

# **Ageing, young persons and the welfare state:**

An exploration of the consequences that ageing populations have for the  
position of German and Italian youth

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## **Abstract**

This study deals with the consequences of ageing populations on the position of young persons in Italy and Germany. At the same time that European populations are ageing, working-age populations are declining. This puts a growing pressure on future workers and current youth to contribute more to the preservation of European welfare states. This research aims to review the relation between ageing, young persons and the welfare state in a more detailed way, and tries account for the found differences between Germany and Italy using multiple sociological perspectives. Ageing seems to have a larger impact in Italy on the already precarious position of youth than it does in Germany, despite the fact that the ageing of populations in both countries has shown partly analogous developments. Important explanations for these differences are: 1) lower average retirement ages and lower participation rates among older workers 2) unemployment protection schemes that offer inadequate protection in the context of a changing socioeconomic environment 3) the lacking political power of young persons and the overrepresentation of ‘insiders’ on the labour market within major trade unions 4) the timing of the emergence of key post-industrial developments. These explanations, among others, constitute a plausible explanation for the larger impact ageing is having in Italy and the precarious position of the Italian young.

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# 1. Introduction

This thesis deals with the consequences of ageing populations on the position of young persons in Italy and Germany. European populations are growing older by the day. Technological advances have increased life-expectancy rates and fertility levels throughout Europe are at an all-time low. This has caused the proportion of older people to rise continuously during the last decades. As no doubt most individuals, I am enjoying the prospect of seeing my parents and grandparents live longer lives. However, the ageing of European societies also has several challenging implications. With the proportion of older people increasing, public spending on healthcare and retirement benefits is expected to increase significantly as well. At the same time, the proportion of the population that is responsible for providing a sufficient social security budget (for instance through tax or social contributions) is declining. Disregarding vast productivity increases or drastic policy reforms for the moment, this puts a growing pressure on future workers and current youth to contribute more to the preservation of European welfare states. It is interesting in this context that this pressure on youth seems to differ quite significantly between Italy and Germany, even though the ageing of both populations has shown partly analogous developments. The position of Italian youth is more precarious than the position of German youth, as they are more likely to be unemployed, more likely to be neither in work nor in education and more likely to work on a temporary labour contract. This being said, in what way do the ageing populations influence the position of young persons in both countries, and how can we account for the apparent differences? These are a few of the questions this thesis aims to answer, by elaborating the relation between ageing, young persons and the German and Italian welfare state. In doing so, I will discuss three mainstream sociological perspectives during the course of this exploration and one theory that combines features of all three perspectives. These are: 1) functionalism 2) institutionalism 3) power resources theory 4) historical timing of key post-industrial developments.

The structure of this thesis is as follows. I will start with a description of the problem and an introduction of the two cases in chapter 2. Chapter 3 describes the approach being taken throughout this exploration and specifies the main research questions. In Chapters 4, 5 and 6, I respectively review the problem from a functionalist-, an institutionalist- and a power resources perspective. Chapter 7 discusses the 'timing argument' and chapter 8 concludes.

## 2. Problem

### 2.1 Ageing Europe

Every EU member state has experienced an ageing population during the last decades and will continue to do so for the decades to come. Where 9,6 % of the total EU-27 population was 65 years or older in 1960, this percentage has risen to 17,4 % in 2010 (Eurostat, 2012).<sup>1</sup> Looking at population projections, the proportion of older people within the EU is expected to increase even more over the next fifty years, up to 29,8 % in 2060 and with more than half of the European countries reaching percentages above 30 (Eurostat, 2012). This means that the absolute number of people aged beyond 64 in the EU will increase from 87 million in 2010, to 151 million in 2060 (Eurostat, 2012). Following these projections, the share of people aged 65 or above would be more than twice as large as the share of children in 2060, whereas in 2010, these shares were still fairly equal.

As briefly mentioned in the introduction, the ‘greying’ of European populations is most often explained by a combination of rising life-expectancy rates and declining fertility rates. According to the United Nations (2012), EU citizens on average now live ten years longer than they used to fifty years ago, reaching an average life expectancy of almost 76 for European males and 82,1 for European females in 2008. Looking at projections for life-expectancy rates in 2060, the average life expectancy at birth for EU citizens is expected to increase with 8,5 years for men and 6,9 years for females (Eurostat, 2012).<sup>2</sup>

Meanwhile over the same period, the fertility rate for European women has decreased enormously. In 1960, the average number of live births per woman in Europe was 2,63, while this number had fallen to 1,52 in 2009. Given that the European fertility replacement rate is 2,1, this means that there are now less children being born to replace their parents. The total fertility rate in the EU is expected to increase slightly to 1,64 by 2060, but it remains well below the natural replacement rate (Eurostat, 2012).

The combination of higher life-expectancy rates and a sub-replacement fertility rate has caused European populations to become older, and has brought about a relative (and absolute) growth of the proportion of Europeans aged 65 or older.

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<sup>1</sup> For the following countries, data regarding the population aged 65 or above in 1960 was not available: Romania; Malta; Slovenia; Lithuania; Latvia; Cyprus; Estonia; Greece. I have calculated the average of the remaining countries.

<sup>2</sup> Past population projections have underestimated the growth of life-expectancy rates, as key drivers for longevity growth such as biomedical technological progress, and the effectiveness of healthcare systems is difficult to predict (European Commission, 2009).

### *2.1.1 Old-age dependency*

Another way to view the ageing of populations is by the development of old-age dependency ratios. This ratio represents the number of people aged beyond 64 as a proportion of the total working-age population (age 15-64), and is a figure that is commonly used by statistical institutions like Eurostat and the OECD (Organisation for Economic Co-operation and Development) to display the ageing phenomenon. A growth in the old-age dependency ratio represents a growth in the relative share of people aged 65 or above compared to the share of the population that is of working age. The development of old-age dependency ratios therefore functions as an indication of the changing age-distributions in countries.

In 1960, the average old-age dependency ratio for EU-countries stood at 15 %, <sup>3</sup> while in 2010, this number had risen to 25,9 % (Eurostat, 2012). Looking at data that projects the evolution of the old-age dependency ratio, the proportion of people aged 65 or above relative to the total working age population is expected to at least double for all 27 EU countries and reach a percentage of more than 52 in 2060 (Eurostat, 2012). In other words, this would mean that in 2010, there are about four people of working age for every person who is aged 65 or above, and that this number will decline to only two people of working age for every person aged 65 or above in 2060.

### *2.1.2 Variations across EU*

Although all European countries have experienced an ageing population, the pace at which this has happened varies across countries. By comparison, in 2010 the proportion of people aged 65 or above in Ireland was only 11,3 %, whereas the same proportion in Germany consisted of 20,7 % of the total population. Furthermore, the proportion of older people in Germany is projected to grow to 32,8 % in 2060, while in Ireland in 2060, 22 % of the total population is expected to be aged 65 or above. The evolution of old-age dependency ratios in individual EU-countries shows a similar variation. Germany and Italy had dependency ratios exceeding 30 % in 2010, whereas Ireland and Slovakia had ratios of respectively 16,8 % and 16,9 %. In 2060, Germany is projected to have an old-age dependency ratio of 59,9 %, Ireland of 36,6 % and Slovakia of 61,8 % (Eurostat, 2012). These figures illustrate that not

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<sup>3</sup> For the following countries, data regarding the old-age dependency ratios in 1960 was not available: Romania; Malta; Slovenia; Lithuania; Latvia; Cyprus; Estonia; Greece. I have calculated the average of the remaining countries.

only the pace at which the ageing of European populations has happened differs, but also the pace at which it is happening and going to happen in the future.

## ***2.2 Consequences of ageing populations***

What are the consequences of the fact that European populations are ageing? First of all, the total EU population is expected to have grown slightly in 2060, from 495,4 million in 2008 to 505,7 million in 2060. However, reaching its peak in 2035 with a total population of 520,1 million people, from 2035 the EU population is projected to decline with 3 % by 2060. As stated earlier, the proportion of the population beyond the age of 64 is expected to reach 29,8 % in 2060, implying an increase in the median age to 48, as opposed to 40 in 2008. Also, the working-age population (age 15-64) is expected to decline with 15 % by 2060, meaning a decrease of about 50 million people, while total EU labour supply is likely to decrease with almost 10,5 % by 2060, which is the equivalent of 24,4 million people (European Commission, 2009).<sup>4</sup>

As a result of the older growing populations, age-related public spending is likely to increase significantly over the next fifty years. On the basis of current policies, total EU public expenditure is expected to increase by 4,75 % of GDP, mainly coming from an increase in spending on pensions (2,4 %), health care (1,5 %) and long-term care (1,1 %). Decreases in other areas of public expenditure that could offset the increase in old age spending are minimal (e.g. -0.2 % on education and -0,2 % on unemployment benefits) (European Commission, 2009).

Especially alarming is that this rise in public expenditure is taking place in the context of a decreasing working-age population. Or as Morrow and Roeger (1999) put it, a decrease in the working-age population and a growth in the proportion of people aged 65 or above, could lead to a distortion in the balance between working- and non-working people. This balance is of importance because of the social contributions of the working population, with which social services are provided. Following the presented population projections and based on the current policies, less working-age people are going to have to provide for more costs. This could lead to sustainability problems for countries to maintain their welfare provision and consequently seriously affect the financial burden on the working- and the future working population.

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<sup>4</sup> Total EU labour supply is projected to increase with 3,7 % until 2020, mainly because of a growing female labour force, however after 2020, the total EU labour force is expected to decline with 13,6 % (European Commission, 2009).



### *2.2.1 Possible outcomes for youth and variations across EU countries*

However, on the basis of the developments of old-age dependency ratios and the large differences between them among EU member states, it can be hypothesized that the financial burden coming from rises in age-related social expenditure differs between EU countries as well. On the one hand, it could be expected that very old, or rapidly ageing countries experience the largest expected increases in social expenditure, and thus the highest financial burden on future workers. On the other hand, it seems logical that youth and labour market entrants would experience more opportunities on the labour market in old countries, as competition will be lower, which in turn could strengthen their financial position. However, both seem not to be the case per se, as I will discuss in the next paragraph.

Looking at the two countries with the largest proportions of people aged above 64, Germany and Italy experience very different levels of youth unemployment. Germany, where people aged beyond 64 make up 20,6 % of the total population, experienced a youth unemployment rate of 8,5 % in 2011, whereas Italy, which has 20,3 % older people, had a youth unemployment rate of 28,2 % by the end of 2011 (Eurostat, 2012). This would suggest that ageing does not necessarily lead to a more advantageous labour market position for youth. Also, under current actual policy, Ireland (one of the youngest EU countries) is expected to experience an increase of 6,4 % of GDP on public pension expenditure by 2050, whilst Germany is projected to experience an increase of 1,7 % of GDP on public pension spending (Meier & Werding, 2010). It should be added in this regard that Germany is not only an older country than Ireland, at this moment and in 2050, the growth of the proportion of people aged beyond 64 is projected to be larger as well. Both examples would suggest that ageing in itself is not the only indicator of the growing financial burden on future workers and the labour market position of current youth, and that other factors play an important role in determining the relation between ageing populations and the position of young persons in European societies.

### **2.3 Aim of the research**

Having briefly discussed the ageing of European populations and the consequences this may have on the position of current youth and future workers, the aim of this research is as

follows. Considering the differences in the proportion of older people as well as the old-age dependency ratios between European countries, and looking at the variations in outcomes, it is probable that the consequences for youth that result from the greying populations differ between European countries as well. A quick look at public social expenditure and labour market outcome data- as done earlier in this problem section- seems to underline this assumption. Therefore, some countries may be better equipped to deal with the consequences of greying populations than others, which in turn effects the position of youth accordingly. However, little research has been done on the effects of ageing on the specific position of young persons in individual EU welfare states, which makes this investigation a challenging endeavour. As a consequence, this research must be viewed as an explorative attempt to elaborate the relation between ageing populations, young persons and the welfare state in a detailed and nuanced way, exploring the consequences of greying populations on youth and future workers in individual countries more fully. To do this, I will make extensive use of a wide array of secondary literature and recent empirical evidence to help guide me through this process.

What is important to note, is that my attempt to establish the consequences of ageing populations on the position of the young is an analysis of the situation *until 2008*, roughly before the start of the sovereign debt crisis. The crisis has exacerbated social problems and has resulted in a period of great institutional fluidity throughout the EU. Therefore, an analysis of the most recent reforms and data would not only be premature, the consequences of ageing would most likely be overshadowed by the exceptional impact of the crisis. As a consequence, I will use 2008 data as much as possible.

Even though the ageing of populations is a European wide phenomenon, considering the aim of this research to provide a *detailed* discussion of the consequences that ageing populations have, for time- and practical reasons, a comparison of all 27 EU member states goes beyond the scope of this research. Therefore, I have selected two cases that will be compared in a detailed way throughout the remainder of this investigation. These countries are Italy and Germany, which I will introduce in the next section.

## ***2.4 Case selection***

As stressed before, this research can be characterized as a theoretical exploration of the consequences that greying populations have on the position of youth in EU welfare states. In doing so, I will compare Germany and Italy in a structured way, which implies that this

research could also be labelled as a ‘comparative case study’. Comparative case studies can be carried out in multiple ways, including the selection of two similar countries whilst trying to show different outcomes, or two dissimilar countries with the aim of showing fairly similar outcomes (Skocpol & Somers, 1980). Even though certain outcomes can be predicted, results can always turn out to be different than anticipated, following an in-depth analysis of the respective cases.

