

Active Ageing Between Labour Market and Retirement:

Externalization and Integration – Two Contradictory Pat- terns for Ageing Workforce in Germany

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Abstract

This WiP-paper draws on the findings of two research projects, which examined managers' awareness about the ageing society and their attitudes towards older workers in Germany. One of the major results of the project is the paradox facing the labour market situation of older workers and the ensuing policy paths dominated by the contradictory pattern of **externalization** through extensive "**early retirement**" and the pattern of **integration** and **employability** as a focus of social policies to enable workers to enter and stay in paid labour until the "normal retirement age". By addressing the causes for the development of these patterns, the paper will discuss that social partners as well as the state's important role in this setting. In the end, the contradictory patterns referred to will be explained as a form in which the various interest groups find their expressions.

Dieses WiP-Paper baut auf zwei Forschungsprojekten auf, die sich mit politischen Strategien zur Überalterung der Gesellschaft und dabei speziell mit älteren Arbeitnehmern in Deutschland befasst haben. Dabei konnten zwei gegenläufige policy-Pfade identifiziert werden: Einerseits eine **Externalisierungsstrategie** per **Frühverrentung** und andererseits eine sozialpolitische **Integrationsstrategie** zur Sicherung und Schaffung von **employability**, wodurch ältere Arbeitnehmer im Arbeitsverhältnis gehalten werden sollen. Auf der Suche nach den Hintergründen dieser Entwicklung wird das vorliegende WiP-Paper sowohl die Rolle der Sozialpartner als auch die Rolle des Staates diskutieren. Fazit des Papiers ist, dass die genannten Strategiemuster auf die politische Wirkung verschiedener Interessengruppen zurückzuführen sind.

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1 Introduction¹

As the demographic change and the ageing of the population continue to challenge Germany and its social welfare system, the impact of globalisation and turbulent developments on the labour markets gain further importance. While a wide discussion takes place on "ageing and society" (the increase of life expectancy, on low birth rates as well as on the increasing ratio of elderly people to the total population), which is said to have effect on the financial situation of the pension insurance, the participation of the older workforce on the labour market remains to be unsatisfactory. The decreasing labour force participation of the older age groups and the already retracted former trend towards early exit from work has yet brought in another debate on the political regulation through the increase of the pension age from 65 to 67 years. The paradox of the situation lies in the fact that, while **externalization** through "early retirement" as a result of restructuring strategies of firms, poor working conditions, poor healthcare and low qualification of older workers have been and are still present in the firms and organisations, social policies now try to focus on the **integration** and **employability** strategies by which workers should enter and stay in paid labour until the normal retirement age of **65** or **67** as from the year 2012. The **externalization** and the **integration** patterns are two important concepts describing the present labour force participation of older workers, though in their paradoxical situations they are not enough to fully describe the social process. Social partners in this setting as well as the state play an important role, when it comes to recruiting, developing, retaining or laying-off older workers. Amongst this, age-specific risks on the labour market has become a crucial problem facing the older workforce (50 years and above).

Faced with this complexity, one of our research projects has investigated the awareness of enterprises about the demographic change and their attitudes towards the employability of older workers in the Metalworking and Electronic Industry in small and medium-sized enterprises (SMEs). The research focused in-depth on working structures, recruitment patterns,

¹ The author would like to thank her student assistant Lisa Haug for valuable research assistance. This paper has originally been written for a presentation within the research network "Ageing in Europe" at the 8th European Sociological Association conference in Glasgow entitled "Conflict, Citizenship and Civil Society" from 3rd to 6th September 2007.

qualifications and skills of older workers as well as their hypothetical relation to personnel management trends, age-specific risks and segmentation. The findings of the research work corresponded to polarisation, externalization and integration strategies, which have effects on the older labour force. The other research project – "Age Atlas: The Potential of Older Workers" – mainly focused on social dialogue, discourse and interaction among the social partners and their strategies to promote the active participation of older workers on the labour market.

This paper will thereby examine the paradox between the **externalization** and the **integration** patterns and the roles and interests of the social actors, which affect the older workforce on the labour market. It will thereby outline significant results of our research on the **awareness** and **attitudes** of employers towards older workers.

2 The demographic change and its impact on the German labour market: An overview

One of the major issues facing Germany and other industrialised European countries is the ageing of the population and the low birth rates. According to the 11th population forecast for Germany, coordinated by the Federal Statistical Office and the states statistical offices (Statistische Landesämter), there will be a change in the size and especially in the age structure of the German population, which according to experts will have an impact on the labour market, the social security and the health systems.

According to this projection, the birth rate will further decline and as a result of low fertility rates, the number of potential mothers will continue to decline, so that in future the average child per potential mother will approximately be 1.4 by 2050. As a consequence of this, the number of children given birth to will decrease further. The German population, which has been declining since 2003 will further continue to shrink. With the continuation of the present demographic development the population of approximately 82.5 million in year 2005 will decline to 74 and narrowly down to 69 million by the year 2050.²

The age relation between old and young will vigorously change. At the end of 2005, 20% of the population was younger than 20 years and those aged 65 and older was at about 19%. The rest of the remaining 61% of the population consisted of the so-called working age of 20 to under 65 years. In contrast, by the year 2050 only half of the population (50%) will be of working age, over 30% of the population will be 65 years and older and approximately 15% will be under 20 years. By 2010, the number of children, youths and young adults under 20 years will be almost 10% less than it is today and this will continue to further decrease.

In the long run, the population in employable age will also grow old and it will shrink. Until approximately 2015 the number of the 20- to under 65-year-olds will remain stable at about 50 million. To that, the older age groups of the 50- to under 65-year-olds will proportionally increase. The population in employable age will be 42 to 44 million by 2030 and by 2050 it will sway between 35 and 39 million.

² Cf.: Federal Statistical Office, 2006, p. 5 (Population forecast with migration)

With that, the age structure within the employable age will clearly have shifted. At the moment, 50% of the population in employable age belong to the middle age group of 30 to 49 years, while scarcely 20% belong to the younger age group of 20 to 29 years and 30% to the older group of 50 to 64 years. By 2020 the middle age group will only be consisting of 42% and the older age group will be made up of about 40% and almost as strong as the middle age group. In year 2050 the constitution of the age groups will remain the same as 2020, where the middle age will consist of 43% of the employable population and the older age group 40%. The proportion of the younger age will dwindle, so that the employable population will be strongly represented by the older and middle age groups³. The labour market will then be faced with an ageing workforce.

Irrespective of the forecasts that the labour market will be confronted with an ageing workforce, the unemployment rate among the age groups of 50-64 continue to be a problem on the labour market. The problem facing older workers is more or less the fact that, if they loose their jobs, it is very difficult to be hired again by the companies.

An authentic explanation for the low employment rate of the older age groups can be found in the practice of early retirement. This practice had been widespread among companies since the 70s, 80s, 90s and even now, as a method of restructuring and reorganising as well as a social benefit for long working life among workers and their representatives and as a way of providing jobs for younger workers and trainees. So there had been the practice of systematic externalization (on which I shall elaborate later) on the one hand in exchange for the integration of younger unemployed and trainees on the other hand. The pattern of externalization through early retirement as a way of exit has caused the drastical reduction of the normal retirement age. The average exit age from the labour force in Germany lies 4 years below the normal pension age of 65 years. This corresponds with the low employment rate of older workers in Germany compared to other countries like Iceland, Sweden or Denmark. Figure 1 below shows the employment rate of older workers from 1994 to 2006 in comparison to the goals defined by the European Council in Stockholm in 2001 as a general political guideline. The goal outlined that EU member states should in-

³ Cf.: *ibid.*

crease the employment rate of their older workers aged 55 years and older by 50% by the year 2010. Although this goal has not been achieved by Germany as of yet, it presently lies by 48.5% as of 2006 and might most probably fulfil the target. Nonetheless, the unemployment rate of older workers continued to rise from 11.6% in 1994 to 12.7% in 2005 and 12.3% in 2006. This leaves us to conclude that more efforts still have to be made to further increase the employment rate of this age group in order to fully achieve the goals of Stockholm on the active integration of older workers. The paradox however, remains to be the fact that, irrespective of these positive changes toward achieving the goals of Stockholm, employers still have not outrightly changed their attitudes towards the employability of older workers when it comes to hiring, retaining and developing the potentials of older workers.

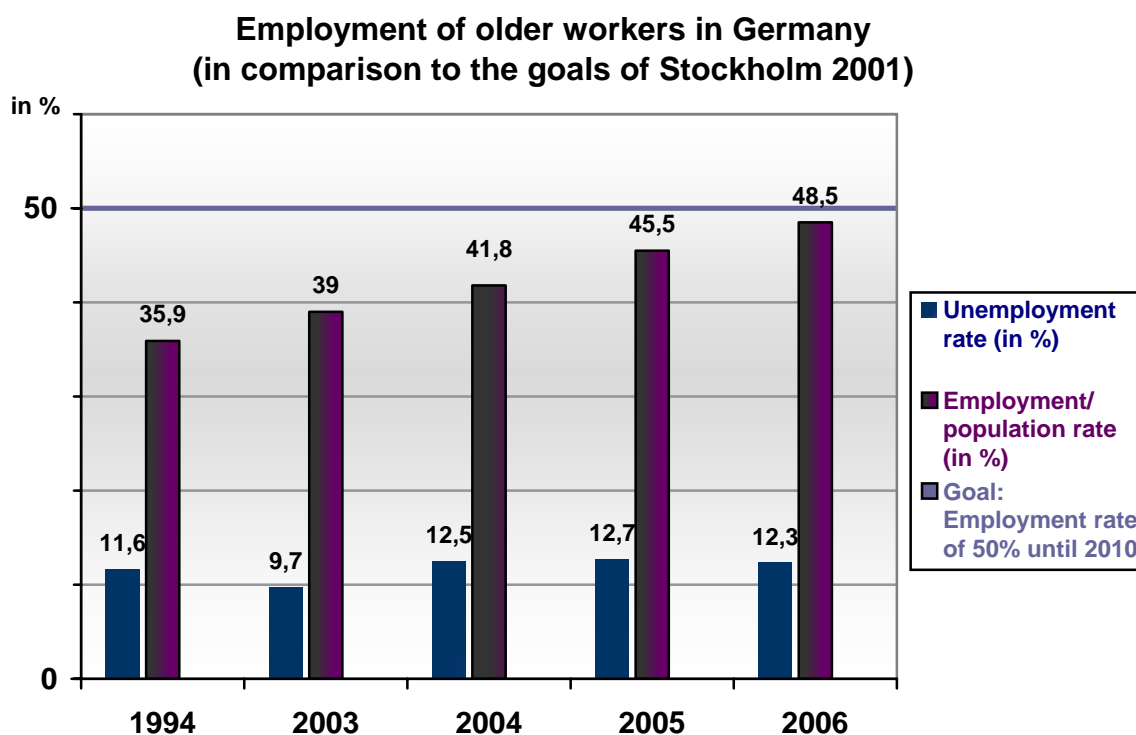


Figure1: Employment rate of older worker in Germany compared to the goals of Stockholm in 2001. Source: OECD Outlook 2007.

