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Working Paper

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WZB Discussion Paper, No. SP I 2007-108

Provided in Cooperation with:
WZB Berlin Social Science Center

Suggested Citation: Kemmerling, Achim (2007) : The end of work or work without end? The role of voters' beliefs in shaping policies of early exit, WZB Discussion Paper, No. SP I 2007-108, Wissenschaftszentrum Berlin für Sozialforschung (WZB), Berlin

This Version is available at:
https://hdl.handle.net/10419/43967

WZB

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discussion paper

September 2007

ISSN Nr. 1011-9523

Wissenschaftszentrum Berlin
für Sozialforschung (WZB)
Social Science Research Center Berlin

Research Area:
Employment, Social Structure, and Welfare State

Research Unit:
Labor Market Policy and Employment
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Order no.: SP I 2007-108

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ABSTRACT

The rise and fall of policies regulating early exit from labour markets remains enigmatic for comparative politics. Most explanations focus on structural or institutional causes. A missing source of national variation, this discussion paper argues, lies in cross-country differences in voters' attitude. Whereas in some European countries voters would not think that there is a trade-off between the employment of older and younger workers, in others this is a dominant paradigm. I describe these differences in opinion, as well as their potential and limits for explaining reform in this policy area. A multi-level analysis of Eurobarometer data shows that low employment rates and high levels of labour market regulation lead more people to believe in such a trade-off. This belief is rather the result of voters' perceptions of how labour markets work than the result of their personal situation.

ZUSAMMENFASSUNG

Der vergleichenden Politikwissenschaft fällt es schwer, den Aufstieg und Niedergang von Politiken, die das vorzeitige Ausscheiden aus dem Erwerbsleben bestimmen, zu verstehen. Die meisten Erklärungen hierzu ziehen strukturelle oder institutionelle Ursachen heran. In diesem Diskussionspapier wird argumentiert, dass eine fehlende Quelle nationaler Variation in unterschiedlichen Einstellungen von Wählern liegt. Während in manchen europäischen Ländern Wähler nicht an einen Zielkonflikt zwischen der Beschäftigung älterer und jüngerer Arbeitnehmer glauben, ist dies in anderen ein starkes Paradigma. Ich skizziere die Unterschiede in den Meinungen und diskutiere, inwiefern sie zur Erklärung von Reformprozessen beitragen. Eine Mehrebenenanalyse von Eurobarometerdaten zeigt, dass niedrige Beschäftigungsraten und hoher Kündigungsschutz eher Menschen dazu bringen, an diesen Zielkonflikt zu glauben. Der Glaube an den Zielkonflikt ist weniger das Resultat der tatsächlichen, persönlichen Situation der Wähler, als vielmehr ein Produkt dessen, wie Menschen die Funktionsweise des Arbeitsmarktes wahrnehmen.

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1. Introduction

After decades of rising early exit, labour force participation among older workers is again on the increase in most OECD countries. Policy-makers in many countries have begun to curtail early exit programmes (EEPs) and have increased the statutory retirement age. For international organizations such as the OECD or the EU, 'active ageing' is nowadays a priority issue. The normative properties of this policy reversal remain a controversial topic. Analytically, the reversal is enigmatic since it prompts the question why some countries have maintained or actually extended these programmes longer than others. This question is the reverse of the 'paradoxical' trend towards increasing early exit in societies despite the demographic changes they face. Both the rise and the recent fall of EEPs have attracted much research, but it is still difficult to give definite answers.

One of the reasons is that early exit policies are, by their very nature, multidimensional and interdependent. There are many functional equivalents to explicit programmes designed for early retirement, among them disability schemes, lowering regular pension age, or long-term unemployment benefits for older workers. Therefore, Kohli et al. (1991: 6) speak of EEPs more generally, as equivalent to 'pathways of exit', i.e., '…a combination of different institutional arrangements that are sequentially linked to manage the transition process, that is, the period between exit from work and entry into the normal old-age pension system.' This definition is not without caveats, since there is no such thing as a 'normal' old-age pension system. Ultimately, policy reversal can only be defined implicitly as a policy outcome, such as the decreasing incidence of early exit below a particular age such as 65. While I am aware that it is dangerous to ascribe policies high causal power with respect to early exit, I abide by this perspective for the lack of better alternatives.[1]

Using this broad notion of EEPs, politicians can expect to influence behaviour of workers only by adopting broad policy packages affecting several areas at once. For social scientists this means that EEP reform covers a large area and that there are accordingly many approaches to explaining policy changes. Two extreme cases are institutionalist accounts and political economy considerations. Whereas the former have pointed to the role of path dependency in national regimes, the latter focus mainly on the aggregation of heterogeneous political interests concerning EEPs. Given that institutions are much more stable than interest coalitions, it can be said – in somewhat simplified terms – that institutionalism

1 Nevertheless, there is some evidence that institutional variables such as the replacement rate of social transfer programmes and the implicit tax rates for postponing retirement drive the decision to exit the labour market early (Blöndal and Scarpetta 1999).

tends to underestimate the likelihood of change, whereas political economy approaches overestimate it. One way of combining these approaches in a fruitful manner is to introduce a missing link: the role of voters' causal beliefs in the reform process.

Causal beliefs in the efficacy of policies have been intensively studied by comparative analysts of welfare state policy (Schmidt 2002), but – to the best of my knowledge – it has never been applied to EEPs. In this article, I show that it is a particular version of a belief that steers voters' perceptions, the so-called lump of labour fallacy. Moreover, I do not ascribe a stand-alone causal power to beliefs, since I also outline a rationale why electorates in different countries hold different beliefs. In a nutshell, strongly regulated labour markets with high levels of EEPs face the twin predicament of high unemployment and low employment. Where this is the case, this co-evolution makes it difficult for voters to see how enhancing employment will lower unemployment. Hence, voters systematically oppose any policy that increases the labour supply.

