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European Welfare State Models in Flux

A Comparison of Institutional Change in Germany and in the United Kingdom

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List of main Acronyms

CEE = Central and Eastern Europe	MEP = Member of the European Parliament
CME = Coordinated Market Economies	MIG = Minimum Income Guarantee
DGB = Deutscher Gewrkschaftsbund	MS = Member States
EES = European Employment Strategy	NEDC = National Economic Development Council
EMU = Economic and Monetary Union	OECD = Organisation for Economic Cooperation and Development
EP = European Parliament	
ERS = Earnings Related Supplement	TU = Trade Union
ESM = European Social Model	TUC = Trade Union Congress
EU = European Union	UB = Unemployment Benefits
JSA = Jobseeker's Allowance	UBII = Unemployment Benefits II
LME = Liberal Market Economies	WTO = World Trade Organisation

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Abstract

Objectives: Welfare state reforms have been a focus of domestic policy making in many European countries in recent years. The thesis aims to map out changes in the welfare regimes during the last decades in Germany and the United Kingdom, countries which represent nearly a third of the EU population and encompass two distinct welfare state typologies: conservative and liberal. **Methods:** In doing so, the work deploys a qualitative and historical analysis, an approach, suitable for a comparative study over a long time period. The exploration of changes in two countries will be made with regard to the generosity of the welfare state, atypical employment contracts and industrial relations, elements which constitute elementary features of modern welfare state regimes. In order to describe the changes, the theoretical framework of Streeck and Thelen (2005) with the six patterns of change will be applied: drift, layering, exhaustion, conversion, displacement and revitalisation. **Results:** The German welfare state model experienced a shift in the liberal direction. However it preserved the core features of the conservative welfare regime as well. Thus, the observed changes can predominantly be described as layering, meaning the construction of new institutions alongside similar existing institutions. The British welfare regime was liberalised as well which made it look more similar to the US welfare state model than to the prototype of the ESM. New Labour government attempted to regain some social features of the Anglo-Saxon traditions. However, they were implemented applying the neoliberal logic as well. Similarly to Germany, the main pattern of change was layering. **Conclusions:** Welfare state regimes are rigid and difficult to transform. Nevertheless, incremental steps can change them, if they occur over a long time period. The thesis supports these assumptions. While both the German and the British welfare states transformed considerably into the direction of the liberal ideal type, neither transformed as strongly that it would fall into a different ideal-typical category. This thesis identifies a number of factors that initiate or reinforce transformation. Furthermore, it also explains, why Germany and the UK liberalised to a different extent. It finds that while the German political system with its multiple veto points increased the rigidity of its welfare state, the liberal reforms fell on particularly fertile ground in the UK, where liberalism was already well established. Political ideology and the political system can explain the different extent of change in the two cases at hand.

1. Setting the scene: introduction and research question

Why in Flux?

Before the first oil crisis, the Member States (MS) of the EU considered themselves as being part of the European Social Model (ESM), including a socially balanced market economy with strong market regulation by the state and a comprehensive set of welfare state arrangements to achieve a high degree of decommodification (Hacker 2013: 2). The end of the post-war boom in Europe was closely related with newly emerging challenges across Europe, including rising unemployment rates, sluggish economic growth, declining rates of productivity as well as growing fiscal and demographic pressures on the welfare states (Vail 2010). Facing these multifaceted challenges, the European governments began to readjust the components of the post-war welfare states to the new reality. This adjustment is closely connected to the consecutive waves of privatisation, deregulation and new public management across the EU countries. The social and political pressure to liberalise the old model was reinforced by some leading countries such as the US and the UK as well as international institutions such as the Organisation for Economic Co-operation and Development (OECD), and the European Union (EU) (see e.g. Grahl and Teague 2013: 682).

Bounded changes in the welfare states

Despite the fact that all advanced economies to some degree modified their welfare models, the literature suggests that these modifications differed across countries (see e.g. Bosch et al. 2008). For instance, the share of employees being in temporary employment in 2013 was 6.2 per cent in the United Kingdom, 8.8 per cent in Denmark and 13.3 per cent in Germany. Part-time employment in 2013 accounted for 27 per cent in the UK, 22.4 per cent in Germany but just 2.1 per cent in Bulgaria (OECD 2015b). The data indicates a difference in the extent of labour market flexibilisation and deregulation among the MS.

The new stream of historical institutionalism (e.g. Streeck and Thelen 2005) suggests that even though the overall tendency to deregulate the system applies to all countries, great

differences with regard to the question of “how to deregulate and to which degree” exist. Thereby, the characteristics of the welfare state models before the crisis influence how countries adjust them to the new reality. In practice it does not mean, however, that the liberal/Bismarckian or conservative/Anglo-Saxon models, even after the readjustments, will retain their fundamental ideal-typical features. The gradual changes are probably unlikely to initiate the shift of all elements of the entire model but they may lead to a modification of some (core) elements of the traditional welfare regime. Thus, this thesis analyses and compares the incremental changes that governments and societal actors in Germany and in the United Kingdom undertook to readjust their national welfare regimes. The aim of this analysis is to see how far-reaching these changes were and to evaluate if they were as dramatic that one can speak of a shift in the nature of the model (e.g. from a conservative to the liberal) or if they were rather modest in extent.

These observations lead to the following question that this thesis desires to answer:

What changes of the welfare state models can be observed in Germany and in the United Kingdom during the last decades and how can they be described?

Structure of the thesis

The thesis is structured as follows. After the introduction, it applies Esping-Andersen’s (1990) as well as Hall and Soskice’s (2001) concepts to present the core elements of representative welfare typologies. Since neither concept can explain the transformations of the welfare regimes, they will be used primarily to describe the features which constitute the backbones of liberal and conservative welfare concepts. These features are widely accepted among welfare states' researchers. Because Esping-Andersen was a pioneer in classifying the Western European welfare states, all following contributions dealing with this topic, rely on him. In essence, it makes no difference to label Germany a Bismarckian or conservative prototype (and the British welfare as liberal or Anglo-Saxon) because the ideal-typical elements of the models designed by Esping-Andersen remain unchanged (see e.g. Esping-Andersen 1996; Ferrera 1996; Hall and Soskice 2001).

Thereafter, the thesis proceeds with a carefully elaboration on possible explanations for the changes in the welfare state regimes, taking into consideration various angles. Crises are likely to reinforce the rethinking of the welfare state models, especially if the states are

suffering from high unemployment rates that undermine the social cohesion and lead to exclusion of some parts of society. However, adaptation pressure may also come from the MS of the EU themselves, by actively uploading their employment models to the European level (such as the neo-liberal concept advocated by Thatcher). Pressure to change can additionally stem from increased globalisation and financialisation of markets, the development of new technologies or new forms of governance. It can also be articulated by supranational organisations such as the OECD, the EU with its European Employment Strategy (EES) and the World Trade Organisation (WTO). For instance, Economic and Monetary Union (EMU) has played a role in changing patterns of the welfare state systems. Monetary integration has had consequences for macroeconomic performance and distribution at the level of individual economies but also for labour market institutions (see Hemerijck 2002: 19). The direct effects of domestic budgetary and fiscal policy have had major implications for welfare state finances. Moreover, the Employment Chapter in the Amsterdam Treaty paved the way for labour market flexibilisation (see ibid.: 37).

Since there are a great number of national and supranational actors involved and many factors responsible for the gradual modifications of the welfare state models, it is unrealistic to draw a clear dividing line between all of them. Neither is it possible to measure the degree of their influence. However, it is fruitful to pay attention to all possible explanations. Therefore, a clearer distinction will be made in the country-specific sections showing that some factors have played a greater role for some countries than others. For now, it is important to understand that the changes under investigation occurred in times of crisis in order to address emerged challenges.

After a careful elaboration on possible explanations for the changes, some remarks on the methodological instruments used in the thesis will be made. This work mostly relies on qualitative and historical analysis which are suitable instruments in order to research the last decades of welfare state reforms in two selected countries. In doing so, three domains used to observe changes in the welfare regimes will be operationalised. They are: **the generosity of the welfare state, atypical employment** and the **organisation of the industrial relations** with a particular focus on **the role of trade unions.** In like manner, the enhanced theoretical framework from Streck and Thelen (2005), which explains the possible patterns of outcomes of incremental changes, will be applied to analyse the reforms in the German and the British

welfare regimes. The thesis will proceed with the case studies, first with Germany and then with the United Kingdom. After a short summary of the findings, a conclusion will be drawn and the emerging challenges briefly discussed.

In the next part of the introduction, the justification for the topic and for the selected cases will be made. Additionally, the theoretical approach will be briefly introduced.

Why Germany and the United Kingdom?

The thesis contributes to the empirical research on the influential theoretical model advanced by Streeck and Thelen (2005), by gathering evidence on institutional changes in the welfare state models of two selected countries.

Germany and the UK have been chose because their welfare states affect nearly a third of the EU's population. Moreover, the two countries are often cited as being very representative of two typical models of European welfare states. The United Kingdom is often described as a residual state with a laissez-faire approach, social programmes with an emphasis on poverty alleviation and largely deregulated and flexible labour market. Contrasting with that, Germany is often portrayed as having earnings-based social insurance transfers aimed at preserving status, with the labour market much more regulated by the state and with the tradition of corporatists negotiations (see Clasen 2005: 2).

