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When Labour and Capital Collude: The Varieties of Welfare Capitalism and Early Retirement in Europe, Japan and the USA*

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* A shorter version will be published in: Bernhard Ebbinghaus and Philip Manow (eds.) *Varieties of Welfare Capitalism: Social Policy and Political Economy in Europe, Japan and the USA*. London: Routledge (forthcoming).

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Abstract

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When Labour and Capital Collude: The Varieties of Welfare Capitalism and Early Retirement in Europe, Japan and the USA

The institutionalisation of old-age retirement as full exit from work has become a universal feature of postwar industrial economies (Myles and Quadagno, 1991), a major achievement of 'politics against markets' and the largest income programme of modern welfare states (Esping-Andersen, 1990). Since the rise of mass unemployment following the first oil shock, early exit form work before the normal pension age (in most countries: 65) has become a social trend that goes beyond the political expansion of social rights, but resulted from unintended policies and collective responses to the new socio-economic pressures. Early retirement seemed to be a panacea for certain pervasive labour practices, including shedding workers to restructure in response to the changing economy, buying worker consent to downsizing by offering 'soft landings', and the efforts of government and unions to reduce labour supply. However, with increased early retirement the negative economic and financial consequences have become more worrisome to governments, employers and union leaders alike: rising non-wage labour costs harm competitiveness; unemployment persists despite early exit; current social expenditure and future liabilities have risen substantially; the entry age into retirement is becoming increasingly early; and continued training and reskilling of older workers is lacking. The multiple pathways of welfare policies and the complex web of industrial actors thus brought about a trend that was partly unintended and has proved difficult to reverse. In fact, early exit has become institutionalised as an acquired social right and an integral part of contemporary political economies.

While early retirement has become a relatively universal trend, there are significant differences across advanced capitalist countries in the extent to which early exit from work takes place (Ebbinghaus, 2000). These cross-national variations can be linked to variations in welfare regimes that determine the de-commodification of benefits (Esping-Andersen, 1990) and the availability of pathways to early retirement (Kohli et al., 1991). An analysis of social security, in particular the generosity of welfare benefits and incentives to quit work (Gruber and Wise, 1999b), allow us to understand to what degree public pensions provide a 'pull' on early retirement. Yet, there are also 'push' factors at work such as economic restructuration and employers' dismissal policies. Recent studies that include micro-level firm behaviour (Mares, 1998; Naschold and de Vroom, 1994), stress the linkage of early retirement with particular production regimes: 'country-specific patterns of externalisation and integration of older workers could only be explained as the result of the dialectical relationship between production regimes and country-specific welfare state regimes' (Naschold, de Vroom, and Casey, 1994: 433). Employers also assume a crucial role in the provision of occupational welfare benefits. Indeed, early retirement is a prime example of the interaction between public and private actors (Rein and Rainwater, 1986a; Rein and Wadensjö, 1997). In addition, unions and works councils play a role at national and firm level, not only in shaping public and private welfare policies, but also by negotiating social plans and by striking deals with employers.

In this paper, I chart the nexus between welfare regimes, production systems, and labour relations as it plays out in the trend towards early retirement and cross-national differences in exit from work. Labour-shedding policies are an interesting case for exploring the linkages between welfare regimes (Esping-Andersen, 1990, see also Huber and Stephens, 1999), production regimes (Hall, 1997; Hollingsworth and Boyer, 1997; Soskice, 1999) and industrial relations practices (Crouch, 1993; Ebbinghaus and Visser, 1997). My assumption is that the historically developed welfare regimes, production systems and labour relations interact in particular, country-specific ways. Early exit from work is not merely a singular decision by an individual (the older worker considering early retirement), but is embedded within institutional incentives and constraints that shape the push and pull of early exit from work. For instance, the availability of a preretirement programme provides an incentive (pull factor) for a worker to retire, but it may be conditional on a replacement offer by an employer and thus depend on a push factor, the company's need to restructure its workforce. Note that these push and pull factors operate at least at two levels: the macro-level (national policy or sectoral bargaining arena) and the micro-level (workplace or company). Moreover, within these particular institutional settings, there are complex actor constellations—most notably labour, capital, and the state—which interact at the different levels.

Given the complexities that an institutional and actor-oriented analysis needs to grasp (Scharpf, 1997b), in this paper I can only chart some of the broader cross-national differences in the linkages between welfare regime, production systems and labour relations (Figure 1). To begin with, I will discuss the main trends over time and cross-national variations in early exit from work among older men and women (Section 1). Then, from an actor-centred perspective, I evaluate the costs and benefits of early retirement for labour, capital, and the state at the two levels (Section 2): what are the 'pros' and 'cons' for workers, unions, works' councils, management, employers' associations, and the government? These decisions depend to a large degree on the institutional arrangements and the interaction between actors. Thus the subsequent sections explore the different regimes and their impact on early exit from work: the 'pull' of more or less open multiple pathways provided by welfare regimes (Section 3), and the importance of employer occupational pensions for early exit (Section 4). This is followed by an analysis of the 'push' factors: the employment regulations and human resource strategies of firms in given particular production systems (Section 5), and the impact of economic and financial governance on the pressures for companies to downsize or restructure (Section 6). Finally, we will return to the 'pull' factors influencing early exit from work by looking at the main constellation of actors in the particular industrial relations systems and the workplace management-labour practices (Section 7). In the conclusion, I will discuss the linkage between the different regimes and the difficulty in reversing early exit from work, given the entrenched, interdependent and complex institutional set-ups across the varieties of welfare capitalism.

1. Exit from work

Early exit from work for older people has become a popular route in all industrial societies, especially since the onset of mass unemployment following the first oil shock in 1973. Older male workers (aged 55-64) in all countries experienced a decline in employment rates (excluding the unemployed and nonactives), though Japan was least affected (see Figure 2). Among continental European welfare states, employment rates dropped very dramatically from four-fifths of older men (aged 55-64) in the 1970s to only one in three French men and only 40% of Dutch and German men of the same age-group in the 1990s. In the second group of countries—with medium declines—were the Anglo-American welfare states: the UK and the USA. The UK went through a significant reduction from a high employment rate above 90% in the early 1970s to below 60% in the 1990s, while the USA experienced a more gradual decline, levelling off at above 60% since the 1980s. Until the crisis of the 1990s, when employment rates dropped to American level, Sweden's decline was slow and a level above 70% was maintained, partly due to part-time work and gradual retirement. Finally, Japan stands out in that it has maintained the highest level of employment: four out of five older Japanese men (aged 55-64) remain employed, although not necessarily in the same job. Note that employment among senior citizens (aged 65+) has declined to below 20% everywhere, except in Japan, where nearly 40% of men are still working when they draw their basic pension.

Early retirement among female workers is more difficult to trace in the development of employment rates (see Figure 3) since two processes tend to counteract each other. On the one hand, each cohort of women tends to have a higher participation rate as more and more women stay in or return to employment during or after a period of raising children. On the other hand, women are often allowed to draw retirement pensions earlier than men. Thus a rising female participation rate across cohorts and an increase in early retirement over time may cancel each other out and might not lead to an overall change in employment rates for the 55- to 64-year-old. Indeed, Sweden with its early expansion of female participation shows a long-term increase in employment among older women, while the US rate has slightly increased, the Japanese rate stagnated, and the British rate oscillated around a medium level. However, Germany and France show real declines and the Netherlands traditionally has a very low employment level among older women.

A cohort-analysis of the decline in employment rates for older working people 60-64 compared to their rate five years earlier (that is the age-group 55-59) indicates that exit from work occurs not only among older men (Figure 4). A similar trend can be observed among women (Figure 5), despite the aggregate rise in employment rates for women across time (Figure 3). Comparing these relative 'exit rates" (Figure 4-5), we detect that early exit from work among the 60- to 64-year-old has become more common since the late 1970s for older German and French men as well as women, for older Dutch men, and for Swedish women and—in the 1990s—also for jobless Swedish men. Yet the trends are less pronounced in the USA and Japan, where early exit seems to be more cyclical (the same holds for the Netherlands due to its very low participation level among older women). I will concentrate on male exit from work since female employment rates are still much lower than male rates and thus women's early retirement accounts for a small share of overall exit from work, and, especially in Sweden, is offset by increased female participation over time.

Notably, early retirement and full exit from work do not always coincide (Guillemard, 1991b). For instance, Swedish workers receiving a partial pension work part-time between the ages 60 and 64 (accounting for about 1/4 of Swedish employment in this age-group). Their German colleagues may draw a five-year partial pension and get 5 years of part-time pay but actually work the first 2.5 years full time and then ‘retire’ completely from the company. Moreover, in the past it was common for companies in Germany (Jacobs, Kohli, and Rein, 1991a) and Sweden (Wadensjö, 1991) to dismiss their workers at an age when they could receive long-term unemployment insurance until they were entitled to preretirement or disability pensions for older unemployed workers: thus the unemployed at age 59 were not seeking employment but had in fact retired. On the other hand, Japanese workers are often forced to ‘retire’ from their company and thus become self-employed in a small shop or on a farm, work at a smaller supplier firm or the company re-employs them on less favourable conditions (Kimura et al., 1994). ‘Early’ retirement has a very different meaning not only from society to society, but also depending on the perspective, whether seen from the angle of the worker, the firm or the social security system. With the secular trend toward early exit, the ‘normal” pension age as a transition from work to retirement has lost its clear-cut defining edge. Public policies which foster gradual or flexible pensions have further blurred the demarcation between work and retirement (Guillemard and Rein, 1993).

Grouping the countries in respect to their ‘early exit’ pattern, shows systematic differences across countries. The Continental European welfare states have relied most heavily on the labour-shedding strategy: in both France and Germany, only one in five older men (aged 60-64) works, and only half of the men in the younger age-group (aged 55-59) work. The Anglo-American liberal welfare states have seen a decline in employment rates for older workers due to economic forces, roughly following the business cycle. Half of older American or British older men (aged 60-64) are not working, while this figure is around one-quarter in the younger age-group (aged 55-59). The Scandinavian welfare state shows high employment performance even during old age, partly by fostering part-time work (one-third of the Swedish male workforce aged 60-64). However, in recent years, unemployment has risen to unprecedented levels, also affecting older workers. Japan has maintained a high level of activity in older age, yet workers have often been forced to quit jobs in large companies and seek re-employment or self-employment in much less favourable jobs.

