

Program for the Study of Germany and Europe
Working Paper 01.5

**Continental welfare states in Europe
confronted with the end-of-career inactivity trap:
A major challenge to social protection
in an aging society****

Anne Marie Guillemard*

Abstract

The paper is an attempt to assess continental welfare state reforms that use the window of the end-of-career inactivity trap. The question addressed is: what is the most effective way to break up the vicious circle of early exit from the labor market, which is a specific pathology of continental welfare states.

The cases of the Netherlands and Finland, two countries that have succeeded in reversing the early exit trend in recent years, prove that only a radical change in paradigms that govern social protection may turn the vicious circle of welfare without work for aging workers into a virtuous circle of active aging. In states in which reforms have focused on changing the rules and regulations that govern retirement systems, or on restricting early exit pathways, as is the case in France, they have failed to break up with the end-of-career inactivity trap.

**Paper prepared for the conference *Rethinking social protection: Citizenship and social policy in the global age* at the Minda de Gunzburg Center for European Studies, Harvard University, 26-28 January 2001.

*University Paris V Sorbonne and Centre for the Study of Social Movements, 54 Bd Raspail, 75006 Paris France; e-mail: amg@ehess.fr

I. The vicious circle: The continental welfare state model and the development of an “early exit culture”

We are familiar with the main characteristics of continental welfare states, which have fallen into an end-of-career inactivity trap. The generous benefits they offer, mainly on the basis of passive criteria for compensating risks, have set off an exponential spiral in employer and employee contributions to welfare funds. For this reason, social protection has worked against employment. This situation has led firms to adopt strategies for increasing productivity and reducing the work force so as to curb overall labor costs — with, as a result, high unemployment. Public policies for coping with massive joblessness during the 1980s reinforced and accelerated these trends. They laid even more emphasis on compensating risks (of unemployment, disability, long-term illness or pre-retirement) in order to reduce the supply of labor from the most threatened groups, namely: young people, women and older workers. They have thus helped mask unemployment statistics. The principle underlying these policies has been to ration jobs for certain groups in order to open jobs for others. Consequently, middle-aged men have experienced relative job security. This spiral of “welfare without work” (Esping Andersen 1996) is a specific affliction of the continental welfare state model.

This phenomenon took an extreme turn when, in certain European countries, older wage-earners were asked to “give up their jobs and make room for the young”. As we know, such measures have had a disappointing impact on joblessness (Esping Andersen 2000); but they did accelerate the drop in the activity rates of wage-earners over 55 years old. France even used the retirement system in this fight against unemployment and for jobs. Lowering the retirement age from 65 to 60, as occurred in 1983, was a full part of this policy of compensating older age-groups for not working — with the goal of reducing the supply of labor. In turn, it broadened the impact of early exit schemes, as the latter shifted toward 55-60 year-olds, since 60-65 year-olds had already gone on retirement.

Such measures only worsened matters; and reforming retirement has become more complicated and harder to do. On the one hand, demographic ageing and the increased pressure of early exit on welfare expenditures has made this reform ever more necessary and inevitable. On the other hand, the snow-balling process of eliminating older wage-earners from the labor market has made it ever more arduous, since any attempt would now have to cope directly not just with the question of reforming retirement but also with the problem of managing jobs at the end of careers. Over the past two decades in Europe, this vicious circle has precipitated a vertiginous drop in labor force participation rates after the age of 55. Until the present, very few countries on the continent have managed to reverse this long-term trend. However, two exceptions do stand out: Finland and the Netherlands. They will be examined herein as examples of how to shift from the vicious circle of early exit to the virtuous circle of active aging.

I.1. Early exit patterns in Europe

Most European countries have experienced a substantial decrease in the labor force participation of the 55-64 age group. Only a few Scandinavian countries (Sweden, Denmark) and Japan have withstood this widespread trend. OECD and Eurostat data on variations in the employment activity rates of the 55-64 age group from 1971 to 1999 clearly depict this phenomenon (see Table 1 on next page).

