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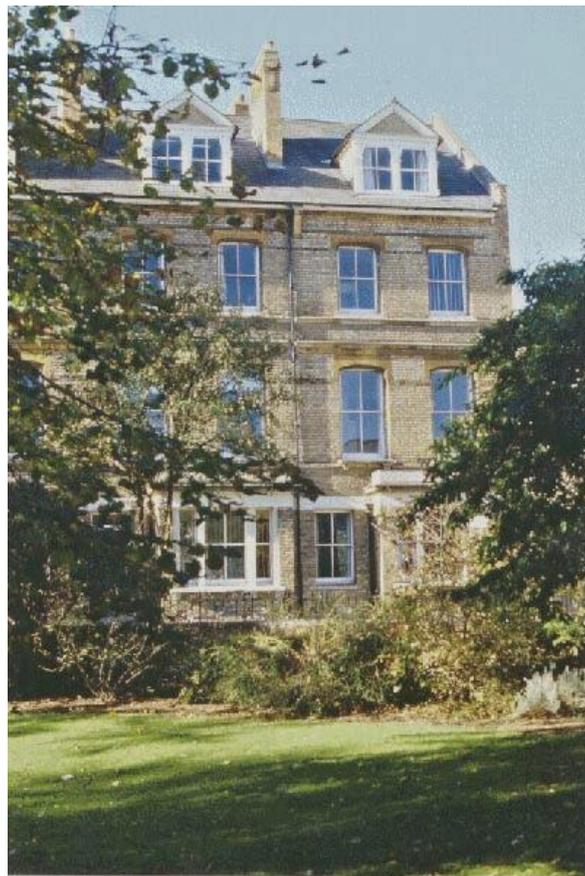
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**The Dual Transformation of Social Protection and
Human Capital: Comparing Britain and Germany**

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Abstract:

Britain and Germany have been experiencing significant changes in the nature of work and welfare since the 1990s. Although significant differences remain, we have been observing a dual transformation of welfare, involving far-reaching retrenchment in unemployment protection but also remarkable expansions of family policies. These developments have their functional underpinnings in accelerating de-industrialization and a declining proportion of the (male) workforce with specific skills, on the one hand, and service sector growth and rising female labor market participation characterized by general skills, on the other hand. As the aggregate effect of structural and cyclical fluctuations in industrial production has diminished over time, the relative incidence of employment disruptions due to maternity and child-rearing has increased substantially. This dual transformation in welfare and employment patterns suggests that the process of de-industrialization has triggered a new cross-national path of capitalist development unanticipated in the existing comparative political economy literature.

Introduction

The overwhelming tendency in the comparative political economy literature has been to describe trajectories of national institutional governance either in terms of convergence upon a single economic model or in terms of divergence between distinctive cross-national typologies. Whilst theories of institutional convergence have promoted the functionality of conformity to a uniform mode of best practice, theories of institutional diversity have attested to the relative utility of cross-national differences (see e.g. Crouch and Streeck 1997; Wilensky 2002; Streeck 2006). However, the binary terms in which this debate has been cast have belied an alternative and increasingly salient institutional path of capitalist development which has been gaining pace across different national varieties of capitalism, namely the dual transformation of social protection and human capital in advanced political economies. Over the course of the past decade, the institutional divide which has characterized contrasting national approaches to work and welfare has begun to narrow. This trajectory has been most observable when comparing developments in Britain and Germany, two countries portrayed in the literature as being at opposite ends of the institutional spectrum. Driven by the process of de-industrialization, the shifting structure of the British and German economies has led to fundamental socio-economic changes. Although de-industrialization has moved at different paces in both countries (see e.g. Iversen and Cusack 2000: 327, 328), its staggered effect has culminated in broadly comparable outcomes. Declining employment in the manufacturing sector as a percentage of the national labor force relative to rising employment in the service sector, which has been occurring in Britain since the mid-1970s and has been gaining momentum in Germany since the mid-1990s, has had significant implications for cross-national differences in social policies and employment patterns.

Predominantly reliant on male workers with asset specific skills, the manufacturing sector in both countries has been particularly susceptible to both structural and cyclical unemployment resulting from fluctuations in industrial production. Whilst employment in this sector remained high, British and German workers with specific skills had access to comprehensive unemployment insurance. Yet as their proportion of the workforce has contracted in accordance with respective national rates of de-industrialization, the generosity of public policies aimed at protecting workers against the risk of either cyclical or structural unemployment has concurrently decreased. Unemployment insurance, which experienced dramatic cutbacks in Britain as a result of reforms between the early 1980s and the mid-1990s, also underwent considerable retrenchment in Germany between the late 1990s and the mid-2000s during which benefits were reduced and job suitability criteria were tightened. Under this confluence of developments, a number of the key structural and institutional differences which had long been seen as separating the post-war British and German political economies have begun to erode. Whilst the limitations of specific skill training and coordinated economic governance have been widely acknowledged in the case of Britain (see e.g. Finegold and Soskice 1988; King and Wood 1999; Wood 2001; Hall 2007: 44-46), the contraction of specific skills in Germany poses a significant challenge to the functional assumptions implicit in distinctive national typologies of human capital development and welfare states (see e.g. Estévez-Abe et al. 2001; Iversen and Stephens 2008). As recent research has shown, the implications of shifting national skill profiles within social market economies are only starting to become fully recognized (see e.g. Culpepper 2007; Eichhorst and Marx 2009).

