

1. Introduction

Unemployment is probably the most widely feared phenomenon of our time. (OECD 1994)

Mass unemployment, the Achilles heel of late capitalism, has become a persistent problem for West European governments in recent decades, as demonstrated by the OECD *Jobs Study* quote. Indeed, unemployment in European Union (EU) countries has risen dramatically since the first oil crisis, from 2.7 per cent in 1973 to 9.2 per cent in 1999 (OECD 1997c, 2000).¹ Concomitant with this rise in unemployment has been increasing concern with social exclusion. The term social exclusion originated in France (Paugam 1996) and has grown in importance to be a key concern in the EU. It embodies the notion of a ‘concentration of disadvantage’ – of unemployment and poverty, but also of accompanying deficiencies in, for instance, housing and education. In the latter half of the 1990s, it became an important theme of social policy in Britain, Germany and other EU countries (e.g. Room 1995; Kronauer 1998; Littlewood et al. 1999; Büchel et al. 2000). A key component of it is the possibility that a group like the long-term unemployed may become progressively detached from society.²

West European welfare states, seen as a spectacular achievement by many, seemed somehow more suited to confronting the problems of the 1950s and 1960s. Labour markets and family structures have changed substantially since then, and some now question the efficacy and appropriateness of welfare states that were built for societies as they were 30 years ago. ‘History matters’ is the contemporary wisdom, and today’s welfare states are limited by the political decisions and institutions of the past. Different countries responded in different ways to the rise of unemployment, resulting in very different policy configurations. This book addresses some of the core policy debates on welfare for the unemployed by comparing two contrasting welfare states and examining how their different approaches to welfare affect the experience of unemployment for individuals and its contribution to social exclusion.

The unemployed have been contentious from the start. From the very beginning of state welfare provision there has been controversy as to whether unemployment is a ‘social risk’ that should be covered. There has long been agreement that sickness, old age and industrial accidents are legitimate risks

for the state to address. The controversy has surrounded unemployment. Those on the right of the political spectrum have tended to support low payments for a very short period in order to overcome the disincentive effects of unemployment benefit. Those on the left have supported higher, longer-lasting payments, out of concern for material deprivation and the importance of maintaining an income whilst unemployed.

Britain and Germany adopted fundamentally different approaches to welfare for the unemployed. Broadly speaking the German welfare state views unemployment as a risk that individuals insure themselves against, with the state administering the insurance and treating the unemployed according to their previous employment record. In Britain, by contrast, the principle of poverty alleviation provides the basis for compensating the unemployed. Benefits for the unemployed are primarily means-tested in Britain, and these are not based on contributions. What are the consequences of this major difference in welfare provision for the lives of unemployed people? This thesis addresses these issues by combining an in-depth analysis of unemployment policies, with a detailed statistical analysis of individual outcomes.

To answer this question, this book examines the experiences of unemployed individuals, using longitudinal data from large, representative panel surveys. The introduction of a time dimension to the comparative analysis of unemployment and welfare states makes it possible to overcome some of the problems of cross-sectional analysis. As Ralf Dahrendorf puts it in his foreword to *Time and Poverty in Western Welfare States*: 'Arguably the most exciting dimension of social analysis is time. Yet it has long been neglected by mainstream sociology' (Leisering and Leibfried 1999). For example, by considering inflows and outflows from unemployment, the longitudinal approach allows us to consider unemployment as a process rather than a state: by comparing income before and after becoming unemployed, we can overcome some of the difficulties of establishing the direction of causality.

The aim of this chapter is to outline our approach to comparing unemployment and to set it in the context of previous approaches. Section 1.1 discusses the comparative perspective and how we apply it to our substantive concerns. It also assesses the advantages of a longitudinal approach for social research. Section 1.2 reviews different theoretical approaches to comparing welfare for the unemployed, stressing the advantages of a focus on consequences for the unemployed themselves. Section 1.3 discusses in more depth the choice of countries, Britain and Germany.³ Section 1.4 presents our perspective on the family and on the relationship between individuals, the family and unemployment. Section 1.5 discusses the outcome measures we use to compare unemployment in Britain and Germany. Finally, Section 1.6 describes the outline of the book.

1.1 THE COMPARATIVE AND LONGITUDINAL PERSPECTIVE

In this section we discuss alternative approaches to comparative research, and we discuss the advantages of the comparative, longitudinal strategy adopted.

Comparative research can force us to be more rigorous in our argumentation, as our concepts and conclusions are required to cross national boundaries; we may thus avoid the temptation to claim that findings for one country are universal truths. There are, however, different traditions in social science as to how cross-national research should be carried out. As Erikson and Goldthorpe (1993) put it, following Ragin (1987), on the one hand there are 'qualitative' comparativists, who treat societies holistically, often working from historical or anthropological sources, emphasising the specificity of the national situation. On the other hand there are 'quantitative' researchers, who may take the nation not as the context of analysis, but rather as the unit of analysis. In the latter approach the ultimate aim is often to 'replace the names of countries with the names of variables' (Przeworski and Teune 1970); differences between countries are analysed using the same multivariate techniques as those used to investigate differences between individuals.⁴

Erikson and Goldthorpe themselves, in their study of class mobility in industrial societies, adopt a mixed strategy. They reject the idea that concepts cannot be compared across countries, and compare mobility rates, patterns and trends across nations. In this respect they follow a more quantitative approach. However, they refrain from ignoring the national context altogether, and often in their explanation of quantitative results rely on analyses of a more 'internal' and historical kind.

The approach adopted in this book follows a similarly 'mixed' strategy – a combination of a small-N case study approach with detailed multivariate analysis of individuals within countries. There is extensive comparison of the level, composition and duration of unemployment in Britain and Germany, all the time striving to maintain the highest level of comparability and assuming that unemployment is fundamentally comparable across countries. However, the details of the national context, such as differences in welfare policy, labour market policy and education systems, are brought into explanations. As a reflection of this strategy, we never put the two countries in the same multivariate model. We most often include the same variables to account for differences between individuals within countries, and try to interpret their effects in their national context. This approach does not imply that trends may not be similar in the two countries, but it does mean that the similarity is something we discover rather than assume. In this way, the names of the countries do not disappear from the narrative – the 'cases' and their uniqueness are preserved.

