

# Globalization, Economic Restructuring and Increasing Uncertainty in Old Age

## A Theoretical Framework

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### INTRODUCTION

During the last decades, globalization processes have strongly impacted individual life courses in all modern societies (Blossfeld et al. 2005; Blossfeld, Buchholz and Hofäcker 2006; Blossfeld and Hofmeister 2006; Blossfeld, Mills and Bernardi 2006; Blossfeld et al. 2008). The growing volatility and interconnectedness of markets have changed business environments all over the world and forced firms to adjust to new market conditions through reorganization and flexibilization. In turn, uncertainties have risen in the work lives of employees in all OECD countries, introduced through weakened dismissal protection and fixed-term contracts or part-time work (Castells 2000; OECD 2004). However, as several studies have shown, the risk of being exposed to employment flexibility varies between different groups of employees. Whereas mid-career men are relatively well protected, others, such as labor market entrants, and women are at a higher risk of being affected by labor market flexibilization (Blossfeld et al. 2005; Blossfeld and Hofmeister 2006; Blossfeld, Mills and Bernardi 2006). The studies in the first phase of the *flexCAREER* project clearly showed that young cohorts of labor market entrants are strongly affected by flexible and precarious employment patterns, not only right at labor market entry but also during their early career (Blossfeld et al. 2008). At the same time, we expect also older workers to increasingly face employment risks, mainly as a result of global competition, changes in the demand for certain skills and the decline of traditional industries where a high proportion of them has been employed. Indeed we know that early retirement schemes constituted a main route to flexibility for older workers for several decades in many OECD countries (Blossfeld, Buchholz and Hofäcker 2006; Ebbinghaus 2008). However, we believe that in recent years unemployment, downward mobility, and the postponement of retirement have gained in importance. Such developments have consequences for income inequality among the elderly as well since it is predictable that not all older workers face increased employment risks to the

same extent. Furthermore, pension levels typically depend on the employment and earnings history of the individual, thereby translating labor market inequalities into pension inequalities. Moreover, most governments have reacted to recent demographic changes and to globalization pressures by reforming their pension systems to reduce fiscal expenses. Since these changes usually strengthened market mechanisms and the responsibility of the individual, they are likely to augment income inequality in old age as well.

Given the growing share of older people in most Western societies, the dynamics of social inequalities in the late employment career and their consequences for pension incomes are highly relevant scientific and political issues. Yet, previous research tells us surprisingly little on how the destabilization of late careers and recent pension reforms have influenced income trajectories and social inequality patterns. Therefore, we will take a closer look at these matters and study the development and interdependencies of employment patterns and income in later life over the last decades for a wide range of OECD countries.

The main issues we will investigate in the *flex*CAREER project are the following. First, we will study *social change* and ask how flexibilization on the labor market has evolved in the last decades with respect to older employees. Are late careers becoming increasingly instable? How have the risks of unemployment and the chances of reemployment developed for older people? We also will ask how the retirement age has changed with growing demands for flexibility. We will further analyze in what way and to what extent changes in late career patterns and in the timing of retirement have influenced pension levels. Here the national pension systems and their recent reforms play a decisive role for the development of pension incomes over time. To study historical change, we will compare birth cohorts.

Second, we will pay particular attention to *social inequality* patterns: Does flexibilization in the late career affect all employees alike, or only specific groups? If the latter is true, which groups of older employees are more likely to face risks of downward mobility in earnings, unemployment, or (involuntary) early retirement? Do individual qualifications play an important role in determining these risks, or are horizontal inequalities between economic sectors or firms of different size more crucial? How do these inequalities translate into inequalities in pension levels? In what ways do national pension systems and their recent reforms mould these inequality structures?

Third, we will take up a *cross-national perspective* and ask whether there is an overall trend towards a more instable late career with similar consequences for social inequality structures, or whether there are substantial differences between countries. To answer these questions, we will study Denmark, Estonia, Germany, Hungary, Italy, the Netherlands, Spain,

Sweden, the United Kingdom (UK), and the United States of America (USA). These countries differ considerably with regard to institutional settings, especially welfare regimes and pension systems, employment relations, and educational/occupational systems. We expect flexibilization processes to vary in type and course depending on national institutions and traditions. For example, in liberal systems like the USA with a high level of labor market flexibility the forms and effects of flexibilization should differ from those in relatively rigid employment systems like Germany. Furthermore, we expect that the national imprint of flexibilization strategies and institutional arrangements influences how social inequalities develop in the late employment career and in the retirement phase. The public-private pension mix is an important issue here, with private pensions tending to strengthen inequalities.

The aim of this working paper is to develop a conceptual framework for answering the questions posed above. That is, we will prepare the theoretical ground for the empirical analyses on the ten countries under study in the *flex*CAREER project. To this end, we will, first, give an overview on existing studies on the late career and the transition to retirement. Second, we will describe the social and economic developments that weakened older people's employment situation and illustrate why certain groups might be more affected by labor market flexibilization than others. We will then give a description of the institutional settings that should be taken into account when analyzing late careers and retirement income, i.e. production regimes, educational/occupational systems and welfare regimes including major pension reform trends of the last decades. Based on these considerations, we will describe specific national institutional packages and strategies that governments and firms have implemented to cope with socio-economic changes. Finally, we will develop hypotheses with regard to late career patterns and the development of social inequality for the countries under study.

## **PREVIOUS RESEARCH ON LATE CAREERS AND THE TRANSITION TO RETIREMENT**

Studies on the impact of social change on employment patterns and on social inequalities are part of the core area of empirical sociology. Since the beginning, such studies have been mainly carried out as cross-national studies (Althausser and Kalleberg 1981; Maurice, Sellier and Silvestre 1982; Sørensen 1983; Allmendinger 1989; Haller 1989; Becker 1991; Soskice 1991; Erikson and Goldthorpe 1992; Mayer 1997; Soskice 1999; Mayer 2001). In general, international comparative research on the employment career is oriented towards cross-sectional data (Erikson and Goldthorpe 1992; Müller and Gangl 2003), and the dominant strategy for analyzing social change is still the comparison of descriptive statistics. Such

studies are valuable because they provide information relatively quickly and at a low cost. But in the case of rapid changes, they often fail to offer easily interpretable results (Dex 1991; Blossfeld and Rohwer 2002).

Over the last years, longitudinal analyses of employment careers have gained importance. Recent studies analyzed, for example, job and inter-firm mobility over the life course. In addition, they take into account transitions between several types of employment (permanent, fixed-term, self-employment, part-time, full-time), as well as transitions into and out of unemployment (Kurz and Steinhage 2001; Blossfeld et al. 2005; Blossfeld, Buchholz and Hofäcker 2006; Blossfeld, Mills and Bernardi 2006). Following this broadened perspective processes of flexibilization on the labor market and their impact on inequality can be analyzed more effectively. Nevertheless, the majority of studies focus on labor market entry or the early or middle career (Shavit and Müller 1998; Konietzka 1999; Kurz and Steinhage 2001; Konietzka 2002; Scherer 2004; Blossfeld et al. 2005; Blossfeld, Mills and Bernardi 2006), while the late career and the transition to retirement have so far received little consideration.