In this research, I have chosen to select two similar cases with regards to ageing: Germany and Italy, which partly show analogous developments. In 2010, Germany and Italy were the two countries with the largest proportion of people aged beyond the age of 64 in the EU. In Italy, people aged above 64 made up 20,2 % of the total population, whereas in Germany, this group consisted of 20,7 % of the total population (Eurostat, 2012). Compared to the EU average of 17,4 %, both countries score significantly higher. Looking at population projections for 2060, although they are both not ranking at the top of the ‘oldest countries’, they still have percentages above the EU average: In Italy, 31,7 % is expected to be aged above 64, as compared to 32,8 % in Germany (Eurostat, 2012). As with the growth in the proportion of the elderly population, the development of old-age dependency in Italy and Germany has also shown large similarities over the last 50 years, as can be seen in the table presented below.

**Table 1. Old-age dependency 1960-2010**

	<b>1960</b>	<b>1970</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>2010</b>
<b>Germany</b>	17,0	21,4	23,9	21,6	23,9	31,4
<b>Italy</b>	14,0	16,7	20,3	21,5	26,8	30,8

Source: Eurostat (2012). Population aged above 65 as a % of total working age population

Both countries have experienced a steep rise in old-age dependency, resulting in more than three people aged beyond 64 for every ten people of working age in 2010. As the above presented figures suggests, both countries have undergone and will undergo fairly similar developments with regards to ageing.

However, a brief look at other evidence leads room to suggest that even though the two countries show similarities in the proportion of people aged beyond 64 and the development of old-age dependency, the outcomes for young people may differ significantly. In the next paragraphs, I will briefly review the position of young persons in Italy and Germany and discuss several of the found differences.

#### 2.4.1 The position of youth in Germany and Italy: a brief comparison

The ‘position of young persons’ is a broad concept and can be defined in multiple ways. Here, I will review the position of youth by discussing their labour market position and the degree to which they benefit from welfare programs and social security schemes. Youth are regarded here as young persons between the age of 15 and 24, as in most statistics – e.g. youth unemployment rates – this same age category is used.

In both Germany and Italy, young persons face a less favourable position on the labour market than do older workers (Eurostat, 2012). In addition, youth are less protected by social security programs, and seem to be unevenly affected by recent welfare cutbacks (European Commission, 2012; Natali & Rhodes, 2004). However, even though the position of young persons is relatively precarious in both countries, there are several differences to be found between Germany and Italy. In the following paragraphs, I will discuss these differences in more detail.

First of all, in both countries, youth unemployment rates have been higher over the last 10 years than overall unemployment rates, pointing to the more unstable labour market position of young persons as compared to older workers (Eurostat, 2012). Nevertheless, as the below presented table shows, youth unemployment rates have been structurally higher in Italy than in Germany during the period 1998-2008.

**Table 2. Youth unemployment rates 1998-2008**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Germany</b>	9,8	8,9	8,5	7,8	9,3	11,0	13,0	15,5	13,8	11,9	10,6
<b>Italy</b>	33,8	32,9	31,5	27,8	27,1	26,8	24,6	24,0	21,6	20,3	21,3

Source: Eurostat (2012)

More so, the number of young people in Italy in 2010 that was neither in education nor looking for a job (NEET), and thus not counted as being unemployed, reached staggering percentages as well. Among the teenage youth (15-18), 12 % could be counted as a NEET, whilst among the adult youths (18-24), nearly 25 % was not in education nor looking for a job

(Tiraboschi, 2012).<sup>5</sup> As with youth unemployment rates, the number of ‘NEETS’ in Germany was considerably lower in 2010. Less than 5 % of the teenage youth and around 12 % of the adult youth were counted as NEETS (Tiraboschi, 2012).

Furthermore, whenever young persons are employed, in both countries, they often work on a temporary labour contract. In Germany in 2010, little more than 57 % of all employees aged between 15 and 24 were working on a temporary contract, whilst in Italy, temporary employees made up almost 70 % of total youth employees (Cappellari et al, 2012; Eurostat, 2012).<sup>6</sup> At first glance, this would seem beneficial for young persons as youth unemployment rates are expected to decrease, however, the increasing take-up of temporary labour among youth also has some clear negative consequences: temporary employees usually earn less, are not always covered by social protection policies (e.g. unemployment protection or pension accrual) and risk to become trapped in “a circle of temporariness” (Garcia, 2011, p. 9).

The negative consequences of temporary labour become especially apparent in the case of Italy. In 2008, only 38 % of all registered unemployed persons in Italy received an unemployment benefit, due to the strict eligibility criteria (Jessoula & Vesan, 2011). Among these people who were not receiving any unemployment protection benefits were a large share of temporary employees, as they are even less likely to meet the eligibility criteria (Jessouale & Vesan, 2011). By contrast, in Germany, the coverage of total unemployment benefit schemes is in principle 100 % (Dingeldy, 2011).<sup>7</sup> In addition, Germany spends more on activation policies that aim to (re-)integrate unemployed persons into the labour market, as can be seen in the table presented below.

**Table 3. Spending on ALMP as % of GDP**

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Germany</b>	1,1	0,9	0,9	0,7	0,8
<b>Italy</b>	0,6	0,6	0,5	0,5	0,5

Source: OECD (2012). Total spending on active labour market policies as a % of GDP.

<sup>5</sup> 2008 data is not available.

<sup>6</sup> It must be noted that Eurostat reports different data on the incidence of temporary work in Italy, however as stressed by Cappellari, Dell’Aringa and Leonardi (2012), the Italian labour market has a distinctive feature: many of the formally self-employed are working on a ‘collaboration contract’, making them financially dependent on one single firm. Including this group as temporary workers increases total temporary employees as a % of total employees among youth from less than 50 % to 70 %. This fact also makes it difficult to present earlier data on the incidence of temporary labour among Italian youth, as evidence on the age-distribution of the formally self-employed in earlier years is rather unreliable.

<sup>7</sup> I will discuss unemployment protection in both countries in more detail during the institutionalism chapter.

Both unemployment protection coverage figures and data that portrays spending on active labour market policies imply that young persons in Italy are likely to experience less protection against stretches of unemployment than German youth.

### ***2.5 Conclusion***

In the previous chapter, I have shown that the position of young persons is likely to be less favourable in the Italian context than in Germany, even though the ageing of populations in both countries has shown fairly analogous developments. Italian youth are more often unemployed, are working more on temporary labour contracts and seem to benefit less from social security schemes than do German youth. How then can we explain these differences? And how do ageing populations influence the position of youth in both countries?

These two questions will form the leitmotif of the remainder of this research. However, before making my research questions explicit, I will briefly describe how I intend to answer those questions in the following chapter.

### **3. Approach**

#### ***3.1 Welfare state theory***

So far, we have seen that the ageing of populations in Italy and Germany has shown fairly analogous developments. Furthermore, basic hypotheses claiming that countries with a larger elderly population are likely to face a larger increase in age-related public welfare spending and lower youth unemployment rates due to less competition on the labour market, seem not to be the case per se. Looking then at the specific position of young persons in Germany and Italy, Italian youth face a less favourable position on the labour market than German youth. At the same time, they are less protected by social security schemes that provide coverage against risks of unemployment. In order to explain why this is the case and to establish the consequences that ageing populations have for the position of young persons in both countries, it is necessary to examine the differences between the German and Italian welfare state.

A lot of research has been done on the variation of welfare states, and explanations about these differences vary. In this exploration, I will adopt three ‘mainstream’ perspectives, which all have been dominant explanations for the development and/or differentiation of welfare states at some moment. In addition, I will incorporate studies that combine features of multiple of these perspectives. The three mainstream perspectives I will be using are: 1) the functionalist approach, 2) the institutionalism approach 3) and the power resources approach. The functionalist approach (or industrialisms approach) is based on the assumption that the development of welfare states is a product of the needs and resources of industrialized societies (Wilensky, 1975), and explanations for the variation of welfare states must be found in differing needs and economic recourses. The institutionalism approach highlights the influence of institutions on individual and organisational behaviour as the most important explanation for the differences between welfare states (Pierson, 2004), while the power resources approach distinguishes the division of political power between different actors in society as the most important determent for the development and differentiation of welfare states (Korpi, 1983). Lastly, I will discuss the ‘timing’ argument, which relates the timing of key post-industrial developments to the degree of development of new social risks policies (Bonoli, 2007). All these approaches seem to contain interesting and relevant features that can help me to accomplish the aim of my research, and investigate the consequences of greying

populations in both Germany and Italy more fully. In the following sections, I will describe all four theories in more detail, each in a separate chapter and starting with the functionalist perspective in the next chapter, and provide examples as to why the use of these theories are relevant for this study.

### **3.2 Research questions**

However, having described the theoretical perspectives that I intend to use to determine why the position of Italian youth seems less favourable than the position of German youth in the context of an ageing population, it is first time to specify the central research question of this investigation. This question can be defined as follows:

*How do ageing populations influence the position of young persons in Germany and Italy, and can functionalist theory, institutionalist theory, power resources theory and the timing of key post-industrial developments account for the apparent differences in the position of German and Italian youth, in the context of a similarly aged population?*

To be able to answer this question in a complete and systematic way, I have divided it into four sub-questions, which are:

- 1) *How do ageing populations influence the position of young persons in Germany and Italy, and can functionalist theory account for the apparent differences in the position of German and Italian youth, in the context of a similarly aged population?*
- 2) *How do ageing populations influence the position of young persons in Germany and Italy, and can institutionalist theory account for the apparent differences in the position of German and Italian youth, in the context of a similarly aged population?*
- 3) *How do ageing populations influence the position of young persons in Germany and Italy, and can power resources theory account for the apparent differences in the position of German and Italian youth, in the context of a similarly aged population?*
- 4) *How do ageing populations influence the position of young persons in Germany and Italy, and can the timing of key post-industrial developments account for the apparent differences in the position of German and Italian youth, in the context of a similarly aged population?*



I will discuss each of the four sub-questions in a separate chapter, followed by a general conclusion in which I hope to be able to answer the main research question of this exploration. In the following chapter, I will start by discussing functionalist theory.

## **4. Functionalism**

### ***4.1 Logic of industrialism***

Functionalism is a sociological perspective that was especially influential during the post second world war period, and is commonly used as an explanation for the emergence and differentiation of welfare states in the Western world. Functionalist theorist argue that the emergence of welfare states has been a product of industrialization and other broad socioeconomic processes related to the development of the industrializing Western world (Pierson, 2006). The industrial revolution brought about significant economic, technological, demographic and social changes, whereas at the same time, traditional institutions that provided social provision and welfare started to break down. Key societal changes included mass urbanization and with this the emergence of a landless working class, growing individual and family mobility accompanied by changing patterns of family and community life, the developed division of labour and the rise of cyclical unemployment (Pierson, 2006). All these changes implied a greater dependence on wage labour, whilst at the same time, individuals could no longer rely on traditional social institutions to provide coverage for periods when an income could not be derived from the labour market, due to social risks like unemployment or illness. Functionalist theorist consequently argue that the welfare state emerged as a response to the growing societal demand for state interventions to provide coverage against the new social risks, and thus as a necessary response to the needs generated by the industrializing societies (Pierson, 2006).

One of the most influential adherents of the functionalist perspective and also one of the main advocates of the ‘logic of industrialism thesis’ is H.L. Wilensky. Wylensky stresses that welfare states emerged and developed as a response to the social problems that arose from industrialized societies, however, he adds that countries were able to significantly expand their welfare arrangements due to the large economic surpluses during the industrial revolution. As a consequence, Wylensky’s central argument is that economic development is the main cause for the emergence and development of welfare states, and welfare arrangements are essentially a product of the needs and resources of industrialized societies (Wilensky, 1975). He explains the differentiation between welfare states by using the same

logic: more industrialized countries have more developed welfare states. This being said, in what way is the adoption of a functionalist perspective -that explains the emergence and development of welfare states- relevant in the current context, and thus useful for the discussion about greying populations in Italy and Germany?

#### ***4.2 Ageing and age-related welfare spending***

Arguments used by functionalist theorists for the development of welfare arrangements are essentially based on the notion of ‘problem pressure’; more industrialization and socioeconomic processes related to industrialization mean more social needs and thus more welfare. Relating this logic to the ageing problem would result in the following hypothesis: more ageing leads to more needs for elderly-oriented welfare, and consequently to an increase in elderly-oriented welfare spending. I have already discussed this briefly in the ‘problem section’, stating that the large demographic changes will lead to, among others, more pensioners, a greater demand on long-term care (most likely also healthcare) and subsequently a rise in public social spending under current actual policies in most countries. However, I have also shown that rapidly ageing countries do not necessarily experience the largest increases in elderly-oriented welfare spending. Furthermore, the proportions of the elderly population in Germany and Italy have been- and are projected to experience fairly similar developments with regards to ageing, implying that the basic assumption of more ageing leading to more elderly-oriented welfare spending provides little further insight in possible differences between the two countries.

Looking at the projected increase of age-related public expenditure under current actual policy in Italy and Germany over the period 2004-2050 tentatively confirms this assumption.<sup>8</sup> Italy is projected to experience an increase of 1,8 % of GDP on total age-related public expenditure, while the German figure comes down to 3,0 % (Meier and Werding, 2010). These figures would imply that the increases in age-related public expenditure due to the ageing populations by itself cannot account for the apparently more precarious position of Italian youth.