The next section reviews the state of the art in the literature on EEP reforms. Section 3 explains the lump-of-labour fallacy in more detail and shows how it relates to aggregate data. In section 4 I present evidence that some people are more inclined to believe in fixed lumps of labour than others, and I discuss the micro-level causes of this belief. I test my results against Eurobarometer data. Section 5 argues that this belief is a consequence of both the structural conditions and the institutions that regulate the labour market in a country. For this purpose, I extend the micro-level regressions of section 4 by macro-level covariates. The last section concludes.

2. The Causes of Policy Reform in Early Exit Programmes (EEPs)

Since the issue of policy reform in EEPs is complex, it is no wonder that scholars have adopted many different perspectives in explaining why a reform has taken place in a given country or not. To keep matters simple, I distinguish between five broad classes of approach: (1) functionalist arguments, (2) the role of voters, (3) the role of parties and interest groups, (4) the role of political institutions, and (5) the role of regimes and paths.

A genuine starting point is to presume that problem pressure is a determinant of policy reform. Reforms, in this view, fulfil the function of mitigating or abolishing problems that are predominantly economic in nature. In this perspective, EEPs are usually seen as very costly, especially in PAYG pension systems, since they reduce revenues and increase outlays. Indeed, there is a strong positive correlation between low employment rates for workers between 55 and 64 and unit la-

bour costs in a country (Herbertsson and Orszag 2003;OECD 2006). Several causes may be involved, and pension systems vary across countries, but it strongly reminds us that EEPs have by no means been cheap. Yet problem pressure does not clarify much, since the average effective retirement age has dropped in the last four decades, although demographic change requires a rising retirement age to keep the public budget balanced (Blöndal and Scarpetta 1999). Therefore, cross-country variance in the reduction of effective retirement age prompts suspicions that political rather than efficiency concerns have steered the reform process.

A simple political economy approach usually starts with a notion of voter heterogeneity and how it affects public policy outcomes. Hence, differences in reforming EEPs may be due to differences in national electorates. Older people, for instance, may want to maintain EEPs for various reasons (Lazear 1979). They do not have to bear the burden of intergenerational redistribution (Sinn and Übelmesser 2002). They also tend to be overrepresented in the electorate, since turnout increases with age (Goerres 2007). Moreover, some national electorates may be more hostile to policy reform than others. For example, Iversen and Soskice (2001) argue that the more specific and the less portable workers' skills are, the more they depend on the existence of public insurance schemes in the event of job loss. There is no direct test of these theories of self-interest and the political behaviour of individuals in the realm of EEPs. For other labour market policies Rehm (2005) finds a direct effect of a voters' exposure to occupational unemployment risk on the desired level of labour market policy. Given the bewildering complexity of EEPs, it is nevertheless difficult to imagine a direct link between voters' material interests and their preferences for or against EEPs (cf. below).

If one adds political parties to the explanation, certain patterns emerge. Though partisan preferences for EEPs cannot be straightforwardly allocated, many significant increases in exits from the labour force have occurred in countries where Christian democratic parties have been in power.[2] In contrast, social democratic or (European-style) liberal parties do not exhibit any relationship with early exit. This is to be expected, since it has been argued that left-wing parties actively seek high employment, whereas liberal parties do not want to intervene in the private decision whether to work or not (Esping-Andersen 1990). Christian democrats, in contrast, seem to use EEPs in times of labour market crises more frequently. They were part of a more general strategy of Christian democrats to respond to job losses by reducing the labour supply (Armingeon 1999). And yet, the relationship between the colour of government and EEPs is clearly overdetermined, since dominant political ideologies also tend to correlate with other types of welfare institutions (Esping-Andersen 1990).

2 A simple correlation analysis between the average share of cabinet seats hold by Christian democratic parties between 1950 and 1990 and the incidence of early exit as measured in figure 2 shows a reasonably strong and negative correlation.

As for the interest group approach, many researchers have maintained that continental European corporatist systems are particularly prone to a higher incidence of early exit (Ebbinghaus 2006). 'Labour shedding' in times of economic turbulence or restructuring is to the benefit of both employers' associations and trade unions, if they do not represent all voters equally. In this case, smaller but powerful segments of the population can externalize the costs of EEPs to all tax payers (Ebbinghaus and Hassel 2000). In a comparative perspective, it is difficult to predetermine which corporatist or wage-bargaining structure leads to such 'insider' behaviour, since many organizational traits shape the representativeness of industrial partners (Kittel 2003).[3] Moreover, there is also an alternative view about industrial partners that puts them in a much better light. The existence of so-called social pacts enhances the capacity of a state to reform welfare state policies (Visser and Hemerijck 1997). This theoretical ambiguity about the role of industrial partners is also visible empirically. Collusion between employers and trade unions played a key role in creating EEPs, but it also helped in reducing them (Ebbinghaus 2006). From a static perspective, there seems to be a difference between sectoral bargaining systems such as Germany, Austria or the Netherlands and fully centralized systems such as Sweden or Norway. And yet, the evaluation of this claim differs over time. Although the Dutch still face problems with containing EEPs and early exit, the record has improved throughout the last decade without any significant changes in the formal involvement of corporate actors.

Similar caveats apply to including political institutions in the narrative. There is some evidence that systems with multiple veto players are slower with regard to EEPs than the international trend against such programmes. Germany may be an interesting case, since EEPs have proved to be very difficult to change owing to formal veto players such as an opposition party dominating the second chamber (König 2001;Zohlnhöfer 2001). Other researchers are, however, more sceptical about the role of veto institutions in EEP reform (Immergut, Anderson, and Schulze 2006).

