long understood itself as a special country with special (i.e., "exceptional") institutions and has accordingly been more insular than most late industrial countries on matters of poverty policy. If we are suggesting here some slight relaxation of our characteristic insularity, it is only because of our yet stronger commitment to that most American of principles, the commitment to do whatever it takes to get it done. This commitment, if taken seriously, suggests we would do well to study widely and take note of what works and what doesn't throughout the world.

—David Grusky & Christopher Wimer, Senior Editors

# Getting to Equal

## Progress, Pitfalls, and Policy Solutions on the Road to Gender Parity in the Workplace

BY PAMELA STONE

**K**ate Hadley aspired to do it all—pursue a successful career and raise a family. With a BA and MBA from Ivy League schools, Kate was a poster girl for the feminist movement, having easily cracked the boys' club of the corporate suite. She was committed to her job, experienced (with more than 10 years as an international marketing executive), and—when I interviewed her—at home full time with her kids. Part of the so-called “opt-out revolution” popularized by the media, Kate epitomizes high-achieving women who are said to be throwing over careers for family, their decision to be home a choice and part of a larger social movement, not simply a retro echo. Stay-at-home moms like Kate might not be the first group of women you'd think to study if you wanted to learn more about inequality in the workplace, but in fact their experiences are central to understanding recent trends. These women offer a unique lens for viewing the processes underlying women's progress—and lack thereof—in achieving gender parity in employment.

### Trends in the Gender Revolution

Since the 1970s, women have made great and, by historical standards, rapid gains in the workplace. They have closed the college education gap, and their graduation rate now eclipses men's. While their labor force participation rate is still lower than men's (60 percent versus 75 percent in 2008 for those aged 16 and over), it has risen rapidly over a period that saw men's begin to dip. Importantly, over this same period, women (particularly white and middle-class women) began eschewing the pattern of dropping out of the labor force after becoming mothers, instead working continuously throughout the years of peak family formation (as less-privileged women have always done). Fully two-

thirds of mothers of preschoolers are in the labor force today. And fulfilling the basis for those old “You've come a long way, baby” ads, many women have entered formerly male-dominated, high-prestige, lucrative, and powerful professions once all but closed to them.

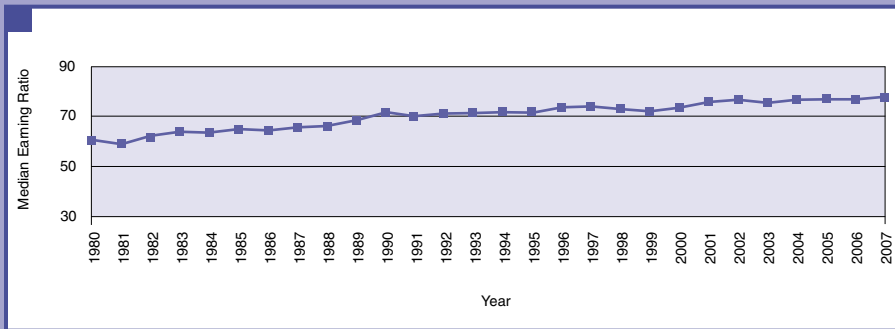
With respect to advancing in the workplace, women have been doing everything right for close to four decades now: getting educated, working more and more continuously, and moving out of dead-end, low-paying “pink-collar” jobs. That's the good news. The bad news is that despite women's best and sustained efforts, progress toward gender equality is uneven and appears to be stalling.

Let's start by looking at one of the bright spots: the mobility of women out of low-paying historically “female” jobs such as child care providers and secretaries. One such measure of this movement is the index of dissimilarity, which expresses the extent of sex segregation in terms of the proportion of workers who would have to change jobs in order to create a fully integrated workplace. A fully integrated workplace is defined as one in which women's representation in any occupation would be equal to their representation in the labor force as a whole. In 1970, this index stood at 0.57; today, it is around 0.47. Progress, yes, but there's a long way to go when you consider that about half of all workers would still have to switch jobs for the workplace to be completely integrated.

Another sobering observation is that most of the gains in this index resulted from dramatic declines in segregation in the distant 1970s. Recent decades have shown virtually no change. Nor has women's progress in integrating jobs occurred across the board. Rather, integration has been experienced almost entirely by middle-class, college-educated, predominately white women who were able to respond quickly to opportunities afforded by



FIGURE 1. Trends in Women's Earnings (Relative to Men): 1980–2007



Source: Institute for Women's Policy Research, *Fact Sheet on the Gender Wage Gap: 2007*, August 2008, based on compilation of data from Current Population Survey.

the late 20th-century shift to a postindustrial economy and the attendant growth of professional and managerial jobs. Less well-educated women did not enjoy similar opportunities and remain mired in low-wage jobs. Finally, even in professional fields where women are well- and long-represented, they are often concentrated in less prestigious and less lucrative niches, and do not appear to be making it to the very top. Law, one of the first fields to open up to women, is a notable case in point. Women received about half of all law degrees conferred in 2001, when they made up 30 percent of the profession. At the same time, however, they accounted for only 15 percent of federal judges, 15 percent of law firm partners (only 5 percent of managing partners), 10 percent of law school deans, and 10 percent of general counsels.

The most widely used bottom-line indicator of gender inequality is the wage gap, computed as the ratio of women's to men's median earnings. Since the 1970s, when women earned roughly 59 cents to every dollar earned by a man, the gap has narrowed considerably, and now stands at 78 cents to every dollar. This progress is largely a function of women's entry into higher-paying fields, but also of declines in men's earnings. Trends in the gender wage gap show rapid and sizeable improvement, starting in the 1980s (see Figure 1). This improvement, however, was followed by a subsequent slowdown.

For today's twentysomethings, the wage gap narrows to near parity, as would be expected for these beneficiaries of the gender revolution. By the time they reach their thirties, however, women have become parents. And despite the fact that these women have become more experienced workers, the wage gap widens, approaching overall levels. The wage gap is also wider for women of color (African American women earn 63 cents and Latinas 53 cents to every dollar earned by a white man). Even in the professional and managerial ranks, where formal credentials are critical (and meritocratic principles govern recruitment, promotion, and pay), sizeable gender gaps remain. In 2000, these

gaps were 65 cents to the dollar for financial managers, 72 cents for physicians, 73 cents for lawyers, and 81 cents for editors and reporters, to name but a few fields in which women have made considerable inroads.

What explains the overall gender wage gap? Between 1983 and 2000, according to a 2003 report by the U.S. Government Accountability Office, just over half of the gap is due to "legitimate" or "valid" sources, including differences in human capital (such as education and training), hours worked, industrial and occupational positions, and unionization levels. The remaining 45 percent is unexplained, which most analysts attribute to differences in tastes or preferences and/or

outright discrimination, although some suggest that it is attributable to very fine-grained occupational segregation.

Not only are major sources of the gap unknown, so too are prospects for future progress. Leading experts on gender inequality, such as sociologist Reeve Vanneman and his colleagues, have raised the worrying question: "Are we seeing the end of the gender revolution?" Others, such as psychologist Virginia Valian, ask impatiently "Why so slow?" The decade-long slowdown in integrating jobs and closing the wage gap—at a virtual standstill in the new millennium—is a red flag to scholars, activists, and policymakers alike that something is seriously amiss on the road to gender equality.

### Opting Out? Or Pushed Out?

This is where women like Kate Hadley come in. I talked with Kate as part of a larger study I conducted of women who had transitioned from lives that combined professional careers with family—a contemporary, feminist model—to lives in which careers were left behind and taking care of children and family became their major focus—typically understood as a neo-traditional, counter-feminist lifestyle. Kate and women like her in their 30s and 40s were responsible for much of the improvement registered in the aggregate indicators described above. If these women are retreating from professional success, or "opting out" as media pundits claim, this might explain some of the slowdown in women's progress, or even portend a greater stall. I wanted to learn two things: (1) What was happening to this cohort of fast-track women? Were they turning away from combining careers with motherhood and, if so, how widespread was this phenomenon? (2) Among women who have "opted out," what led them to do so? In particular, what role did those hard-to-measure, unexplained "choices," tastes, and preferences (said to be evolving to reflect traditional gender roles) play? Likewise, what role did discrimination play?

In answer to the first questions, Figure 2 shows trends in

full-time family caregiving and employment among the demographic said to be heading home (white, married, college-educated mothers). The overall trend in caregiving is downward, but not straightforward: In 1981, 25.2 percent of women stayed home, which declined to an all-time low in 1993 of 16.5 percent, rising again in 2005 to 21.3 percent. The uptick in staying home in the mid-1990s was attributable primarily to unemployment levels, rising husbands' earnings, and deferred childbearing. Furthermore, among mothers, college-educated women exhibit the highest rates of labor force participation, and more recent cohorts of professional women are combining careers with motherhood in greater proportions than ever before: 77 percent in 2004. Overall, these trends show little sign of women reverting to 1950s stereotypes. Whether looking at staying at home or employment, however, we see a plateau or slowdown after an initial burst of rapid change. And, as with trends in job desegregation and the wage gap, this leveling off is not fully understood, though the parallels strongly suggest that the trends are inter-related.

To understand more about the decision-making underlying these trends, I interviewed dozens of at-home moms across the country who had worked in a variety of high-status professional and managerial jobs (more than half of whom had advanced degrees). What I found is that working moms are not "opting out" of the workplace because of family. They're being shut out. Their decisions did not reflect a change in favor of domesticity nor even a newfound appreciation of mothering (that came after they quit). Women spoke much more about work than about family in discussing why and how they'd come to quit. Nor did outright old-fashioned sex discrimination play a role (these women were surprisingly resilient, recounting overtly sexist experiences with tough matter-of-factness, almost gusto).

Instead, the combination of rising hours, travel, and 24/7 accountability demanded in today's workplaces, coupled with insufficient and inadequate part-time and flexible options, put these working moms in a classic time bind. As I talked with them, I heard the same thing over and over: that their jobs were "all-or-nothing," forcing these high-achieving women into decisions to reluctantly interrupt, and sometimes terminate, their once-flourishing careers. Married to men with comparable credentials and work histories—until they became parents—women found themselves "home alone" and primarily responsible for child care, their husbands' inability to help out a function of their own high-demand jobs.

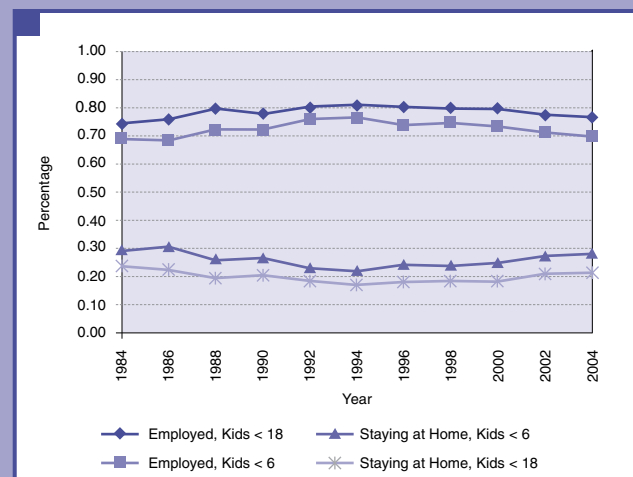
One of the paradoxes of my findings is that these at-home moms, seemingly the most traditional of women, were actually highly work-committed. Despite being married to equally successful men who could support them at home, most women, after becoming mothers, stuck it out, trying to make work work. Some were denied flexibility outright, but more quit because their efforts to fashion flexible careers—efforts that should have been applauded—were instead penalized. Indicative of the mommy-tracking and stigma these innovators experienced,

one woman invoked *Scarlet Letter*-like imagery as she explained to me "When you job share, you have 'MOMMY' stamped in huge letters on your head." Once women shifted away from a full-time-plus schedule, their formerly high-flying careers nosedived, undermining their attachment to their careers in a classic scenario of negative reinforcement.

