Titel/Title:

Autor*innen/Author(s):

Veröffentlichungsversion/Published version:

Zeitschriftenartikel/Journal article

Empfohlene Zitierung/Recommended citation:

Verfügbar unter/Available at:
(wenn vorhanden, bitte den DOI angeben/please provide the DOI if available)

Zusätzliche Informationen/Additional information:

The Political Economy of Early Exit: The Politics of Cost-Shifting

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Abstract

Large-scale exit from the labour market began in the 1970s in many OECD countries. The literature indicates that individual early retirement decisions are facilitated by generous and accessible 'pathways' into retirement in the public pension system, unemployment insurance or disability benefits. It is unclear, however, why early exit became so much more prevalent in some countries than in others and why such differences remain, despite a recent shift back towards higher employment rates and 'active ageing'. We test a logic of sectoral cost-shifting politics involving cross-class alliances in the tradable sector, against a more traditional class-based logic of welfare state policy-making. Quantitative analysis of employment outcomes in 21 countries shows that the political economy of early exit clearly rests on the sectoral politics of cost-shifting.

Keywords

Introduction

From the 1970s onwards, employment rates of older people decreased significantly in many OECD countries, but with remarkable cross-country variations. Although these countries started from quite

similar levels in the post-war decades, by 1995 the employment rate for males aged 55 -- 64 was about 80 percent in Switzerland and Japan but only 34 percent in Belgium and France. As pension systems came under strain, with (**← p. 391**) demographic ageing and constraints on public budgets, closing the various early exit options from the labour market became a prime policy goals from the late 1990s, and 'active ageing' became the new slogan. While employment rates indeed increased in virtually all countries, large differences remain. What explains these cross-national differences in the extent of early exit?

The decision to retire early is made by individual workers and is, of course, influenced by such circumstances as poor health, low job satisfaction and the depreciation of skills. However, this is not the whole story. A large literature in economics and sociology has analyzed the ways in which incentives embedded in the social security system provide pathways that make early exit from the labour force more likely(Blöndal and Scarpetta, 1998; Gruber and Wise, 1999; Damman et al., 2011; Engelhardt, 2012; Kubicek et al., 2010; Wang, 2012; Wahrendorf et al., 2012; Börsch-Supan et al., 2009; Siegrist et al., 2007). It has been demonstrated that such welfare state institutions are a key determinant of retirement decisions, explaining a large share of variance in labour market participation and exit, even when controlling for individual-level characteristics (Engelhardt, 2012; Börsch-Supan et al., 2009).

In this article, we argue that the politics of early exit --- and of 'active ageing', understood here as rolling back early exit policies --- diverge from the traditional class-based logic of welfare state development, represented by the power resources approach (Korpi, 1983; Huber and Stephens, 2001). Rather than factors such as the strength of trade unions or the partisan composition of government, it is the structure of industrial relations and sectoral politics that explain cross-national differences in early retirement. We find that early exit is greater in countries with decentralized industrial relations, which indicates a sectoral rather than class-based logic. Costs of industrial restructuring are shifted from sectors exposed to global competition to sheltered and service sectors. Externalization leads to higher early exit rates and a slower reversal of early exit trends. By contrast, early exit is low under conditions of highly centralized industrial relations, where the cost-shifting game does not work. Similar arguments have mainly been made by qualitative single-country or small-N studies (Ebbinghaus, 2006; Trampusch, 2005; Hartlapp and Kemmerling, 2008; Mares, 2001), which not only point to the wide variety of pathways created, but also to the central role of labour market actors in their creation and maintenance (Kohli et al., 1991; Ebbinghaus, 2006). Guillemard (1991), for example, traces the creation of such pathways in French unemployment insurance from the early 1970s onwards. Firm-based exit schemes were crowded out when 'public policy "socialized" the costs that firms had, until then, borne'. When the high number of early retirees resulted in a deficit in the unemployment insurance fund, the social partners who sat on unemployment insurance boards shifted these 'solidarity' costs to the state, in effect spreading them to the general taxpayer. Only later were these costs shifted back. Ebbinghaus (2006: 148) also describes the difficulties governments in

continental Europe faced in shifting back costs. Our study is the first analysis that builds on these insights and tests a cost-shifting logic on a larger sample of countries.

Our findings must be seen against the background of the more general literature on welfare state development and reform. The still dominant view of the welfare state is that it is a product of class politics. Left-wing power resources are considered the most important drivers of extensive protections against the most common risks faced by wage-earners and their families in a capitalist economy. More importantly, class politics seem to explain a large part of the variation *between* advanced economies when it comes to (← p. 392) welfare state institutions and outcomes. While we do not reject this view wholesale, our findings help to add nuance. We discuss the implications of these findings in more detail in the conclusion.

In the next section, we describe the patterns of early exit over time and across 21 OECD countries since 1975. We then discuss the literature on the macro-determinants of early exit and develop a set of hypotheses. The section that follows presents the model and the data used to test our main hypotheses while controlling for important social-structural and economic factors. We go on to present our results before concluding.