The overall approach of this book is to begin with similarities and differences in principles at the macro-level, develop hypotheses about their effects, test these hypotheses using data on individuals, and then generalise the results to describe patterns and results at the 'macro-' (in this case national) level. We examine the differences in welfare state provision primarily by their effects as experienced by individuals – 'individual outcomes'. By focusing on individual outcomes we can also see how the state interacts with the market and the family at the micro-level. As our aim is to conduct detailed analysis at an individual level, we limit the number of countries in the analysis. The small number of units lets us examine national patterns in detail – analysing a large number of countries risks superficiality and tends to constrain the elements of variation to a small number of variables.

We argue that longitudinal data is superior to cross-sectional data for the analysis of social processes. As Coleman (1990) claims, if individuals relate causes and effects through their actions, then research into social processes is best carried out using longitudinal individual data. Only with this kind of data can one trace the course of action of each individual over time. Longitudinal data puts us in a stronger position to make inferences about causality, and the identification of causal mechanisms has been one of the classic concerns of sociology. As Davies (1994) argues, there are frequently doubts about the direction of causality in social research, and in these cases cross-sectional data is unable to resolve the ambiguity in correlations. For example, there is strong cross-sectional evidence that the unemployed have poorer physical health than those in employment, but we do not know if this is because ill health leads to unemployment or because unemployment leads to ill health. Similarly, cross-sectional analysis may reveal an association between poverty and unemployment. But how do we know whether it is that unemployment leads to poverty or that poorer people are more likely to become unemployed? To overcome uncertainty in such cases we need information about the health and wealth of individuals both *before and after* they become unemployed. Indeed Lieberman (1985) makes the general point that the normal control approaches in cross-sectional research will rarely be successful in isolating the influence of some specific causal force.

In addition there is the problem that few social scientists are in a position to perform control experiments. We rely on observational data, and thus the burden of explanation rests on the statistical methods used. Davies warns us that one of the dangers of using repeated cross-sectional analysis to look at change is the tendency to overestimate the effect of explanatory variables, such as policies. If we omit a relevant variable, we may overestimate the effect of other variables. What is more, cross-sectional analysis 'cannot characterize the inertial characteristics of behaviour' (1994, p. 32). Put simply, it cannot account adequately for the effect of previous behaviour on current

behaviour. For example, the employment status of a woman in any given month partly depends on her status the previous month, not just on current influences such as the availability of childcare. Thus we need to consider the history of individuals when interpreting their current situation. The strength of longitudinal data analysis is that inferences are based not only on variation *between* cases, as in cross-sectional analysis, but also on variation *within* cases.

Another important benefit of longitudinal analysis lies in the issue of duration dependence (Blossfeld and Rohwer 1995). Longitudinal data can tell us much more than cross-sectional analysis about the 'distribution of disadvantage'. A 10 per cent unemployment rate could mean that each individual in the labour force has a 10 per cent chance of being unemployed at any given time, or it could mean that a specific group that makes up 10 per cent of the labour force is permanently unemployed. While the truth is likely to lie somewhere in the middle, the duration of unemployment has important consequences for the distribution of disadvantage and social exclusion, and hence for social policy.

This is not to say that longitudinal data is a panacea, nor that longitudinal data does not have its own problems. And indeed no amount of sophisticated data will inform us about causation if we do not have theoretical predictions to test. Nor do we wish to argue that cross-sectional data is not informative: for many problems this approach is adequate – indeed we use cross-sectional analysis in one section of our analysis. Nevertheless some of the problems of cross-sectional data can be overcome using longitudinal data.

Comparing Britain and Germany allows us to address some of our key questions from a longitudinal perspective. The two cases chosen are similar enough to be comparable (in terms of the size of their economy and labour force, the level of industrial development, and participation in education) but have policies different enough – particularly in respect of the unemployed – to shed light on how social policies affect individuals. Though there are a growing number of longitudinal datasets in Europe and the US, the choice is limited.⁵ Britain and Germany are two countries with panel datasets excellently suited to comparing unemployment from a longitudinal perspective: the British Household Panel Survey (BHPS) and the German Socio-economic Panel (GSOEP). The surveys have a similar focus on socio-economic issues such as labour force status and income. The two datasets also provide detailed information on individuals' work histories, information excellently suited to the analysis of labour market transitions. From a methodological perspective, the surveys are carried out in a very similar way and the data is organised using the same principles. Indeed, the BHPS, which began some time after the GSOEP, adopted much of the German methodology in terms of survey design and data structure. Details of the choice and design of the data

sources, sampling methods, data collection and topics covered are provided in the final Appendix, which also discusses the representativeness of the surveys, panel attrition and weighting.

1.2 TYPOLOGIES OF WELFARE FOR THE UNEMPLOYED

In this section we review different approaches to comparing welfare for the unemployed from a cross-national perspective. Although some of these approaches take the form of typologies, it is not the purpose of this book to 'test' typologies of welfare in order to establish which one is superior. Rather, we use the typologies and approaches discussed below to sensitise us to differences between Britain and Germany in overall principles of welfare for the unemployed. The strength of typologies for comparative analysis lies in isolating principles, helping us to understand the empirical pattern of welfare provision. Using these theoretical approaches, we can abstract from the complex plethora of policies to generate hypotheses about how differences in state provision affect 'outcomes' for the unemployed. How we address these hypotheses is the subject of Section 1.5.

The weakness of typologies is that the abstraction required to construct them creates 'ideal types', which often do not reflect the complexity of institutional arrangements in different countries. As Daly puts it: 'Typologizing has high costs, forcing one to forfeit especially the richness and complexity of welfare state provision within and across national contexts' (2000, p. 52). It is in the nature of typologies that they concentrate on a limited number of principles, or variables. In so doing some variation is missed. This omission gives rise to another typology, which stresses variation on another dimension, and so the process continues. The very fact that we discuss a number of typologies of welfare states below is evidence of this. None of the approaches may be wrong – they just emphasise different facets of variation. Our approach is to combine insights from a variety of typologies to inform the case study analysis. In this way we can capitalise on the strengths of typologising, while avoiding some of its weaknesses.

The approaches presented in this section focus on welfare provision by the state, though it is a central concern of this book to situate state provision in the context of the market and the family. Approaches to the family are discussed in Section 1.4, while the role of the market, and market differences, are discussed in Chapter 2.