Existing studies on the situation of retired persons deal primarily with income levels and old age poverty and are predominantly based on cross-sectional data (OECD 2001). The few available cross-national studies that apply a longitudinal design focus mainly on institutional aspects of retirement processes and their consequences for the late career (Blossfeld, Buchholz and Hofäcker 2006; Ebbinghaus 2008). Some of them also address specific questions, for example the synchronization of retirement transitions within couples (Drobnič 2002). In addition, most cross-national studies focus on the effect of singular, country-specific institutions, namely pension systems or, in a broader sense, welfare systems (Blöndal and Scarpetta 1998; Börsch-Supan 1998; Gruber and Wise 1998, 2004). However, recent cross-national studies (Blossfeld, Buchholz and Hofäcker 2006; Ebbinghaus 2008) indicate that the labor market participation of older people is not only determined by pension systems, but also by the interaction of different aspects of the national institutional framework. In this context, the rigidities of labor regulations, as well as of occupational boundaries, play a particularly significant role.

When research on late careers and retirement transitions analyzed matters of institutional dependence, related questions on social and income inequalities in older age were addressed only briefly, if at all. As we know from research on the early and mid-career, different institutional settings are indeed linked to various patterns of social inequalities over the life course and over cohorts (Blossfeld et al. 2005; Blossfeld, Mills and Bernardi 2006). Therefore, the *flex*CAREER project directs particular attention to questions of change in social inequality

structures and the development of *income dynamics* in old age. These matters are investigated on the basis of the employment histories in the last years of the labor market career.

With our focus on late careers, we continue the research started in the first phase of the *flex*CAREER project on early careers. Thus, we analyze both ‘ends’ of the working career; the entry into as well as the exit from employment, as we assume that these transitions are particularly affected by flexibilization strategies. In addition, we foreground the question of changes in the inequality structure with income comparisons as an important part of our study.

### **THE CONSEQUENCES OF GLOBALIZATION AND ECONOMIC RESTRUCTURING ON LATE CAREERS AND THE TRANSITION TO RETIREMENT**

During the last decades the world has been changing more rapidly than before. Globalization has become the dominant catchword to name these changes that have been observed in the economic, social and cultural sphere of life during the last thirty years. Various definitions of the term ‘globalization’ have been proposed, putting emphasis on quite diverse phenomena and processes (Ohmae 1990; Robertson 1992; Castells 2000; Guillén 2001). Also, there have been lively debates on the question whether we indeed observe a qualitatively new process that justifies the new term ‘globalization’ (Held et al. 1999; Trinczek 1999). Given our research focus on the employment career, we can disregard globalization concepts referring primarily to the cultural and social sphere and focus on those referring to the economic sphere. There is a growing consensus on several features of economic globalization. As has been explicated in more detail elsewhere (Mills and Blossfeld 2005: 2ff.), it is useful to distinguish several interrelated aspects of economic globalization, that is (1) the internationalization of markets which was facilitated by global formal agreements and by the liberalization of financial markets; (2) the intensification of economic competition based on deregulation, privatization, and liberalization; (3) the accelerated diffusion of knowledge and the spread of global networks connecting diverse markets on the globe via information and communication technologies (ICTs); and, (4) the rising importance of markets as a coordinating mechanism of decisions and the dependence of markets on random shocks occurring somewhere on the globe. The global processes stimulated an increasing international division of labor, which led to the reduction and transformation of older and the creation of new product and service industries in Western industrialized countries (Castells 2000). Thus, globalization processes have accelerated deindustrialization processes in the OECD countries (Alderson 1999).

The interlinked macro processes just outlined have far-reaching consequences for individual decision makers by producing an unprecedented level of structural uncertainty. As

global markets become more dynamic they also become less predictable. Managements have replied by restructuring and flexibilizing their organizations in order to deal with the volatility of global markets (Breen 1997). The growing employment flexibilization is one important aspect of the ongoing globalization process. It is common to distinguish between five types of employment flexibilization strategies (Atkinson 1984; Bruhnes 1989; Regini 2000): First, by means of *numerical flexibility*, companies adjust the number of employees to their demand, e.g. by using fixed-term contracts or lay-offs. Second, *externalization* refers to the outsourcing of certain tasks, e.g. by subcontracting self-employed people. Third, *wage flexibility* describes the leeway employers have for the adjustment of wages or benefits to changing market conditions. Fourth, *temporal flexibility* refers to the option of adjusting working times, e.g. by employing some people only for those hours or days when there are work peaks; finally, *functional flexibility* refers to the extent to which employees are able to perform a wide spectrum of tasks by means of training and further education. In this context, *early retirement schemes* could be considered as state subsidized strategy of numerical (and in some sense temporal) flexibility for older workers. The first four flexibilization strategies can lead to a less favorable employment situation for employees. Some of these strategies might also influence the risk of unemployment. However, a firm's choice in applying these methods of downsizing and restructuring the workforce strongly depends on the institutional setting within the country.

### **Why might older workers face particularly high risks?**

The reason why older workers are likely to be particularly affected by the macro-economic developments described so far, results mainly from technological change and the restructuring of firms and national economies. First, productivity growth in the manufacturing sector and the accelerating global division of work brought about a rapid decline in employment rates in agriculture and traditional industries (e.g., mining, steel, ship building, and textiles) where a large proportion of older workers were employed. Empirical studies indicate that for every four to five manufacturing jobs that were lost in OECD countries through competition with low-wage countries, there was an average of one new manufacturing job created through the production of high-skill-based manufactured goods (Rowthorn and Ramaswamy 1999). On average, the share of manufacturing employment in OECD countries declined from 27 percent in 1967 to 17 percent by the end of 2000 (Rowthorn and Coutts 2004). Anglo-Saxon countries experienced the most rapid decline in manufacturing employment, which even led to the disappearance of many traditional industries (Black 2004). Given the large share of older

people in these industries, they have been more likely to face unemployment or a job change than (younger) workers in other industries (Blöndal and Scarpetta 1998). In addition, an alternative route out of employment for older workers in these branches has been early retirement (Blossfeld, Buchholz and Hofäcker 2006).

The decline of the agricultural and the manufacturing sector was accompanied by the expansion of the service sector. At the end of the 1990s the proportion of jobs in the service sector had surpassed three-quarters of all jobs (OECD 2000). Still, newly created jobs in the service sector remain the employment domain of younger workers (Fagan, O'Reilly and Halpin 2005). However, if an older worker is able to move from a manufacturing job to a service job it typically implies a significant income loss because employees cannot profit from their human capital accumulated in the course of their work life.

A second risk results from the increasing relevance of knowledge and information in the process of globalization. Jobs requiring advanced qualifications have gained in number and importance. For example, an important change was from producing standardized goods with single-purpose machines requiring repetitive tasks to producing highly differentiated goods with multi-purpose machines requiring advanced technological and computer skills (Snower 1999; Soskice 1999). Also organizational changes within firms have taken place that demand for new *combinations* of skills (Snower 1999). As a consequence, technological skills and qualification profiles of older workers have been strongly and rapidly devaluated during the last decades. At the same time, education and training systems have supplied graduates with new and updated qualification profiles and a broad spectrum of competencies. By contracting well-qualified young people employers not only buy the latest knowledge in a specific field but also reduce labor costs, since the wages of older workers are often based on seniority rules that do not necessarily correspond to productivity (Blossfeld et al. 2005). At the same time, incentives for upgrading older employees' qualifications are typically low given the few remaining years in service they have. Similarly, early retirement schemes with attractive replacement rates have a negative effect on employees' decisions to invest in retraining (Naschold, de Vroome and Casey 1994). In general, policy makers have also been reluctant to invest in retraining programs for older workers.

To summarize, employment careers are assumed to be affected by globalization, technological change and the deindustrialization process. For older workers these processes can either mean more instable late careers, a tendency towards early exits, or both. Although depending on the concrete institutional arrangements (in particular, pension regulations), either aspect is likely to have negative consequences on pension incomes.