## From early exit to active ageing: Examining the basic empirical pattern

Reduced employment participation by older workers results not only from individual preferences and circumstances but also from incentives embedded in public policies. For example, early exit rates are sensitive to differences and changes in early retirement pension rules (Blöndal and Scarpetta, 1998; Bassanini and Duval, 2006; Duval, 2003). Yet we also know from the qualitative literature in comparative welfare state research that in most countries there exist 'a complex multitude of exit opportunities across diverse public programmes and private welfare arrangements' (Ebbinghaus, 2006: 10) or early exit 'pathways' (Kohli et al., 1991).

The most important policy instruments allowing for early exit are flexible provisions in retirement pensions, special pre-retirement provisions in unemployment insurance, lenient regulation of disability and a favourable tax regime for private-sector early retirement policies. Through these and other means, the state can directly promote or subsidize labour market exit for older workers (Eichhorst, 2011; Gieselink et al., 2002; De Deken, 2002; Van der Veen and Trommel, 1999). Early exit into a retirement pension tends to be available only from age 60 in many countries, while a special unemployment status and disability benefits are often available from age 55 or even earlier. Historically, early exit policies were often officially promoted as an instrument against unemployment, particularly youth unemployment, through the replacement of older workers with young people at the beginning of their career.

Since there are multiple and complex institutional 'pathways' of early exit which are impossible to capture with a single policy indicator, we focus on the central outcome measure of early exit policies in our analysis, namely employment rates of older workers. Figure 1 shows the mean employment ratio of older workers across countries. Despite large differences in the employment rates of older workers across countries, the broad trend over time is quite uniform. Between 1975 and 1994, the employment ratio of older workers decreased in nearly all countries of our sample (the one exception is Italy): on average by 13 percent. In contrast, from 1995 to 2010 the ratio increased by 7.3 percent on average; 'active ageing' thus appears to have been more than rhetorical. In some countries, such as Greece, Spain and Ireland, the employment rates declined sharply in 2009-2010 because of the financial crisis. In 2010, employment rates still differed strongly across countries, ranging from 42 percent in France to 79.5 percent in New Zealand. Overall, most countries had not (yet) regained their starting levels.

For our purposes, the most interesting phenomenon is the enormous differences between countries: early exit was used much less in some countries than in others. As (← p. 393) Figure 2 reveals, this is reflected in the average employment ratio of older male workers by country across the entire period. The employment rate for older male workers was --- and often still is --- particularly low in many central western European countries (except Switzerland) and much higher in Scandinavia and in most English-speaking countries as well as in Japan (Hofäcker and Pollnerová, 2006).

