

## CHAPTER 1

### UNDERSTANDING TIME ALLOCATION OVER THE LIFE COURSE: THE ROLE OF INSTITUTIONS

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#### **1. General objective of the book**

One of the major objectives of the European Employment Strategy adopted at the Lisbon summit<sup>1</sup> in March 2000 is to increase the overall employment rate, which requires an increase particularly in female and older workers employment rates. The success of such a strategy is crucially dependent upon the prevailing countries institutional set up and the current situation in the labour market. In several member states, with a traditional gender division of labour, the expected increase of female employment rates is conditional to the implementation of more general reforms concerning for instance the design of tax/benefit systems, childcare provision and parental leave. In some countries, the priority given to early retirement in the 1980s has not only led to a dramatic reduction in seniors employment rates, but also created a culture of early retirement, which appears hard to reverse and requires specific policies, which have to be targeted not only at the 55-65 year olds, but also at the younger generations in order to change their expectations concerning their careers.

The originality of the Transitional Labour Market (TLM) approach is to put these policy objectives into a broader perspective, and especially to relate them to the allocation of time and income over the life cycle (Schmid and Gazier, 2002). Time is a scarce resource and modifications in household composition over time may, depending on the national context, differently affect a household's time allocation between paid work and other time consuming activities (childcare, housework, leisure, etc.). Besides, there is also strong evidence that age plays a specific role in the decision to participate to the labour market: older workers tend to be characterised by a specific position on the labour market (as well as young people), which is of course related to their previous career paths and decisions. The goal to increase women's and older workers' participation and employment rates, as it stands in the European Employment Strategy, might be sustainable only if workers are given some better working conditions and work-family arrangements over their life course. Therefore the life cycle approach, including in our perspective both a gender and an age dimension, is necessary to understand transitions and to make proposals for reforms. From a normative point of view, the TLM perspective implies to empower the individuals and to provide them with a capacity of choice and a capacity to reverse these choices.

The main objective of the present book is to enhance our understanding of the relationships between institutional settings and national performances, and to draw policy recommendations. The various chapters in this book provide new theoretical insights and empirical evidence about how the changes in the institutional policy framework and the modification in individual preferences and norms/values affect household's time allocation and income distribution over the life course, and the position

of seniors on the labour market. Relevant issues are for instance how income compensated parental leave systems with employment guarantee, or the legal possibility to redistribute working time over the life course, or the provision of childcare, may influence both men and women life cycle behaviour in terms of labour market participation, working time, earnings prospects, and more generally the gender allocation of time between various activities. Comparative analysis of time allocation over the life course across different employment and welfare states regimes is therefore a research strategy for isolating the role of the overall institutional framework.

As far as elderly workers are concerned, better knowledge about senior's positions on the labour market, about firms and the behaviour of older workers, as well as about the policies targeted at this age group, is a prerequisite for thinking about reforms. From a policy oriented point of view, European comparisons enable the identification of the diversity of institutional combinations associated with a given employment rate, on the basis of a variety of benchmarks and indicators. The book also provides some insights into the most recent reforms that have been launched in most countries over the recent years (part time early retirement, pension reforms, etc.).

As a whole, the present volume puts forward the idea that the life course approach is a key component of the Transitional Labour Markets. The policy recommendations stemming from this are in favour of the flexibility of working time arrangements during working life, which should help to both improve work and family life balance, and reduce early exit from the labour market.

## **2 The European context: the heterogeneity of life course patterns**

### *2.1 Gender disparities in the patterns of labour market integration*

One of the most salient features and persistent trends in advanced economies is the increased feminisation of the labour force and the related shift from the single male breadwinner household towards dual earners household and the increased diversification of household structures. Despite these common trends implying a significant reduction of the gender employment gap, there are still large differences in the patterns of female labour market integration and the extent of male breadwinner or dual earner couples among advanced countries. Furthermore, the patterns of female labour market integration over the life cycle, and therefore the nature, the frequency, the timing and sequencing of transitions between the household sphere and the labour market, diverge significantly between countries.

During the last decades, major changes in the timing of transitions over the life course have occurred. Globally, the European countries have experienced a postponement of entry into the labour market due to later exit from the educational system combined with earlier exit from the labour market due to early retirement schemes and a lowering of pension age (see *infra*). Simultaneously, the trends toward individualisation, the emergence of new life styles and changes in values and norms have largely modified the traditional family life cycle model still prevalent during the 1950s-1960s. The overall reduction of marriage rates, the increase of consensual unions, the increase in divorce rates, the decrease of family size, the postponement of family formation and the increase in life expectancy, coupled to the growing instability in the labour market have certainly modified household's expectations and affected individual choices over the life cycle. Hence, if the traditional sequencing of work history (Education-Employment-Retirement) or life critical events (Singlehood, marriage/cohabitation, children, empty nest etc.) still predominates in many industrial countries, most advanced economies have experienced a

*rescheduling* of traditional critical events, an increase of instability and risks (separation, unemployment) and therefore a growing heterogeneity of life trajectories.