However, rather than heralding a wholesale race towards the bottom in which welfare states and labor market conditions have been becoming more conducive to a neo-liberal model of institutional best practice, changes in the national composition of social protection and human capital in Britain and Germany suggest a more complex picture. The massive growth of the British and German service sectors has been joined by a proportionate expansion in the employment of men and women with transferable general skills. The development of the service sector economy in both countries

has been two-pronged. Not only has it led to an expansion in areas of the economy requiring relatively unskilled labor such as in the retail and hospitality industries but it has also resulted in the proliferation of knowledge-intensive sectors employing large numbers of highly skilled workers such as in the financial and professional services industries. Consequently, a modification of Oi's (1962) and Becker's (1964) original dichotomy between specific and general skills, which features prominently in the Varieties of Capitalism (VoC) literature (Hall and Soskice 2001; Estévez-Abe et al. 2001), is necessary in order to account both for the specific skills which have been prevalent in the manufacturing sector as well as for the high and low general skills which have predominated at both ends of the service sector.

Although de-industrialization has decreased the incidence of unemployment derived from structural and cyclical shifts in production within the British and German economies, rising levels of female labor market participation have significantly increased the risk of work disruptions caused by maternity and child-caring responsibilities. The staggered retrenchment of unemployment insurance and the expansion of family-leave policies, childcare provision and flexible working hours in both Britain and Germany since the late 1990s should therefore be accounted for within this post-industrial context (see e.g. Bonoli 2007). The development of measures designed to insure women against such 'new' social risks (Bonoli 2005; Taylor-Gooby 2004) has become an important policy area for employers interested in retaining female workers with high general skills as well as for policymakers concerned with the reintegration of recent mothers at all socio-economic levels into the labor market and the countering of declining national fertility rates.

Britain and Germany constitute ideal case studies for a comparative analysis of this kind: Firstly, both countries serve as two prime European examples of the principal capitalist typologies outlined in the VoC literature, namely Coordinated Market Economies (CMEs), of which Germany is often considered to be the epitome, and Liberal Market Economies (LMEs), of which Britain is profoundly characteristic (see e.g. Hall and Soskice 2001). In addition, both countries are notable European cases of distinctive welfare regimes (Esping-Andersen 1990; 1999). Under Esping-Andersen's schema, Britain is thought to be characteristic of a Liberal welfare regime in which social protection is largely minimalist in nature with coverage often being determined through means-testing. By contrast, Germany is considered to be representative of a Conservative welfare regime in which benefits are typically earnings-related aiming at status maintenance. Despite these marked institutional differences, both Britain and Germany have been traditionally considered to be strong male breadwinner countries in which women receive little support for engaging in paid employment but are primarily perceived as homemakers and caregivers (Lewis 1992; Ostner and Lewis 1995). Thus, the institutional impediments to the expansion of employment-oriented family policies would be expected to be particularly high in these two countries.

There are four remaining sections to this article. In the next part, we will first discuss political-economic accounts of structural and institutional developments in Britain and Germany. We will then outline our approach to the analysis of cross-national changes in work and welfare. This is followed by a review of labor market and family policy developments since the 1990s through which we develop the proposition of a dual transformation of social protection and human capital in both countries. Using our proposed skills schema, we will examine the changing socio-economic underpinnings of social protection in the penultimate section before concluding. The analysis we will be presenting develops a very strong case for the importance of changing national skill compositions in recent welfare state developments.¹

¹ However, the establishment of solid causal linkages between socio-economic change and the dual transformation of social protection requires in-depth analysis of actors' policy preferences and the politics of post-industrial social policy, which goes beyond the scope of this article.

Explaining Varieties of Work and Welfare

The different nature of work and welfare in Germany and the UK has been well documented in the comparative political economy literature. The emergence of distinctive welfare regimes is said to have derived from different national experiences in inter-class relations in which social democratic coalitions have been a powerful explanation for variances in both intra-national and cross-national levels of decommodification (Esping-Andersen 1990). This is said to account, for instance, for the unevenness of welfare state expansion in post-war Britain, which was mainly spearheaded by intermittent Labour governments, as compared to the relative steadiness of ‘conservative-Catholic’ social reform initiatives in Germany during this period (Ibid: 53). Production regimes are reported to have developed somewhat differently. Varieties of political and economic organization in both countries have their roots in the process of industrialization and associated historical institutional developments of the nineteenth century as well as in concurrent settlements between management and labor over contractual solutions to transaction costs (Crouch 1993; Thelen 2004). Building upon these earlier institutional foundations, the resurgence of Fordism in Western Europe following the Second World War was adapted to fit the specific attributes of diverse industrial relations systems resulting in distinctive national variants of mass production practices (Boyer 1996: 45; Streeck 1996: 139). Such initial cross-national differences in institutional configurations have been thought to have deepened even further during the 1970s as established Fordist production technologies became increasingly outmoded (Streeck 1991; 1992; Iversen 2005: 65). It was from these institutional paths that CMEs such as Germany developed production regimes based on asset specific skills and LMEs such as Britain developed production regimes based on general skills (Estévez-Abe 2001; Iversen and Soskice 2009). The differentiation between specific and general skills, which is central to the VoC approach, is based on the concept of portability. According to Iversen (2005: 78), ‘[s]pecific skills are skills that are valuable only to a single firm or group of firms (whether an industry or sector), whereas general skills are portable across all firms. (...) The key assumption is that general skills are marketable in all sectors of the economy, whereas specific skills are marketable only in one sector (the size of which is defined by the specificity of skills).’

In the case of Germany, technological transformation is said to have allowed firms to capitalize on comparatively large numbers of apprenticed and vocationally trained workers which had become concentrated in sectors in which the German economy excelled such as high-value added manufacturing industries (Kern and Schumann 1989; Streeck 1989). Investments in new technologies led German firms to focus on diversified quality production (DQP) in which employees with skills specific to the firm or industry in which they worked were deployed in flexible manufacturing processes (Streeck 1991; 1992). However, perhaps the most notable measure of labor market policy of this period was a concerted effort to cap aggregate employment by using the social insurance system to shelter significant portions of the national workforce (Iversen and Cusack 2000: 316). In order to facilitate this, older workers were readily placed on long-term unemployment or induced into early retirement schemes (Ibid; Ebbinghaus 2006).

