CHALLENGES OF AGING

Pensions, Retirement and Generational Justice

Edited by Cornelius Torp

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Pensions, Retirement and Generational Justice

Edited by

Cornelius Torp
University of Augsburg, Germany

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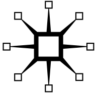

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List of Abbreviations

AARP	American Association of Retired Persons
AGE	Americans for Generational Equity
AROP rate	At-risk-of-poverty rate
AUD	Australian Dollar
BDA	Bundesvereinigung der Deutschen Arbeitgeberverbände e. V. (Confederation of German Employers' Associations)
CDU/CSU	Christlich-Demokratische Union / Christlich-Soziale Union (Christian Democrat Union / Christian Social Union, Germany)
DB	Defined-benefit
DC	Defined-contribution
DFG	Deutsche Forschungsgemeinschaft (German Research Foundation)
EDR	Elderly Dependency Ratio
ESM	European Stability Mechanism
ESS	European Social Survey
EU	European Union
FERPA	European Federation of Retired and Older Persons
FDP	Freie Demokratische Partei (Free Democratic Party, Germany)
GDP	Gross Domestic Product
IAB	Institut für Arbeitsmarkt- und Berufsforschung (Institute for Employment Research)
IMF	International Monetary Fund
ISSP	International Social Survey Program
NDC	Notional Defined Contribution
NEST	National Employee Savings Trust (UK)
NI	National Insurance (UK)
NPRF	National Pension Reserve Fund (Ireland)
NPSS	National Pension Saving Scheme (UK)
NSDAP	Nationalsozialistische Deutsche Arbeiterpartei (National Socialist German Workers' Party)
NTA	National Transfer Accounts
PAYG	Pay-as-you-go
PCF	Parti communiste français (French Communist Party)
SHARE	Survey of Health, Aging and Retirement in Europe

SPD	Sozialdemokratische Partei Deutschlands (Social Democratic Party of Germany)
TDR	Total Dependency Ratio
TFR	Total Fertility Rate
UK	United Kingdom
UN	United Nations
US	United States
WHO	World Health Organization
WWII	World War II
YDR	Youth Dependency Ratio

Demographic Aging as a Challenge to Modern Societies

Cornelius Torp

This books aims to explore the challenges and the consequences of demographic aging. Population aging is not a new phenomenon. All highly developed countries, and particularly those in Europe, experienced a process of demographic aging throughout the entire twentieth century, a process that is ongoing. While in 1900 only 5 percent of the British population was 65 and over, this increased to 10.8 percent by 1950 and 15.8 percent by 2000; the share of the older population is expected to rise as high as 24.7 percent by 2050 (Phillipson, 2013, p. 12; United Nations, 2012). In Japan, where the demographic aging process over recent decades has been faster than anywhere else, people aged 65 and over now make up a quarter of the population; estimates made by the United Nations Population Division for 2050 add up to 36.5 percent. Even in the United States, whose population by Western standards is relatively young, the proportion of old people is expected to climb from 12.4 percent in 2000 to 21.4 percent in 2050 (United Nations, 2012). Other measures of population aging confirm the picture. The European median age, which divides the population into a younger and an older part of equal size, has risen from 28.9 in 1950 to 40.3 in 2010 (United Nations, 2012). At the same time, an increasing proportion of the elderly now survive into their eighties and nineties, and even become centenarians. In fact, the "oldest old," aged 80 and over, today represent the fastest growing age group in the world (Harper, 2006, p. 9). In 2050, the world's largest centenarian population is predicted to be found in Japan, with more than one million people aged 100 and over (Timonen, 2008, p. 24).

There are two factors that can be identified as drivers of population aging. The first is the decline of death rates as a result of improvements in hygiene, nutrition and medicine, which can be traced back in the

most developed regions of Europe to the end of the eighteenth century and which gained traction in most other parts of the world during the twentieth century. Following the decline in mortality, world life expectancy has more than doubled over the past 200 years. In Europe today, life expectancy at birth has reached over 72 years for men and 80 for women (United Nations, 2012). Before 1950, in the Western world, most of the surge in life expectancy was due to a lowering in the infant mortality rate and a reduction in the death rates of children and adolescents. From the middle of the twentieth century, by contrast, the main gains in life expectancy were reached in increasingly higher age groups and are now achieved at old age itself (Oeppen and Vaupel, 2002, p. 1029). The second and even more important driver of demographic aging is falling birth rates. The decline in fertility, the result of a complex interplay of changes in culture and society that have accompanied economic development, has brought about a substantial shift in the proportions of the younger and the older age groups. Taking place in different regions either sooner or later, slower or faster, the long-term fall in the birth rate has reduced the world's Total Fertility Rate from 4.97 in 1950–55 to 2.50 in 2010–15. All European and North American countries, as well as many countries in Asia and Latin America, have by now reached a Total Fertility Rate which is well below the replacement level of 2.1 (see Chapters 1 and 2).

Given its long history, it is remarkable that demographic aging has proceeded more-or-less unrecognized for many years. It is only in the last two decades that population aging has increasingly moved to the heart of public attention. I can detect three reasons for this new awareness. First, with the age cohorts of the baby boomer generation advancing toward retirement age, the aging process gained additional speed and significance in the highly industrialized countries. Second, in the Western world, until recently, the Total Dependency Ratio (young plus old people in relation to those of working age), a problematic indicator for a variety of reasons but nevertheless widely used in political and scientific discussion, remained fairly stable. This was due to a falling Youth Ratio countervailing an increasing Elderly Dependency Ratio. Now, on the contrary, this situation has given way to a rising overall dependency ratio, signaling that a continuously declining share of the population in working age has to support the increasing "rest" of those who are considered unproductive. Third, over the last decades demographic aging developed from being a more-or-less European phenomenon into being a truly global process. Already today, two-thirds of the world's older population live in less developed or developing countries

(Walker Bourne et al., 2011, p. 396). Whereas the already "old" populations of Western Europe currently undergo a process of relatively slow aging, countries in Asia and South America experience a development of extremely rapid aging because of rapid drops in fertility and mortality. In the case of France the doubling of the population share of people aged 65 and over, from 7 to 14 percent, took 115 years. In countries like Singapore, Columbia, Brazil and Thailand the same process is expected to take place within only about 20 years (Kinsella and Phillips, 2005, p. 15).

The fact that more and more people around the world survive until they reach old age and that they grow older and older is one of the greatest achievements of our time. At the same time, however, population aging represents an important challenge to modern societies, putting a severe strain on their institutions and traditional ways of life. In the public and political discourse this "problem view" of demographic aging, and not its positive aspects, has been the predominant view by far. Since the early 1990s, it has been increasingly recognized that demographic aging had become a global trend (Lloyd-Sherlock, 2011). This recognition was accompanied by growing concerns over the economic dynamic of aging societies and over the ability to shoulder the financial burdens of social security, health care and long-term care, which were expected to run alongside a shift toward a predominantly older population. On a global scale, the World Bank report *Averting the Old Age Crisis*, published in 1994, has been most influential and trend-setting in this regard. Its tenor was clearly alarmist and gloomy when it stated, "[t]he world is approaching an old age crisis. As life expectancies increase and birthrates decline, the proportion of the population that is old is expanding rapidly, swelling the potential economic burden on the young" (World Bank, 1994, back cover).

It is important to understand, however, that population aging is not a problem *per se*. The perceived negative implications of demographic aging are largely the result of projecting forward the institutional framework, the behavior patterns and the policy constraints of the twentieth and early twenty-first centuries. What the actual effects of population aging are will depend mainly on how successfully societies adapt to aging in terms of institutional changes and cultural norms. It is this view of aging societies as less determined by some sort of biological fate and more by the interplay of demographic processes and socially constructed institutions and patterns that informs the chapters by Sarah Harper and Ronald Lee (Part I) when they outline the multiple challenges an aging world is facing. Using this background, the following parts of the book

explore three important dimensions of societal aging, focusing on its impact on pension systems, on retirement and corresponding images of old age, and on the balance of intergenerational justice.

1. Pension systems under pressure

Conventional wisdom has it that population aging causes severe problems for all systems of pension provision. Allegedly this applies in particular to public pension systems, financed on a "pay-as-you-go" (PAYG) basis. These systems, which draw the incomes of current pensioners from the taxes or contributions paid by today's working population, are often considered unsustainable because the shift in the balance between younger and older people, in favor of the latter, encumbers the younger generation with an ever growing and finally unbearable financial burden. Public pension schemes of the so-called Bismarck type are often claimed to have particularly bleak prospects. Dominant in Germany and other countries in continental Europe, they are characterized by a prevalent earnings-related component, which makes them much more expensive than Beveridge type systems based on low flat-rate benefits. Over the last few decades, in all countries of the Western world, pension reforms have ranked high on the political agenda. Everywhere demographics played the key role in the plea for pension reform. Since demographic development as an argument has the great advantage of seeming "natural" and "inexorable," this was even the case when the actual driving force of pension reform lay elsewhere, for example in the political will to privatize pension systems in line with neoliberal ideas.

However, despite the increasing proportion of older people and despite the economic problems many highly developed countries have been facing since the 1970s, the majority of political experts considered fundamental pension reform highly unlikely. In recent years, research in the development of pension systems has been dominated by the concept of "path dependency," made fertile for the institutional setting of the welfare state in particular by Paul Pierson's influential studies (Pierson, 1994, 1996, 2001, 2004). Even if politicians are willing to make tough decisions, Pierson and others have argued, fundamental reforms in the field of pension systems are extremely difficult and politically dangerous, because reformers have to operate within a terrain which is heavily formed by the welfare state itself. The longer a pension system has been in place, the more important are its "lock-in effects," in the guise of accrued pension entitlements, institutional structures and entrenched interests. All this has seemed to make pension retrenchment

a hazardous business and to create manifold obstacles to any attempt at radical pension reform. The argument of a pension reform blockade gained additional weight because of the fact of population aging itself. The rising importance of old people at the ballot box, it has been claimed (Sinn and Uebelmesser, 2002), together with strong lobbies of the elderly form a powerful and increasingly insurmountable opposition to all drastic cuts to the pension system.

The course of events in the recent past, however, is, to a considerable extent, at odds with the literature on public policy, which has strongly emphasized the regime-stabilizing dynamics of established pension systems. Confronted with fiscal restrictions and perceived demographic doomsday scenarios, many Western industrialized countries have enacted a multiplicity of changes in their pension systems, which, even if individual steps are limited in scope, often add up or come close to regime shifts. In Chapter 3, Julia Lynch shows that recent scholarship has revealed that the reform-blocking force of the so-called "gray power" has been greatly exaggerated. Neither are there any indications that elderly voters tend to cast their votes motivated only, or even predominantly, by economic self-interest (Goerres, 2008a, 2008b, 2009). Nor has the increasing proportion of elderly party and union members materialized in the form of growing political influence (Schmidt, 2012; Streeck, 2007). R. Kent Weaver convincingly demonstrates that there are not only the regime-reinforcing feedbacks highlighted by the literature on "path dependency," he finds ample evidence of negative feedback effects of pension systems which are self-undermining and which work in the direction of a regime change (Chapter 4; Weaver, 2010). Finally, in concentrating on the internal stabilizing dynamics of national pension systems the mainstream literature seems to have underestimated the regime-transforming influence of supranational institutions. The World Bank in the first place, but also organizations like the EU have figured prominently as agenda setters in the field of pension reform, partly by being directly involved as advisors, partly by contributing to a political climate prone to change.

The financial crisis since 2008 has substantially accelerated the process of public pension reform. Karl Hinrichs (Chapter 5) shows that under the new rules of austerity several European countries, from Ireland to the Southern European countries and to the post-socialist states, have implemented far-reaching retrenchments in their public pension systems. Under the pressure of the financial markets or supranational actors like the IMF or the Troika, the changes were brought about by an accelerated legislative process which suspended "normal" pension

politics, characterized by incrementalism, negotiations and the work of expert commissions. One of the major dilemmas of pension politics today is that the financial crisis not only exacerbated concerns about the sustainability of public PAYG-schemes, but at the same time it gave the deathblow to their most important and attractive market-based alternative in the form of earnings-linked occupational pensions. As in the case of the public pension systems, the original causes of the crisis of the so-called defined-benefit (DB) workplace pensions lay deeper than the recent economic turbulence. As early as the late twentieth century many DB plans, which were extremely popular in Great Britain and the United States, have been closed to new entrants because of an increase in regulations, rising projections of longevity and changes in the labor market (Clark, 2006; Munnell, 2006). Already underway, the stock market crash and falling interest rates in the wake of 2008 added additional speed to this process. It is highly questionable whether other types of pension plans, such as defined-contribution (DC) schemes, private pension provision or even institutional innovations like the new British state-market hybrid pension scheme NEST (which Gordon L. Clark explains in Chapter 6), can make up for the simultaneous decline of DB plans and public pensions. This is not only because the central banks' low interest rate policy after 2008 hit hard all market-based solutions for old age provision. It is also because private actors systematically tend to underestimate their needs for pension provision. A 2013 survey revealed, for example, that United Kingdom respondents on average anticipated living 12 years longer than their retirement savings were expected to last (HSBC, 2013, p. 5). The brave new world of pensions we are facing is thus most likely a world of risk shift from the state to the individual, of more inequality and of more poverty in old age.

2. Retirement and the changing images of old age

Population aging and its repercussions have a powerful impact on the traditional concept of retirement and the established patterns of transition from work to retirement. Retirement as a standardized phase in more-or-less everyone's life is a historically relatively new phenomenon. It evolved during the nineteenth and twentieth centuries as part of the long-lasting process of the "institutionalization of the life course" (Kohli, 1985, 2007). The life course as a social institution is based on societally binding rules about the sequencing of our lives using chronological age as the most important marker. Most obviously, our lives today are

separated into periods of education, gainful work and retirement, from a formal retirement age onward. In the process of establishing both this structure in general and old age as a distinct phase of life in particular, the institutionalization of pension systems, which provide benefits at set ages, played a decisive role. The development of pension systems, and their increasing generosity in the twentieth century, for the first time in history made possible the dissociation of work and old age for all different social strata of Western societies. The ideational foundations of this dissociation, however, as Josef Ehmer argues (Chapter 7), can be traced back to a dialectical image of old age, deeply rooted in European history. On the one hand, discourses on dependency and care conveyed the negative image of the elderly as detached from society and no longer able to work. On the other hand, old age has frequently been depicted as a phase of liberation from work and of well-earned leisure. Reaching back to antiquity, this positive image was a reality only for the upper classes. With the expansion of public pension systems, however, it came within the reach of the masses and increasingly dominated the picture of old age during the "golden age" of the welfare state in the decades after the Second World War. At the same time, with this "democratization of retirement" in the Western world, "retirement" and "old age" more-or-less became synonymous.

Over the twentieth century, the average period of retirement has vastly increased. First, this is the result of the rising life expectancy of older age groups. In Europe, female life expectancy at age 60 has risen from 17.82 years in 1950–55 to 22.96 years in 2005–10; for men the increase has risen from 15.45 to 18.81 years, respectively (United Nations, 2012). Second, the labor force participation of older people has declined substantially. Initially, this trend affected predominantly people aged 65 and over; this group was driven out of gainful employment almost entirely until the 1960s. After this period, and seemingly paradoxically given the simultaneous rise in life expectancy, the employment rates of younger age groups, those aged 60–64 and even those aged 55–59, declined (Ebbinghaus, 2006, pp. 96–100). Propelled by the economic crises since the early 1970s, early exit from the labor force soon became a strategy to reduce unemployment, favored by governments, the social partners and older workers alike. In the two decades after 1970, the decrease in the labor force participation of elderly workers became a common trend in all Western societies, even if its extent varied considerably according to their welfare state regimes (Ebbinghaus, 2006, pp. 87ff.; Ebbinghaus and Schulze, 2007, pp. 282–5; Kohli et al., 1991). In countries like West Germany, which were at the forefront of early

retirement, in the mid-1990s only a third of the male population aged 60–64 still participated in the labor force (Torp, 2015, pp. 252–8; Wise, 2006, p. 313).

Running alongside the prolongation of retirement, the image of old age underwent a fundamental change. Using the German case as an example, Stephan Lessenich (Chapter 8) shows that, from the late 1980s onward, the traditional retirement narrative of old age as retreat from work and other societal activities has increasingly faded away. It has been replaced by successive narratives of the "third age" of the "young old," of the "restless age" image of the juvenile and highly mobile "senior citizen" that, since the turn of the millennium, has been followed by the "productive aging" narrative, which today dominates the discourse on old age. The "active aging" paradigm that has now gained center stage emphasizes the potential of old people and, at the same time, obliges the elderly to make use of the "resources" of old age for the common good. The positive image of life-long vitality and the "young old," however, comes at a price. It delegitimizes the behavior of those old people who refuse to be, or who are unable, to be active. In the guise of the "fourth age" of the oldest old, it also contains a dialectical counter-image of old age that is deeply negative and characterized by frailty, decrepitude and the approach of death.

The last decade of the twentieth century has seen a turn in the political approach toward early retirement in all highly industrialized countries. Faced with rising life expectancy and the fiscal strains of pension systems, governments have started to cut back options of an early exit from the labor market and, particularly in recent years, to increase the mandatory retirement age beyond 65 years. Jürgen Bauknecht and Gerhard Naegele present a detailed account of this paradigm shift in Chapter 9. The results by now are mixed. On the one hand, the massive resistance with which efforts to extend working life have often been met by unions and the wider public demonstrates how powerful social constructions like accustomed retirement ages can be, and how much they are entrenched in the biographical expectations of individuals. On the other hand, labor force statistics clearly indicate that political attempts to reduce early retirement have already been successful. Since the turn of the millennium, in almost all developed countries there is a distinct trend toward the prolongation of working life (Mümken and Brussig, 2012, pp. 3–5). In the EU15 states, for example, the labor force participation rate of men aged 60–64 rose from 33.2 percent in 2000 to 47.3 percent in 2013; for the OECD countries the respective increase went from 47.9 to 57.4 percent (OECD, 2014).

The prolongation of working life, however, causes problems and ambivalences of its own. In particular, there are strong indications that it tends to reinforce existing social inequalities. This is rather obvious in the case of the recent increases of the legal retirement age in many countries. Since people from the lower classes everywhere have a drastically lower life expectancy than the middle and upper classes, the postponement of the statutory retirement age on average eats away much more of their remaining lifetime compared with individuals from the higher ranks of society. Moreover, the chances of high-skilled workers remaining in gainful employment after a certain age are much greater than for low-skilled workers. Older manual workers or unskilled employees more often encounter health problems or do not find a job as a result of their outdated qualifications. At the same time, they are only able to retire earlier at the price of drastic pension cuts, given the reduction of early exit options and the rise of the mandatory retirement age. In Chapter 10, Dirk Hofäcker, Moritz Hess and Elias Naumann reveal that as a consequence, the common trend toward a postponement of retirement across the social classes masks rather different motives. While high-skilled employees often voluntarily embrace the possibility of working longer, low-skilled workers delay retirement involuntarily by virtue of economic necessity. The recent reforms have considerably privatized labor market risks, which formerly were buffered by generous early retirement options (Blossfeld et al., 2006, 2011). It is highly likely that in the future this will result in increased social inequalities and higher rates of poverty among old people.

3. The problem of generational justice

Over recent decades, the discourse on generational justice/equity has increasingly gained prominence in the Western world. At the heart of the generational equity claim is the idea that there should not be a redistribution between the age cohorts to the detriment of younger generations. “We believe that each generation should pay its own way, which is not happening at present,” is the credo of the generational justice movement (Intergenerational Foundation, 2013). In the United States, since the mid-1980s, the controversy over generational justice had an early forerunner, propelled by the foundation of the Americans for Generational Equity (AGE), an organization funded mainly by conservative circles and aimed at cutting Social Security benefits for the elderly (Quadagno, 1989). From America the generational equity discourse spread to Europe, where it increasingly gained

traction from the mid-1990s; in the United States it resurfaced after the turn of the millennium and led to the refoundation of AGE in 2006 (Williamson and Watts-Roy, 2009, p. 165). The political relevance of the generational justice claim hinges, first, on the fact that old people, because of their pensions and high demand regarding health and social care, form the most important client group of the modern welfare state (Kohli, 2005, p. 518; Lee and Mason, 2011). Second, it gains additional weight because of population aging, which causes concerns that the pattern of public transfers toward the elderly and the generational contract in its current form will not be sustainable in the long run.

In many recent debates over the reform of the welfare state, and in particular in those on pension reform, the generational justice argument has loomed large. In these debates, it has functioned regularly as a discursive device used to criticize and alter patterns of traditional social policy. Deliberately or unintentionally, academic and political actors have employed it because it offers an attractive normative legitimization for restructuring the welfare state, going beyond the cool logic of financial restraints. The increasing prominence of the concept of generational justice has been supported by the fact that it could operate in a discursive space that had been prepared by the worldwide triumph of the originally ecological concept of sustainability, from the late 1980s. The generational equity discourse thereby profited from a "transfer of legitimacy," based on the import of the principle of responsibility toward future generations with its corresponding semantics and arguments, which were already familiar and accepted in the ecological context (Brettschneider, 2009, p. 195; Nullmeier, 2004, pp. 62–3). At the same time, the ascent of the generational justice discourse was part of a more general encroachment and development of a new semantics of justice, which starts with social groups defined according to their characteristics, such as family status, gender, ethnicity and generation, which thus thematizes non-class issues (Leisering, 2004, 2007). The call for more justice for families with children, for women, ethnic groups and younger age cohorts, all have in common that they demand the improvement of the position of whole social groups with ascribed characteristics, and independent of the social-economic status of their respective individual members.

Approaching their topic from different angles, all chapters in Part IV of this book are highly skeptical about the question of how far the generational justice discourse is based on real conflicts between the generations. From a historical perspective, John Macnicol (Chapter 11) does

not find any evidence of a particular age cohort intentionally exploiting public resources in its own interests and to the detriment of younger generations. Not denying the historical ubiquity of intergenerational tensions, he argues that the concerns of a "Clash of the Generations" and of an "Age War" (Rawnsley, 2006) in the first place have to be interpreted as devices of a particular neoliberal political culture that aims to demolish social security. Paul Higgs and Chris Gilleard (Chapter 12) also consider the generational justice debate to be a smokescreen for dealing with processes of fundamental social change whose roots lie elsewhere. The baby boomers who are at the center of the generational equity discussion, at least in the United States and the United Kingdom, are targeted because as a generation they epitomize a rapidly changing society characterized by mass consumerism, growing individualization and the demise of traditional certainties and institutions, which has been perceived as a threat particularly in times of economic crises (Beck, 2007; Gilleard and Higgs, 2005, 2011).

In fact, as Martin Kohli demonstrates (Chapter 13), there is little evidence for political mobilization along the lines of generational conflict. Neither do surveys reveal major attitude differences between the age groups when it comes to spending on pensions; in contrast, current pension programs and even their expansion still reach astonishing high levels of public support across the generations (Hicks, 2001, pp. 10–11; Kohl, 2003; Kohli, 2005, pp. 522–4; Liebig and Scheller, 2007). Nor is there strong evidence that voting behavior has predominantly been determined by different generational interests. The absence of a deep generational cleavage can be explained, first, by the fact that intragenerational inequalities within age cohorts or groups everywhere still by far exceed intergenerational inequalities. Second, Kohli argues, both political organizations like parties and unions, as well as family relations and transfers, by now have exerted a mediating influence, keeping at bay any outburst of conflict among generations (Kohli, 1999, 2010; Kohli et al., 2010). This does not mean, however, that there is no potential for increasing political mobilization along generational lines in the future. Economic turmoil, population aging and cuts in the net of social security are all likely to intensify it. Moreover, generational cleavages and vertical class inequalities, which since the 1980s have again been on the rise in the industrialized world, may interact and fuel each other. To what extent generational conflict will play an important role in future politics will depend not a little on how we adapt our culture and our institutions to the challenges we face in demographic aging.

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Part I

The Multiple Facets of Population Aging

1
The Challenges of Twenty-First-Century Demography[1]

Sarah Harper

1. Introduction

In the second half of the twentieth century the overwhelming demographic question was how world population might be prevented from reaching over 20 billion during the coming century. Now the defining demographic characteristics of the twenty-first century are likely to be declining births, stabilization in size, and the aging of the global population. The notion that most OECD countries are now experiencing a growth in their older populations is well accepted by researchers, governments, and policy makers alike. What is less well understood, however, is that this is not just a North American/European phenomenon, but is now occurring in both Asia and Latin America, and even in some parts of Africa. It is also not well understood that the aging of populations arises not so much due to increased longevity, though that is an important influence, but more through falling fertility, and that as a result the twenty-first century is likely to see not a population explosion but a cessation of population growth altogether.

2. Demographics

These changes in the demography of human populations have arisen due to demographic transition. This started in Europe sometime after 1750, in Asia and Latin America during the twentieth century, and now there are indications that Africa will transition during the twenty-first century. Why the demographic transition occurred when it did, where it did, and how it did is strongly debated. However, as humans develop economically, mortality falls, sometime later fertility falls, and in the

gap between the two trends population grows. As the transition develops, low fertility and low mortality lead to a shift in the age composition of the population – resulting in population aging.

The twenty-first century is predicted to see an overall increase in population size, accompanied by a change in distribution and age composition. World population is predicted to increase from its current 7 billion to around 11 billion by the middle of the century (UN 2012 Revision). The global distribution of people will change, with an overall increase in those living in Asia and Africa, and a fall in European and North American populations. The countries in less and least developed regions will account for 97% of the growth up to 2050. Asia will comprise 55% of the world's population by 2050 at 5 billion; Africa is projected to double in size by 2050 from 1 to 2 billion, while Europe will decline from 740 to 709 million. The age composition of the population will also alter as median ages rise, and there is a proportionate shift from younger to older people across the globe. Europe reached maturity at the turn of the millennium, by the measure of more people over 60 than under 15. It is predicted that Asia will become mature by 2040, with over 1 billion people over 60, some 20% of the population, compared to under 1 billion under 15, 19% of the population. Similarly, in 2040 Latin America and the Caribbean will reach 20% with age 60 and over, while those under 15 will fall to 19%. By 2050 there will for the first time be the same number of old as young in the world – with 2 billion of each – each accounting for 21% of the world's population. Nearly 10% of the developed world will be over 80.

Taking an age-structural transition perspective, understanding the proportion of older and younger dependents within a population and the relationship of this to non-dependents, allows consideration of the cohort composition and how this will alter over time. The reason why this is seen as important is that generally productive capacity varies across the life course flowing from a period of youth dependency, through high productive potential in adulthood, returning to a decrease in productive capacity in old age. When we are young adults we produce, consume, and save, and when we are older we reduce our production and consumption and begin to draw up on our investments. The macro-economic effects will differ depending upon the age composition of the population.

This perspective also allows us to view population change in terms of a shift between providers and dependents – the dependency ratio – and how this will typically move from a large percentage of young to a large percentage of old dependents during the demographic transition.

Three broad groupings are currently defined by the UN Population Division: youth dependents aged under 15, working-age population aged 15–64, and elderly dependents aged 65 and over. The ratios thus comprise Elderly Dependency Ratios (EDR), the number of persons of working age (as currently defined by the UN as 15–64) per person aged 65 or over; Youth Dependency Ratios (YDR), the number of persons of working age per person aged 15 or under; and Total Dependency Ratios (TDR), the number of those 15–64 with those outside this age range. The shift in TDR from YDR to EDR may be another useful measure in determining when a population reaches demographic maturity.

Under these measures, the next decade will see a rapid shift toward increased EDRs in most industrialized countries. The EU25 EDR, for example, is set to double as the working-age population decreases by 48 million between now and 2050. The EU25 will change from having four to only two persons of working age for each citizen aged 65 and above. Italy, for example, will see its EDR double between now and 2050 to reach 70:100 workers. In contrast the UK will increase only slightly, reaching 67:100. By 2050, the EDR will also exceed 70:100 in Spain and Japan, while remaining below 40:100 in Denmark, Iceland, Luxembourg, Mexico, Turkey, and the US.

However, behind these statistics defining dependency and productivity lie the complexity of social and economic behaviors, and the ability of societies and individuals to adapt to changing circumstances. In particular, new cohorts enter adulthood with different characteristics, and this is reflected in their ability to remain healthy and productive over their life courses. Much of the concern over population aging is based on assumptions developed from the characteristics of current older populations. It is highly likely, however, that future generations of older adults will have higher levels of human capital – in terms of education, skills, and abilities – and better health profiles, and this will enable them to remain active, productive, and contributory for far longer. In addition, the significant contribution made by older adults in the informal sector providing family and community support and care in particular is now widely recognized. Many now question the relevance of EDRs as currently defined.

2.1. Demographic drivers

The greater challenge going forward, however, maybe around the question as to how low fertility and mortality rates will fall. While it is widely believed that population aging is driven by falling mortality rates and increasing longevity, the major driver is falling fertility, which

fundamentally alters the subsequent age structure of a population, and if sustained leads to increasing median ages, and demographic aging.

Two thirds of the world's countries now have childbearing rates or Total Fertility Rates (TFR) which are near or below replacement level – crudely defined as 2.1. These are diverse and drawn from most world regions: including Asia, for example Hong Kong, Singapore, Korea, Japan, Thailand, Myanmar, and Vietnam; the Americas, for example Argentina, Chile, Canada, and the US; the Middle East and Africa, for example Mauritius, Iran, and Tunisia; and in Europe every EU27 country, with an EU average of 1.6 (Eurostat, 2013). The drivers behind such falls in the rates of childbearing are complex, but arise through such factors as technological advances and changes in the labor market which have altered the costs and rewards of marriage and child rearing (Blossfeld et al., 2005; Kreyenfeld, 2010; Sobotka et al., 2011). It is also argued that there have been ideational changes accompanying economic development which have led to individual autonomy and self-realization (Caldwell, 1980; Mills et al., 2011), so that reproduction is now a function of individual preferences and culturally determined norms (Morgan and Rackin, 2010; Iacovou and Tavares, 2011).

Indeed some demographers now argue that low fertility countries are in the midst of a second demographic transition which is keeping fertility well below replacement. Some countries may well be in a so-called low fertility trap which arises both through demographic factors, the fact that fewer potential mothers in the future will result in fewer births, and sociological ones in that ideal family size for the younger generations is declining as a consequence of the lower childbearing they see in previous generations. Such low childbearing will impact upon future population structures. For example, by the end of the century the percentage of children in most countries will have fallen to 15% or below, and those of working age, will have fallen to just over half. The caveat here is that of course 15–64 is an unrealistic proxy for working age even today, and it is highly improbable that it will define working life by the middle of the century. But this is one of the key messages, and unless policies support a change in behavior this will be the scenario by the middle of the century.

2.2. Mortality rates

However, while population aging is primarily driven by falling childbearing, mortality rates have also been falling and this also has significant impacts. As the bio-demographer Carnes has pointed out (Carnes, 2014) humans have been designed to live long enough to reproduce and

ensure the survival of their offspring. This is the "essential life span." But in an aging population most of us live well beyond this "essential life span" – the twenty-first century will see life extension being the common experience for most people alive today. There appear three particularly pertinent questions.

- Will increases in both life expectancy and in life extension or longevity continue? In other words will there be an increase in average years lived by humans and also maximum years attained by a human being?
- Will life expectancy increase in line with life extension? That is, will we all enjoy the benefits of longevity or will it be for a few?
- Will increases in life expectancy be accompanied by increases in life extension or are we seeing a compression of longevity after 100? In other words will the predicted increases in centenarians over the coming century be accompanied by increases in super-centenarians (over 110)?

The drivers of life extension appear to be fourfold: healthy living, disease prevention and cure, age retardation or senescence prevention, and regenerative medicine. It has been argued that healthy living and disease prevention and cure can push most lives in advanced economies to a hundred. Indeed centenarians in the UK are likely to increase from around 12,000 currently to near half a million by the middle of the century and approach one million by the end (Leeson, 2014). Eight million people in the UK and 127 million in Europe are likely to reach a hundred. According to calculations made by Oeppen and Vaupel (2002) the life expectancy of babies born here today is probably around 103. However we shall probably need age retardation and regenerative medicine to achieve real life extension. The third question above is important here. Will increases in life expectancy be accompanied by increases in life extension or are we seeing a compression of longevity after 100? Interesting evidence can be drawn from deaths among the oldest old – those over 80. Late-life mortality rates in many developed countries are declining and currently show no signs of slowing. If we do not consider life expectancy but "model age at death" – in other words the age each year at which most people in the population die – in those countries such as Japan – where we do have sufficient numbers of old people to study this – we find that firstly the mode is some six years older than the average; and importantly as the mode increases the tail – or the distribution of deaths above this mode – also slides to higher ages. We call this

a "shifting mortality scenario" and this provides evidence – at least for Japan – that as we see an increase in centenarians so should we expect to see an increase in super-centenarians.

However, in order to continue these increases, which may at present be linked to our first two factors – healthy lives and disease prevention and cure – we shall have to address senescence itself. While some demographers such as Vaupel assert that the mortality data suggest that the increases in life extension will continue (Vaupel, 2010), others bio-demographers such as Olshansky and Carnes maintain that we need biological intervention to continue the trends (2009).

Here is possibly the greatest challenge. Epidemiological evidence suggests that the onset of disability is pushed back into later ages; conditions which were prevalent within the 60- and 70-year age groups are now being delayed in some populations until the seventies and eighties. A 70-year-old European has the same probability of dying today as a 57-year-old 50 years ago. This is primarily the effect of healthy living and tackling disease. However will these gains in healthy years as well as long lives continue as we increasingly turn to science and technology to extend our years? Or will the modern and increasingly scientific and medical drivers of longevity not only increase our life expectancy but also enable us to live for longer and longer with disease, disabilities, and frailties? This leads to three significant public policy challenges.

- The need to maintain both healthy life expectancy and disability-free life expectancy as life expectancy considerably increases;
- The need to reconfigure support and care, formal and informal, to support these new considerably extended lives;
- The need to finance the cost of maintaining health and quality of life particularly at the end of these new extended lives.

This then is the demography of the twenty-first century – low fertility and low mortality rates for most countries, leading to an aging of the world's population. How can modern societies successfully adjust to population aging?

3. The challenge

As we have discussed, the aging of populations is caused by two distinct trends: older people are living longer and at the same time younger people are having fewer children. This shift from predominantly young to predominantly older populations raises concerns over the ability of

nations to finance the social security and long-term health and social care which are required to support a growing number and percentage of older dependents, at a time when the number and percentage of those who are economically active is declining. There are also concerns about the ability to reconfigure health and long-term care provision; this is particularly the case in emerging economies, which will still be tackling acute and infectious diseases and relatively high levels of infant and child mortality at the same time as addressing the growing number of frail older adults. A third challenge is the reconfiguration of social institutions to address issues of intergenerational and intragenerational fairness, that is fairness and equity within and between different generations as population age, and the support of individual well-being across the life course. Indeed, inequalities in access to health, economic, and social resources are likely to remain a pressing concern over the coming decades.

3.1. Economic challenge

This challenge has been brought into sharper focus since the financial crisis of 2008. In particular, growing national debt has drawn government attention to two apparently conflicting priorities: the need to sustain public spending on pensions and health care versus the need to reduce budget deficits. A number of countries are consequently reconsidering their pension and health care provision, which accounts for up to 40% of all government spending in advanced economies. Japan is often seen as the classic aging society. The steady rise in average income combined with the introduction of social security had led to an increase in average life expectancies from a post-war level of 60 to currently the highest in the world at 83. However the social security system now faces serious financing problems as the number of beneficiaries is increasing at a time when the working population is declining – a simultaneous increase in payments and decrease in revenues.

The US is also facing considerable budget deficits in part due to its public social security and health programs. Future scenarios predict that the deficit will rise from 8% to 20% of GDP by 2050. The UK is in a different situation as there has been a continuous shift toward the older individual bearing the financial responsibility of health and pension costs. Yet here the government has raised state pension age to 66 from 2016, in a direct move to cut the UK budget deficit by some £13 billion a year. Even Australia – currently experiencing annual surpluses – will face a budget deficit of AUD 100 billion dollars in 10 years' time, around 4% of GDP, of which AUD 30 billion dollars will arise from increased health care spending.

The economic challenge is to maintain productivity among the older population for as long as possible, thus both reducing the need for social security and enabling the financing for those who are no longer economically active. Furthermore, many governments, in particular in advanced economies, are exploring policies to address the demographic composition. These measures may be approached by altering the age composition of the population, through encouraging changes in fertility and migration rates to increase the proportion of young people. Couple this with the potential to increase productivity through technological innovation and increased female participation, and the increased "dependency ratio" argument begins to weaken.

Much of the concern around the economic challenge arises from the presumption that future older labor forces will be less productive and less innovative, and that an older population will consume less both with negative consequences for economies. However, in advanced economies at least, new cohorts of highly educated, skilled, and increasingly healthy populations are approaching traditional retirement ages, and are increasingly remaining in economic activity – producing, consuming, and paying taxes (Bloom et al., 2011). Furthermore, longer lives allow a great accumulation of assets which when invested can enhance productivity, generate asset income, and raise living standards. Similarly, while population aging may affect the aggregate savings rate by raising the fraction of the population in age groups traditionally associated with drawdown, it may also affect an economy's average level of savings per capita, as individuals approaching and shortly after retirement tend to have higher levels of savings than those at the start of their working career. It has been estimated, for example, that the US will see a 25% increase in national net worth per person of working age by the middle of the century due to population aging alone. These two factors – the need to save more for a longer retirement and the changes in the age distribution of a population – have the potential to raise the asset income of a nation. Increased productivity, increased savings, and – given the high level of wealth currently accumulated by older populations – continued consumption, and the aging of populations may not herald the scenarios currently being forecast.

While research does indicate that increasing fertility can have a strong influence on altering old age dependency ratios, very few countries are currently pursuing an active fertility promotion policy.

Similarly, as Harper explores elsewhere (Harper, 2013) migration has a potentially strong and long-lasting impact on population growth and structure through the interaction between the number of migrants, their

relatively young age structure, and their higher fertility. Immigration thus has the ability to prevent population decline, maintain the size of the labor force and thus the support ratio, and slow down structural population aging. Alternative policy options include increasing the productivity of the population by encouraging higher labor force participation rates and extending working lives by altering entry and exit ages.

3.2. Health challenge

A second challenge is the need to maintain health among older populations for as long as possible, thus reducing the need to provide and finance long-term health and social care. Population aging will hold particular challenges for the provision of health and social care. In particular the amount of ill-health and disability is likely to increase, the type of ill-health is likely to change from acute to chronic conditions, and importantly, the effect of decreasing numbers of younger people will reduce those able to provide care.

The total amount of ill-health and disability in the population will rise because as societies improve their population life expectancy, the proportion of the population with serious health problems will increase, unless there is a significant improvement in the health of successive birth cohorts which shows up as a decrease over time in age-specific prevalence rates: the "epidemic of frailty" (Robine and Jagger, 2005). Even if the improvements in healthy life expectancy keep pace with increasing life expectancy, as Howse (2010) highlights, the change in the age structure of the population that will result from the aging of the large birth cohorts in the middle of the twentieth century in many advanced economies will increase the scale of health care needs in the population. In particular there will be an increase in the proportion of the population in close proximity to their death, a time when ill-health is more likely to predominate. Analyses of age-related data on health spending have shown that proximity to death is more important than age per se as a predictor of the consumption of health resources (Seshamani and Gray, 2004; Zweifel et al., 2004).

There is also evidence of a change in attitudes to and demand for health care provision from successive cohorts. As Leeson (2004) has pointed out, although a number of cross-national studies have considered the determinants of health care costs, only one has found that the age structure of the population, that is the proportion of population aged 65 and over being taken as the age structure indicator, is the explanatory factor. Rather, it is the wider effects of income, lifestyle characteristics, and new

technology, alongside the effects of environmental factors, which are driving up the demand for new, advanced medical applications. Indeed, analysis of OECD data by Seshamani and Gray (2002) reveals that in advanced economies at least, per capita health care costs for those aged 65 years and over have increased at the same rate as for those aged less than 65 years.

Changes in the type of ill health which will exert pressure for a major shift in the allocation of health care resources and the configuration of services arises from the shift from acute infectious diseases to complex, chronic, long-term ill-health and disability: the chronic disease burden (Nolte and McKee, 2008). There is thus a need in both advanced and emerging economies to reallocate health and social care resources away from infectious and acute medicine toward preventing and managing late-life chronic diseases.

The third factor concerns the impact of population aging on a society's capacity both to provide workers to care for the older population and tax income to finance this. In addition, demographic change will reduce both informal family care through a reduction in the availability of younger members to provide such care and formal care as the provision of overseas migrants providing health care is reduced as their own societies start to age. Furthermore this will occur at a time when the epidemiological transition is toward labor-intensive chronic disease care.

3.3. Intergenerational and intragenerational relationships

The traditional contract between generations is based on a system of intergenerational reciprocity. Adults provide for young dependents (children) and in return, when those young dependents become adults, they provide for older dependents. This is maintained in most societies both at the familial level (parents providing for young children, children providing for elderly parents). It is also maintained at a societal level, with adults within the labor market providing via public transfers for both older and younger dependents, to provide health care and education, and health care and income support, respectively. The question for an aging population is whether successful cohorts (in terms of both fertility and mortality reduction) pass the cost of such success onto future cohorts via the traditional intergenerational contract, or bear the cost of their success via an adapted intergenerational contract. This latter contract would require older cohorts to bear the costs of their longer lives through, for example, higher post-retirement contributions to their own welfare and/or a longer working life.

The consideration of intergenerational fairness also raises the question of ensuring that both those generations who are working and those who are now retired are able to benefit from the proceeds of any economic growth. As Harper (2010) argues, governments need to consider maintaining a link between pensions and wages so pensioners receive some share of a nation's economic growth or linking pensions to increases in prices so pensioners do not see absolute living standards fall as a result of inflation. At the same time, most governments will wish to ensure that they work to reduce intragenerational inequalities, which exist between those with differing educational and employment opportunities and access to social capital resources.

4. Conclusion: The need for adaptation

Twenty-first century population aging is taking place within existing institutional structures, mainly inherited from the twentieth century. As societies attempt to successfully adjust to population aging, a key public policy question is thus how national collective goals will influence these necessary societal adjustments, and how such required adjustments will be facilitated or restricted by existing social goals. More specific is the question of the appropriateness of financial and health institutions and programs, designed for the population of the twentieth century, for the individual life courses, and familial and societal structures of the twenty-first century.

It may be argued that population aging necessitates a division between government responsibility (public money) to keep a population out of poverty, and individual responsibility (private money) to raise personal standards of living. The new challenges also require consideration of new frameworks which support and encourage individual responsibility. Two particular challenges will be how to manage the expectations of relatively affluent upcoming cohorts of older adults who wish to maintain quality of life and health in later life, while also tackling the likely increasing inequalities between different income/asset groups in later life.

However, it should be recognized that the major concerns – public spending on pensions, high dependency ratios between workers and non-workers, increases in health care costs, declining availability of family-based care, and a slowdown in consumption due to an increase in older people and a decrease in younger people – are dynamics of current cohorts and current behaviors; they are not fixed. In addition, they are all phenomena which can be addressed by policy, given the political and economic will.

Note

1 This chapter is based on Harper, S. (2014), "Introduction: Conceptualising Social Policy for the Twenty-first-century Demography" in Sarah Harper and Kate Hamblin (eds), *International Handbook on Ageing and Public Policy*, Oxford Institute of Population Ageing, University of Oxford, UK, with Jaco Hoffman, Kenneth Howse and George Leeson.

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2

Population Aging and the Changing Economic Life Cycle: A Global Perspective

Ronald Lee

1. Demographic transition and population age distributions

Most of the world's populations have begun the long process of demographic transition that will inevitably transform them from young populations to old ones; the lagging countries will soon follow. Although the timing and pace of the transitions differ, the basic structure of change is typically very similar. Starting from an initial equilibrium with slow population growth, mortality first begins to decline while fertility remains high. The population begins to grow more rapidly and the fraction of young people in the population rises as does the child dependency ratio. After some decades, fertility begins its decline which is rapid and brief. The population growth rate slows, the proportion of children falls, and the proportion of working-age population rises. This stage continues for five or six decades, giving rise to the so-called First Demographic Dividend. The smaller birth cohorts eventually begin to move into the working ages, slowing the growth of the labor force, while the growth of the older population accelerates due to rising life span. The share of the elderly rises as does the total dependency ratio, and the population ages. This process largely stops when the smaller generations begin to reach old age. However, due to rising life spans population aging continues, albeit at a slower pace than before.

As a concrete example, we can consider the case of Costa Rica, although any number of other countries would do as well. Panel A of Figure 2.1 shows the trajectories of the Total Fertility Rate (TFR) and life expectancy (e0) since 1950 and projected to 2100 (United Nations, 2011). From Pérez-Brignoli (2009) we know that the mortality decline started 50 years earlier in 1900 (as appears to have been the case in many

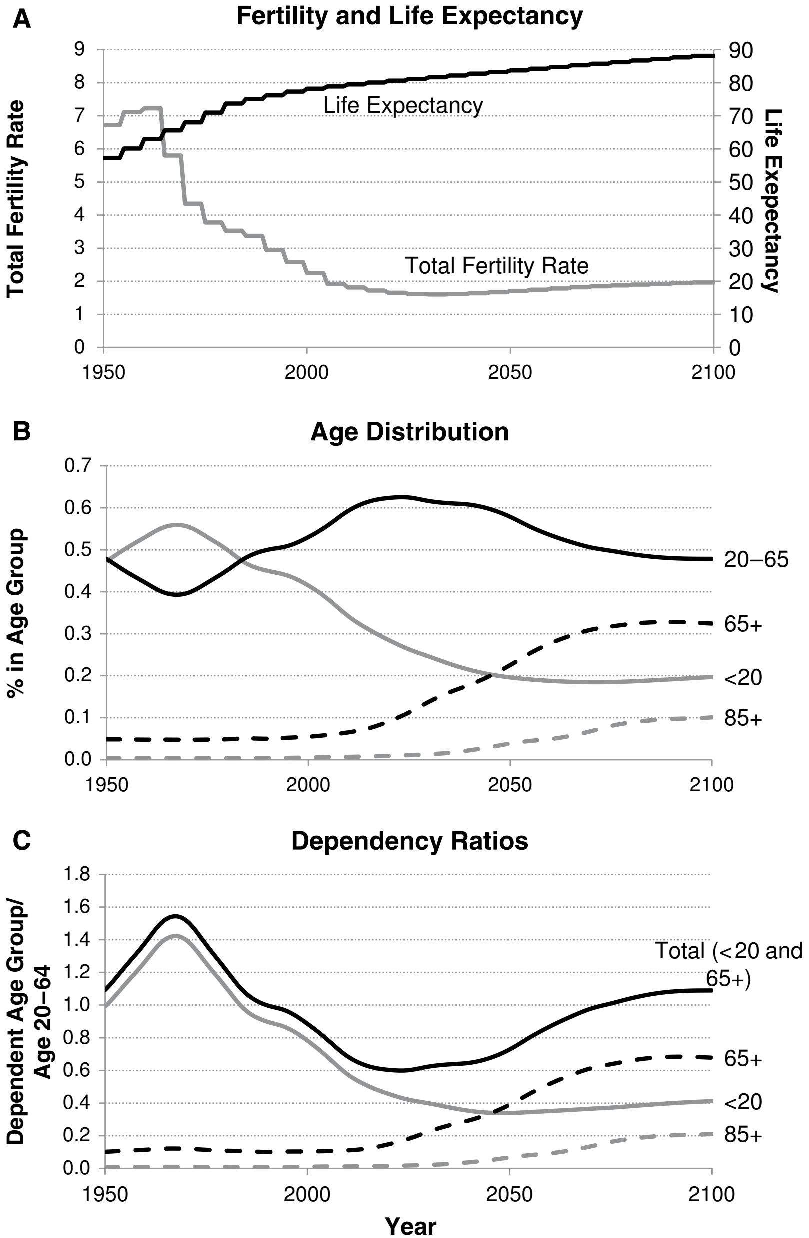


Figure 2.1 Age structure change and the demographic transition in Costa Rica
Source: Calculated from the data in United Nations (2011).

Third World countries) when life expectancy was only 35 years, but the UN data do not begin until 1950. Fertility decline in Costa Rica started in 1970. Panel B shows an initial rise in the proportion of children, echoed in Panel C as a rise in the child dependency ratio, followed by their long decline as fertility drops. Finally we see the rise in the elderly share and the old age dependency ratio. The total dependency ratio undergoes a typical sinusoidal movement, ending up not far from where it began, but the population is eventually composed of more elderly than children, quite the opposite of the situation at the start.

In Europe, North America, and Australia/New Zealand this elegant process of orderly change was disrupted by baby booms and busts of varying sizes after WWII, which in some cases postponed the onset of serious population aging by many decades but accelerated population aging when it did arrive.

2. The economic life cycle

These slowly unfolding but profound changes in age distribution have many important consequences, and the economic ones I will discuss are prominent among them. Age distribution has economic implications for the obvious reason that economic activities are strongly age-patterned. Among these activities, consumption and labor are perhaps the most fundamental. Here and throughout this chapter I will draw on results from a large international project titled National Transfer Accounts (NTA), which includes 40 countries distributed across the globe (Lee and Mason, 2011; www.ntaccounts.org). NTA estimates age schedules of consumption, labor income, saving, public and familial intergenerational transfers, and other economic variables of interest. Estimates are based on pre-existing data from expenditure and labor force surveys, censuses, and administrative data, and these estimates are adjusted to be consistent with the totals provided by standard National Income and Product Accounts.

Consumption in NTA includes both private consumption expenditures by households and in-kind public transfers to individuals such as publicly provided health care and public education. Within the household, private expenditures on health care and education can usually be attributed to particular individuals. Other private consumption expenditures are allocated to individual household members in proportion to a set of age weights that are the same for every country. For example, an adult has a weight of 1.0 and a child under age five has a weight of 0.4. At each age the reported value is a simple average across all the different households for all people at a given age.

Labor income includes before-tax wages and fringe benefits provided by the employer (including the employer's share of payroll taxes, for example). It also includes two thirds of self-employment income, with the other third accruing to capital. Unpaid family labor is included in self-employment income, and is allocated to individuals in each household based on information provided in the labor survey (Lee and Mason, 2008). At each age it is a simple average for all people, male and female, in the labor force or out of it, so it reflects labor force participation, hours worked, and compensation or productivity per hour of work. Not all the cost of consumption is paid from labor income. Asset income and foreign borrowing are also used to pay for consumption, and indeed in the National Income and Product Accounts aggregate consumption is almost always considerably greater than aggregate labor income.

The age profiles for different countries exhibit interesting regularities by region and by level of economic development. Figure 2.2 shows an average of the profiles for the richest quartile of NTA countries and the poorest quartile of countries for recent years. For comparability, the age profiles have been standardized before averaging by dividing

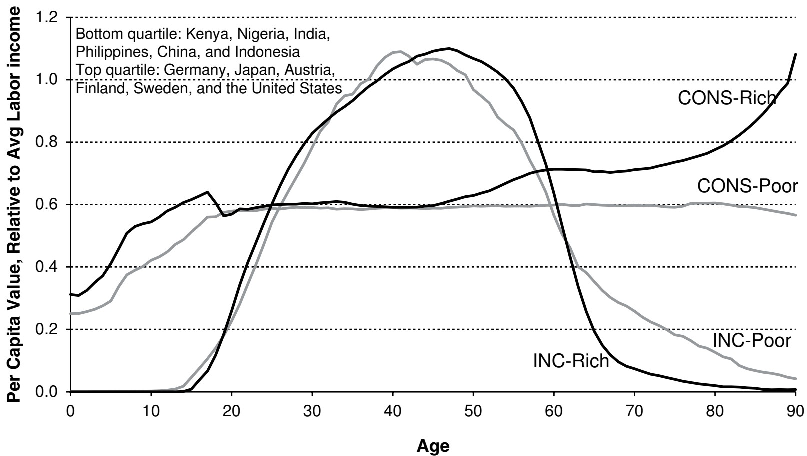


Figure 2.2 Average consumption and labor income for the top income quartile and the bottom income quartile of 23 NTA countries

Note: Avg = average; CONS = consumption, divided by the average of labor income for ages 30–49; INC = labor income, divided by the average labor income for ages 30–49.

Source: National Transfer Accounts: Lee and Mason (2011). For definitions and methods, see text.

all values in each country by the average level of labor income in that country for ages 30–49. Thus the units in each country are years of labor income.

The two sets of average age profiles are qualitatively similar: in both, children and the elderly consume more than their labor income, as we would expect. However, there are important differences as well. In the rich countries, there is a long bump on the child consumption profile reflecting heavy investment in the human capital of children in these countries, particularly spending on education. In the poor countries, consumption is quite flat across age throughout all the adult ages above age 20, reflecting co-residence of the elderly with their adult children, while larger households mix individuals across a broad range of ages. In the rich countries, consumption rises strongly with age, particularly in the older ages. Much of this is due to expenditures on health care and, starting in the 1980s, long-term care.

Labor income also shows interesting differences. Work begins at younger ages in poor countries, but the difference in Figure 2.2 is surprisingly small. That is because in Kenya and Nigeria labor income is very low for children and even for young adults, which is often the case in Sub-Saharan Africa. In the poor countries of Asia, however, children begin to earn labor income early. What we see in the figure is the average of the two situations. Labor income peaks later in the rich countries, perhaps reflecting the greater role of cognitive human capital in these countries, and consequently the greater returns to experience. More dramatic is the precipitous drop in labor income at ages from the late fifties to the early sixties in the rich countries, and their low level of labor income at the older ages compared to the poor countries – patterns that probably reflect public pension generosity and retirement incentives in the rich countries (Gruber and Wise, 1999).

It is instructive to look at the changing patterns of consumption over time in the rich countries. Figure 2.3 shows the age profile of consumption and its composition for the US in 1960, 1981, and 2007, covering a half century. In 1960 consumption rose slightly until age 60 or so, and then declined. Public and private spending on education were low, and both public and private spending on health care were low as well. During the 1960s publicly funded health care for the poor (Medicaid) and for the elderly (Medicare) were introduced, and between 1960 and 1981 the generosity and coverage of the public pension system (Social Security) were increased and an early retirement age of 62 was established. In 1981 the age profile for total non-health expenditures looked quite similar to 1960 except that the decline came after age 70 rather

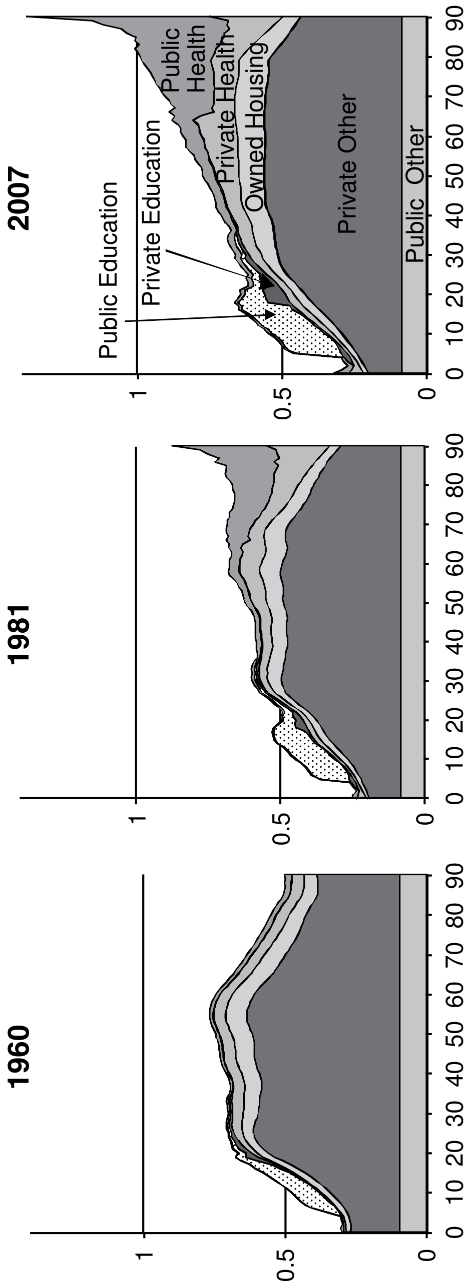


Figure 2.3 The composition of age-specific consumption in the US, 1960, 1981, and 2007

Source: Data from the US national transfer accounts, Lee et al. (2011) and additional calculations using the same methods.

than age 60. However, both private and public expenditures on health at older ages have expanded so dramatically that now consumption rises with age instead of declining, and we see the dramatic spike following age 85 due to public support for long-term care for poor elderly through Medicaid. By 2007 these changes had intensified. Now non-health private consumption does not decline until after age 80, perhaps reflecting more generous public pension benefits. Public and private health care expenditures have continued to expand, making total consumption rise dramatically with age. People at 80 consume about 75 per cent more than young adults in their early twenties. It is difficult to avoid the conclusion that the growth in the relative consumption of the elderly is related not just to rising costs of health care but, more specifically, to the rise of public sector transfers to the elderly.

Regarding labor income, not shown here, retirement age continued to decline from 1960 to 1981, but thereafter it stabilized and has increased by 1.5 years since 1995. In the US as in most other rich industrial nations, the retirement age of men has nonetheless declined by around 10 years between 1900 and the present. Similar changes are seen in Third World countries as their incomes rise.

In sum, the economic life cycle has changed in ways that greatly raise the net per capita cost of consumption in old age, even aside from the aging of the population.

It is obvious that these age profiles and their changes reflect more than age variations in biological needs. In addition they reflect institutions and policies, culture, and individual optimizing decisions. The biological context in which these decisions are made is changing as the health and functional status of the elderly has improved throughout the twentieth century, at least in the US. Older people clearly had increasing capability to work longer, even as they were choosing to retire earlier. Ages 60 or 65 are still treated as the boundaries of old age, but these ages correspond less and less to the onset of disability (Sanderson and Scherbov, 2010). More recently, at least in the US, it appears that the trend of declining disability at older ages has stopped or at least paused. Nonetheless, there is ample biological potential for extending work life. There also appears to be the public and political will to raise the normal retirement age in the public pension programs in many rich industrial nations or to change the incentive structure of public pensions to remove incentives for early retirement.

For many reasons, then, it would be a mistake to treat these estimated age profiles of consumption or labor income as fixed and immutable. Surely they will vary as we move through the twenty-first century, just as

they have varied in the past. Nonetheless, the current estimated profiles can be used as a sort of benchmark for assessing the consequences of future population aging.

3. The interaction of population age distribution and the economic life cycle: Support ratios

Population aging interacts with the age profiles of consumption and labor income to generate budgetary pressures and imbalances at both the public and the private level. Here we will focus on public and private consumption and revenues combined as these interact with aging. This can be done using support ratios based on current age profiles. The support ratio in a given year is Effective Labor Income derived by multiplying the population age distribution in that year times the age profile of labor income, divided by Effective Consumption calculated similarly using the consumption age profile.