However, Wilensky (1975) has argued that industrial welfare states were able to expand the scope of their welfare provision because of the auspicious financial climate of that time, underlining the favourable balance between the societal needs for welfare and the

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<sup>8</sup> Age-related public expenditure here includes spending on pensions, health care, long term care and education (Meier & Werding, 2010).

resources to provide the welfare that was needed. The question then rises: is this balance just as favourable in the current socioeconomic context, and can differences in this balance between Germany and Italy explain possible differences in the consequences ageing populations have for young persons in both countries?

### **4.3 Economic growth**

First of all, as proposed by Wilensky (1975), economic surpluses provided the opportunity for welfare expansion during the Industrial years. Looking at nominal GDP growth rates of Italy and Germany over the last 20 years, the data portrays that both countries experienced economic growth during this period. Furthermore, GDP growth has on average been higher in Italy, which would imply that the resources for welfare expansion have been more favourable in the Italian context, as can be seen in the table presented below.<sup>9</sup>

**Table 4. Nominal GDP growth rate**

	<b>Average 1987- 1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Germany</b>	5,2	2,2	1,9	2,6	2,8	1,5	0,7	1,8	1,5	4,2	5,1	1,6
<b>Italy</b>	7,3	4,0	3,2	5,9	4,7	3,7	3,1	4,0	2,9	4,0	4,0	1,3

Source: OECD (2012)

However, discussing GDP growth alone does not suffice in portraying the balance between the needs and resources in a country. Moreover, especially important seems the balance between the proportion of the population that is paying social contributions, with which most welfare programs are funded, and the people receiving forms of social security benefits. This balance can be portrayed by dependency ratios, which I will discuss in the following paragraphs.

### **4.4 Old-age dependency versus economic dependency**

As discussed before, the ageing of populations is most often portrayed by a growth in old-age dependency ratios. This ratio displays the balance between the proportion of the population that is aged beyond 64 and the proportion of the population that is of working age. The

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<sup>9</sup> It must be noted that at the same time, annual deficit rates have been higher in Italy as well (OECD, 2012).

development of old-age dependency in Italy and Germany has shown large similarities over the last 50 years, as can be seen in the table presented below.

**Table 5. Old-age dependency 1960-2010**

	<b>1960</b>	<b>1970</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>2010</b>
<b>Germany</b>	17,0	21,4	23,9	21,6	23,9	31,4
<b>Italy</b>	14,0	16,7	20,3	21,5	26,8	30,8

Source: Eurostat (2012). Population aged above 65 as a % of total working age population

Both countries have experienced a steep rise in old-age dependency, resulting in more than three people aged beyond 64 for every ten people of working age. This implies that the needs for elderly-oriented welfare have grown in both countries, whilst at the same time, the relative proportion of the population that provides the resources by paying social contributions has declined. Thus, using functionalist logic: societal needs for welfare (or different forms of welfare) are increasing whilst the resources to provide this welfare are becoming smaller.

However, old-age dependency in itself is not a sufficient indicator to reflect the balance between the needs for elderly-oriented welfare and the resources to provide this, as it does not account for unemployment rates and early retirement. Logically, this is of importance because the impact of ageing will be larger in case of widespread early retirement and/or high unemployment rates. This is the case because high unemployment would mean less contributions by workers and thus less resources, whilst early retirement implies both less contributions and more needs for welfare. Therefore, the calculation of an effective economic dependency ratio, that portrays the number of pensioners (including early retirement and disability pensions) and unemployed persons versus the proportion of the population that is in actual labour may provide more insight on the consequences of ageing populations in both Germany and Italy.<sup>10</sup> As these ratios are not readily available, I have calculated them myself for 2010 using data from the European Commission and Eurostat.<sup>11</sup>

**Table 6. Effective economic dependency ratio 2010**

	<b>2010</b>
<b>Germany</b>	60,3
<b>Italy</b>	79,0

<sup>10</sup> See Wöss (2010) for a more detailed description of economic dependency.

<sup>11</sup> Commission Services (DG ECFIN), Eurostat (EUROPOP2010)

Source: European Commission DG ECFIN, Eurostat (2012). Population above 65 including early retirement pensions, disability pensions and unemployed as a % of population that is in actual labour.

The calculation of effective economic dependency does show some striking differences in the ratios between Italy and Germany, as opposed to simple old-age dependency ratios. Italy had a much higher economic dependency in 2010, differing almost 19 % with Germany, implying a larger discrepancy in the balance between pension-receivers and the unemployed versus the proportion of the population that is paying social contributions. Following the logic of effective economic dependency ratios -a higher ratio meaning less people providing social contributions for a larger share of people receiving them-, it can be assumed that strains on public budgets due to (age-related) rises in social expenditure are having a larger impact in Italy.

The large difference in effective economic dependency between both countries in 2010 is largely due to the participation rates among older workers (55-64) and the average actual retirement ages. Participation among older workers in Italy in 2010 was only 37,8 %, whereas the same number in Germany was 62,5 % (European Commission, 2012). This differential is also displayed by actual average retirement ages; the average actual retirement age in Germany in 2010 was 63,5 while in Italy, people on average exited the labour market at an age of 61,3. Logically, the fact that people exited the labour force at an earlier age in Italy than in Germany in 2010, is reflected in the proportion of pensioners below the age of 65. In Italy in 2010, 23,8 % of all pension-receivers was aged below 65; in Germany this was 15,8 % (European Commission, 2012).

In the previous section, I have shown that strains on public budgets due to age-related rises in social expenditure are likely to have been larger in Italy, resulting from a higher degree of effective economic dependency, despite a lower projected increase in age-related public expenditure.<sup>12</sup> Therefore, the difference in effective economic dependency between Germany and Italy may be an explanation for the more precarious position of Italian youth, as the scope for welfare expansion to adequately cover the young in the Italian case seems more limited. However, is ageing the only cause for increasing welfare needs or are there other issues within the current socioeconomic context that are of relevance to young persons and that need to be discussed?

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<sup>12</sup> Annual labour productivity growth has been lower in Italy as well during recent years, exacerbating fiscal strains coming from high effective economic dependency (OECD, 2011). I will come back to this in the discussion.

#### ***4.5 Post-industrialization and new social risks***

As stressed a couple of times before, functionalists argue that socioeconomic changes related to broad processes of industrialization resulted in new welfare needs generated by industrialized societies. Interestingly enough, European societies are and have been experiencing large socioeconomic changes more recently as well, sometimes characterized as the process of post-industrialization. Important features of this umbrella term are the de-standardization and tertiarization of employment, de-industrialization, increasing family instability and the massive entry of women into the labour force (Bonoli, 2007). These changes have, as comparable with times during and after the industrial revolution, lead to ‘new social risks’ and an increasing need for different forms of welfare. This is relevant in this regard, as many of the emerging new social risks related to post-industrialization are particularly being faced by young persons (Taylor-Gooby, 2004), while at the same time, the scope for welfare expansion to cover these new social risks is rather limited due to the growing needs for elderly-oriented welfare. However, not all of the developments related to post-industrialization are suited to be discussed within this functionalism chapter, as they are policy developments rather than autonomous socioeconomic developments. Nevertheless, in the following paragraphs, I will discuss one process that is characteristic of the post-industrial era and seems of importance to young persons: de-industrialization. A more detailed discussion of the consequences of de-industrialization may provide further insight in the apparent variation between the position of German and Italian youth.

##### ***4.5.1 De-industrialization***

One of the major socioeconomic changes that is commonly argued to be related to processes of post-industrialization is the shift throughout Europe from industrial production-based economies to service economies.<sup>13</sup> This shift is most often portrayed by means of the polarization hypothesis; middle-skilled labour and low-skilled production labour demand are decreasing while high-skilled labour and low-skilled service labour demand are becoming much stronger (see Ragusa, 2012, Maselli, 2012 or Nelson 2012).

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<sup>13</sup> There are different explanations for the shift from production- to service-based economies; see for instance Goos and Manning (2007) for literature on Routinization processes, Bottini, Ernst and Luebker (2007) for literature on global spillovers (offshoring) and Mazzolari and Ragusa (2012) for an alternative explanation for the shift to a service economy: consumption spillovers.

**Table 7. Industry & Service employment**

	1992		2008	
	Industry	Service	Industry	Service
<b>Germany</b>	35,2	61,4	25,4	72,9
<b>Italy</b>	31,4	61,7	28,4	67,7

Source: Eurostat (2012). Industry & Service sector employment as a % of total employment in 1992 and 2008.

The figure presented above shows the decline of employment in the industry sector during 1992 and 2008, while the service sector has increased in both countries, portraying the shift to more service-based economies. Looking at more precise data that divides employment growth by skill-composition, a clearer picture can be discovered. Middle-skilled and low-skilled production labour is gradually being replaced by high-skilled and low-skilled service labour (Nelson, 2012). This has altered EU labour markets in a significant way, especially in the low-skilled segment. Low-skilled workers during the industrial era were mainly employed in the production- or manufacturing sector, where the scope for productivity increase was high due to technological advancements (Bonoli, 2007). By contrast, many of the low-skilled service sector jobs of today entail low-value added jobs that have little scope for productivity growth. Therefore, the growing demand for low-skilled service labour could generate two major new social risks for low-skilled individuals in the post-industrial era: 1) minimum wage setting by governments above the productivity levels of those jobs could price them out of the market, resulting in higher (long-term) unemployment rates; 2) payments according to market prices could result in higher in-work poverty rates (Nelson, 2012 ; Bonoli, 2007).

Furthermore, at the same time that the polarization of labour demand is taking place, educational expansion is booming. In all EU member states, more people are following secondary or tertiary education, which implies an increase in middle-skilled and high-skilled labour supply. Taken together, this could lead to vertical mismatches on the labour market and especially to an excess of middle-skilled labour supply (Maselli, 2012). Therefore, the shift from production economies to service economies could consequently generate further social risks (over education, low-skilled unemployment, high-skilled unemployment), and under current actual policy be a significant problem for young persons in the future.

Looking now at the specific status quo of labour demand and supply in Germany and Italy, a few observations can be made. Either country has experienced job polarization and educational expansion, however, Italy has experienced both to a lesser degree than Germany

(Maselli, 2012 ; Eurostat, 2012). Low-skilled labour supply still exceeds low-skilled labour demand in Italy, due to the comparatively high degree of low-skilled workers in the population, resulting in the potential for low-skilled unemployment (Maselli, 2012).<sup>14</sup> The status quo in Germany on the contrary exhibits the features of an equilibrium, implying that a further decrease in middle-skilled labour demand in the future could lead to an excess of middle-skilled workers (Maselli, 2012). Whether these middle-skilled workers will opt for low-skilled jobs or chose to compete for high-skilled labour needs further research, however, both encompass social risks: displacement to low-skilled jobs could lead to in-work poverty or low-skilled unemployment; competing for high-skilled jobs could lead to middle-skilled unemployment (Maselli, 2012). Nevertheless, at this moment, the mismatch between labour demand and labour supply on the Italian labour market could be a partial explanation for the comparatively high youth unemployment figures in Italy.

Following the above presented argumentation, it can be hypothesized that risks of unemployment for young persons have increased due to the shift to more service-based economies and the changing dynamics of supply and demand on the labour market in both Germany and Italy. At the same time, elderly-oriented welfare needs have increased as well in both countries as a result of the ageing populations, decreasing the possible scope for welfare expansion. However, as also briefly mentioned in chapter 2 section ‘2.4.1’, the German welfare state offers more protection against spells of unemployment for young persons than does the Italian welfare state, which seems to have been less able to adapt their welfare provision to the changing socioeconomic climate. How then can we explain this by using functionalist logic? In the following paragraphs, I will discuss a study by Tepe and Vanhuyse (2010) who have made an interesting attempt to empirically test the influence of the ‘needs and resources’ in post-industrial societies on the development or expansion of certain welfare arrangements, and in which both Germany and Italy are included.

#### ***4.6 Elderly-oriented welfare spending and new social risks spending***

Before discussing the results found by Tepe and Vanhuyse (2010), for reasons of clarity, it seems helpful to briefly describe some of the definitions they have used in their research. First of all, they have included eight different welfare programs in their study, including spending on old-age pensions, survival pensions, incapacity benefits, family benefits and services,

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<sup>14</sup> The risk of unemployment for high-skilled workers in Italy is almost as high as that for medium-skilled and low-skilled workers, unlike in most other EU member states, however, I will discuss this in the institutionalism section in more detail.



unemployment benefits and active labour market policies (Tepe & Vanhuyse, 2010). They define spending on old-age pensions and survivor pensions as ‘elderly-oriented welfare spending’. Hence, they have constructed an elderly/non-elderly spending share (ENSS), which they operationalize as spending on old-age pensions and survivor pensions as a proportion of total welfare spending (Tepe & Vanhuyse, 2010). Using regression analysis, they subsequently test whether ageing leads to a growth in the elderly/non-elderly spending share for each of the countries included in their study.