In 1995 only a minority of 55-64 year-old men were still in the labor market in many European countries. In France, Finland, Belgium and the Netherlands, their employment activity rates are at that time below or close to 40 percent, i.e., less than half the 1971 percentage. Even in Germany, Spain, Italy, and Austria, the 1995 percentage of men working in this age-group hovered around 50 percent or even less. These two groups can be described as *high early exit* countries, where an early exit culture has developed. In contrast, Japan and most of Scandinavia (except Finland) can be seen as *low early exit* countries, where the older workers' right to

employment has been preferred over their right to retire early. North America and the United Kingdom lie in between these two groups.

Table 1: Change in employment activity rate for men 55 - 64 years old, 1971 – 1999

Source: Anne Marie Guillemard from OECD Labor force statistics and Eurostat Labour Force Survey; for EU 15

	1971	1975	1985	1989	1991	1993	1995	1997	1998	1999
Australia			56.0	58.9	54.5	50.7	55.3	54.3	56.3	57.0
Austria			47.7				40.8	40.5	39.6	41.6
Belgium			43.1	36.3	33.9	32.8	34.5	32.2	32.1	35.1
Canada	78.8	76.3	64.3	61.9	57.3	55.0	54.0	55.1	54.7	56.9
Denmark			63.4	64.9	60.9	60.6	63.2	61.0	58.5	59.9
Finland			48.7	45.2	44.2	43.3	36.1	37.8	38.3	40.1
France	73.0	67.1	46.7	43.3	42.0	40.3	38.7	38.4	37.9	38.9
Germany (reunified since 1989)	77.1	66.7	53.6	51.7	49.9	48.0	48.0	47.9	47.6	48.0
Ireland	82.4	76.1	64.7	59.9	60.2	59.1	59.1	57.8	59.6	61.7
Italy			53.6	49.6	51.5	47.3	42.3	41.5	41.5	40.8
Japan	85.3	83.2	78.9	79.2	82.0	82.1	80.8	80.9	79.8	79.5
Netherlands	79.3	69.9	44.2	44.2	41.8	40.5	41.0	43.0	46.2	48.8
Portugal	82.1	77.1	64.9	63.9	66.5	59.9	59.1	58.1	63.4	62.1
Spain	82.7	76.7	59.1	56.7	56.2	51.6	48.0	50.5	52.1	52.4
Sweden	82.8	80.7	73.2	73.9	73.7	65.9	64.4	64.7	65.8	67.1
United Kingdom	82.9	82.0	59.4	61.6	61.5	55.9	56.0	58.6	58.3	59.4
United States	77.3	71.4	64.4	64.3	63.9	63.1	63.6	65.5	66.2	66.1
European Union/E15			54.3					47.7	47.9	48.3

The massive early exit trend characterizes the continental welfare state model, under which work and welfare transfers (for aging workers) have come uncoupled. The Netherlands, France, Germany, and Finland exemplify this early exit model.

The Netherlands (and Belgium too, *cf.* Merla 2000) is an example of a highly complex institutionalized early exit culture. The official age of retirement is still sixty-five, but massive numbers of older wage-earners have been channeled through a variety of early exit pathways, which varied from one sector, firm, or group to another (De Vroom and Blomsma 1991; Trommel and De Vroom 1994). A program-based explanation does not, however, fully account for early exit there. These programs have come out of a complex system of negotiations, bargaining, and cooperation, a system usually called Dutch “meso-corporatism” or the “poldermodel”. At the national, branch, and company levels, trade unions and employers both formulate and implement many of these programs. All parties involved in laying down pathways out of the work force embraced, for many years, early exit as an effective solution for solving the problems of unemployment, industrial reconstruction, and poor working conditions. The negotiations have resulted in relatively attractive early exit pathways (in terms of benefits) with relatively low barriers for admission under welfare state transfer schemes.