Figure 2.4 shows the support ratio for Costa Rica calculated in this way for the years from 1950 to 2100 based on UN population estimates and projections (United Nations, 2011), together with the NTA age profile (not shown). The support ratio initially declines as child dependency rises, but from 1970 until 2026 the support ratio increases steadily, rising

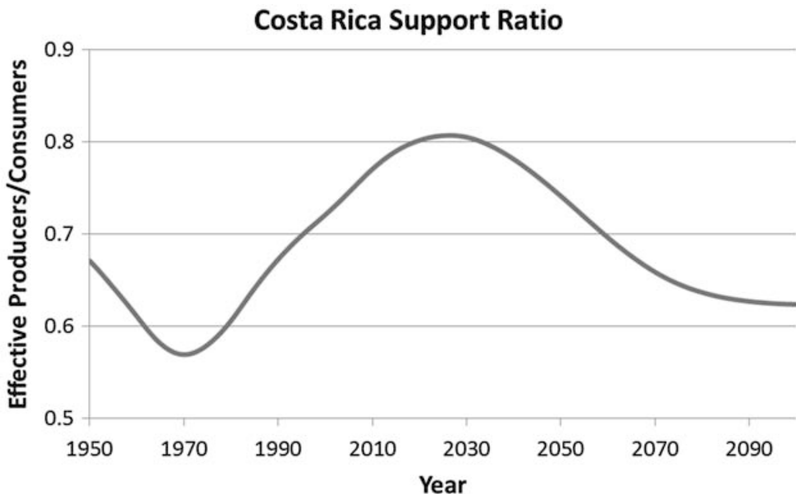


Figure 2.4 Costa Rica support ratio

Source: Calculated from the data in United Nations (2011) and the National Transfer Accounts for Costa Rica (Rosero-Bixby et al., 2011).

by 42 per cent, or by 0.62 per cent per year on average. This contrasts with the years 2026 to 2070 when the demographic dividend comes to an end and population aging reduces the support ratio at a rate of 0.46 per cent per year. The swing between the rates of change in the dividend phase and the aging phase is 1.1 per cent per year. These rather mechanical consequences of population aging are large enough to matter in many countries, although they do not look large relative to the remarkable economic growth rates that India and China have recently achieved.

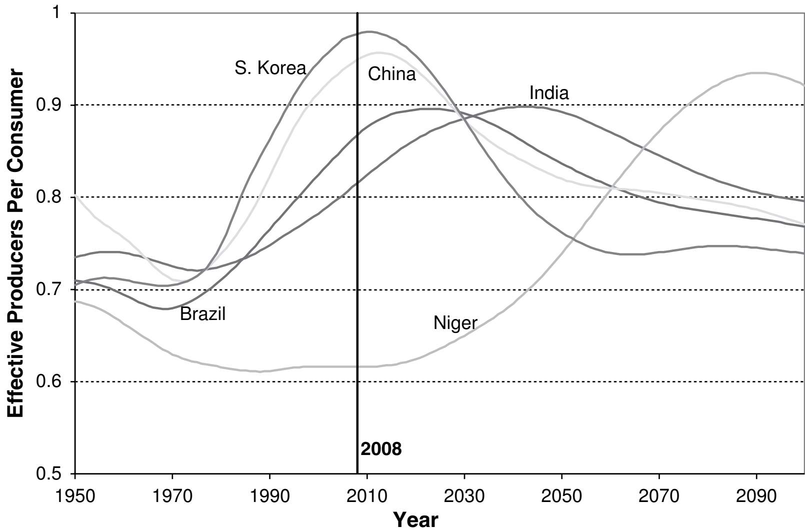
Support ratios for a selection of less-developed countries in the top panel and rich countries in the bottom panel are shown in Figure 2.5, based on average age profiles for rich and poor countries. Among the less-developed countries South Korea and China are close to the end of their dividend phase and about to experience rapid population aging. Brazil and even more so India have a number of years before the onset of aging. Niger has not yet entered the dividend phase.

The lower panel shows the declining support ratios of the richer countries. The US has replacement level fertility, and aging will be rather mild. The support ratio will decline at about 0.2 per cent per year from now until 2050. But low fertility in Japan, Spain, and Italy means that they will experience a more rapid decline in the support ratio at 0.7 or 0.8 per cent per year over this period. Germany is intermediate. Under the intermediate UN projections the decline in the support ratios is largely complete by 2050 for most of these countries, but under the low fertility variant the decline will continue.

Declining support ratios are not the end of the story, however, because population aging and the low fertility and long life that cause it have beneficial economic effects as well, perhaps leading to increased capital intensity in the economy and to increased investments in human capital, both of which raise the productivity of labor. The extent to which capital intensity is raised depends in part on ways in which old age consumption is funded in each country, which we will now consider.

4. How consumption in old age is funded around the world

Old age consumption in any country is funded by some mixture of continuing work, asset holdings of elders, and public and private transfers. Figure 2.6 groups together public and private transfers and shows the mixture of labor income, assets, and transfers used to pay for consumption by the elderly in each country. Each of the three vertices of the triangle corresponds to one of these three sources of payment. At each



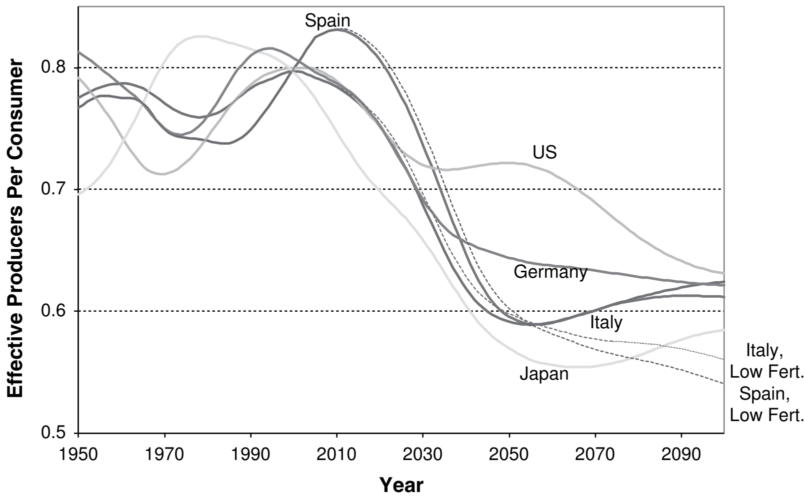


Figure 2.5 Support ratios in selected poor countries (upper panel) and rich countries (lower panel)

Source: Calculated from the population data in United Nations (2009) and age profiles of consumption and labor income from the National Transfer Accounts (www.ntaccounts.org and Lee and Mason, 2011).

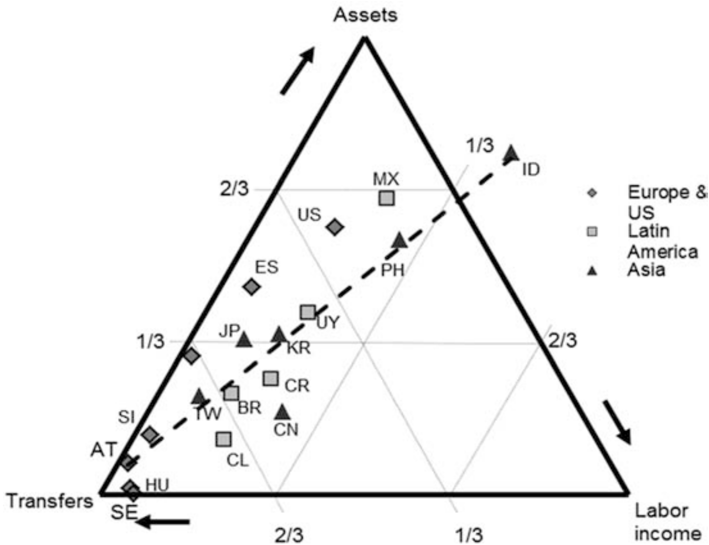


Figure 2.6 Shares of elder consumption funded from labor income, transfers, and assets in 17 NTA countries

Source: Adapted from Lee and Mason (2011).

vertex, all the funding comes from the corresponding source. In general, the closer a point is to a vertex, the greater the share of funding from that source. The figure shows that the most important tradeoff is between transfers and assets. Elders in Sweden, Austria, Slovenia, and Hungary rely almost exclusively on transfers, deriving no support from work or assets. Countries are scattered around a line that starts at the Transfer vertex, and as it moves away from that vertex its slope indicates that each unit of transfers that is lost is replaced by two thirds of a unit of assets and one third of labor income. In countries like Mexico, the Philippines, and the US, elders rely on assets to fund about two thirds of their consumption. In general, the elderly in countries that rely more heavily on assets also rely more heavily on labor income, and less so on transfers.

The next step is to separate public transfers from private or familial ones by focusing on how consumption in excess of labor income is funded – through the use of assets or by public or private transfers. This is shown in Figure 2.7, which is also a triangle diagram. Most of the

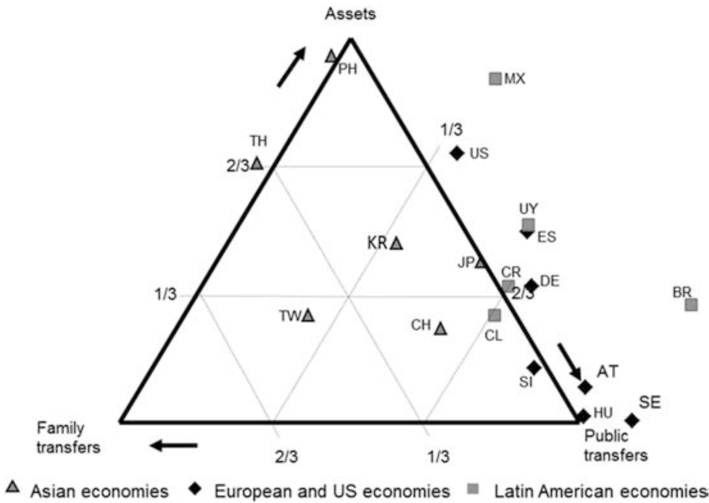


Figure 2.7 How is elder consumption net of labor income funded? Shares of funding from public transfers, family transfers, and assets for 17 NTA countries
Source: Adapted from Lee and Mason (2011).

countries are scattered around the line to the right connecting the asset and public transfer vertices. Along this line, net private transfers to the elderly are zero, as in Japan, Slovenia, Costa Rica, Chile, and Hungary. In countries to the right of this line, the elderly make net transfers to younger people, mainly their families, as is true in the US, Uruguay, Spain, Sweden, Austria, and Germany. The champions in making net transfers to younger family are Brazil and Mexico. Brazilian elders receive very generous public pensions and transfer some of this income to their descendants. Mexican elders, by contrast, receive little in public pensions and nonetheless manage to make large transfers to their descendants out of these assets.

We can also see that only in some Asian countries do elders receive substantial net transfers from their descendants, probably mostly through co-residence. These net transfers are important in Taiwan, Thailand, China, and South Korea. The African countries in NTA have not yet made the necessary estimates, but it will be very interesting to see whether they also show stronger familial support of the elderly.

These systems for funding consumption by the elderly are fascinating in their own right, but they also have important implications for the effects of population aging on the economy.

5. Economic consequences of population aging

If the elderly rely primarily on assets to fund their old age consumption, then population aging, that is, an increase in the share of the population that is old, generates an increase in assets per capita or per working-age person. This will generate increased asset income if invested abroad and will raise the capital/labor ratio if invested domestically, boosting labor productivity (Lee and Mason, 2010). Either way, the primary support burden does not fall on the working-age population. If invested domestically, then the marginal product of capital, profit rates, and interest rates may all somewhat decline. Simulations suggest that this effect is not likely to be large (Boersch-Supan, 2006) even in a closed economy, but in a partially open economy there will be outflows of capital to other countries with younger populations and higher rates of return to capital. If the elderly instead rely primarily on public or private transfers to provide for consumption then population aging will lead to an increased dependency burden on the working-age population with no offsetting boost to labor productivity.

We can see in a very concrete way that population aging raises the asset holdings or wealth per capita by noting that in any society, the elderly hold more assets than younger people. Figure 2.8 shows household net worth by age of household head in the US in 2007. The average household with head age 65–74 has ten times as much net worth as the average household with head age 20–34. Holding this age schedule of net worth constant, we find that given the projected population distribution of households

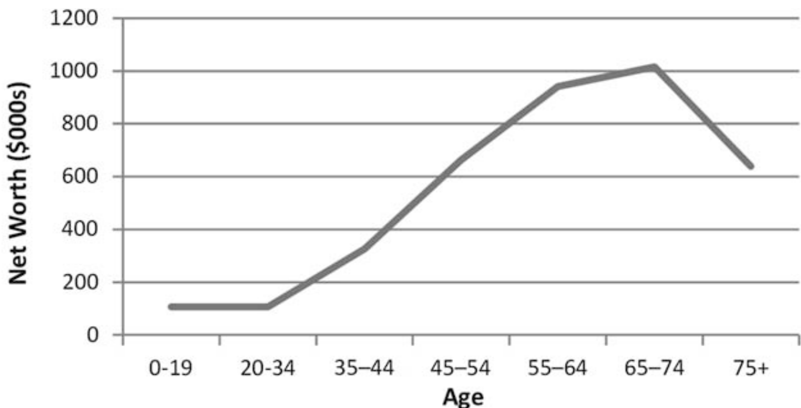


Figure 2.8 Net worth by age of household head in the US (2007)

Source: Data were from the Survey of Consumer Finance as reported in Bucks et al. (2009).

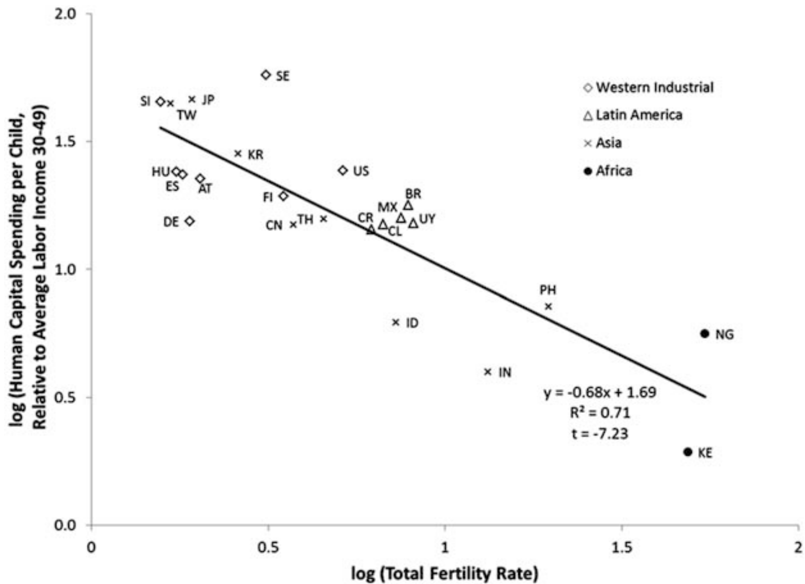


Figure 2.9 Sum of public and private human capital investment per child in 23 NTA countries in relation to the TFR, expressed in years of each country's labor income

Source: Data were drawn from Lee and Mason (2011). Human capital spending per child is the sum over single years of age of public and private expenditures on health from age 0 to 17, and on education from age 0 to 26. The TFR is for the five years preceding the measure of human capital expenditure.

by age of head in 2050, the amount of net worth per working-age person (age 20–64) would be 30 per cent higher than in the base year, 2007. That would translate into an increase of about 10 per cent in labor income.

Population aging may also be accompanied by an increase in human capital investment per worker. Population aging is mostly due to low fertility, and low fertility is associated with higher human capital investments per child as described in the quantity–quality theory (Becker and Lewis, 1973; Willis, 1973). In that theory, both fertility and investments in human capital may respond to rising incomes, but in opposite directions. Alternatively, an independent decline in fertility could cause an increase in human capital, or the reverse. Although the direction of causality is not clear, that is not germane here.

Using NTA data, human capital investment per child is measured as the sum of public and private expenditures on health and education over each age from 0 to 17 (for health) and 0 to 26 (for education). This sum is a synthetic cohort measure of spending per child on human

capital. This measure is then standardized in the usual way by dividing by each country's average labor income for ages 30–49. Figure 2.9 plots the log of human capital investment per child in a country against the log of its Total Fertility Rate during the five years preceding the NTA baseline date. There is a strong negative association, suggesting a substantial rise in human capital per child when fertility falls. Analyses of changes over time in Japan, Taiwan, and the US confirm that this relationship holds within countries as well.

6. Discussion and conclusion

Population aging leads to falling support ratios, and this adverse consequence is reinforced by changes in the economic life cycle in rich industrial countries in recent decades that have made old age more costly. As support ratios fall, the initial levels and patterns of consumption and labor income cannot be sustained, and adjustments to restore balance are necessary. However, countervailing changes may occur in response to population aging or the forces that drive it. If older people rely primarily on assets to fund their consumption in old age, or if people tend to accumulate assets across their life cycles for any other purpose, then the elderly will hold more wealth than others, and population aging will raise the wealth holding per capita or per worker, helping to pay for consumption by the elderly and perhaps boosting the productivity of the workers. If the elderly rely primarily on public sector or familial transfers, then this increase in assets may not occur. In addition to this possible increase in asset holdings and perhaps physical capital intensity, human capital investments in aging populations are higher and these raise worker productivity and help to offset the effect of falling support ratios. In these various ways, the immediate negative effects of falling support ratios may be moderated or even reversed.

The mechanisms just described may, in certain circumstances, operate without active policy intervention, although they would be strengthened through even modest reductions in reliance on transfers for old age support and through increased investment in public education as fertility falls. More active policy reform may be needed to encourage postponement of retirement, or at least to remove the incentives for early retirement that are now built into many public pension systems. Extension of working life helps to meet the costs of population aging, but it is no panacea, since most of the difficulty results from low fertility rather than from longer life. In any event, with public awareness, institutional flexibility, and appropriate policies, societies should be able to meet the challenges of rapidly aging populations in the coming decades.

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Part II
Pension Systems under Pressure

3

Age Politics and Pension Systems Development and Reform

Julia Lynch

1. Introduction

A stylized demand-side view of pension system development informs much of the theoretical literature in political science and economics, as well as much pension policy-making. In this view, elderly voters and/or interest groups are important, even determinative forces behind the development and current trajectories of pension systems in the rich industrialized democracies. This perspective is based on three assumptions: first, a thin rationalist assumption that the elderly will act in accordance with their short-term interest in generous pension benefits; second, that representatives of the elderly share those interests; and third, that the introduction or reform of pension provisions will affect the incomes (and hence interests) of the current elderly. Yet a more empirical approach to the historical trajectories of such systems suggests that these assumptions are all problematic. During welfare states' formative years, organized labor, employers, the self-employed, and policy-makers all promoted public and private pensions for their own reasons. Elderly voters and social movements of the elderly, on the other hand, were in most cases merely supporting players. Pressure from the elderly themselves was similarly less important for the expansion of pensions than were the institutional and economic dynamics driving the balance between direct and deferred compensation for workers, the competitive strategies of politicians, or the natural expenditure growth resulting from increased longevity in pay-as-you-go systems. Finally, during the most recent period of actual and attempted reforms to pension systems, "new politics" (Pierson, 1996) behavior is expected to motivate elderly voters and interest groups to oppose pension reforms – yet a growing literature in political science confirms that the elderly are

neither unique nor particularly effective in their support of the pension system status quo.

There is, then, a mismatch between the simplified demand-side view of pension system development that informs much of the theoretical literature in political science and economics, and the more empirical historical–institutionalist and political behavior approaches to the subject. These competing views about the influence of the elderly are consequential because they inform policy-makers' perceptions about the political scenario surrounding pension reform. This chapter takes stock of recent research on the influence of elderly voters and interest groups on pension system development and reform, with an eye to understanding what role population aging does and does not play in these processes. A narrative of the rise and subsequent reform of pension systems mainly in continental Western Europe highlights evidence that the massive expansion during the twentieth century of welfare state support for the aged is not primarily caused by political pressure from the beneficiaries of pensions (elderly voters, pensioners' parties, or other elderly interest organizations). Other actors, institutions, and ideas, as documented in the literature and laid out in this chapter, far more strongly affect the politics of pension expansion and pension reform.

2. Demand-side and supply-side explanations for the emergence and growth of pension systems

Let us begin our exploration at the beginning, with a (selective) summary of the development of pension systems in the rich industrialized democracies. First, what is the evidence for the proposition that elderly voters and/or interest groups are themselves important actors pushing for the development of public pensions in the early stages of welfare state formation? Despite Gilleard and Higgs' (2009) contention that pensioner political movements had an "influential role" in the interwar period, only isolated traces of such influence are readily identifiable.[1] In the post-war period, politicians (e.g., Willem Drees in the Netherlands) have often reaped a political-electoral bounty from their enactment of pensions. But grateful support among elderly voters seems mainly to have been a reaction to policy developments, rather than a reason to undertake the policy in the first place.

A convincing and (partially) demand-driven account of welfare state development in general emphasizes the role of the left's "power resources" in stimulating benefit generosity, encompassingness, and potential for decommodification (Korpi, 1983; Esping-Andersen, 1985; Huber and Stephens, 1993). Yet it is worth remembering that in the

most sophisticated power resources accounts, powerful unions and social democratic parties seek welfare goods that benefit the laboring classes via decommodification precisely because the decommodification of labor enhances the organizational capacity of labor.[2] Elderly workers would hardly seem to be the main target of mobilization for left-wing parties and labor unions until the late 1970s. Seen in this view, pension benefits per se would have contributed only weakly to generating the left's power resources, even though a generous pension policy may be an outcome of left power resources.

To the extent that the elderly would be capable of earning market wages in the absence of a pension, generous and encompassing pension benefits indeed relieve the elderly from their reliance on market earnings, and are thus decommodifying. Moreover, where unions see themselves as representatives of society's weakest members, rather than purely as agents of (particular segments of) the organized working class, they have advocated for pensions that would provide a guarantee of subsistence for the elderly, just as they advocated for other policies that would benefit the poor. But the more general reason for the association between left power resources and pension system growth is the importance of pensions as deferred compensation. Where wages were constrained due to either wage restraint agreements (as in northwestern Europe) or low-wage growth strategies (in southern Europe), generous pension entitlements were a form of compensation that did not drive up wages. Indeed, Gilleard and Higgs (2009) note that in the post-WWII period, "the politics of pensions is a worker's not a pensioner's struggle" (p. 284).

To summarize so far, the interests of (a) current workers and (b) employers could combine to promote the growth of pension systems in the post-war period. Additional impetus for pension system growth came from (c) anti-poverty efforts initiated and supported by the public, policy-makers, and sometimes unions. The elderly themselves became important mainly because of (d) pensioners' retrospective electoral support of pensions once they had been introduced. A final, crucial part of the demand-side story is still missing, however. Esping-Andersen (1990), Baldwin (1993), Ferrera (1993), and Lynch (2006) all emphasize the crucial role played by (e) the self-employed – small farmers in northwestern Europe, and liberal professionals and small business owners in southern Europe – in advocating the expansion of pension system coverage.

We have seen that the supply-side argument for left power resources as a driver of pension system expansion has some blind spots, but that is not a sign that supply-side explanations in general fail to account for pension system development. Orloff's (1985) and Skocpol's (1995)

accounts fruitfully focus attention on the role of political elites and bureaucratic capacity to explain the introduction and expansion of pension systems in North America and Britain. In *Age in the Welfare State* (2006), Lynch focused on the continental European countries, and on political parties and actors within those parties, as promoters of pension growth from the supply side. Of course, pension systems throughout the rich democracies expanded greatly between the 1950s and the 1990s as new groups of beneficiaries joined the schemes, the generosity of benefits was upgraded in line with general post-war economic expansion, increasing numbers of covered beneficiaries retired, and life expectancy increased. But the expansion was truly massive in some countries, and less so in others – and this variation is not fully accounted for by differences in rates of pension system maturation and population aging. Lynch's key finding in *Age in the Welfare State* was that politicians, more than publics or bureaucrats, were responsible for the massive pension system expansions that crowded out other forms of social spending in some continental European countries during the post-war era.

The dominant mode of political competition in a polity – programmatic versus particularistic – is highly correlated with the ratio of elderly- to non-elderly-oriented social spending in OECD countries (Lynch, 2006). Where a significant portion of politicians compete for votes on a particularistic rather than programmatic basis, targeting their appeals to specific groups in the electorate – as in Greece, Italy, Austria, Spain, Belgium, Japan, and the United States – pension spending proliferated most quickly. Why is this the case? Particularistic political competition tends to preserve fragmented occupationally based pension systems installed in the late nineteenth and early twentieth centuries, preventing the emergence of flat-rate universalist pension systems that are more easily reined in (Lynch, 2006).

Clientelist politics and occupational fragmentation are mutually reinforcing conditions for several reasons. First, the fragmentation of occupational pensions provides resources that politicians can target quite precisely at particular constituencies in the electorate. So politicians who compete in a particularistic manner are loath to undo such arrangements. Second, even where a significant portion of politicians compete on a programmatic basis, the colonization of the state apparatus by clientelist politicians makes it less attractive to shift occupational pensions to a universal model under direct public control. In other words, clientelism encourages a preference for occupational schemes even among politicians who might otherwise favor universalism. The persistence of complex, multi-fund occupational pension systems of the kind preserved under particularistic competition rules makes it more difficult for

both experts and members of the public to understand the fiscal consequences of separate pension deals cut with micro-clienteles. This opacity tends to dampen public pressure for reform, even while technocrats in the pension administration may wring their hands over the difficulty of accurately forecasting pension outlays when there are so many different rules and categories. By contrast, flat-rate universal pension expenditure projections are a relatively simple matter for stakeholders, policymakers, and the public to grasp. This translates into pressure to contain spending that kicks in much earlier and at a lower level of spending than in complex occupational systems (Lynch, 2006).

Age in the Welfare State told a tale of pension system growth, and in some cases, stalled reform. It told this story mainly from the perspective of generational equity (Why did some welfare states do more for working-age adults and children while others focused their resources on the elderly?), and focusing on the under-appreciated political supply side of welfare policy. But the politics of the demand-side also deserve attention.

3. The elderly and pension system reform: Back to the demand-side, or how we learned to stop worrying and to love pensioners

Even before the financial crisis began in 2008, the scenario of frozen pension systems with continually spiraling costs seemed unlikely to be indefinitely sustainable. The mutually reinforcing institutions of clientelism and occupationalism could only hold out against population aging, low employment, fiscal pressure, and claims of intergenerational unfairness for so long. But the growing literature on "policy feedbacks" and the "new politics of the welfare state" (Pierson, 1994; Campbell, 2003) indicated that especially in the most pension-heavy welfare states, strong elderly lobbies and voting blocs with much to lose would try to impede reform. In the last five years a truly exciting explosion of research on the elderly as political actors has emerged. The main finding of this new research is that the elderly do not matter nearly as much as we think they do for the politics of pension reform. This section synthesizes this new research, beginning with elderly voters and moving on to organizations representing the elderly.

3.1. The elderly at the ballot box

Recent scholarship has revealed that while large elderly populations are associated with increasing aggregate pension expenditures, the elderly do not invariably prevent reform or retrenchment of generous pension systems' status quo. Tepe and Vanhuysse (2009) find that population

aging has been associated with decreasing pension benefit levels in 18 OECD democracies since 1980. Fernandez (2011) notes that while large elderly populations result in elevated benefits for typical pensioners, they are not associated with the generosity of minimum pensions. Tepe and Vanhuysse (2010b) find that the share of elderly in the population does not predict the timing of pension reforms (p. 1228).

Why, then, did an earlier generation of scholars and policy elites find it reasonable to believe that the pension system status quo would be so successfully protected by active elderly voters? One important reason is the knowledge that the elderly uniformly have higher electoral participation rates than younger voters (Franklin, 2004; Goerres, 2007). If the elderly vote at a higher rate than other age groups, and with distinctive policy preferences favoring pension system generosity, then aging populations could produce the political pressure required to shore up pension systems against the tides of retrenchment. Clearly, elderly voters do sometimes support pension system generosity and the parties that promise to protect it (Campbell and Lynch, 2000; Campbell, 2003; Bonoli and Häusermann, 2009; Busemeyer et al., 2009). Yet there are at least five reasons why we should exercise caution before interpreting these facts as decisive evidence in favor of the hypothesis that elderly voters are the key drivers of pension reform politics.

First, although the elderly vote at high rates, their numbers – even in aging societies – are still small relative to middle-aged cohorts (Goerres, 2010). Furthermore, the elderly tend to participate mainly by voting and party membership, which are decreasingly important in politics relative to the extra-institutional types of behaviors younger groups engage in. Second, high voter turnout among the elderly is not necessarily motivated by intense policy preferences. Goerres (2007, 2009) has masterfully demonstrated that turnout among the elderly is high in large part because of a stronger habituation to social norms favorable to voting, and the lower costs associated with voting for those with more experience of it.

Third, while elderly voters do tend to support the pension system status quo, their social policy preferences may not be all that distinct from those of other age groups. Recent research supports older findings that younger cohorts are also strongly supportive of pensions, and the elderly in many countries similarly support policies aimed at the young (Street and Sittig Cossman, 2006; Goerres, 2007, 2009; Svallfors, 2008; Busemeyer et al., 2009). One explanation for this finding is that both elderly and younger voters are motivated by beliefs about solidarity, reciprocity, and fairness as well as by self-interest (Svallfors, 2008; Goerres and Tepe, 2010).

Fourth, cleavages cutting across age groups, including partisanship, income, social class, gender, and religion are often better predictors of social policy preferences than age itself (Busemeyer et al., 2009; Edlund and Svallfors, 2011). Finally, there is a great deal of cross-national variation in the extent to which elderly status affects social policy preferences (Busemeyer et al., 2009; Goerres, 2009).

Some of these caveats might be rendered less consequential if, instead of considering age as a predictor of votes or attitudes, we were more attentive to the actual experiences of the elderly with regard to pensions. After all, the policy feedbacks literature predicts an elderly backlash against pension reform attempts not because these voters are old, but because they rely on pensions. Edlund and Svallfors (2011) appropriately theorize retirement rather than age per se as the important driver of welfare state attitudes – yet they still find no evidence that retirement is superseding class as a determinant of social policy preferences. Lynch and Myrskylä (2009) take this strategy one step further, examining whether variation in the income received from public pensions predicts support for the pension system status quo. Across two time periods (1992 and 2001), four distinct pension reform policy issues, and eleven countries, they found no evidence that reliance on public pensions makes retirees more antagonistic to pension reform proposals. These findings confirm that even when we shift our gaze from the aged in general to pension beneficiaries in particular, we find little support for the claim that opposition to reform is mainly a result of the self-interested preferences of elderly voters.

3.2. The organized elderly: Parties, unions, and pressure groups

Might it nevertheless be the case that organized pensioners are better able to press their demands than unorganized voters? Pensioners' unions, parties, and other groups representing the elderly have been cast as the villains of the piece nearly as often as elderly voters, and the presence of such organizations in welfare states in the post-war period suggests that at least for some of the elderly, organized political pressure has seemed likely to be fruitful. Yet when we look carefully at what these kinds of organizations demand, and what they achieve, it is once again far from clear that they are steering the ship of state when it comes to pension reform policy.

Pensioners' parties have received little attention in the political science literature, so most of what we know is from isolated case studies. The most notable comparative work on the topic is by Seán Hanley (2010, 2011), who finds that high levels of elderly-oriented social spending are

a necessary but not sufficient condition for the emergence of pensioners' parties. But Hanley also points out that pensioners' parties in Western Europe face a high bar to achieving anything like substantial legislative power. Hanley (2010) states that pensioners' parties have rarely attracted more than 20 per cent of the elderly and retired voters, and he estimates their maximum potential share of the vote as between 2 and 7 per cent (pp. 242–3). Because of early patterns of socialization, the elderly are generally more likely to vote for large parties with long histories (where they are available) (Goerres, 2008), making this a very difficult target to hit.

Even if established parties did not stand in the way, however, Gilleard and Higgs (2009) argue that forging a common pensioner political identity has been made more difficult by growth in income during retirement. Greater purchasing power leads to what they term the "individualization of retirement," in which retirees' identities are no longer determined by the shared experience of poverty, but rather by differentiated patterns of consumption, leisure, and participation. As a result, pensioner parties have remained insignificant in most contexts. Despite the fact that older people form a growing share of the membership of established political parties, these parties have become less and less responsive to the desires of their members as electoral politics have become more media-centered and less reliant on personal contact between parties and voters.

Unions have also been cited frequently as sources of resistance to pension reform, particularly as the proportion of retired members has grown in many continental European unions (Brugiavini et al., 2001; Anderson and Meyer, 2003). Häusermann (2006, 2010), in her study of social policy positions related to "new" and "old" social risks in Germany, Switzerland, Italy, and France, finds that "old" pension policies supportive of the status quo are advocated more strongly by labor unions than by other actors. Yet in an in-depth study of pensioners' union activity in Italy and Germany, Anderson and Lynch (2007) found that union confederations were actually less intransigent on pension reform issues when pensioners' unions had a prominent role and well-defined access to the confederal leadership. When older current workers' voices were more strongly represented in internal union decision-making structures, as in Germany, unions defended the pension system status quo vigorously. But numerically and financially powerful pensioners' unions in Italy had professionalized cadres whose expertise and issue ownership led them to actively promote reform. By the 1990s – earlier than many other political actors in Italy –, pensioners' unions understood that to prevent pension reform would crowd out other programs also needed by

the elderly (e.g., health care and social services) and ultimately threaten their very existence as authoritative interlocutors with the welfare state (Campbell and Lynch, 2000; Lynch, 2006; Anderson and Lynch, 2007).

Campbell and Lynch (2000) found a similar phenomenon at work in the American Association of Retired Persons (AARP), which has been called "the most powerful lobby in America" and the "800-pound gorilla" of Washington politics (Hornblower, 1988), but which nevertheless adopted positions on Social Security and Medicare (the American government-financed health insurance program for the elderly) that were significantly more favorable toward reform than those held by most elderly voters at the time. The similarities between the Italian pensioners' unions' and the American AARP's essential moderation on pension reform suggest that the leadership of organized interest groups representing the elderly may, if invested with enough policy responsibility, come to see the health of the welfare state as a whole, rather than the generosity of pensions in the short term, as their primary goal (Campbell and Lynch, 2000; Anderson and Lynch, 2007).

Despite some isolated examples of powerful elderly advocacy groups, however, in most countries so-called gray power has yet to materialize as an organized political force. FERPA, the European Federation of Retired and Older Persons, an association organized by the European Trade Union Confederation, has been only marginally influential at the European level (Gilleard and Higgs, 2009). It is scarcely surprising then, that organizations of the elderly have been presented mainly as beneficiaries of runaway pension spending, rather than enlisted as advocates of reform.

That elderly voters are less distinctive in their preferences and less powerful in their influence than we tend to think, and that organizations representing pensioners are more likely to support pension system reform than is commonly recognized, should not be taken as evidence that the demand-side of old-age pension policy is unimportant. The cohorts approaching retirement age often have a direct interest in seeing the current pension regime maintained (Anderson and Lynch, 2007). The elderly and near-elderly alike may possess substantial latent power, meaning that politicians anticipate their demands and avoid making policies that would awaken the sleeping giant. However, these facts only serve to reinforce the main messages of this section: that the elderly are not alone in their support for the pension system status quo, and policymakers, as supply-side actors, have as much to say about the direction of old-age policy as do elderly voters or union members.

4. Conclusion

This review of current literature on the elderly as participants in pension system formation, expansion, and reform shows that pension systems almost certainly did not come about as a result of pressure from the elderly. While there was some mobilization of older people in response to pressing problems of poverty, pensions' importance to labor unions, employers, and the state trumped the voice of the elderly themselves. Moreover, pension systems did not grow as big as they have merely because populations have aged. Despite the obvious fact that pension systems tend to expand as they mature and in a context of growing life expectancy, and despite a longstanding literature in political science that takes the correlation between elderly populations and spending patterns as evidence of causation, historical research supports an alternative claim: political dynamics more than population dynamics are responsible for the extremely rapid growth of pensions as a share of social spending in some places, and their slower expansion in others.

Finally, pension systems have probably remained large in part because of the influence of an aging electorate. But pensioners' unions and other organizations of the elderly have, at their most powerful, been advocates of reform and moderation. Above all, it bears remembering that the elderly are not the only forces supporting the pension system status quo, they are not always opposed to pension reform, and when they are, they do not always win.

Notes

1. The American Townsend Plan is the most prominent (Skocpol, 2003; Amenta et al., 2005); Blaikie (1990) also tells the story of two largely failed old-age pressure groups in Britain in the interwar years.
2. Both Esping-Andersen (1990) and Huber and Stephens (1993) note that centrist Christian Democratic parties tend also to produce generous pensions, although the mechanism is different, as discussed later in this chapter.

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4

Policy Feedbacks and Pension Policy Change[1]

R. Kent Weaver

1. Introduction

Over the last two decades the literature on public policy has placed a strong emphasis on the role of policy feedbacks, especially in explaining patterns of policy stability over time within particular policy sectors (Pierson, 1993, 2000, 2004). Central to this argument is a claim that positive feedbacks tend to lead to the growth of supportive constituencies around policies in place and to the truncation of reform options considered, resulting in stable policy regimes. This is nowhere more true than in the case of pensions. Myles and Pierson (2001), for example, argue that pension programs, while undergoing incremental cutbacks, have largely avoided fundamental change even in the face of severe demographic and financial pressures.

As governments in virtually all of the advanced industrial countries face rising pension costs and huge future pension liabilities with the retirement of the "baby boom" generation, recent scholarship has called into question the degree of policy stability in pension regimes (see, e.g., Hinrichs and Kangas, 2003; Bonoli and Palier, 2007; Häussermann, 2010; Weaver, 2010). Karl Hinrichs (2000) has referred to the changes being made in the pension programs on which the incomes of tens of millions of people in western industrialized societies depend as "Elephants on the Move," while Bruno Palier (2010) has asked if Western Europe is experiencing "a long goodbye to Bismarck." The global financial crisis since 2007 has exacerbated concerns about the sustainability of current pensions (see, e.g., Casey, 2012). It has also sparked renewed questioning of and reversals in some prominent pension reform paradigms, notably increased reliance on individual defined contribution pension accounts (Orenstein, 2011).

Recent literature has also called into question earlier assertions about the dominance of self-reinforcing feedbacks from policy regimes (Patashnik, 2008; Weaver, 2010; Fernández and Jaime-Castillo, 2013). Jacobs and Weaver (forthcoming) argue that it is important to focus on policy feedback effects that tend to undermine as well as those that reinforce the political or fiscal sustainability of a particular set of policies. The argument is not that self-undermining policy feedbacks are always, or even usually, dominant; but that they can be a critical cause of both incremental policy change and major shifts in pension policy regimes when they are relatively strong. In many cases, policies produce self-reinforcing and undermining feedback effects simultaneously. In such cases it is critical to examine both effects rather than just the "net" effect, since the balance may shift over time. These processes are clearly complex: existing pension programs, for example, are only rarely dismantled – more common are the processes of "layering" new programs on top of old ones, and the "conversion" of existing programs to new programs. In these situations, many of the old attributes of earlier layers remain, and continue to have an impact on later policy developments (Hacker, 2004; Béland, 2007). Moreover, this process of layering has contributed to a process of "hybridization" in which once-clear boundaries between regime types have become more blurred (Natali, 2004).

This chapter draws on existing literatures on feedback effects and pension reforms to develop a general argument on how theories about self-undermining feedbacks can contribute to explaining patterns of both incremental change and more fundamental change (or "regime transitions") in the public pension regimes in advanced industrial countries. The first section of the chapter develops a general overview of how feedback effects from current policy may lead to either incremental policy change or policy regime change. The second section of the chapter examines the dynamics of policy feedbacks in three specific national contexts, the United States, Germany, and Sweden, representing different types of pension policy regimes, to illustrate how policy feedbacks influence the extent and direction of policy change.

2. Feedback effects on policy change

The role of policy feedback effects in shaping later policy options, choices, and outputs features in two distinct political science traditions (for a longer review, see Jacobs and Weaver, forthcoming). In the historical institutionalist tradition, Paul Pierson's seminal work focused on how what he calls "positive" policy feedbacks constrain later options and

choices, resulting in stability in policy regimes. Policy choices involve sunk costs in building up organizational capacity, physical infrastructure, and human capital. These "sunk costs" decrease the attractiveness of changing existing policies and institutional arrangements (Jacobs, 2008). Over time, programs develop constituencies that have a stake in the status quo and an interest in defending it, while those with a more diffuse stake are likely to see it as legitimate (and any change as suspect) simply as a result of its durability. Because individuals tend to be loss- and risk-averse, the benefits of potential alternatives may be weighed less than their potential costs. In a process of "adaptive expectations," even societal actors who may originally have opposed a policy adjust their behavior to that policy and are likely to lower their resistance.

A second political literature, associated with the punctuated equilibrium approach of Frank Baumgartner and Bryan Jones (2002), uses a different terminology. Policy change is seen as derived largely from exogenous shocks. In this approach, the direction of the feedback effect is measured vis-à-vis the external shock rather than the status quo: thus a reinforcement of the shock is a positive feedback, while a counterbalancing is a negative feedback. While the latter situation is usually dominant, shifts in perceptions and coalitional commitments do sometimes lead to destabilization of the policy status quo. Moreover, while the historical institutionalist approach focuses primarily on very long-term feedback effects, the punctuated equilibrium approach focuses more on relatively short-term strategic responses to exogenous shocks.

Given the somewhat confusing differences in terminology between the historical institutionalist and punctuated equilibrium approaches, this chapter, following earlier work (Greif and Laitin, 2004; Jacobs and Weaver, forthcoming), will use the terms self-reinforcing and self-undermining feedback effects, with both of those measured (as in the historical institutionalist approach) vis-à-vis the policy status quo ante. The central argument here is that public policies may – and in fact are likely to – produce both self-reinforcing and self-undermining policy feedbacks simultaneously. As shown in Figure 4.1, different balances of self-reinforcing and self-undermining effects are likely to have different consequences for the type of policy change that occurs. We expect that where there are very weak self-undermining policy effects, there is likely to be either no change from the status quo or (where self-reinforcing effects are strong) incremental shifts in policy that more deeply imbed existing policy and patterns of benefit distribution. As self-undermining feedbacks grow stronger and self-reinforcing feedbacks grow weaker, the probability rises that new policies and programs will be created to deal

FEEDBACK EFFECTS AND POLICY CHANGE

		Self-Reinforcing Feedback	
		Weak	Strong
Self-Undermining Feedback	Weak	No Change	Strengthening of Direction in Policy Status Quo Incremental "Tinkering"
	Strong	Policy Reorientation Change in Policy Regime Policy Termination	Policy Layering

Figure 4.1 Feedback effects and policy change

with those problems – policy layering on top of existing policy. If the self-undermining feedbacks grow more serious, it is more likely that the policy will undergo a deeper reorientation, that there will be a radical shift in the policy regime, or that the policy will simply be terminated (lower left quadrant of Figure 4.1).

But what forms do self-reinforcing and self-undermining feedbacks take, and how do they shape the prospects for policy change? As shown in Table 4.1, feedback effects may take several forms, which can be roughly categorized following Kingdon's (1984) analysis of policy "streams" in agenda formation.

The most immediate feedback effects can be found in the "problem stream." Several different types of feedback effects may exist in the problem stream (Weaver, 2010; Jacobs and Weaver, forthcoming). Three in particular will be highlighted here. Socio-political effects concern how a program affects the preferences and political mobilization of groups and the mass public affected by a policy. Because the public is not very attentive to policy under most circumstances, socio-political feedback effects are especially likely when a policy creates groups with substantial and highly visible losses, and adaptation costs for this group are also high and perceived as likely to increase rather than decrease over time. In this situation, losers are likely to continue to contest those policies over time, especially if they face relatively modest barriers to collective action. Framing by political elites that highlight and frame those losses to groups and individuals can also make policymakers take negative

Table 4.1 Factors affecting pension policy change

	Conditions favoring regime transition	**Conditions favoring incremental change**	**Conditions favoring status quo**
Feedback direction and strength (problem stream)			
Perceived effects on organized interests	Most or all organized interests perceive that they lose from the status quo relative to a plausible alternative	Organized interests are divided on whether they benefit from the status quo	Most or all organized interests perceive that they benefit from the status quo
Perceived effects on mass public	Powerful political elites frame status quo as harmful and/or unsustainable	Powerful political elites are divided in their framing of the policy status quo	Powerful political elites frame changes from the status quo as harmful
Fiscal effects	Policy status quo causing immediate fiscal strain and seen as unsustainable in short- or medium term	Policy status quo seen as posing fiscal challenges that are manageable through incremental reforms	Policy status quo perceived to be fiscally sustainable
Administrative effects	Status quo causes administrative overload, friction among administrative agencies, or clashes with agency mission	Incremental reform perceived as consistent with implementing agency mission and workload; regime transition options seen as disruptive	Policy status quo seen as manageable and consistent with existing organizational arrangements
Menu of alternatives (policy stream)			
Incremental reform options	Plausible incremental reforms have all been tried and perceived to fail or have powerful enemies	Plausible incremental reform options are available	Plausible incremental reform options have powerful opponents

(*continued*)

Table 4.1 (continued)

	Conditions favoring regime transition	**Conditions favoring incremental change**	**Conditions favoring status quo**
Regime transition options	Regime transition options are perceived as feasible and affordable *and* consensus emerges on a single regime transition option as the best alternative	Plausible regime transition options either do not exist or have powerful opponents	Plausible regime transition options either do not exist or have powerful opponents
Political opportunity structure (politics stream)			
Focusing events	Focusing events highlight problems with status quo; elites and media frame problems as endemic and likely to worsen and policy status quo as unsustainable and unfixable	Focusing events highlight problems with the status quo, but political elites and the media portray the problems as fixable with moderate adjustments	No focusing events highlight serious concerns about the status quo
Institutional structure	Institutional veto points preventing policy change are few and weak	Formal and informal decision-making procedures encourage compromise and cooperation and discourage intransigence	Multiple, strong institutional veto points exist
Political alignments	Proponents of a specific regime transition option control all potential veto points for a sustained period	Proponents of a specific set of incremental reforms control all potential veto points for a sustained period; preferences between key political interests overlap	Proponents of the policy status quo control all potential veto points for a sustained period

social consequences more seriously. All other things being equal, a policy regime transition is most likely when major policy elites and groups are united in believing that the policy status quo is harmful and irreparably so; incremental change (including policy layering) is most likely when groups and framing elites are divided on whether the status quo is harmful. In the case of pension policy, population aging, competitiveness concerns, high rates of early labor market exit, and high youth unemployment in many countries have all contributed to a sense that current pension policy may be contributing to many social problems and raising costs for employers.

Fiscal effects refer to demands on the government budget. Here the central actors are not constituency groups or politicians mobilizing the mass public, but agencies that are responsible for managing the budget, notably Ministries of Finance. If a program is causing immediate fiscal strain and is seen as both unsustainable and "unfixable," then regime transition becomes more likely. If on the other hand, the policy status quo is seen as posing fiscal challenges that are manageable through incremental reforms, then those reforms are more likely. If the policy status quo is perceived to be fiscally sustainable, it is likely to remain in place. In addition to Ministries of Finance, other institutional actors such as international financial institutions that combine institutional commitment, resources, policy expertise, and institutional leverage to press for the adoption of specific solutions may also shape reform efforts.

Policies may also have administrative feedbacks. Here agency leaders are likely to be critical actors, although a broader set of actors may become involved when a scandal or major administrative failure occurs. If the policy status quo causes administrative overload, friction among administrative agencies, or clashes with what the agency perceives to be its central mission, then agency leaders and their political allies may favor more radical policy reform or, alternatively, a shedding of policy responsibility to another agency (Wilson, 1991). Incremental reform becomes more plausible if agency leaders see current policy as generally consistent with implementing agency mission and workload and view regime transition options as highly disruptive. While self-undermining administrative feedbacks are unlikely to lead to a policy regime transition on their own, they may contribute to a broader sense of policy failure that leads to a broader set of reform options being considered.

Policies may also have self-reinforcing or self-undermining impacts on what options are considered for reform (the "policy stream"). These may be called menu effects. The historical institutionalist literature has

emphasized the potential truncation of policy alternatives, so that only incremental adjustments are considered. But when policies in place have what are perceived to be harmful socio-political, fiscal, or administrative consequences, those self-undermining feedbacks are likely to stimulate an active search for new options that can address those problems. Incremental reform alternatives are likely both to be more available and to be perceived as more politically sellable. They are thus likely to be considered first. However, if those options are seen as implausible or generate strong political opposition, or are tried and perceived to fail to address the problems, then policymakers, researchers, and interests may invest in developing more radical regime transition options, and moving those alternatives onto the agenda of potential policy solutions. But where those unhappy with the status quo remain strongly divided among multiple reform alternatives, the status quo is more likely to remain in place. In the case of Bismarckian (social insurance) pension regimes, for example, rising costs have generally been addressed initially by increases in payroll taxes and infusion of general revenues, followed by cuts in benefits and eligibility. As incremental reform options have been exhausted in many countries (e.g., payroll taxes reach the limits of voters' and employers' willingness to pay), a specific restructuring reform option, Notional Defined Contribution (NDC) reform, was developed and began to move from the margins to the center of political debate in a few countries with Bismarckian pension regimes (Brooks and Weaver, 2006).

Of course, restructuring reform initiatives in any policy sector are still likely to encounter opposition from entrenched interests who perceive themselves as benefiting from current policy. This is the realm of what John Kingdon calls "the political stream." Of the three "political stream" factors shown in the rows in Table 4.1, only the first, focusing events, relate primarily to the self-reinforcing or self-undermining effects of the policy itself; the other two factors primarily concern the "political opportunity structure" for reform. Focusing events that create clear evidence of problems with the policy status quo may increase the opportunities for more radical reform options to make it onto the agenda of alternatives being actively considered. However, given the tendency of perceived salience to decline in what Downs (1972) has labeled the "issue attention cycle," prolonged or repeated crises, along with the perceived failure or lack of political viability of incremental options, are almost always needed to provoke transformation of a policy regime. Even when self-undermining feedbacks in the problem stream are strong and have generated plausible incremental or regime transition

options, policy change is only likely when political forces favorable to a particular reform option come into power, and are relatively unconstrained by formal and informal institutional veto points.

It should be noted that each of these feedback effects is conditional on a variety of social, economic, political, and institutional variables. Demographic change may cause the ratio of revenues to benefit payments in a pension program to shift over time, for example, while slower economic growth may weaken creation of new payroll-tax-paying jobs. Both have strong negative fiscal effects, and may also mobilize powerful employers to seek policy change. The capacity of political systems to generate policy alternatives (or draw lessons from the experiences of other systems) may also vary (Weaver, 2014).

3. Self-undermining feedbacks and policy change in three pension regimes, 2001–14

The argument above suggests that self-undermining policy feedbacks are a critical factor in explaining pension policy change, but not a sufficient explanation. In the case of pensions, different types of pension regimes are likely to give rise to distinctive self-reinforcing and self-undermining feedbacks (Weaver, 2010). For example, residual means-tested pension regimes, "Bismarckian Lite" regimes (social insurance systems with relatively low benefits and payroll taxes), and mixed regimes (those where both public pensions and mandatory individual accounts on defined contribution principles play a major role) usually pose a relatively light fiscal burden on government. But residual regimes are likely to pose complex administrative challenges associated with administering means tests and individual accounts. Mixed regimes are likely to provide inadequate benefits for those who have low-earnings over their lifetimes. Bismarckian regimes, on the other hand, are most likely to pose major affordability problems. Specific pension regimes are also likely to generate distinctive sets of incremental and regime transition options. Indeed, regime transitions from some "origin" regimes are far more possible to some "destination" regimes than others.

Even when self-undermining feedbacks do not result in policy regime change – as they usually do not – they are likely to set the agenda for policymakers and set the terms of political debate and conflict among rival political forces. Bismarckian regimes, for example, are especially likely to be focused on refinancing and retrenchment options to address affordability concerns once the demographic crunch of a rapidly rising aged population hits, while those concerns are likely to appear later and

be less persistent and dominant in Bismarckian Lite regimes. The balance between self-undermining and self-reinforcing feedback characteristics of a pension regime may also vary over time. Bismarckian pension regimes, for example, are likely to face increased financial sustainability pressures as the social insurance pension regime matures and the ratio of contributors to beneficiaries declines. Thus specific regime transitions from one type of pension regime to another are more likely to occur at some stages of welfare state development than others. Moreover, some types of pension regimes, notably mixed pension regimes and NDC pension regimes, simply lack plausible transition options to another pension regime, though incremental adjustments are possible (Weaver, 2010). In the rest of this chapter, I will illustrate this analytical framework with brief discussions of the impact of self-undermining feedbacks in three countries representing different types of pension regimes: the United States (Bismarckian Lite regime), Germany (Bismarckian regime), and Sweden (NDC regime). While the United States and Sweden have multi-tiered pension regimes, the politics of pension reform has generally been dominated by the politics of the largest tier, and that tier will generally be the focus of the discussion here. The focus will also be on the period from 2001 to 2014. In this period, demographic trends and slower economic growth combined to put severe financing pressure on pension regimes of all types, and on government finances in general. The global financial crisis that began in 2007 further exacerbated fiscal pressures, especially in countries like Greece, Italy, and Spain that already had weak public finances. Thus we might expect this to be a period when regime transition options were particularly likely to make it to pension reform agendas. Table 4.2 summarizes the challenges, available reform options, and political opportunity structure for reform for each country.

4. "Bismarckian Lite" pension in the United States

Many western industrialized countries created contributory earnings-related (social insurance) pension tiers prior to the 1970s. Initially both benefits and payroll taxes were generally modest, coming nowhere near adequate replacement of pre-retirement wages. Indeed, all of the pension regimes currently considered "Bismarckian" were originally "Bismarckian Lite" until benefits were raised in the post-war period. The United States and Canada, however, retain significantly lower contribution and replacement rates than most West European countries with "Bismarckian" pension regimes. Because these features have such

Table 4.2 Factors affecting pension policy change in three systems, 2001–14

	United States (Bismarckian Lite)	Germany (Bismarckian)	Sweden (Notional Defined Contribution)
Feedback direction and strength (problem stream)			
Perceived effects on organized interests	Pensioner organizations and unions resist future benefit cutbacks and diversion of contributions to individual accounts proposed by President Bush	Unions resist scheduled cutbacks resulting from automatic stabilizing mechanisms and ad hoc cuts	Unions and pensioner organizations oppose nominal benefit cuts resulting from automatic balancing mechanism
Perceived effects on mass public	Fears for sustainability in the long run undermine confidence in the system, especially among the young	Politicians fear pushback from voters over automatic and ad hoc retrenchment mechanisms	Nominal benefit cuts imposed by automatic balancing mechanism provoke opposition
Fiscal effects	Unsustainable in the long run but surpluses in the short run	Increasingly costly in the short run; unsustainable in the long run	NDC and individual account tiers are fiscally sustainable
Administrative effects	Sustainable	Sustainable	Sustainable, but coordination issues exist
Menu of alternatives (policy stream)			
Incremental reform options	Variety of benefit and eligibility proposals generated and feasible, but all have strong opponents	Many incremental options (e.g., payroll tax increases, cuts in replacement rates) nearing exhaustion	Multiple options available for addressing visible problems

(*continued*)

Table 4.2 (continued)

	United States (Bismarckian Lite)	**Germany (Bismarckian)**	**Sweden (Notional Defined Contribution)**
Regime transition options	Transition to mixed regime proposed by Republicans, but double payment problem makes it extremely difficult	Shift to NDC system plausible but provokes opposition; fiscal room only for small, additional individual account system	Non-existent, except for unlikely return to Bismarckian system and abolition of small individual account tier
Political opportunity structure (politics stream)			
Focusing events	Weak focusing events for status quo; Enron scandal and stock market gyrations undercut support for mandatory individual accounts	Scheduled cuts in pension indexation heighten awareness of loss	Fluctuations in premium pension accounts heighten awareness of risk in defined contribution tier
Institutional structure	Strong multiple veto points	Minimal veto points	Durability of multi-party pension group lowers prospects for radical change but facilitates incremental adjustments
Political alignments	Divided party control of government for most of 1995–2014 period weakens prospects for radical policy change	Close electoral competition heightens fears of loss-imposition, especially as election nears	Close electoral competition between blocs weakens prospects for radical policy change and increases interest in removing issue from electoral debate

important implications for pension regime's financial viability, as well as for the types of reform initiatives that are likely to be considered and adopted, it is useful to think of the United States and Canada as a distinctive "Bismarckian Lite" pension regime (Bonoli and Shinkawa, 2005; Weaver, 2005, 2010).

"Bismarckian Lite" pension regimes face a different set of self-undermining feedbacks than their continental Bismarckian cousins. The most important difference concerns affordability: Although Bismarckian Lite pension regimes face rising pressures to control pension expenditures and restrain payroll tax rate increases as populations age, they are more likely to be able to manage these through incremental rather than restructuring reforms – or at least have incremental reforms remain as viable options longer. Because payroll taxes are at lower levels, there may be more political and fiscal room for addition of significant individual account tiers based on defined contribution principles. Indeed, low pension benefits and the emergence of a significant private pension sector have played a mutually reinforcing role in "Bismarckian Lite" countries.

The recent history of Social Security reform in the United States illustrates this dynamic. The United States relies primarily on a social insurance tier (Social Security) with both contribution rates and benefits that are relatively modest by West European standards. Funding crises in Social Security in 1977 and in 1981–83 were addressed through a combination of incremental benefit/eligibility cuts and revenue measures (Light, 1995). President George W. Bush in 2001 and 2005 attempted to put on the agenda proposals to allow Americans to shift part of their Social Security contributions to individual accounts, creating a mixed pension policy regime. The idea failed to gain any traction with the public, let alone serious congressional consideration, in part because opting out would require either major cuts in guaranteed benefits or substantial borrowing to pay currently promised benefits under the pay-as-you-go system (Edwards, 2007; Weaver, 2012).

Under President Obama, a variety of incremental reforms to address Social Security's long-term financing problem have been on the broad "discussion agenda," such as further increases in (and potential indexation of) the Social Security retirement age, changes in the method for calculating initial Social Security benefits and the calculation of benefits already in payment, and increases in the cap on wages subject to Social Security payroll taxes. None of them have gained serious congressional consideration, however, let alone coming close to enactment (Weaver, 2012). Neither a regime shift to an NDC system (which would require major changes to the internal cross-subsidies within Social Security's

progressive benefit structure that would impose major losses on millions of people) nor shifts to a mixed pension regime have received serious consideration under the Obama Administration. The combination of divided party control of government since 2011, deep partisan polarization on Social Security (and most other issues), politicians' fear of incurring the wrath of senior organizations and senior voters, and a set of political institutions that are riddled with veto points has meant that the prospects for passing any significant reforms are low. Thus politicians have few political incentives to take the lead in pressing for reforms until a funding crisis is imminent.