Figure 1: Mean employment ratio of older workers (male, 55--64 years), 21 countries, 1975--2010
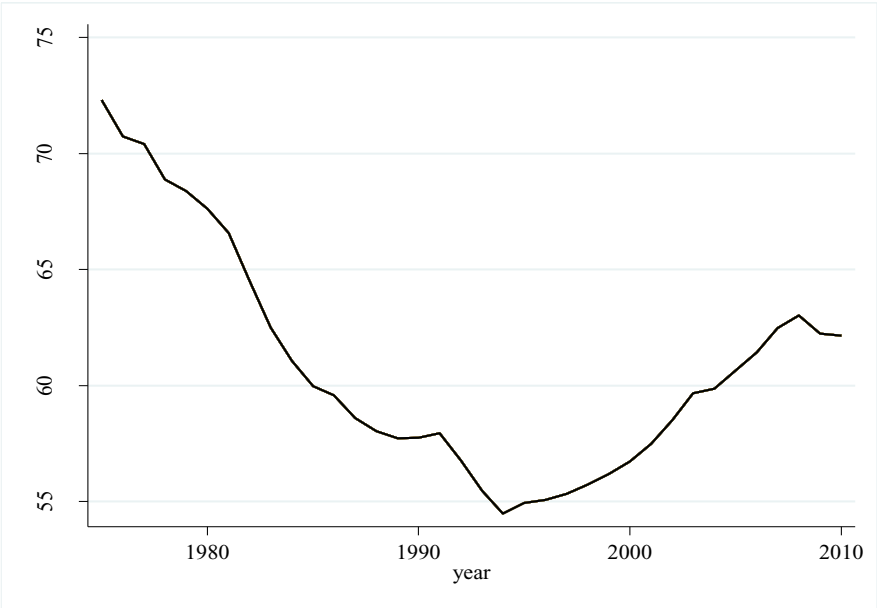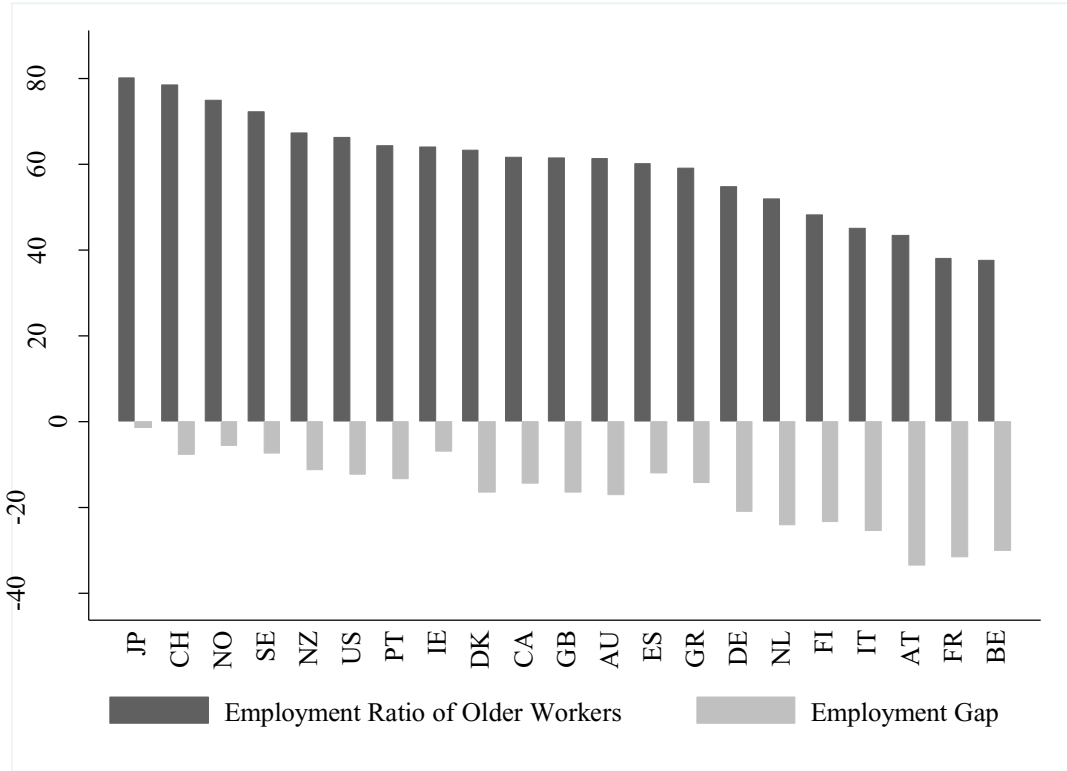

Source: OECD Labour Force Data.

To show that these differences do not simply reflect the cross-national variation in overall employment rates, the lower part of Figure 2 presents a further indicator, the employment gap. This shows the difference between average employment rates of older men and the overall male working age population. As in the case of employment rates, lower values reflect stronger incidence of early exit. The country rankings for both indicators are very similar, with a correlation coefficient of .927. Only a few countries change their position, notably Ireland which is in the middle category with regard to the employment ratio of older workers but has the third lowest employment gap.

What explains these large cross-national differences in the employment ratio of older workers and in the employment gap? Why did countries follow different trajectories with regard to these early exit outcomes?

Figure 2: Average Employment Ratio of Male Older Workers (55--64 years) and Employment Gap by Country, 1975--2010

Note: Figures displayed are average percentages by country from 1975 to 2010

Employment gap = Employment ratio of older male workers – Overall employment ratio of male workers

Source: OECD Labour Force Data.

(← **Figure 2 p. 395**)

The political economy of early exit: Sectoral or class-based logics?

According to one logic, early exit can be understood as a response to increased pressure for industrial restructuring (Ebbinghaus, 2006). This stems from the twin process of the **(← p. 394)** rise of the knowledge economy and economic globalization. Older workers are expected to be particularly affected by globalization, because of (perceptions of) lower flexibility, higher wages and outdated skills. Naturally, not all companies are subject to these pressures to the same extent. The imperative of restructuring should be highest in exposed, high value-added manufacturing segments of the economy. Blöndal and Scarpetta (1998) show for 13 countries that the incidence of early retirement tends to be higher in manufacturing relative to the average across all industries --- sometimes as much as double. It is also high in mining and quarrying, construction and transportation, probably reflecting the physically demanding nature of these occupations, and lower than average in agriculture and fisheries, hotels and restaurants, wholesale and retail trade as well as real estate. (Interestingly, there was no clear cross-country tendency of early retirement in public administration.)

This typical sectoral pattern should have consequences for the *politics* of early exit. Sectoral differences are the reason why publicly funded early exit schemes can be seen as a cross-subsidization of manufacturing by sheltered industries, since early exit policies are usually not funded from sectoral schemes but from national programmes such as the general unemployment insurance and the national pension scheme. From this perspective, early exit is best understood according to a logic involving cross-class coalitions between employers and trade unions in some industries. These alliances lobby the government for **(← p. 395)** access to subsidized exit pathways, and try to hold these pathways open as long as possible, in order to externalize some of the cost of restructuring. Increased cost-competition in global markets mean that manufacturers have a hard time internalizing restructuring costs. Ebbinghaus (2006: 49) captures the dilemma of manufacturing employers very well:

> An internalization of these costs would require employers to seek working conditions adapted to older workers, and to be willing to hire, retain, and continue training older workers. Instead of internalizing these adaptation costs, firms often either use a market-oriented strategy of dismissing older workers without providing sufficient preretirement and severance pay, or use an externalization strategy by relying on public welfare systems…. The available choices depend in large measure on state policies and the state of labor relations: To what degree do these actors go along with the externalization strategy or seek to foster or even mandate an internalization course?

