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Social investment in children through social policy to reach the objective of equal opportunities for all

Investīcijas bērnu attīstībā kā sociālās politikas uzdevums, lai nodrošinātu vienlīdzīgas starta iespējas visiem sabiedrības bērniem

Ilze Plavgo (ilze.plavgo@eui.eu)
European University Institute, Florence (EUI)
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Outline of the presentation

- Why invest in children?
  - The main objectives of family policy: improve “stock”, “flow”, and “buffer”
  - Why is the rate of return to investment in human capital the highest in early age?
  - Why reduce inequality of opportunities?
    Mechanisms behind inequality in opportunities and their negative consequences on the overall economy
    Theories: P. Bourdieu (1977); A. Lareau (2011); R. Boudon (1974); R. Breen & J.H. Goldthorpe (1997); Raftery & Hout (1993); J. Heckman & Krueger (2003); F. Bernardi (2014)

- Policy examples and best practices of social investment in:
  - ”Stock”: raising the quality of human capital and capabilities
  - ”Flow”: improving/easing (gender-equal) access to the labour-market
  - “Buffer”: fostering a strong minimum-income universal safety net

- Different family types, requiring different policy responses

- Conclusions

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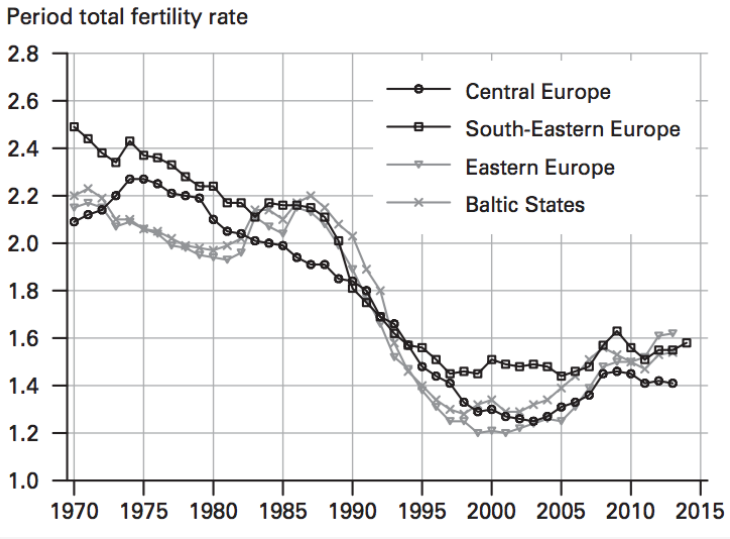
Why invest in children?
The main objectives of family policy

WHAT IS THE MAIN ROLE OF FAMILY POLICY?

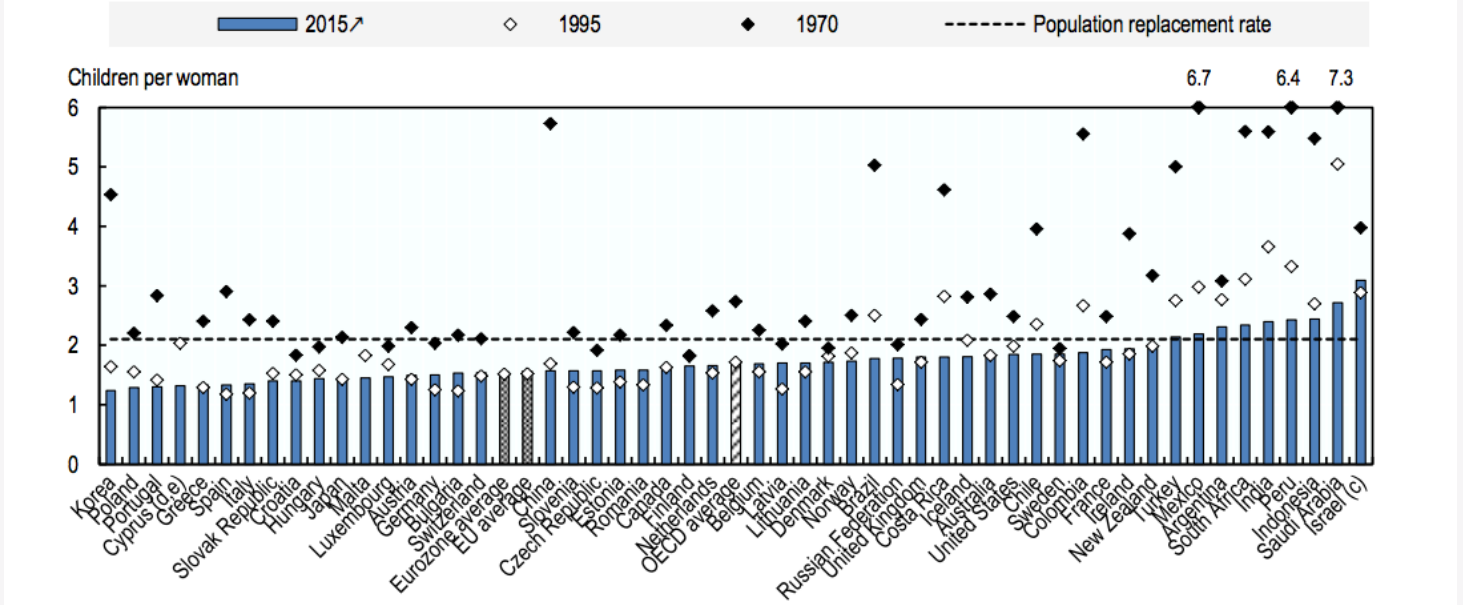
Situation in the **past** (1990 - 2005)



Source: Frejka & Gietel-Basten (2016)

→ Fertility rate in 1990-2005 critically low

Situation in the **present** (2015)



Source: OECD Family Database, OECD, Social Policy Division

→ By 2015, fertility rate in Latvia above EU average & similar to that of the NL, Denmark, Norway

Recent changes in the objectives of family policy:

1. Fertility increase no longer regarded as the central objective of family policy

2. Moving from demographic aspects to social and economic aspects:

- *Improving human resources, human development*
- *Reducing child poverty and inequality to equalize their educational and later occupational opportunities*
- *Increasing economic security and tax base by facilitating (gender-equal) employment and employability*

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Why invest in children?
The main objectives of family policy

Three main types of policy interventions to receive highest returns from social investment in children:

- Improving "**Stock**": Raising the quality of human capital and capabilities
  Aim: to equalize opportunities of developing cognitive and social skills (necessary for future employment and for breaking intergenerational transmission of poverty).
  Policies: daycare, preschool, and parental counselling.
- Increasing "**Flow**": Improving/easing (gender-equal) access to the labour-market
  Aim: to increase the economically active population; to allow for career continuation without interruptions for women with small children; to reduce risk of poverty among low SES by equalizing work-life balance for men and women (moving towards a dual earner model to avoid risk of poverty); to reduce social exclusion.
  Policies: universal/subsidized daycare; flexible parental leave for men & women; flexible working hours (part-time jobs and being able to agree on working hours)
- Safeguarding "**Buffer**": Fostering a strong minimum-income universal safety net
  Aim: to reduce risk of poverty for all family types; to financially compensate for opportunity costs of having a child (e.g., less time to work full-time, childcare and daycare expenses).
  Policies: child benefits and social assistance, by family type (no 'one-size-fits-all')

[Hemerijck, 2017]

