

Chapter 2

Comparing Welfare Regime Changes: Living Standards and the Unequal Life Chances of Different Birth Cohorts*

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2.1 Consequences of the Welfare States' Reforms for the Different Generations

This article focuses on generational sustainability in welfare states and aims to analyse the long-term consequences that the reforms¹ carried out by these states have on the different cohorts. It is shown that in the context of conjuncture fluctuation, from the “economic miracle” (1945–1975) to the slowdown in economic growth (1975 until today),² a gap appeared between those who were exposed to a high rate of youth unemployment and its resulting consequences and those who were not, i.e. generations born before 1955 (the early baby boomers) and the generations born after 1955. This gap between generations would often be denied by the politicians in the public debate. These points of view imply that these generational dynamics could have major consequences for the stability of our welfare states. Furthermore, what we have observed in France in the emergence of strong inter-cohort inequalities at the expense of young adults is not seen in America. In America, the same stressors (economic slowdown and increasing competition) have resulted in a less visible inter-cohort, but a more obvious intra-cohort inequality.

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¹Compare, e.g. Esping-Andersen et al. 2002.

²France and the US both experienced a period of post-war affluence: the American “Golden Age of Capitalism” (Maddison 1982) and the French “Trente Glorieuses” (Fourastié 1979), which contrast with the subsequent period of economic slowdown and “diminished expectations” (Krugman 1992). See, notably: Chauvel 1998 (second ed., 2002).

Reflections, here, are based on the Esping-Andersen (1990) trilogy of welfare regimes, completed by the post-Ferrera (1996) controversy. The argument is that, in the intrinsic logics of different welfare regimes, the probable set of socioeconomic responses to contemporary common challenges or stresses (economic slowdown, social distortions in the face of globalisation, obsolescence of unqualified or industrially-qualified labour, etc.) could be significantly different. As a clue to these differences, strong cohort-specific “scarring effects” are noticed in France and in Italy. Such “scarring effects” are unclear in Nordic countries and almost non-existent in the Anglo-Saxon or liberal welfare regimes.

This article will add to a theory on the intra-and inter-cohort (Mayer 2005) inequalities in an international context, and provide states with the possibility to avoid such inequalities. In the welfare states, the cohorts of young adults assist an intergenerational decline of their position, accumulating the difference between generations, the risk of a long-term destabilisation of the middle-class remains.

2.2 Different Responses of Welfare Regimes to Economic Stresses

To analyse more precisely the probable responses of different welfare regimes to the challenges of postindustrial societies, consider the standard typology of Welfare regimes (Esping-Andersen 1999); we could focus on four types of regimes, respectively corporatist (or conservative), liberal, universalist (or social democrat), and familialistic:

- Since it is based on the recognition of long-term and institutionalised social rights of members of protected social groups, the probable response of the *corporatist regime* (including France) to economic slowdown, international competition, and economic shortcomings of the Welfare regime as a redistributive agency, as a ruler of the labour force, and as an employer will be a more expensive protection of insiders, i.e. a stable workforce with higher seniority and high rates of trade-union membership. Such a response would be at the expense of young adults leaving education, women and immigrants, who have less opportunities to defend their interests. Youth unemployment results primarily from the scarcity of decent jobs in the labour market. Such scarcity is due to a (combination?) of competition with insiders and a stronger internal competition of the young for obtaining less available positions. An internal competition of this nature generates a decline in relative or absolute wages, and specific renegotiations and retrenchments of social rights of the new social generations. If seniors are victims of early retirement, they benefit from better protections of incomes and opportunities to access comfortable pension schemes and/or acceptable conditions of pre-retirement (generally better than the usual unemployment schemes of younger adults). The social generations of seniors are more

equal because they are the homogeneous cohorts of the “wage earner society” of the Golden Period of 1960s–1980s. This period that brought better pension schemes for all has resulted in an increase in senior’s relative income. Conversely, the new cohorts of adults face a stronger polarisation between winners and losers. (Brzinsky-Fay 2007; Bell et al. 2007). Another aspect we do not face here is the declining value of education. Working in tandem with a lack of improvement in labour market entry, a probable collective answer to the difficulties of the young is a massive increase in the post-secondary education of young cohorts. (Van De Velde 2008). However, a trend of strong educational inflation in the form of declines in the nominal value of grades, particularly for the less selective ones, can be observed.