2. The actors and interests

This short empirical sketch of exit trends among older people poses two main questions: Why has early retirement become such a widespread phenomena in industrial societies? Why are there marked differences across countries in the scope of early exit from work? Before we discuss the differences, let us first review some of the motivation and rationale behind the common trend toward early retirement. Many economists, especially in the American debate, have blamed public benefits to provide the incentives for workers to quit work (see Casey, 1997). In economic cost-benefit analyses, the long-term gains in wealth from continuing work versus the short-term benefit from receiving an earlier non-work pension income are weighed. No economic incentive would exist when preretirement pensions are ‘actuarially fair’, that is, benefits are reduced by the loss in social security contributions (and their interests). A recent comparative study of the implicit ‘tax rate’ by public pension programmes (Gruber and Wise, 1999b) found that generous 'provisions of these programs often imply large financial penalties on labour earnings beyond the social security early retirement age' (Gruber and Wise, 1999b: 35).

Yet such a cost/benefit approach of the potential retiree misses the contingency of such individual decisions, that is, the way in which they are nested in other, higher level decision making. The human resource policies of employers are as important as (but not independent of) the regulation of the 'pull' forces of public policy (Naschold, de Vroom, and Casey 1994). Moreover, to explain policy shifts and not just the success of particular policies, we need to look at all the main actors involved in shaping early exit pathways. Three levels of actors are distinguishable: the *national level*: the policy-makers, employers associations and trade unions; the *workplace level*: the employer, workplace representation, and local public agencies; the *individual level*: the worker as 'insider' who wishes to retire and the unemployed as 'outsider' who might indirectly gain from vacant positions.

The immediate benefits of early retirement for *older workers* in terms of leisure are obvious, and it is particularly attractive when it ends a hard manual working life (such as in mining or steel). Moreover, voluntary retirement might be the only way to avoid redundancy or individual unemployment, and being 'retired' has less stigma than being 'on the dole'. With the expansion of early retirement, it became a quasi acquired right, an 'earned' retirement after a long working life. Given the claims of unions and governments, it also had the positive societal image of opening up new positions for younger workers. Certainly, much depends on the particular retirement arrangement, specifically, its features of accessibility, eligibility, and generosity. There is ample evidence that more favourable replacement rates boost preretirement programmes, while those that shouldered costs mainly on individuals are less popular and were only chosen if no other, more attractive pathway is open (Guillemard 1991b; OECD 1995b). In some cases employers and fellow workers might exercise social pressures on workers to 'voluntarily' accept early retirement. Finally, preretirement programmes the decision is contingent on others than only the worker: dismissal by the employer in case of unemployment benefits, replacement conditions for state subsidies, agreement by works council or medical examination in case of disability benefits.

Unions have commonly propagated early exit primarily as a means to lower mass unemployment by reducing labour supply, whatever the theoretical grounds and practical success of such measures. Early retirement has also popular appeal to the core union membership, especially (male) older workers who tend to be overrepresented among members and union activists.[1] While some unions mobilised to reduce

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[1] Most union movements have suffered from membership decline over the last two decades (Ebbinghaus and Visser, 2000), which is largely due to lower entry rates among younger workers (especially those in new sectors) and the dropping out by unemployed members, while older longstanding members remain organized, thus leading to an ageing of union membership. Union activism increases with age and membership duration, therefore older members are overrepresented, reinforcing the seniority bias in decision-making. Moreover, many unions also have an increasing share of pensioners, partly due to the role unions play in early retirement schemes: thus nearly half of Italian union members are pensioners, nearly 20% are non-active in other continental European and Scandinavian unions, while British and Irish unions hardly organize the non-gainfully employed (Ebbinghaus and Visser, 2000). Given the interests of retired members, trade unions (most notably in Italy) have mobilized to defend pensions from welfare retrenchment, but when faced with a choice they tend more toward upholding the status quo for current

weekly working hours to redistribute work (e.g. the German metal workers union's 35-hour working week campaign), others have sought lifelong working time reduction via early retirement as a complementary or alternative strategy (e.g. German chemical workers union). Given that they can strike a deal with employers, union leaders may find that collusion on early retirement enhances their role in collective bargaining or workplace negotiations. Private early retirement benefits may become part of wage bargaining, for instance, as employers request wage concessions in return for negotiated early retirement programmes.[2] However, when union leaders adopt a more long-term perspective, they are worried about the push in non-wage labour costs, the overall dampening employment effect, and the difficulties to enforce contractual or statutory replacement obligations. As early retirement measures might be unsuitable to some industries or smaller firms, large industrial firms might 'free ride' on the small firms and the service sector by externalising their costs. Even if they would like to restrain costly early retirement, union leader might find it difficult to prevent productivity coalitions between management and workplace representatives at the firm level.

Workplace representatives (works councils or shop stewards) have similar motivations as national unions, yet local circumstance may press them to make more far-reaching concessions and pursue more short-term interests. Especially where older workers with seniority rights play an important role at the workplace, their interests find more direct representation at this level. In some countries, workplace organisations have statutory or contractual rights to co-determine personnel policies in general and/or negotiate social plans in case of redundancies (Rogers and Streeck, 1995). Especially when cost externalisation can be used, early exit is a popular means to negotiate restructuration in a socially acceptable way for both worker representatives and employers. However, works councils have only limited means to influence or even enforce re-employment pledges by firms, even under German parity co-determination on supervisory boards of large companies. When unions negotiate at workplace level, they may also fear that early retirement will undermine the wages by the replacement of better paid older workers with younger less paid workers, though job replacements usually trickle down through the job hierarchy.

The *unemployed or young job-seeker,* representing the 'outsider' on the labour market, may or may not profit from early retirement, depending on the success of the solidarity between older and younger workers and firms' replacement policies. Whether early exit leads to new placements and whether these last beyond any statutory replacement duration remains an open question. What is obvious is that

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beneficiaries than objecting to a gradual phasing out of generous benefits affecting the younger workers (Ebbinghaus and Hassel, 2000).

[2] Given the Dutch collective preretirement schemes, 'wages are not rising in line with productivity because part of what would have been an increase in wages is diverted to cover the cost of the private early retirement „VUT" scheme" (Jacobs and Rein, 1994: 46). Similarly the Danish unions negotiated in exchange for wage moderation in the 1980s payments to special pension funds. The recent IG Metall proposal of a wage fund to finance early retirement at 60 also includes such an exchange of wage moderation for early retirement, though neither the government, nor the employers seem to be willing to take this model on board.

‘outsiders’ have no role in the early retirement decision, they are not represented by works councils and by and large underrepresented within national unions.

Firms may impose mandatory retirement or promote early retirement in order to shed off older workers who are perceived to be less productive than younger workers, though there is not much empirical evidence for this widespread belief (Casey, 1997). When firms need to downsize for economic reasons or restructure their workforce to adapt to new technologies or work organisation, ‘social plans’ based partially on early retirement help to find a peaceful, consensual solution. Early exit is particularly attractive if firms can externalize part of the costs onto a public or collective scheme. Yet employers are also willing to contribute to retirement costs (severance pay, occupational pensions) when it helps to circumvent seniority wages and employment protection enshrined in law or collective agreements. However, some public preretirement programmes also have strings attached, such as replacement obligations, consultation with workplace representatives or approval by local authorities that could reduce an employer’s willingness to use early retirement. Finally, employers by and large seek to have control over the retirement decision (Mares, 1998), preferring to retain skilled workers who they find crucial, while shedding the less productive ones. Hence they prefer preretirement programmes which they initiate and control over those public programmes where individuals have a social right and are completely free to choose.

Some *employer associations* have been involved in negotiating early retirement schemes at industry or national level, especially when a consensus with unions was desired in return for social peace or other concessions such as wage moderation (Ebbinghaus and Hassel, 2000). Yet employer associations have increasingly come to criticize the cost aspect of early retirement after the initial short-term measures often pursued by some industries or firms turned into costly programmes. They may also be concerned that early retirement reduces labour supply and that the ‘unemployment whip’ may be less effective in wage bargaining and that generous preretirement benefits increase the reservation wage. But employer associations also face internal heterogeneity, if not conflict of interests across sectors and especially between large and small firms. Large firms are often more capable of using public and private preretirement options and more interested in restructuring or downsizing employment than small firms.

Many *governments*, especially in continental Europe, have fostered early retirement as a means to reduce labour supply in an effort to fight mass unemployment and facilitate peaceful restructuration (Esping-Andersen, 1996). Given its popularity, the widespread support from unions, and the interest of employers to externalize restructuration costs, early retirement policies initially seemed to be politically attractive policies. However, in the long term, public finances have suffered from growing preretirement costs (which do not offset the gains from savings on unemployment costs), thus requiring increased state subsidies. Governments, like employer associations, are increasingly aware of the negative impact on international competitiveness through rising non-wage labour costs incurred by costly public and private social policies (Scharpf, 1997a). Yet given multiple pathways to early exit and thus potential substitution (Casey, 1989), governments find it difficult to reduce preretirement by merely cutting benefits. In many systems with shared policy responsibility, governments need the co-operation of the other social actors to implement policy reversal, that is, a broad social consensus committing employers and unions not to free-ride and externalize costs (Ebbinghaus and Hassel, 2000). Faced with rent-seeking behaviour by employers and 'insiders', governments may be the only force capable of intervening in favour of the public interest and fighting the exclusion of 'outsiders'. Governments now seek to reverse the policy course, by reducing the incentives to early retirement in public policies and by stressing activation of the older workforce through life long training and anti-age-discrimination measures. But while they could build on a broad coalition during the period of welfare expansion, the new politics of policy reversal faces the severe obstacles of path-dependent institutionalisation and entrenched vested interests typical of pension politics (Myles and Pierson, forthcoming; Pierson, 1996).[3]

3. Welfare state regimes

In order to explain the differences across countries, however, we need to understand the different institutional contexts under which these actors make their decisions. In all countries, old-age insurance was initially developed merely to supplement income loss due to lower productivity (Myles, 1989). Yet with the postwar extension of old-age benefits above subsistence levels, full exit from work at 'normal' retirement age became institutionalised as a major stage in the life course (Guillemard and Rein, 1993; Kohli and Rein, 1991). In several countries, paternalist social policy considerations motivated an earlier retirement age for women on the grounds that they could receive pensions at the same time as their husbands, who were 3 to 5 years older on average.[4] Similarly, earlier retirement was granted for groups with particular health impairments, taking into account the difficulty in finding jobs in older age. For instance, German disability benefits were available already at age 60, five years before normal retirement age (Frick and Sadowski, 1996). During the 1960s and early 1970s, when particular provisions for the older unemployed were granted by legislation, court-rulings or administrative practice in several countries, these were justified by older workers' difficulties in finding re-employment. Yet these labour market considerations took a partly unintended course when mass unemployment became a long-term phenomena after the mid-1970s. Whether initially intended by policy-makers or not, these early retirement options have become major pathways to early exit.