Sheltered and/or low-productivity sectors should, however, try to work against early exit as they are either not subject to globalization pressures to the same extent or suffer more from higher

taxes that accompany early retirement. This should be particularly the case for low-productivity service industries, which are less able to compensate for higher tax burdens by increasing productivity. The expansion of early exit and the speed of reversal of such policies thus depend on whether sectors in need of restructuring can shift the transition costs to the general public, thereby creating a redistribution of the costs of adjustment towards sectors with lower adjustment pressure. In manufacturing, for example the metal-working industry, both employers and trade unions should be in favour of public early exit pathways, as this can be seen as a way of increasing productivity without having to resort to excessive wage moderation or expensive layoffs (which may be virtually impossible in countries with high employment protection). It is a logic of inter-sectoral cost-shifting. The empirical implications of this perspective are twofold. First of all, early exit should be higher when manufacturing is more important, as early exit is a specific response to the problem of restructuring old industries.

H1: The larger the relative size of manufacturing, the lower employment rates of older workers.[1]

Moreover, we need to capture how far different sectors can externalize their restructuring costs. Externalization should be most difficult when organized interests are highly coordinated across the economy, preventing high value-added tradable industries from shifting their costs to low-productivity industries in the sheltered parts of the economy in order to stay competitive in globalized markets, whereas such cost-shifting is possible in less coordinated settings. Here, sectors subject to restructuring pressures, especially manufacturing, can influence the government for early exit provisions financed by taxes or social security contributions. This variable is captured by the degree of *bargaining coordination*, ranging from fragmented firm- or plant-based bargaining to high coordination either through centralized bargaining by peak organizations or through a high degree of *de facto* coordination across sectors (highly synchronized or pattern bargaining). Therefore, this sectoral hypothesis can be formulated as follows: **(← p. 396)**

H2: Tradable industries can bargain for early exit policies more successfully in countries where the level of bargaining coordination of industrial relations is low.

An alternative perspective would stress not the dynamics triggered by economic restructuring in different industries, but the overall balance of power between labour and capital. This is the traditional power resource logic of comparative welfare state research (Korpi, 1983; Esping-Andersen, 1985; Huber and Stephens, 2001; Castles, 1978; Korpi and Palme, 2003). In contrast to the cross-class alliances expected by the sectoral perspective, the power resource approach stresses the antagonism between employers and trade unions (and their allies in the parliamentary arena). Public welfare benefits are, according to this logic, typically decommodifying: that is, they decrease the dependence

of wage-earners (and their dependent family members) on the labour market (Esping-Andersen, 1990). Early exit schemes, whether institutionalized as unemployment or pensions benefits, seem to fit this pattern. They allow older workers to retain a decent standard of living without having to rely on wage labour at any cost. In other words, they are decommodifying. 'Active ageing', by contrast, can be seen as a recommodifying policy, forcing older workers to look for work or update their skills so as to gain a livelihood in the labour market. From this perspective, the expansion of welfare state programmes --- decommodifying benefits, in particular --- is generally driven by the strength of the labour movement, represented by well organized trade unions and social-democratic governments working against organized employers and their allies, especially conservative or market-liberal parties. Conversely, we can expect employers and right-of-centre parties to try to cut back early exit benefits or close early exit pathways altogether.

Power resources theory would thus expect that early exit increases --- and hence employment rates of older workers fall --- under social-democratic governments. Social democrats should be more likely to try to decommodify those parts of the labour force that are affected by restructuring, and should be slower to adopt active ageing policies.

H3: The higher the cabinet share of social-democratic parties, the lower the employment rates of older workers.

At the same time, labour market policies such as early exit pathways often originate in the industrial relations arena. Jensen (2012) has shown that while for areas such as pensions and family policies, it is clearly partisan composition that shapes social expenditure patterns, in areas closer to the labour market, the main channel of working-class interests lies outside parliament. From this perspective, trade union strength --- measured by membership density --- rather than the partisan composition of government should have a positive effect on early exit, that is, a negative effect on the employment rate of older workers.[2] This leads to the following hypothesis on power resources in the industrial relations arena:

H4: The higher the trade union density the lower the employment rates of older workers.