- The *liberal regime* (including the US) is characterised by another probable answer to the same challenges: because of the centrality of market in this regime, the response to economic shortage is Welfare State retrenchments, limitation of redistributions to worse-off populations, stronger market competition, denunciation of former social rights considered as rent-economy devices, and distortions for market equilibrium. The logic, therefore, is to strengthen competition between juniors and seniors (who have less intangible rights) in order to renegotiate better positions for seniors, which were previously obtained in the context of affluence. The consequence is smoother inter-cohort inequality (the new cohorts benefit relative to the seniors). However, strengthening competition means stronger intra-cohort inequalities.
- The *universalistic regime* (including Denmark) is defined by a collective scope for long-term stability, progress, and development for all with a strong sense of collective responsibility. The quality of integration of newer cohorts is then considered as a priority, since a failure in the early socialisation of young adults is clearly seen as a massive problem for future development of society. Strong rates of youth unemployment and economic devalorisation of young adults could go with long-term risks of anxiety, sentiments of self-devaluation of the young, increasing suicide rates, or a decline in the fertility index. More generally, a better control of social risks over the complete life course is a central dimension of the Nordic Welfare State model.
- The *familialistic regime* (including Italy) shares many aspects of the corporatist one, but families here are a legitimate institution in the process of redistribution of resources, both culturally and for the regulatory activities of the state. More precisely, in this regime, some sectors of the economy are strongly protected (mainly the core sectors of the public economy and of large companies such as banks, insurance, etc.) and most of the labour regulations are based on seniority rights. In most middle- and small-sized companies, the regulation is based notably on family interconnections, where both localism and long-term fidelity of workers are fundamental institutions. In the context of post-affluent societies, and of scarcity of jobs, housing, and other resources, parents of young adults are supposed to offer help and protection, and most families act in conformity with these social pressures. The consequence is a trend of increasing dependence of young adults up until the age of 35 (or even over) in a context of declining levels

of wages and standards of living for the cohorts of new entrants into the labour market. Consequently, seniors exert political pressure to obtain a better pension in order to support their own children. This *dependency* feature generates stronger constraints for young families, increases the social pressures on women to choose between work and children, and is accompanied by a strong decline in the fertility rates. This decline in fertility rates creates a paradoxical context of “familialism without families”, and becomes a major problem in the long-term sustainability of the pensions and welfare regime (shorter and less affluent careers of juniors, generational collapse of one-child families, etc.). Conversely, the decline of incomes for young families is offset by the reduction of family size. In this regime, the national homogeneity may be weaker compared to other regimes since the inter-provincial imbalances, i.e. strong unemployment rates in some localities could go with a lack of appropriate workforce in others, are structural traits of a labour market where localism and strong ties are important aspects of social regulations. This implies less geographic mobility.

While the welfare regime logics and transformations are central issues, other factors also could influence these results. These include:

- Economic acceleration: even in the short-term, a better economic situation could diminish pressure for welfare retrenchments
- Quality of the transition from school to work: close relations between the educational system and the labour market, organised internships, strong network of alumni, etc. limit the risk of “outsiderisation” of young adults
- Shape of demography: a boom in fertility rates may have an “overcrowding” effect on the labour market in 20–25 years or more. (Easterlin 1961; Easterlin et al. 1993).

The combinations of these factors are much more complex than expected. Due to the diversity of potential configurations, we should expect that the welfare regime explanation outlined here is only a part of the real history of each nation. While the welfare regime offers strong constraints, historically ascribed configurations (demography, level of development, and opportunities for growth, etc.) and achievements of social policies (educational booms, structural reforms on the labour market, etc.) could also be important explanatory factors.

2.3 The Multidimensional “Fracture Générationnelle” in France

In France, the economic slowdown has provoked a dramatic multidimensional “fracture générationnelle” since the late 1970s. This portrait is grim, but it is founded on a strong empirical base, with alternative sets of micro-data offering convergent results. Three principal topics will be highlighted here: first, the economic marginalisation of new entrants into the labour market and its direct effects on social structure; second, the long-term consequences of this deprivation in terms of

socialisation and life chances; and finally, the consequences for the political participation of these cohorts and their support for the contemporary welfare regime.