If however, older workers have to be actively integrated into the labour market and in the companies according to EU goals, then employers should have to change their attitudes altogether.

Looking from the perspective of the ageing workforce and the changing structures of the working ages, where older workers will form a good proportion of the labour force by 2030, employers and the labour market will have to depend on older workers as an important labour force. As a consequence of the demographic change and the increase of the statutory pension age from 65 to 67, workers will have to work longer.

Nonetheless, looking at the current educational and labour situations in Germany on the whole, education usually takes long to complete so that graduates start work or are available for the labour market at a much more later age than their counterparts in other European countries. Added to the late entry into the labour market Germans also retire quite early. Although there are several policies that have recently been implemented to combat these problems – like for example reducing the school period for the German A'level (Abitur) from thirteen to twelve years or introducing the Bachelor and Master degrees at the universities in order to shorten university education and enable well-educated Germans to enter the labour force at a younger age, cutting off the financial incentives for early retirement – externalization pattern still seems to be a paradox to the integration patterns. In further dealing with these two patterns, I would like to first of all examine the attitudes of employers towards older workers from a theoretical perspective and then closely look at the roles of the various actors and their interaction and coalition strategies in the later chapters.

3 A theoretical background for the attitudes of enterprises towards older workers in Germany

The explanation for the labour market problems (both external and internal) of older workers in Germany often lie in the prejudice about the **efficiency** and **productivity** of older workers. The so called "**deficiency model**" of ageing, which was at first confirmed in a psychological study, assumes that a general degeneration of learning and efficiency takes place with the increase in (calendar) age⁴. However, in a longitudinal study it could be proved, that there are other factors that influence and explain the differences between **efficiency**, **output** and **intelligence** apart from the calendar age⁵. These influencing factors such as motivational and supportive conditions of the environment as well as continuous vocational training make it clear, that deficiency and low output do not necessarily have much to do with ageing process.

The deficiency and low output could well have to do with the fact that efficient potentials lie fallow, unused and uninvested into, so that a one sided pressure is usually followed up with deterioration (so called disused-effects). Some older studies on efficiency and intelligence have been criticised, on the grounds that undifferentiated concepts have been implemented in the course of the survey. With outlined differentiated concepts on the other hand, it could be proved, that some capabilities tend to deteriorate with the ageing process, while others even tend to increase as someone gets older. Dohse et. al., who represent the alternative ageing model criticise the "deficiency model" and refer to it as a model of "functional ageing", which relates changes in efficiency to calendar ageing. In contrast to the "functional ageing" approach, the "alternative ageing" approach from Dohse et. al. is described as an "individual-biographical" approach, which abandons the generalisation of ageing process and emphasises on individual differences in the ageing process⁶.

Another alternative between the "functional ageing" approach und die "individual-biographic" approach is the stigmatising approach (the so called

⁴ Cf. Bäcker, G. 1982, p. 74 and Lehr, U. 1979

⁵ Cf. Lehr, U. 1979, p. 68f

⁶ Cf. Dohse, K. et. al. 1982

labelling approach), which relates to age not as an attribute, but as societal valuations of corresponding stigmatisations and accredited roles in the society, which has asserted itself in the sociology of ageing. This labelling approach represents the notion that the older people get the less efficient and capable they become, so that assessment on vitality becomes the rule. Therefore, the question of age and the process of ageing tend to take an important role in the individual and societal consciousness⁷. The assessment according to qualities (**ascription**) stands in contrast to the assessment of people according to individual competencies (**achievement**), which actually dominates the modern society today. It seems to be a matter of fact today, that the “**ascribed**” features (to which age belongs) is becoming less and less important for the allocation of status in the modern society, while the “**achieved**” feature gains more importance for the allocation of competence and success. From the economic perspective, age definition on the labour market also fundamentally tends towards the “achieved” pattern variable, i.e. when the production and distribution of a society's goods and services are regulated by market forces, enormous pressure is exerted on employers to fill occupational positions on the basis of individual skills and not because of ascriptive attributes⁸. But the actual factor which really influence the industrial societies is the “**Youth-Cult**”, which stands in alignment to vitality, capability and good performance, so that the society ascribes efficiency and career orientation to younger people and security und inflexibility to older people.

The role of age could furthermore be of vital importance when trying to analyse personnel decisions made within companies in relation to older workers. The situation of older workers tends to bring in discrepancies when analysing the actions of decision makers on the internal labour market. A primary characteristic of the internal labour markets in Germany is the long-term employment relationship and the special relevance it attributes to work experience in the various vocations within the companies. However, the worklife span (tenure) employees spend in employment remains to be short because of earlier exits of older and later inflow of younger people. As this trend occurs in Germany, the externalization of older workers has been extensively used on these internal labour markets

⁷ Cf. Baltes and Baltes, 1992, p. 9 and Tews, H. P., 1991

⁸ Cf.: Bangali, L. 2004, p. 5

through the channel of early retirements based on institutional und regulatory frameworks⁹.

According to Bellman et. al. (2006, p.18f) a further reason for the externalization interest of companies towards their older workers could be found in the "seniority principle of wage setting" and the unwillingness of employers to invest in the continuous vocational training of older workers. Some few decades ago, neoclassical labour economists had the notion, that the theory of human capital provided an adequate answer to this question. The neoclassical theories assume that profit-maximisation considerations by competitive companies would ensure that all workers are paid their marginal revenue product. Therefore, if one group of worker is systematically paid less than another it should be that the groups differ in their productivity. However, in the last decade this has brought about some doubts and puzzles.

In the labour market economy, there are two main types of explanations for growing age-wage-profile (cf. Bellmann, L. 1989). On the one hand the "Human Capital Theory Model" from Gary Becker (1975) and the "Principal-Agent-Model" from Edward P. Lazear (1979, 1981) on the other hand. According to the human capital model of Becker, G.S., the development of a company is only limitedly related to the investment into material assets and mostly correlates to the educational assets of its workers. So that in the theoretical explanation of this model about increasing wages according to age and job tenure are being justified by growing productivity and this from the viewpoint of employers, do not give any incentive to externalise older workers. Nevertheless, with firm-specific qualifications and with the equal share of the human capital investment costs among employers and employees, the wages or compensations of older workers or rather those with a fair amount of job tenure in companies are even below that of their productivity, because enterprises are not willing to invest their own share of human capital investment costs in older workers¹⁰. For example, seniority systems, layoff policies that vary with skill, and the relationship between tenure and turnover can be explained in terms of human capital. "One of the most influential theoretical concepts in human capital analysis

⁹ Cf.: Kohli, M., 2000, S. 364f, Kohli, M. et. al 1991, p. 1f

¹⁰ Cf.: Bellmann, L. et. al. 2006, p. 18f

is the distinction between general and specific training or knowledge. By definition, firm-specific knowledge is useful only in the firms providing it, whereas general knowledge is useful also in other firms. This distinction helps explain why workers with highly specific skills are less likely to quit their jobs and are the last to be laid off during business downturns.”¹¹ According to Hutchens, R. (1989, p. 49) “the fact that these explanations are connected leads, however, to something like a domino effect: doubts about one cast doubt on the other”.¹² According to Bellmann, L. et. al. (2006), if one should try to explain the externalization interests of employers through the human capital theory of Becker, this could not be done by the argument of "seniority-wage-setting", but it must be argued on the basis of the "low efficiency and productivity" of older workers, which brings us back to the point of "deficiency model" mentioned earlier on in this paper¹³. However, conclusive for the argument based on the human capital theory is, that the willingness of companies to invest into the human capital of especially older workers in order to increase their productivity decreases with age. The possible amortization period for the investment in their qualification is much more limited than for younger workers. This argument tends to become more and more important the earlier workers exit from wage and salary labour. In this regard, collective bargaining and statutory policies like the partial retirement and the possibility through the path of unemployment with a corresponding increase of the unemployment benefit by the companies (the age "57" and "58" policy) to retire early, increase the possibility that human capital investments do no longer take place for older workers¹⁴.

In contrary to the human capital theory of Becker G., Lazear E. P. (1979 and 1981) explains seniority-wage-setting not with human capital investment, but as an instrument for increasing achievement motivation and control of moral behaviour. Lazear argues that, it is optimal to construct age-earnings profiles, which pay workers less than the value of marginal products when they are young and more than the value of marginal products when they are older. According to this theory, even in the absence of

¹¹ Cf.: Becker, G.S. 1992, p. 44

¹² Cf.: Hutchens, R. 1989, p. 49

¹³ Cf.: Bellmann, L., 2006, p. 18ff

¹⁴ Cf.: Bellmann, L. /Leber, U. 2004

on-the-job training or skill acquisition, upward-sloping age-earnings profiles are prevalent¹⁵. A worker enters a firm at one wage level and through a sequence of promotions and raises attains a higher real wage. In most organisations workers receive higher wages than their juniors. Indeed, the more senior workers often also obtain larger nonwage compensation, like pension rights, vacation time and other “perks¹⁶.”

The major points of this theory argue that wages grow with experience even if productivity does not. Which means that "senior workers receive high salaries, not because they are so much productive than junior workers, but because paying them higher wages produces appropriate work incentives for them and motivation for their more junior coworkers. So, the wage of workers increases according to their amount of job tenure in the company and with that according to the acquired experience and not by productivity which in itself is independent of age.