### **Reinforcing social inequalities**

Socio-economic changes, connected to the globalization process increased the level of market dependence. All actors – governments, companies and individuals – experience growing uncertainty and market mechanisms gain importance, with the result of a tendency towards recommodification of individual life courses. As a consequence inequality patterns in a society are expected to deepen (Breen 1997). This process is supported by parallel cut-backs of welfare state expenditures that were often used to compensate for market inequalities (Esping-Andersen 1990).

As outlined in the previous section, older workers are confronted with several problems when compared to younger age groups, including the devaluation of their skills as well as the shrinking number of jobs available for them. At the same time, there are reasons why particularly the lower-qualified among the older workers will bear the main burden of these changes. First, rapid technological progress in manufacturing made especially low-qualified workers redundant. Nowadays the manufacturing sector produces more output with fewer, but more highly-qualified workers. While highly qualified workers in countries with a strong manufacturing tradition might have even profited from the internationalization of markets, low-skilled manufacturing workers have surely suffered in all Western societies. Second, whereas highly educated older people might have chances to keep up with the technological and structural changes or to switch to service jobs, these chances are very low for dismissed, low-qualified industrial male workers (Esping-Andersen 1999; Fagan, O'Reilly and Halpin 2005).

There are also more theoretical arguments on the development of social inequalities. According to Breen (1997), the recommodification processes, i.e. the transfer of market risks from the employer to the employees, affects low-skilled workers more than other groups. He starts out with the argument that in modern societies the desirability of long-term commitments declines for employers due to the volatility of labor and capital, as well as commodity and financial markets. As a result, firms try to implement 'contingent asymmetric commitments', which means that employers maintain the option to withdraw from employment contracts at any time, while the employees have to accept the decision. But when employers try to shift market risks to their employees, they cannot treat them all alike. Breen (1997) and Goldthorpe (2000) differentiate between employment relations regulated by a service relationship and those based on a labor contract. The latter implies a specific exchange of wages per effort, and the worker is closely supervised. Service

relationships, on the other hand, are long-term and diffuse because of their specific characteristics and requirements: highly-specialized knowledge, a hardly controllable workflow, high autonomy and responsibility (Heisig and Littek 1995; Littek and Charles 1995). Employers try to bind service class employees through high wages, long-term employment security, promotion prospects and other incentives and gratifications. It is therefore expected that service class employees (managers, academics etc.) enjoy relatively stable and well compensated employment relationships while unskilled and semi-skilled workers are confronted with instable employment and labor market risks. Skilled workers are expected to rank somewhere in between these poles. Thus, it is postulated that labor market flexibilization increasingly concentrates on groups that are already in weak positions and thereby strengthens social inequalities along class lines (Breen 1997).

Not only are earnings inequalities in the late employment career affected by restructuring and flexibilization processes, but also inequalities in pension incomes. The pension systems in most countries were designed for the typical male employment career of the postwar period, that is, for continuous full-time employment. Flexibilization is likely to create more instable career profiles and expose low and unskilled workers to the risk of cyclical unemployment spells. Employees with such career profiles will – as far as pension regulations will not cushion these increased risks – reach lower pension levels since their contributions to the pension system are lower.

## **RETIREMENT REGULATIONS: THE INFLUENCE OF DEMOGRAPHIC AND ECONOMIC FACTORS**

To point to the effects of economic restructuring and globalization is not sufficient if we want to understand the developments regarding the timing of retirement. Since the 1970s the main thrust of pension reforms in OECD countries was towards early retirement schemes. Although an important motivation behind these reforms was facilitating economic restructuring at low social costs, sometimes another – closely linked – motivation referred to demographic pressures: Members of large young birth cohorts surged onto the labor market and had trouble finding employment; by introducing early retirement schemes it was hoped to decrease youth unemployment (Gruber, Milligan and Wise 2009).

During the last ten to fifteen years public debates and political decisions on pension schemes have changed dramatically (for more details, see section on country-specific institutions). Abolishing early retirement schemes and raising the mandatory retirement age as well as strengthening the private tier of pensions are the main issues discussed and

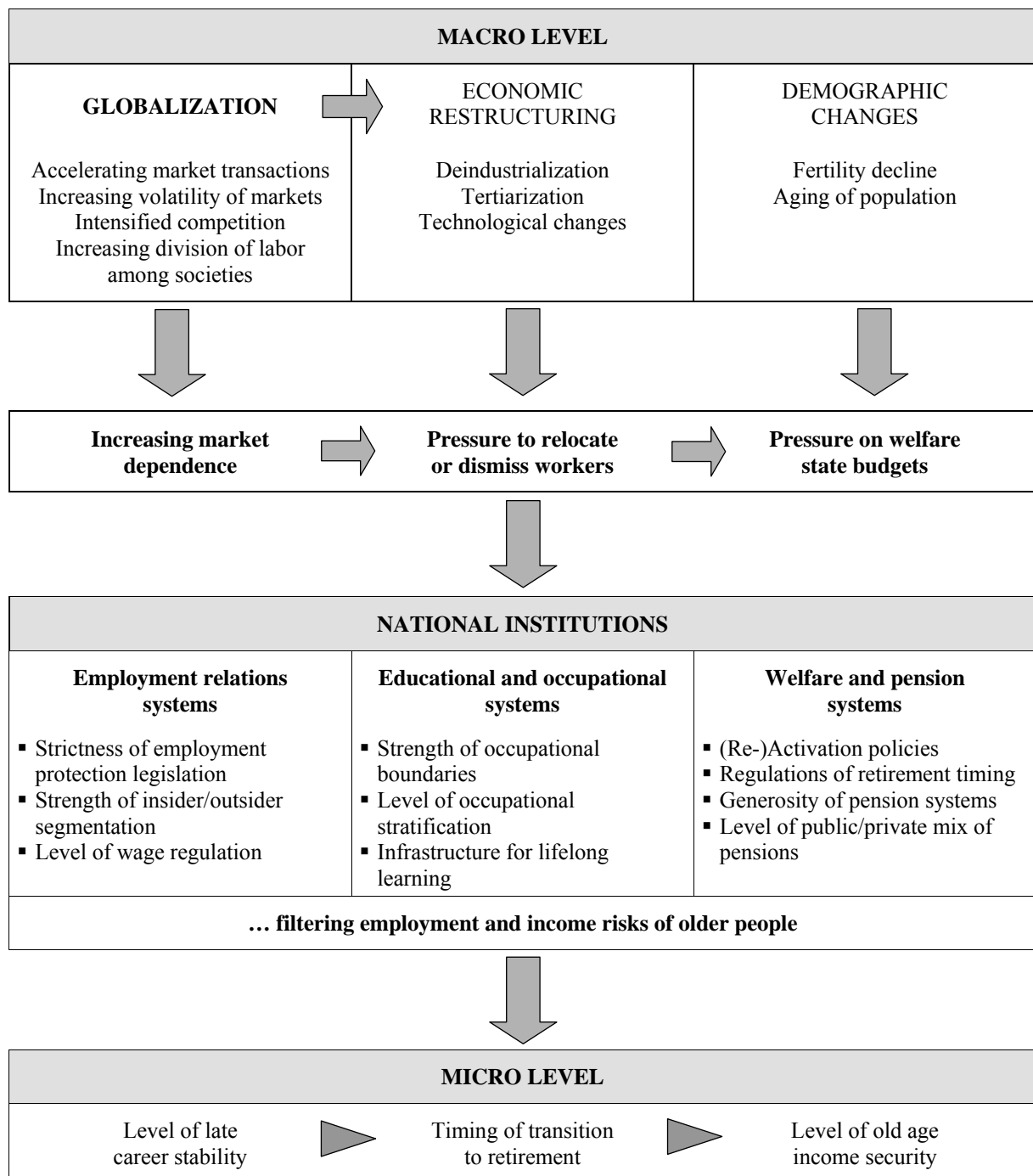
implemented in many OECD countries (OECD 2007; Ebbinghaus 2008). One important reason for this change of focus are the low fertility rates that have remained below the level to sustain the population size since the mid of the 1960s in most Western societies (Birg 1995; United Nations 2001). Still, the financing problems of public pension systems are not solely caused by the ageing of the population structure. Increased economic competition between nation states has motivated governments to foster the deregulation and liberalization of market processes and to cut back welfare state expenditures. Also, in some countries unemployment rates have remained high over many years and have put a further strain on public budgets. Additionally, the massive use of generous early retirement systems in order to unburden the labor market in the 1970s, 1980s and 1990s has put additional pressure on public budgets (Börsch-Supan 1992; Gruber and Wise 2005). In several European countries, pension expenditures constitute a major share of public spending today. For example in Italy, they equal to more than 14 percent of GDP. In Germany, public pension expenditures amounted to about 200 billion Euros in 2000, representing approximately 20 percent of public spending, and 12 percent of GDP (OECD 2001; Börsch-Supan and Wilke 2003). Hence, several interlinked processes have contributed to the financing difficulties of public pension systems.