For the purpose of the thesis it is irrelevant which influential contribution on welfare state models to rely on, Esping-Andersen's three worlds of welfare capitalism (1990), Hall and Soskice and their varieties of capitalism (2001) or Ferrera's (1996) work. Germany and Great Britain not only always ended up in different typological categories but they have also been considered as paradigmatic representatives of distinct European welfare regimes (Clasen 2005:2). The thesis will therefore observe the two countries having in mind that each of them represents a particular model: the United Kingdom as the representative of the liberal or Anglo-Saxon model and Germany as the representative of the conservative or Bismarckian model[1] (Bosch et al. 2009: 10).

[1] More precisely, embedded within the context of comparative welfare state research, and especially in contemporary European welfare state development, this thesis analyses the reforms of German and British welfare states since the end of the 1970s. To be more concrete, the starting point for the research is the year 1979 in the UK, and the year 1982 in Germany, in which the Conservative governments took office. Some

Gradual institutional changes: a theoretical approach

There are a great number of contributions trying to understand institutional reforms taking into consideration institutional persistence (see e.g. Bosch et al. 2009; Hemerijck 2002; Scharpf and Schmidt 2000). However, only recently have scholars of historical institutionalism started to argue that incremental changes can also lead to a significant shift of the welfare state model (see e.g. Streeck and Thelen 2005). Before that, the key idea was that the welfare regimes even confronted with challenges will retain their core elements as the rigidity is stronger than the pressure to change (see e.g. Hall and Soskice 2001). The argument was that there is a relatively tight connection between path-dependency and policy inertia, causing a "lock in" effect, whereby policy choices made in the past become difficult to reverse, even in times of crisis (Hemerijck 2002: 16). Therefore, European welfare states facing similar challenges do not seem to lead to convergent policy responses (Hemerijck 2002: 16).

Although, this assumption has its merits, it is not really helpful to understand incremental changes which can indeed slowly transform core elements of the welfare regime. In fact, welfare states are not as rigid as predicted by many scholars, since in many cases path-dependence can be overcome. Factors such as policy mistakes can for instance force politicians to deviate from a traditional root and to shift their political ideology. New elections and the change of government can facilitate the process of reforms as well. Hence, another model is needed addressing gradual changes that may or may not lead to a transformation of the core elements of a welfare model.

Thus, in order to analyse institutional reforms bound by path-dependence, I rely on Streeck and Thelen (2005), scholars who attempt to explain incremental changes within a society, which can lead to a transformation of key elements of a welfare state model. They developed an analytical approach how incremental change is taking place, leading either to a "reproduction by adaptation" or to "gradual transformation" (Streeck and Thelen 2005). An example can be that the former socialist economy in East Germany exerted substantial pressure on the German model as a whole. This helped to push Germany away from its path-dependant development into the direction of the liberal employment models (Bosch et al.

references will be made to earlier years, though only to better understand the political logic behind the changes.

2009: 17-18). Moreover, they develop a set of labels to approach the changes in the logic of the welfare state. These labels are: **drift, layering, displacement, conversion,** and **exhaustion**. Based on the critics of the model of Streeck and Thelen, I will add to it an additional sixth element which is **revitalisation.** The explanation of the above presented categories will be addressed in the theoretical chapter in greater detail.

In order to approach the question of what changes occurred in the welfare state models in the UK and in Germany and how they can be explained, I will use three domains along which I will compare the current state of the welfare state regimes with their initial position at the beginning of the analysis. In Germany and in the United Kingdom, I will carefully examine the developments of the following domains: **the industrial relations** and **the role of trade unions, the extent of non-standard employment** and **the access to the welfare system** and **in particular fundamental social services.**

Of course, other policy domains could be included. However, domains were chosen that constitute backbones of each modern welfare regime and thus cover a great part of it (see also Bosch et al. 2009). Therefore, they can shed light on the reforms in Germany and the United Kingdom. Moreover, the thesis does not aim at encompassing the whole German and British welfare state elements. The goal of the work is more modest, though important: to analyse the core features of the welfare state models which have been at the centre of political reform and debates for some decades. This applies to the German welfare state reforms following the extension of atypical employment and the decreasing role of trade unions. It similarly applies to the British welfare state which under Thatcher moved in the neo-liberal direction implementing heavy restrictions on trade unions, cutting welfare state benefits and flexibilising labour standards.

Data to be used

In order to approach the research question, I will mainly rely on secondary literature and the statistical databases of Eurostat, Statista, the OECD and other relevant sources. These methods shall support the overall structure and background of the study and contribute to answering the research question. The thesis will additionally rely on a limited set of semi-structured interviews conducted with longstanding MEPs and representatives of the social partners at EU level. The interviews will be conducted in person. Together with the methods

outlined above, they will help to understand the changes which occurred in the national welfare state models. After exploring the changes in two selected countries, the thesis will come up with a short summary of the findings and a discussion.

Why this topic?

Both the societal as well as scientific relevance of the research is obvious. From the societal perspective, the welfare state is in the heart of each community life. It builds a key political relationship which is shaped and shared by the power dynamics between capital and labour and the distribution of income within society (Bosch et al. 2009). The research, therefore, will help to better understand the mechanism behind changes with regard to the welfare state models paying attention to the cultural and ideological differences of the European countries. It also helps to understand the future challenges based on the insight of findings in the welfare state field.

From the scientific perspective, the thesis is located within the current discourse on the direction and nature of welfare state transformation. It aims at identifying historically contingent reform paths in the fields of employment relationships, industrial bargaining with an emphasis on the trade unions as well as the shape of the welfare state provisions (see Clasen 2005). These three elements are chosen, since they assume a key position in each modern welfare regime. In particular, the thesis aims at contributing to the theoretical framework of Streeck and Thelen (2005), which is underpinned only by a limited number of empirical studies. Thus, more empirical research must be conducted in order to shed light on the existing theoretical model (see e.g. Béland 2007; Rocco and Thurston 2014). Therefore, the thesis at hand attempts to contribute to the empirical analysis concerning the question of institutional change, using the praxis of Germany and the United Kingdom and analysing the incremental changes in their welfare state regimes over time. In order to better understand the mode of changes, the present work will use the enhanced model of Streeck and Thelen (2005).

2. Theoretical Background

2.1 Typologies of European welfare state models

This section addresses the origins of the welfare state models and their categorisations. The aim is to provide an overview of the concepts in the field and to explain why Germany and the United Kingdom have been always put in different typological boxes. Moreover, it offers distinctive features of two selected countries which will be used later in the case studies to explain welfare state changes.

"The term (...) [welfare state] appears to have originated in its German form *Wohlfahrtsstaat* in the later nineteenth or early twentieth century" (Cousins 2005:4). In the thesis, the broad definition, developed by Esping-Andersen will be used[2]. According to him, the broader view focusses on the state's larger role in managing and organising the economy. In contrast to the narrow concept of the welfare state concentrating mainly on income transfers and social services, the broader view includes other elements as well. Thus, not only the generosity of the social state but also issues of employment, wages, and overall macro-economic steering are considered integral components of the welfare-state complex (Esping-Andersen 1990).

Over recent years, a number of researchers have contributed to the concepts of national welfare state models (see e.g. Arts and Gelissen 2002; Bonoli 1997; Castels 1998; Cousins 2005; Esping Andersen 1990 and 1996; Urbe 2013). One of the most influential authors in this field is Esping-Andersen who developed a "ranking" of how advanced a welfare state is, putting north-western Europe in the first position. This typology evolved along the lines of two major components. The first one is the **degree of decommodification** which is defined as exit from the labour market with little or no loss of income. This word comes from the verb "to commodify" or the noun "commodity". When workers are commodified, they must sell their labour-power on the market to survive which means that in a certain way they become a commodity. The highest degree of decommodification implies that they do not have to sell their labour to survive and thus they are emancipated from market dependence.

[2] The broad definition developed by Esping-Andersen has been chosen, since the thesis i.a. relies on two Esping-Andersen's ideal types of the welfare state.

It is important to add that the decommodification potential is an "umbrella term" which consists of several indicators such as "(...) eligibility and entitlements criteria, duration of benefits and income replacement levels" (Leschke 2008: 53).

The second element is the organisation of solidarity which can be defined as social policies aiming at a desired social **stratification** (Esping-Andersen 1990). It is measured by status segregation (number of occupationally distinct pension schemes) and by means-testing and share of private-sector welfare. The degree of universalism (share of the population eligible for benefits) and of equality in the benefit structure influences the level of stratification as well (Leschke 2008: 53).

Based on his argumentation, Esping-Andersen has developed three different types of the welfare state: **social-democrat, conservative** and **liberal**. Typical representatives of the first model are Scandinavian countries with high benefits, universal entitlements, a high level of decommodification and a low level of social stratification.