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[3] Cutting back (or closing) early retirement options entails intergenerational fairness questions similar to the 'double payer problem' (Myles and Pierson, forthcoming): the current workers who would no longer be entitled to these programmes would still have to pay for current recipients, though this would only arise for a few years (from early retirement until normal pension age). Yet all defined benefit, pay-as-you-go systems that grant early retirement options without 'fair' (full) actuarial reduction create an expectation of 'acquired rights' among pay-roll payers. Since this expectation is higher among those close to early retirement age, given their longer contribution period and social comparison with previous beneficiaries. Therefore a roll-back of early retirement provisions are often phased-in, 'grandfathering" the rights of current older workers and pensioners.

[4] Women could draw pensions five years earlier in Britain (60), Germany (minimum pensions until the 1992 reform), France (before 1983 when men also could retire at 60), Japan (phased out after 2000), and three years earlier for German normal pensions (until 1992 reform) and American „flexible" pensions (from 1956 till 1961). However, equal rights considerations and financial pressures led to phasing out of gender differences, with the partial exception of France, by increasing retirement age.

In addition, some governments introduced preretirement options to help older workers in the transition from work to retirement. In 1976, Sweden lowered its high normal retirement age from 67 to 65, and introduced an initially successful partial pension for those wishing to work part-time before 65, though later governments changed the conditions several times (Wadensjö, 1996). France (since 1985) and Germany (since 1989) have experimented with partial pensions, but these were less attractive schemes (Reday-Mulvey, 1996; Schmähl, George, and Oswald, 1996). Some countries allowed early drawing of benefits (‘flexible’ pensions): thus under US social security, actuarially reduced benefits could be drawn from the age of 62 onwards, though combination with income from part-time work led to severe benefit cuts (Chen, 1996). Since 1973, German male workers with long working lives profited from a ‘flexible’ seniority pension at 63 (and 35 contribution years), again requiring full exit from work, but it was phased out by the 1992 reform (Jacobs, Kohli, and Rein, 1991a).

Special preretirement programmes were also initiated by governments in order to reduce labour supply and ease economic restructuring. As early as 1963, the French government provided several preretirement programmes for companies in need of restructuring. These income programmes helped bridge the gap between early retirement and normal pension age (then at 65). In 1983, the new French socialist government granted normal pensions at 60 (after 37.5 years of contributions), partly to shift costs from preretirement via unemployment insurance to the less generous pension scheme, but this led to new bridging arrangements allowing even earlier preretirement via unemployment benefits (Guillemard, 1991a). In Britain, the Labour government introduced a Job Release Scheme (JRS) for men (women already profited from earlier normal pension at 60) in 1977, which existed for 12 years with many stop-and-go changes until it was closed down by the Conservatives in 1989 (Laczko and Phillipson, 1991). The German centre-right government introduced a special preretirement scheme in 1984, partly to counteract the unions’ demand for shorter working weeks, but closed it within 4 years (Jacobs, Kohli, and Rein, 1991a).

In addition, unemployment benefits or disability pensions provided a common but not always intended ‘bridging pension’ until normal retirement age. In Germany and Sweden, long-term unemployment benefits covered more than a year before preretirement (or disability) pensions at 60 (later up to three years in Germany, 1¾ year in Sweden), while they lasted for several years until normal retirement in the Netherlands (ages 57½-65) and France (ages 60-65 before 1982). In the Netherlands, the disability insurance, which had introduced favourable labour market considerations for older unemployed workers in 1973, became the major exit pathway at least for women. This has led the government to deplore the ‘Dutch disease’ and to cut back on disability rules since the late 1980s (Aarts and Jong, 1996). Sweden completely closed its old-age disability pathway in 1992 as it had become too popular and costly during the sudden unemployment surge since 1989 (Wadensjö and Palmer, 1996). In Germany, nearly half of all men and women received a disability pension until the early 1970s (for women lasting until the early 1980s), and since then about one in five new pension has been based on disability grounds, including a new additional pension for the ‘severely disabled’ at age 61, later alread at 60 (Frick and Sadowski, 1996).

There is some evidence for the ‘pull’ thesis: the Dutch and Swedish disability pensions were the most generous (70% replacement in 1995), followed by Germany and the USA (around 45%), and the least generous were France, the UK and Japan (25%): thus the Netherlands and Sweden had the highest take up rates among older workers, followed by Germany, while the other countries had much lower rates (Ebbinghaus, 2000: Tab. 2). The more favourable benefits are and the less continued employment pays off, the stronger the incentives are for older workers to quit work early (Gruber and Wise, 1999a). This does not imply that the 'pull' completely determines the overall level of exit, but that generosity and accessibility plays a role in the choice of pathways. The labour market consideration of disability pensions in the Netherlands, Germany and Sweden made these schemes accessible, while this was less the case in the other countries, which considered only medical criteria. Yet even in the UK and the USA, disability benefits strictly under medical indication remain the main pathway to early retirement for lack of other publicly provided means. Rates of new entry have followed economic cycles by forcing more workers to file a demand and doctors to become increasingly willing to grant them during economic downturns (Berkowitz and Burkhauser, 1996; Lonsdale and Aylward, 1996). Thus 'pull" (welfare eligibility) and 'push" (economic pressure) are often interrelated.

From a comparative perspective, each national system of social protection differs in the availability of alternative pathways and in their generosity, eligibility, and selectivity (Kohli et al., 1991). There are systematic differences across welfare regimes (Esping-Andersen, 1990; 1996): the liberal and residual welfare regimes (US, UK, and Japan) offer only a few, unattractive pathways, while the continental European and Scandinavian social security systems provide multiple widely available pathways of relatively generous bridging or preretirement pensions. However, there is no linear relationship between the size of the welfare state (measured in overall social expenditure % GDP in 1980) and employment rates of the older male workforce (men 55-64 in mid-1980s) at the time of the growth to limits of welfare expansion and the peak of labour shedding (see Fig. 6). Instead one can see a U-shaped relationship: the most frugal welfare states (USA, Japan) and the most expensive one (Sweden) retain relative high level of employment among older workers, while the medium sized Continental welfare states have much lower employment rates. Similarly, when taking Esping-Andersen's de-commodification index for pension insurance (Esping-Andersen, 1990), there is again a U-shaped relationship with exception of Japan where generosity seems to play no role at all (see Fig. 7). The most generous pension systems (Sweden and Denmark) still maintain a high employment level, followed by the more sturdy US social security, while the Continental pension states with medium-level de-commodification seem to have the highest level of early retirement. Thus it is not more spending or more generosity that per se fosters early retirement, much depends on the way in which a particular welfare regime interacts with the exit from work decision.

On the one hand, the liberal (or residual) welfare regimes do not have much 'pull' on early exit, since they provide insufficient or no preretirement pensions, long-term unemployment benefits and labour market-oriented disability insurance. The Japanese government allows male workers to draw on their earnings-related pension at 60, but this is only a supplement to other partially state-subsidised income (Takayama, 1996). US social security allows flexible retirement at 63, but with substantial actuarial reduction, and thus disability pension remains the only other alternative. The British preretirement programme was short-lived, while British male workers have to wait until 65 to receive their flat-rate basic pension. All three countries lack long-term and sufficient unemployment insurance for older workers, and thus there was no bridging via unemployment available.

On the other hand, the continental European and Scandinavian welfare states have provided multiple pathways to early exit via the pension, unemployment, and disability insurance systems. The most important difference between these systems, however, was the successful use of partial and flexible pensions in Sweden, which allows combination with part-time work and led to a gradual transition and prolongation of exit from work (Wadensjö, 1996). While Dutch, Swedish, and to a lesser degree German workers profited from more widespread use of disability insurance, French workers could withdraw earlier due to unemployment bridging pensions. At times, the French and German government intervened directly by setting up special preretirement schemes, with subsidies for re-employment of young workers, though these did not bring the expected labour market improvement and proved relatively expensive (Guillemard, 1991a; Jacobs, Kohli, and Rein, 1991a).

Since the late 1980s, government officials, social policy experts and employers—worried about rising public expenditures and payroll taxes—demanded a reversal of early retirement policies. Yet as several ineffectual reform efforts have shown, closing down or cutting benefits in one scheme may only lead to the substitution of alternative, second-best pathways and thus merely shifts costs from one insurance to another without reducing overall early exit (Casey, 1989). Moreover, retrenchment of these popular policies seemed to meet the resistance of a large clientele and significant vested interests (Pierson, 1996). Undertaking major reforms in difficult times, both the Dutch and the Swedish government were able to cut back on pension and disability expenditures in the 1990s (Aarts, Burkhauser, and Jong, 1996), while reforms have met with more resistance in Germany and France (Ebbinghaus and Hassel, 2000). There is also a general shift from public to private, from pay-as-you go to funded, from defined-benefit to defined-contribution schemes, though the obstacles for a radical shift of institutionalised pension systems are also formidable (Myles and Pierson, forthcoming). Nevertheless, private occupational pensions already play a substantial role in some cases and will gain in importance in the future.

4. Private occupational pensions

Public policy is not the only ‘pull’ factor, since private occupational pensions provided by employers or social partners also play an important role in workers’ retirement decisions. In fact, as governments seek to close down preretirement programmes or make public benefits less attractive, private occupational welfare efforts may gain in importance, as they may counteract welfare cuts by filling replacement gaps (Ebbinghaus and Hassel, 2000). While comparative analyses of public policies have provided us with a better understanding of the major differences in welfare state regimes (most notably Esping-Andersen, 1990), the private-public mix in general and occupational welfare in particular have been studied less, partly because they seem to be more fragmented and in a state of flux.[5] Including mandatory and voluntary welfare benefits ranging from sick pay to occupational pension, the private share in total social expenditure is relatively high in the USA (34.7% in 1995) and probably Japan (given opting out of employee pensions), followed by the UK (16.8%), the Netherlands (16%), and probably France (due to mandatory private supplementary pensions), while it is smaller in Germany (8.4%) and Sweden (6.9%) (Adema, 1999: Tab. 2, p. 15). Let us first review the use of occupational pension by employers only or both social partners, before considering their impact on early retirement.