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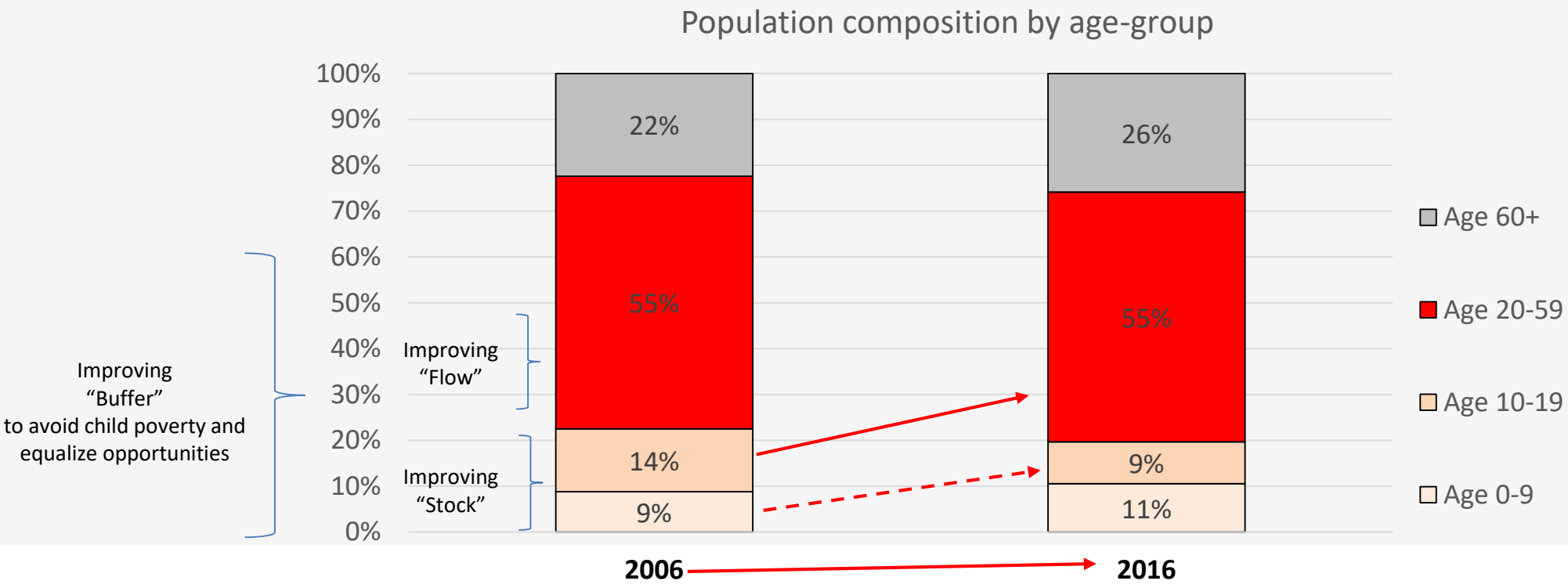
Why invest in children?
The main objectives of family policy

- Family resources and tax base of the working-age population (the red part) depends not only on the number of the working-age population, but also on: employment rate (male & female), salary size, proportion of skilled/unskilled; employment duration *(policy implication: improve "flow")*
- Life-cycle perspective: investments in cognitive development made at age 0-19 affect employment and wage at age 20-59 (*policy implication: improve "stock"*)



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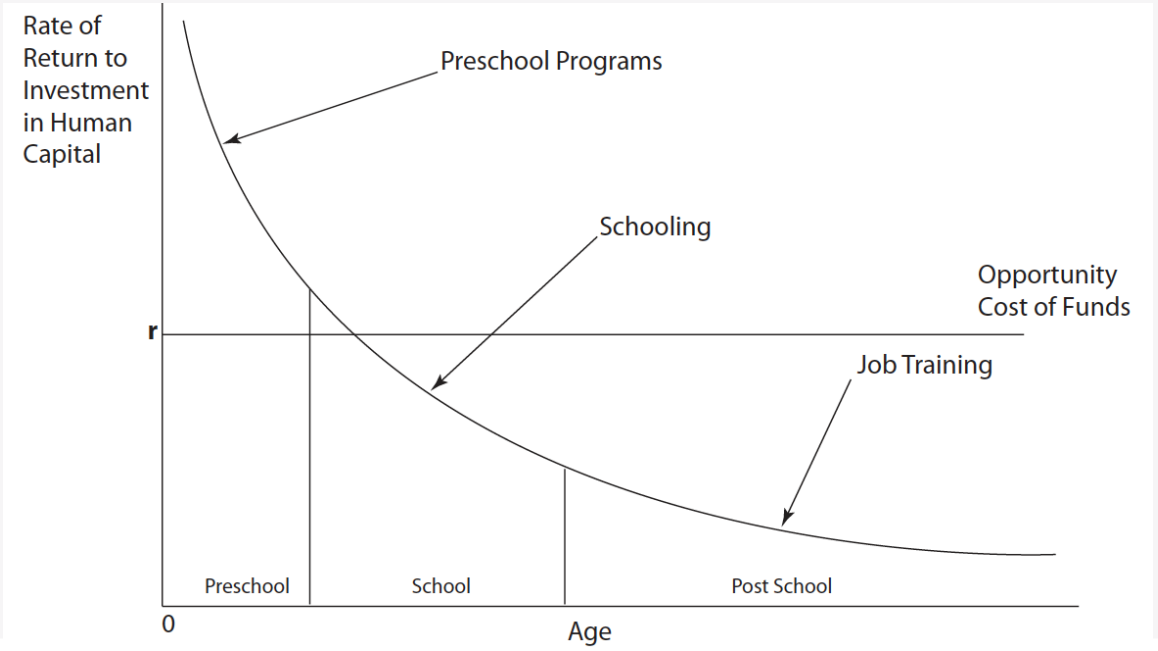
Why invest in children?
Rate of return to investment in human capital is the highest in early age

- Cognitive ability is formed early in life and becomes less malleable with age;
- The influences of family factors accumulate: by the age of adolescence, child's ability is determined;
- Early investments generate returns over a longer time horizon, and also raise the productivity of later investments
- Investments at a later stage (e.g., job training) to compensate for neglect in the early years is expensive



Rates of Return to Human Capital Investment Initially Setting Investment to be Equal Across all Ages

Source: James J. Heckman & Alan B. Krueger (2005). Inequality in America: What Role for Human Capital Policies? The MIT Press: Massachusetts.

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Why invest in children?
Rate of return to investment in human capital is the highest in early age

Heckman's model: skill, ability, capability formation = a multi-staged interdependent process:

1. Interdependency of ability formation

The amount of skills/abilities at certain stage (e.g. at age 1) has a direct effect on the amount of skills/abilities at a subsequent stage (e.g. at age 3).

E.g., a high level of cognitive skills at a certain stage fosters the level of health at a subsequent stage because an individual is aware of the benefit of a balanced diet or smoking avoidance

2. Complementarity of ability formation

The amount of skills/abilities produced at a certain stage of life increases the productivity of investments at following stages.

E.g., the understanding of complex concepts is easier if we master the basic concepts first.

→ Weak cognitive stimulation in the first 3 years of one's life has long-lasting consequences since it reduces the level of abilities at the baseline, affecting the multiplicative process of ability formation.

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Why invest in children?
Reducing inequality of opportunity

→ Conditions during early childhood are decisive

→ Primary cause of disadvantage in early childhood stems from inadequate cognitive and behavioural stimulus, linked to lack of financial and educational capital

→ Research and best practice analyses show that equality of opportunity can be achieved by equalizing living conditions during childhood by:

- Eradication of child poverty
- Cognitive stimulus through parental education and universal high-quality pre-school institutions

Family policy can contribute towards reducing the effect of child's socio-economic background (family/home circumstances) on:

- Educational outcomes
- Health outcomes
- Occupational outcomes

Expected return to investment:

