CHAPTER 1

The changing balance of work and retirement

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1.1 THE PROBLEM

THE decrease in the age of exit from gainful work has been one of the most profound structural changes in the past 25 years. It has occurred – albeit to differing degrees – in all Western societies, irrespective of their institutional regimes. In the recent history of these societies, few trends are as consistent and homogeneous as this one. The period spent in gainful work is shrinking, with early exit at the upper end and the extension of schooling at the lower end of the work life contributing to this outcome from both directions. The period spent in retirement is also expanding in both directions as a result of early exit at the lower end and increasing life expectancy at the upper end. Thus, what has been the "normal life course" is being massively reorganized, and the relations between age groups and generations are being redefined.

Moreover, the trend is (on first sight at least) highly perplexing and even paradoxical. In a period of increasing life expectancy, of increasing concern with the financial viability of the public pension systems, and of increasing admonitions from gerontologists about the fallacy of age stereotypes regarding work performance and productivity, why should there be such a pervasive tendency to leave work earlier and earlier? The paradox defies easy explanations; by posing the question of how life phases and the boundaries between them – especially the all-important boundaries between work and nonwork periods – are socially constructed, it is perhaps the most explicit challenge for life-course theory. It also challenges most current assumptions about the effects of social policy by contrasting the explanatory potential of theories that focus on the state as the key actor and those that focus on actors in the economic sphere. The trend toward early exit thus not only presents an explanatory task by itself but is also a theoretical window on the social construction of aging and the life course in general, and on the articulation of the economy and the polity.

The consequences of this trend can be observed both at the level of the individual and at that of policy-making. In important respects, Western societies are still "work societies" (as discussed later). For individuals, being or not being part of the labor force is critical in terms of life chances and social participation. For policy-making, the consequences concern not only the public old-age insurance system but also some of the other welfare programs that have been created to cover the financial risks associated with not being able to work, such as unemployment and disability insurance. With the decreasing age of exit from work, these programs that were originally aimed at exceptional risks are now increasingly being used to manage the normal transition phase, and are therefore put under increasing strain.

The strain for the welfare state is intensified by the process of population aging that all Western societies face. Old-age insurance – which has long been the most popular and least controversial part of modern social security, and thus a cornerstone of the "moral economy" of these societies (cf. Kohli 1987) – is becoming a focus of political controversy. The questions of intergenerational equity take on a new urgency, and some observers predict that the competition for resources between age groups or generations will emerge as one of the main arenas of social conflict (cf. Johnson, Conrad, and Thomson 1989). In this situation, reversing the trend of early exit seems to offer an easy solution. In the United States, Germany, and Japan, measures to raise the age limit of eligibility for public pensions have been passed, and in other countries, they are under discussion. But the knowledge base of this discussion is still inadequate. For delineating the possibilities and the likely consequences of raising the pension age, it is necessary to get a clear picture of how the trend toward early exit has come about.

This is what we propose to do in this book. We document the evolution of early exit, analyze the conditions, actors, and institutions that have produced it, and assess its effects on the life course. The book thus has a theoretical and a practical goal. Theoretically, it addresses the restructuring of the life course and of the "generational contract" in terms of the changing relation between work and retirement, and by doing so, highlights the relation between labor markets and welfare institutions. Practically, it addresses these issues in the context of population aging and examines the range of possible political answers that are currently being debated. To those who expect everything from manipulating the public pension age limit, the results of our examination may appear to be rather impractical: They caution against a reliance on social policy alone by pointing to structural conditions of the organization of work and economic actors as the main driving forces. But such caution is indispensable to keep burden sharing equitable, and in the long run, it will also prove to be more efficient for social policy than poorly informed interventions.

1.2 THE COMPARATIVE APPROACH

Our approach is rigorously comparative. The questions that we address have been unnecessarily muddled by studies examining them only within specific national regimes.[1] Few studies have paid attention to the more general features of exit trends.[2] By implicitly assuming that the phenomenon is one of their particular country, most studies have been misled into searching for explanations on too small a scale. The logic of comparison requires identification of differential conditions and outcomes as well as of lines of structural convergence. Thus, the comparative approach shows to what extent the process is similar across national labor market and social policy regimes, and to what extent the latter do make a difference.