Given the more limited public pensions in liberal and residual welfare states, employer-provided occupational pensions may have had more space to develop in Britain, in the USA and also in Japan. In Britain, most medium-sized to larger private employers and the public sector provide occupational pensions as a supplement to the basic pension and as an opt-out of the earnings-related state pension started in 1961 (Davis, 1997). Historically, occupational pensions were largely confined to male white-collar employees, yet they became more widespread in the postwar period: about every second person employed was a member of an occupational pension in the 1980s, that is, around 60% of working men and more than one-third of working women—a lower rate due to the low coverage among female part-time employees (Lynes, 1997). Traditionally, larger US companies had provided employer pensions as part of their welfare capitalism and some professions established such mutual funds, for instance for teachers (TIAA) in the interwar period. Given the low social security benefits of the 'New Deal' of 1935, occupational pensions continued as supplementary pensions, especially for white-collar employees with higher wages (Sass, 1997). In the 1940s, US unions pushed for negotiated ('integrated') company pensions that would guarantee income security for better paid, skilled workers, and subsequently employers lobbied Congress to increase social security benefits to alleviate private pensions (apRoberts and Turner, 1997: 361). While public employees were entitled to state retirement pay, about 45% of employees in the private sector received employer pensions in addition to social security in the 1990s. American occupational pensions are largely financed by employer contributions which are tax-deductible (while employee contributions are taxed). They are unilaterally managed by the employer or, in some collectively negotiated multi-employer plans, administered jointly with labour unions.

Similarly, paternalistic welfare corporatism played an important role in the residual Japanese welfare state. Acute skilled labour shortage in the early interwar period led to voluntary (since 1936 also to compulsory) small retirement lump-sum allowances, while employer pensions expanded further with postwar tax incentives (since 1952) and the option to opt out of public superannuation in the 1960s (Shinkawa and Pempel, 1996). Retirement pay for civil servants had a long tradition in the public sector, and special mutual funds exist for nearly all other public employees (national authorities, local communities, and state companies, but also private school teachers). In 1990, one-third of male private

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[5] An early study of private-public mix is Rein and Rainwater, 1986b, recent studies of occupational welfare have begun to fill the gap in research, see Reynaud et al., 1996; Rein and Wadensjö, 1997; Shalev, 1996; Turner and Watanabe, 1995 and recent OECD studies on private pensions (OECD, 1995a; OECD, 1995b; see also Davis, 1997; Reynaud, 1997b) as well as activities of the European Commission (EU, 1997) and ILO (Casey, 1997).

sector employees (and somewhat fewer females) were covered by the Employees' Pension Funds (large company or group plans), nearly as many are under the tax-qualified pension plans (mainly lump-sum annuities for smaller firms) (Kimura, 1997). Both schemes are allowed to contract out of the earnings-related public pension and thus save a portion of the public pension contribution (3.2 percent points of 14.5% payroll taxes in 1994, Turner and Watanabe, 1995: 34).

To the degree that universalist or corporative European welfare states have well-developed basic pensions (Sweden, 1913, reformed in 1946) or Bismarkian earnings-related social insurance (Germany, 1889, reformed in 1957) occupational pensions assumed a less important role in the postwar period. German workers with at least low to medium income receive high earnings-related pension benefits, and therefore occupational pensions are less important for them than for better paid white-collar employees. Nevertheless, occupational pensions by private employers are widespread (about half of all private employees are covered), especially among larger companies (benefits contribute one quarter of pension income for those receiving an occupational pension) (Schmähl and Böhm, 1996). Occupational pensions are also the rule in the public sector: civil servants are excluded from social insurance and receive tax-financed retirement pay, non-tenured public employees are covered under a collective agreement that guarantees a pay-as-you-go occupational pension to stay in line with civil servants' pensions.

As in the German public sector, Sweden has negotiated collective occupational pensions, albeit in both the private and public sectors (Kangas and Palme, 1996). White-collar unions had pressed for occupational pensions even before earnings related public pensions (ATP, 1960), and thereafter renegotiated additional pensions (ITP). The blue-collar unions also negotiated a private pension plan (STP) in 1971, which until 1996 was financed by pay-as-you-go employer contributions but are now funded. There are some special schemes (for instance in banking), but the two other major collective schemes have been negotiated for the central government (SPV) and local public sector (KPA).

While the high replacement rate of public pensions in Germany and Sweden crowded out some of the developmental space for occupational pensions, collective occupational pensions (administered by the social partners) have assumed a more important role in France and the Netherlands where schemes are administered by the social partners. In addition to the Dutch basic public pension (reformed in 1957) most employees are also covered by private supplementary defined-benefit pensions that aim at closing the replacement gap to 70% of gross pay (Blomsma and Jansweijer, 1997; Lutjens, 1996). Most larger companies have a pension fund, while smaller firms usually contribute to a sector-wide scheme under binding collective agreements, thus more than half of Dutch private sector employees are covered. Even more remarkable, the French negotiated supplementary pensions have been compulsory for all employees except civil servants since 1972 (Reynaud, 1997b; Reynaud, 1997a). The first schemes for 'cadres' (AGIRC), managerial and technical personnel in the private sector was negotiated in 1946 in order to close the replacement gap for those earning more than the limit for contributions under the new general pension regime. Supplementary schemes for other, less well compensated employees emerged as result of collective negotiations in the 1960s. Most of these over 100 schemes are federated in ARRCO and pay on average three times lower benefits than AGIRC for 'cadres'. Thus the fragmented public and mandatory private pension system reinforces the stratification of French society: privileged state pensions for civil servants, special earnings-related pensions for 'cadres', and less generous general private and public pensions for the dependent employed, and occupationally fragmented schemes for the self-employed.

It is also important to note that the administration of occupational pensions funds differ considerably cross-nationally and sometimes across sectors. In the UK, the US and Japan, occupational pensions are employer-sponsored plans (only exceptionally workers do contribute to them, often for tax reasons). In the German private sector, the plans are mainly employer sponsored, and workplace representatives have a secondary role. On the other hand, the mandatory French, the Swedish negotiated, the Dutch collective, and the German public-sector supplementary schemes were set up jointly by unions and employer associations, and thus companies therefore do not have much discretion. Coverage rates are lower where plans remained voluntary employer decisions (Gern, 1998; Turner and Watanabe, 1995), as in Britain, the USA, Japan and also in German private sector and for some Dutch firms, compared to collectively negotiated plans, not to mention the French mandatory plans. Universal coverage and portability of pensions from job to job in collective schemes, although desirable from a public-policy view, undermines the selective benefits of occupational pensions to employers who seek to attract and bind (especially skilled) workers to a firm (Casey, 1997; Steinmeyer, 1996) and reward their investment in firm-specific skills (Estevez-Abe, Iversen, and Soskice, 1999). Competition for better benefits between status groups or sectors may emerge in less centralised collective bargaining systems. Thus the (increasingly) decentralised labour relations (and lack of state intervention) in Britain, the USA and Japan have prevented an evolution towards sector- or nation-wide schemes as in France, the Netherlands or Sweden. These variations in overall coverage and control by employers of occupational pensions have important repercussions for early retirement in addition to the 'pull" by public policies.

Occupational pensions have often provided an additional pathway or supplementary inducement to early exit from work (Ebbinghaus, 2000). Most important is whether companies can promote early retirement through occupational pension plans. Under defined-benefit plans, employers as sponsors may be able to offer preretirement pensions that are more favourable than normal actuarial deduction would dictate, while this would not be possible in defined-contribution plans, especially in individual savings plans. However, there is currently a shift from defined-benefit to defined-contribution plans, which allows more portability but also shifts the financial risks to the individuals. Thus, in Britain 14% of private-sector employees have a defined-contribution plan in 1991 (Lynes, 1997: 339), especially smaller employer plans and all 'personal pension schemes' that (since 1988) allow individuals to opt out of the earnings-related public pension (SERPS) that was made less attractive by the Conservative government (also in 1988). Most British occupational pension schemes allow earlier drawing than the state pensions (65 for men and 60 for women), thus providing a major pathway to early retirement, especially for men. In addition, British employers have relied on 'voluntary redundancy' for downsizing, i.e. the payment of lump-sum compensation based on years of service, and in fact older workers and young workers are more likely to become redundant (Casey and Wood, 1994: 367).

In the USA, occupational pensions provided a means to induce workers to retire, especially after Congress raised the mandatory retirement age that a firm could impose from 65 to 70 in 1978 and finally abolished it in 1986. Some employers had already provided favourable early retirement options before flexible social security (at 62 instead of 65) was introduced in 1961, and they later used the defined benefits plans to provide low or no actuarial deductions (Hutchens, 1994). Intervening into the voluntary plans, the Employee Retirement Income Security Act (ERISA) of 1974 introduced important regulation on private-sector pensions, requiring vesting of occupational pensions when employees leave a company, forbidding benefit cuts after raises in social security benefits, and introducing collective protection against bankruptcy. Favourable tax rules apply as long as a company does not discriminate; it can design (or negotiate with the unions) particular plans for subgroups, but it cannot restrict benefits only to higher management. Since ERISA was enacted, there has been a shift towards cash plans with little early retirement incentives: while most plans were entirely (two-thirds) or partially (one-fifth) defined-benefit plans in 1975, by 1992 only 19% of covered workers had a defined-benefit plan, but already 44% a defined-contribution plan and 37% a mixed plan (apRoberts and Turner, 1997: 366). In addition, employers use early retirement incentive plans (EIRP's) or 'window' plans to foster voluntary retirement at particular times. During the 1980s, when high interests and stock market profits increased pension funds, employers could use excess funds that would otherwise be taxed to finance early retirement options (Hutchens, 1994). In recent years, with falling unemployment, employers are now worried about retaining workers and cut back on early retirement incentives, again confirming the cyclical nature of employment policies.

The Japanese occupational pensions are often defined-benefit plans that allow early retirement at age 60, that is, five years earlier than the public pension, but at the time of mandatory retirement from larger companies. Further deregulation to boost contracting out and public pension reform to increase the retirement age and lower benefits in the 1990s (Kimura, 1997) will make occupational pensions more important for retirement, but the current recession also highlighted the danger of bankruptcy and brought a lower rate of returns. In addition, Japanese employers provide lump-sum severance pay and also use re-employment practices to enforce mandatory retirement from 'lifelong' jobs.