In contrast, this same period in Britain was marked by a decidedly ineffective approach to macroeconomic governance, a disjointed corporatist institutional structure and chronic industrial stagnation (Crouch 1977; Middlemas 1979). Rather than investing in skill intensive flexible production strategies, British manufacturing firms expanded their use of automation technologies in the standardization of mass produced goods during the 1960s and the 1970s. Although a proliferation of corporate mergers aimed at leveraging economies of scale ensued in order to facilitate such efforts, British management was largely unsuccessful in applying such an approach (Broadberry 2004). Meanwhile, the weakness of statutory employment protections and training measures exacerbated the shortage of specific skills in the workforce (Finegold and Soskice 1988; Hall 2007, 46). This was compounded by the seeming inability of successive Conservative and Labour governments to facili-

tate the negotiation of wage restraint between employers and unions (Mares 2006). Coordination problems were therefore endemic to tripartite planning in economic governance and labor relations, including price control, wage bargaining and manpower and training policies (see e.g. King and Wood 1999). In contrast, the reaffirmation of liberalism under the Thatcher governments of the 1980s restored and strengthened labor market flexibility as well as the general education and general skills equilibrium (Wood 2001; Hall 2007). These developments helped to lay some of the institutional foundations which would enable Britain to recast itself as a predominantly service-oriented economy with a special focus in global markets on high value added financial and professional services (Hall 1992, Millward 2004; Watson 2004).

Although the dichotomy between specific and general skills in the VoC literature appears able to capture many of the differences in post-war British and German economic development, there is a need to investigate changes in the national composition of skills over time in order to better understand post-industrial trends. Iversen (2005) makes use of the International Standard Classification of Occupations (ISCO-88). This occupational classification is a valuable tool for ‘organising all jobs in a firm, industry or country into a clearly defined set of groups according to the task and duties undertaken in the job’ (Hoffmann 1999: 3). Whether the acquisition of a set of skills took place through, for instance, some formalized training or in some informal way through training on the job is irrelevant to the occupational classification. Therefore, ISCO-88 can be used to map the occupational structure of economies regardless of their skills formation regime. The ISCO-88 classification differentiates between 9 major groups. In order to capture the complexity of tasks in different jobs, ISCO-88 distinguishes between four ‘skill levels’, namely primary education of about five years (first skill level); first and second stages of secondary education (second skill level); post-secondary but non-tertiary education of about 4 years which leads to an award which is not equivalent of a first university degree (third skill level), and tertiary education leading to a university or postgraduate university degree or the equivalent (fourth skill level).²

Iversen’s model (2005: 93 f.) is based on a mathematical approach in which the skill specificity is a function of the number of minor groups in a major group in relation to all minor groups as well as the share of the particular group in the entire labor market divided by the ISCO skill level. Although this is a very systematic approach, doubts can be cast as to whether this model sheds greater insight into the asset specificity of skills in major occupational groups. For instance, according to this approach, workers belonging to the major group of ‘elementary occupations’, such as hand packers and street food vendors, have significantly higher skill specificity than workers belonging to the major group of ‘service workers and shop and market sales workers’, such as garbage collectors or waiters and waitresses. In addition to this, Iversen fails to address how various degrees of skill specificity translate into specific and general skilled jobs, as it is difficult to map change over time with the numerical approach he proposes. For our analysis, we suggest a modification of Esping-Andersen’s (1993: 24 f.) occupational classes in which a distinction is made between a Fordist and post-industrial hierarchy of occupations:

² For further information please see: <http://www.ilo.org/public/english/bureau/stat/isco/index.htm>

Table 1: Classification of occupations according to Esping-Andersen (1993: 24 f.)

Fordist Hierarchy	Post-industrial Hierarchy
Managers and proprietors	Professionals and scientists
Clerical, administrative and sales workers (non-managerial)	Technicians and semi-professionals
Skilled/crafts manual production workers	Skilled service workers
Unskilled and semi-skilled manual production workers	Unskilled service workers, or service proletariat

We propose the integration of these two hierarchies into a single scheme to take account of changes in national skill composition over time (see Table 2). In addition to the differentiation between specific and general skills used in the VoC literature, we suggest a further distinction between high and low general skills to account for the potential of skill polarization in post-industrial economies (Esping-Andersen 1993; 1999). Professionals (major group 1) is the only group that is ascribed to the fourth skill level. Legislators, senior officials and managers (major group 2) are not classified in terms of skill level, as this category is viewed as being united by the similarity of tasks involved rather than by the skills themselves. Nonetheless, high educational attainment can be assumed for this occupational group as a result of increasing professionalization. In terms of portability, it can be argued that the skills of these two major groups are not bound to specific firms or industries. This assumption, combined with the high educational attainment of employees in these groups, leads us to classify professionals as well as legislators, senior officials and managers in terms of high general skills³. At the other end of the general skills spectrum, we find elementary occupations (major group 9), service workers and shop and market sales workers (major group 5) and clerks (major group 4), the holders of which also have skills that can be applied in different firms and industries. However, in contrast to the first two major groups, these occupations only require skills at the first and second levels. Hence, these three groups are classified as low general skills.

