





front of expected demographic trends, views continue to diverge concerning the optimal timing, intensity and modalities of such an increase.

In this context, any empirical element on the articulation between retirement policies and general equilibrium on the labor market is welcome. The present paper will try to contribute to this debate by concentrating on the retrospective issue. Its objective is to study the long term relationship between labor force participation (LFP) of the old and unemployment of the young. The paper will be organized as follows. Section 1 will be devoted to a presentation of the main reforms of Social Security and early retirement schemes since the beginning of the 1970s. We will pay a particular attention to the role played by labor market considerations in justifying these reforms. Section 2 will then present one first assessment of the incidence of these changes on labor market outcomes for younger workers. This first approach will consist in correlating LFP for older workers with employment or unemployment rates for young or middle age workers. One limit of this approach is that changes in LFP rates for senior workers do not only reflect the impact of retirement policies. Employment rates for all age groups are influenced by general labor market conditions and this might lead to spurious correlation due to simultaneity issue. Controlling for the economic cycle is one way to minimize this bias, but this comes at a cost, namely that of abandoning the search for an unconditional relationship between youth and old employment. The main criticism of economists to early retirement policies is that they don't take into account the knock-on effect on output. Testing substitution conditioning on output would therefore not be sufficient to establish the long term efficiency or inefficiency of these policies. Even controlling for the economic cycle, one could want to look for more direct effects of pension reforms on employment of the youth.

The rest of the paper therefore tries to adopt another strategy, which consists in assessing directly the impact of incentives to early retirement on youth unemployment. This strategy involves two steps. The first one is to build indicators that measure the intensity of these incentives. This first step is presented in section 3.1. Once this has been done, these indicators incentives are used as explanatory variables for labor market outcomes of the different age groups in section 3.2. This second strategy is not without flaws either. In the case of France, we show that the incentives are themselves endogenous, i.e. they have been put in place at times of rising unemployment. This means that a causal interpretation of our results remains problematic. The conclusion will come back on the general interpretation of our results.

## 1. Background: debates and policies

The aim of this section is to present a brief history of the development of early retirement in France, with a specific attention to the role played by labor market considerations in debates that have accompanied this trend.

Several factors have converged in favor of these policies. The aspiration of workers or labor unions to early retirement has naturally played a strong role. It was the continuation of the fight against “work alienation”. In the 1970s, a campaign slogan of the CGT, communist inspired union, was thus “better retired than unemployed” (Guillemard 1983). In 1997, four years after the first reform that tried to increase the normal retirement age, the CGT union still officially favored the 55 years old retirement age for everyone in particular with the goal to lower unemployment. According to a poll released at the time in the daily newspaper *Le Monde*, 61% of French people were in favor of “the 55 retirement age in order to lower unemployment”.<sup>1</sup> Surveys on the perception of early retirement by employees also showed that, if the first reason for accepting to retire early was the wish to stop working, many employees stated the need to leave jobs for the young as a clear motivation for their choice (Caussat et Roth, 1997). The attraction for early retirement still remains relatively high in France compared to other countries, according to some results from the SHARE survey (Blanchet and Debrand, 2008).

But employers and governments have also played a large role in the development of this “culture of early exit”, to use an expression coined by Guillemard (2003). Employers saw these early exits as a way to facilitate the restructuration of old industries or to solve their problems of excess labor capacity. As far as governments are concerned, these early retirement policies have been one dimension of a global malthusian answer to labor market problems, based on the idea that the total amount of work is constrained, so that unemployment is just the result of an unequal distribution of work. In this context, work-sharing appeared to be a good way to lower unemployment, either within cohorts (working time reduction) or between cohorts (early retirement or longer studies). The idea that work-sharing was a solution to unemployment problems was also supported by books like “The End of Work” (Rifkin, 1996) which topped the bestseller’s list in France in the 1990s. This general orientation has been common to right-wing and left-leaning governments, the only differentiation concerning the choice of instruments:

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<sup>1</sup> *Le Monde*, 9 January 1997.