For analysis on the demand-side effects of post-industrialization, they have constructed a new social risks spending share (NSRS), which includes spending on active labour market policies and family services and benefits as a proportion of total welfare spending.<sup>15</sup> It must be noted that Tepe and Vanhuyse (2010) use a broader definition of new social risks than I have done thus far, and that for my research, spending on family services and benefits seems less relevant to the specific position of young persons. However, a discussion of these results does provide an indication of the degree that Germany and Italy have been able to adapt their welfare programs to the changing socioeconomic context, and may provide further insight as to why Germany seems to have been able to adapt their welfare provision so that it more adequately covers the needs of young persons. Lastly, the authors measure change in the elderly/non-elderly spending shares and the new social risks spending shares over the period 1980-2003 (Tepe & Vanhuyse, 2010).

The results of Tepe and Vanhuyse (2010) show that Italy ranks among the countries with the highest elderly/non-elderly spending share, scoring almost 0,8. In other words, this means that Italian spending on old-age pensions and survivor pensions makes up almost 80 % of total welfare spending on all of the programs included in the study. Germany also ranks high, however, their score of little over 0,6 is much lower than the Italian figure. Having used regression analysis, and controlling for GDP growth and annual deficit rates, the authors confirm that growing old-age dependency ratios lead to more pension spending and hence to a growth in the elderly/non-elderly spending share. Different as might be expected, ageing does not seem to lead to less overall new social risks spending (Tepe & Vanhuyse, 2010).

Looking at the new social risks spending shares of Germany and Italy, large differences occur as well. Germany has one of the highest new social risks spending shares of the countries included in the research, being more than 0.4. On the contrary, Italy ranks among the lowest countries with a new social risks spending share of 0.2 (Tepe & Vanhuyse,

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<sup>15</sup> They have excluded pension spending in the denominator in the calculation of the NSRS, as they argue that pension spending can neither be labelled as an ‘old’ nor a ‘new’ social risk.

2010). Furthermore, Germany has spent almost two times as much on active labour market policies than Italy during recent years, which in light of the growing risks of unemployment, seems particularly relevant to young persons. Both the low new social risks spending share and the fact that Italy spends relatively little on active labour market policies, would suggest that the Italian welfare state has indeed to a large extent been unable to adapt their welfare provision to the changing socioeconomic climate.

**Table 8. Spending on ALMP as % of GDP**

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Germany</b>	1,1	0,9	0,9	0,7	0,8
<b>Italy</b>	0,6	0,6	0,5	0,5	0,5

Source: OECD (2012)

However, interestingly enough, and as opposed to the elderly/non-elderly spending shares, Tepe & Vanhuyse (2010) do find a significant relation between GDP growth and new social risks spending share increase. This seems odd, as I have shown earlier in this chapter that Italian GDP growth has on average been higher between the period 1987-2008 than that of Germany (OECD, 2012). This would imply that economic growth rates can't account for the apparent differences in new social risks spending between these specific two countries.<sup>16</sup> The authors further show that all of the demand-side variables that aim to capture the effects of post-industrialization, e.g. service sector employment, display no significant relation with new social risks spending (Tepe & Vanhuyse, 2010).

#### **4.7 Conclusion**

In this chapter, I have tried to discuss the relation between ageing populations, young persons and the welfare state by using a functionalist perspective. Even though Germany and Italy have aged in a similar way during the last 50 years, effective economic dependency in Italy is much higher due to widespread early retirement and low participation rates among workers between the age of 55 and 64. Therefore, using functionalist logic, the scope for welfare expansion seems less favourable in the Italian case, as the balance between the needs for welfare and the resources to provide this is less opportune in Italy than it is in Germany. Moreover, in light of the increasing risks of unemployment among Italian youth, as a result of

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<sup>16</sup> They do find a relation between annual deficit rates and active labour market policy spending, however, the support for this relation is weak (Tepe & Vanhuyse, 2010).

the shift to more service-based economies and the changing dynamics of supply and demand on the labour market, the high degree of effective economic dependency could be a partial explanation for the inability of the Italian welfare state to provide adequate protection for those increasingly vulnerable Italian youth.

A discussion of the results found by Tepe and Vanhuyse (2010) confirms the assumption that the Italian welfare state spends a major share of their total welfare spending on welfare programs that benefit the elderly in particular, such as old-age pensions and survivor pensions, and that Italy has to a lesser degree been able to adapt their welfare provision to the changing socioeconomic climate than has the German welfare state.

However, Tepe and Vanhuyse (2010) also present some unexpected results. First of all, they find no significant relation for all of the demand-side variables that aim to capture the effects of post-industrialization, like service sector employment, with the expansion of new social risks policies. Secondly, they find a significant relation between GDP growth and new social risks spending. This is interesting, as Italian GDP growth has on average been higher over the last 20 years than average German GDP growth over the same period. Following Tepe and Vanhuyse (2010), one would thus expect that Italy spends more on new social risks policies than Germany; something that is not the case. Germany spends significantly more on new social risks policies, and active labour market policies in particular.

It can therefore be concluded that both these results lead room to suggest that functionalist theory by itself falls short of explaining the differences in the expansion of certain welfare programs in Germany and Italy that seem beneficial to young persons in particular, and consequently fails to offer a complete picture of the consequences that ageing populations and the changing socioeconomic environment may have for youth in both countries. Furthermore, it can even be argued that macro-level spending data in itself, as used here, falls short of identifying potential benefits for young persons, as availability, access and coverage of welfare programs are not accounted for. Subsequently, in order to continue this exploration and review the consequences of ageing for young persons in a more detailed way, and further explain the apparent differences in these consequences between Italy and Germany, it is necessary to broaden our discussion. I will do so in the next chapter by focusing on the relationship between ageing, young persons and the welfare state using an institutionalist perspective.

## 5. Institutionalism

### *5.1 Historical institutionalism*

The theory of institutionalism is the second mainstream perspective I will discuss in this research that is commonly used to explain variations among Western welfare states. However, there is a large body of literature on institutionalist theory, and many proponents of institutionalism disagree about its definition and the role institutions play in political- and social policy outcomes (Hall & Taylor, 1996). Nevertheless, in this chapter, I will define institutions according to, what some authors call, historical institutionalism. Historical institutionalists define institutions as: “the formal or informal procedures, routines, norms and conventions embedded in the organizational structure of the polity” (Hall & Taylor, 1996, p. 6). In other words, institutions are embedded structures that shape, among others, a countries’ labour market, social security system, education system, health care system, etcetera.

Institutionalists explain the nature of welfare states and welfare state change by highlighting the influence of the institutional environment of countries on the human- and organisational behaviour in those countries (Pierson, 2004). By and large, they do so by underlining the influence of existing institutions on future possibilities of choice or policy direction. This notion, the influence of past choices on possible future choices, is a process that Paul Pierson (2004) calls ‘path-dependency’. A more specific explanation of path dependency that is related to the policy formation process is offered by David Collier (1991). Collier argues that preliminary conditions shape the scope of contingent choices. Therefore, a trajectory of institutional development occurs from which it is very hard to deviate (Collier, 1991). In this way, path dependency is used as an explanation for the influence institutions have on human- and organisational behaviour, as they have shown to be cumbersome structures that are pervasive over time. This would imply that when countries develop or re-orient certain welfare programs, they will do so by building on already existing arrangements (Pierson, 1995). However, this also implies that whenever welfare states respond to new challenges –as for instance the new social risks mentioned in the previous chapter- policy outcomes may exhibit unintended consequences or inefficiencies generated by those existing arrangements (Hall & Taylor, 1996).

How then can the way these trajectories of institutional development have shaped the organizational structure in Italy and Germany account for the apparent differences in the position of young persons in both countries, and how have the ageing populations influenced

these 'paths'? To be able to answer those questions, I will start with a discussion of the labour markets of both countries in the following paragraphs.

### ***5.2 Labour markets and the de-standardization of employment***

Both the German and Italian labour market are traditionally structured along lines that emphasize a standard employment relationship (Hinrichs & Jessoula, 2011). This 'standard employment relationship' (originating from the industrial era) consisted of a full working career from an early age, without interruptions and on a permanent labour contract. Employees working along the lines of the standard employment relationship were offered extensive protection against dismissal, strengthening their position on the labour market, and resulting in rigid labour markets in both Germany and Italy. However, following discussions raised by economists that stressed the importance of more flexible labour markets in a context of growing global competitiveness (see for instance: Wilthagen, 2008), evidence can be found to suggest that both Germany and Italy have made efforts for reform to realize these more flexible labour markets during recent years. This has resulted in an overall lowering of employment protection regulation strictness in both countries (EPL) (Koster, et al., 2011). The EPL strictness indicator used by the OECD portrays the relative difficulty and cost for firms to dismiss employees, making it possible to compare employment protection regulation across countries and over time. An overall lowering of EPL strictness indicates that it has become easier for employers to dismiss employees. Evidence shows that both Germany and Italy have reduced overall EPL strictness in a similar way over the period 1985-2008, coming from scores above 3,5 in 1985, down to 2,63 in Germany and 2,58 in Italy in 2008 (OECD, 2012).

At first glance, this would seem beneficial for young persons as the burden for employers to hire new labour market entrants is lowered. Nevertheless, looking at the data more closely, a few observations have to be made. Even though both countries have reduced overall EPL strictness, they have mainly achieved this by lowering EPL strictness for temporary contracts, whilst EPL strictness for regular contracts has remained largely unchanged (Koster et al. 2011). This development of softening EPL strictness for the hiring and firing of temporary employees has contributed to an increase in the number of a-typical jobs that deviate from the standard employment relationship (see chapter 2). As temporary labour is cheaper and temporary employees are easier to dismiss, German and Italian employers chose to increasingly utilize these forms of a-typical labour contracts. Furthermore, as labour market insiders with permanent contracts aren't so much affected by the softening

of EPL strictness for temporary labour, youth and labour market outsiders are one of the main groups that take up these temporary jobs. Data that portrays the incidence of temporary labour as a percentage of all employees aged within the 'youth' category (15-24) in Germany and Italy confirms this assumption. As also shown in chapter 2, in Germany in 2010, little more than 57 % of all employees aged between 15 and 24 were working on a temporary contract, whilst in Italy, temporary employees made up almost 70 % of total youth employees (Cappellari et al, 2012; Eurostat, 2012).

Nevertheless does the softening of EPL strictness for temporary labour contracts seem an unlikely explanation for the more precarious position of Italian youth, as Germany and Italy have reduced employment protection regulation in a very similar way. Both countries show no clear signs of 'path deviation', given the fact that they have maintained employment protection regulation for workers following the standard employment relationship at a high standard. What is interesting however, is why Italian youth are then so much more at risk of being unemployed than the German youth, and why they are more likely to work on a temporary labour contract, despite the fact that the labour markets in both countries are structured along similar lines. In the following paragraphs, I will attempt to answer these questions by a discussion of the education system in both countries.

### ***5.3 The education system and the transition from school to work***

I have shown so far that Italian youth unemployment was much higher than German youth unemployment in 2008. In Italy in 2008, 21,3 % of all young persons was unemployed, compared to 10,6 % in Germany (Eurostat, 2012). Furthermore, Italian youth are more likely to work on a temporary labour contract than German youth, despite similar figures of EPL strictness for temporary and regular labour in both countries. How then can we explain these phenomena?

Many explanations for cross-country variations in youth unemployment rates identify economic growth, which influences overall unemployment and thus also youth unemployment, and educational attainment within the population as important explanatory indicators for cross-country differences in youth unemployment. However, in the case of Germany and Italy, these variables seem unsatisfactory. In 2008, the overall Italian unemployment rate was lower than that of Germany, which suggests that economic growth rates do not account for the apparent variation in youth unemployment between the two countries (Eurostat, 2012). Furthermore, as opposed to most other EU member states, highly educated Italian youth have almost just as high a chance of being unemployed as medium

educated and low educated youth (Livanos & Núñez, 2012).<sup>17</sup> This implies that overall educational attainment of the youth population falls short of explaining differences as well.

Institutional explanations, as for instance offered by Breen (2005) and Wolbers (2007), seem more fruitful in this context. Both authors explain variations in youth unemployment rates between countries by the vocational specificity of the education system and differences in the strictness of the employment protection legislation, bolstering their arguments with statistical regression models. High employment protection is often associated with high levels of youth unemployment, while a high degree of vocational specificity in the education system is likely to decrease youth unemployment (Breen, 2005 ; Wolbers, 2007).

The assumption that strict employment protection often affects youth unemployment rates in a negative way comes mainly from the insider-outsider theory from Lindbeck and Snower (1988, 2001). The main argument behind their theory is that insiders (employed workers) experience more favourable employment opportunities because of turnover cost that firms or employers need to make when they replace insiders with outsiders (Lindbeck & Snower, 2001). They further argue that the insiders are mainly concerned with staying employed, and as being the majority of the electorate in most countries, try to improve their legal conditions on the labour market, disregarding the interests of outsiders (unemployed workers including labour-market entrants and thus also youth) (Lindbeck & Snower, 1988). A stricter EPL usually leads to higher turnover costs for firms when they decide to dismiss employees or replace insiders by outsiders and thus, as argued by Esping-Andersen, EPL strictness does not influence unemployment rates in itself, but influences the distribution of unemployment (Esping-Andersen, 2000)

The main argument behind the assumption that a high degree of vocational specificity in the education system has a positive effect on youth unemployment rates is that vocational specificity reduces uncertainties for employers regarding the suitability of labour-market entrants for specific jobs (Breen, 2005). In countries with low vocational specificity in the education system, employers experience uncertainties about the productivity capacity of labour market entrants, and are thus hesitant to hire them. Whenever employers do hire new labour market entrants in the context of low vocational specificity, they often do so on a temporary basis (Garcia, 2011). Breen (2005) and Wolbers (2007) show in their studies that there is a great deal of variation in the degree of vocational specificity and strictness of the employment protection among the countries included in their studies, and that this, in

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<sup>17</sup> In fact, medium educated youth have less chance of being unemployed than highly educated youth in Italy (Livanos & Núñez, 2012).

combination with economic variables, can account for a significant part of the apparent variation in youth unemployment rates.