The significant change in the timing of transitions at the two ends of the age distribution and therefore the shortening of “active life” have meant that the time devoted to market work has dramatically decreased. The various reforms aimed at reducing weekly and yearly working time have also reinforced the diminution of the time spent on paid work. If we take into account the large increase in life expectancy, the time devoted to market work has dramatically decreased during the last decades.

Time devoted to housework has also significantly diminished due to the growing availability of substitutable goods and services offered in the market and/or provided by the public sector (outsourcing). Technological progress and increased capital intensity in home produced goods and services have also contributed to an increase in productivity in the home sector and contributed to this reduction. The modifications in the household structure and the reduction in the size of households related to the decrease in fertility rates have also implied that the time dedicated to children has decreased. Hence, globally, the last decades have experienced a large increase of “leisure time” over the whole life course. It is worth noticing however, that those large changes are not evenly distributed between gender and socio-demographic groups. To illustrate: the growing feminisation of the labour force has *de facto* implied an increase of the time devoted to market work for women. In other words and at the household level, the reduction of men’s paid working time has been partly compensated by the increase of female labour supply. In terms of gender equal opportunity, the large bulk of unpaid housework and care activities are still predominantly performed by women, even though in many countries the male share of household production has increased (see Anxo et al 2002). The resilience of a traditional gender division of labour also has large dynamic implications in terms of earnings/career prospect and welfare development over the life cycle.

All these factors, the decrease of fertility rate, the shortening of the time devoted to market work, the ageing of the population, the increased marital instability<sup>2</sup> and the more erratic employment paths over the life course, have put a lot of pressure on the financing of the welfare states and social protection systems.

In this context, it is not surprising that one of the major objectives of the European Employment Strategy is to increase the overall employment rate which *inter alia* requires an increase of female and older workers’ employment rates. In several member states such a policy has to be complemented by a pro-active policy making it possible for both men and women to better balance work and other social commitments. In other words, the expected and necessary increase of women’s and older workers’ employment rates is conditional to the implementation of reforms concerning childcare provision, parental leave, life long learning, tax/benefit and pension systems. Hence, even though time is irreversible, policy reforms aimed at increasing individual working time options and the reversibility of choices over the life course may be a good policy instrument in order to foster a time and income allocation conducive to an increase in the overall employment rates supporting the sustainability of the social protection system.

Despite these global trends, large discrepancies still exist between countries. Several comparative studies (see for ex Rubery *et al* 1999, Rubery *et al* 2001, Anxo *et al* (2002), and Anxo, 2004) have clearly shown that the patterns of household labour market integration and working time arrangements vary considerably between the European countries. These differences are partly related to the design of welfare states and employment regimes.

The Nordic social democratic regime is characterised by an overall high employment rate and the highest incidence of dual earner households with low gender disparities in

labour market integration. In contrast to other industrialised countries, family formation is positively correlated with women's employment rates. A flexible and generous parental leave system coupled with a highly subsidised and extensive publicly financed childcare system, make it possible for parents to better reconcile paid work with family commitments. Compared to the other industrialised countries, the Nordic countries also exhibit a relatively low gender polarisation of working time with an extremely low incidence of excessive working hours and marginal part-time. Low income inequality including low gender wage differentials in a context of high average and marginal taxes reinforce the dual earners system, discourage the use of long working hours while qualification rules for some benefits (working time threshold), like unemployment insurance, discourage the use of marginal part-time.

In the liberal Anglo-Saxon welfare state regimes, like the US or the UK, where workers are more dependent on the market and where alternatives to labour market income are more limited, empirical evidence (see Rubery *et al.* 1999, 2001, Anxo *et al.* 2000 and Anxo 2004) also shows a high degree of overall labour market integration but compared to the Nordic countries, a somewhat lower level of female labour market integration. Compared to the other industrialised countries, the incidence of long working hours is very high. Relatively large wage inequality combined with high returns to education in a context of low taxation foster a tradition of long hours. In these countries the incidence of long working hours appears to be high in the two tails of the wage distribution. On the one hand, due to the low degree of de-commodification and relatively high incidence of low paid jobs, low-skilled/low paid workers have a higher propensity to work long hours in order to secure a decent income. On the other hand, highly educated workers also have clear incentives to work long hours due to relatively high returns to education, low marginal and average tax rates and also greater possibilities to outsource a part of the domestic tasks to the market<sup>3</sup>. However, compared to the US, the UK presents more evidence of a resilience of the male breadwinner model, lower female employment rates and also a much higher gender polarisation of working time (See Anxo and O'Reilly, 2002). In those regimes, family formation has a positive impact on men's labour supply and also increases the incidence of standard and long working hours (See Anxo 2004). On the other hand, family formation has a weak impact on female labour participation taking essentially the form of a reduction in working hours. For example, the incidence of long hours is significantly reduced for British mothers and the share of female employees working standard and marginal part time increases significantly.