An even greater variety of schemes exists for German private employers: they can choose between four different financing methods with different tax and financial security regulations: support funds (employer financed funds which can provide loans to the firm), pension funds (independent trust funds consisting of employer and voluntary employee contributions), direct insurance (life insurance financed by employer and voluntary employee contributions), and book reserves (a commitment by employers to pay pensions out of reserves accumulated by the company, and usually reinvested into the company). Larger companies tend to have book reserves (or, less frequently, support or pension funds), while more than half of smaller firms have direct insurance contracts. Book reserves and support funds function as deferred wages that are reinvested into the company (and since the 1974 law collectively reinsured against bankruptcy). The 1974 law guarantees only pension rights after 5 years of service, and former employees' pensions have only statutory accrual. Accrued occupational pensions are an important incentive to stay with a current employer, thus cutting labour turnover. Most occupational pensions of larger private-sector companies (above 1000 workers) are earnings-related benefits, and thus show the commitment of employers to safeguard the standard of living, especially for higher income groups (Schmähl, 1997: 120). An occupational pension is thus enjoyed more frequently by white-collar than blue-collar workers, among more qualified than lower-ranking employees, and among men than women (data from 1990, Tab. 4.4 in Schmähl, 1997: 123). Nevertheless, German companies, especially larger firms, have relied mainly on public schemes to allow early exit for their older workers and occupational pensions have only been used as a top-up.

The second-tier Dutch private pensions are required to be funded (since 1956), and rights are already vested after 1 year of employment (after age 25). Portability across firms even outside sectoral schemes has become common since the 1980s (legally required since 1994). Besides the civil servant scheme (covering more than 20% of all employees), which was recently privatised, there are around eighty sectoral plans (60%) and over 1,000 company plans (less than 20%) (Blomsma and Jansweijer, 1997: 240). Since 1976, an increasing number of collective agreements have established preretirement plans (VUT) financed by employer and employee contributions (pay-as-you-go) and requiring at least 10 years of contributions (Blomsma and Jansweijer, 1997). Private pensions and early retirement plans can already increase replacement rates to 90% at age 59, compared to 60% at age 65 for those dependent on a public pension only (Kapteyn and Vos, 1999: Tab. 7.1, p. 284-5).

The French occupational pension scheme, as the general public scheme, provided no early retirement options before the government lowered the normal retirement age to 60 in 1982. It only followed suit when the government was willing to continue subsidizing a transitional fund (ASF) for lowering the pension age by 5 years. The ASF fund was initially set up by the social partners to finance 'bridging pensions' within the unemployment insurance (UNEDIC), which is also run by the social partners following a collective agreement signed in 1958. A joint agreement within UNEDIC in 1972 started an unemployment allowance for older dismissed workers (aged 60-64), guaranteeing 80% of net wages (and later full public pensions) and since 1977 for the voluntarily unemployed as well (Guillemard, 1991a: 136-7), but it continued to function as an early retirement option even after the pension reform in 1982 (a new job replacement scheme was introduced in 1995 for workers aged 58 with 40 years of contributions).

All four Swedish occupational schemes provide full pension supplements after 30 contribution years, based on last peak years of wage or salary, and allow for earlier withdrawal with some actuarial reduction. Until the change of normal pensions in 1976, the white-collar occupational scheme granted earlier pensions than under the public pension (age 65 instead of 67). Given the high organisation rate of Swedish unions and employers, nearly all dependent employees are covered by these collective schemes with the exception of employees working less than 16hrs per week. The occupational pensions not only supplement old-age but also disability pensions and for three out of four schemes also provide partial pensions. When the public disability pension for the older unemployed was abolished in 1991, the blue-collar unions and private employers negotiated an occupational scheme in 1993, though it was abolished 3 years later (Wadensjö, 1997: 300). Recent changes away from pay-as-you-go and towards larger funding and defined contributions will further reduce the already small impact on early retirement.

In contrast to the common view in the public debate, it is not only the public welfare state but also private occupational pension arrangements, largely determined by employers, that add to the 'pull" towards early exit. Occupational welfare policy thus provided a supplementary measure closing the replacement gap of public benefits or an alternative pathway if public schemes were less accessible or generous. In the Netherlands and France, special early retirement schemes negotiated by the social partners played an important role in addition to supplementary pensions, reinforcing the pervasive trend of early exit and externalisation of costs at the sectoral or national level. In Germany and Sweden, occupational pensions were mainly supplementary pensions, not changing the course of early retirement very much, since employers and workplace representatives externalised early exit costs to public schemes. In Japan, the USA and the UK, on the other hand, occupational pensions provided by employers played a more crucial role for early retirement in the absence of generous and widely available public schemes. The Anglo-American early exit pathways, in particular, were thus subject to economic rationales and cyclical trends to a greater extent, and entailed a larger internalisation of labour-shedding costs by employers and individuals.

5. Labour shedding, employment protection and mandatory retirement

We will now turn from the perspective of 'pull' factors, public or private welfare policies, to the flip side: 'push' factors that lead to a decline in labour demand for older workers. Early retirement is commonly seen as a response to mass unemployment following the two oil chocks in 1970s, in continental European welfare states, in particular, governments, employers and unions colluded to shed labour at the expense of the welfare state (Esping-Andersen, 1996). In fact, we can find some degreee of linear cross-national correlation (see Fig. 8) between the overall unemployment problem (measured as the annual unemployment rate 1975-95) and the 'outflow" of older workers over the last three decades (measured as the relative decline in employment rates for men aged 55-64 in 1975-96). Both Japan and Sweden had a low record of unemployment, at least until 1989, and showed a low tendency for outflow (as did the USA and Denmark with higher average, yet largely cyclical unemployment). In the case of the continental European welfare states and the UK, high unemployment and high levels of exit from work seem to go together, supporting the labour shedding thesis. Yet neo-classical economists have criticised labour market regulation for being responsible for the high unemployment level and subsequently also early retirement in continental European welfare states. However, others point out that early retirement is less a response to labour market problems than a consequence of particular employment strategies. Let us consider public and collective employment regulation, before looking at the human resources strategies of employers that arise from different production regimes.

Employment protection and anti-age discrimination regulation by legislation and collective agreements have an impact on old-age employment by constraining the hiring and firing of older workers by employers (Buechtemann, 1993). Commonly, employment protection laws not only make dismissal contingent on procedural rules and substantial grounds, but they often also provide for severance pay based on age or years of employment. These seniority rules protect older workers or those with long service to the firm. While protecting the 'insiders' by age-specific employment protection rules, they may have the opposite effect for 'outsiders'. Employers will be more reluctant to hire older workers given the lower flexibility in firing older workers under seniority rules. Employment protection based on the length of service would be such a deterrent. Thus smaller firms that are often exempted from seniority employment protection would be more likely to hire older workers. For example, small Japanese firms provide employment opportunities (at lower wages and with less protection) to older workers who have been forced to retire from larger companies.

The length of notice of dismissal is age-specific in Sweden (2 months under 30, rising to 6 months for those aged 45 and older) and in the Netherlands (workers over the age of 45 have 2 weeks of notice, instead of 1, per year of service, up to 26 weeks), while the other European countries stipulate dismissal conditions only by length of service and thus only indirectly protect older workers (Ehrenberg and Jakubson, 1993: Tab. 7.1, 203-5). Germany used to have more favourable rules for white-collar employees (6 months after 12 years), but the government under Chancellor Kohl harmonised these rules on a medium level in a rare case of employment flexibilisation, thereby improving the situation for blue-collar workers, who used to have only 3 months after 20 years. Of the European countries, the shortest period is stipulated in France (2 months after 2 years) and the UK (about 3 months after 12 years). American employers are free to hire and fire, and there are no age- or service-related rules at the federal level, though the 1988 WARN Act introduced a 2-month notice for all workers in the case of plant closure (Ehrenberg and Jakubson, 1993). The US Supreme Court has upheld the individual free contract principle and the principle that employers can fire at will, though based on judge-decided common law, individuals can litigate against ‘wrongful’ discharge based on anti-discrimination law, including age-related legislation. Despite the lack of statutory protection in Japan, courts have enforced the obligation of employers to prove just cause in case of both redundancy and individual dismissal. Traditionally, large Japanese companies have promised their regular employees to provide permanent employment (‘shushin koyo’) until mandatory retirement (‘teinen’), though part-time and temporary workers (often women) and those working in small firms are not covered by these postfeudal exchanges of company loyalty in return for tenure.

More important for older worker’s retirement decision are the disincentives of combining work and pensions as well as the regulation of mandatory retirement enforced by employers. In some systems, in order not to forego full pension benefits, workers may be forced to quit working when drawing public pensions. Most preretirement schemes and full disability pensions require withdrawal from work or at least have earnings caps, but even some normal pensions impose such rules (French pensions and, until the 1994 reform, Swedish pensions). Public pensions’ earnings rules that cut benefits according to other income ‘can be considered a form of mandatory retirement ‘through the backdoor’’(Casey, 1997: 17), since they are a disincentive to continue working beyond the statutory retirement age. The earnings rule was removed from the British flat-rate public pension in 1989, the USA lowered the reduction factor (finally abolished in 2000), and Japan has increased the earnings cap. To prevent abuse, disability insurance, early flexible retirement and gradual (part-time) pensions have elaborate rules on reducing benefits according to income. The Anglo-American and Japanese disability schemes require strict standards, recognizing only full disability and thus full withdrawal from work (only recently did the USA allow the transitional combination of benefits with work).

Since American and Japanese companies could not expect much of a ‘pull’ by meagre state pensions providing incentives to voluntary withdrawal, they relied more on ‘push’ forces, that is, mandatory retirement that would terminate obligations under the negotiated or self-committed seniority rules. However, the US Congress legislated the Anti-Discrimination in Employment Act in 1967, initially rising the mandatory retirement age to 65, and increasing it to 70 under the Carter administration in 1978, but finally abolishing such rules altogether under the Reagan administration in 1983 (Sheppard, 1991: 278). In Japan, after several efforts to increase old-age employment by subsidies and after a failed bill by the opposition in 1979, the government announced its plan to raise the 'teinen' age to 60 by 1985, and legislated the 1986 Employment Act and reformed pensions (Kimura et al., 1994). These policies to lift or abolish mandatory retirement, however, were less motivated by anti-discrimination concerns than by an effort to increase the retirement age and thus improve the public pension schemes. Here employment protection seems to simply be welfare retrenchment by other means.

The Japanese 'teinen' practices have to be seen in the context of its human resources strategy and its 'responsibility' to provide income opportunities after mandatory retirement (Kimura et al., 1994). Larger Japanese companies rely on mandatory retirement in response to their long-term employment guarantee, age-related career trajectories and seniority pay structure, all of which make older workers more expensive. Japanese employers terminate seniority pay increases around the age of 50 and enforce mandatory retirement from the job (initially at age 55, today commonly at 60). In return for lifelong loyalty and to smooth mandatory retirement, large companies provide considerable lump-sum severance pay and occupational pensions. Companies may also re-employ workers on lower-paid temporary contracts at the same firm or lend them to subsidiaries or group-related smaller firms, the latter practice ('shukko'), helps to improve information flows between main company and suppliers (Dore, 1997). As a result, older workers are overproportionally employed in smaller firms (Kimura et al., 1994: 250). Some retirees find re-employment in small firms or on farms, in some cases becoming self-employed using their lump-sum severance pay as a business investment. This institutionalised Japanese practice relies on a web of social customs and public policies to facilitate early 'retirement' from normal employment relations, which allows larger companies to maintain their employment tenure system, while providing for partial assistance of older 'retired' workers through re-employment in the secondary, flexible labour market (temporary contracts, subsidised employment, small firms, shop or farm ownership). However, the financial and economic crisis and long-term ageing has put pressure on the government to raise the pension and 'teinen' age and threatens to undermine these re-employment practices which are closely tied with Japan's production system.