The major groups of skilled agricultural and fishery workers (major group 6), craft and related workers (major group 7) and plant and machine operators and assemblers (major group 8) also only require skills at the second level. However, their competencies are most valuable in the firm or industry in which their skills have been acquired. Thus, portability is rather limited compared to the other major groups, leading us to categorize these occupations as belonging to the specific skills cluster⁴. The most difficult occupations to classify are technicians and associate professionals (major group 3). Employees in these occupations normally have a post-secondary but non-tertiary education; which is at the third skill level. In terms of education and the skill portability, this group falls between professionals, on the one hand, and craft and related workers, on the other hand. Whilst technicians and associate professionals in engineering, particularly in the manufacturing sector, might be categorized as having specific skills⁵, others such as associate professionals in computing and education might best be characterized in terms of high general skills. In accordance with data limitations, we ascribe the major group of technicians and associate professionals, which Esping-Andersen describes as post-industrial occupations, to the high general skills cluster as the majority

³ This conceptualisation coincides with Gouldner and Goldthorpe's assumptions about class (cf. Esping-Andersen 1993: 12).

⁴ Except 'Drivers and mobile plant operators' (sub-major group 830), which have been classified as low general skills.

⁵ Even if one would have ascribed associate professionals in physical, mathematical and engineering sciences to specific skill, despite the inclusion of computing science in this sub-major group, this would not change the trend of increasing high general and declining specific skills.

of occupations in this major group and its sub-major groups (e.g. computing, teaching, life sciences and sales) can be assumed to considerably exceed the mobility of industrial workers, which constitute the core of the specific skills category.

Table 2: Skills Re-Classification

Major Group	Occupation	Skills Category
1	Legislators, senior officials and managers	High general
2	Professionals	High general
3	Technicians and associate professionals	High general
4	Clerks	Low general
5	Service workers and shop and market sales workers	Low General
6	Skilled agricultural and fishery workers	Specific
7	Craft and related workers	Specific
8	Plant and machine operators and assemblers	Specific
9	Elementary occupations	Low general

Before turning towards the empirical analysis of the changing socio-economic underpinnings of social protection measures, we review recent welfare state developments in Britain and Germany, developing the case for the dual transformation of social protection in both countries.

Reconceptualizing Trajectories of Social Protection

Following the logic implicit in existing explanations of cross-national varieties of work and welfare, a number of assumptions can be made about the nature of British and German social protection. In the case of Germany, two policy trends are expected to be readily apparent, namely unemployment insurance should be particularly robust, whilst family policy should be decidedly weak. Moreover, considering the liberal character of the British welfare state, it would be expected that both unemployment insurance and family policy should be minimal. However, despite the persistence of such trends over the course of the post-war period, during the past decade significant changes to national variants of social protection in both countries have become increasingly observable.

Unemployment insurance is widely considered to be one of the main pillars of Germany's post-war social consensus and a critical factor in the national development of human capital. According to Esping-Andersen (1996), the German social insurance system ensures the preservation of a recipient's social status through the maintenance of previous income differentials achieved whilst in employment. This emphasis is linked to the normative expectation that the 'achieved standard of living' (Lebensstandardsicherung) of wage earners will be protected during periods of involuntary unemployment. Accordingly, German unemployment insurance is said to be based on three statutory guidelines. Firstly, benefits should be decidedly generous as characterized by high replacement rates linked to a recipient's previous earnings. Secondly, benefit duration should provide for continued coverage during extended periods of layoff. Thirdly, the resumption of employment should be dependent upon the availability of 'suitable' work whereby the benefit recipient would not be required to accept a job unless it is in a similar occupation and at a similar level of pay as that previously held (Seeleib-Kaiser 2002). According to Estévez-Abe et al.'s (2001) welfare production regime model, these provisions would be seen as components necessary to guarantee the specific skill investments, which have given Germany the human capital base needed to underpin the country's comparative advantage in global product markets.

However, a number of important policy reforms which have been undertaken since the mid-1990s have served to significantly reshape the nature of German unemployment protection. Although such developments have been explained as constituting relatively minor *policy adjustments* in the VoC literature (see e.g. Hall 2007: 70; Iversen 2007), these changes have considerably altered the nature of German labor market policy. One of the most significant transformations in this regard was the passing of the Labor Promotion Reform Law of 1997/98, which vastly curtailed the ability of those receiving benefits to be selective in their choice of prospective employment opportunities. Whilst in the past an unemployed worker could have rejected job offers which were ‘below’ his or her former occupational status, under the new law any job that paid up to 20 percent less than one’s previous employment would be deemed suitable within the first three months of an unemployment spell. From the fourth to the sixth month, any job offer paying up to 30 percent less would be considered acceptable. From the seventh month of receiving benefits, any job with a net wage equal to the unemployment insurance payment would be defined as being suitable. In addition, some reductions in the maximum duration of unemployment insurance benefit receipt were enacted. Furthermore, decreases in public expenditure for qualification and training measures were also implemented. In 2004, the German system of unemployment protection experienced its most comprehensive institutional reform with the integration of the unemployment and social assistance schemes into a single flat-rate and means-tested program for the long-term unemployed and for those ineligible for the receipt of earnings-related benefits because of an insufficient employment history. This reform was complemented by a significant reduction in the regular maximum duration of unemployment benefits to 12 months. Older workers are currently entitled to a maximum benefit duration of 24 months instead of the previous 32 months.⁶ Since the early 2000s, the majority of unemployed workers have received means-tested benefits (Bleses and Seeleib-Kaiser 2004: 48-67; Clasen 2005: 67-76; Seeleib-Kaiser and Fleckenstein 2007). This combination of the policy shifts has had important implications as skilled workers now have, in many cases, had to accept lower paid or even low wage jobs outside their established occupation.