5. Bismarckian pension regimes

Bismarckian pension regimes with high replacement rates and a fairly tight contribution-benefit linkage do not face problems of equity in contribution-benefit ratios within generations, though there may be significant problems across generations if governments have to lower benefits or increase payroll taxes as the ratio of workers to retirees declines. Bismarckian regimes have several major self-undermining feedback effects, however. First, Bismarckian regimes are especially likely to face problems of affordability as populations age and the ratio of workers to retirees falls, especially for those countries that have high contribution and replacement rates, long life expectancies and low fertility rates. Second, high payroll tax rates are likely to undermine economic competitiveness (Bonoli and Palier, 2007, p. 556). Bismarckian regimes may also encourage early retirement, especially if they are accompanied by generous rules on early retirement or separate early retirement programs.

Initial responses by governments in Bismarckian countries are likely to focus on incremental retrenchment and refinancing measures, especially technical changes that are less likely to be visible and incur blame. Once incremental reforms have been exhausted, these countries may ultimately need to consider more fundamental restructuring. Transition Opportunities for Bismarckian regimes are highly constrained, however. Shifts to a privatized regime are impractical because of the double payment problems, and even the addition of individual-defined contribution accounts is likely to be impractical except as a small "add on" to a still dominant public social insurance system. Thus patching and retrenchment within the existing Bismarckian regime or a shift to an NDC regime are the only remaining options.

Patterns of pension reform in Germany illustrate these dilemmas. Germany relies overwhelmingly on a pay-as-you-go social insurance

pension tier financed by a combination of payroll taxes and general government revenues. With pension payroll tax rates already approaching 20 percent by the late 1980s plus additional subsidies from general revenues, Germany went through multiple rounds of pension benefit retrenchment and refinancing, including cuts in early retirement benefits and increases in general revenue put into the system (Hinrichs, 2005).

As in the case of Sweden, Germany's regime transition opportunities were limited. A shift to an NDC system was compatible with the existing earnings-related system, but a move toward a large individual account tier would encounter severe double payment problem for transitional generations, given the high replacement rates and payroll tax rates of the current social insurance system. Through most of the 1990s, adjustments in the German pension system were managed in a largely consensus-based process in which social policy experts from the major parties as well as employers and trade unions formulated policy responses within a relatively closed and depoliticized policy network (Hinrichs, 2005, p. 54). By the mid-1990s, however, this process had broken down as the financial problems of the German pension system increased. The high costs of the German unification process severely exacerbated these problems, as many of the costs of East Germany's economic restructuring and employment losses were passed onto the social security system. In 1997, the CDU/CSU/FDP government of Helmut Kohl responded to the severe financial and demographic challenges confronting its pension regime by putting in place a demographic factor that would have automatically lowered benefits as life expectancy rose, an essential element of an NDC pension regime. Targets were also set for both near term and longer term caps on payroll tax rates. However, the demographic factor was abolished after a new Social Democratic-Green coalition came to power in 1998, although the Social Democrats (SPD)-led government did enact other incremental cuts (Hering, 2008, p. 172). After a prolonged debate, a small, new, voluntary (except where participation was required by collective bargaining agreements), tax-advantaged and government-subsidized individual account tier was enacted in 2001 to compensate for planned future declines in public system replacement rates. The Schröder government also re-enacted under the new label of sustainability factor many of the features of the demographic factor that the SPD initially revoked after coming to power (Bonin, 2009). However, in response to opposition from trade unions and the left-wing of the SPD, the impact of the sustainability factor was capped. Moreover, the sustainability factor does not lower pensions by the entire amount

required to avoid any increase in pension rates over time, but only an amount estimated to avoid pension contribution rates rising above 20 percent in 2020 and 22 percent in 2030 – only one-quarter of changes that would be triggered by the sustainability factor to maintain a fixed contribution rate (Rüb and Lamping, 2010, p. 159).

The new pension formulae did not put an end to incremental reform, however. The CDU/CSU/SPD "grand coalition" government led by Angela Merkel enacted legislation to prevent a decline in benefits due to the sustainability factor in 2006. In addition, the government enacted a gradual increase in the standard retirement age (and thus the age for receiving "full" pension benefits) to 67 by the year 2029. In the lead-up to the 2009 election, however, the Merkel government enacted several pieces of legislation to move toward pension adjustments more generous than those scheduled under the adjustment formulae in effect, and to prevent future declines in the nominal value of benefits as a result of the formulae. After the 2013 election led to the formation of another Grand Coalition, the new Social Democratic social affairs minister Andrea Nahles announced plans that would make it possible for workers with a contribution history of 45 years to retire earlier. Equally important is the so-called "Mütterrente" for mothers with children born before 1992, who will receive an additional contribution year.

The two major parties in Germany remain committed in principle to adjusting pension spending to Germany's changing demographic reality. They have employed many incremental options (e.g., payroll tax increases, cuts in replacement rates) to do so. As those mechanisms neared exhaustion, they turned to automatic stabilizing mechanisms. These automatic mechanisms are still in force and will cause a significant decrease of the replacement rate within the next 20 years. However, electoral pressures have weakened the parties' capacity to establish a durable cartel that could allow either automatic mechanisms or ad hoc benefit and eligibility cuts to operate without interference.

6. NDC pensions in Sweden

Notional Defined Contribution (NDC) pension systems tie pension benefits to lifetime earnings, and adjust pension benefits and/or eligibility automatically to compensate for changes in demographic trends (notably longer life expectancy) and poor economic performance (Williamson, 2004; Holzmann and Palmer, 2006).

Countries where the NDC pension tier is dominant can be considered to have a pension regime that is distinctive from Bismarckian regimes

because the feedback effects from programs pose a set of challenges and a political dynamic that is quite different from Bismarckian pensions. Assuming that automatic adjustments are in fact made, NDC-based pension regimes face relatively manageable policy feedbacks on affordability because they automatically adjust the flow of benefits to keep them equivalent with the contributions flows (though they may begin from very high expenditure levels). NDC also faces low challenges on equity grounds, because benefits are linked to lifetime contributions. By adjusting benefits automatically to life expectancy, not only do governments avoid the need to make such changes on an ad hoc basis, NDC schemes may allow politicians to avoid responsibility for benefit reductions.

NDC pension regimes should in theory require few incremental reforms once they are in place because they are designed to be self-adjusting for demographic and fiscal pressures. NDC pensions are likely to generate their own sets of self-undermining feedback effects, however, notably long-term trends toward benefit inadequacy for those with low lifetime earnings. Thus countries employing NDC pension regimes are likely to confront debates on socially acceptable mechanisms to supplement NDC benefits with "social pensions." Individual account DC tiers can be added to earnings-related NDC tiers to keep total pension benefits from declining, but, given the already high payroll taxes that prompted a shift to NDC regimes in the first place, those tiers are likely to be small, and depending on how they are constructed, volatile in the benefits they provide.

All of these patterns are evident in the case of Sweden. NDC pensions were pioneered by Sweden in the 1990s as a response to concerns about the fiscal sustainability of the old Swedish pension system, which combined a flat-rate pension, an earnings-related tier, and an income-tested pension for those with low life-time earnings. Sweden initially turned to multiple rounds of incremental retrenchment in pension policy, but regime transition opportunities were quite limited. After the election of a non-Social Democratic government in 1991, a multi-party negotiating process was initiated to plan a comprehensive reform. This process was continued by the Social Democrats when they returned to power in 1994, resulting in an NDC-based system with an "automatic balancing mechanism" (Lundberg, 2003; Green-Pederson and Lindbom, 2006; Anderson and Immergut, 2007; Ministry of Social Affairs, 2010; Loxbo, 2013). At the same time, Sweden also instituted a small, new, mandatory individual account system on defined contribution principles (the "premium pension") and a revised income-tested pension (the "guarantee pension").

Developments since the new system began phasing in suggest the important role of self-undermining policy feedbacks in setting policy agendas, along with continued sensitivity of pension retrenchment and strong constraints on policy change. The automatic balancing mechanism was scheduled to trigger nominal benefit cuts in the lead-up to the 2010 election. Rather than simply let them go into effect, the Swedish government responded both with incremental adjustments to the balancing mechanism and with tax cuts on pensions that largely offset the scheduled cuts for many pensioners (Schøyen and Stamati, 2013). More recently, a government commission, recognizing that subtle downward trends in pension replacement rates caused by the NDC pension system were likely to lead to inadequate pensions for many Swedes, has recommended that the minimum age for receiving the income pension, premium pension, and guarantee pension would all be linked indirectly to increases in life expectancy beginning in 2019 (SOU, 2013). High volatility in the premium pension account balances combined with a dramatic decline in the active choice of fund providers by new labor market entrants has led to changes in the default fund for non-choosers (Palm and Johannisson, 2011), while difficulties in coordination of administration and information technology systems between the agencies administering the income pension and the premium pension led to the creation of a single Pensions Agency at the beginning of 2010. In 2014, the multi-party Pensions Group proposed a new set of reforms that would attenuate the effects of the automatic balancing mechanism, increase protections against bad choices in the individual account tier, and encourage longer working lives (Lucas, 2014).

Overall, self-undermining socio-political and administrative feedbacks have led to a number of incremental reforms in Sweden since 2001. The basic structure of the new Swedish pension system has remained basically intact, however. The absence of both major crises and plausible regime transition options and the availability of incremental reform options have all contributed to this outcome. Continued cohesion of elites across party lines in support of the NDC mechanism has also facilitated system continuity. However, that cohesion did become frayed as elections approached.

7. Conclusions

Generalization from specific country cases in limited time periods should always be undertaken with caution. This is especially the case in looking at pension reform, given the high degree of variation in pension

regimes, the many factors that affect their sustainability, and the potential for selection bias in case sampling. Indeed, the cases discussed here clearly undersample countries with the weakest public finances. The cases nevertheless can provide a preliminary test of the framework outlined in the first section of the chapter to analyze how self-reinforcing and self-undermining feedback effects shape pension reform agendas and ultimately pension policy change.

The cases suggest some important conclusions about the political dynamics of policy feedbacks in pension regimes. First, feedback effects from a pension regime can clearly be self-undermining and transition-encouraging (e.g., affordability of Bismarckian regimes) as well as regime-reinforcing. As the recent period makes clear, fiscal as well as socio-political feedback effects are critical. Second, the strength of particular feedbacks and the repertoire of available regime transition opportunities are likely to shift over time, as both external conditions and the balance of feedback effects from a policy regime shift. The exhaustion of incremental reforms may lead to a search for new reform options that include regime transitions. Third, regime transitions remain very rare events. Even when self-undermining policy feedbacks are strong, many constituencies are likely to perceive a strong stake in the status quo and any major change as imposing at least a threat, if not a certainty, of losses.

Finally, while self-undermining feedback effects do a very good job of explaining patterns of incremental change as well as regime transitions, they are not sufficient by themselves to fully explain those patterns. The almost complete lack of policy change in the United States since 2001 while Germany has instituted numerous changes resulting in something close to a regime shift to an NDC system, and Sweden has tinkered repeatedly with its NDC system, suggest that the nature of institutional veto points and political alignments that constitute the "political opportunity structure" are also critical determinants of policy change (Bonoli, 2000; Immergut and Anderson, 2007). The capacity of governments to develop formal or informal coalitions or "cartels" that reduce the likelihood that parties backing reform will pay the political price in the next election makes both incremental and regime transition reforms much more feasible (Kitschelt, 2001; Myles and Pierson, 2001; Hering, 2008).

Note

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5
Sovereign Debt Crises and Pension Reforms in Europe

Karl Hinrichs

1. Introduction

The 1990s and early 2000s have shown that in democratic polities reforms of pension systems – parametric (path-dependent) as well as systemic (path-departing) changes – were not impracticable as was suggested by research on the "new politics of the welfare state" (Pierson, 1994, 2001). Reforms came about when incumbent governments were able to shift or share the blame for retrenchments enacted, to hide the true impact of changes, or expected to reap credit for reforms that put pension systems on a more sustainable footing in view of advancing population aging (Hinrichs, 2011). After 2008, however, in the wake of the "Great Recession" in a number of European countries plagued with high budget deficits and mounting sovereign debt, pension reforms came to the fore that were different in two respects. First, their magnitude was large, particularly when the sequel of changes was added up. Sometimes even the hitherto pursued policy direction was moved, and the reforms (will) cause a substantial and immediate negative impact on the living conditions of present and future retirees. In a situation where austerity is no longer simply "permanent" but rather "pervasive," it is hardly surprising that public pensions became a prime target for saving on expenditure because, almost everywhere, they are by far the largest item of welfare-state spending.

Second, the political process that brought about these changes deviated from previous attempts to retrench, refinance or recalibrate old-age security systems. There was no lengthy process of consensus-seeking and compromise-building. Rather, the post-2008 reforms in crisis-shaken EU countries swiftly passed through the legislative process and were (or will be) implemented with a short time lag. Hence, they can be considered as

"rapid policy changes" (Rüb, 2012). Mainly, this reform pattern sprang from the pressure exerted by financial markets and supranational actors (IMF, European Commission) which urged governments to neglect vote-seeking objectives within the well-known credit-claiming/blame-avoidance framework for the sake of attaining short-term savings on public expenditure (Bonoli, 2012). Consequently, in a number of countries reforming politicians were punished and lost power during subsequent elections because voters rarely appreciated retrenchments designated to overcome a "major crisis situation."

In this chapter eight countries will be analyzed – four Southern European countries (Greece, Italy, Portugal, and Spain), three CEE states (Hungary, Latvia, and Romania), and Ireland. All of them have conducted pension reforms after 2008 in order to ensure their schemes' financial viability in the short and long term or to realize notions of intergenerational equity. Most urgent, however, was regaining room for fiscal maneuver and obtaining financial aid from supranational organizations (IMF, EU). Seven of the eight countries had to seek such aid in the wake of the financial market crisis (2007/08) that triggered an economic slump and, as one immediate outcome thereof, a sovereign debt crisis. The causal relevance of these events on the reform process can be read off from concrete recommendations issued by the European Commission or detailed reform demands attached to bailout agreements ("memoranda of understanding"); whereas intensified reform efforts of deeply indebted Italy were mainly driven by the rising spread over German government bonds, also meaning hard external pressure that shaped domestic policy-making (Jessoula, 2012, pp. 24–5).

In the following, the content of pension reforms will be delineated,[1] but attention will also be given to the circumstances which led to the respective changes. It will be shown that the challenges these countries were (are) confronted with enforced or facilitated profound reforms which otherwise had not been practicable or, in view of the political consequences, had not been initiated by the respective governments.[2] Moreover, the social consequences of the policy changes will be looked into although an evaluation is limited because not everywhere the reform process has come to an end yet and the actions taken have not brought to fruition their full effects.

2. Eight countries – three types of pension systems

The eight European countries belong to different welfare-state regimes. Ireland is representing the (Anglo-Saxon) liberal cluster, whereas Greece, Italy, Portugal, and Spain appertain to the conservative–corporatist type,

but are also said to form a specific Southern Model. According to Ferrera (1996) these welfare states show a "clientelistic" structure (privileging the labor force in certain occupations and economic sectors) and remain "rudimentary" because, among others, family and labor market policies are still underdeveloped. Hungary, Latvia, Romania, and other CEE countries belong to the post-socialist cluster which, due to these countries' diverse welfare-state designs, is hardly as coherent to speak of an (emerging) "Eastern Model" (Hacker, 2009).

There is a certain arrangement of old-age security attached to the different welfare-state types. Ireland (like the UK) has followed the Beveridge model, that is, state responsibility is limited to universal basic security in old age, while status maintenance is left to (state-regulated) private provision by employers and individuals. In Southern Europe, social insurance schemes of the Bismarck type play the pivotal role. Access to and the level of public pensions is dependent on prior earnings-related contributions. The accruing benefits are meant to ensure status maintenance. However, the schemes are institutionally fragmented along occupational lines – most strongly in Greece and the least in Portugal – as of which benefit generosity varies. Despite being "rudimentary" welfare states, the social expenditure ratio is comparatively high but, because old-age security constitutes the central pillar of their social policy arrangements, the structure of expenditure is strongly "age-biased" (much more than in Ireland – Table 5.1, rows 7 and 8), and this imbalance has grown in recent years. Causes are the hitherto very generous pension payments (at least for insiders), the broad access to early retirement (discernible in the low employment rates among those 55–64 years of age), and the already high and further increasing longevity (Table 5.1, rows 2, 3, 5, 9, and 10).

Originally, CEE countries had followed the Bismarck model, and certain elements remained intact during the communist rule. The social insurance approach was revitalized after 1990, before Hungary (1998), Latvia (2001), and Romania (2007) turned to a multi-pillar pension system as propagated by the World Bank.[3] They established an additional second pillar that was private, but mandatory for the younger part of the work force. While the total contribution rate remained unchanged, the share allocated to the pay-as-you-go first-pillar scheme was reduced (and also the accruing pension level). The remaining part was transferred into the second pillar and invested in private pension funds. This systemic change was expected to deliver a higher total benefit level and to further capital market development.

The pre-2008 reforms in the CEE states and other European countries have been mainly motivated by the advancing population aging showing up in an increasing old-age dependency ratio or the system dependency

Table 5.1 Pension system indicators

		GR	IT	PT	ES	IE	LV	HU	RO
1	Employment rate 15–64 (2012)	51.3	56.8	61.8	55.4	58.8	63.0	57.2	59.5
2	Employment rate 55–64 (2012)	36.4	40.4	46.5	43.9	49.3	52.8	36.9	41.4
3	Old-age ratio (≥65/20–64)								
	(2010)	31	33	29	27	19	28	27	23
	Projection 2050	*63*	*61*	*61*	*62*	*44*	*59*	*55*	*59*
4	Contributors per pensioner								
	(2010)	1.77	1.47	1.59	2.40	2.78	1.52	1.31	0.95
	Projection 2050	*1.29*	*1.30*	*0.90*	*1.28*	*1.91*	*1.04*	*1.00*	*0.76*
5	*Further life expectancy after reaching age 65 (2012)*:								
	Males	18.1	18.8	17.6	18.6	18.0	13.6	14.3	14.6
	Females	21.0	22.6	21.3	22.8	21.1	18.5	18.1	17.7
6	Change GDP in year 2009 in %	–3.3	–5.5	–2.9	–3.7	–7.0	–17.7	–6.8	–6.6
7	Social expenditure/GDP								
	(2007)	24.8	26.6	23.9	20.8	18.3	11.3	22.7	13.6
	(2011)	30.2	29.7	26.5	26.1	29.6	15.1	23.0	16.3
8	*Public pension expenditure in % of GDP:*								
	(2007)	11.7	14.0	11.4	8.4	4.0	5.4	10.9	6.6
	(2010)	13.6	15.3	12.5	10.1	7.5	9.7	11.9	9.8
	Projection 2050	*15.4*	*15.7*	*13.1*	*14.0*	*11.4*	*6.4*	*13.5*	*12.8*
9	Gross average replacement rate								
	(2010)	59.3	79.5	56.9	72.4	37.3	48.2	38.4	41.6
	Projection 2050	*52.4*	*66.0*	*48.2*	*56.6*	*38.0*	*15.8*	*40.3*	*29.8*
10	Net theoretical replacement rate								
	(2010)	121.3	89.5	85.8	94.5	85.8	80.4	100.1	70.7
	Projection 2050	*87.0*	*69.1*	*65.9*	*86.5*	*69.0*	*55.3*	*75.0*	*45.0*
11	Targeted benefits in old age in % of average earnings	13.7	21.6	17.4	19.6	34.9		–	
	Minimum public pension in % of average earnings	36.4	19.3	33.8	33.9	–		12.4	
12	At-risk-of-poverty rate ≥65 (2012)	17.2	16.5	17.4	14.8	11.0	14.0	6.0	15.4
	At-risk-of-poverty rate 18–64 years	*23.8*	*19.1*	*16.9*	*21.9*	*15.1*	*19.4*	*13.6*	*21.0*
13	Home ownership rate ≥65 (2010)	84.9	80.4	73.3	88.5	88.6	85.4	90.3	100

Sources: Rows 1, 2, 5, 6, 7, 12, and 13 = Eurostat Statistical Database (and own calculations); rows 3, 4, 8 (2007 figures: European Commission, 2009, p. 200) and 9 = European Commission, 2012a (country fiches); row 10 = European Commission, 2012b (country profiles); row 11 = OECD, 2013b, p. 123.

ratio (Table 5.1, rows 3 and 4), the latter being more relevant for the financing of old-age security systems. Both developments are the result of rising longevity at higher ages (row 5) and declined birth rates. At least since the 1990s, the OECD, the European Commission, and the IMF have purveyed the conviction that high social security contributions and taxes have a negative effect on employment levels, thereby supporting national actors in their policy efforts to keep in check the tax and contribution burden. Thus, when the contributions of employers and employees to the state pensions are supposed not to rise (much) further or no (higher) tax-financed payments are to be made to pension schemes, only a limited number of levers remain by which spending increases due to demographic change can be contained. The ratio between pensioners and contributors can be changed by lifting the pensionable age, and it is possible to lower the level of newly awarded pensions by modifying benefit calculation or to change the way in which pensions in payment are indexed.

3. The post-2008 pension reforms

3.1. Ireland

Ireland's basic state pension is contribution-financed and flat-rate (but means-tested for about 20 percent of retirees without a complete contribution record). For a single person, the level amounts to about 37 percent of average wages. Benefit increases in real terms during the 2000s have significantly reduced the risk of old-age poverty – from over 40 to 10.6 percent in 2010. Over the last two decades, occupational pension plans constantly covered about one half of the employees. In 2001, a National Pension Reserve Fund (NPRF) was established in order to ease the financing of the basic state pension and the occupational scheme for public service workers after 2025. Every year the government paid 1 percent of GDP into the NPRF.

The financial market crisis has hit hard the assets of the NPRF and occupational pension funds. In 2011, 80 percent of the defined-benefit (DB) plans were still in deficit (OECD, 2013a, p. 53). The underfunding has to be removed until 2016 and then private pension funds have to build up a risk reserve. From 2011 to 2014, they have to compound a special levy of 0.6 percent (p.a.) on the accumulated assets. The larger part of the (shrunken) NPRF assets has been used to bail out and recapitalize the banking sector. Before, the government had already stalled the payments into the NPRF, not the least because it had to cover the growing deficits of the social insurance fund with tax money. Considerable savings for the Exchequer stem from changes of the DB-type public service pension schemes (Table 5.2): Pensions in payment have been

Table 5.2 Synopsis of pension reform elements, concluded 2008 and later

	Normal retirement age	Early retirement	Benefit formula
GR	F: 60 → 65 (2011/13); M/F: 65 → 67 (2013/20); 2021ff.: NRA linked to further life expectancy	After 40 contribution years: age 60 (2011) → 62 (2013); number of arduous professions reduced to < 10% of workforce	Accrual rate lowered: 2 to 3% → 0.8 to 1.5%; calculation base: best 5 out of last 10 years → entire career
IT	F: 60 → 65 (2018); F public sector: 61 → 65 (2010/11); public sector (M/F): 65 → 66 (2011/12); 2013ff.: NRA linked to life expectancy (forecast: 2019/21: ~67; 2050: ~70)	Years of contributions required for seniority pensions indexed to changes in life expectancy 2013ff.	NDC rules apply to all future pensioners (pro rata); minimum contributory period for NDC pension: 5 → 20 years
ES	2013/27: 65 → 67; still 65: 35 → 38.5 years of contributions	Voluntary ER: 63 → 65 and 33 → 35 insurance years; involuntary ER (unemployed) 61 → 63 and 31 → 33 (decrements about 7.5% p.a.)	Full pension: 35 → 37 contribution years (50% after 15); calculation base: last 15 → 25 insurance years
PT	65 → 66 (2013/14); after it: adjusted according to sustainability factor	No retirement before 65 for employed workers until 2014; 62 if unemployed after 57	Whole insurance career, but best 40 years for full pension
IE	66 → 67 (2021) → 68 (2028)	"Transitional state pension" at age 65 abolished in 2014	Public service pensions: career average earnings for newly recruited employees
HU	62 → 65 (2014/22); age 65 valid for birth cohorts 1957ff.	F: any age after 40 insurance years (including child care periods); all other ER options eliminated (2012)	benefit calculation changed: ~–8.5% for newly awarded pensions
RO	M: 63 → 65 (2015); F: 58 → 60 (2015) → 63 (2030)	5 years before NRA with temporary decrement of 9% p.a.; eligibility criteria disability pensions tightened	Full pension: 33/28 → 35 insurance years for M 2015, for F 2030; minimum contribution period: 13 → 15 years (2015)
LV	62 → 65 (2014/25)	2 years before NRA with deductions if 30 insurance years; all other ER options abolished as of 2012	Minimum years of contributions: 10 → 15 (2014) → 20 (2025)

Indexation	Harmonization	Miscellaneous
Suspended until end of assistance program; 2015ff.: not higher than CPI	Number of general and supplementary schemes reduced; public sector workers integrated in general scheme	Further adjustments if pension spending would increase by more than 2.5 percentage points between 2009 and 2060; 13th + 14th monthly pension replaced with flat-rate bonus
Suspended for pensions > €1,400 in 2012 + 2013	Rules of the separated schemes further aligned	Age-specific divisors for converting notional "assets" into a stream of benefits (due to risen life expectancy) adjusted for the first time in 2013
No CPI adjustment in 2012 (+1%) and 2013 (+1% for pensions > €1,000, +2% otherwise); determined by sustainability factor as of 2015	Special schemes for civil servants, farm workers + self-employed abolished	Sustainability factor: affecting calculation of newly awarded pensions implemented 2019 (instead of 2027); reserve fund melting off (used for pension payments)
No adjustment in 2011; 2012: CPI only for lower pensions	Special schemes (public sector, banking, telecom) phase out	Special solidarity contribution higher pensions
State pensions frozen at 2009 level	Increasing NRA also applies to public sector workers	Cuts of public service pensions; state pension contributions levied without income ceiling and minimum threshold
Swiss index → CPI adjustment since 2012		Elimination of 13th monthly pension payment (2009); mandatory 2nd pillar canceled + assets shifted to state budget; no ceiling on employees' share of contributions (2013)
No indexation 2010–12; 2021/2030 shift to pure inflation adjustment	Special schemes for certain occupations integrated in the general scheme (2010)	2nd pillar contribution rate: scheduled increase 2 → 6% (2009/16) delayed by one year minimum pension introduced 2009 (~€90/month)
No adjustment from 2009 to 2013, but +4% for pensions < €355 in 2013		2nd pillar contribution rate: 8 → 2% (2009); resurgence: 2 → 6 (2013/16)

cut in a progressive manner, the accrual of entitlements is capped at 40 years of service, newly awarded pensions turn out lower due to pay cuts, public service workers have to pay higher contributions without earning higher entitlements, and new public servants have to reckon with more unfavorable rules for calculating and adjusting their (future) pensions (OECD, 2013a, pp. 41–3). These changes were components of the austerity package agreed with the Troika which also included the gradual increase of the state pension age from 66 to 68 (legislated in 2011). Already since 2009 there has been no adjustment of the basic state pension.

3.2. The South European countries

Greece is clearly the straggler among the Southern European countries with regard to social policy reforms in general and the adaptation of old-age pension systems to changed circumstances in particular. As early as the 1990s there were complaints about the ineffectiveness and inefficiency of the Greek welfare state and disparate benefit levels – with public employees and some groups of self-employed benefiting disproportionately – and an inability to reform leading to crisis was identified (Katrougalos, 1996; Venieris, 1996).

Drastic pension reforms came about only in 2010 and thereafter due to obligations related to the bailouts (Nektarios, 2012). A significant structural reform of the extremely complex Greek old-age pension system – consisting of a mandatory income-related general scheme and a (largely) compulsory supplementary component (also earnings-related) – started as early as 2008, however. The merger of occupationally differentiated schemes and standardized rules are supposed to bring about greater transparency and fairness and to save on administrative costs. From 2012 all supplementary pension schemes were brought together into a single pension fund.

In 2010 the Greek Parliament decided to lower the accrual rate, most decisive for the replacement ratio in a defined-benefit scheme, from 2 to 3 percent to 0.8 to 1.5 percent for one year of contribution payments. Thereby the attainable benefit level is significantly reduced and incentives are created to stay on in employment for more years because the accrual rate is progressive with the total length of insurance (Nektarios, 2012, p. 267). Furthermore, the pensionable ages of men and women were equalized at age 65 until 2013. In future, entitlement to a full pension will require 40 instead of 35 insurance years and pensions will be calculated on the basis of the whole working life. Without reductions (6 percent a year) only those who can prove 40 insurance years can take

early retirement (from 60 years of age).[4] From 2021 the normal and early retirement age will be adjusted every three years according to the development of life expectancy. Two of the previous 14 monthly payments were abolished and replaced by a (largely) uniform bonus of 800 euros only for pensioners above age 60. In future, the indexation of pensions in payment must not be higher than the increase in consumer prices; for the period 2011–14 the adjustment was suspended entirely. Moreover, further measures are to be taken if projections show that there will be an increase of pension expenditure of more than 2.5 percentage points of GDP by 2060 in comparison to 2009.[5]

Subsequently, in 2012 a new (NDC look-alike) benefit formula with a built-in sustainability factor for the supplementary pension scheme was decided upon, pensions of the general scheme higher than 1,300 euros were cut by 12 percent on average (in 2010 those above 1,400 euros were already cut by 8 percent and in 2011 monthly pensions greater than 1,000 euros were reduced by 5 to 15%), access to invalidity pensions was made more difficult, and disproportionately high one-off payments in the area of supplementary pensions were cut. By 2015, incurring deficits of both the general and the supplementary pension schemes will no longer be covered by state subsidies. Then the government's financial responsibility is restricted to the flat-rate basic pension,[6] scheduled to go into effect the same year (European Commission, 2012a, p. 98; Petmesidou, 2013, p. 604).

The "haircut" predating another support package for Greece in November 2012 deprived the social insurance funds of a large part of its reserves held in Greek government bonds, and the liquidity problems of the pension system were aggravated due to lower government subsidies and fewer workers paying contributions. Obligations related to the support package included a rapid increase of pensionable age to 67 years, allowing workers with 40 insurance years to not retire before age 62 (with deductions) and to cut pensions of retirees who benefited from the previously more generous calculation formula and/or those who prematurely claimed their pension.

In Italy, the first attempt to contain the steep rise of public spending on pensions was undertaken in 1992. In 1995 the basis of the pension system was changed to the notional defined contributions (NDC) model which, within the framework of a lingering pay-as-you-go scheme, emulates the working of a fully funded plan with quasi-actuarial benefits. All subsequent reforms aimed at an accelerated implementation of the NDC rules, tighter eligibility criteria for "seniority pensions" (which, originally, could be claimed after a 35-year insurance period regardless

of age), and advancing the harmonization of the differentiated public pension system. Until 2007, these attempts were only partly successful, but massive changes took place between 2009 and 2011 when the financial standing of the Italian state became endangered and no other country spent more on public pensions (about 15 percent of GDP, Jessoula, 2012, pp. 14–20; Ministero, 2012, pp. 41–3).

The harmonization of still occupationally differentiated pension arrangements was taken further, including an equalization of contribution rates (Table 5.2). Furthermore, the alignment of women's pensionable age with that of men was speeded up and will be completed in 2018 (in the public sector already realized in 2011 and then – as for all men – raised to age 66 in 2012). Also, from 2013 the standard retirement age and the age of eligibility for seniority pensions will be linked to the development of further life expectancy. Thus, for 2019 but in 2021 at latest a pensionable age of 67 years is expected for men and women in both the private and public sectors, rising to just below 70 by 2050. "Seniority pensions" – hitherto available either after 40 years of contributions or at 62 years of age after 35 contribution years – are de facto abolished since the conditions follow the rising age limits, and early retirement is possible only with deductions and if the pension level exceeds the social minimum pension by one and a half times. In contrast, corresponding increments are expected to result in pensions that ensure the standard of living for those who continue to work up to the age of 70. Considerable short- and medium-term savings arise from accelerated implementation of the NDC system. From 2012 new pensions will be calculated pro rata according to the contribution periods before 1995 in the old (DB) system and the contribution years under NDC rules after 1995, and beginning in 2013 the age-specific coefficients for converting notional assets into a monthly pension are periodically adjusted to lower mortality. Finally, the adjustment of pensions to price development for pensions over 1,400 euros was suspended for 2012 and 2013.

In Spain, there was a switch from expansion to consolidation already in 1985, and since 1995 all pension reforms have been based on the (repeatedly renewed) Toledo Pact between the respective government and the social partners. As a result, between 1998 and 2010 the Spanish social security system ran surpluses, so that in 2011 there were 66 billion euros (around 6.3 percent of GDP) accumulated in the reserve fund, largely invested in Spanish government bonds.

The most substantial changes of the 2011 reform, which will come into force mainly between 2013 and 2027, include a rise in the statutory retirement age from 65 to 67 for workers showing less than

38.5 years of contribution payments. Early retirement rules have again been tightened (beyond the 2011 legislation) in 2013. The age range will move from 63 to 65 and the required insurance years from 33 to 35. For unemployed persons (involuntary early retirement) the conditions change from age 61 to 63 and 31 to 33 insurance years. Premature claiming of benefits goes along with deductions (7.5 percent per year) while deferring retirement age is rewarded with supplements (between 2 and 4 percent a year). In future, a "full" pension will require 37 instead of 35 contribution years (it will still be the case that 15 years qualifies someone for a half pension), and from 2022 pensions will no longer be calculated on the basis of the last 15 but rather the last 25 insurance years (Table 5.2). Finally, a sustainability factor was scheduled to take effect by 2027, but after Spain had to apply for loans from the European Stability Mechanism (ESM) in 2012, the implementation was accelerated: Beginning in 2019, the level of newly awarded pensions will be affected by changes in further life expectancy at normal retirement age, and there will be no return to price indexation of pensions in payment. Instead, as of 2014 the annual adjustment will be determined by the scheme's financial position (ratio of contribution revenues to pension payments) over the past five and (projected) next five years, but must not be less than 0.25 percent.

In the wake of an "Excessive Deficit Procedure," Portugal negotiated a pension reform package with the social partners in 2007. It included increased pension decrements for retirement before age 65; the already legislated pension calculation on the basis of the whole working career was brought forward to 2017; a sustainability factor was introduced, linking the level of newly awarded pensions to longevity increases; indexing of pensions in payment was debased; incentives for the (continued) employment of older workers were strengthened; and the normal retirement age of public service workers was going to rise from 60 to 65 (completed in 2013). The combined effects are quite significant: a comparison of projected pension spending in 2050 on the basis of calculations from 2005 and 2008 shows that Portugal had taken the biggest leap of all EU countries. Instead of 20.8 percent of GDP only 13.6 percent pension expenditure was estimated for 2050 (European Commission, 2009, p. 104).

Therefore, in order to reduce its public deficit in the short term, Portugal was obliged to only take a few pension reform measures when it sought financial assistance in 2011. Pensions were frozen in 2011 and not fully indexed to inflation in 2012, higher pensions are burdened with a special levy, and early retirement of employed workers

is ruled out until 2014 whereas older unemployed cannot take out a public pension before age 62 (Table 5.2). Furthermore, employees of state-owned enterprises – banks, telecommunications – were integrated in the pay-as-you-go pension insurance system and a total of 9.3 billion euros of the capital reserves of special schemes were transferred to the state budget[7] and, hence, reduced the present deficit, but increased the implicit debt of the general scheme. Finally, in May 2013 the Coelho government announced normal retirement age to be raised by one year, to 66 in 2014.

3.3. The CEE countries

The parametric pension reforms during the 1990s in Hungary, Romania, and Latvia were less a reaction to demographic change than to economic transformation. The successive paradigmatic restructuring of their pension systems followed a widespread comprehension of "privatization" as an expression of "modernization" (Orenstein, 2008; Cerami, 2011; Fultz, 2012). These (and other) countries became amenable to the transnational policy campaign launched by the World Bank. A multi-pillar pension system including a mandatory and fully funded private pillar promised to ensure adequate as well as financially sustainable old-age security. However, the problems with this new approach came to the fore during the economic slump and subsequently triggered significant changes.

Hungary was a forerunner in introducing the multi-pillar pension model. Already highly indebted before 2008, it became dependent on international loans as a result of the economic crisis. These were granted on condition of structural reforms, including pensions. The package contained a gradual increase of the standard retirement age (from 62 to 65), a less favorable calculation of initial pensions and indexation of current benefits, and the abolition of the 13th monthly pension payment (Simonovits, 2011). The 2010-elected Orbán government rejected (further) external rescue measures and turned to the structure of the pension system for regaining fiscal latitude. The pay-as-you-go first pillar lacked the necessary resources to honor the entitlements of present retirees because 8 percentage points of the total contribution rate were diverted into the second pillar. Those shortfalls had to be balanced out of the state budget and, ultimately, increased public debt. Soon after coming into office the government started a turnaround which meant a factual abolition of the multi-pillar system: contribution payments into the second pillar were stopped, and the contribution revenues of the first pillar were increased accordingly. The already accumulated assets

of the second-pillar pension funds were "confiscated" and transferred into the state budget, immediately reducing the deficit and the amount of public debt. The entitlements that the participants had earned in the second pillar were shifted to the first pillar, increasing the long-term obligations (the "implicit debt") there. In order to extenuate the future spending increase, opportunities to retire early via disability pensions or due to long service have been eliminated almost completely, except for women (Table 5.2).

At the onset of the crisis, Romania's public pension scheme was facing serious challenges: There were already fewer contributors than beneficiaries (Table 5.1, row 4), the informal economy was (and still is) sizable and thus contribution evasion was widespread (like in Hungary and Greece), and, after joining the EU, Romania lost a rising number of potential contributors due to emigration (like Latvia). Moreover, discretionary pension increases of more than one-third in both 2007 and 2008 and another 13 percent in 2009 (Ghinararu, 2011, p. 240) were largely responsible for the rising state budget deficit when the country was hit hard by the recession. Romania had to solicit for a 20 billion euro loan from the IMF in 2010, but left its recently established and still small second-pillar scheme (contribution rate in 2009: 2 percent) intact and even introduced a modest minimum pension scheme in 2009. Reforms which started to take effect in 2011 continued along the legislation of the year 2000 (Ghinararu, 2011): normal retirement age will increase further (but remains lower for women); the years of contribution required for pension eligibility and for a full pension will rise once more. Furthermore, pensions of the first-pillar scheme have not been adjusted from 2010 to 2012, and between 2021 and 2030 the indexation will gradually shift from 100 percent of inflation plus 50 percent of average real wage increases to pure price level changes. The traditionally far more generous special pension regimes for government employees will be integrated into the general scheme. Finally, the eligibility criteria for early and disability pensions have been tightened, and recipients of early retirement pensions face higher decrements (0.75 percent per month instead of 0.5 percent).

Of all EU member states, Latvia experienced the most drastic economic slump in 2009 (Table 5.1, row 6) and also had to seek external aid. Thus, it was first priority to ensure the financing of pensions in the short run. Instead of finalizing the planned split of contributions between the first and second pillar in 2010 (10 percentage points for each), in 2009 the rate diverted into the fully funded second pillar was lowered from 8 to 2 percent in order to close the financing gap of the

first pillar. According to the NDC rules, this shift implies correspondingly higher first-pillar pension entitlements in future. Additionally, the limit on earnings subject to social insurance contributions was lifted from 2009 to 2013, and for the same period the adjustment of pensions in payment according to consumer price changes was suspended. Further savings accrued from the functioning of the NDC-type first pillar: fewer contributors and significantly reduced average earnings devaluate automatically the notional "assets" available for conversion into a pension. Otherwise identical employment careers assumed, claiming a first pension in 2009 or 2011 made a difference of more than 30 percent (European Commission, 2012b, p. 296). Changes aiming at the long-term sustainability of the first pillar have been legislated in 2012: normal retirement age will increase to 65, and the minimum period required for an old-age pension rises to 20 years. Top growth rates from 2011 onward alleviated Latvia's fiscal problems and allowed for a changed division of the total contribution rate between the first and second pillar. In 2016, the split will be 14/6 percent and is expected to remain stable then.

4. Commonalities and differences

After 2008, the countries studied in this chapter have legislated similar changes of their pension systems for attaining savings on public pension expenditure in the short and long run. Suspended or less-favorable indexation rules, coming about in all eight countries, ease financial troubles of public schemes most rapidly and, due to the base effect, will ripple through subsequent years, thus, yield further savings (Table 5.2). Nominal cuts of pensions in payment (as it happened in Hungary and Greece) are even more effective but can be problematic. Corresponding legislation has been ruled unconstitutional in Portugal, Romania, and Latvia. Short-term savings also result from closing early retirement pathways, tightening entry conditions or computing decrements when the pension is claimed prematurely. Such changes happened in all eight countries as was also true for increasing normal retirement age which, depending on the length of the phasing-in period, delivers medium- or long-term savings. However, the target ages set in the CEE countries remain (much) below those in Italy, Spain, or Ireland, what appears comprehensible in view of further life expectancy at age 65 being about three years shorter (Table 5.1, row 5). Likewise, mainly long-term savings will accrue from changes in the benefit formulae. In particular, tightening the contribution/benefit link as in NDC schemes (Italy and Latvia) or taking into account more insurance years (up to the whole employment career)

lead to lower pensions for the newly retired. Whereas NDC schemes operate with a built-in life expectancy factor (when converting notional "assets"), all Southern European countries have introduced a sustainability factor that automatically changes system parameters (normal retirement age or number of insurance years required for a "full pension") upon longevity developments. All eight countries have made steps toward harmonization, be it by unifying different schemes in order to save on administrative costs and/or by removing existent privileges for certain occupational groups (like a lower normal retirement age or higher accrual rates). Predominantly, those equalizing reforms focused on public service workers and on women when they were still entitled to a lower pensionable age (however, Hungary and Romania remain exceptions in that respect). Nowhere was the solvency of public pension schemes strengthened by raising the contribution rate – at least, not for employers. On the contrary, intended to stimulate job growth, their rate was (temporarily) lowered in Ireland, Portugal, and Romania, whereas employees became subject to a higher contribution rate in Ireland, Romania, and Latvia.

As a result of the intensified reform activity, the predicted growth in public pension spending until 2040 will be considerably lower than what was calculated for the Ageing Report 2009 (Table 5.1, row 8; European Commission, 2012a, pp. 142–4). Since the most recent reforms were not included in the projections, the increase should be even smaller.

The financial market crisis of 2008 posed serious problems for countries whose pension system relies heavily on private, fully funded components. In our sample this was Ireland. Because those events – occupational and sovereign pension funds suddenly losing much of their assets – are unforeseeable and cannot be ruled out in future, such vulnerability also affects the CEE countries where fully funded private pensions were expected to play a larger role in the retirement income mix. In the CEE countries the development of the mandatory second pillar reveals a specific challenge that is related to the well-known "double payment problem": while the younger cohorts (plus the middle-aged workers who voluntarily joined the second pillar in larger numbers than expected) build up financial assets for the private component of their retirement income out of the diverted share of insurance contributions, for several decades the pension entitlements of present-day retirees and older workers have to be honored. The lowered contribution revenues of the first pillar are insufficient to meet these obligations (Holzmann and Guven, 2009, pp. 170, 230–1), and a rising gap could be covered out of the state budget only as long as it was not under pressure itself. However,

this was exactly the case after the economic slump in 2009 and forced the governments in Latvia and Hungary (and elsewhere) to take action. The financial market crisis not only shook the public's confidence in fully funded pensions. It also triggered a rethinking among political actors in CEE countries, leading to a revision of the implemented multi-pillar model, like in Poland or Slovakia (Orenstein, 2011; Drahokoupil and Domonkos, 2012).

5. The social impact of recent pension reforms

A look at the income situation of older people (65+) in 2012 reveals a diverse and surprising picture. The at-risk-of-poverty (AROP) rate, meaning less than 60 percent of the weighted median income, is lowest in Hungary, followed by Latvia and Ireland. In all countries except Portugal, the AROP rate of the elderly is below that of the adult population below age 65 (Table 5.1, row 12). At first glance, it is surprising that nowhere has the AROP rate for the 65+ increased after 2008. Rather, the rate actually fell – most considerably in Latvia (51.2 percent in 2008, 14.0 percent in 2012). Such development is mainly due to the fact that in Ireland, Greece, and Latvia, for example, the median income threshold decreased as a result of unemployment, wage cuts, and profit setbacks among the self-employed, whereas at first pensions remained largely stable and indeed functioned as "automatic stabilizers." This shows up in the risen GDP share (2007/10) of public pension spending (Table 5.1, row 8). Stable or even declining AROP rates do not mean that the elderly have become more "wealthy." Rather, as yet they have merely incurred smaller income losses than the population of employable age, and among the elderly those receiving the lowest benefits regularly suffered the least because direct pension cuts or retrenchments via "solidarity levies," benefit freezes or the like, when they occurred, were targeted at retirees with higher pensions.[8]

The altogether not too bleak present situation (at least in relative terms) might change when the reforms take full effect. The downside of containing the long-term growth of public pension spending is lower replacement rates (Table 5.1, rows 9 and 10).[9] These figures, however, only provide a rough clue because the calculations are based on standardized assumptions regardless of the actual prevalence of complete and non-perforated employment careers in a given country, wage fluctuations, participation in supplementary pension schemes, and so on. OECD data (2013b, p. 123) show that in Greece and Portugal about 60 percent of the retirees receive no more than the (contributory) minimum pension

and in Italy and Spain this is still around 30 percent. The level of these minimum pensions or targeted benefits (Table 5.1, row 11) is considerably lower than the standardized "replacement ratios." Thus, only limited informative value should be attached to them.

In order to evaluate the living conditions of present and future retirees, a few further aspects have to be considered. In all eight countries the homeownership rate among the elderly is very high (Table 5.1, row 13), and few are still burdened with mortgages. If imputed rent is taken into account, regularly, income inequality and the AROP rate are reduced whereas disposable income increases (Sauli and Törmälähto, 2010). Thus, homeownership may partly compensate for low minimum benefits (Table 5.1, row 11). Effects in the opposite direction emanate from co-payments when utilizing the health care system. Those individual out-of-pocket expenses amount to more than one-third (Greece and Latvia) or one quarter (Hungary and Portugal) of total health care funding (OECD, 2012b, p. 129). If pensioners, usually more in need of health care than younger people, are not exempted their disposable income is reduced. Furthermore, in none of the eight countries is the adjustment of pensions in payments linked to the development of wages anymore. The switch to consumer price indexation (or even temporary suspension) decouples retirees from future gains in prosperity and exposes them to an increasing risk of relative poverty the older they get (European Commission, 2012b, p. 83). Finally, high unemployment not only means lower contribution revenues today, but also incomplete insurance records and, hence, lesser pension entitlements in future. Particularly since the contribution/benefit link has been tightened all over by taking account of more insurance years or the entire working life when benefits are calculated, "atypical" employment biographies imply a heightened poverty risk.

6. Conclusion

A strict austerity agenda is now prevailing in Europe, enforced by the new economic governance architecture that has been instituted as a response to the crisis phenomena since 2008 (Hacker, 2013). These new instruments exert hard pressure on national governments to reduce budget deficits and to keep sovereign debt in check – also by reforming their pension systems. This pressure is incomparably stronger than the "soft governance" that emanated from the Open Method of Coordination. The post-2008 reforms in the eight countries studied in this chapter have been either imposed on governments by actors in

charge of lending money to those ailing countries as "conditionality programs" (IMF, the Troika) or were defined as an irrefutable necessity in the respective national context (Italy and the 2011 reform in Spain) and amounted to rapid policy change in the pension policy domain. In either case, "normal" pension politics was suspended, and the reforms passed in an accelerated decision-making process without being prepared by expert commissions or negotiated with social partners (exception: Spain) (Duchemin and Weber, 2013). Moreover, the post-2008 reforms have fundamentally changed the course of national pension policy. We have observed (Section 3) a reversal from an established early retirement policy toward the prolongation of working lives, or the shift from orderly increases of pensions in payment toward more unfavorable indexing formulae, adjustment moratoria, and even benefit cuts. In CEE countries, the multi-pillar path taken before was reconsidered or even completely left.

Political actors striving to implement pension reforms that aim at savings on expenditure face a dilemma: "grandfather clauses" and long phasing-in periods until complete implementation reduces their effectiveness, in other words, the short-term savings potential. In contrast, rapid implementation of massive retrenchments may meet resistance from labor unions, senior citizens, and others, especially when the measures are unilaterally imposed by the government and are not based on compromises. Almost without exception, the post-2008 reform legislation was followed by a swift implementation process by which it was drastically intervened into the future plans of older workers (e.g., the rapid rise of normal retirement age in Italy) or the consumer customs of retirees (e.g., the nominal pension cuts in Greece; Petmesidou, 2013, p. 607), often implying serious hardships. Thus it cannot be taken for granted that the pension policy changes – including the automatic adjustment mechanisms – will in fact be implemented as legislated, especially not if unemployment, both overall and in particular among young people, remains high and a lower retirement age appears as an outlet.

Notes

1 If not indicated otherwise, information on the contents of reforms was obtained from the International Updates of the US Social Security Administration (http://www.ssa.gov/policy/index.html), the country reports of the project Analytical Support on the Socio-Economic Impact of Social Protection Reforms (ASISP) (http://www.socialprotection.eu), and publications of the European Commission (2010 [Annex 6], 2012b) and the OECD (2012a, 2013b).

2 The politics of pension reforms that occurred during the two decades prior to 2009 have been studied in detail for individual countries or in comparison (see, e.g., Bonoli and Shinkawa, 2005; Immergut et al., 2007; Natali, 2008). Such fine-grained analysis of recent reforms in eight countries that takes into account the involved actors, their interests, and the political–institutional conditions is, due to limited space, not possible here. For the same reason, austerity measures in other policy domains (e.g., health care, taxation, public sector employment/wages) will be ignored.

3 It would have been quite possible to include other CEE countries in the comparison, for example Poland or Estonia whose retirement income system comes close to the one in Latvia, and they concluded similar changes after 2008.

4 Several hundreds of professions had been listed as "heavy" or "hazardous" implying the entitlement to a full pension after 35 years of contributions as early as age 55. The 2010 reform stipulated that a revised list must not cover more than 10 percent of the labor force and a full pension should not be available before age 60 and less than 40 years of service.

5 During the period 2005 to 2008, Portugal (see below) did best in containing projected spending increases until 2050. On comparison of the estimates of 2008 and 2011 Greece was found ranking first: The increase would be lowered by 8.7 percentage points (from 24.1 down to 15.4 percent of GDP) if the legislated reforms were actually implemented (European Commission, 2009, p. 291; 2012a, pp. 143, 328).

6 An amount of €360 (2010 prices) will be taken into account when the individual benefit is calculated, but new retirees with fewer than 15 contribution years have to pass a means-test.

7 Already in 2005, 3 billion euros had been transferred from the capital reserves of the state-owned banks' special pension scheme to cover the deficits of the general pension scheme.

8 However, from a closer inspection of recent pension policy in Greece Matsaganis (2012, p. 416) concludes that "the familiar pattern of powerful groups securing for themselves favorable treatment at the expense of less powerful ones reasserted itself – even under emergency conditions."

9 The "gross average replacement rate" is calculated as the average first public pension of those who retire in a given year as a share of the economy-wide average wage at retirement (European Commission, 2012a, p. 129). The "net theoretical replacement rate" indicates the first public pension of a hypothetical average income earner retiring at 65 after a contribution period of 40 years as compared to the last wage before retirement (both pension and wage after income tax and social security contributions) (European Commission, 2012b, pp. 218, 240).

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6

The UK Pensions Crisis and Institutional Innovation: Beyond Corporatism and Neoliberalism[1]

Gordon L. Clark

1. Introduction

With the defeat of the UK Labour government in May 2010, the incoming coalition government of Conservatives and Liberal Democrats contemplated abandoning the National Employee Savings Trust (NEST).[2] Conceived by the Labour government's Pensions Commission (2005), Lord Turner's expert panel recommended the establishment of NEST as a way of addressing the pensions crisis: the future liabilities associated with government-provided social security, declining occupational pension coverage rates, and the accelerated closure of defined benefit pension schemes in the private sector (Pemberton et al., 2006). In effect, NEST is a state-sponsored pension reserve scheme for working men and women via automatic enrollment at their place of work. Although not mandatory, as is the case in Australia, Canada, and Sweden (Cronqvist and Thaler, 2004), it was designed to encourage private-sector employees to save for their retirement (in the manner suggested by Thaler and Sunstein, 2003). After a review, the coalition government affirmed the previous government's commitment to NEST (which began in 2012).

For many years, successive governments had proclaimed the virtues of the UK approach to pension and retirement saving in contrast to continental European countries that promised high income replacement rates, often provided on a pay-as-you-go basis (Clark, 2003). Reliance on a tripartite mix of social security, occupational pensions, and personal saving was deemed by the World Bank (1994), among other multilateral organizations, to be a sustainable recipe for retirement income in the context of population aging. Notwithstanding the Labour party's role in establishing National Insurance in the aftermath of the Second World War, by the last decade of the 20th century there was considerable

bipartisan support for the UK tripartite approach to retirement income provision. Nonetheless, there remained some political support for enhanced social security benefits, particularly for those disadvantaged in the labor market by virtue of gender, disability, and low-paid, unstable work histories (Ginn, 2003; Strauss, 2009).

Pension reserve funds have become important in Western economies over the past few decades for a variety of reasons. In some cases, governments have established these institutions using budget surpluses or tax revenue windfalls from resource endowments so as to cover the anticipated costs of long-term social security obligations as well as public-sector pension entitlements. In other cases, especially smaller countries without large financial sectors, pension reserve funds are public utilities in that they collect together in one or a set of related public institutions supplementary pension contributions so as to reap economies of scale (Bikker and Dreu, 2009). More recently, it has been argued that employer ambivalence about workplace pension provision combined with the inability or unwillingness of many employees to make cost-effective, long-term commitments means that third-party beneficial institutions may be crucial if workers are to save for an adequate retirement income (Clark et al., 2012).

Remarkably, NEST is not the first time the UK government has established a public utility to promote workplace retirement saving. Through the Social Security Act 1973, the then Conservative government created the State Reserve Scheme for the purpose of providing for those not covered by employer occupational pension schemes the opportunity to save for retirement in a manner similar to those enrolled in pension schemes. This initiative was part of a planned comprehensive reform of social security. While it was immediately abandoned by the incoming Labour government in 1974, the Conservative government explained the rationale for the State Reserve Scheme in terms similar to those invoked in favor of the establishment of NEST. For example, the Conservative government had a recipe for its management treating it as an expert and independent entity. Issues raised in parliamentary debate about its design and governance resonate with recent debates about the proper form and functions of pension reserve funds around the world (Clark and Monk, 2011).

This chapter explains the genesis of the Conservative government's pension reserve scheme and the reasons why the Blair Labour government ended up with NEST (a version of much the same institution). The chapter starts with the economic crisis of the 1970s and how it affected political parties' representation of the problems associated with

the welfare state. I argue that the Conservative government of the time sought to introduce a comprehensive framework for long-term pension and retirement saving. By contrast, the Labour government which followed promoted an immediate solution which honored past commitment to National Insurance (NI) while claiming a role for the government in facilitating earnings-related saving. The apparent consensus among political parties in favor of the Pensions Commission's (2005) solution to declining private-sector pension coverage rates was made possible by a comprehensive retirement saving framework that linked the institutional initiative to a shared commitment to sustaining the real value of the basic state pension.

This analysis of the past 40 years of UK pension reform is, inevitably, partial and focused upon political interests and economic imperatives rather than social security per se. Whereas there is considerable historical research on the nature and evolution of the UK pension policy-making, my approach uses the historical material to make an analytical point about the design and governance of an institutional solution to the pension crisis (Meyer and Bridgen, 2011). In doing so, my argument focuses upon the tension between collective and market-based solutions to the funding of UK retirement incomes (Marquand, 2008). Whereas that tension produced two rather different institutional solutions to a common problem of the 1970s, it would appear that the tension was resolved for the major parties in the first decade of the 21st century by a market-based solution which carried a commitment to an earnings-linked basic state pension (Pemberton, 2004).

Whether this solution will deliver an adequate retirement income for those that depend upon NEST remains to be seen (Pemberton, 2012). In any event, the political benefits and costs of such a solution are distributed such that both political parties have benefited in the short term from the solution (referencing the rhetoric associated with a comprehensive blueprint for the future) and appear, at present, to be insulated from the long-term political costs should such a solution not be effective. Clearly, the chapter is cast as if politics matter. It should be emphasized here, though, that there is an analytical point to be made about the nature of liberal democracy: as Barber (1989, p. 55) emphasizes, the tension between market-based and collective solutions to common problems is a deeply embedded feature of liberal democracy. If one of a couple of threads in UK politics, the pensions crisis can be interpreted as an expression of that tension and the difficulties of finding a stable solution.

The chapter could be written in terms of the inexorable rise of financial markets and the re-conception of pensions as another instance of

neoliberal market fundamentalism (Aalbers, 2014; Boyer, 2000).[3] But to do so would be to impose an analytical logic on a complex set of relationships between capitalism and democracy whose latest UK incarnation is described by Crouch (2008) as "privatized Keynesianism." It would also ignore the nature of the semi-permanent pensions crisis which, though it has taken different forms at different times, has preoccupied UK politics for many years (Pemberton, 2012). The Pensions Commission allowed major political parties to declare a truce on the issue of how to encourage pension saving while pushing any costs associated with the "solution" into the future. In the lead up to the 2015 election, however, the Conservative-led coalition sought to appeal to higher-income voters whose interests were not met by NEST.

2. Workplace pensions—past and present

By convention, workplace pensions are a form of deferred employee income held by the employer or nominated trustees until the employee retires. It is paid as a pension according to an entitlement formula and/or the returns on the amount saved. As such, workplace pension schemes set aside a portion of employees' monthly earnings (often matched by employers) into a scheme or a notional or an actual savings account. In many Western countries, workplace pension-saving schemes are treated as supplements to existing state-sponsored social security or social insurance arrangements. Typically universal in scope with benefits that provide recipients with at least a minimum standard of well-being, in some countries social security entitlements are proportional to workers' lifetime earnings. However, in other countries (notably the UK), the basic state pension is a fixed monthly payment that is not intended to replace a portion of retirees' lifetime earnings. In these circumstances, workplace pensions are an important component of retirees' incomes.

During the 1950s and 1960s, white-collar rather than blue-collar workers, men rather than women, and full-time employees rather than part-time employees were the likely participants in UK workplace pension schemes. Furthermore, pension entitlement was often "regulated" by vesting rules (years employed with a specific employer), income thresholds, and seniority. In other words, workplace pension-saving schemes were provided on a selective basis, presumably matching the interests of the employer in retaining certain categories of skilled employees. However, this "typical" pattern of entitlement was mediated by the industry sector and by the density of union representation.

In industry and manufacturing where unions were significant, large companies were likely to offer pension-saving schemes through the layers of management to hourly workers. Given the prevalence of union-management pattern-bargaining within and between industry sectors, entitlement to participate in workplace pension-saving schemes then spread to smaller companies and to various types of employees.