A final explanation for reform is in terms of institutional arrangements or regimes defined as systems of (complementary) relationships between (policy) institutions such as the wage-bargaining system, employment protection legislation or the pension system. Many comparative political scientists believe that the role played by specific institutional arrangements in contemporaneous welfare states is so important that reform processes are not coherent across countries (e.g. Scharpf 2000). Welfare states evolve along specific paths that differ from country to country. These national paths also emerge if policies develop their own dynamics, frequently as unintended consequences of some previous political decision. This argument has been applied to the case of EEPs (Ebbinghaus 2006). For such an

3 There is some positive relationship however, between bargaining coverage as a measure of the leverage of social partners and the extent of early retirement (Hartlapp and Kemmerling 2007).

argument, however, a deeper theoretical underpinning is crucial, since otherwise an analytic distinction between cause and effect is blurred. In analysing the welfare state, there is good cause to believe that EEPs are difficult to reform if , for instance, institutions create their own political clientele opposed to abolition of the policy (Pierson 2004;Saint-Paul 2000). Nevertheless, we need to know more about why and under what circumstances such political bias arises. For political economists, the question is far from trivial. In principle, EEPs should be easy to abolish if a two-tiered system is proposed. Such systems maintain the status quo for older generations (who hold veto powers), but change it for younger cohorts.

In simple terms, these alternative explanations can be summarized as follows. Whereas political economy approaches overestimate the likelihood of change, institutionalist approaches underestimate it. An approach that seeks to reconcile the two takes account of how people learn how modern labour markets function.

3. Voters' Beliefs and Lumps of Labour

Processes of learning and belief formation, based on previous experience, is one way of explaining policy persistence and policy change (Braun and Gilardi 2006). More and more scholars subscribe to the view that a thorough understanding of welfare state reform requires an analysis of the role of ideas. Schmidt (2002), for instance, argues that the way the Lubbers government in the Netherlands engineered the political discourse on welfare state adjustment was decisive for its relative success compared to Germany. Likewise, Cox (2001) argues that the debate on globalisation was more controversial in Germany than in the Netherlands and Denmark. Though these claims are highly insightful, it is not so easy to assess their empirical leverage. For instance, account must be taken not only of the the fact that a large country like Germany discusses globalisation differently- but also of many other aspects, not all of them are of 'constructivist' in nature. Germany has a larger and more heterogeneous population and also greater weight in the world economy. While its size suggests that preference aggregation might be more difficult , its economic clout makes the acceptance of change less likely. Both hypotheses have some merit, but offer entirely different explanatory perspectives on policy reform. Neither is it always clear how discursive or ideational factors relate to standard explanations. Frequently they provide for different narrations, but not necessarily new ones (Blyth 1997). Hence, we must consider what kind of beliefs we expect to matter and in what way.

In their analysis of the power of ideas for foreign policy-making, Goldstein and Keohane (1993) distinguish between world views, principled beliefs and causal beliefs. Whereas world views and principled beliefs deal with broader concepts such as values, norms and ideologies, causal beliefs are 'cause-effect relationships' (p. 10). In a similar way I am interested in voters' beliefs in how labour

markets work and the implications for voters' attitudes on early retirement. Policy-makers may share these beliefs, acting in concordance with voters, but this is not the main gist of my argument. Instead, voters' beliefs as part of their preference formation will have an impact on political reforms, if politicians' fear to act against public opinion. Case studies on welfare state reform are full of examples of politicians shying away from certain policy options even if they themselves believed in the usefulness of these options.

In the case of EEPs I suggest a particular kind of belief. Voters may believe that there is an upper limit to the total number of jobs in a society, and that this upper limit may fall due to globalisation and technological change. Some economists call this argument the lump-of-labour fallacy (Krugman 1999). It has a rather long history. In the early 19th century, the Luddite social movement protested violently against the introduction of knitting machines (Polanyi 1944). Marxism popularized the idea that people fired in some sector remain unemployed or decrease wages in other sectors to the point of pauperisation. Modern versions of the argument that 'the modern economy' inherently destroys jobs and produces fewer new ones can be found in the writings of Jeremy Rifkin (1994).