We begin our review of comparative approaches to welfare states by summarising two principles, which, we argue, these approaches share and that form core assumptions of this book. In Section 1.2.1 we continue our review

by introducing a major work in the field of comparative welfare states, Esping-Andersen's *The Three Worlds of Welfare Capitalism* (1990), and discuss how Britain and Germany fit into its typology. We then discuss some important criticisms of this work. The feminist critique (Section 1.2.2) is probably the most radical. Another important critique for us is that of Gallie and Paugam (2000) (Section 1.2.3), who reject Esping-Andersen's 'integrated perspective' in favour of a specific focus on welfare for the unemployed. We continue by considering two further approaches, which, while they do not address Esping-Andersen or his critics, also divide state treatment of the unemployed into 'types'. Schmid and Reissert (1996) (Section 1.2.4) make an important contribution for this book in pitting insurance-based against means-tested welfare systems. Finally, we draw on the field of economics in presenting an approach that sees rigidity and flexibility as crucial concepts in comparing unemployment and welfare states (Section 1.2.5). As we present each of the approaches below, we note how in each case Britain and Germany fall into different categories and because of this are two countries excellently suited to the purpose of exploring the various approaches. This point is discussed in more depth in Section 1.3, where we consider the choice of countries.

The first principle that these approaches all share, we argue, is that institutions matter. This principle is an important thread running through the book and stands in contrast to earlier approaches to welfare states, both the industrialisation approach (Kerr et al. 1960; Wilensky and Lebeaux 1965) and the Marxist tradition (O'Connor 1973; Ginsburg 1979). While industrialisation and Marxist models differ radically in their explanations of welfare states, they both assume that welfare states are fundamentally similar across countries (van Kersbergen 1995). The approaches described below in general reject this notion of convergence. In contrast, their perspective is that welfare state institutions – in particular those dealing with the unemployed – differ fundamentally between countries.

A second central principle is that welfare states 'stratify outcomes'; while the institutions of the welfare state are shaped by society, politics and history, they themselves have a direct role to play in determining 'outcomes'.⁶ This principle implies that policies concerning the unemployed do affect the situation of individual unemployed people. This is not to argue that state policy is the only distributive mechanism in society but rather that state policies play a role, in conjunction with the family and the market.

Combining these two principles we reach the claim that different welfare states stratify outcomes in different ways. These differences in outcomes are the focus of our analysis. Having discussed principles that the different approaches share, we now consider the approaches in more depth.

1.2.1 Three Worlds of Welfare Capitalism

A landmark study in the comparison of welfare states was Esping-Andersen's *The Three Worlds of Welfare Capitalism* (1990). Esping-Andersen asks two related questions: what are the causal forces behind the development of welfare states, and can the welfare state transform capitalism? Welfare states are both the independent and dependent variable – they shape and are shaped by society. His focus is on qualitative variation between states – not only in terms of how welfare programmes are organised, but also in terms of their relationships with other institutions (like the market and the family) and political configurations. He argues that welfare states cluster into three, now familiar, types of regime: liberal, conservative and social democratic. The basis for his classification of 18 countries rests on three key concepts: the degree of decommodification, the principle of stratification and the nature of state–market–family relations.

Decommodification is based on Marx's concept of commodification. With the rise of capitalism, labour becomes a commodity, forced to sell itself in the market place. People's right to survive outside the market is at stake (Marx [1864] 1978). As markets become universal and pervasive, the welfare of individuals comes to depend entirely on the cash nexus. Decommodification, in Esping-Andersen's terms, is when the state intervenes in the workings of the market so that 'a person can maintain a livelihood without reliance on the market' (Esping-Andersen 1990, pp. 21–2). For his operationalisation of decommodification, Esping-Andersen looks at 'summary measures' – indices of old-age pensions, sickness benefits and unemployment insurance – in 18 countries.⁷ Thus unemployment benefits form one, but not the only one, of his criteria. Indeed, a crucial part of his argument is to treat welfare for the unemployed as governed by the same overall principles as welfare in other domains, such as sickness benefit and pensions.

On Esping-Andersen's criteria, different welfare regimes exhibit different degrees of decommodification. The liberal regime (loosely defined as the Anglo-Saxon nations) is characterised by heavy reliance on means-tested programmes. This type of state pays modest social transfers to low-income groups and encourages private insurance. State regimes are conditional and discretionary, underpinned by the 'Poor Law' philosophy of deserving and undeserving poor. Britain falls into this category.⁸ In the conservative-corporatist regimes of continental Europe (excluding the Netherlands) rights are linked to work performance. Benefits are earnings-related and differentiated by class and status. Thus welfare provision maintains class and status differentials, producing a highly stratified system of welfare. Germany is an excellent example of the conservative-corporatist welfare regime. The third type of regime, the social democratic (Scandinavian), is characterised by

universal benefits covering the entire population, a weakening of the influence of the market, and a strong commitment to full employment.

According to Esping-Andersen, welfare systems are not only institutions, they are powerful societal mechanisms which shape the future of employment and stratification, and each type of welfare state shapes society quite differently; different welfare states produce different outcomes. Thus we would expect Britain and Germany, falling into two different categories, to produce different outcomes in all domains of welfare provision. Though this idea is developed in his work, he does not subject it to rigorous empirical testing. This weakness is addressed by some of the analysis in this book.

Esping-Andersen's work has been criticised on a range of fronts. Many commentators have argued that various countries are misclassified, including Britain. Others have campaigned for a fourth category (Castles and Mitchell 1993; Ferrera 1996). Perhaps the most far-reaching critique, discussed below, has come from a group of feminists working on welfare states. Partly in response to the feminist critique, more recent work by Esping-Andersen (1999) gives a greater role to the family. A key argument of the book *Social Foundations of Postindustrial Economies* is that the household economy is the most important foundation of post-industrial economies. The result is a revised notion of welfare regimes in which the state, market and family play more equal roles. The question of whether different welfare regimes have created different types of families is not addressed, nor are gender relations more generally. An important point for us here is that Esping-Andersen leaves intact the typology described above. The three welfare regimes remain the liberal, conservative and social democratic, and the position of Britain and Germany in this schema remains unchanged.

1.2.2 Comparing Welfare States: a Gender Perspective

The thrust of the gender critique is that Esping-Andersen (1990) does not take sufficient account of how welfare states embody differentiation between men and women. It is not that women are neglected, but class inequalities are prioritised over gender inequalities.