One must be careful, however, not to overemphasize the significance of occupational pensions for private-sector employees or, for that matter, in terms of the retirement income of the average employee covered by such schemes. Then, as now, these schemes provide retirees a modest supplement to social security. Looking back, it is apparent that those eligible for private-sector occupational pension benefits were in industries and companies that occupied the center ground of corporatism—that is, industries and corporations that were either state-owned, state regulated, or deemed vital to the UK economy and policy-making (Shonfield, 1965). Large companies, industrial unions, and intrusive government regulation of the economy dominated the headlines. So, for example, both Labour and Conservative governments concerned about macroeconomic stability sought to directly or indirectly regulate wages and prices. Those employed under the corporatist umbrella benefited from pension schemes, wage indexation, and commitment to their continued employment, notwithstanding the burgeoning costs of corporatism for national economic growth.

Those outside corporatism were not nearly as privileged in terms of employment benefits, and the protection of their real incomes from rampant inflation. As noted below, their retirement welfare was of concern to the Conservative government elected in 1970, especially because they were also outside of the intimate relationship between industrial unionism and the Labour Party. If not located in the center ground of domestic politics in the 1970s, they came to be more important to British politics in the aftermath of the Thatcher revolution and through to the election of the Blair Labour government in 1997. Of course, by then, the industrial and corporate composition of the UK economy had radically changed and was more diverse, service sector oriented, and reliant upon the global financial services sector located in London. Furthermore, UK industry was not dominated by private sector unions. Indeed, by the first decade of the 21st century, the UK union movement had been shunted aside in the private sector and was only a significant force in the public sector. These threads of economic and institutional transformation now dominant (Strauss, 2013a), were evident in the 1970s, even if marginal to the Conservative party and ignored by the Labour party.

It is also arguable that many employers had been dissuaded from continuing with the provision of workplace pensions by the increasing regulatory and administrative requirements associated with the Pensions Act 1995 (1995, c. 26) and the Pensions Act 2004 (2004, c. 35). In the aftermath of the Maxwell scandal, the Conservative government, through the 1995 act, sought to distinguish between the interests of the employer and pension fund trustees reinforcing the roles and responsibilities of the latter over the former. The Labour government's 2004 act also focused upon the governance of pension funds, their funding, and the role of the Pension Protection Fund in underwriting the pension "promise." Byrne et al. (2007) contend that in their attempt to sustain the pension promise, governments have made the provision of workplace pensions a costly and burdensome activity. Clark and Monk (2007) suggest that volatile financial markets and low interest rates have made the funding of defined benefit pensions an impossible proposition. The global financial crisis and the ongoing Euro crisis added weight to their emphasis on the financial issues driving the retreat of private employers from providing pension benefits. We return to these issues in the penultimate section of the chapter.

3. Social Security Act 1973

The Conservative party scored a surprising victory in the 1970 general election, returning to power after six years in opposition. The margin of victory was slight, and the government's fortunes were dependent upon the continuing support of a small number of Liberals and Ulster Unionists. Through much of the 1960s, and especially the latter half of the 1960s, the government of the day had been preoccupied with a recurrent sterling crisis, the prospect of sterling devaluation, a deteriorating balance of payments, and "excessive" public-sector borrowing (Capie, 2011, p. 251). Adding to the malaise was the likelihood that devaluation would be accompanied by an IMF bailout supported by the Americans. After coming to power, the Secretary of State for Health and Social Security published a White Paper on social security and occupational pensions, stressing the need for "fundamental changes" in the NI scheme and the need to "establish the State scheme on a sound financial basis" (HM Government, 1971). This White Paper was the basis for the Social Security Act 1973 (c. 38).

One concern of the White Paper was the rising costs associated with NI, given the increasing number of pensioners relative to those employed. It was also recognized that reliance upon the flat-rate NI contributions

of the working population had caused "hardship to workers on low earnings." The White Paper noted the growing importance of occupational pension schemes and indicated that the government would incorporate this sector into a comprehensive framework for retirement saving. The government contended that state-provided social security should be based upon contributions related to earnings while keeping the flat-rate benefit. In effect, the government would "tax" higher-income earners so as to underwrite the financial basis of social security. The government also wished to regulate occupational schemes, ensuring that problems of benefit entitlement and portability, for example, would not hamper savings for an earnings-related occupational pension. Finally, the government announced the establishment of a State Reserve Scheme for those workers not able or entitled to participate in workplace occupational pensions.

The White Paper provided population data on men aged 65 or more and women aged 60 and over for 1948 and 1971 and projections from 1976 through to 2001. Taking into account the baby boom generation, it showed that pensioners would substantially increase as a percentage of the total population and as a percentage of the working-age population through to about 1981 and then would decline although their total numbers would continue to increase. The government made a commitment to maintaining the real value of the basic state pension while continuing to provide supplementary benefits for those in need. In doing so, however, it was observed that "the main function of the state scheme must therefore be to provide basic pensions, paid as of right in return for contributions and free from any test of means, at a level which recognizes the realities of the situation." The government foreshadowed increasing the value of the basic state pension in line with inflation. At the same time, the government explicitly noted that the basic state pension and supplements would remain modest so as not to "sap the enterprise of those who are in a position to do more for themselves" and damage "the development of occupational pensions and other forms of saving for retirement."

Through the White Paper and underpinning Part One of the act was a concern to simplify the complex arrangements governing provision of the basic state pension.[4] This included distinguishing between different classes of contributions, the nature of benefits, and entitlement to those benefits by social category and need. As is often the case with pay-as-you-go pension systems, the NI fund was to remain controlled and managed by the Secretary of State subject to instruction by the Treasury. In Part Two of the act, the government sought to establish the definition

and certification of recognized occupational pension schemes and the powers and responsibilities of the Occupational Pensions Board in regulating the nature of benefits, their provision, and termination.[5] Importantly, this part of the act also sought to establish the rules whereby pension benefits would be preserved should employees leave their employer and move to another employer. Throughout, the act was written as if the normal pension benefit was a defined benefit whose promised value was subject to earnings-related contributions, years of service, and the prospect of lump sum payments upon retirement (Clark and Monk, 2008).

Recognizing that the majority of private-sector employees were not in workplace schemes, and that existing schemes were provided by large employers on a voluntary basis to higher-paid employees, the Conservative government proposed a State Reserve Scheme "run on the lines of an occupational scheme by an independent board of management." Contributions to the scheme would have been at 4% of pay-as-you-earn earnings shared between the employer (2.5%) and the employee (1.5%). Contributions were not to be tax preferred, and the benefit value was to be determined by the investment performance of the scheme (on a money purchase basis). In this sense, the scheme was designed to be "self-supporting" and "fully funded" without government "subsidy" and at arm's length from the government such that fund assets would not be available for government "use." Most importantly, membership of the scheme was to be compulsory for all employees over the age of 21 through to the official male and female retirement ages if not covered by a recognized occupational scheme. In effect, the government sought to ensure that all UK workers would be active members of a private-sector scheme, a public-sector scheme, or the pension reserve scheme.

Referencing the governance of occupational pension schemes, the Social Security Act 1973 established the Reserve Pension Board responsible for administering the pension reserve scheme as established by the act. Section 75 of the act determined that "in their management and investment of the Pension Reserve Fund, the board shall have paramount regard to the interests of existing and future pensioners with pensions paid or to be paid out of the Fund." This section also provided the Board with powers to invest "in any manner they think expedient" subject to limiting its investment in any company (so as not to control such companies). As with existing private-sector pension schemes, the government did not seek to regulate asset allocation, overseas investments, or investment in UK sovereign debt. The Board was to be comprised of a

chair, a deputy chair, and no more than 12 other members appointed by the Secretary of State. In debate over the passage of the act, the Secretary of State indicated that those appointed would be experts with knowledge and experience consistent with the administration, management, and investment of fund assets.[6]

Opposition criticism in the Parliament focused upon the low rate of contributions, the lack of a tax benefit on contributions, and the lack of an explicit adjustment mechanism whereby the real value of pension benefits would be protected over the long term (see the comments of Castle and O'Malley). Doubts were also raised as to the equitable nature of pension benefits for older and younger workers. Significantly, a number of members raised concerns about the possibility of the fund becoming a political instrument for the government of the day. William Clark (Con., Surrey) noted that the size of such a fund could be so significant that a future Labour government could control many listed companies even if holdings were to be less than 10% of traded stock. By his account there would be "sufficient money belonging to future pensioners to enable such a government to nationalise by stealth" (Hansard, 1972, 847, cc. 243–77). Given the economic circumstances, strikes and trade union actions, and the prospect of a general election, this issue was widely commented upon in the newspapers. The emerging power of pension funds was also increasingly recognized, with concerns expressed on both sides of the political spectrum. This issue was considered by the Wilson Report (Peston, 1980).

4. Social Security Act 1975

The Conservative government's social security bill was passed into law, and the reserve fund established. As the government sought to frame and implement policy it did so in the context of rising unemployment, inflation, and the looming coal miners' strike. The result of the February 1974 general election was a hung parliament; Labour returned to power but without an overall majority (the Ulster Unionists having broken away from the Conservative party). The second election in October 1974 saw the Labour government claim a bare majority although it had to rely upon a pact with the Liberals to govern. Through 1974 and 1975, the government and the Bank of England struggled to contain the costs of a financial crisis affecting banks and investment companies in the city. At the same time, the government also sought to implement a national prices and incomes policy aimed at stabilizing the macro-economic system in the face of accelerating inflationary pressures. In this context,

the Labour government invoked a "social contract" with labor unions and major employers in the interests of national economic and political stability (Black and Pemberton, 2009).

The previous government had also sought agreement with major employers and the trade union movement on macro-economic stability and public policy. While it had achieved agreement on maintaining economic growth and increasing real incomes, improving the plight of the low-paid and pensioners, and moderating the wage and price inflation, the Conservative government had not been able to implement the agreement. This led to the introduction of legislation in early 1973 for the establishment of a price commission and pay review board. Neither found support in the wider community. Nonetheless, these issues framed the incoming Labour government's agenda evident, for example, in the title of the White Paper presented by the Secretary of State for Social Services to Parliament in September 1974—Better Pensions Fully Protected against Inflation: Proposals for a New Pension Scheme (HM Government, 1974). The White Paper rehearsed the issues recognized in the previous government's White Paper: the problems of funding the basic state pension, the reliance of many pensioners on supplementary benefits, and the variable quality of existing occupational pensions, including limited coverage in the private sector for lower paid and blue-collar workers.

Protection against inflation was deemed the crucial issue, undercutting claims in favor of employer-sponsored pension schemes. In response, the government proposed a new state earnings-related pension scheme (SERPS) that would supplement the Basic State Pension. Unlike the previous government's pension reserve scheme, it would set high standards in terms of promised benefit value and inflation indexation. The Labour government identified three significant shortcomings with the previous government's pension reserve scheme. First, being a money purchase scheme, there would not be a guaranteed pension benefit. Second, participants that would benefit most would be those with a working life of 40 years or more; all things being equal, these participants would have a higher pension at retirement. Third, the previous government's scheme did not provide for inflation indexation or inflation protection. The Labour government proposed a scheme that would be based upon the participants' best 20 years of contributions, would provide 25% of average earnings over those years, and would adjust the base level and scheme earnings to inflation such that the government would protect the real value of earnings over time. In effect, the government offered a "capped" defined benefit earnings-related pension, for the public at large.

The Labour government also indicated that this new scheme would be far more equitable for women, the proposed ceiling on average earnings

would, in effect, benefit lower or average earners rather than high income earners, and that the scheme would provide at least the base level pension inflation-adjusted. Furthermore, although less emphasized in the White Paper, the 20 years required to gain maximum benefit would reward maintenance of membership of the scheme while allowing those who may be subject to interruptions in their work histories the opportunity to realize an adequate pension on the basis of their best 20 years of contributions.

When the Secretary of State for Social Services (Barbara Castle) moved that the Social Security HC Bill (1974–75) be read a second time (March 18, 1975), she observed that there was common agreement among the parties that the flat-rate pension system derived from the Beveridge Report had outlived its usefulness. The NI scheme had not ended "poverty and deprivation in old age." She also observed, as the previous government had observed, that pensioner poverty was a significant issue. As the previous government had noted, occupational pensions had made a significant difference to the retirement welfare for a significant section of middle-class earners. But she also observed that the recent history of legislation brought to the Parliament by Labour and Conservative governments suggested that partisan party politics had stymied solutions. Going on from this observation, she indicated that this bill was the "best scheme so far" notwithstanding "widespread disagreement throughout the country about the best way to reform our pension system."

Opposition commentators pointed to a number of issues of policy and commitment that appeared unresolved. One was whether the Labour government was as committed to occupational pension schemes as the previous government (as comments from the Secretary of State would seem to imply). At one level, the Labour government believed that the earnings-related scheme would be vital for lower-income earners, those with variable employment histories, and women (as much as men). It suggested that those employers committed to the provision of occupational pension schemes would likely contract-out rather than remain within the government's scheme: the setting of contribution rates relied heavily upon assumptions made about the numbers that would contract-out of the government scheme. At another level, the government's decision to inflation-proof the base pension and the value of contributions set the proposed scheme apart from many existing occupational pension schemes. As the opposition noted, assumptions made by the government actuary about the long-term inflation rate and the rate of increase in average earnings were much lower than (then) current trends.

Whereas the previous act established a reserve fund board, provided a framework for the investment of contributions, and ensured that it

would be independent of the government, albeit responsible to the Treasury and ultimately the Parliament for its performance, the Labour government's scheme was not conceived in this manner. As with the NI, workers' contributions through the government's earnings-related scheme would be collected by the government and held in the Treasury and dispersed as required to claimants. No provision was made for the investment of those contributions in a manner consistent with funded occupational pension schemes. Nonetheless, like existing defined benefit pension schemes, the government was deemed liable for meeting the promised future value of the earnings-related pension scheme. Whether it would be to do so was disputed. Boscawen (Con., Wells) contended that "the bill will draw a huge blank cheque on future generations. I do not think it is realized how we are pushing the cost into the future."

Significantly, a number of Conservative critics of the bill raised doubts about the prospects for existing private-sector defined benefit occupational schemes. For example, Norman Fowler (Con., Sutton Coldfield) suggested that occupational pensions were very vulnerable to price inflation and wage inflation. Investment returns were far less than contemporary inflation rates, threatening the capacity of those schemes to meet current and future obligations. If those schemes were to survive, automatic inflation adjustment in the private sector would not be possible. Whether or not the new earnings-related scheme would co-exist with existing private-sector defined benefit schemes remained in dispute; some commentators contended that because the former was, in effect, "unfunded" it could crowd-out existing funded schemes if they were required to match the inflation-proofing provided by the government scheme.

5. Pensions commission 2005

The Labour government's faith in the social contract binding unions, business, and government together in the search for price stability was tested by industrial and public-sector unions and companies facing severe economic conditions. In a memorandum to Cabinet in mid-June 1975, the Secretary of State for Employment noted that claims for special status encouraged the escalation of wage claims among public-sector workers seeking comparability.[7] With the resignation of Harold Wilson as Prime Minister and his elevation to the House of Lords, the new Labour Prime Minister asked Lord Wilson to lead an inquiry into the role and responsibilities of financial institutions. Published after the defeat of the Labour government by Margaret Thatcher's Conservative

party, Lord Wilson's inquiry emphasized the significance of funded pension schemes for the financial development and stability of the UK economy. It did not support union arguments to the effect that pension funds should be required to invest in UK firms and industries. Indeed, their global scope and independence was explicitly acknowledged.

The 1980s through to the mid-1990s saw incremental reforms to the basic state pension, state supplements and benefits, and the rules and regulations governing private pensions. The state earnings-related pension scheme remained in place, while the Thatcher government sought to encourage private-sector pension plan participants to opt-out of these schemes in favor of individual pensions offered by the financial services industry. With the publication of the World Bank's (1994) manifesto in favor of a tripartite or three-pillar retirement income system, commentaries on the UK pension and retirement saving touted the advantages of the UK arrangement over continental European retirement saving systems (Clark, 2003). In large part, these systems remained wedded to pay-as-you-go pension provision at relatively high rates of income replacement. It was believed that the UK system was affordable, comprehensive in effect, and consistent with an adequate level of pensioner welfare if not high standards of living.

With the landslide election victory of the Labour party in 1997, the adequacy of the basic state pension was once more on the agenda. Further, the Chancellor used his powers to require employer-sponsored defined benefit schemes to provide for automatic inflation adjustment to retirement benefits. This was deemed "affordable" in the light of low inflation rates and relatively consistent discount rates. Nonetheless, the apparent confidence of the government in the tripartite retirement income regime hid the fact that active membership in private-sector occupational pension schemes had peaked in 1967 at 8.1 million members, had precipitously declined through to the 1980s, rising again to 6.5 million members in 1991 before, once again, slowly declining through to 2000 and then precipitously declining over the first decade of the 21st century. Once again, there was talk of a pensions "crisis" in the private sector (Clark, 2006). By 2010, active membership of private-sector defined benefit schemes had declined to 2.1 million with 1 million members in defined contribution plans.

The causes of declining private-sector occupational pension coverage rates have been widely debated. For some, employers had been dissuaded from continuing with provision by the increasing regulatory and administrative requirements associated with the Pensions Act 1995 (1995, c. 26) and the Pensions Act 2004 (2004, c. 35). In the aftermath

of the Maxwell scandal, the 1995 act had sought to distinguish between the interests of the employer and pension fund trustees reinforcing the roles and responsibilities of the latter over the former. The 2004 act also focused upon the governance of pension funds, their funding, and the role of the Pension Protection Fund in underwriting the pension "promise." Byrne et al. (2007) contend that in its attempt to sustain the pension promise, the government had made the provision of such pensions a costly and increasingly burdensome activity. Clark and Monk (2007) suggest that volatile financial markets combined with low interest rates had made the funding of defined benefit pensions an impossible proposition.

Recognizing the significance of declining private-sector pension scheme membership, the Labour government appointed an independent Pensions Commission to advise on the adequacy of the voluntary system of private pension provision, and determine whether an alternative system of earnings-related retirement saving would be appropriate. The Commission issued two reports. Led by Lord Turner, a person who could command respect in business and across the aisles in the Parliament, the three-member Commission used its First Report (2004) to sketch the long-term issues facing the UK and other Western countries as regards increasing life expectancy, lower birth rates, and the prospective long-term trade-offs between pensioner welfare and other government objectives. Further, the apparent shortcomings of private occupational pensions were noted including the apparent bias against women (due to changing jobs and variable work histories) and lower-income workers who were often employed by employers who did not provide workplace pensions.

The Pensions Commission sought a consensus on the nature and scope of the problems apparent in the private occupational pension system and in the basic state pension and the earnings-related state pension system. Whereas the mandate of the Commission was set with respect to private pensions, the Second Report (2005) of the Commission set a comprehensive reform agenda focusing on each of the three pillars of retirement saving that make-up a comprehensive approach to long-term pensioner welfare. In this respect, the Commission made recommendations as regards increasing the official retirement age, linking the value of the basic state pension to earnings, freezing the upper earnings limit on the state second pension, and introducing a new earnings-based National Pension Saving Scheme (NPSS) to which employers would be required to enroll their employees unless existing pension provisions met certain criteria allowing the employer to opt-out of the NPSS.

The NPSS was to be a national scheme, in effect, a public utility (Clark, 2012). The Pensions Commission recommended that the scheme would be voluntary in the sense that employees could choose to opt-out if they wished to do so; relying upon US research on behavioral predispositions, the Commission assumed that if auto-enrolled the vast majority of participants would remain enrolled by virtue of inertia (Thaler and Sunstein, 2008). In keeping with standard practice in defined contribution pension schemes, each participant would have their own account and would have some choice as to investment options. As such, the Pensions Commission recommended that the NPSS be a money purchase scheme rather than carrying forward some promised or minimum pension benefit. The Commission also recommended that contributions would be set at a minimum of 8% of gross salary being a combination of tax relief and employer and employee contributions. In the light of past initiatives designed to encourage retirement saving beyond the basic state pension, the NPSS was like Sir Keith Joseph's State Reserve Scheme rather than the state earnings-related scheme of the Wilson government.

The Labour government accepted the Pensions Commission's recommendations and set legislation for its implementation. In the Pensions Act 2007 (c. 22), the delivery agency was established and a target date set for its operation. Whereas the Conservative government's (1973) minimum contribution rate was 4%, in taking forward the initiative the Labour government accepted the recommended 8% contribution rate. If believed inadequate, in the light of the likely contribution of NEST to an average earner's total retirement income, this contribution rate resonates with international experience (see Clark, 2012). Between establishing the delivery agency and its operation, the Labour government lost the 2010 general election. After considering whether to continue with the NPSS, the new coalition government led by the Conservative party decided to support the initiative.[8] The Pensions Commission could be thought to have achieved its overarching objective—that is, common agreement on the nature and scope of the problem as well as a solution to the failure of the private sector to provide adequate coverage.

6. Institutional innovation and consensus

In creating the Pensions Commission, the Labour government sought a solution to declining private-sector provision of occupational pensions. What they received, however, was a comprehensive framework for retirement saving which treated occupational pensions as one component of a set of institutions and commitments. In doing so, the

Pensions Commission tackled problems that have bedeviled past governments including the problems faced by women in saving for the future, the problems facing low-income workers whose variable career paths and volatile earning profiles contributed to poverty in old age, and the issue of pension adequacy. Nearly 35 years after having rejected the Conservative plan for a state-sponsored pension reserve fund, the Blair government was presented with a plan for something very similar if not the same. In this case, however, the Labour government adopted the Pensions Commission's "solution."

The similarities between the Conservative pension reserve fund and the Pensions Commission's NPSS, which became NEST, are significant. The state reserve scheme would have provided a money purchase pension, based upon contributions and investment returns. This is also the case for NEST. In both cases no pension benefit guarantee or minimum pension value was made or has been made. Indeed, in both cases, whatever the ultimate value of the accumulated pension no provision was made or has been made to protect its real value against inflation. In both cases, the minimum contribution rate was set to be "affordable" for employers and employees recognizing that many participants would be paid less-than-average salaries. Whereas the Conservative plan was based upon an annual contribution of 4% of gross salary without tax benefit, the Pensions Commission planned for an 8% annual contribution rate with tax benefit; when implemented, however, the NEST version of the Pensions Commission plan is based upon a 4% contribution rate with tax benefit.

In both cases, compulsion was or is an essential element of the plan. In the Conservative case, the government would have required employers either to provide a qualified pension plan of their own or to provide employees a means of direct enrollment into the pension reserve scheme. This is also the case with NEST. In its 2008 legislation, the Labour government required all employers to provide employees either a qualified pension plan or enrollment in the government-sponsored scheme. In this case, however, employees are to be automatically enrolled in one or the other with the option to opt-out if they so wish. Should employees choose to opt-out, legislation requires employers to automatically re-enroll them at some time in the future so as to test whether employees wish to remain opted-out. In the Conservative government's version, employees would have been required to remain in one or the other—paternalism rather than soft-paternalism was the order of the day (compare with Thaler and Sunstein, 2008), something not lost on opposition members of the Parliament when debating the passage of the bill that led to the Social Security Act 1973.

Crucially, contributions were to be, and will be, managed and invested by an independent agency with an institutional form and functions that mimic existing private-sector pension plans. Whereas NI contributions and the state earnings-related pension-saving scheme contributions are managed through the Treasury and are therefore subject to the cash management policies of the government, in both cases contributions and their investments were to be and will be segregated from the Treasury. In both cases, boards of directors were to be, and have been, appointed to manage these institutions placing a premium upon relevant expertise and professional experience rather than acting as the representatives of the government and employers and employees' social institutions. Significantly, board members of both institutions were, or are, required to act in the best interests of beneficiaries (an explicit or implicit reference to the fiduciary duty). As is the case in the UK and most other OECD countries, the government did not, and has not, set an explicit investment return target, has not sought to regulate or affect asset allocation, nor has set limits on the nature and global scope of investments.

Sir Keith Joseph framed the significance of the state-pension reserve scheme in terms of a comprehensive reform of social security. Not only was the Labour opposition antagonistic to the initiative, some Conservatives were fearful that the scheme could be the basis for a future Labour government's nationalization of industry. For Labour, referencing the post-war vision of a comprehensive welfare state, occupational pensions were at best a sideshow and at worst representative of an unwanted re-conceptualisation of the role of the NI. For Joseph, occupational pensions were a means of reducing the future liability of the government for funding retirement in the context of an aging population. But, as acknowledged on both sides of the House, occupational pensions largely benefited male, white-collar, higher-income workers. Referencing the realities of contemporary labor markets, the Conservative plan was to provide a platform for earnings-related retirement savings without relying upon employers to provide such an opportunity.

When the Conservative party returned to power in 1980 and once again considered these issues, there appeared to be little appetite for comprehensive reform of social security and reconsideration of the possible institutional solutions. In any event, private occupational pension coverage appeared to be claiming an increasing share of the workforce. Rather, concerns about the growing importance of occupational pension schemes as financial institutions in their own right prompted the government to set in motion mechanisms that would allow members of

such schemes to opt-out in favor of individual pensions provided by the financial services industry. Incentives to do so were provided, along with incentives for those not covered by occupational pensions, to enter the retail market for financial services. Competition between different types of service providers was the watchword. This policy was not particularly successful—pension mis-selling scandals dominated the headlines in the run-up to the election of the Labour government in 1997.

Upon election, the Blair Labour government once again faced calls from its own backbenchers and welfare lobbyists to re-establish the link between the basic state pension and average earnings. The Labour government also faced calls to make good on its promise to sustain the National Health Service and limit the apparent rationing of hospital care, drugs, and treatment. Between these opposing forces stood a government committed to fiscal probity, with an ambition to claim the moral high-ground on government spending ceded to previous Conservative governments. As noted above, the Labour government also sought to regulate the real value of occupational pension benefits. Upon receipt of the Pensions Commission's recommendations, the Labour government faced a conundrum: contained in the Commission's recommendations was an argument to re-establish the link between the basic state pension and average earnings. The price for doing so, however, was NEST.

On the Conservative side of the equation, Sir Keith Joseph's pension reserve scheme was a distant memory. On the other hand, the Conservative party in opposition was not able to invoke a plausible market solution that would rely upon the financial services industry. In fact, the Pensions Commission provided the opposition parties a rationale for supporting a system that was, at one level, compulsory on the employer side but voluntary on the employee side. Invoking the findings of behavioral finance and economics, the Pensions Commission's solution to declining private-sector pension coverage and low national savings rates could be characterized in terms of "libertarian paternalism" (Thaler and Sunstein, 2003). Coming to power, with the Liberal Democrats allocated the pension's portfolio in the Department of Work and Pensions, the coalition government chose to carry through on the commitment to NEST made by the prior government.

In these ways, a cross-party, cross-government consensus emerged in support of NEST.[9] It was not only a solution to the realities of UK pension and retirement saving, it was *also* a means of reconciling political interests with fiscal realities. Beginning as a policy framework, it became an institution.

7. Pension politics (redux)

As governments have come and gone over the past 10 years, and as NEST has gone from being a concept (NPSS) to an institution with more than 1 million enrolled participants, partisan commentary has studiously ignored any link between the Conservative government's state reserve scheme of the 1970s and the bipartisan solution to the pension crisis of the early 21st century. At one level, lack of knowledge of Keith Joseph's institutional innovation can be explained by the deep divisions over the Thatcher revolution that still exists in UK politics. He was, after all, a key individual in carrying through Thatcher's agenda for change. At another level, however, it is arguable that the intellectual logic underpinning NEST is at odds with the ethic of individualism that accompanied the Thatcher revolution. Quite clearly, the logic underpinning the Pensions Commission's solution to pension saving eschewed idealism about individual interest and behavior in favor of a realist conception of the limits of individual decision-making in the context of risk and uncertainty (Kahneman and Tversky, 1979).

This is an argument about the nature of individual decision-making and the proper role of public institutions, conceived in the language of cognitive psychology and economics theory rather than partisan politics. As such, Lord Turner was able to marshal support of a new generation of politicians who came to elected office with university training, a visceral commitment to the future rather than the past, and admiration for research-led and data-led policy-making. To look back to the past for inspiration about the future would have returned party leaders to issues and tribal loyalties at odds with Tony Blair's "cool Britannia." Establishing NEST had the advantage of bringing together various interests and constituencies not served by the past or the likely future of the UK's post-industrial economic landscape. Indeed, the Pensions Commission made a virtue out of joining-up the interests of those disenfranchised by private-sector pension schemes and those that doubted whether the financial sector could provide cost-effective individualized pension-saving products.

However, bipartisan agreement does not win elections. Nor does a public utility serve the interests of the public at large notwithstanding its commitment to those least able and least likely to save for the future. As has been shown elsewhere, savings' aspirations and behavior vary systematically by age, gender, income, and family circumstances (Clark et al., 2012). Furthermore, the same variables are important when it comes to accounting for the range of savings instruments held by

higher-income segments of the population. Not only does the capacity and willingness to save for the future vary by socio-demographic characteristics or what Sharpe (2007) referred to as "social position," the relevance of NEST for retirement saving for perhaps a majority of the working population is debatable. It is, in fact, just a "solution" for a certain segment or set of segments of the population rather than, as sometimes imagined, a solution for all the population. As such, bipartisan support for NEST can be seen as a moment in time when the global financial crisis dominated UK policy-making.

In anticipation of the 2015 UK election, the Conservative-led coalition announced its intention to sustain the options that savers will have at retirement under the heading "Freedom and Choice in Pensions" (HM Government, 2014). Here, once again, the focus of the government shifted toward "individuals" and "consumers" and their interest in innovative and new "flexible products that better suit individual's needs" (p. 5). Whereas many public and private pension schemes effectively lock-in plan participants into a savings institution that limits access to accumulated savings and requires the drawdown in savings as income rather than simply a lump sum transfer, the government offered defined contribution participants "the freedom to make the decisions that suit their own circumstances." At the same time, reflecting longstanding concern about the performance of the financial services industry, the government also promised that individuals would "have the right to free and impartial guidance on their options as they approach retirement" (p. 19).

Quite obviously, this is an election manifesto which, conveniently, joined the interests of the Conservative party and the Liberal Democratic party in appealing to higher-income voters who have an interest in the status quo rather than the future as epitomized by NEST. But it also reflects the broader, analytical point made in the introduction to the paper: that is, the apparent tension between collective solutions to notionally common problems and market-based solutions that serve (or should serve) individual interests. Here, I have argued that this tension can be found in the UK pensions crisis when considering over the past 40 years or so. By this account, NEST resolved this tension only momentarily. The re-emergence of individual choice is not a superficial reflection of a past long forgotten (Thatcherism), nor is it the emergence of neoliberalism in the pensions domain; rather, it reflects the limits of public utilities in liberal democratic societies marked by considerable differences between people in terms of their social-cum-geographical positions.

8. Conclusions

Over the past 40 years, the UK pension reform has been preoccupied with the nature and value of social security (the basic state pension). Both sides of the Parliament, including the small minority parties, have had a stake in the issue. In many cases, the terms of debate are framed by reference to pensioner poverty. So, for example, through the 1970s Conservative and Labour governments sought to maintain, even improve, the real value of the basic state pension in the face of rampant inflation and rising unemployment. In most cases, parties came to power and almost immediately set about increasing the weekly single and married basic state pension benefits while tinkering with the eligibility for supplementary benefits with or without means testing.

Labour and Conservative governments have also sought to provide working men and women supplementary earnings-related mechanisms for pension and retirement saving. In introducing the Conservative government's pension legislation in the early 1970s, Sir Keith Joseph noted that the aging of the UK population was such that the basic state pension and supplementary benefits were destined to remain modest—it was vital that workers save for themselves directly or through workplace pension schemes. The parties agreed on the difficulties facing the government in paying for current and future social security benefits. The same sentiment was echoed by the Labour government's Secretary of State for Work and Pensions (Peter Hain) when beginning the Second Reading of the Pensions HC Bill (2007–08): "the reality, and perhaps the irony, is that as our society gets older, pensions increasingly become the young person's issue. In the next 50 years the number of people over pension age will increase by more than half, meaning that there will be only two people working for every one person in retirement" (Hansard, January 7, 2008, Column 54).

Over the period 1973 through to the first report of the Pensions Commission both parties agreed that employer-provision was a crucial mechanism for supplementing the basic state pension. Both parties also recognized that employer-provision was unsatisfactory for a significant segment of the working population. Being unwilling to legislate compulsory employer-provision, the Conservative government's solution in 1973 was to establish a government-sponsored pension reserve scheme that mimicked the form and functions of private pension schemes. By contrast, the incoming Labour government rejected the plan out of hand and, invoking vestiges of the post-war social contract, established the state earnings-related supplementary pension scheme. When it came

to NEST, however, Labour adopted the proffered reserve fund model (though not acknowledged as such) while the Conservatives agreed to compulsory workplace provision via NEST or established schemes and minimum contributions at double the rate of the original scheme.

It is arguable that Labour governments over this period saw the basic state pension as a mechanism for alleviating pensioner poverty and as a crucial element in their electioneering. By contrast, Conservative governments being concerned about pensioner poverty saw their election fortunes in enhancing the tax-preferred saving opportunities for average and higher-income earners. In this respect, the apparent ambivalence among some Conservative party members of the Parliament to the 1973 pension reserve scheme can be readily understood: the target participants for the scheme would not likely have been Conservative party loyalists. Equally, the ambivalence of some Labour party members of the Parliament to the introduction of NEST can also be readily understood: notwithstanding fealty to the importance of the basic state pension, the government supported the introduction of an automatic workplace pension-saving scheme whose money purchase benefits would only be determined far in the future (Bridgen and Meyer, 2011).

Solutions to the pensions crisis provided the government of the day the opportunity to signal commitment to their electoral constituencies. By contrast, comprehensive frameworks for pension and retirement saving, including new kinds of institutions and mechanisms for organizing earnings-related saving, seemed to offer little immediate political payoff. The long-term benefits of such arrangements are to be reaped by future generations without corresponding rewards for current political parties. As such, it is remarkable that there should have been over the past 40 years these two moments of framework design and institutional innovation. Equally remarkable is the fact that both moments spawned much the same institutional solution. Perhaps even more remarkable was the consensus, fragile as it was, joining the political parties in the Pensions Act 2008 (c. 30) and carried through to the Pensions Act 2011 (c. 19).[10] Whether the political consensus will carry through the aftershocks of the global financial crisis and the Euro crisis in the review of NEST slated for 2017 remains to be seen.

It is arguable that the conceptualisation of the pensions "problem" underpinning the Conservative government's 1973 legislation is more important than ever. Recall that the White Paper on Strategy for Pensions emphasized the need to fund the basic state pension and supplementary benefits on a "sound and fair financial basis." One implication that might be drawn from the consequences of the global financial

crisis for sovereign debt and fiscal capacity is that Western governments are unlikely to be able to honor budgetary commitments made in the age of austerity (Lee et al., 2009). Just as economic crisis dominated government policy-making and priority setting during the 1970s, it seems likely that over the coming decade the UK, and especially its European neighbors, will be able to do little more than protect the most vulnerable pensioners from poverty. Recall also that the White Paper recognized that existing occupational pension schemes did little for the long-term welfare of lower-income workers subject to variable employment. One implication of the precipitous decline in UK occupational pension plan coverage is that many private-sector employees will rely upon NEST.

When consideration is given to the long-term consequences of economic globalization for job tenure and the volatility of incomes (Strauss, 2013b), and the declining real value of income and benefits (Dixon and Monk, 2009), it would seem that the economic realities so important for Sir Keith Joseph's pension and retirement saving framework will also be important over the coming decades. Because of fiscal pressures in the aftermath of the global financial crisis, governments may not be able to underwrite the real value of earnings-related pensions since employers will have, in effect, abdicated their role in providing for the long-term welfare of their employees. By this account, NEST may be the only institution capable of providing an accessible and cost-efficient platform for many people's retirement saving. Given increasing levels of earned-income inequality apparent in the UK and in many developed economies (Goos and Manning, 2007), the danger is that this scheme will amplify earned-income inequality in retirement.[11] As such, the state-sponsored pension reserve scheme may be forced into a role not of their making: responsibility to produce at least a minimum, adequate pension benefit.

At a broader level, NEST may have significant implications for continental European countries facing the consequences of the Euro crisis. It would seem inevitable that those countries most at risk to predatory market pricing of their government securities will be required to undertake significant, far-reaching reforms of social security entitlements and benefit values. Further, the same countries are likely to face enormous pressures to withdraw benefits that have come to be expected as of right. Alternatives will be needed. On the agenda are likely to be state-sponsored pension reserve funds which require earnings-related shared contributions. In a related vein, recent initiatives such as Germany's voluntary Riester pension schemes may also claim a far greater significance than heretofore acknowledged.

This may necessitate re-writing the classification of welfare states (Esping-Andersen, 1999) and the persistence of "varieties of capitalism" (Dixon, 2011). While the adoption of other countries' institutions has proven problematic in a variety of different settings (Gertler, 2001), the future of European pensions may rely upon UK institutional innovation.

Notes

1 This chapter is based upon research for a project on pension reserve funds supported by the Rotman International Centre for Pension Management at the University of Toronto. As such, it bears the imprint of comments and advice received from Keith Ambachtsheer and his colleagues, as well as ongoing collaboration with Ashby Monk from Stanford University. Helpful advice on sources and related material was provided by Paul Bridgen, Traute Meyer, Hugh Pemberton, Charles Pattie, Ron Johnston, and Noel Whiteside. Research assistance was provided by Olga Thönissen, Christina Ender, and Amanda Diener. None of the above should be held accountable for the comments and opinions expressed herein.

2 The Commission labeled the institution as the National Pension Saving Scheme (NPSS), which was implemented by the Personal Accounts Delivery Authority (PADA) as NEST. When I refer to the State Pension Reserve scheme I mean the Conservative government institution. In its generic form, I refer to pension reserve schemes or funds. When referring to Social Security, I do so reflecting the official use of the phrase. More generally, I refer to social security as short-hand for pillar 1 state pensions including disability, and so on. The nomenclature of pension reform is heavily contested in the UK and in continental Europe (Clark, 2001).

3 See, for example, Langley (2008) and Peck (2010) on neoliberalism and Langley (2006) and Preda (2004) on finance and the "investor subject" of Anglo-American pension policy. Compare with Meyer and Bridgen (2011) and their argument that the British pension system is a liberal-statist "hybrid."

4 When Sir Keith Joseph (Secretary of State for Social Services) introduced the Conservative government's Social Security HC Bill (1971–73) (November 28, 1972) he noted the social security system "resembles some rambling Gothic pile to which enthusiasts have added a range of well-intentioned improvements in a whole variety of styles. It is generally agreed that the system needs urgent reconstruction" (Hansard, 1972, 847, cc. 243–77). Thirty-five years later Danny Alexander (Lib., Inverness) noted during the second reading of the Labour government's Pensions HC Bill (2007–08) "the UK pensions system is hugely complicated—the most complex in the western world—with all its ifs, buts, caveats, contributory principles, means tests and so on" (Hansard, January 7, 2008, Column 86).

5 Gilling-Smith (1973, p. 197) observed that this was the first time government had introduced "a set of statutory controls and a supervisory system to ensure that pension schemes run by employers conform to certain standards. Hitherto the only statutory control over occupational pension schemes has been exercised through the superannuation funds office of the Inland Revenue."

6 Sir Keith Joseph noted "we shall be seeking to enlist people with special experience of pension and investment matters as well as members appointed after consultation with the representative organisations such as the Confederation of British industry and the Trades Union Congress." Also, implicitly referencing fiduciary duty, he said "(t)he board will be statutorily required to conduct investment and to operate the scheme so as to secure the best pensions for contributors" (Hansard, 1972, 847, cc. 245, 265).

7 See HM Government, Memorandum by the Secretary of State for Employment, "Development of the Social Contract on Pay," June 12, 1975, Cabinet Document C(75)66.

8 In June 2010, the new government appointed a review team of three external pension experts to assess the plans for the introduction of auto-enrollment and NEST. The review was highly supportive, although modest changes were made to the earnings threshold, the waiting period before auto-enrollment is required, and the likelihood that future legislation would remove the current cap on contributions to NEST. Having received the report, the pensions minister announced on October 27, 2010 that the government would carry through on the implementation of "workplace pension reforms." The report is available in the Pensions Bill 2011, Annex B.

9 See the comments made by the Secretary of State for Work and Pensions (James Purnell), and Labour and Conservative members of Parliament in the Third Reading of the Pensions Act 2008 supporting the implementation of the recommendations of the Pensions Commission. While Conservative spokesmen registered their disappointment with aspects of the pensions bill, they nonetheless welcomed the initiative, which was deemed "a step in the right direction" (Hansard, April 22, 2008, Column 1281).

10 In some respects, Marquand (2008, p. 466) may be less surprised than some by the consensus solution for the UK pensions crisis. He argues that hard and fast distinctions between "long-standing traditions" in British culture and politics often hide commonalities, including a shared commitment to "evolutionary change, timely accommodation and subtle statecraft."

11 See also McDowell et al. (2008, 2009) on the consequences of globalization for UK labor markets, with special reference to immigration and variable incomes in London's service sector.

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Part III

Retirement and the Changing Images of Old Age

7

Work versus Leisure: Historical Roots of the Dissociation of Work and Later Life in Twentieth-Century Europe[1]

Josef Ehmer

1. Introduction

The twentieth century has brought with it a radical shift in the relation between aging and work. Being economically active until the final stages of life or at least as long as one's bodily and mental performance allowed one to do so was the rule in pre-industrial Europe and throughout the nineteenth century. The twentieth century, in contrast, has been experiencing a continuing process of dissociation of work and old age, which consists of three interrelated dimensions: firstly, the emergence of retirement as a normal and universal life phase and a major element of the modern institutionalized life course; secondly, a considerable and continuing prolongation of retirement due to a long-lasting trend of declining labor force participation by elderly men and women; and thirdly, an increasingly positive evaluation of a specific retirement culture in which a wide variety of leisure activities plays an important if not the most important role.

More recently, the prolongation of retirement has been additionally accelerated by demographic change, which also contributed to a more positive meaning of later life – in spite of all public fears of aging society. The rapidly rising further life expectancy in old age and particularly the prolongation of a healthy lifespan lengthens and improves the life phase of retirement. In 1900 in Germany, elderly men and women of 60 could expect about 13 or 14 more years on average; in 2010, 21 (men) and 25 (women) years. In the same period, the further life expectancy of 80-year-olds doubled from 4 to 8 (men) and to 9 (women) years (Ehmer, 2013, pp. 38, 134). There is some consensus across the scientific disciplines concerned "that people are not only living longer than

previously, but also they are living longer with less disability and fewer functional limitations" (Christensen et al., 2009, p. 1206). In combination with earlier exit from the labor force, this leads to a further increase of expected years in retirement throughout the OECD countries from an average of 11 years in 1970 to 18 (men) and 23 (women) years in 2004. In several European countries, men can now expect on average more than 20 and women more than 25 years in retirement (Bovenberg, 2008, pp. 602–3). From a general historical perspective, one arrives at the conclusion that the better off people are and the better they feel, the earlier they withdraw from gainful labor. This phenomenon is widely discussed as "work age paradox" (Alan Walker) – even if, in individual experience, bad health still influences retirement decisions. The life expectancy and fitness of elderly people are certainly class-related, but demographic change generally extends the duration of retirement as well as the range of activities that retired persons might pursue.

All these trends – declining labor force participation, rising life expectancy, and declining morbidity in old age – represent a clear break with the past. The result of these trends is a "new division of the life course" (Laslett, 1989, pp. 1–23) with the arrival of a new life phase between adult working life and the onset of decrepitude. Since the 1970s, various terms came into use in all Western societies to denote this new phase, such as "third age" (in contrast to the "fourth age" of decrepitude and the adjacency of death), or the "senior" or "senior citizen" (in contrast to "old" persons), or the "young old" (in contrast to the "old old") (Calhoun, 1978, pp. 15–34; Göckenjan, 2000, p. 425). These terms became more or less synonymous with "retirement," thus strengthening its positive meaning. The dissociation of work and old age has been followed by the separation of retirement from old age.

The secular trend toward early exit from work occurred in all Western societies and is among the basic structural changes in the modern history of these societies. More recently, it has assumed global relevance. It has only been over the last two or three decades that the trend has been questioned. In the 1990s and to an even greater extent the early 2000s, there was a remarkable change in public and political attitudes toward early exit from the labor force, and a longer work life was placed on the political agenda of most if not all Western societies (Arza/Kohli, 2008). However, there is also considerable resistance in favor of retirement as well as persistence of early exit from the labor force. Many European countries still remain at very low and hardly changing levels of economic activity by elderly people, while others have experienced a moderate rise in participation rates. In all these

cases, however, the rapidly rising further life expectancy still lengthens the retirement phase.

As far as I can see, most social scientists would nowadays even agree with Peter Laslett's formulation from 1989: "Retirement and the retiring age (. . .) may be flexible to some extent, but the Third Age itself has surely come to stay. No possible rearrangement could ever ensure that anything like all of those added years of healthy life which we have had given to us will be spent at earning work" (Laslett, 1989, p. ix). Social scientific models divide the "tripartite" life course into phases of education (young), work (middle aged), and leisure (elderly) (Riley/Riley, 1994, p. 454). On the other hand, welfare-state limitations and a projected rise in demand for elderly workers play an increasing role both in discourse and practice, particularly in the context of demographic change. Moreover, in Western social sciences, the idea of "parallelization" of education, work, and leisure across the life course (in contrast to their present sequence) receives increasing – although not at all unquestioned – attention (Amrhein, 2004; Marshall/Taylor, 2005, p. 575). The future of retirement and of its further prolongation may be an open question, but a complete reversal of its spread is hardly imaginable.

Considerable theoretical reasoning and empirical research have been done worldwide on this subject over recent years, and it is certainly a booming field. From a macro-sociological perspective, Martin Kohli and others conceptualized the dissociation of work and old age as an element of the "institutionalization of the life course" that meets the structural demands of modernizing societies (Marshall/Taylor, 2005; Kohli, 2007). In economics, the declining labor force participation of elderly men (and of elderly women, in spite of generally rising female participation rates) has been carefully reconstructed in an international comparative perspective back to the 1970s (cf. Gruber/Wise, 1999; Ebbinghaus, 2006). Historians revealed the origins of this secular trend as far back as the second half of the nineteenth century (Conrad, 1988, 1990; Costa, 1998). In the social sciences, the explanatory framework concentrates on labor markets and firm policies (mainly as push-factors) and welfare-state benefits (mainly as pull-factors) (Marshall/Taylor, 2005, p. 574). In historical research, the emergence of retirement is usually treated within the framework of the history of old age (Laslett, 1989; Ehmer, 1990; Conrad, 1994; Thane, 2000) and much less so within the history of work and leisure.

In this chapter, I make use of both social scientific and historical research, but I would like to propose an expanded explanatory

framework. Firstly, I would like to advocate a long-term historical perspective, particularly on discourses on old age and work. My first hypothesis is that the twentieth-century dissociation of work and later life relies on a cultural and intellectual disposition which is deeply rooted in European history, and which combines two diametrically opposed – but dialectically related – images of old age: a negative image of old age as a phase of inability to work, and a positive image of old age as a phase of liberation from work for spiritual fulfillment. The negative image has been embedded in a discourse on dependency, care, and its provision and the positive image in a discourse on leisure, but their common aim has been the dissociation of work and old age. Secondly, with respect to the twentieth century, I am proposing a stronger emphasis on changing attitudes toward work and leisure, and particularly on the rise of a leisurely retirement culture and of a new "leisured class" (cf. Costa, 1998, chapter 7). My second hypothesis is that the emergence of a retirement culture was not only the result of structural changes in the economy and society, but that rising leisure demands and aspirations across the life course and particularly in later life play a decisive role, even if retirement practice includes a rich variety of activities which may or may not be regarded as "work," such as housework and family care or unpaid volunteer work. My arguments are based on a wide range of literature concerning various Western societies, with particular emphasis on the German-speaking world.

In a wider conceptual framework, I would like to propose integrating the spread and prolongation of retirement as well as its increasingly positive evaluation into the history of leisure as part and parcel of consumer culture or even "consumer society." This approach, however, encounters a double obstacle. In historical, cultural, and social scientific studies on aging, it is widely acknowledged that "retirement is a form of leisure" and that "what one does with one's leisure time has become highly relevant" (Blaikie, 1999, p. 59). In the rich historiography of leisure, in contrast, retirement is almost completely absent (cf. Cross, 1990, pp. 221–3), and in historical studies on the rise of "consumer society" leisure generally plays a marginal role compared to material goods and commodities. Therefore, integrating retirement into the history of leisure and of consumer society can rely on limited empirical evidence, so far, and still has the character of a research program rather than of a summary of established knowledge. Moreover, leisure is certainly "itself a tricky concept" as Jan de Vries remarks (2008, p. 40), one which includes several different dimensions. In this chapter, I make use of its simple meaning of "free time" not spent with gainful employment or other income-generating activities.

2. Ideas and practices of retirement in pre-modern and early industrial Europe

Historical roots of retirement in pre-modern and early industrial Europe can be identified in various areas of social life, in which discourses and practices merge. Four of them are particularly important.

2.1. The "Ciceronian model of retirement"

The first one concerns discourses on old age and retirement practices in the ruling, propertied, and learned classes. There is some evidence that one of the basic texts on the relation between old age and work from Roman Antiquity, Cicero's "*Cato maior de senectute*" (Cato the Elder on Old Age, Cicero, 1998), is "the most important source for all later discourses on old age" (Göckenjan, 2000, p. 50). In Cicero's view, there could be "nothing more pleasant than an old age filled with leisure" (*nihil est otiosa senectute iucundius*, translation from Latin into English by the author) (Cicero, 1998, pp. 31–2, 71). He did not define leisure as merely doing nothing, but rather as the pursuit of scholarly studies, learning new things such as languages, moderate socializing with intelligent, educated people, and the enjoyment of agriculture and country life. Cicero's praise of old age was thus based on continuity of the *vita activa*, of an active life, as well as on the delights of the *vita contemplativa*, of an existence dedicated to intellectual consummation. Of course, he was completely aware of the social exclusivity of this positive image of old age. An enjoyable old age presupposed a certain level of prosperity as well as intelligence and education (Cicero, 1998, p. 27).

From late Antiquity to the early modern period, Cicero remained one of the most widely read authors of his day (Der neue Pauly, 1997, vol. 2, p. 1200). His ideas formed an essential referential framework for the discourse on old age in the Renaissance and the Baroque Age (Rosenthal, 1996, p. 94; Göckenjan, 2000, pp. 94–8; Ricci, 2006, p. 66; Taunton, 2006, pp. 22ff.), they were part of the repertoire of the French elites of the Enlightenment and the Revolution (Troyansky, 1998, p. 100; Bourdelais, 1999, p. 36), and re-emerged in the late nineteenth century when mass-market publishers released affordable editions of the writings of Antiquity (Stearns, 1976, pp. 22–5). US cultural historian David Troyansky refers to the gradual propagation of a "Ciceronian model of retirement" (Troyansky, 1998, p. 105) in revolutionary and post-revolutionary France. The core of this model consisted of voluntary withdrawal from economic and political activities and commitments many years before this would be necessitated by age-induced impairments. Accordingly, this was by no means a transition from the active life to

mere relaxation, but rather a shift in the focus of a person's activities to leisurely pursuits as described by Cicero. Whereas *Ruhestand*, the German language's term for this phenomenon, was still unknown in the early eighteenth century and did not get established until about 1800, the English world "retirement" used in the sense of withdrawal from one's career and from gainful employment is documented as early as 1648 (Calhoun, 1978, p. 35; Burke, 1995, p. 141).

Eighteenth-century diaries kept by members of the English middle and upper classes contain numerous indications that going into retirement was regarded as justifiable once a person had reached age 60 (Ottoway, 2004, p. 69). When, in 1763, Zacharias Pearce, Bishop of Rochester and Dean of Westminster – at the age of 73 and thus 11 years before his death – petitioned to King George III that he be released from his duties and permitted to quit working, he justified his request with the wish "to retire for the opportunity of spending more time in his devotions and studies." Other authors of the same period alluded to the "sweets of retirement" – books, conversations, country life – or mentioned a "happy period" in which one was freed from the exertions of political office (Thomas, 1999, pp. 587ff.).

French and British studies show that among the bourgeoisie and petite bourgeoisie, a thoroughly positive image of retirement seems to have become prevalent at least over the course of the nineteenth century, and a late phase of life freed from the obligation to work seems to have gradually become the goal of people's life planning (Stearns, 1976; Cribier, 1989, p. 200). Also in Germany, the "Ciceronian model of retirement" began to be adopted by many members of the upper middle class, who, Göckenjan supposes, "aspired to an aristocratic lifestyle." "I am increasingly estranged from material striving; my proclivity to totally immerse myself in the life of the mind grows stronger and stronger," wrote Cologne businessman Gustav von Mevissen in 1877 on the occasion of his sixty-second birthday (Göckenjan, 2000, p. 339).

Of course it must be kept in mind that this was the same era during which the epochal cultural revaluation of work began to gain momentum, a development that, over the course of the modern period, transformed Western societies into what Hannah Arendt called "laboring societies" (Arendt, 1958, p. 4). Gainful employment was seen as a duty, as that which endowed life with meaning, as fulfillment, and in radical Protestant currents, according to Max Weber, as an "absolute end in itself (*absoluter Selbstzweck*)" (Weber, 1993, pp. 79–82; Kocka, 2000, p. 478). Among certain circles of intellectuals, to work oneself to death was held in high esteem (Maurer, 1996; Algazi, 2002). Troyansky (1998, p. 101)

quotes an 80-year-old French judge, who, in 1810, fiercely objected to being pensioned off, concluding his plea in the following terms: "If there exists a passion in an honest and upright old man, it is that of dying at the post he has occupied for many years, and in which his hair has whitened." Moreover, in the eighteenth century, Western European societies experienced the first "industrious revolution" in which "workers seem to prefer more money (and, hence, more labor) to more free time" in order to satisfy their consumer demands (de Vries, 2008, pp. 40ff.).

On the other hand it should also be kept in mind that members of the upper classes who served their sovereign or were active in the increasingly complex governmental administration began to perceive their work as more of a burden (Marfany, 1997, p. 177). English cultural historian Peter Burke presumes that a reaction to the constraints of the world of work in the early modern period is what led to the "invention of leisure" as a realm of freedom consciously juxtaposed to the obligation to work (Burke, 1995). Leisure time, as this was understood by the English upper class of the seventeenth and eighteenth centuries, included intellectual, artistic, and social activities, but went beyond them: greater significance was attributed to game-playing and sport. In any case, leisure in this sense represented a class-specific ensemble of cultural practices, which were regarded as "good leisure" in contrast to "bad leisure" (Lis/Soly, 2012a).

Discourses on work and retirement in the early modern period were certainly ambivalent. Ever since the Renaissance, the enhanced status attributed to work and the corresponding stigmatization of idleness/laziness was also juxtaposed to greater esteem for leisure expressed by the political and intellectual elites. *Muße* – its meaning in German having come down from antiquity as a time for reflection, for creative activity, and cultivated conversation – became a part of the conception of self and lifestyle of groups of artists, intellectuals, and educated members of the political elite. The concept of *Muße* even served them as a means of distinction that set them apart from members of the middle and lower classes, who were obliged – or even damned – to work (Arcangeli, 2006). In particular, well-deserved leisure after having put in a full day of work was considered as legitimate, whereas "*Muße* without having performed work beforehand was, like cowardice and deceit, seen as an especially reprehensible vice and accordingly as laziness" (Schirrmeister, 2008, p. 1978). Leisure did not at all displace work from its dominant position in Western value systems, but it did add a further dimension. In this sense, retirement was deemed quitting time after an industrious life.

2.2. Retirement for the laboring poor?

The second area in which retirement discourses and practices emerged was on the lower rungs of the social ladder. The more or less continuous increase in the number of part-time and full-time wage laborers since the twelfth century in Western Europe and more generally between the late Middle Ages and the nineteenth century is one of the most significant structural changes in European history. This process led to the rise of a social class that depended on employers and labor markets. A specific ambivalence characterized the relation between old age and work among the laboring poor. Most historians presume that until well into the nineteenth century, the concept of retirement was foreign to working-class culture and most people strove to work their whole life long (Stearns, 1976, p. 47). Nevertheless, it is questionable whether older workers actually did find employment. From the Late Middle Ages on, older individuals who had to work for a living – above all those who lived in cities – were regarded as a particularly vulnerable social group. Labor laws and poor laws throughout Europe assumed that it might be hard to find employment beyond age 60 and, therefore, that the elderly should not be forced to earn their money by work, but should be eligible to receive alms or be allowed to beg (Geremek, 1990; Castel, 2000, p. 58; Lis/Soly, 2012a, p. 308).

From the Late Middle Ages until the nineteenth century, the discourse on old age with respect to the lower classes was above all a matter of care and provision. The prevailing image of old age was characterized by poverty, inability to work or at least declining productivity, and the need for assistance, and left little room for a positive concept of retirement. "When we grow old, we'll go to the hospital, or we'll die, and that will be that," is how a poor craftsman summarized the opinion prevailing in Lille in 1830 (Stearns, 1976, p. 45). In Germany, expressions of fear of "being used up, spent, work-worn" dredged up a topos that had surfaced in discourses on work and old age in the late nineteenth century as well as in the industrial–sociological studies conducted by the Verein für Socialpolitik around 1910 (Weber, 1912, p. 388). According to Paul Johnson, there was scant interest in old-age pension schemes among members of the English working class in the late nineteenth and early twentieth century because few people believed they would live long enough to collect benefits (Johnson, 1985, pp. 82–4).

On the other hand, in the age of the French Revolution, a considerable shift occurred in the discourse on care and provision for elderly workers. Thomas Paine summed up these ideas in his highly influential essay "Rights of Man" (1791), in which he wrote that, at the age of 60,

"labor ought to be over, at least from direct necessity. It is painful to see old age working itself to death, in what are called civilized countries, for daily bread." He went on to state that members of the lower classes (among them "husbandmen, common laborers, journeymen of every trade and their wives, sailors, and disbanded soldiers, worn out servants of both sexes, and poor widows," but also middling tradesmen who lost their business) should be supported by the state "not as a matter of grace and favor, but of right" (Paine, 1989, pp. 234, 235). In the early nineteenth century, this was an absolutely utopian idea with hardly any backing even in the working classes. In the late nineteenth century, however, the first practical steps were taken in that direction, beginning with Bismarck's Invalidity and Old Age Insurance of 1889.

At the outset of the Industrial Society, we find an increasingly positive discourse on the subject of voluntary retirement among the upper classes, relating retirement to leisure, and we find a discourse on care and provision for the elderly and no-longer-employable poor. Both of them were based on the dissociation of old age and work, and over the twentieth century, these two discourses merged. The discourse on care and the actual needs for social support by elderly wage earners contributed – and still contributes – to the social acceptance and legitimation of a leisurely retirement for all.