In many countries immigration as well as the increased female employment rates have helped to compensate the lack of young employees and contributors to the public pension funds. Still, both developments have not been able to stop the general imbalance between contributors to the public pension budgets and pension claimants (Kaufmann 2005). The progressively skewed age structure combined with low retirement ages for large parts of the population makes the financing of public pensions increasingly difficult. This problem has been stressed in public and scientific debates particularly in countries that organize their pension system through a so-called ‘inter-generation contract’ in which the employed people finance the current pensions of retirees through social contributions. However, the relationship holds, that the higher the relative share of older people the more difficult it is to sustain a public pension system, no matter what the specific organization of the pension system is (Börsch-Supan 1992, 2003).

Raising the mandatory retirement age might contribute to increasing income inequalities in old age. It is a well established fact that manual workers are more likely than non-manual workers to encounter health problems when they get older. Thus, on average manual workers will retire earlier than other workers because of poorer health, with the likely effect of reduced pensions. Of course, the extent to which such inequalities will arise depends on the specific pension regulations in a country. At the same time, raising the mandatory retirement age might

also create new opportunities for some older workers since the incentive to invest in retraining will increase. This seems particularly likely for occupations, professions and branches where there is a shortage of young skilled employees. Thus, the potentially positive effects of postponing retirement will not concern un- and semi-skilled workers in traditional industries.

Figure 1.1: Conceptual model



Source: Own illustration.

To sum up, a whole array of macro developments – economic globalization, economic restructuring, demographic changes and strained welfare state budgets – have contributed to changes in the work lives of older employees and in the timing of the transition to retirement. It is likely that income inequalities among employees as well as among retirees have been deepened in this process. Figure 1.1 gives an overview on the main macro-processes and how they are supposed to translate into the lives of individuals. The figure also tries to make clear that the macro-processes are filtered by national institutional arrangements. Therefore, we will outline the most important institutional differences and their effects in the next sections.

### **THE ROLE OF COUNTRY-SPECIFIC INSTITUTIONAL SETTINGS**

So far, we have argued that older people should face increasing risks in their late career and during retirement as labor markets have become more insecure and flexible in an era of globalization. Further reasons are the trend of deindustrialization in modern societies and recent attempts in privatizing pensions that might substantively worsen the economic situation of the elderly. However, how and to which extent the situation of older people has changed in the more recent past should be strongly dependent on national institutional settings. Those settings of modern societies and the interplay between the various institutions function as intervening variables between the above described macro forces and the outcomes on the individual level (Regini 2000; Mayer 2004; Blossfeld 2005; Blossfeld et al. 2005). Thus, an appropriate approach to study the development of the situation of older people from an international comparative perspective has to systematically consider national institutional frameworks (see, for example, DiPrete et al. 1997, Mills and Blossfeld 2005, Buchholz, Hofäcker and Blossfeld 2006).

In this section, we will discuss the influence of the following institutions on the situation of older people in modern societies: (1) production regimes and labor market legislation which substantially influence the extent to which market risks can be transferred to (older) employees as well as the level of stability of employment patterns and the chances of re-employment in case of non-employment (DiPrete et al. 1997; Soskice 1999); (2) educational systems as well as the national infrastructure of lifelong learning which strongly determine the strength of occupational boundaries in a given country and the individual chances of adapting to new qualificational needs in rapidly changing economies and labor markets; and (3) welfare regimes that do not only shape the transition to retirement and the economic situation of retirees depending on the organization of their respective pension systems, but also determine the (re-) employment chances of (older) people by offering or not offering active labor market policies.

## **Production regimes and labor market legislation**

Modern societies (still) strongly differ with regard to their production regimes and the level of employment protection legislation which both determine the individual employment conditions and chances. Especially the United States, but since the Margaret Thatcher era, also Great Britain are known to belong to the more liberal economies with a comparatively high general level of labor market flexibility and risks. In contrast, the labor markets of Continental European countries tend to be more regulated. However, also between these countries there exist several differences.

Differences between production regimes have been captured by classifying them either as ‘coordinated’ or ‘uncoordinated’ market economies (Soskice 1991, 1999). According to this typology, coordinated market economies are characterized by trust relations and long-term commitments. Employees are able to voice their opinions concerning firm-internal decisions, employers are encouraged to maintain lasting relationships with their employees, and the state plays a framework-setting role. Labor markets in coordinated economies are regulated by strong employment protection legislation (with the exception of Denmark which has a coordinated economy, but low employment protection) and unions tend to hold a powerful position. As a result, the possibilities of imposing employment flexibility are rather restricted in these types of economy in general. Especially the established workforce is highly protected against market risks in these countries (Blossfeld, Mills and Bernardi 2006; Buchholz et al. 2009). These employees strongly benefit from the elaborated employment protection legislation, seniority systems within companies, strong ties to work organizations, etc. As a result, their careers are characterized by a high level of security and stability. Therefore, employers systematically shift market risks to the less protected labor force, for example labor market (re-)entrants (such as young people, the unemployed, women after periods of maternity leave, see also Blossfeld et al. 2005; Blossfeld, Buchholz and Hofäcker 2006; Blossfeld and Hofmeister 2006; Blossfeld et al. 2008). These economies thus often establish so-called ‘insider/outsider’ labor markets. Insiders are relatively well protected against labor market risks, while specific, less established groups of the labor force strongly suffer from increased labor market insecurities. Due to the strict separation of these labor markets, outsiders have difficulties obtaining stable positions and run the risk of being confined to precarious jobs throughout their life course. Unemployment phases lead to a major risk of being permanently excluded from the (core) labor market, and the proportion of long-term unemployment is therefore usually high. Typical showcases for labor markets with strong insider/outsider-segmentation are the

countries of Southern Europe, but also other Continental European countries such as Germany and the Netherlands (Mills and Blossfeld 2005).

All in all, older employees with long work histories are thus highly protected against labor market risks in these countries as they represent a typical insider group of this system. However, strong employment protection legislation has indirectly fostered early retirement practices. Given a tight labor market, employers and policy-makers have for a long time set incentives for older people to leave the labor market via generous early retirement schemes (Ebbinghaus 2000, see also below). Consequently, depending on the scope and effectiveness of these measures, the economic activity of older people in coordinated economies has strongly decreased since the 1970s and is rather low today.