→ Decrease of inequality, poverty, dependency, crime, uncertainty

→ Increase of human capital, tax base, GDP, security

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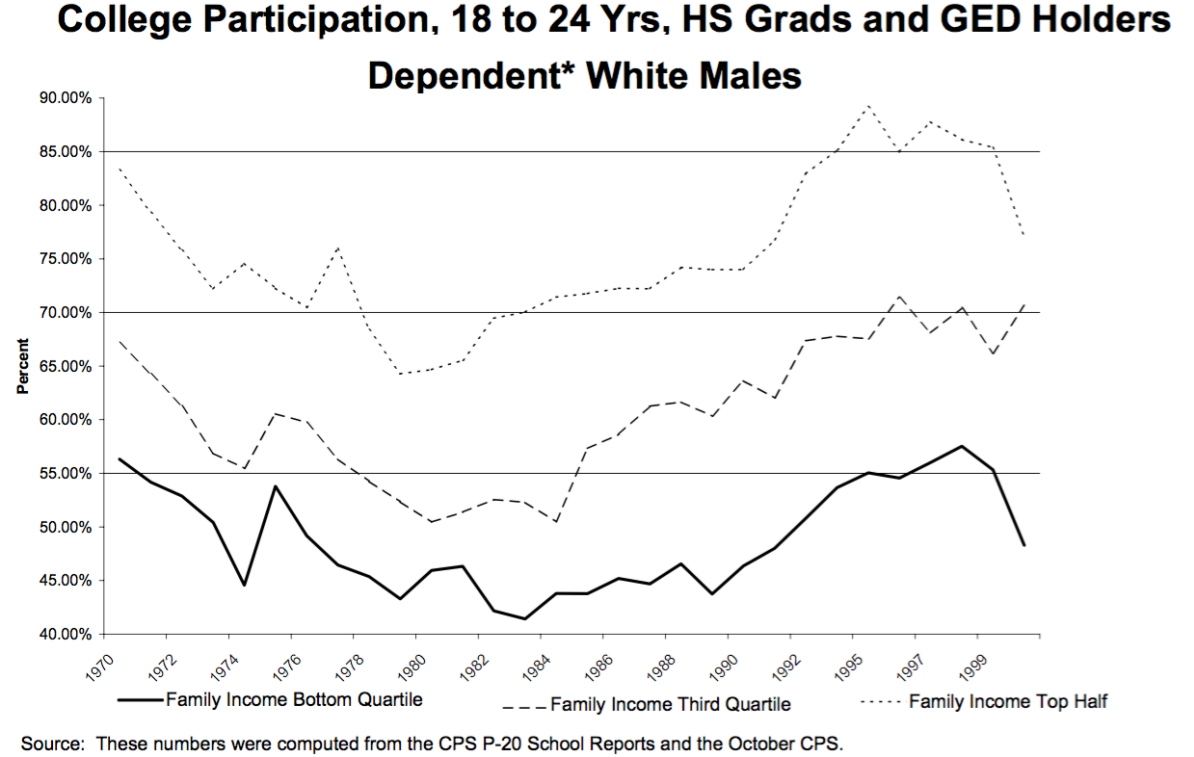
Why invest in children?
Reducing inequality of opportunity

Differences in the probability to access higher education depending on family background



(USA: Heckman & Krueger 2005)

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Why invest in children?
Reducing inequality of opportunity

Theories explaining inequality in educational opportunities:

Pierre Bourdieu (1977): Cultural capital theory: cultural reproduction and social reproduction

Transmission of privilege through cultural capital that is acquired and used in daily life;

People from different social backgrounds socialized differently;

Interaction with institutional arrangements such as schools differ depending on social class.

Annette Lareau (2003, 2011): Social reproduction due to differences in child-rearing

Two main types of child-rearing that differ according to families' social class:
1. Concerted cultivation (arranged, coordinated cultivation of children's talents and skills through parent-child interaction and organized activities);

2. Accomplishment of natural growth (giving control over children's leisure activities to children themselves)

Raymond Boudon (1974): Theory of primary and secondary effects of social origin

Parental background seen as the main determinant of inequality in educational opportunities because of two mechanisms: family conditions affect children's cognitive ability and scholastic achievement (primary effects), and families are the main agents making choices about children's school attendance and continuation (secondary effects). Boudon (1974) claims that as children's educational careers extend, it is the influence of secondary rather than of primary effects that becomes increasingly dominant.

The risks, costs, and benefits associated with school attendance differ depending on families' socioeconomic background. All families have a certain level of aspirations regarding their children's education to avoid the risk of social demotion, but the minimal acceptable level of education that guarantees to avoid downward mobility is different for pupils from different social origins, since the "starting point" is different.

Why invest in children?
Reducing inequality of opportunity

Theories explaining inequality in educational opportunities (cont.):

Raftery & Hout (1993): Maximally Maintained Inequality Hypothesis

Hypothesis: differences in educational outcomes between different socioeconomic groups are unlikely to be reduced by educational expansion, unless school attainment among children from better-off socioeconomic backgrounds is saturated, reaching close to 100 per cent and creating a ceiling effect. Authors suggest that this is because upper classes are in a better position (economically and information-wise) to benefit from educational expansion (this can also refer to ECE)

John Goldthorpe (1996): Rational Action theory to avoid downward mobility

Hypothesis: long-term persistence of social class differentials in education is due to unequal distributions of resources, opportunities and constraints that contribute to differing rational adaptive strategies due to differing success probabilities, cost-benefit evaluations of educational options, and aspirations.

Assumption regarding aspirations: families seek to ensure that their children acquire a position at least as advantageous as that from which they originate to maintain their status and avoid downward social mobility, and the reference point of the desired educational attainment differs depending on families' status position (Breen & Goldthorpe 1997).

Fabrizio Bernardi (2014): Compensatory advantage theory

Secondary effects (choices) matter: educational choices made by upper classes are less sensitive to children's cognitive ability and scholastic achievement compared to lower classes. Compensatory effects of social origin play a role in persisting inequalities because of parents' efforts to prevent downward intergenerational social mobility, and because more advantaged families dispose more resources that enable them to cope with such prior disadvantageous events as low cognitive ability, health-related issues, and external shocks.

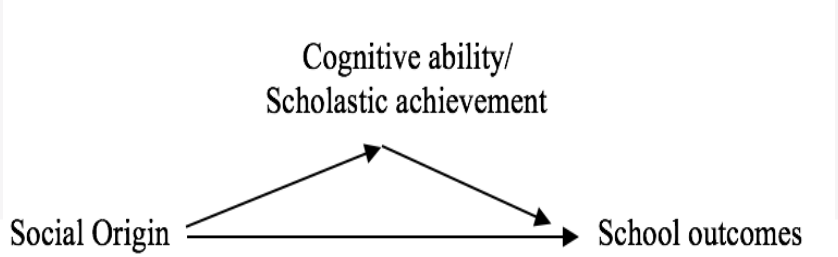
Why invest in children?
Reducing inequality of opportunity

The effect of social origins on children's educational attainment (Boudon, 1974):

- **Primary effects**: cognitive ability / academic achievement:
  Association between children's family background and their **level of academic performance:**

Children from different family backgrounds may have different levels of academic achievement due to cultural, educational, and financial capital that their families dispose

- **Secondary effects:** educational choices made by individuals/families:
  Association between children's family background and their **educational choices** (e.g., which secondary school to go to; whether to enter university or not), given the same level of academic achievement
  Even when the academic achievement is the same, children from different family backgrounds may have different educational trajectories and destinations due to differences in choices made based on differences in real and perceived costs, benefits, and aspirations



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Why invest in children?
Reducing inequality of opportunity

Example: Relative importance of primary and secondary effects: England and Wales, 1986