2.3. Retirement as a means of intergenerational property transfer

The third area that is relevant to early modern retirement practices and discourses has to do with the rural middle classes. Family-based, agricultural, small commodity production was the dominant mode of production in early modern Western and Central Europe. In a long-term process of increasing economic independence, peasants became de-facto owners of their land and achieved the right to pass it on to their descendants or to sell it on the real estate market. Under these conditions, property transfer from the older to the younger generation was crucial for the social positioning of the younger ones. The form of transfer depended on the respective regionally dominant family system. In so-called "stem family" systems, inheritance followed the death of the previous owner, whereas in other family systems various forms of property transfer among the living occurred: gradual transfer of parental resources in regions with partible inheritance, "inter vivos inheritance" of the entire farmstead in regions with impartible inheritance. Particularly in regions where the latter model prevailed, beginning in the late fifteenth century, a specific institution of "retirement" (in German: *Ausgedinge*, *Altenteil*)

emerged, for instance in Scandinavia and Central Europe. This contractually fixed and legally regulated form of property transfer allowed heirs to take over the farm before the death of their parents and secured a living for the latter after having retired. Sometimes the retirement phase was quite long, ten or more years in numerous instances (Gaunt, 1983, p. 250; Ehmer, 1996, pp. 59ff.).

In most cases, this form of retirement did not mean a total cessation of farm work for the previous owner, since retirement contracts usually secured them a small plot of land upon which they could establish their own "retirement economy" (Dana Stefanova), or due to the fact that their successors relied on their help. However, it meant at least a reduction of work, and the withdrawal from the leadership of the farm's economy as well as from the position of head of household and from all the various legal and financial obligations involved.

The transfer of property in the family and the retirement decision was subject to constant negotiations between the generations. Public discourses on this form of peasant retirement were scarce in the early modern period. The general discourse on aging and the life course, however, seems to have been closely related to this intergenerational practice. The most widespread and popular image of the life course between about 1600 and 1900 in the Western world was a pictorial image: the dual "life stairs" in which the first half of life is depicted as an ascent, which reaches its high point at age 50, and the second half as a descent that ends with death (Ehmer, 1996). The dual stairs represent a most drastic image of aging as decline and decay. There is a lot of evidence of the enormous popularity of this iconographic model across three centuries and the entire social spectrum. The life stairs were an extraordinarily successful motif, which appeared in the form of large and expensive drawings of high artistic value as well as in the form of cheap prints, quite often accompanied by verses that describe aging even more drastically as physical and mental decay and as loss of authority.

What are the reasons for this success story? I would think that the popularity of the life stairs is based on a specific social and emotional function in intergenerational relations in an early modern family mode of production. From this perspective, the image of the life stairs can be interpreted as a message from the younger generation to the older one: You have passed the high point of life, your body and your mind are weakening, step back and make room. The life stairs offer both a legitimation of the desire of the young to displace the old, and for the latter to accept displacement and withdrawal (Ehmer, 1996, p. 59). In this double meaning, the life stairs and the peasantry's inheritance practices

belong to the social and cultural roots of modern retirement. They popularized the idea that the retirement of the old would benefit the young, an idea that showed up frequently in the twentieth century, particularly in times of economic crises and mass unemployment.

2.4 Retirement and the administrative logic of large bureaucratic institutions

The fourth area in which modern retirement practices emerged were in large institutions such as states and private companies. The proliferation of government bureaucracy and its organization according to strict rules played an important role in the emergence of retirement. Beginning in the eighteenth century, more and more European states started to take leave of a concept of the social security of civil servants as an individual act of mercy and to formally codify these practices (Ehmer, 1990, 40ff.; Conrad, 1994, pp. 198ff.; Thane, 2000, pp. 236ff.). In this context, they also regulated the process of providing care to the aged. Provisions of the newly created pension systems for civil servants generally included a connection between occupational history and retirement as well as between the pension's amount and the retiree's age and/or years of service, and sometimes release from service and a claim to a retirement pension already accrued at a certain age.

Public and individual attitudes toward the retirement of civil servants were ambivalent throughout the nineteenth century. On the one hand, a career as a government official was still conceived as lifelong service that could be terminated prematurely only by disability. On the other hand, a fixed and perhaps mandatory retirement age corresponded to the bureaucratic rationality of large and growing institutions such as the administrations of the European states. Mandatory retirement at a certain age increased the ability of the administration to plan and control its civil servants, to calculate retirement costs, to secure the regular replacement of older cohorts by younger ones, and it offered to the latter a calculable promotion to higher ranks.

Also the attitude of civil servants toward retirement prior to age-related disability seems to have been ambivalent. Troyansky's study of French judges in the early nineteenth century elaborates on examples of vehement opposition to forced retirement. On the other hand, there were judges who arrived at a thoroughly positive verdict in the case of retirement, seeing it as a life phase of leisure and rest to be planned for and welcomed (Troyansky, pp. 104–5). In Germany, the Prussian Civil Service Pension Law of 1882, which was adopted by the Reich in 1886, first introduced a provision whereby civil servants could be pensioned

off by the state at age 65, and conversely, that they themselves could apply for retirement at that age even if they were still capable of working (Göckenjan, 2000, p. 343). Here as well, one gets the impression that there was a generally negative opinion among civil servants – as expressed by their official organizations and in their publications – of those who retired though they were still capable of working, and this persisted at least into the 1920s. In the nineteenth century, high-ranking civil servants such as professors and Protestant ministers seem to have striven to retain their posts for life or as long as possible (Göckenjan, 2000, pp. 345–57).

Nevertheless, enforced retirement gradually became widespread throughout the civil services of Western states, and since the late nineteenth century large private companies as well started to adopt this model, combining mandatory retirement with occupational pension systems (Hannah, 1986; Marshall/Taylor, 2005, pp. 573–4). The bureaucratic rationality of modernizing states and of large firms contributed to the dissociation of work from old age irrespective of the performance and the wishes of its employees. The retirement systems of these institutions embodied a major step forward toward a general chronologization of the life course and to the domination of calendaric age over functional age.

3. The spread of retirement in the twentieth century: Quantitative evidence

3.1. The long-term trend of declining labor force participation

The establishment of retirement and its prolongation in the twentieth century is well documented for several single states as well as in international comparison. There is a lot of statistical evidence for a wide range of Western societies that provides, at least roughly, a reliable picture of the long-term trend of declining labor force participation by the elderly. Table 7.1 shows the labor force participation rates of men and women age 65 and over in the US, Britain, France, Germany, and Austria. Even if we must not expect too much precision from these data, which stem from population and occupational censuses, the trend is remarkably clear. At the end of the nineteenth century, the large majority of men over age 65 continued to work. As a rule, at least two-thirds earned their livelihood from gainful employment. Over the course of the twentieth century, the labor force participation rates after age 65 fell below 5% in most European countries, and nowadays almost nobody works beyond

Table 7.1 Labor force participation rates of men and women 65+ (in %)

	US	**UK**	**Germany**	**France**	**Austria(*)**		**EEC/EU 15**
Men (1850–2010)							
1850	77						
1860	76						
1880/1881/1882	78	74	59		**61–70**	**70+**	
1890/1891/1895/1896	74	66	58	67	82	59	
1900	65				85	64	
1906/1907/1910/1911	58	57	52	66	77	49	
1920/1921/1925	60	59	47				
1930/1931/1933	58	48	29		**65+**		
1950/1951	47	31	27		31		
1960	41				15		
1970/1971	35	23	17	19	8		17
1980	25				3		11
1990/1991/1995	18	8	5	5	2		7
2000	13/*18*	7/*8*	4/*4*	2/*2*	1/*5*		*6*
2010	*22*	*11*	*6*	*2*	8		*7*
Women (1882–2010)							
1882/1896			22	25			
1906/1907/1911		11	30	28			
1933			11				
1950/1960			10		7		
1970/1971	9	6	6	9	3		5
1981/1985		3	2	2	2		4
2000	7/*9*	3	1	1	1		2
2010	14	6	3	1	3		3

* 1890–1910: Austrian part of the Austro-Hungarian Empire; age groups 61–70 and 70+; 1950ff.: Republic of Austria; age group 65+.

Definitions, data, and sources:

Labor force participation rates or activity rates include employers, (self-)employed, and unemployed persons who look for work.

Data from 1850 to 2000 (first figure) stem from population or occupational censuses. For detailed discussion of data see the sources: Conrad (1988, 1990, 1994, p. 319); Costa (1998), p. 29; Disney and Johnson (2001); Ehmer (1990), p. 137; Marshall and Taylor (2005), p. 573; Zeitlhofer (2011), p. 37.

Data for 2000 (second figure, italic) and 2010 are based on surveys with a very broad interpretation of employment. The recent labor force concept of the Statistical Office of the European Communities (Eurostat), for instance, defines employed persons as “persons aged 15 years and over who, during the reference week performed work, even for just one hour a week, for pay, profit or family gain or who were not at work but had a job or business from which they were temporarily absent because of something like, illness, holiday, industrial dispute or education and training.” This definition usually produces higher results. Therefore, participation rates before and after 2000 are not absolutely compatible.

Data for European countries 2000 (second figure) and 2010 are from Eurostat 2014: http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/introduction; http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database

Data for US 2000 (second figure) and 2010 are from the database of the International Labour Organization (ILOSTAT 2014): http://www.ilo.org/ilostat/faces/home/

age 65. Furthermore, in this age group, the development is hardly different for women as compared to men. The general rise in labor force participation by women brings more women in their early fifties into the workforce, and in some countries even in their late fifties, but certainly not beyond 65.

The development in the 65 and over age group was only the first part of the story. The second part concerns people younger than 65 and starts in the 1960s. The last five decades have been characterized by a decline in labor force participation by ever-younger age groups. In the 1960s in most European countries, between 70% and 90% of all males age 60 to 64 were employed. In the 1990s in most of Europe, more than two-thirds of men in the 60–4 age group permanently left the labor force, and in some countries such as Italy, Belgium, and Spain, almost nobody works beyond age 60. This is now the period that is the focus of social scientific research, which can make use of much better and more comprehensive data than simple population censuses, such as panel data, surveys, micro-censuses, and the like. Even if the picture is not as homogeneous as for the 65 and over age group, the trend goes in the same direction everywhere (Marshall/Taylor, 2005, p. 573; Ebbinghaus, 2006, pp. 97–8).

Furthermore, in the 1970s to 1990s the trend of declining labor force participation has increasingly affected those in their fifties. In Germany, from the early 1970s onward, declining participation rates by the 55–9 age group represent a further intensification of early exit from the labor force (Ebbinghaus, 2006, pp. 97–8). Female labor force participation shows the same trend as that of men in the 60+ age groups, but a different one in the younger age groups due to women having started from a very low level of participation (Börsch-Supan and Schnabel, 1999). Again, this is not only a national trend, but an overall one that has been experienced more or less by all Western societies. As a result, labor-market statisticians of the OECD and similar institutions now define "prime age" workers from 25 to 54.

So much for a very rough and brief description of the quantitative trend. There are certainly many differentiations in the long-term trend with respect to nations, regions, occupational groups, and social groups. Moreover, it is not a linear trend; instead, it shows varying rhythms of acceleration and deceleration, often due to business cycles, labor-market conditions, or changes in institutional regimes. Nevertheless, its most remarkable feature is that of homogeneity, as Martin Kohli wrote in 1991:

> 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. (Kohli/Rein, 1991, p. 1)

3.2. The homogeneity of the long-term trend

From a historian's perspective, I would like to add that consistency and homogeneity not only characterize the 1970s and 1980s, but the whole of the twentieth century. I cannot go into detail here, but I would at least like to summarize some arguments from relevant research literature.

Firstly, the long-term trend toward early exit from the labor force occurs, albeit at different degrees, not only among employees but also employers and the self-employed, in agriculture as well as in crafts and trades and in the professions. That also means that the secular shifts from agriculture to industry and from industry to the service sector, as well as from economies with a large share of employers and self-employed toward hegemony of wage labor certainly influenced and perhaps accelerated the long-term trend, but cannot be regarded as its single cause (Carter and Sutch, 1996; Costa, 1998).

Secondly, the trend toward early exit not only occurs in vulnerable segments of the labor market, but also in combination with high job security; among better-off salaried employees as well as among workers doing hard physical labor and earning lower wages. In Germany in the 1990s, for instance, civil servants with life tenure had an average pension age of 59, one year lower than that of the private sector with 60. Particularly in large organizations, including both private firms and public institutions, employment security and early exit are not contradictions, they are closely related. Mandatory retirement and occupational pensions are the key mechanisms of this link (Hannah, 1986).

Thirdly, in most countries, the trend toward early exit from the labor force started before and not after the introduction of national pension schemes. No doubt, retirement needs a financial basis, and mass retirement is only possible in affluent societies. The fact of retirement having become widespread could hardly be imagined without the economic growth of twentieth-century Western societies and the rise of the welfare state, including its impact on social equality. However, individual retirement incomes need not only stem from public transfer, but can come from various other sources as well, such as real property, savings, assets, and life insurance policies (Carter and Sutch, 1996; Bourdieu et al., 2011).

Fourthly, even in countries with well-funded public pension systems, not just old-age pensions matter. There are many other pathways to retirement, such as disability pensions, occupational pensions, unemployment allowances, and various forms of social security, not to mention family and household incomes. If one door is closed, another would open (Börsch-Supan/Schnabel, 1999, fig. 5.2).

Lastly, labor force participation declined not only in times of economic crisis, such as in the 1930s in Germany and the US, and in the 1970s, when early retirement schemes were widely used as a socially accepted way of downsizing the workforce, but also in times of labor shortage when there was demand for elderly workers and they were encouraged by governments to keep or take jobs, such as in the 1950s in the UK (Thane, 1990; Marshall/Taylor, 2005, p. 576; Rahikainen, 2008).

So much for a few arguments illustrating the homogeneity of the long-term trend toward a universal and ever longer life phase of retirement. It is particularly the homogeneity of the trend that calls into question the dominance of pension systems and labor markets in the explanatory framework of the social sciences. No doubt, both institutions play an important role. Industrial and perhaps to an even greater extent post-industrial labor markets are certainly not enthusiastically receptive to elderly workers. There are persistent negative age stereotypes, and the dynamics of rationalization and intensification of labor, rapid technological change, and growing global competition devalue older qualifications and skills. Pension systems offer alternatives. But why and by whom and since when is retirement regarded as attractive?

4. The breakthrough toward general appreciation of retirement

4.1. The first half of the twentieth century – a period of transition

Voluntary retirement long before invalidity and death became prevalent throughout the West over the twentieth century, and there was a widespread, increasingly positive image of retirement as a period of free time for leisure activities. This process, however, proceeded neither in linear nor homogeneous fashion; it differed by country and class. The state of research does not permit a comprehensive description, but some elements can be identified.

In the early twentieth century, we find forerunners particularly among salaried middle classes. In Germany, retirement gradually became part of the normal life course among civil servants, teachers, pastors, and

similar groups (Conrad, 1994, pp. 330–7). With respect to pastors: "An automatic transition from old age to retirement slowly developed in ecclesiastical service as well, though this cultural shift does not seem to have become pervasive until after World War I" (Oliver Janz, quoted by Conrad, 1994, p. 35).

In France in the early twentieth century, federal civil servants usually retired between the ages of 60 and 65. The same held true for teachers, municipal civil servants, postal workers, and railroaders, as well as private-sector white-collar employees such as journalists. Several of these groups were integrated into the state pension system; others made the struggle to provide for pensions (for all practitioners of an occupation or all employees of a particular company) the focus of their union activities (Stearns, 1976, pp. 56–9). In the Anglo-Saxon world, it was above all the propagation of mandatory retirement as part of companies' employment contracts and pension agreements that fostered the prevalence of early retirement on the part of highly qualified, well-paid personnel who had enjoyed stable, long-term employment (Hannah, 1986). During the first half of the twentieth century, the working classes also experienced declining labor force participation in old age. Due to labor-market policymaking considerations, several states lowered the legally mandated retirement age to 65 or 60, and even 55 for women (Ehmer, 1990, pp. 116–18).

A positive image of retirement among workers, however, spread much more slowly, and was strongly influenced by diverse national cultural traditions. The French and the German labor movements, for instance, displayed quite different attitudes toward retirement. While the German Social Democratic Party remained skeptical of Bismarck's old-age insurance and of worker's retirement in general, the French labor movement was proclaiming "the right of the aged to retirement" from the beginning of the twentieth century onward (Schniedewind, 1997; Schmidt, 2011). In the 1930s, this was also regarded as a relief measure for mass unemployment. In 1938, for instance, the Communist Party (PCF) called upon the government "to give work to the young and to ensure an honorable pension for all of France's workers in their old age" (Schniedewind, 1997, p. 412).

Why did appreciation of retirement appear earlier and why was it stronger in the French working class than among their German counterparts? A satisfying answer does not seem possible in light of the current state of research. However, in comparative research, we find three bundles of arguments that might contribute to the explanation of the peculiar "French model of retirement" (Elise Feller). Firstly, there seems to

have been different attitudes toward social security for elderly people in France and in Germany in the late nineteenth and early twentieth century. Whereas the Bismarckian "invalidity and old age pension" of 1889 concentrated on workers and on their ability or non-ability to work, the French retirement law of 1910 followed the republican ideal of social rights and of equality of all citizens (Kott, 1996). Secondly, the French legislation was much more generous in respect to retirement age, which was lowered to 60 already in 1912 and which also included "flexible arrangements for those in their late fifties" (Feller, 2005, p. 329). The civil servants' retirement law of 1924 regarded pensions as "continued wage" and introduced their "equalization" with rising wages. These were very modern principles "which exerted a powerful influence among white-collar workers," and thus took a "key step toward the construction of the French model of retirement," which allowed pensioners "to maintain their lifestyle into old age and to look forward to retirement" (Feller, 2005, pp. 333–4). Thirdly, while German workers and labor movements seemed to share high esteem for paid work, the French Left in the inter-war period put strong emphasis on the promotion and organization of leisure activities (Schniedewind, 1997, pp. 414–15; Feller, 2005, p. 334). When the Left seized power in 1936, the government of the Popular Front launched wide-ranging leisure programs which dwarfed contemporaneous attempts of Italian Fascist and German National Socialist dictatorships (Seidman, 1991).

In France, all these leisure and wellness-oriented activities included retired persons. Moreover, special pensioner newspapers and other publications offering suggestions for an active life during retirement were already circulating at this time (Feller, 2005, p. 334). Here, even prior to World War I, the middle classes including mid-level and top-echelon employees were already developing a concept of retirement and of a new lifestyle in old age that was oriented on recreational interests and activities. According to the US social historian Peter Stearns, this was "one of the greatest steps forward toward the modernization of old age" (Stearns, 1976, p. 149). Esteem for retirement was shared by a broad section of French society and was certainly part of the strong emphasis on leisure activities and leisure politics by the French Left (Seidman, 1991).

4.2. Social scientists versus workers – the ambivalent 1950s

In the German working class and labor movement, a negative image of workers' retirement – seen as a period of exhaustion, invalidity, and awaiting death – persisted much longer, some aspects even until the 1950s. Key developments during this period were an intensification of old-age discourses, and above all, the "discovery" of old age by the

social sciences under the influence of American sociologists and social gerontologists (Göckenjan, 2007, p. 127). The first major studies of the circumstances of life of elderly men and women provided information about images of old age – on the part of both the interviewees and the social scientists themselves. A traditional, negative view of old age prevailed among both groups, whereby old age was seen above all as a phase of need and looming impoverishment that called for a response in the form of social welfare measures. What was new about this was the effort to observe, assess, and address the decline of gainful employment, whereby the prevailing view was that this was an extremely negative development. Retirement was regarded as "a life spent doing nothing" (Schelsky) and interpreted as entailing the loss of a social role and function. Observers complained that modern industry had no use for the elderly (Göckenjan, 2007, p. 129).

One of the first large empirical studies of workers' perceptions of old age and retirement in Germany was performed by the Frankfurter Institut für Sozialforschung in 1955 (Friedeburg/Weltz, 1958). Old age was not explicitly defined in this study, but it becomes quite clear from the questionnaire that it was seen as synonymous with "retirement." Being "old" meant "no longer going to work" (Friedeburg/Weltz, 1958, p. 16). The evaluation of retirement among both the social scientists and the interviewed workers was predominantly negative. Researchers maintained that "being excluded from the labor process" by a "mandatory age limit" leads to a "complete loss of function" and thus to "the insecure position of the elderly in Industrial Society" (Friedeburg/Weltz, 1958, p. 12). Less than 20% of those interviewed believed that their old age would be a "wonderful time" (Friedeburg/Weltz, 1958, p. 17). In contrast, there was a widespread fear of poverty, exhaustion, and of becoming a burden to others (Friedeburg/Weltz, 1958, p. 21). The prevailing opinion that the financial situation of German "social security pensioners" was bad or terrible and that the pensions were insufficient – prior to the pension reform of 1957 – was certainly an accurate view of reality (Mooser, 1984, pp. 36, 96–7). Among unskilled laborers, the expectation that old age would be a "wonderful time" was rarely heard; this opinion was held somewhat more frequently by employees and skilled workers (Friedeburg/Weltz, 1958, p. 19).

However, the attitudes of workers toward retirement were much more differentiated than the negatively biased interpretation by social scientists of their own data would lead one to assume. In the 1955 survey, the aim of almost two-thirds of all interviewees was to leave the labor force at about 60 or earlier, and young workers in particular expressed interesting reasons for this – they wanted to "still be able to enjoy the twilight

of their years"; they wanted to "enjoy old age" if this were financially possible (Friedeburg/Weltz, 1958, pp. 40–1). The authors of this study concluded that there exists a correlation between current leisure-time activities and positive expectations of retirement.

Nevertheless, there was no clear-cut answer to the question of precisely what the enjoyment of work-free sunset years ought to consist. For almost half of the interviewees, gardening and agricultural work played a key role; a third liked to go for walks. On the other hand, slightly over 30% mentioned specific forms of recreation such as hobbies and cultural and artistic activities. The authors of the study concluded that "current recreational activities [are projected forward] into the impending phase of old age" (Friedeburg/Weltz, 1958, p. 45). Here, it certainly is possible to recognize positive expectations of retirement as a phase of leisure, even if the spectrum of recreational activities has traditional features.

4.3. The breakthrough toward leisurely retirement in the 1970s

The breakthrough of a leisurely retirement culture took place in the 1970s and 1980s. In this period, voluntary separation from gainful employment long before age-induced disability became the norm and a socially acceptable step. At the same time, there emerged a positive image of old age that is freed from the obligation to work but is nevertheless fulfilling. Social scientists took note of this transformation in the 1980s and began documenting it in numerous studies (Buchwalter King/Stearns, 1981). Here, I will cite a few examples that bring out the extent and speed of this process of change with particular clarity.

Beginning in the 1940s in the US, scholars performed a series of surveys that confronted men age 65 and older with the question "Why did you retire?." A summary of survey responses provides evidence of changing attitudes. Until the 1950s, the major response was "for health reasons" or "lost the job." Fewer than 5% reported – or confessed – that they voluntarily "wished to retire." In about the 1960s, such a wish was expressed by almost 20% of those surveyed; by the early 1980s, the desire to leave work voluntarily accounted for nearly half of all retirements (Burtless, 1999, pp. 11–14). A French study compared the image of early exit from the labor force by two cohorts of Parisian workers – the first one retiring in 1972, the second in 1984. Francois Cribier summarized the results as follows:

> The younger cohort had a more positive view of retirement, either as a mixture of rest, family life and chosen activities (often useful ones), or as a new stage of life with more social, intellectual and leisure

> activity. Retiring 'early', that is at around 60, gradually became, between the mid-1970s and the mid-1980s, not only socially acceptable, but the new social norm. (. . .) Retirement was seen as a positive stage of life by the majority of the mature active population. (Cribier, 1989, p. 196)

In the 1970s, most European countries – usually as the outcome of negotiations involving government officials, trade associations, and unions – introduced early retirement regulations in the hope of thereby ameliorating the rising unemployment among young people and making it easier for the private sector to introduce restructuring measures and downsize its workforce (Taylor and Walker, 1998; Rahikainen, 2008). Social scientists who somewhat later conducted studies to analyze the impact of these measures were astounded by the broad acceptance accorded to early retirement among 50–60-year-olds (Rosenmayr/Kolland, 1988, pp. 133–4, 165–7, 197). This early separation from gainful employment was precisely what accounted for a new and positive "interpretation of old age": a person was still in a position to start something new and take part in recreational activities (Wolf/Kohli, 1988, p. 201). On the whole in the 1970s, more and more people came to regard retirement as a phase of active recreation and less as a phase of rest and relaxation, and they planned for it (Amann, 1988). According to many scholars doing research on old age, this was the ultimate impetus for the "dissociation of the idea of rest, that is doing absolutely nothing, from the concept of retirement," as Peter Laslett put it (Laslett, 1989, p. 157).

In the late twentieth century, the growing approval of early retirement seems to have gained increasing influence on individual life plans. Empirical evidence is provided by, for instance, the first German Ageing Survey in 1996, which is based on a representative sample of 40–85-year-olds. One of the questions put to those holding a full-time job concerned the age at which they planned or expected to leave the workforce (Kohli, 2000, p. I/20). Approximately 20% of men questioned planned to do so between the ages of 55 and 59; approximately 40% – and thus the largest group – at about age 60; another 10% between 61 and 64; and the remaining 30% at age 65. The overwhelming majority of women looked forward to exiting the workforce at age 60 and only 15%–20% counted on remaining gainfully employed for much longer than that. The special importance of age 60 for women is certainly influenced by the reduction in regular pension ages for women to that age in many European states in the 1940s and 1950s – for instance, Germany

in 1957. Thus, retiring at 60 is part of the plan many people have made for their lives.

This conclusion is backed up by studies conducted in other countries. A survey in the Netherlands in 2000 shows that if people were free to choose the age of retirement, a third of all respondents would leave the workforce at or before age 55, and over 80% by age 60 at the latest (Van Dalen/Henkens, 2002, p. 219). The attractiveness of a retirement that begins early and lasts long, of a life phase of leisure, seems to be particularly high among those workforce participants who expect a high pension and also have a tidy nest egg of their own; thus, financial incentives for continuing to work for a living do not seem to have a major impact on planning by members of this group. Indeed, people generally strive for a salary replacement rate of about 70%, but beyond this threshold, people seem to prefer earlier retirement to a higher pension. According to this study, life planning that includes a relatively late retirement at age 64 or 65 seems to be widespread only among those who have accumulated no savings or other material basis for an earlier retirement (Van Dalen/Henkens, 2002, pp. 219–23).

Whether or not such life plans are put into practice is a much more complex question. Actual exit from the labor force is influenced by a range of subjective and exogenous factors that interact in complex ways. Position in the labor market, social status, and (un-)attractiveness of the respective job play important roles. For Great Britain in the 1990s, Blundell and Johnson employed Labor Force Surveys to produce an interesting comparison of the age of retirement of two groups of employees (Blundell/Johnson, 1998). The first group consisted of employees who were enrolled in occupational pension schemes and were thus vested in an occupational or company pension plan. Members of the second group had no such entitlements; all they had coming was a government old-age pension, which is rather modest in Great Britain. There were other social characteristics by which the two groups differed. The first group consisted primarily of employees with a good income and long-term, relatively secure employment contracts, whereas members of the group with no company pension plan were predominantly lower-paid manual laborers who did very strenuous work and had lower job security. In this second group, the process of withdrawal from gainful employment already commenced among those in their forties and continued relatively constantly to about age 65, whereby the occupational disability pension played the decisive role as pathway to retirement. In the first group of financially better-off individuals, the level of employment remained high until about age 55, tapered off until age 60

and then rapidly declined (Blundell/Johnson, 1998, fig. 1.2). Rates of employment in both groups were equivalent at age 65; from this point on, only a small minority was still working.

German data compiled on the basis of the 2004 micro-census and providing details about rates of employment among 55–65-year-old individuals differentiated according to occupation and educational level point to a similar direction (Höpflinger, 2007, p. 316). Workforce participation within this age group rises correspondingly with level of education. In the group of 65-year-olds, only 42% of those who completed technical colleges are still employed as compared to 54% of university graduates. Only among the small group with a PhD was workforce participation still relatively high (71%).

The social differentiation of actual exit from the labor force, as shown in the studies by Blundell/Johnson and Höpflinger, and the differentiation of life plans and expectations as shown by Van Dalen/Henkens, reveal interesting discrepancies. The appreciation of early retirement by the highly qualified and well-to-do white-collar employees does not automatically produce an earlier exit. Leisure aspirations of the better-off might be counteracted by a satisfying and status-securing job. Vice versa, labor-market pressure on those in a more precarious situation might counteract their need to work longer to be entitled to an adequate pension. On the other hand, many surveys conducted since the 1970s have identified increasing subjective significance attributed to leisure by all groups of respondents (Maase, 1984, pp. 194ff.). The upshot of this could be that employees with poor job prospects are more likely to be ready to accept exclusion from the labor market, whereas those who are in demand as employees do indeed remain on the job longer, but not as long as their employer or the labor market actually would permit them.

4.4. The wider context: Toward a modern leisure-rich society

The rise of leisure as part and parcel of consumer society seems to be essential for the understanding of the spread and increasing appreciation of retirement in modern Western societies. This paragraph should remind us of basic dimensions of the twentieth-century history of leisure, which once more include practices and discourses. The first one is the reduction of time spent in gainful employment. In Germany "the per capita amount of working hours (. . .) decreased from about 1,500 to 676 hours per year between 1882 and 2002" (Schildt, 2006, 119). This long-term trend seems to be as homogeneous and consistent as the declining labor force participation of elderly people. It mainly

includes – besides retirement and the expansion of years in education – reduction of weekly working hours and statutory establishment and extension of paid holidays. "Rising living standards [included] greater free time and disposable income" (Abrams, 1992, p. 189).

The second dimension consists of increasing social acceptance and appreciation of leisure. The United Nations expressed this trend in Article 24 of its Universal Declaration of Human Rights, passed in 1948: "Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay." In the first half of the twentieth century, the creation of organized leisure activities and their control, particularly directed toward the working classes, was on the political agenda of labor movements and social reformers as well as of fascist states (Langewiesche, 1979; Huck, 1980; De Grazia, 1981). However, such politics from above met an increasing individual appreciation of leisure. Ego documents from this period reveal how enthusiastically male and female workers looked forward to weekends and holidays (Lüdtke, 1991; Torp, 2011, pp. 63ff., 90ff.). In the second half of the century, an increasing number of value surveys on a national and international scale confirm the enormous importance of leisure for identities and aspirations throughout the Western world (World Value Survey, 2012).

Lastly, the rise of leisure industries and the commercialization of leisure throughout the twentieth century strongly shaped consumption patterns, in close interdependency with rising living standards and free time. This trend expanded and differentiated the range of leisure activities and made amusements, hobbies, sports, tourism, and the like affordable for most people. The development of retirement as a mass experience was embedded in new forms of mass culture.

5. Concluding remarks

The emergence of retirement in European history has various and divergent social and cultural roots reaching far back into European history. Retirement also fulfills a variety of functions nowadays. Present retirement activities are not only devoted to recreation, but include household and family work, as well as voluntary unpaid work – though with a clear gender differentiation. Also nowadays retirement decisions depend on various factors, including individual health as well as labor-market conditions and pension benefits. The dynamic spread of retirement throughout the twentieth century, however, and the surprisingly homogeneous trend toward ever earlier exit from the labor force, corresponds

to the enormous growth of leisure practices and aspirations. Leisure achieved a high rank in value systems and personal experiences throughout the Western world, and leisure industries have become booming sectors of the global economy, offering an increasing scope of activities at affordable prices. There may be some difference between North America and northwestern Europe, as Jan de Vries assumes, with a "marginal choice of leisure over income by Europeans" (de Vries, 2008, p. 246), but in a retirement perspective such differences pale.

The growing gap between exit from the labor force and the emergence of age-related disability provoked the notion among social scientists of the rise of a "new retirement generation" as a "leisure generation" that, "between mid-life and the sunset years," assumed the character of a "leisured class" whose make-up transcends conventional class boundaries, even if leisure preferences and activities are certainly class-biased and important fields of social distinction (Attias-Donfut, 1988; Wolf/ Kohli, 1988, p. 184; Costa, 1998, pp. 233ff.; Künemund, 2007, p. 236). Even if the historiography of leisure has not yet discovered retirement as a relevant field of research, I would think that these trends have to be kept in mind for an understanding of the success story of retirement in the twentieth century.

Note

1 Parts of this chapter make use of earlier publications on the history of work and retirement, particularly of Ehmer (1996) and Ehmer (2009), and strongly benefited from my fellowship at the International Research Center Work and Human Lifecycle in Global History at Humboldt-Universität zu Berlin.

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8

From Retirement to Active Aging: Changing Images of 'Old Age' in the Late Twentieth and Early Twenty-First Centuries

Stephan Lessenich

1. Demographizing the social: The politics of aging in the 'aging society'

Europe is aging. Though admittedly to a differing extent, most if not all European societies are confronted in the foreseeable future with a changing age structure of their populations – and with a gradual acceleration of demographic change. In 2012 (most recent data), none of the EU countries statistically reached a Total Fertility Rate (TFR) of 2.1 (considered to be the replacement level fertility rate), the average rate being 1.58.[1] In 2013, the proportion of the European population aged 65 and over averaged 18.2 per cent, ranging from Ireland's 12.2 per cent and Slovakia's 13.1 per cent to Germany's 20.7 per cent and Italy's 21.2 per cent. Life expectancy at age 65 amounted statistically, on European average, to 18 years for men and 21 years for women in 2012, and the 'old-age-dependency ratio'[2] is projected to rise from 27.5 in 2013 to values of about 40 in 2030 and nearly 50 in 2050.[3] Somehow or other, countries all over Europe share a common fate: they are irrevocably on their way to turn into 'aging societies'.

But how should we imagine 'aging' – or even 'aged' – societies to look and to be like? As a collective person turning gray and getting wrinkles? As a social body that starts groaning and moaning, suffering from the weight of the years? As a societal community made up of embittered, stubborn and disoriented doters? In contemporary discourses on the transforming demography of late-industrial societies, the idea of quality following quantity seems to dominate: the belief that changes in a society's age structure inevitably entail a changing nature of 'the social' itself. In this collective imaginary, the notion of a 'juvenile society' is

usually associated with properties like liveliness, innovation and future-orientation, while the vision of an 'aging society' mechanically evokes characteristics such as slowness, incrustation and backwardness. Pretty much in line with these opposing images, it has become common practice in public debates as well as in political agenda-setting to frame almost any kind of social problem as a problem of demography: from economic competitiveness being linked to a nation's age structure to distributive inequalities getting redefined as an issue of generational justice.

It seems plausible to assume that what is lying behind the politically popular dystopia of the 'aging society' is individual anxiety turned social. The politics of demographic change are marked everywhere in Europe by the collective fear of getting old and dying – and by what may be called a 'vitalist' countermovement geared toward converting the 'long-life society' into a social formation of life-long vitality. Societies who conceive of themselves as 'aging' seem to believe it mandatory to reassure themselves of the vital force of their citizenry. They obviously feel forced to engage in a 'demography management' that seeks to reframe demographic change as a chance and a 'challenge' – and in the context of which the growing group of the elderly is being redefined as consisting of large strata of 'young old' (Dyk and Lessenich, 2009).

In what follows, I will first shortly sketch the process of discovering the 'young old' in European politics and then reconstruct, based on a German case study, the public discourse on 'active aging' and the changing imagery of 'old age' as it evolved over the last three decades or so. This analysis will show that while the elderly were publicly depicted as retirees in the 1980s and as senior citizens in the 1990s, the early twenty-first century's 'older adults' are being addressed as potentially productive 'best agers' who may individually contribute to cope with the social problems posed by demographic aging. Finally, I will point to the structural contradiction of an 'aging society' denying and in a certain sense trying to 'mask'[4] the demographic change it is ineluctably facing.

2. Averting the 'old age crisis' by means of 'active aging'

It was ongoing – or rather expected – demographic aging that marked the background of the discovery, by social science, politics and the media alike, of the 'young old': the post-war cohorts of the wealthy and healthy, educated and open-minded pre-baby boomers[5] currently moving into retirement. Taking both social constructions together – the 'aging society', on the one hand, and the 'new elderly', on the other, – it

comes as no surprise that it has become popular thinking, in the course of the last decade or so, that what is often framed as the 'old age crisis' (World Bank, 1994) may effectively be overcome with the help of elderly people themselves. Or, put in the compelling logics of 'sustainability': Why should the originator of the problem not be the solution to it – or at least part of it?

This is exactly the logic underlying the rise of the 'active aging' paradigm in European politics (Boudiny, 2013). In the world of 'active aging', retiring from the active workforce does not necessarily – and indeed should not – mean disengaging from any productive activity. As early as in 1999, the European Commission (1999, p. 21) urged its member states to 'change outmoded practices in relation to older persons' and make use of the 'wealth of under-utilized experience and talent' the growing number of healthy and well-educated retired people were said to constitute: 'Both within labor markets and after retirement, there is the potential to facilitate the making of greater contributions from people in the second half of their lives. The capacities of older people represent a great reservoir of resources, which so far has been insufficiently recognized and mobilized.' Inspired and intellectually powered not least by an influential fraction of academic psycho- and social gerontology, 'active aging' was being praised, at least in the early stages of its politicization, as a 'win-win solution' for the multiple problems of an aging society: 'The beauty of this strategy is that it is good for everyone: from citizens of all ages as aging individuals in terms of maximizing their potential and quality of life, through to society as a whole, by getting the best from human capital, avoiding intergenerational conflicts and creating a fairer, more inclusive society' (Walker, 2002, p. 137).

The political adaptation and application in openly utilitarian and productivist terms of the concept has certainly – and increasingly – been criticized by its academic advocates (Walker, 2008). But it is quite easy to imagine politicians confronted with the 'demographic challenge' succumbing to the charms of the 'active aging' paradigm. In the political field, it came to open the possibility to combine the material benefits of using the elderly's resources for collective purposes, on the one hand, with the symbolic promise to older people that their contribution to the common good would revalorize their social status and contribute to their social inclusion, on the other. From a sociological point of view, however, it is quite obvious that 'win-win solutions' for real-world social problems are pretty rare and – given modern societies' undeniable heterogeneity of interests and their in-built structural power differentials – highly improbable to emerge.

Rather, in a sociological account it seems evident that the politics of 'active aging' has a series of undeniable pitfalls and problems. To name here only the most striking, potentially problematic issues of an 'active aging' agenda, (a) it improperly homogenizes the – not only in socio-economic terms – extremely heterogeneous group of 'the old', suggesting all and every single one of them is a 'high potential' just waiting to be discovered and activated; (b) it effectively produces a new norm of (and normative on) aging, a single standard of 'aging well' which is (and must be) inevitably missed by all those who are less resourceful than the prototypical 'best ager' figuring as role model in the 'active aging' imagery; and (c) it in a sense subjectifies the success and, more importantly, the failure of old people with regard to the programmatic expectations, converting not only personal well-being but also the 'public good' into a matter and function of individual behavior (Holstein and Minkler, 2003; Rudman, 2006).

3. Talking about a revolution: Public discourses on 'active aging' since the 1980s

The findings on the changing images of 'old age' at the turn of the twentieth century I will be presenting here are part of an empirical research project which has been completed only recently. It combined the reconstruction of so-called 'story lines' emerging in public discourse with the analysis of qualitative interviews with ('young') elderly people, conceptualizing older people's narrations as being an integral part of the discourse itself. In this perspective, the distinction between a 'macro' and a 'micro' level of this discourse – debates in politics and the media, on the one hand, and everyday conceptions of 'ordinary people', on the other – is to be understood as a purely analytical differentiation, the societal image(s) of 'old age' empirically being produced and reproduced (or transformed) by way of the circular interaction of both dimensions. Discourses are thus neither a matter of simple 'rhetoric', decoupling themselves from people's tacit knowledge and everyday experience, nor do they in any sense determine 'from above' what people think about the social world they are living and acting in. It is only when discourses manage to 'say' something to people, when they 'make sense' to their minds, when they 'connect' to them and their 'personal' (but already discursively produced and reproduced) convictions, that they are (or rather may become) socially effective. Conceptualized in this way, there is no analytical priority whatsoever to be given to either the 'macro' or the 'micro' level of discourse (re)production: both dimensions are truly interwoven with each other.

In the 'macro' dimension, on which I will concentrate in this chapter,[6] we have analyzed more than 2,200 articles published in Germany between 1983 and 2010 on the topics of retirement, old age and aging in four daily newspapers, several general and special interest magazines, in administrative and expert reports, party programs and selected advertisement campaigns.[7] Following Maarten Hajer (1995), we define as 'story line' a condensed form of narrative, in a sense a synthetic narration reducing discursive complexity by making use of figures, symbols and metaphors that serve in everyday communication as simplification and abbreviation of a complex phenomenon – a 'shorthand' to cut a long and multi-faceted story short. To cut the theoretical context story of our empirical research (maybe inappropriately) short as well, we conceived of 'story lines' as being the narrative guise (or Gestalt) of what Michel Foucault (1978, 1998) has defined somewhat vaguely and thus quite controversially as a social dispositif or 'dispositive order'. Dispositifs are to be understood as a combination or, more accurately, as a composition of heterogeneous elements – in the context of our research: knowledge, institutions, objects/artifacts, practices, and bodies – which taken together, as a complex ensemble, make up for the powerful order of a social phenomenon, say, the social order of 'aging' and 'old age'. It is this dispositive order which makes social agency (in our case: 'aging agency') possible, practicable, feasible at all, which actually opens – and, at the same time, closes – social spaces of and for action. And it is the story lines – as forceful social narratives – which make dispositive orders readable, 'legible' (and intelligible), for people in the first place, giving 'voice' to the historically specific ordering of the social. In a sense, story lines are the 'subtitled version' of a social dispositive, making explicit what the social 'order of things' is or should be: in the case of aging, they are a narrative illustration of the socially expected, 'acceptable' way of people getting and being old – a way of depicting 'old age' that is easily accessible to and manageable for the general public, that is, not only for elderly people themselves but for an aging population at large.

The three story lines making three historically distinct age dispositives 'speak', and reconstructed as such in our research, are the retired age, the restless age and the productive age narratives. In analytically differentiating them from each other and (very shortly) retelling them here, it has to be stressed that empirically there cannot be identified a sort of stage model or some neat sequence of these three story lines simply taking turns and replacing each other in the course of time. Rather, they should be conceived of as mutually overlapping and interfering stories, with one or the other gaining prominence and taking the discursive lead at some point of time, but without the 'dominated' story lines

disappearing completely in that process. In this sense, there are two distinct narrations – 'restless age' and 'productive age' – co-substantiating in dialectic interplay the 'active aging' paradigm, with the productivity story developing from, and in a sense radicalizing, the restlessness narrative. But even with the rise of 'restless age' back in the 1990s, and the emergence and increasing dominance of the productivity dispositive of old age in recent years, the formerly prominent narrative invoking the 'retirement' dispositive has not just vanished away, but does effectively co-exist – not only, but mostly, as a negative counterimage to 'active aging' – with the dominant narrative(s).

In this sense, serving as a filter screen of the two historically younger old-age narratives, we can identify in our material – since the very beginning of the research period in the mid-1980s – the 'classical' story line of retirement as the last, post-employment stage of individuals' lives. The guiding idea of the 'retirement' story line is indeed that of the elderly person retiring in the literal sense of the word, that is, retreating and withdrawing not only from employment, but – in a broader sense – from any sort of occupation or 'business'. This story has two different aspects, discursively linked to each other. On the one hand, it suggests that the old person, looking back biographically onto a long and fulfilled working life, has legitimately been exempted from work or any other public responsibility and is thus enjoying life's last chapter as a time of 'deserved rest' financed by public pension schemes.[8] On the other hand, it depicts elderly people as being detached and decoupled from society and societal exchange processes, coupling and complementing this picture with the whole range of negative stereotypes commonly associated to 'old age': withdrawal, boredom, isolation. The logical shortcut of this story line then reads retreat – provision – inactivity – decay – emptiness, constructing with only a few epistemic elements a nevertheless 'rich' and effective image of 'the' prototypical old-aged: the figure of a more or less well-off pensioner who leads a more or less inanimate life at the margins of society and who is losing his or her physical and psychical capacities more or less rapidly (but constantly).[9] The emblematic objects, practices and institutions connected to and illustrating this story are – in the specific cultural context of German society, and among many others – public pensions and the nursing home, the sofa and the television set, gardening and housework, dentures and the wheelchair. By addressing one (or a combination) of these items in public discourse, the whole social world of 'retirement' and the old person in the role as pensioner is, like in a nutshell, being referred to and effectively evoked for the greater public – young and older people alike.

Against this background, the restless age[10] story line emerges – as the 'active aging' paradigm avant la lettre – in German public discourse since the late 1980s and becomes dominant by the mid-1990s the latest. In line with the EU 'active aging' formula – 'adding life to years' (European Commission, 1999, p. 21) – to be propagated some years later, in the 'restlessness' dispositive the prototypical older person is depicted as being a surprisingly juvenile, active, competent and self-reliant senior citizen integrated into the social fabric of an active society.[11] Far away from the now outdated imagery of 'retirement', and actually taking and constantly reproducing it as its negative counterpart, a new notion of old age as being in permanent, endless motion emerges in the public sphere. Without putting into question (yet) the legitimacy of material security in later life, what is effectively delegitimized in the context of this new imagery is physical and psychical immobility. With the bodies and brains of the elderly explicitly conceived of as being 'plastic' and thus amenable to continuous training and exercise, keeping busy means to actively avoid psycho-physical degradation, frailty and the need for long-time care. Consequently then, in the context of the logical conjunction plasticity – self-initiative – healthy lifestyle – competencies underlying the 'restless age' narrative, 'active aging' stands for an auto-productive agency of the elderly motivated by the will to 'stay alive', preventing or at least postponing personal dependency as long as possible. At the same time, however, this narrative also includes the image of the well-off, open-minded and cosmopolitan pensioner engaging in expensive and time-consuming leisure activities for the sake of individual fulfillment and self-realization. In line with this configuration of the active senior, the list of emblematic icons of this story line is extremely extensive, reaching from fitness studios and stationary bikes, Nordic walking, computers and the datebook to senior students and residential communities, round-to-world trips or the Road to Santiago.

However, the 'restless age' story line has become itself drowned and overwhelmed, beginning in the late 1990s, by the emerging productive aging narrative, which may well be said to have been dominating the public discourse on old age and aging in Germany since the mid-2000s. Here, the guiding idea is that elderly people obviously could – and actually should – make use of the multiplicity of resources attributed to them as active senior citizens not only for themselves, but rather in hetero-productive ways. The 'productive aging' story is not any longer about 'any' activity in old age whatsoever being socially desirable and publicly approvable. What really 'counts' now is the usefulness of elderly's activities for others, that is, for third parties beyond the 'aging selves'

themselves – from grandparenting and civic engagement to community work and intragenerational care. The social (even more than the pure economic) productivity of the elderly's activities moves center stage here: it is the 'aging society' itself which – a social construction as it may be – is said to have a legitimate claim on the old and their 'potential'. Resources – potentials – responsibility – engagement – (public) benefit: this is how the 'productive aging' story goes. So far (i.e., until the end of the period under research in our project), however, and in manifest contrast to the other two narratives which both have been circulating publicly for several decades, there are considerably less emblematic practices, institutions or objects for this story line to be identified in public discourse – the '67 pension',[12] civic engagement and preventive medical check-ups being the most prominent ones. But even so, there has been emerging in the last decade, as opposed to the post-war 'pensioner' as well as to the 'senior citizen' of the late twentieth century, the figure of the older person as a productive best ager being and keeping active for the collective good.

To be sure, these three story lines should not be conceived of as replacing each other in the course of time, but as 'giving voice' to a complex constellation of co-existing – and partly conflicting – dispositive orders of old age and aging at the turn of the twentieth century. In this sense, it is important to note that disruptions and contradictions are to be found not only between the different dispositifs and the narratives associated to them, but also within these dispositive orders themselves. As an instance of such a discursive 'self-opposition' may serve the fact that both the 'restlessness' and the 'productivity' story lines strongly operate with counterimages of a passive, immobile and desocialized old age which is incessantly said to be a matter of allegedly past and long foregone 'retirement' times. In this way, the novel narratives through which the 'active aging' paradigm is operating paradoxically are contributing themselves to the stable reproduction and actually to the revitalization of the very negative image of people's lives in later life which they officially are meant to overcome.

4. Governing the 'aging society': On the dialectics of constructing the 'young old'

The politics of and discourse on 'active aging' are not a specifically German phenomenon.[13] 'Active aging' has been promoted by the EU as a programmatic agenda for coping with demographic change and the challenge of an 'aging society' in the late 1990s, and it has subsequently been integrated as a guiding idea and an administrative device

into national policies for the elderly in most of its member states. In this context, it has been linked with the idea – and ideal – of 'age integration' and an 'age-integrated society' as developed and advanced by (mainly US) social gerontology since more than two decades (Riley and Riley, 1994, 2000). The concept of 'age integration' refers to a social structure that does not make use of chronological age as a selection criterion for people's entry to, exit from or participation in any of the relevant societal subsystems. Most obviously, the concept is critically opposed to the conventional mode, still dominant in late-industrial societies, of age segregation with regard to the basic social institutions of employment and education: people are forced into and out of both worlds, at a certain (fixed and pre-defined) age, by the normative stipulations, institutional regulations and standard operating procedures of the 'Fordist life cycle' (Myles, 1990).

Attractive as it is and reasonable as it may seem, the vision of an 'age-integrated society' still has its pitfalls. In a way, it stands for the utopia of an 'ageless' society, a society in which age ceases to be a category structuring social processes and social relations – and which consequently is thought of being organized as if it was populated by an age-indifferent mass of adult people only. 'Age integration' may just mean regulating social life from the perspective of an average, middle-aged (and, as it were, middle-class) citizen – and indeed there is a tendency, fostered by an age-integrationist gerontology, to reconfigure elderly people as being just nothing else than 'adults who are older' (Harper, 2004, p. 3). This redefinition resembles the parallel reconceptualization of the late-modern household not being constituted any more by a male breadwinner and a female homemaker, but by two 'adult workers' who, irrespective of their biological sex, are meant to act as flexible labor supply on un-gendered markets. 'Men' and 'women', 'old' and 'young' people: they are all meant to be integrated into an ageless and genderless market society – and it comes as no surprise that both the idea of 'adding life to years' and the concept of the 'adult worker' (Annesley, 2007) were forged in and enforced by EU politics striving for European market-making.

Paraphrasing Margaret Thatcher's infamous dictum that there is no such thing as society but only individual men and women,[14] the double movement for 'active aging' and 'age integration' may be said to point to the notion that there is no such thing as an 'aging society' – but only individual market citizens who, be they 'younger' or 'older', have the capacity to act as 'adult workers', 'adult consumers', 'adult entrepreneurs', 'adult volunteers' or whatever economically and socially

productive activities adults may be thought of as doing. However, this new imaginary of the upcoming society of longer lives being a society of potentially endless adulthood is unavoidably doomed to clash with an undeniable social fact: the fact of 'deep old age' (Featherstone and Hepworth, 1989). Even if the discourse on 'active aging', as an empty signifier open to a vast range of individual and collective conceptions of old people's lifestyles,[15] may promise to younger and older adults alike that 'real' old age can be postponed almost indefinitely in late-modern life courses, the truth is that frailty, disease and personal dependency are – and will always be – fundamental facts of (later) life.

However successful the 'active aging' paradigm might be and however active elderly people may keep on being, there is a point in the life of most of them (i.e., of most of 'us') where it cannot be avoided any longer to cross the street that separates 'adulthood' from the last stage of life. Those who live on this other (call it the 'upper' or 'lower') side of life – the 'old old' or, say, adults who are not only old but the oldest – may be said to constitute the dangerous classes of the 'aging society'. They disturb and actually destroy the imagined community of a society of 'young old' or 'older adults', and they obviously cause 'age trouble' for an avowedly age-integrated society. At the same time, however, they are the endangered classes of an 'aging society' denying the social fact of 'real' old age: in a world of 'active aging', those who do not (and cannot) conform to the new norm of 'old adulthood' have to confront the risk not only of reduced life chances, but of being fundamentally delegitimized in their 'deviant' way of life. Thus, before welcoming ourselves (aging as we all are) the 'active aging society', we should rest for a moment and think of the dialectics of a social formation that tries to cope with demographic change by masking it.

Notes

1 According to Eurostat data, the most fertile EU member countries in 2012 were France and Ireland, both with a TFR of 2.01, while the lowest birth rates were to be found (or rather were expected, as the TFR is a measure of a hypothetical women generation's completed fertility) in Poland (1.30) and Spain (1.32). Not even a country like Turkey, the highest TFR scorer in Europe (2.09), exceeded the population replacement rate within the last five years (http://epp.eurostat.ec.europa.eu/portal/page/portal/population/data/main_tables).

2 This indicator is defined as the number of persons aged 65 and over (i.e., of people of an age when they are generally economically inactive) expressed as a percentage of the number of persons aged between 15 and 64.

3 For the year 2030, the projected range of national dependency ratios goes from 32 in Cyprus and 33 in Romania up to 47 in Germany and Lithuania (http://epp.eurostat.ec.europa.eu/portal/page/portal/population/data/main_tables).
4 The 'mask of aging' is a microsociological concept (cf. Featherstone and Hepworth, 1991) referring to the subjectively felt incoherence between a non-aging (still 'young') 'inner self' and an obviously aging (and thus 'old') body. The argument put forward in this chapter may be conceived of as a macrosocial recontextualization of this concept.
5 As opposed to the demographic history of the US, where the birth rate reached its post-war peak between 1946 and 1959, the European baby boom took place roughly a decade later. As a consequence, the biggest part of the 'baby boomer effect' on European pension systems is yet to come.
6 For an extensive documentation of the project's findings, cf. Denninger et al. (2014); Dyk et al. (2013) offers a brief recapitulation of the findings in the 'micro' dimension. The project was funded by the German Research Foundation (DFG).
7 Regarding the second ('micro') dimension, we conducted 55 qualitative, problem-centered interviews with people aged 60 to 72 years who had been retired for at least one year at the time of interview. The interviews were sampled according to the Grounded Theory methodology and interviewees selected by sex, economic/educational status and regional origin (Eastern/Western Germany). Public discourse and personal narrations were analyzed using a modified coding paradigm which was constantly reworked in the course of the research process: categories built in the context of the discourse analysis helped us to read the interview material, while findings from the interview analyses were fed back into the discourse analysis again, thereby sensitizing for 'gaps' and blind spots in public discourse.
8 In German language, 'Ruhestand' (for 'retirement') has the double connotation of an empirical, factual state as well as a legitimate social status of rest after employment. The 1957 pension reform is to be seen as the institutional foundation for the emergence of a 'retirement culture' in West German society after World War II.
9 There is a sub-discourse in some (more popular) media focusing only on the retreat–provision nexus within the retirement story. However, this positive narrative about an individually 'deserved rest' in old age which is financed by the larger community in return for the elderly's previous contribution to the material reproduction of society has become marginalized in the course of time.
10 In German, the term being used and permanently repeated to denote what is to be told and known by way of this story is 'Unruhestand', a neologism untranslatable into English (literally meaning 'un-' or 'dis-retirement').
11 The topic of the 'rejuvenation' of old age, that is, the description of people aged 60 or 70 today as being physically and mentally as 'young' as people aged 50 or 60 in their parents' generation, is one of the main epistemic fundaments of the aging discourse throughout the last three decades.
12 This shortcut refers to one of the most recent pension reforms in Germany, by which statutory retirement age will be gradually raised to 67 years by 2031.

13 For further qualitative empirical research on the subjective self-constructions of elderly people in the context of 'active aging', but focusing on other national settings, cf. Jones (2006), Rudman (2006), Nikander (2009), or Marhánková (2011).
14 To which she however, at the very same time, gave a certain familialistic, and thus anti-individualistic, twist.
15 Our empirical findings on the 'micro level' of the subjective self-representations of pensioners aged 60 to 70 show that literally everybody describes him- or herself as being, in one way or the other, 'active'. There is a deeply entrenched (some would say anthropological) 'vitalist' disposition shared by all of our interviewees: people indeed appreciate being active (on their own terms), but at the same time reject political claims on them for being active (in terms set externally). Unfortunately, even many critical studies on 'active aging' (cf. Rudman, 2006) tend to contribute to the hegemonic closure of the discourse when asserting the 'success' of activation programs on the grounds of identifying people's 'vitalism' with their supposed personal adherence to socially dominant narratives.

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9

Delaying Retirement in Germany and Europe

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1. Introduction: Labor participation and early retirement

Over the last decade, the previously low labor force participation of older workers in Germany has risen. In 2012 the rate of workers aged 55–64 in employment was at 69/55 (male/female) per cent compared with 47/28 per cent in 1998 (the current EU-27 average is 56/42; cf. Noll & Weick, 2013, p. 11). However, participation drops sharply after the age of 60, although this is the age group with the largest rise in employment (Nowossadeck & Vogel, 2013, p. 7).

At the end of 2011 (latest available figures) Germany had 80.3 million inhabitants (Destatis, 2013), of whom slightly more than half were in gainful employment. Around one quarter of the total German workforce belongs to the 50+ age group. Only very few people still work beyond 65 (mainly physicians, lawyers or consultants). While the general rise has narrowed the gender gap between 50 and 64, part-time employment among older females is far more widespread than among older men (cf. Nowossadeck & Vogel, 2013, pp. 7ff.), so that overall employment rates blur gender gaps. Furthermore, in eastern Germany the rise in employment is considerably less than in the West.

The increase can partly be traced back to cohort effects: female participation rates for the 25–49 and 50–64 age groups are strongly correlated (cf. Keese et al., 2006, p. 31, based on 30 countries; data from 2004), since young women's participation in the labor force strongly influences their later participation (for men, no such correlation has been found). Generally, when high-participation cohorts enter the over-50 age bracket, this age group's participation rises. Moreover, a more positive assessment of older workers' skills and qualifications (against the

backdrop of labor shortages in some occupations) has improved their employment prospects.

The development in Germany is in line with the European trend over the last decade (Sinclair et al., 2013, p. 14).

Past early retirement in Germany happened against the backdrop of its conservative-corporatist welfare regime (Esping-Anderson, 1990, p. 74). Conservative labor market approaches favor strong job protection (the idea that there is only one breadwinner per household necessitates this protection). The German policy between the 1970s and 1990s was characterized by strategies promoting early retirement rather than by investment in the employability of an aging workforce. This approach was supported by a "great coalition of interests" between companies, employers' associations, trade unions, older employees and government. Older workers were expected to leave the labor market early with generous benefits in order to make jobs available for the young (which does not work).

2. Paradigm shift: Extending working lives

Despite better qualification and health, rising residual life expectancy and consequently a prolonged potentially active working life, German workers have been retiring at an increasingly early age ("work-age paradox"; Walker, 2006). This does not make sense for the following reasons.

2.1. Labor market and economic trends

With more than 1.3 million births per annum, the years 1961–1966 had the highest birth rates in Germany (Destatis, 2013). According to current legislation, these cohorts will reach the legal retirement age between the years 2026/2027 (cohort 1961 retiring at 66.5 years) and 2033 (cohort 1966 retiring at 67). In the EU-27, the old-age dependency ratios will rise, particularly between 2020 and 2040 (Sinclair et al., 2013, p. 20).

The expected shortage of skilled labor has already reached technical professions and will improve employment prospects for qualified older workers. This is caused by the generally changing requirement profiles due to structural labor market changes and is confirmed by increasing labor participation of highly qualified older workers.