6. Varieties of production systems

Early retirement not only provides a means to overcome seniority rules, but also to restructure and downsize in a socially acceptable way: it thus interacts with the existing production system. The first explicit early retirement policies began when Fordist mass production industries came under major restructuring pressures, particularly mines, heavy steel mills and shipyards. In fact, the first French preretirement programmes date back as far as 1963 and were part of state subsidies to ailing industries (Guillemard, 1991a), but early retirement also occurred in other countries before the mid-1970s. The economic crisis following the oil shock of 1973 intensified the trend towards de-industrialisation and the shift towards a service economy. As a consequence of the differential demographics of the old versus new sectors, de-industrialisation particularly affected older male blue-collar workers, while new labour market entrants (increasingly women) profited from white-collar and part-time employment opportunities in the growing new sectors. Older sectors tend to have an older age structure, reflecting the entry of young workers into these industries during earlier times of expansion, while new sectors attract more younger workers and have not yet aged (Stinchcombe, 1965). With increasing early retirement, both firms and public authorities have been reluctant to invest in continuing training and education of older workers since they expect them to leave relatively soon, which in turn makes them less productive and thus reinforces often ungrounded beliefs about their lower productivity (Casey, 1997). As older workers are particularly affected by the downsizing of older industries and have less re-employment chances, early retirement seems a reasonable alternative.

Economic restructing accounts for some of the functionality of retirement and the secular trend toward early exit in modern economies, yet it does not explain the variation across countries. The USA and the UK have moved rapidly from a largely industrial to a dominantly service-oriented economy, but only have a medium level of early exit. France and Germany still have a larger share of industrial employment but rely heavily on labour shedding, while the Netherlands has changed towards a service economy with the help of early retirement. Finally, Sweden and Japan, at least until the late 1980s, maintained industrial employment without such extensive labour shedding. A comparative study of early exit at the level of economic branches comes to the conclusion ‘that countries do indeed have quite different industrial mixes and industry-specific age structures; yet these differences do not correspond strictly to differences in the rates of early exit’ (Jacobs, Kohli, and Rein, 1991b: 93). Moreover, the shift-share analysis of German, Dutch, and Swedish older workers during the 1970s shows ‘that a decrease in employment shares of older men within all the industries, rather than changes in industry distribution, is the main factor underlying the overall changes in the old-age share of male employment’ (Jacobs, Kohli, and Rein, 1991b: 83). However, these inconclusive inter-industry analyses do not take into account intraindustry differences such as the dualism between early exit for the core workforce in large companies and low exit for workers in small and medium-sized firms. Within the same industry, larger firms are usually more capable of using public policies and additional private means to finance early exit than smaller or medium-sized firms (Naschold and de Vroom, 1994)

Economies not only differ in their industry mix, but also in their national production systems, which are embedded in supporting social institutions (Hollingsworth and Boyer, 1997; Soskice, 1999).[6] In order to look at the interaction between production systems and early exit patterns more closely, comparative cases studies of early retirement policies at the firm level are more revealing than macro-economic analysis (Naschold, de Vroom, and Casey, 1994). The question here is whether firms with different

[6] The term ‘production system’ is used here in the narrower sense to denote the system of production, work organization and training policies, while the term ‘production regime’ (Soskice, 1999) is often used in the literature to comprise not only the production system but also other supporting institutions of financial and corporate governance, and industrial relations that will be analyzed separately.

production systems vary in their human resources management and early retirement policies. In traditional, 'Fordist' mass production factories, workers have low or general skill, and turnover is relatively high, with employers not committed to employment tenure. Thus a sudden decline in market shares and long-term technological changes may cause these firms to shed the less productive and inadequately skilled older workers first. This production model has been prevalent in the 'unorganised' market economies of the USA and the UK (Soskice, 1999), and in fact we have seen that US and British companies have used occupational pension and window plans to 'downsize' in a market-driven, cyclical and ad hoc fashion.

On the other hand, firms with a quality production strategy (Streeck, 1992) rely on internal labour markets with a skilled workforce and low turnover. If sudden market changes occur, they tend to hoard labour by cutting back on overtime and working time, instead of resorting to mass dismissal. They also respond to technological change by retraining workers in new production methods. In fact, promises of lifelong employment provide an incentive for workers to invest in firm-specific skills and co-operative employment relations (Estevez-Abe, Iversen, and Soskice, 1999; Soskice, 1999).[7] Germany is a prime example of the quality production system, but Sweden, the Netherlands and partly France have also shared some of these features. In Germany, early retirement has been widely used, though larger firms have been more capable of using existing regulations, negotiating with works councils and topping up pension and unemployment benefits by occupational pension and social plans. Externalisation of preretirement costs has been used by both Fordist companies that came under pressure to restructure and by diversified quality production firms that used these pathways to maintain seniority pay and career paths for their highly skilled workforce (Naschold et al., 1994). Similarly, larger Dutch companies in both the industry and service sectors have used externalisation strategies to restructure their male workforce, relying on their own or collectively negotiated occupational pension plans, while small firms and female workers tended to use (on an individual basis) the public disability and unemployment pathways (Trommel and de Vroom, 1994). In France during the 1970s, private and (semi-)public employers were able to dismiss older workers and restructure with the help of the preretirement unemployment allowances administered by the social partners. Employers have come under more pressure since the 1980s, as the state intervened by lowering the retirement age, negotiating re-employment conditions in 'solidarity contracts' and intervening in the social partners' unemployment funds (Guillemard, 1991a).

Although some Swedish companies have used preretirement options to shed older workers with the consent of workplace unions, the larger emphasis on retraining, reassignment and part-time work led to a much lower level of early retirement and internalisation of costs (Olofsson and Petersson, 1994).

[7] Each production system requires a particular skill-profile, ranging from firm-specific to industry-specific and occupational to general skills, and these are reinforced by employment protection and unemployment insurance (Estevez-Abe, Iversen, and Soskice, 1999). The more firm-specific, and thus the less transportable these skills are, the more there is a need to provide employment security, seniority rules, and life-long employment promises. Favourable unemployment benefits that guarantee sufficient replacement and time for seeking an appropriate new job play a role for those with industry-specific skills, while those with firm-specific skills need employment security with a given employer, especially when changing to a new job and retraining by a new firm remains unlikely.

Production methods that used job rotation similar to Japan and active labour market policies that sought to relocate workers from declining to growing sectors and regions have further helped to maintain higher employment levels in general and among older workers in particular. In order to gain flexibility, Japanese firms rely on workers to train and perform multiple tasks on lower-paid temporary contracts at the same firm or lend them to subsidiaries or affiliated smaller firms. They can rely on large internal labour markets, sending some white- and blue-collar workers on secondment ('shukko') to subsidiaries and suppliers within the company group, especially after mandatory retirement (Kimura et al. 1994), which helps to improve information flow between the main company and suppliers (Dore 1997).

Although this sketch of production systems describes the dominant national regimes, there are exceptions to the rule in some sectors and for some firms. 'Fordist' firms with low skill profiles use early retirement to achieve numerical flexibility and increase productivity, while relying on 'buying' general skills on the external market and at the cost of high turnover. Quality production firms with skilled workforces use early retirement not primarily as a mean to downsize or restructure in difficult times, but in order to maintain lifelong employment, seniority pay and career trajectories irrespective of the business cycle. The institutionalisation of multiple public and private pathways to early retirement, particularly when firms have control over who can exit early, are an institutional complement to the tenure employment system.

The paradox of the skill-intensive production regime is that the more employers have to rely on seniority wages and employment tenure, the more they are interested in shedding older workers when seniority pay, career trajectories and employment protection reach their limits. The Swedish and Japanese firms are under similar pressures, yet because of active employment policies in the former and for lack of in the latter, they have resorted to by relying on early exit from work in order to solve the structural ageing problem of their production system. The Swedish part-time pension and Japanese re-employment strategies allow a gradual transition from work to retirement, a longer retention or sharing of experience within or among firms, and lower expenditures on preretirement programmes. Whether the gradual pension policy of Sweden and the Japanese re-employment practice could be adapted to the economies of continental Europe in order to reduce early retirement while maintaining the current production system remains an open question.

7. Corporate and financial governance

The institutional differences in corporate and financial governance between co-ordinated and uncoordinated market economies also have repercussions on human resource management and employment strategies. Anglo-American liberal market economies rely on capital markets that impose short-term horizons and on anti-trust policies that foster competitive intercompany relations (Soskice, 1999). Publicly listed companies are thus under more pressure to respond to a sudden decline in demand or profitability by downsizing employment, flattening corporate hierarchies and selling off unprofitable units. Moreover, companies seek 'hostile' take-overs to boost profits, partly by economies of scale through merger and by selling off assets after a take-over. The new parent company may choose not to honour the long-term employment and future pension commitments of the acquired company. Thus

American companies can liquidate pension fund surpluses: ‘although Congress made pension trusts irrevocable, it allowed sponsors to recapture the assets of terminated plans that remained after the satisfaction of all plan liabilities’ (Sass, 1997: 283-4 fn. 29).

In Britain, the Maxwell affair led to regulations requiring mutual insurance against fraud by unsecured investments (Davis, 1997). With the exception of Employee Stock Ownership Plans in the US, trusts are only allowed to reinvest 10% in the US and 5% in the UK into the sponsoring company (Turner and Watanabe, 1995: 101). In both the USA and in the UK, the new human resource strategies and the lucrative returns from capital led to a shift from defined-benefit to defined-contribution schemes, thus employers no longer underwrite promised benefits for lifelong service but employees will individually bear the returns but also the risks of financial market developments (Turner, 1996). At the same time, individual defined-contribution schemes, the American ‘401(k)’ plans (since 1982) and the British private pension ‘opt-out’ option (since 1988), have gained in popularity, reinforcing the quest for higher capital market returns and the importance of personal savings for old age. Thus, pension trust funds have gained an important role in the financial system, and reinforced the pressures on listed companies to produce substantial quarterly profits, thereby reinforcing the pressures on downsizing.