Methods and data

To test which of the two perspectives is the more appropriate we apply panel regressions. Two different measures for our dependent variables are used: first, the employment rates of older (male) workers[3] and second, the employment gap. Using outcome measures rather than policy measures enables capturing the various incentives towards early exit embedded in different welfare states. For

example, as we have noted, in many countries the main exit routes are not through the pension system but through unemployment or disability insurance. A correlation between this indicator and comparative information about early exit reforms strongly supports the assumption that employment rates of older workers is a good proxy for early exit policies.[4]

Our first measure of the dependent variable is the number of employed males between 55 and 64 years as a proportion of the total: higher rates of early exit from the labour market should be visible in lower employment rates. Although labour force participation is sometimes the preferred indicator, data availability is better for employment rates. In any case, unemployment rates of older workers tend to be very low (Hofäcker and Pollnerová, 2006: 33-35), which means that the correlation of employment rates and participation rates is extremely high for this group (r=.99). We look at absolute exit rates at point t, not cohort-adjusted relative exit rates. Our second measure is the difference between the overall (male) employment rate and that of older workers. This indicator allows us to capture the extent to which the employment rate of older workers deviates from the overall pattern, and therefore indirectly control for differences in cross-national general employment patterns. The sample includes 21 OECD countries[5] and covers the period from 1975 to 2010.

In the panel regressions, we do not include country fixed effects since many of the variables of interest are largely time-invariant and fixed effects would eliminate the cross-country differences; in some cases fixed effects models are even more biased than simple pooled OLS (Plümper and Tröger, 2007). To deal with panel heteroscedasticity, we estimate our models with panel-corrected standard errors. Furthermore, in all models, first-order autocorrelation is present. We therefore estimate the models with first-order autoregressive disturbances. All models include time trend variables that capture the overall temporal dynamics. As we cannot exclude problems of endogeneity, we applied a Durbin Wu Hausman Test and, in the case of endogeneity, used the first and second lags of the endogenous independent variables as instruments.

In order to test hypothesis H1, we control for the size of the *manufacturing* industry, indicated by the share of employees in the manufacturing sector in relation to overall employment. We include an interaction variable between the *wage bargaining coordination* and the size of manufacturing to test hypothesis H2. The level of wage bargaining coordination is measured with an index ranging from 1 to 5 (taken from Visser, 2010). A high value stands for an economy-wide bargaining: the existence of enforceable agreements between the central organizations of trade unions and employers affecting the entire economy. A low value means highly fragmented bargaining, mostly at company level.

The strength of *left parties* is captured by the share of cabinet seats held by such parties (H3). Some authors contend that rather than social democrats, we should expect the main advocates of early exit to be Christian democrats and other centrist parties. After all, these parties have attempted to limit labour supply in other contexts, too, especially **(⬅ p. 398)** with respect to female employment (von Rhein-Kress, 1993; Hartlapp and Kemmerling, 2008). We therefore also control for the cabinet share

of centrist parties. *Trade union density* (H4) is measured by net union membership in relation to the total number of employees.[6] See Table 1 for details of data sources.

Table 1: Variables and data sources

Variable	Description	Source
Trade Openness	Sum of imports and exports as a percentage of GDP in constant prices (2005)	OECD (2010b)
Left Government	Cabinet seats of social-democratic and communist parties as a percentage of total cabinet posts	Heston et al. (2012)
Union Density	Net union membership in relation to the total number of employees	Armingeon et al. (2011)
Elderly population	Population age 65 and over as a percentage of the total population	Henisz (2010)
Institutions	Index of political constraints that estimates the feasibility of policy change	Henisz, (2010; 2002)
GDP growth	Growth of real GDP	OECD, (2010a)
Debt	Gross government debt (financial liabilities) as a percentage of GDP	Armingeon et al. (2011)
Unemployment	Unemployed as a percentage of civilian labour force	Armingeon et al. (2011)
Size of manufacturing	Number of employees in the manufacturing sector in relation to the total employment	OECD (2010a)
Life expectancy	Life expectancy of 60 year old men in years	OECD (2012)
Wage coordination	5 = economy-wide bargaining 4 = mixed industry and economy-wide bargaining 3 = industry bargaining without pattern-setting, limited freedom for company bargaining 2 = mixed or alternating industry- and firm-level bargaining, with weak enforceability of industry agreements 1 = none of the above, fragmented bargaining	Visser (2010)

We include a comprehensive set of control variables. The pressure to increase productivity and efficiency by reducing the employment ratio of older workers should be stronger in economies that are highly integrated into the global market. As an indicator of *economic globalization* we use the trade openness of the economy, measured by the sum of imports and exports in relation to the GDP. In order