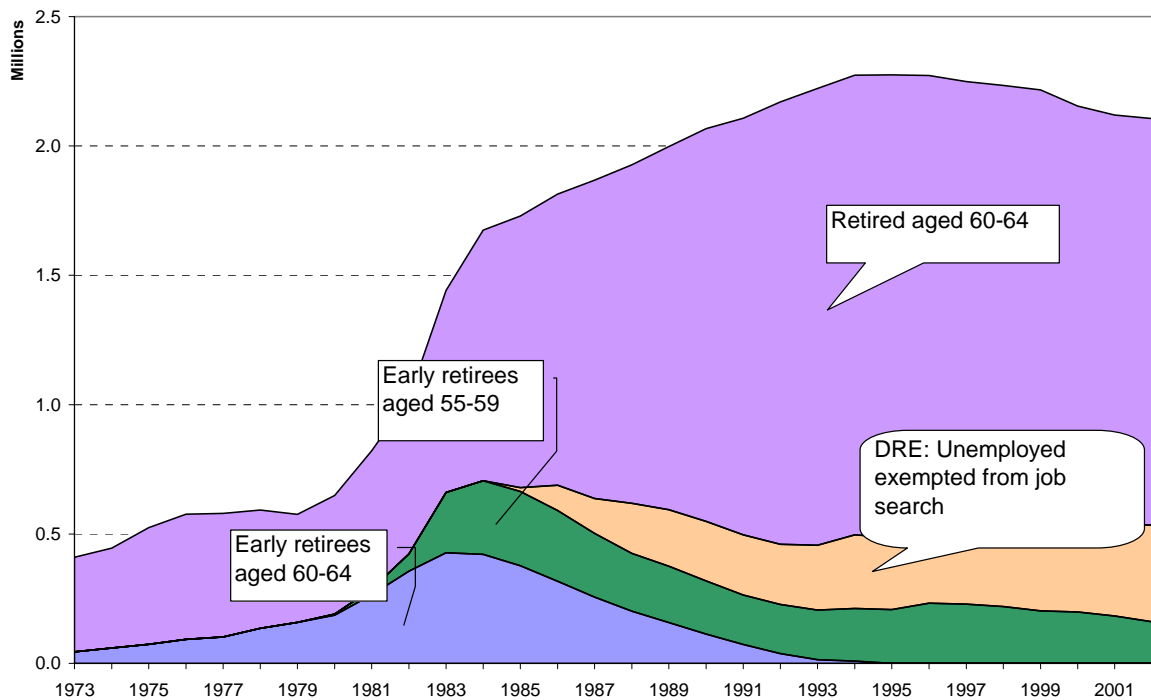
conservative ones favored policies excluding women or immigrants from the labor force and subsidizing employers for early retirement. Left leaning governments favored lowering hours of work or lowering the age at normal retirement.

We shall examine how all these policies have been implemented with a specific focus on policies that have applied to wage earners in the private sector, who represent the majority of the population. These workers traditionally benefit from a basic pension delivered by the “*general regime*” and from one or two complementary benefits delivered by two complementary schemes, ARRCO and AGIRC, the second one being specific to highly skilled white collar workers. Besides these two or three forms of “normal” benefits, many of these workers have benefited during the same period from the emergence and consolidation of various forms of early or pre-retirement schemes.

To make the presentation easier to follow, we shall distinguish three main phases, that can be indentified on figure 1 that gives the evolution of global stocks of retired or preretired people for the 55-64 age group by broad categories:

- The first phase is a phase of increased generosity of normal pension benefits, with a normal age of retirement that remained equal to 65, but accompanied by the progressive development of preretirement schemes for the 60-64 age group. This period lasted until the end of the 1970s.
- The second period has been a period of acceleration of these early exits, first through the expansion of preretirement between 60 and 64, then through the lowering of the normal retirement age to 60 (1983 reform) and at last by the development of new preretirement routes that have extended the phenomenon to the 55-59 age bracket.
- The third phase is one of relative stabilization, with a combination of closure or resorption of some schemes, partly compensated by the development of other ones, accompanied with two pension reforms that have started paving the way for future increases in the normal retirement age, the 1993 and 2003 reforms.

**Figure 1. Social Security and early retirement programs (1973-2002)**



***1.1. The seventies: more generous pensions at 65 and development of preretirement for the 60-64 age group.***

Before 1971, the “general regime” used to offer a pension that was at best 40% of a reference wage which was the average of past wages computed on the 10 last years of one’s career. This level was proposed at age 65. A reduction/bonus of 10% per missing/additional year of age was applied to this pension level. For mortality conditions of the period, such an adjustment was not very far from actuarial neutrality.

The Boulin Law in 1971 has been the main change that has occurred over this period for this general regime. It increased the global generosity of the system. The normal replacement rate was raised from 40 to 50% and the reference wage started being computed over the 10 best years of one’s career rather than the 10 last ones. At this stage, the motivation was not at all to encourage earlier exits. It was essentially to reduce the income gap between workers and retirees. No strong change occurred concerning retirement age. The normal age remained 65, with the same bonuses/penalties for postponement/anticipation.































