Although short-term financial market pressures have mounted in recent years, ‘co-ordinated” market economies still maintain a long-term investment perspective, given more stable shareholders and the larger role of general banks (Soskice, 1999). Hostile take-overs have been relatively unknown and mergers were part of market expansion or diversification strategies, less motivated by short-term profits through asset capitalisation and economies of scale by downsizing. In the two prime cases of co-ordinated market economies, Germany and Japan, an important part of postwar occupational pension commitments are reinvested into the company or group via book reserves. In 1990/91, less than 10% of the number of occupational plans but about 60% of accumulated pension funds were book reserves in Germany, thus in particular large companies are reinvesting their tax-exempt pension commitments (Turner and Watanabe, 1995: 96-97). ‘The popularity of book reserve plans in Japan in spite of their unfavourable tax treatment indicates the high value that firms appear to place on the availability of this form of corporate financing’ (Turner and Watanabe, 1995: 57). On the other hand, when Japanese multi-employer plans and smaller firms set up employee’ pension funds and tax qualified pension plans, respectively, half of the assets can be invested on the stock market. The Dutch pension funds, although with the largest per capita assets in the late 1980s, invested—with employer-employee consent—less than twenty percent in equities, half on foreign stock markets (Turner and Watanabe, 1995: 104-5). The French mandatory occupational pension is pay-as-you-go and has only small reserve funds, thus, a change to a funded system would face the same double-payer problems common to public pension schemes (Reynaud, 1996). The Swedish collective supplementary schemes are only partially funded (recently also the blue-collar scheme), while the public ATP scheme invests in public housing. The 1994 pension reform, which merged the basic and earnings-related public pensions, has introduced a partial funding (2.5% of wages are invested). Hence, with the partial exception of Japanese and Dutch pension funds, occupational pensions have not relied on stock market investment but on secure investments, pay-as-you-go or book reserves, the latter two financing methods requiring long-term stability and trust.

Particularly stable ties between companies and banks have also reinforced the long-term commitment to employment stability and corporate welfare benefits. Nevertheless, the potential risks of book reserve schemes have become partially regulated, and German book reserve schemes have had to be reinsured since 1976, for example. Further shifts towards defined-benefit and funded pensions as a result of the demographic challenge might in the long run undermine the institutionalised systems, and changes in financial and corporate governance might reinforce the decline in employer commitments towards their lifelong employees. Thus, at a time when welfare states seek to shift costs from public pay-as-you-go pension systems to private funded systems, employers are ever more reluctant to enter new corporate welfare obligations. In this case, employer defined-contribution and individual savings plans will also become more dominant in the 'co-ordinated" market economies, while contributions will just become a further part of the wage bill or even an individual savings decision. The long-term commitment of employee and employer enshrined in this production system is becoming increasingly undermined. An analysis of occupational welfare and early retirement will not be complete without looking at industrial relations at the national and workplace level.

8. Industrial relations

There is an important linkage between retirement policy and industrial relations. Commonly, trade unions were seen as a major force, together with social democratic parties, in expanding welfare states (Esping-Andersen, 1992). Yet the relationship between union strength and early exit is not as clear cut as for welfare state expansion in general. Neither for 1980 nor for 1995 can we find a linear correlation between union density and employment rates, and if so there is slight positive relationship between stronger unions and high employment rates (see Fig. 9). The union movements with the highest degree of unionisation, Sweden and Denmark, are the two countries with a relative high level of employment among older workers, while the least unionised countries France and the USA, have very different exit rates for older men. For most countries in the medium range of union density, we find very different levels of employment rates across countries and time thus indicating that union strength as such as is less of an explanatory factor than union strategies and other institutional factors. Nevertheless we can see that with the exception of the Scandinavian union movements (which profit from union-run unemployment insurance as selective incentives for their members), most union movements have lost considerably in membership over time. The decline in unionisation goes together with an increase in early retirement which is probably more an outcome of the aggravated labour market situation and indirectly of the defensive union strategy to favour labour shedding and defend early retirement policies.

Over the last quarter of a century, union power has not only decreased in most post-industrial societies due to membership decline, but also due to an increased heterogeneity of interests, decentralisation of collective bargaining and enfeebled party-union ties (Ebbinghaus and Visser, 2000). British, American, and Japanese unionism is fragmented and workplace oriented, and it also suffers from declining, low union density: only one in three British, one in four Japanese and only one in six American worker are unionised (Golden, Wallerstein, and Lange, 1999). Since the state and employers had first taken on the unions in the industrial relations realm, the British and American unions have been not very effective in lobbying against retrenchment efforts by the Reagan or Thatcher governments. The well-organised Swedish unions were much better placed to lobby for welfare state expansion and later against welfare retrenchment, but also the weaker and partly politically divided continental European unions had some power to block retrenchment, as the strikes against the Berlusconi government in Italy in 1994 and Juppé governments in France in 1995 demonstrated (Ebbinghaus and Hassel, 2000). Moreover, together with the employers, these unions play an institutionalised role as 'social partners' in the self-administration of social insurance and labour exchanges (Crouch, 1999).

Although unions historically developed mutual old-age funds in some instances, they learned that public pension schemes and supplementary occupational pensions would provide better coverage and benefits. In Germany, worker representatives supported by the unions have played a role in the self-administration of public social insurance since its beginnings in 1889 and provided many union activists with their first institutionalised role in the German welfare state (Manow, 1997). However, this role was rather decentralised and limited and remained restricted to the continental European welfare states.

More direct union influence came to the fore when negotiating occupational pension plans with employers, most notably in the USA. Following the New Deal, US unions such as Teamsters and the UAW fought for the right to negotiate pension plans to supplement the meagre old-age benefits of social security and urged employers to press Congress for a rise in benefits in the 1950s and 1960s. Yet the role of unions was undermined due to under-funding of union plans in declining industries and due to union membership loss, particularly in the 1980s. While in 1979 half of all privately insured workers were covered by a union-negotiated plan and one in four workers was still organised (three-quarters with a pension plan), a decade later less than 15% were organised and only one-third of privately insured workers have a union card (Sass, 1997: 229-30). Even though union negotiated old-age plans seemed to provide a selective incentive for members, they also intensified the union/non-union gap in labour cost (wages and fringe benefits), thus providing an incentive for employers to 'go non-union' (Freeman and Medoff, 1984). In the growing non-unionised sectors and where employers voluntarily provided occupational pensions, unions played no role in corporate welfare.

In Britain, where occupational pensions were set up unilaterally by employers as independent trusts, unions hardly had any say, and workers rarely had representation on the board (Davies, 1996). In Germany, too, private employers could set up and run pension funds without any union role. In the public sector, however, the collective pension scheme was negotiated for those public employees with social insurance coverage. In Sweden, blue-collar and public-sector unions sought to negotiate similar occupational pension plans as existed for white-collar employees in the 1960s, leading to four major collective plans (for private blue-collar, private white-collar, central and local government employees) in addition to the public basic and earnings-related pensions (Wadensjö, 1997). The Swedish unions were able to use the funded part of the funds for their investment policy (the blue-collar plan was pay-as-you-go until 1996). In Japan, company unions play a role in occupational pension schemes: an employer is required by law to obtain their consent to opt out of the earnings-related public pension scheme.

The union role in occupational pensions thus depends not only on union attitudes towards private schemes, but also on their ability to bargain such fringe benefits. More decentralised and fragmented unions at the workplace have played a lesser role than those with bargaining power in industry as long as they thought it crucial to supplement public schemes. On the other hand, unions opted against a direct role when they were not strong enough to force employers in their sector to set up a multi-employer scheme. In Sweden, France, the Netherlands, and in the German public sector, and traditionally in the USA, unions in well-organised sectors had the clout to bargain such schemes, when they initially sought to negotiate additional benefits for their members as compared to other sectors. Since these negotiated multi-employer plans allowed portability of benefits within an industry and set a playing field at least within a unionised sector, the incentives for employers to offer fringe benefits in order to lure and bind employees to their firms were largely lost. In addition, when negotiated occupational benefits became extended erga omnes for a whole industry as in the Netherlands or mandatory as in France, the unions lost a ‘selective incentive’ (Olson, 1965), though gaining at the same time an institutionalised role as a social partner in welfare provision. Moreover, the collective occupational schemes were no longer voluntary fringe benefits but became part of the wage-bargaining parcel negotiated between employers and unions. Particularly where high income taxation exists and employer contributions have tax relief, as in Sweden, such negotiated benefits become a form of deferred wage. In recent years, occupational pension benefits came to be part of the political exchange between unions and employers on wage moderation, as are concessions by governments on welfare reforms (Ebbinghaus and Hassel, 2000).

The more direct impact of organised labour on early retirement practice results from its position in dismissal procedures. Unions have a long tradition of enforcing seniority rules in mass redundancy (‘last in—first out’) that protect those with longer service and/or older workers, following the interests of their members (unionisation increases with seniority) and even protecting their own union or workplace representatives (Golden, 1997). Most prominently, American unions have enforced seniority rules through collective bargaining. In Japan it is the employers commitment to lifelong employment that provides an equivalent (some US companies such as IBM also had similar voluntary policies but broke with them after the oil shock). Employment protection legislation in the 1960s and 1970s provided additional support for seniority rules in Germany and Sweden, and the works council legislation in Germany in 1972 and collective agreements in Sweden included workplace representatives in the notice of dismissal and ‘social plan’ negotiation process.

Employment protection legislation and union seniority rules, however, reinforced early retirement practices, instead of retaining older workers. When mass redundancy was necessary and preretirement plans were available, employers could seek the consent of unions and worker representatives to dismiss those older workers who would be able to retire early. Thus, the German unions in the coal and steel sector were the first to agree to employer dismissal of those workers at 59 who could rely on the combined pathways of long-term unemployment benefits for 1 year and a preretirement pension for old-age unemployed at 60 (Jacobs, Kohli, and Rein, 1991a). During the 1996 Alliance for Jobs talks, promoted by the centre–right government, which eventually failed, the unions and employers were nevertheless able to come to an agreement on gradual retirement in response to retrenchment by the government (Bispinck, 1997). Swedish workplace unions also negotiated for the dismissal of workers aged 57 years and 3 months, who could draw on long-term unemployment and subsequently disability or gradual pension

(Wadensjö, 1991). In the USA, unions pressed employer for early retirement options for workers with long tenure ('30 and out'), (Sass, 1997: 231).