2.4 The Economic Decline of Youth

The first aspect of the dynamics of social generation in France is the change in the cohort distribution of economic means. A large redistribution of earnings and incomes occurred between the 1970s and today. In 1977, the earnings gap between age groups 30–35 and 50–55 was 15%; the gap is now about 40%. During the “economic miracle,” the young wage earners generally began in the labour market with the same level of income as their own parents at the end of a complete career. For the last 20 years, what is observed is , a stagnation in the wages of the young while wages for older people have grown by 20% or more. In 1997, the workers received the highest incomes when middle-aged. Today, they receive it only shortly before retiring (cf. Fig. 2.1).

There is also a new trend between the age groups, whose consequences in social sciences up to now are barely studied. The changing of the relative positions of the age groups is now double(?). During their youth, the members of the older generation (those who are around 55 years old) were in a better position in comparison to their parents. The same applies nowadays, if we compare today’s older generation

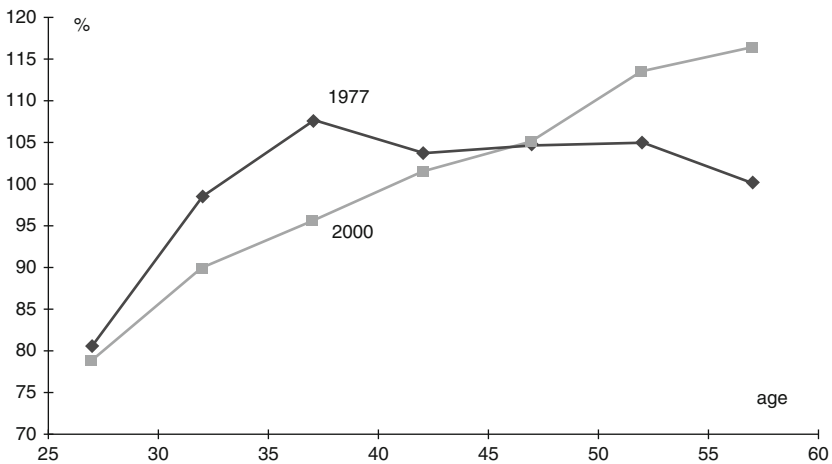


Fig. 2.1 Salaries of the age groups, in 1977 and 2000 (100 = average age group in France)³

³Enquêtes Emploi 2000 et Formation-qualification-professionnelle 1977, INSEE; archives LASMAS – Quételet.

with the young. The gap between generations is a result of a doubling in privileges as well as disadvantages.

2.5 The Unemployment Risk of the Different Cohorts

How could we explain this increasing gap? In fact, this is a consequence of a changing collective compromise, which occurred during the mid-1970s and early 1980s. This transition in the social value of generations is brought about from a relative valorisation of newer generations, as a positive feature we had to invest in, to the protection of the adults' and seniors' stability, even at the expense of the young. This is the main factor in the redistribution of well-being concerned unemployment. High unemployment rates were socially acceptable for young workers, provided that adult employees with dependent children could avoid these difficulties. In 1974, the unemployment rate of those who left school 24 months before or less was about 4%; by 1985, those who left school just then had an unemployment rate of 35%, which remained the case through till 1996. In 2002, thanks to a wave of economic recovery occurred then, it was close to 18%. The unemployment rates of youngsters who just left school are strongly reflective of the economic situation, whereas for the middle-aged and seniors the rates remain more stable. Thus, an economic slowdown has serious consequences for younger adults, and recovery firstly benefits new entrants in the labour market. Evidently, the perverse consequence of that collective compromise for the protection of adults at the expense of newcomers is due to a *lack of socialisation* of the new sacrificed generations. Due to some kind of "scarring effect", even if they are now adults with dependent children of their own, their unemployment rates remain much higher, and their earnings abnormally low when compared to other age groups.

2.6 Scarring Effect

The assessment of the long-term impact of these early difficulties is central to the interpretation; if young, deprived generations do not catch up, a somewhat long-term *hysteresis* effect appears, which can be called a "scar" or "scarring effect". This can be deemed an appropriate title as the handicap seems definitive. The age-period-cohort analysis shows that cohorts who experienced a difficult entry into the labour market, because of economic recession, continue to suffer from a relative delay in upward mobility compared to those who entered in a better economic situation.