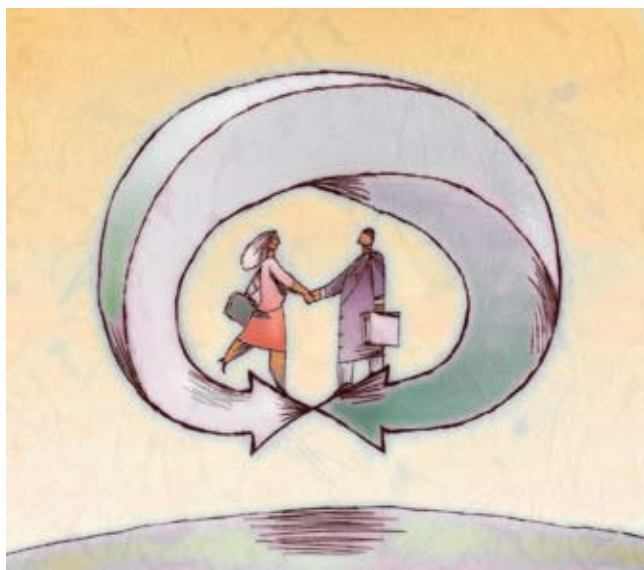
My results highlight the way in which time demands and professional occupations' inflexibility create a de facto "motherhood bar." This bar operates in tandem with the secondary influence of intensive parenting to cause women to quit their careers. Ostensibly meritocratic and unbiased time demands, coupled with ideal worker standards of commitment, appear to be replacing essentialist stereotypes in preventing women's full integration in professional fields. More women than ever are professionals and managers (over a third of all employed women), and the hours of these jobs have ratcheted up, such that the United States now enjoys the dubious distinction of having the world's longest workweek. That's not to say that essentialist stereotypes have disappeared. Indeed, they are at the heart of the double bind of work-family conflict. But stereotypes now operate in less overt ways, under the cover of time norms and related job imperatives. And because women facing untenable work conditions voluntarily "quit," unequal outcomes become their "choice" rather than a reflection of employers' (often discriminatory) practices.

Most women, of course, cannot quit, and instead persevere in the face of inflexible schedules, mommy tracking, and low pay. Less-educated and less-advantaged women accommodate their caregiving needs by cycling in and out of the labor force through a series of low-wage jobs, often fired when they take time off or show up late because they have to attend to family

FIGURE 2. Trends in Staying at Home and Employment among White, Non-Hispanic College-Educated Mothers



Source: Tabulation of March Current Population Survey microdata, 1984–2004, by Cordelia Reimers, Department of Economics, Hunter College and Graduate Center, CUNY



needs. These different strategies to accommodate family responsibilities share the same result: considerable costs not just to women in the form of lost earnings, but also to firms and the economy in the form of underused skills and talent. The motherhood penalty has now been well-documented. Incidentally, men—perceived as primary breadwinners—enjoy a “fatherhood premium” that further exacerbates the gender gap. The deep-seated and entrenched nature of motherhood bias means that it is more difficult to discern, more taken for granted as the norm, than is outright old-style sexism. Witness the easy acceptance of the notion that women like the ones I studied, who’ve spent a lifetime devoted to the pursuit of professional success, happily throw it all over in a (baby’s) heartbeat.

### Remembering the Ladies: Policies for Gender Equality

The motherhood penalty reminds us that workplace inequality is deeply rooted in the division of labor at home. The gendered nature of care, coupled with the absence of public supports in the United States for caregiving, redound to women’s detriment and remain a lingering basis of labor market inequality. Women must trade time in paid employment for time devoted to unpaid caregiving, a trade-off that looms ever larger as we face a widely acknowledged care crisis occasioned by an aging society, changes in family and household structure, and gaps in the social safety net. An effective policy response requires that we confront both sides of the work-family equation to neutralize the penalty to caregiving and break the link between gender and care. To accomplish this, we must provide supports for more gender-equitable caring *and* earning. In devising policy initiatives, we do not need to start from scratch, but can instead look to Europe’s experience to draw both positive and negative lessons. While work-family policies and supports are more widespread and well-established there, somewhat surprisingly these

countries exhibit less gender equality than the United States. This outcome alerts us to steer clear of policies that unintentionally cement women’s secondary labor market position as part-time workers in highly segregated female ghettos. Such policies include the long unpaid leave in Germany that reinforces a traditional division of labor and women’s lesser labor force attachment. A better approach would be to err in favor of more egalitarian approaches like those in Sweden and Norway, which provide generous wage-replacement policies and family leave provisions to promote men’s caregiving.

Current economic circumstances, coupled with a new administration led by President Barack Obama, create a moment of crisis and opportunity. Congress and the Obama administration are off to a good start, putting more teeth into existing equal pay laws with the swift passage and signing into law of the Lilly Ledbetter Fair Pay Act. As the Ledbetter case demonstrated, garden variety sexism is alive and well. Ledbetter, an experienced plant manager for the Goodyear Tire & Rubber Company, filed suit when she learned that she was earning less than her male counterparts, a case that made its way to the Supreme Court. The court did not deny that Ledbetter had suffered pay discrimination, but ruled that she had failed to file her claim in time. The Ledbetter bill closes that loophole, effectively extending the deadline under which plaintiffs can bring suit under existing equal pay laws. Several pending fair pay bills go even further, requiring proactive oversight and enforcement of anti-discrimination laws. The new stimulus package also contains provisions to strengthen and re-energize the Equal Employment Opportunity Commission (EEOC). Together, these laws send a powerful signal that puts employers on notice and empowers women workers who are experiencing sex discrimination. Under the Bush administration, the EEOC was already paying increased attention to family caregiving discrimination (FCD). Currently the fastest-growing area of employment discrimination litigation, FCD attacks the motherhood penalty directly, and these cases must be vigorously pursued.

The recently passed stimulus package, insofar as it contains numerous tax and spending policies related to employment and earnings, can also be used to advance gender equity and parity—a true win-win—and must be evaluated and implemented with this goal in mind. A guiding principle should be to maintain and hasten the progress women have made, largely at the top, while increasing opportunities for those at the bottom who have not enjoyed the same gains and suffer the triple penalty of gender, race, and class. Thus, we need a two-pronged approach to move closer to gender equality, one that raises the ceiling and lifts the floor.

Women’s jobs appear to be a little more recession-proof than men’s in the current downturn, but women’s groups have called on the new administration to “remember the ladies” to create more public-sector jobs in fields such as education, health care, and social services. While the stimulus package does so, it

appears to be weighted somewhat more heavily toward creating male-dominated infrastructure jobs. The enormous scale of new job creation offers a rare chance to challenge existing stereotypes about what constitutes “women’s” and “men’s” work. By coupling job creation with new training and recruitment efforts, the employment-stimulus package can bring more women into high-paying “male” jobs, while at the same time encouraging men to enter lower-paying, but seemingly reliable “female” jobs, thereby reducing unemployment *and* shrinking the wage gap.

The kind of job creation entailed in the stimulus package would especially benefit women at the true middle and bottom of the income spectrum. The problem for women at the very bottom is that work doesn’t pay enough to offset its associated costs, especially child care. In addition to creating more employment opportunities, we need to make work worth it for these women, and the enhanced earned income tax credits in the stimulus package are a good beginning. Nearly one-third of women in the labor force work in low-wage jobs compared with one-fifth of male workers. To really move women out of poverty and to economic self-sufficiency and parity with men, we need more aggressive policies that address low pay directly, such as raising the minimum wage or implementing more comprehensive policies like living wage and pay equity reforms. All of these, but especially pay equity, which expands the reach of equal pay laws to level earnings for comparable jobs with similar requirements and responsibilities, will go far to increase women’s earnings and narrow the gender gap by addressing the sizeable pay disparities associated with job segregation.

Policies that facilitate mothers’ labor force attachment by nullifying the trade-off between unpaid care work and employment are also needed. In this regard, extension of the Family and Medical Leave Act to provide *paid* family leave with fewer restrictions in coverage is the obvious answer, and already a reality in a number of states, notably California and New Jersey. Providing child care, either directly or in the form of subsidies, as well as universal early childhood education, will make it possible for women to hold on to jobs and accrue valuable experience while simultaneously affording their children well-documented educational benefits. Finally, universal health insurance, insofar as it promotes health and wellness, reduces the need for women to take costly absences and interruptions from work to care for sick children and other family members.

Last, we need to find ways to undermine the long-hour work culture that effectively bars women’s progress in elite jobs and robs all parents, fathers and mothers, of time with their families. One way to reduce hours is to extend overtime provisions to the professional and managerial jobs that are now exempt from them, requiring employers to pay workers for those 40-hour-plus workweeks. A good place to start would be to overturn Bush-era policies that broadened exempt coverage. Absent this, we need to look to the private sector to come up with meaningful, non-stigmatized, and gender-neutral ways of working flex-

ibly, including better-paying and more equitable part-time jobs with prorated benefits (health care reform will advance this goal by making part-time positions less costly to employers). Many American companies already have innovative and successful work-life and work-family policies and practices in place that can serve as a model. While some argue that curtailed hours and family-friendly flexibility are no longer feasible in an era of economic insecurity, news reports make clear that both are being used in innovative ways to avoid layoffs in the current deep recession. Similar strategies of shortening the workweek and encouraging flexibility have a long track record in dealing with unemployment in Europe. As an added attraction, research demonstrates that flexibility and family-friendly innovations enhance employee morale, productivity, and retention.

**Congress and the Obama administration are off to a good start, putting more teeth into existing equal pay laws with the swift passage and signing into law of the Lilly Ledbetter Fair Pay Act.**

Current policies and work arrangements shortchange women’s employment and earnings, but they also shortchange men’s participation in parenting and family life. We’ll know we have achieved true gender parity when men and women participate equally and fully in market-based work and the unpaid work of the family, when women are not only just as likely as men to be CEOs, but men are just as likely as women to stay at home.

*Pamela Stone is Professor of Sociology at Hunter College and The Graduate Center at City University of New York. Her new book, *Opting Out? Why Women Really Quit Careers and Head Home*, was recently published by the University of California Press.*



## Who Is Really Left Behind?

Under the No Child Left Behind law of 2003, schools are held accountable for improving children's academic achievement, a formula that places a premium on developing accurate measures of "improving children's academic achievement." Currently, schools are assessed as succeeding or failing based on whether their students meet (a) absolute levels of academic achievement, and (b) standards for growth in achievement over time.

As Douglas B. Downey, Paul T. von Hippel, and Melanie Hughes point out, these measures could lead to substantial errors, as each captures the influence of both school and nonschool factors in contributing to student achievement. Using national data from the Early Childhood Longitudinal Study (Kindergarten Cohort), the authors derive a new measure of pure school effects, defined as the difference between learning rates in the summer (when school is not in session) and learning rates during the school year. This difference separates out the effects of school and nonschool environments and may accordingly be understood as capturing the true school effect on learning. The authors find that, among schools that were previously classified as failing, less than half are in fact failing in terms of true effects. The bottom line: We can't establish meaningful systems of accountability without first identifying which schools truly are in need of improvement.

Douglas B. Downey, Paul T. von Hippel, and Melanie Hughes. 2008. "Are 'Failing' Schools Really Failing? Removing the Influence of Nonschool Factors from Measures of School Quality." *Sociology of Education*, 81(3), 242-270.

## Still Dreaming

The current recession has rocked nearly every corner of the American economy, creating rapidly rising unemployment and public furor over the extent of economic inequality. But have these trends also rocked our beliefs that economic mobility is still feasible for ourselves and our children? If so, this could spell trouble for the long-term viability of the American dream.

According to new findings from the Economic Mobility Project (run by the Pew Charitable Trusts), the answer to this question is a decided "no." The project shows, to the contrary, that Americans continue to have much faith in their prospects for economic mobility. Indeed, approximately 80 percent of the population still believes that Americans can get ahead. Moreover, fully 62 percent believe that their own children will achieve a better standard of living than they have, while only 10 percent think their children will fare worse. At the same time, most Americans also favor policies that support economic mobility, policies such as job training, early childhood education, and college loans or tuition support.

Despite the continuous glut of gloom and doom news, Americans thus remain a sunny lot, with downright Obamian hopefulness about the future.

The full survey and analysis is available at <http://economicmobility.org/poll2009>.



## The Dusk of the Dowagers

The 1960s is typically thought of as the dawn of women's long march toward economic equality with men. After all, ever more women began entering the workplace then, and wage and earnings inequality have declined markedly in the decades since, especially in the 1970s and 1980s (see Pamela Stone's article in this issue). Is, however, the 1960s likewise a benchmark decade when one considers the gender gap in wealth?

The surprising answer, according to a new paper by Lena Edlund and Wojciech Kopczuk, is a rather counterintuitive inversion of the "march toward equality" narra-

tive. Using data from IRS estate tax returns, Edlund and Kopczuk show that the share of women among the very wealthy peaked in the late 1960s at around one-half and has declined since (to about one-third).

Why this reversal in the trend despite women's recent advances in the workplace? The simple answer is increased wealth mobility and the rise of employment-based wealth. Since the late 1960s, the composition of the very wealthy has changed, with a decline in dynastic wealth and an increase in wealth mobility. The very wealthy are now more likely to be high-powered CEOs and top managers rather than the "old

money" of the past. As incomes at the very top took off in the United States, it became increasingly possible to achieve wealth via employment alone, and the older road of direct inheritance has accordingly been superseded. Until women crack the uppermost echelons of the labor market, we can therefore expect gender inequality in wealth to persist.

