

The politics of early work exit in Germany and Austria

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1. Introduction

The European continental welfare states France, the Netherlands, Belgium, Austria and Germany reacted on the increasing unemployment in the following of the oil crisis in the 70s with labour shedding. In addition to the continued exclusion of women from the labour market which was a consequence of the guiding principle of the bread winner model, the policy focus moved to elder people.

In the 70s early retirement schemes have been already in place but from then on they were increasingly seen as one element in addressing the excessive supply of labour. Different motivations led the central actors to the adoption of a furthering of early retirement by legal measures.¹ Trade unions saw it as a possibility to reduce live working time, employers agreed to it as a measure which facilitates restructuring and the government was persuaded that it could contribute to a decrease of unemployment. The agreement on these measures was facilitated by the fact that it could be financed by the social insurance and with this by the contributions of the working population. As a consequence the major part of the costs didn't directly show up neither in the state budget nor in wage settlements of the employer organizations with the trade unions.

In the 90s this consensus became more and more obsolete. The European welfare states were said to suffer from the „continental dilemma“: the financing modus of the social insurance has the consequence that labour gets more costly when more people rely on transfer payments.² Slowly the actors got more conscious that early retirement is a very costly method of reducing the supply of labour. In addition to the payment of the pensions out of the pension funds every person who retires early pays no more contributions in the social insurance funds. At the same time new policy issues reached the political agenda. It got increasingly less accepted that women despite having worked (care work) do not receive pensions which are sufficient to live from and this in the context that they couldn't rely any more on their husbands because many of them didn't

¹ Jacobs, Kohli, Rein, 1991, S. 200ff

² Scharpf, 1998

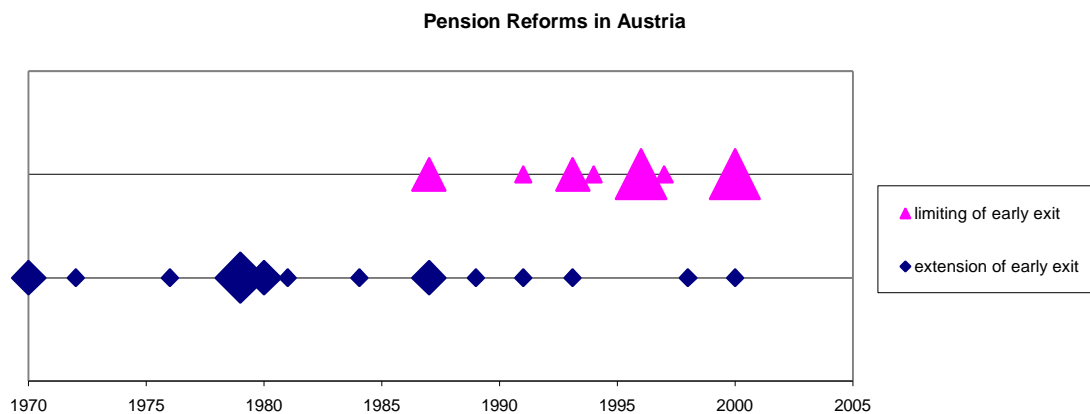
have one or are divorced. At the same time projections of the demographic development predicted a worsening ratio of the elder to the persons in working age.

In this study I focus on the political interventions which have been aimed at an extension or retrenchment of early work exit in two of the European continental welfare states: Germany and Austria. In comparative studies these two countries are often put in the same group. Esping-Andersen classified them as conservative-corporatist countries, Castles as German speaking countries.

I focus only on political interventions which directly intended a change in the early work exit behaviour. Although for example changes in the general level of pensions might be a very central element in the decision of individuals at which time to exit paid employment I do not take them into account in this study.