Looking then at Germany and Italy, I have already shown in the previous section that both countries have fairly similar levels of EPL strictness. However, the vocational specificity of the education system seems to vary significantly between the two countries. Breen (2005), using 1998 data from the OECD, has constructed a vocational specificity indicator, ranking 27 OECD countries between a minimum score of 0 and a maximum score of 69, with the scores representing a countries' vocational specificity. The higher a countries' score, the stronger the vocational specificity in the education system within that country is. Breen (2005) ranks Italy with a score of 0 and Germany with a score of 52 on the vocational specificity indicator, implying that Italian education supplies students with general, rather than specific vocational skills. Germany on the contrary exhibits a very strong degree of vocational specificity in the education system.<sup>18</sup> The scores of Italy and Germany representing their vocational specificity in the education system indicate a very large difference in the vocational specificity of the education system in both countries, making it a plausible explanation for at least part of the observed variation in youth unemployment rates (Breen, 2005).

However, not only are Italian youth more likely to be unemployed and more likely to be employed on a temporary labour contract than German youth, they are also less protected by social security schemes offering protection against unemployment. In 2008, only 38 % of all registered unemployed persons in Italy received an unemployment benefit (Jessoula & Vesan, 2011). This contrasts sharply with Germany, which in principle has an unemployment benefit coverage of 100 % (Dingeldy, 2011). In the coming paragraphs, I will discuss this issue in more detail.

#### ***5.4 Unemployment protection***

The Italian and German labour markets have become more flexible regarding temporary labour. As a consequence, large shares of Italian and German youth are working on a temporary basis, making them easier to dismiss than regular employees, and thus increasing their risk of facing spells of unemployment during their working career. Furthermore, I have argued that the shift to service-based economies and the changing dynamics of demand and supply on the labour market have increased the overall risks of unemployment as well.

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<sup>18</sup> A more recent study by Bol and van de Werfhorst (2011) has produced comparable results as the results presented by Breen (2005), confirming the large difference in vocational specificity between German and Italian education.



Nevertheless, Italian social security programs aiming to provide protection against unemployment seem unfit to provide adequate protection in light of the changing work patterns many young persons are facing. Germany on the contrary, seems to do a better job. However, before arguing why this is the case, I will first describe the main unemployment protection schemes existent in Germany and Italy in 2008, using the EU's Mutual Information System on Social Protection (MISSOC ) managed by the European Commission (DG Employment).

Looking at the main unemployment protection schemes of Germany and Italy in 2008, both countries apply a similar logic. Unemployment benefits are insurance based, implying that benefit generosity and benefit duration are linked to one's occupational status and employment history. In Germany, a person must be compulsorily insured for 12 months during the last two years to be able to qualify for a regular benefit receipt of six months (European Commission, 2011). The duration of the benefit increases with the number of months a person has been insured. In Italy, two years of insurance and 52 weeks of contributions are needed to qualify for the ordinary benefit, with a maximum duration of 240 days for workers who are younger than 50 years old. In both countries, benefit replacement rates are based on previous net earnings and come down to around 60 % (European Commission, 2011).<sup>19</sup>

Having described the main unemployment protection schemes in Germany and Italy, it can be concluded that both are essentially occupationalist-based. The access, generosity and duration of the benefit depends heavily on a person's occupational history and status. Coming back to the increasing take-up of temporary labour among youth in both countries, several negative consequences become clear. As temporary employees are more likely to phase stretches of unemployment, their access to unemployment benefits is limited due to the minimum insurance/contributory periods. This is obviously only strengthened by the fact that young persons have had less time to build up 'contributory years' because of their age. Therefore, whenever they do receive a benefit, chances are likely that the duration of the benefit receipt will be shorter than unemployed workers who were previously working on a regular contract. Furthermore, as replacement rates are based on previous earnings and temporary employees on average earn less, it is likely that benefit generosity among young persons will be significantly lower as well. All these consequences would suggest that the

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<sup>19</sup> With a few exceptions. In Germany, beneficiaries with children receive 67 % of net earnings. In Italy, beneficiaries under the age of 50 receive 60 % for the first six months and 50 % for the following two months (European Commission, 2011).

occupationalist-based unemployment protection programs of Italy and in part also Germany are not very well adapted to the changing work patterns of the young, and could turn out into a poverty problem whenever young persons don't manage to move up from a temporary to a regular contract.

However, Germany also has a basic security scheme for jobseekers who are involuntarily unemployed and do not qualify for the regular unemployment benefit (*Grundsicherung für Arbeitsuchende*) (European Commission, 2011). This basic assistance scheme has a universalist character, is means-tested and has no qualification period or age restrictions. The aim of the program is to secure the subsistence of jobseekers who are not covered by regular unemployment protection, and the program is in principle of unlimited duration (European Commission, 2011). This means young jobseekers are provided with some protection in Germany, even though the benefit generosity is lower than the average benefits provided by the ordinary unemployment protection schemes.<sup>20</sup> On the contrary, Italy has no such basic protection scheme for unemployed persons that do not qualify for regular unemployment benefits, leaving unemployed jobseekers with little work experience practically unprotected. Furthermore, Italy also does not have a universal national scheme guaranteeing a minimum income (GMI), whereas Germany does. In 1998, the Italian state has transferred the legislative tasks of basic social security provision to the regions and municipalities (European Commission, 2011).<sup>21</sup> Due to the large regional disparities within the country, basic social security provision varies significantly as well, depending on a region's fiscal resources and the level of state support (Peña Casas, 2005). This places Italian youth in a precarious position, especially in light of the comparatively high youth unemployment figures. Therefore, it can be argued that the Italian welfare state has been unable or unwilling to reorient their unemployment protection schemes to the new challenges many Italian youth are facing, not deviating from the occupationalist- social insurance-based 'path' that characterizes their social security provision.

### **5.5 Pensions**

Another key institution that needs some attention in this context is the pension system of both countries. As I have shown in previous parts of this discussion, the ageing of European societies has led, and will continue to lead to a growth in the proportion of people aged

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<sup>20</sup> See the following for detailed rules of the benefit determination under the *Grundsicherung für Arbeitsuchende*: [http://ec.europa.eu/employment\\_social/missoc/db/public/compareTables.do](http://ec.europa.eu/employment_social/missoc/db/public/compareTables.do)

<sup>21</sup> Decreto Legislativo 31 Marzo 1998, n. 112 - Conferimento di funzioni e compiti amministrativi dello Stato alle regioni ed agli enti locali, in attuazione del capo I della Legge 15 Marzo 1997, n. 59

beyond the age of 64. This will subsequently lead to an increase in the proportion of pensioners throughout Europe, and as discussed by using functionalist logic, this will increase public spending on pensions significantly under current actual policy, possibly leading to serious sustainability problems in the future. However, before discussing this issue further, it seems necessary to explain the concept of 'pensions' in a more detailed way, while also briefly identifying the main pension schemes of both Germany and Italy.

A pension system is designed to provide financial protection for the elderly and retirees in a country and each EU member state has one. However, the way in which countries provide this protection varies quite significantly throughout the EU. Pensions can either be funded on a 'pay as you go' basis (PAYG), or through a (fully) funded scheme. In a PAYG scheme, retirement benefits are funded through contemporaneous income taxes or social contributions, whereas fully funded pension schemes are financed through the contributions and savings of the workers (Hagerman & Nicoletti, 1989). Pension schemes can further have a public, an occupational or a private character, with public referring to a scheme that is established by law and managed by a public body. Private or non-public schemes are mostly collective programmes linked to occupational- or membership status (Natali, 2008).

As a consequence of several 'reform waves' throughout Europe, all EU pension systems comprise of various schemes, each with individual rules of financing, access, management bodies and benefit determination (Natali & Guardiancich, 2011). Nowadays, most countries make use of public- as well as private/non-public schemes, with different funding methods. In order to make sense of such a complex variety of schemes, much of the recent literature that discusses pensions and pension reform makes use of the terms 'pillars' and 'tiers' to describe the most important parts of pension programmes, distinguishing between three different pillars and tiers. The pillars portray the different 'sectors' of a pension scheme, whereas the tiers reflect the type of pension benefit (Jochem, 2007). The first pillar represents public sector pension schemes, usually consisting of mandatory programmes, financed on a PAYG basis and managed by a public body (Natali, 2008). These benefits can either be targeted, flat-rate, minimum, income related or contribution related and either mandatory or voluntary. The second pillar reflects the non-public occupational sector, in which schemes are established by social partners and mostly operate on a funded basis. Finally, the third pillar exists of individual voluntary saving schemes that are fully funded (Natali, 2008).

Germany and Italy have institutionalized their pension systems in rather similar ways. Both can be characterized as traditional social insurance countries, having relied on a single

public pillar pension system, funded on a PAYG basis for most of the 20<sup>th</sup> century (Natali, 2008). The main aim of both schemes is to replace income after retirement according to occupational status, basing benefit determination on life time average earnings (OECD, 2011).<sup>22</sup> However, the nature of PAYG financing has led to major challenges for the sustainability of these schemes due to the ageing populations. In the past, these sustainability problems were mainly combated by raising contribution rates for the working population, leaving little room for further augmentation in the long term. As a consequence, both countries have now decided to reduce public pension generosity for future retirees. At the same time, both countries are increasingly emphasising supplementary pension schemes (either voluntary occupational schemes or private schemes) funded on a private basis, to make up for the decrease in public pension generosity (Hinrichs & Jessoula, 2012). Once again, the occupational character of these social security programs, in combination with decreasing public pension generosity and an increasing emphasis on private saving, seem unfit in light of the changing work patterns young persons are facing. As temporary workers earn less, are more likely to experience spells of unemployment and often pay lower contributions, pension entitlements for current youth in their old age are likely to be inadequate in both Germany and Italy, possibly resulting in an old-age poverty problem in the future (Hinrichs & Jessoula, 2012).<sup>23</sup>

To sum up, the strong actuarial principles of both German and Italian pension schemes may lead to inadequate pension entitlements for current youth in their old age in light of the changing work patterns they are facing. The possible poverty problem during old-age is likely to be larger in Italy, considering the higher risk of unemployment Italian youth face. Furthermore, the institutional nature of pay-as-you-go pension schemes in combination with ageing populations, could lead to sustainability problems in the future, as the number of pensioners is increasing whilst the working-age population declines. As with regards to adequacy, Italy is likely to face more sustainability problems in the future due to the higher degree of economic dependency, possibly limiting the scope for welfare expansion in other areas. However, unlike with unemployment protection schemes, the institutionalization of pension schemes in both countries shows rather large similarities, and is

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<sup>22</sup> Germany in fact has a public points system, whereas Italy has a notional defined contribution (NDC) plan. In practice however, these two schemes are very much alike.

<sup>23</sup> As the issue of pensions and pension reform is such a complex matter, it would require a thesis (not to say a book) on the topic alone to discuss it in a detailed manner. Therefore, for practical reasons, I won't discuss this issue further in this chapter, however, I will come back to pension reform briefly in the power resources chapter.

therefore an unlikely explanation for the apparent differences in the position of German and Italian youth.

Nevertheless, even though both Germany and Italy are traditionally occupationalist-based regarding their social security provision, and have shown little signs of path deviation regarding the institutions discussed thus far within this chapter, Germany has reoriented part of their unemployment protection programs to a more universalist-based distribution (pointing to the *Grundsicherung für Arbeitsuchende*). It can be argued that this is a partial path deviation, as it contradicts their traditional logic of occupational-based social security provision. Meanwhile, Italy has not introduced any social security schemes of this kind. How then can we explain why Germany has managed to reorient some of their social security provision, resulting in more adequate protection for the young, while Italy has not? In the next paragraphs, I will discuss an institutional argument that is put forward by Julia Lynch in her book: 'Age in the Welfare State: The Origins of Social Spending on Pensioners, Workers, and Children ' (2006), which may provide some tentative answers.

### ***5.6 Occupationalist-based welfare versus Citizenship-based welfare***

By now, it has become clear that the insurance or occupational-based welfare programs that are common in Germany and Italy are not well adapted to the changing socioeconomic context and the growing incidence of a-typical labour among young persons. On the contrary, universalist schemes like the basic assistance for jobseekers in Germany (*Grundsicherung für Arbeitsuchende*) seem more fit to provide adequate protection. Lynch (2006) makes a similar argument, however, she makes the distinction between elderly-oriented welfare and youth-oriented welfare. She argues that occupationalist-based welfare regimes have matured to become more elderly-oriented welfare states, while citizenship-based welfare states are more youth-oriented (Lynch, 2006). Elderly-oriented welfare states spend a large proportion of their social spending on policies that benefit the elderly in particular, whilst social spending in 'youth-oriented' welfare states is more age-neutral. In occupational regimes, welfare is distributed according to occupational- or class status, which implies that the eligibility and generosity of welfare benefits depends on a person's position on the labour market. Citizenship-based welfare regimes apply a universalistic approach of welfare distribution (Lynch, 2006). Lynch determines Italy as being an occupational-regime, while the German welfare state can be characterized as 'mixed' (Lynch, 2006).<sup>24</sup> To explain why these two

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<sup>24</sup> Using MISSOC, she identifies core welfare programs as being occupational-based, citizenship-based or mixed.

different 'paths' of welfare have matured to become either more youth-oriented or more elderly oriented, and to explain why countries have taken one of either paths, Lynch (2006) takes an historical institutionalist approach, which I will discuss in more detail in the following paragraphs.