The conservative continental welfare state regimes (like France, Germany, but also to some extent in the Netherlands) stand out as providing a societal system with relatively lower employment rates and also larger gender disparities. But as with the Anglo-Saxon regimes some differences must be stressed. The dispersion in working time distribution and the gender polarisation of working time is clearly higher in Germany and in the Netherlands compared to France. A part of these differences may be ascribed to disparities in working time regimes (See Anxo and O'Reilly, 2002) and also differences in the public provision of care. In France the coverage rates of public childcare are clearly higher and the incidence of part-time, while growing, remains much lower. As in the other industrialised countries, family formation has a clear positive impact on male labour supply but a negative impact on female labour supply, be it in terms of participation or working time. Compared to single women, the share of married/cohabitant women working standard hours and long hours is significantly lower (see Anxo, 2004).

Finally, the Mediterranean welfare state regimes (like Italy or Spain), display the lowest female employment rates and the highest incidence of the traditional male breadwinner model. Family formation and the presence of children have a clearly negative impact on

female labour market integration, but essentially in terms of lower labour force participation. The relatively low public provision of childcare facilities coupled to the prevailing rigidities in the working time regime (few options to work part-time) still constitute a barrier to women's labour market integration and comfort a traditional gender division of labour.

The previous development clearly shows that the extent of labour market integration and working time patterns vary considerably across industrialised countries, household types and gender. In particular, family formation and young children have a strong gender-differentiated impact on labour market participation and working time patterns. Overall, to be part of a couple and having children have a positive impact on the male labour supply, be it in terms of participation or average weekly hours. On the other hand, the impact of family formation and young children on female labour market integration differs considerably between the various Welfare States and employment regimes.

### *2.2 Age groups disparities: seniors on the labour market*

A cross country comparative analysis also shows large national disparities in the labour market situation of older workers and the transition from work to retirement. On the whole, seniors appear to be a disadvantaged group on the labour market. The effective average age of retirement in OECD countries stands between 60 and 63, below the statutory age (65 in most countries). Only in the US the effective retirement age corresponds to the standard age of retirement<sup>4</sup>. And the employment rate of older workers has decreased everywhere over the past few decades and stands below global figures and especially below the rates for the ages 25 to 54.

In all the countries surveyed by Courtioux and Erhel (2005), the share of long term unemployed is above average for seniors, even though their relative unemployment rate is lower (due to the fact that they more often leave the labour market when they lose their job). Analysis of transition data clearly reveals that seniors are a disadvantaged group on the labour market<sup>5</sup>. They are more likely to experience a "bad" transition, like leaving a permanent or a temporary job towards non employment, or moving from education and training to non employment. Besides, for seniors, non employment mostly means exiting the labour market permanently. In terms of wage prospects, the low paid older workers appear (not surprisingly) to be the most disadvantaged age group: after one year, 56.2% of them are still low paid, and 26.7% have left the labour market.

Cross-country comparative studies show important national disparities in the employment rates of older workers. Among European countries, bad performers are Belgium, Luxembourg, France and Italy (employment rates under 40%). The Nordic countries (Denmark, Norway, and Sweden) reach senior employment rates of over 60%. Other criteria must be taken into account to deal with the specificities of senior workers situations, such as the unemployment rate, and some indicators of work quality (part time rate, short term contracts, wages, etc.). On the basis of Eurostat data, such an extended approach puts forwards that some countries exhibit good employment rate performances, but a poor quality of jobs (for instance in the UK), and that unemployment might also be an important problem for older workers, for instance in Germany (See Courtioux and Erhel, 2005). Such differences reflect the heterogeneity of policies targeted at older workers.

Indeed, apart from the pensions system itself, there is a large number of pathways to withdraw from the labour market at a relatively early age, in particular by using early retirement programmes (based on public or private financing), unemployment related

transfer schemes, disability pensions. In Europe, all countries have experienced some of these tools, with noticeable national “specialities”, like early retirement schemes in France and Italy, unemployment transfers in Germany, disability pensions in the Netherlands and the UK. National specificities are related to the characteristics of social protection systems and to the architecture of labour market policy: therefore they meet the usual typologies, such as the one developed by Esping Andersen (Esping-Andersen, 1990).

Thus almost all countries have to face a deteriorated situation of elderly workers, with heterogeneous characteristics: as often in comparative research, this makes the analysis and reform of public policies more difficult.