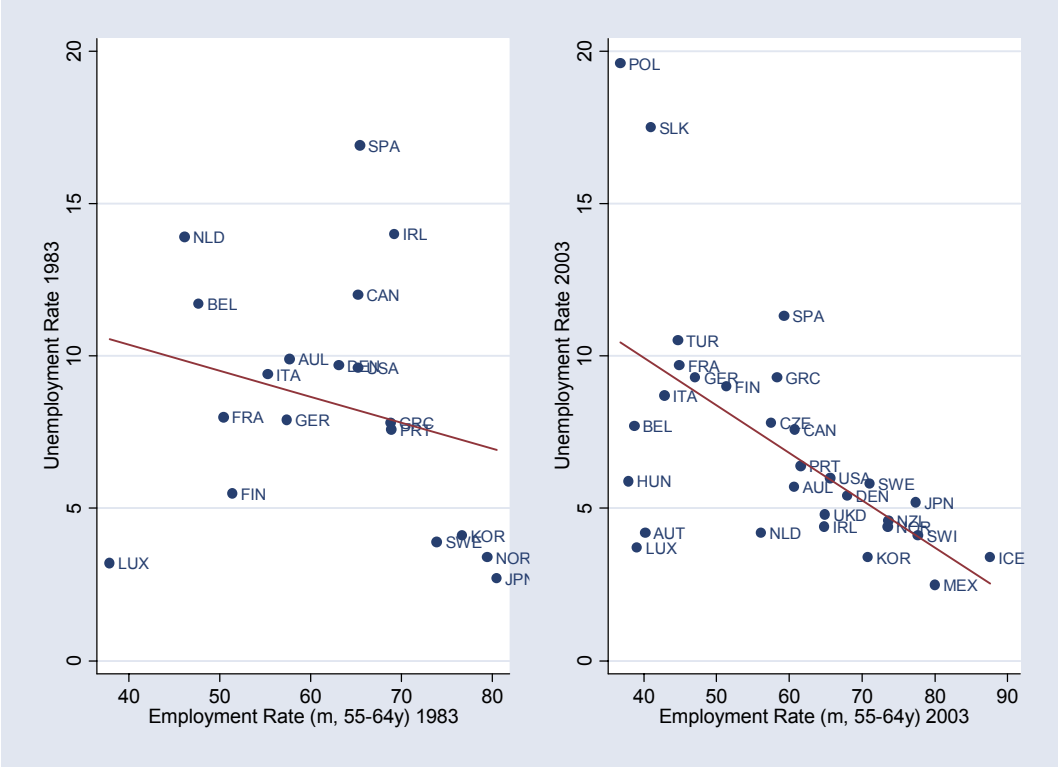
I think that this belief, in a less articulate version, haunts many national labour markets. From the perspective of an employed person/ voter this makes a lot of sense, if he or she cannot move quickly to other economic sectors or regions. Under such circumstances, workers will perceive high unemployment as a direct threat. Since they doubt the causal connection between more labour supply and more employment, they are more likely to resist reforms that intend to increase labour supply. The reduction of EEPs is such a policy reform. Under these circumstances it is difficult for voters to understand the need to reform EEPs. Neoclassic economists, of course, would argue that a dynamic economy will always create new jobs and that a constant or shrinking number of jobs is, at best, a sectoral but not an aggregate phenomenon (Krugman 1999). This argument has not remained uncontested, however, since it usually takes quite a time for a positive shock of labour supply to enhance employment (Carlin and Soskice 2005).

It is therefore an interesting question beyond the scope of this paper. Nevertheless, an attempt can be made to gauge its validity in a highly stylized way: a simplistic operationalisation consists of investigating the trade-off between older and younger workers across countries. Aggregate unemployment rates can be plotted against employment rates of men aged between 55 and 64. I intentionally concentrate on male employment rates, since most EEPs were tailored for male workers in the manufacturing sector (Kohli and Rein 1991).[4] Figure 1, panels a and b, shows the results for the years 1983 and 2003. It is clear that conventional story about the rise and fall of EEPs has some empirical merits. The gist of this

4 As the OECD (2006: 29) notes labour market participation of older and younger women is very similar. Hence, the cross-country gender pattern is more of a general nature and probably not due to EEPs.

story is that most governments, trying to fix high unemployment in the 1970s, recurred to EEPs, since they were in line with popular demand, backed by both employers and employees and expected to relieve tension on the labour market. According to cross-country data (cf. figure 1), this strategy did, at least, not produce adverse short-run effects . Although, as the line shows, the trend is slightly negative , it is not significant in a statistical sense (r = -0.25). Given its high popularity at the time, governments were tempted not only to maintain but even to increase EEPs. It played little role then that EEPs did not achieve their major goal, i.e., reducing unemployment by making room for other (especially young) workers.

Figure 1 (panels a and b): *The relationship between employment and unemployment*



The picture changed drastically within the next twenty years, as panel b shows. In 2003 there was a strong and statistically significant negative relationship between unemployment and employment rates (r = -0.58). To be sure, this graph does not imply any causality, and the sample size has increased. Yet, whereas more and more men exited the labour market early, unemployment rates went up rather than down. Nowadays, countries with high unemployment also have the highest incidence of early exit. The least one can deduce, therefore, is that EEPs were

not particularly successful in alleviating tension in labour markets and that cross-country evidence gives little reason to believe in the fallacy. But this macroeconomic bird's eye perspective is not the pool of information the average voter taps.

4. Micro-Level Evidence for EU Countries

The link between public opinion and welfare state policies has been intensively debated among scholars. Some studies simply assume a link between individual policy preferences and policy output (Iversen and Soskice 2001). Others try to measure the direct impact of public opinion on policy outputs such as social expenditure (Brooks and Manza 2006), but these attempts have not remained uncontested (Myles 2006). Moreover, in discussions on the determinants of political reform, the question remains whether beliefs are really independent variables. It is likely, for instance, that beliefs become more polarized if politicians are already undertaking initial steps in controversial measures. It is then hard to know if beliefs describe this process or explain it. For the purpose of this paper, my aim is hence more modest. I treat empirical evidence on beliefs as an 'intermediate' source of information that yields (additional) clues about the links between causes and effects, but I also try to describe the determinants of these beliefs. This is in contrast to Goldstein and Keohane (1993: 7) who concentrate on the mere effects of ideas. In my view, such a research strategy makes it difficult to tell whether beliefs mark real differences or mere epiphenomena. I consider it better to reason about the origins of different beliefs among voters or politicians if we are to understand their causal power.

Needless to say, it is impossible to discover true beliefs or preferences directly, so that the fundamental problem is how to test a claim on beliefs. Empirically, public opinion is so volatile that cross-temporal variation is difficult to explain. Moreover, national 'frames' and structural differences make it very difficult to compare cross-country means of aggregate populations (Druckman 2001). Therefore, aggregate analyses of such data have to be interpreted with caution. Most importantly for our purposes, there is no direct operationalization of the belief in a lump-of-labour fallacy at hand that holds across countries. A reasonable proxy is to use Eurobarometer data. Table 1 depicts responses to two similar questions in the surveys of 1992 and 2001.[5] People were asked whether they

5 The questions were: 'People in their 50s should give up work to make way for younger people' (EB 37.1, question 42.2) and 'People in their late 50s should give up work to make way for younger and unemployed people' (EB 56.1, question 68.1).