The starting point of our study has been an attempt to systematically analyze the articulation between social policy and the labor market (Rein 1985; Rainwater and Rein, in preparation), resulting in a project on welfare state entry and exit patterns (or, conversely, exit from and entry into the labor market).[3] In the course of this work, it became evident that the transition from work to retirement was a particularly apt topic for an in-depth comparative study of the social policy–labor market interface and, moreover, promised to relate these issues to those of the social construction of the life course (Kohli 1986) and of intergenerational redistribution (Kohli 1987).

1 The few good comparative studies of social security (e.g., Gordon 1988; Pampel and Williamson, 1989) do not go sufficiently deep into our issues. This is true even for the most ambitious and largest comparative undertaking to date, the five-volume study of Western European welfare states directed by Flora (1986ff). Esping-Andersen (1990) forcefully addresses the general questions of relating social policy and labor markets (cf. section 1.4.1), but again does not give a detailed examination of early exit.

2 Notable among them are the studies by Pampel and Weiss (1983) and Pampel (1985), who, however, restrict themselves to the decline in labor force participation of men over 65, and by Inkeles and Usui (1988), who in addition to a general overview give some comparative data on individual preferences but lack in institutional detail (e.g., about pathways for early exit outside the public pension system). A very useful overview of the types of programs available for early exit has been provided by Mirkin (1987).

3 The Welfare Exit and Entry Project (WEEP) was financed by the Science Center Berlin. Gosta Esping-Andersen was the first Project Director until he left for the European University Institute, Florence, and was replaced successively by Martin Rein and then Lee Rainwater, who saw the project through its final phase.

The next two chapters present comparative analyses of aggregate data: one on the evolution of labor force participation among the elderly,[4] and the other on exit patterns by industry. The remaining chapters are detailed reports on individual countries designed to provide an institutional account of how and why the exit trends developed. The rationale for selecting the countries of our study has been both conceptual and practical. We first focused on those countries in which the trend toward early exit is most pronounced – the Netherlands, France, and Germany, where less than half of all men aged 55 to 64 are still employed (compared with nine-tenths in the "prime" ages). The interesting point for comparison here lies in the fact that although the outcomes in these countries are similar, the institutional processes that have brought them about are quite different. Sweden presents the contrasting outcome of a still rather high rate of employment among the elderly (and is also the model case of the "social-democratic" welfare-state regime, to use Esping-Andersen's [1990] term). With the United States and Great Britain, it is possible to examine more closely the role of private-sector arrangements in the exit process (which in the course of the study have turned out to be increasingly important in the Netherlands as well). Finally, Hungary provides a comparison of Eastern European and Western experiences.[5]

The country chapters follow a common framework that has been developed and tested in the course of several meetings among the authors. The decision to make each country the focus of a specific chapter, rather than restricting ourselves to analyzing dimensions across countries, is a decision for an institutional (and against a purely correlational) approach. It was prompted partly by the large number of institutional peculiarities that had to be covered in each case. (In fact, the profusion of institutional details has often threatened to overwhelm us; after completing this book, we understand even better why comparative work of this scale is so rarely undertaken!) But we also wanted to put the transition from work to retirement into proper context: into the overarching

[4] The analysis is based on the OECD labor force participation and unemployment data, supplemented by data from our country contributors and by data on long-term participation trends. The data were assembled and put into a common format by Klaus Jacobs.

[5] Among the other countries for which the OECD publishes the requisite data, Finland's labor force participation among males aged 55 to 64 is almost as low as that of France. Australia, Portugal, and Spain are in the middle range. Canada is on the level of the United States, and Ireland on that of Sweden. Japan is highest, with still almost four-fifths of this age group in employment; but even here, there is a clear trend toward earlier exit (although more pronounced above 65 than for ages 55 to 64). Some of these cases have fairly obvious parallels to the countries in our study; others would require a more detailed analysis.

features of the respective national labor-market and social-policy regimes and of their evolution.

Some differences between the country chapters are due to the differential availability of specific data and also to the different disciplinary backgrounds and intellectual inclinations of the authors. The latter have been more a source of inspiration than of concern. We hope to have succeeded in securing comparability while at the same time allowing each author to do what he or she is best at.