Lena Edlund and Wojciech Kopczuk. 2009. "Women, Wealth, and Mobility." *American Economic Review*, 99(1): 146-78.

## Peer Pressure in Black and White

The most sensitive barometer of racial or ethnic equality may well be the frequency of inter-group romantic partnerships. That is, when such barriers to inter-group romances fall altogether, a minority group might be considered fully assimilated. Although legal barriers to interracial romances have of course disappeared, the available evidence suggests that unions between members of different racial and ethnic groups nonetheless remain fairly infrequent (if increasing). This begs the question: Are such unions infrequent because of informal sanctions against them?

Using data from the National Longitudinal Study of Adolescent Health, Derek A. Kreager indeed finds much evidence of informal sanctions. By examining school dating histories over time, Kreager shows that students who begin an interracial relationship are at greater risk of encountering peer difficulties at school, defined as feeling unsafe, unhappy, and unconnected to peers at school. These peer difficulties are, moreover, strongest when intergroup romances involve black students.

It follows that easing legal barriers is just a step. Despite the decline in anti-miscegenation laws and other formal barriers to interracial romances, informal sanctions are unfortunately alive and well.

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Derek A. Kreager. 2008. "Guarded Borders: Adolescent Interracial Romance and Peer Trouble at School." *Social Forces*, 87(2), 887–910.

## The Intergenerational Ripples of Job Displacement

Losing a job typically leads to at least a short-term loss in earnings. We tend to assume, however, that the costs of losing a job are borne principally while the displaced person is out of work. Do the effects of job displacement diffuse more widely in some cases? Is it possible, for example, that job displacement harms not only those who are displaced, but also their family members years down the road?

This is precisely the possibility addressed by Philip Oreopoulos, Marianne Page, and Ann Huff Stevens in a recent paper that examines the long-term effects of firm closures in Canada. The authors find that, when the children of displaced workers reach adulthood, they wind up earning 9 percent less, on average, than the children of non-displaced workers. They are also more likely to receive unemployment insurance and other social assistance. Moreover, and perhaps unsurprisingly, these long-lasting negative intergenerational effects occur mainly among families at the bottom of the income distribution. The unfortunate implication is that ongoing job losses in the current recession will likely have effects that play out long after any recovery takes place.

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Philip Oreopoulos, Marianne Page, and Ann Huff Stevens. 2008. "The Intergenerational Effects of Worker Displacement." *Journal of Labor Economics*, 26(3), 455–483.

## Stressed Out

It has long been known that children born into low-income households perform relatively poorly on academic achievement tests. But what are the mechanisms underlying this relationship? The competing accounts are legion: Some scholars suggest that low-income children suffer from inadequate parenting or poor cognitive stimulation, others emphasize the poor quality of teachers and schools in low-income neighborhoods, while yet others argue that poor children suffer from real biological deficits that impede learning and achievement.

The latest research suggests that, insofar as biology does matter, it is not so much an independent cause as an interaction with poor environmental conditions. In a new article by Gary W. Evans and Michelle A. Schamberg, it was found that young adults who grew up in poverty have a relatively poor working memory, which in turn hampers their performance on academic achievement tests. The main mechanism, moreover, through which poverty causes poor memory is elevated chronic stress, as marked by allostatic load (which refers to wear and tear on various organs and tissues in the body in response to stressful situations and stimuli).

The implied causal chain: Growing up in a poor neighborhood leads to chronic stress (as indexed by allostatic load), chronic stress in turn damages memory, and poor memory lowers performance on academic achievement tests. Although biology thus matters, it turns out that biology (in the form of a working memory) is itself a function of poverty and stress. It follows that the environment may loom even larger than thought in understanding why poor children continue to lag.

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Gary W. Evans and Michelle A. Schamberg. 2009. "Childhood Poverty, Chronic Stress, and Adult Working Memory." *Proceedings of the National Academy of Sciences*, 106(13), 6545–6549.




# *Flexicurity*



BY JOSHUA COHEN  
AND CHARLES SABEL

**TEN YEARS AGO**, the stylized story about poverty and inequality went something like this: “You can be the United States, with lots of income inequality, very flexible labor markets, and very high levels of employment; or you can be Germany, with not so much inequality, rigid labor markets, and lots of unemployment; or you can be Sweden, with pretty low levels of inequality and unemployment. But you can be Sweden only if you employ lots of workers (especially women) in an expanded public sector providing services to families, as inflexible labor market rules keep private sector firms from expanding employment.”





Given these options, our system did not seem so bad. Sober analysts acknowledged the costs of American inequality and poverty, especially for African-Americans. But sobriety also compelled recognition of the benefits of the great American jobs machine: creating lots of low-wage work was a large compensation, not least to middle-class families who could afford to hire domestic workers to provide some of the services provided publicly in Sweden. It was hard to see an alternative, as we lacked Sweden's cultural homogeneity, its solidaristic political culture, and the associated willingness to maintain oversized public employment.

And really: How could there have been an alternative with better results for low-wage workers, given our deeply rooted concern that the protections provided by rigid labor markets or substantial public employment ultimately limit the life chances of the vulnerable by undermining their sense of personal responsibility? Short-term gains in security sound good, but aren't they overwhelmed by the long-term risks of dependency? Low unemployment with high levels of labor force participation and high growth rates; greater income equality and reduced poverty; and a sense of personal responsibility resistant to the moral hazards of solidaristic subsidies: That mix is nice work if you can get it, and good for the utopian fantasies that some call "political philosophy." But such a package is simply unrealistic here, and probably impossible (except in a Sweden) given the hard trade-offs that life imposes and that grown-ups understand.

That was then, this is now. The grown-ups who managed the miracle of global finance have been sent to their (generously appointed) rooms. Leading policymakers look openly to Japan for lessons about anti-deflationary policy when interest rates hover just above the "zero bound" and to Sweden for lessons about how to nationalize, revitalize, and reprivatize a financial system after a bad-mortgage binge. Fears are great, but hopes are also high. And the idea that the United States might have something to learn about public policy from the rest of the world seems a little less like the carping of academics constitutionally incapable of appreciating what awed the rest of the world about this country, and a little more like the thing that sensible adults do when they are having "issues."

As it happens, when it comes to addressing inequality and poverty, there is something to learn from the far reaches of Old Europe.

Consider the case of Denmark. In the early 1990s, facing high unemployment, low growth, a public sector nearly immobilized in the face of economic decline, and a long-smoldering revolt against an apparently incapacitated state, Denmark reconfigured its welfare state to create a system called *flexicurity*. The essential idea of flexicurity—conveyed by the name—is to combine high *flexibility* in labor markets with high levels of *security* for workers. The flexibility includes both wage flexibility and relative ease for firms in laying off workers, with much lower levels of job protection than other OECD countries. The security comes from a mix of high levels of unemployment insur-



## The essential idea of flexicurity—conveyed by the name—is to combine

ance—a considerably higher “replacement rate,” or ratio of average weekly benefits to average weekly earnings, than any other OECD country—and an active labor market policy providing education and training. This training ensures successful integration into the labor market for younger and older workers, and it offers lifelong learning. The idea, in a slogan, is: *Employment security, not job security*. It means a career at varied, increasingly skilled work, not a lifetime climbing the job ladder in a single firm.

The cumulative effect of flexicurity for individuals, moreover, is to encourage an economy-wide shift in favor of more skilled jobs, as well as innovative firms that can make use of them. Low unemployment rates and rising skill levels give the most skilled, desirable workers (who are, of course, likely to be the ones most attentive to skill acquisition) their pick of jobs. Employers have to attract them with work that is not only interesting, but offers the prospect of further learning. Firms can afford to offer such jobs only if they undertake projects that make productive and well-remunerated use of these workers—and such projects, being the opposite of routine, will naturally require innovative exploration of new possibilities. The robust, adaptable security of individuals fosters the adaptive robustness of the whole economy.

Two other features of flexicurity, not built into the name, are essential to its success. In contrast with our conventional picture of public goods as (by their nature) standardized for broad categories of recipients (e.g., primary education for children ages, say, 5 to 10), flexicurity is individualized. The guiding assumption—based on many recent studies of life on Earth—is that individuals have distinct lives, and that (especially when people are experiencing troubles) those lives cannot easily or constructively be compartmentalized into discrete pieces—work, family, education, training, income, health, transportation, housing—addressed by distinct policies. On the contrary, family problems are likely to aggravate, or be aggravated by, problems in school or work; addressing any one of these effectively requires attention to at least some of the others. So, support for younger and older adult jobseekers requires not just *customized* services, but *bundles* of customized services adjusted to the needs of individuals and meshing with one another.

Moreover, because education and training require the engagement of workers in ways that simple income support (or in-kind assistance) does not, there is also an important role for *personal responsibility*. Customized services are effective only if those to

whom the services are directed participate actively in their production—indeed, that participation is required for the services to be customized to particular needs in the first place. Flexicurity is not what a “nanny state” does when it is taking charge of its responsibility-challenged, incapacitated wards; it is not what a sadder-but-wiser, post-nanny welfare state does when it compensates citizens for some hard luck in youth before sending them out to face the tough, cold world. It is what a democracy does to ensure the continuing inclusion of all its equal members, in a world where we face, individually and collectively, the continuing risks of economic, social, and political exclusion thrown up by rapidly changing labor markets in largely open economies.

This low-resolution description of flexicurity focuses on design principles rather than specific policies and corresponding institutions. But this level of description is entirely faithful to the self-understandings of actors in the system (especially to some of the leading social democrats, such as Mogens Lykketoft, who helped create Danish flexicurity in the 1990s, and the many local and regional actors who customize services today) and of the many outsiders who have tried to learn from the Danish experience. As the appeal of flexicurity has spread from Denmark to Ireland, Finland, and the Netherlands, and become a focus of EU debate over labor market policy, participants in that debate have come to understand that flexicurity takes different forms in different settings. Jeremy Bentham once wrote a constitutional code with a blank space left for the name of the country. The participants in the debate about flexicurity are less abstractly universal in their thinking. As they understand it, the right way to think about flexicurity’s broader dispersion is not to simply take a Danish operating manual, translate, enter another country’s name, and apply. Instead, the point is to adapt the five design principles just described—flexibility in employment and compensation, robust security for workers, lifelong learning, customization, and personal responsibility to make use of changing opportunities—then pursue mutual comparisons across different versions of flexicurity (first internationally, then domestically) for improvement. Thus, a sixth principle of flexicurity is its adaptability—to changes in Denmark, and, at least potentially, to settings in other countries.

Transforming flexibility and security from competing goods to mutually supportive complements is immensely appealing in an age of deep uncertainty. This appeal has made flexicurity the active subject of EU discussion in recent years, as the European Commission has urged other countries to adopt their

## high flexibility in labor markets with high levels of security for workers.

own versions of the Danish system. The main European debate acknowledges the merits of the scheme as applied in Denmark, which has experienced persistently low unemployment, high labor force participation, and low inequality. (Some critics have argued that Denmark's strong economic performance is not a result of flexicurity. They point to very slight reductions in labor supply resulting from high replacement rates and the detailed rules covering short-term unemployment. But they ignore what appear to be the significant structural benefits of increased mobility and skill acquisition to the economy.) The concern has been whether the essentials of the system, including its adaptability to changing domestic conditions, can translate across national boundaries, especially because of different regulatory institutions (and associated capacities to sustain active labor market policy), varying levels of trust and solidarity (e.g., how much can people be trusted not to game the unemployment insurance system), and different traditions of labor market flexibility and volatility.

Some of the concerns that have been raised in the European portability debate arguably carry over to the United States, with even greater force:

- The Danes have trust and solidarity; the United States, in contrast, is a famously fractious place, with an abstractly constitutional patriotism, not the deeper ethno-national solidarities needed to provide the assurances against cheating on which flexicurity depends.
- Americans have an exceptionally passionate attachment to individual responsibility. Yes, we like our equality of opportunity, too: Indeed, that value lies at the heart of our shared civic convictions. But the conventional idea of mixing equal opportunity and responsibility is to ensure equality at life's starting gate, whether through initial education and training, or—as in the post-nanny welfare state Bruce Ackerman and Anne Alstott proposed—a wealth gift for each citizen at age 21 that he or she can use to fund a career, or through some other form of early equalization, after which responsibility kicks in and (but for occasions of personal disaster) individuals are the agents of their own failure and success.
- The Danes like to pay taxes: They have 50 percent tax rates. We don't like taxes. But you have to like them some to support the customized system of lifelong learning.
- The Danes have unions; the United States' unionization

rate is about one-tenth Denmark's. How can a country run an active labor market policy with high levels of security and flexibility if it lacks unions with the local knowledge to help ensure the flexibility, or the national power to help guard the state's commitment to security?