On the corporate level, due to the increasing focus on human capital, companies will need to gain the fresh know-how of younger employees and simultaneously retain the experience of their older staff. Consequently, the Confederation of German Employers' Associations (BDA) wants to increase the employment rate of older workers (BDA, 2010, p. 24).

High employment rates of the elderly are positively related to those of younger workers (Keese et al., 2006, p. 140; OECD, 2011a, p. 76, based on 34 countries). The lump-of-labor assumption is a fallacy, which is also expressed by the European Commission (Sinclair et al. 2013, p. 16) and for Belgium by Jousten et al. (2010, pp. 55ff.). Further, Fisher and Keuschnigg (2011, pp. 4ff.) show that early retirement raises youth unemployment (see also Bovenberg, 2008, p. 34). An OECD survey (2011a, pp. 77ff.) shows a strong macro correlation between low employment rates and the assumption that employment of older workers has a detrimental effect on younger workers' employment rates, which could lead to demands that older workers should "free up" jobs for younger workers in European countries hit by economic crises.

2.2. Reasons imposed by social policy

> The financial soundness of old age pensions financed from payroll taxes depends on high wage growth, high fertility, and high rates of labor force participation. (Myles & Pierson, 2001, p. 310)

Therefore, pay-as-you-go schemes are under financial strain. For example, the German pension scheme took up 28 per cent of the federal budget in 2014 (Bundesregierung, 2014). Further, even against the backdrop of very high social security spending, employment is the main determinant of material well-being in old age (Walker & Naegele, 2009, p. 4). Therefore, employment not only unburdens social security systems from high expenses, it also unburdens individuals from financial hardship (also those employed, since a higher number of contributors should reduce contribution rates, leading to higher net earnings, which is especially important for lower earners).

2.3. Changes in the EU labor employment policy targets

European Union member states agree that active labor market and social protection policies aimed at raising employment levels among older workers are crucial. In 2001, the EU had targeted firstly a rise in the employment rate of older workers to 50 per cent by 2010, and secondly a rise in the effective retirement age by about five years. Most EU countries have not met these targets. Germany is now among the leading countries. The mean retirement age followed a U-shaped pattern from 1993 to 2011, declining from 63.1 (men) or 63.0 (women) to the low of 62.2/62.3 (2000) and rising again to 63.8/63.2 (2011). It is lower in eastern Germany (cf. Nowossadeck & Vogel, 2013, p. 14). The first countries

in Europe to achieve the EU targets were the UK and Northern European countries. In Germany, the first subgroup to reach the 50-per-cent target was the highly qualified, male employees.

3. Major strategies in Germany and Europe

German policy approaches targeting older workers are ad hoc, fragmented and not comprehensive. By contrast, in Northern European countries, particularly Finland, there are joint, co-ordinated initiatives with the involvement of various key actors, such as government, employers' associations and trade unions. The Finnish Programme for Older Workers, implemented for 1997–2001 (Eurofound, 1997), has led to a significant rise in the employment rates of older workers in general, and not only of subgroups.

3.1. Pension and retirement policies

Financial incentives provided by pension schemes and other benefits paid during periods of economic inactivity strongly affect retirement behavior (OECD, 2007a, pp. 78ff.).

Rising legal retirement ages in Germany and Europe. In Germany, the statutory pension age is rising, accompanied by pension deductions for those retiring earlier. This is the second option mentioned by the OECD: higher rewards for later and higher deductions for earlier retirement. For those born in 1964 or later, the reform cuts benefits by 7.2 per cent with unchanged retirement age and increases benefits by 5 per cent for retiring at 67 (assuming that the individual mean lifetime income is earned during this period). The point at which the pension level is as high as it would have been without the reform and with retirement at 65 is at 14 out of 24 months. If earnings are higher than in the lifetime mean (which is usual with de facto seniority pay), the break-even point is earlier (Gasche, 2011, pp. 53ff.). This calculation is based on higher general pension increases due to improved circumstances arising from the higher legal retirement age. On the whole, retirement at 67 means a pension cut.

A simulation analysis predicts that the reform will delay retirement by 10.8 months due to a rise of more than one year for medium- and high-skilled workers and virtually no change for the low-skilled (Fehr et al., 2010, pp. 22ff.). A 2006 survey has shown that three quarters of German employees aged between 35 and 55 want to work until they reach the pensionable age (Flüter-Hoffmann, 2010, p. 201). Yet, the majority of them doubt that they will be able to.

Most European countries have raised their legal retirement ages. Noll and Weick (2013, p. 13) provide an overview of EU-27 countries (based on EC information), which also shows that in some countries gender differences in legal retirement ages have been abolished (see also Keese et al. [2006, pp. 88ff.] for rising legal pension ages and declining replacement rates under unchanged retirement behavior). The UK raised its retirement age to 70 for those now entering the workforce (Guardian, 2013).

The new German retirement age of 67 is being introduced gradually, in the beginning by one month per year and later by two months per year, until 2029. Early retirement (with actuarial cuts) is still possible. The increase in the legal retirement age by one month per year and then two months per year is very slow by international comparison: for example (starting from lower levels) Bulgaria, Estonia, Hungary, Latvia and Slovenia have raised it by six months per year (Koske, 2009, p. 13).

In Europe there are huge differences concerning the age citizens consider ideal for permanent retirement, ranging from 59.0/52.6 (men/women) in Ukraine to 64.3/63.1 in Norway (Sweet, 2009, pp. 10ff.). Especially in the case of women, ideal retirement ages are far lower in Central and Eastern European countries. Also, the mean ideal retirement ages are not closely connected to the age at which persons are considered old, with gaps of 10/13 years in France, 5/6 in Germany and 3/6 in Estonia (Sweet, 2009. p. 6). These figures show that there are huge differences from country to country concerning the view that retirement should begin before old age.

Another study shows that workers' expectations of how long they will be able to continue in their current jobs are below official retirement ages, in the EU-27 at 62/61 (men/women), with extremes in Sweden (65/64), Malta (57/58) and Latvia and Romania (both 58/57). Yet in Germany, for example, older workers estimate the age up to which they can work higher than younger workers – 62 years for those between 15 and 34; 66 years for those above 55 (Noll & Weick, 2013, p. 15, based on Eurobarometer special data). Part of the explanation is a self-selection process, in which those with grave health impairments drop out of the sample (without a current job, the question is not answerable). Noteworthy is the low expected age of younger workers against the backdrop of rising life expectancy and an increasing number of healthy life years (summary: Bauknecht, 2013b, pp. 181ff.); across Europe, life expectancy will continue to rise in the next half century (Sinclair et al., 2013, pp. 16ff.).

Raising legal retirement age in line with rising residual life expectancy. In Germany, the legal retirement age of 67 is unpopular (summary: Bauknecht, 2013b, pp. 185ff.). Since political actors are keen to "front-load benefits and back-load costs" (Pierson, 1993, p. 622), a solution would be to automatically adjust the legal retirement age to rising residual life expectancy (Gasche et al., 2010, p. 5).[1] In contrast to Denmark, where the whole rise in residual life expectancy is supposed to be added to working life, for Germany Gasche et al. propose dividing the rise in residual life expectancy between working life and retirement by the factor 2:1, since the increase in the legal retirement age from 65 to 67 divides the projected rise of 3.1 additional life years between 2007 and 2029 roughly by this factor. Taking the residual life expectancy of those born in 1965 and dividing projected further rises by the factor 2:1 between work and retirement, those born in 1980 would have a legal retirement age of 68 and those born in 1995 of 68 years and 11/10 months (men/women) (Bauknecht, 2013b, p. 184). This is based on estimates by the German Federal Bureau of Statistics; projections proposed by various institutes differ considerably. In the past, the Max Planck Institute for Demographic Research correctly projected higher rises than the Bureau of Statistics (e.g., Doblhammer et al., 2008, pp. 27ff.). For those born in 1965, the Institute projects a residual life expectancy three months higher than the highest projection of the Bureau of Statistics. Based on this projection, the cohort of 1985 should already retire at age 69 (Bauknecht, 2013b, p. 184). The reason for past underestimations is that linear rises have wrongly been considered unrealistic (Oeppen & Vaupel, 2002, pp. 1029ff.). Consequently, the choice of the relevant institute would strongly affect the legal retirement age.

Since the number of healthy years is rising, and the relative number of sickness years declining (Börsch-Supan, 2011, p. 23; Schwentker & Vaupel, 2011, pp. 5ff.), health will be less of an obstacle than in the past. Working longer can promote cognitive skills: differences here between younger and older cohorts are negatively related to the activity rate of older cohorts, and this activity rate is positively related to the cognitive skills of the respective age group. Since early retirement has institutional tax/benefit causes, the activity rate affects cognitive skills rather than vice versa (see Rohwedder & Willis, 2010, pp. 119ff.).

In Germany, Finland and France, the pension paradigm has changed in favor of greater consideration of life expectancy (Bovenberg 2008, p. 40; Martin & Whitehouse, 2008, p. 4). In Denmark, "from 2025 on, these age thresholds will be raised in line with life expectancy. For 60-year-olds [. . .] the number of years in retirement remains constant"

(OECD, 2006, p. 69). Similar policies have been implemented in numerous other European countries (Keese et al., 2006, p. 88; Sinclair et al., 2013, p. 53).

Closing and opening of early retirement exit routes. In Germany, the official gradual-retirement scheme has been used not to retire smoothly but via the "block-model" as a new early retirement scheme (see also Keese et al., 2006, p. 54), with support from trade unions and employers' associations (costs could be externalized). Early retirement comes with deductions of 3.6 per cent per year.

Raising the minimum retirement age is one of three pension reform options mentioned by Keese et al. (2006, p. 87) designed to reduce early retirement incentives. Early retirement has been made more difficult in several European countries: Austria, Belgium, Denmark, France, Germany, Greece, Hungary, Italy, Poland (for some types of workers); Portugal and the Netherlands have made it financially less attractive, the latter in the case of private occupational early retirement. France, Finland and the Czech Republic have "adjusted incentives for both early and late retirement" (OECD, 2011b, p. 63).

Based on an analysis of the Austrian pension reform 2000–2003, which increased the early retirement age for men (from 60 to 62) and women (from 55 to 58.25), Staubli and Zweimüller (2012, pp. 1ff.) show that this significantly reduced the number of men and women in the relevant age brackets claiming retirement benefits. As expected, the number of registered unemployed rose, whereas disability benefit receipt remained virtually unaffected, possibly due to declining benefit generosity. Most importantly, employment rose.

In Germany benefit reductions for retirement before the age of 65 were introduced (0.3 per cent per month) in 1997, with a transition period until 2005. Hanel (2008, pp. 1ff.) shows that employment exit has been postponed (primarily in the case of men), yet the gap between employment exit and retirement has widened. Besides Germany, many other European countries have reduced early retirement incentives (Sinclair et al., 2013, p. 50).

Contradicting recent years' policies, in 2014 Federal Government lowered the legal retirement age to 63 for those who have at least 45 contribution years. Similar to the legal retirement age of 65 (rising to 67), the "pension at age 63" rises: those born until 1952 can retire at 63 without deductions, and for the following cohorts the age limit rises by two months per year, so those born in 1964 and later can retire early at 65 (this is also the first cohort with the legal retirement age of 67).

The 45 contribution years do not have to be fully covered by paid employment, and other activities also count: child-rearing, informal

elderly care, sickness/rehabilitation benefit receipt, military service or alternative service, unemployment benefits receipt (up to two years). Since the duration of entitlement to earnings-related unemployment benefits is dependent on age and contribution years, those at least 58 years old with four contribution years can get these benefits for up to two years. Since this obviously would allow workers at 61 to become unemployed and get comfortable earnings-related benefits for two years and then enter retirement at 63, the moral hazard problem has been solved by not counting unemployment in the last two years before pension receipt (if not caused by plant shutdown, which is not the individual worker's fault).

Pension generosity and earnings-relatedness. The OECD's (2006, p. 87) third option for pension reform is reduced generosity. Generally, (especially high) gross replacement rates in the first pillar drop from 2004 to 2050 (Pedersen & Finseraas, 2009, pp. 199ff.; OECD, 2011b, p. 63): OECD pension schemes converge at a low level. This postpones retirement, since pension generosity fosters early labor market exit (Schils, 2008, p. 318; see also Danziger et al. [1981, p. 983] for workers regarding retirement benefits as net assets). In Germany the general decline of the replacement rate is far more crucial than possible cuts due to retirement at 67 (Schmähl, 2011, p. 21), whereas under constant retirement ages the latter contributes to the former (Keese et al., 2006, p. 87). Martin and Whitehouse (2008, pp. 4ff.) show the effects for a worker entering the labor force in 2004 and living under rules now adopted and taking effect over time: as in most countries, net replacement rates in Germany will decline. The downside is that low replacement rates are strongly correlated to the relative poverty risk of the elderly (Bauknecht, 2013a, p. 36).

Moreover, all else being equal, stronger earnings-relatedness rewards later retirement, since this raises income during retirement (Fisher & Keuschnigg, 2011, p. 21). Flat-rate schemes discourage labor, because labor merely affects take-home pay but not pension entitlements (Cigno, 2008, pp. 72ff.). Yet replacement rates are generally higher in earnings-related systems (Siegel, 2007, p. 85). Additionally, earnings-related pensions are largely financed via contributions, so that this tax on labor should encourage early retirement.

Contributors receive submarket effective interest rates in pay-as-you-go schemes. Since this taxes labor, work incentives are diminished (Demmel & Keuschnigg, 2000, pp. 22ff.; Cigno, 2008, pp. 68–69).

If employees wrongly consider employer contributions as a gift from employers without negative effects on gross wages, this could foster labor supply in earnings-related schemes (Bauknecht, 2013a, p. 44).

Taxes and implicit tax on postponing retirement. An analysis of 14 European countries and the US by Andersen et al. (2007, p. 112) shows that the tax level and the average number of hours worked (2003) are strongly negatively correlated, if Sweden, Denmark and Finland are left out, which score high on both counts (Keese et al., 2006, p. 34). The extensive margin (labor market participation rate) and the intensive margin (number of hours worked) are strongly positively correlated, whereas, for example, the Netherlands with their high share of part-time employees strongly deviate (here the employment rate is high but the number of hours worked is low). Also, the implicit tax (or financial punishment) on further work is strongly positively related to the proportion of workers retiring early (OECD, 2007b, p. 84 based on data from 2003 to 2005 and 26 countries).

3.2. Unemployment policies

Despite rising employment between 2002 and 2012, in only a few of the 28 EU member states (e.g., Germany) unemployment of men and women aged between 55 and 64 decreased (Sinclair et al., 2013, p. 35). Between 1999 and 2010, the unemployment rate of German workers over 54 declined nearly to the level of younger workers, starting from a more than twice as high level (Brenke & Zimmermann, 2011, p. 19, not based on official data but own calculations).

Special programs for unemployed older workers. Since 2002, various special labor market programs for older workers have been implemented in Germany. Their common goal is to transform the previous passive unemployment policy into a preventive program. The current basic approach is to promote employment through increasing requirements for the unemployed; the main focus now lies on combating welfare dependency by obliging beneficiaries to become more active. The main objective is reflected in the following government statement of 2002:

> [. . .] activating labor market policy with particular emphasis on a personal contribution towards economic integration on the part of the unemployed, a concept which will be both supported and secured by a host of relevant services and support programmes.

Unemployment/unemployment benefits. In Germany and many other European countries (Sinclair et al., 2013, p. 37), older workers rarely lose their jobs, but if they do, their re-employment chances are bleak. Contrastingly, in Denmark and Sweden, transitions back into the labor market occur more often (Ward-Warmedinger & Macchiarelli, 2013, pp. 1ff.).

With ongoing unemployment, re-employment chances decline due to three main reasons: "Physical and mental debilitation, discouragement in job search" on the searchers' side and "restrictive hiring standards" on the employers' side (Frosch, 2006, p. 8, referring to McGregor, 1978). The latter is caused by companies interpreting long search periods as signaling either unmotivated search behavior or low productivity (Frosch, 2006, p. 8). Elderly unemployed have the exit option of early retirement (Frosch, 2006,p. 8), which could reduce their motivation to find new employment. Likewise, due to self-selection, those with long spells of unemployment are less attractive for employers than the average unemployed (Frosch, 2006, p. 8, referring to Steiner, 2001).

Macroeconomically, an improved employment situation reduces younger cohorts' unemployment figures far more drastically than those of older cohorts (Dietz & Walwei, 2011, p. 8). Re-employment chances depend on age: between 35 and 49, chances are roughly similar, and thereafter chances decline with rising age (Frosch, 2006, pp. 4, 14). One reason is that older workers are overrepresented in sectors with declining employment (Boockmann & Zwick, 2004, p. 53). Multivariate analyses show that non-German nationality reduces re-employment chances. This also applies to many years of previous unemployment, possibly because employers consider this a negative sign (Frosch, 2006, p. 17). Concerning previous net salary, re-employment chances are inverted U-shaped; those with very high previous earnings have sufficient financial assets and pension entitlements to sustain their standard of living without new employment (p. 19). In Germany, elderly employment status depends more strongly on educational attainment than in most other countries (Schulz, 2009, p. 189). Brussig (2009, p. 7) states that for the age group above 60 re-employment chances are independent of educational attainment. Altogether, many negative factors affect the old more strongly than the young: this applies to foreign nationality, low education (slightly inverted U-shaped) and long unemployment duration (Frosch, 2006, p. 19). For stronger education effects among older workers, see also Dietz and Walwei (2011, p. 9) and Brussig (2009, p. 6).

In Germany, the introduction of the means-tested unemployment benefit II in 2005 and the reduction of the (higher, earnings-related) unemployment benefits I are "likely to have boosted job-search intensity of older workers" (Duell & Vogler-Ludwig, 2012, p. 4, referring to Dietz & Walwei, 2011), since declining unemployment benefit generosity reduces the reservation wage of elderly job-seekers, which can be an important obstacle to re-employment (Dietz & Walwei, 2011, p. 10). Reduced generosity has reduced incentives to use unemployment as

an early retirement scheme (Duell & Vogler-Ludwig, 2012, p. 4). Older unemployed receive the unemployment benefit I for up to 24 months and therefore longer than younger workers.

The abolishment of the "58 rule," which released job-seekers over the age of 57 from the obligation to show job-search activities, has decreased reservation wages (Duell & Vogler-Ludwig, 2012, p. 5). In 2004, the scheme was used by 75 per cent of the target group (cf. Keese et al., 2006, p. 62).

Several European countries have reformed their unemployment benefits. For example, the minimum age for the Finnish "unemployment pipeline" has been raised with noteworthy positive effects (Braconier, 2010, pp. 20–21; Werder & Thum, 2013, p. 15). In Denmark, maximum unemployment benefit receipt was limited to two years in 2011, which closed one pathway to early retirement (Barslund, 2013, p. 4). In the Netherlands, the maximum duration of unemployment benefits has been shortened, also to restrict the use of these benefits as proxy early retirement benefits (Gasior & Zolyomi, 2013, p. 10).

In Belgium, those older unemployed trying to become self-employed are exempt from some obligations, such as being available for a job (Contreras et al., 2013, p. 44).

In other countries, for example, Estonia, unemployment benefits are only granted for a short period, so that unemployment compensation cannot be used as an early retirement tool (Leetmaa et al., 2013, p. 13).

3.3. Consequences

German employment offices are obliged to prepare a job profile for every unemployed person, based on skills and work experience. Furthermore, a "re-integration contract" lays down and records steps to be undertaken by the unemployed person and the employment agency. Government now intends to pursue a more active strategy, yet many policy-makers have come to understand the concept of "active aging" merely as a labor market approach and not – as intended by the WHO, which introduced this concept in the late 1990s – as a much more general concept for organizing the aging process and life in old age in a way that is both self-responsible (every person's own aging process) and co-responsible (the collective aging of the population).

The "carrot-and-stick" approach raises poverty particularly among the older unemployed. This is due to the creation of the unemployment benefit II. The "carrot" side results from the fact that in earnings-related schemes high previous wages (which exist due to de facto seniority pay) result in high benefits, leading to high reservation wages (Bovenberg,

2008, p. 35), so that short eligibility periods raise search efforts (see also Goul Andersen & Jensen, 2002, p. 22; OECD, 2006, p. 70).

Long-term unemployment, which is to a large degree the unemployment of older workers in Germany, leads to severe losses of income and social security (see also Martin & Whitehouse, 2008, pp. 13–14). Those affected will try to avoid these financial losses by being more active and by accepting jobs with conditions inferior to those of their former employment. However, in the long run, many experts believe that the basic security particularly for older, long-term unemployed job-seekers will lead to a dramatic rise in poverty during retirement age, also because particularly those who are unqualified or in bad health (who are strongly overrepresented among long-term unemployed older workers) currently have bleak chances of being re-integrated.

3.4. Employment policies

Wage subsidy programs. In Germany, recruitment of older workers can be subsidized for one to three years (30 per cent to 50 per cent of the wage, in cases of disability up to 70 per cent, and to a maximum of five to seven years, the latter for those above 55), with successively decreasing subsidies. The maximum period of three years for those without health impairments will stay in force at least until the end of 2014 (Duell & Vogler-Ludwig, 2012). Employers may also be exempt from contributing to unemployment insurance if they hire an unemployed person aged 55 or above.

An analysis by Institute for Employment Research (IAB) shows that results are good, yet different rules for different age groups were not useful (p. 8). Apart from that, the minimum duration (one year) for those without health impairments is too long. In contrast, due to deadweight effects, Boockmann et al. (2007) detect the

> absence of any effects of the subsidy program on exits from unemployment in most groups [. . .] employers reduced unsubsidized hiring by almost the same amount as they received subsidies. (pp. 12–13)

On the other hand, Deeke et al. (2010, p. 10) state that although no evaluation results are available, due to the special labor market position of older workers they consider a prolongation of the program justified.

For those over 50, pay decreases accepted to escape/avoid unemployment can be covered by 50 per cent (first year) or 30 per cent (second year) (Keese et al., 2006, p. 126; Bundesagentur für Arbeit, 2011, pp. 4ff.). Similar programs also exist or existed in Austria, Japan, the

UK and the US. In Slovenia, wage subsidies are micro-targeted: the person has to be unemployed for at least one year or be in a field of labor oversupply and older than 55. This should minimize deadweight and substitution effects by supporting those with the worst job prospects (Koske, 2009, p. 18).

Numerous European countries offer wage subsidies for hiring or retaining older workers (Keese et al., 2006, pp. 111–12; Sinclair et al., 2013, pp. 51–52). These subsidies try to solve problems created by seniority wages, which have weak negative effects on the employment of men between 50 and 64, yet stronger negative effects on their hiring rates (OECD 2011a, see also Keese et al., 2006, p. 69; Bovenberg, 2008, p. 35). In Germany, Austria, Belgium, France, Ireland, Italy, Spain and the Netherlands, wages of those over 54 are high in comparison to younger and middle-aged (male) workers, while in some countries wages are inverted U-shaped across lifetimes (Australia, Japan, Korea, the UK, Switzerland, the US) or roughly similar across age groups (Canada, Czech Republic, Scandinavia and Finland; Keese et al., 2006, p. 66).

Employment protection. In Germany, there is no special employment protection for older workers, but it is provided only for those with a long period of employment in the company (from one month after 2 years up to seven months after 20 years; see BMAS, 2013b, p. 38). Although a long period of employment in the company partly results from and is therefore correlated to age, this does not inhibit older job-seekers' chances of getting hired.

Strict employment protection is strongly negatively correlated to the employment rate and the hiring rate and less strongly to the five-year retention rate of older workers. Employment protection is (weakly) positively related to the job loss rate (Keese et al., 2006, p. 64). The French experience with the Delalande contribution obliges employers to pay if they dismiss workers over 50 who subsequently claim unemployment benefits, because they go through longer periods of unemployment (exceptions were made for workers who were over 50 when hired or were unemployed for more than three months back then). Keese et al. (p. 114) refer to an analysis by Behaghel et al. (2004) showing that the number of dismissals was reduced marginally at best, and hiring decreased. Besides, possibly labor mobility decreased, since older workers lost their protection from the negative incentives for employers, because in the new company they would be over 50 when hired and therefore without Delalande protection.

Employment pacts. The German program "Perspectives 50plus – employment pacts for older workers in the regions" (the third program period runs from 2011 to 2015) includes about 78 regional employment pacts

with 421 job centers (October 2013, telephone information). It is considered to be successful since it activated 200,000 out of 550,000 older long-term unemployed and placed about 70,000 of them on the regular labor market (admittedly, a third of them with wage subsidies, and only 3 per cent of them over 60). The pacts included further vocational training, job application training, internships and wage subsidies. Individual counseling and coaching is considered to be a crucial aspect (Duell & Vogler-Ludwig, 2012, p. 9).

Part-time work. In Germany, older employees (especially over 60) are overrepresented in part-time work (Brenke & Zimmermann, 2011, p. 17). The desire to work fewer hours (obviously unfulfilled) fosters retirement (Schils, 2008, p. 324, for Germany, the Netherlands and the UK). On the macro level, labor force participation of the elderly and part-time work are positively related (Koske, 2009, p. 16). For example, Wadensjö (2006, p. 14) shows significant effects in a regression analysis with 191 observations in European countries. Nevertheless the total number of hours worked could be negatively affected by part-time work. This is what a study at the University of North Carolina suggests, where part-time pensions have been introduced. By contrast, an analysis of Swedish data from 1974 to 1981 suggests positive effects (p. 29 based on Sundén 1994). Basically, a lifetime approach grants access to part-time work based not on age, but rather on life circumstances (education, unpaid care work, child-raising; Sinclair et al. (2013, p. 46) based on G. Schmid).

Promotion of self-employment. "If careers are longer when being self-employed, then it makes sense to promote entrepreneurship so as to extend working lives" (Contreras et al., 2013, p. 42, leaving aside possible self-selection bias), or "the majority of the self-employed disregard retirement age, as they intend to work as long as they are able or can make a living" (Vidovićová, 2013, p. 18, for the Czech Republic).

In order to promote self-employment, a "bridging allowance" was introduced in Germany in 1986. It is equivalent to lost unemployment benefits and is paid for six months during the start-up period of a business, and requires an approved business plan. The non-profit organization "Gründer 50plus" (50plus Entrepreneurs) helps and advises older workers who want to start their own business (Contreras et al., 2013, p. 44).

In Italy, the employers' association Confindustria initiated a network among mature, laid-off managers to kick-start their self-employment (Socci & Principi, 2013, p. 22). The "Memoro" project in France, Germany, Italy, Spain and the UK uses stories from older entrepreneurs to encourage older people to become self-employed (Rincón-Aznar, 2013, p. 27). In the UK, "The Prince's Initiative for Mature Enterprise (PRIME)"

supports older workers (over 50) starting self-employment with training, mentoring and networking (Wilkinson & Cebulla, 2013, p. 13). In Poland, the Operational Programme for Human Capital Development supports self-employment among the elderly (Styczyńska, 2013, pp. 14–15).

3.5. Health/disability policies

Originally, pensions were a special form of disability insurance for the time when working was no longer possible (Overbye, 1994, p. 157). Among employees in most European countries, health problems are considered the main obstacle to working longer (Sinclair et al., 2013, pp. 42–43).

In Germany, early retirement via disability schemes has been made more difficult. With about 4 per cent of the population between 20 and 64 (a long-term stable figure), Germany has low disability rates, and about half of the disabled were employed in the late 2000s, which is a high proportion (Duell & Vogler-Ludwig, 2012, p. 4).

Besides Germany, many other European countries have made labor market exit via disability schemes more difficult (e.g., Denmark, Norway, Sweden, the Netherlands, Italy and the UK, cf. Keese et al., 2006, p. 97).

Across 18 countries, the coverage and generosity of benefits are strongly correlated to the relative number of recipients (OECD, 2006, p. 71). In the Netherlands, the family physician no longer attests disability, which has reduced disability figures (p. 75). Besides the misuse of health-related exit routes, estimated results based on data from 1990 to 2005 show that in Germany, the UK and the Netherlands bad health is a crucial factor for labor market exit (Schils, 2008, p. 324).

Successful health policies should postpone retirement. On the personal level, estimates of residual life expectancy should be considered. In earnings-related schemes, those expecting to live long could be encouraged to work longer, since their additional contributions are lower than these contributions' positive effects on pension wealth (total pension benefits; Bauknecht, 2013a, pp. 43–44).

3.6. Further vocational training

In contrast to other countries, the proportion of older workers with tertiary qualifications will not rise in Germany between 2000 and 2025; it will drop to an average level. Likewise, the proportion of those with few qualifications will not fall as fast as in other countries. Here, too, Germany stands to lose its excellent position (only the US, Czech Republic and Slovakia had a lower rate of very low-skilled

older workers in 2000) and move closer to the international average (Keese et al., 2006, p. 47).

Older workers are underrepresented in further training (OECD, 2011a, p. 74, based on 21 countries, see also Keese et al., 2006, p. 74). Crucially, the ratio of training (55–64/25–34) is strongly positively related to effective retirement ages and five-year retention rates (55–59/45–49; p. 75). Reverse causality is also possible if lack of training does not lead to low effective retirement ages, but a short pay-back period makes training unattractive (Bovenberg, 2008, p. 34).

Singer and Toomet (2012, p. 3) analyze WeGebAU, a program similar to the British "Train to Gain" program. The training voucher program allows small and medium-sized enterprises to reduce direct training costs by half. Based on Görlitz (2010), Singer and Toomet (2012, p. 3) state that the program could increase training participation by four to six percentage points. Since the participants are not selected randomly, propensity score matching should give a clue about real and spurious effects. Generally, participation reduced the probability of still being employed one and a half years after participation, but increased job-to-job mobility.

> [. . .] a mixed view [. . .] Trainees leave employment with a probability of about 1–2% age points higher than the one for non-trainees while they do not seem to work less during the following one-and-a-half year. The effect on earnings is neither economically nor statistically significant. Our impact estimates are dwarfed by those of somewhat similar programs in the US [. . .] our results are rather in line with various European studies. (Singer & Toomet, 2012, p. 26)

On the other hand, the authors (p. 27) state that the negative impact on employment stability could also be positive due to better job sorting (training enables or motivates employees to search for better jobs). Moreover, the negative effect can be found only in the case of short training (less than eight days).

In Germany, apprenticeship is long and far more important than in some other countries (the US, the UK and partly Sweden). It qualifies for sophisticated tasks and self-learning processes. This may be the reason why further training (on the job or in courses) is less prevalent in Germany than elsewhere (Hillmert & Strauß, 2008, p. 13; see also OECD, 2011a, p. 75; European Commission, 2012, p. 53). The proportion of companies supporting further training rose again between 2002 and 2007, but not the proportion of employees, which remained at

20 per cent, but from about 1980, there has been a long-term rise (numbers refer to the first half year of the survey year; see Kistler, 2008, p. 60). Between 2007 and 2010, participation of older workers in further training rose steeply, especially in the subgroup between 60 and 64 (BMAS, 2013a, p. 51). In the age group between 55 and 64, in a European comparison Germany takes a middle position in formal and informal further education (Duell & Vogler-Ludwig, 2012, p. 6).

Short-term training can improve specific knowledge (language, software, job application writing, job interview skills). It can last up to eight weeks and is shown in most studies to improve labor market performance (Romeu Gordo & Wolff, 2011, p. 203).

In a study based on the "Integrated Employment Biographies" provided by the German Federal Employment Agency and the 50–62 subsample (data collection: August 2005), Romeu Gordo and Wolff (2011, pp. 204ff.) show that higher education fosters on-the-job training participation and that prior training participation has positive effects on classroom training. Previous unemployment reduces the probability of on-the-job training. Positive effects on employment are far higher in the case of on-the-job training than for classroom training, which "keeps many participants busy without creating much of an employment perspective" (p. 214), whereas on-the-job training provides employees and employers with valuable insights. The strong effect of on-the-job training could result from direct contacts to the firm during training, but possibly candidates for on-the-job training differ from those with classroom training in some aspects not held constant with propensity score matching, which results in an overestimation of the positive effects of on-the-job training (p. 215).

German endeavors are in line with the EU's "Agenda for New Skills and Jobs," which considers older workers to be the main losers of economic restructuring (Sinclair et al., 2013, p. 28) and also to be the first to leave during recessions up to 2008 (p. 34).

Underrepresentation of low-skilled workers in further training. Low cognitive abilities lead to a higher discount rate (placing low value on non-immediate benefits), reducing motivation and willingness to participate in training (Antoni, 2011, p. 8, see also Bovenberg, 2008, p. 34; OECD, 2011a, p. 74). Besides, those with low qualifications have low earnings and less financial resources to invest privately in further training (Antoni, 2011, pp. 8–9). In multivariate analyses, formal education and parental guidance (being highly interrelated) have positive effects (p. 11). On-the-job training is positively influenced by weekly working hours, job requirements and company size (p. 14). Furthermore, literacy

skills and cultural capital increase the probability of on-the-job training. Cognitive skills are related not to probability, but to frequency of training (Antoni, 2011, p. 20).

Implicit tax on work at older ages and training participation of older workers are negatively correlated (OECD, 2011a, p. 74), whereas this implicit tax is often high where replacement rates are high (OECD, 2005, p. 152). This coincides with the above-mentioned OECD's (2006, p. 87) idea that lower replacement rates tend to discourage early retirement.

Testing and short-term training measures. Since 1998, such measures have been included in German employment promotion legislation. These training measures are designed to test the ability and willingness of job-seekers to work and to allow for short-term training and probation periods. They are funded for up to eight weeks.

3.7. Opposing age discrimination in employment

Article 21 of the EU Charter of Fundamental Rights rejects "any discrimination based on any ground . . . age." The Council Directive 2000/78/EC "required member states to make illegal the unequal treatment of individuals in employment, recruiting, and training" (Sinclair et al., 2013, p. 27). In 2005, workers aged over 54 had a relatively high level of self-reported age discrimination, second only to those aged between 15 and 24 (EU27, Villosio et al., 2008, p. 26).

The 2000 EU Employment Framework Directive has created a completely new legal context also in Germany. Numerous European countries enacted age discrimination legislation in the 2000s (Keese et al., 2006, p. 105). The Directive has so far remained ineffective.

4. Prospects: Promoting the employability of an aging workforce

Germany has implemented nearly all OECD 2005 recommendations (OECD, 2012, p. 8). Yet pension policies and labor market programs must be supplemented by measures at corporate level (BMFSFJ, 2010). Employability is crucial and needs to be raised by lifecycle-oriented measures (Sinclair et al., 2013, p. 46). This is supported by the new government (CDU, CSU, SPD, 2013, pp. 72, 98). As Sinclair et al. (2013, p. 46) note, welfare states shape decisions such as the timing of retirement, but some policies already shape people's lives when they are younger, thus influencing later developments.

Employability covers both work ability and labor market conditions ("labor marketability of work ability"). Besides individual employability,

organizational employability "must be applied to specific corporate situations and therefore promoted by the companies, for example by qualification measures and career development." According to relevant findings from a study carried out by the IW Institute in Cologne on "personal innovation ability" (Meier & Schröder, 2007), this ability "depends less on a person's age than on work structuring, organizational and occupational biography factors, as relevant studies have shown." Therefore it "can be influenced at an early stage by work organization and structural measures."

Inclusion in gainful employment is preferable to the creation of substitutes or parallel worlds. Against the backdrop of structural changes, employees have to be more flexible (and mobile); this also applies to forms and organization of work (also knowledge-intensive, independently organized and decentralized work in networks). Flexible working times can raise labor market participation, as Gielen (2009, pp. 240ff.) shows for the UK: higher qualification and consequently training are also becoming more vital.

This is accompanied by more favorable cohort conditions among the upcoming generations of older employees. The structural change in employment is becoming a demographically sensitive issue in corporate and occupational policies in enterprises.

Corporate age management is crucial for employability, aiming at anticipatory human resource management throughout the entire employment biography, instead of being limited to the provision of age-based working conditions for older employees.

Age management can be described as follows:

> Consideration of age-related factors [. . .] in the daily management, design, and organization of individual work tasks, as well as the work environment, so that everybody, regardless of age, feels empowered to reach both personal and corporate goals. (Ilmarinen, 2006)

Modern corporate age management includes health protection and promotion, lifelong learning components, personnel development and career planning (including internal and external promotion of mobility), flexible working hours, adjustments to occupational biographies (with appropriate provisions for social security and flexible transition to retirement) and motivation enhancement (e.g., through quality of work or management style).

This should be embedded in a lifecycle-oriented personnel policy which is not focused on age limits. The German Bundestag Committee

of Enquiry into Demographic Change already presented arguments to that effect in its final report in 2002, when it advocated "a biography-oriented employment policy," mainly at the corporate level. Such a policy should explicitly address the career characteristics of typical employment risks and problems facing older workers and be aimed primarily at limiting and counteracting such risks at an early stage, as these risks can lead to negative long-term effects on employability (Deutscher Bundestag, 2002).

Accordingly, the main issue is not older workers, but rather a different concept of employment biographies. The various age-related situations in life and levels of education in particular can be taken into account in order to utilize the competencies of older workers and the potentials of age-mixed staff.

A lifecycle-oriented personnel policy amounts to a human resources management system that adapts to employees' needs from occupational choice to retirement. Such a system adapts human resources policy measures to increasingly heterogeneous lives. The following cycles should be considered in corporate employment policy:

- occupational lifecycle (from choice of occupation to retirement)
- corporate lifecycle (from joining to leaving a company)
- job-related lifecycle (from taking up to leaving a position)
- family lifecycle (from parenting to care-giving)
- biosocial lifecycle (orientation on "age-related" changes in performance)

A lifecycle-oriented corporate personnel policy is part of an all-encompassing social biography policy. In connection with occupational biographies three objectives can be identified:

(1) Safeguarding continuity throughout the entire occupational lifecycle
(2) Support in desirable flexibility and discontinuity, for example, to promote individual adjustments of working hour schedules to typical changes in personal needs during various stages in life
(3) Facilitation of and support in occupational status transitions (e.g., from phases of education, housekeeping or unemployment to gainful employment and vice versa, transitions between full-time and part-time jobs or between different forms of employment, job changes, transition to the post-retirement stage) (Flüter-Hoffmann, 2010)

A considerate lifecycle-oriented personnel policy offers numerous advantages to companies at various stages of employees' biographies

(Naegele & Sporket, 2010, p. 469 show this in detail). Meanwhile, there are numerous good practice examples in companies of different sizes and in different sectors (for a short overview see Naegele & Bauknecht, 2013, pp. 22ff.). Since in most companies the lack of skilled labor is not an immediate concern but expected in the coming years, it is to be expected that many companies will emulate existing practices or think up new strategies.

Note

1 The [sometimes automatic] adjustment of the retirement age to life expectancy development is, for example, also among the OECD's (2007a, p. 81) recommendations for Greece, Slovenia (Koske, 2009, p. 29), France (Jamet, 2006, p. 35) and Austria (OECD, 2007b, p. 93).

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10

Changing Retirement Transitions in Times of Paradigmatic Political Change: Toward Growing Inequalities

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1. Introduction

For almost three decades since the 1970s, many European countries followed a strategy of early retirement to mediate the repercussions of increasing globalization and rising economic insecurities (Blossfeld et al., 2006, 2011). Initially intended only as a temporary strategy, early retirement soon turned into a common political practice. The establishment of early retirement as a labor market phenomenon was accompanied by the gradual emergence of an "early retirement culture," that is, the shared perception by both employers and employees of early retirement as a "normal" way to exit from employment. However, given foreseeable population and labor force aging, many European governments in the last decade have taken a paradigmatic shift from "early exit" to "active aging" policies aiming at the promotion of longer labor market maintenance of workers approaching formal retirement ages.

The aim of this chapter is to highlight how these recent institutional changes have influenced the labor market situation of older workers. The chapter approaches this question from two perspectives: Whereas the first part of the chapter is concerned with past retirement trends up to the present, the second part aims to provide a contrasting outlook on possible future trends examining the retirement planning of current employees. We use data from the European Social Survey (ESS) providing, on the one hand, retrospective information about when people retired to explore whether and how the timing of retirement has changed over the last three decades across European countries. We go beyond previous research on early retirement transitions by distinguishing between early exit decisions and decisions to work up to or even past

the statutory retirement age. On the other hand, we utilize information about preferred retirement ages among the currently employed population to investigate future retirement plans of those that have spent larger parts of their employment life under the active aging paradigm.

With regard to both past retirement trends and future retirement plans, the chapter follows a twofold analytical focus. First, we aim to provide an overview of cross-national differences. Previous research has pointed to the considerable variability in older workers' employment rates across modern societies from the 1970s up to the millennium turn. Much of these cross-national differences were traced back to different institutions either fostering early exits or employment maintenance, resulting in a polarization between "early exit" and "late exit" regimes (Kohli et al., 1991; Blossfeld et al., 2006, 2011; Ebbinghaus, 2006). In this chapter, we aim to supplement this well-developed focus on variations in early retirement throughout the last decades with a perspective on developments in more recent years, characterized by significant institutional changes. How has employment participation developed in this more recent period? Are older Europeans adapting both their retirement behavior and their preferences to recent institutional changes? And can the established differentiation between "early" and "late" exit countries still be upheld under these changing conditions?

Retirement transitions and desires, however, differ not only between but also within countries. As demonstrated by earlier research (Blossfeld et al., 2006; Hofäcker and Naumann, 2015), it has traditionally been specific labor market groups that have shown a tendency to work longer (such as self-employed or individuals with high occupational status) while others have been more likely to exit early (such as lower-skilled individuals). The second analytical focus of this chapter is thus on the intra-national variation in retirement behavior and preferences. Who is likely to retire early (respectively late) within European countries and how has this probability changed over time?

2. Theory and previous findings

Determinants of older workers' decisions to retire before, at or after legal retirement ages have been categorized into three groups: retention, push and pull factors (Ebbinghaus and Hofäcker, 2014). Retention factors are conditions that explicitly support longer working lives, whereas push and pull factors are assumed to promote early employment exit. Push factors can be understood as negative conditions that crowd out older workers from employment, while pull factors are positive incentives

that make (early) retirement more attractive. In this chapter, we adopt this categorization but will stress its link to rational choice theory as a more general decision theory in order to emphasize our understanding of retirement as an individual decision. Moreover, combining retention, push and pull factors with a rational choice perspective complements the existing institutional literature with a well-developed theoretical basis in general action theory, thus bridging the gap between existing micro and macro approaches.

Although rational choice theories might not adequately explain all decisions we assume that they are well suited to explain individual retirement decisions (Guillemard and Rein, 1993). First, retirement decisions can be assumed to be dominated by rationality and analytical thinking since people have time to decide. They can even inform themselves about the consequences of their decision and usually have the most relevant information available. In many countries people receive yearly information about actual pension claims from their private or state pension insurer and can thus directly compare their wage with their potential pensions. Second, recent developments of rational choice theories expand the narrow focus on material payoffs and allow for the inclusion of subjective utility, but also of conditions at the societal level such as norms, institutions or cultural differences (Opp, 1999; Bicchieri, 2006; Kroneberg and Kalter, 2012). It is thus possible to further adopt a multilevel perspective proposed by existing psychological research on the driving forces behind retirement decisions and to distinguish between socioeconomic and political factors, job and organizational factors and individual factors (Shultz and Wang, 2011). In the following, we shall theoretically outline different types of determinants of older workers' retirement transitions and preferences which will be subsequently tested empirically.

2.1. The decision to work up to or past the legal retirement age

Applying rational choice theories to the retirement decision, we assume people to compare the subjective expected overall utility of working up to or past retirement age with the subjective expected overall utility of retiring early (Figure 10.1).[1] People continue working if the overall utility of working up to or past the statutory retirement age – which is the difference between its utility and cost – is higher than the overall utility of early retirement. The utility of working longer can be understood as being influenced by retention factors whereas the costs are determined by existing push factors. On the other hand, the utility of early retirement corresponds to pull factors that make early retirement more

$$\underset{[retain]}{u_{65+}} - \underset{[push]}{c_{65+}} > \underset{[pull]}{u_{early}} - \underset{[repel]}{c_{early}}$$

u_{65+} e.g.,wage, increase of pension claims, work motivation, reward and appreciation in the job, job satisfaction, retirement norms encouraging longer working lives

c_{65+} e.g., decline of health status[1], age discrimination, bad labor market situation, 'early retirement culture'

u_{early} e.g., generous early retirement options, leisure time, caring duties

c_{early} e.g., fear of social isolation, decline of health status

Figure 10.1 The utility to work up to or beyond the statutory retirement age or to retire early

attractive. Until now there is only very little research and consequently also no popularly accepted label for the costs associated with early retirement. We term them here as "repel" factors since they keep people off from early retirement.

Retirement decisions of individual rational actors are influenced by both macro-level as well as micro-level factors: Institutional conditions at the nation-state level frequently set the relevant opportunities and constraints for retirement decisions within a population (e.g., through setting retirement ages). Yet, under these given framework conditions, opportunities and constraints for work versus retirement may also differ according to individual attributes and situational characteristics.

In the last two decades, generous early retirement schemes have been the main institutional pull factors making early retirement more attractive (Phillipson and Smith, 2005; Hallberg and Eklof, 2010). Economic research (Blöndal and Scarpetta, 1999) has vividly demonstrated how the implementation of generous financial incentives through pension or other welfare state transfer systems has contributed to substantial declines in older workers' labor force participation within OECD countries. These generous exit incentives often stood in close connection with respective push factors that "crowded out" older workers from employment. Beyond cyclical downturns, such institutional push factors often were reflected in rigid labor market regulations and developed seniority pay systems that turned older workers into a comparatively costly

workforce (Blossfeld et al., 2006). These competitive disadvantages were frequently exacerbated through increasingly outdated qualifications acquired early in the life course. Up to the turn of the millennium, only few countries in fact employed institutional retention policies to counteract these trends, for example, through fostering lifelong learning or implementing active labor market policies for older employees.

Comparative empirical research (Blossfeld et al., 2006; Ebbinghaus, 2006) have demonstrated that the interplay of pull, push and retention factors often revealed notable complementarities, resulting in a polarization between "early" and "late exit regimes." Especially Central European countries (such as Germany, the Netherlands and France) have frequently been regarded as typical showcases of "early exit regimes," in which various early retirement pathways were institutionalized in response to the rising problems of older workers, resulting from demographic competition through young "baby-boomer cohorts" and an increasing discrepancy between high seniority protection and wages and often outdated qualification profiles. Scandinavian countries, especially Sweden, Norway and Iceland, in many respects constituted the exact opposite as "traditional late exit regimes" – where active labor market and training programs ensured the "employability" of older workers up to or even beyond formal retirement ages – that were rarely supplemented by early retirement pathways. "Liberal" countries such as the United States or the United Kingdom often achieved a similar outcome through less generous public pension systems that necessitated long working lives, frequently facilitated through flexible labor markets.

Possibly the most important set of retention factors at the micro-level are financial reasons. By extending working lives, people can earn higher wages (as compared with their potential pensions) but also increase their future pension claims. People with higher financial needs such as outstanding mortgages tend to work longer (Higgs et al., 2003; Smeaton and McKay, 2003; Proper et al., 2009). In addition to these financial retention factors, a high job satisfaction (Griffin and Hesketh, 2008; Gobeski and Beehr, 2009) and the perception of the job as being interesting and challenging (Proper et al., 2009; van den Berg, 2011) increase the likelihood of working up to or beyond the statutory retirement age. Related to these individual characteristics, workplace factors also play a major role for retirement decisions. Employees with a high job autonomy and self-determined work (Maxin and Deller, 2010; Oude Hengel et al., 2012) and those experiencing their supervisor's support or appreciation (Geuskens et al., 2012) continue to work until the statutory retirement age. Finally, as previous research shows, organizational

and workplace retirement norms also affect the retirement decision (Vickerstaff, 2006; Wang and Shultz, 2010; Lain, 2011).

Poor health (Higgs et al., 2003; Phillipson and Smith, 2005; Gobeski and Beehr, 2009; Oude Hengel et al., 2012), stress and emotional exhaustion (Geuskens et al., 2012; Oude Hengel et al., 2012) are the main factors determining the costs of continuing to work. Bad health as a push factor can make the continuation of work impossible, rendering all other factors irrelevant.[2] Age discrimination (Geuskens et al., 2012) and a bad labor market situation are further push factors reducing the overall utility of working up to or beyond the statutory retirement age. Moreover, the prospect of increased leisure time to be spent either with the partner or with grandchildren is a strong motive for early retirement (Higgs et al., 2003; Parry and Taylor, 2007). A similar argument refers to caring duties that pull people out of their work (Phillipson and Smith, 2005).

Much less attention has been paid to the costs linked to early retirement. Previous research occasionally suggests that older adults have a higher risk of being socially isolated or feeling lonely which is then linked to a declining health status (Coyle and Dugan, 2012; Perissinotto et al., 2012). Whereas people seem to be aware of these costs associated with early retirement (Lim, 2003; Lillyman and Land, 2007), there is only scarce evidence on whether and how these repel factors affect the retirement decision and make people postpone their retirement (Zappalà et al., 2008).

The review of previous sociological, psychological and economic research has outlined the most relevant determinants of the retirement decision. Recent societal trends such as an increased longevity, pension reforms and changing labor market conditions, however, might have considerably changed some of the factors of the retirement decision over the last decades. In the next section, we will turn to the question of how retention, push, pull and repel factors are affected by these trends and whether one can expect changing retirement patterns as a consequence.

2.2. The effect of population aging and recent policy trends on the retirement decision

Various societal trends suggest that on the aggregate level the share of people working up to or beyond retirement age is likely to increase. First, structural economic change has led to a gradual transformation from physically demanding "blue collar" occupations to physically often less strenuous work in the service sector. Consequently, the costs of working longer – the push factors – have decreased so that future retiree cohorts possibly will be more able to work longer than their predecessors. This trend of a decrease in manual work occupations and,

hence, less physically exhausted workers is accompanied by a rise in life expectations in general, as well as in disability-free (i.e. "healthy") years. Second, policymakers have realized that increasing life expectancy and decreasing fertility rates are financially putting stress on the health care, nursing and pension systems, and this pressure is being intensified by early retirement policies. Therefore recent policy reforms toward promoting longer working have reduced the strength of pull factors, thus making early retirement less attractive. Most obviously, this applies to cuts in early retirement benefits, the closing of alternative pathways out of employment through public transfer schemes and the scaling down of occupational pension schemes. Moreover, recently many countries have raised the formal retirement ages (e.g., the Czech Republic, Germany and the United Kingdom) for future retirement cohorts, thus making early retirement even more costly. At the same time, the anticipation of future labor shortage in some sectors and the need to make pension systems sustainable in times of demographic aging has led to the expansion of a number of policy programs aiming at improving older workers employability and facilitating longer working life, often summarized under the synonym of "active aging" (Jepsen et al., 2002).

Taken together, the above trends suggest that on the aggregate level, the likelihood to continue working up to or even beyond legal retirement age has risen over the last decades. Increased healthy life expectancy, less strenuous workplace conditions and rising investments into employability programs decreased the costs older employees face when working up to (or beyond) legal retirement ages. At the same time, cuts in early retirement opportunities and financial incentives for continued employment decreased the forces that pull older employees out of work.

However, these changes might affect employees in different social positions in dissimilar ways (Hofäcker and Naumann, 2015; Radl, 2012), potentially leading to an increase in societal inequalities (Figure 10.2). Especially for highly skilled employees in rather prestigious white-collar

High-skilled workers	$u_{65+} \uparrow\uparrow - c_{65+} \downarrow\downarrow$	$>$	$u_{early} \downarrow - c_{early}$
	$[retain]$ $[push]$		$[pull]$ $[repel]$
Low-skilled workers	$u_{65+}(\uparrow) - c_{65+}(\downarrow)$	$>$	$u_{early} \downarrow\downarrow - c_{early}$
	$[retain]$ $[push]$		$[pull]$ $[repel]$

Figure 10.2 Heterogeneous effects of increased longevity and political reforms on the retirement decision

jobs, most changes in contextual conditions will likely be supportive of continued employment. Both their relatively better state of health (decreasing costs of continued employment) and their higher work-relevant skills (increasing utility of continued work) – originating from their initial education as well as the higher likelihood of having received additional training throughout their work career – will make work continuation more attractive for them (Lain, 2012). Moreover, the opportunity to increase their pension claims will provide positive financial incentives for continued employment, whereas the decreased utility of early retirement has a comparable weak effect on the retirement decision. For most high-skilled workers we thus expect a predominant pattern of voluntary late retirement; that is, we assume that they do not necessarily have to but do have a strong desire to continue working. In contrast, for lower-skilled workers, the interplay between costs and benefits of continued employment will be markedly different. Especially for those with lower income, the financial need for work continuation can be expected to be higher, given the reduced opportunities for a financially sustainable early exit from employment and the more actuarially neutral design of reformed pension systems, implying a stronger equivalence between pension contributions and pension payments (reduced pull factors). However, their lower qualification profile, the frequent lack of participation in continued education and training measures and the physically more demanding working conditions will constrain their ability to remain in employment – either because they cannot postpone their labor market exit for health reasons or because they face difficulties in finding adequate employment due to their lower and often not renewed qualification profiles. In other words, while pull factors have been reduced significantly by recent reforms, both push and retention factors have remained largely stable. Financial needs make work continuation a necessity, even if this conflicts either with the willingness to continue working – likely resulting in involuntary late retirement – or the ability to do so – likely resulting in a premature crowding out from employment, that is, involuntary early retirement. In terms of their motives and degrees of voluntariness, we rather expect a modest convergence in terms of the timing of retirement transitions but simultaneously a polarization through different retirement motives between groups with high and low education.

3. Data

Our analyses are based on data from the European Social Survey (ESS). The ESS is a biennial survey collecting data on the beliefs, behavior

and attitudes of European citizens. It covers over 30 countries and its data were collected between 2002 and 2010. We restrict our analysis to the EU-27 plus Norway and Switzerland. Due to insufficient sample sizes for some countries we include only 20 countries in our analyses (Belgium, Switzerland, Czech Republic, Germany, Denmark, Estonia, Spain, Finland, France, United Kingdom, Greece, Hungary, Ireland, the Netherlands, Norway, Poland, Portugal, Sweden, Slovakia and Slovenia).

We use the available ESS data to (i) retrospectively analyze the retirement behavior of current pensioners as well as (ii) the prospective retirement plans and expectations of those still employed. In the retrospective analyses, we include respondents from all five rounds that reported to have exited their last job before the interview date.[3] We calculate the respondents' age at the time of this employment exit to distinguish between three types of retirement: early retirement (before age 65), normal retirement (at age 65) and late retirement (beyond age 65).

In order to trace changes in labor market exits across time and throughout the gradual move from "early retirement" to "active aging policies" we distinguish respondents leaving the labor market in the 1990s (N = 7.527) from those leaving the labor market in the 2000s (N = 7390). For the analyses of the prospective retirement plans we use those respondents from round five[4] that were 45 years or older and still in employment. The retirement plans are measured using the respondents' desired age of retirement.[5] Again, we split the respondents into two cohorts depending on the year when they are expected to "normally" retire, that is, the year when they will become 65 (2010–19 [N = 5600] and 2020–29 [N = 6986]).

The decision to use the age of 65 across all countries and for both sexes as the criterion for differentiating types of retirement for the actual and desired retirement age is based on common political (e.g., the targets of the EU 2010 Lisbon agenda) as well as scientific conventions (e.g., the use of the same age limit by the OECD) to consider workers below 65 as "early retirees." Still it must be acknowledged that actual statutory retirement ages vary across Europe and in some countries also between women and men, but these retirement ages in Europe are converging between countries and between sexes. A trend in Europe toward raising the retirement age can be perceived and in most countries this increase is toward the age of 65 (see Ebbinghaus and Hofäcker, 2013). Only in two countries included in our sample did the gender difference in the official retirement age exceed one year, namely in Poland and in the United Kingdom. In summary, providing a meaningful comparison of 20 countries comes at the cost of not including every institutional particularity. Therefore, this chapter uses the age of

65 as a general distinguishing factor to allow a broad international comparison of retirement ages and preferences and to explore whether the shift to the policy of "active aging" has increased social inequality in Europe.

We complement more detailed studies that compare unique labor market and pension systems of only two or three countries (Fasang, 2012). The ESS with its cross-country harmonized data is well suited for such a purpose. Nevertheless it has the disadvantage of being a cross-sectional survey and is composed of only retrospective data (instead of panel data as used for example in Fasang, 2012), and hence, we cannot reconstruct the complexity of retirement trajectories and their determinants longitudinally and are restricted to time-invariant independent variables to explain retirement behavior. Our main independent variable is thus education. As argued before, education can be considered as a good proxy to capture the major aspects of push, pull, retention and repel factors. To account for a possible nonlinearity in the effect of education, we introduce three different dummy variables instead of including the years spent in education as a continuous variable. These dummy variables reflect a lower secondary degree or less (EU-ISCED I/II), upper secondary education and higher vocational (EU-ISCED III/IV/V) and tertiary education (EU-ISCED VI/VII). Occupational position (self- or dependently employed) and company size (small = less than 10 employees, middle = more than 10 and less than 100 employees and large = more than 100 employees) serve as control variables. All analyses were run separately for women and men to account for gender differences in retirement behavior and desires.

Our strategy of analysis consists of two steps. In the first, we give a descriptive overview of the shares of the three types of retirement (early retirement, normal retirement and late retirement) in the two retirement cohorts (1990–99 and 2000–09), and an overview of the desired retirement age of the two future retirement cohorts (2010–19 and 2020–29). In the next step we conduct multinomial multilevel regression models for retirement behavior and multilevel linear regressions to explain retirement planning.