### **3. Determinants of Transitions over the Life Course**

#### *3.1 Human Agency and the standard neo-classical approach*

Up to the 1960s, neo-classical economists paid little attention to life cycle behaviour and the role played by time when it comes to individual choices. One of the first theoretical attempts to model life course behaviour occurred in the first half of the 1960s with the theory of life cycle income developed by Modigliani. According to this theory, risk averse and rational individuals endeavour to smooth their consumption over the life span by saving in their early years and spending their savings when retired. In recent decades several economists have questioned the validity of such patterns and also stressed the role of social protection systems (in particular the design of public pension systems) and the role of anticipated and actual inter-generational inheritance and bequests on consumption, saving and wealth accumulation over the life course. Also in the early 1970s, some attempts were made to integrate labour supply decisions in the traditional saving-consumption model. Dynamic models of labour supply and models of inter-temporal choices between various time consuming activities<sup>6</sup> were developed (Heckman 1974, Becker and Ghez 1975, Becker 1991). Common to this approach is that individuals' inter-temporal choices, between leisure and market work for example, are derived from utility maximisation subject to economic and institutional constraints that are assumed to be exogenous. Most of the early models also assumed no uncertainty and perfect information, rendering the predictability and policy implications of these early models quite limited.

Two central assumptions in the neoclassical life cycle approach concern the treatment of tastes and time preference. Most models of inter-temporal choices assume that individual preferences are uniform and stable over time. This is because if tastes are endogenous (and thus are altered by changes in economic and social conditions), then actual observed changes in consumer demand, labour force participation or working time over time might be ascribed either to changes in preferences or to variations in prices or income, or both. In this case the impact of, say, an increase in wages on how many hours an individual works cannot be analytically disentangled from changes in the worker's preference. Furthermore, if tastes are endogenous and subject to changes over time, the individual's preferences can no longer be recovered from actual behaviour putting strong pressures on the theory of revealed preferences<sup>7</sup> which constitutes one of the central pillars of neoclassical theory of consumption and labour supply (Swan, 1999).

Mainstream neoclassical economists commonly assume that the trade-off people make in the present between, for example, paid work and leisure and more generally their time

allocation over the life course, is independent of their past behaviour; time allocation being essentially influenced by the welfare that individuals expect to gain from their current and future earnings. Several economists during the last decade have also raised some concerns about the validity of such assumptions and developed models where habit formation and path dependency play a decisive role in explaining individuals' behaviour and choices over time (See Becker 1996). Even though these new theoretical developments retain the assumptions that, first, forward-looking individuals behave so as to maximise welfare, and second, that preferences remain uniform and stable over time, they extend the definition of preferences to allow for personal habits, peer pressure, personal and social capital. The observed heterogeneity of choices across the population then is not due to heterogeneity in preferences between individuals, but related to differences in inherited personal and social capital and its accumulation over time. Hence, past consumption patterns and habit formation affect individuals' current choices by affecting the level of inherited social capital which in turn affects the level of well-being over time, but does not affect the structure of preferences which is still assumed to be stable over time. In this way this new theoretical development tries to analytically link the past, present and future individual welfare while keeping the traditional rational choice framework intact.

The second central assumption of economic life cycle models refers to the hypothesis of time preference i.e. how individuals value current and future well-being. Even though proponents of neoclassical rational choice models recognise some form of individual heterogeneity in time preference, the majority of inter-temporal choice models assume a positive and stable subjective rate of *time preference*, i.e. that the welfare people derive from future consumption/leisure is not valued as much as the welfare derived from current consumption/leisure. To illustrate: for mainstream economists, the observed individual heterogeneity in investment in human capital can partly be explained by individual differences in the subjective rate of time preference (forward-looking people who favour planning and saving for the future versus myopic, present oriented individuals who prioritise current consumption). But given this heterogeneity in time preference and the assumed stability of time preferences over time, investment in human capital is principally determined by the direct and indirect cost of education<sup>8</sup> and the expected rate of return on human capital. During the last decade several theoretical developments have also convincingly questioned the validity of this assumption arguing for the possibility of negative time preference, i.e. that individuals may have preference for improvement and therefore may value future welfare more than present well being (See for example Loewenstein et.al 1991, 1992), also considering some form of endogeneity in the formation of time preferences. (See Becker and Mulligan 1997).

Hence, the conceptualisation of time is central in the neoclassical approach of analysing life cycle behaviour. Even though economists' representation of time is predominantly linear, individuals' current choices are essentially assumed to be determined through the welfare maximisation process and the expected "present value" of future welfare generated by an often completely anticipated income stream of future earnings and other gains from non-earned sources (e.g. inheritance). Current decisions are also affected by the expected time horizon (such as life expectancy) and therefore to some extent dependent on the position of the individual in the life course. Thus, for neoclassical economists, the future affects current decisions essentially through the way economic agents discount the future and also through life expectancy<sup>9</sup>. The impact of the past on current decisions is either completely disregarded or modelled through the process of accumulation of personal and social capital. However, a central and critical assumption of

neoclassical economists is that time does not affect the structure of preferences but only the level of welfare over time. Hence, the cyclical dimension of time here is not related to some form of path dependency but is merely linked to mainstream economists' a-priori conception of an optimal sequencing of phases and also in their confidence in finding a-temporal and a-historical causal relationships explaining individuals' choices and decisions over the life course. The dominant representation of life trajectories among mainstream economists remains the traditional tripartite sequencing of life course: period of education, followed by a period of employment and period of retirement. This tripartite sequencing is rational and efficient since an early accumulation of human capital is justified by the relatively lower forgone earnings during education at a young age and also because many years remain for collecting the returns of investment in human capital. The traditional concave profile of labour supply is also explained by an exogenously assumed productivity development and earnings profile over the life course which induce a variation of the price of leisure over time creating strong incentives to reduce labour supply at the two ends of the age distribution.