The hypothesis presented here for France is that cohort-specific socialisation contexts imply long-term opportunities and life chances for individuals and their cohorts; when the difficulties disappear, the cohorts who faced these problems continue to suffer from long-term consequences of past handicaps.

In more concrete terms, the cohorts born during the 1940s, who benefited from the economic acceleration of the late 1960s, were relatively *privileged* compared to the previous cohorts when young and are relatively *advantaged* when compared to the newer ones due to the lack of progress for the young from 1975 to the present day.

2.7 The Devaluation of Education

An important point that cannot be developed at length here is the consequences of educational expansion. If the level of education has increased in the cohorts born in 1950–1975, that positive trend was accompanied by a strong social devalorisation of grades (Chauvel 2000). More specifically, the first cohorts of the baby boom have benefited from an expansion of education at a time when the rewards of education remained stable. Even if there were twice as many *Baccalauréat* recipients in the 1948 cohort as in the 1935, the likelihood of their access to higher social or economic positions did not shrink. On the other hand, the generations that followed had to deal with a strong trend of devaluation in terms of the economic and social returns to education. The first consequence is a rush to the most valued and selective grades (in the “*Grandes écoles*” of the elite such as *Ecole Polytechnique*, *Ecole Nationale d’Administration*, *Sciences – Po Paris*, etc.) whose value remains stable, but whose population becomes more and more specific and may be discriminatory in terms of social origins. The second consequence is a strong devalorisation of less prestigious universities, which are less exclusive but have much smaller per capita endowments in comparison to the *Grandes écoles*. In the same way, the best secondary schools become more selective with major consequences in terms of urban segregation. In the French case, the school system was traditionally the central institution of the republic and at the heart of its idea of progress, providing the strongest support for French-style social democracy and meritocracy. The collapse of the value of grades implies a destabilisation of this myth and a pessimistic outlook on progress – developments that can be expected to have political consequences.

2.8 The 1968 Generation as Profiteers

Now that we are nearing the end of this long-term slowdown, which began 25 years ago, we can compare two social and genealogical generations.⁴ For the first time in a period of peace, the youth of the new generation are no better off than their parents

⁴During the twentieth century, an average age gap of about 30 years separated parents and their children.

at the same age. In fact, the “1968 generation”, born in 1948, are the children of those born in 1918 who were young adults in World War II and worked in difficult conditions at the beginning of the “Economic miracle”. The condition of the baby boomers was incomparably better than their parents. However, the following genealogical generation, born around 1978 – that is now between 25 and 30 years old – faces diminished opportunities of growth, not only because of an economic slump, but also because of their relatively poor outcomes in comparison to those of their own parents who did very well.⁵ We now observe rising rates of downward social mobility connected to the proliferation of middle-class children who cannot find social positions comparable to their parents.

Consequently, France offers an ideal typical example of a failure of a corporatist regime as it sacrifices the interests of large fractions of its population and is unable to organise its own transmission to newer generations. As a result, it is unable to distribute its benefits to young adults. This case is very interesting, since, in France, we have a country that presents specific traits. France is defined by a homogeneous culture, notably by a political culture of refusal of market rules. It is homogeneously governed by a centralised system of governance about to produce for long periods the same erroneous diagnoses and decisions on the totality of the territory. The country is based on a culture of stop-and-go policies of alternate periods of excessive and scarce investments, which are about to create backlashes and counter-backlashes. France is also a country where the first years on the labour market are strategic for future life-chances of individuals.

2.9 Is France an Exception? An International Comparison of Cohorts

A solution to test this idea of a possible French exceptionalism is to compare the dynamics of incomes on the life course in contrasted nations. Four countries will be considered here: France, Italy, Denmark, and the US. This choice gives an example of four typical welfare regimes. The four countries are characterised by similar levels of development and their trends are roughly parallel, despite the American economy doing somewhat better during the 1990s (Fig. 2.2).

⁵These parents are about to help their children in different ways with the intensification of “*solidarités familiales*” (transfers and transmissions between generations including financial, in kind, cultural, and material) that Attias-Donfut (2000) describes, but at the collective level, the first and the most efficient *solidarity* would consist of a redistribution of social positions.