In sum, while each country chapter is a case study of a specific national experience undertaken from a specific analytical viewpoint, it is nevertheless comparative by virtue of being informed by a common conceptual framework and by an understanding of how other countries address the same issues. This approach of comparative case studies has been essential for securing our results.

1.3 THE CONCEPTS: RETIREMENT, EXIT, PATHWAY

Clarifying our concepts is not a straightforward task because, as part of the story that we are covering, the concepts themselves have changed and become more differentiated. "Retirement" has always been an ambiguous term; it can refer to an event, a process, a role or status, or a phase of life (Atchley 1976; Palmore et al. 1985); and it can be indexed on several different criteria, including objective criteria of work, income, or pension receipt, and subjective ones based on self-assessment (Ekerdt and DeViney 1990). In this book, "retirement" refers to the event of entering into the public old-age pension scheme (i.e., of beginning to draw an old-age pension) or, in some cases, to the phase of life beginning at that point.[6] Other authors have used definitions based on labor force participation, or on a combination of the latter with drawing an old-age pension (cf. Palmore et al. 1985:3; Burkhauser and Quinn 1989; Reimers and Honig 1989). These definitions result in highly divergent proportions of retirees and also allow for the possibility of transitions back out of retirement, whereas with our definition, there are no such countertransitions (as all public old-age pension programs provide for continu-

[6] There is some evidence that retirement in this objective sense – in terms of entering the public old-age pension system – and subjective retirement tend to coincide: People who have exited from work but have not yet entered the public pension system usually do not define themselves as "retired" (e.g., Kohli et al. 1989). But there are also cases of people drawing pensions and still being active who refuse this category as a label for themselves, and there seems to be an increasing unwillingness to use it as a symbolic resource because of its implications of inactivity and withdrawal from social participation.

ous coverage until death). To avoid conceptual confusion, we clearly distinguish between program participation and labor force participation, using the term "exit from work" to refer to the latter.[7]

It is essential for our argument that "retirement" and "exit" do not necessarily coincide; the decreasing age of exit from work has been brought about partly by lower retirement limits, but mostly by the emergence of an intermediary phase between exit and retirement, and it is the institutional management and the meaning of this intermediary phase that is the topic of much of this book.

"Early" exit or retirement is again an ambiguous term, which can only be clarified by giving a precise reference point. In the following discussions, the reference point will usually be the regime of age boundaries that was effective in the mid-1960s. For Western societies, this turns out to have been surprisingly uniform. In most of these societies, the normal retirement limit for men was at that time set at (or around) age 65. And as is shown in Chapter 2, the labor force participation data suggest that age 65 had by the mid-1960s also widely become the age around which exit from work clustered. Thus, 65 was effective both as a legal or programmatic reference point and as a behavioral or labor force reference point.

To deal with the emergence of a gap between retirement and exit, we develop the concept of "pathways" of exit. A pathway is an institutional arrangement or – in most cases – a combination of different institutional arrangements that are sequentially linked to manage the transition process, that is, the period between exit from work and entry into the normal old-age pension system. In the limiting case, a pathway is thus constituted by one institution only, such as a preretirement program, or disability leading into normal retirement at age 65 (as in the British case), or occupational pensions used to cover the period until normal retirement age. More often, however, pathways consist of sequences of institutional arrangements, with rules providing for a specific program to be followed by a specific second (and third, etc.) one. Sometimes there are two institutions; for example, unemployment insurance is followed by a special pension provision (as in Germany, where the long-term unemployed can enter the public pension system already at age 60). Sometimes there are even more; for example, unemployment may last longer than the period covered by unemployment benefits, and the latter are followed by a

[7] The OECD measurement convention that we follow in our comparative data analysis treats any gainful work above one hour per week as a case of labor force participation; in some instances, however, we will speak of "exit" in terms of leaving the last full-time job.

period of social assistance, or disability for labor market reasons (as in Sweden).

According to our conceptual distinctions, lowering the normal age of entry into the public pension system – as has been done in Sweden and France – is not a pathway of exit (although it obviously does facilitate a lower age of exit).[8] It should also be noted that pathways for us are *institutionalized* routes of exit. This includes collectively regulated private arrangements (such as regularly available occupational pensions); if, however, an individual patches together his or her own sources of personal support, we speak of personal routes of exit but not of pathways.