In keeping with Christian Democratic principles, the German welfare state has for decades bolstered traditional family structures by promoting the role of men as wage earners and that of women as caregivers (Ostner and Lewis 1995). Furthermore, it has been argued that the limited scope of maternity and parental leave policies, the scarcity of publicly-provided all-day childcare facilities and nurseries, especially for children under the age of three, have served to discourage mothers from employment. However, in parallel with the increase in female labor force participation family policies have undergone a considerable transformation since the late 1990s. Between 1998 and 2005, the centre-left Red-Green government, reformed the parental benefit by entitling parents to take payments simultaneously whilst working part-time for a maximum of 30 rather than 19 hours. In addition, the option to go on leave for 12 instead of 24 months with an improved monthly benefit was established and an entitlement to part-time work was introduced (Bleses and Seeleib-Kaiser 2004: 79 - 89). In 2007, the Grand Coalition introduced a new earnings-related parental leave benefit with a wage replacement rate of 67 percent. The duration of this benefit was set at 12 months with two additional months should they be taken by the partner. The leave regulation allows parents to work up to 30 hours per week while receiving a pro-rata benefit. Parents without previous employment can continue to receive a flat-rate benefit of 300 Euros per month (BMFSFJ 2007: 7-14).

In 1992, the government introduced the right of every child between the ages of three and six to a place in a childcare facility. However, because of implementation problems at the local level, the entitlement only became effective in 1999. Although 600,000 new childcare places were created for children in this age group during this period, problems in coverage for children at other ages

⁶ Initially the maximum duration of benefit receipt for older workers was cut to 18 months but was once again extended by the Grand Coalition government in 2007.

persisted. Beginning in 2002, improving day care facilities for children under the age of three became a priority. By 2004, the federal government had allocated 1.5 billion Euros annually. Complementing efforts to improve childcare facilities, the government allocated four billion Euros to support the Länder and local authorities to establish all-day schools (Bleses and Seeleib-Kaiser 2004: 82 ff.). Finally, based on a compromise between the political parties of the Grand Coalition government in 2007, the capacity of publicly subsidized childcare is anticipated to fully meet demand by the year 2013. At this point, the government plans to introduce an individual entitlement to childcare for every child at the age of one or older. It is estimated that the number of places will reach 750,000, increasing coverage for that age group from approximately 14 percent in 2005/06 to 35 percent (Seeleib-Kaiser 2008).

Since its inception in 1911, British unemployment insurance had been distinguished by decidedly ungenerous benefit levels. However, during the mid-1960s a concerted effort was made to bolster the social insurance system as part of a larger effort to promote national economic competitiveness in manufacturing. This resulted in the introduction of the Earnings-Related Supplement (ERS) to unemployment insurance with the passing of the National Insurance Act of 1966. Yet this trend would be short-lived. In 1982, the ERS component was discontinued returning benefits to a flat rate of wage replacement. By the late 1990s, more than 70 percent of the registered unemployed received means-tested benefits. In 1996, the government introduced the Jobseeker's Allowance (JSA), which shortened the duration of the contributory-based unemployment insurance from 52 weeks to 26 weeks and led to an integration of the insurance-based and means-tested components of the unemployment insurance system into a single scheme. Whilst there has been an emphasis on activation policies since the 1990s, these measures have largely been rooted in increased benefit conditionality (Clasen 2005: 76-86).⁷

In contrast to Germany, Britain did not traditionally have an explicit government-administered family policy since the concept of the family was firmly rooted in the private sphere (Daly and Clavero 2002: 88; Lewis and Campbell 2007: 4). However, this philosophy changed fundamentally with the election of the New Labour government in 1997. Building on the principle of activation, New Labour has made a concerted effort to significantly increase female workforce participation. Insufficient affordable childcare was considered to be a main barrier for the integration of women into the labor market, particularly for women in the low-wage sector and for single mothers. The five-year National Childcare Strategy of 1998 included the provision of part-time childcare and early education for three and four year olds free of charge for two and a half hours daily. This measure was accompanied by the introduction of a childcare tax credit and employer-provided childcare vouchers to help make childcare more affordable for working families. In 2004, the government proposed a follow-up with its 10-year strategy, which expanded free childcare to 15 hours, with the prospect of 20 hours and improved the generosity of the childcare element of the Working Tax Credit. Complementing the childcare strategy, the New Labour government improved the statutory minimum standards for family-related leave schemes. Implementing the EU Directive on parental leave, the New Labour government established a gender-neutral entitlement of 13 weeks of unpaid parental leave with the Employment Relations Act of 1999. In addition, the right of unpaid family-related emergency leave for a reasonable time was introduced for working parents.⁸ With the Employment Act of 2002, maternity leave was extended from 18 to 26 weeks of paid leave and a further 26 weeks of unpaid leave. The maternity pay received after the earnings-related pay, which is 90 percent of the recipient's previous weekly earnings for six weeks, was increased from 55.70 to 112.75

⁷ However, it is important to note that in some regions Incapacity Benefits (disability benefits) have been used as a functional equivalent to more generous unemployment insurance (Kemp 2008).

⁸ A reasonable amount of time refers to the time needed to make care arrangements instead of to the time needed to care for the child.

GBP per week, or 90 percent of previous weekly earnings for women with lower incomes. For working fathers, the New Labour government introduced a paternity leave of two weeks, with a benefit equivalent to the flat-rate maternity benefit. Maternity pay was extended from six to nine months in 2006 (Clasen 2005: 166-178).