To illustrate: in the neo-classical perspective, the effects of retirement and early retirement schemes on individual seniors' retirement behaviour primarily depend on three characteristics: the standard age of entitlement to benefits, the generosity of pension benefits, and the implicit marginal tax. Standard and early age entitlements to pension benefits are the most difficult factors to relate to standard models, since life cycle models imply that forward looking individuals choose their optimal age of retirement in order to maximise their welfare by borrowing or lending in capital markets. Market imperfections (such as liquidity constraints, myopia or information constraints, and legal restrictions on continuing work after the standard retirement age), or social determinants (such as custom or accepted practice) must be introduced in order to identify a direct effect of the standard retirement age. The impact of pension generosity is quite straightforward: it relies on a standard labour supply model where the worker compares his/her wage with the alternative out of work income (pensions or social benefits). The concept of marginal tax also deserves further explanation. Pensions and early retirement systems include a marginal tax (or subsidy) because working for an additional year creates changes in pension wealth, i.e. in the present value of the future stream of pension payments to which a person is entitled over his or her life in retirement. More precisely, working for an extra year involves costs such as paying contributions to the system, foregoing one year of benefits (except in the case where pension benefits and wages can be combined), and potential benefits (if it leads to an increase in future pension benefits due to the incentives scheme). If the costs exceed the benefits, the pension system carries an implicit tax on continued work (an implicit subsidy if the gains exceed the costs), and is said to be "actuarially non neutral". These mechanisms affect labour supply behaviour because the implicit tax/subsidy on continued work can be considered a component of the "true wage" (according to Lazear's theory). A rise in the marginal tax is equivalent to a fall in the wage rate and induces a negative effect on the labour supply.

To sum up, in this theoretical tradition, life course decisions are mainly related to the financial gains and losses which they are expected to generate. Public policies, and especially pensions and early retirement schemes, are likely to create distortions of labour-leisure decisions and lead to non optimal solutions.

Nevertheless, such an individual and labour supply focused approach does not explain all the transitions observed and their heterogeneity: the present book also brings in the role of the societal, historical and institutional context, through the reference to the life course approach and to the transitional labour market approach.



### *3.2 The life course approach*

Over the last decades the life course approach has developed into a major research paradigm (see Mortimer and Shanahan, 2003, Anxo and Boulin, 2006). The notion of the life course provides a common field of research and a heuristic conceptual device aimed at studying institutions' and individual's trajectories over time. Most of the research using this approach has stressed the extent to which social forces and individual factors shape the life course of individuals and has focused on the developmental consequences of alternative life trajectories. One of the main features of this approach is its attempt to take a holistic view, in that the analysis no longer focuses on isolated specific events, phases or demographic groups but considers the entire life as the basic framework for empirical analysis and policy evaluation. The link between individual trajectories on one hand and historical period, social structures as well as human agency on the other, is also at the core of the life course paradigm. The notion of life course posits therefore that life trajectories are constituted by a palette of sequences of events that are both individually and socially constructed.

Considering the life course as a whole is also a way to acknowledge the importance and consequences of early transitions for later experiences and events. Hence, focussing on these early events and transitions such as educational attainment (drop-out), the extent of labour market attachment (part-time/full time, continuous or erratic job career), and family formation (union formation and childbearing) is a way to recognise that these early events might have major consequences in the later years of life. In other words, the present situation of individuals is not independent of the choices, transitions, opportunities and constraints encountered in the past. To some extent we may observe that some form of path dependency and past experience matters and may restrict an individual's options in the future.

The social implications and consequences of early transitions and choices may obviously differ depending on the historical and societal context. The availability for example of public life-long training systems or active labour market policy programs may reduce the "social" costs of early drop-outs from the educational system. Hence if time is irreversible, life trajectories are often reversible and the social implications of early "negative" choices in life could, depending on the institutional context and options, be "corrected" later on in life.

During the last decades increased attention has been paid to the ability of individuals to influence their own life trajectories. These theoretical developments, coinciding with the general tendency toward individualisation, autonomy and growing heterogeneity in life style and patterns of life course, reflect more generally the attempt to disentangle analytically the impact of individual behaviour, i.e. agency (choices and actions) from the influence of the social structure in a broad sense and the dynamic of social changes<sup>10</sup>.