The situation of older people in uncoordinated market economies is quite different as an insider/outsider-mechanism protecting them against labor market risks is institutionally not supported and the level of employment protection is generally low. In these economies, workers have only limited opportunities to influence firm decisions and working conditions. Employees can hardly count on unions to represent their interests and to defend them against flexibilization strategies. The state has almost no regulating role on the labor market. Thus, the emphasis lies on the self-regulation of the markets and short-term and competitive (industrial) relations (Soskice 1999). Therefore, in economies like the United States and Great Britain, employers have various possibilities for adjusting their current staff to organizational changes and the changing demands of international markets (Sørensen and Tuma 1981). However, because it is easy to lay off workers in economic crises, employers are not reluctant to hire new staff if the business is flourishing, too. In contrast to insider/outsider labor markets, employment risks are distributed more broadly across the entire workforce, though contingent on human capital. Working conditions and income levels are barely regulated and may highly differ among geographical areas or industrial sectors, but less along a permanent 'insider/outsider line'. Consequently, labor market mobility is high in general and individual resources, such as education, networks and experience, become crucial factors in protecting a worker against market forces, in fostering smooth transitions between jobs, and in keeping periods of unemployment short (DiPrete et al. 1997). Social groups lacking these resources (for example, low-qualified workers or immigrants) are at higher risk of getting trapped in unemployment or precarious and low-paid jobs. This might be also true for older people who have a higher risk of lacking latest skills and qualification.

The types of labor relations and their consequences described so far refer to 'traditional' market economies. In contrast, former socialist states like Hungary or Estonia faced substantial

political and economic changes after the fall of the Iron Curtain and with the transformation of national economies into market economies. In the first years of the economic transformation, comprehensive reforms stimulated a massive restructuring connected with a strong reduction of jobs and reallocation of labor (see, for example, Blossfeld et al. 2005, 2008, Blossfeld, Mills and Bernardi 2006, Blossfeld and Hofmeister 2006, Blossfeld, Buchholz and Hofäcker 2006). While the older cohorts had grown up in a system in which employment was literally guaranteed with extraordinarily high job security for all social groups, the labor market after the fall of the Iron Curtain was characterized by economic depression and turbulent changes (Mills and Blossfeld 2005). For workers, this meant a rapid shift from an extremely high degree of employment protection to enormous job insecurity, coupled with the sudden exposure to the volatile global market at the beginning of the 1990s. In addition, the overall decrease in job security in post-socialist states was soon combined with a labor market that displayed features of insider/outsider labor markets. Nowadays, the rigidity of these labor markets can be estimated somewhere in-between the widely uncoordinated and the strongly coordinated countries with considerable cross-country variation. But all post-socialist countries tend towards a steep increase in job mobility due to economic transformation, as well as rising flexibility in the labor market. While all cohorts experienced a rapid growth in mobility in the first half of the 1990s, older workers generally faced a much higher risk of downward mobility and a lower chance of upward mobility compared to younger workers (Bukodi and Róbert 2006). As a consequence, it can be assumed that the opening of markets and the loosening of employment relations in former socialist countries was to the disadvantage of older workers. In contrast to traditional coordinated economies, the emerging insider/outsider markets did not protect older people by means of seniority rules and the like, but excluded them from regular employment (Hofäcker, Buchholz and Blossfeld 2006).

### **Occupational boundaries, vocational training systems and lifelong learning**

It is well-known that educational systems play a particularly important role for the organization of occupational labor markets and the rigidity of mobility structures in modern societies. Although the generations under study in this book mostly received their education and training before the drastic expansion of educational systems in the 1960s, we still expect current educational systems to affect older people's employment opportunities and retirement behavior, too. The main reason is that they define the strictness of occupational boundaries in a given country which strongly determine the individual chances of adapting to new needs in rapidly changing economies and labor markets.

Countries with a highly stratified and standardized educational system and well-developed vocational training systems create rigid boundaries between occupations and qualification levels and reduce the mobility between jobs and occupations, particularly when the access to jobs is based on nation-wide recognized training certificates (Allmendinger 1989; Müller and Shavit 1998; Blossfeld and Stockmann 1998/99). The best example is the dual system of vocational training (as, for example, in Germany) where both theoretical learning in a school and practical training at the workplace are highly standardized, and the training concludes with a recognized certificate that serves as a precondition for entering into specific jobs and occupations. This system also produces a strong differentiation over the life course between un- and semi-skilled workers and the vocationally trained. In these countries, it is not easy, in fact it is almost impossible, to shift older employees who have lost their job in the process of accelerated structural change to other occupational positions. Early retirement therefore is often used as a policy response to the rigidity of occupational structures. This contrasts sharply with countries such as the United Kingdom or the United States, where people can relatively easily acquire vocational skills via on-the-job training. In these countries, we therefore expect the (re-) employment chances of older people to be higher. Also in countries where occupational skills are acquired in school-based training preparing the participants for broad occupational fields (e.g. in Sweden), the labor market chances of older people should be better than in countries where occupations are highly stratified.

In addition to these differences in vocational training systems, training opportunities over the entire life course strongly determine the employment chances of an older workforce (Blossfeld and Stockmann 1998/99). As outlined above, globalizing societies are characterized by accelerating economic and technological change as well as deindustrialization which results in an increasing tension between the demands from technological advancements at the workplace and the newly created job positions, on the one hand, and the existing qualification structure of workers in terms of vocational, technical, and professional skills, on the other hand. The possibilities of an individual to successfully adapt to these new labor market demands should be higher in countries which allow and support reentering education and training at different points of time in an individual's life course. In some countries such as Germany, the Netherlands, Italy, and Spain, but also in post-socialist societies, vocational training and education is more or less limited to a short period early in the life course. Consequently, we expect a stronger long-term life course effect of initial vocational training in Continental and Southern Europe, because these countries lack institutionally provided opportunities for (re-) training. In these countries, the adaptation to

structural and technological change is mainly achieved via generational replacement in the labor market by using early retirement (Blossfeld and Stockmann 1998/99).

Other countries, in particular the Anglophone and Scandinavian ones, more readily pursue the idea of lifelong learning and enhance the chances (as well as the flexibility) of the entire workforce to adapt to new demands. However, Anglophone and Scandinavian countries apply different strategies of lifelong learning. Using the so-called market-induced employment maintenance approach, the USA and the UK give the individual the main responsibility for lifelong learning activities (Buchholz, Hofäcker and Blossfeld 2006). Both countries thus achieve relatively high economic activity rates for older people, but in large part because of the high degree of market dependence. Older workers have to undergo constant retraining in order to remain competitive on changing labor markets because they can expect only little support from the state. The Scandinavian countries, in contrast, follow a public-induced employment maintenance strategy. They offer (re-) training measures either within a firm, as a form of permanent on-the-job-training, or as state-sponsored programs. Both unemployed and employed people are targeted because long-term unemployment and early retirement opposes the social-democratic full employment ideology. In this context, unemployment is considered to be an opportunity to adapt an individual's qualification to the needs of a changing labor market, no matter what his or her age is. Therefore, keeping workers, especially older ones, employed and attractive for employers is a main goal of social policy. This objective is reflected in a relatively high proportion of people aged 50 to 54 in job- and career-related training measures (Hofäcker and Pollnerova 2006).

### **Welfare regimes**

Finally, modern societies have developed welfare regimes that are connected with diverse concepts of social solidarity (Flora and Alber 1981) and differences in the level of public commitment to equal opportunities (Esping-Andersen 1990). In general, we distinguish between liberal, conservative, social-democratic, fragmented, and post-social welfare regimes (Esping-Andersen 1990; Ferrera 1996; Mills and Blossfeld 2005). These regimes strongly differ with regard to the priority given to publicly supported (full) employment, for example by measures of active labor market policies, and with regard to the level of decommodification for those who are not employed. Given the research objective of this book, pension systems are of prime interest as they are especially targeted at older people, define their possibilities to withdraw early from employment in times of increasing labor market problems, and finally also determine the level of economic and financial security in old age.