4. Results

To begin with, Table 10.1 presents an overview of past retirement behavior of current pensioners, comparing the two retirement cohorts 1990–99 and 2000–09 in 20 European countries. We distinguish three types of retirement timing, depending on whether labor market exit occurred before age 65 ("early"), at age 65 ("normal") or thereafter ("late"). Results

Table 10.1 Share (%) of "early," "normal" and "late" retirement in 1990–99 and 2000–09 cohorts

		Conservative				**Liberal**			**Southern**		
		BE	**DE**	**FR**	**NL**	**CH**	**UK**	**IE**	**ES**	**GR**	**PT**
Early retirement											
Men	90–99	0.88	0.85	0.91	0.86	0.56	0.63	0.58	0.53	0.75	0.60
	00–09	0.82*	0.77*	0.94	0.72*	0.57	0.50*	0.55	0.61*	0.71	0.58
Women	90–99	0.91	0.92	0.88	0.89	0.83	0.78	0.78	0.54	0.65	0.67
	00–09	0.89	0.88	0.88	0.79*	0.79	0.72*	0.67*	0.66	0.60	0.60*
Normal retirement											
Men	90–99	0.09	0.10	0.04	0.07	0.27	0.22	0.27	0.39	0.14	0.18
	00–09	0.11	0.12	0.04	0.15*	0.27	0.28	0.21	0.30*	0.14	0.2
Women	90–99	0.03	0.04	0.09	0.10	0.05	0.07	0.08	0.38	0.17	0.18
	00–09	0.08	0.05	0.07	0.09	0.05	0.10	0.13	0.25	0.27*	0.2
Late retirement											
Men	90–99	0.04	0.05	0.05	0.07	0.17	0.15	0.15	0.08	0.11	0.22
	00–09	0.07	0.11*	0.01*	0.12*	0.17	0.22*	0.24*	0.09	0.15	0.21
Women	90–99	0.06	0.04	0.03	0.01	0.12	0.15	0.14	0.08	0.19	0.15
	00–09	0.03	0.07*	0.04	0.12*	0.16	0.19	0.20	0.09	0.13	0.19

(*continued*)

Table 10.1 (continued)

		Eastern						Social-democrat			
		CZ	**EE**	**HU**	**PL**	**SI**	**SK**	**DK**	**FI**	**NO**	**SE**
Early retirement											
Men	90–99	0.84	0.76	0.95	0.83	0.96	0.95	0.74	0.86	0.53	0.59
	00–09	0.88	0.59*	0.93	0.72*	0.93	0.93	0.77	0.76*	0.52	0.50
Women	90–99	0.91	0.77	0.92	0.86	0.88	0.94	0.84	0.87	0.53	0.66
	00–09	0.90	0.64*	0.95	0.89	0.97	0.93	0.84	0.9	0.57	0.45*
Normal retirement											
Men	90–99	0.04	0.06	0.01	0.07	0.01	0.02	0.07	0.10	0.12	0.28
	00–09	0.04	0.11	0.02	0.11	0.03	0.02	0.06	0.12	0.08	0.3
Women	90–99	0.02	0.07	0.03	0.03	0.02	0.02	0.04	0.07	0.11	0.28
	00–09	0.02	0.07	0.01	0.01	0.02	0.03	0.05	0.06	0.10	0.36*
Late retirement											
Men	90–99	0.12	0.18	0.04	0.11	0.03	0.03	0.19	0.04	0.35	0.14
	00–09	0.07	0.16	0.05	0.11	0.10	0.04	0.16	0.12*	0.4	0.2
Women	90–99	0.08	0.30*	0.05	0.17	0.04	0.05	0.12	0.06	0.36	0.06
	00–09	0.08	0.28*	0.04	0.10	0.02	0.05	0.12	0.04	0.3	0.18*

Asterisks indicate a significant difference ($p < 0.05$) between the 1990–99 and 2000–09 cohorts.

Source: European Social Survey 2002–10 (own calculations).

for the cohort of 1990–99 largely reflect the "traditional" distinction of "early" versus "late retirement regimes (see for example Blossfeld et al., 2006; Ebbinghaus, 2006)." Relative shares of early retirement before the politically envisioned benchmarking age of 65 are particularly high in most East European welfare states (Czech Republic, Estonia, Hungary, Poland, Slovakia and Slovenia) as well as in a number of conservative countries (Germany, France, Belgium and the Netherlands), that is, in countries where early retirement policies were widely used throughout this time period. In contrast, early retirement is clearly less common in liberal economies (United Kingdom, Ireland and Switzerland) and Southern European welfare states (Spain, Greece and Portugal), where early retirement accounts for between a half and two-thirds of all retirement transitions in the 1990s. Further analyses, however, suggest that the higher rates of normal and late retirement in Southern Europe are partly driven by the comparatively high share of self-employed in both agriculture and small family businesses that tend to retire late, while exit patterns among the dependently employed show more similarities to the "Central European model." A diverse pattern is observed among Scandinavian countries: While both Norway and Sweden largely approximate the pattern observed for liberal countries, shares of early retirement are markedly higher in both Denmark and Finland. Indeed, it was the latter two countries that, when being faced with economic recession in the 1990s, opened up attractive early exit opportunities through either existing transfer systems (unemployment insurance in Finland; Hytti, 2004) or specific early retirement programs (the "efterløn" scheme in Denmark; Hofäcker and Leth-Sörensen, 2006) to reduce labor market pressures.

Comparing trends in the 1990s to that within the last decade, however, reveals a notable turnaround in retirement patterns, much in line with the paradigmatic changes in public policies throughout the last decade (see section 2.2). When contrasting patterns of retirement timing in the 1990–99 and the 2000–09 period, it is obvious that in the majority of European countries, the share of early retirement has decreased while an increasing share of retirement transitions occur at age 65 respectively thereafter. This trend is particularly pronounced in Estonia, the Netherlands and Sweden where early retirement declined by more than ten percentage points, accompanied by substantial increases in working beyond age 65. The most notable exception is Spain, where early retirement increased by almost ten percentage points between the cohorts of 1990–99 and 2000–09. An explanation for this resurgence of early retirement might be the ongoing financial crisis since 2007 from which Spain suffered severely (Guichard and Rusticelli, 2010).

This explanation is supported by the observation that the share of early retirement increased drastically from 50 per cent to over 70 per cent in 2009. Economic turmoil thus has made it more likely for older Spanish workers to be crowded out from employment into either unemployment or early pension receipt.

Following the descriptive overview of cross-country variations in the shares of retirement types, we now turn to the analysis of intra-country differences related to individual characteristics. Table 10.2 displays the results of multilevel multinomial logistic regression models that predict the type of retirement timing by individual characteristics. Since former analyses have shown that individual characteristics affect female and male retirement behavior differently, we report the results for women and men separately. Finally, to assess whether the effect of individual characteristics differs across time periods, we further differentiate the results by cohort.[6]

Control variables indeed show the expected effects: Self-employed more often retire either at the normal retirement age or even later than

Table 10.2 Multilevel multinomial logistic regression on "normal" and "late" retirement with "early" retirement as reference category

	Men		Women	
	1990–99	**2000–09**	**1990–99**	**2000–09**
Normal retirement				
Lower secondary education and less[a]	0.03(0.13)	0.66(0.12)***	0.32(0.27)	0.80(0.17)***
Tertiary education[a]	0.47(0.16)***	0.36(0.15)**	0.31(0.17)*	0.65(0.21)***
Small company (<10 employees)[b]	0.22(0.15)	0.08(0.14)	0.15(0.18)	0.66(0.17)***
Large company (>100 employees)[b]	–0.31(0.13)**	–0.17(0.13)	–0.45(0.20)**	–0.17(0.21)
Self-employed[c]	0.77(0.16)***	0.90(0.15)***	0.76(0.24)***	0.57(0.22)***
Late retirement				
Lower secondary education and less[a]	–0.29(0.13)**	0.12(0.12)	0.10(0.14)	0.29(0.14)**
Tertiary education[a]	0.97(0.15)***	0.63(0.13)***	0.06(0.22)	0.56(0.16)***
Small company (<10 employees)[b]	0.40(0.15)***	0.02(0.14)	0.41(0.15)***	0.66(0.14)***
Large company (>100 employees)[b]	–0.29(0.14)**	–0.23(0.12)**	–0.17(0.17)	–0.21(0.17)
Self-employed[c]	0.81(0.16)***	1.21(0.15)***	0.78(0.21)***	0.52(0.19)
N	4126	4035	3246	3211
Interclass correlation	0.27	0.25	0.14	0.21

Reference categories: [a]Upper secondary and higher vocational, [b]Middle, [c]Dependently employed;
***$p < 0.01$; **$p < 0.05$; *$p < 0.1$.

Source: European Social Survey 2002–10 (own calculations).

those dependently employed (Schils, 2008). The effects of company sizes furthermore suggest that employees in smaller firms tend to retire later than those working in middle-sized companies, while the reverse is true for those in larger companies, likely reflecting both higher rationalization demands as well as the higher incidence of institutionalized opportunities for early retirement (e.g., through company pensions) in larger firms.

As for education, our results show that people with tertiary education are more likely to work up to age 65 or beyond. With the exception of women working longer than 65 in the older cohort, significant effects are found in both cohorts and for women and men alike. Previous research has described such individuals as "silver workers," which continue employment for reasons of high work identification, maintenance of social contacts and other voluntary motives (Deller and Maxin, 2009). For the lower-educated the picture differs between women and men. For men retiring in the 1990s, a lower education apparently reduces the likelihood of late retirement while there appear to be no differences between those with lower and upper secondary education regarding "normal" retirement. This finding seems to reflect the widespread policy of early retirement used until the 1990s which particularly targeted less educated blue-collar workers whose qualifications were considered to be at odds with rapidly changing occupational structures (Blossfeld et al., 2006) and, thus, often led to extraordinarily high pull forces for this labor market group. Notably, however, this effect reverses for retirement transitions in the 2000s in which lower educational attainment actually significantly enhances the chances of "normal retirement" at 65 as compared with those with upper secondary and higher vocational education. At the same time, the likelihood of those with lower educational status to work beyond age 65 no longer appears to be lower than that of those with upper secondary education. For women, we find a different picture. Between 1990–99 women's retirement ages do not differ much between educational levels, with only highly educated women being more likely to retire at age 65 than those with secondary education. For the period 2000–09, however, a pattern resembling that found for men emerges with a significantly higher likelihood for higher as well as lower-educated women to work up to 65 and beyond. Taken together, these results suggest that for both sexes, a pronounced U-shaped connection between education and retirement age (i.e., both higher- and lower-educated older individuals tend to work longer than those with "medium"-level education) appears to develop in the retirement cohorts of the 2000s. Although the available data do not allow for an immediate test of the reasons for retirement, the theoretical considerations in section 2 suggest

that for those with lower education, longer working life is not primarily the result of a deliberate preference (as for higher-educated workers) but may be traced back to financial necessities (see also Hofäcker and Naumann, 2015). The decision is thus more likely to be of an involuntary nature in contrast to the voluntary extension of work life often found among higher-educated workers (Hofäcker et al., 2012).

Figure 10.3 shifts the perspective from a retrospective analysis of retirement transitions of current pensioner cohorts to the prospective analysis of retirement expectations among current employees. Again, we first compare the two cohorts descriptively. Notably, there continues to be a preference for retirement before reaching age 65 in all European countries. Differences between early and late retirement regimes, however, are again observed, with highest desired retirement ages in Scandinavian and liberal countries, while lowest values prevail among Eastern European nations. Notably, the desired retirement age is lower for the cohort of 2020–29 than for the cohort of 2010–19 in all countries

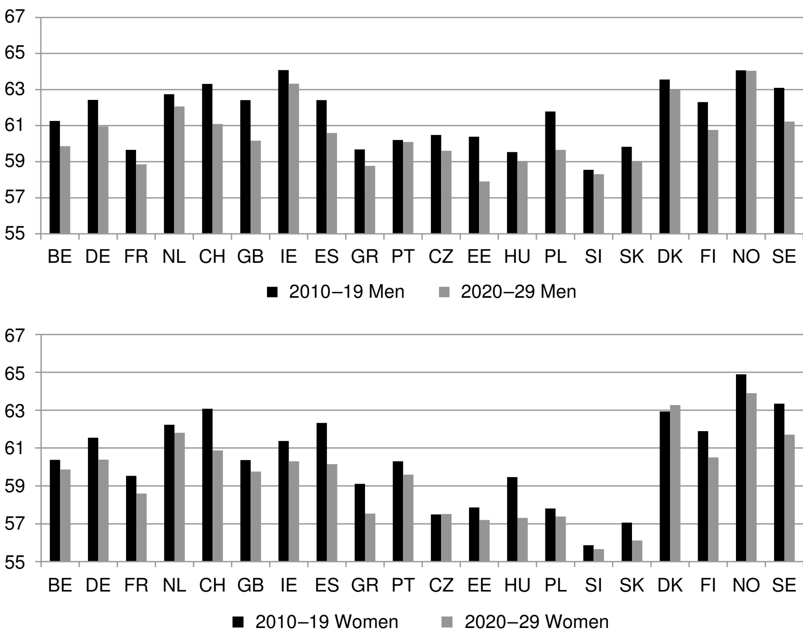

Figure 10.3 The average desired retirement age for the cohorts 2010–19 and 2020–29
Source: European Social Survey 2002–10 (own calculations).

except for Denmark. Two facts must be kept in mind when interpreting these results. First, cohort differences are rather modest. Second, the respondents in the first cohort are on average ten years older than those in the second cohort, which may affect their retirement preferences. Ekerdt et al. (1976, p. 161) describe this age effect as a "[. . .] trend in the direction of older workers preferring a later retirement age over time" with major changes "to occur in the early 50s" (ibid.). Yet, despite the fact that this age-specific response behavior may aggravate a direct comparison of aggregate figures on desired retirement ages, it can be assumed that due to the continuous effect of human capital endowment or labor market chances, relative education-based differences in retirement desires may be largely unaffected by this shift.

To investigate these differences, Table 10.3 presents the results of a linear regression, considering influences of individual and workplace characteristics on desired retirement age, differentiated both by potential retirement cohorts (2010–19 versus 2020–29) and by gender. Effects of the control variables again are in line with expectations and reflect the results found in previous studies (Esser, 2006; Hofäcker et al., 2010). In line with Eckert's thesis of the age dependency of retirement preferences, results for women in the earlier cohort indicate that the older the respondents are, the longer they want to work. Self-employed workers prefer to work longer than those in dependent employment. The effects of the company's size, although only significant for men in the 2020–29 cohort, suggest that workers in small companies prefer to work longer, while those in larger companies wish to retire earlier.

Table 10.3 Multilevel linear regression on desired retirement age

	Men		**Women**	
	2010–19	**2020–29**	**2010–19**	**2020–29**
Lower secondary education and less[a]	–0.11(0.22)	0.27(0.26)	–0.08(0.19)	0.16(0.21)
Tertiary education[a]	1.24(0.23)***	1.34(0.25)***	0.59(0.21)***	0.75(0.20)***
Age	0.00(0.00)	0.00(0.01)	0.08(0.03)***	0.01(0.00)
Small company[b]	0.12(0.24)	0.29(0.27)	0.16(0.20)	0.02(0.20)
Large company[b]	–0.24(0.21)	–0.51(0.24)**	–0.11(0.19)	–0.19(0.19)
Self-employed[c]	1.51(0.27)***	1.03(0.30)***	1.33(0.30)***	1.20(0.27)***
N	2725	2853	2875	3133
Interclass correlation	0.33	0.30	0.57	0.50

Reference categories: [a]Upper secondary and higher vocational, [b]Middle, [c]Dependently employed; ***$p < 0.01$; **$p < 0.05$; *$p < 0.1$.

Source: European Social Survey 2002–10 (own calculations).

Turning to the effects of education, our results show that in both cohorts, women and men with tertiary education plan to retire later. These employees may again be high-skilled workers who identify with their job and also have the resources to prolong their work life. Yet, in contrast to our analysis of the retirement behavior, we find no significant connection between lower education and the desired retirement age. Assuming that the trend toward late retirement among the low-educated persists in the coming decade, low-educated workers that currently wish to retire early will have to work for longer. This contrast between desired earlier exit and the potential need for longer working life supports our hypothesis of involuntary late retirement patterns among the low-educated.

5. Conclusion

This chapter took an internationally comparative angle to investigate the changing labor market situation of older workers throughout the shift from a policy of early retirement to the paradigm of "active aging" and "longer working life." It approached this question by looking at both aggregate trends at the national level and intra-national differences in past retirement trends, on the one hand, and future retirement preferences of current employees, on the other hand. Taken together, our results show that despite cross-national variations, employment participation among older workers has risen notably throughout the last two decades in most European countries. As for working past the statutory retirement age, we could demonstrate that in particular employees with high human capital are able to adapt to the increasing demands for longer working lives. At the same time, however, those who possess less "employability assets" are also more likely to work up to or past the statutory retirement age, likely due to financial necessity. These findings suggest that despite an increasing similarity in retirement age patterns, the reasons for continued work are markedly different for different educational strata, resulting in a pattern of voluntary late retirement among the high-skilled and, in contrast, involuntary late retirement of low-skilled workers. Examining the future retirement planning of current employees, the second part of the chapter elaborated on how far changes in actual employment participation are reflected in a simultaneous weakening of the previously dominant "early retirement culture." As found for retrospective transitions, individuals with higher human capital resources also wish to stay longer within the labor force. Even though results are less marked for retirement preferences, they point to

a different direction as for actual employment transitions. While it is clearly those with high educational attainment that pursue long working careers (and that will possibly be able to translate these desires into the respective labor exit), the lower-educated still wish to retire earlier but will possibly find it difficult to organize their labor exit as desired. These differentiated results highlight both the empirical and the theoretical fruitfulness in combining the strands of institutionalism and rational choice approaches in explaining older workers' retirement decisions and their most recent changes. Future studies, potentially using future waves of cross-national longitudinal surveys such as the Survey of Health, Aging and Retirement in Europe (SHARE), may help to further enhance this potential.

Finally, from a political perspective, our findings support concerns that recent policy developments create new risks such as old age poverty that mainly threaten low-skilled workers (Taylor-Gooby, 2004). As a result of anticipated benefit cuts for early pension entrance, these workers have to continue working although their chances of finding an adequate job is comparably low – either because of their individual health or because of their critical labor market position. In this respect Radl's (2012) question of whether "early retirement is a privilege" or an "exclusion from gainful employment and identity-enhancing, productive activity" only characterizes the situation of parts of the society. For low-skilled people, early retirement is apparently turning into a privilege they cannot afford any more, while continued employment might be far from being gainful or identity-enhancing. Future pension and labor market reforms will increasingly need to develop solutions for labor market "outsiders" that find it difficult to remain in the labor market or return to employment, yet need to prolong their employment lives in order to secure a decent living standard in old age.

Notes

1 In the following we will use utility instead of subjective expected utility to enhance the readability of our argument.
2 In this case the health status would restrict the "retirement decision" to one alternative since the costs of continuing to work can then be perceived as infinite (the same applies for a bad labor market situation).
3 The exact wording for the question is: "In what year were you last in a paid job?"
4 ESS questionnaires consist of so-called core modules that are included in every round. In addition, every round contains unique rotating modules that cover special topics. Data on prospective retirement plans and desires were collected only in the rotating module of round five.

5 The exact wording for the question is: "At what age would you like to/would you have liked to retire?"
6 Due to very small sample sizes in some countries (i.e., less than 100 cases), which made reliable regression models impossible, more detailed results on the country level cannot be reported.

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Part IV
The Problem of Generational Justice

11
Intergenerational Equity: Historical Reconstructions

John Macnicol

1. Introduction

Intergenerational equity can be simply defined as the view that public resources should be allocated 'fairly' between competing generations. Although intergenerational tensions and conflicts are as old as human history itself, renewed concerns have emerged very recently in the UK against a background of economic recession, massive cuts in public expenditure and something of a change in the political culture. The idea that our current economic woes have in part been caused by 'over-generous' redistribution to older people at the expense of the young has become an integral part of prevailing political discourses, popularized by recent books (apocalyptically titled, and of varying degrees of seriousness) (Willetts, 2010; Beckett, 2010; Howker and Malik, 2010), frequently discussed in the media, the focus of a new pressure group (the Intergenerational Foundation) and even taken up by research funding bodies like the Equality and Human Rights Commission and the Leverhulme Trust.

The bigger context is, of course, the concern that, in the near future, all western economies will experience aging populations as the large baby-boom birth cohorts move into retirement and will therefore have to deal with rising pension, health and social care costs and labor shortages. The indirect effects may include declining stock market values with fewer savers, reductions in aggregate demand and stagnant economic growth. It is alleged that, as a consequence, younger generations will inevitably experience a lower standard of living than did their parents and remedial action should be taken to correct this injustice.

Younger people today certainly do face extremely discouraging economic prospects. The number of 16–24-year-olds not in employment,

education or training in the UK is now c. 740,000 (a jobless rate of 16 per cent); many young people are effectively priced out of an over-inflated housing market that provided the collateral for the long, debt-fuelled boom that ran from the early 1990s to 2008; rising university tuition fees will impose debts of up to £50,000 per person on graduates at the start of their careers; and younger generations face years of public expenditure cuts and welfare state contraction. On the other hand, older people are also having to endure worsening circumstances: exceptionally poor, below-inflation savings rates (pushing those on fixed incomes into real hardship); the collapse of most final-salary occupational pension schemes and declines in the value of money-purchase ones; falling annuity rates; and massive cuts in local authority social care services. Applying some kind of misery index and deciding which age group is a winner, and which a loser, is well-nigh impossible.

But what has caused this – intergenerational inequity or the catastrophic failure of neoliberal economic policies over the past thirty-five years? The former explanation masks the latter and, in its most extreme version, argues that one particular 'welfare generation' has manipulated the public policy agenda in its own favor – covertly, concertedly and conspiratorially. In this form, it is a human agency explanation *reductio ad absurdum*, taking little cognisance of structural economic factors and unsupported by any convincing evidence from the policy process. Nevertheless, despite its empirical shortcomings today's debate has given rise to calls that, in the interests of intergenerational justice, a redistribution of public resources should take place in favor of the young. Inevitably, it has become yet another argument supporting the view that working lives should be extended and state pension ages should rise in order to reduce the impending fiscal burden of an aging population.

Generational politics has become fashionable. Generations are once again being pitted against each other, just as 'workers' were set against 'pensioners' in the 1980s, and working-age 'producers' against passive, retired, burdensome 'consumers' before that. For example, the 1954 Report of the Phillips Committee asserted that 'the burden of old age involves the transfer to the elderly of income currently derived from the exertions of others. To the extent that such transfers take place, the elderly are a burden on the rest of the community'. After some intriguing passages warning that expenditure on state pensions might hinder the process of capital accumulation, the report urged the government of the day to raise minimum state pension ages 'ultimately' – after a transitional period – to 68 (men) and 63 (women) and suggested equalizing

men and women's eligibility ages (Cmd. 9333, 1954, pp. 33, 49–51). Again, in 1984 the American demographer Samuel Preston reiterated this crude human capital logic when he maintained that 'expenditure on the elderly is almost exclusively consumption expenditure, in the sense that it does not appreciably affect the future productive capacity of the economy. Most types of expenditure on children are both consumption and investment' (Preston, 1984, p. 452).

In many ways, what has happened is yet another example of a new identity politics being fashioned in order to obscure class issues. As Lester Thurow approvingly observed some fifteen years ago, 'in the years ahead, class warfare is apt to be redefined as the young against the old, rather than the poor against the rich' (Thurow, 1996, p. 47). Accordingly, recent popular movements by young 'Facebook activists' have been presented as age conflicts rather than class conflicts – for example, the student protests in the UK against higher tuition fees and the slow privatization of higher education or the 'Arab Spring' movements for regime change that have spread rapidly across many Middle Eastern countries (in which, as much as 60 per cent of the population are aged under 30). Are we now witnessing, as some commentators warned twenty years ago, a 'war between the generations'?

The current sensationalist hijacking of generational difference and its use as the handmaiden of neoliberal policies should not obscure the fact that age-based social analyses are potentially very useful. Intergenerational tensions and conflicts over such issues as land allocation have always existed (Foner, 1984; Wall, 1996). Prehistoric tribal societies observed complex rules of reciprocity and obligation across the generations within the extended family, such as food-sharing practices (Williamson and Watts-Roy, 1999). The young have always been perceived as mildly threatening to the staid cultural practices of the middle-aged – from the flappers of the 1920s, to the jitterbugs of the 1930s, to the counter-cultural hippies of the 1960s and the ecstasy-fuelled ravers of the 1990s. So generational conflicts are not exactly new.

Intergenerational relationships are also central to the study of aging and old age. It is a truism in gerontology that a life course perspective reveals the complexity of this give-and-take between and within generations at various stages of the aging process. As Vern Bengtson has observed, 'the problem of generations is how to deal with the periods of dependency and independence dictated by the course of individual development and aging. This we do by means of lifecourse and generational reciprocities, receiving, giving and receiving over time, at both the family and macrosocial level' (Bengtson, 1993a, p. 813).

The analysis of society according to age is thus central to social science itself – with one interesting lacuna. Despite some pioneering work by John Rawls, Bruce Ackerman and a few others, moral philosophers have given surprisingly little thought to the question of age as a social division and the problem of distributional justice between age cohorts, tending instead to assume fixed populations over short time periods. For example, two recently published definitive texts consider inequalities of gender, race/ethnicity and disability, but say little or nothing about age (Kymlicka, 2002; Dryzek et al., 2006). Allegations of intergenerational inequity thus lack a clear theoretical underpinning. Finally, one positive and important application of intergenerational equity would be in the area of climate change: what obligation do current generations have toward their children to leave them an ecologically sustainable world (Piachaud et al., 2009)?

2. Three life course perspectives

Analytically, it is helpful to draw a distinction between three life course perspectives. First is the cohort effect. Until now, every generation has been (on average) wealthier, healthier, better housed, more highly educated, and so on, than its predecessors. This process is a consequence of rising living standards and hitherto the assumption has been that it will always continue. The implicit generational contract is based upon the view that today's old people helped to bring about the rising prosperity enjoyed by the non-old and therefore the non-old should support them. Those concerned with intergenerational equity argue that progress is now being halted: living standards will henceforth stagnate or even fall, since all industrial societies face a very serious fiscal perfect storm made up of several toxic elements – an economic recession (the likely duration of which is uncertain), the need to reshape economies to reverse global warming, the growing challenge from developing countries like India and China and the public expenditure consequences of future aging populations.

Second, the paradox is that, at any one time, old people appear to consume a disproportionately large amount of social security and health care resources. Pensions are by far the largest single item in modern social security budgets, and morbidity is now so concentrated in infancy and extreme old age that roughly 80 per cent of an individual's lifetime health care costs are consumed during their first six years and their last three. On the face of it, therefore, a cross-sectional, instantaneous view would seem to reveal substantial generational inequity in the

distribution of public resources in favor of the old. Hitherto this age bias in resource allocation has been deemed acceptable because pensioners are 'our future selves' and have paid taxes in the past, as well as supporting their own children. This is the implicit welfare contract that a future aging population will allegedly undermine.

Third is the claim that the baby boomers comprise a uniquely selfish 'welfare generation' which has gone through life at every stage absorbing a disproportionate share of public resources and has ended up in old age with 'over-generous' provision (particularly in regard to state pensions). However, complaints of this nature were not made when the baby boomers were younger. Those who believe that intergenerational inequity in resource allocation has taken place are essentially combining the most pessimistic interpretations of all three life course perspectives.

3. Why the recent revival?

If the analysis of intergenerational relations is absolutely central to the social sciences, a most pertinent question is why a political debate has resurfaced very recently; for what we are witnessing is a second iteration of a controversy that first arose nearly thirty years ago in the USA, during the neoconservative hegemony. The ostensible impulse then was the concern that poverty rates for American children had not fallen as fast as those for old people; retirees appeared to be taking out of the social security system more than they had paid in (Preston, 1984). However, on a deeper level the debate was a manifestation of the restructuring of welfare states that was then taking place, a consequence of which was the attempt to forge a 'new generational contract' – one that was more individualist, in which benefits to retired people would be cut as part of a wider undermining of the solidaristic basis for postwar welfare states. Ostensibly, this arose from post-1970s concerns over sluggish economic performance, public expenditure constraints, future aging populations and the long-term fiscal viability of social security. However, all economic and social phenomena are filtered through the distorting lens of political ideology. Reflecting on this, Alan Walker argued that the debate was essentially 'a socio-political construct': 'Stripped of all its euphemisms the newly emerging contract between age cohorts in some western countries consists of cuts in social security for both current and future pensioners and reductions in rights of access to health care' (Walker, 1996, pp. 11, 16).

In a broader sense, the intergenerational equity debate has also been a product of the slow but dramatic changes in the old age agenda which

are rooted in the post-1973 economic restructuring in western societies, the expansion of labor markets via part-time jobs and the resulting neoclassical strategy of attempting to achieve sustained, non-inflationary economic growth by expanding labor supply and driving down wages. As the US neoconservative think-tank, the Hudson Institute, suggested in 1997, three broad approaches were henceforth needed – expanding the pool of available workers, increasing labor force participation and promoting upward labor mobility: 'All three sets of remedies begin with the premise that an aging America needs to increase its supply of highly skilled workers willing to enter or remain in the labor force' (Judy and D'Amico, 1997, pp. 7–8).

Raising state pension ages and forcing older people to work later in life is an obvious outcome of this. The new old age agenda is also part of a broader process whereby twentieth-century welfarist constructs like 'disability', 'unemployment' and 'retirement' are being defined down. Old age is slowly being reduced to a residual category, applying only to the oldest old and associated with extreme infirmity.

As has been thoroughly documented (Quadagno, 1989), in the 1980s and 1990s US pressure groups like Americans for Generational Equity (AGE) and the Concord Coalition were very active in arguing that an unjustifiably large share of public resources had been allocated to older people, that reductions in old age poverty had been too great (allegedly at the expense of the young) and that, as a remedy, social security should be privatized or at the very least reformed and moved closer to an individual savings model. It was said to be unjust that, in 1980s America, a child was twice as likely to be poor as an adult; the fact that an old African American woman was five times more likely to be poor than an old white man aroused little comment (Macnicol, 1990, p. 79). At a populist level, the American media reiterated the brutal message that a selfish generation of 'greedy geezers' had demanded far too much.

The campaign was a well-orchestrated one, munificently bankrolled by corporate money through neoconservative think-tanks and part of a wider strategy by big US corporations since the 1970s to change the socio-political agenda in Washington. Against a background of budget cuts, the campaign has resurfaced again. In many cases, funding organizations and individuals are those who would benefit directly from the privatization of social security and Medicare. They have extensive links with neoconservative think-tanks and the Republican Party. Only one example need suffice: Peter G. Peterson has been a leading campaigner against intergenerational inequity, authoring the populist *Gray Dawn: How the Coming Age Wave Will Transform America – and the World* (1999).

Peterson served in the Nixon administration in the early 1970s, before founding a private investment firm, the Blackstone Group, in 1985. He set up the Concord Coalition in 1992 and contributed financially to it (in 2008 the Peter G. Peterson Foundation donated $12,307,671 to various right-wing lobbying groups, including $1,500,000 to the Concord Coalition) (www.sourcewatch.org).

The current Mission Statement of the reconstituted AGE (in existence 1985–90, and since 2006) is interesting. It warns that, for the first time in US history, future generations of workers could experience 'falling levels of non-health consumption' and declares that averting this outcome 'will require our leaders to do more than simply raise taxes or cut benefits. They must also create a sustainable generational contract – and, in so doing, change the expectations of every age group with respect to patterns of work, saving and retirement'. The policy suggestions are to cut the budget deficit by reducing the scope of Medicare, Medicaid and social security (partly to disincentivize retirement), encouraging more saving and adjusting taxes in favor of the young. However, other underlying geopolitical fears regarding America's mission in the world are revealed by the intriguing statement that 'the boomers will be retiring in a world that is fast being transformed by economic competition from low-wage emerging economies, rising fiscal pressures throughout the developed world, nuclear proliferation, the spread of anti-western values in conflict-ridden youthful societies, and even global warming' (Americans for Generational Equity, 2011).

4. Some analytical questions

4.1. The concept of a generation

What exactly is a 'generation'? Classically, the term has referred to a fifteen- to thirty-year age group, with most definitions suggesting twenty-five years. However, it has also been applied to smaller birth cohorts of between one and five years. Within the family, the meaning of 'generation' is relatively straightforward, referring to biological divisions between children, parents, grandparents and (possibly) great-grandparents. Of course, with increasing family diversity has come a blurring of the old age-based generational boundaries: aunts and uncles may be younger than nephews and nieces, and the time between generations can be attenuated (where there are teenage births) or age-gapped (with delayed childbearing producing the 'beanpole' family) (Bengtson, 1993b). At the macro-social level, a 'generation' is a definitional construct externally imposed – often for opportunistic reasons – upon a

series of one-year birth cohorts. Its complexities and ramifications have recently been the subject of interesting and incisive analysis (Burnett, 2010).

We can see this artificiality in the way that the start- and end-points of the baby boom generation have been constructed, even though they do not necessarily possess any demographic or cultural significance. In the UK, the quantitative definition seems to apply to those born between 1941 (when the birth rate began to rise from its historic low point in the 1930s) and 1970. The US definition is slightly different, encapsulating the 76,000,000 Americans born between 1946 and 1965 (with 'Generation X' born 1965–81). However, in both countries annual birth rates varied within this time span. In the UK, the total number of births averaged 800,000 per annum between 1941 and 1981, and peaked at just over 1,000,000 in 1947 and 1964. There are therefore 'first wave' and 'second wave' boomers. In 1953 the number of UK births was 733,000 – a mere 10 per cent above the average for the 'baby bust' 1930s and as low as in 1991. In the USA, there was a rise from 1940 onward, and then a consistently high birth rate between 1950 and 1960, but a steady decline in the 1960s. Canada, Australia and other European countries had slightly different fertility patterns: France experienced a rise between 1941 and 1947, and then a steady fall to the mid-1970s; Germany's postwar birthrate was high until the early 1960s, and then it declined (Falkingham, 1997, pp. 18–21). Clearly, those UK citizens born in small-cohort years (notably the early 1950s) would rightly feel aggrieved at being included with large one-year cohorts – an obvious case of guilt by association. Again, a legitimate question to ask is whether in the year 1971 a one-year-old baby boomer occupied a shared cultural location with a thirty-year-old one born in 1941.

To add further confusion, those involved in the 1980s debate were pointing the accusatory finger at the generation before the baby boomers and just about to retire (that is, born around 1920). Two populist texts of the time, Paul Light's *Baby Boomers* (1988) and Phillip Longman's *Born to Pay* (1987), argued that the baby boomers were suffering. Light commented that 'under Reagan the baby boomers' real income has declined, their housing ownership has lagged, their savings rate is nil, and their promotion prospects are lousy' (Light, 1988, pp. 45–6). Longman saw the rise of gray power as slowly cumulative: many of the trends that were weakening the bonds between young and old had 'quietly been at work for many decades'. The present generation of retirees (in the late 1980s) had 'little to fear' but the baby boomers who followed faced 'abandonment in old age. For it is they, along with their children,

who will inherit the consequences of this spendthrift era' (Longman, 1987, pp. 32–3). David Thomson also identified the 'welfare generation' as the pre-boomers born in the 1920s, 1930s and early 1940s. These were 'the big winners' whose contributions would 'cover only a fraction of their costs'. As a baby boomer himself, Thomson (born in 1953) wistfully complained of 'witnessing the declining prospects of my contemporaries and successors as they sought careers, families and homes in deteriorating circumstances and in the face of increasingly unsympathetic governments' (Thomson, 1996, pp. 1, 6). Academic responses accordingly tried to assess whether the pre-boomers had done too well at the expense of the subsequent baby boomers, who were seen as innocent victims (Hills, 1996). Hence a thoughtful and meticulous analysis by Richard Easterlin et al. in 1993 empirically tested the 'common perception', 'that, compared with their predecessors at the same age, the economic status of the baby boom generation (their material level of living) has declined, both absolutely and relative to older generations; that their retirement prospects have correspondingly diminished; and that tensions across age groups have risen' (Easterlin et al., 1993, p. 67).

Sociologically, the concept of a generation is also problematic. It is a truism in gerontology that the aging process involves different conceptions of time or age. In the case of generational analysis, it is the interaction between biographical time and historical time that is under scrutiny, raising key questions of agency versus structure. How generational units position themselves in time and across time is therefore crucial, as is the question of shared identity and consciousness. In his classic if rather opaque essay on 'The Problem of Generations' (1928), Karl Mannheim argued that mere similarity of historical location or chronological contemporaneity was insufficient; members of a generation had to experience the same concrete historical problems (Mannheim, 1928). The key questions, therefore, are how far one generation possesses shared values and a common identity and how far its members have acted concertedly as collective agents of change. Most intergenerational inequity narratives founder on the question of agency.

This brings one to a related issue: should one consider collective resource consumption by the whole generation or average individual per capita consumption? Clearly, the former would be flawed, since it would be primarily a function of total numbers. Bizarrely, the locus of blame would need to be placed on the generation that preceded the baby boomers, for it was they who decided to have large families. If, on the other hand, the argument is that individual baby boomers have been over-resourced then we come up against the problem of the enormous

inequalities within a generation. How would we decide exactly which individuals have been over-resourced and which under-resourced?

A frequent allegation is that the baby boomers have such a strong collective shared identity that they have kept their '1960s values' as they have aged, carrying them intact into old age and refashioning retirement into a paradise of hedonistic self-actualization. In reality there is within one generation considerable heterogeneity and many inequalities – of class, gender, ethnicity, age, income, wealth, health status, educational attainment, religion, location, and so on. There are even differences in age structure. For example, most ethnic minorities in the UK possess a youthful age structure, implying that they should be excluded from blame; by contrast, the 'white Irish' are relatively old. Income differentials among pensioner households are also striking. On average, retired households in the UK live at just over half the living standards of non-retired households, and there is a marked gap between the top quintile and the rest. In addition, there is very high reliance on cash benefits on the part of the poorest 60 per cent of retired households: 80 per cent of gross income for the bottom quintile, 72 per cent for the fourth and 64 per cent for the middle; by contrast, the top quintile receives only 26 per cent of its gross income from cash benefits (Office for National Statistics, 2012, table 12). There is, in short, little scope for redistribution. Attitudinally, there is also great variation – for example, in voting behavior. In the May 2010 general election, the voting behavior of fifty-five- to sixty-four-year-olds (the core of the boomers) was: Conservative, 38 per cent; Labour, 28 per cent; Liberal Democrat, 23 per cent; other, 12 per cent (Ipsos MORI, 2010). As Robert Hudson succinctly puts it, 'despite their iconic demographic standing, the boomers by no means all look the same, and equally important, they also very much resemble people from other generations in obvious ways . . . the world of the boomers is marked by both intracohort differences and intercohort similarities' (Hudson, 2009, p. vii). It is therefore difficult to see how one generation could have overcome all its internal divisions and acted in concert to monopolize public resources.

4.2. Equity or equality?

'We believe that each generation should pay its own way,' declares the newly formed Intergenerational Foundation (www.if.org.uk). But what exactly does this mean – intergenerational equity or intergenerational equality? 'Equity' implies fairness, which is an arbitrary and contentious notion. Arguably it has always been the basis for the implicit risk-pooling that underpins the UK welfare state. Manual workers die

prematurely and have shorter survival in retirement. They are therefore much less likely to claim the state pension and live long on it. The higher social classes on average live longer and earn more; they pay more into the National Health Service but have lower levels of recorded sickness. A 'post-code lottery' means that where one lives can determine access to new, expensive pharmaceuticals. People who remain childless pay for state education. Healthy people support those with disabilities. The lines of redistribution are complex and cross-cutting – by age, class, gender, ethnicity, income, health status, region and so on – but have hitherto not been subject to popular challenge. We know relatively little about how ordinary citizens internalize this implicit intergenerational contract, but we do know that opinion surveys have consistently shown strong public support for welfare policies that protect older people. Attitudes toward welfare claimants have certainly hardened since the 2008 recession, but in the longer term there has been consistent support for pensioners. For example, the British Social Attitudes Survey found that the proportion surveyed who wished to see more government spending on retired people was 73 per cent in 1998, 74 per cent in 2004 and 57 per cent in 2011 (Park et al., 2012, p. vi). Likewise, Martin Kohli has provided cross-national survey evidence to show that there is still strong support for the traditional generational contract, in which retired people's benefits are protected (Kohli, 2006).

On the other hand, 'equality' implies each generation receiving identical amounts of resource allocation, via a 'generational accounting' exercise. Quite how this would be done – adjusting for changes in GDP and inflation, for example – is difficult to envisage. Complex formulae have been constructed with this aim (Kotlikoff, 1992), but the practicality of this whole approach must be questionable. The greatest difficulty – alluded to above – would be identifying the 'over-resourced' and the 'under-resourced', and then effecting a fair redistribution. To take but one example, women on average live longer than men, have higher levels of sickness and disability and form a majority of those on state pensions and/or means-tested social assistance in old age. On the face of it, rectifying alleged intergenerational inequality would involve punishing women; but counterbalancing this would be a host of factors that disadvantage women (for example, lower levels of accumulated savings in retirement and far poorer private/occupational pension coverage).

Concerns about intergenerational equity generally focus on public transfers – in particular, social security and health care costs. However, private transfers between generations within the extended family, via inheritance of financial capital or cultural capital, are also 'unfair' in

that they are a major generator of socioeconomic inequality. Again, an accurate generational accounting exercise would really have to list all experiential variables across the life course, and then attribute causality. Relatively few attempts at this have been made: one, by Francoise Cribier, examined two birth cohorts of Parisians; another, by Paul Light, balanced out all the experiences of the baby boom generation, rightly emphasizing the divisions within it (Cribier, 1989; Light, 1988).

4.3. Corrective justice

Those who argue that an egregious injustice has been perpetrated by the baby boomers appear to be implying that remedial action should be taken via a confiscation of resources (although they are not exactly eager to suggest new, punitive inheritance taxes). On a philosophical level, there is the interesting question of whether such corrective justice really requires collective human agency to be demonstrated (just as, in law, intent is everything): arguably, a generation can only be 'punished' for monopolizing a disproportionate share of public resources if it has acted deliberately and concertedly. If, on the other hand, unequal generational outcomes have been caused by structural economic factors over which human beings have had relatively little control then remedial action would be morally unjustified.

Even if collective human agency could be proved, the problem is that corrective justice could only be applied at the very end of a life course, and by then it would be too late. Can one really envisage an eighty-year-old 'baby boomer' having his or her accumulated savings confiscated by the state on the grounds that he or she was a member of a generation that had been 'over-resourced' in the past? Apart from anything else, this would only deny a younger generation its rightful inheritance. It would therefore be counter-productive.

5. A view from history

Historical examples of intergenerational equity concerns are not abundant, but there are some. In nineteenth-century social discourses, age distancing manifested itself in concerns over the labor market behavior of young working class males, via highly pejorative allegations about their irresponsible and profligate behavior (Pearson, 1983). Old age and youth were intriguingly interconnected, most notably in the movement to lift the aged off the Poor Law (by means of state pensions) so that it could focus more effectively on the task of disciplining the able-bodied young male.

Generational issues were also central to nineteenth-century UK friendly societies. Drawing their membership predominantly from skilled working class males, these bodies ran sickness benefit schemes (either on the simple dividing-out principle, or with accumulating funds). Older friendly society members always had higher rates of sickness, and hence the societies relied for solvency upon a continuing influx of younger members. Various devices were used to achieve this, such as higher entrance fees for new entrants who were older, or age-graduated contributions. Age was such a critical issue that generation-specific societies became more common, especially in rural areas where the pool of members would be smaller (Cordery, 2003, pp. 70–1, 128–33).

As is well known, the friendly societies experienced something of an 'insolvency crisis' in the last quarter of the nineteenth century because sickness claims were rising in volume and duration. This was occurring at all ages, but most markedly among older members. The explanations for this have been much debated by social historians, and range from the epidemiological transition to growing job insecurity (Macnicol, 1998, ch. 5). By the end of the nineteenth century, it was clear that older friendly society members were being heavily subsidized by younger contributors (particularly those who died prematurely or allowed their membership to lapse). On a cross-sectional view, there was substantial intergenerational inequity. Only those younger members who lived long enough to claim sickness benefits in old age ever received back what they had paid in via contributions.

A second example is to be found in the campaign for state pensions. The link between old age and poverty had always been obvious to social observers, and suggestions for annuity-based pension schemes had long been made. However, a more robust campaign for state-provided old age pensions emerged in the 1880s. The motives behind this campaign were complex: on the one hand (as argued above), conservatives sought to make the Poor Law a more punitive and deterrent weapon against the able-bodied young male by removing from it categories like the aged, children and disabled people, who had less labor market value; on the other, socialists and liberal reformers viewed the 'endowment' of old age as a response to the increasing visibility of old age poverty, brought about by the displacement of older workers from the urban labor market with technological innovation and more scientific personnel policies.

In many ways, this movement for the endowment of old age marks the beginning of the idea of retirement as a social right. On the face of it, state pensions would redistribute income to the old, but the underlying motives were not straightforward, since the labor movement also had

the secondary aim of tightening up the labor market – thereby increasing the bargaining power of younger workers. One thing is clear: there is little evidence of a selfish 'welfare generation' seeking to manipulate the political agenda in its own interests. As Helen Bosanquet observed, somewhat critically, for much of its life the campaign for old age pensions was largely a middle-class movement, consisting of individuals who would not themselves have benefited directly (Bosanquet, 1902, p. 247).

The principal issue that divided pension campaigners was the funding method. Fiscal conservatives such as William Blackley and Joseph Chamberlain favored the contributory principle (in modern parlance, 'fully funded' schemes), which would have involved no interclass or intergenerational redistribution. By contrast, socialist campaigners and the poverty researcher Charles Booth advocated a non-contributory, tax-funded scheme which promised to place a growing fiscal burden on existing and future generations of taxpayers, as well as being generous to those on the eve of pensionable age who would have contributed little via past taxes. Non-contributory pensions won out, largely for reasons of practicality: only a non-contributory scheme could meet the needs of the 'bad risks' who could least afford to pay pension contributions but who most needed income support in old age (women caring in the home – the vast majority of married women at this time – and low-paid or irregularly employed workers).

The 1908 Old Age Pensions Act introduced non-contributory, tax-funded pensions of 5s0d (25p) per week for all aged 70+, subject to a sliding scale income test and certain eligibility conditions. Initially, there were 490,000 pensioners (nearly two-thirds of whom were women), which quickly rose to 642,500 by March 1912. From a cross-sectional perspective, the 1908 scheme redistributed from young and middle-aged to old, from rich to poor and from men to women. On a longitudinal view, it benefited only those poorer working class citizens who survived past the age of 70. It was, therefore, very limited in coverage: in 1909, 42.1 per cent of the population aged 70+ received old age pensions; by 1920 this had risen to 56.1 per cent, and by 1926 it was 65.5 per cent (Hohman, 1933, p. 52). The process of redistribution was therefore much more complex than a simple generational one.

Pensioner activism emerged in the aftermath of the 1908 Act via the National Conference on Old Age Pensions, founded in 1916, which sought universal pensions (with no means tests) of £1 per week paid from the age of 60. This demand would have cost £214,000,000 per annum at a time when the existing scheme cost £17,700,000, and caused

great alarm within the Treasury. The National Conference was the first appearance of a single-issue gray power political movement demanding redistribution on obviously generational lines. However, it was as much a reflection of an increasing militancy on the part of the UK labor movement as of grass-roots pensioner activism, and its values were those of the labor aristocracy (Blaikie, 1990, pp. 22–3).

What is clear is that there appears to have been general acceptance of the principle that the working-aged should support the poorest old people. In that sense, an implicit 'welfare contract' had been established. The main concern in the immediate postwar period – held most strongly by the Treasury – was that a tax-funded scheme would prove to be prohibitively expensive in the long-term, particularly if the age of eligibility were lowered to 65 or even 60, as many in the labor movement wanted, and means testing abolished. Tax funding offered no protection against populist demands for higher pensions; by contrast, the actuarial discipline of contributory insurance could be used to hold down benefits and contain costs. This concern was therefore much more fiscal – over the need to shift the funding of the scheme to the 'sound' financial basis of contributory insurance and minimize direct income redistribution – than over intergenerational inequity (since at that time most working class people paid no income tax). A secondary aim was the encouragement of retirement at a time of high unemployment. As Neville Chamberlain, the Act's main architect, famously said, 'what we want is a workable scheme, which will give us a pension sufficiently high to make it worthwhile for the old men to come out of industry' (Chamberlain, 1924).

The 1925 Act in essence replaced redistribution from rich to poor via the tax system by more of a life course redistribution via contributory insurance; however, its strong 'pay-as-you-go' basis meant that initially it was generationally redistributive. Only after some eighty years would it become fully funded. Political imperatives mean that contributory pension schemes have to be introduced immediately, thus greatly favoring late entrants, rather than taking forty or more years to mature and become actuarially self-sustaining. The need to neutralize a class-based fiscal challenge therefore established the system so criticized by later proponents of the intergenerational inequity thesis – that 'pay-as-you-go' contributory pensions involve an unfair redistribution from working-age citizens to current pensioners and that this unfairness increases with population aging. Interestingly, during the Parliamentary debates on the 1925 Act there was some brief reference to this, but contributory insurance was seen as the solution, not the problem. Winston Churchill

(Chancellor of the Exchequer) argued that contributory funding was essential because of the inevitability of rising costs brought about by an aging population (the birth rate having steadily fallen since the 1870s). In thirty years, he maintained, the number claiming pensions would have doubled and the country 'would have to support them with an active population little larger than it is today'. To ignore such fiscal caution would result in 'an overburdened Treasury, fettered Parliaments, and a dependent people. . . . Are we justified in laying these charges upon posterity?' (H of C Deb., 1925).

The fifteen years after the 1925 Act were years in which policy debates were unkind to old age, in several respects. The first of these was the increasing interest shown in attaching a retirement condition to the state pension, as a possible method of encouraging older workers to leave industry and thereby open up job opportunities for the young unemployed. Such a proposal was considered by the second Labour government in 1929–30, but rejected; however, similar suggestions came from the trades union leader Ernest Bevin and from the research body Political and Economic Planning (Bevin, 1933; Political and Economic Planning, 1935). While the pension was to be increased in amount as an incentive, the underlying implication was that a shake-out of older workers was needed because they were industrially obsolescent – a judgment that can be interpreted as mild generational hostility *against* older people. Certainly, older workers experienced much longer spells of unemployment in the 1930s than did younger, being concentrated in the recession-hit depressed areas. In some quarters, they were almost blamed for the recession (Macnicol, 1998, p. 255). This negative view was reinforced after 1935 by a second trend – the concern over an aging population (consequent upon the long fall in the birth rate, which reached a low point in 1933). Having been 4.7 per cent of total population between 1851 and 1901, the proportion of people aged 65+ in the UK rose to 6.0 per cent in 1921 and 9.0 per cent in 1939. In many ways, these concerns of the late 1930s were identical to those of today. Commentators speculated on what might be the negative consequences of an aging population: a decreasing supply of new workers, higher taxes to pay for pensions and other services to older people, an increasing fiscal burden on those of working age, and a loss of economic 'enterprise' (Titmuss and Titmuss, 1942). Sensationalist warnings were made, which were criticized by more sober analysts (Reddaway, 1939). Again, the poverty surveys of the interwar years tended to ignore or under-estimate old age poverty. They adopted very much a human capital approach,

viewing poverty among children as a greater problem. We should also note that old people were excluded from National Health Insurance (eligibility for which ceased at age 65) and thus received poor health care. Geriatric medicine was relatively undeveloped, so their particular health needs went ignored.

By the late 1930s, pensioner activism was increasing, spearheaded by the newly formed and politically militant National Federation of Old Age Pensions Associations and the National Spinsters' Pensions Association. A petition of five million signatures in favor of raising the state pension was gathered in the summer of 1939 and presented to Parliament; the level of the pension even became the basis for an opposition Vote of Censure on the National Government. It was partly in response to this agitation that in 1940 the women's pension age was lowered to 60 and supplementary allowances, paid by the Assistance Board, were introduced for those pensioners who could prove themselves in need. Within government, there was some concern that pensioners were becoming too demanding and that their militancy represented a new kind of single-issue politics that might destabilize the democratic process, replacing traditional party politics by sectional interest-group politics – similar to concerns in the USA at this time regarding the Townsend movement. The parallels with today's intergenerational equity debate are quite striking, although these fears turned out to be exaggerated.

On the face of it, therefore, old people gained by these policy responses (introduced by the 1940 Old Age and Widows' Pensions Act). However, on the negative side they suffered disproportionately from the enormous social disruptions of wartime (bombing, evacuation, rationing, hospital closures, the blackout, chaotic public transport, and so on). In his famous study of social policy in wartime, Richard Titmuss observed that the needs of the young took priority over those of the old (Titmuss, 1950). Wars are highly gendered, but they are also generational in impact.

The most significant social policy event of the Second World War was, of course, the publication of the Beveridge Report on 1 December 1942. In reorganizing social security, Beveridge's task was to merge, universalize and rationalize the 1908 and 1925 pension schemes. Given a finite amount of public expenditure to allocate between different groups of claimants, he proposed a very low pension of only 14s0d (70p) per week, rising annually to attain 'subsistence' after fully twenty years. His pension recommendations aroused the wrath of the

National Federation, who viewed the Beveridge Report as anything but progressive and liberal. The Report was also littered with linguistic hostility toward old people, influenced by Beveridge's own concerns about the fiscal effects of a future aging population. Soon after the Report's publication, the wartime coalition government decided to fix the new pension at more generous levels, and the 1946 National Insurance Act set them at 26s0d (£1.30p) per week for a single pensioner and 42s0d (£1.05p) for a couple. Even then, roughly one-third of UK pensioners in the 1950s had to have their state pensions supplemented by means-tested National Assistance.

The status of old people was somewhat mixed in the postwar welfare state. On the positive side, the founding of the National Health Service extended free-at-time-of-use, comprehensive and universal health care to them for the first time in history, and geriatric medicine began to develop. Even a measure as basic as the provision of free spectacles greatly improved the mobility of older people. Against a background of labor shortages and full employment in the 1950s, much research was undertaken on retirement, age discrimination and the problems of older workers generally. However, concerns over the increasing 'burden' of old age featured prominently in the reports of the Royal Commission on Population (1949) and the Phillips Committee (1954). By the mid-1960s, unemployment was beginning to rise, and from the 1970s onward economic restructuring led to a steady shake-out of older male workers. Official policy (supported by a tripartite partnership of governments, employers and trades unionists) encouraged early retirement and a redistribution of available jobs to younger workers, most notably by the Job Release Scheme of 1977–88 – rightly described as 'the most explicit policy of generational substitution yet seen on the statute book' (Taylor and Walker, 1996, p. 162) – under which older workers were permitted to retire early, on condition that their jobs were filled by unemployed school leavers. In addition, in the 1980s there were governmental moves to reduce old age protection – most notably, in the cutting back of the State Earnings Related Pension Scheme and the decision in 1980 to index the state pension only to prices (resulting in a steady fall in its relative value). Interestingly, in 1989 the Thatcher government even contemplated raising the state pension age (Hughes, 1989). Social and economic policies of the 1980s were therefore biased *against* older people. Indeed, by the 1990s there was growing concern that older workers were suffering high levels of age discrimination in employment – a somewhat erroneous explanation for the economic restructuring that had deindustrialized older men.

6. Conclusion

From this brief exploration, we can see that intergenerational relationships and tensions have always been central to the study of aging and old age in particular, and the social sciences in general. However, the recent reincarnation of concerns over alleged intergenerational inequity has greatly simplified the issues at hand and is the product of a particular neoliberal political culture that seeks to cut back welfare states. A survey of social policies toward older people in the UK over the past one hundred and fifty years reveals a mixed picture. While the impact of policies on different age groups was at times considered, overall there is no convincing evidence of one particular generation deliberately manipulating the political agenda in its own interests at any point in time and securing an unfairly large proportion of public resources. Intergenerational equity was occasionally discussed, but only in an implicit and allusive way. To argue that it was a major driving force behind the evolution of policy is to trivialize history.

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12

Generational Justice, Generational Habitus and the 'Problem' of the Baby Boomers

Paul Higgs and *Chris Gilleard*

1. Introduction

The global economic recession has seen the re-emergence of a debate about the lack of generational justice in the UK (Beckett, 2010; Howker and Malik, 2010; Willetts, 2010). The idea that a form of generational capture has been effected by cohorts from the post-war baby boom has been widely amplified in the British mass media as austerity has been accompanied by static wages and rapidly rising house prices, all of which affect the young much more than the old. While never entirely absent from policy debates this renewed focus on generation is increasingly framed around issues of the perceived unfairness in the distribution of welfare resources under the circumstances of a recession-imposed financial austerity. Despite the definitional debates of what constitutes a generation, a general agreement has been reached that those cohorts associated with the 'baby booms' and 'baby bulges' of the mid-twentieth century constitute the demographic center of the storm. Those cohorts who grew up in post-war Britain have not only benefited from the expansion of educational opportunities and relatively stable employment opportunities but they have also experienced higher levels of income and material comfort than previous cohorts (Harkin and Huber, 2004). For the cohorts following behind them the world looks considerably less friendly, so unfriendly that some commentators have argued that the advantages of present-day retirees can only be sustained at the expense of younger cohorts whose education, employment and social rights are being restricted as British society becomes less redistributive (Kuhnle, 1999). Such a view echoes prognoses made by earlier commentators (Preston, 1984; Thomson, 1989) who predicted growing intergenerational conflict a quarter of a century ago.

Two things need to be separated out when we think of generational justice and the circumstances of the current debate. First, are the issues at stake ones that are generalizable to all generations or are they ones that have particular pertinence to the circumstances of specific cohorts, namely those dubbed the 'baby boomers'? Second, if the problems are those of a particular cohort, what might be creating the difficulties between these and other 'generations'? Intergenerational relationships can be understood in several ways – relations between parents and their children, relations between past present and future birth cohorts and relations between age groups within society.

In contemporary societies, horizontal social linkages between peers compete with vertical ones orientated toward the family. Many writers have argued that less weight is now given to vertical, intergenerational relationships as adults at all ages give more value to themselves, their current partnerships and their peer relationships than the bonds of kinship. Such trends have been seen as leading to the emergence of a new 'selfish' generation who show less concern for members of subsequent generations than is thought to have been the case for previous generations. However, most empirical research on the subject of intergenerational transfers challenges the idea that there is any real basis for increasing intergenerational conflict. Instead, such research indicates that the 'intergenerational' compact remains remarkably immune from contemporary politics and cultural change (Silverstein et al., 2002). Using micro-level analyses of intrafamily relationships, for example, many social science researchers have shown continuing close intergenerational bonds and strong patterns of mutual exchange that operate within contemporary families (Bengtson et al., 2000; Kohli, 2004; Lowenstein and Daatland, 2006).

This divergence between popular polemic and academic evidence reflects not just differing points of view, but also differing uses made of the term 'generation' and in particular 'baby-boom generation'. While those promoting the idea of generational inequity focus upon the idea of a generation as a birth cohort and see generational justice in terms of economic parity between cohorts (though drawing metaphorically upon ideas of kinship), social science researchers have generally focused upon generation as kinship – the bond between parents and their children – and generational justice being measured less in policy terms than in the personal balance of informal support and financial transfers between parents and their children.

Such terminological confusion is further complicated when trying to define the temporal parameters of the baby-boom cohort/generation in

North America and Europe. Those born between 1939–45 and 1955–60 seem to be variously described as the 'baby boom', 'welfare' or 'affluent' generation and the resulting designations are applied to anyone born between these two dates, irrespective of the size and duration of the demographic increase during this period (Chauvel, 2002; Peterson, 1996; Thomson, 1989). This confused focus on personal relationships and individualized communities is mirrored in debates concerning the future welfare of subsequent generations. Some commentators focus on the transition from the 'greatest generation' (Brockaw, 2005) or the 'war generation' (Vincent, 2005) to the circumstances of today's generations by pointing out the seeming incapacity of current politics to be based on a shared vision for the future or a sense of shared commitment. Other than claiming that grand narratives have had their day, such arguments seem to be based on the idea that the central issues of generational change and generational justice are characterological in nature – the consequences of 'good' or 'bad' individual lifestyles – rather than the consequence of structural changes in society and the economy.