Table 1: Public Opinion on the Trade-Off between Older and Younger Workers

People in their 50s should make way…	2001			1992		
	Yes	No	Don't Know	Yes	No	Don't Know
Austria	7.20	55.50	7.30	.	.	.
Belgium	66.28	24.42	9.30	38.15	58.21	3.64
Denmark	23.38	75.53	1.10	31.50	67.70	0.80
Finland	38.71	58.28	3.01	.	.	.
France	69.56	26.05	4.39	29.91	67.20	2.89
Germany (W)	50.10	43.00	6.90	27.59	68.93	3.49
Germany (E)	59.86	34.79	5.35	24.58	73.24	2.18
Great Britain	20.53	71.57	7.91	26.50	71.51	1.98
Greece	90.84	7.27	1.89	44.30	49.30	6.40
Ireland	28.51	61.95	9.54	26.70	67.70	5.60
Italy	72.17	22.07	5.75	33.74	62.42	3.84
Luxembourg	71.67	25.83	2.50	30.13	66.67	3.21
Northern Ireland	24.34	69.41	6.25	.	.	.
Netherlands	31.31	63.92	4.77	22.35	75.55	2.10
Portugal	78.02	16.68	5.29	50.80	47.29	1.90
Spain	72.70	20.10	7.20	34.80	58.90	6.30
Sweden	50.90	46.60	2.50	.	.	.
Total	52.12	42.53	5.35	32.39	64.20	3.41

Source: Eurobarometer 37.1 and 56.1

strongly or slightly agree or disagree with the statement that older workers should make way for younger workers entering the labour market. I recoded those who (dis-)agreed strongly or slightly into one category. The table shows two important things. First, there is a pronounced difference between 1992 and 2001. In the latter survey many more people tended to agree with the statement. This may be for two reasons: either the 'discourse' in many countries has heated up over the nine years; or the wording has had a strong impact on responses, since only the second survey explicitly mentions the unemployed as potential beneficiaries.[6] Secondly, despite temporal variation, the table shows differences between country: in the UK, Denmark and the Netherlands the rejection of the statement always dominates, whereas in other countries public opinion is much more divided on the issue.

6 Of course, there are several additional problems with the use of these data. For instance, the wording is inherently normative ('should make way') so that it only indirectly reveals a causal belief in a trade-off between older and younger workers.

Given the problematic nature of aggregate opinion data, I proceed to some of the micro-level implications of the argument. For this purpose I use the 2001 survey, which dealt with the future of pension systems, and calculate logit regressions for all available countries (Table 2).

I distinguish between several types of independent variable. A first group reveals information about the individual situation of respondents such as age, income and employment status. According to the literature, workers closer to retirement should favour early exit and hence agree with the question. There may also be a non-linear relationship, since older people, e.g., pensioners, do not need to share this wish.[7] More affluent people should be more likely to reject the proposition if the standard microeconomic argument about rising opportunity costs is valid, i.e., people with higher wages have less interest in leisure (Becker 1976). The relative income position is difficult to measure, since many people do not want to state their income. More respondents give information on how they relate to a given reference income, so the following regressions use this indicator of income. I also include some control variables such as size of community, level of education and information on party membership to allow for the fact that not all respondents are equally well informed about the question. I also include gender to find out whether there was truly a male bias among those who agreed with the statement. Finally, an interest-based approach expects unemployed people to be more likely to agree than others.

A second group of variables entails information on the socio-economic environment of respondents. In the survey there is only one question suitable for these purposes (no. 18.8): 'Over half of my friends are unemployed.' A positive relationship should prevail if people form their attitudes not only on the basis of their own situation, but also on the basis of their personal environment. This variable is important, since beliefs usually do not arise merely from personal experience, but they do not necessarily depend on macro conditions in the labour market, either. Therefore, such a 'meso-level' variable addresses the role of groups in an analysis that is usually dominated by macro or micro-level approaches.

A third group of variables includes other attitudes that are potentially related and comply with other claims found in the literature. First, it is interesting to investigate whether agreement with the statement relates to the self positioning of respondents on a political left-right scale. Next, according to the literature on industrial partners, there is a positive relationship between question no. 44.13 ('…workers need strong trade unions') and the dependent variable. Third, I add question 67.09: 'More foreigners should be allowed to work in (OUR COUNTRY)….' If the argument about causal beliefs is true, people who reject

7 One reason to expect a non-linear relationship between age and the attitude towards early retirement is that workers may be risk averse and older workers are more likely to be better informed about their employment opportunities, given their past experience.