In summary, the work of Lazear established two facts that appear to be incompatible with the human capital explanation of Becker of why wages increase with seniority. Firstly, some jobs are characterised by mandatory retirement and or / actuarially unfair pensions. Second, there exist jobs where wages increase with seniority, even though productivity does not grow with seniority.¹⁷

From an institutional socio-political approach known as the “**segmented labour market**”, which views the labour market as a collection of parts or segments, the paper will furthermore focus on theoretical explanations about the attitudes of companies towards older worker on the German labour market. From the neoclassical point of view, little attention has been given to the actual employment opportunities available or given to older workers¹⁸. In a related analysis, Hutchens (1988) developed a segregation index for older-worker-employment in USA, where he reported that employment was more segregated among older new hires than among older workers in firms in general or among younger new hires¹⁹. With the idea of a distinction between internal and external as well as primary and

¹⁵ Cf.: Lazear, E. P. 1981, p. 606

¹⁶ Cf.: Hutchens, R. M. 1989, p. 50

¹⁷ Cf.: Ibid, p. 54

¹⁸ Cf. Hutchens, R.M. 2006, p. 4

¹⁹ Cf. Hirsch/Macpherson/Hardy 2000, p. 403

secondary labour markets, this segmented labour market theory argues generally that some groups of workers are restricted to secondary labour market jobs which are quite segregated into gender, age, race and ethnicity. The institutionlists believe that the causes of labour market disadvantage in these various segments are structural, built into the institutions of the economy and the society. The institutional theories tend to focus more on explaining why there are some workers like for example older workers who suffer labour market disadvantages because of their age or women because of their gender.

Does a Labour Market segment exist for older workers in Germany? In various studies on the issue of employment situation of older workers, it could be proved that, older workers have enormous difficulty to be hired from the calendar age of 50 years. The long term unemployment among older workers is one of the problems on the German labour market. The sociological explanation for this problem could be found in Max Weber's concept of social exclusion. Social exclusion explains the rupturing of social bonds and it is a process of declining participation, access and solidarity. At the societal level, it reflects inadequate social cohesion or integration. At the individual level, it refers to the incapacity to participate in normatively expected social activities and to build meaningful relationships.²⁰

How can social exclusion, marginalization and inadequate integration of older workers on the German labour market be explained by the theoretical approach of segmentation? The first theses of the segmentation theory emanates from the division of the labour market in primary and secondary sectors. The internal labour market is characterised by well paid qualified and more secured jobs, while the secondary sector is being characterised by instability, short-termed, low-waged and less qualified jobs. The German labour market is furthermore concretely stratified into **unstructured, professional** and **firm-internal** labour markets.

The unstructured market sector or segment is the "everybody's labour market", where there are no employment bonds between employer and employee and the workers do not have any specific qualification, workplace security, career ladder and the wage conditions are poor.

²⁰ Cf.: Silver, H.; 1994, p. 531

Within the professional labour market segment, employers and employees are bonded through certified qualifications so that the workers are flexible and mobile between different firms and companies. However, technological changes can demand changes in professional requirements and thus destroy existing qualifications or make them valueless. High potential and qualified workers with a multi-faceted product and process knowledge, which causes a reciprocal bondage between employer and employee and leads to long term employment, characterize the firm-internal and specific labour market segment.²¹

From these identified labour market segments various employment risks could be identified for older workers. On the unstructured labour market, there are less diversified jobs so that because of maximum manual and physical labour, deterioration of performance is mostly the case. On this labour market with physical performance, older workers easily become a problem group because they cannot withstand hard manual jobs.

Within the professional labour market segment older workers are in direct competition with younger professional workers. The point here is that through the fact that employers regard the qualification of older workers as outdated, they prefer to hire younger workers who are regarded to have the most updated qualification. Within the firm-specific labour market segment, employers seem to avoid recruiting new older workers for jobs that older workers already employed can obviously do. So that in the case of a job opening, the employer either shifts a current employee from within the internal labour market (mostly a younger worker) into the job, or recruits a new younger worker.

So, the problems faced by older workers on the German labour market for the past decades are primarily based on the explained stratified labour market sectors. In many cases, the jobs that are available either pay older workers significantly lower wages than they previously received or hinder them in getting a new job.

Entry-discrimination occurs for older workers even more frequently, when some companies decide to hire younger workers because equal skill can be purchased at lower wages. In Germany workers over the age of 50 compared to younger workers have the lowest chance of reemployment after

²¹ Cf.: Sengenberger, W.; 1987, p. 117ff

the loss of a job. Displaced workers having lost their jobs due to a plant closing or company restructuring, have virtually no chance of reemployment.

In our research studies, the analysis of job opportunities for older workers in relation to the theory of labour market segmentation corresponds with the hiring behaviour of employers. Why do employers behave this way? This type of employer behaviour becomes a significant problem because it leads to a labour market that has restricted job opportunities for older workers and thereby automatically creates discrimination, prejudice and labour barriers. The entry-discriminatory attitude of employers due to the age of a worker (age discrimination) could however, not be easily detected unlike other discriminations like gender, race or ethnicity. Through the pattern of systematic externalization employers very much contribute to the shaping of the situation of older workforce on the labour market.

4 The role of social actors in the pattern of externalization

By dealing with the role of the actors within the pattern of externalization, I would like to look at actors constellations and interest coalitions from the perspective of Ebbinghaus, Bernhard (2002) and thereby define the actors as “Individuals”, “State” and “Social Partner (employers and unions)”.

Early retirement is the most common trend within the pattern of externalization followed by selectivity or segregation within companies either in the process of Continuous Vocational Training (CVT) or in the process of making recruitment decisions. But I would first of all like to look at early retirement, which has two meanings: withdrawal from employment before the age of 65 (exit from work) and drawing of (preretirement) social benefits until statutory pension benefits become available. This is a social practice that is related to entail consequences for both social security programs and the labour market. The extensive use of early exit from labour has had an impact on the welfare state from the viewpoint of policy makers. The explanation lies in the fact that, workers tend to retire earlier although due to advanced medical technology they live longer, but their lifetime spent in employment has shortened.²² So that according to Schmid, J. (2006), this duplicated effect of early retirement and increasing life expectancy leads to a growing expenditure which exerts financial burdens on the pension insurance.²³

For the State and political actors, the transition from externalization to integration and employability means reforming and reversing the course of the widespread early retirement practice. The reason according to Ebbinghaus (2002) lies in the context of more general efforts to reform the social security system and the labor market under the conditions of fiscal austerity, demographic changes, and persistent unemployment²⁴. On the other hand “the social partners have considerable vested interests in maintaining early retirement. Although trade unions have come under pressure due to membership losses, bargaining decentralization, and flexible employment relations, they still have significant political and industrial power to

²² Cf.: Ebbinghaus, B. 2002, p. 17

²³ Cf.: Schmid, J. 2006, p. 27

²⁴ Cf.: Ebbinghaus, B. 2002, p. 17

block large scale reforms”²⁵. Especially employers have considerable interest in maintaining early retirement, as this has been vastly used to lay-off older workers in times of economic problems coupled with reorganisation and restructuring of companies and even of plants and departments closing down or being transferred to low-wage producing countries.

Externalization from the approach of the social sciences focuses on two main perspectives. These two are explained in either “protection-oriented analysis of **pull** factors that impact labor supply or production-oriented studies of **push** factors that affect labor demand”²⁶. Ebbinghaus argues that the social partners however, play a crucial role in mediating these **push** and **pull** factors, that is, between welfare incentives and economic contingencies. Involved in the arena of social policy and collective bargaining, the social partners and management-labour relations shape the ways in which firm-level actors refrain from or utilize externalization under the given constraints and opportunities. Within this process various social policy programs provide alternatives to withdraw from work early: through flexible old age pensions, disability pensions, special preretirement schemes, or long-term unemployment benefits²⁷. According to Lazear (1979, 1986) in addition to the institutionalised **pull** path induced by social policy programs, there are economic forces at work that influence the labour demand side. In this regard, labour shedding or retaining of older workers depend on companies’ age-related hiring, training and firing policies. The economic environment in which the company operates will in turn influence the management’s human resource strategy.²⁸ At the workplace level however, the main actors — management, worker representatives, and the older workers — interact to find responses given constraints and opportunities provided by the **protection** and **production** systems. The worker’s decision to exit the labour market earlier or the management’s decision to shed especially older workers is according to Ebbinghaus thoroughly embedded in the workplace labour relations as well as in the relationships

²⁵ Cf.. *ibid.*

²⁶ Cf.: *ibid*

²⁷ Cf.: Kohli et al 1991

²⁸ Cf.: Ebbinghaus, B. 2002, p. 22; also Lazear, E. P.

between management and workplace representatives (workscouncil, older workers and local unions) in particular.²⁹

What are the interests of the actors at workplace level within the process of externalization through early retirement? According to Ebbinghaus (2002), two major perspectives of early retirement policy can be characterized as those centering on labour supply and those accentuating labour demand. On the one hand, the pull protection-oriented perspective, which focuses on incentives provided by existing benefits and availability of public or private exit pathways. On the other hand, the push production-oriented perspective focusing on the economic and social factors that lead employers, workers and their representatives to utilize early exit from work. In analysing the actors constellation and interests coalitions, two important levels are important to take note of: the **micro-level** workplace (with individual actors) that shape the social practice of externalization from work and the macro-level national policy and collective bargaining political arena in which early retirement policy decisions are made.³⁰

In this regard, I would first of all like to elaborate on the micro-level perspective. At this level, diverse economic models seek to explain the individual workers rational decisions based on incentives to retire early, while sociological analyses point out to other individual or contextual factors apart from monetary incentives.³¹ Because employers and workers representatives are those that particularly shape and organise externalization, these two social actors are also the most important figures to the push perspective because their strategies do very much affect labour demand.

As a consequence of bargaining and exchanging with workplace representatives, employers provide additional incentives for externalization through private occupational benefits or severance pay, thereby supplementing the pull from public benefits.