Post-Industrialism, Increased Female Employment and Changed National Skill Profiles

Although Bleses and Seeleib-Kaiser (2004; cf. Seeleib-Kaiser 2002) have highlighted changed ideational paradigms as a key causal factor leading to the dual transformation of the German welfare state, little consideration has been given to the socioeconomic changes which have underpinned this development. However, the institutional changes observed in both Britain and Germany are based upon broader changes associated with the process of de-industrialization and its joint impact on the national composition of skills and gender-related employment patterns. Even though there are many potential explanations for the retrenchment of unemployment policies and the expansion of family policies, changing labor markets can clearly be considered as a core element of a multi-dimensional explanation.

The welfare state in the post-war era was largely built for workers in the industrial sector (Bonoli 2007). Accordingly, industrialization was identified early on as a key cause of the historical development of welfare states (Wilensky 1975). However, economies in advanced OECD countries have increasingly become post-industrial with the rise of the service sector (Esping-Andersen 1993; 1999; Iversen and Wren 1998; see Table 3).

Table 3: Employment in Services as a Percentage of Total Employment

	1963	1973	1983	1993	2003	2006
Britain	48	54	63	69	75	77
Germany	40	45	53	57	65	68

Source: Hall (2007: 67); data for 2006, OECD Annual Labour Force Statistics, extracted from OECD.stat.

Although de-industrialization has occurred at separate times and has progressed at different paces in Britain and Germany (see e.g. Iversen and Cusack 2000: 327 f.), the socio-economic impact of this process has nevertheless yielded similar outcomes. As national economic structures have changed, resulting in a shrinking industrial base in both countries, there has been an associated decline in the number of workers with specific skills as a percentage of the overall national work force. Whilst this dual process occurred mainly between the mid-1970s and the mid-1980s in Britain, in Germany this same trend accelerated between the mid-1990s and early 2000s. It was during each of these periods that significant retrenchments in unemployment insurance were respectively undertaken in both countries as the social risk of cyclical unemployment associated with manufacturing jobs diminished for an increasing proportion of men in both national labor markets. Conversely, the growth of the British and German service sectors led to a significant rise in workers with general skills as the result of greater employment opportunities for both men and women in this area of the economy. The decline in manufacturing has initially led to increased unemployment in both Britain and Germany. However, whilst Britain was much quicker to adjust and develop a service economy providing new job opportunities, Germany witnessed sustained high levels of unemployment, especially after the collapse of the manufacturing sector in former East Germany. In particular, the incidence of long-term unemployment has increased significantly in Germany. In 2006, almost 60 percent of the unemployed were without a job for more than 12 months (see Table 4). Furthermore, the risk of unemployment is especially high amongst workers with low qualifications (see Table 5).

Table 4: Incidence of long-term unemployment (as percent of total unemployment)

	1994		2006	
	6 months and over	12 months and over	6 months and over	12 months and over
Germany	63.8	44.3	73.1	57.2
UK	63.4	45.4	40.9	22.1
EU-15	67.6	48.4	60.9	44.2
OECD	52.6	35.5	45.9	32.2

Source: OECD (2007: 265)

Table 5: Unemployment rates by educational attainment, 2006

	Less than upper secondary education	Upper secondary education	Tertiary education
Germany	20.2	11.0	5.5
UK	6.6	3.2	2.0
EU-15	9.1	5.9	4.3
OECD	11.0	5.8	3.8

Source: OECD (2007: 258 ff.)

The data for Germany seems to be in line with the argument put forward by Esping-Andersen (1999, 110) that ‘German postindustrialization provides no substantial employment outlet for either laid-off manual workers or less-qualified women.’ Although Britain historically had a significantly higher incidence of low-paid jobs, it has to be acknowledged that the incidence of low pay in Germany, measured as the share of workers earning less than two-thirds of median earnings, has significantly increased from 11.1 percent in 1995 to 17.5 percent in 2006 thereby almost reaching the level in the UK, which has remained more or less constant at about 20 percent during the past decade (OECD 2008: 358).

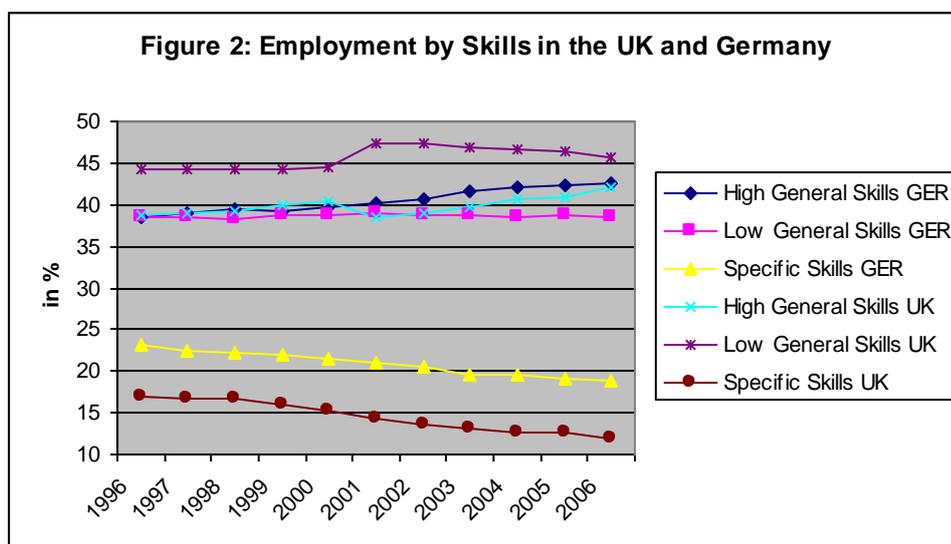
The increase in service sector employment has been accompanied by an increase in female labor force participation. The recent rise in female employment in Germany has been considerable, almost matching the British employment rate (see Figure 1). If one looked at female employment over the life cycle, the formerly M-shaped curve of female labor force participation would appear to be becoming more similar to the inverse U-shaped male employment curve. However, it should also be noted that male employment participation is still significantly higher.⁹

⁹ We also note that a significant increase in female employment was due to part-time employment; in both countries, approximately 39 percent of female employees work part-time (OECD 2007: 261.).