Table 2: Micro-Level Determinants of Public Opinion

Model	(1)	(2)	(3)
Individual-level variables			
Gender	-0.04	-0.12	-0.10
	(0.94)	(1.64)	(1.30)
Education	-0.01	-0.03	-0.03
	(2.71)***	(3.88)***	(3.43)***
Size of Community	-0.17	-0.17	-0.17
	(6.22)***	(3.58)***	(3.50)***
Personal Situation			
Age	0.01	0.01	0.01
	(2.83)***	(1.64)	(1.64)
Age^4	-0.00	-0.00	-0.00
	(2.85)***	(2.85)***	(2.55)**
Lower, equal or higher income		-0.08	-0.08
		(1.55)	(1.48)
Party member?	-0.08	0.19	0.16
	(1.02)	(1.46)	(1.17)
Unemployed in last 5 years?	0.21	0.14	0.14
	(3.78)***	(1.49)	(1.38)
Social Environment			
Half of my friends are unemployed?	0.37	0.34	0.33
	(4.93)***	(2.13)**	(1.99)**
Related Attitudes:			
Necessary to have a good job?	0.10	0.26	0.28
	(1.48)	(2.29)**	(2.31)**
Workers don't need strong trade	-0.10	-0.11	-0.10
unions?	(5.21)***	(3.43)***	(2.77)***
Foreigners shouldn't work here?	0.04	0.08	0.04
	(2.12)**	(2.42)**	(1.10)
Left - right self positioning		0.02	0.02
		(0.87)	(1.07)
Satisfaction with Job Security?		-0.03	-0.05
		(1.40)	(2.09)**
Endogenous Attitudes:			
Ageing as a major problem?			0.15
			(2.60)***
Duty to finance the elderly?			-0.01
			(0.25)
Raise retirement age?			0.35
			(8.47)***
Constant	1.05	1.42	0.28
	(0.67)	(0.72)	(0.07)
Number of Observations	11556	4324	3993
Country fixed effects	√	√	√
Log likelihood	-6607.7686	-2465.8412	-2231.114
Pseudo R^2	0.169	0.177	0.194

Dependent variable is belief in the trade-off in 2001(cf. text); absolute value of z statistics in parentheses, country fixed effects omitted

* significant at 10%; ** significant at 5%; *** significant at 1%

this statement also believe more strongly in a trade-off in the labour market. Hence, in this view, restricting immigration and enhancing early exit are two similar ways of reducing the labour supply and should therefore be correlated. Both the variable on the importance of unions and on the issue of foreigners are inversely coded, so that negative signs mean higher agreement with the statement. I add two opinions on the necessity of having a good job and personal satisfaction with job security. The later directly captures the effects of the perceived risk of losing a job on the belief in a trade-off between older and younger workers.

Finally, there are three further questions on attitudes that are highly similar to our dependent variable. One (q. 62.01) asks respondents whether they believe in a duty to finance the elderly, another (q. 66) whether they conceive ageing to be an important social problem, and a third (q. 67.03) whether respondents think it is necessary to raise the retirement age. Whereas the first two control for a sense of obligation for the elderly and the salience of the problem, the last links the attitude about the trade-off with the attitude on a direct question on policy preferences. Hence, the latter is surely not exogenous in a strict sense, but vital in understanding the extent to which our dependent variable is politically relevant.

I use a simple logit model, in which the dependent variable is 1 for 'strongly agree/ slightly agree' and 0 for 'slightly disagree/ strongly disagree.'[8] Table 2 reports three different models for a pooled sample of 17 countries.[9] The first model uses a reduced set of regressors which allows for the highest number of included observations. The second model adds some regressors, for which coverage is not as high, and the third includes information on attitudes which are likely to be endogenous to the dependent variable. All three models include dummy variables for each country (not reported) to account for unobserved country factors. Since pooling national survey data is not unproblematic, I reran all regressions for each section separately (not reported) to look for significant country differences.

Although the number of observations drops by almost two thirds going from model (1) to (3), most results remain fairly stable.[10] The inclusion of section dummies is necessary, but most coefficients remain stable even in models without them. The personal situation is, as expected, highly relevant. Respondents with longer education and living in larger towns are more likely to reject the statement. Gender is significant in only some countries, but with opposing signs. Party membership does not play a role, either. The probability of agreeing with the

8 'Don't know' was coded as missing value. I also ran ordered logit models, but the results are fairly similar so that we rather stick to the much simpler binary logit models.

9 Austria, Belgium, Denmark, Finland, France, Ireland, Italy, Germany (East), Germany (West), Greece, Luxembourg, Netherlands, Northern Ireland, Portugal, Spain, Sweden, and United Kingdom.

10 The situation is similar when sample size is kept constant. Results are available on request.

Table 3: Micro- and Macro-Level Determinants of Public Opinion

Model	(1)	(2)	(3)
Individual-level variables			
Gender	-0.03	-0.06	-0.06
	(0.71)	(1.32)	(1.32)
Age education	-0.01	-0.01	-0.01
	(2.18)**	(2.69)***	(2.69)***
Age	0.01	0.01	0.01
	(2.41)**	(2.41)**	(2.41)**
Age^4	-0.00	-0.00	-0.00
	(2.43)**	(2.38)**	(2.38)**
Size of Community	-0.17	-0.17	-0.17
	(5.92)***	(5.68)***	(5.68)***
Party member	-0.11	-0.06	-0.06
	(1.26)	(0.74)	(0.74)
Unemployed in last 5 years?	0.22	0.24	0.24
	(3.90)***	(4.10)***	(4.10)***
Social Environment			
Half of my friends are unemployed?	0.38	0.44	0.44
	(4.96)***	(5.27)***	(5.27)***
Related Attitudes			
Necessary to have a good job?	0.08	0.07	0.07
	(1.13)	(1.03)	(1.03)
Workers don't need strong trade	-0.09	-0.11	-0.11
unions?	(4.28)***	(5.28)***	(5.28)***
Foreigners shouldn't work here?	0.05	0.03	0.03
	(2.31)**	(1.39)	(1.39)
Macro-level Covariates			
Employment Protection Legislation	1.45		
late '90s	(17.52)***		
Unemployment Rate		0.02	
(avg. 1995-2000)		(1.48)	
Employment Rate			-0.10
(avg. 1995-2000)			(17.45)***
Constant	-2.51	1.00	8.22
	(11.17)***	(3.47)***	(16.68)***
Observations	10881	10675	10675
Number of country code	15	15	15
Country fixed effects	√	√	√
Log likelihood	-6202.2952	-6023.3302	-6023.3302

Dependent variable is belief in the trade-off in 2001(cf. text); absolute value of z statistics in parentheses, country fixed effects omitted

* significant at 10%; ** significant at 5%; *** significant at 1%

statement first increases slightly with age, but drops pronouncedly thereafter. Older people do not share the belief. The self-reported relative income position does not affect the likelihood of agreement, but this may be due to the crude operationalization of the indicator. Being unemployed increases the probability of agreement by some three percent (model I), but this effect does not remain sig-

nificant in the other models. The effect of having many unemployed friends remains stable and increases the likelihood of agreeing by some eight percent – all else being equal.