As described before, welfare states started to develop as a response to social needs arising from broad processes related to industrialization. During this development phase of industrial welfare states, a bifurcation between welfare states that adopted occupational-based or citizenship-based social policies can be identified. Lynch (2006) addresses this period during the end of the 19th century and the beginning of the 20th century as the first of two 'critical junctures', in which countries either adopted an occupational or a citizenship-based path. A critical juncture is characterized by the adoption of one institutional structure among two or more alternatives (Mahoney, 2000, p. 513). Coming back to the path dependent nature of institutional arrangements, once an institutional structure is 'chosen', it becomes increasingly difficult to return to the point before the critical juncture, when multiple institutional paths were still available (Mahoney, 2000). In other words, institutional choices made during the industrial revolution seem to have had an influence on the age-orientation of today's social welfare spending. During this period, both Germany and Italy could be labelled as traditional occupationalist-based welfare states (Lynch, 2006). However, Germany seems to have been able to switch paths from a mainly occupational-based regime to a more mixed distribution of welfare, as argued by Lynch (2006). She explains this by pointing to a second critical juncture, during which countries had the opportunity to significantly reorient their welfare arrangements. Nevertheless, before discussing this second critical juncture, it seems helpful to clarify why occupational-based welfare regimes have matured into elderly-oriented welfare states.

In citizenship-based welfare regimes, social welfare policy is mainly aimed at labour market outsiders. However, in the beginning of the 20th century, occupational social security schemes (namely old-age security) were relatively undeveloped. Therefore, the main core of beneficiaries (outsiders) of citizenship-based welfare during this period comprised of older retirees receiving poverty relieving benefits (Lynch, 2006). When occupational and private pension schemes started to develop and mature, most retirees found themselves covered by these schemes and thus as insiders on the labour market. As a consequence, the group of labour market outsiders started to become skewed to the young, resulting in the youth-oriented citizenship-based welfare states of today (Lynch, 2006). Occupational regimes experienced a reverse transformation, aiming to cover labour market insiders; older retirees,

and thus outsiders at the time, were left to care for by other institutions resulting in relatively youth-oriented welfare states during the beginning of the industrial revolution. However, with most older people gradually becoming insiders on the labour market, in combination with the ageing of the labour force, occupationalist-based welfare regimes have become clearly elderly-oriented (Lynch, 2006).

Now turning to the 'switch' that Germany has been able to make. Lynch (2006) identifies a second critical juncture during the period around the 'great depression' in the 1930's and before and after the Second World War (Lynch, 2006).<sup>25</sup> The financial depression and the detrimental impact of the war exacerbated social problems and lead to demands for expansions of social security throughout the EU. This provided countries with the opportunity to revise or re-orient their welfare states significantly (Lynch, 2006). More so, in most of the occupationalist-based welfare states in Europe, political lobbies arose arguing for more citizenship-based welfare arrangements. Germany, as one of the traditional occupational welfare states, carried some of these ideas through, restructuring core social security schemes to a more universalist distribution of welfare, and as a consequence, maturing into a more age-neutral welfare state today. In Italy, a similar political lobby arose, however, they were not able to significantly alter their welfare arrangements to a more universalist distribution (Lynch, 2006).

Lynch (2006) explains the fact whether occupationalist-based welfare states did or did not manage to re-orient their welfare states by the dominant 'mode' of political competition in those countries. Countries included in her study that switched paths all exhibited a dominant 'programmatic' form of political competition, whereas in countries that remained mainly occupationalist-based, the dominant mode of political competition can be labelled as 'particularistic'. Lynch (2006) defines Italian politics as mainly particularistic and German politics as programmatic, which should explain the more mixed orientation of welfare distribution in the German context. Programmatic political competition is characterized by a context in which politicians and parties compete for votes by arguing to enact policies that will benefit the entire society. On the contrary, in countries where particularistic political competition is dominant, politicians promise to enact policies that will benefit selective

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<sup>25</sup> Even though I do not agree with Lynch' definition of this critical juncture, as it is vague, covers a very long period and disregards other explaining variables like the role both Germany and Italy played during the war, the distinction she makes between particularistic and programmatic political competition, which I will discuss during the following paragraph, seems fruitful. However, I will debate the persuasiveness of the theory proposed by Lynch in more detail in the conclusion of this chapter.

groups of voters in exchange for their votes (Lynch, 2006). The theoretical argument for this relation between particularistic politics and occupational-based welfare is two-tiered. Occupational-based welfare programs lend themselves far better to the kind of fine-grained targeting of incentives on which particularistic political competition thrives (Lynch, 2006, p. 65) Secondly, particularistic politicians are unlikely to support universalist policies as this would undermine their possibilities for particularistic exchanges (Lynch, 2006). As a consequence, the main conclusion of Julia Lynch (2006) is that policy outcomes often are unintended outcomes of the institutional context and the dominant modes of political competition within a country. Using Lynch's (2006) argumentation, the Italian dominant mode of political competition could explain why Italy has not been able to reorient their unemployment protection schemes to a more universalist-based distribution, and consequently provide young persons adequate protection against the growing risks of unemployment.

### ***5.7 Conclusion***

In this chapter, I have aimed to discuss the relation between ageing, young persons and the welfare state by using an institutionalist perspective. This discussion enables me to make a number of conclusions regarding institutions and differences in the position of young persons in Germany and Italy.

First of all, Germany and Italy have both reduced employment protection regulation strictness for temporary employees in a similar way, which makes the institutionalization of the labour market in both countries an unlikely explanation for the apparent differences. However, differences in the vocational specificity of the education system and the fact that Germany has introduced an universalist-based scheme of unemployment protection may account for part of the found variations in the position of the young. Furthermore, even though Italian youth are likely to be more affected by the social insurance logic of the pension system because of their higher risk of unemployment and greater incidence of temporary labour, the institutionalization of the pension system in both countries can tentatively be excluded as an explanation for the differences in the position of youth in both countries, as the pension schemes show rather large similarities.

Finally, in the last paragraphs, I have discussed an argument put forward by Julia Lynch (2006). Lynch (2006) argues that the fact that Italy has not been able to reorient some of their traditional occupationalist-based welfare arrangements to a more universalist-based distribution of welfare, is an unintended consequence of the dominant mode of political competition and the institutional context within the country. Germany, on the contrary, has to



an extent been able to switch paths due to the dominant programmatic mode of political competition (Lynch, 2006).

However, her assumption that social policy outcomes are often unintended is debatable and is in contrast with the large body of literature on political ‘partisan’ theory or power resources theory. Furthermore, the benefits-for-votes exchanges she mentions within a particularistic system seem to hardly concern young persons. Also, whereas German politics is said to be mainly programmatic, a large share of social security programs remains not well adapted to the changing socioeconomic context, due to the occupational nature of these arrangements. Lastly, the second critical juncture that Lynch (2006) identifies before, during and after the second world war is questionable. For obvious reasons, given the distinct role that both Germany and Italy have played during this period, defining this whole period as a critical juncture seems a rather optimistic generalization.

For these several reason, institutionalist theory by itself seems to fall short of explaining all of the differences in the position of German and Italian youth in the context of an ageing population, which therefore leads me to the third mainstream perspective that I will discuss in this exploration: Power Resources theory.

## **6. Power resources**

### ***6.1 Power resources: a changing struggle?***

The third mainstream perspective that I will review in this discussion is the power resources theory. This theory, with Walter Korpi (1983) as one of its main advocates, resulted from the school of ‘conflict sociology’. The main assumption of the power resources theory is that welfare arrangements and social policy are derived from private goods, and are therefore often contentious (de Swaan, 1988). The scope and development of welfare arrangements is as a consequence a reflection of the distribution of power among different actors in society, especially of the distribution of power between the holders of capital and the working class (Korpi, 1983). Korpi (1983) defines power resources as the extent to which social groups can influence social policy formation to their interest. He further argues that social policy often tends to reflect the interests of groups with the greatest power resources. Groups can attain greater power resources by mobilizing themselves through, among others, trade unions, political parties and interest groups. Further, his argument implies that in countries where the working class was highly mobilized, through trade unions and left-wing political parties, the welfare arrangements of those countries were more developed (Korpi, 1983).

However, whereas the ‘struggle’ between groups of actors during the emergence and development of welfare states was mainly a struggle between the holders of capital and the working class, some authors argue that as a result of, among others, ageing, the ‘weights’ have somewhat changed. Or, as Paul Pierson puts it: “the centrality of left party and union confederation strength to welfare outcomes has somewhat declined, and to a large extent been replaced by new client groups of benefit recipients such as pensioners, health care consumers and others” (Pierson, 1996, p. 151). At the same time, many EU member states have felt the need for retrenchment of traditional welfare arrangements during recent years, due to sustainability problems, changing ideologies and emerging new social risks. However according to Pierson, because of the size and concentration of the new client groups, these groups have to a large extent been able to resist government cutbacks that affect them directly (Pierson, 1996).

### ***6.2 Power resources and youth***

As I have tried to illustrate by quoting Paul Pierson, the power resources of ‘new’ groups of benefit recipients have increased, mainly driven by the ageing of European populations. At

the same time however, the power resources of young persons seem to be lacking, as shown by Guiliano Bonoli. Bonoli is one out of many authors who has discussed and utilized the ‘power resources theory’ of Walter Korpi (1983). In his article *The Politics of New Social Policies: Providing Coverage against New Social Risks in Mature Welfare States* (2006), Bonoli states that the power resources of youth remain insufficient to impose the kind of policies that would serve their interests through the democratic game (Bonoli, 2006, p. 398). He distinguishes three aspects of mobilization that explain the lack of power resources that young person’s face. These aspects are participation, representation and preference (Bonoli, 2006). Bonoli argues that youth are less likely to vote, less likely to be present in key democratic institutions and that there are no strong correlations in the political preferences of youth (Bonoli, 2006). This in turn negatively influences the way in which youth are able to mobilize themselves, and thus it limits the degree to which these groups can affect the direction of social policy.

Looking now at several indicators that portray the distribution of political power between young persons and the new groups of benefit recipients that have become more powerful – namely the elderly –, some differences become clear. In Germany, the voting turnout gap between younger persons and elderly persons has been larger over the years than in Italy (Smets, 2010). It must be noted in this respect that the voting turnout measure used divides the population between people beyond and below the age of 35. Dividing the population by more specific age groups may show more striking differences, however, this data is not readily available. Since 1987, the voting turnout gap in Germany has ranged between 10 and 15 %, while in Italy, the gap has remained stable around 5 % (Smets, 2010).<sup>26</sup> These figures imply that young persons participate less in politics than older persons, which would affect their mobilization capacities. Further, the average age of members of parliament and the union density rate among young persons should reflect the degree in which young persons are present in key democratic institutions. Bonoli (2007) shows that in 2002, the average age of members of parliament in Germany and Italy ranked among the highest in Europe, 54 and 52 respectively.<sup>27</sup>

Both the voting turnout gap and the average age of members of parliament of Italy and Germany show fairly similar outcomes. However, looking at the age-distribution of trade union membership, more apparent differences become clear. The seniority bias in the

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<sup>26</sup> Whether these results reflect an age-effect or a cohort-effect is unclear, however, from the point of view of this exploration, this is not essential to establish.

<sup>27</sup> Young persons are almost nowhere actually present in parliament, however, the average age of members of parliament does reveal the tendency of countries to ‘accept’ younger people in national politics.

presence in the main trade unions is especially striking in Italy. Within all of the three main trade unions, CGIL (*Confederazione Generale Italiana del Lavoro*), CSIL (*Confederazione Italiana Sindacati Lavoratori*) and UIL (*Unione Italiana dei Lavoratori*) in Italy in 2000, pensioners were overrepresented. Total membership consisted for 55 % out of pensioners in CGIL, 50 % in CSIL and 25 % in UIL (Natali & Rhodes, 2004). Within the German confederation of trade unions (*DGB: Deutsche Gewerkschaftsbund*), pensioners accounted for 19 % of total membership (Natali & Rhodes, 2004). As unions in general aim to protect the interests of their particular clientele, it can be hypothesized that a high proportion of pensioner membership could lead to a seniority bias in the kind of social policies those unions pursue. Therefore, the large seniority bias in trade union membership in the main Italian trade unions could be a partial explanation for the fact that the Italian welfare state spends a large share of its total welfare spending on the elderly<sup>28</sup>, while leaving young persons inadequately protected.