The second model is the **conservative** (or Bismarckian) represented by continental Europe with Germany as the ideal type. It implies a medium level of benefits and earnings-related status based entitlements, which are administered by the employer. Practically it means that in comparison to Scandinavian states, conservative welfare regimes provide fewer comprehensive and universal social rights in the way of benefits entitlements, since the level of provisions are linked to the employment status. Notwithstanding, they still provide higher levels of decommodification of labour compared to liberal welfare state models. A similar classification among welfare state concepts is used in the level of protection provided against life-course risk and in the degree to which class and intergenerational inequalities are reduced (Bosch et al. 2009: 7; Esping-Andersen 1990:77). Another important distinction between the social-democratic and continental welfare state type is the extent to which welfare obligations are assigned to the household, rather than the state. In practice this means that the conservative models tend to provide strong incentives for married women to stay at home, concentrating the welfare state benefits on the male breadwinner and therefore supporting “familiarism” (Esping-Andersen 1996: 66).

While conservative social policy can be also seen as seeking to preserve traditional patterns of social stratification, the third **liberal model** aims at the opposite. The key idea of classic

liberal concept is that traditional social patterns constrain individual freedoms, and that a free market gives individuals the ability to fulfil their potential without the paternalism imposed by existing social institutions. Thus, the classical liberalism pursues the aim to liberate economic welfare from social institutions and to make it dependent wholly on the market (see also Scruggs and Allan 2006: 4). The liberal archetype is the Anglo-Saxon model (countries such as the United Kingdom, Ireland, the US, Canada or Australia) with modest benefits, strict, means-tested, recipient stigmatising entitlements, a low level of decommodification and with a social stratification mainly based on market results (cf. Esping-Andersen 1990; 1996). However, one similarity between the Anglo-Saxon and the social-democrat model with regard to the universalism of benefits (priority of the welfare principle over the insurance principle) existed. The UK's social insurance system was inspired by Beveridge and based on principals of equality and universalism. But starting from the 60s, the British system began to stagnate with the gradual privatisation of social insurance (Leschke 2008: 54).

Despite the analytical and conceptual advantages of the Esping-Andersen's model, critics point at several shortcomings. The main argument is that his typology does not pay due attention to national differences. For instance, Arts and Gelissen (2002) argue that it is important to further work on and to refine the typologies suggested. In their opinion, it is a weakness of the model that Esping-Andersen did neither include the Mediterranean[3] (or included them in the conservative model), nor the Central and Eastern European countries. Bonoli (1997) argues that Mediterranean welfare-regimes are characterised by a high degree of fragmentation, a lack of an established minimum social protection but rather generous allowances in particular areas.

However, although it is important to be aware of some shortcoming of the Esping-Andersen model, for the purpose of the thesis, they are of less relevance. Germany and the United Kingdom fall within the same category according to consistent opinion among scientists dealing with the welfare state. Thus, the thesis will use Germany as a prototype of the conservative model and the United Kingdom as a representative of the liberal regime.

[3] Mediterranean countries e.g. are: Spain, Italy, Portugal and Greece.

In order to underpin the argument above, with respect to the choice of the two countries, a second much-cited model will be introduced. It stems from Hall and Soskice (2001) who distinguish between two contrasting typologies among advanced European countries, labelled as "**liberal**" (LME) versus "**coordinated market economies**" (CME). Countries, in which social partnership traditions have been deeply integrated, belong to the second category. By contrast, countries in which this institutional embeddedness is missing belong to the liberal market model. The most significant difference between these two models lies in their respective "comparative institutional advantage". It is to say that in coordinated economies the protection of employees' rights is stronger and collective actors, such as employers' organisations and trade unions, play vital roles in establishing cooperative relationships (Hall and Soskice 2001). "Thus, institutions may offer greater opportunities for the formation of strategic alliances between actors and this may induce capital to be "patient" in the short run for the stake of higher revenues in the long run. At the core of this interaction are institutional complementariness, a mutual reinforcement of institutions governing the capital, labour and product markets" (Bosch et al. 2009:6). By way of contrast, liberal market economies rely on institutional settings of a different nature. Usually, they are very open to foreign trade and investment, and have the "volontarist" industrial relations systems (McCormick and Hyman 2013: 24). The main argument of Hall and Soskice is that neither first nor second model is per se more economically efficient, and "both can harness their respective institutional comparative advantages to good effect in the unforgiving global economy". However they note that the CME, with strong labour market institutions and generally more generous social arrangements, implies much lower levels of income inequality than is tolerated in the LME (Hopkin and Blyth 2004: 3). While the first group is represented e.g. by Germany, Belgium and the Netherlands, in the second group countries like the United Kingdom and the United States are included (Bosch et al. 2009:5).

For all their virtues, however, the two models introduced above also have real limits. Firstly, even though they acknowledge change, they do not provide a coherent theoretical framework explaining the transformation of welfare regimes (Leschke et al. 2008:55). For this reason, later on, a second model on incremental change stemming from Streeck and Thelen (2005) will be introduced. Secondly, the theories were written more than a decade ago. Although, they very well capture the differences between the industrial relations and the access to the welfare state systems in the conservative and the liberal models, they did

not include the development with regard to the extent of atypical employment and how it is related to both regimes. They just acknowledge that the conservative model is traditionally associated with stronger employment protection legislation than the liberal one. Of course, it is perfectly understandable why they have not included non-standard employment in their analyses. For instance, the theory of Esping-Andersen was based on the political, socio-economic and ideological conditions of the 70s and 80s. At that time, atypical forms of contract were still rare or just emerging, and society was prevailed by male breadwinners with relatively stable work conditions (Leschke 2008:55). Esping-Andersen itself later on criticised his approach stating that it is mainly based on programmes concentrating on maintenance of work income and it is rested too much on the standard industrial worker (Esping-Andersen 1999:73, cf. Leschke 2008:55).

However, the existing literature (see e.g. Bosch et al. 2009; Countouris 2007; Keller and Seifert 2013; Schmeißer et al. 2012; Schmid and Protsch 2009; Stone and Arthurs 2013) makes it clear that the atypical employment has become an important topic in the recent years. Therefore, I suggest including a further element, namely the extent of the atypical employment. In that case, the core elements in both welfare state models which will be analysed are: **the access to the welfare state systems, the extent of the atypical employment** and **the industrial relations**.

In the methodological chapter, the explanation how the three chosen welfare state elements differ within the two ideal-typical welfare state regimes will be given.

Apart from analysing the differences in the welfare state models, the thesis pays due attention to the changes in their patterns. The idea of the social protection system that has emerged in the 2nd half of the 20th century has undergone several changes and is in an on-going process of modification until today (Cousins 2005:85). This should not be surprising for us. Welfare states are complex regimes, whose goals, functions, and institutions transform over time, however gradually and incompletely. Currently, changing welfare states closely follow the route of post-formative path-dependent transformation and innovation. Hence, it is necessary to address the politics of changing welfare states, not as rigid models, but, more dynamically, as open regimes closely linked with the processes of evolutionary social and economic modifications (ibid.).

Besides the description of the social models, majority of contributions therefore addresses the question of the transformation of the welfare states. Esping-Andersen, for instance, argues that modern welfare regimes have opted for more deregulation and privatisation in order to overcome high unemployment rates and the economic crisis, which started at the end of the 70s (Esping-Andersen 1996:8). However, he also emphasises that path-dependence plays an important role in how the models have been reshaped. He claims that the UK has opted for the most liberal ideology, whereas Germany has remained faithful to the conservative model (ibid. 10ff.). However, as noticed above, these observations are quite limited. Although, Esping-Andersen provides fruitful insights to demonstrate that welfare state struggle with emerging challenges, he does not develop a theoretical framework to explain the self-transformation of welfare regimes.

Bosch et al. (2009) are also concerned with the question of challenges to the welfare models in Europe and responses to them. They try to analyse either the national models have been maintained, revitalised, reshaped or even destabilised during their transformation. The researchers seek to evaluate the changes in the patterns of the welfare regimes in order to analyse the consequences of these modifications. In doing so, they use the theory of Streeck and Thelen (2005) which is supportive in exalting incremental changes.

Continuing the tradition of the contributors mentioned above and perceiving welfare states as dynamic concepts to steer society, this thesis aims not only at describing the different concepts of the social models but at observing patterns of change. The extent of atypical employment relations, the development of the welfare state generosity as well as the changing role of the industrial relations and the role of trade unions in particular are used as concepts to observe changes.

2.2 Why do welfare states self-transform?

In order to understand contemporary welfare state challenges, it is vital to analyse why they are in flux. The present section summarises frequently used explanations on the welfare state changes. These explanations also form part of a theoretical framework which will be presented in a later stage. To be more precise, the outcome of the transformation is often dependent on the causes of the changes.

The fact that the welfare regimes have changed over time is undisputed among authors dealing with the welfare states. However, there are conflicting views on how far these changes go and why welfare states change at all. Concerning the first issue, two prevailing streams of literature exist: the first describes the welfare state as being rigid, stable and unlikely to radically change. An influential contribution to this view is written by Pierson (1996), emphasising continuity over change. The key idea of this work is that in the last decades welfare state models have experienced great pressure, struggling with emerging challenges such as high unemployment rates. In order to address new challenges, governments have modified some minor elements of social policies. However, the core elements of social provisions which were developed during the post-war period have remained stable over time and will continue to exist.