These concerns are all forceful, but we are living through unusual times, and we wonder whether we should let ourselves be guided by a knee-jerk invocation of American exceptionalism. All four criticisms remind us that a move to flexicurity would require a sharp departure from past practice, freeing ourselves from the tight grip of the past's famously cold, dead hand. But just a few quick reminders: In November 2008, the country elected a black president, defying conventional expectations. And we are now passing through the largest economic crisis in 75 years, a crisis that looks like it will issue in some entirely unanticipated shifts in national policy. We have already thrown caution to the winds. It would be a tragic mistake to think we could do that, yet remain otherwise as constrained as we often take ourselves to be.

These general observations about unusual circumstances and possibilities apply with particular force to the first concern—the sufficiency of national trust and solidarity. Who knows how much trust and solidarity are really essential to make flexicurity work, or how much we can muster?

As for the second, personal responsibility plays, as we have said, a large and essential role in flexicurity. While it is not about finger-wagging, it does accept that a person's success and failure in life depend importantly on her aspirations and efforts. Flexicurity is about lifelong learning in a public policy system that does not deny personal responsibility (you cannot learn without playing an active role), but rather reconceptualizes the conventional notion that we are victims of (a slightly corrigible) fate until 18 or 21, and nearly self-sufficient thereafter.

What about taxes? One pertinent observation is that no one loves taxes, not even the Danes. In fact, flexicurity was, in part, a reaction to a Danish tax revolt dating to the 1970s. That revolt was animated by a simple idea: Taxes are fine if they are used for good purposes (Danes, like the rest of us, are allergic to throwing money away). But aren't things different in the United States? Doesn't the American allergy extend even to taxes that are used efficiently for public purposes? Isn't the point here to keep "our own money"?

Maybe. But maybe not. In his interesting book *Why Trust Matters*, Mark Hetherington argues that variations in willing-



ness to spend on social welfare in the United States since the 1960s are explained not by shifts to an ideological conservatism, but by shifts in trust, particularly in the government's capacity to make good uses of tax resources: "When government programs require people to make sacrifices, they need to trust that the result will be a better future for everyone. Absent that trust, people will deem such sacrifices as unfair, even punitive, and, thus, will not support the programs that require them" (p. 4). Hetherington's argument is that the relevant kinds of trust declined after the mid-1960s. His case is hardly conclusive, but his point has considerable force, at least against the knee-jerk idea that intense tax allergies here make an otherwise attractive labor market policy—good for growth and for distribution—ineligible.

As for unions, we are not expecting a large expansion in American unionization rates. But we need to be careful about the role of unions in the flexicurity system. Danish unions helped push for innovations in the system of lifelong learning, and they play an important part in managing regional services (especially at the plant level). But the national unions are not, at the moment, active in extending or further adapting the system at the national level, and they have been reluctant to encourage too much local initiative for fear of authorizing a decentralization that they would be unable to control. That said, the power of unions to protect workers from employer offensives helps create

a political environment in which employers and government are more inclined to look for a reasonable social bargain that does not impose large burdens on workers. A balance of power helps public reason work its magic.

But even here, the lessons for the United States may not be as dim as the point suggests. The last election and the current crisis are creating possibilities that do not exist in more normal times, and there is broad agreement that larger investments in worker training are important. With some foresight and a great deal of good fortune, it might be possible to improve the balance of power here, too, in a way that gives a reinvigorated labor movement a role in constructing a national framework for lifelong learning and contributing to that framework's local adaptability.

The Republicans are accusing President Obama of wanting to turn the United States into a northern European "welfare state." When it comes to flexicurity—with its embrace of equality, dynamic efficiency, and a sensible understanding of responsibility—we hope they are right.

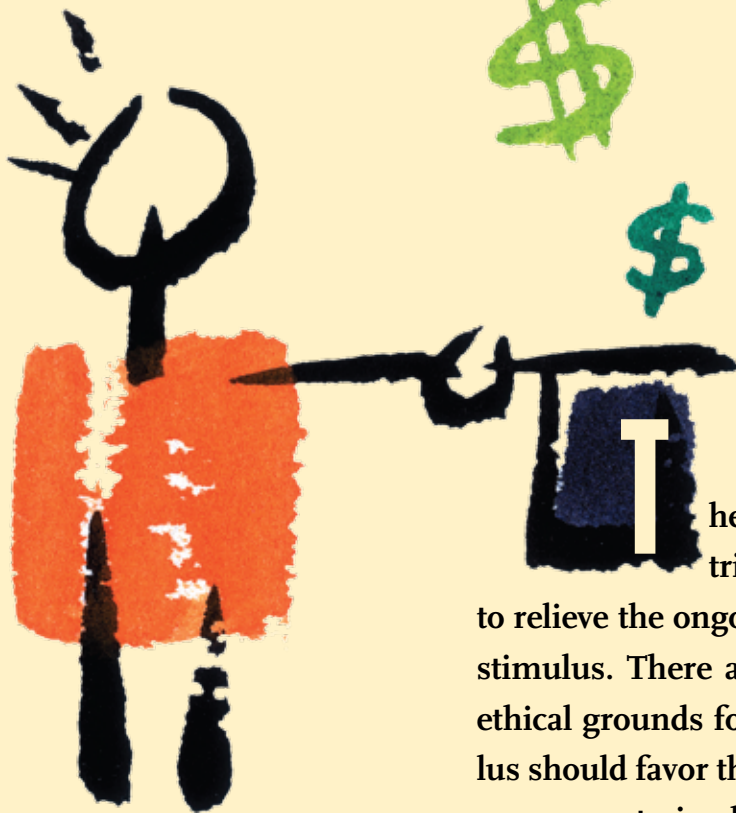
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# Pro-Poor Stimulus

LESSONS FROM THE DEVELOPING WORLD



BY MARTIN RAVALLION

**T**he governments of many countries, rich and poor alike, hope to relieve the ongoing recession through a fiscal stimulus. There are macroeconomic as well as ethical grounds for believing that such a stimulus should favor the poor. Poor people tend to be more constrained—notably due to credit market failures—and so are most likely to engage in rapid consumption or investment when extra cash becomes available. A pro-poor stimulus is therefore likely to be a bigger stimulus.



**Responding to a crisis invariably entails some difficult trade-offs. The most important in designing pro-poor stabilization policies is the trade-off between current and future poverty reduction.**

Fiscal policies in developing countries have not generally been countercyclical, as too often the stimulus (if any) comes too late. Many developed countries, on the other hand, have built-in countercyclical stabilizers, which rely on progressive income taxes and committed social spending. These kick in when recessions hit and people begin suffering. The developing world is naturally envious of these more automatic and often pro-poor stabilizers.

Developing countries can also have automatic stabilizers, though the precise ways this is done will differ from the stabilizers traditionally found in (say) Western Europe. However, the flow of ideas about how best to respond to a crisis should not go exclusively from rich countries to poor ones. There are three reasons policymakers in countries like the United States might want to turn to poorer countries in looking for ideas about how to respond to the crisis. First, the developing world has had a lot more experience with crises of various sorts, including financial crises, famines, and natural disasters. Second, people in developing countries are familiar with the structural changes—fluidity in the composition and location of economic activity—that may well be an important part of the developed world's future in the wake of the current crisis. Third, governments in developing countries have experimented with a wider range of programs intended to protect the poor from various sources of risk, including financial crises. The programmatic details on the expenditure side of developing countries' public budgets provide a rich set of lessons, with both successes and failures having instructive value.

A crisis is an opportunity for learning and for reform. While political-economy constraints loom large (regardless of whether a country is rich or poor), crises can open up possibilities for serious reforms. Past crises in developing countries have at times led to the dismantling of failed social policies, such as generalized food and fuel subsidies that have come at a huge fiscal and economic cost and yet have had at best only a modest impact on poverty. The current crisis is an opportunity for developing countries to create more automatic and pro-poor stabilizers—recognizing that this is not the first, nor last, time they will be needed. But it is also an opportunity for developed countries like the United States to redesign their stabilizers, in some cases learning from the experiences of antipoverty initiatives in developing countries, though adapted to their new settings.

Responding to a crisis invariably entails some difficult trade-offs. The most important in designing pro-poor stabilization policies is the trade-off between current and future poverty reduction. This trade-off arises in most aspects of the policy responses to a crisis, including macroeconomic and financial sector policies, as well as social protection policies. There is a real risk that, for reasons of political expediency, responses to the current crisis will come at the expense of a consideration of longer-term implications. It is encouraging that welfare reform efforts in both rich and poor countries have increasingly emphasized the role of incentives for recipients to take actions, "co-responsibilities," that help them escape poverty without handouts. Such incentives also play an important role in pro-poor stabilization.

I will illustrate these points by discussing two classes of programs: targeted cash transfers and relief work schemes. These programs are best viewed as complements rather than substitutes. Relief work can provide extra income for those who are able to work, and can help address the chronic deficiencies in infrastructure and services in poor areas. Transfers can then be targeted to individuals who either cannot work (for example, due to physical incapacity or poor nutritional status) or should not be taken out of other non-work activities (notably school). Both types of programs face a number of challenges in design and implementation, and the United States can learn some valuable lessons from developing countries about how to meet those challenges.

#### Conditional Cash Transfers

A number of developing countries have implemented transfers targeted to the poor that come with certain co-responsibilities. These are called conditional cash transfer (CCT) programs. A typical CCT identifies eligible families using a set of readily measured proxy indicators of poverty. (The criteria are, of course, country-specific.) The transfer

payment is then made to parents (sometimes explicitly to the mother) conditional on specific desired and verifiable behaviors. For example, the transfers to parents may require that teachers verify that children are attending school regularly; conditions on health care and nutritional practices are also sometimes added. These co-responsibilities mean that the transfers reduce (often substantially) the cost of schooling and health care for poor families, including forgone income from child labor. Early influential examples of CCT programs were Bangladesh's *Food-for-Education Program*, Mexico's *PROGRESA* program (now called *Oportunidades*), and Brazil's *Bolsa Escola* (followed by *Bolsa Família*). A recent World Bank report, "Conditional Cash Transfers,"<sup>1</sup> reviews the large body of evidence on these programs, the bulk of which suggests that they are effective in improving children's schooling and health care, while simultaneously providing material relief to poor families. Importantly, CCTs have made redistribution in favor of the poor politically acceptable, particularly in Latin America, where inequality is worryingly high.

But aren't such programs particular to the chronic education and health problems plaguing developing nations? Not necessarily. The developed world has also started to notice the success of these "smart transfers." In 2007, New York City introduced a CCT, *Opportunity NYC*, which is modeled on these programs in developing countries (stemming from the participation of New York officials in a World Bank conference on CCTs). In addition to education and health incentives, *Opportunity NYC* includes incentives for adult skill development and training. Other U.S. cities trying to help protect their poor during this recession could usefully look at NYC's experiment in adapting the CCT idea to a developed-country setting.

Such programs strike a balance between reducing current poverty and reducing future poverty. The transfer itself has an immediate effect on poverty, but the conditional nature of the transfer aims to induce behavioral change that also translates into long-term poverty reduction. Behavioral change is a key element, insofar as the newly incentivized behaviors are demonstrably important to future prospects of escaping poverty.

CCTs have also tried to change the distribution of resources *within* households. The behavioral conditions can ensure that relatively more of the gains (often realized later in life) accrue to children and teens. By targeting the transfers to women in poor families, one can help reduce both current and future poverty, since transfers to women tend to benefit children more—in terms of their nutrition, health, and schooling.

There are many design issues to consider. The practices used for assessing eligibility and monitoring payments need to be technically feasible given local administrative capabilities, yet sufficiently sound to assure that the program achieves its aims. Local governments and community organizations can often help, as they tend to be better informed about who is in need. This can involve a trade-off, however, given that local governments are subject to local resource constraints and problems of local elites capturing resources intended for the poor.

An important challenge is making CCTs responsive to

changes in need. Design features, such as indexing benefits and compulsory regular updates to eligibility lists, can assure that a CCT helps provide an automatic stabilizer. Many countries have responded to various crises by expanding the coverage and increasing the benefit levels of CCTs. Mexico, for example, was able to help redress the adverse impacts of 2008's steep rise in food prices by implementing a one-time top-up payment to *Oportunidades* participants. Brazil has rapidly expanded the coverage of its *Bolsa Família* program in response to the current crisis.

The co-responsibilities are also a key design feature. Naturally, each program must be adapted to its context. In a poor country the desired behaviors might be completing primary school, while in a middle-income country the focus will tend to be on secondary school. In a developed country, such behaviors may well include postsecondary education and qualifications. Health care conditions will similarly vary—for instance, in the United States, co-responsibilities might include participation in "eat well, play hard" programs designed to prevent childhood obesity. The conditions may also need to change in a crisis. In poor countries, kids tend to be taken out of school to work in a recession, while in more developed countries they are more likely to stay in school at such times. Each country needs to identify the most relevant list of behaviors that need to be encouraged, and be willing to revise the list.