Countries like Germany and the Netherlands are usually classified as conservative welfare regimes (Esping-Andersen 1990, 1999). The social policy of conservative welfare states is less targeted at actively supporting (re-) employment, but rather at financially supporting those who are not employed (i.e. unemployed or sick persons, pensioners, etc.). Consequently, conservative states have developed extensive and generous early retirement programs and other welfare state subsystems for older people (such as disability programs, for example, see Guillemard 1991) in order to counterbalance the increasing problems older employees face on globalized labor markets and in order to unburden the national labor market in times of rising international competition. However, although welfare expenditure is comparatively high in these countries, the level of public support is strongly based on the previous status of an individual. Social policy thus aims at sustaining the status an individual has achieved in his or her employment biography, and status differences and social inequalities are maintained by the welfare state. For example, the level of unemployment benefits depends on previous earnings, and also the level of pensions – although being comparatively generous in general – depends on the previous employment career.

Liberal welfare states, such as the United States and the United Kingdom, are characterized by a minimum level of public support in case of non-employment (Esping-Andersen 1990). For example, unemployment benefits are low and of only short duration, and public pension systems play only a minor role in liberal states. Individuals are typically expected to provide for themselves, either by being employed, which is why the liberal welfare state is sometimes labeled a ‘workfare state’, or by referring to private insurances for social protection against social risks. Consequently, private pensions are the main source of income for retirees (Esping-Andersen 1990; Blöndal and Scarpetta 1998; Gruber and Wise 2004). Due to the privatization of pensions, the level of income in old age does not only differ strongly among the various social groups, but it makes the transition to retirement less clear-cut than in other countries. For example, when pension savings are used up or when turbulences at the stock market, as can currently be observed, cause severe losses of private savings, older people are forced to return to the labor market in order to make ends meet.

The Scandinavian countries belong to the social-democratic welfare regime type. This regime type is characterized by its strong emphasis on decommodification, the reduction of social inequalities and full employment. Thus, public pension systems are well developed. However, compared to conservative countries, the incentives for early retirement are rather low. Instead, social-democratic countries aim at everybody of working age, including older people, to be employed. Consequently, active labor policies are well developed in this regime type.

A fragmented welfare regime can be found especially in Southern European countries. In general, this regime is characterized by a comparatively weak emphasis on social policy as it offers only restricted public support, and thereby resembles the liberal welfare regime. However, the distinctive feature of the fragmented regime is that the low public welfare expenditure is distributed very unequally and strongly favors the insiders of this system (Ferrera 1996). For example, young people hardly enjoy access to public support. Instead, they are expected to receive support from their family. In contrast, older people enjoy high welfare provisions as the pension systems in these countries are very generous and offer security even in case of an early labor market withdrawal (Hofäcker, Buchholz and Blossfeld 2006). Thus, with regard to the elderly and pensioners, the fragmented welfare regime is characterized by a strong transfer-orientation as it can be found in conservative countries, too. However, it has to be kept in mind that even with regard to older people a strong segmentation of welfare support can be found in the fragmented regime. It is well known that the level of self-employment and informal work is rather high in Southern European countries. These (older) people are not covered by generous welfare state offers. Instead it is the older employees often in large firms, as for example the workers in the industrialized North of Italy, who strongly profit from the fragmented welfare regime.

Former socialist countries have experienced profound changes in their welfare states and thus also in their pension systems since the collapse of the political system in the late 1980s. In all socialist countries, the state played a dominant role in regulating individual life courses, including the life of pensioners. Transfers of state-owned firms to the state budget constituted a pay-as-you-go pension system with low transparency in the collection and allocation of resources (Fultz and Ruck 2000). In pre-transformation times, pension schemes were designed to redistribute income with only weak connections between contributions and benefits. The collapse of the socialist economies brought about a sharp decline in production levels, accompanied by a decrease in employment rates and contributors to the pension system. Many displaced workers found themselves in quickly expanding informal sectors without claims on pension benefits (Fultz and Ruck 2000). In response to the financial burden and high dependency rates between the working and the retired population, most of these countries introduced profound reforms to adjust their pension systems to the new conditions. The main feature of these reforms was the shift from redistributive policies towards a system of contribution-based benefits. The reforms targeted existing public schemes by raising the retirement age, changing benefit formulas, and reducing benefits for previously privileged groups. All in all, these reforms aimed at increasing the average

retirement age, combined with low levels of pensions, which might have forced pensioners to earn additional income (Casey et al. 2003; Fortuny, Nesporova and Popova 2003). At the same time, the expenditures for active labor market policies are low compared to other European countries (Riboud, Sánchez-Páramo and Silva-Jáuregui 2002) and unemployment insurance transfers have become significantly less generous over the past decades (Cazes and Nesporova 2003).

Although the welfare states of many European countries have offered elaborated and generous support for older people and retirees for a long time, thereby buffering negative effects arising from changing labor market conditions, this might have changed significantly in the more recent past. As mentioned above, already for some years now, we can observe a clear social policy change in many European societies. The fiscal implications of the strong decline in retirement age since the 1970s, the aging population of European societies and rising unemployment rates made governments reevaluate their very generous pension policies (Blossfeld et al. 2006). A typical example for this change in social policy in Europe is the Lisbon Strategy of the European Union. All in all, these reforms aim at retrenching early retirement as well as at reducing pension benefits and public pensions while strengthening the role of private pensions at the same time. The rationale behind all these reforms is to encourage the older workforce to delay the transition to retirement and to foster investments in private and occupational pension schemes in order to sustain the standard of living achieved during the employment career also in old age. However, this goal can only be realized under the condition of lifelong full-time employment. Consequently, these reforms could have worsened the situation of older individuals in Europe substantially as they have not been accompanied with reforms supporting the employability of older employees at the same time. Thus, older people are nowadays *expected* to work longer, but often do not have the *possibilities* of remaining in the labor market as they do no longer have the requested qualification, for example. This would mean that labor market risks in old age are increasingly privatized and individualized in Europe (Ebbinghaus 2005; Hofäcker, Buchholz and Blossfeld 2007). An important goal of our study is to examine the success and possible risks of these latest pension reforms in Europe.

## UNCERTAINTY AND SOCIAL INEQUALITY IN OLD AGE WITHIN DIFFERENT INSTITUTIONAL SETTINGS

After having discussed the influence of different production regimes, occupational and training systems as well as welfare regimes, we are now able to formulate more specific

hypotheses on the employment and income situation of older people in the various countries under study in this book (for a summary, see Table 1.1):

### **Conservative countries: Germany and the Netherlands**

In the conservative countries of our study, that is Germany and the Netherlands, we expect that older employees have faced a substantial shortening of their working life since the 1980s which, however, was strongly buffered through generous pension benefits for a long time. As the labor markets of these countries have been traditionally rather inflexible, employers' possibilities to adapt to accelerated economic change and to increasing demands for flexibility are rather restricted and market risks cannot be transferred easily on to the employees. Additionally, the infrastructure for lifelong learning is rather weak and occupational boundaries are relatively strong compared to other countries. This makes older employees more vulnerable to the ongoing deindustrialization and processes of accelerated technological change under globalization as they increasingly face the risk of not meeting the qualification needs of modern economies. In order to relief the highly regulated labor markets of these countries and in order to adapt to technological and structural changes of the economy, the governments of these countries drastically extended early retirement programs allowing redundant older employees to leave the labor market via generous early exit pathways which were by far not actuarially neutral (Buchholz, Hofäcker and Blossfeld 2006; Buchholz 2008). All in all, we thus expect older people's employment careers in conservative countries to be rather stable and not be marked by a severe and extensive destabilization as in other regimes. Their flexibilization on the labor market, which means being pushed out of employment via early retirement programs, was highly secured for a long time enabling elderly to sustain their standard of living achieved within their working life during retirement (Buchholz, Hofäcker and Blossfeld 2006; Hofäcker 2006).