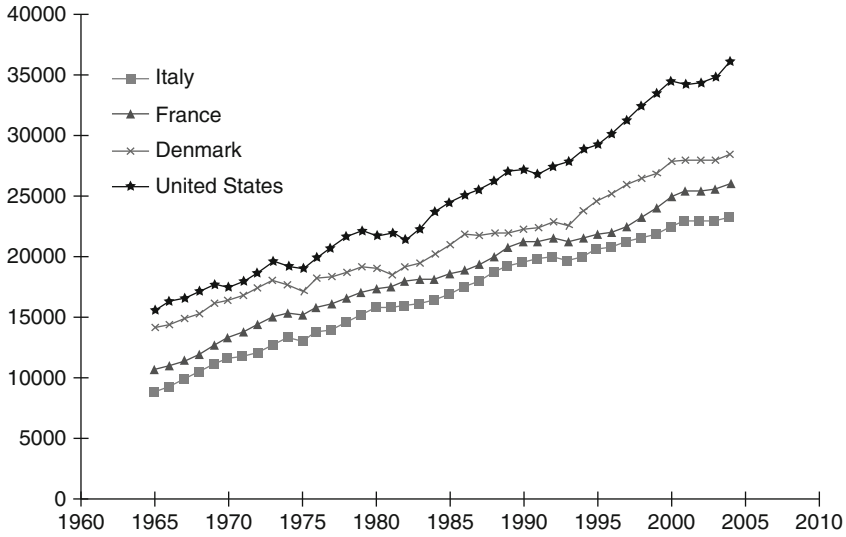


Fig. 2.2 Annual per capita GDP of four countries (in PPP \$ purchasing power parity dollars)⁶

The four selected countries pertain to samples of micro-data available in the *Luxembourg Income Study Project*,⁷ but other typical countries could have been selected with consistent results. Since in this chapter the major concern is about consumption, the focus will be on household level standards of living and not on personal earnings. The LIS project data offer the possibility to compute adjusted disposable income (total net income after taxes and transfers, adjusted by household size, where the equivalence scale is the square-root of the number of residents of the household) in order to compare the living standards of age groups at four different periods, respectively around 1985, 1990, 1995, and 2000.

The main results of the comparison of the relative adjusted disposable income (RADI, Fig. 2.3) are:

- In 2000, the shapes of the age distribution of the average RADI are similar with an ascending slope to age 55 and a declining standard of living after (decline of earnings or retirement).

⁶Penn World Tables 6.2 (Heston et al., 2006). Note of the editorial staff: PPP \$ = average connection availability of purchasing power in Dollar.

⁷Source: Microdata of the LIS – Project (www.lisproject.org), evaluation of the Authors. : Relative Adjusted Disposable Income (RADI); RADI = 1 is related to the average of the 30–64 years old of the relative periods; Period 1, 2, 3 and 4 are related to the LIS – Data of 1985, 1990, 1995 and 2000. In the figure, the 30-year-old are part of the group 30–34 year old. Working population: according to household RADI.