to control for the demographic structure, we include the *share of elderly population (65+)*. We expect adjustment pressure to be higher when this proportion is high (a negative **(← p. 399)** relationship with employment rates). However, a high share of elderly people logically implies a lower share of younger people, which could lead to lower pressure to replace older workers with younger ones (thus the relationship may also be positive). A government's room to develop early exit policies should also be conditioned by *institutional veto points*. We use the index compiled by Henisz (2010) to control for institutional constraints, and assume that early exit policies are easier to implement where there are fewer veto points. In other words, we expect a positive effect of veto points on employment rates. The *growth of real GDP* captures cyclical economic trends. In times of high economic growth, restructuring pressure should be lower (positive effect on employment). On the other hand, high growth leads to higher public revenue which could facilitate generous support of early retirement (negative effect). In similar vein, when the *public debt* is high, early exit should be lower (and hence employment rates of older workers higher). Furthermore, when the *unemployment rate* is high, the prospects of re-employment are particularly unfavourable for older employees. Therefore, we assume a negative effect on employment levels of older workers. The overall health status of old people in a society should also be relevant: the healthier they are, the lower should be the productivity losses and the higher the preferences to stay in work. The *life expectancy* of males at 60 --- which is correlated with more nuanced indicators of individual health status (Milligan and Wise, 2012) --- is used as a proxy for the health status of old male people (OECD, 2012). We additionally estimated several models testing the robustness of our results; for reasons of space we do not present the results here, but they are available from the authors.

Results

Table 2 presents the empirical results of our panel regressions, using the employment ratio of older workers as dependent variable.

Table 2: Empirical findings: Employment ratio of older workers

Dependent variable: Employment Ratio of Older Workers

Independent variables	Model I	Model II	Model III	Model IV
Globalization	-0.0395	-0.0439*	-0.0526**	-0.0613**
	(0.0269)	(0.0256)	(0.0261)	(0.0239)
Centrist Government	0.00305	-0.00121	0.00822**	0.00516
	(0.00387)	(0.00434)	(0.00418)	(0.00468)
Elderly population (65+)	89.84***	93.63***	130.0***	117.3***
	(23.46)	(25.14)	(26.96)	(26.67)
Institutions	0.602	0.245	0.927	0.576

	(2.239)	(2.379)	(2.314)	(2.580)
GDP growth	-0.0985***	-0.113***	-0.121***	-0.126***
	(0.0357)	(0.0400)	(0.0409)	(0.0432)
Debt	-0.0956***	-0.0992***	-0.107***	-0.104***
	(0.0116)	(0.0122)	(0.0124)	(0.0115)
Unemployment rate	-0.663***	-0.702***	-0.648***	-0.726***
	(0.0854)	(0.0875)	(0.0895)	(0.0897)
Life Expectancy	0.972**	1.307***	1.119***	1.467***
	(0.378)	(0.428)	(0.405)	(0.449)
Union density		0.0271		0.0239
		(0.0266)		(0.0296)
Left Government		-0.00559		-0.00363
		(0.00460)		(0.00494)
Size of Manufacturing			-0.265***[a]	-0.331***[a]
			(0.0869)	(0.0813)
Size of Manufacturing*Wage Coordination			0.119***	0.118***
			(0.0363)	(0.0373)
Wage Coordination			0.402**[a]	0.410**[a]
			(0.0870)	(0.0809)
Nob	525	501	446	446
R-squared	0.845	0.843	0.829	0.832
Wald Chi	405.36***	382.71***	469.58***	451.58***

Notes: *** z<0.001, ** z<0.01, * z, p<0.05; standard errors in parentheses
[a] the standard error and significance level refer to the situation when the other part of the interaction effect equals its mean

(← **Table 2 p. 401**)

In table 3 the results for our models are displayed, including the employment gap. The employment gap is calculated by the difference between average employment rates of older men and the overall male working age population. Lower values therefore indicate stronger incidence of early exit. Apart from the dependent variable, the models are identical in both tables. The first models in each case only include our control variables to test how far early exit is driven by the general socioeconomic and political environment. In model II, the variables capturing the balance of power are included. Model III checks our central cost-shifting argument, by adding the size of the manufacturing sector, the degree of wage bargaining coordination and the respective interaction variable between wage bargaining structure and the size of the manufacturing sector. In model IV, we test all variables simultaneously.

Table 3: Empirical findings: Employment gap

Dependent variable: Employment Gap

Independent variables	Model I	Model II	Model III	Model IV
Globalization	-0.0280	-0.0356*	-0.0467***	-0.0581***
	(0.0184)	(0.0182)	(0.0162)	(0.0157)
Centrist Government	0.000723	-0.00471	0.00570	0.00123
	(0.00360)	(0.00418)	(0.00371)	(0.00467)
Elderly population (65+)	86.84***	81.28***	118.3***	98.08***
	(21.23)	(23.42)	(22.08)	(24.07)
Institutions	-2.013	-2.123	-2.010	-2.345
	(2.245)	(2.219)	(2.345)	(2.474)
GDP growth	-0.0854**	-0.0969**	-0.102***	-0.106**
	(0.0365)	(0.0397)	(0.0397)	(0.0432)
Debt	-0.0578***	-0.0616***	-0.0638***	-0.0632***
	(0.00910)	(0.00950)	(0.00932)	(0.00889)
Unemployment rate	0.199***	0.187***	0.184***	0.148**
	(0.0711)	(0.0704)	(0.0659)	(0.0643)
Life Expectancy	1.201***	1.417***	1.234***	1.553***
	(0.326)	(0.353)	(0.352)	(0.390)
Union density		0.0492***		0.0558***
		(0.0168)		(0.0180)
Left Government		-0.00838**		-0.00649
		(0.00419)		(0.00475)
Size of Manufacturing			-0.385***[a]	-0.390***[a]
			(0.0606)	(0.0628)
Size of Manufacturing*Wage Coordination			0.108***	0.105***
			(0.0336)	(0.0351)
Wage Coordination			0.452***[a]	0.462***[a]
			(0.165)	(0.179)
Nob	525	501	446	446
R-squared	0.266	0.271	0.403	0.405
Wald Chi2	148.30***	142.67***	270.80***	297.86***