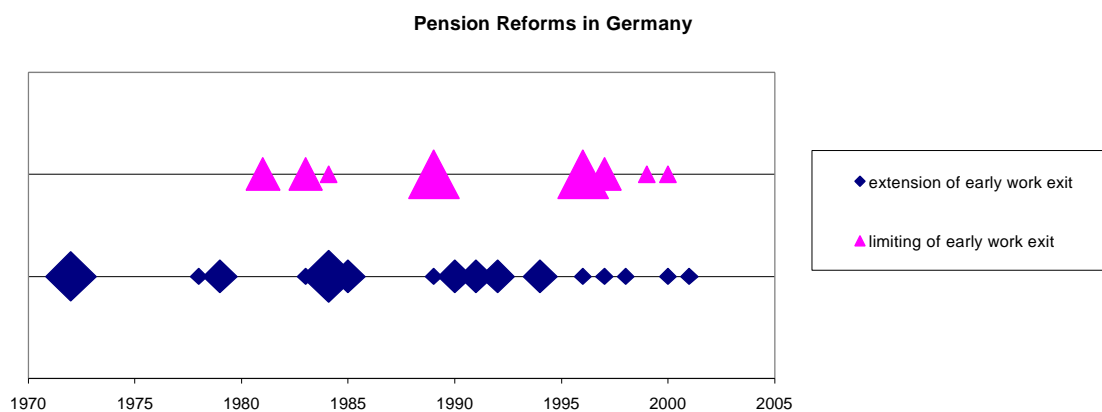
2. Early work exit reforms in Germany and Austria

Graph 1 and 2 indicate the reform process in Germany and Austria from 1970 to 2000. The ordering on the time scale indicates the date of the decision of the reform. The size of the signs presents which impact the political actors believed the reform would have.



graph 1

The distribution of the signs in graph 1 indicate that in the 70s and the 80s political interventions in Austria aimed at an extension of early work exit and in the 90s a reversal of these measures. The Austrian parliament passed the major reform which introduced early exit options in 1979. In Germany the parliament passed a major reform already in 1972. The later start of labour shedding in Austria is due to the possibility of labour hoarding in the big public sector.³ This possibility shrunk with the furthered privatization of state owned companies and in the following labour shedding via early work exit was introduced. From 1986 on this process was reversed and early exit options got more restrictive. The major reforms however have been introduced not before 1996, more than five years after Germany. Another major retrenchment reform passed the Austrian parliament in 2000 under the coalition of the conservative and the very right wing freedom party.



graph 2

The reform process in Germany is not as easy to divide in a period of expansion and a period of retrenchment as in Austria. This is partly due to the unification which was followed by labour shedding measures and to the attempts to avoid the negative consequences of the 59 rule which have been the cause for retrenchment in the 70s.

³ Unger, 2001, S. 342.

In 1972 the German parliament passed a major pension reform. A flexible age threshold was introduced. From then up to the 90s early work exit was fostered. The intended impact of these reforms however decreased over the 90s. The first reforms in the opposite direction have been introduced in the early 80s. The reforms with the biggest intended outcome however have been decided in 1989 and 1997.

While the 1972 reform was more the expression of a surplus of the pension insurance the reforms in the late 70s and over the 80s have been measures on the background of increased unemployment. Early exit from work of elder workers was increasingly seen as a legitimate strategy to reduce the supply of labour. In the graph the development towards early retirement is not wholly represented. Already existing possibilities as the so called 59-rule have been used more as a result of a consensus between employers, who were willing to top up the unemployment benefits in order to reduce or restructure their labour force and elder employees who preferred to retire under present conditions. 1989 represents the turnaround of this process for West Germany. This major pension reform was decided at the very same day of the fall of the wall. Early exit was restricted. The extension of early work exit in the beginning of the nineties represents the reaction of the federal government to the increased labour market problems which resulted from the German unification in East Germany. Early exit was again extended in order to reduce the labour supply. In 1996 the German parliament passed again measures which limited early exit options. From then on only minor reforms aiming at an extension of early work exit have been introduced.

3. Pathways

Martin Kohli and Martin Rein developed the concept of „pathways“ to exit from work.⁴ „A pathway is an institutional arrangement or- in most case- a combination of different institutional arrangements that are sequentially linked to manage the (...) period between exit from work and entry into the normal old-age pension system.“⁵ This concept is a good starting point in order to give a differentiated picture of the phasing in and phasing out of early retirement.

Kohli and Rein distinguished three pathways to exit:

⁴ Kohli, Rein, 1991, S. 6

⁵ Kohli, Rein, 1991, S. 6

1. The unemployment pathway via the lowering of employment search conditions for elder unemployed workers, longer eligibility for elder workers and access to a pension after longterm unemployment,
2. the health pathway via sick benefit and eligibility to invalidity pensions and
3. the preretirement pathway via special regulations in order to facilitate negotiated (by employers and employees) exit of elder workers and access to a pension for the longterm insured.