By looking at the macro-level perspective it becomes clear that the state and the social partners are the main corporate actors shaping the policies that affect externalization in both political system and collective bargaining arena. Although these three actors (state, employers, unions) had and

²⁹ Cf.: *ibid.*

³⁰ Cf.: Ebbinghaus, B. 2002

³¹ *Ibid.*, p. 31

still have interests in externalization through early exit, these interests are quite varied. Although all actors each represent the interest of their membership and constituency, they still enter into strategic alliances with one another to pursue their various interests. So that it leads to different interest coalitions “between state and unions, between state and employers, and between the social partners”.³²

Why does an older worker take an early retirement decision? Why do firms set up labour shedding strategies? What are the influences of workplace representatives in the process of early retirement?

According to Ebbinghaus, B. (2002) the question of an older worker to work or not to work depends on the incentives provided by available public income programmes or private retirement plans to pull individual into retirement. With this economic explanation, the financial gain for an individual to stop working influences the decision to retire early. On the other hand, there are personal circumstances that also force workers to retire earlier despite potential financial losses. At this point, I will look at theoretical explanations for the individual contextual reason for preretirement. One of the major individual push reasons for early retirement irrespective of possible financial loss are age-related health impairments. “Disabled individuals or people with impairments may value to trade off between work and non-work differently than those who do not yet have an impairment or disability”.³³

However, early retirement because of impairment or disability may also be due to push factors, when employers discriminate against disabled older workers in hiring, firing, training or by not reducing barriers at workplace. In this case, employers tend to invest less in preventive health measures at the workplace so that the longer employees work and the older they become, the more they are exposed to and confronted with health risks. Another factor fostering the individual decision in the pull and push perspectives is the rapid change in technology and innovation as well as the low participation of older workers in firm-related training measures. This leads to the fact that, because older workers are discriminated against when it comes to the selection of workers to take part in firm-related training

³² Ibid.

³³ Ibid. P. 34

measures, older workers tend to lack updated knowledge in the rapid growing technology advancement. So that if older workers cannot perform equally like younger workers because of know-how deficits, they tend to be easily externalised from work. The low participation of older workers in firm-related training measures is confirmed by the following: In 2006 the Third European Survey on Vocational Training (Continuing Vocational Training Survey – CVTS) took place after two surveys in 1994 and 2000. Throughout this recent EU comparative survey, which took place in all members states including Norway, conducted for Germany by the Federal Statistical Office in cooperation with states statistical offices, 10.000 companies with ten or more employees in all branches and sectors of the economy were interviewed. The result of the survey was, that older workers seldom take part in firm-related CVT. **27%** of the employees above the age of 54 took part in training measures, while **34%** of those aged under 25 years and **41%** of those between 25 and 54 years old participated in training measures.³⁴ Through age-related selectivity when organising and implementing firm-related vocational training measures, older workers are systematically discriminated against, because employers still have the notion that it is not profitable for the firms to invest into the human capital of older worker due to the short amortization period in relation to their age. In consequence, employees who no longer cope with the rapid technological change, know-how and innovation prefer to trade off work with preretirement because most of them are no longer used to learning regularly. Employers systematic and strategic human capital development policy leads to direct or indirect externalization of older workers.

Another important factor leading to the externalization of older workers is unemployment. In Germany for instance, long-term unemployment – which mostly affects older workers – coupled with benefits for older workers to provide a “bridge pension” until an individual can draw on anticipated or statutory pension, thereby combining unemployment and other preretirement benefits.

In this case unemployment is largely voluntary and results from an agreement between employer and employee, often requiring the consent of workplace representatives. Nonetheless, involuntary unemployment also

³⁴ Cf.: Statistisches Bundesamt, 2007

results, when employers push workers out of employment through individual dismissal or large-scale redundancy.³⁵ As a result of externalization, unemployed older workers, whether voluntary or involuntary choose not to further seek reemployment, because of the unavailability of job opportunities or due to age discrimination in hiring unemployed older workers. They have much lower chances of finding employment than prime-aged unemployed colleagues. So that given the option of the social stigma of going “on the dole”, an older worker may therefore prefer the alternative role of an early retiree rather than facing the prospect of unemployment.

Where do the interests of employers lie when using early retirement as an externalization path? According to Naschold and van de Vroom (1994) as well as Ebbinghaus (2002), the management of a company plays a significant role in the early exit of older worker from work. According to Lazear (1979) employers may obviously enforce “mandatory retirement” rules in employment contracts, therewith requiring workers to exit the firm at a particular age. “As an alternative, especially when mandatory retirement is not legal, employers may also induce retirement through firm-sponsored occupational pensions, topping up public benefits providing “golden handshakes” (lump sum severance pay) to induce older workers to retire (early)”.³⁶

The interest of employers when using early retirement to externalise older workers lie firstly in the notion of diminished productivity, where older workers have declining marginal productivity, and therefore, “buying them out” enhances efficiency. The assumption of employers that productivity declines according to age leads to the labour shedding of older workers, who are replaced by younger ones to enhance overall productivity and thereby reduce labour costs.

Secondly, as stated earlier on, insufficient or so-called outdated skills are a further rationale for many employers to replace older workers with younger workers. Although this is often caused by employers’ low investment in training measures that leave older workers with outdated skills.

Thirdly, employment contracts with seniority wage and tenure also add to the interest of employers to shed older workers in the effort to reduce la-

³⁵ Cf.: Ebbinghaus, B. 2002, p. 35, based on Guillemard and van Gunsteren 1991

³⁶ Ebbinghaus, B. 2002, p.38

bour costs. “According to the efficiency wage theory (sørensen 1994: 514-516), firms that rely heavily on high quality production pay skilled workers seniority wages: they pay higher wages to older workers than younger ones in order to retain and motivate them over their tenure with the firm.”³⁷ As Ebbinghaus argues, lower marginal productivity is not as much a problem as a consequence of employers’ premature termination of training investments for older workers.

Fourthly another rationale of employers for early retirement is the occupational welfare scheme and particular firm-level retirement arrangements. With this, especially large firms have set “deferred compensation schemes, such as occupational pension funds, to bind their core workforce to the company and facilitate timely retirement. [...] Firms completely exclude or limit recruitment of older workers due to occupational welfare costs considerations especially due to defined or final-salary pension schemes.”³⁸

Lastly peaceful workforce restructuring remains to be a major strategic reason for firms to use and sponsor early retirement. Although older workers are protected by tenure, employment contracts enforcing seniority rules (last in – first out) and age related statutory protection, favourable public early retirement options still provide means to get rid of older workers in times of mass layoff. In this case workplace representatives through provisions in collective agreement may play an important role in negotiating social restructuring plans.

What is the interest of workplace representatives that make them collaborate with employers in the process of externalization through early retirement?

Based on co-determination rights of workplace representatives, employers in Germany have to consult workers representatives (workscouncil or local union officials) about early exit policies. Due to the fact that workers representatives have the co-determination rights in implementing policies, which may involve individual dismissal (older workers or those with long tenure), mass redundancy plans, occupational welfare arrangements, they may influence employers decisions on personnel policy or even negotiate

³⁷ Ebbinghaus, B. 2002, p.40

³⁸ Ibid.

“social plans” to accommodate mass restructuring. But why would workers representatives collude with employers to enhance early retirement?

“When employers plan workforce reduction or restructuring, workplace representatives may seek to block such moves and propose a hiring freeze, thus making (early) retirement the only adjustment strategy. If they can only influence the distribution of the layoffs, however, they will face a selection problem: which groups should be targeted? The large group of prime-aged workers with long-term tenure expectations will be in the strongest position to defend their seniority rights, while the employees with new or temporary contracts will be in the weakest position. Yet employers may not be willing to limit job cuts only to employees with already relatively flexible contracts; instead, they may seek to reduce the more costly and yet better protected core workforces.”³⁹ Under such circumstances workers representatives might be willing to open up a window to negotiate an early exit deal for older workers on favourable conditions, in order to maintain the seniority employment system. This would be the preferred option especially for prime-aged workforce which exempt them from layoffs, while they also expect to benefit from similar options in the future. This could be seen as a coalition and bargain between senior and prime-aged workers, which does not only hold for the case of exceptional redundancy plans, but also for long-term restructuring in internal labour markets.

Early retirement may also be offered as part of a “political exchange” with workplace representatives or unions for political power vis-à-vis the state or public. In this case, when large firms, whole industries or state owned companies are under wider economic pressure and are forced to carry out mass redundancies the two sides may tend to enter into a coalition to press public and political authorities to help restructure through direct subsidiaries or early retirement provisions.

Within the political arena in social policy making, implementing and bargaining these three actors – the state (governments, law makers and courts), the employers associations and trade unions – seem to collude because all three corporate actors take an interest in shaping early retirement for their various reasons. When the Government supports retirement it is largely because policy makers believe that such policies are popular to

³⁹ Ebbinghaus, B. 2002, p. 45

their constituencies and political supporters. Likewise with employers organisations, who represent the interest of their member firms to secure membership or unions who will advance the interest of their workers to stabilise or increase their membership and therewith their political influence.

In this constellation actors are forced to enter into “games” because one actor alone is not in the position to shape early exit policy successfully unless there is another important actor that shares similar interests.

However, the better the possibilities for early exit are the more companies use these as options during the time of restructuring and reorganisation. In my project work on the “old age atlas” I examined the allocation of part-time retirement based on secondary statistical data from the German Federal Labour Office. The results of this analysis illustrated that the “**partial retirement**” scheme is one of the most extensively used labour market and externalization instruments over the years, which according to critics and experts have been also exerting pressure on the finances of the pension insurance. The original idea and policy behind this instrument has more or less been misinterpreted and outrightly misused by companies. The Partial Retirement Act (Altersteilzeitgesetz), an old age part time employment, does not only allow employees over 55 to reduce their working time by 50 percent but also to divide the reduced working time into two separate phases of **full-time employment** and **full retirement**. Which means, an employee might decide not to work **part-time** as required, but to work full time for a particular time and then fully enter into retirement thereby taking along the full benefit of this instrument. Although the partial retirement will be abolished in 2009, it has been extensively used since 1997. The main target of this act is to enable a more flexible border crossing of retirement for all employees aged 55 years and more. Due to the fact that it is possible to reduce the working time by 50 percent in the last five years before going into retirement, in practice this instrument does not actually ensure something like a flexible or gradual transition into retirement.⁴⁰ Most older workers as a matter of fact, prefer to implement the so called “**block model**”, wherein they prefer to work for 2.5 years full time and then exit into full retirement. Through the “block model”, workers exit

⁴⁰ Cf.: Heise, C. 2006

into early pension with 59 or 60 years, so that average retirement age in Germany very much reflect the use of this model, so that the average access age to the “insured person’s pension” (Versichertenrente)⁴¹ lies between the ages of 60 and 61 year (see figure 3).