The second stream of literature takes the opposite stand, pointing out to welfare state regimes which are less rigid and open for changes. An influential contribution stems from Thelen (2004) who is convinced that welfare states are able to overcome the path dependence and to modify themselves even though the process of modification might take many years and be fulfilled through small and less visible steps than radical changes. The key message of this work is that it is fruitful to investigate the stable periods in which the majority of gradual changes take place that can have the same effects as a crucial external shock (see also Béland 2007). Another work (Streek and Thelen 2005) describes the gradual transformation of modern capitalism in advanced European countries driven by the idea of social market economy to more market-oriented and market-accommodating capitalism without dramatic disruptions such as wars or revolutions (Streeck and Thelen 2005: 4). This thesis is affiliated to the second view, since there is strong evidence that the welfare regimes have changed over time and therefore cannot be described as stable and rigid any more (see e.g. Bosch et al. 2009; Hemerijck 2002).

There is a multitude of factors that come into question as potential explanations for change. This part will provide an overview, while the case specific influence and combination of factors will be analysed in detail in the case studies below.

There is a great variety of welfare state regimes. However many scholars who observe the European models of welfare state refer to the ESM. It was introduced to describe the commonalities which all European models share and to distinguish them from both the

market-oriented United States and the Communist regimes (see also introduction of the thesis). The ESM is closely connected to some constrains of capitalism, within which there is place to develop and to maintain a public space and to protect rights of citizens and employees. These shared beliefs are the basis for the ESM (Bosch et al. 2009: 2). However, this common ground is increasingly challenged by external and internal factors (ibid.).

The pressure to reshape the national models has been fortified through different channels: through national politicians being put under economic and financial constraints, through international organisations such as the EU which has developed several guidelines how to cope with emerging challenges. It came also from the WTO and the OECD. Changes in international governance, for instance, play an important role in the liberalisation process. They include, e.g., international agreements aiming at opening up markets and removing trade barriers (like the EU Directives on competition, which imply freedom to provide services or various WTO rules) (Keller and Seifert 2013: 467).

The pressure to change can be captured in three broad intertwined categories: economic, demographic, and ideological (Ervasti et al. 2012: 8).

When health service, unemployment and other social expenditures started to rise more rapidly than the public revenues, the **economic** sustainability of the welfare state was questioned (Ibid.).

Globally dominant ideologies and the public discourses connected to them are an important channel to put pressure on national welfare regimes. They question the compatibility of competitiveness with high employees and social standards and lobby for less strict rules in order to compete at the international arena (Ervasti et al. 2012: 8). As a case in point, trade competition led to many labour intensive Western European industries shifting their production sites to Eastern Europe and South East Asia (Hemerijck 2013: 53). The purpose was to decrease the costs of production and to persuade states to relax their labour standards.

Another critical dimension is the globalisation of finance. As a result of the economy globalisation as well as the deregulation of the international finance, macro trade imbalances in the last ten-fifteen years have been increased. While emerging Asian markets such as Singapore or China have produced large current account surpluses, other countries

such as the US, Spain or Greece have run large current account deficits. This happened mainly because some countries such as Germany and China have accumulated high savings (ibid.: 55f.). Moreover, through liberalisation and deregulation, states moved away from more spending during crises towards greater austerity. "While economic internationalisation constrains countercyclical macroeconomic management, increased openness exposes generous welfare states to trade competition, because capital is allowed to cross borders and move to countries with lower social costs" (ibid. 56). Thus, instead of prioritising lower unemployment rates and income equality, the European states are forced to prioritise the goal of balanced public budgets as well as low inflation fiscal and monetary policies (ibid.).

Concluding, it can be said that the literature identifies a number of factors that impinge on the economic sustainability of the welfare state, many of which can be related to the globalisation of production, services and capital markets.

The second challenge for the welfare state regimes is connected to the **demographic** change in European societies. On the one hand, there are more elderly people due to a higher life expectancy. On the other hand, low birth rates lead to ageing societies. Due to the aging population, the state is forced to spend more on pensions and health care for the elderly, the costs of which have to be covered by a stagnating or decreasing working population (Ervasti et al. 2012: 8). Another challenge is related to the changing patterns of family structures. A number of researches highlight the growing diversity of living arrangements as well as the emergence of new family forms (such as unmarried cohabitation, divorce, lone parenthood, and family reconstitution). The boundaries of families have expanded beyond the nuclear married couple with children which forces to rethink the traditional welfare state models often based on the male-breadwinner welfare provision (Hantrais 2003).

The **ideological** challenge is closely linked to the economic situation in a country. The economic crises in the 1970s were the turning point towards political liberalism, with an increased trust in market forces and as little as possible government intervention in the economic and in societal matters. This shift in the ideology has been manifested through the fall of communism and the openness of new markets in the CEE. The trust in market solutions has slowly convinced social-democrat parties which began to undertake reforms in the direction of liberalisation and flexibilisation of labour market (Ervasti et al. 2012: 8).

To sum up, in the last three decades, the European welfare state models have been put under pressure from different angles: economic, demographic and ideological. However, states are expected to resist these pressures. The reason behind this is that states are stable and rigid, unwilling to modify the well-proven strategies. Only crucial events such as revolutions or upheavals can lead to sudden ideological shift. This theoretical framework is known as historical institutionalism, underling the importance of path dependence (see e.g. Thelen 1999). However, analyses undertaken above indicate that there is evidence that national models did not preserve their traditional ideologies and often modified their welfare regimes in order to cope with the emerging challenges. How can the historical institutionalism then explain this transformation, without being able to identify crucial external shocks? In the next section, the theoretical insights of this question will be provided.

2.3 Institutional change in advanced European countries: theoretical framework

This section provides a theoretical framework in order to explain incremental changes in the welfare state systems over time. Although the question what causes change remains disputed, some sophisticated analytical tools exist in order to approach the question "how institutions evolve" (Béland 2007:20). Before proceeding with the theoretical framework, it is important to define what (welfare) institutions are. Welfare encompasses a various set of institutions, both formal and informal. Despite an increasing number of contributions sailing under the flag of institutionalism, there is no universally accepted definition of institutions (Weishaupt 2011: 26). This thesis follows Weishaupt, who defines institutions "(…) as formalised rules, which are enforceable by a third party". The key advantage of this definition is that it is comparatively narrow and concrete, without being overly deterministic (ibid.: 38f.).

The starting point of the theoretical analysis is historical institutionalism, which assumes that "(…) a historically constructed set of institutional constraints and opportunities affects the behaviour of political actors and interest groups involved in the policy process" (Béland 2007: 21; Thelen 1999). Scholars of historical institutionalism have paid attention to the

question of the long-term impact of institutional legacies on policy making, pointing out the importance of radical change. Only recently, the theory of historical institutionalism began to emphasise the importance of gradual institutional change (Béland 2007: 21; see also Streeck and Thelen 2005; Thelen 2004).

The book written by Thelen (2004) criticises the rigid nature of historical institutionalism being unable to explain incremental changes. Early scholars of historical institutionalism have presumed that institutions change over time because of exogenous shocks leading to the detachment from path dependence and giving impetus for transformation. Thelen does not fully reject the idea of dramatic disruptions such as wars and revolutions being typical for the first half of the twentieth century. However, she holds that most changes occur outside of these crucial junctures and that in many cases, the gradual causes of changes are more likely to play the major role for institutional transformation. Her key message is that it is vital to pay greater attention to the supposedly stable periods so as to fully understand the institutional change. In these periods a majority of gradual changes take place that can have the same effects as a crucial external shock (Béland 2007; Thelen 2004). Streeck and Thelen point to the problem that because the gradual change is not as visible as the abrupt one, many influential authors show only little interest and prefer to argue that continuity dominates change. The common view with regard to the welfare state regimes, for instance, is that while they are probably facing difficult times, being forced to take the path of austerity, social policy provisions remain secure, since they are placed on the core of each advanced economic country, being strengthened with popularity among people and connected to the a certain standard of life (Streeck and Thelen 2005: 6).