For an approach that sees gender as the core inequality, all three of Esping-Andersen's dimensions are problematic. The decommodification criterion does not properly capture the complex and varied ways in which welfare states relate to women. For example decommodification does not always imply independence for women (Lewis 1992; Orloff 1993; Sainsbury 1994; Ostner and Lewis 1995; Daly 1996). Women may indeed wish to commodify their labour, and the degree of provision of public services can directly and indirectly enable women to participate in the labour market. The second dimension, stratification, sees class as the crucial cleavage and ignores the

question of how welfare states contribute to gender inequality. And thirdly, although Esping-Andersen (1990) proposes to consider the state–market–family nexus, in the tradition of mainstream power resource analysis the key relationship that Esping-Andersen considers is between the state and the market, and the family is rendered relatively unimportant in his initial typology (Orloff 1993).

The feminist critique suggests that typologies of welfare states need to be revised or adapted to take into account the relationship between unpaid work, welfare and citizenship, and to incorporate differences into the welfare/work choice (Lewis 1992; Orloff 1993; Lewis and Ostner 1994; O'Connor 1996; Daly 2000).⁹ The male breadwinner typology as developed by Lewis and Ostner (1994) and Lewis (1992) is the best known. Lewis and Ostner compare a number of states on the basis of whether they recognise and cater for women solely as wives and mothers or as workers. They derive a three-fold typology of welfare states: strong, moderate or weak breadwinner models. They find Britain, Germany and the Netherlands strongly committed to the breadwinner form, France less so and Sweden and Denmark only weakly so, tending to the dual breadwinner form. In both Britain and Germany then we would expect the welfare system to prioritise the male breadwinner family model.

Daly's (1996) gender typology also focuses on support for the traditional male breadwinner model. Her range of countries is more comprehensive, though she only focuses on cash benefits. In contrast to Lewis and Ostner (1994), Daly argues that the British benefit system less strongly favours the male breadwinner household than continental European systems like Germany, Belgium or France. In this and later work (2000), she argues that social insurance benefits linked to employment, which have a high potential for gender inequality, play much less of a role in Britain than in Germany (Daly 1996, 2000). She categorises Britain as an intermediate 'more-than-one breadwinner' welfare regime, where 'labour market participation for all is encouraged and indeed rendered necessary by low social payments' (Daly 1996, p. 21). In Daly's typology, Germany is an example of a strong breadwinner model.¹⁰

Examining welfare states from a gender perspective, one might not choose unemployment as the focus of analysis. Lone parents, caring services or even pensions might be seen as more appropriate. Indeed one might argue that the choice of unemployment as a focus is fundamentally gendered; part of the feminist critique of welfare states is that they prioritise the state–market axis, and the question of how the state compensates the individual for labour market failure (unemployment) relates to this axis. To be 'at risk' of unemployment one needs to participate in the labour market. Men and women tend to differ substantially in their labour market participation, and the rate and conditions of

that participation vary substantially between countries. For example, in 1997 the labour force participation of women in EU countries ranged from 59.0 per cent in Denmark to 34.8 per cent in Italy (Eurostat 1998).

While unemployment may be a limited lens through which to view gender inequalities in welfare states, at the very least the preceding analysis implies that we should take care in examining gender differentials in state provision for the unemployed. It is particularly important to compare how different patterns of labour market participation affect entitlements to benefits for men and women in different countries.¹¹ A second implication is that, when examining outcomes for the unemployed, we need to be sensitive to how these outcomes may differ for men and women. The choice of outcomes is discussed in more detail in Section 1.5.

Finally, an important theme in the gender debate on welfare states, as mentioned above, is the relationship between the state, market and family – and how the family is often omitted from mainstream discussions of welfare states. The importance of the family in mediating the experience of unemployment is an important theme of this book. Whereas the unemployed, particularly in economic debates on unemployment, are often seen as individuals acting ‘free of context’, we attempt here to examine the state–individual relationship in the context of the family. This issue is discussed further in Section 1.4 below.

1.2.3 Unemployment Welfare Regimes

Having considered some general theories of welfare states, in this and the following sub-sections we narrow our focus to theories that address welfare for the unemployed. Gallie and Paugam (2000) draw on Esping-Andersen’s work in their discussion of welfare regimes for the unemployed, but their approach is also a critique of his ‘integrated perspective’ on social welfare. Whereas Esping-Andersen stresses similarities between different domains of welfare such as sickness benefit, unemployment benefit and pensions, Gallie and Paugam argue that in any given regime the principles underlying welfare for the unemployed may differ from those underlying other welfare domains. Gallie and Paugam focus solely on aspects of welfare regimes that deal with labour market risks, particularly financial support for the unemployed, and the regulation of employment and unemployment (Gallie and Paugam 2000, p. 4). Also, whereas Esping-Andersen (1990, 1999) uses the term welfare ‘regime’ to mean how welfare production is distributed between states, markets and families, Gallie and Paugam (2000, p. 4) confine their criteria for defining regimes to aspects of provision by public authorities.

Gallie and Paugam restrict their classification of ‘unemployment welfare regimes’ to three criteria of welfare provision for the unemployed: the degree

of coverage, including the balance between insurance and means-tested benefits; the level of financial compensation; and the extent of active labour market programmes. Using these criteria they identify four unemployment welfare regimes in Europe: the sub-protective regime, the liberal/minimal regime, the employment-centred regime and the universalistic regime (2000, p. 5).¹² A sub-protective regime offers the unemployed less than the minimum needed for subsistence. Few unemployed people receive benefits, and the amount they receive is very low. The Southern European welfare states of Greece, Italy, Portugal and Spain fall into this category. The liberal/minimal regime offers a somewhat higher level of protection to the unemployed, but not all the unemployed are covered. The emphasis is on poverty alleviation. Britain and Ireland are examples of the liberal/minimal regime. The employment-centred regime provides a much higher level of protection than the liberal/minimal regime and also provides more extensive active labour market measures. However, such a system strongly favours those with a good employment record, and eligibility to benefits is strongly determined by previous employment. Germany, Belgium, France and the Netherlands are examples of employment-centred regimes. Finally, the universalistic regime is characterised by more comprehensive coverage of the unemployed and higher levels of compensation, and benefits are granted with little or no regard for the earnings of other household members. Denmark and Sweden come closest to the universalistic regime.