In case of a partial retirement, the employer is indentured to pay up to 70% of the last gross income and pay the social security contribution up to 90%.⁴² If the company on the exit of an older worker hires an unemployed worker or an apprentice, benefits are payed from the Federal Employment Agency. So that based on the increasing use of the “block model” and several other factors, financial pressure is exerted on the sustainability of the social security system.

Critics of this model are therefore pleading for an absolute renunciation of this instrument and with it the recurrence from the support of early retirement and externalization of older workers. The massive use of the part-time retirement model in Germany has been illustrated in figure 2, where the allocation increased from under 10.000 in 1997 to well over 50.000 in 2006. It could be also read that compared to East Germany, West Germany could register the most allocated part-time retirement. This simply explains the fact that Western Germany has more industries and with that, is economically stronger than Eastern Germany.

While critics are advocating the abolition of this model, unions on the other hand are pleading that the part-time retirement instrument be maintained as a possible “back-door” option for older workers with health impairments and disabilities, so that this specific group could still have the possibility of retiring earlier or reducing their working time. While unions are advancing the interest of their members, critics are skeptical that employers will further continue to misuse this instrument.

⁴¹ Cf.: Deutschen Rentenversicherung Bund, 2006: The insured person’s pension or benefits (Versichertenrente) are pensions based on one’s own insurance payments. The following belong to the category of the insured person’s pension: The Old Age Pension (Renten wegen Alter) and Invalidity Pension (Renten wegen verminderter Erwerbsfähigkeit).

⁴² Cf.: Heise, C. 2006

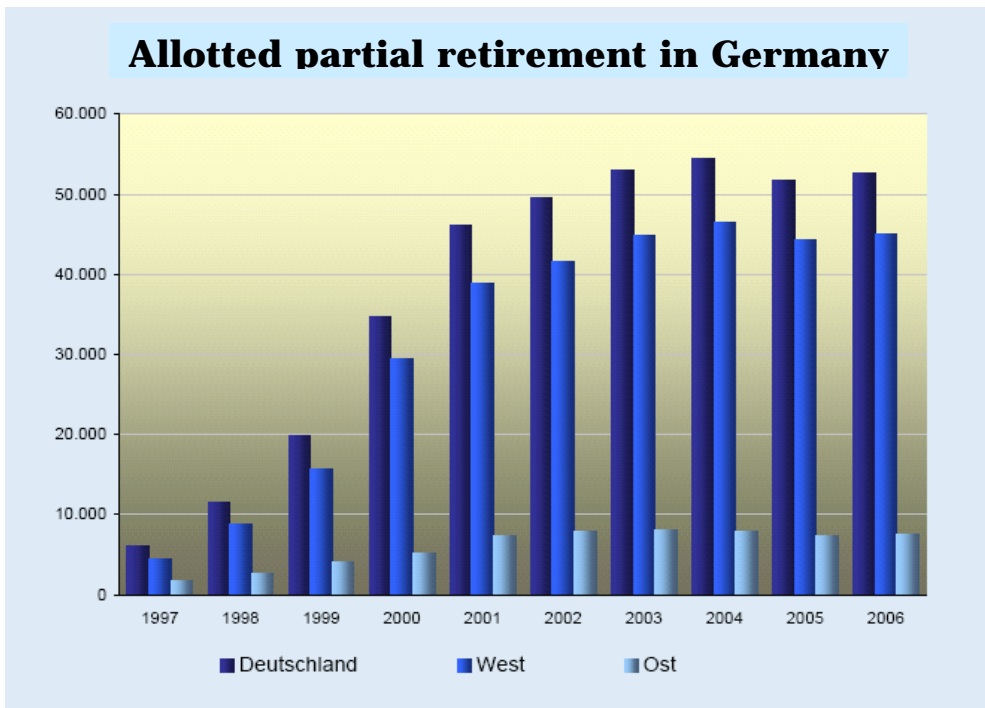


Figure 2: Partial Retirement in Germany from 1997 to 2006. Source: Bundesagentur für Arbeit, December 2006.

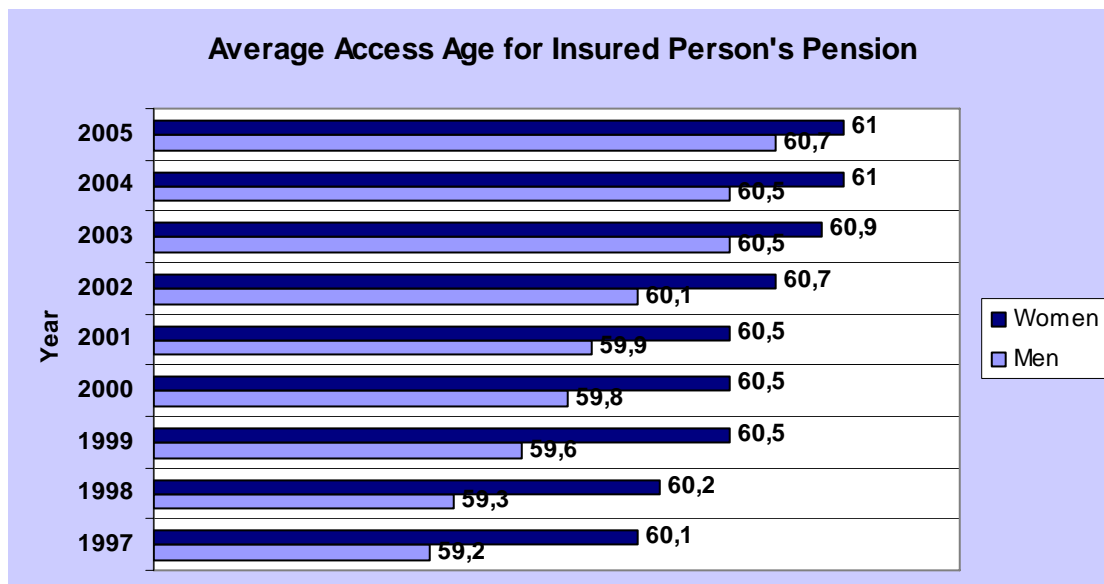


Figure 3: Average Access Age for Insured Person's Pension from 1997 to 2005. Source: Deutscher Rentenversicherungsbund.

5 The integration pattern and its paradoxical pole towards externalization

What has actually triggered the change of paradigm especially of the state in the process of integration. The integration strategy can be analysed at three levels and from three perspectives of the same actors discussed in the externalization pattern, wherein the equitability of interests of the various actors (state, employers and workers) are very much different. In this regard, I shall look closer at the interest of the state and with my empirical research results illustrate how especially the interest and attitudes of employers in the process of the integration of older workers in labour could be interpreted as lukewarm.

The integration pattern is based on the concept of **employability** and **sustainability**, which outline the task, the role as well as the interest and of the actors from three levels: the “state” (macro-level), the employer (medium-level) and the worker (micro-level). “In simple terms, employability is about being capable of getting and keeping fulfilling work. More comprehensively, employability is the capability to move self-sufficiently with the labour market to realise potential through sustainable employment. For the individual, employability depends on the knowledge, skills and attitudes they possess, the way they use those assets and present them to employers and the context (e.g. personal circumstances and labour market environment) within which they seek work.”⁴³ In our research project we looked at employability as a policy responsibility to be shared by not only the individual worker as outlined in the definition by Hillage and Pollard (1998), but by the companies, the state and the society as a whole. Because even if the individual has the best asset in terms of knowledge, skills and attitudes, if there are not enough strong basic and fundamental conditions and policies from employers as well as from the the state, employability will merely remain to be one sided and illusionary. In this regard the employer has just as well as the individual and the state an interest in making integration through the concept of employability succeed.

According to the "employability" and "sustainability" from the "state perspective", macro-economic and socio-political policies and basic conditions should enhance patterns of integration for older workers such as job

⁴³ Hillage J. and Pollard, E. 1998

openings on the labour market be it local or national; conducive labour market regulations and benefit rules governing employer recruitment and selection behaviour.

But what is actually the major reason behind the integration pattern from the perspective of the state? The main reason for the interest of the state in reintegrating older workers into active labour is firstly the demographic change, which I earlier on mentioned at the beginning of this paper. The impact of low birth rate, and longer life expectancy bring in a new pattern of policy, which is rather contra to the externalization pattern that had been practiced in the last decades. Secondly, to secure the pension funds of Germany's pay-as-you-go pension system, more people have to be active in gainful labour. As people live longer it becomes necessary that people draw pensions longer and the care for elderly people also becomes more important in the society. Due to lack of offsprings and youth, people will therefore have to work longer to sustain this social security system.

Supported by the European Union on this issue, an important aspect of European economic and social strategy is the raising of the employment rate of especially older workers by improving and extending working life. As I mentioned earlier on in this paper, this goal had been interpreted into a target set at an European Social Conference in Stockholm in 2001, where an objective had been set to increase the labour participation of older workers up to 50% in the member states by 2010. Through the assistance of the European Social Funding and national action plans, Germany is on its way of implementing the pattern of integration through measures and policy reforms of the labour market and the social security systems, in order to counteract the former widely practiced pattern of externalization through early retirement.

The government has implemented several measures to bring back older workers into gainful labour, to extend their working life by raising the pension age from 65 to 67 and to improve their employability through sustainable and proactive measures on the labour market. The problem with the integration pattern however is, how its actual practice can be encouraged especially at organisational and institutional levels.

Important measures which the German government has implemented that aim to enhance the integration pattern are firstly, the payment of protective wages and salaries to job-seekers aged 50 and above, who are ready to take up lower paid jobs than their former employment. The aim of this

measure which will be effective till 2007, is to give older workers an incentive to take up new employment after a long period of unemployment.