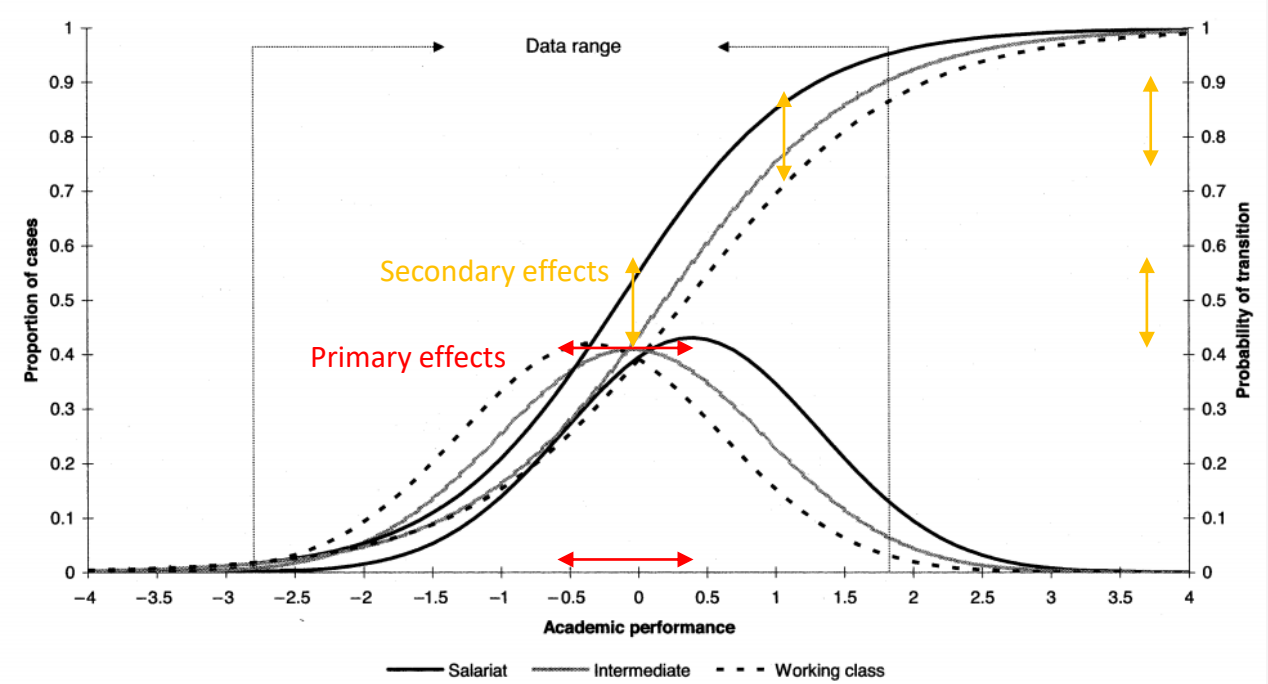

Figure 2 *Graphical representation of regression of transition to A-level work on academic performance (1986)*

→ Given the same level of academic performance (e.g. 0 on the x-axis in the figure above), working class children are substantially less likely to do A-levels than children from upper class (probability of transition: 40% vs. 60%)

→ Secondary effects account for a large part of class differentials in transition to upper secondary education A-levels

Source: Jackson, Erikson, Goldthorpe, Yaishson (2007). " Primary and Secondary Effects in Class Differentials in Educational Attainment: The Transition to A-Level Courses in England and Wales". Acta Sociologica, Vol. 50, No. 3, pp. 211-229.

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Why invest in children?
Reducing inequality of opportunity

The level of inequality of opportunity is not the same in all countries

→ **Social policy matters!**

Example: The odds of attaining upper-secondary education among children of low educated fathers: Individuals born in 1970s

	United States	United Kingdom	Denmark	Norway	Sweden	Germany
1970s cohort	0.115***	0.185***	0.449**	0.661*	0.320**	0.094***

*Controls for cognitive abilities, gender and immigrant status
Data: International Adult Literacy Survey (IALS). Source: Esping-Andersen (2015). Journal of European Social Policy.

- → Among children from families with a low educational capital, in Scandinavia children are more likely to be upwardly mobile (i.e., their educational outcomes are less dependent on parents' background)
- → Among children with low educated fathers, Swedes are three times, and the Danes four times, as likely to attain higher education as are their German or American equivalents.
- → Findings point at social policy effect (education reforms, lower income equality, low child poverty in Scandinavia)

"**Stock**": Raising the quality of human capital and capabilities

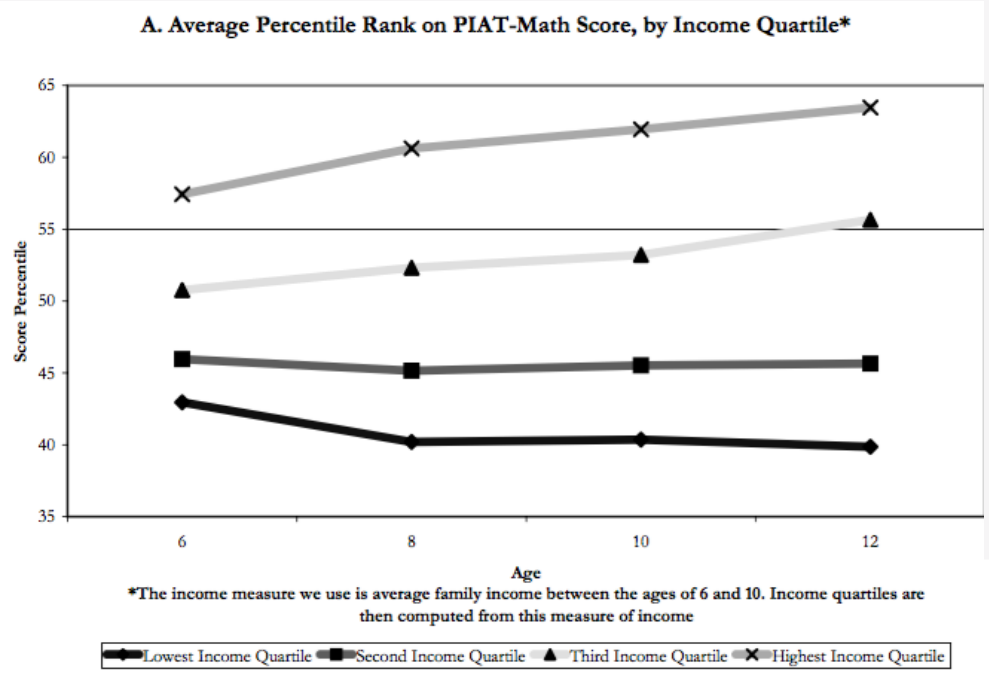
Divide in <u>cognitive</u> skills by socio-economic background:

- Differences emerge early (at age 0-3), and are strengthened with age (in school)

→ Investment in early years of child's life is crucial for reducing inequality and increasing equal opportunities

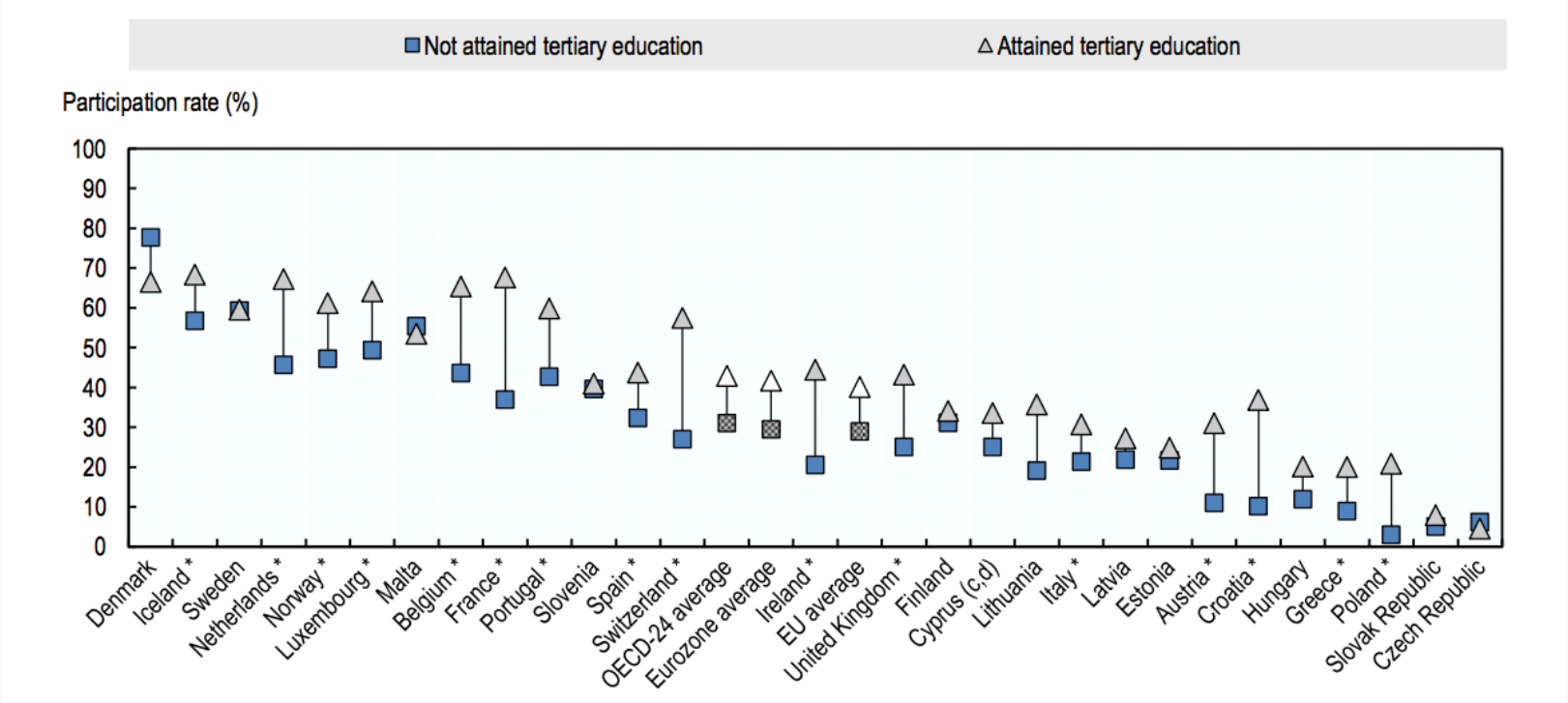
Policies:

- Child poverty reduction (equalizing living conditions important)
- High-quality pre-school provision at an early age (already at age 0-3) to move from "Day-passing" to "Day-caring" (cognitive development at early age (0-3) crucial)
- Organized after-school activities and summer-school activities to compensate for lack of cognitive stimulation at home (children of school-age)



"**Stock**": Raising the quality of human capital and capabilities

Participation rates for 0-to-2-year-olds in formal childcare and pre-school services, by mother's educational level (2014):



→ In Latvia, more than 2/3 or all children below age 3 do not attend formal childcare/preschool, regardless of mother's educational attainment.
- Issues with childcare/preschool availability;
- Issues with mindset and perception of when cognitive development occurs (underestimating the importance of first 2 years of one's life)
- Possible introduction of inequality in children's cognitive and non-cognitive skills, given that most children rely only on home environment as their main source of ECD

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"**Stock**": Raising the quality of human capital and capabilities

Early Childhood Education

Example 1: **Chicago Child-Parent Centers** (CPC), an early intervention program for children attending Chicago public schools in very low income neighborhoods

- Since 1967, CPC (state-funded preschool program) has served over 100,000 children.
- Participants have consistently performed better in school, have been less likely to do crime, and have earned more than nonparticipants.

Example 2: **Perry Preschool Program** (a program for highly disadvantaged children aged 3-4 years in Michigan)

- Participants (at age 3-4 years) followed up until age 27
- Evaluation findings: participants performed better in almost every area studied: later school, work, social life:

-lower rates of special education placement;

-greater rates of high school graduation;

-greater likelihood of employment;

-higher earnings;

-more stable marriages;

-less adult criminal activity.

<u>Economic cost/benefit analysis:</u>

The benefits of Early Childhood Education Programmes substantially outweigh costs

Economic Benefits and Costs of Two Early Childhood Interventions

	Perry	Chicago CPC
Child Care Benefit	986	1,916
Earnings Increase	40,537	32,099
K-12 Savings[a]	9,184	5,634
College/Adult Costs from Extra Education	-782	-644
Reduced Crime	94,065	15,329
Reduced Welfare Use	355	546
Future Generation Earnings Effect[b]	6,181	4,894
Reduced Abuse/Neglect	0	344
Total Benefits	150,525	60,117
Total Costs	16,514	7,738
Net Present Value	134,011	52,380
Benefits-to-Costs Ratio	9.11	7.77

Source: S. Barnett, "Cost-Benefit Analysis of Preschool Education."

"**Flow**": Improving/easing (gender-equal) access to the labour-market

"Empirical evidence shows that (gendered) employment opportunities are key to effective poverty mitigation" (Esping-Andersen et al., 2002)

-Main objectives: Employment (quantity), Employability (quality), and Gender Equity

Emphasis on:

- Avoiding career interruption for women with small children
- Promoting dual "parental leave" model
- Promoting dual earner model

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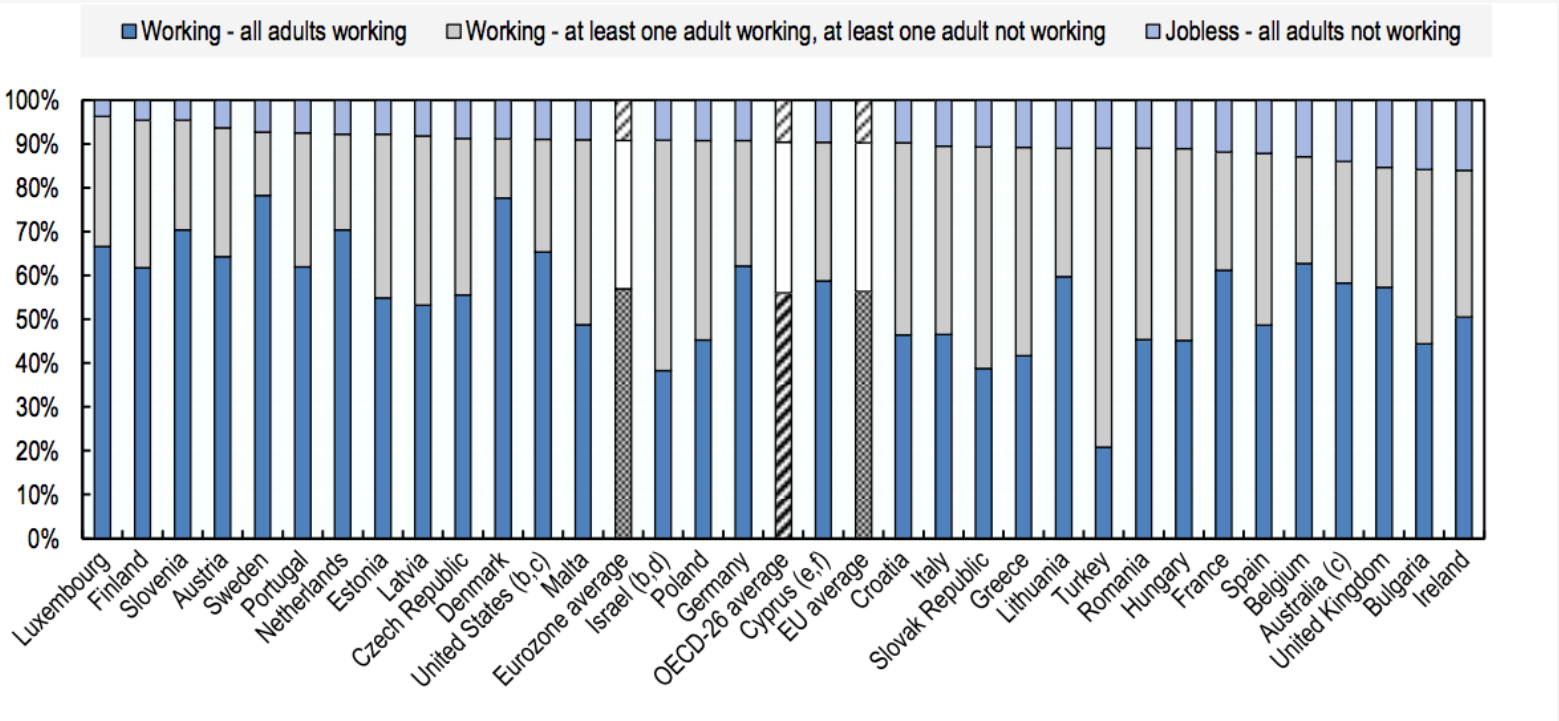
"**Flow**": Improving/easing (gender-equal) access to the labour-market

Labour market participation: distribution of children aged 0-14 in all households by the employment status of adults in the household (2014):