As regards the position of women, Gallie and Paugam (2000) suggest that women are disadvantaged in both the employment-centred and the liberal/minimal regimes. In employment-centred regimes (such as Germany) they are disadvantaged because interruptions to their career for family reasons affect their contribution record and thus their entitlement to benefits. In liberal/minimal regimes (such as Britain) they are disadvantaged because the system of means-testing takes account of family income. In this respect their typology differs from that of Daly (1996) who argues that women will be more disadvantaged in the German system.

1.2.4 Means-tested Versus Insurance Benefits

A rather more specific 'typology', which is also restricted to welfare compensation for the unemployed, sees a crucial distinction between insurance-based and means-tested benefits. This is the approach adopted by Schmid and Reissert in their analysis of unemployment compensation and labour market transitions:

There are two basic principles governing unemployment compensation: the insurance principle and the welfare principle. In the former, support is deter-

mined by insurance contributions paid prior to unemployment and by previous earnings (unemployment insurance). In the latter, the unemployed are provided with a guaranteed minimum level of income (unemployment assistance). (1996, p. 236)

Schmid and Reissert go on to describe the salient characteristics of these two principles. They differ in financing, in who is covered, in how level of benefit is determined, and in its duration. Typically, insurance benefits are financed by wage-linked insurance contributions from employers and/or employees; unemployment assistance benefits are funded by general taxation. Insurance benefits are available only to those who have paid contributions, regardless of individual need; unemployment assistance is paid regardless of contributions, and only if certain need criteria have been fulfilled. The level of insurance benefits is also linked to previous earnings, while the level of assistance benefit is linked to need. Finally, the duration of insurance benefits is limited and is often linked to previous employment, whereas the duration of assistance benefit is usually unlimited.

Atkinson (1989) notes how a central criticism levelled at social insurance is that in general it privileges those with good employment records, and is not good at protecting the vulnerable from poverty. Webb (1994) echoes this by suggesting that social insurance schemes are not likely to meet the needs of today's poor, as the poor today are increasingly unlikely to have a contribution record that would entitle them to social insurance benefits. In the conclusion to their comparison of the two systems, Schmid and Reissert stress the differences between the two 'models' of compensation, and the implications of these differences for the unemployed:

Welfare-oriented unemployment insurance systems (the United Kingdom being a model) are less effective at providing income protection but more effective at being equitable and, possibly, at restricting moral hazard than insurance-oriented systems are. Insurance-oriented unemployment insurance systems (Germany being a model) are effective at protecting income, but tend to exclude marginal groups when there is persistent mass unemployment. Such systems are also more prone to moral hazard, especially if they provide practically indeterminate income protection. No convergence of these principles was observed. (1996, p. 273)

The question this book addresses is: can the impact of these principles be observed at the level of individuals? Schmid and Reissert's argument suggests we should find more income poverty among the unemployed in Britain than in Germany. Meanwhile if the British system is more 'equitable' we should find less inequality among the unemployed in Britain than in Germany. This argument also suggests that we should find a stronger negative effect of benefits on unemployment durations in Germany than in Britain because of the 'moral hazard' referred to by Schmid and Reissert.

A further difference between insurance-based and means-tested systems is that means-tested benefits are said to be more flexible (Webb 1994) as both the levels of payment and the structure of the benefit system can be changed more readily. Arguably an insurance-based system requires a longer period of adaptation, as it is related to contributions. Whether flexibility is in the interests of the unemployed is open to debate. On the one hand it means that governments can cut the levels of payments dramatically in response to changing policy goals. On the other hand it means that the system can be quickly adapted to serve the sector of the population most in need. We discuss historical changes in the unemployment welfare systems in Britain and Germany in Chapter 3.

1.2.5 Rigid and Flexible Labour Markets

A somewhat different approach to the comparative analysis of unemployment comes from the field of economics, where a distinction is drawn between 'rigid' and 'flexible' labour markets. Though in some ways this approach is a clear departure from some of the work described above, as it involves analysis of a range of labour market institutions as well as the welfare state, it also highlights differences in welfare for the unemployed and shares an emphasis on institutional variation. The 'eurosclerosis' debate, which draws on the distinction made here, has contributed much to recent policy debates on unemployment, particularly on unemployment benefits (see, for example, OECD 1994). The following is a brief summary of the main issues relevant to us.¹³

A rigid labour market stands in contrast to a freely clearing labour market, and rigidities are, broadly speaking, impediments to the efficient functioning of the labour market. What are defined as labour market rigidities varies, but they may include: generous unemployment benefits and/or unemployment benefits of long duration; employment protection measures such as difficult and expensive dismissals; high levels of unionisation; high overall taxes impinging on labour; and high minimum wages. The argument is made that institutional rigidities restrict the labour market's ability to respond to external shocks, such as intensified competition in a global economy or technological changes.

This contrast between a rigid and a flexible labour market is often seen as the crucial difference between some European labour markets and the US, and as the cause of higher unemployment in the EU (Siebert 1997; Mortensen and Pissarides 1999). Britain is regarded as having many of the features of the US labour market, particularly following reforms during the 1980s (Siebert 1997). So, as well as having substantially different welfare systems, Britain and Germany are judged by many commentators to differ in terms of labour

market rigidity, with the British labour market seen as much less rigid (Grubb and Wells 1993; Siebert 1997; Nickell 1997).

This approach suggests that, although welfare systems may play a role in reducing the financial deprivation caused by unemployment, they may also contribute to unemployment's existence and persistence. So, to understand unemployment from a comparative perspective it is crucial to consider not only the level of unemployment but also its duration, and to compare not only welfare institutions but also labour market institutions. In spite of much research, however, not many conclusive findings have emerged as to how labour market regulation affects unemployment. In particular, no simple relationship has been established between labour market regulation and the overall level of unemployment (OECD 1999). It is not always the case that countries with high levels of labour market regulation have high levels of unemployment, as some proponents of this approach would argue.

However, one vein of research has argued that labour market regulation affects the structure of unemployment (Esping-Andersen 1998; OECD 1999). In other words the regulatory structure produces a higher level of unemployment among some socio-economic groups than among others. In labour markets with stronger regulation, the groups among which we would expect high long-term unemployment with low chances of mobility into jobs are the weakest groups in the labour force. The weakest labour market groups are argued to be women, the low-skilled and the young (Esping-Andersen 1998). This argument suggests that in Germany the duration of unemployment should be particularly long for such groups, and that in Britain we should not expect such a strong effect.