Secondly, a subsidy is paid to employers, if they agree to offer a permanent placement to an unemployed person who has difficulty securing a job on the regular labour market.

Thirdly, employers are exempted from compulsory unemployment insurance, if they hire an unemployed person aged 55 and above. Fourthly, there is the recruitment subsidy for persons venturing in a start-up business of their own and hiring an older unemployed person.⁴⁴ As a fifth measure, training belongs to one of the most important measures that ought to support the implementation of the integration pattern. Continuous Vocational Training (CVT) measures designed especially for older workers should help unemployed persons to secure new job placements and at the same time help older workers in job to retain their placement and promote life-long and job-related learning.

Employability from the perspective of the employer is regarded as organisational employability. This depicts the ability and willingness of an organisation or enterprise to shape and organise work contexts, so that the production processes are conducive and inline with the available potentials of the workers, in order to secure the subsistence of the organisation. In other words, the employer should have the priorities to help the staff to develop both those assets which have explicit and immediate value to the organisation as well as those transferable ones which have wider, longer term up-to-dateness, thereby engendering a sense of security, encouraging commitment, risk-taking and flexibility among employees. The interest of employers in the integration pattern should be based on the fact that, with the demographic change in process, employers will have to depend mostly on an ageing workforce to carry out the tasks in the organisations and companies. Even today employers are faced with shortage of skilled workers especially in high technology oriented branches. But employers in reality actually have very little awareness of the acuteness of this situation.

Employability from the perspective of the individual worker depicts the ability and willingness of an individual to actively apply and continually develop his/her individual potentials (skills, competencies and attributes),

⁴⁴ Cf.: Heise, C. 2006; see also Bangali, L. (2004)

in order to secure his/her present and future subsistence on the labour market. If older workers however, should have to work longer according to policy reforms that have already been implemented by the government, then they have to be recruited irrespective of their age and they have to be given the chance to equally participate in vocational training measures. Firms have to invest in the health care of their workers to enable them to work longer and not retire early because of health impairments, working conditions have to be conducive and work has to be organised in a more flexible way so that it suits these changes.

On the other hand, older workers have to be aware of the fact that because of societal, economical, organisational and demographic changes, they have to be more flexible and adaptable to new patterns of work like e.g. part-time work, to be ready to change jobs according to demand, detach themselves from long-life workplaces and be open to long-life learning.

To enhance the integration pattern of employability and sustain the social security system, the statutory retirement age has been raised from sixty-five to sixty-seven years. What are the advantages and disadvantages of this reform especially when the labour market situation of older workers in Germany still remain to be precarious. Political discourses about this reform tend to mainly focus on one aspect, namely **“how best to finance and sustain the social welfare state”**, and tend to ignore an important issue of how best to **“improve the welfare of workers”** that they may be in the position to even work longer.

According to forecasts, a major advantage of the increase of the statutory pension age is that, it will bring tax relief to the pension insurance through the fact that workers will have to work two years longer. This will stabilise and even reduce their pay-as-you-go rate of pension contribution which will likely have an effect on the pension adjustment with long-term tax relief of about 0.5 of the contribution rate. The more workers extend their duration of employment because of the increase of the statutory pension age, the more the ratio between pensioners and contributors will improve. So as a consequence, pensions might be slightly increased or not be cut down on.⁴⁵

⁴⁵ Cf.: Promberger, M. and Wübbecke, Ch. 2006, p. 2

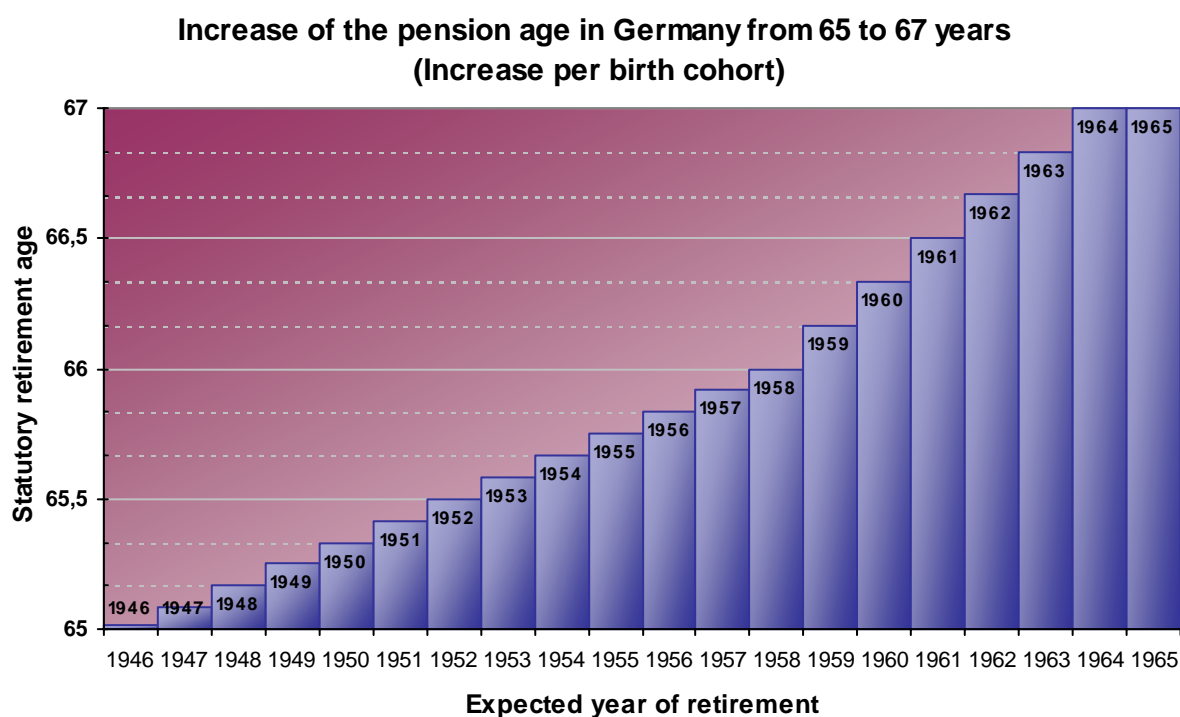


Figure 4: Gradual increase of statutory pension age in Germany

Although there is a great deal of discussion going on because of the tense situation for older workers on the labour market, nevertheless, experts have the view that because of the demographic developments as well as measures to counter the expected shortage of skilled workers, there is no alternative to the reform that would comparably suit to improve and sustain the financial situation of the statutory pension scheme.

Figure 4 gives an overview of how this reform will be gradually applied to the various birth cohorts. Those workers born in 1947 will have to go into pension as from 2012 with 65 years plus 1 month and this pattern will be gradually and cumulatively applied to all the birth cohorts until 2029 when those born in 1964 will go into pension at 67 years.

What could be the disadvantages of this reform? Objections against the new legislation are raised with reference to the present situation of older workers on the labour market. By looking at the current labour market situation of older workers, irrespective of slight improvement in the last few years (compare figure 1) the unemployment rate of older workers still remains precarious. This situation is provoked by the age selective attitudes of employers, where younger workers are outrightly preferred than older

workers in case of recruitment. The situation remains to be questionable as to whether this situation will change until the effective date of the reform. Should the demand and supply on the labour market not clearly improve in the future, later transitions into pension would put additional burden on the labour market. According to the Institute for Employment Research (IAB), shortage of skilled workers is only suppose to primarily occur in the branches demanding highly qualified staff, so that the lower qualified workers will have to reckon with underemployment, if relocations of workplaces in low wage foreign countries due to rationalisation continue to proceed. In this regard, lower qualified older workers will have to reckon with long-term unemployment and be exposed to the risk of poverty.⁴⁶

Another disadvantage to be taken into consideration are the inadequate requirements of companies to foster the employability and workability of their workers. Although large companies seem to be more considerate in matters of occupational health and safety, apart from very few good practices to promote projects supporting employability, most companies still lack in measures about job enrichment or job enlargement, which knowingly contribute to flexibility, motivation, efficiency and maintain the qualification of workers.

Nürnbergger, I. (2007) argues about the disadvantages of the increase in pension age from the view point of the trade unions and the individual employees. His first notion is, that older workers will have to bear the major burden of the reform; the number of older long-term unemployed persons is disproportionately high. Against this background, the raising of the retirement age and therewith extending the working life is counterproductive when regarding both social and labour-market policies. The socio-political objections against the raising of the retirement age have to be taken even more seriously, because the legislator did not decide on noteworthy accompanying measures. Many workers who for health reasons cannot work until the statutory pension age of 67, will not meet the strict preconditions for an invalidity pension. The labour-market policy of “Initiative 50plus” of the Federal Government is insufficient to increase the chances and employability of lower qualified employees, who are impaired with

⁴⁶ Cf.: Promberger, M and Wübbecke, Ch. 2006 p. 3

health problems. The increasingly widespread “fraying out” of careers at the end of the working life coupled with phases of unemployment, sickness and precarious employment situations will have considerable implications on the social situation of older workers. So that from the viewpoint of the trade unions the statutory pension scheme needs considerable social amendments. They argue that the invalidity pension does not adequately fulfill its protective function in this regard. At the same time, the statutory pension scheme does not ensure a comprehensive protection in view of more flexible and precarious careers. On this account, the social compensation for the benefit of people with lower income must be improved, the periods of unemployment must be better secured, and a more extensive integration of people in work must be enforced.⁴⁷ Polemically one could say that the raise of the retirement age is not a measure that counts on the side of integration but that of externalisation. Because this measure will not lead to more employment but rather to longer unemployment and lower pensions of the excluded older workers.

The interests of the various actors have been reflected upon within the pattern of integration, which outlines various paradoxical issues in relation to the externalization pattern. At this point, I would like to take a look at our empirical analysis about the attitudes of employers towards recruiting and retaining older workers and their awareness about the demographic change and its impacts on the labour force.