As stressed by Giddens (1981), traditional structural and institutional approaches seldom adequately recognise the significance of human agency while theories which emphasise human agency, such as rational choice theory, fail to provide an adequate treatment of the impact of the overall institutional and societal set ups of modern societies. Norms, traditions, institutions and agentic dispositions are therefore key elements in understanding variations in individual behaviour over the life course. Individuals cannot

be reduced to someone who is a “passive executor of prevalent social norms or guided by instrumental rationality” (Blossfeld, 1996).

### *3.3 Institutions and policies: The Transitional Labour Market Approach*

From a normative perspective, the transitional labour market (TLM) approach tries, in a context of increasing risks related to flexible labour markets, to identify new institutional arrangements to cope with critical transitions between various types of social activities over the life course. In particular, the TLM perspective explores the possibilities to enlarge the current mobility options when individuals are confronted with critical events and transitions over the life span. As stated by G. Schmid (2002) *“The institutionalisation of transitional labour markets establishes stable bridges linking all forms of productive activities and facilitating movements in one direction or the other: paid work with variable employment relationships or working times, life long learning, unpaid family or do-it yourself work, such as voluntary work or neighbourhood schemes, as well as time for creative leisure (sabbaticals) during which new abilities can be tested without any requirement to be successful. The institutions of labour market policy should be designed in such a way as to create incentives for the transition between these various forms of productive work to make possible combinations of various forms of work and to provide social protection for the ensuing risk .”* (Schmid and Gazier, p188)

From an analytical and methodological point of view, the TLM approach relies on a dynamic and institutional analysis. The core elements to be studied are the various transitions that men and women experience over the life course. Five types of transitions are identified: transitions between the educational system and the labour market, transitions between private or family oriented activities and market work, transitions between employment and unemployment, transitions within employment (especially between full time work and part time work) and transitions from employment towards inactivity at the end of the career. In a cross country comparative perspective, the empirical analysis try to relate the various observed transitions/flows to the prevailing national policies and institutional set ups in order to assess the impact of the societal framework on the patterns of transitions over the life course and identify institutional arrangements that favour integrative transitions.

Transitional labour market theory can be related to the institutionalist tradition in economics. In this perspective, institutions, which can be described, in a broad sense, as the “rules of the game” (North, 1990) build a complex setting of formal and informal norms, constraints, or habits, which orientate individual’s behaviour under the assumption of a bounded rationality. A major characteristic of institutional systems is that they rely on complementarities between the various institutional devices. This property has two main consequences for the analysis of transitions. First, from an empirical point of view, the variety of transitions actually observed is the outcome of a complex institutional system (which we can name a national regime), which cannot be reduced to financial incentives or disincentives to work, like a standard labour supply approach. Second, the existence of such complementarities may explain that a change in a given institution will not necessarily lead to global change. This is usually formulated as the path dependence hypothesis: history matters and national regimes tend to be persistent, since the costs associated with a change of trajectory are usually very high. The transitional labour market approach takes these phenomena into account: it does not mean that reforms are impossible, but that they take time and are progressive most of the time.

Empirical research provides some evidence of the difficulty to reform national institutions, according to the path dependence hypothesis.

For example, in the field of retirement, apart from the pensions system itself, there is a large number of pathways to withdraw from the labour market at a relatively early age, in particular by using early retirement programmes (based on public or private financing), unemployment related transfer schemes, disability pensions. Crowding out effects are likely to appear when a partial reform is launched. Besides, the complexity of the set of programmes targeted at older workers can be related to the existence of a social and political consensus around early retirement. From the firms' point of view, these schemes have represented a way to solve the wage productivity gap, the existence of which has been demonstrated for older workers in internal labour markets, as well as to modernise work organisation. In some countries, trade-unions consider early retirement a matter of social justice and social progress (compensating for difficult working conditions). And for the governments, these programmes were a way to fight against unemployment, at least in the short run. In this context, many reinforcing effects take place, and especially through firms training policies, which tend to focus on younger people (in most countries further training intensity decreases over 40). The existence of such a consensus, mixing economic efficiency and social justice considerations, might explain the difficulty of reforming the pension systems (see Courtioux and Erhel, 2005; Gazier 2003).

In a Transitional Labour Market Policy, this justifies the need to put forward more global policy reforms, which should be based on negotiations between the various actors involved (the State, local authorities, social partners, the EU...).

#### **4. Presentation of the book**

The book is organised in three major parts. The first part identifies the current patterns of labour market integration in Europe and addresses the issues of work life balance. The second part focuses on the influence of working time regimes and leave arrangements on the transitions between the domestic and employment spheres and addresses the issues whether the current institutional arrangement meet households' needs and preferences. The third part focuses on the impact of institutional settings and national policies on the transition from work to retirement. Finally the book ends with some concluding remarks and policy recommendations.