France is another example of an extreme early exit culture, but with different pathways leading out of the labor force. Massive early exit has occurred from 1977 onwards. Typically, careers are now marked with an early, sudden rupture, as in most high-exit countries. For firms, early exit provided an opportunity – a not very expensive one since most schemes received public funds – to reduce the work force without social strife. France is the only country that has lowered the age of retirement with a full pension: from sixty-five to sixty in 1983. As a consequence, the early exit trend shifted onto the next younger age-groups, down from persons over sixty to those over fifty-five, and, in some firms, even down to those over fifty. Various schemes managed by the Unemployment Compensation Fund, which labor unions and employer

organizations run, and the National Employment Fund (Fonds National de l'Emploi, henceforth FNE), which seeks to help restructure industry, have abetted this trend.

Finland is also an example of an extreme early exit culture. In this respect, it diverges from the Scandinavian pattern. This culture has partly resulted from the variety of institutional arrangements for early exit. The major Finnish pathways have run through disability insurance and unemployment compensation. However, a variety of schemes was specially introduced in order to promote early withdrawal from work, in particular the following four types: gradual retirement, voluntary early retirement, unemployment, and disability. Early exit has gone through three phases in Finland. In the 1970s, the disability pathway expanded rapidly. In the 1980s, the exit path through unemployment gained ground as an alternative to the foregoing. During a third phase, which started with the economic recession in the 1990s, mass unemployment expanded the unemployment pathway and narrowed the disability one. Contrary to expectations, high unemployment led not to expanding but to narrowing the disability pathway. During the third phase, schemes under unemployment compensation have become the major pathway for exiting early from the labor market. (Gould 2000).

I.2. A new risk at the end of the work life

Rising joblessness after the age of fifty, as well as the reluctance of firms to promote or retrain wage-earners over forty, is evidence that the sizeable drop in the economic activity rate after fifty-five has swollen the ranks of "semi-old wage-earners on the way out" in the next younger age-group: 45-55 year-olds are encountering age discrimination in the job market and at the work place. A new age-group is now at risk. The joblessness, precariousness, and uncertainty that used to characterize young people are now experiences for wage-earners nearing the end of their work life.

Large-scale recourse to pre-retirement and other early exit schemes have thoroughly changed expectations and anticipations. Companies now have the habit of treating employees over fifty-five as redundant and unemployable, as persons to be pushed aside, regardless of the firm's managerial rationality. For their part, wage-earners think that fifty-five is now the normal age for definitive withdrawal, and they make their plans accordingly. In a big French automobile firm where, for fifteen years, masses of employees at fifty-five have been pushed into pre-retirement via the FNE, a worker declared, "Retirement at fifty-five is the law."

This lack of consideration for wage-earners over fifty-five has ricocheted onto younger age-groups. Since those over fifty-five are deemed too old to keep on the payroll, those a little younger are now "nearly old". On the way out and without a future, they are experiencing age discrimination in the work place. The rapidly increasing unemployment rate among persons over fifty is proof of this lack of esteem. Whereas, in 1998 for instance, the unemployment rate decreased for all age-groups in France, it still rose by nearly 4 percent for people over fifty. Furthermore, the loss of a job at this age is often definitive since there is no hope of finding work again. Quite clearly, persons over this age are excessively vulnerable to long-term unemployment. In 1992, one out of three dismissals for redundancy in France concerned wage-earners over fifty.

Persons in their forties are also experiencing career problems at the accelerated end of their careers. Firms increasingly see them as a group with no future. Some companies are reluctant to train them, because the return on investment seems too limited. They also hesitate about promoting them, since such persons are already on the way out. And of course, there is no question of recruiting from this age-group since the threshold for hiring has been set well before forty. As of forty, people in certain positions lack any career prospects; and they have, as a consequence, lost all motivation. This age-group has become a "risk group" that suffers from discrimination, a group pushed out onto the company's fringes.