Notes: as Table 2;   Employment gap = Employment ratio of older male workers – Overall employment ratio of male workers

(← **Table 3 p. 402**)

The first model, only including the control variables, shows that globalization reinforces early exit. The pressure to restructure employment and to replace older workers is stronger in countries highly integrated into the international market. In contrast, the cabinet share of centrist parties does not make a difference for early exit. Furthermore, a demographic structure with a high proportion of elderly people is associated with a high employment rate of older workers (and a low deviation from the overall employment rate of male workers). Contrary to expectations, the overall institutional environment (veto points) does not influence early exit. The effects of GDP growth and public debt levels are highly statistically significant. High growth and a high level of public debt are **(← p. 400)** associated with low employment of older people. With regard to the overall labour market situation, the employment ratio of older workers is closely related to the national unemployment rate. For the employment rate, the coefficient is negative and statistically significant at the 0.1 percent level, while it is positive for the employment gap. The reason for this is simply that high unemployment decreases the overall employment rate, which *ceteris paribus* should also decrease the gap between the employment of older persons and the rest. Moreover, as expected, high life expectancy --- which we use as a proxy for healthy older workers --- is associated with a great number of people above 55 still employed. **(← p. 401)**

In model II, we test the traditional power resource logic of comparative welfare state research. In all models, the coefficient of left government has the expected negative sign, but is only statistically significant in one model (Table 3, model III). It is plausible that this result is driven by two conflicting objectives of left-wing parties: while they have traditionally advanced decommodification, they also typically strive to maximize labour force participation, including the participation of older workers --- not least in order to be able to pay for generous social programmes. If anything, the latter goal has become stronger during the period under review, with the rise of 'Third Way' social democracy. **(← p. 402)** This is also in line with Esping-Andersen's verdict that Conservative welfare states, but not Social-Democratic ones, were caught in a 'welfare without work' trap in the 1990s (Esping-Andersen, 1996). The results for trade union density are also mixed. Interestingly, and contrary to theoretical expectations, the coefficient is positive in all models. When using the employment ratio of older workers as dependent variable, however, the coefficients are far from statistically significant; they are statistically significant only in the employment gap models in Table 3. This means that in countries with strong trade unions, early exit is lower and the difference between the employment of older workers and the general (male) population is small, which is not in line with theoretical expectations. Overall, the class politics perspective on early exit is not supported by our results. While the indicators of the power resources of labour explain some of the variation in some models, they are inconsistent as they go in different directions.

When turning to the variables which test the main alternative, the sectoral politics perspective, the picture looks different. The coefficient of the variable capturing the size of manufacturing and therefore the pressure of adjustment, as well as the wage coordination indicator, are all at least

statistically significant at the 0.1 percent level. The importance of manufacturing clearly shows a negative effect on the employment ratio of older workers as well as on the (reversed) employment gap, which confirms our hypothesis (H1) that early exit is a response to industrial restructuring pressure. In addition, the interaction variable between the wage bargaining coordination variable and the size of manufacturing (H2) is positive and statistically significant (at least at the 0.1 percent level). When there is an economy-wide bargaining structure including enforceable agreements between the central organizations of unions and employers, unions and employers in tradable sectors do not tend to lobby successfully for early exit strategies, since the costs for early exit cannot easily be shifted to the overall economy. The negative effect of the size of manufacturing is therefore attenuated. In contrast, in economies where the bargaining process is fragmented, trade unions and employers in the manufacturing sector have both the incentive and the opportunity to lobby successfully for early exit, even against the interests of the non-tradable sectors. Model IV tests all variables together and demonstrates that the results remain stable when testing the power resource argumentation and the cost-shifting argument simultaneously. Furthermore, our robustness checks do not reveal deviating evidence.

Overall, whether countries go for early exit strategies or not is less a question of the balance of power between labour and capital than of the structure of industrial relations, that is, the setting in which the relevant actors operate. Early exit is a dominant strategy when sectors under high pressure for adjustment are widely represented in the economy and when those sectors are able to shift the costs for adjustment to the overall economy. Left-wing parties only matter to a limited extent, given their conflicting goals with regard to early exit. Nor is there an alternative partisan logic at work, as the coefficient of centrist governments is also instable. And finally, trade union density has the exact opposite effect to that of left partisanship, and only with regard to one of our measures of early exit.