### ***6.3 Seniority-bias and welfare reform***

Until now, I have discussed the changing character of power relations, as the power resources of new groups of benefit recipients like pensioners and health care consumers have increased, whilst the power resources of young persons seem to remain insufficient to see their interests be adequately reflected in social policy. At the same time, EU welfare states have felt the need for retrenchment in the social sphere, mainly due to increasing budgetary pressures (Pierson, 1996). As a consequence, welfare retrenchments and social policy reform seem to have unevenly affected the position of youth in a negative way. One example of social policy reform in which young persons seem to have been the ‘losers’ is pension reform. A large share of EU countries have decided to decrease public pension generosity, however in most cases, they have done so with a rather long ‘phasing in’ period (Hinrichs & Jessoula, 2012). What this means is that the consequences of these retrenchments will only apply to workers who become retirees after this ‘phasing in’ period (sometimes 30-40 years). In other words, not current older workers or current retirees, but current younger persons will feel most of the impact of these reforms, subsequently increasing their risk of living in poverty in old age. Thus, the recalibration or retrenchment of pension systems in EU member states is impacting current youth and their position in the future, rather than the older electorate. This strategy, used by politicians throughout the EU, can be seen as a ‘blame-avoidance’ strategy in which a

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<sup>28</sup> See the Functionalism chapter

trade-off is made between present and future gains and present and future losses (Jacobs, 2008). Present political losses are being avoided by the sparing of the older electorate, represented by powerful interest groups, while making use of the lacking ability of young persons to mobilize themselves politically to serve their interests.

Natali and Rhodes (2004) have made a similar argument, discussing the ‘Dini reform’ that was implemented in Italy in 1995. The Dini government sought a general pension reform to make the Italian pension system more sustainable. Unions, traditionally against the retrenchment of welfare arrangements, engaged in this trade-off because they were able to reduce the impact of these reforms for their main clientele, placing the majority of the burden of the retrenchments on the younger generations (Natali & Rhodes, 2004).

**Table 9. The Financial Impact of the Dini reform per age cohort in trillions of Lire**

<b>Age Cohort</b>	<b>Dini Reform</b>
15-19	-8
20-24	-27
25-29	-33
30-34	-43
35-39	-40
40-44	0
45-49	0
50-54	0
55-59	0
60-65	0
65 +	0
Pensioners	0

Source: Natali and Rhodes (2004) p.14

As the above figure presents very clearly, older workers and pensioners were not at all affected by the Dini reform, while younger workers and youth are facing major cutbacks in their future pension generosity. In Germany, a policy trade-off occurred as well, during the 2001 ‘Rentenreform’. In the German case however, cutbacks were more distributed in favour of the younger cohorts (Natali & Rhodes, 2004), which could be a result of the less unbalanced distribution of power relations within the major trade unions in Germany. This evidence tentatively confirms the assumption that the seniority bias in Italian trade union

membership may be a partial explanation for the more precarious position of Italian youth as compared to German youth.

#### ***6.4 Insiders versus outsiders***

Another growing body of literature also acknowledges the changing distribution of power relations, however, they argue that the ‘democratic struggle’ in the post-industrial era is one between insiders on the labour market and outsiders (see for instance: Rueda, 2005; King & Rueda, 2008; Rueda, 2010). Rueda (2005) especially highlights the influence of left-wing political parties on the outcomes of social policy formation. During the industrial era, left-wing political parties represented the interests of the working class, which led them to plea for the expansion of welfare arrangements and social security. On the contrary, Rueda (2005) argues that the working class of today is divided between insiders and outsiders on the labour market; two groups with different mobilization capacities but also with different social needs. Therefore, depending on the character of those main electoral constituencies, left-wing political parties are either expected to defend the status quo, reflecting the preferences of insiders on the labour market and thus the traditional occupational-based social security programs, or pursue a more universalist policy agenda that is based on the needs of outsiders (Rueda, 2005). He further argues that in a context where left-wing political parties aim to protect the interests of insiders on the labour market, outsiders tend to abstain from voting or turn to traditionalist antisystem right-wing parties (Rueda, 2005). It must be added that this mechanism works the other way around as well. In their empirical study on constituency preferences in Switzerland, Häusermann and Walter (2010) show that Swiss insiders on the labour market have moved to antisystem right-wing parties that defend the status quo, whereas outsiders do not vote or vote for left-wing parties that pursue more universalist policies.

Relating this argument to the specific cases of Italy and Germany, we have seen in previous parts of this exploration that German and Italian welfare can to a large extent be characterized by a social-insurance or occupational logic, looking for instance at core welfare programs such as unemployment protection and pensions. Furthermore, both countries have introduced measures over the years (think about decreasing EPL strictness for temporary labour alone) that led to a segmented flexibility on the labour market: well protected insiders vs. much less protected labour market outsiders (Hinrichs & Jessoula, 2012). This leads room to suggest that the power resources of insiders seem to be inferior to the power resources of outsiders in both Germany and Italy. However, I have also shown that Germany has started to

adopt more universalist-based social security programs, as well as spending relatively high on active labour market measures, which can both be seen as ‘pro-outsider’ policies. How then, using power resources theory, can we explain why Germany has adopted some of these pro-outsider policies while Italy has not? Rueda (2005) proposes several explaining variables for the tendency of left-wing political parties to pursue more ‘pro-outsider’ policies that may provide more insight.

First of all, Rueda (2005) argues that an increase in the number of outsiders could explain the tendency of vote-seeking left-wing politicians to argue for a more universalist distribution of welfare. This argument seems unsatisfactory in the German and Italian context, as I have shown that the proportion of outsiders on the labour market, due to higher levels of temporary work and unemployment, seems larger in Italy. Following Rueda’s (2005) suggestion, one would expect that Italian welfare is more universalist-based; something that is not the case. The second explaining variable used by Rueda (2005) seems a more likely explanation: union strength. Even though both countries are traditionally corporatist-based and social partners play a large role in the social policy formation process, the age-distribution of union membership seems more in favour of the insider-population in the Italian case, as also portrayed during the discussion of the ‘Dini reform’ (Natali & Rhodes, 2004). Therefore, it can be argued that insiders on the labour market in Italy are mobilized to a greater degree than insiders on the labour market in Germany, which consequently could be an explanation for the lack of pro-outsider policies pursued by Italian policy makers.

In addition, several authors argue for an alternative explanation that explains the tendency of left-wing parties to pursue universalist-based policies (see for instance: Esping-Anderson, 1999). They claim that in several countries, left-wing parties have increasingly mobilized a changing electorate, consisting of highly skilled, young females. As many females, like young persons, face atypical employment careers, they are likely to face different social risks than the traditional male working class (Taylor-Gooby, 2004). Whenever left-wing parties are more dependent on female constituencies, it is likely they will pursue policies that reflect the interests of this electorate, and thus try to enact more universalist-based social policies. Relating this to the German and Italian context, female participation rates are considerably lower in Italy than in Germany, which makes that this argument could provide a fruitful addition to the explanations thus far (Eurostat, 2012).

## **6.5 Conclusion**

In this chapter, I have tried to illustrate the changing ‘democratic struggle’, which according to power resources theory influences social policy outcomes. The elderly have become politically more powerful, while at the same time, the capacity of young persons to influence social policy formation to their interest seems to be lacking. I have shown that younger persons are less likely to vote and less likely to be present in key democratic institutions in both Germany and Italy. However, in this regard, the overrepresentation of pensioners within Italian trade unions seems especially important. Pensioners account for a large share of total membership within Italian trade unions and therefore, as shown by the example of the ‘Dini reform’, they are an unlikely target of welfare cutbacks. German trade union membership is more balanced with regard to age-groups, which may be a reason that cutbacks during the 2001 ‘rentenreform’ were more distributed in favour of the young (Natali & Rhodes, 2004). The overrepresentation of pensioners in major trade unions in Italy also seems a likely explanation for the tendency of vote-seeking left-wing politicians to pursue social policies that benefit insiders on the labour market in particular. Once again, looking for instance at differences in ALMP spending and the adoption of universalist-based social security programs, Germany seems to have formed more ‘pro-outsider’ social policies, resulting in a more protective context for the young.

Up till now, I have tried to account for the apparent variation in the position of German and Italian youth in the context of an ageing population, by reviewing the problem from three mainstream sociological perspectives. However, more recently, a growing body of literature that combines features of multiple of the perspectives discussed here has emerged. The arguments within this literature relate the timing of key post-industrial developments to the degree that countries have been able to adapt their welfare arrangements to the new social risks coming from processes related to post-industrialization. Before concluding this exploration in the last chapter, I will discuss this argument further in the following chapter.



## 7. Timing

### *7.1 The historical timing of post-industrial developments and new social risks*

An interesting contribution combining functionalist logic, an institutionalist perspective and the notion of power resources or political power is one first made by Guiliano Bonoli in his article 'Time Matters' (2007). He argues that differences in the historical timing of the emergence of key post-industrial socioeconomic developments within countries may result in permanent differences in the degree of development of new social risk policies (Bonoli, 2007, p. 511). Bonoli claims that countries who were latecomers to enter the post-industrial era, experience strong competition between the demands for social protection against the new social risks and demands for the preservation of traditional industrial risk policies. Countries that post-industrialized early found relatively little competition (Bonoli, 2007). This would imply that experienced the socioeconomic processes related to post-industrialization at a later stage find more difficulty in adapting their social security schemes to the needs coming from the new social risks, and consequently are less likely to offer welfare arrangements that match the demands of young persons.<sup>29</sup>

Bonoli's (2007) main argument is based on the fact that in countries that post-industrialized at an early stage, the context for reform was more favourable. The issue of ageing populations didn't play such a profound role in the social policy debate in the early 1970's and steady economic growth offered room for the augmentation of welfare arrangements. Therefore, claimants for the expansion of new social risks policies in those countries could count on the support of political- and corporatist actors that are traditionally in favour of welfare expansion, such as left-wing political parties and trade unions (Bonoli, 2007). On the other hand, countries that experienced the socioeconomic developments that are characteristic of the post-industrial era at a later stage have seen substantially more opposition regarding the development of new social risk policies (Bonoli, 2007). Population ageing has continuously increased the demands for 'old' social risk policies and the economic climate has been somewhat less auspicious. As the growing demand for 'old' social risk policies (mainly pensions) has bolstered budgetary strains in many of those countries, the scope for welfare expansion without decreasing 'old' risk welfare generosity is limited. Furthermore, as

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<sup>29</sup> Many authors discussing new social risks argue that the main groups that are facing the new social risks are young persons, females, migrants and low-skilled (see for instance: Taylor-Gooby, 2004). However, as many of these categories show large overlap, and because this research focuses particularly on young persons, I will only include youth in my argumentation.

discussed in the 'power resources' section, the political power of young persons is weak, especially in comparison with the 'older' electorate. Youth are less likely to vote and less likely to be present in key democratic institutions (Bonoli, 2006). Consequently, even political actors that are traditionally supportive of welfare expansion are hesitant to pursue more integral new social risk policies, as this would imply decreasing old risk welfare generosity (as for instance shown with the trade-union argument). Or to quote Bonoli: "Demographic trends and differentials in voting turnout between age groups make it rational for vote-seeking politicians to present themselves as the defenders of the pension system rather than the champions of child care, negative income taxes, or active labour market policy" (Bonoli, 2007, p. 512).

To summarize the argument, socioeconomic developments related to processes of post-industrialization occurring at the same time as increasing budgetary pressures due to population ageing and old risk demands, make it difficult for countries to adapt their welfare states to new social risk demands. Early post-industrializers found less competition to successfully implement new social risk policies, and as a consequence offer more extensive welfare coverage and generosity for young persons. Therefore, the relative timing at which these key socioeconomic developments have taken place seems an indication for the degree that countries have been able to adapt their welfare arrangements and provide youth with social security schemes that are concordant with the new socioeconomic environment (Bonoli, 2007).

Based on Bonoli's article, Tepe & Vanhuyse (2010) have tested this timing hypothesis empirically, concluding that the timing of the large-scale arrival of key-socioeconomic developments related to post-industrialization matters crucially in accounting for the variation between welfare states (Tepe & Vanhuyse, 2010, p.2). Tepe and Vanhuyse (2010) show that Italy post-industrialized in 1994, whilst Germany post-industrialized in 1989. However, in light of the particular interest of my research for the youth population, a few comments have to be made regarding the way Tepe & Vanhuyse (2010), in line with Bonoli (2007), have operationalized 'key-socioeconomic developments' and new social risks spending. In their study, they distinguish three variables to portray the timing at which countries entered the post-industrial era: 1) Service employment as a percentage of total employment; 2) Female employment rate as a percentage of the total working age population; 3) Divorce Rate (divorce rate per 100 marriages) (Tepe & Vanhuyse, 2010, p. 222). As Sweden is most often considered to be the country that post-industrialized the earliest of all European countries (1970), they use the Sweden levels of 1970 on each of the three variables

as a benchmark to compare the timing at which other countries reached these benchmark levels. As the female employment rate and the divorce rate seem less relevant to my specific interest, here, I will use the two variables discussed in the functionalism section that are related to post-industrialization and seem of relevance to young persons: service sector employment and temporary employment as a % of total employment.