In addition to the general analysis of labour market rigidities, some authors argue that we should focus on specific rigidities. One crucial factor often cited is the duration and level of unemployment benefits. The argument at its crudest runs as follows: high and long-lasting benefits mean the unemployed will raise their reservation wage and prefer to be unemployed than to take low-paid jobs. On the demand side the high contributions needed for generous unemployment benefits also raise the cost of labour for employers. If we lower benefits, it is argued, we will reduce unemployment. However, this argument has not gone uncontested. Atkinson and Micklewright (1991) argue that the empirical support for the argument is not as convincing as its proponents claim. Given the complex criteria for claiming benefits and eligibility rules, Atkinson and Micklewright criticise the assumptions that all the unemployed receive benefits and that they do so under the same conditions. In addition, if an active job search requires financial resources, then generous compensation for the unemployed will increase the resources available for searching for jobs, and may thus increase the probability of returning to work, offsetting the disincentive effect of higher benefits (Atkinson and

Micklewright 1991). So higher unemployment benefits may not necessarily cause longer durations. In fact a direct empirical evaluation of the disincentive effect of unemployment benefit is not possible in this book, given the data available. To properly test the disincentive effect of unemployment benefits the unemployed would need to be randomly assigned benefits and their durations of unemployment compared. Here we can only compare the unemployment durations of those who receive benefit and those who do not.

1.3 THE CHOICE OF COUNTRIES

Though the classifications above focus on different elements of variation in the state and unemployment, Britain and Germany appear in contrasting categories in each of them.¹⁴ For Esping-Andersen, Germany is a conservative welfare state and Britain a liberal welfare state. For Daly, Britain is a 'more than one breadwinner' state, while Germany is a 'male breadwinner' state, with more potential for gender inequality. For Gallie and Paugam, in their 'unemployment welfare regimes', Britain is a liberal/minimal regime and Germany an employment-centred regime. Schmid and Reissert single out Britain and Germany as 'models' of the two types of unemployment compensation scheme: Britain as a model welfare-oriented scheme and Germany as a model insurance-oriented scheme. In terms of labour market rigidities, Germany is argued to be considerably more rigid than Britain. Thus if we are setting out to explore different approaches to welfare for the unemployed, Britain and Germany provide a good contrast.

Each typology contributes in a different way to an understanding of how the state interacts with the unemployed. A two-country case study in which the two countries differ in terms of each typology puts us in an excellent position to explore the different dimensions of variation thrown up by these approaches. For example, from Esping-Andersen we may gain insights into how welfare regimes allow the unemployed to retain an income independently from the market, encouraging us to look at the financial dimension of unemployment. By contrast the rigidities argument focuses not on deprivation but on the disincentives of the welfare system and the duration of unemployment. Our approach here is to draw on the full range of typologies, permitting a comprehensive and balanced comparison of welfare for the unemployed.

For a two-country comparison of unemployment, the unification of Germany in 1990 poses a special problem. Should the former East Germany be analysed as part of a unified Germany, should we exclude it and simply focus on West Germany, or should we treat it separately and in effect have a three-'country' comparison?

The transformation of East Germany from a soviet-style planned economy to a market economy took place almost overnight. Economic and currency union took place in summer 1990, complete political reunification took place three months later. The effects of the economic changes in the East were dramatic. Between 1990 and 1991 the GDP of East Germany declined by almost 30 per cent (Rothschild 1993). An estimated 4.14 million jobs were lost in East Germany between 1989 and 1992.

In labour market and social policy, as in all other spheres, the institutional framework of West Germany was accepted – and implemented – almost wholesale in the East. The Federal Labour Office in Nuremberg took over the administration of labour market policy, and administrative structures were rapidly transferred. Though institutions were now almost identical, some special labour market measures were introduced and used extensively to cushion the collapse of the economy and employment (see Chapter 2). Bosch and Knuth (1993) report that of the 4.14 million East Germans not in regular employment in December 1992, 1.75 million were in some form of labour market programme – early retirement, job creation (350,000), short-time work, further training and retraining (479,000). If the large numbers of people on these schemes were included in the unemployment figures, the East German unemployment rate would have been much higher. These programmes also mean that identifying transitions between unemployment and employment is more difficult.

On the one hand this situation provides a remarkable opportunity to capitalise on almost experimental conditions by comparing outcomes when one social policy system is applied to two very different labour markets. On the other hand the trauma of the early years after reunification and the massive scale of labour market intervention make it difficult to include East Germany in the analysis of German unemployment. We choose a compromise strategy. For analysis of the latter half of the 1990s we include East Germany but distinguish it carefully from West Germany. For the analysis of work histories in Chapters 5 and 6, which relies on data from the early 1990s and earlier, we omit East Germany from the analysis.

Before we discuss our measures of outcomes, we turn to consider an issue that is important for our comparison of unemployment, but previously only hinted at in the discussion – the relationship between unemployment and the family.

1.4 INDIVIDUALS, THE FAMILY AND UNEMPLOYMENT

Most labour market analysis is at the level of the individual, and in this vein unemployment is often interpreted as an individual phenomenon – i.e. studies

consider how benefits replace individual income, how the unemployed individual becomes re-employed. Our analysis is at the individual level, but the surveys we use allow us to consider the role of the family. Throughout our analysis we use the detailed information we have on the household and family situation of individuals to examine how unemployment as a social risk is distributed across families, and the role of the family in mitigating some of its consequences.

A valuable concept for capturing the role of the family in the welfare mix is 'defamilialisation'. As discussed above, the male breadwinner model has been used to highlight the male bias in social policies. Esping-Andersen's concept of decommodification has been criticised for failing to take into account women's experience of welfare states and how women need to be able to commodify their labour before they decommodify it. Orloff (1993) argues that as a prelude to decommodification women need to be freed from dependence on the family – 'defamilialisation' is a precondition for decommodification. Defamilialisation is a term used to indicate the degree to which social policy renders women autonomous from the family. If we broaden to the notion of 'familialism', we can talk more generally about dependence on the family and about cross-national differences in how responsibilities are shared between state, market and family. At one end of the spectrum there are countries and welfare systems in which many family responsibilities are collectivised and looked after by the state. At the other end there are countries where the family still plays a principal role in caring for the social needs of its members. These differences are likely to be particularly salient for women, in determining how they can combine employment and family life. These issues are discussed in more depth in Chapter 2, where we discuss labour market participation rates and the distribution of employment and unemployment.