### Workfare

One way to make safety net programs more flexible is to build in "self-targeting" features that encourage only those in real need to seek out the program *and* encourage them to drop out of it when help is no longer required. The classic example of self-targeting is a "workfare" program, for which the co-responsibility of those seeking relief is that they must work. The type of work differs, ranging from public works projects to regular private-sector work. Provided that a workfare program is designed and implemented well, it can be very responsive to differences in need. At any given time, the support tends to go to those who need it, since those who do not will have better labor market options. And when better work opportunities emerge, workfare participants will voluntarily opt out. Longer-term poverty reduction goals can also be served by a well-designed workfare scheme, through both asset creation or service provision and the fact that work requirements can help avoid social exclusion and welfare dependency.

Workfare has been widely used in crises and by countries at all stages of development. Famously, public works programs were a key element of the New Deal introduced by President Franklin D. Roosevelt in 1933 in response to the Great Depression. Workfare programs also reemerged in various forms in the U.S. since the mid-1990s as a key element of welfare reform. There has been considerable and diverse experience with workfare programs in developing countries. They played a crucial role in the Famine Codes introduced in British India around 1880 and have continued to be important to this day in the subcontinent. Relief work programs have additionally helped in

responding to, and preventing, famines in sub-Saharan Africa. During the East Asian financial crisis of the late 1990s, both Indonesia and Korea introduced large workfare programs, as did Mexico in the 1995 “peso crisis,” Peru during its recession of 1998–2001, and Argentina in the mid-1990s and during the 2002 financial crisis.

A famous example in the developing world is the Employment Guarantee Scheme (EGS) in Maharashtra, India, which started in the early 1970s as part of a (successful) effort to avoid a famine. EGS aims to assure income support in rural areas by providing unskilled manual labor at low wages to anyone who wants it. The guarantee means that people know it is there whenever they need it. In 2004, India introduced an ambitious national version of this scheme under the National Rural Employment Guarantee Act. The act promises to provide up to 100 days of unskilled manual labor per family per year to anyone who wants it in rural India. The scheme aims to provide much needed social insurance and to empower poor people.

Realizing the insurance and empowerment benefits for poor people depends crucially on the budget allocation to the scheme, which must be sufficient to cover the demand for work at the wage rate offered. If the scheme is under-funded relative to the wage rate set by the government (or, in what amounts to the same thing, the wage rate is set too high relative to the budget) then rationing of work will be required.

Research on these programs has indicated sizeable income gains to participants, net of their forgone income from any work they gave up to join the program, though the extent of those gains will naturally depend on local labor market conditions. There is less evidence, however, on how much in the way of assets such workfare programs generate. This can matter greatly to whether a workfare program is superior to simple cash transfers in terms of the impact on poverty for a given budget outlay. Here we encounter the trade-off mentioned above. Because workfare programs absorb large amounts of labor on specific projects during a crisis, it can be difficult to create durable assets. Although one wants to provide widespread relief during a crisis, the result is that asset creation does not occur to the extent one would want, and long-run poverty relief is thereby compromised. Balancing the long-run and short-run goals is difficult, as both are of value, even in a crisis.

Argentina’s *Trabajar* program illustrates the potential for a new wave of workfare programs that emphasize asset creation in poor communities. The program’s design gave explicit incentives (through the *ex ante* project selection process) for targeting the work to poor areas. There is typically much useful work to do in poor neighborhoods—work that would probably not get financed otherwise. Similar to CCT programs, this type of program aims to address current poverty as well as reduce longer-term poverty by creating assets.

Thus past experience in developing countries points to some key design features. An ideal workfare scheme will guarantee low-wage work on community-initiated projects. The work should be proposed by bona fide community groups in poor areas to assure that the relief effort is responsive to the needs of local communities and that the assets created are of value to the poor. The government should contribute to non-wage costs only if the community putting up the proposal is a designated poor area, as indicated by the best available “poverty map.” The government might finance up to, say, 15 days a month of work on community projects for any adult at a wage rate no higher than the market wage rate for unskilled manual labor in a normal year. Setting a sensible wage rate assures that the scheme is self-targeted, as the non-poor will rarely want to participate, while preserving incentives for participants to take up other work when the economy recovers. (As with CCTs, the right incentives are crucial for success.) The scheme would rely very little on administrative discretion in access to the program. As long as the guarantee is credible, it will help empower poor people and reduce the longer-term risks that they face, as well as provide much needed extra earnings.

### Toward a Pro-Poor Stabilization Policy

Rich and poor countries can learn from each other about how best to devise smart social protection policies that provide rapid automatic stabilizers, thus simultaneously addressing the macroeconomic problem of a recession and the need to protect the poor. While there is much we still do not know about the impacts of safety net programs, the evidence from past evaluative research suggests that a significant share of the poorest can be protected in a crisis without damaging their long-term prospects of escaping poverty, indeed possibly even enhancing them. The developed world can usefully look to the experience of the developing world in how to promote desired behavioral change and improve infrastructure and services in poor areas, while also buffering some of the risks that inevitably emerge in any economy.

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### Notes

1. Available at: <http://go.worldbank.org/UQEJK2J5Eo>



# COMBATING POVERTY BY BUILDING ASSETS

*Lessons from Around the World*



BY RAY BOSHARA

**A** child in Uganda, orphaned when his parents died of AIDS, is off the streets and avoiding AIDS himself by saving money for secondary school with the support of the innovative Suubi project, which provides poor children with Child Development Accounts. In China's western Xinjiang region, a poor rural farmer sees his "dead," or untouchable, pension savings become "live," or usable income-producing assets, thanks to the work of a visionary local government bureaucrat.



In Peru, a poor woman builds her small business by saving a portion of her “conditional cash transfer,” a cash payment to encourage her to keep her kids in school and take them to the doctor. And in Britain, a new mother is pleased to learn that while she’s buying a new stroller she can also set up her daughter’s Child Trust Fund—a government-provided investment account that her baby can tap when she’s 18, a “stakeholder” account now provided to each of the United Kingdom’s 700,000 newborns every year.

What unites these widely-dispersed efforts is a novel approach to poverty alleviation birthed and tested in the United States but catching on even faster outside of it: asset development for the poor.

### The Promise of Assets

Washington University scholar Michael Sherraden first proposed the modern concept of “asset building,” as it is often called, in his 1991 book, *Assets and the Poor*. Sherraden argued that while income is necessary to escape poverty, it is not sufficient. Without assets—savings, a home, land, small business, education and skills, investments, a retirement account—it will be difficult, if not impossible, for the poor to permanently achieve financial security, especially across generations.

In addition, Sherraden argued that asset ownership—distinct from income flow—changes the way people think and behave and ultimately affects a range of social outcomes. Research now affirms this. Columbia University professor Fred Ssewamala’s Suubi project has demonstrated that owning a Child Development Account instills a future orientation powerful enough to motivate orphans to avoid the risky behavior that can lead to AIDS. University of North Carolina–Chapel Hill’s Gina Chowa, examining a number of studies in developing countries, reports that households with access to assets are better able to provide for their basic needs and make important investments in future generations through health care, education, and training, while those lacking assets are more vulnerable to poverty. John Bynner and Will Paxton, in a paper published by the British think tank IPPR, found that, regardless of income, holding assets at age 23 is associated with later positive outcomes such as better labor market experience, marriages, health, and political interest. Interestingly, this “asset effect” persists regardless of the amount of the asset: The simple presence of the asset seemed to matter most—research since corroborated by Trina R. Shanks of the University of Michigan. And Thomas

M. Shapiro of Brandeis University reports that the presence of even small amounts of wealth at the right times can have a “transformative” effect on the life course. Even small amounts of assets can generate large stocks of hope.

The “income paradigm” of poverty alleviation reigned powerfully and largely unchallenged throughout the 20th century. Around the world, the most accepted poverty metrics are measures of income: If you live on less than a \$1.25 a day (the new World Bank measure) in the developing world, or below \$21,200 a year for a family of four in the United States, you are considered “poor.” Framing the poverty problem in terms of income naturally leads to *solutions* centered on income, leaving assets out of the equation. But what if we also define poverty as lacking a certain level of assets for investment or long-term development? If we do, data show that poverty rates would double (at least in the United States and Africa, where research has been conducted), with potentially “game changing” implications for programming and public policy.

When asset building was first rolled out in the United States in the mid-1990s, the common response there and in other advanced economies was that the poor can’t save, so why bother? Liberals and anti-poverty advocates were in fact the most doubtful, dismissive even, of encouraging the poor to save. Many of them assumed they knew best what the poor were capable of. Well, the poor knew better, and proved it—primarily through Individual Development Accounts, or IDAs. IDAs are matched savings accounts typically restricted to a first-home purchase, post-secondary education, or small-business development. Savings in IDA experiments were modest but meaningful, averaging \$17 to \$32 per month, leading to higher asset levels as compared with control groups. Success with IDAs then prompted additional demonstrations and even the development of national policies in the United Kingdom, Canada, South Korea, Kenya, Colombia, Taiwan, Indonesia, Kenya, Hungary, China, and elsewhere.

In developing countries in the 1970s, Muhammad Yunus and others generated buzz about the poor’s “credit worthiness,” or their ability to repay small loans. Since then, “microcredit” has evolved into a broader microfinance industry of small-dollar

lending operations to the poor. Meanwhile, and out of the spotlight, the poor were always saving, whether in terms of livestock, village savings schemes, or credit unions; indeed, Stuart Rutherford, author of *The Poor and Their Money*, points out that the poor are too poor *not* to save and manage their money well. Nearly 3 billion poor people worldwide, however, lack



access to basic financial services as well as to safe, regulated, and sustainable financial institutions that make saving feasible on a much larger scale.

In the last few years, *savings* has become the new buzzword in the microfinance field, with growing demand and evidence to support it. A recent report from CGAP, a World Bank affiliate, states that “When savings accounts in financial institutions serving the poor outnumber microloan accounts seven to one, one thing is certain: microfinance clients want savings services.” Elizabeth Littlefield, CGAP’s CEO and Director, remarked that, “There is lots of evidence suggesting that poor people would rather save, turning small amounts into a lump sum, than borrow a lump sum and then pay it back.” Indeed, the recent mortgage and financial meltdowns in the United States have generated some backlash against promoting indebtedness for all of the world’s poor.

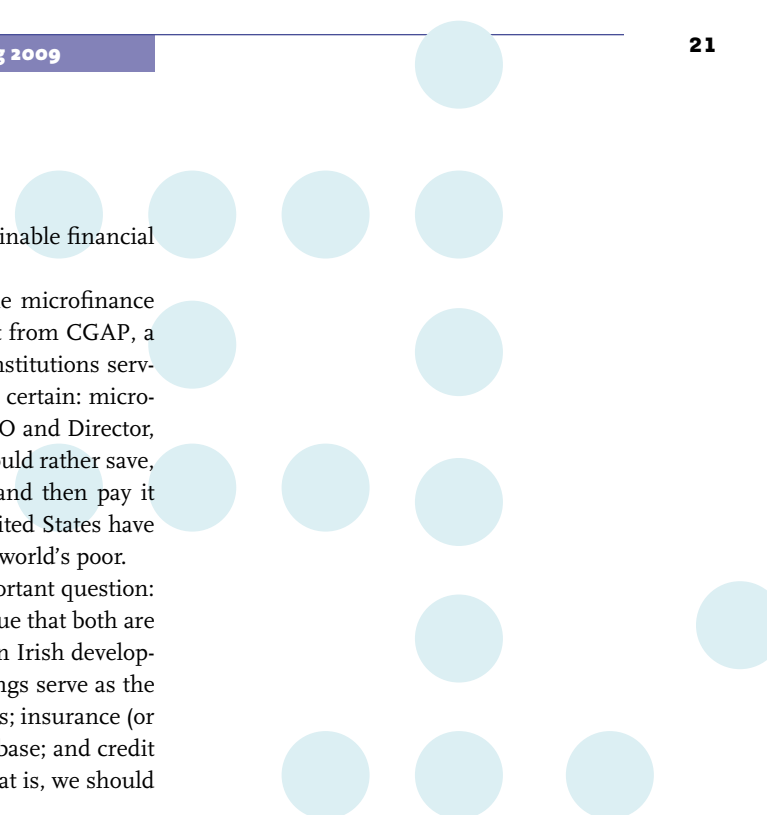
This momentum away from credit and toward saving raises an important question: How much of each should we emphasize in combating poverty? I’d argue that both are critical, but that the priority and sequencing should change. Building on Irish development finance thinker Garrett Wyse’s formulation, I’d suggest that savings serve as the “base,” the touchstone for meeting life-cycle needs and developing assets; insurance (or “micro-insurance,” as it’s known in the developing world) protects the base; and credit then expands the base, making further asset accumulation possible. That is, we should lead with savings, rather than with credit.