The characterological argument can be seen in the recent work on 'generation me' conducted by the American organizational psychologist Jean Twenge. She seeks to make links between social and cultural transformations in North American society and individual personality change. According to Twenge, members of recent US birth cohorts (the so-called 'millennial generation') exemplify the strongest preoccupation with self-belief, self-regard and self-expression. Even if this shift in attitudes and beliefs may have started with the baby boomers, she points out that it has become progressively amplified by subsequent generations – those born in the 1970s, 1980s and 1990s (Twenge and Campbell, 2009, p. 864). Drawing upon historical series of personality assessments conducted with successive cohorts of North American undergraduate students from the 1930s to the 2000s, Twenge argues that these assessments demonstrate a substantial and consistent shift in college students' self-appraisals toward greater self-absorption, egotism and self-esteem (Twenge, 2006, 2008; Twenge and Campbell, 2009). She contends that there has been a change in personality, self-views, attitudes and behaviors that 'paints a very consistent picture of increased individualism, and the traits related to it (materialism, narcissism, self-esteem, lack of trust)' (Twenge and Campbell, 2010, p. 86). While other researchers have criticized some of her conclusions (Trzesniewski and Donnellan, 2010), Twenge's work does seem to show that there has been a growing 'selfishness' in successive post-war generations that is not specific to any particular cohort – least of all to the 'baby-boom' cohort.

2. Generational habitus

Instead of examining individual personality differences or kinship relations as the source of generational divergences a different focus emerges by studying what might be called the 'generational habitus' of those cohorts who grew up in the 1950s and 1960s (Gilleard and Higgs, 2005, 2011). This might seem at first sight to fit an analysis that locates the current intergenerational difficulties in the attitudes and dispositions of the baby-boomer cohorts. The world of the baby boomers has been shaped by the counter-cultural dispositions of the youth movements that emerged during their adolescence and early adulthood. Linked to these social changes has been a broader cultural transformation remarked upon by a number of important social theorists such as Ulrich Beck (2000), Anthony Giddens (1990) and Zygmunt Bauman (1995) who have all identified the modern world as becoming contextually reflexive and institutionally consumerist. Integrating Karl Mannheim's idea of generational style with Pierre Bourdieu's concepts of 'cultural field' and 'habitus', Gilleard and Higgs (2005) suggest that members of the baby-boomer cohort have been key players in creating and sustaining a distinct 'generational field' that as this group enters later life can be considered a 'Third Age'. The lifestyles that are oriented by and fashioned within this field, they argue, form the 'generational habitus' of the Third Age.

A key element of any cultural field is the range of possible practices that can be realized within it. While the emphasis in much of Bourdieu's work was on the contemporary domains of social space – particularly fields of culture – he also recognized the importance of 'generational' transformations within these fields. Such generational transformations correspond to 'social' not 'biological' concepts of age however, and 'new' and 'old' actors within the field are not distinguished primarily by differences in their chronological age. For Bourdieu, habitus are 'history turned into nature'. By this he means that lifestyles and everyday cultural practices come to embody the historical development of the field within which they have emerged. For Gilleard and Higgs the significance of this is not just that it describes the formation of the generational style of the baby-boom cohorts as 'generational habitus', but also that it accounts for the dispositions and/or orientations of the members of that group and the way they realize the cultural field of the Third Age.

In treating the Third Age as a cultural field emerging out of the distinctions/subcultures of the 'cultural revolution' of the 1960s and viewing the habitus of this generational field as being fashioned by a

culture defined by growing reflexivity and individualization, Gilleard and Higgs have argued that to better understand the contemporary field of the Third Age it is necessary to view these earlier habitus continuing as forms of practice well after their point of origin has passed. In the process the habitus are themselves transformed leading in turn to the gradual transformation in the nature of later life itself.

Gilleard and Higgs (2011) propose four key 'vectors' that have shaped this 'generational field'. First has been the rise of mass 'consumerism' among the young in the post-Second World War era, second the emergence of counter-cultural movements that explicitly rejected 'old' ways of organizing life especially in relation to family and marriage, and third, changes in the social geography of life as the 'old' (pre-Second World War) neighborhoods that linked together home, family, work, leisure and class declined, decayed or were transformed as people from different social backgrounds replaced the old familiar neighbors. Linked to all these changes is the fourth vector they identified, namely the transformation in employment which has become more individualized and less socially and spatially demarcated.

The cultural impact of the experiences of these cohorts has reconstituted the field of aging. In doing so it has set up some of the conditions for an apparent 'generational conflict'. This is hardly unexpected given that one of the original motifs underlying the 'cultural ferment' of the baby-boom cohorts was the idea of a generational gap between themselves and their own parents. The youth culture of the post-Second World War era sought to create a distance from the ways of earlier generations by embracing new fashions, technologies and political causes. The salience of youth and its embrace of change laid the foundations for the subsequent development of the cultural field of the Third Age, drawing upon the values of autonomy, personal choice, self-expression and pleasure realized within the progressive individualization of lifestyles. Youth cultures created new opportunities for the pursuit of 'distinction' which have continued across the life course and connect intimately with the de-standardization of the 'modern institutionalized life course'. Consumerist attitudes have become markers of 'the good life' to the point that the cultural motifs of freedom and choice have themselves become institutionalized with the lifestyles of 'citizen consumers' overshadowing earlier notions of social citizenship (Cohen, 2003).

Seen through this prism, generational conflict and the issue of generational inequality can understandably be centered upon the rise to power of the baby boomers and their imminent 'decline' into retirement. The previously privileged vertical forms of social capital based upon 'family'

and the spatially secured bonds of intergenerational solidarity no longer dominate personal and social identities. These have become more fluid and contingent as they are increasingly shaped by the combination of horizontal peer and partner relationships, individualized communities and spatially diffused social networks. Identity and community are no longer constrained by time, age or place. Intergenerational exchange has become a less monopolistic source of capital because, as Gilleard and Higgs (2011) point out, the social, cultural and symbolic capital of the Third Age derives increasingly from the effective use of leisure and 'free time' with an emphasis upon continuing personal development, peer and partner relationships and their links to leisure and lifestyle exemplified in eating out, entertainment, travel, health and self-maintenance and self-care. The cultural and symbolic forms of capital that are legitimated within this field are those that support an active agentic consumerism, one that expresses choice, autonomy, pleasure and self-expression and which is exercised in the pursuit of individualized later lifestyles.

The growing opportunities for personal choice that mass consumer society demands require the continuing expansion of all forms of capital and their diversion from use value into systems of distinction. A system so obviously based on consumption but with no way of seemingly 'earning' the resources to fund it runs the risk of being seen as lacking in generational justice especially when the same opportunities do not seem to be open to future generations who may look back with regret or recrimination at the returns that have accrued to this 'lucky' generation.

3. Generational equity and generational justice

In the 1980s changes to the US Social Security program provoked concerns about its long-term viability (Williamson and Watts-Roy, 1999, p. 13). These debates drew upon images of intergenerational inequity, typified by an article in Forbes magazine by Chakravarty and Weisman entitled 'Consuming Our Children' (Chakravarty and Weisman, 1988). Such discussions led to demands that policy makers give more attention to the issue of 'generational justice' in thinking about the implications of policy in order that 'the net tax burden of paying for government purchases is spread equally across living and future generations' (Gokhale and Kotlikoff, 1999, p. 76). These writers assumed that generational justice would only occur if current benefits such as social security payouts to older people were cut back. Only this, they claimed, would avert an intergenerational crisis. That this was not perceived as just a particularly

American problem can be gleaned from the title of the subsequent work, *Generational accounting around the world* (Auerbach et al., 1999). Their argument extended its influence to the World Bank which, in its seminal report 'Averting the Old Age Crisis', pointed out that conventional pay-as-you-go pension schemes are founded on the zero-sum argument that any gains for one generation will occur at the expense of another (World Bank, 1995, p. 325). In the context of increasing longevity and growing affluence the report not only advocated a shift to greater individualization of pension arrangements but also recommended the adoption of intergenerational accounting in determining pension policies.

Significantly, but from a more avowedly left-wing position, intergenerational equity emerged as a theme in discussions on the future of the welfare state (Esping Andersen, 2002) including consideration of the need for a fixed ratio of contributions and benefits between generations (Musgrave, 1986). Myles (2002) too saw overcoming intergenerational inequalities as a key issue, fearing that contemporary pension arrangements were providing financial security in retirement at the expense of other groups in society who may have greater needs. While the influence of such ideas might underpin planned increases to the age of eligibility for State Retirement Pensions, they can also serve as ideological smokescreens for re-ordering the social wage and setting limits to 'the state'.

This is particularly true in relation to re-ordering state welfare in order to 'maximize intergenerational justice'. As Higgs and Gilleard have pointed out, the 'generational field' that constitutes the Third Age may well have been made possible by the development of the welfare state, but

> [i]t was not created by welfare ideology, however, but rather th[is] field has been formed by the consumerist values of choice, autonomy, self-expression and pleasure – values of the 1960s, not the 1930s and 1940s. A welfare state that was constructed out of necessity has since been reformulated to engage with, not undermine, these new rules. (Higgs and Gilleard, 2010, p. 1445)

This change in the nature of welfare and society is the everyday reality of younger cohorts who have experienced increasing levels of commodification of public services as well as decreasing institutionalization over the life course. Just as relations between citizens and the state have become more fluid, personal relationships too have become less determinate. Technological developments such as mobile phones and

broadband Internet connections have transformed the nature and style of communication between individuals leading to a profusion of virtual forms of contact and community. Housing tenure and the patterns of people's living arrangements have been transformed. The state's welfare responsibility for the provision of large segments of housing stock has been repudiated along with the automatic assumption that the state should be the monopolistic provider of health, education and social welfare. The drive to create a property owning democracy out of a population of 'self-maintaining' homeowners has become a sine qua non of housing policy, at times pushing beyond the purchasing capacity of owners themselves. In such circumstances younger cohorts are expected to play a full role in the housing market by 'getting a foothold' on the 'property ladder'. Changes in the costs and strategies needed to ensure this have led to all sorts of intergenerational compromises and exchange including young adults returning to their parental home.

4. Inequality as a source of intergenerational conflict?

We would argue that Bryan Turner was wrong when he contended that the 'old' divisions of class have been replaced by 'new' intergenerational inequalities (Turner, 1989). Successive cohorts share a common engagement with mass consumer society based on an assumed trajectory of uneven but still improving standards of living. Until recently, wages have continued to rise with the result that successive cohorts of young adults have seen their average income exceed that of their immediate predecessors both in absolute terms and in relation to the cost of living. Pensioner income has risen at an even faster rate (Jones et al., 2008). So long as each cohort of workers and pensioners continued to do well, the conflicts predicted by theorists of intergenerational inequality have failed to materialize. The recession of 2008 onward however has raised new questions about how the intergenerational compact can be sustained. Are we now reaching the end of this virtuous cycle of growth and improvement? Cuts to the value of future pensions may seem to suggest so as these are seen as being detrimental to younger cohorts who are seeing their wages stagnate and who are unlikely to receive the kind of final salary pensions enjoyed by older cohorts. At the same time, there is more downward intergenerational exchange than what occurred earlier in the mid-twentieth century when there was simply less for everyone to transfer (Attias-Donfut, 2000; Gilleard and Higgs, 2005; Kohli, 2004). Increased personal equity has resulted in greater resources for more families as more people inherit the unearned wealth of their parents'

property; these intergenerational benefits accrue to those now poised to pass this unexpected wealth on to their own descendants.

Paradoxically, intragenerational inequalities have increased over the last decades. Though these have affected younger cohorts more than older cohorts now retiring, the current generation seems less activated by these inequalities than were their parents or grandparents. Despite the growth in intragenerational inequality the routes through which it arises have become less easily discernible. As Beck has noted, inequalities may be no less than before, but the journey has become a more individualized experience (Beck, 2007).

Contributions to and benefits from education, health and social welfare vary between and across age groups and cohorts in ways that make lines of fracture harder to detect let alone organize around. Health care expenditure has risen – unevenly at times – over the last fifty years. Most health care consumption takes place at the beginning and end of life; contributions are greatest at those periods of life when needs are lowest. Whether funded through general taxation or through mandatory contributions, so long as health care expenditure grows, each cohort of babies and each cohort of octogenarians remain net beneficiaries in the context of what has been up to now growing but manageable 'consumer' expectations.

In short, improvements in the standard of living over the last half century have occurred for members of all post-war cohorts. Equally, the steady expansion of the market for goods and services witnessed over the same period confirms a 'community of consumerist interests' in the public realm. Neither class nor cohort has had to confront the idea of an inherent limitation to the possibility of growth. However the depth of the recent global economic recession that brought an end to this progressive growth in income and resources seems to have placed questions on this assumption. But this is not merely a question over the sustainability of the welfare state. This generalized crisis has threatened the stability of many contemporary social institutions and the expectations that they promoted. Yet it does not seem to have fundamentally affected the habitus that both has underpinned and has been fashioned by the nature of consumer society. While many different sectors of the economy seem to have been affected by the financial turmoil, whether or not they are tied to global or local markets and while, amid this general uncertainty, the refuge of the welfare state has become more plausible, a return to the 'mixed economy' of traditional social democracy does not seem to be on offer. Nor are there signs of a return to ideas of a 'social compact' to protect the vulnerable younger cohorts. Guarantees of income and

wealth at all stages of life have become problematic if not unacceptable and there seems to be even less credibility in the capacity of collective solutions to turn things around. The insecurities manifested by the financial crisis only accentuates the individualization of society that limits intergenerational solidarity while making lines of fracture more difficult to anticipate or control. Instead of new horizontal lines of intergenerational fracture forming between the 'lucky generation' and their children and grandchildren, it is more likely that social antagonisms will become more individualized and address a greater variety of issues concerning lifestyle and identity. As Beck points out, the implications of contemporary social and cultural change suggest that the vast majority of the population are left in a 'vacuum that . . . the various players must learn . . . to explore without falling' (Beck, 2007, p. 700). Pensioners, workers and students are all players in a new landscape of social and economic uncertainty, no longer knowing where the boundaries of class, cohort or indeed any common cultural configuration lie. In the liquid society of second modernity, the institutions of classical modernity have been loosened and their foundations irretrievably undermined. There is no longer a common vision of what a better future might be or how it might be achieved.

5. Some conclusions

How then does this leave the topic of generational justice that this chapter proposed to address? In some ways it suggests that the generational equity debate is largely a red herring masking other processes and not a substantive arena of policy debate or of social conflict. Part of the reason for this is the vagueness of the term 'generation' which allows it to stand for numerous different arguments. In a sense, 'generation' merely acts as a prism through which other social concerns can be refracted. The debate about global climate change is just one area where this seems to be apparent. What do we 'owe' future generations and why is this question still a vague debate awaiting clarification and consensus? There is, for example, as much concern within the West about the decline of manufacturing and the failure to invest in industry as there is about the impact of industries based on fossil fuels and their negative long-term impact upon the health and well-being of the planet. The success (or indeed failure) of the Kyoto Accords is one clear demonstration of this problem.

In this chapter, we have sought to focus on a particular generation – the baby boomers – as we believe that they are the real focus of

contemporary debate about generational justice. The habitus of this generation is perceived as the source of contemporary problems even if it is an outcome inherent in the structures of a more reflexive, consumer-orientated capitalism. The need to portray this in generational terms is often paradoxical given that many of the consequences of these social changes are being visited on younger cohorts as much as they are being visited on baby boomers. As Zygmunt Bauman points out all age groups are now defined by their status as consumers (Bauman, 1995). A shared consumer habitus and the diminished status and stability of employment contribute to the difficulty of establishing generational justice as a cornerstone of public policy. This difficulty is made more acute as the drive toward individualization has diminished the role of the welfare state as the battleground over which competing demands for resources are made. The main issue at stake in the UK surrounding pensions is not the level or affordability of the state pension but rather the form of entitlement of second tier, occupational pensions. This involves current workers rather than retired ones. Our argument at its simplest is that the issue of generational justice is a smokescreen for dealing with the contingent outcomes of profound social change. The baby boomers are an easy target because they seem through their generational habitus to have broken the traditional 'deserving' image of older people while at the same time benefiting from the improvements in standards of living brought about by continuing albeit uneven post-war economic prosperity. As we have pointed out, the members of the baby-boom cohort have not been alone in benefiting from these changes nor are they immune from facing the downsides. The inequalities that exist are no longer so strongly structured by age but reflect a more fragmented social world that cannot be understood through the simple cleavages of class, cohort or community (Higgs and Formosa, 2013). Equally, intergenerational linkages are not so weak that younger generations would want or welcome a decline in the resources of their parents and grandparents. The focus upon generational justice may be a way of deflecting attention from attempts to change current policy than an accurate reflection of potential social antagonisms whose origins, we suggest, lie elsewhere.

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13
Generations in Aging Societies: Inequalities, Cleavages, Conflicts[1]

Martin Kohli

1. Introduction

Age groups and generations are an important basis of social inequality. This raises two questions that I will discuss in this chapter: first, how age- and generation-based inequalities have developed and are affected by current social change, and second, how these inequalities translate into social cleavages and conflicts. Sustained inequalities may lead to cleavages between distinct population groups. Cleavages create the potential for conflicts. Whether and to what extent these conflicts manifest themselves openly depend on the mobilization of the actors on both sides of the rift. However, there are also links which reach across the cleavages. Aging societies marked by demographic discontinuity depend heavily on these links for maintaining societal integration. The links are created by a range of institutions – above all, political institutions such as parties and unions on the one hand and families on the other. This potential for generational integration is threatened, though, by the current changes in social structure and the welfare state.

2. Old and new inequalities

The 'social question' dominating the end of the nineteenth century in Europe was the integration of the newly emerging class of industrial workers, in other words, the pacification of class conflict. This was achieved by giving workers some assurance of a stable life course, including the institutionalization of retirement as a normal stage of life funded through public social security (Kohli, 1987). Over the course of the twentieth century, this was extended to other parts of the population as well, so that by the 1960s most advanced societies had a broadly

inclusive welfare state in place that supported the 'Fordist' pattern of industrial relations and the life course (Mayer, 2001).

At the beginning of the twenty-first century, class conflict seems to have become defunct and its place taken over by generational conflict (Bengtson, 1993; Kaufmann, 2005). The new social question consists in maintaining a balanced generational contract: protecting the old and investing in the young while being financially sustainable and socially just (Albertini et al., 2007, p. 319). This shift is due both to the success of the welfare state, which has created age-graded claims and obligations and turned the elderly into its main clients, and to the demographic challenge of low fertility and increasing longevity.

Are we thus moving from class conflict to generational conflict? Such an assertion needs to be qualified in two ways.[2] Firstly, it should be noted that conflict or competition between young and old over scarce resources is by no means new; it is a common theme in historical and anthropological accounts of pre-modern societies as well. However, with the evolution of the modern welfare state the form and arena of this conflict have changed. Secondly, and more importantly for our present concerns, it remains essential to assess the extent of the generational cleavage per se and the extent to which it masks the continued existence of the class cleavage between the wealthy and the poor (or owners and workers). Moreover there are other cleavages that are usually categorized as 'new' dimensions of inequality (in distinction to the 'old' ones of class), such as those of gender and ethnicity (or 'race'). Emphasizing the generational conflict as the new basic cleavage in society tends to downplay other inequalities, and by this, risks being ideological: it may function as a way to divert attention from the still existing problems of poverty and exclusion within generations, for example, those based on class or gender.

Age is the foremost basis for public entitlements and obligations. Public redistribution over the life course has been one of the strongest elements of what I have called the institutionalization of the life course as a sequence of clearly delimited periods of life, each with its own profile of social roles and positions, of cultural expectations, and of legal obligations and claims (Kohli, 2007). As shown by life course profiles of public benefits and contributions, the elderly have become the main beneficiaries of such redistribution, mostly through pensions and health care (Lee and Mason, 2011). In terms of legitimacy and distributional justice, redistribution among age groups is (relatively) unproblematic because we can expect everyone to live through the different stages of life. Unlike gender or ethnic groups, age groups do not have

a fixed membership but a regularly changing one where all individuals progress through the life course from one stage to the next according to an institutionalized schedule. Thus, differential treatment of age groups is morally acceptable (cf. Daniels, 1988), and may be justified by the different needs that age groups have, or by reasonable political goals (Esping-Andersen and Sarasa, 2002; Preston, 1984) such as investing in human capital among the young or providing income continuity for the elderly. The only problem here is posed by the fact that people do not all live equally long. This differential longevity is socially stratified (Hoffmann, 2008; Olshansky et al., 2012) and thus constitutes a massive social inequality in terms of benefit receipt that is compounded by demographic aging.

Intergenerational redistribution, on the other hand, is inherently problematic. 'Generation' can be defined at the kinship level, in terms of position in the family lineage, or at the societal level, in terms of being born in a given time period[3] and sharing the same historical experiences and the same social obligations and benefits at the same ages. Thus, societal generations have a fixed membership, and there is no legitimization for an unequal treatment of them. One may 'opt out' of one's generation in terms of attitudes and behavior, but one cannot opt out in terms of public obligations and entitlements. The intergenerational sharing of burdens and rewards is just or fair to the extent that each generation can expect to receive the same treatment as the preceding and following ones while moving through the stages of life. Financing the elderly during one's professional life through a pay-as-you-go system is not problematic as long as one can expect to have one's own retirement funded by the next generation in the same way. Unfortunately though, this is rarely the case; generational differences are the rule rather than the exception. They are produced by historical watersheds as well as by incremental macro-structural, cultural and demographic changes. These changes create economic discontinuity and thus affect the life chances of successive generations.

3. The impact of historical watersheds and macro-structural change

Historical watersheds such as wars, great economic crises or major systemic transitions change living conditions in a brief time span and thus affect generations differently. Their occurrence and depth have varied massively from country to country. Switzerland is an example of a rather fortunate country with a less eventful recent history than

others, and the US is another such example with more continuity than most European countries. As with many other social science fields, the research literature on generations is to a large extent an American literature and therefore does not take into account what people across most of Europe have experienced in terms of historical discontinuity. The inclusion of a European perspective is necessary to give it its due weight.

As an example, Figure 13.1 shows a Lexis diagram of how German birth cohorts of the twentieth century moved through historical time. The oldest cohorts of East Germans experienced no less than five political regimes and four abrupt changes between them: from the pre-1918 empire to the Weimar Republic, the twelve years of National Socialism, the state-socialist period in East Germany, and finally, the post-1990 Federal Republic. Following Karl Mannheim (1928), we may ask which life stages are especially open to the imprint of historical events, in terms

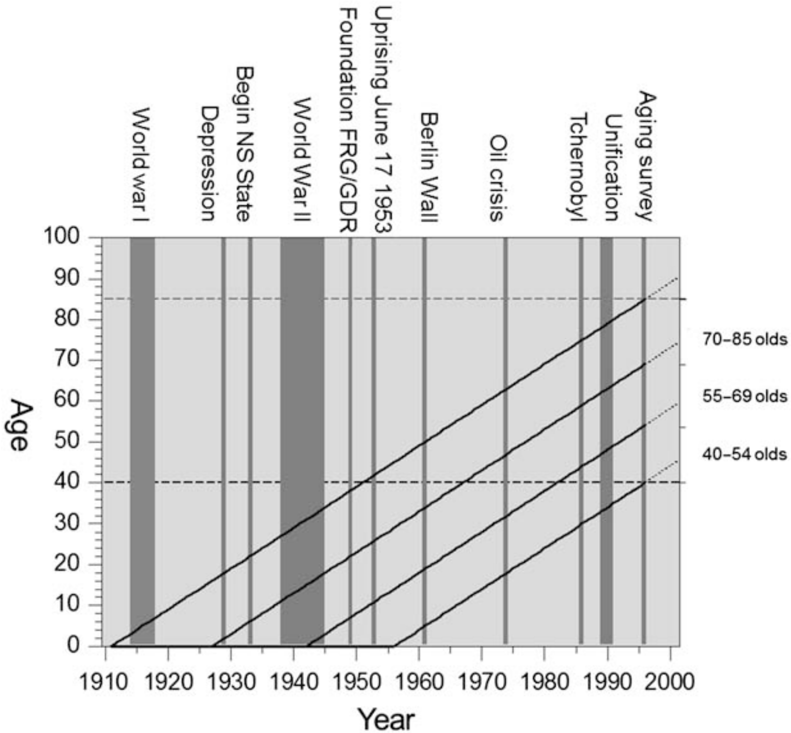

Figure 13.1 German birth cohorts of the twentieth century in historical time
Adapted from Kohli et al. (2000, p. 10).

of values and worldviews as well as in terms of subsequent social positioning. For Mannheim the most 'impressive period' was that of adolescence, when individuals take conscious hold of the world in which they live. Developmental scholars have usually favored some earlier age. In a pioneering study, Glen Elder (1974) examined the long-term impact of the Great Depression of the early 1930s in the US on two cohorts which experienced this event at different ages. Elder showed that the impact of the Great Depression on personal life chances was in the long run more negative for those who were hit by it in early childhood than for those hit in early adolescence. The impact was mediated by fathers' unemployment and its consequences for economic insecurity and family dynamics. Another important aspect is the extent to which it is later possible to make up for this vulnerability. Depending on later conditions, there is substantial resilience: those cohorts that have been disadvantaged in earlier stages can make up for this later if offered special opportunities.

A way to assess the impact of such historical watersheds is to directly ask people for the events or changes that have left a special imprint on their lives. The results for Germany are presented in Table 13.1 and Figure 13.2.[4] The two major events in recent history for the respondents were World War II and the 'turn' (die Wende), that is, the demise of the state-socialist German Democratic Republic and the ensuing German reunification. Whereas West Germans attached more importance to World War II, for East Germans the key event was the turn (cf. Table 13.1). Other events or changes that were mentioned to some extent in the West but by almost no one in the East were the cultural and political

Table 13.1 Historical watersheds in West and East Germany

	West	**East**
World War I	0.7	0.8
World War II	55.1	31.6
'Turn' (unification)	30.0	80.7
Chernobyl	5.6	0.3
'1968'	4.1	0.8

Note: Answers to the question "This question concerns how people think about their past. There have been many events or changes in our country and in the world in this century. Please name one or two such events or changes that have left a special imprint on your life" (in percent).
Respondents aged 40–85.
Source: German Aging Survey 1996, own calculations.

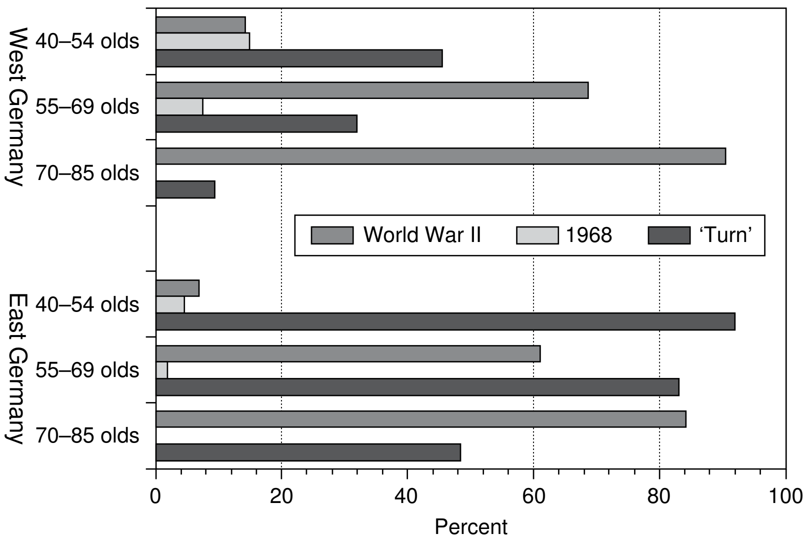

Figure 13.2 Perceived historical watersheds by cohorts in West and East Germany
Source: German Aging Survey 1996, own calculations.

transformation of the 1960s ('1968') and the nuclear accident and fall-out of Chernobyl.

This overall result varied by age (cf. Figure 13.2). For the 70- to 85-year-old West Germans, World War II remained the paramount historical event, while the turn was almost non-existent. The importance of the turn was higher for the younger groups while the importance of the War decreased. Among the East Germans, the role of World War II was slightly weaker than in the West, with an identical age profile, while the role of the turn was much stronger, with over nine-tenths of the 40- to 54-year-olds asserting that it had left a special imprint on their lives.

Another element of generational cleavages is macro-structural changes, such as the major shift from agriculture to industry and services in advanced societies over the past decades. This shift occurred with greatest speed at the European periphery: in the Mediterranean countries, Scandinavia and Ireland. As an example, Finland experienced a massive contraction of agriculture during the life course of the current elderly. Its agricultural labor force decreased from 71 percent in 1920 to 46 percent in 1950 and 8 percent in 1990. In rough measure this means that the majority of present Finnish retirees were born on farms – an experience which is not easily forgotten and may be an explanation

for the fact that in many European countries the political concerns of agriculture still enjoy a much higher public support than would seem warranted given the current size of this sector.

Cultural shifts such as those toward individualization (Ehrhardt and Kohli, 2011) as well as shifts in the institutional context of lives leading to new sets of age-graded experiences, obligations and entitlements also play a role. Foremost among the latter are the institutions of the educational system, the labor market and the welfare state. As to the educational system, the basic change has been the expansion of secondary and tertiary education and thus the prolongation of schooling. As to the labor market, it is often claimed that there is a generational shift from stable to precarious careers, which however shows considerable variation by country (Blossfeld et al., 2005). As to the welfare state, the most far-reaching claim is that of a generational conspiracy advanced by David Thomson (1989) for New Zealand, attempting to show that there was one generation which played the political system so well that it reaped all the advantages while both those living earlier and those living later had to pay for it. This generation first created a youth-centered welfare state with housing subsidies and benefits for young families and then, over its own life course, turned it into a welfare state for the elderly. This is a challenging assertion which has not found support for other countries so far but highlights the potential of welfare state interventions to create generational discontinuity.

Last but not least is demographic change. Richard Easterlin (1980) has offered a far-reaching model of economic cleavages among generations based on the demographic discontinuity of baby boom and baby bust. He argues that larger birth cohorts face more competition in schools, labor and marriage markets and will thus remain relatively disadvantaged during their entire life course. As a consequence, they also produce fewer children. For these smaller birth cohorts, the opposite holds, so that they will have more children again. This argument has not been corroborated in countries other than the US, but is an important reminder of how demographic and economic fortunes may interact with each other to produce cohorts with very different life chances.

4. The economics of generational discontinuity

How do age groups and generations fare in terms of economic well-being? As a summary measure, Table 13.2 presents the relative incomes by age groups in the mid-2000s and their changes from the mid-1980s for selected OECD countries. The relative disposable incomes are

Table 13.2 Changes in relative incomes by age groups, OECD countries, ca. 1985–2005

		0–17	**18–25**	**26–40**	**41–50**	**51–65**	**66–75**	**>75**
Australia	2005	90.5	115.9	109.4	111.6	102.1	71.9	66.4
	Change, 2005–1994	*5.9*	*–4.4*	*–1.3*	*–11.8*	*12.2*	*4.4*	*0.6*
France	2004	91.2	95.1	95.6	106.8	117.5	97.6	91.2
	Change, 2005–1984	*–3.3*	*–6.5*	*–10.3*	*–5.1*	*14.5*	*11.3*	*9.2*
Germany	2005	87.7	90.9	98.8	112.8	114.2	96.3	85.5
	Change, 2005–1984	*–4.0*	*–8.1*	*–5.6*	*0.9*	*4.8*	*14.1*	*4.6*
Hungary	2005	95.3	109.2	102.8	103.8	106.9	86.8	78.8
	Change, 2005–1991	*–4.4*	*0.1*	*–1.6*	*–12.4*	*9.3*	*8.1*	*2.0*
Italy	2005	90.1	99.6	106.2	106.0	110.4	88.4	76.0
	Change, 2005–1984	*–0.1*	*–7.2*	*–0.1*	*0.2*	*2.7*	*6.1*	*–1.9*
Japan	2003	92.3	105.4	101.0	111.4	113.1	88.5	84.2
	Change, 2003–1985	*–0.2*	*–2.1*	*4.6*	*3.6*	*2.1*	*–2.9*	*–8.3*
Sweden	2005	95.8	90.0	97.6	108.6	123.1	91.6	69.8
	Change, 2005–1983	*–1.8*	*–11.9*	*–4.8*	*–5.2*	*8.4*	*4.1*	*2.5*
Switzerland	2004	85.2	105.0	109.2	109.0	110.0	82.0	76.9
	Change, 2004–1998	*1.2*	*0.2*	*8.6*	*0.9*	*–9.6*	*–12.4*	*–2.6*
UK	2005	85.3	105.3	108.8	118.1	112.6	76.7	68.2
	Change, 2005–1985	*–4.3*	*–8.5*	*3.6*	*–5.4*	*7.4*	*2.7*	*–4.0*
US	2005	88.5	90.1	97.9	113.4	122.3	95.7	75.8
	Change, 2005–1984	*6.9*	*–8.6*	*–6.2*	*–4.1*	*1.7*	*–3.4*	*–8.7*

Note: Mean equivalized income = 100; changes are in percentage points.

Source: Förster and Mira D'Ercole (2005) for mid-1980s; own calculations based on OECD (2009) for mid-2000s.

equivalized, that is, individual incomes are adjusted for household size. Results show that children and adolescents up to age 17 fare worse than the population of working age, and the elderly over 65 in most countries even more so. Among the latter, the 'old olds' (over age 75) are particularly disadvantaged.

A differentiation between life course (age) and generational (cohort) effects would require data over time for corresponding age groups. The present data with changes from the mid-1980s to the mid-2000s can serve as a first approximation. As an example, the young adults aged from 18 to 25 have lost ground in most countries over these two decades. It is not clear, however, how much of this is due to the expansion of higher education and the ensuing later transition into the labor force and how much to the changing conditions in the labor market itself. In terms of the latter, there are different cohort processes at play which may have contrasting effects. One is the rise in mean educational attainment for each younger cohort, the other, the rising 'precariousness' of jobs and difficulty of entry into stable careers, particularly in countries with high youth unemployment.

A similar cohort argument applies to the 'young olds' (ages 66–75), which have seen their relative position increase in some countries but decrease in others. Their pensions may have benefited from higher labor incomes but suffered from the beginning process of pension retrenchment of public old-age security schemes. In a more detailed account of change (not shown here), the incomes of the elderly grew from the mid-1980s to the mid-1990s; however, this trend was reversed after the mid-1990s when pension retrenchment set in.

Another aspect of economic well-being is inequality within age groups and cohorts. One way to represent it is by the poverty rates, measured here as the proportion below 50 percent of the median equivalized income (Table 13.3). Comparing relative poverty between age groups and cohorts highlights the differential risk of being economically marginalized in different life stages or generational locations. For the total population, the poverty rate in the mid-2000s varied between 5 percent in Sweden and 17 percent in the US. In most countries both children and the elderly have higher poverty rates than the population of working age. In the majority of countries the elderly – especially those above 75 – are worse off than the children and adolescents (below 18); in Germany, Hungary and Italy the opposite holds. In the US, 21 percent of children and adolescents and 27 percent of those over 75 live in relative poverty, as against 4 percent and 10 percent, respectively, of the Swedish population.

Table 13.3 Changes in relative poverty rates by age groups, OECD countries, ca. 1985–2005

		0–17	**18–25**	**26–40**	**41–50**	**51–65**	**66–75**	**>75**	**Total**
Australia	2004	11.8	8.0	7.9	7.9	16.2	26.1	28.3	12.4
	Change, 2004–1995	*–1.2*	*1.5*	*–1.2*	*1.1*	*3.2*	*7.2*	*–1.8*	*1.1*
France	2004	7.6	9.9	6.7	5.5	5.0	7.2	10.6	7.1
	Change, 2004–1984	*0.3*	*–0.2*	*0.7*	*–0.8*	*–5.1*	*–2.3*	*0.0*	*–1.2*
Germany	2005	16.3	18.5	10.8	7.4	8.0	6.5	11.1	11.0
	Change, 2005–1985	*8.9*	*9.0*	*5.0*	*4.4*	*3.4*	*0.1*	*–0.1*	*4.7*
Hungary	2005	8.7	8.2	5.2	11.2	6.4	4.2	5.5	7.1
	Change, 2005–1991	*3.0*	*3.9*	*1.2*	*7.7*	*0.4*	*–8.1*	*–12.9*	*0.8*
Italy	2004	15.5	12.3	9.8	9.9	9.0	11.2	15.2	11.4
	Change, 2004–1984	*4.0*	*2.7*	*1.9*	*2.0*	*–1.5*	*–4.3*	*–2.4*	*1.1*
Japan	2004	13.7	16.1	10.7	10.9	13.2	19.4	25.4	14.9
	Change, 2004–1985	*2.8*	*5.6*	*1.3*	*1.4*	*–0.1*	*–3.4*	*1.9*	*2.9*
Sweden	2004	4.0	14.7	5.6	3.9	2.3	3.4	9.8	5.3
	Change, 2004–1983	*1.2*	*5.8*	*3.2*	*1.2*	*–0.2*	*1.0*	*0.2*	*2.0*
Switzerland	2004–05	9.4	8.2	6.1	5.4	7.4	16.6	19.3	8.7
	Change, 2004–2000	*1.2*	*0.9*	*–0.1*	*1.4*	*0.6*	*4.5*	*4.0*	*1.2*
UK	2005	10.1	7.9	7.0	5.7	8.0	8.5	12.6	8.3
	Change, 2005–1985	*2.5*	*2.2*	*1.5*	*3.3*	*2.2*	*0.3*	*1.3*	*2.0*
United States	2005	20.6	21.2	14.8	11.9	12.8	20.0	27.4	17.1
	Change, 2005–1984	*–4.5*	*3.3*	*0.9*	*0.2*	*–0.5*	*1.9*	*–0.5*	*–0.8*

Note: Poverty threshold set at 50 percent of median disposable income; changes are in percentage points.

Source: OECD (2008), own calculations.

This clearly shows that the welfare state makes a difference. It has succeeded in smoothing life time consumption chances, and thus in keeping economic cleavages between age groups at bay, but differentially so in different countries. The stylized picture presented above shows a massive variation of relative poverty rates among nations and welfare regimes, and especially between the two welfare regimes at opposite ends, the 'liberal' (Anglo-Saxon) versus the 'social-democratic' (Scandinavian) regime. Children and the elderly fare much worse than the active population in the liberal regime but less so in the social-democratic regime. The 'conservative' regime of continental Western Europe and the 'familistic' regime of the Mediterranean countries are situated somewhere in-between.

As to change since the mid-1980s or mid-1990s (Table 13.3), the poverty rates for children and adolescents have risen in most countries (Australia and the US being the exceptions), while the picture for the elderly is more uneven. In a longer perspective since 1970 (not shown here), relative poverty has remained stable or increased among children. It decreased among the elderly after the 1970s, but this trend has stopped in the mid-1990s; one can again detect some effects of recent pension retrenchments here (Liebig et al., 2004). Equality of economic resources is now under pressure both from the primary distribution of income on the labor market and from its redistribution through the welfare state. Increasing labor market inequality as well as welfare state retrenchment may come to deepen these economic cleavages even further.

This empirical picture may be seen to suggest some policy consequences. In terms of equality between age groups and cohorts, it is necessary to support children (and their parents) to bring their relative income up to and their relative poverty rate down to the population mean. On the other hand, there is no reason to strip the elderly of their benefits considering that with their relative income situation they are even worse off than children are. We may decide to invest more in children in view of the human capital of future cohorts of adults, but doing so at the expense of current cohorts of elderly would violate the criteria of intergenerational equity.

5. Toward political mobilization?

What are the risks (or chances) that these economic cleavages lead to a political mobilization along generational lines? For the time being they seem small. On the one hand the cleavages are (still) modest, and on the other hand such a mobilization would have to overcome several

difficulties. One is that the temporal boundaries of societal (historical) generations or cohorts are inherently fuzzy; there is usually no clear criterion for when generations begin and when they end, and delimiting them is thus the result of an arbitrary decision by academic or political observers. This fuzziness does not facilitate the perception of a common destiny. A second difficulty is that generations are internally differentiated with regard to class, religion, ethnicity or gender, which undermines any attempt to establish a feeling of 'being in the same boat'. In spite of these difficulties, however, major revolutions have been driven by youth movements. This has been the case for the French revolution of 1789 just as for the Bolshevik revolution of 1917, and for the Fascist revolution in Italy just as for the National-Socialist revolution in Germany. Most of the leading cadres of the National Socialist German Workers' Party (NSDAP), for example, were in their early or mid-thirties in 1933, and in their mid-forties when the 'Thousand Years Empire' came to its end twelve years later. The Fascists in their anthem celebrated youth as the 'Spring of beauty' ('Giovinezza, giovinezza . . .'), and attempted to mobilize the young as the vanguard of cultural and political change, necessarily at war with the adult world (Wohl, 1979). The problem of internal differentiation was effectively countered by generational elites that succeeded in presenting themselves as carrier groups for the other social strata as well. In the past years the 'Arab Spring' has presented another example for political mobilization along generational lines.

There are four political outcomes that may be discussed as indicators of the possibilities for generational mobilization. The first is given by the popular perception of political cleavages relating to age groups and generations, for example, those concerning welfare state redistribution (Busemeyer et al., 2009; Hicks, 2001; Svallfors, 2008). A good comparative assessment of age-specific attitudes toward social policy issues is provided by the International Social Survey Program (ISSP) with its special module on Role of Government of 1996 (analyzed by Hicks and Busemeyer et al., with 13 West European and North American countries) and 2006 (own calculations, with 16 countries). A standard question is whether one would like to see (much) more or (much) less or unchanged government spending on welfare domains such as pensions or education. Respondents are reminded that if they opt for 'much more' this might require a tax increase to pay for it. Results are twofold: (1) Large majorities of all age groups are in favor of more or much more government spending – as opposed to less or much less – on pensions as well as on education. Contrasting retired people over 60 with all non-retired people, the net support – those opting for (much) more minus those

opting for (much) less spending – is largely positive for both groups across both policy domains in all countries. (2) For pensions, the retired show somewhat more net support than the non-retired, while for education there is a modest difference in the opposite direction. There is thus a modest age (or cohort) effect in attitudes, but both pensions and education remain popular among all age groups. As to country differences, in no country those opting for (much) less spending make up more than 10 percent for pensions and more than 11 percent for education. The largest support for spending (much) more on pensions – with more than 70 percent in both groups – is found in the UK and Ireland where the public pension level is especially low. Lest we should think that popular opinion is always in favor of spending more on welfare programs, there is a counterexample: support for spending on unemployment insurance is much lower, and many countries show a net negative attitude.

There are also survey results on more specific policy options, such as how to construct the public pension program. A Eurobarometer survey of 2001 demonstrated that increasing the age of retirement was highly unpopular – again across all age groups (Kohl, 2003). It comes therefore as no surprise that policies to increase the retirement limit of pension schemes have met with strong public protest in several countries.

A second indicator is voting preference (Campbell and Binstock, 2011; Goerres, 2009). How do these attitudes translate into party voting? In the last ten US presidential elections, 'all age groups except the youngest (ages 18–29) distributed their votes among candidates in roughly the same proportions' (Campbell and Binstock, 2011, p. 268). Age differences have thus been negligible. Much more important are period effects, which favor either the Democrats or the Republicans and which have a strong impact on the young generations because first-time voters are especially sensitive to period effects and, as a cohort, tend to retain their original voting decision for the rest of their life course. In his comparative analysis of party choice in Britain and West Germany, Goerres (2009, p. 94) also found 'almost no evidence for a life-cycle effect in voting patterns', for example, in terms of economic or status quo conservatism. Generational differences are again the dominant sources of the observed differences between age groups, but even these have become less important over time. The current economic and social crisis in some countries may, however, herald a change in this pattern. A case in point is Italy where in the 2013 parliamentary election there were for the first time some signs of a 'youth vote', with almost half of those aged 18–24 voting for the new protest party headed by Grillo, compared to one-fourth overall (Albertini et al., 2013).

A third indicator is provided by voting on specific policy measures, such as in Switzerland or in the US (which has frequent issue voting at the state and municipal levels). For Switzerland, Bonoli and Häusermann (2009) show that there are some age effects when comparing national votes on 'young' issues such as education or maternity benefits with 'old' issues such as pensions. In the US, municipal referenda on education usually show no age effect as such but some effect of having schoolchildren resident in one's home (Binstock, personal communication).

The fourth indicator is political participation (Campbell and Binstock, 2011; Goerres, 2009). The elderly have an increasing weight in elections and referenda not only because of their increasing demographic share, but also because they have a higher voting participation rate than the young. A similar pattern emerges for party membership (Kohli et al., 1999). The aging of party members and party elites is uneven. In Germany, the Greens have long been a one-generation party which has aged with its core generation. Their elites are now approaching retirement. The post-socialist ex-communist party (PDS) had been mostly a party of retirees, but since the formation of the Left Party there has been some infusion of younger members as well. All parties except the Greens are faced with a higher membership among retirees than among the active population.

But party membership does not necessarily translate into political power. In the German case there exists a paradox of representation (Kohli et al., 1999): the elderly have a much lower representation in parliament and government than their population and party membership share, and since the 1960s – a period of sustained population aging – the mean age of the members of the Federal Parliament has even decreased somewhat. Non-traditional participation is also low but to some extent growing, and we may assume that these new forms of old-age activism will gain in importance with the aging of the 68ers.

Some proponents of 'generational equity' argue that the window of opportunity for implementing reforms of the welfare state is closing because the older population increasingly dominates the political arena by its sheer voting weight. They see a point of no return when the power of the elderly will be such that they will be able to block any attempt at reducing their benefits. In a model for Germany, Hans-Werner Sinn and Silke Uebelmesser (2002, p. 155) took into account both demography and age-specific voting participation, and made a projection of the median age of voters and of the 'indifference age' where one is affected neither positively nor negatively by a pension reform. Above this threshold, people are more likely to profit from improvements in old-age security,

below it they are more likely to have a negative pay-off with the costs outweighing the benefits. The assumption is that reform will be feasible only if the median voter favors it. The authors conclude that until 2016 a reform can be democratically enforced because a majority of the voters will still be below the indifference age. The year 2016 is 'Germany's last chance', after which it will be a gerontocracy, with no possibility of cutting old-age benefits anymore because the majority will be above the indifference age and will thus vote for retaining or even expanding them. However, such a model of self-interest is highly flawed; it presupposes that people's votes are based only on their current individual interest position and that voting shares fully translate into specific policies – both of which is manifestly not the case (Kohli, 2006, p. 466). A simple rational choice model which assumes that voters maximize their own perceived current interests does not provide a valid account of the act of voting, and the latter usually does not impact on a single political issue. As Tepe and Vanhuysse (2009) show, the policy results at the macro level disprove the gerontocracy model: While population aging since 1980 has increased overall pension macro-spending, it has also led to freezes or cutbacks in the generosity of individual pension benefits.

6. Mediating organizations: Parties and unions

Given the cleavages discussed above, why are age and generational conflicts in politics not more pronounced? One reason lies in the mediating function of political organizations such as parties and unions (Kohli et al., 1999). In the corporatist pattern of Germany, these organizations have created special groups for the elderly, just as for other long-neglected population categories such as women and the young. These special groups were set up as a form of internalized interest groups mobilizing these categories for the goals of the overarching organization. The groups moreover offer possibilities for participation for elderly political cadres beyond the main organizational hierarchies. For example, those who leave the Federal parliament having to hand over their mandates to younger colleagues can then take over functions in the 'senior groups'. The idea is to appropriate the demands of these population groups by giving them a special organizational niche, thereby hoping that they will neither mobilize outside the party nor interfere with its core business. This is even more the case for the trade unions, where the dilemma is heightened by the fact that unions' avowed purpose is focused on the working population. But unions also depend on their retired members for support and as a signal to their active members, and therefore offer

them special groups for organizing within the union but again detached from its core business (Wolf et al., 1994).

The shifting generational agenda is mirrored by the weight of these special groups. In the German CDU/CSU (Christian-Democrats), for example, the past years have seen a shift from privileging the young to aiming for a balance between the generations. In the build-up to the 2009 federal election, the heads of the Junge Union and Senioren-Union were therefore called upon to cooperate on an agenda of generational integration.

To the extent that these special groups are successful, age conflicts remain within the organizational fold of the parties and do not manifest themselves on the open political market. The exceptions are the 'gray' parties, which have had some electoral success in some countries, for example, in the Netherlands or Slovenia. But as with most one-issue parties, their success has usually been short-lived because other parties took up their issue or because they self-destructed over their own internal issue divisions. In Germany the only successful one-issue party so far has been the Greens, who were successful by broadening their agenda.

7. Families as mediators

Another reason for the low salience of age and generational conflicts is family relations and transfers. Families are the prototypical institutions of age integration. An example is given by Peter Uhlenberg's (2009) analysis of data from the US General Social Survey that asked adult respondents to identify up to five other adults with whom they had discussed important personal matters over the past six months. The result was clear: the discussion partners were either age peers or family members. No one under age 30 identified any non-kin over 70 as a close discussion partner, and vice versa. In other words, no members of distant generations and ages were mentioned except within the family.

The importance of the family for age integration is corroborated by data on residential patterns and support (Kohli et al., 2010). While household co-residence of adult family generations in Western Europe today has become rare, except for Mediterranean countries, geographical proximity is high. The same applies to emotional closeness and to social and financial support. The other side of the coin is a surprisingly low prevalence of intergenerational family conflicts (Szydlik, 2002).

In Germany these issues were first studied through the German Aging Survey (Alters-Survey) (Kohli, 1999; Kohli and Künemund, 2005), at the European level through the Survey of Health, Aging and Retirement in

Europe (SHARE) (Albertini and Kohli, 2013; Albertini et al., 2007). All studies show that in terms of inter vivos financial transfers elderly parents are usually net givers. Their net contribution to their descendants in Germany in 1996 amounted to 9 percent of the yearly pension sum; their volunteering and family support activities made up another 21 percent (Kohli, 1999). Parental altruism in terms of an orientation toward the special needs of their children is strong, even though there may also be expectations of reciprocity. Inheritance is another major concern of the elderly, as even those with modest means usually want to leave something to their children. There is a systematic difference between the generations here: parents have a stake in continuation by transferring their social, material and cultural capital to their children, while children have a stake in becoming autonomous. Both family sociology and evolutionary theory concur on this (Giarrusso et al., 1994; Low, 1998). It is often argued that this is a recent development. In the family of the nineteenth century, before the full onset of industrialization – so the usual argument goes – the elderly were supported by their children, and children were seen as insurance for old age. But this is less evident than it seems at first sight. A revisionist social history of generations now claims that parents have always given more to their children than vice versa (Ehmer, 2000).

Figure 13.3 (Kohli et al., 2010) provides information, for a range of European countries, on those aged 50 or more who have given or received financial transfers (above the threshold of €250) or social support across family generations over the past twelve months before the interview.[5] That these elderly Europeans are net givers emerges clearly: in all countries they have given financial transfers much more frequently than they have received them. The same applies for social support, defined here as personal care, practical household help, help with paperwork and grandparenting. Looking after grandchildren (without the presence of the parents) is included here as social support because it helps young parents (especially mothers) to reconcile parenthood and employment. This can be critical for the mother's participation on the labor market and thus for the decision to have children in the first place.

Figure 13.4 shows the variation among welfare regimes in the amounts of intergenerational support. This balance of giving and receiving combines financial transfers and social support; each hour of social support has been calculated at a wage rate of €7.50. The overall picture confirms the evidence presented so far: up to age 80, people are net givers; it is only after this age (and only in the Continental and Southern European countries) that they become net recipients.

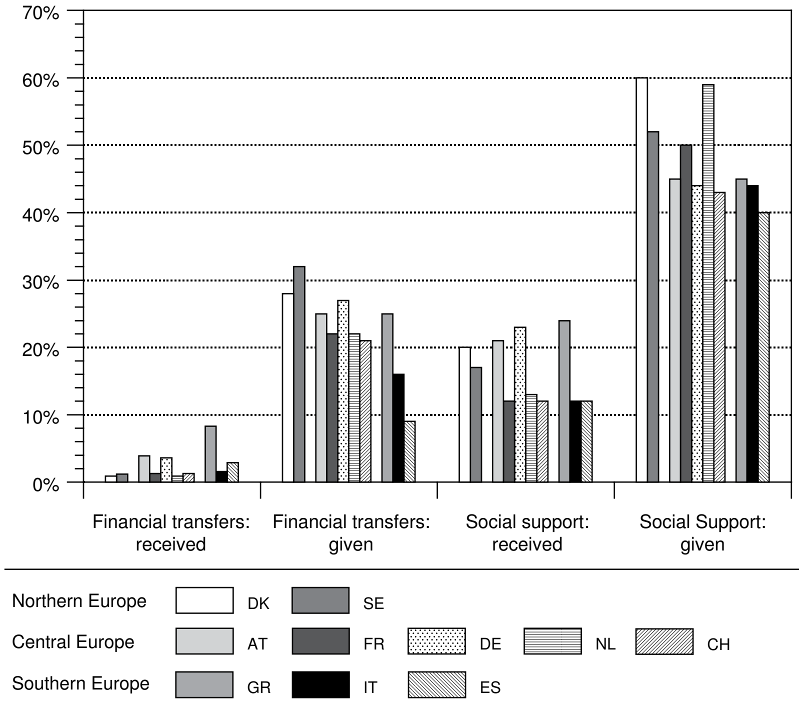

Figure 13.3 Frequency of financial transfers and social support among adult family generations by country

Adapted from Kohli et al. (2010, p. 257).

Note: Respondents aged 50+ giving to and receiving from their non-co-residing children aged 18+.

Source: SHARE 2004 release 2.0.1, own calculations.

Another aspect is co-residence of adult generations in the same household. As mentioned above, this has become rare in the Continental and Nordic countries but is still frequent in the Mediterranean regime where much intergenerational support occurs in the form of co-residence. While it is difficult to precisely pin down the extent and direction of transfer flows within a household, there is indirect evidence that here as well parents are net givers. The Mediterranean countries are characterized by very late exit of the young from their parental homes, which means that the highest rates of co-residence in the SHARE sample are found among the 50- to 60-year-old parents; however, there are also very clear differences among the regimes for the over-80-year-olds. Co-residence

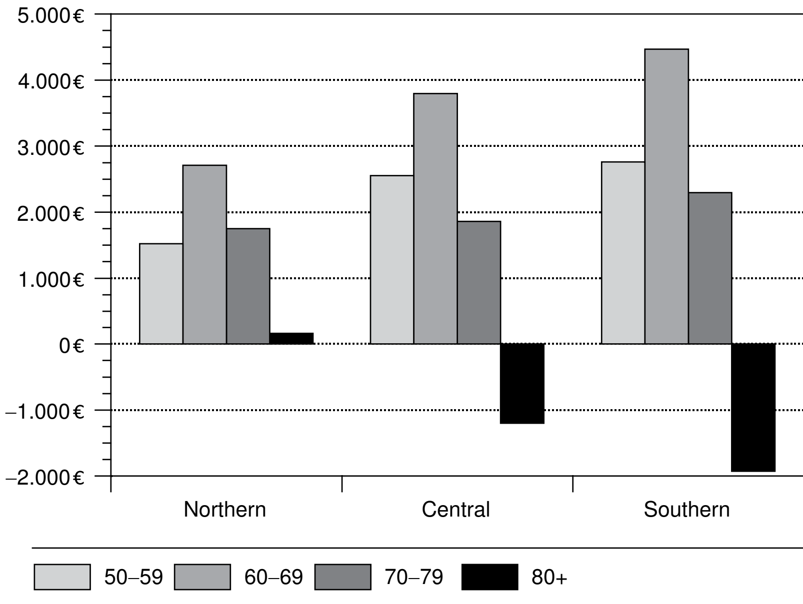

Figure 13.4 Balance of financial transfers and social support among adult family generations by age group and welfare regime

Note: Respondents aged 50+ giving to and receiving from their non-co-residing children aged 18+; hours of social support converted into monetary units by a wage rate of €7.50.

Source: SHARE 2004, release 2.0.1, own calculations.

in Scandinavia practically does not exist at that age, while in Italy it is still in the range of 30 percent. The Nordic regime is thus much more individualized. While the Nordic countries offer good community services for the elderly and an extended sector of old-age homes, both of these are rare in Italy or Spain where everything depends on the family. Outside help is organized by the family as well, for example, through the low-wage care work of immigrant women (Bettio et al., 2006).

8. Generation and class: Conflict or integration?

Is class conflict really defunct? In terms of cleavages, the evidence points in the opposite direction. In the advanced Western societies, social inequality of income and wealth has for some decades been on the rise again. The aging of the population is likely to deepen these class inequalities because important dimensions of the life course are socially

stratified – morbidity and mortality, functional capacity, and pension income as well as social participation and embeddedness. The lifetime accumulation of benefits and deficits means that inter-individual variation increases with age, and this is to a considerable extent a socially stratified variation. The class divides matters more in old age than at any other time of life, at least in the liberal welfare regime where welfare state redistribution is low.

But while class cleavages deepen, class mobilization seems to fade away. Class mobilization is still institutionalized in the systems of industrial relations as well as in most party systems. However, industrial relations are today characterized by weakening union power and weakening corporatist arrangements. Stable party attachments and traditional left–right cleavages in the political realm are weakening as well.

As to generations, the cleavages outlined in this chapter are sizable, and the current structural trends – demographic discontinuity, economic insecurity and welfare state retrenchment – are likely to deepen them. There is thus a considerable and increasing potential for generational mobilization. Nevertheless, the likelihood of a 'war between the generations' – be it in the form of a gerontocracy or of a youth revolution – for the time being is low. Support for the public generational contract is still broad among all age groups. The age-integrative effects of family solidarity are strong, and political organizations also play a key mediating role.

However, the increasing salience of class cleavages may change this picture. The salience of class is especially high among the elderly and also among the young, that is, among the more vulnerable parts of the population. As new cohorts with a stronger lifetime record of political activism grow up and enter old age, they will be more likely to remain active, especially if a large part of them will feel disadvantaged by the cutbacks in public pensions. Instead of canceling each other out, class and generational cleavages may thus come to interact and create new lines of mobilization.

Notes

1 Parts of this chapter are a substantially revised and updated version of an earlier article (Kohli, 2010) and of an Italian version that has appeared in Manuela Naldini, Cristina Solera and Paola Maria Torrioni (eds), Corsi di vita e generazioni (Bologna: Il Mulino, 2012). I am grateful to Daria Popova for preparing the data of sections 4 and 5.
2 For the following arguments I rely on my more extensive discussion in Kohli (2006).

3 Generations are also sometimes defined by reference to other important life course events (such as graduation or marriage). The concepts of 'generation' and 'cohort' are used as synonyms here; for a broader conceptual discussion see Kohli (2006).
4 See Scherger and Kohli (2005) for a more detailed analysis. The data come from the first wave of the German Aging Survey (1996; later waves did not collect this information), a nationally representative survey of the German population aged 40–85 and living in private households (Kohli et al., 2000).
5 See Albertini et al. (2007) for a more detailed analysis. Figures 13.3 and 13.4 are based on SHARE Wave 1 (2004). The SHARE data set is introduced in Börsch-Supan et al. (2005); methodological details are reported in Börsch-Supan and Jürges (2005).

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