1.4 THE THEORETICAL FRAMEWORK

In setting out our theoretical framework, our objective is to lay the groundwork for explaining the early-exit trend and for assessing its consequences. We first deal with the interplay of social policy and labor market (or, more broadly, of the social organization of work) and then discuss how it is shaped by the relevant institutions and actors. Next, we examine what early exit means in terms of the patterning of the life course, which in modern societies has emerged as an important institutional reality sui generis, and finally we turn to the questions of social stratification and intergenerational redistribution. Our arguments are informed by the material presented in the comparative chapters, and partly also in the country chapters without, however, aiming at a comprehensive review of their results or at questions of future evolution and policy.

1.4.1 Social policy and labor market

Explanations for the patterns of transition from work to retirement tend to focus either on the individuals making the transition or on institutional and societal processes, with very few studies attempting to bridge the two. In the tradition of social and psychological gerontology, individual retirement behavior is accounted for by characteristics such as

[8] In speaking of "normal" pension age, we follow the legal–administrative terms. They can be quite misleading in terms of behavioral frequency, especially where an age limit is coupled to certain conditions of eligibility that are fulfilled not by all but by a majority of participants. A case in point is the German "flexible age boundary" at 63, available to those with at least thirty-five insurance years, which has become a much more prevalent route of entering the public pension system than what in legal terms is still the "normal" boundary of 65. A similar program available in the United States has a high take-up in spite of the fact that benefit levels are actuarially reduced.

health, income, job conditions and career history, and attitudes (e.g., Palmore et al. 1985; Talaga and Beehr 1989). In the microeconomic approach, which has gained much prominence in recent years, individual retirement decisions are modeled as the result of the work and transfer income situation, and of the work–leisure trade-off (e.g., Burkhauser 1980; Tuma and Sandefur 1988; cf. Hurd 1990 for an overview). The relationship between social policy and work supply is seen as antagonistic; since any rational person chooses leisure over work in the effort to maximize his or her personal utility, the more generous the benefits of the transfer system, the weaker must be the inclination to work. In these individual-level studies, institutional factors are considered only in terms of incentives or disincentives in the personal decision-making process. Much of the American research literature follows this approach, often to the point where it is implicitly presented as the only possible way of conceptualizing the transition to retirement.[9] In our view, it is deficient in two respects: It is not able to explain how the institutions themselves have changed (in other words, its chains of causality are much too short), and even when treating the institutions as given, it is insufficient as an explanation of the massive shift toward early exit[10] because of its overly narrow model of decision making. To mention just one important point, decisions are not simply the product of the retiring individuals themselves but also of the firms from which they retire (as becomes evident in the frequent cases of forced unemployment and in the widespread conflicts about who controls the exit process, which are discussed later).

In contrast, the approach known as the "political economy of aging" focuses on institutional and societal processes (e.g., Phillipson 1982; Myles 1984; Guillemard 1986; Pampel and Williamson 1989). This level is also addressed by some studies in labor economics (e.g., Casey and

[9] This theoretical preference (or bias) may have something to do with the U.S. retirement system, which has always given more room to individual decisions than most European systems. As argued later, the trend toward early exit also runs in this direction: It amounts to an increasing individualization – and in this sense to a partial "Americanization" – of the retirement process. It is, however, far from eliminating all elements of institutional and normative structuring.

[10] Thus, Boaz (1988) finds that early exit is the result not only of pension incentives but also of the constraints posed by diminished employment opportunities. Hurd (1990:605) concludes from his review of the economic literature that the research on the effects of (public and private) pension incentives has produced somewhat disappointing results: "the models have not been able to explain the large drop in labor force participation in the past 30 years." He at first attributes this disappointment to data limitations, but then concedes, "We particularly need to be able to describe the employment opportunities an older worker faces (the demand side of the labor market)" (1990:630).

Bruche 1983).[11] It is these approaches that we follow here with our analysis of the institutional pathways for early exit and of the actors that have produced them. The pathways as such obviously do not provide a complete explanation of the exit process, since they do not systematically follow the institutional structure down to the level of firms and individuals. But by documenting how the institutions have been created and changed by the aggregate actors in the field of industrial relations and of labor-market and social policy, our analysis shows how the process is regulated and to what economic and political conditions it responds.