These three pathways are in some cases not as easy distinguishably as it may look like. Eligibility rules for invalidity pensions can for example include criteria of the labour market situation and preretirement got introduced in order to replace labour shedding along the unemployment pathway. This list is also not complete. Three more early exit options exist:

1. direct access to the pension for the longterm insured,
2. a lower age threshold for pensions for women and
3. partial pensions.

The most often used pathway to exit work in Austria and Germany was the health pathway. In 1985 about 43.000 pensioners received for the first time an invalidity pension in Germany. In this year more than 42% entered the pension system with this pension.⁶ In Austria 160.000 pensioners received an invalidity pension in 1985 in comparison to 100.000 who received a pension for the longterm insured and 12.000 who received pension after longterm unemployment.

The unemployment pathway was much more extended in Germany than in Austria. In Germany unemployment money (Arbeitslosengeld) can be received for a longer period of time. In Germany unemployed workers could receive 12 month unemployment money, in Austria they could receive unemployment money only up to 30 weeks. The more generous regulations in Germany have been used by employers in order to shed elder workers. Under the so called "59er rule" employers took in the regulations into account and dismissed employees at the age of 59. These employees received unemployment money for one year, which was sometimes topped up by payments of the employers and then had access to the pension after longterm unemployment.

⁶ Jacobs, Kohli, Rein, p. 186.

1985 more than 390.000 pensioners received a pension after longterm unemployment in Germany (which is 9,08 % of all pensions). In Austria this was only the case for more than 12.000.

The importance of the unemployment pathway in Germany increased from the 70s onwards. In 1970 only 2.27% of male entrants into the pension system received a pension after longterm unemployment.⁷ In 1985 this figure reached 11.4%.

The pension for the longterm insured was in Austria a more common pathway to exit work than in Germany. In 1997 more than 124.000 which are 6,5% of all pensions in comparison 610.000 in Germany which are only 3.9% of all pensions. The age threshold in Austria for the pension for the longterm insured was 60. In Germany it was never below 63.

4. The Reform Process

In the 70s the health pathway was extended in Germany. Already in the 80s (1983) restrictive measures have been introduced and again in 1996 and 1997. In Austria this pathway has been extended in the beginning of the 80s (1980,1981) and retrenched in the late 90s (1996, 1997 and 2000). In Germany not only the ability to work but also the possibility to find a job and as a consequence the labour market situation was included in the criteria. In contrast to this in Austria there was no such regulation but the invalidity was measured as the capacity to practice ones occupation (Berufsschutz). In 1980 this regulation was extended to low qualified jobs. This regulation was also not abolished by the restrictive reforms in the late 90s. However the age threshold was increased and the pension was granted only for two years. After these two years the recipients have to apply again for the invalidity pension.

In Germany the very same measures have been introduced. In addition to this the consideration of the labour market situation was reduced by the reform in 1996 and abolished in 1997. The red-green government however modified the 1997 reform slightly and kept a minor consideration of the labour market situation.

The above mentioned extension of the unemployment path in Germany was not in the interest of the federal government because the employers externalized the dismissal

⁷ Jacobs, Kohli, Rein, p. 186.

costs and it showed up in high unemployment figures. As a consequence over the 80s the federal government tried to block this possibility of cheap labour shedding for the employers and to replace it by preretirement (introduced in 1984). Preretirement is a consensual dismissal of an employee. The employers pays until the person reaches the age threshold of a pension 65% of the last income. This could be topped up by the unemployment insurance when certain conditions are fulfilled.

The introduced restrictions to the unemployment pathway (restitution of unemployment money by the employers) were challenged by a decision of the constitutional court in 1990.

Despite the disadvantages of the unemployment pathway it was extended in the 80s as a reaction to the very high unemployment rate of elder workers. The maximal duration for the payment of unemployment money (Arbeitslosengeld) for elder workers was lengthened several times (1984, 1985 and 1987) and reached 32 months for workers over the age of 56. Unemployed over the age of 58 had from 1986 on the possibility to suspend work searching efforts when they declared that they apply for a pension the earliest point of time possible. This had the advantage that they didn't count any more as unemployed. As a consequence the unemployment figures of elder workers declined. One invalidity pension, the Berufsunfähigkeitspension, included also the availability of adequate jobs in its criteria for eligibility. This again was only partly intended by the government and more a result of interventions of the German courts. In 1969 and in 1976 the federal social court (Bundessozialgericht) decided that since no part time jobs are available for elder workers partly invalid workers have to be receive full invalidity pensions.