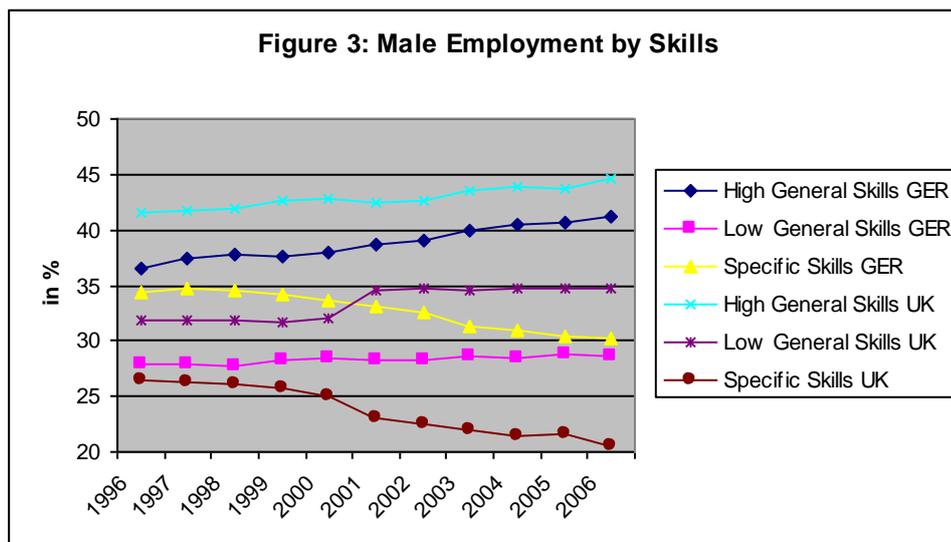
Source: Eurostat.

By applying an enhanced skills classification incorporating specific, low general and high general skills in the examination of cross-national labor market developments, marked changes in the composition of asset specific human capital can be brought into sharper focus. To begin with, Britain and Germany would appear to differ less than would usually be assumed in the comparative political economy literature. In both countries, a majority of workers are employed in jobs requiring general skills. They differ insofar as Britain has a higher percentage of workers employed in jobs requiring low general skills, whilst employment requiring high general skills has significantly increased in Germany. Although specific skills continue to be a more prominent component of the German workforce, they have declined substantially over the past decade.



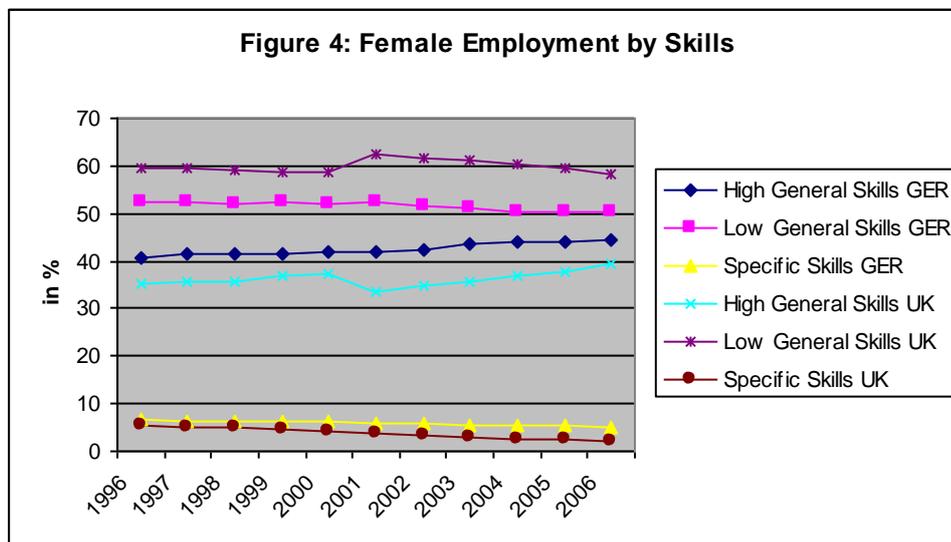
Source: Eurostat. Own calculations.

Comparing the two countries in terms of male and female employment, a pronounced decline in jobs requiring specific skills amongst men in Britain and Germany can be observed. Overall the skill composition amongst men in both countries is becoming much more polarized as employment gains have occurred primarily in jobs requiring high general skills.



Source: Eurostat. Own calculations.

Female employment in occupations requiring specific skills is marginal in both countries (see e.g. Estévez-Abe 2006). With regard to high and low general skills, employment amongst women in both countries shows a high degree of skill polarization. Whilst Germany shows a more ‘equal’ distribution between those employed in jobs requiring high general skills and those requiring low general skills, largely resulting from increases in employment requiring high general skills, women in Britain are still much more likely to be employed in low skilled occupations.



Source: Eurostat. Own calculations.

Overall, the data demonstrates that the German labor market is increasingly relying on jobs requiring general skills, whilst the VoC literature assumes a continued primary reliance on specific skills. Employment growth in jobs requiring high general skills has been faster than in the category of low general skills. In contrast the British labor market relies more heavily on jobs with low general skills, a trend partially captured by Finegold and Soskice (1988), although the gap has been narrowing here as well. However, the question arises as to how these changes in the national composition of human capital have related to changes in national approaches to social protection.