Besides, using early exit has been an easy solution for firms. Companies now use age as a natural criterion for managing personnel as they systematically make older and younger employees bear the brunt of a smaller job pool. Such seemingly painless measures keep the social peace. Employers thus fail to see that their personnel is inevitably growing older; and they are not preparing to cope with the situation they will soon have to face.

Early exit for aging wage-earners has not simply resulted from earlier retirement; and it does not represent a reinforcement of the life course model based on the three phases of education, work, and retirement. On the contrary, it has wreaked havoc in the end of careers, making them unforeseeable and highly variable depending on the branch of the economy of employment, on whether or not it is in a recession, and on the size of the firm, on whether or not it can finance generous benefits. The early exit trend has both led to a new sort of flexibility at the end of the life course and jeopardized another age group.

II. Reversing the early exit trend: Innovations and institutional barriers

II.1. Institutional barriers

In France and Germany, among other countries, we clearly observe institutional obstructions to reversing the early exit trend. According to neo-institutionalist approach dismantling a longstanding welfare state practice might be very difficult as a result of “policy feed back and “path dependencies”.(Pierson 1994). Since the early 1990s, many EU member states have oriented their interventions along three main lines: (a) restricting early exit, (b) introducing measures for retaining older workers, and (c) postponing retirement through pension reform.

I would like to argue that these adjustments and reforms have been ineffective everywhere except in Finland and the Netherlands. Elsewhere, they have not reversed the early exit trend because they have mainly entailed “parametric” adjustments (Holzmann 2000) that have not fundamentally changed prevailing paradigms in social protection. The continental welfare states, in particular, have experienced chronic difficulty in making welfare and employment policies compatible, because they are under the sway of the rationale of compensating risks. To understand why reforms have worked or failed, we need to look at some of the changes that have been made. To this end, Hall’s distinction (1993) is useful between: first-order modifications that merely affect parameters; second-order changes that represent innovations on policy instruments; and third-order transformations that radically introduce new welfare objectives and paradigms. Quite clearly, reforms for “restricting early exit” or changing the rules for entitlement to pension are first-order modifications of the parameters of social protection. They have proven incapable of reversing the early exit trend. France illustrates this type de reform and its lack of impact on early exit.

II.2. From the vicious circle of early exit to the virtuous circle of active aging: the Finnish and Dutch cases

When looking at changes in the employment activity rates of 55-64 year-old men (Table I), we notice two countries that, steeped in the early exit culture (like France, among others) have managed to reverse the trend. They have broken lose from the end-of-career inactivity trap. Finland and the Netherlands have succeeded in reversing the early exit trend during recent years.

How have Finland and the Netherlands managed to break the vicious circle of early exit and enter the virtuous circle of active aging? What is remarkable in both cases is that neither country tried to reform the rules and regulations underlying retirement systems. Instead, they

have developed active employment policies for preserving and promoting the aptness to work of people over the age of forty-five, even for rehabilitating them if need be. In other words, these two countries have chosen to change paradigms radically rather than merely adjust parameters. They have switched from a rationale based on the entitlement to compensation for certain risks to a system offering incentives for work. They have thus hooked the welfare system back up to job policy with the aim of improving the country's human capital.

In the Netherlands, institutional pathways for early exit have been redesigned so as to lead out of the compensatory maze and toward active ageing. Benefits under disability insurance have been reduced; and more importantly, access to benefits now depends on employee rehabilitation. Another step was taken in 1998, when employers were made more responsible for disability, even as they were granted incentives to prevent occupational disability and rehabilitate personnel. All this has stimulated policies for maintaining, or even reintegrating, older wage-earners in the work force, policies that are more attractive owing to the development of training programs and part-time employment.