As regards the relationship between the family and the state in the sphere of unemployment compensation, there are a number of ways in which the two can interact. Families may be treated differently in each benefit system, and this may influence outcomes. It is important when considering the details of state support for the unemployed to look at the details of how unemployment regulations affect families (see Chapter 3). How are dependants defined, and what benefits are paid for them? How much more do the unemployed with children receive than those without?

In general, eligibility to means-tested benefits – the principal type of benefit for the unemployed in Britain – depends on family income, and the benefits are paid to the family. If one or more other individuals in a household are working, an unemployed individual may not receive a means-tested benefit. This is in contrast to insurance-based benefits – the principal type of benefit in Germany – which are paid to the individual (though in some cases, particu-

larly in Britain, insurance benefits are paid with dependants' allowances). As long as all relevant contribution conditions have been met, an unemployed individual may receive an insurance-based benefit regardless of whether others in the household are working.

However, we also need to consider the effect of state benefit conditions on the behaviour of families. It may not be entirely correct to take the family structure as given. For example, where benefits are means-tested, if a woman is working part-time when her husband becomes unemployed, her working may mean that her earnings are deducted from his benefit. She may therefore choose to stop work, and be no worse off financially. This effect of the state on the family is the subject of Chapter 6.

It is not only the family situation *per se* that is of importance, but also the family's engagement with the market. For this we need to consider the distribution of household employment.¹⁵ In a society in which all families are single-earner households, the effect of unemployment will be very different to its effect in a society with many dual-earner households. An unemployed person living in a household where others are employed – be they a spouse/partner or other family members, such as parents – is less at risk of financial deprivation than an unemployed person who lives either alone or in a household where no other adult is employed. We test whether this effect varies between two countries with very different benefit systems.

1.5 OUTCOMES FOR THE UNEMPLOYED

Although the claim is often made that welfare states stratify outcomes – and as noted above it is an assumption that underlies the typologies we discuss – much of the work comparing the performance of welfare states lacks a focus on outcomes for individuals.¹⁶ As Mitchell notes in her discussion of the literature on transfer programmes of welfare states: 'What the literature lacks, however, is a clear assessment of how, and whether, these variations result in tangible differences in the impact of these programs on, for example, poverty and inequality' (Mitchell 1991, p. 1). Mitchell's own work focuses on outcomes of transfer programmes, though not specifically on the unemployed. Daly (2000) too notes that practically all comparative welfare state typologising has focused on macro characteristics, but has failed to analyse micro-level outcomes systematically. The analysis in this book is on micro-level outcomes, with the individual – situated within the family or household – as the unit of analysis.

The tools we use reflect the variety of approaches we draw on; the aim of this book is to explore different aspects of unemployment from a comparative perspective, not to test any one typology. In the rest of this chapter we begin

the discussion of the outcome measures we use. Further details of the individual measures used appear in each individual chapter.

The main types of outcome measured in this book are: firstly, relative income poverty rates and income change; secondly, the duration of unemployment until exit to employment; and thirdly, the effects of unemployment on the labour market transitions of partners of the unemployed.

An important theme running like a watermark through many of the approaches to the study of welfare states and unemployment is that of the financial consequences of unemployment. Esping-Andersen focuses on decommodification and how welfare states replace income from the market, covering the contingency of market failure. The male breadwinner typology is primarily concerned with how welfare states treat men and women differently, but one key issue here, we argue, is (unemployed) women's access to an independent income. Gallie and Paugam (2000) refer specifically to how they expect different types of welfare state to be associated with different levels of poverty among the unemployed. Schmid and Reissert (1996) also explicitly predict that the welfare-oriented system is less effective at protecting the income of the unemployed than the insurance-based system. A powerful indicator of the financial consequences of unemployment is income poverty, and income poverty is a central concern in this book.

Another important theme running through many approaches to welfare and unemployment is the duration of unemployment. Discussions of rigid and flexible labour markets emphasise the importance of looking not just at the level but also at the duration of unemployment. It is particularly important to compare the durations of unemployment for different groups of the unemployed (Esping-Andersen 1998; OECD 1999). Only through a comparative analysis of unemployment durations can we begin to illuminate the complex impact of institutions – both labour market and welfare institutions – on unemployment.

This focus on labour market transitions is also reflected in our analysis of the behaviour of partners of the unemployed. Since a key concern of this book is to incorporate the family into the analysis of unemployment, we compare how different conditions of benefit receipt affect the wider family unit. A crucial difference between insurance-based and means-tested benefits is that in the former the basis of entitlement is the individual, while in the latter it is the family (or more precisely the 'benefit unit'). We seek to look not only at how family situation affects entitlement to benefit, but also at how benefit entitlement affects family situation, i.e. family employment.

In addition through these three outcome measures – poverty among the unemployed, the duration of unemployment, and unemployment and partner's employment – we also approach analysis of an outcome that is less easy to measure, namely social exclusion. At the beginning of this chapter we

noted the rising concern with the problem of social exclusion. At the core of the concept of social exclusion is the idea that a disadvantaged group may become increasingly marginalised – detached from society, without the necessary means to participate. That said, it should be noted that the notion of social exclusion is much wider than simply long-term unemployment and poverty. It is precisely the concentration of many forms of disadvantage that the concept is designed to capture. It is not the intention of this book to compare the full extent of social exclusion in Britain and Germany, but we do point to factors that are important in explaining its extent.

One type of outcome measure that is not addressed here is the non-material consequences of unemployment. These include, for example, the psychological distress caused by unemployment or the disruption of marital or family relations.¹⁷ The non-material consequences of unemployment are an important component of the experience of unemployment, and their study has a long history (Jahoda et al. [1933] 1975). We argue here, however, that the financial consequences of unemployment are those most directly affected by cash transfers and that none of the typologies of welfare that we explore explicitly address the non-material consequences of unemployment.¹⁸

1.6 OUTLINE

The empirical analysis that forms the core of the book is presented in Chapters 4, 5 and 6. Chapters 2 and 3 are background chapters, providing the context for the empirical analysis. Chapter 7 draws conclusions.