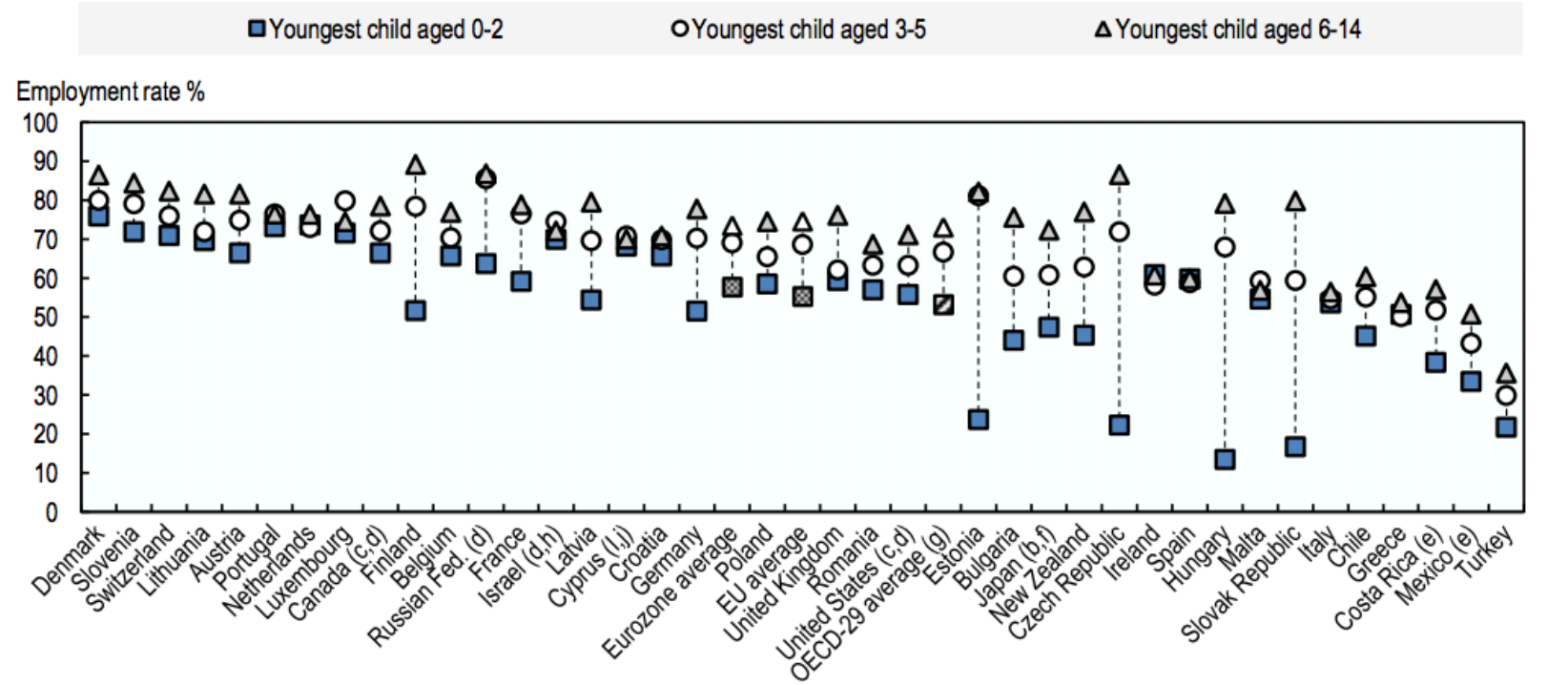


→ In Latvia, a high proportion of families with children have at least one working-age adult not working (single breadwinner model); strongly associated with child poverty

→ Countries with the lowest proportion of one bread-winner families and with the highest proportion of families where all adults work also have the best economic outcomes and lowest child poverty rates

"**Flow**": Improving/easing (gender-equal) access to the labour-market

Maternal employment rates (women of age 15-64) by age of youngest child (2014):



→ Latvia: average employment rates among women with children are relatively high, BUT low employment rates for mothers with children below age 3;

→ Possible consequences for countries where employment rates of mothers with small children are low: interrupted career, lost skills, lower probability of future employment, lower salaries

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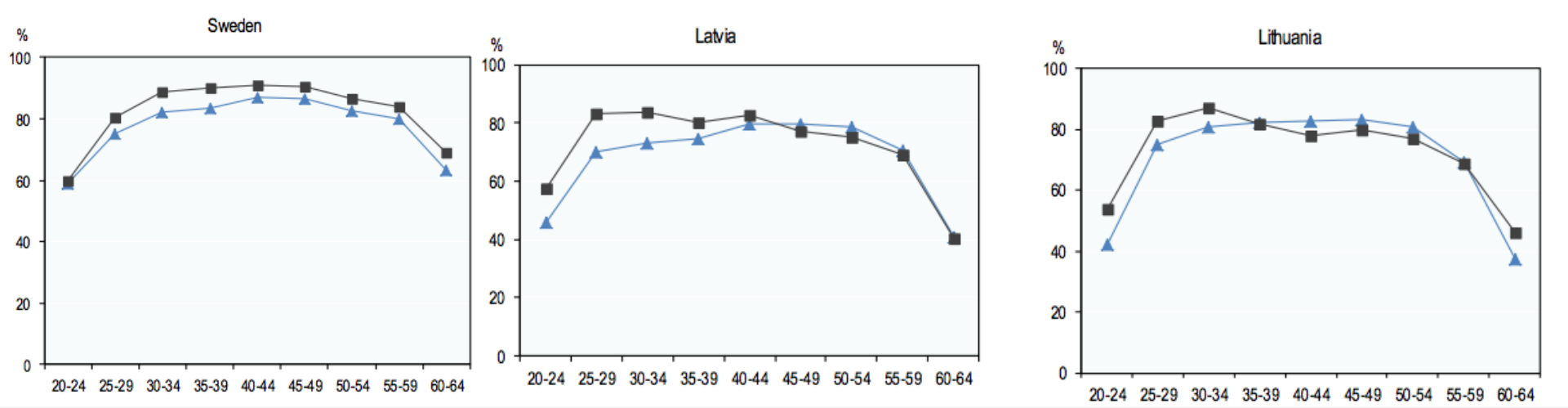
"**Flow**": Improving/easing (gender-equal) access to the labour-market

Gender equality in labour market:

Age-employment profiles by gender, 2014 (blue: women; black: men)



→ Latvia: substantive gender gap at age 20-39
(the age-group when people most commonly gain economic stability)

Note: Women have surpassed men in terms of education; long periods of inactivity may have detrimental consequences on their future integration in labour market and future income level (which in turn means a high economic loss of prior social investment, and higher risk of poverty)

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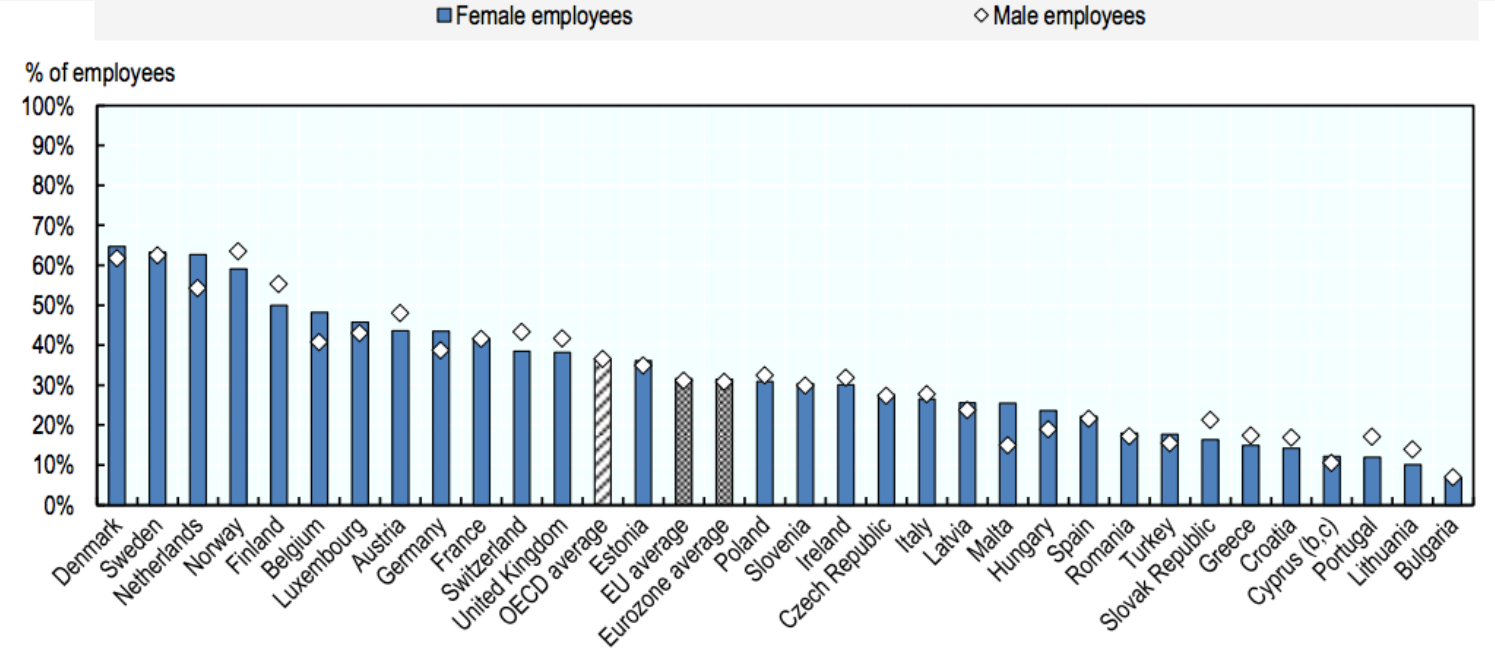
"**Flow**": Improving/easing (gender-equal) access to the labour-market