However, in the more recent past, the situation of the elderly might have changed noticeably. The massive use of early retirement schemes as well as the public pension systems impose a considerable financial burden on these countries, and induced governments to rethink and reform their pension policies in the past years. For example, the access to early retirement programs and other early exit pathways, such as disability pensions or the unemployment insurance, were cut back and pension losses were increased for those people retiring before mandatory retirement age. We expect that, as a result of these reforms attempting a reversal of early retirement, social inequalities in old age should have increased. Especially the lower qualified older employees in these countries and those employed in

*Table 1.1: Uncertainty and social inequality in old age in different institutional contexts*

<b>Regime types</b>	<b>Liberal</b>	<b>Social-democratic</b>	<b>Conservative</b>	<b>Fragmented</b>	<b>Post-socialist</b>
<i>Country studies in this book</i>	United States of America, United Kingdom	Sweden, Denmark	Germany, the Netherlands	Italy, Spain	Hungary, Estonia
<i>Labor markets</i>	Highly flexible with low compensation of risks	Coordinated with high level of state intervention	Rigid with strong insider-outsider segmentation	Rigid with strong insider-outsider segmentation	Transformation to market economies, oversaturation of the labor market
<i>Occupational boundaries</i>	Weak due to low importance of occupational certificates and strong commitment to lifelong learning	Weak due to strong commitment to publicly supported lifelong learning	Very strong due to high importance of occupational certificates and age discrimination in continued education	Strong due to low commitment to lifelong learning	Strong due low commitment to lifelong learning
<i>Welfare regime</i>	Residual workfare state with individualization of risks	Universalistic workfare state with pronounced equality ideology	Transfer-orientated welfare state aiming at status maintenance	Fragmented welfare state with strong transfer-orientation for ‘insiders’	Variation of welfare ideologies among countries (Estonia more liberal, Hungary more conservative tendency)
<i>Old age employment</i>	Late employment careers long but increasingly insecure	Late employment careers comparatively long and stable	Strong trend towards early employment exit	Early retirement among ‘insiders’, continued careers for self-employed and informally employed	Increasing early exits after the fall of the Iron Curtain
<i>Economic security during retirement</i>	Low with high dependence on general macro-economic and stock market development	High due to generous and universalistic welfare state	High but decreasing with current reforms	High among insiders; lower among non-insiders of the system	Variation among countries (moderate in Hungary, low in Estonia)
<i>Social inequalities in old age</i>	Pronounced with high market dependence	Weak due to welfare state redistribution, no or only minor increase	Moderate, but increasing with current pension reforms	Moderate, no or only minor increase due to persistent welfare policy favoring the elderly	Strong increase since 1990; more pronounced in Estonia

Source: Own illustration

shrinking sectors should have problems to meet the expectation to prolong working life as the institutional setting of these countries does not support their successful adaptation *within* the labor market. Active labor market policies as well as retraining programs are comparatively underdeveloped. We thus expect that pension income losses should be an increasing problem for younger generations of retirees not meeting the needs of the changed economy in the conservative regime.

### **Countries with fragmented welfare regime: Italy and Spain**

The countries with a fragmented welfare regime, that is Italy and Spain, strongly resemble the conservative countries in many respects of their institutional setting. Their labor markets are rather inflexible, their active labor market policies as well as the infrastructure for lifelong learning are underdeveloped compared to other countries, and with regard to the pension system the welfare state of the Southern European countries is very strong and offers high security. Consequently, we expect older people's employment careers in these countries to be rather stable as in conservative countries and not to be marked by a severe and extensive destabilization. Instead, we should find an increasing trend towards early retirement in Italy and Spain, too. Especially for the former labor market insiders in these countries, early retirement is a highly secured option enabling elderly to sustain their standard of living achieved within their working life (Buchholz, Hofäcker and Blossfeld 2006; Hofäcker 2006).

However, we also expect some unique features for Southern Europe: First, it has to be kept in mind that compared to conservative countries the labor markets of the Southern European countries display a significantly higher share of self-employment and informal work. Thus, the similarities between Southern Europe and the conservative countries should be restricted to employees in regular dependent work. Self-employed persons and employees in the informal sector should instead show a higher tendency to remain employed, maybe even beyond retirement age, as they do not profit from the generous public pension system. Second, Southern European countries still show a lower tendency to touch seniority and pension rights. In general, reforms in these countries especially targeted younger generations (Barbieri and Scherer 2009). Consequently, a severe worsening of (public) pension incomes for early retirees might be less pronounced as in conservative countries or maybe even not existent.

### **Liberal countries: the UK and the USA**

The situation of the elderly in liberal countries, that is the United States of America and the United Kingdom, should be very different from the situation of the elderly in conservative and

Southern European countries. In liberal countries, the welfare state, including the public pension system, is very weak and the labor market is highly flexible. All in all, the institutional setting of these countries strongly follows the credo that individuals have to take care of their welfare on their own, and possible risks are hardly compensated through a welfare state, but directly shifted to the individual. Consequently, there is a strong need to be employed in these countries. However, at the same time open labor market structures as well as weak occupational boundaries facilitate finding a (new) job; an insider/outsider-problem as in conservative and Southern European countries does not exist in the liberal regime. In sum, the level of individual security and social inequalities are directly dependent on the individual's market performance and the general macro-economic conditions in these societies.

In the US and the UK, we thus expect the accelerated structural and economic changes of markets under globalization to be directly reflected at the individual level. This means we expect to find increasing instabilities in the late employment course rather than a significant shortening of the working life as well as rising uncertainties during retirement. In contrast to elderly in conservative and Southern European countries, older employees and retirees in liberal countries have not been institutionally sheltered from the rising risks in an era of globalization, but have to manage the adaptation to these changes 'on their own'. This implies that they have to accept employment insecurities in their late career – such as unemployment, stop-gap jobs and income losses – and might even be forced to work beyond retirement age in case they failed in accumulating enough pension savings or in case stock market turbulences cause severe losses of private pension savings.

All in all, the strategy of liberal countries is likely to be successful in terms of achieving high economic activity rates among the elderly. However, this is expected to happen at the cost of increasing risks of poverty and uncertainty among those who have more problems in successfully adapting to the new labor market conditions and who are forced to work even beyond retirement age to make ends meet. With regard to the *level* of social inequalities, we expect them to be by far more pronounced than among elderly in Continental and Southern European countries. In terms of the *development* of social inequalities in old age, we expect them to decrease in case of economic crisis. However, it has to be kept in mind that this reduction of inequalities is *not* due to disadvantaged groups catching-up, but due to those who have been privileged before, like the middleclass, loosing security and facing higher risks, for example as a result of severe losses of retirement savings in times of turbulences on the stock market. Thus, the reduction of social inequalities is a result of risks and insecurities spreading to large parts of the population.