As a result of the criticism mentioned above, scholars started to pay more and more attention to various channels through which institutions may change over time (Rocco and Thurston 2014). Streeck and Thelen (2005: 19), for instance, suggest five different indicators of incremental but nevertheless transformative change which they call displacement, layering, drift, conversion and exhaustion. ***Displacement*** is described as the replacement of an old institution with a stable new one which usually occurs along with a shift of power. Existent power is undermined or discredited in favour of new paradigm. This can occur as a result of growing number of actors activating, cultivating or rediscovering alternative institutional forms. "(...) [They] defect to a new system, previously deviant, aberrant,

anachronistic, or "foreign" practices gain salience at the expense of traditional institutional forms and behaviours" (Streeck and Thelen 2005: 20). Displacement can occur through a rapid radical breakdown of institutions but it can be a slow-moving process as well. ***Layering*** is the construction of new institutions alongside similar existing institutions. This can happen when change is imposed on top of existing regime persistent to changes. New systems coexist parallel to the intractable old. Such amendments can, however, modify the overall direction of an institution's development and bring substantial change (Thelen, 2004:35). ***Drift*** is defined as institutional change through policy inaction. It can eventuate as a result of ambiguities in processes which force some actors to rethink their previous duties and responsibilities. For instance, "[a] disjuncture between social programmes and changing profiles of social risk can (...) [lead to drift]. [As a case in point], slow changes in families structures may alter the composition of risk and therefore also de facto welfare state coverage" (Streeck and Thelen 2005: 25). Drift occurs, when the institution remains stable but the social situation the institution is meant to regulate changes incrementally. ***Conversion*** means a redirection of old institutions to serve new goals. This can occur as a result of changes in political interplay of forces or in environmental changes. What is different in comparison to other forms of changes is that the institution and not its target changes and adapts to an emerging paradigm. ***Exhaustion*** is institutional breakdown through gradual rather than abrupt collapse. It may occur when institutions become blind to the political or economic changes happen around them and thus they are not adequately prepared to deal with the future (see also Comodromos and Ferrer 2011: 333; Rocco and Thurston 2014:37).

Bosch et al. (2009) pointed out that although these five different modes of incremental change provide a great theoretical framework, they have some limits. For instance, they cannot explain a scenario in which actors might try to "(...) rebuild institutions in an environment where deregulation of product markets threatens the erosion of the social content of the employment models" (Bosch at al. 2009: 17). Hence, it is not clear how Streeck and Thelen can explain the **revitalisation** of the traditional welfare state models though a range of reforms and institutional reforms. Thus, the attention of the thesis will be also paid to possible revitalisation of the welfare regimes.

It is important to note that only a limited number of contributions underpin the theoretical framework of Streek and Thelen. Thus, more empirical studies must be conducted in order to shed light on the existing theoretical model (see e.g. Béland 2007; Rocco and Thurston 2014). Therefore, the thesis at hand attempts to contribute to the empirical analysis concerning the question of institutional change. In doing so, it will use the praxis of two European countries (GE, UK) and analyse the incremental changes in their welfare state regimes over time. Six categories described above will be applied.

Based on the previous observations, I have developed the following matrix, which will be used to evaluate changes that occurred in Germany and in the United Kingdom (see Table 1).

Table 1 Types of institutional change: processes and outcomes

Core Elements of Welfare State	Possible patterns of change
Access to social provisions for all types of workers	Drift, Layering, Exhaustion, Conversion, Displacement, Revitalisation
Extent of atypical employment contracts	Drift, Layering, Exhaustion, Conversion, Displacement, Revitalisation
Density of trade unions and system of collective bargaining	Drift, Layering, Exhaustion, Conversion, Displacement, Revitalisation

(Sources: own completion based on Busch et al. 2009; Streeck and Thelen 2005).

The table above summarises the theoretical framework of the previous section. It clearly shows that all three core elements of the welfare state may face six possible outcomes. There is no direct link between a particular element of the welfare state and the potential result. However, factors that have been presented above may play an important role in which direction the transformation heads. Thus, during the case studies, I will try not only to carefully examine the outcomes of reforms, but also to understand why a transformation took place. After each case, the same table will be drawn, comprising findings of Germany and the United Kingdom. In the last section, the findings will be compared.

3. Methodology and operationalisation of the research question

What follows is the brief introduction to the domains under investigation: the extent of atypical employment, the changing role of trade unions, and developments in the generosity of the welfare state. Thereafter, an explanation of how they differ within the two ideal-typical welfare state regimes will be given.

3.1 Core elements of liberal and conservative welfare regimes

1) The access to the welfare system and in particular fundamental social services

The idea of the social protection system has emerged in the 2nd half of the 20th century and has already undergone several changes being under process of modification until today (Cousins 2005:85). "Welfare state change is a work in progress, leading to patchwork mixes of old and new policies and institutions, on the lookout perhaps for more coherence" (Hemerijck 2013:11). Usually, the term "welfare" implies an active role of the state in governing economic and societal structures aiming at achieving a more equal society (Leschke 2008: 52). However, some distinctive features between the liberal and the conservative regimes with respect to the access to the welfare provisions exist.

The access to the welfare system: Britain and Germany compared

The United Kingdom introduced compulsory unemployment insurance in 1911 with the objective of an active search for work. Later on, it was strongly influenced by the Beveridge reforms in the 1940s with the main goal to combat underemployment "(...) by distinguishing between workers actually seeking employment, and therefore entitled to benefit, and (...) "unemployable" people, dependent on welfare" (Lefresne 2010:175). The scope of social protection has been always limited due to traditional norms of a liberal work ethic (Leschke 2008: 54). The low level of benefits with a strong emphasis on the means-testing and the

short duration of entitlement eligibility have always stigmatised beneficiaries. The aim has always been to encourage jobseekers in finding a new job as quickly as possible. Thus, the level of the decommodification has been traditionally low in the UK.

The German welfare roots date back to the time of Bismarck, who in 1873 created a social insurance system that rested upon the occupational and class status. This pay-as-you-go system is based on contributions through which a worker acquires claims to later benefits. The purpose of the German welfare system has been to guarantee workers a high level of security and predictability by maintaining an individual's position in the income hierarchy or their social status acquired through work (Veil 2010: 61). Traditionally, these guarantees were granted only to male workers with standard contracts and their families. Solidarity has always played much more important role in Germany than in the UK. However, the state has usually stepped in only in case the self-support capacity within the family has been exhausted. Thus, German citizens have traditionally enjoyed a moderate level of decommodification.

Among the welfare state researchers it is undisputed that the level of **generosity of the welfare provisions in Germany** is higher than in the UK. Esping-Andersen and Hall and Soskice confirm that the conservative welfare state spends more money on social provisions, aiming at status maintenance beyond employment. By contrast, the liberal model emphasises means-tested benefits, which aim in particular at those who are in dare needs (see Esping-Andersen 1996; Hall and Soskice 2001). Nevertheless, even in countries that belong to the liberal model, the grade of generosity may vary, from being almost purely based on individual responsibility, as in the US, to the more generous ones such as the UK.

Thus, in terms of the generosity of the welfare state, two elements will be analysed. The first element is the level but also the duration of the unemployment benefits, together with the conditions for the eligibility. If today's German welfare provisions contain relatively generous unemployment benefits with a quite long duration and an easy access to the entitlements aiming at status maintaining, this would point to the maintenance of the conservative elements. The derogation from these fundamental principles and the retrenchment of the provisions would point to a shift to the liberal model. Together with the unemployment benefits and social assistance, the pension system will be analysed as well. Similarly as the

unemployment benefits, the pension entitlements considerably differ between liberal and conservative models. The emphasis of the liberal system is on private savings, while the conservative system relies on life-long contributions both from the employers' and employees' and topped up by public contributions. Thus, it will be researched, if the German pension system has remained loyal to its ideology or shifted into a liberal direction through introducing private pension schemes.

The same applies the United Kingdom: the terms and conditions of the unemployment benefits and social assistance as well as the pension schemes will be investigated with the aim to see if the welfare state provisions maintained the traditional role or moved to a more liberal or conservative direction.

In order to make the results more precise, the six suggested concepts measuring the direction of the transformation will be used: drift, layering, exhaustion, conversion, displacement and revitalisation.

2) Employment relations in advanced economies

For more than four decades after 1945, workers enjoyed a range of social rights in the majority of industrialised countries. They included protections against unfair treatment at work, decent wages, health insurance, vacation entitlements as well as old age assistance. These rights comprised what is usually referred to as the typical employment contract (Stone and Arthurs 2013:2). For instance, in order to assure a high level of job security, most advanced countries guaranteed workers effective protection against arbitrary dismissals, made redundancies prohibitively expensive, and limited the ability of employers to use atypical workers, like those hired on temporary or short-term contracts. Therefore, the standard employment contract, though not universal but with country as well as with group-specific differences, constituted a norm (ibid.).

Additionally, in many developed countries, the standard employment contract was the platform from which many other social rights mentioned above were derived. It gave the dependent workers a strong feeling of security and foreseeable future, supporting them to invest in housing or other capital goods, planning marriage and parenthood in advance. Furthermore, the standard employment contract, through providing governments with solid

revenue streams on the basis of income and consumption taxes, enabled the post-war welfare state (ibid.; Countouris 2007:55).

Starting from the mid-1970s, globalisation, new technology and other developments in the political, economic and social environment, have increasingly placed the traditional legal shape of employment under strain (Countouris 2007: 41). Consequently, the legal and regulatory strictures once facilitated, provided and protected the traditional employment model have been partly replaced by new types of employment structures. They have meant that fewer and fewer workers are covered by standard employment contracts, which has led to increased job insecurity and its disadvantageous consequences (Stone and Arthurs 2013:3).

However, it is vital to emphasise that the industrialised countries have always varied in the organisation of the employment contracts, which can partly explain the differences nowadays. For instance, because of the differences in the employment relationship, the implementation of concrete forms of atypical employment may differ significantly in Germany and in the UK. But its overall increase over the last decades constitutes a general trend (JILPT 2011)[4]. Thus, in the next part, the core differences between the liberal and the conservative welfare state models in terms of the employment relationship will be pointed out. The operationalisation of the employment relationship domain is necessary to answer the research question.