After the unification the unemployment pathway was used again. In 1990 the east German transition government passed a preretirement scheme (Vorruhestandsgeld, later Altersübergangsgeld). In contrast to the preretirement scheme of the 80s in Germany the availability of jobs was a central criteria for eligibility.

In Austria the unemployment pathway was also extended but it started from a lower level and also the reforms had not been as farreaching as in Germany.

The special support (Sonderunterstützung) for unemployed elder workers got accessible for all workers in 1979. One year before they had access to the pension because of unemployment they could receive this topping up of their unemployment benefits. In 1987 the unemployment path was again extended. Elder unemployed in regions with high unemployment could receive unemployment money (Arbeitslosengeld) up to four

years. This measure had in comparison to the general extension of the maximal duration of unemployment money the advantage that it was less likely to be used strategically by employers as a means to shed labour. In 1989 the maximal duration of unemployment money was lengthened to 52 weeks for workers above the age of 49. However from 1991 on countermeasures have been taken and the special regulations for regions with high unemployment and the special support have been abolished.

The age threshold in Austria for the pension for the longterm insured was 60. In Germany it was 63. Also after the reform in the year 2000 in Austria the age threshold does not rise above 61 ½. In Germany it will decrease to 62 in the year 2010 to 2012. In both countries the increase of the pension age of women passed the parliaments. In Germany as part of the reform in 1989, in Austria in 1993.

5. Politics of early work exit

Political actors who want to retrench social programs have to face the problem that by retrenchment measures a big but diffuse number of people benefit because of lower social insurance contributions or lower taxes but a small, however well informed and organized, number of people loses.⁸ In order to successfully retrench social programs and to stay in government the resistance of the group of losers has to be broken or circumvented.

This problem arises also in the case of early work exit options. The people who are close to the retirement age are very aware of these programs and are also likely to be well represented in trade unions while the group of people who have to burden the costs are not as aware of these costs and include people of the age of 16 to the age of 65.

One strategy to deal with this problem is the strengthening of the insurance principle understood as the equivalency of contributions and benefits.

Several measures in this vein have been introduced. In 1978 the federal government of Germany decided to take times of unemployment in which one receives unemployment money or unemployment assistance into account as contributions times. In 1981 the eligibility for the pension after longterm unemployment got more restrictive, more compulsory contribution times are needed. In 1983 the eligibility to the invalidity

⁸ Pierson, 1996; Kitschelt, 1999.

pension got more restrictive. Longer contribution times are needed and voluntarily insured persons lose their right to invalidity pensions.

However in the 80s also opposite measures have been introduced. In 1983 the necessary “waiting times”, which are contribution times, times of unemployment etc., in order to get access to the regular old age pension have been reduced from 15 to 5 years. In 1989 another condition for the eligibility of pensions (Halbbelegung) was abolished.

In the 90s however only measures which strengthened the insurance principle have been introduced. Recognized times of attending school or university have been decreased in 1989 and again in 1996.

The age threshold for the pension after long insurance times will be reduced from 2010 to 2012 while the pensions after longterm unemployment and the pension for women are abolished. This has been decided in 1997.

In Austria this strategy has been used less than in Germany but has also been part of the retrenchment measures. From 1987 on the recognition of times in which school or university was attended has been taken only fully into account when contributions have been paid. This was strengthened in 1996. The necessary contribution rose and the consideration of these times as “waiting times” was also restricted to the cases in which contribution have been paid.

Another strategy to deal with the problem of retrenchment policies of a large but diffuse number of winners as against a small but well organized and well informed number of losers is to create a distance between the enactment of the reform and the date of the effective changes. Afterwards it is more easy to decrease the distance to the effective changes because then the changes concern a smaller number of people and the reform doesn't introduce a completely new measure but reduces only the time span until getting effective.

In Germany 1989 the increase of age thresholds for the pension for women, the pension for the longterm insured and the pension after longterm unemployment passed the parliament. The increase however got not effective before 2001 with its completion in 2017. In several steps the time span for the pension after longterm unemployment and the pension for women has been decreased twice in 1996 and 1997.