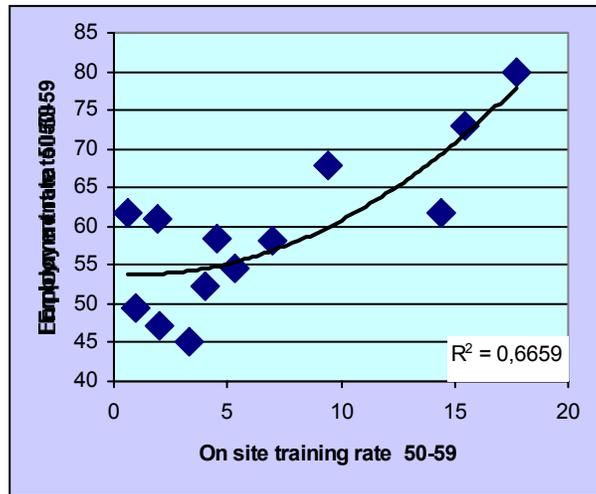
The fundamental change has occurred in the basic principles underlying the claim to early exit benefits. There has been a clear shift from social rights and collective arrangements to incentives and individual choices. The entitlement to early exit is now embedded in a system of financial incentives and disincentives; and the decision about early exit has been individualized. The introduction of incentives may well signal a break with the idiom of social rights and duties (Van der Veen, Trommel and de Vroom 2000). Early exit is now less of a collective process based on widespread expectations about the right to stop working early and to receive compensation, and more a matter of individual decisions that financial incentives can sway. As such, this change can be described as a shift from a social rights to an incentive paradigm. Furthermore, it does not just affect early exit but, instead, reflects an overall change in the welfare state (Van der Veen, Trommel and de Vroom 2000).

Finland has pursued a similar strategy but with different means. Here, the National Action Plan seeks to coherently regulate the constellation of actors, whereas the Dutch case has relied on a new social contract between actors and on increasing their responsibility. As of 1996 in Finland, several national programs were set up for wage-earners over fifty. First of all, major effort has gone into vocational training. A national strategy in favor of “Life-Long Learning” has been implemented; and a special effort, made to target wage-earners and jobless persons over fifty. Secondly, a series of measures has been taken to persuade wage-earners to keep on working and to encourage employers to keep them in the work force — measures for maintaining employability and the aptness to work as well as programs for rehabilitating the “disabled” and preventing people from becoming unfit for work. These measures include study programs and research in ergonomics.

Both these countries have managed to take up the challenge confronting continental welfare states: hook welfare policy up with a job policy for improving human resources. This is the price to be paid for raising the employment activity rate of persons over fifty and breaking loose from the end-of-career inactivity trap. Such actions cannot be improvised. They necessitate a coordinated series of adjustments and a shift in welfare paradigms. There is no script for a “spontaneous harmony” to emerge, in Europe, out of the upturn in the labor market (till 2006 /2010). A relative shortage of labor will probably not suffice for firms to rediscover the virtues of older wage-earners and for countries on the continent to be suddenly released from the evil of high unemployment in the weakest social groups.

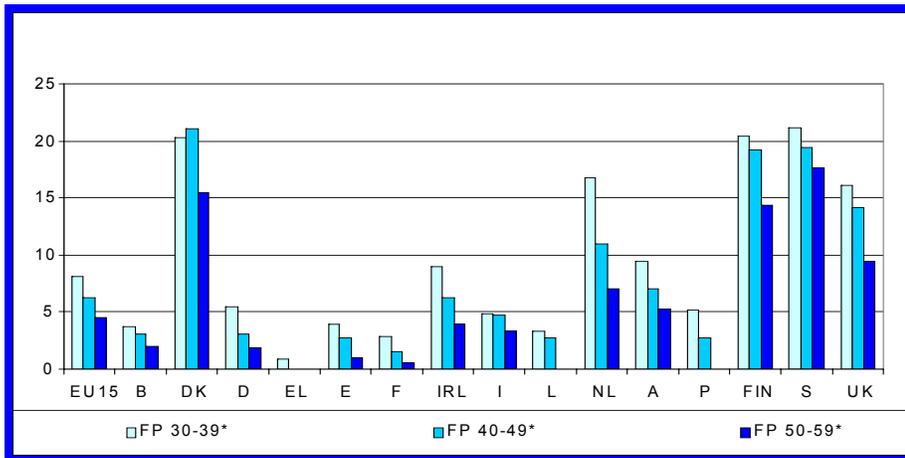
Raising the employment activity rate of persons over fifty entails a deliberate, active policy for maintaining job qualifications and skills and for preserving the employability of persons over forty. In this respect, the strong European correlation that exists between the employment levels of persons over fifty and efforts for training and “requalifying/reskilling” them (Table 2) can be pointed out. Most countries on the continent are not outstanding in this