Employment relations: Germany and Britain compared

While in Germany, the worker-protective regulation has been deeply integrated into the conception of the standard employment contract, the traditional employment relationships in the UK have been a conventional practice rather than a truly integrated legal paradigm (Freedland 2013: 87).

The trade unions in Germany have for many decades played a crucial role in serving as watchdogs of labour rights and high labour standards. In the United Kingdom, to the contrary, the employment protection legislation has never been as strong as in Germany

[4] Atypical employment relations are defined below as the derogation from the typical full employment relation. Due to country specific characteristics, there will be an operationalization in each of the country specific parts. Comparability is safeguarded by the identification of similar features and comparative statistics.

(Hopkin and Blyth 2004: 3). Thus, while the conservative model has been associated with decent work and collective responsibility to provide good quality jobs, the liberal welfare state has favoured an individual responsibility in this matter.

From these observations the following assumptions derive: the forms of atypical employment are rather associated with a liberal welfare regime because they are putting a strong emphasis on the self-responsibility of individual workers. The expansion of the atypical employment contracts in Germany would mean that it has moved closer to the liberal idea of self-responsibility. On the other hand, the reduction in non-regular work would mean the revitalisation of the traditional conservative idea. If the number of employees with non-standard contracts remains more or less stable this would point out to the stability of the German model. The same applies for the UK, with a difference that British workers traditionally have enjoyed fewer rights than their German colleagues.

However, not only the quantitative data matter. It might be e.g. the case that the atypical employment has quantitatively grown in both countries but it is more strongly protected in one country than in the other, for instance in terms of access to social rights. Thus, the extent of atypical employment will be linked to qualitative indicators and the other two domains under investigation. The aim is to develop a connection between three elements and to explain them mutually. In particular, the access to welfare provisions such as unemployment benefits and pension schemes as well as the protection of atypical workers through trade unions' will be also compared.

3) The industrial relations and the role of trade unions

The period after the end of World War II, which lasted about 30 years, is considered to be the "Golden Age" not only because of economic growth but also due to trade unionism in the advanced European economies. By 1950, trade unions organised in average between a third and two-thirds of workers, exercising considerable influence on national decision-making processes and being important actors in promoting sustained economic growth. (Phelan 2007: 16).

However, due to the economic shocks of the 1970s, the "Golden Age" came to an end for the trade unions as well. As already noticed, two categories of countries with distinct patterns of labour relationship can be differentiated: countries, in which social partnership

traditions were deeply integrated, the CME and countries, in which this institutional embeddedness was missing, the LME (Bosch et al. 2009:5).

It is to say that the first group has suffered less from the economic crisis, than the latter one, in which the union power and union density declined significantly (e.g. in the UK density decreased from 55 per cent in 1979 to only 25 per cent in 2013) (OECD 2015a). In the CME trade unions were better embedded politically, which retarded their declined even though they could not evade it either (Phelan 2007:18). For instance, density in Germany fell from ca. 29 per cent in 1995 to 17.7 per cent in 2013 (ibid.; Keller and Seifert 2013: 460). However, the problem of an eroding membership is not the only one. Rather trade unions have been facing several difficulties (Ebbinghaus 2002: 3). The decline in both union density and membership are often discussed in connection with structural, cyclical, and institutional factors.

Industrial relations from a German and a British perspective

Both Esping-Andersen and Hall and Soskice emphasise the respective differences between the industrial relations in Germany and the United Kingdom. The LME or liberal model is associated with a voluntary character and non-binding outcomes of negotiations between the social partners. On the contrary, the SME or conservative model is characterised by strong collective actors playing a crucial role in establishing cooperative relationships binding collective agreements (see Esping-Andersen 1996; Hall and Soskice 2001). However solely institutional embeddedness of social partners do not provide the entire information about the strengths of the trade unions. As the UK's case studies will show, the trade unions, even without enjoying a favourable legal basis, could play an important role in the employment matters for some decades. They have never been as strong as the trade unions in conservative welfare states but rather influential for a liberal model. Thus, the distinction between liberal and conservative model primarily shows the way of coordination and organisation of the industrial relations.

Consequently, two elements of the industrial relations in Germany will be analysed: the density of trade unions and the role of collective bargaining. In Germany, the density of trade union has been never as high as e.g. in some Scandinavian countries (OECD 2015a). However, the membership in a trade union has played a vital role due to its social relevance.

To be more precise, trade unions have been seen as conflict insurance in case of arbitrary dismissal or other legal disputes. Only members were eligible to use the expertise of the workers' organisations. Additionally, the unions are fully financed by their members and consequently dependent on their membership.

Thus, a significant decline in the membership of the TU would indicate a decreasing power as well. Contrary to that, a growth in membership would mean an increasing power of the trade unions. The statistics on the TU density do not tell much about the transformation of the industrial relations in a particular direction, since the density of the British trade unions before the oil crisis was higher than in Germany (OECD 2015a). Thus, it makes more sense to observe developments in unions' density in conjunction with other indicators. A significant decline in coverage of collective agreements in Germany would point into the liberal direction of the welfare regimes, since the liberal model has never had an embedded institution of collective bargaining. However, it is important to take these two indicators not as separate things but together, since the density of the membership to a great extent influences the success of collective bargaining (Interviewee A).

In case of the United Kingdom, the density of the TU will also be analysed, since in the same manner as in Germany, the number of members partly indicates the power of the unions. A declining membership would also mean a power decrease because the British trade unions are also financed by their members. Since the collective bargaining as institutional embeddedness has never existed in the UK but has been based on the voluntarily character, we also need to observe legislative amendments. They might point to both directions: the role of trade unions might be weakened or strengthened.

As already stated above, the influence of trade unions and the forms of employment contracts are interrelated. In practice it means that the extension of atypical employment might also point to the weakening role of the trade unions (Ebbinghaus 2002: 3). Table 2 summarises the key elements for both welfare regimes.

Table 2 Core principles of ideal-typical liberal and conservative welfare regimes

Welfare Regimes Type	**Liberal/Anglo-Saxon**	**Continental/Conservative**
Prominent representatives	UK, US	Germany, Netherlands
Unemployment benefits	Residual Entitlements with poverty	Employment based Entitlements with income

	Alleviation objective Means-tested Of short duration (6 months or less) Restrict access	maintenance objective Non means-tested Longer duration (1 year or more) Easy access
Social assistance	Means-tested (often combined with the unemployment benefits) (Un)limited duration	Means-tested (after the exhaustion of the unemployment benefits) Unlimited duration
Pension system	Very low state pensions combined with the private pensions Below the minimum level without a private contribution	Public pay-as-you-go Very high effective replacement rate Private contribution is not needed
Protection of the standard employment contract	Liberal work ethic (self-reliance) atypical employment more likely to appear and is less protected	Good quality of work strongly protected by social partners atypical employment less likely to appear and is better protected
Social partnership and trade unions in particular	Based on voluntary character Lower coverage with collective agreements Middle range density of trade unions	Deeply integrated in the society High coverage with collective agreements Middle range density of trade unions

(Sources: own completion based on Hemerijck et al. 2013; Esping-Andersen 1990 and 1996; Hall and Soskice 2001).

3.2 An explanatory model of change

Table 3 below serves as a practical tool to further clarify distinctive features of the six possible observable indicators.

Table 3 Characteristics of institutional change

	Displacement	***Layering***	***Drift***	***Conversion***	***Exhaustion***	***Revitalisation***
Removal of old rules	yes	no	no	no	no	yes
Neglect of old rules	_	no	no	no	yes	no

Changed impact	_	no	yes	no	no	no
Enactment of old rules	_	no	no	yes	no	yes
Introduction of new rules	yes	yes	no	no/yes	no	no/yes

(Sources: own completion based on Mahoney and Thelen 2010).

Let us closely examine this table. The first feature is **removal of old rules**, which indicates the case of displacement or revitalisation. It means that one or several existing practices must be abolished through a new law. To demonstrate, a particular government abolishes unemployment benefits based on contributions and instead implements something different, e.g. a flat-rate benefit. The second feature is **negligence of old rules**, which is typical for exhaustion. If the old practices are still in place but ignored by politicians and/or by society, then we face negligence of old rules. An example can be that the system of collective bargaining is an official instrument to conclude employment contracts. However, in practice employers prefer to negotiate working conditions individually, since the reality has changed and trade unions lost their influence to exercise pressure on the employers to accept collective agreements. In this case, we can clearly observe that old practices are neglected, since they exhausted themselves. The third feature is **changed impact of old rules**, which is distinctive for drift. This can happen through political inaction. To illustrate this, we can imagine that in a country unemployment benefits may be given only to employees and workers, while self-employed are excluded from them. It is not a problem, since only 2 per cent of all working population are self-employed. However, over time, more and more people became self-employed. When they lose their jobs, they now face problems to sustain their life, since they are not eligible to the benefits. Thus, in this example, drift appeared due to the change of reality and an inadequate or non-response of the government. The next feature of the institutional change is **enactment of old rules**, which can materialise in conversion and revitalisation. To demonstrate, an existing institutional element serving a particular purpose is redirected to carry out another function, which was initially not intended. An example can be that unemployment benefits are also paid for students who otherwise cannot afford studying because there is no other social provision supporting students during their studies. It can happen e.g. in the case that the government recognises that there is a gap in the code of law, which can be closed without introducing

new laws. The last characteristic is **introduction of new rules**, which might be the case in displacement, layering and revitalisation. This feature is quite distinctive conditioned upon the implementation of a new law. Depending on other conditions e.g. if the old rules were abolished or not or if the new bill is aiming at deregulation a field or rather at regulating it stricter, we can speak about one of the three possible patterns of change. An example can be an introduction of a non-means tested unemployment benefit, which has not existed before.