⁴⁷ Cf.: Nürnberger, I. 2007

6 The attitudes of employers towards older workers and their awareness about the ageing labour force: Survey results

Taking the state of Baden-Wuerttemberg as an example, I will give a brief overview of two research studies on the attitudes of employers towards older workers and their awareness about the demographic change. This federal state in southern Germany has been chosen, because the survey was exclusively carried out in the regions of this state, which has densely populated car manufacturing and automotive suppliers industries. The first study – “Age Atlas for Baden-Württemberg: Employability of older workers”⁴⁸ – was based on statistical secondary data from 1995 to 2006, and gives important information about the population development and forecasts and about the situation of the older workforce (45 years and older) in matters concerning the labour market, continuous vocational training, retirement and healthcare. The main aim of the study was the “awareness raising” of social actors (enterprises, employees, trade unions, organisations and politics) through discourse, workshops and conferences as well as through the compilation relevant information and and recommendations for especially companies and their particular regions.

The results of the age-atlas show that the birth rate in Baden-Wuerttemberg has been continuously sinking since 1960 and since the 90s the birth rate has sunk by 18%. The proportion of the over 65-year-old in Baden-Wuerttemberg will grow from 15.1% in 2010 to 31.5% in 2020. The shifts in the age structures of the population are considered to be as important as the phenomenon of the expected shrinking of the population. Because this will also have a vital effect on the composition of the labour force as well as on the pension funds. In this relation, while the proportion of the youth and young generation continue to sink, the proportion of the older and elderly people rises. According to the population forecast for the various administrative districts (Stadt- und Landkreisen), the population growth - without migration - will up to 2020 shrink in almost all of these

⁴⁸ The “**age-atlas**” for Baden-Württemberg is a geographically defined map with concise charts, diagrams and tables which illustrate important and data regarding population development, population forecast as well as the situation of older workforce (45 years and older) in matters concerning the labour market, continuous vocational training, retirement and healthcare.

districts with an exception of just 4 districts. A particular district is expected to even shrink by 18% if there is no migration taking place. The rural areas will be more affected than the more industrialised and larger towns. According to the demographic model the labour force of Baden-Wuerttemberg will slightly decrease from 50.1% in 2002 to 45.3% in 2040. Irrespective of these developments however, the employment situation of older workers still continues to be a problem, especially the long term unemployment among older workers.

- Within the framework of integrating older workers into gainful employment, the former Research Centre for Technology Assessment in Baden-Wuerttemberg (ehemalige Akademie für Technikfolgenabschätzung in Baden-Württemberg) conducted a survey with 4.000 questionnaires and 50 in-depth-interviews with personnel managers and older workers in the metal-working and electronic industry in small and medium-sized enterprises (SMEs)⁴⁹ in 2003. The survey was theoretically based on the concept of **employability** and **diversity management** of older workers, and aimed at evaluating the awareness of managers about the demographic change as well as the attitudes of employers towards the recruitment, the retainment and the qualification needs of older workers. Employers were also asked to estimate the productivity and attributes of older and younger workers in their branches and sectors. The following research questions were used to evaluate and analyse the attitudes of managers towards older workers: Is the term “demographic change” and the ageing of the German labour force an issue in your enterprise?
- Is the shortage of skilled staff irrespective of the economic slow-down an important topic for your management?
- According to which criteria is the staff recruited in your enterprise?
- Which abilities and qualifications do personnel managers expect from older technical professional workforces?
- Which qualification needs do companies require in order to maintain and enhance the employability of their older professional workforces?

⁴⁹ According to the definition of the European Union an enterprise with fewer employees than 250 is classified as medium-sized, an enterprise with fewer employees than 50 is classified as small, and an enterprise with fewer employees than 10 is considered as microbusiness.

⁴⁹ Cf.: Bangali, L. et al 2006, p.15f

- How should the human resources potential of older professional workforces be promoted in the companies?⁵⁰

For the relevance of this paper, I shall just elaborate on the first four research questions. Are enterprises really aware of the issue of the demographic change and the impact of ageing labour force for the labour market supply and demand? To evaluate this research question we looked at the importance of this issue from the perspective of employers and managers in the companies. According to results of other previous surveys in Germany on the awareness of managers about the impact of the demographic change, managers have not been adequately aware and informed about the demographic change and the ageing of the labour force.

To evaluate these enterprises, our survey implemented indicators to measure the perceptual dimension of the issue through such indicators like **“information about issue is well-known in our enterprise“**, **“issue is an important factor”** and **“issue is relevant”** as well as **“action dimensions”** like recruitment strategies and targeted measures to promote the employability of workers. Almost all enterprises (97%) regarded the issue of the "ageing labour force" as an important subject-matter in the economy. Against the positive appraisal about the importance of the issue for the economy quite in general, it had a clearly lower value relating to one's own individual enterprise. In 57% of the enterprises, the issue of demographic change and the ageing labour force was a well-known topic in the enterprise and in less than half (48%) it was regarded as important. In only 43% of the enterprises was the issue well-known as well as important. Clearly, few enterprises actively deal with the consequences of the changing composition of the labour force and measures are only discussed in a few number of enterprises (25%). Just a small number of enterprises indicated that they carried out measures to combat the demographic change (24%). In more than 50% of the enterprises, there were no measures carried out against the consequences of the ageing of the labour force. This is a very high proportion in view of the expected problems this issue is suppose to bring. Between the “well-known” profile and the “importance” of the subject-matter in the enterprises and the discussion and implementation of measures, there is a moderate to high linear

correlation.⁵¹ The more well-known the subject-matter ($\beta = .44$) and the more important ($\beta = .64$) the ageing of the labour force was in an enterprise, the more often measures were discussed.

The coherency between the awareness of the problem and the implementation of measures was clearly low. Nonetheless, the kind of awareness allocated to the problem of the "**ageing of the labour force**", which was particularly registered in the "**importance of the subject-matter**" as admitted in the enterprises, illustrates an essential explanation factor for the activities in the companies.

Based on these facts, an important starting point for institutional actors (state) in actually implementing the integration pattern is to actually enlighten and raise the awareness of the enterprises more and more, so that they could actively deal with the impacts of the demographic change. They must recognise the relevance of the subject for their own future and interest at a much more higher degree than they actually do now.

To measure the awareness and the immediate content dimensions and impacts of the ageing labour force, enterprises were asked to outline possible concrete impacts these will have on enterprises in Baden-Wuerttemberg. A predominant majority of the companies (80%) responded that the impacts of the "ageing of the labour force" lie above all, in the high non-wage labour costs. Recruitment problems of especially young skilled workforces (71%), increasing average ages (66%), loss of know-how due to a large number of workers going into pension and less prospective young workers (63%) were likewise mentioned by the enterprises as possible direct impacts. 86% of the enterprises in Baden-Wuerttemberg expected problems with the recruitment of skilled forces in the future and for 34% the problem will even be worse. The paradox however is, that while employers are shedding out older workers through early retirement they are worrying about having problems in recruiting skilled workers in the future, while

⁵¹ For the illustrated results, four separate univariate regressions were calculated. In a multivariate regression model, only the "importance of the subject-matter in the enterprises" had an independent influence on the activity of the enterprises. The "well-know" profile of the subject-matter" seemed to be provided through its admitted importance. Nevertheless, due of the high correlation of the independent variables among one another ($r = .63$) and the multi linearity problem, the illustration of these results could however be abstained from.

they systematically discriminate against older unemployed workers who are sometimes just as well qualified as younger ones. The shortage of skilled staff in the future is a topic in the enterprises, but this still does not change the lukewarm attitude of employers towards older workers.

What are the recruitment practices in the enterprises? According to results of the IAB⁵² employment sub-sample (IAB-Betriebspanel 2002), a representative random sample of German enterprises, although older employees are indeed perceived by personnel managers from another performance portfolio perspective than younger workers, they are in no way less efficient.⁵³ This also applies to enterprises in Baden-Wurtemberg: Older employees were rather ascribed traditional qualities, which are nevertheless judged on the average as more important than the modern qualities allocated to younger employees. However, attitudes about efficiency and productivity depend on different factors, like the size of an enterprise and possibly the proportion of old workers in the enterprise. Companies with older employee and smaller companies judge older workers better than companies with fewer older employees or large-scale enterprises. Nevertheless, the recruitment practices in the enterprises strikingly deviate from the patterns of attributes given to the age groups. In spite of the rather positive assessment for older workers, 15% of the enterprises in Germany, and above all small ones, categorically refuse to recruit older employees.

Older workers are mostly rejected because they do not have the qualities that are allocated younger workers. Younger workers are regarded as having the ability to cope with physical stress and are more flexible and adaptable, so that the existing favorable attributes about traditional values like for example reliability, work experience etc. play no important role for the recruitment decisions in the enterprises. In our random sample in the enterprises, the efficiency and productivity of of older workers are clearly estimated differently in comparison to younger skilled staff. In this regard, older skilled staff are unanimously ascribed work experience (97%), trustworthiness and reliability (72%) working morale (58%) (see Figure 5 - weighted average).

⁵² IAB (Institut für Arbeitsmarkt- und Berufsforschung) ist the research institute of the German Federal Employment Service, which carries out research and surveys on labour, employment and qualification.

⁵³ Cf.: Bellmann, L.; Kistler, E.; Wahse, J. 2003, p. 30ff.