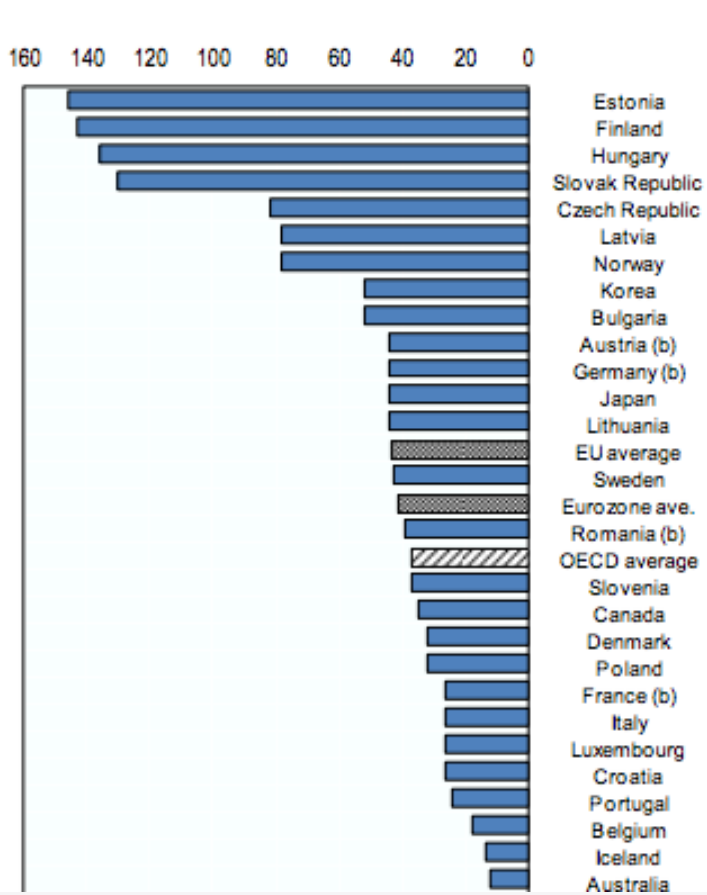
- Workplace practices and working schedules are one of the key determinants of families' ability to reconcile work and family life
- OECD (2007) defines family-friendly workplace arrangements as those practices that facilitate the reconciliation of work and family life (e.g., flexible working time arrangements).

Ability of employees to set their own working time arrangements, 2015:

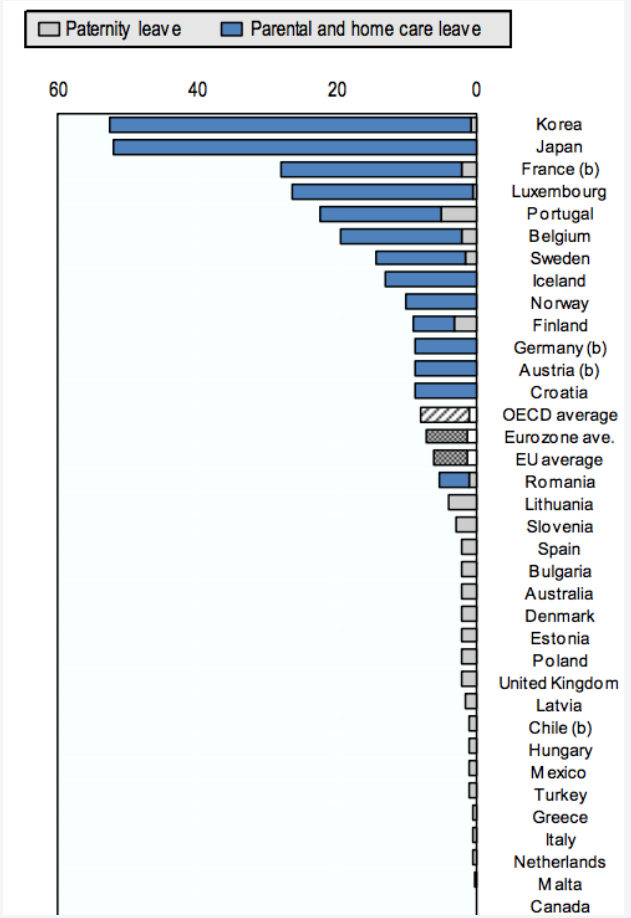


"**Flow**": Improving/easing (gender-equal) access to the labour-market

Weeks of paid parental and home care leave available to mothers (2016)



Weeks of father-specific leave



→ Research shows that long parental leaves, if taken-up only by women, can introduce 'flow' barriers for women, making it difficult to return to the labour market

"**Flow**": Improving/easing (gender-equal) access to the labour-market

Differences in parental leave

Latvia: 18 months

i) Parental benefit: 60% of earnings until the child is 12 months old; 43.75% of earnings until the child is 18 m.
ii) Child-raising allowance: flat rate payment of EUR171 per month until the child is 18 months old, then flat rate payment of EUR 42.69 per month until the child is 24 months old.

Parental benefit is paid to persons who are on parental leave or continued to work during the parental leave period.

Sweden: 16 months

First 13 months: 77.6% of earnings up to an earnings ceiling at SEK 443,000. Last 3 months: SEK 180 per day.

Parental leave is fully flexible: it may be divided into full days, half days, 1/4 days, or 1/8 days (one hour). Higher payment rates are available if parents share leave. For every day parents use the sharable leave equally, both parents receive a flat-rate bonus of 50 SEK. This only applies to the earnings related portion of sharable leave. The maximum bonus available across the earnings-related portion of sharable leave is SEK 13,500.

Germany: up to three years

Parental benefit (Elterngeld) is paid for 10 months following maternity leave at 67% of a parent's average net earnings up to a ceiling of EUR 1800 per month; minimum payment is EUR 300 even for parents without prior income. Low income supplement: for every EUR 2 of monthly earnings below EUR 1000, their benefit increases by 0.1 per cent. High income reduction: for every EUR 2 of monthly earnings above EUR 1200, their benefit reduces by 0.1 per cent to a minimum rate of 65% of average net earnings.

If both parents claim at least 2 months of benefit, the length of benefit period is extended by 2 months (10 +2 option): Instead of 10(+2) months, the benefit can be taken part-time with payments spread over 20(+4) months. The monthly benefit level is halved so that the overall payment remains the same. Both parents are entitled to take leave at the same time and both can take-up to two leave intervals