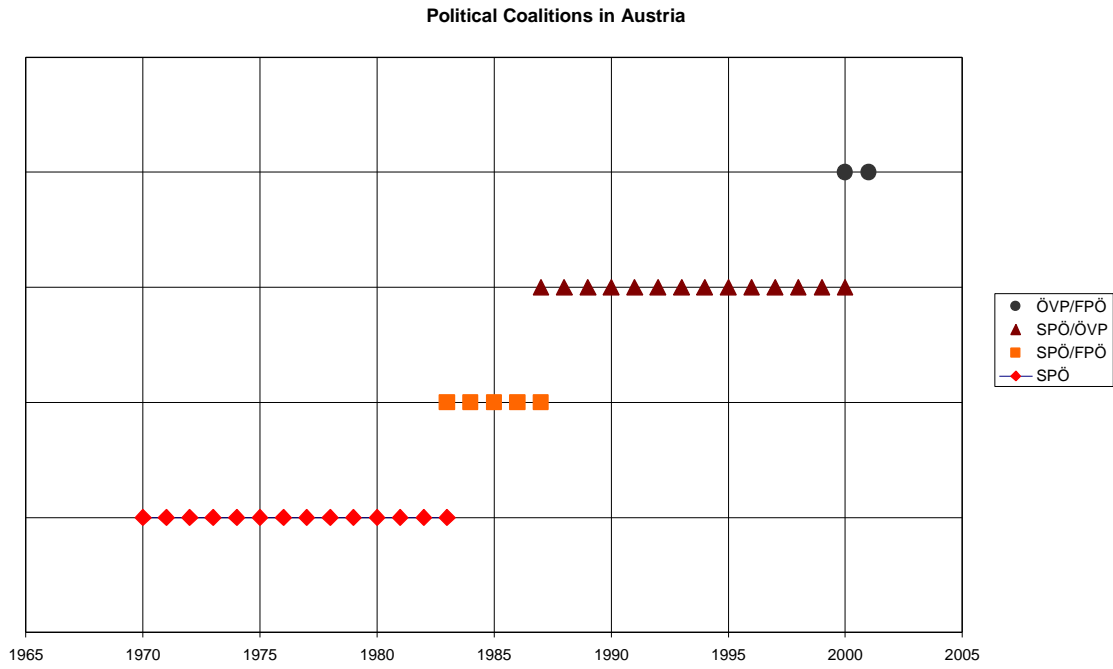
This strategy was used also in Austria. The increase of the age threshold for the pension for women the parliament passed in 1993. However the effective increase of the age threshold will happen from 2018 to 2034. A decrease of the time span however was more difficult because this law got the status of a constitutional law. As a consequence a two-third-majority was needed for a change. The ÖVP/FPÖ government while increasing all age thresholds for early retirement in 2000 (for women from 55 to 56 ½ and for men from 60 to 61 ½) couldn't change the age threshold for the pension for women. These changes of the age thresholds however have been enacted without any delay from 2000 to 2002.

The introduced restrictions in access to early retirement have in Germany always been part of policy packages. At the same time when the parliament passed retrenchment measures it accepted expansionary, however smaller, measures.