Chapter 2, the first background chapter, provides a picture of the labour markets and unemployment in Britain and Germany. We consider macroeconomic developments in both countries, and how these have affected the overall level of unemployment. We discuss the definition of unemployment, and we examine the composition of the unemployed by gender, age and duration. Thirdly, we consider differences between the British and German labour markets, focusing particularly on the labour market participation of women and of older workers. Then we discuss the differences between the education systems and the implications for employment and unemployment. Finally, we look at the relation between the family and both employment and unemployment in Britain and Germany.

In Chapter 3 we compare state provision for the unemployed in Britain and Germany. We first look at the development of unemployment-related benefits over the course of the 20th century. We concentrate particularly on changes to these benefits in both countries during the 1980s and 1990s. We then examine the level and coverage of benefits in detail in 1996, investigating what proportion of the unemployed receive means-tested and insurance benefits in

Britain and Germany. We pay particular attention to eligibility and the conditions for receipt of benefits. We compare coverage and replacement rates in detail. Finally, we briefly consider active labour market policies and their role in labour market policy.

Chapter 4 examines income poverty among the unemployed. Drawing on some of the different approaches described above, we develop general hypotheses about differences in overall poverty incidence among the unemployed in the two countries. We then develop more specific hypotheses about poverty *among* the unemployed, distinguishing the recipients of different benefits. We also explore gender differences in poverty among the unemployed. One important concern of the gender typologies is the idea that different welfare states prioritise different types of household structure, and in our analysis we compare poverty rates of individual unemployed people living in different family situations. Finally we use the panel element of our data to look at changes in income following a move to unemployment, to examine the robustness of our findings.

Chapter 5 looks at the process of escape from unemployment. In the debate over rigid and flexible labour markets, discussed above, the role of institutions in explaining the persistence of unemployment is a key issue. Esping-Andersen (1998) argues that in regulated labour markets, weaker labour market groups – such as women, young people and the low-skilled – will be disadvantaged in the competition for jobs and will have longer durations of unemployment. We test this hypothesis with comparative data on work histories from our national datasets, using event history modelling. We also consider the effect of unemployment benefit on escape from unemployment.

Chapter 6 focuses on the unemployed as members of households, as unemployment benefits may affect the labour market participation of other household members. In particular, means-tested benefits, as they are ‘household’ benefits based on ‘need’, may act as a disincentive for other household members to work, as benefits are withdrawn if others in the ‘benefit unit’ are employed. We investigate this hypothesis using event history modelling by looking at the labour market participation of the wives of unemployed men in Britain and Germany. We consider the type of benefit the man receives – means-tested or insurance-based – and the influence of this on the wife’s participation.

Chapter 7 brings together the findings of the previous chapters on the differential consequences of unemployment for British and German men and women. We discuss the implications of these differences for the welfare typologies described above. We also relate our findings to issues of social policy. We discuss methodological issues arising from our current work, and suggest some avenues for future research.

In the final Appendix we discuss data issues. We describe the data used in the study, in particular the problem of attrition that arises when using panel

data, and the weighting methods used to overcome it. We also address the measurement of unemployment from a cross-sectional and longitudinal perspective, and compare the samples of unemployed used with those from other data sources.

NOTES

1. Figures quoted are an average for the 15 countries of the EU.
2. One of the best-known examples of the study of marginalisation as a consequence of long-term unemployment is the work of Marie Jahoda et al. in Marienthal ([1933] 1975).
3. In this book 'Britain' is used to mean England, Scotland, Wales and Northern Ireland for any discussion of theory, legislation or official statistics. For the empirical analysis the term Britain refers to England, Wales and Scotland south of the Caledonian Canal, as this is how Britain is defined in the data used, the British Household Panel Survey (BHPS). Germany is taken to mean the Federal Republic of Germany, i.e. West Germany before reunification in 1990 and reunited Germany after reunification, unless otherwise stated. The term East Germany refers to the former German Democratic Republic.
4. However, even radically different approaches to comparative research need not imply different conclusions, as Kangas (1994) illustrates.
5. The European Community Household Panel (ECHP) is coordinated by the statistical office of the European Union and covers 12 countries (Eurostat, 1998). However, the first wave was carried out in 1994 and at the time the analysis in this book was carried out only three waves were available for public use.
6. The main alternative approach to social policy research is to study the influences on the policy-making process (e.g. Baldwin 1990; Pierson 1994). Rake describes this latter approach as 'society makes policy' rather than 'policy makes society' (Rake 1998, p. 6). While it is important to recognise the two-way link between social structure and policy-making, the focus of this book is on the impact of social policy on social stratification.
7. Details of the indices differ but in general the focus is on: the extent to which the benefit replaces income; qualification conditions; the number of waiting days before the benefit is paid; duration of benefits; and crucially the benefit coverage, i.e. what proportion of the population is covered by the benefit (Esping-Andersen 1990, Chapter 2).
8. It does so somewhat uneasily, though, and the categorisation of Britain has been the subject of dispute. Some commentators argue that in the area of service provision, for example, Britain more closely resembles a universal welfare regime. In general the liberal category has proven more contentious than the others. However, Britain, unlike Germany, has never been classified as conservative.
9. Lewis and Ostner (1994) is a later version of a 'tour de force' conference paper presented to the Centre for European Studies, Harvard University in 1991.
10. Daly also discusses benefits for caring, arguing that the principle of caring work is better established in Britain than in Germany.
11. This view is shared by Russell and Barbieri (2000), who compare gender and the experience of unemployment in Britain, Denmark, France and Italy.
12. Though they propose their own typology, Gallie and Paugam (2000) point out that typologies are ideal types and that their classification of countries is tentative.
13. The rigid/flexible distinction is also one of many economic approaches to explaining the causes and persistence of unemployment. It is not the purpose of this book to give a comprehensive review of these.
14. With the exception of Lewis and Ostner (1994).
15. We discuss the distribution of employment and unemployment within families in greater depth in Chapter 2.

16. The exception here is Gallie and Paugam (2000), whose edited volume does compare a variety of outcomes for individuals.
17. For examples of this work see McKee and Bell 1985; Gallie et al. 1994; Lampard 1994; Whelan 1994; Russell 1996; Whelan and McGinnity 2000.
18. Gallie and Paugam's edited volume does include work on the non-material consequences of unemployment, but these non-material consequences play no part in the rationale for their typology of unemployment welfare regimes.