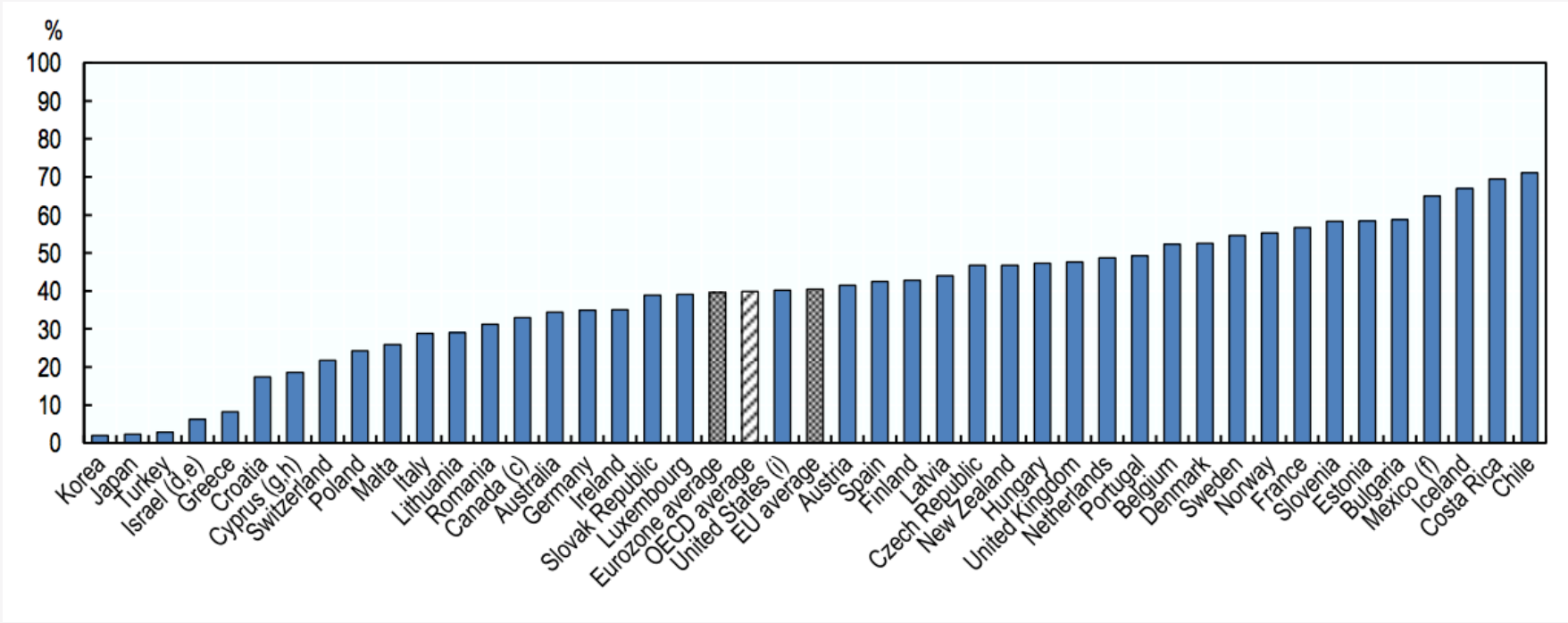
"**Buffer**": Fostering a strong minimum-income universal safety net

A strong minimum-income universal safety net to help reduce child poverty and facilitate access to services (e.g., housing, day-care, health-care)

- Reduce child poverty
- Support the most vulnerable families (e.g., lone parents, single mothers, low-income families with children)
- Offset opportunity costs of having children (e.g., less time to work, childcare and daycare expenses; high opportunity costs to take-up employment for the second adult, especially among lower-educated, lower-skilled adults: day-care of small children may cost up to 50% of the salary of the potential second bread-winner, referred to in the literature as 'regressive tax of day-care')

Different family types, requiring different policy responses

Proportion of all births where the mother's marital status at the time of birth was other than married (2014)



→ In Latvia, % of unmarried mothers close to EU/OECD average: around 40%

→ The reality of the 21st century which is unlikely to change in Europe (Esping-Andersen, 2002)

Retrieved from : http://www.oecd.org/els/family/SF_2_4_Share_births_outside_marriage.pdf (22.05.2017)

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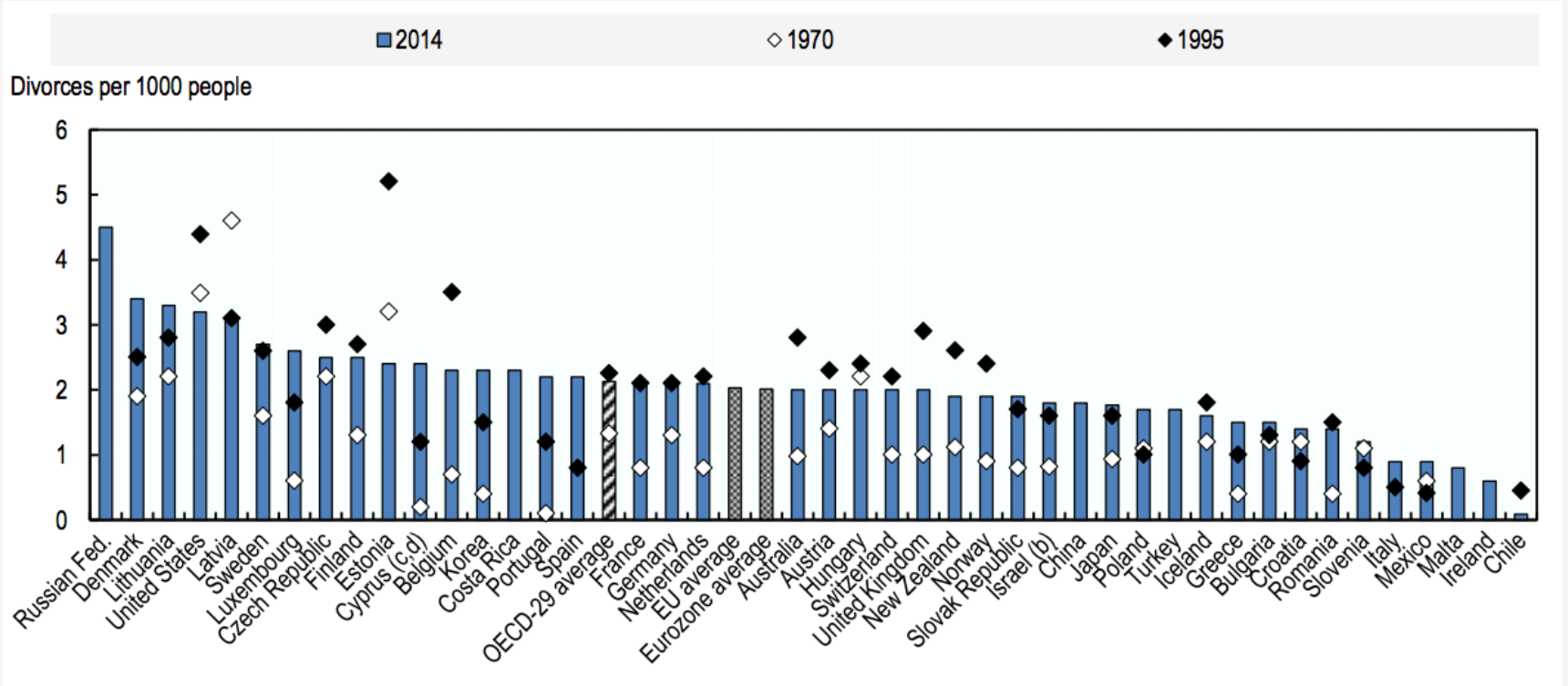
Different family types, requiring different policy responses

Divorce rate (divorces per 1,000 people)



→ Divorce rate in Latvia similar to that of the US, Denmark, Sweden

→ The reality of the 21st century which is unlikely to change in Europe

Retrieved from : http://www.oecd.org/els/family/SF_3_1_Marriage_and_divorce_rates.pdf (22.05.2017)

Conclusions and policy implications

- Early years of an individual's life are crucial for cognitive development
  → Rate of return to social investment is the highest at early age

- Cognitive development opportunities can be equalized through daycare (to reduce day-passing without cognitive stimulation), preschool, parental education (counselling) → Reduction of inequality in educational opportunities

- Gender-equal employment and wage can be reached by providing universal/subsidized daycare for children below age 3. Subsidized daycare also reduces child poverty (by allowing dual earner model)

- Parental leave arrangements are of critical importance to avoid career interruptions: Encouraging fathers to use parental leave entitlements may lead to more equal division of family tasks

- Flexible working hours at work important for home-work reconciliation: public support for mothers will not alone resolve the incompatibility problem unless accompanied by jobs that allow mothers & fathers to combine careers and family

- Attention should be paid at avoiding that only the 'work-rich' middle and upper classes benefit from social investment services at the expense of more vulnerable 'work-poor' segments of societies

- Social assistance for families with small children necessary to reduce risk of poverty and to off-set the opportunity costs linked to having children (e.g., less time to work full-time; childcare and daycare expenses), especially to low-income families & lone-parent families (recognizing unmarried and single-parent families that require different policy responses).

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Thank you!
Paldies!

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