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## Introduction

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Before the onset of the current financial and economic crisis, the future of advanced welfare states seemed already to be in doubt. During the course of the 1990s it became clear that growing economic internationalization would provide opportunities and create new jobs, but also pose employment problems manifest in registered unemployment and other forms of labour market inactivity. The shift from industrial to post-industrial labour markets and the growing service-sector dominance implied a lower potential for productivity gains. Demographic challenges and lower economic growth than in earlier decades put pressure on welfare state resources (Pierson 1998). However, simply dismantling traditional welfare state structures and shifting social protection from collective to individual responsibility seemed politically, socially, and also economically counterproductive. Welfare states play a vital role in ensuring that growth is economically and socially sustainable. Economic and employment growth can be supported by social protection programmes as these help to ensure social integration and social inclusion in the face of rapid societal change, while keeping costs at a widely acceptable level. Social policies not only contain poverty and reduce inequality, but contribute to a healthier and more educated population and thereby influence life chances and opportunity structures, support socially disadvantaged groups, and help maintain social solidarity in the face of rapid societal change.

Industrialized nations have thus been increasingly faced with a serious challenge: to reconstruct existing welfare state structures in order to adapt to changing socioeconomic conditions while not undermining the role of, and popular support for, collective welfare provision. The particular intensity and manifestation of this challenge, as well as the feasibility of engaging in innovative policy responses, varies across countries partly because of differences in national contexts, including those in welfare state institutions. In this respect,

a comparative investigation into ways in which policies have been changing in the United Kingdom and Germany and are shaping up for the twenty-first century seems highly instructive. These two large European countries have often been portrayed as prototypical examples of distinct 'worlds of welfare capitalism' (Esping-Andersen 1990), embedded in different political economies or 'social systems of production' (Hollingsworth and Boyer 1998) with arguably respective 'comparative institutional advantages' (Hall and Soskice 2001). Traditionally, the UK has been characterized as dominated by deregulated and flexible labour markets and a strong reliance on market-based coordination. The financial sector and in particular the role London holds as one of the major global locations for international trade and the emphasis on 'shareholder values' has become even more dominant than it was before the 1990s. By contrast, in Germany the stock market plays a much smaller role in corporate finance and the role of 'housebanks' has, at least traditionally, been a more important source of capital for companies (Hall and Soskice 2001). The labour market is more regulated, firms compete but also cooperate, agreeing on industry-wide standards, for example, and benefiting from traditional and broadly supported training systems. In short, labour relations are less market-dominated than in the UK and rely on an institutionalized dialogue and cooperation between employer and employee associations (Wood 2001).

The above is linked to differences in labour law and employment protection legislation in particular (Emmenegger 2009) and social insurance benefits such as unemployment, sickness, or old age pensions. Both of these protect income streams (Bonoli 2003a) for average and better earners more extensively in Germany. In the 1950s and 1960s social insurance benefits were improved and became more earnings-related in character, securing accustomed living standards and thus functioning as deferred or 'social wages' (Rhodes 2000). These elements of the German welfare state are as much elements of social policy as they are part and parcel of industrial relations, and they are more 'status-confirming' instruments than vehicles of redistribution. By contrast, after a relatively brief period of experimentation with the principle of earnings-related benefits between the 1960s and early 1980s, British social protection in case of unemployment, sickness, and also retirement reverted to flat-rate provision aimed at poverty prevention rather than replacing lost earnings and securing living standards (Clasen 2005). Unlike in Germany, better-paid employees are implicitly and at times explicitly referred to non-statutory sources for income protection, such as occupational benefits (pensions, redundancy pay) or private provision (personal pensions, mortgage payment protection).

However, since the 1990s there has been considerable change in the contexts within which social policy operates. Greater economic openness, deregulated financial markets, more intensive tax competition between

developed nations, and a general acceptance of the dominance of liberal capitalism seemed to clash with a regulatory role of the state and undermined institutions fostering coordination between key economic actors. The pervasiveness of the 'German model' seemed to decline (Busch 2005), as indicated by dwindling trade union membership, fewer firms participating in employer associations, a declining scope of sector-wide collective wage agreements, a retreat of banks on supervisory boards of major companies, and a growing emphasis on investment banking and shareholder values. Unsurprisingly, until recently many commentators regarded the German political economy model as outdated (see, for example, Streeck and Hassel 2003). Others were less pessimistic though (e.g. Busch 2005) and the turmoil on world financial markets in the past two years and the problems created by unregulated investment banking have certainly dented what appeared to be the superiority of liberal capitalism until then.