Other attitudinal variables perform as expected. Agreeing with a strong role for trade unions, also leads to agreeing with early retirement. Salience, measured by the importance of having a good job, also performs as expected. Job security is significant only in the last model, but bears the expected sign. Left-right positioning, however, does not seem to play a role in the pooled sample. Closer inspection of country regressions gives a more nuanced picture. In some cases, such as Germany or Ireland, it is more right-leaning voters who agree with the statement, whereas in others, most notably Sweden and Italy, it is the political left. Opposing the immigration of foreign workers is clearly associated with a preference for early retirement. In some countries, such as Eastern Germany and Austria, this effect is fairly strong. In the UK, however, the relationship is reversed so that those agreeing with immigration also agree with early retirement. As for the last group of indicators, approving a higher age of retirement decreases the likelihood of agreement with early retirement. The situation is similar as regards the notion that ageing constitutes a major problem. No effect for duty could be found.

All things considered, the data largely confirms the major hypotheses. Though personal situation clearly drives attitude towards early retirement, as expected by political economists, this is not enough. For instance, public opinion does not reveal a gender bias. Women hence seem to agree with a policy that has been predominantly designed for male workers. The socio-economic environment has a strong impact on the perception of the problem. Having many unemployed friends increases the likelihood of a person agreeing with the proposition. In my view the variable measures a social multiplier effect, i.e., a person's opinion depends on the situation of others. In fact, it seems to be more decisive to have many unemployed friends than to be unemployed yourself. It is also remarkable that there is no clear partisan bias, because it seems to depend on the national peculiarities of the political system. In Germany, for instance, it has frequently been argued that the Christian Democrats expanded early retirement drastically in the 1980s (Zohlnhöfer 2001), whereas Swedish conservatives opposed it (Ebbinghaus 2006). Adherents of trade unions universally agree with early exit, thus corroborating the literature on trade unions. The sole exception is Ireland, where those with positive opinions about trade unions reject the need for early retirement. Hence, the literature on social pacts seems to find its expression in the Irish case, but this may also be due to the fact that the business cycle in Ireland was much more favourable than in other countries. The fact that rejecting immigration and agreeing with early retirement go together strongly corroborates the thesis of a lump-of-labour belief. Of course, attitudes towards immigration reveal a great deal more than preferences for labour market policies. Nevertheless, immigration and increasing retirement age may be seen as two versions of the same policy attempt to increase the labour supply. People who see foreign immigrants as competitors also want to decrease competition between older and

younger workers. Finally, the dependent variable clearly relates to the stated policy preference on whether or not to postpone retirement age. The dependent variable therefore seems to be a reasonable proxy for the research question about EEPs.

5. Some Tentative Findings on the Macro Level

In the third section, I have hypothesized that aggregate indicators of national labour markets should relate to belief in the trade-off. Countries that face higher rates of unemployment and higher rates of early exit also face higher rates of agreement, lower rates of disagreement and higher rates of uncertainty about the question. These labour market conditions may not be totally exogenous if the public discourse has any impact at all on economic conditions. More to the point, nobody would be very surprised by a correlation between the statement and unfavourable labour market conditions. Hence, we need to dig a little deeper for potential macro-level determinants that reveal more than trivial information about the causes of beliefs. Empirically, I examine some of the correlates of country aggregates in greater detail to screen the potential causes of attitudes towards EEPs. Table 4 shows the correlates of the two Eurobarometer surveys with these potential causes.

The first group is loosely labelled ‘structural conditions’ and concerns the structural indicators of the labour market. I have experimented with several indicators that are available on the macro-level, but show only the results for the overall employment rate, the rate of unemployment, as well as two five year averages of these two indicators. The second group is equally loosely labelled ‘political institutions’ and contains some measures of policies and reforms. The first is the OECD index of overall employment protection legislation (OECD 2004). The second, AITR, shows a summary index for the year 2000 of the average implicit tax rates of older workers between 55 and 64 face when making their decision to retire. The index was constructed by Romain Duval (2003) and measures the material incentives to retire early measured as foregone pension or early retirement benefits. A tax rate of zero implies that EEPs are actuarially neutral and the retirement decision should depend purely on individual preferences and circumstances. The other two indicators are also OECD-based and seek to measure a country’s effort to reform its labour market regulation (Brandt, Burniaux, and Duval 2005). One is a summary index measuring the overall extent of reform between 1994 and 2003-4, whereas the second focuses on reforming the transition of older workers in the same period.

A look at Table 4, as well as the remaining correlations between indicators (not reported) leads to several major findings. As shown in the figure 1, unemployment and male employment rates of older workers correlate negatively. The cor-

Table 4: Correlates of Public Opinion

	Should Make Way (1992)	Should Make Way (2001)
Socio-Economic Conditions		
Employment Rate, 55-64y, male	0.03	-0.35
Employment Rate (both sexes), avg. 1995-2000	-0.50	-0.65**
Unemployment Rate	0.35	0.56*
Unemployment Rate, avg. 1995-2000	0.19	0.35
Political Institutions		
Overall Employment Protection Legislation, late '90s (OECD)	0.69*	0.90***
Average Implicit Tax Rate (Duval 2003)	0.09	0.24
OECD Reform Index retirement	-0.42	-0.21
OECD Reform Index all fields	-0.36	-0.56*
Should Make Way 1992	1	0.67

Source: Own calculations

relation would also hold for the five year average rates between 1995 and 2000 (not reported). Table 4 shows that the survey answers of 1992 and 2001 correlate, though not significantly due to the small number of observations (9). The strongest correlation I find is between the share of those agreeing to the statement in 2001 and the extent of employment protection legislation in the late 1990s. I have also plotted this relationship in Figure 2, which shows that there are virtually no outliers. Apart from that, aggregate agreement with the statement correlates positively with unemployment and negatively with average employment rates and the level of labour market reform.