Table 2 Relation between employment rate and on-site training (age-group 50-59)



Eurostat Labour Force Survey 1997

table 3 Share of workers who had training within the working environment



in the last four weeks, per age group (*) - 1997

Source: Eurostat Labour Force Survey 1997

regard (Table 3). On the whole, Scandinavia has done much to train all age groups. In 1997 for instance, between 15 and 20 percent of wage-earners there had received occupational training. In comparison, training efforts in countries on the continent concern fewer than 5 percent of wage-earners, and an even smaller percentage of those between fifty and fifty-nine years old. Only the Netherlands stands out in that it has devoted much more effort to training, but on a noticeably more discriminatory age-basis than Scandinavia.

III. Conclusion: Reforming continental welfare states in phase with the new flexible life course

The new, flexible, diversified phases in the life course and the needs for security ensuing from them are increasingly out of joint with the rigid instruments used by welfare policies inherited from the Fordist model based on a strict tripartition of the life course. The gap is widening between traditional, rigid welfare arrangements and the new needs related to a more flexible organization of the life course: the need for protection against rapidly obsolete know-how and skills, the need to change occupations several times, and the need to spread “inactivity” out over the life course. In my opinion, this gap largely accounts for the “welfare without work” spiral that afflicts the continental welfare state model. In contrast, the new “flexisecurity” model implemented in the Netherlands proposes a new paradigm of flexible welfare.

Measures such as the “social drawing rights” proposed by Supiot (1999) to the European Commission also incarnate a new conception of welfare and could be a key means for hooking welfare back up with work in the information era. The new paradigms that emerge in continental welfare states must be centered around such entitlements. These new measures do not have a risk as a counterpart but, instead, a previously accumulated “credit” that the beneficiary may use when he or she wants to. This credit enables individuals to manage time over the life course. They will be able to benefit, as they choose, from paid periods of economic inactivity

interspersed, as a function of their needs, throughout the life course. This would result in new ways for individually choosing how to spread education, work, family obligations, and leisure out over life. Such a social entitlement could open a way out of the system of homogenous standards (the fixed retirement age, life-long employment with a single employer, etc.) and toward taking into account the wide diversification of careers and life-course trajectories, which we now observe. These entitlements are intended to provide security for individual trajectories instead of guaranteeing job security. In this sense, they “resynchronize” welfare by putting it in phase with changes in jobs and the resulting changes in life-course trajectories. Any reform of continental welfare states must be centered around this new approach, which is the essential means for converting the flexibility of time imposed by the world of production (and the individualization of life-course trajectories) into a collectively managed freedom.

Nonetheless, converting continental welfare states toward this new – more flexible but also more individually chosen – form of entitlement, or “social rights”, supposes that employers, labor unions, and public authorities work out a new “logic” for negotiations and regulations. This logic must differ from the “neocorporatist” forms that, having prevailed till now under the continental welfare state model, have led to a segmented, fragmented welfare system. This resynchronization of welfare will raise, in particular, problems in coordinating the actions of various institutions. For this reason, it is important, on the continent, to set up forums where officials as well as employer and employee representatives learn how to conduct reforms.