Rather than the viability or otherwise of models of political economies, this book is concerned with developments in social policy provision in comparative perspective since the 1990s. However, actual and perceived changes in the contexts within which social policy operates have certainly influenced and framed political and public debates about welfare reform. Moreover, as several chapters will demonstrate, some changes already introduced suggest less variation across national respective social policy structures. More specifically, in the light of the perceived superiority of neo-liberal policy orientations towards the end of the twentieth century, it seems reasonable to ask to what extent Germany might have adopted elements which are more akin to British social policy. For example, is the role of social insurance as a distributive mechanism declining and being replaced by targeted means-tested support? Are there signs of a greater role for non-statutory social policy at the expense of publicly provided welfare? Asking such questions seems much more justifiable today than at any time after World War II. Back in the 1980s German social policy was widely regarded as part of a successful societal arrangement, contributing to economic growth, productivity, high employment, low poverty and inequality, and stable industrial relations. By contrast, British reluctance to engage more in publicly provided income protection, preferring instead to focus on basic poverty alleviation programmes, was regarded as reinforcing problems such as social exclusion and labour market marginalization.

This picture changed dramatically during the 1990s. The cost of German unification, sluggish economic and employment growth, low birth rates, economic and social problems, chronic fiscal deficits, mass unemployment, and rising poverty, with apparently little prospect of improvement dominated a period of gloom and search for policy alternatives (Kitschelt and Streeck 2003). In the UK, poverty rates and inequality remained high (Hills et al. 2009), as well as labour market inactivity for some groups such as low-skilled

men (Clasen et al. 2006). However, the situation of other groups such as lone parents and families with children, as well as pensioners, improved. Moreover, population ageing was somewhat slower than in Germany and pensions less dependent on public finances due to a stronger reliance on occupational and other non-statutory provision. Moreover, unemployment continued to decline between 1993 and 2005 and new jobs were generated. It thus seems of little surprise that some German policy makers began to see potential in learning from British policies. Particularly the Labour government's welfare reform and 'making work pay' strategy certainly influenced the first 'red-green' coalition under Chancellor Schröder after 1998. In both countries centre-left parties were in power for many years (Labour from 1997 to 2010; the SPD as senior coalition partner from 1998 to 2005) and in the late 1990s there was a clear indication of considerable overlap and common ground within leaderships of the Labour Party and SPD respectively (Jeffery and Handl 1999).

Apart from an apparent exhaustion of the 'German model' of capitalism and some political alignment between centre-left governments, there were other factors contributing to potentially greater rather than diminishing similarity, such as an international consensus on the ways in which social policies should be reformed. For example, in the early 1990s the OECD began to actively advocate the idea of 'multi-pillar' pension schemes, which implied containing the scope of public pay-as-you-go programmes while expanding private and occupational-funded pension provision. In its OECD Jobs Study (OECD 1994) it urged advanced economies to shift resources from 'passive' benefit provision to 'active' labour market programmes. Similarly, the EU promoted the idea of 'activation', making unemployment benefit systems more 'employment-friendly' (European Commission 1997). Moreover, as EU member states, both the UK and Germany were subject to renewed attempts by the European Union to stimulate policy coordination via instruments such as the Open Method of Coordination, with commonly agreed benchmarks affecting social policy domains such as labour market policy (Büchs 2007).

Macro-level indicators suggest that there has already been some convergence between the two countries. Germany still spends more on social policy as a whole, but the gaps in total social expenditure, as well as outlays in particular areas, such as pensions, health, or the family were certainly wider in the 1980s than in the early 2000s (Castles 2009). Differences in the ways of raising revenue for welfare spending, i.e. in the balance between taxation and social security contributions, have also declined somewhat (Starke et al. 2008). During the first decade of the twenty-first century, poverty and inequality rose steadily in Germany, narrowing the gap with the UK to some extent (European Commission 2010) and with the same applying to in-work poverty (Lohmann 2009).