*Chapter 2* examines the patterns of labour market integration over the life course of men and women in seven European countries (France, Germany, Italy, the Netherlands, Spain, Sweden and the UK). Four broad patterns of labour market integration and working time arrangements over the life course are identified: The Nordic ‘universal breadwinner’ model of high participation involving long part-time or full-time hours and high employment continuity over the life course; The ‘modified breadwinner’ model (France) where family formation and motherhood are still associated with withdrawal from the labour market for some groups of women and where mothers who are employed predominantly work full-time; The Mediterranean ‘exit or full-time’ model (Italy and Spain) where fewer women are employed, but when employed generally work full-time, the prevailing working-time rigidities constituting a barrier to women’s labour market integration and encouraging a traditional gender division of labour. Finally different models of ‘Maternal part-time work’ (Dutch, German and UK) where motherhood is associated with a reduction in the employment rate less than found in the Mediterranean countries and in France, but where part-time hours are the norm for mothers and generally remain the norm even when children are older.

*Chapter 3* deals with the ‘direct’ implications of motherhood on labour market behaviour of women. In particular, the impact of transition choices made earlier in life-time on subsequent female market participation is addressed. More precisely the case of Dutch women having their first child is examined. It appears that the transition made on the labour market around childbirth indeed has long lasting effects. Women who remain tied to the labour market tend to have a higher labour force participation rate in their subsequent life than women who interrupted their career. Also, women who lowered working hours after childbirth tend to have lower working hours in their remaining life-time. These differences tend to become smaller when the children become older, but they remain even after a period of 20 years.

The authors furthermore show that the transitions have drastically changed between generations. Nevertheless, even though the life-time loss in income has become lower for younger cohorts, the transition around child birth remains expensive in terms of labour market participation and earning prospects.

*Chapter 4* compares female native and ethnic minority employment patterns within the Dutch institutional context. The authors examine whether native Dutch and ethnic minority women have undergone a change towards a so-called modern employment pattern that is more labour market participation less affected by family formation. The authors show that the presence of children has a negative influence on the probability of being employed for all groups in both 1991 and 2002, but its effect is weaker for the year 2002. The effects vary in size however between native Dutch, Mediterranean and Caribbean women. Variation between groups within the same institutional context point to the persistence of cultural norms, which are related to different gender roles. Specifically, gender role norms affect the allocation of time between home and paid work by women with the same human capital and within the same institutional context.

*Chapter 5* looks into various determinants of parental childcare time. The author argues that individual characteristics of parents and their societal environment are only part of the story and that parental preferences regarding the time they spend with their children do matter. In the empirical analysis, parental preferences actually explain a large part of the variance of parental childcare time. As could be expected, however, the impact of the country policy regime on parental time allocation is stronger in countries with a relatively less institutionalised parental support system (Spain) than in other countries (Denmark and Belgium).

*Chapter 6* explains variation in the labour supply of male and female employees by taking into account differences in conflict management strategies at the household level.

While existing accounts on labour supply either emphasise household restrictions, firm influences or institutional constraints the approach taken here focuses on strategies of spouses to handle time-based interpersonal work-household conflicts. To test this hypothesis the authors use a sample of cohabiting Dutch employees. First, working women relying on 'communal' (i.e. affectionate, helpful) strategies to resolve time-allocation conflicts with their male partners will be more successful in achieving their objective to work more hours than women who don't use communal strategies. Second, labour supply of working men increases with their use of 'agentic' (i.e. aggressive, forceful) strategies. No support could be found for the claim that conflict strategy use of spouses affects labour supply of employees. The findings support the proposition from role congruity theory that (in)congruence between the (male) provider role and a female gender role explains gender differences in the impact of interpersonal conflict management behaviour on labour supply.

In the second part, *chapter 7* addresses the issue of the trade off between time and income within the framework of the Dutch so called flexible benefit plans initiated by a growing number of organisations in the late 1980s. In a flexible benefit plan, employers give their employees the opportunity to change the composition of their benefits, so that the employees can choose those benefits that suit them best. The opportunities to sell or buy extra time off, particularly, make this arrangement interesting from a work/family point of view. Focusing on a Dutch university, the authors study the factors affecting the participation into the flexible benefits plan and the choice between money and time off. Special attention is paid on whether flexible benefits can help employees to better combine work and household activities. Participation in the scheme turned out to be high and influenced by both household and job characteristics. Employees mostly chose to sell their leave, very few people used the benefit plan to acquire more free time.

Even though weekly working time has become shorter and working time patterns more diverse over the last decades, employees working time preferences are not fully realised. Indeed, several employee based surveys reveal dissatisfaction with their actual working hours. In this context, *chapter 8* addresses three main questions: What is the pattern of transition from current to preferred working time patterns? What categories of employees wish to reduce working hours? What categories of employees do realise their preference for working fewer hours? Using panel data the authors find that for many Dutch employees, the adjustment process to desired working time remains problematic despite the broad acceptance of part-time employment.