Last but not least, it is worth mentioning that the reality is more complex than the theoretical model and thus it is not always possible to provide a clear-cut set of characteristics. For this reason, the table also serves as a simplification of the possible changes as well as a helpful illustration to which the reader can return during the reading process. This might be of particular use while approaching the case studies section.

4. Case studies

4.1 Germany

This chapter starts off with observations on the welfare state provisions in place before the reforms happened. Then it explains why changes occurred and thereafter, the current state of the welfare arrangements will be discussed. In the second part, definitions and delimitations of non-standard employment contracts will be introduced and the main changes in the employment field will be analysed. Thereafter, the changing role of industrial relations and their links to atypical employment will be addressed. After the analysis of welfare state elements, the enhanced theoretical model of Streeck and Thelen will be applied so as to theoretically explain the changes in the welfare regimes. The section ends with an overall conclusion.

4.1.1 The generosity of the welfare state

German welfare state - The Bismarckian tradition

Germany is part of the Continental group of welfare-state regimes which have their political roots in Christian democracy. After World War II, a generous benefit system, financed by contributions and taxes, was developed (Jacobi and Kluve 2006: 4). Core values of the continental or conservative welfare regimes include status maintenance and the support of a traditional male breadwinner nuclear family structure (Hemerijck et al. 2013: 21; Esping-Andersen 1996: 66). Thus, traditionally, the Bismarckian system of social insurance has been closely connected to the link between employment position and/or family status and social entitlements. The core assumption was that men work full-time and that they have continuous, uninterrupted careers, which clearly shows an occupation-oriented approach as a central element of the conservative welfare state (Van Kersbergen 1995). In practice, this means that a **generous welfare state** has traditionally been closely connected to **standard employment.**

The Bismarckian Tradition in crisis

Compared to other EU countries, the main features of the German welfare state in the 1990s were high expenditure levels in combination with a long duration of programmes. Measures like training and public job creation were the most important in terms of expenditure and number of participants. Arrangements aiming at the direct integration into regular employment (e.g. wage subsidies and start-up subsidies) only played a minor role. In the same way, sanctions for low engagement in job search activities were rarely applied (Jacobi and Kluve 2006:6). However, this model worked mainly because of a low unemployment rate, which amounted to 5 per cent before the unification (Smolny 2009: 5).

During the 1990s, Germany was significantly marked by the aftershocks of unification of the German Federal Republic (FRG) and the German Democratic Republic (GDR). The Federal Government decided to adjust the wage levels in the new *Länder* to the level of the old *Länder*, despite the fact that they lagged significantly behind in terms of productivity. This suffocated sustainable growth and made the eastern part dependent on massive payment transfers from the West to the East. Thus, massive social transfers from the western to the eastern part of the country amounted to ca. 150 billion EUR per year and made the state struggle with the financial burdens of reunification (Jackson and Sorge 2012). In addition, approx. 40 per cent of the jobs that existed in Eastern Germany were destructed. As a large share of the Eastern German workforce was inadequately trained for immediate employment in an open market economy, the unemployment problem accelerated in the whole country (Knuth 2007: 1). On top of that, the ceilings for public spending introduced by the Treaty of Maastricht further worsened the outlook for an expansive macroeconomic policy (Jacobi and Kluve 2006: 3f.).

Between 1997 and 2003 German unemployment rates ranged between 9.6 per cent in the West and 18.6 per cent in the East, being among the highest in the EU. Moreover, besides the increased unemployment rate, the probability of those being unemployed to remain so for a long time (in many cases, until retirement) grew massively as well (Knuth 2007:1). In like manner, from 1991 until 2003, German GDP increased only by 18 per cent, which was half the growth of the United Kingdom (35 per cent) or the Netherlands (34 per cent) during that period (Jacobi and Kluve 2006:3; Knuth 2007: 1). In order to address massive

unemployment and sluggish economic growth, German government decided to adjust the generous system of wage replacements for the unemployed to the new reality of the united country (Knuth 2007: 2).

The response to the crisis and its consequences

In 2002 the Red-Green Coalition under the leadership of former Chancellor Gerhard Schröder initiated a series of policy changes. An expert commission was appointed (officially, the Commission for Modern Services in the Labour Market or the Hartz Commission) of representatives from trade unions, politics, business and academia headed by Peter Hartz, back then Volkswagen director for human resources. The responsibility of the Commission was to develop a plan how to decrease the unemployment rate by two million within three years through activation and more effective and rapid job placement. These ideas stemmed from the European Employment Guidelines aiming at *attracting more people in employment through modernisation of social protection systems* (see Jacobi and Kluve 2006). Some months later, the *Hartz Commission* presented a comprehensive plan with a number of proposals, many of which were later implemented in four consecutive legislative steps and are well-known as Hartz reforms (BMAS 2002). These reforms (2003-2005) indicated a remarkable shift toward activation policies, closely linked to a significant liberalisation of employment relations and self-employment (Hemerijck et al. 2013: 22; Jacobi and Kluve 2006).

Reforms on unemployment benefits and pension system

Five goals of the reforms can be distinguished: 1. **Modernisation of the Federal Agency for Work** (*Bundesagentur für Arbeit),* a body responsible for administering unemployment benefits, counselling and job placement services as well as implementing active labour market policies. It has been modified along the lines of New Public Management, establishing results-based accountability and controlling of the local employment agencies. 2. Introduction of some new instruments of **active labour market policy** as well as **flexibilisation** of the existing labour law: for instance, the definition of **suitable work** was broadened (e.g. including the obligation to move to a different city under certain circumstances) and sanctions in case of non-compliance more stringently applied. Conditions for receipt of unemployment benefits became stricter. Moreover, the establishment of start-

ups has been encouraged, also by introducing new forms of self-employment such as Me-company (one person business/family business or *Ich-AG)*. This includes a possible subsidy from the state, if the claimant's income does not exceed 25,000 EUR per year. 3. Introduction of the so-called "*Minijobs*" (a job which generates a monthly income not more than 400 EUR) and "*Midijobs*" (with a maximum amount of monthly earnings of 800 EUR), for which social security contributions from the employees' side are reduced or even exempted (Jacobi and Kluve 2006: 12). 4. **Reduction** of the maximal periods **of eligibility for contribution-based unemployment benefits.** 5. Reshaping the benefit system for the workers who exhausted their contribution-based benefit claims, by **merging unemployment assistance** and **social assistance** into one (Hartz IV).

Until the end of 2004, Germany had three types of the unemployment benefits: 1. In case of unemployment, workers were covered by the unemployment insurance. Unemployment benefits (*Arbeitslosengeld*) until today replaces up to 60 per cent of the previous net earnings. The maximum duration of benefit payment was reduced from 32 months to 24 months during the reforms. The benefit is now labelled unemployment benefit I (UB I or *Arbeitslosengeld (ALG I)*). 2. Before the reform took place, those who had exhausted their unemployment benefit entitlement or those who were not (yet) entitled to unemployment benefits were eligible for unemployment assistance (*Arbeitslosenhilfe*), a tax-financed, means-tested transfer of an unlimited duration. This was an extraordinary feature of the German unemployment benefit system. It replaced up to 57 per cent of prior net earnings and led to the highest replacement rates for long term unemployed among all OECD countries (OECD 2004). 3. The basic idea behind the German welfare state is that those are eligible to receive public transfers, whose own income falls short of their needs. Thus, before the Hartz reforms, individuals could claim social assistance *(Sozialhilfe*), if their total income fell below the legally defined subsistence level. Social assistance thus was a means-tested program that was provided also to top up labour earnings and unemployment benefits in case of need (BMAS 2002 and Riphahna and Wunder 2013: 4f.).