The CGAP numbers cited above suggest that the poor have already figured this out, and many if not most experts need to catch up. Indeed, microfinance scholar Dale W. Adams, in a forthcoming paper titled “Easing Poverty through Thrift,” states, “Perhaps it’s time to revisit traditional views about thrift and see if there is any wisdom there that might alleviate more poverty and create less risk than does the indebtedting fad that is currently in vogue.” ACCIÓN’s new “Lend to End Poverty” campaign perfectly demonstrates how fashionable debt-led strategies remain.

That applies to anti-poverty efforts in the United States as well. We’ve over-focused (but under-funded) income support, excluded and even penalized savings and asset ownership among the poor, and extended too much and the wrong kinds of credit—toxic sub-prime mortgages, deceptive credit cards, usurious pay-day and “refund anticipation” loans, etc.—to the very people who can least understand and afford them. Meanwhile, we massively and wastefully subsidized wealth accumulation in the United States—to the tune of \$400 billion a year—for households in the upper half of the income scale, those who need it least and would accumulate wealth anyway. Should it be any surprise, then, that prior to the meltdowns in the housing and financial sectors and the onset of the recession, one in three American households had no more than \$10,000 in net worth, and one in six had negative net worth? That wealth inequality dwarfs income inequality?

Accordingly, I’d recommend that U.S. policymakers learn from trends in the microfinance field and—while strengthening our nation’s traditional safety net—emphasize thrift and savings-led strategies as the foundation of our development efforts. This includes making access to *good* credit available once a sufficient base of savings has been secured. And, just like in the developing world, policymakers will need to respond to what’s already happening in households: The Federal Reserve recently reported that household debt fell for the first time ever recorded, falling 0.8 percent for the three-month period ending last September. Two-thirds of last year’s stimulus checks were saved or used to pay down debts, with only one-third spent. Meanwhile, the personal savings rate has turned positive—reaching 2.9 percent in the last quarter of 2008—following a steep and steady decline that began in the early 1980s.

So how can policymakers specifically respond to the savings needs and behavior of



**Nearly 3 billion poor people worldwide, however, lack access to basic financial services, as well as to safe, regulated, and sustainable financial institutions that make saving feasible on a much larger scale.**

**Hatton National Bank in Sri Lanka operates more than 700,000 child savings accounts because it enrolls families before they leave the hospital, in much the same way that infant formula companies in the United States hook new moms on their products.**

most households in the United States? The neo-classical model of saving—in which it is presumed that people rationally choose to consume now (and thus not save) or consume later (and thus save) has lost credibility. Instead, we must, first and foremost, be guided by recent findings in behavioral economics—which stress irrational factors, such as inertia, that determine how we wind up managing our money. Richard H. Thaler and Cass R. Sunstein's important book, *Nudge: Improving Decisions About Health, Wealth and Happiness*, describes this new model.

The data are compelling: In IDA experiments, individual characteristics—age, gender, race, employment status, and even income—did not predict savings. In fact, the poorest of the poor—those at 50 percent of the poverty line or below—saved a greater percentage of their income than those at twice the poverty line, suggesting institutional and behavioral factors are at play. In another experiment, participation in 401(k)s grew from 35 to 85 percent for women, 19 to 75 percent for Hispanics, and 13 to 80 percent for low-income workers when the default setting was switched to being automatically in the 401(k) plan (you have to opt out) from being automatically out of the plan (you have to opt in). The United Kingdom's Child Trust Fund has nearly 100 percent participation because the government wisely opened up accounts automatically for the 25 percent of the population that didn't get around to redeeming their vouchers at a local financial institution or stroller store. And Hatton National Bank in Sri Lanka operates more than 700,000 child savings accounts because it enrolls families before they leave the hospital, in much the same way that infant formula companies in the United States hook new moms on their products.

#### **Asset Building through the Life Cycle**

What, then, are the moments in our financial lives when these new insights could apply? I suggest making savings and asset accumulation automatic by getting everyone into savings systems at four key occasions: at birth, at the workplace, at tax time, and at the time when most Americans purchase their major asset, their home. Readers of *Pathways* (Summer, 2008) will see that my recommendations are in line with those offered by Dalton Conley, reflecting what I believe is a growing consensus toward a “soft paternalism” in savings policy.

**At birth.** Following the lead of the United Kingdom, Canada, South Korea, and Singapore, the United States should establish a lifelong savings account—an American Stakeholder Account—for every child born in America. It should fund those accounts progressively: \$500 at birth for every child, and for children from low-income households another \$500 at birth as well as the opportunity to earn \$500 in annual matching funds on contributions from any source until age 18. Financial education would be provided with each account. Withdrawals, beginning at age 18, would be restricted to post-secondary education and training, first-home purchase, and retirement. The bipartisan ASPIRE Act reflects this idea—it's the boldest and most important measure we could take to rebuild a savings culture and expand economic opportunity for every generation in America.

**At the workplace.** Mandated employer and employee savings schemes—long embedded in Singapore's successful Central Provident Fund and, beginning in 2012, the law in the United Kingdom—should become part of the savings infrastructure in the United States as well. I suggest creating an American Savings Plan—modeled on the federal retirement Thrift Savings Plan for government workers—into which every new worker would be enrolled and provided with an American Stakeholder Account. Ideally, this system would be created at the same time accounts at birth are established so



that, eventually, every American would be in one system. Mandatory savings of 1 to 2 percent from both employers and employees would be required, with savings geared toward retirement security but with limited withdrawals permitted for emergencies and certain pre-retirement assets. For workers in the current employer-based system, which should be phased out once the American Savings Plan begins, automatic payroll deductions should be directed into IRAs, as proposed in the bipartisan Automatic IRA Act.



### A New Ownership Agenda for the United States

Stepping back for a moment, we must recognize that the most immediate measure we can take for the poor in the United States is to stimulate a massive economic recovery—led by government spending—that boosts U.S. productivity and competitiveness, creates jobs, raises wages, and moves us toward full employment. The recently enacted economic recovery package is designed, of course, to move us in that direction.

However, we must also recognize that our long-term economic growth and competitiveness, as well as the financial stability of households, depends on pools of savings for investment. We're finally seeing that there are limits on how much economic growth can be fueled by debt, consumption, and other nations' savings; that party is clearly over. Once we're through this recession, a new era of thrift—the conservation of financial, energy, and natural resources—will be on the horizon for households and the nation alike, just as thrift is gaining momentum in microfinance efforts abroad. Government should invest massively while enabling households to save automatically; we simply cannot expect low-income people to sacrifice their own economic security for the sake of the larger economy—and they won't, if experience is any guide.

The massive losses in home values, investments, retirement, and college savings accounts in the United States over the last year underscore the need for better regulation of financial markets, not the futility of building assets. We must affirm that assets remain essential to economic security and opportunity, that they are the essence of the now-fading American Dream. But how we achieve widespread asset ownership must change, especially the importance of accumulating savings and wealth in institutions with the right sets of defaults. We've certainly learned that expecting low-income people, indeed most people, to navigate an increasingly complex and often dangerous financial system on their own simply doesn't work.

Now, in short, is not the time to abandon savings and asset development for the poor, but to learn from its successes around the world, and redouble our efforts.

**At tax time.** We should do two things at tax time. First, to bank the unbanked and reduce reliance on pay-day lenders, taxpayers who do not choose direct deposit should automatically receive an electronic banking account that can receive tax refunds and payroll deposits, pay bills, and hold savings. Second, as outlined in the Savers Bonus Act, low-income savers who save automatically at tax time for college or retirement, in six-month or longer CDs, or buy Savings Bonds, would have their savings matched on a dollar-for-dollar basis up to \$500 per year. All matching funds would be directly deposited into the account (or the value of their CDs or Savings Bonds would be increased). Savers would have a choice of savings products, while matching funds would be provided to low-income households without creating a new refundable tax credit—still a politically difficult thing to do.

**When purchasing a home.** Mortgage borrowers simply have too many choices. No one really understands the exotic sub-prime mortgage products that have led to the enormous and unexpected financial crisis in the United States and around the world. We must therefore get more Americans into safe, understandable, and appropriate mortgages. Accordingly, an "opt-out" mortgage, or Basic American Mortgage, should be the default mortgage—the first product offered to every American buying a home. This would be a 30-year fixed instrument that lenders would be required to offer to Americans with a decent credit rating, 10 percent down (the days of the zero down payment are gone), and a proven ability to make regular payments. Qualified buyers could opt out for other products, but the reporting and disclosure standards on these products would be significantly higher than today, earning approval from something like the Financial Product Safety Commission proposed by Harvard's Elizabeth Warren. Finally, the Basic American Mortgage would include an automatic savings feature so that when you make a payment you simultaneously build up the savings you might need to fix the roof or make payments should you lose your job.

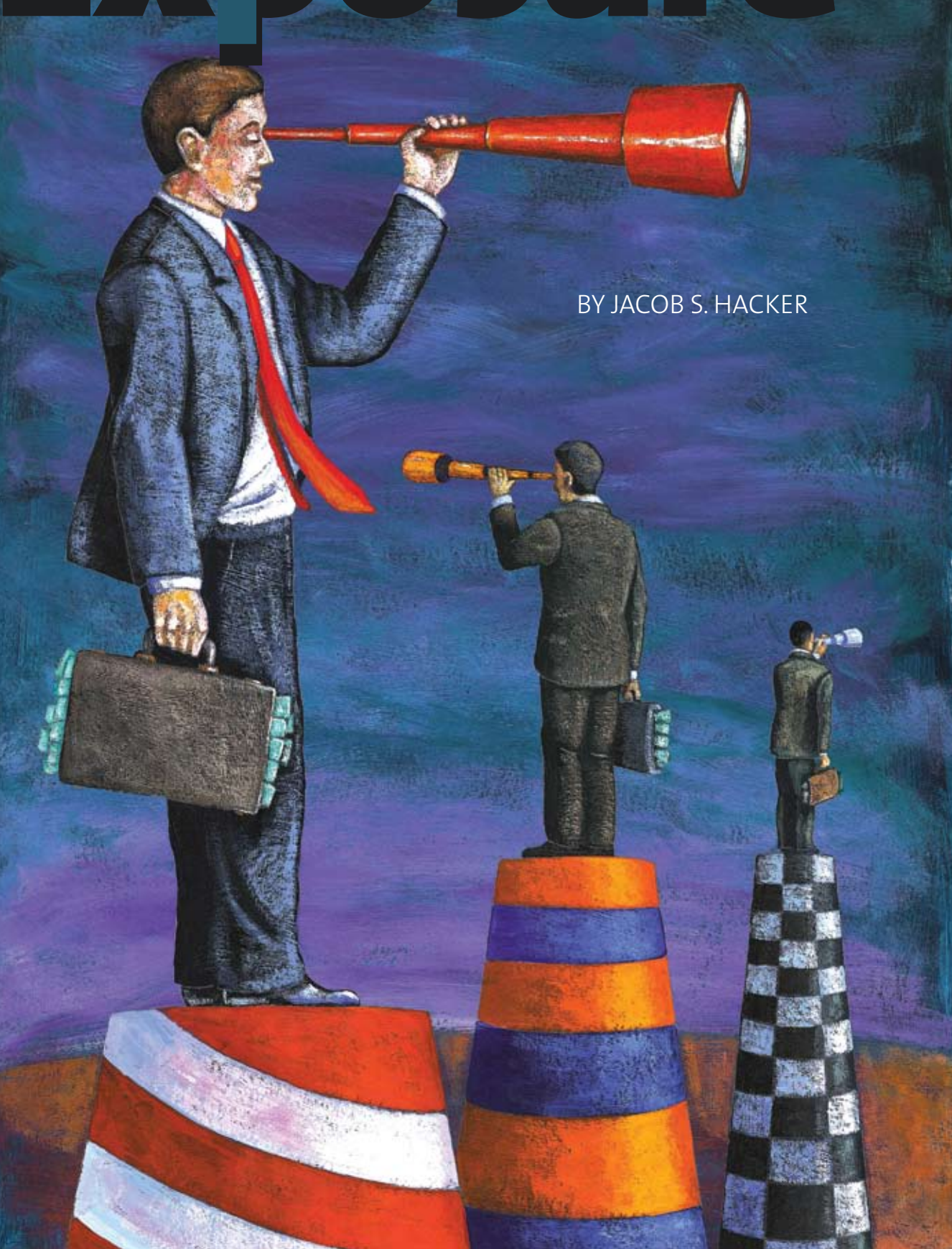
*Ray Boshara is Vice President of the New America Foundation ([www.newamerica.net](http://www.newamerica.net)) and is the author, with Phillip Longman, of *The Next Progressive Era: A Blueprint for Broad Prosperity*, which was published this April. The author would like to thank Leila Seradj and Jamie Zimmerman of New America's Global Assets Project ([www.globalassetsproject.org](http://www.globalassetsproject.org)) for their valuable contributions to this article.*

# Northern

LEARNING FROM CANADA'S RESPONSE TO WINNER-TAKE-ALL INEQUALITY

# Exposure

BY JACOB S. HACKER





If, as George Bernard Shaw once noted, “England and America are two countries separated by a common language,” Canada and America are two countries separated by a common language and a 5,500-mile border. Sister nations in the eyes of the rest of the world, the two enjoy a relationship marked by ambivalence on one side and indifference on the other. Avid consumers of American media and goods, Canadians nonetheless worry that their country will become too American: too individualistic, too crass, too disorderly, too materialistic. Meanwhile, despite regular cross-border infusions of Canadian pop music and comedic talent, Americans mostly ignore their northern neighbor. So marginal is Canada in the American view of the world that just the idea of the United States invading the country—the subject of not one but two hit comedies, *Canadian Bacon* (starring Canadian John Candy) and *South Park: The Movie* (featuring the Oscar-nominated song “Blame Canada”)—is seen as hilarious.