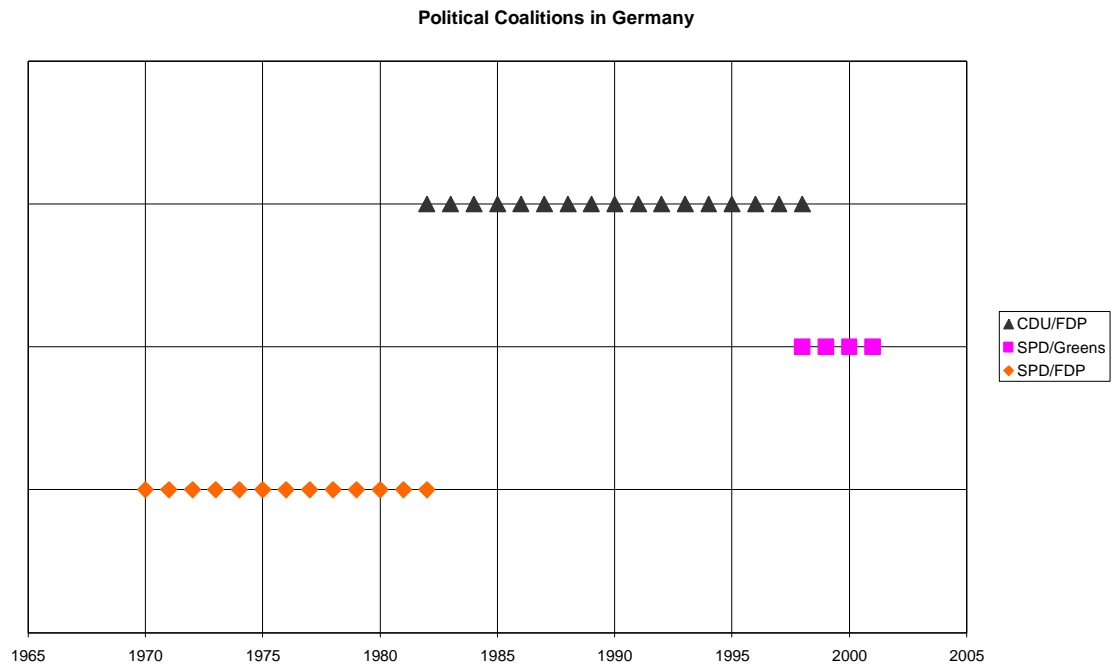
This strategy of building policy packages is less evident in Austria. The reforms of 1996 and 2000 consisted only of restrictive measures.

1996 this was possible because of the intense involvement of the trade unions in the legislation process. The reform of the year 2000 was enacted by the coalition of the conservative party and the very right wing freedom party which was at least at that time dominated by the neoliberal paradigm.

6. Party politics



graph 3



graph 4

In both countries the major expansionary reforms have been introduced under social democratic or social democratic led governments. The major retrenchment reforms have

been passed in both countries under conservative (respective christian democratic) led governments (or at least from a big coalition of the conservative and the social democratic party).

The coincidence of expansionary reforms and social democratic parties in government might also be due to the fact that these parties have been in government in the 70s and early 80s. In contrast the coincidence of retrenchment reforms and conservative governments could not be explained by the time being in government because also social democratic parties have been in government in the 90s.

The health pathway was in both countries introduced under social democratic led governments in Austria in the early 80s (1980 and 1981) and in Germany in the 70s. The health pathway was reduced only one time under a social democratic led government: the red green government in Germany. But also here the main reform was made under the CDU/FDP government. The new red green government first postponed the reform but finally introduced it with minor changes.

In contrast the conservative parties in both countries didn't introduce or extend the health pathway in the observed time span and where much more likely to reduce this path. In Germany short after the for the christian democratic party successful elections in 1983 and in 1996 and 1997 and in Austria under the big coalition 1996 and in the year 2000 under the ÖVP led government.

The same pattern holds true, however less clearcut, for the pension for people with long insurance history. It was introduced mainly under social democratic governments in both countries, in Austria in 1972, 1976, 1981 and 1984 in Germany in 1972. In Germany however the conservative government decided in 1997 that after 2012 this pension would remain and even with a lower age threshold (62) while the pension after longterm unemployment and the pension for women are suspended.

The preference of the social democratic parties for this pension is surprising on the background of the expectence of a universal approach. However there is also in marxist thinking and in the consequence also in social democratic thinking the notion of a higher deservingness of workers than non workers. In addition to this the trade unions in these countries are very well organized and workers of the stable labour force are better represented than workers which have been out of the labour market for several years.

7. Conclusions

One can observe a higher intensity of reforms in this policy field in Germany. This is partly due to more frequent interventions by the courts (Berufsunfähigkeitsrente and restitution of unemployment benefits). In Austria the constitutional court intervened only in one case (the equalization of the regular pension age of men and women). The big coalition which had been in government for fourteen years had also the possibility to make laws with a constitutional status. This made an interference by the constitutional court less likely.

The reform activity in Germany was also more reactive than in Austria. This is due to the unintended strategic use of the unemployment pathway by employers, to the German unification and the in comparison to Austria worse labour market situation.

In Germany strategies to circumvent resistance have been used more intensely. In Austria this was less the case. One reason for this is simply that the work exit options in Austria haven't been cut as extensive as in Germany. Another reason might have been the agreement of the trade union officials to the reform in 1996 and the aim of the coalition of the conservative party and the freedom party to reduce the influence of the trade unions.

8. Literature

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