### **Social-democratic countries: Sweden and Denmark**

Just like liberal countries, also social-democratic countries like Sweden and Denmark put an emphasis on keeping people of all age groups in employment in order to allow them ‘to take care of themselves’. However, unlike liberal countries, social-democratic societies achieve high employment rates among the whole working-age population by extensive and generous welfare measures helping jobseekers to be (re-) integrated into the labor market, while providing a high level of social security at the same time for those who are not or can no longer be employed. Tools for maintaining individuals’ employability include publicly sponsored retraining programs for those who need to change their workplace, as well as refresher programs (publicly sponsored or by firms) for adjusting workers’ skills to technological changes at their workplace. As a result, the deeply rooted lifelong (re-) training ideology has enabled social-democratic countries to ensure older people’s adaptability and continuity of employment (Buchholz, Hofäcker and Blossfeld 2006). Although Denmark and Sweden display different levels of employment protection legislation, with Denmark allowing high levels of employment flexibility, both countries still show various measures of public intervention on the labor market which additionally restricts the possibilities to transfer the increased market risks under globalization directly onto the individuals. For example, in both countries, unions exert significant influence and cultivate cooperative industrial relations with firms.

All in all, we thus expect working lives of the elderly in social-democratic countries to be comparatively long as in liberal countries, and early retirement to be by far less pronounced than in conservative and Southern European countries although there exist some early retirement options in social-democratic societies, too. However, compared to the liberal regime, long working histories should not be accompanied by a severe increase of labor market risks, such as wage losses, due to the strong welfare and social protection policies in the social-democratic regime. Because of the strong emphasis on general equality, social inequalities in old age should be clearly lower than in other regimes, and there should not be much change over time. With regard to the transition to retirement, for example, social-democratic countries adjust social inequalities by generous pensions for *all* citizens, including those who are disadvantaged in the labor market. Therefore, we expect the impact of rising market uncertainties to be lowest among older employees and pensioners in social-democratic countries.

### **Post-socialist countries: Estonia and Hungary**

In the former socialist countries of our study, that is Estonia and Hungary, we expect the situation of older people to have changed tremendously. With their transition to market

economies, these countries experienced severe changes of their labor markets, marked by a broad liberalization and privatization, and a massive opening to global competition. The socialist right-to-work-ideology was quickly replaced by economic efficiency considerations, which also included the need to massively reduce jobs (Huster 1996). As a result many people ended up in unemployment because the firms they worked for turned out to be inefficient (Hafemann and van Suntum 2004). Especially older workers are expected to have been affected by the breakdown of the socialist economy because the transition to market economies was closely linked to a massive shrinking of the manufacturing and the agricultural sector where the elderly tend to be overrepresented. Also, skill expectations shifted considerably upwards, and human capital and work experience accumulated before 1990 was devaluated, with both processes negatively affecting the employment chances of the elderly. Many countries of the Eastern Bloc, including Hungary and Estonia, responded to these changes by massively laying off older people and by employing the strategy of early retirement (Fultz and Ruck 2001). In general, the transition to market economies and the increases in employment instabilities, strongly increased social inequalities in post-socialist countries after the fall of the Iron Curtain (Cazes and Nesporova 2003).

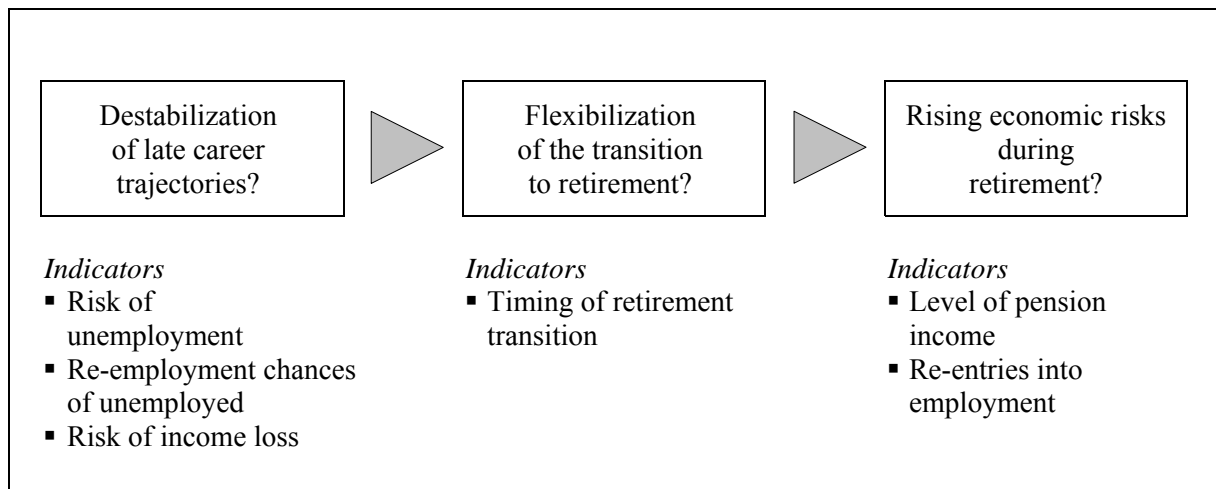
However, it is important to note that compared to the other regimes discussed, the post-socialist countries form a relatively heterogenous cluster. In order to cope with the reorganization of a planned economy into a market economy, these countries followed very different paths and developed various strategies. Estonia, for example, focused on a broad liberalization strategy with regard to the labor market and also the welfare state. Although formally rather strict, employment protection is very low in practice (Täht, Saar and Unt 2008). As a result, we can expect that in Estonia risks have been strongly privatized and individualized like in liberal countries. Hungary, in contrast, offers comparatively generous public transfers (Bukodie 2008). Thus, the increased risks in old age are likely to be more welfare-cushioned in this country.

## **ANALYTICAL STRATEGY**

The aim of our research is to investigate if, how and to what extent the employment and income situation of late-career employees and retirees in different modern societies was affected in times of growing labor market flexibilization and globalization.

Figure 1.2 describes the analytical strategy used in this book. The following chapters examine (1) late-career trajectories, (2) the timing of the transition to retirement and (3) the income and employment situation of retirees in ten modern societies with different

Figure 1.2: Studying the chances of late-career employees and retirees



Source: Own illustration.

institutional frameworks. More specifically, for evaluating a possible destabilization of late career trajectories, the empirical analyses will look at the risk of unemployment of late-career employees, their chances of re-employment as well as on the risks of income losses in the late career. Only for a few countries, the available data do not offer information on income. In these countries possible status losses are analyzed by using the Standard International Socio-Economic Index of occupational status (ISEI-scores; see Ganzeboom and Treiman 1996). The transition to retirement is examined in the different country studies by considering when older people start receiving pension for the first time. These dynamic longitudinal analyses allow us to understand if the timing of retirement transitions was increasingly destandardized under globalization. In the last step of the empirical analyses, the country studies examine the financial situation of retirees by studying their levels of pension income and also their risks of a forced re-entry into the labor market depending on their pension income level.

Our intention is to search for empirical evidence to evaluate the impact of growing globalization on the employment chances and financial risks among the elderly population. The empirical analyzes allow us to describe the situation of older people since the 1980s. For this purpose, most of the country studies in our book apply longitudinal analytical methods and techniques based on individual-level event history data from national longitudinal panel surveys or retrospective studies. Event history methods suit our objectives because they allow for ‘causal-type’ analysis of events that represent changes from one distinct life course state to another (Blossfeld and Rohwer 2002). As we also intend to examine empirical consequences at the individual level, this general approach is

the most desirable. Statistical applications in this book include piecewise exponential and logistic models. Since technical aspects of the models have been described by Blossfeld and Rohwer (2002), the focus of the following chapters is on the substantive results, rather than the explanation of the methods applied.

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