Today, however, a cross-border invasion of sorts is taking place. It does not involve tanks or troops, of course. It involves inequality—in particular, the growing concentration of income at the top of the economic ladder. Over the last generation, the United States and Canada (along with Shaw’s United Kingdom) have seen a remarkable rise in the fortunes of their richest citizens. In 1972, the richest 1 percent of Americans earned just over 5 percent of the nation’s income. During the 1980s and 1990s, however, their share of national income rose to nearly 13 percent. A similar, if more muted, trend has played out in Canada, though roughly a decade later: The share of national income earned by the richest 1 percent of Canadians rose sharply in the 1990s, exceeding 10 percent of national income by 2000.

It is tempting to see the rising fortunes of the super-rich in Canada and the United States as the result of the same overarching global causes. In the conventional account of growing inequality, after all, every rich nation is experiencing the pressures of increased foreign competition and of new technologies, like computers, that have expanded the



riches of the skilled. In this view, rising inequality is driven by market forces and has little to do with politics and public policy, except insofar as government steps in to help those on the losing end of these transformations. Yet the experiences of Canada and the United States suggest a different perspective, and different prescriptions for combating rising inequality. Runaway inequality and its negative effects have been much more limited in Canada than in the United States—a striking contrast that has much less to do with market forces than it does with political realities that have made Canadian leaders more responsive to the concerns of less affluent citizens.

### “Winner-Take-All” Inequality in the United States and Canada

At first glance, the well-off in Canada and the United States have experienced similar fortunes in recent years. The income required to be in the top 5 percent of families is almost identical for the two countries: \$154,000 in Canada, \$165,000 in the United States—which indicates just how similar the two countries are in overall wealth. Yet once we start looking within the top 5 percent, it becomes clear that the affluent in the United States are living in a truly distinctive world. The average income of the top 5 percent of families in the United States is \$416,000, fully 40 percent larger than the average income of the top 5 percent in Canada (\$296,000). The difference reflects the extreme concentration of income at the very top within the United States: The American super-rich—the top tenth of 1 percent (0.1 percent) and especially the top one hundredth of 1 percent (0.01 percent)—have far outpaced their Canadian counterparts.

The differences are jaw-dropping. The richest 0.01 percent

in Canada had average incomes of \$8.4 million in 2004. That sounds pretty impressive—until one discovers that this figure was less than a third of the average income earned by the top 0.01 percent in the United States (\$25.8 million). F. Scott Fitzgerald once remarked that the “very rich are different from you and me.” Ernest Hemingway replied, “Yes, they have more money.” It turns out that America’s super-rich are different from you, me, and the Canadian rich. They have lots more money.

Nonetheless, as Figure 1 shows, both countries have returned to levels of income concentration not seen since before the Great Depression. Other rich nations (again, with the exception of the United Kingdom) have seen nothing like this concentration of riches at the top.

### The More Limited Reach of Canadian Inequality

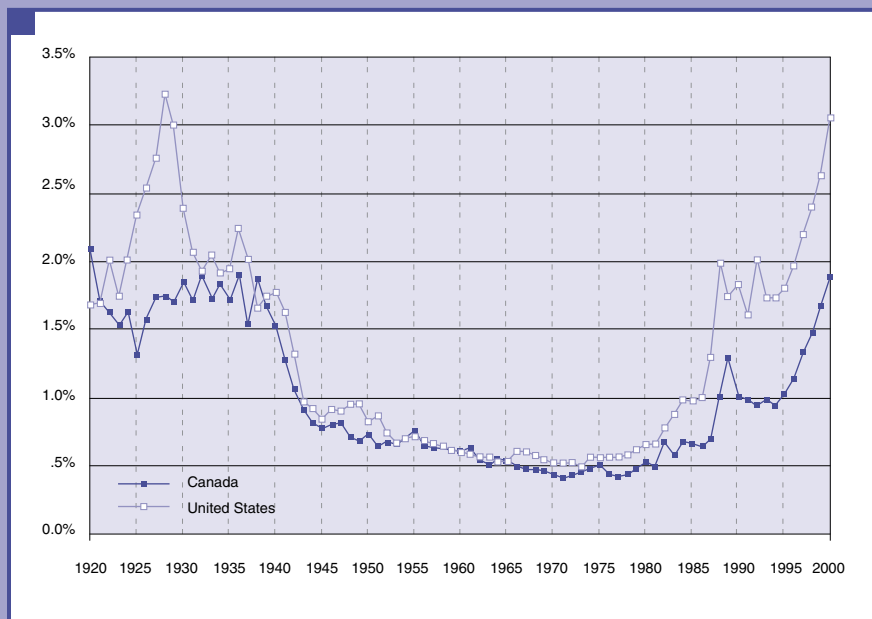
Looking beneath the very top, the tale of two countries becomes even more divergent. Economic inequality among most of the population has scarcely increased at all in Canada, and the economic standing of those at the bottom and the economic security of the middle class have both remained highly resilient. This stands in stark contrast with the United States, where winner-take-all gains at the top have been accompanied by a broad increase in inequality across the income distribution and a marked decline in the economic security of the middle class.

Consider the well-known Gini index, a measure of income distribution that is particularly sensitive to inequality in the middle of the income distribution, rather than at the extremes. From the early 1970s to 2000 in Canada, there was no measurable increase in the Gini index for family income after government taxes and benefits were taken into account—none at all. (The figures cited earlier on incomes at the top are before taxes and benefits, meaning that they don’t capture how Canadian tax and benefit policy reduces the ultimate level of take-home income inequality. They are also based on tax statistics, which better capture income at the very top, while the figures used to calculate the Gini index are from surveys of income that generally reach few truly rich people.)

Measured by the Gini index, Canadian inequality did increase modestly in the late 1990s, but it declined in the late 1970s and barely budged in the 1980s and mid-1990s, even while inequality in after-tax income increased substantially. Importantly, the reason for the stability in the Canadian measure is not that disparities in what people earned remained constant—in fact, they increased—but that Canadian policies did more to offset earnings inequality, keeping inequality after taxes and benefits largely constant.

Nor has poverty increased in Canada since the 1970s—again, in contrast with

FIGURE 1. Income share of the top 0.01% in Canada and the U.S.



Source: Emmanuel Saez and Michael R. Veall, “The Evolution of High Incomes in Northern America: Lessons from Canadian Evidence,” *American Economic Review* 95:3 (2005): 836.

the United States. Using a simple cross-nationally comparable measure of relative poverty (less than 50 percent of median income), poverty declined in Canada from 16 percent to 12.4 percent between 1971 and 2000. In the United States, relative poverty rates increased from 15.8 percent to 17.3 percent between 1974 and 2004. And this divergence occurred despite the fact that Canadian median income grew faster over this period than did American median income.

Finally, economic security has eroded far less in Canada since the 1970s as compared with the United States. Economist Lars Osberg has developed an index of economic security based on the risk of unemployment, the share of disposable income spent on medical care, and the risk of poverty in old age and among lone-parent families. As Figure 2 shows, Canadian citizens saw a decline in economic security by this measure in the late 1970s and the 1990s, and today stand at about the 1971 level. Americans, by contrast, witnessed a much sharper and earlier decline in economic security, with a sustained rise only during the strong economy of the late 1990s. My own research on the United States, looking at trends in family income instability and changes in the security of retirement and health benefits and family finances up through the mid-2000s, shows a dramatic decline in economic security as employers and government have transferred risk onto workers and their families—a trend that I term the “great risk shift.”

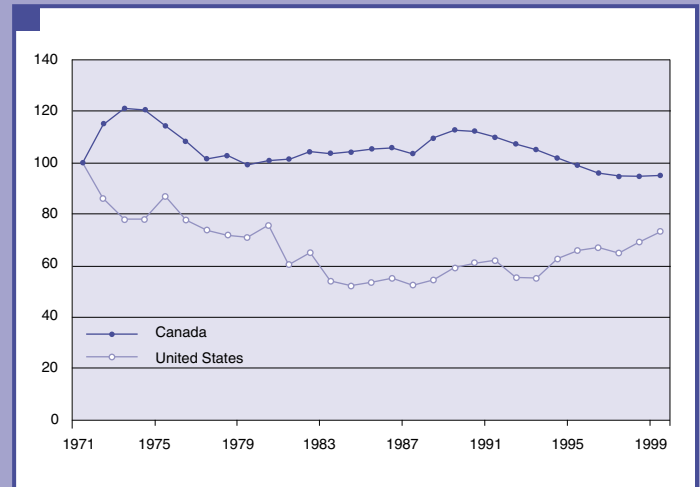
To some degree, these differences reflect the contrasting policies that these two nations had in place before the rise in inequality began—national health insurance in Canada, for example, versus a fragmented framework of private and public health insurance that leaves millions uninsured and underinsured in the United States. But to a substantial extent, the differences reflect how each nation has responded to rising inequality. And to a substantial extent, how each country has responded to rising inequality reflects how political processes and institutions have shaped and refracted the rising concentration of income at the top.

### Winner-Take-All Inequality: Made in the USA?

The natural urge is to see these two cases as separate examples of a larger cross-national phenomenon driven by globalization and technological change. That would be a mistake for two reasons.

First, Canada and the United States are not separate examples: The Canadian and U.S. labor markets have long been deeply interconnected—all the more so since the creation of NAFTA in the mid-1990s. And there is no question that the

FIGURE 2. Trends in Economic Security in Canada and the U.S. (1971 Index=100)



Source: Lars Osberg, "The Index of Economic Well-Being," <http://www.csls.ca/wb.asp>.

highest-earning Canadian workers find it hard to resist the gravitational pull of America's much more generous rewards at the top. Just their threats to leave for greener pastures doubtlessly encourage Canadian employers to raise top pay levels. One piece of supportive evidence: The rise in the share of income going to the top 1 percent has been much more modest among francophones in Quebec—who are generally reluctant to move south—than among English-speaking Canadians. Moreover, the substantial delay in the rise of American-style top-heavy inequality is also consistent with a story of contagion rather than a story of common technological and global forces—which, after all, should have hit Canada (and all of Canada) at roughly the same time.

A second reason to doubt the story of common external forces is that the historical record strongly indicates that domestic politics and government policy within the United States, not market developments, powerfully explain the emergence of an increasingly “winner-take-all” U.S. labor market. Indeed, the pivotal role of politics and policy becomes particularly clear in light of the Canadian experience, where the rise in top incomes occurred alongside continuing, if fraying, commitment to equality and security.

Research I am doing with Paul Pierson for our book, *Winner-*

**On the other side of the economic spectrum, American politicians have allowed, and even encouraged, the steady dismantling of the guarantees that ordinary workers once had of effective worker representation.**

## Canada has resisted the siren call of U.S. public policy, even as it has inevitably felt the pull of America's winner-take-all inequality. Canadian policymakers have proved at least partially willing to limit the fallout of the trend toward winner-take-all.