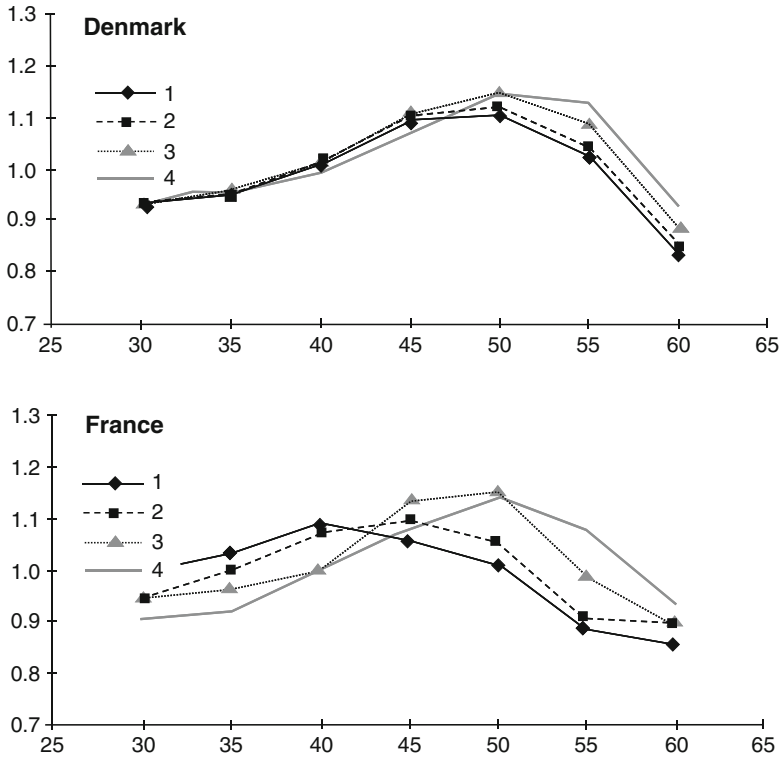


Fig. 2.3 Relative adjusted disposable income (RADI) by age group for three periods
Source: Chauvel (2007)

- From 1985 to 2000, except in the US, we note a general increase of the income of seniors, more modest in Denmark and very significant in France.
- France and Italy are characterised by a strong relative decline of the age group 35–39; the French dynamics pertain to a very clear cohort wave (there is a progressive shift of age at maximum income from age 40 to 50).
- In Italy, the decline of RADI at age 30 is less significant, but note that at age 30, most Italians are not head of their own household, and most of them continue to nominally benefit from the affluence of their own seniors.

We shall look at the situation in France a bit more precisely (cf. Fig. 2.4): those at age 33 had the highest relative loss of incomes. Those who were 33 years old about 30 years ago were lucky. The ones born after 1965 had the first “scars” that could not be recovered. On the other hand, we know for sure that those who are 60 today have known – of course on an average – a relatively perfect labour market situation and have had fair incomes.

The main point is that France and Italy show profound redistributions of living standards to the profit of seniors and at the expense of younger and mid-aged adults

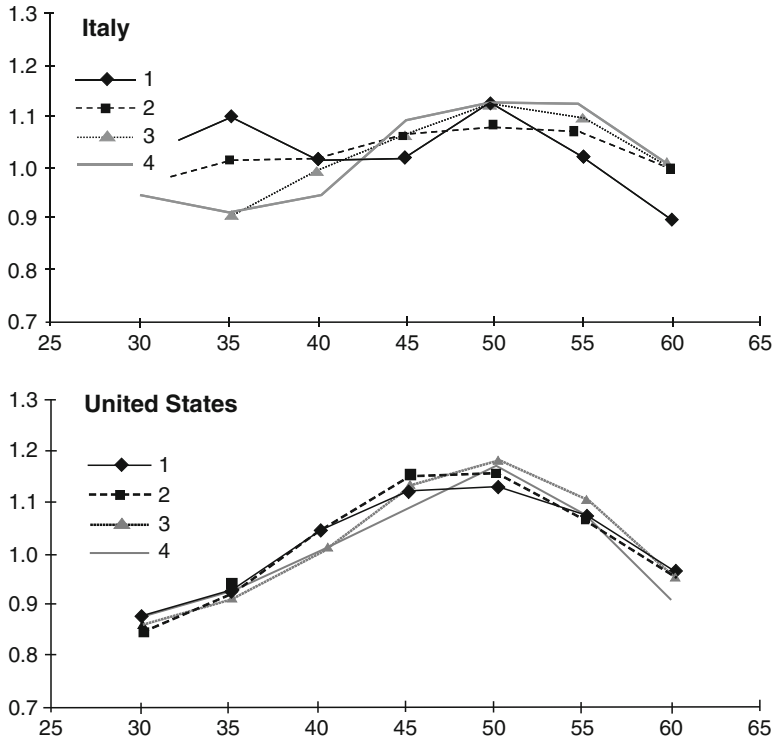


Fig 2.3 (continued)

whereas Denmark and the US face no massive transformations. When both the Nordic and Liberal welfare regimes are about to smoothen inter-cohort inequalities, the corporatist and the familialistic regimes generate visible imbalances between age groups.