In *chapter 9* the Belgian time credit aimed to facilitate transitions between work and care/study is analysed in order to illustrate the joint management of responsibilities between various levels of governance. Analyses of the actual redistributive effects of the Belgian career break schemes so far give evidence that these schemes are inadequate in realising vertical distribution between rich and poor due to inadequate benefit levels, gender equality and intergenerational solidarity since a large part of the resources is actually going to older workers. The empirical analysis shows furthermore that career breaks are not exclusively used to balance work and care responsibilities but also for various other reasons, such as to start or elaborate an existing self-employed activity.

While many countries have been successful on their way to integrate women into the labour market the rise of female employment rate has coincided with a decline of fertility rates. In *chapter 10* the authors argue that policies promoting the reconciliation of work and family not only favour gender equal opportunities but have also a positive impact upon demographic development. Comparing parental leave systems in Austria, Denmark,

Finland and Germany the authors show that the Nordic system favouring integrative transitions between family work and the labour market is not associated with low fertility rates and promote gender equal opportunities.

As mentioned previously the third part of this volume deals with the transition from employment to retirement. In *chapter 11*, the various Belgian pension schemes are analysed and the different pathways into retirement are identified. The transitions into the old-age pension differ widely between the various Belgian pension schemes, in particular with regard to the exit age and their labour market position prior to retirement. Among the new pensioners, 90% had already left their job some years before the legal pension age, whereas only one tenth of the new pensioners continued working until the legal pension age or even longer.

The two following chapters analyse the French situation characterised by a very low participation rates of older workers. *Chapter 12* provides an overview of the elderly workers situation on the French labour market and explains why firms so intensively used early exits in the past years, i.e. what economic – and also social – factors contribute to explain the use of early retirement schemes. It relies on both quantitative and qualitative (i.e. case studies) empirical work and claims that changes in technology, in organisational practices and more globally in internal labour markets are key factors to explain the low employment rates of older workers. These changes were facilitated by early retirement schemes but, in turn, they also increased the demand for these schemes creating a path dependency phenomenon. *Chapter 13* analyses the use of part-time early retirement programmes in France during the second half of the 1990s. Two results emerge. First, it appears that during the period, part-time early retirement participants are the most “employable” older workers. Second, a crowding out effect between part-time and full time early retirement programmes took place. These results suggest that employer strategies concerning older workers should be analysed with regard to public policies, and particularly the possibility for workers and employers to use specific labour market policy programmes.

Since the late 1990s, pension reforms have been accelerating in Europe and a common trend has been the strengthening of links between the length of individual contribution periods and the level of individual pension benefits. *Chapter 14* shows that European member states share a common trend of pension reforms but differ in terms of seniors’ position in the labour market. This may create tensions between the goals of increasing senior’s employment rates and the ability of the labour market to keep them in employment in some countries, such as France and Germany. Up until now, this conflict has mainly been tackled through a supply side oriented approach, which highlights the reinforcement of work incentives. The authors point out the necessity to complement this supply oriented approach by integrating the multiple dimensions of the choice to remain in the labour market (including working conditions, training, and more generally the various components of the quality of work).

## Notes

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<sup>1</sup> At the Lisbon summit in March 2000, the European Union set a quantitative target for the EU working-age employment rate to reach 70 percent by 2010, with a complementary target of a 60 percent employment rate among women and 50 percent for elderly workers.

<sup>2</sup> And therefore the higher risk of becoming a single parent.

<sup>3</sup> In the Anglo-Saxon liberal regimes, in particular the US, the prevailing wage distribution has encouraged the development of a low paid and labour intensive private service sector for household related activities. The possibilities of outsourcing part of the domestic tasks of high income households have made it possible for both high educated/paid males and females to work long hours. In the Nordic Social democratic

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regimes, on the other hand characterised by a much lower level of income inequality, an extensive provision of public services (childcare, elderly care) and high average and marginal tax rates, the incidence of long working hours remains very low.

<sup>4</sup> Source: OECD (2003). Japan and Korea contrast this situation: in these countries, people on average retire at the age of 69 and 67 respectively, which is four and seven years later than the standard age of retirement!

<sup>5</sup> Source: *Employment in Europe* (2005), chapter 4.

<sup>6</sup> Such as between leisure, market work, housework, caring or voluntary activities.

<sup>7</sup> The theory of revealed preferences and utility maximisation posits that exogenous variations of wage and income, changes in the prevailing institutional set up (such as changes in the tax and benefit system) are sufficient in explaining the observed heterogeneity of working time and labour supply and also its profile over the life course. In other words, most of these models assume that the trade-off between market work and leisure is only affected by changes in wage and income development over time.

<sup>8</sup> Both in terms of direct cost of education and forgone earnings during education.

<sup>9</sup> The individual's previous experience may affect the current decision, since as time goes by, the maximisation process and therefore the individual's choice is affected by the shorter time horizon (it is better to invest in human capital at an early age since the return on investment applies for a longer time span).

<sup>10</sup> I.e. the ability of individuals and groups to influence, change or conserve the prevailing social order.

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