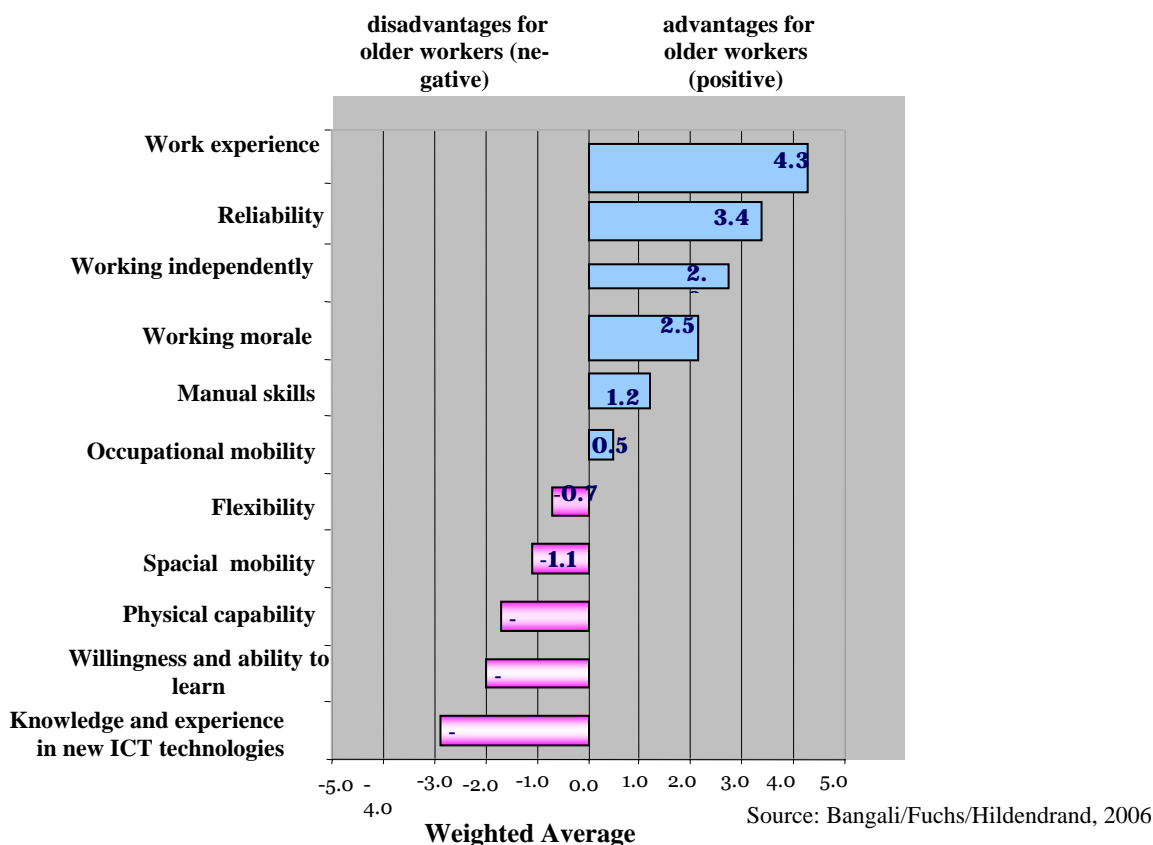


Figure 5: weighted advantages and disadvantages for older workers on recruitment decisions of managers in Baden-Wuerttemberg, Germany.

However, the perceptions that older workers have lower productivity and efficiency than younger workers, that they are less flexible, less innovative and have lower learning capability, aligns with the so-called “deficiency model”.

The fact, however, that different studies come with differing measuring instruments to similar results, underpins the assumption of a negative assessment of the efficiency and labour cost factor of older workers in especially medium scale and large enterprises. A survey from Munnell, A. et al (Center for Retirement Research at the Boston College, U.S.A.) came up with a similar result in 2006. According to this study “very few said older workers aged 55 and over were “less productive”. [...] Perceptions about the productivity of older workers vary with familiarity. That is, employers with relatively old workforce had more positive views of the relative productivity of older workers. And respondents age 55 or over were also more likely to have a positive view of the productivity of workers their age. Conversely respondents in “young” organizations, or who themselves were less

than 55, were more likely to view older workers in a negative light. Evaluation also varied with employer size and benefit structure. [...] While employers tend to see older workers as “equally” or “more” productive than younger workers, they also see them as expensive.”⁵⁴

According to employers in our survey, added to the efficiency and productivity assessment, there are some other factors which influence the recruitment of older workers. Among others, this could be perceived as recruitment obstacles or barriers. The enterprises regard as aggravating for the recruitment of older workers the predominantly legal or agreed protection against unlawful dismissal (77%), excessive salary claims and position demands (66%) as well as health problems and absenteeism (43%). Short remaining time of the active participation of older workers (25%), high training costs (15%) and integration problems (18%) are not actually regarded by most enterprises as a recruiting obstacle.

Despite of the rather positive assessment of their efficiency and potential, older workers compared to younger ones are discriminated against in the process of recruitment: This apply to 52% compared with 26% of the enterprises evaluated, that with the same qualification younger applicants were rather preferred to older ones. Older workers are rather disadvantaged for positions with new products or machines than for positions with customer contact.

According to the qualitative analysis with 50 in-depth individual interviews with personnel managers and also older workers at workplaces, I am convinced that older workers on account of her abilities and potential even under the given prevailing institutional regulations and framework, could contribute to the development of the enterprises at the background of an ageing society. However, the insufficient and one-dimensional perception of the problems of the “ageing of the labour force” has consequences for the implementation of the operational measures.

In our survey, we came to the conclusion that whether and how older workers are recruited and promoted, is a result of strategical decisions of the respective enterprise and the appraisal of the organisational environment by the respective decision-makers and managers in the enterprise. With this, we could identify three types of enterprises according to their imple-

⁵⁴ Munnell, A. H.; Sass, S.; Soto, M., 2006, p. 2

mented personnel policy and recruitment strategies. Enterprises of **type A** are strongly characterised by the so called “**youth-centred personnel policy**”. The majority of the employees in these enterprises are between 20 and 40 years old. There are none or very few older employees. The enterprises, which pursue this personnel strategy see themselves highly operating on the international and global market, which is marked by constant change and challenges. Some of these strategy-pursuing enterprises saw themselves confronted with the necessity to fundamentally change products and process flow during the last years. These enterprises use new and newest technologies in their production process. However, quite a large number of the older employees had gone into preretirement or had been dismissed with a "golden handshake". Older workers are therefore not recruited because these employers for example fear, that old workers are inflexible and that a young team might be thrown aback in its efficiency because of lack of flexibility. In addition, there is an insistent statement, that in the process of reorganisations they had often had bad experiences with the willingness of older workers to participate in training measures.

The **type B** enterprises implement the strategy of “**segmentation personnel policy**”. Enterprises of this type still have older employees, however, they only allocate them to certain production processes which considerably differ from the assignment conditions and processes of their younger colleagues. To briefly summarise, older workers in these enterprises are assigned to "older" and less innovative products which are still produced in old forms of production process with old machines, while younger colleagues deal with the "newer" innovative products and experiment new forms of production processes and work organisations. A common characteristic of these often tradition-oriented craft enterprises is the production of niche products, with which they still produce good quality skilled work and product. Even though these enterprises do depend on innovation and constant optimization of their products, because of the long-life-cycle of their machines, they are not often under pressure to invest into new machines or to constantly change work and production processes.

However, through the gradual replacement of old machines with new ones these enterprises create islands for older workers without necessarily giving them continuous training or introducing them to new innovative processes. So with time, the island to withdraw to becomes smaller and

smaller. As a result of this segmentation strategy, this gradually leads to systematic exclusion and externalization, because older workers who lack knowledge about the new innovative production machines and processes will have no chance of placement.

The third and **type C** enterprises implement the strategy of “**proactive personnel policy**”. These companies — although few in number — have resolved to directly approach qualified older workers in their job advertisements. This strategy is implemented by enterprises which pursue growth course, and very much depend on highly qualified staff for further growth, which is however hard to find on the external "everybody's" labour market. The problems regarding skilled workers in this strategy lies in the fact that, these companies are in direct competition with financially strong conglomerates since their qualified young skilled workers they have already invested into, are poached by the strong competitors. With this proactive strategy, these companies try to recruit those older unemployed persons who have been shedded out or exchanged by younger skilled workers in the large companies. So these enterprises use the human potential of older workers that are no longer required in other large firms. The proactive strategy enterprises have come to the conviction, that older workers are just as efficient and productive as younger workers and even bring in more work experience than younger workers. If one invests in their health-care and further training, there is no difference in efficiency between young and old in that regard.

The discrimination of older employees through the recruitment strategies and attitudes of the enterprises we sampled in our survey will continue to have negative impact on the integration pattern, because older workers are not fully accepted by employers and they suffer concealed segmentation and externalization. Unless employers change their attitudes towards older workers by 180° in the near future, the situation of this cohort will remain to be precarious.

7 Conclusion

The externalization pattern through early exit of older workers from the labour force has various aspects that collide with the integration patterns thereby outlining the paradox between both patterns. This has been explained in the various interests of the actors and especially in the attitudes of employers. According to the “pull” theory of the externalization pattern, early retirement and unemployment are a major gateway for individuals, where compensations serve as incentive and motives. According to the “push” theory of externalization older workers are made redundant due to selective and discriminatory human resources policies, which also hinder their reemployment. The role and interest of the actors are important in this process. Because employers early exit and externalization schemes offer possibilities to shift the costs of restructuring at least partly onto the public and or collective social insurance,⁵⁵ they will be tempted to use this instrument, if it is not fully abolished or outrightly protected from them. The coalition of interests between employers and workplace representatives illustrates that decisions are influenced by two interest-accompanied negotiations with the works council and this actually opens the channel to the “pull system”, which makes older workers either happily or grudgingly accept the push of the employers decision and sometimes also the moral push of younger colleagues.⁵⁶ In buying out social peace as well as acting as a mediator, the state has come to realise that its interest of sustaining the social security has to counteract the externalization pattern. This new pole in the framework of integration does not actually guarantee that employees especially older workers will be employed until higher ages as demanded from the pension with 67 years. However, if political and social strategies have to go or should go beyond mere symbolic proclamations and have impact on the real working world, they should require appropriate and effective instruments to ensure their implementation.⁵⁷

The integration pattern therefore demands from the actors to implement realistic policies so that employers for instance would create conducive working conditions adapted to older workers and be willing to especially

⁵⁵ Cf.: Ebbinghaus, B. 2002 p.60

⁵⁶ Cf.:Knuth, M. and Kalina, Th. 2002, p. 415

⁵⁷ Cf.: Naschold, F. ; de Vroom, B. And Casey, B. 1994, p. 457

hire, retain and render them continuous training possibilities. This brings us back to the core of the issue, that the available choices depend very much on the applicable and realistic state policies and labour relations. A key factor in meeting these challenges will be the changing and positive attitudes of enterprises and their conducive employment policies for older workers. Older workers themselves should be more flexible and adaptive to the changing situation of the working world. On the other hand, if older workers should be encouraged to work longer, then there ought to be conducive conditions and policies to enable them to fulfil this target. In this regard, breaking up, unknotting and removing the barriers, which are holding up each one of the actors mentioned in this paper in their own various interest areas, is actually the challenge and the paradox accompanying the externalization and integration patterns of ageing workforce in Germany.

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