The interpretation of these correlations invites certain preliminary conclusions: The overall condition of a labour market, above all the recent evolution of employment, drives attitudes towards early retirement. Such a relationship has been shown before and is therefore not very controversial (Blekesaune and Quadagno 2003;Svallfors 1997). The strong relationship between employment protection and public opinion requires more interpretation. A higher level of employment protection seems to induce more people to believe that the overall amount of jobs is limited. To be sure, employment protection legislation does not unequivocally drive the level of unemployment or employment rates, but it reduces turnover in the labour market and makes people more afraid about unemployment and job

security (OECD 2004).[11] Hence, it is not far-fetched to presume that employment protection legislation also accelerates belief in the lump-of-labour fallacy. The higher the job protection the more difficult it becomes for an unemployed person to find a new (comparable) job and the more he or she will think that trade-offs dominate modern labour markets. The indicators of public opinion relate to indicators of labour market reforms and EEP institutions. This relationship points in the expected direction, i.e., a stronger opinion about trade-offs goes hand in hand with less vigorous attempts to reform and higher incentives to retire. Though the relationship is not very strong in a statistical sense it is remarkable that no reverse effect is apparent, i.e., the level of labour market reform arouses a belief in a trade-off. This gives a measure of corroboration to the claim that beliefs matter in a causal sense and do not merely reflect current reform debates.

We can now combine the micro and the macro levels of analysis. I follow the role of unemployment, employment, and employment protection as meaningful macro-level determinants of micro-level behaviour. From an econometric point of view, it is a logical extension of the micro model in Table 1 to control for macro-

Figure 2: The Relationship between Employment Protection and Public Opinion

11 Anderson and Pontuson develop a more nuanced stance on the link between employment protection legislation and personally felt insecurity. They find a significant relationship for job insecurity, but not for general labour market insecurity (Anderson and Pontusson 2007).

level determinants. This is what multi-level models do (Luke 2004). Instead of distinguishing between countries on the sole basis of fixed effects as in Table 2, I assume that there are macro-level variables directly imposing an impact on the average cross-country variation of micro-level determinants. I use this simple version, since I am interested only in the overall impact of macro-level variables and not in a specific interaction effect. Econometrically, I use a mixed-effects model, i.e., a combination of country fixed and random effects. Table 3 shows the results for the three different macro-variables and a set of micro-level determinants that reiterates the model specification with model I in Table 2.

By and large, the results of Table 3 replicate the findings of Table 2. Agreement with the statement is driven by age, size of community and personal and social experience with unemployment. Political factors do not play a direct role. The only, but quite remarkable difference between the two tables is that the link between attitudes towards foreigners and towards early retirement turns out to be fragile, once the macro-level variation in unemployment and employment rates is included (columns 3 and 4). It is also remarkable that unemployment does not seem to play an important role in itself. It is, by and large, accounted for on the micro- and meso-levels. On the contrary, the average employment performance of the last five years significantly contributes to explanations on the micro-level (column 4). The same for the role of employment protection. The multi-level analysis therefore reinforces the idea that institutional factors do play a role in how people perceive the functioning of labour markets. Higher employment protection explains some of the aggregate variation across countries.

6. Conclusions

In 1994 the Lubbers government was voted out of office, because it had frozen the level of public pensions. For the first time in 70 years, a coalition government formed without the participation of the Christian democrats. In contrast, the German government of Helmut Kohl , which won by comfortable margins four general elections in a row, shied away from a strong retrenchment in early retirement systems. Political economists are struggling with these facts, since they have problems explaining why EEPs arise in the first place and why they are not easier to retrench (Conde-Ruiz and Galasso 2003). Institutional accounts point to the role of specific institutional arrangements and their temporal persistence, but they sometimes allow for much leeway in the causal assumptions. The formation of voters' beliefs is an important part of the puzzle and gives some insights into the dynamics of reform processes.

Of course, this discussion paper has outlined only a first test which needs to be further developed at a later date. Yet, I have shown that people differ in how they perceive trade-offs between older and younger workers. These perceptions are

formed sociotrophically, i.e., respondents factor in not only personal experience, but also the experience of their surroundings. Moreover, their beliefs relate systematically to other beliefs about the necessity to limit competition in labour markets, for instance to protect workers against foreign labour. These findings are important empirical backing for the view that voters do not understand why policies designed to enhance the labour supply should be implemented in situations where labour markets perform badly. From an economist's perspective, this might be an ironic tragedy, but, ultimately, reforming EEPs is a political not an economic task.

If these results survive further empirical tests, they will also teach an important lesson about the political feasibility of labour market reforms. In recent times, for instance, it has been argued that flexicurity is an important normative *Leitbild* or paradigm for labour market reform (Wilthagen 1998). Flexicurity means combining flexibility and turnover in the labour market with high benefit levels in the social security system to mitigate the negative consequences of becoming unemployed. So far this political programme has had little success outside Denmark. The reason, I think, lies in the fact that voters do not readily 'buy into this story'. In times of high unemployment, voters rather think that flexicurity is all about flexibility and, quite paradoxically, less about security.

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