Looking firstly at service sector employment, Bonoli (2007) shows that Italy has reached the Swedish percentage of 54 % of service sector employment as a proportion of total employment in 1985. Germany has reached this percentage in 1986. These figures imply that the two countries have started to experience the new social risks that emerged with the growth of the service sector during fairly the same period. Data that portrays the incidence of temporary employment shows larger differences. According to the OECD, during 1985 and 1990, Germany had more than twice the proportion of temporary employees as did Italy in this same period (OECD, 2002). In 1995, the proportion of temporary employees in Italy had increased rapidly, almost catching up to the German figure in 2000 (OECD, 2002). However, this is where the relevance of the timing argument comes in. Even though Germany and Italy have had rather similar figures of temporary employees after 2000 – Italy even has a higher incidence of temporary work currently - the fact that Germany experienced the emergence of temporary work at an earlier stage would imply that they experienced a more favourable context to adapt their welfare arrangements to the changing socioeconomic climate. The fact that the Italian welfare state has been unsuccessful until now to adapt their social security programs as well, could be seen as a tentative confirmation of the timing hypothesis and a plausible addition to the explanations offered thus far.<sup>30</sup>

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<sup>30</sup> Obviously, some may argue that this is the result of a time-lag, as Germany has had more time to adjust their welfare provision, however, in light of the growing budgetary pressures Italy is facing, this seems a rather unlikely explanation (Bonoli, 2007).

## 8. Conclusion

In this thesis, I have tried to review the consequences of ageing on the position of young persons in Germany and Italy in a more complete way. Doing so, I have specified one main research question and four sub-questions, which have been the leitmotif throughout this investigation. The main research question of this thesis has been:

*How do ageing populations influence the position of young persons in Germany and Italy, and can functionalist theory, institutionalist theory, power resources theory and the timing of key post-industrial developments account for the apparent differences in the position of German and Italian youth, in the context of a similarly aged population?*

Subsequently, I have formulated the following sub-questions:

- 1) *How do ageing populations influence the position of young persons in Germany and Italy, and can functionalist theory account for the apparent differences in the position of German and Italian youth, in the context of a similarly aged population?*
- 2) *How do ageing populations influence the position of young persons in Germany and Italy, and can institutionalist theory account for the apparent differences in the position of German and Italian youth, in the context of a similarly aged population?*
- 3) *How do ageing populations influence the position of young persons in Germany and Italy, and can power resources theory account for the apparent differences in the position of German and Italian youth, in the context of a similarly aged population?*
- 4) *How do ageing populations influence the position of young persons in Germany and Italy, and can the timing of key post-industrial developments account for the apparent differences in the position of German and Italian youth, in the context of a similarly aged population?*

In this conclusion, I will first answer all of the sub-questions separately, followed by a general conclusion that aims to answer the central research question of this exploration.

### **8.1 Functionalism**

In the functionalism section, the main point of discussion has been based on two arguments. First of all, despite the fact that the growth in the proportion of older persons and the development of old-age dependency ratios in Germany and Italy shows partly analogous

developments, Italy had a much higher effective economic dependency ratio in 2010. This is largely due to lower participation rates among older workers, a lower actual average retirement age and a larger share of pension receivers below the age of 65. This implies that the balance between the needs for welfare and the resources to provide this welfare is less favourable in Italy, as less people are paying social contributions for a larger share of people receiving benefits. As a consequence, Italy is likely to face more sustainability problems regarding their welfare provision, possibly increasing the financial pressure on the future working population and limiting the scope for welfare expansion in areas other than elderly-oriented welfare.

Secondly, I have shown that overall risks of unemployment for young persons in Italy and Germany have increased as well, as a result of de-industrialization and changing dynamics of supply and demand on the labour market. These risks of unemployment seem larger in Italy, as youth unemployment rates in Italy have been structurally higher over the last 10 years than in Germany. Interestingly enough, Germany spends more on new social risk policies that aim to alleviate these growing risks of unemployment, implying that they have been more able to adapt their welfare distribution to the changing socioeconomic context. Using functionalism, this is odd, considering that the needs for welfare expansion have been higher in Italy. Moreover, Tepe & Vanhuyse (2010) have shown that none of the variables that aim to capture the socioeconomic processes related to post-industrialization display a significant relation with new social risk spending. They do find a significant positive relation between GDP growth and new social risks spending (Tepe & Vanhuyse, 2010). However, once again, this contradicts evidence on the specific cases of Italy and Germany: Germany spends much more on new social risks policies while Italian GDP growth has on average been higher over the last 20 years (Eurostat, 2012).

These results lead room to suggest that functionalist theory by itself falls short of explaining all of the apparent differences in the position of German and Italian youth in the context of a similarly aged population.

## ***8.2 Institutionalism***

In the institutionalism chapter, I have argued that the institutionalization of the labour market in both countries is an unlikely explanation for the apparent variation in the position of German and Italian youth. The labour market in both countries is structured along similar lines and neither show any clear signs of path deviation regarding the protection offered to labour market insiders. The same applies for the pension system in both countries, which in

both cases is based on a social-insurance logic and thus not well adapted to the changing work patterns many of the young are facing. However, it must be added in this regard that the reduction of public pension generosity is likely to have a larger impact in Italy, as Italian youth are more likely to be unemployed and more often work on a temporary labour contract.

What does seem at least a partial explanation for the apparent variation in youth unemployment rates, and most likely also the incidence of temporary labour among youth, is the vocational specificity in the education system of both countries. Germany has a very strong vocational specificity in the education system, which, as shown by several authors, is likely to lead to low youth unemployment rates, while Italy on the contrary offers its students more general, rather than specific vocational education. Another partial explanation for the less precarious position of German youth is the fact that Germany has introduced an universalist-based unemployment protection scheme, on top of the regular unemployment benefit. This provides young workers with protection against spells of unemployment. Something that the regular social insurance-based unemployment benefits of Germany and Italy do not do adequately. Therefore, the institutionalization of unemployment protection in Italy can partly explain the precarious position Italian youth are in, especially in light of the high unemployment rates and changing work patterns many youth are facing.

What is interesting, is that it can be argued that this German universalist-based unemployment protection scheme is a path deviation from their traditional occupationalist-based social security logic. Lynch (2006) argues that this is an unintended consequence of the institutional context and the dominant mode of political competition within Germany, which is programmatic. On the contrary, Italy exhibits a particularistic dominant mode of political competition, which according to Lynch (2006) explains why they haven't managed to reorient some of their welfare arrangements to a more universalist-based distribution. However, the persuasiveness of the argumentation made by Lynch (2006) can be debated. Her assumption that social policy outcomes are often unintended is debatable and is in contrast with the large body of literature on political 'partisan' theory or power resources theory. Furthermore, whereas German politics is said to be mainly programmatic, a large share of social security programs within Germany remains occupationalist-based. Therefore, the explanations offered by the discussion of an institutionalist perspective seem not satisfactory in explaining all of the apparent variation in the position of German and Italian youth in the context of a similarly aged population.

### ***8.3 Power resources***

The third mainstream perspective I have discussed in this exploration is the power resources theory. I have illustrated the changing ‘democratic struggle’, which according to power resources theory influences social policy outcomes. The elderly have become politically more powerful, whilst at the same time, the capacity of young persons to influence social policy formation to their interest seems to be lacking. German and Italian youth are less likely to vote and less likely to be present in key democratic institutions. At the same time, budgetary pressures have led both the Italian and German government to pursue retrenchments of social security programs. In this regard, the large seniority-bias within the major Italian trade unions seems especially important. Italian trade unions have to a large extent been able to resist retrenchments that affect their particular clientele –the elderly-, placing the majority of the burden of these cutbacks on the younger generations (Natali & Rhodes, 2004). I have tried to illustrate this with a discussion of the ‘Dini reform’. German pensioner membership is more balanced with regard to age-groups, which may be a reason that cutbacks during the 2001 ‘rentenreform’ were more distributed in favour of the young (Natali & Rhodes, 2004).

The overrepresentation of these insiders on the labour market within Italian trade unions also seems a likely explanation for the fact that Italian policymakers have not pursued more integral pro-outsider social policies. Once again, looking for instance at ALMP spending and the adoption of universalist-based social security programs, Germany seems to have formed more ‘pro-outsider’ social policies, which may be a result of the more balanced age-distribution within German trade unions. The distribution of power resources among age-groups in Germany and Italy therefore seems at least a partial explanation for the more precarious position of Italian youth.

### ***8.4 Timing***

While discussing the ‘timing’ hypothesis, I have followed the argumentation made by Bonoli (2007) that socioeconomic developments related to processes of post-industrialization occurring at the same time as increasing budgetary pressures due to population ageing and old risk demands, make it difficult for countries to adapt their welfare states to new social risk demands. As the growing demand for ‘old’ social risk policies (mainly pensions) has bolstered budgetary strains in many of those countries, the scope for welfare expansion without decreasing ‘old’ risk welfare generosity is limited (Bonoli, 2007). Due to the unbalanced distribution of power relations, even political actors that are traditionally supportive of welfare expansion are hesitant to pursue more integral new social risk policies,

as this would imply decreasing old risk welfare generosity. Even though Italy and Germany have experienced the shift from industrial- to service-based economies at a fairly similar stage, Germany has started to experience the growing incidence of temporary labour at an earlier stage, and with this the new social risks temporary labour encompasses. Therefore, it is likely that the German context for reform was more favourable, as budgetary pressures due to ageing didn't have such a profound impact at that time, which consequently makes the 'timing hypothesis' a fruitful addition to the explanation offered thus far in explaining the less favourable position of the Italian young.

### ***8.5 Final conclusion***

As a general conclusion, it can be argued that ageing is having a larger impact on the position of youth in Italy than it has in Germany, despite the fact that the two countries have undergone fairly similar developments with regards to ageing. Furthermore, the position of Italian youth is more precarious than the position of German youth. This apparent differential is the result of a number of causes. Consequently, the explanations offered in each of the chapters of this thesis must be viewed as complementary, rather than singular explanations.

Italian older workers participate less on the labour market and retire at an earlier age than do the German elderly. This results in a higher degree of effective economic dependency in Italy, implying a more limited scope for welfare expansion in other areas than elderly-oriented welfare programs. This could be one of the reasons why Italy is spending relatively little on active labour market policies and new social risk policies in general. The same goes for the introduction of a universalist unemployment protection scheme, something that seems especially important for the Italian youth in light of the increasing incidence of atypical labour and the high unemployment figures, but which has not been introduced, unlike in Germany. Whether this is an unintended outcome of the institutional context and the dominant particularistic mode of political competition remains unconvincing, however, Italy has shown no clear signs of path deviation regarding their social security provision. The strong overrepresentation of pensioners and insiders on the labour market within the major Italian trade unions is a plausible additional explanation for the fact that Italian policymakers refrain from pursuing social policies that benefit the politically weak youth. Instead, Italian politicians are more likely to preserve the interests of the highly mobilized trade union members. Finally, the later stage at which Italy started to experience the growing incidence of temporary labour as compared to Germany, and with it the new social risks it encompasses, may be a further explanation for the inadequate protection of the young in Italy, as budgetary



strains due to ageing have become more apparent over the years, further decreasing the scope for welfare expansion to provide adequate protection for the Italian youth.

## 9. Discussion

In this discussion, I find it important to stress a number of issues. First of all, I am aware that an exploration of this kind has a number of weaknesses. The aim of this research has been to paint a more complete picture of the consequences that ageing populations have on the position of young persons in Germany and Italy. However, a true complete picture seems impossible to realise, due to the complexity and diversity of the subject. As I have tried to discuss as many relevant issues as possible within this timeframe, this has resulted in somewhat of a ‘birds eye’ comparison of several of the matters at stake. Critics may argue that this has resulted in a lack of detail, however, considering the interrelatedness of the issues I have discussed, this exploration can prove to be an indicative overview of some important factors that influence the consequences ageing populations may have for the young.

Furthermore, this discussion provides me with the opportunity to mention several issues that I have not discussed during the research, but which seem important to have noted. First of all, much of the welfare state literature underlines that welfare distribution ‘moves through three channels’: the market, the state and the family. Especially in Southern European countries like Italy, the family appears to play a large role in the distribution of welfare. As a consequence, it can be argued that the Italian state leaves some of its redistributive tasks to the family. However, the literature provides no clear-cut answer in this regard. By contrast, some authors argue that the large role families play in Southern European countries is a result of the lacking social protection for labour market outsiders, rather than the other way around. Therefore, I have decided not to discuss the redistributive tasks of families in more detail in this review.

Also, it must be noted that one of the major, not to say *the* major issue within Italy is the large regional disparities within the country. Much of the high unemployment- and low participation rates are due to the poor performance of the Southern regions, whereas the Northern regions have employment- and unemployment rates comparable to the EU average. This large territorial duality is exacerbated by the fact that the regions and municipalities within Italy possess much of the legislative and administrative tasks to provide social protection for its inhabitants. As a consequence, it might even be argued that the real problem in Italy is a lack of development policy for the Southern regions, rather than the ageing populations.

Lastly, briefly coming back to the notion of ‘critical junctures’, it can be hypothesized that the current sovereign debt crisis, which has hit Italy in a hard way, can be seen as a critical juncture that provides the opportunity for the Italian welfare state to reorient their welfare provision in a significant way, improving protection for the young and combatting the negative consequences of the ageing population. The current Italian Monti government has made significant efforts for drastic reform during the last few years, raising statutory retirement ages, tackling the duality between insiders and outsiders on the labour market and investing in human capital and social investment policies. Furthermore, Italian social partners and the Italian parliament seem to recognise the importance of the issues at stake, as for instance the ‘second Fornero reform’, which aims to drastically reform the labour market, was approved by parliament after only two months, whereas before, matters usually took years to evolve.

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