The most general issue in the debate on early exit is about the role of pull and push factors. On the institutional level, this refers above all to pension policy incentives and labor-market constraints. Accordingly, there are two contrasting theories. The pull view – the one underlying most studies so far – assumes that early exit is the result of social policies that have created attractive exit possibilities, for example, by lowering the age boundaries and opening new institutional pathways. There are two variants to this view: Proponents of the welfare state tend to see the process as an achievement, in line with long-standing demands (e.g., of unions), whereas neoclassical economists tend to see it as the undesirable outcome of a perverse incentive system that undermines the willingness to work. According to this theory, we should expect substantial differences between national policy regimes: Countries that have not developed the necessary social-policy infrastructure will have low rates of early exit. But the data falsify this assumption. Countries like Sweden have almost all the supporting legislation needed to produce early exit but, nevertheless, do not show the same rates as, for example, Germany, France, and the Netherlands. On the other hand, the United States has explicit legislation forbidding age discrimination and much less well developed social-policy arrangements for early exit;[12] nevertheless, the

[11] One might also mention here some studies that extend the microeconomic framework to account for structural properties of internal labor markets, such as the theory of efficiency wages, according to which workers – in order to increase their long-term effort and commitment to the firm – are paid less than their marginal product when young and more when old. It is therefore profitable for firms to terminate the employment of their elderly workers through the help of mandatory retirement rules (cf. Lazear 1979) or through special pension incentives. A few other studies combine microeconomic reasoning with structural arguments (e.g., Boaz 1988).

[12] Researchers often point out that the United States, too, has encouraged early exit, e.g., by extending tax privileges for company and individual pension plans, and by a work penalty that reduces the value of public pensions for those who still receive work incomes. But in a comparative perspective, these incentives are rather modest; there is for instance no long-term unemployment insurance that can serve as a pathway for early exit, nor are there public preretirement programs.

United States has – although on a somewhat higher level – still managed to produce a sharp decline in labor force participation of the elderly. So the theory of social-policy dominance of early exit is clearly inadequate.

The theoretical alternative is the structural perspective focusing on the push factors generated by the social organization of work. It assumes that the process of early exit is driven by the evolution of the labor market, especially by the high rates of unemployment that have become endemic in most Western economies since the early 1970s (having persisted even after each successive period of economic recovery), and by deeper structural features such as rationalization and the decline of internal labor markets, accompanied by the growth of subcontracting and the increased use of temporary workers. In this view, early exit takes place regardless of what institutional pathways are available. Social policy cannot stop early exit from occurring. It may be important in other respects, by molding the exit process so that it is more acceptable to some actors than others. Thus, social policy can alter the distribution of costs among actors, but it cannot altogether undo the process. Central to the structural view is the belief that if some actors are able to block access to early exit through one social-policy pathway, this will force other actors to open other pathways. There is a process of instrument substitution (Casey 1989) – If one instrument is eliminated, another will be used to bring about the same ends.

The structural perspective is better able to deal with the empirical data, but in the simplified form stated above it is misleading. The availability of institutions, and thus of legitimate pathways out of the labor force, clearly has an impact: It makes early exit attractive for individual workers, and it makes it easier for firms to deal with an oversupply of labor and with efforts to increase productivity. If no institutional pathways were available, early exit would occur on a much smaller scale. But institutions need not be well developed to produce early exit; even in rather restrictive public welfare regimes, such as the United States and (increasingly) Great Britain, early exit continues. Blocking all institutions that make early exit possible would pose major risks for industrial relations and the "social contract" more generally; hence it is unlikely to be attempted, much less to succeed.

A more detailed picture of the exit process can be obtained by examining its temporal pattern (see Chapter 2). For labor force participation over age 65, where the decrease has been fairly continuous, the modernization or "industrialism" thesis (cf. Pampel and Williamson 1989) seems most pertinent. It views the institutionalization of retirement as a result of the adaptation of the work force to the requirements of economic modernization and rationalization (which evidently encompasses a substantial number of factors), and of a societal "decision" about how