9. Conclusion

Although early exit from work has become a general trend in all advanced industrial societies, there are remarkable differences in the use of public and private pathways to early retirement and the forces behind them. We have been able to detect at least four groups of countries with particular early exit patterns: the continental European 'welfare without work' societies where labour shedding was widespread, the Anglo-American market economies where downsizing led to cyclical redundancies, the Swedish 'work society' which allowed for gradual transition to retirement, and Japanese social traditions that helped re-employ older workers after mandatory retirement from larger firms. A comparison limited to the first two groups of countries would suggest that the multiple (public and private) pathways of the continental European welfare societies are responsible for the 'pull' on all older working people, while the more limited pathways in the Anglo-American market economies only lead to early exit following the economically-induced 'push'. However, if we include Sweden, we see that extensive social protection does not necessarily lead to massive labour shedding. Active employment and integration policies for older workers have been successful in mitigating these pressures, though the sudden unemployment shock in the early 1990s posed a major challenge. Finally, the Japanese case is instructive in showing that even in 'residual' welfare states (with similarities to American and British occupational pensions) the economic 'push' to force older workers to retire can be accommodated by social practices of re-employment and self-employment, partially supported by the state.

Indeed, the analysis of the interaction of human resources policies and financial governance, that is the impact of particular 'production regimes', turns out differently in early exit from work policies. All competitive firms experience the need to restructure their workforces in order to adapt to technological change. They have also come under pressure to downsize in order to meet falls in demand and profitability slack. However, the need for adaptation seems to be more widespread in diversified quality production systems with highly skilled workforces, while the downsizing pressures are stronger in uncoordinated market economies. We therefore expect the 'push' to shed older workers to be cyclical in liberal market economies, and more long-term and structural in co-ordinated market economies. This is indeed the case: German, Japanese and Swedish companies have sought to shed labour as means to allow skill-enhancement and work-restructuring, while not undermining their pledge to tenured employment and a seniority wage system. While German and other continental European firms used early retirement as a means to offer an early exit, Swedish and Japanese firms used alternative means: re-employment, job-rotation and part-time work. Under uncoordinated financial governance, American and British firms are hard pressed to downsize for higher dividends required by the stock market and after (unfriendly) mergers. Ironically, the workers' pension funds, as institutional investors, have reinforced such financial market pressures. Initially, Anglo-American firms were willing to pay for occupational pensions in order to attract and retain skilled blue-collar workers and white-collar employees; they later applied these schemes to use early retirement for restructuring and downsizing, and they are now seeking to relieve themselves of the burden of defined-benefit plans and instead offer portable cash plans as mere fringe benefits to a mobile and flexible workforce.

The third institutional variable, and the 'missing link' between the welfare state and production regimes, is the industrial relation system: the institutionalised rules and interaction of capital and labour in collective bargaining and the role the 'social partners' play in social policymaking and implementation. In the case of American and British firms, downsizing became the overriding concern. Only when unions strongly enforced seniority rules and when management was committed to maintaining employment tenure, were ad hoc offers for topping up public social security granted. The common early retirement practice by continental European firms relies heavily on consensual externalisation by the social partners, while Japanese and Swedish firms partially internalize the costs of keeping older workers employed (Naschold, de Vroom, and Casey, 1994). In continental Europe, employers and unions have been willing to 'collude' to foster early retirement for the sake of upholding employment protection and seniority pay. Management was interested in maintaining good relations at the workplace by allowing older workers to retire on favourable conditions. Employer associations and unions at a national or sectoral level were willing to bargain over collective preretirement schemes that would complement, if not supplement, public pathways. However, as early retirement increasingly became an acquired social right, defended by unions, and less and less controlled by management, employers grew increasingly critical. Moreover, the externalisation of costs by management-worker collusion has pushed up social expenditures for both public and private schemes, which in turn will increase payroll and general taxes that have a negative impact on competitiveness and subsequently labour demand.

Facing this 'continental dilemma' (Scharpf, 1997a) of rising labour costs through increased inactivity, and the demographic 'time bomb', governments and employer associations are now calling for policy reversal. However, a reform of early retirement has proven very difficult for various reasons (Ebbinghaus, 2000): multiple pathways allow instrument substitution (as one pathway becomes reduced, the second best alternative is used); the configuration of multiple actors leads to mere cost shifting (the government cuts public benefits, and the social partners finance the reduced benefit gap); multi-level governance leads to implementation problems (higher-level actors agree on reform, but lower levels, e.g. workplace management and labour, counteract this by externalizing costs to the public); the institutional interdependencies make reform efforts complex (reforms of various institutional arrangements such as employment and social security law have to be co-ordinated). My main argument here is that there are intricate 'institutional complementarities' between the particular welfare states, production regimes and industrial relation systems that structure the incentives under which actors make decisions on work and retirement.

These institutional complementarities that shape the 'collusion' between capital, labour and the state are formidable obstacles to reform. While institutional theory does not rule out change, it highlights the fact that discontinuous institutional change will only happen at critical junctures and that otherwise change is largely path-dependent, structuring the available alternatives given 'sunk costs", positive feedback, vested interests and network externalities (Pierson, 1997). The current reform efforts are thus more dispersed (Ebbinghaus, 2000): the closing down of temporary early exit programmes, a gradual increase in the retirement age, stepwise reforms of the eligibility criteria of public programmes, cost shifting from public onto private actors, training and reintegration of older workers, active employment policies and more flexible employment regulations. In order to overcome the political opposition and implementation problem, social concertation between government, employer associations and trade unions has also been sought in countries with social partnership traditions (Ebbinghaus and Hassel, 2000). For these societies, a unilateral policy reversal by the government is unlikely to be successful, given the veto powers of labour and the welfare constituency. A sudden shift of costs from public pay-as-you-go to private funded schemes would lead to severe double-payer problems (Myles and Pierson, forthcoming). Moreover, a fundamental change in early retirement policies threatens to undermine the social consensus that has prevailed thus far, with unpredictable consequences for social welfare, peaceful labour relations, long-term human resource policies, and co-ordinated financial governance. Thus reform efforts should seek to renegotiate the underlying social pact and to adapt the historically-derived institutional complementarities to the new challenges in a co-ordinated way.

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Table 1. Benefits and Costs of Early Retirement for Different Actors

Actors	Benefits (incentives)	Costs (disincentives)
Older worker ('insider')	■ generous benefits* ■ 'earned' retirement ■ less stigma than unemployment ■ more leisure / less hard work	■ income loss: lower pension* ■ less status and social contacts ■ involuntary exit due to employer or social pressures*
Unemployed ('outsider')	■ earned income, not transfers ■ (re)entry into employment ■ status and social contacts	■ reduced leisure ■ insecure job* ■ when transfers = work income*
Workplace representation (works council/shop stewards)	■ interests of core workforce ■ enhanced role (social plans)	■ replacement difficult to enforce ■ undermining wage-scale
Union	■ lowering unemployment ■ interests of core membership (popular policy) ■ alternative to working time reduction / work sharing policy	■ wage concession in bargaining ■ replacement difficult to enforce ■ social and labour cost problem ■ not suitable for all firms/sectors ■ less dues-paying members
Firm	■ consensual restructuration ■ higher productivity ■ avoiding job protection laws* ■ externalisation of costs* ■ wage subsidies*	■ loss of experienced workers ■ internalisation of costs (topping up)* ■ regulation on replacement*
Employers' association	■ peaceful industrial relations ■ role in negotiated schemes	■ rising non-wage labor costs ■ weakening of unemployment whip on wage bargaining ■ free riding by larger firms*
Government	■ more popular than dismissal ■ reduction of labor supply / unemployment ■ lower unemployment costs	■ pension costs exceed savings in unemployment insurance* ■ rising non-wage labor costs ■ reduction in public income*

* conditional

Table 2: Occupational pensions and financial markets

	Occupational pension coverage in % 1990s	Financing of OP (equities in %)	Pension funds assets % GDP	Stock market capitalisation % GDP 1994	Institutional investor assets % GDP 1995 (equites in %)
UK	1991: 48	funds (>50)	82	114	162 (69)
USA	1992: 46	funds (>35)	72	75	171 (36)
Japan	1990: 61	on books; funds (>25)	*18	50	77 (18)
France	mandatory	pay-as-you-go	3	34	75 (22)
Germany	1990: 46 (priv.)	on books; funds (>35)	*6	24	48 (12)
Netherlands	1993: 83	funds (>30); on books	85	67	158 (23)
Sweden	>90%	pay-as-you-go+funded	16	24	114 (35)

Sources: coverage and financing: Rein and Wadensjö, 1997: passim; assets: Gern, 1998: Tab. 1, p. 3-7; OECD, UK Economic Survey, 1998: 130-1.

Notes: * without book reserves.

Table 3: Typology of exit patterns and regime linkages

Country / Exit	Welfare state regime	Occupational welfare	Employment system	Production system	Financial governance
France: high (externalisation)	'welfare without work' multiple pathways: early normal retirement, unemployment bridging	mandatory collective schemes, preretirement schemes	longterm employment, , 'cadres' vs. workers (industry skills)	nationalised industry vs. flexible small-medium-sised firms	(state) co-ordinated state-firm links, state ownership
Netherlands: medium-high (externalisation)	'welfare without work' multiple pathways: disability, early pension	negotiated collective pension and preretirment schemes	longterm employment, increasing atypical work, low female participation	'organised capitalism': specialised quality production	coordinated, but dominant mulinationals
Germany: medium-high (externalisation)	'welfare without work' multiple pathways: preretirement pensions, unemployment, disability	voluntary employers occupational pension, negotiated in public sector	high employment regulation, industry/firm-specific skills (dual training)	'organised capitalism': specialised quality production	coordinated, company-bank links,
UK: medium (cyclical)	liberal welfare state: limited pathways: strict disability, shortterm UI, JBS (temporary)	voluntary employer and private pension (opt-out), firm sponsered early option	low employment regulation, high turnover, low skilling, general education	low cost, mass production, numerical flexibility	uncoordinated market, short-termism
USA: medium (cyclical)	liberal welfare state: limited pathways: strict disability, 'fair' flexible pension, shortterm UI	voluntary and negotiated employer pension plans, firm sponser early option	no employment regulation, high turnover, general skills	mass production, but also new venture firms, numerical flexibility	uncoordinated market, short-termism, but also venture capital
Sweden: medium-low (partial exit)	universal welfare state: disability pathway (-1992), gradual pension	negotiated supplement	employment regulation, industry skills, activation policies, job rotation	specialised quality production	coordinated, concentrated firms,
Japan: low (internalised: re-employment)	residual welfare state: insufficent pension/ disability/UI	employer pension plan (opt-out), supplement for mandatory retirement	employment tenure, firm-specific skills, job rotation / skukko	lean production, Toyotism	coordinated, large groups