(1) This paper is based on some results of the Cost A13 European program focused on Aging and Work. I want to express my deep gratitude to Bert de Vroom (University of Twente) coordinator of this group without our common work and writing and his detailed analyses on the Netherlands case, this paper could not have been written.

References

- Esping Andersen G. (1996). "Welfare without work: the impasse of Labour shedding and familialism in Continental European policy" in Esping Andersen, ed., *Welfare States in Transition*, London: Sage. pp 66-87
- Esping Andersen G. (2000). "Regulation and context. Reconsidering the correlates of unemployment" in *Why Deregulate Labor Markets?* Oxford University Press
- Ferrera, M., Hemerijck, A., and Rhodes, M. (2000). *The future of Social Europe. Recasting Work and Welfare in the New Economy*. CELTA, Lisbon 2000
- Gould, R., and Saurama, L. (2001). *Aging and Work in Finland*. Cost A 13 publication (in press).
- Guillemard, A.M. (1991) "Pathways and their prospects: A comparative interpretation of the meaning of early exit," in Kohli, Rein, and Guillemard, eds. *Time for Retirement*. pp 362- 387.
- Guillemard A.M.,(1997) Re-writing social policy and changes within the life course organisation. A European perspective, dans *Canadian Journal on Aging*, Vol. 16, n°3, 1997, pp. 441-464.
- Guillemard A.M., (1999), Work or Retirement at Career's End ? A new Challenge for Company Strategies and Public Policies in Ageing Societies, in Sheila Shaver and Peter Saunders (eds) *Social Policy for the 21st Century: Justice and Responsibility* – SPRC Reports and Proceedings n° 141 – December 1999 – Sydney Australia - Volume I, pp. 21- 40
- Guillemard A.M., (2000), *Aging and the Welfare State Crisis*. Associated United Presses. Cranbury, New Jersey USA. 333 p. + biblio., index.
- Hall, P.A. (1993) 'Policy Paradigms, Social Learning and the State. The case of Economic Policy, Making in Britain', *Comparative Politics* 25 3, pp 275-296.
- Holzmann, R. (2000) 'The World Bank approach to pension reform', *International Social Security Review* 53, 1, pp 11-34.
- Merla L. (2000) *Les politiques publiques belges vis à vis des travailleurs de 50 à 64 ans. : tentative d'interprétation au travers de la typologie d'Esping-Andersen*. Mémoire, Bruxelles, Université Libre de Bruxelles. Institut du Travail.
- Pierson P., (1994)) *Dismantling the Welfare State ?*, Cambridge. Cambridge University Press
- Supiot, A. (1999) *Transformation of labour and future of labour law in Europe*. Report

for the European Commission. Paris: Flammarion.

Trommel, W.A. and B. de Vroom (1993) 'The Netherlands: The Loreley Effect of Early Exit' in Naschold and De Vroom (eds) (1993). *Regulating Employment and Welfare. Company and National Policies of Labour Force Participation at the End of Worklife in Industrial Countries*, Berlin/New York: Walter de Gruyter.

Van der Veen R., Trommel W., and Vroom (de) B. (2000) 'Institutional Change of Welfare States. Empirical reality, theoretical obstacles' in H. Wagenaar (ed), *Government Institutions: Effects, Changes and Normative Foundations*, 33-53. Kluwer Academic Publishers.

Vroom (de) B. and M. Blomsma (1991) 'The Netherlands: An extreme case' in M. Kohli, cs (eds), *Time for Retirement: comparative studies of early exit from the labor force*, Cambridge [etc.]: Cambridge University Press.

Vroom (de) B. (1996) *Combating Age Barriers in Job Recruitment and Training. The National Report of the Netherlands*. Dublin: European Foundation for the Improvement of Living and Working Conditions.

Vroom (de) B., Guillemard A.M., (2001), Institutional Changes at the end of the worklife in Jensen P. Andersen G. (eds) *Changing Labor Markets, Welfare Policies and Citizenship*, Policy Press. in Press