In short, despite the arguably strong path dependence in social policy making (Pierson 2001) and the slowness of change in some domains such as pension provision (Hinrichs 2001) it seems entirely reasonable to ask about the prospect of distinct British and German social policy arrangements. Recent trends of input and outcome indicators suggest a degree of convergence brought about by Germany approaching the UK. Of course, many caveats must apply here since convergence is a complex yardstick which can be conceptualized and measured in several ways (see Starke et al. 2008) and be caused by a multitude of factors which can be difficult to disentangle (Holzinger and Knill 2005). The term can be applied to a multitude of indicators, including policy inputs, institutional configurations, policy goals, outputs, or a combination of these. While observing trends in one of these indicators might suggest convergence, using others might point to divergence or little change.

The chapters in this book do not adopt a single indicator and subsequently delineate the degree of convergence in a quantitative fashion. Our aim was more modest and explorative. The starting point was the notion of distinct principles of social policy embedded in particular ways of delivering social protection manifest in the two countries, as described above. Consolidated between the 1950s and 1970s we ask ourselves whether the distinctiveness can still be detected in the context of change in the economic, social, and political contexts within which social policy has operated since the 1990s. We explore whether and in which ways there is now greater similarity between British and German social policy than there was a few decades ago. Moreover, given the global trends since the 1990s and beyond we expected Germany to have adopted social policy traits associated with the UK, as discussed earlier, although this might be different in different policy domains (see below). Finally, we are less concerned with social policy outcomes such as poverty or inequality, or outputs such as benefit rates (although Chapters 10 and 11 provide projections of pension policy outcomes). Instead, on the whole the emphasis is on changes in the principles and institutions which govern social policy provision.

At the risk of oversimplification these characteristics include the emphasis on social insurance and earnings-related benefit rights, i.e. on income maintenance and status preservation, within the German welfare state. They also refer to a dominance of public provision and crowding out of market-based or occupational social protection. For the UK this involves the embrace of means-testing (certainly since the 1990s), a concomitant decline of the role of contributory benefit rights for people of working age and the fostering of market-based and occupational social protection, especially for persons in retirement. Although often associated with welfare states as a whole, such a depiction does not represent the entire repertoire of British and German social

policy. There are policy domains, such as health care or social services, in which these principles do not apply, or much less so, and in which German and British characteristics might be less distinctive. Moreover, even within the same policy domains, e.g. social security, there are programmes in which we find greater similarity rather than characteristic differences (e.g. child benefits).

In other words, our aim was not to generalize and make claims about declining similarities across welfare states as a whole, however defined (Bonoli 2007a), but to concentrate on three policy domains only. This selection was due to three considerations. First, we chose policy areas in which the characteristics commonly associated with the German and British 'welfare regime' (Esping-Andersen 1990) are particularly prominent, such as pension policy but also unemployment protection. Second, we chose family policies as a field with a different dynamic than most other social policy fields, i.e. of public investment rather than retrenchment. Finally, since we were interested in statutory and non-statutory provision, pensions as well as family policy are fields in which we were able to consider trends in both public and company-based policy provision.

Social policy convergence which is enduring rather than temporary requires welfare reform which is supported by broad popular acceptance and somehow aligned with dominant values of fairness, reciprocity, and social justice. On the other hand, the latter themselves might have changed since the 1990s in the context of social, economic, and political transformations, as well as debates about the need for policy adaptation in the light of challenges, such as demographic aging or globalization. This is the reason why we investigate not only policies but similarities and differences in public perceptions of social protection, as well as normative orientations towards welfare provision and greater room for self-responsibility.

### **The structure and the chapters of this book**

The overarching aim of this book is to assess policy trends in Germany and the UK since the 1990s. We analyse the ways in which the German and British welfare states have adapted to common and country-specific challenges and assess the extent to which policy reforms might have brought about greater similarity between the two countries. We concentrate on three policy domains in particular: public policies in support of families, provision of income security in old age, and labour market integration. Departing from much conventional analysis, we investigate not only trends within public policies but include non-state provision and actors, and assess how far policy changes align with traditional or foster new conceptions of social justice and solidarity.