2.10 Welfare Regime Ruptures and Consumption

The main conclusion is that the answers of the different welfare regimes to the economic slowdown of the post 1970s period differ substantially. The Danish model of welfare faced the challenge with a universalistic objective of stabilisation and protection of all age groups equally; the young adults are not the specific victims of any kind of retrenchments in the model. At the opposite part of the inequality spectrum, the US did not diverge from their principle of competitive market, and both the young and old face a similar life course.

Conversely, the French and the Italians have decided to answer to the new challenges with a stronger protection for the more affluent positions of seniors resulting in more difficulties for their younger cohorts. This decision created a

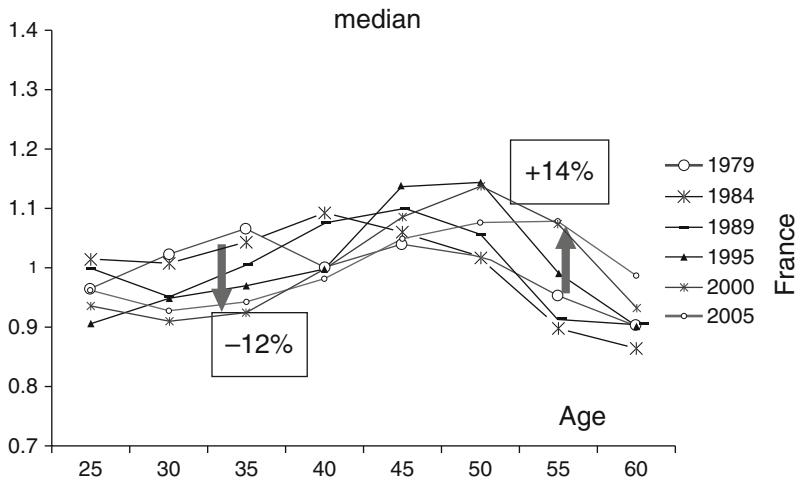


Fig. 2.4 Relative adjusted disposable income (RADI) from 1979 to 2005 by age group
 Source: www.lisproject.org

paradoxical situation where social democracy seems to improve in the older cohorts while the young are destabilised. The French diagnosis of double victimisation of younger generations (victims of both fake liberalism, which give freedom only to those who have the economic means, and fake socialism, which has forgotten the young) is relevant in Italy also.

2.11 Conclusion

The central point of the conclusion relates to the long-term sustainability of welfare regimes. To be stable in the long-term, a social system must arrange its own reproduction from one generation to the next. In France and Italy, today’s seniors benefit from a large welfare state, but the vast social rights they were able to accumulate were the consequence of their relatively advantaged careers; we assert that the new generations, when they become seniors themselves, will not be able to benefit from the same rights, and the large size of the present welfare state will mechanically erode with cohort replacement – since the reproduction of the welfare regime is not ascertained.

The key question is: will younger generations in France or Italy continue to sustain a system where their social condition is devalued compared to the older generations with no clear prospects of improvement? For the moment, these intergenerational inequalities are accepted, since they are generally unknown, their social visibility is low and their political recognition zero. These examples of the corporatist and familialistic impasse show that if solidarity is wanted, there is no other way than in a universalistic model (similar to the Nordic one) that supports

equally the young, the middle-aged, and the elders in a long-term perspective of socialisation. In terms of consumption, these results give a better understanding of differences in the national life course perspective of standards of living.

In France, compared to the US, the young generation faces real difficulties, and at the opposite, the nowadays seniors benefit from a specific economic boom and from economic homogenisation (more equality). In France, seniors appear attractive targets for marketing products while the young are often framed in terms of social problems. The Italian situation is similar, but the demographic collapse of young generations of adults (less numerous with less children) and their increasing degree of familialistic dependence reduces the degree of immediate visibility of the social problem, but this problem will evidently appear raising the question of who will care for elders. At the opposite end, Denmark seems to be a stable model of development of a universalistic solidaristic regime of collective improvement. The social problems that appear elsewhere (deepening gaps between the rich and the poor, accumulation of social problems for the newer generations, destabilisation of the young educated middle class, etc.) seem to be relativised and smoothed, and the general atmosphere is more propitious to a socially homogeneous and the development of a “wage earner middle class” in a knowledge-based society. While recognising there are limitations to the welfare regime model approach, this analysis suggests the *universalistic* welfare regime is sustainable and maintains its own capacity for long-term development.

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