As has been previously noted, comprehensive unemployment protection is considered to be one of the key institutional underpinnings of the relationship between work and welfare in CMEs in which the production strategies of firms are said to rely heavily on specific skills. In accordance with the VoC approach, the asset specificity of employees' skills would seem to have necessitated the development of comprehensive unemployment compensation in countries such as Germany during the post-war period. Conversely, there would appear to be an equally compelling correlation between the steadily declining numbers of workers with asset specific skills and the growing numbers of workers with both high and low general skills in the German labor force and the recent retrenchment of German unemployment protection. Moreover, whereas the cyclical nature of manufacturing in the past meant that employers often wished to retain the specific skills of laid-off workers for future production, service sector firms typically rely on workers with transferable skills who should have greater mobility both within and between different sectors of the national economy.

Despite occurring at different times and to differing degrees, both countries have experienced important shifts away from higher levels of unemployment protection which have coincided with accelerating national rates of de-industrialization. As a consequence, employment growth in both countries has increasingly been driven by those jobs which have required general skills. These developments provide the functional underpinning for the changes witnessed in unemployment compensation program, especially the retrenchment in Germany's coordinated economy. We acknowledge that the short-term unemployed continue to receive earnings-related unemployment benefits and that workers at the core continue to have reasonable employment protection. Insofar as Palier and Thelen (2008) are correct to speak of a dualization in social protection in Germany; this should not however distort from the fact that even those core workers have experienced significant restrictions with regard to eligibility in recent years.

In contrast to unemployment compensation, family policies have been significantly expanded with a focus on measures supporting mainly female employment participation. The growing number of women in the British and German labor force has increased the incidence of income reduction due to maternity and child-caring for a larger proportion of the workforce than had been previously experienced during the post-war era. Corresponding with this development, measures designed to insure women against such social risks have become an important policy area for policymakers concerned about declining national fertility rates as well as for employers interested in retaining female workers with high general skills.

The VoC literature has difficulties in accounting for these changes in both social protection and human capital in CMEs and LMEs alike. Differences in the prevalence of high and low general skills might be attributed to continued differences in employment-oriented family policies. The large number of jobs in Britain requiring low general skills only, particularly the high incidence of women in such jobs, has favored an expansion of family policies which have been more tailored to those with lower incomes.¹⁰ From this perspective, the reservations of British employers in supporting the extension of leave arrangements are hardly surprising (CBI 2006). In contrast, with the introduction of an earnings-related parental leave benefit in Germany, policymakers have tailored family policy more towards the needs of employees with high general skills, which have increased continuously over the past decade. German employers have been supportive of this measure, which is said to have provided an incentive for a faster return to employment following childbirth. Likewise, the debate on childcare has centered around creating an environment which supports maternal employment, a measure that has also been advocated by business (BDA 2006).

¹⁰ However, we acknowledge that some improvements for middle-income households were introduced as well.

Conclusions

We contend that the VoC framework has not paid sufficient attention to socio-economic change in advanced political economies and the implications of these developments for welfare and skill regimes. The expansion of service sector jobs, the rise in female labor market participation and the changing structure of skills associated with the process of de-industrialization has had far reaching effects on CMEs and LMEs alike. Social protection for the unemployed has experienced a sharp decline in generosity in both Britain and Germany. In particular, the contraction of specific skills and the expansion of general skills in post-industrial Germany have increasingly undermined the functional basis upon which the German unemployment protection system has long been based. An unprecedented growth in private services has consequently sharpened the demand for general skills not only amongst British employers but increasingly amongst German employers as well. Whilst the uptake of such jobs amongst men has been facilitated by the shrinking of the manufacturing sector, employment in private services has also been met by the addition of growing numbers of women to the workforce. However, this expansion in female labor market participation has been accompanied by corresponding the new social risks of childbirth and child-rearing. This has provided a new functional basis for the expansion of employment-oriented family policies which facilitate the reconciliation of work and family life. From this point of view, the dual transformation of social protection and human capital in Britain and Germany is not entirely surprising, in contrast to ‘common wisdom’ in the welfare state literature emphasizing ‘permanent austerity’ (Pierson 2001) and competitive pressure associated with global economic integration. In a similar vein as in the VoC literature, Bonoli (2005) has argued that welfare policies addressing new social risks such as work-life conflicts could receive employer support, as these policies encourage female labor force participation, which is perceived ever more important in light of demographic developments and skills shortages (OECD 2001: 129 ff.). In other words, employment-oriented family policies can be understood as policies for the market in a similar way as unemployment insurance has in CMEs (Estévez-Abe et al. 2001; Iversen (2005). However, in the area of family policy, this logic would seem applicable to both CMEs and LMEs.

By making a distinction between high and low general skills, greater insight has been gained in mapping trajectories of post-industrial social protection. Whilst countries with a predominance of low general skills can be expected to develop rather minimalist public social policies addressing new social risks (e.g. focusing on low-income groups, such as in the UK),¹¹ economies with a greater share of high general skills can develop more generous post-industrial welfare, as has been the case with the new parental benefit in Germany. The concept of *high* and *low* general skills therefore aids in drawing a more nuanced picture of post-industrial employment patterns by transcending the binary distinction between general and specific skills used in the VoC literature. In order to fully understand developments in national welfare states, we concede that the connection between socio-economic changes and the new trajectory of social protection requires further in-depth investigation of actors’ preferences in social policymaking. However, we maintain that the increase in female employment and the changed skills profile of the labor force associated with post-industrialism does shed important light on the political economy of welfare states, opening a new strand of inquiry.

¹¹ Provision has been much higher by employers in Britain, compared to Germany (Seeleib-Kaiser and Fleckenstein 2009), and some sectors requiring high general skills, such as financial services, have been pioneers in providing occupational family policies (Whitehouse et al. 2007).

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