Following on from the introduction the twelve substantive chapters of this book are subdivided into Part I (welfare values) which covers public attitudes and perceptions and Part II, which is devoted to policy analyses. An overarching question for Part I is whether and to what extent traditional ideas of social policy provision have changed in recent years, and to what extent attitudes to social justice correspond to policy changes. How are the new key themes in welfare reform viewed and discussed by ordinary citizens? In Chapter 2 Christoph Burkhardt, Rose Martin, Steffen Mau, and Peter Taylor-Gooby start from the premise of Germany and Great Britain as representing two welfare state regimes which have traditionally relied on different distributional principles: liberalism and corporatism. Against this background the authors ask to what extent principles of social justice embedded in institutional designs of welfare state structures are reflected in differences in public opinion. Making use of data from various quantitative surveys, the chapter analyses how recent changes such as the emphasis on individual responsibility and social investment are viewed by the general public. It shows that attitudes do not differ greatly in relation to overall support for public provision. However, there are differences in particular areas. Much more than in Germany the role of the British government is seen as provider and regulator of welfare provision which should not undermine individual commitment and self-responsibility. A stronger notion of individualism and market freedom is also reflected in the greater social acceptance of purchasing better services in the areas of education and health care for those who have the means to do so.

In Chapter 3, Peter Taylor-Gooby and Rose Martin analyse the results of an original qualitative study which illustrates that concepts such as 'equality of opportunity', 'social contribution', and 'market freedom' are all valued in both countries but often understood differently. This questions the often emphasized contrasts between Germany as a conservative regulated market approach versus the UK as a liberal market regime. On the one hand, the corporatist and liberal frameworks respectively influence ideas ordinary citizens have about social provision. On the other, there is substantial agreement in approaches to employment and social inclusion. Both might be reconcilable since they may mask real differences in the way basic ideas about social provision are understood in different national contexts.

In Chapter 4 Christoph Burkhardt and Steffen Mau explore the potential impact of migration and greater ethnic diversity on attitudes towards the sustainability of existing welfare state structures. As in other European welfare states, the UK and Germany have been confronted with increasing migration, resulting in more diverse populations for some time. In addition, while access to welfare benefits used to be closely tied to citizenship in the past, western welfare states have become more inclusive by making benefit rights increasingly a matter of residency. Based on the analysis of focus group interviews,

the chapter finds that, on the whole, German respondents were slightly more positive towards immigration. However, respondents in both countries valued the contributions made by migrants which help to deal with labour shortages and maintain the economic sustainability of social policy provision. On the other hand, ethnic segregation and the dependency on welfare services were highlighted as negative effects.

The subsequent nine chapters of Part II deal with three policy domains, beginning with family policy. As the most expansive and dynamic social policy field in both countries since the 1990s, in Chapter 5 Mary Daly identifies the changes undertaken in family policy in Germany and the UK and presents a framework to understand and analyse such changes. The chapter has two aims. First, it identifies and reflects on the main trends and compares these two influential countries in Europe which historically represented very different policy approaches to the family. In the second part, the author engages in a more general discussion of the risks and tensions inherent in contemporary family policy and how these might be investigated and assessed.

In Chapter 6 Ann Kathrin Jüttner, Sigrid Leitner and Anneli RÜling analyse how a particular discourse, i.e. the debate about productive or 'investive' social policy which emerged in the late 1990s at a supra-national level, translated into national family policy debates and policy prescriptions in the UK and Germany. In both countries the parallel expansion of early childhood education and care in recent years was justified on economic grounds. However, this convergence in policy output does not mean similarity in policy goals. The British expansion in this field was accompanied by policies aimed at facilitating labour market entry as well as poverty prevention policy. The German discussion focused on securing economic growth through higher employment rates of mothers, higher fertility rates, and the creation of new jobs in the childcare sector. The authors illustrate how the introduction of children's centres in England and '*Familienzentren*' in North-Rhine-Westphalia reflect the international economic discourse within family policy as well as national welfare traditions.

Lisa Warth too explores policy choices which appeared to pursue the same objectives in the UK and Germany. In Chapter 7 she shows that the analysis of family-friendly organization of working time provides an excellent illustration of the ways in which governments deal with the challenge of accommodating conflicting interests while pursuing their own particular policy goals. Whereas financial transfers and services to support work-family reconciliation can be directly provided through the welfare state, employee-orientated time flexibility is subject to negotiation between employers and employees and therefore largely beyond direct government control. The chapter explores how the British and German governments addressed this challenge of steering from a

distance through a mix of encouragement of good practice and statutory regulation. Differences in policy choices can be explained by situating them within nationally specific preferences, overarching policy goals, government-stakeholder relations and past policy choices.