Conclusion

The large cross-national differences in early exit policies and outcomes have caught the attention of scholars and policy-makers alike. A sizeable body of literature examines **(⇐ p. 403)** individual retirement decisions or macro-economic determinants. Political factors, however, have been investigated only in single-country case studies and small-N comparisons. While we build on these findings, our study is the first large-N analysis that deals specifically with the politics of early exit. We have examined how far political and labour market actors as well as the institutional environment influence early exit at the aggregate level, for a sample of 21 OECD countries over 35 years. Our findings strongly support the previous qualitative results that point to a 'collusion' of capital and labour in the creation of early exit pathways, but they go beyond this in spelling out the conditions which facilitate such collusion.

We show that the political economy of low employment rates of older workers follows a sectoral logic, fuelled by economic globalization and industrial restructuring. Economies with large manufacturing sectors have come under enormous restructuring pressure in the last 40 years, involving a shift towards a 'post-industrial society' in which the service sector share in employment and in production has grown across the OECD. While manufacturing often retains an important status in many developed economies, it has been forced to transform from Fordist mass-production to a more specialized type of production based on highly productive and knowledge-intensive labour. This process was accelerated by the oil shocks of the 1970s. Early exit has been used by manufacturing employers to reduce their workforce and thereby increase productivity.

But this is only part of the story. How this pressure is resolved also depends on the structure of economic interest representation. When cross-sectoral coordination is low, employers and trade unions in manufacturing firms can push the government to subsidize their restructuring costs via early exit policies, and thereby shift costs towards sheltered parts of the economy. Such externalization of costs is not possible when sectors are highly coordinated and the organization of economic interests is encompassing. Our findings can thus be read against the background of a strand in the literature on the political economy of wage-setting which expects that in highly coordinated settings or when unions are centralized and encompassing, externalization of the costs of excessive wage inflation on society as a whole becomes less likely.

One important alternative explanation was also tested: class-based policy-making. Yet this did not have a robust and unambiguous impact on early exit outcomes. This broadly goes against the main thrust of mainstream comparative welfare state research. It is true that the class-based view became subject to heavy criticism in the 1990s and 2000s (Swenson, 2002; Mares, 2003). While our results on early exit are certainly not in line with the power resources view, we are aware that early retirement is not a typical social policy, either. It represents a (perhaps rare) policy option on which (some) employers and (some) employees can agree under certain economic conditions. Similar temporal cross-class alliances can be found during imminent economic shocks, for example, when employers and trade unions lobby in favour of short-time work policies which tend to be equally biased towards manufacturing (Sacchi et al., 2011). Our results can also be read against the background of insider-outsider theories of the welfare state (Rueda, 2006). Highly organized manufacturing workers are the prototypical insiders of the post-war industrial model. We have shown that in the aftermath of the oil shocks, it was possible for their representatives to shift the costs of industrial downsizing to the overall economy. Rather than pitting a uniform class-based logic against a sectoral one, comparative political economy and welfare state research should aim at identifying the economic and institutional contexts under which one rather than the other tends to prevail.

In terms of policy implications, our article also demonstrates why some governments find it much harder than others to reform early retirement and turn towards 'active ageing'. Not only does the economic adjustment pressure differ strongly between countries, some governments also face strong

sectoral interest groups, sometimes with cross-class alliances acting against the interests of other sectors. Other governments deal with more encompassing industrial relations actors which are forced to internalize their conflicts about industrial restructuring. Our results imply that different political logics call for different political strategies on the path towards 'active ageing'.

Notes

[1] Hypotheses are formulated for employment rates only, but similar hypotheses can be presented for the employment gap.

[2] However, trade union density may be seen as an indicator of organizational 'encompassingness' Olson M (1982) *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities,* New Haven, CT: Yale University Press.; this would imply the opposite causal relationship.

[3] The female employment ratio is driven less by early retirement than by a much more long-term secular trend; increased labour market participation reflects cultural changes and educational advances. In order to focus on just one of the two interpretations of the politics of early exit, we exclude female employment from our analysis.

[4] The comparative information on early exit reforms comes from the fRDB-IZA Social Reforms Database on changes in employment policy in 14 EU countries over the period 1980-2007 Anelli M, Catania A, Basso G, et al. (2014) FrDB-IZA Reforms Database. Milano.. Those that open early exit pathways lead to a decrease in employment rates, while the restriction of early exit options results in an increase in the labour market participation of older workers. This shows that our dependent variable is a valid proxy of early exit policies. The correlation is negative and statistically significant at least at the 1 percent level.

[5] Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.

[6] For reasons of restricted data availability, we concentrate on organizations of employees. However, qualitative studies have emphasised the importance of employers for the politics of early exit. Further research should focus on the systematic collection of information on the structure and strength of employers for a broad set of countries, in order to address more fully the inter- and intra-sectoral bargaining processes leading to early exit.

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