*Take-All Politics*, puts to rest the common notion that only global market forces and technological change dictated American developments. Perhaps the most damning evidence against this common story is that many nations facing the same forces and changes have not followed the American path. But we also go a step further, tracing the many important ways in which U.S. public policy helped fuel the concentration of income at the top. Some of the most important:

- In the United States, starting in the late 1970s, politicians slashed taxes for those in the very highest income categories. By themselves, these tax cuts probably account for roughly one-third of the improved after-tax economic position of the top 0.1 percent over the last 40 years. So dramatic is the shift that in 2007 Warren Buffet, the third-richest man in the world, could note that he paid about half the tax rate on \$46 million in income that his secretary did on her salary of \$60,000.
- Over the same period, political leaders also oversaw the development of a system of corporate governance that granted enormous autonomy to managers, including significant indirect control over executives' own pay. Through regulatory reforms and new tax breaks, political leaders also favored sectors like finance with highly unequal income distributions. Politicians also played a central role in fueling the meteoric rise of stock options, the heart of the executive-pay explosion. And the executive-pay explosion (in the financial sector and beyond) is, in turn, the source of much of the winner-take-all economy.
- On the other side of the economic spectrum, American politicians have allowed, and even encouraged, the steady dismantling of the guarantees that ordinary workers once had of effective worker representation. Since the late 1970s, repeated weakening and studious non-enforcement of protections for those seeking to form or support unions have encouraged a precipitous drop in union strength—from nearly a quarter of workers unionized in the early 1970s to only 7.4 percent in 2005.

In all these areas, American political leaders pursued policies that encouraged hyper-concentration of income at the top, while largely failing to augment or create policies that would help deal with the resulting fallout—from expanded health insurance to better job protections to more progressive taxation.

### Canada: Winner-Take-Some?

The Canadian story has played out much differently. In the mid-1990s, a major budget crisis prompted the Liberal Party—the

party most responsible for Canada's welfare state—to implement substantial cuts in a number of programs, including unemployment insurance and social assistance. But the era of cutbacks was fleeting. As Canadian social policy expert Keith Banting points out, "In retrospect, it is striking how short the period of retrenchment at the federal level actually was. By 1998, public finances were coming back into surplus rapidly, and cuts were replaced by 'the politics of reinvestment' in health care and child benefits." The resilience has been most striking in health care. Although Canada's national health system based on provincial "single-payer" programs is under strain, it remains a crucial source of economic protection and commands widespread political support.

Furthermore, Canadian public policy has been less solicitous toward the well-off than U.S. policy. Tax cuts for the rich have been more modest. Corporate governance policies have been less acquiescent toward compliant compensation boards (in part because Canadian institutional investors have more countervailing power). And Canadian policymakers have required greater disclosure of CEO pay and maintained limited incentives for stock options.

Canadian policy has also remained much more favorable toward unions. Once more limited in reach than their American counterparts, Canadian unions now enjoy much broader membership (about a third of the nonagricultural workforce) and have seen little decline—despite similar worker attitudes toward unions in the two nations. The Canadian economist W. Craig Riddell has found that little of the divergence between Canada and the United States can be explained by structural differences in the two nations' economies, or even by differing worker propensities to join a union. Rather, the difference is due to the much lower (and declining) likelihood in the United States that workers who have an interest in joining a union will actually belong to one—thanks to aggressive anti-union activities by employers during a weakening of American labor laws that guarantee workers' right to form unions.

And unionization clearly matters for wage inequality. According to work by UC-Berkeley economist David Card and his colleagues, the continuing sway of unions (encouraged by public policy) is probably the leading reason Canadian wage inequality is so much more muted below the very top—and stable since the 1970s—than wage inequality within the United States.

Most revealing of all, Canadian leaders have undertaken major efforts to reduce poverty that have yielded significant results. As the American sociologist Lane Kenworthy notes, "Canada's social welfare programs are more generous than those



in the United States in several areas where such generosity is particularly helpful in reducing poverty.” U.S. public assistance for the poor was prominently cut back in the mid-1990s. Meanwhile, Canada’s leaders largely maintained, and in some key areas expanded, means-tested benefits. In Canada, unlike the United States, cash assistance is available to poor individuals and couples without children, and it is relatively generous. Canada’s child tax benefit is offered not just to working families but to nonworking ones as well. As a result, poverty among female-headed lone-parent households has declined in Canada.

Another notable example of Canadian antipoverty efforts is a long-term policy initiative to reduce poverty in old age that has slashed the share of elderly Canadians in poverty. While this initiative originated in the 1950s and 1960s, Canadian leaders have maintained and deepened the commitments made in earlier years, including a guaranteed income supplement for lower-income elderly citizens and a special widows’ benefit to assist elderly women living alone. When pressure to cut back old-age programs emerged, American leaders simply trimmed Social Security, whereas Canadian leaders restructured the program more broadly to focus resources on the most vulnerable age and increase the investment income of the program. As Osberg points out, “The contrast with the United States is particularly striking. Although the poorest Canadian seniors were much worse off than American seniors 40 years ago, they are now much better off.”

### Beyond Policy: Learning from Canada’s Political Successes

In crucial respects, then, Canada has resisted the siren call of U.S. public policy, even as it has inevitably felt the pull of America’s winner-take-all inequal-

ity. Canadian policymakers have proved at least partially willing to limit the fallout of the trend toward winner-take-all. This divergent response appears to reflect several features of Canada’s political structure that make political leaders more responsive to the concerns of middle- and lower-income Canadians.

One already mentioned is the much greater role played by unions. We are so used to thinking of unions as powerful economic actors, pressing for higher wages for workers or pushing back against high executive pay, that we often forget that they are also crucial political actors representing the interests of less affluent citizens and monitoring and fighting inequalitarian policy changes. In these efforts, unions have allied with the women’s movement—which Banting notes has a stronger social agenda in Canada than it does in the United States—as well as a broader network of advocacy organizations that have organized around Canadian social policies.

To be sure, political parties can also play this role, when they have the incentives and means to do so. But here again, Canadian politics looks different. While parties of the left have never fared particularly well in Canadian national politics, they have managed to gain a continuing foothold in key Canadian provinces. Unlike in the United Kingdom’s otherwise similar parliamentary system, Canadians have long supported regionally based parties at the national level, allowing relatively small localized parties to have relatively large national impacts—and parties of the left have been key beneficiaries of this situation.

The impact of small left-leaning parties has been heightened by the continuing reality of Canada’s minority governments (governments headed by a party with less than a majority of seats in parliament). While increasing the difficulty of legislative bargaining, minority governments have also increased the leverage of smaller parties, including those of the left.



Since the mid-1970s, around the time the Supreme Court struck down limits on campaign spending in the United States, Canada maintained strict caps on candidate and party spending. Canada also has public financing of elections, full disclosure of contributions, free broadcast time, and tax credits to encourage lower-income citizens to contribute. This framework, as one election law specialist notes, “has avoided the worst excesses of the American political system, most notably the unlimited spending by candidates and the proliferation of soft money.”

Finally, voter turnout has, until recently, been much higher in Canada than in the United States, encouraging politicians to respond to the demands of all income levels, not just the more affluent citizens who most regularly vote. This is partially reflective of multi-party competition, but also stems from Canada’s less restrictive laws for registration and voting. In Canada, the federal government takes responsibility for registering every eligible voter, with the consequence that more than 90 percent of eligible citizens are registered (compared with around 70 percent in the United States).

### Is the United States Canada’s Future? Is Canada the United States’?

But perhaps the most important lesson is that politics matters. Efforts to preserve political equality in Canada—not just campaign finance reform, but also continuing support for labor unions and broad voter registration—have fostered a democratic counterweight to pressures for rising inequality and limited the degree to which gains at the top have translated into losses for the rest.

If the United States were able to reinvigorate American workers’ right and ability to unionize, as is currently being considered in the halls of Congress, this could go a long way toward buffering against the negative fallout of winner-take-all. Strengthening unions in the United States would yield a double advantage of encouraging greater wage equality while building political will behind efforts to protect American workers from economic insecurity.

Nonetheless, unions are unlikely to revive quickly or easily. Even in Canada, private-sector unionization rates have declined (even as public-sector rates have risen enough to largely offset the decline). Much needs to be done, therefore, to encourage the revival of civil society more generally, through serious campaign finance reform and the fostering of large-scale membership organizations that, unlike today’s professional lobbying organizations, actually bring people into engagement with issues and the governing process. As the Canadian example suggests, this should involve creating alliances between the labor movement and other social movements (like the women’s movement) to create greater political leverage than any individual organization can muster.

Yet this list of lessons should not encourage complacency about Canada’s future, or despair about the United States’. Canadian politics has been in a state of disarray. Its national health system has seemed under constant siege. Both voter turnout and union density have recently waned. Just as President Obama enters office vowing to reverse some of the rise in inequality and insecurity in the United States, Canada is facing a crisis of confidence in its government and policies of historic proportions.

It would be an ironic, but hardly unwelcome, turn if the next American export to Canada was not winner-take-all inequality but a renewed sense of the need for social reform to reduce inequality and protect the economic well-being of the poor and middle class. For that to happen, however, the United States will need to heed the most important lesson of Canada’s greater success in combating inequality and poverty—that political reform is needed to ensure that the interests of all citizens are reflected in public policy.

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SPOTLIGHT ON...

## Growing Power and the Urban Farming Movement

Based on an interview with WILL AND ERIKA ALLEN

Recently, first lady Michelle Obama unveiled a new organic vegetable garden on the South Lawn of the White House, stimulating education about the benefits of healthy, locally grown fruits and vegetables. According to Will Allen, a 2008 winner of a MacArthur “Genius Award” and an urban farmer who has long worked to produce and deliver healthy food to low-income urban populations, this is a tangible indicator of a growing commitment to urban farming.

Why this new focus on urban farming? The simple virtue of the urban farm is that it allows low-income communities to access healthful food. And this, in turn, has the potential to combat long-standing health problems plaguing low-income communities, such as diabetes and obesity. It can also provide an example of grassroots change that motivates community members to take on other urban and low-income problems. Will Allen and his daughter Erika Allen, the Chicago Projects Manager of his Growing Power organization, recently spoke with us about how their organization is changing the urban landscape.

Growing Power is an urban farm and food delivery system that helps low-income Americans by growing and distributing high-quality, safe, healthy, and affordable food. In Milwaukee, Growing Power has a two-acre farm and greenhouse that draws on low-cost farming technologies, including raised beds, aquaculture, vermiculture, and heating greenhouses through composting. The farm is no larger than a small supermarket, but it contains some 20,000 plants and vegetables as well as fish, chickens, goats, ducks, rabbits, and bees. By using its food dis-

tribution networks, Growing Power helps ensure that all low-income residents in the community have safe, affordable, and healthy food within walking distance of their homes.

According to data from the U.S. Department of Agriculture, over a third of families under the poverty line report being uncertain whether they will have enough food to meet the needs of all family members. Many poor families live in communities where affordable food is available only at fast food franchises and corner stores that hawk beer, cigarettes, and processed foods. As the Allens describe it, the urban landscape is too often a “food desert” in which safe, healthy, and affordable food is just a mirage, with poor nutrition, obesity, and diabetes the predictable result. The objective of Growing Power is not just to deliver healthy food to residents of these neighborhoods. Additionally, it can provide community residents with jobs, many of them green jobs, while empowering neighborhood residents by demonstrating that positive change is within reach. Although Growing Power takes on important problems, the Allens maintain that it still needs to be supplemented with standard emergency food services, such



as the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

The Growing Power vision has been implemented in Milwaukee and Chicago, but the Allens note that it can be replicated and reproduced across the country. Because the relevant farming methods are readily taught, Growing Power is providing intensive training to people and organizations interested in establishing similar farming initiatives in other urban settings. Satellite training centers already exist in places such as Arkansas, Georgia, Kentucky, Massachusetts, and Mississippi. Furthermore, by bringing youth into the organization, Growing Power has invested in a long-term constituency for the urban farming movement. In the Milwaukee Youth Corps program, Growing Power provides opportunities for young people to learn the basics of organic agriculture, develop leadership and entrepreneurial skills, work with a diverse group of people, and gain life skills.

So where does urban farming go from here? According to the

Allens, the answer in many cases is up. In some cities, space is at such a premium that urban farming will have to take a vertical form—so-called “vertical farming.” With improvements in technology, these “vertical farms” could be fully powered off the grid through renewable energy, thereby sidestepping conventional energy sources and delivery.

The Allens are strong advocates of the idea that combating poverty will be easier if we harness the power of urban farming initiatives to improve the health and well-being of low-income Americans. The urban farm can empower low-income communities by helping them design and maintain their own healthy, nutritious, and economically productive food systems. The big challenge of the coming years, they suggest, will be to spread the urban farming concept and to build a much larger complex of urban farms. Although there is a pressing need to build new urban farms now, the Allens are also strong supporters of research to find out which of the various urban farming formulas are most effective.



*Left: Growing Power's aquaponics system raising tilapia, yellow perch, watercress, and assorted greens on vertical beds.*

*Below: Will Allen, founder and CEO of Growing Power.*

*Bottom: Growing Power's urban farm in winter.*

*Previous page: Winter greens growing in unheated hoop houses.*