Finally, Timo Fleckenstein and Martin Seeleib-Kaiser focus directly on the role of companies in family policy. In the wake of a call for less statutory social policy since the 1990s in both countries, politicians have argued that employers could take on greater responsibilities. In Chapter 8 the authors show that companies have indeed expanded their provision of family policies over the past decade. Asking why this should be the case, they show that in the UK and Germany (but also in the United States) the overwhelming majority of employers engaged in firm-level family policies were motivated by the aim of recruiting and retaining (highly) skilled employees. However, there are significant cross-national variations which can be explained with reference to industrial sectors and national political economies.

The subsequent three chapters focus on retirement pensions, which is a major domain of social policy in both countries dominated by governments' attempts to cut back expenditure. At the same time, this is a field which expresses strong cross-national variation. In Chapter 9 Traute Meyer and Paul Bridgen assess the evolution of public as well as occupational pensions in Britain and Germany from 1945 to 2009. They argue that the 'liberal' label has never appropriately captured the nature of British pensions since it neglects the strong role played by the British state both as a regulator and employer. For Germany, the 'conservative' label captures the pension landscape fairly well for the period between 1957 and 2000. However, since then, the retrenchment of the statutory pension scheme and increased public support of voluntary pension savings have undermined the traditional principle of 'status preservation' within German pension policy more than is generally acknowledged. The authors argue that pension systems in the two countries have developed in opposing directions: in Britain towards a social-democratic model and in Germany towards liberalism.

In the subsequent chapter the same authors investigate the effects of recent policy making in German and British pension provision. Chapter 10 makes use of policy simulation to illustrate the scale and nature of reforms introduced during the first decade of the new century. For a range of hypothetical biographies projected outcomes are compared with those had the systems not been reformed. The results show that there is no evidence of institutional convergence on the basis of a 'race to the bottom'. This does not mean that little has changed, however. Instead, confirming the review of policy trends in the previous chapter, the outcomes underline Britain's shift towards a social democratic and pension regime and a growing liberalism in Germany's pension landscape. In the short term these developments might generate some

degree of convergence of pensions received as German citizens spend more of their working life under the less generous state system, while British workers gradually gain the benefits of recent reforms.

Finally, in Chapter 11 Michaela Willert asks whether personal pensions are able to bridge what can be considered as savings gaps in both Britain and Germany. The savings gap is defined as the distance between state pension income and a 'social inclusion line' set at a particular income level below which pensioners are at risk of poverty. Willert investigates two crucial factors in this respect: the take-up of voluntary pensions and the performance of pension products. She illustrates that both are influenced by state regulation and by strategies on the part of pension providers such as life insurance companies. The chapter contrasts the regulation of welfare markets in the field (i.e. the purchase of pension products) developed since the late 1980s in the UK and after 2002 in Germany, respectively. Once again making use of micro-simulations, the analysis shows that the savings gap may be closed for middle to higher income earners, but the inclusiveness of pension arrangements as a whole is questionable in both countries.

The final two policy chapters focus on the labour market and policies aimed to facilitate labour market integration. In comparative research on the transition from vocational education and training to work it is well known that the occupational specificity of training systems influences the ways and ease with which young people enter employment. Comparing vocational training systems, Germany depends on a fairly high level of occupational specialization while the UK relies more on general skills. In Chapter 12 Kathrin Leuze investigates whether this can be found at the level of higher education too. She asks whether and how differences in the occupational specialization within the same degree programme influence graduate employment. Results indicate that the higher occupational specialization within higher education in Germany leads to a tighter match between university credentials and occupational outcomes than in Britain. However, there are considerable differences within countries, pointing to the fact that occupational specialization varies both across degrees and across countries.

In Chapter 13 Jochen Clasen concentrates on labour market policy in both countries. Both the 'welfare-to-work' reforms in the UK from 1998 onwards and the changes introduced by the so-called Hartz reforms between 2003 and 2005 in Germany have brought about far-reaching transformation. German legislation was in many respects influenced by British welfare principles and policies introduced by the Labour government. As a result there has been some degree of policy convergence both in the ways in which unemployment protection is structured and in the scope and emphasis within active labour market policies. However, there are also fundamental differences

which have prevailed, such as the role of social insurance, including earnings-related benefits, for many unemployed in Germany.

In the concluding chapter Jochen Clasen, Steffen Mau, Traute Meyer, and Martin Seeleib-Kaiser revisit the preceding twelve chapters, summarizing the main findings and addressing the question of policy similarity across the two countries. They also place Germany/UK discussion in a wider European context, asking about the future of social policy both from the perspective of support for collectively provided social protection and more general trends and outlooks in the three policy fields under investigation.

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