After the reform, unemployment assistance and social assistance were combined in the unemployment benefit II (UB II or *Arbeitslosengeld II (ALGII)*), a means-tested and tax-financed benefit. Individuals who become unemployed receive UB I and after the exhaustion of their UB I eligibility, can apply for the UB II. The benefit covers the legally defined

minimum income and is not related to prior earnings. Individuals in need can claim UB II, if they are able to work at least 15 hours per week. Those who are not able to work (e.g., due to sickness or disability) remained eligible to social assistance (BMAS 2002; Riphahna and Wunder 2013: 4f.). These benefit adjustments combined with a reinforced conditionality, meaning the duty for the employee to actively search for and accept less suitable job offers than before, drew inspiration from New Labour in the UK. It also encompasses the deregulation of atypical employment relations (Hemerijck et al. 2013: 21). The milestone for this flexibilisation was the "Act on Part-time and Temporary Employment" (“*Teilzeit-und Befristungsgesetzt")*, which has been implemented in 2004. It allowed fixed-term contracts not only if there are objective reasons (such as time-limited funding for a project or a contract) but independent of any justification, for a period of up to two years or even up to four years in a newly established enterprise. Before 2004, the use of temporary employment was much more restricted (Bispinck and Schulten 2011: 6).

In summary, following the new principle of “supporting and demanding" (*Fördern und Fordern*) the main objective of the so-called Hartz IV reform was to increase in both employment prospects and work incentives for benefits recipients, in order to reduce the number of individuals dependent on social welfare (Wunsch 2006: 12).

Reforms on pension system

In 2007, the grand coalition of the Social democrats and Conservatives agreed to increase the retirement age to 67 by 2029 as a response to population aging. Another key change in the pension system was the introduction of the so-called *Riester* pension in 2001 (named after the former Minister of Labour and Social Affairs). Before that the statutory pension system encompassed the largest share of participants and the highest benefit expenditure. The focus on the statutory system is based on the constitutional principle of social justice, aiming at maintaining the obtained standard of living for the old population (see Ante 2008; Borsch-Supan and Wilke 2003). The replacement rate was about 70 per cent at the end of the 1990s (Börsch-Supan et al. 2012). Another important specificity of the German pension system was a high dependence on the individual employment record with a strong connection between contributions and entitlements at the end of the working life. This model was mainly concentrating on the male breadwinner, working 40 hours a week without significant interruptions (Ante 2008).

The *Riester* reform introduced a new pillar in the pension system, aiming at voluntary private contribution. Through this pillar, private old-age provisions were enacted, reducing the state contributions to pension from above 70 per cent to around 67-68 per cent by the year 2030 (Interviewee C; see also Bäcker and Kistler 2014; Borsch-Supan and Wilke 2003). Although the *Riester* pension was intended to be a voluntary instrument, its aim was to address the "pension gap". This gap has been generated by incrementally reducing the generosity of the public pay-as-you-go pensions, especially in response to an aging population (Interviewee C; see also Börsch-Supan et al. 2012).

The effects of the reforms

These changes have had far reaching effects on the functioning of the German employment market. The published evaluations of the Hartz reforms for the Federal Ministry of Labour and Social Affairs *(Bundesministerium für Arbeit und Soziales (BMAS)*) conclude that they had a significant impact on the labour market, primarily through better matching of labour supply and demand as well as greater incentives to work (Brenke at al. 2006; Trésor-Economics 2013). Indeed, the employment situation improved considerably. Germany's unemployment rate fell from almost 11 per cent in 2005 to 7.5 per cent in 2008, reaching 6.2 per cent at the end of 2014 (Statista 2015c). Moreover, "[w]elfare state reforms reduced both taxes and expenditures from around 48 per cent to 43 per cent of GDP between 1999 and 2009. For instance, spending on labour market policy fell from ca. 4 per cent of GDP during the unification era to just 2 per cent in 2009" (Jackson and Sorge 2012: 1152).

Although the unemployment rate has been improved, this success must be weighed against some downsides of the reforms. According to the study published by the Federal Statistical Office, Germany had 41.5 million people employed in 2012, the highest number in its history. However, the total working volume was at 1991 levels. This development has mainly been caused by the fact that since the Hartz reforms took place there has been a significant increase in **atypical employment**, i.a. in part time work. Consequentially, it was above all the low-wage segment[5] that expanded between 1995 and 2010 by more than 22 per cent or 6.6 million employees (Dribbisch and Birke 2012: 9).

[5] Defined as less than 66 per cent of the median income.

Furthermore, the poverty rate[6] increased significantly between 2000 and 2005, from 12.5 to 14.7 per cent and has continued to increase. In 2010, already more than 15 per cent of Germans were affected by poverty (inequalitywatch 2012). This is at least partly attributable to structural effects, in that the Hartz reforms put people to work in temporary or part-time jobs, which does not allow them to cross the poverty line (Trésor-Economics 2013). Through the introduction of *Riester* pension, the poverty rate is likely to increase even further (inequalitywatch 2012).

To sum up, the reforms indicate a shift in the liberal direction. First of all, the conditions for unemployment benefits have tightened, since it is required to contribute 12 months out of the last 2 years instead of the last 3 years, as it was before the reforms were introduced. Another important change occurred in terms of the duration. It has been shorted to 1 year (or 2 years for persons above 58). The amount of unemployment benefits has been reduced from 67 per cent of the reference wage[7] to 60 per cent. However, the nature of the unemployment benefits, namely the non-means-tested character and the generous entitlements remained in place.

Another important change was the merger of the unemployment assistance and the social assistance into the social assistance or UB II. The main amendments were the introduction of sanctioning mechanisms, forcing the beneficiaries to actively search for a new job even if this entails worse employment conditions than in the previous one. Passivity became an undesirable behaviour, which has to be punished. This logic has strong similarities with the liberal welfare model, which relies on self-responsible individuals. Another key adjustment was the reduction of benefits, making them flat-rate and strictly means-tested. These reforms clearly indicate that the purpose of receiving Hartz IV is to survive during the transition period from being unemployed to finding a new job instead of maintaining the unemployment status for a longer period before an appropriate job can be found. The pension system became less generous as well. Through the introduction of *Riester* pension, Germany made a step toward private pension schemes coming closer to the liberal welfare state.

[6] A person having less than 980 EUR per month is considered to live under the poverty line (inequalitywatch 2012).
[7] The reference wage is usually the last wage a person receives before she or he becomes unemployed.

Forms of change in the new welfare provisions in Germany

Table 4 Core principles of German social provisions before and after the reforms

	Germany (prior to reforms)	Germany (today)
Unemployment benefits	**Non-means-tested**	**Non-means-tested**
Conditions	12 months contributions during the last 3 years	12 months contributions during the last 2 years
Duration	Max. 32 months	Max. 1 year for under 58
Amount	Up to 67% of reference wage	60% of reference wage average: 775 EUR monthly
Sanctions	Non	Non
Pattern of change	***Layering***	
Unemployment Assistance	**Means-tested**	**Means-tested**
Conditions	Exhaustion or non-eligibility to the unemployment benefits	Exhaustion or non-eligibility to the unemployment benefits
Duration	Unlimited duration	Unlimited duration
Amount	Up to 57% of prior earnings	A low flat-rate benefit
Sanctions	Practically non	Reduction of Hartz IV if not active in job seeking
Pattern of change	***Layering and Conversion***	
Pension schemes	**Pay-as-you-go**; pension level: more than 70%; Aim: to guarantee living standards	**Pay-as-you-go**; level ca. 68%; introduction: *Riester* pension; Aim: mixture of guaranteeing living standards and poverty avoidance
Pattern of change	***Layering***	

(Sources: own completion based on Esping-Andersen 1990 and 1996; Hall and Soskice 2001; Hemerijck et al. 2013; MISSOC 2014;).

How can this be read applying the patterns of change under the theoretical lenses of Streeck and Thelen? As Table 4 above shows, two types of changes can be observed.

(1) In the case of the **unemployment benefits** is **layering** which means that new rules were created to foster changes without directly seeking to abolish existing practices. More concrete, the non-means-tested nature of the social provisions remained stable, while the duration as well as the conditions were tightened. Thus old rules were not neglected, which speaks against exhaustion. Drift is also not suitable, since old rules remained intact and the politicians evidently reacted to a changing environment. Because some new practices were introduced, conversion as a pattern of change is not applicable either.

(2) In the case of the **social assistance provisions**, a new system of sanctions was created, while the means-tested character did not change, which speaks for **layering**. Similar to the unemployment benefits, old rules were not neglected but they are still intact, which speaks against exhaustion. Drift did not occur either, since the government actively reacted to the emerging challenges. Displacement is not suitable either, since old practices are still valid. Because some new rules were introduced, criteria for conversion are not fulfilled. Lastly, no introduction of new rules or change of old practices aiming at extending generosity of social provisions can be observed, thus revitalisation is not applicable either. This new system disadvantages mainly long-term unemployed, who, after one year of being unsuccessful in finding a new job, have to rely on social assistance, which became less generous and more restrictive than prior to the reforms.

(3) Layering can also be observed in the **pension schemes**, where a new element of *Riester* pension was introduced, while old instructions remained in place. The same applies for this case: existing practices were not neglected because the public pension scheme is still working, which speaks against exhaustion. Because of the active government, drift did not happen either. Displacement is not suitable either, since old rules are still applicable. *Riester* pension was newly introduced, ruling out conversion as a pattern of change. Moreover, no introduction of new rules or change of old rules aiming at improving social protection in old age can be observed, thus revitalisation did not occur either. Till now, it is difficult to judge how it will affect the aging population as a whole, since the reform will show its impact only after 2030. However already today, we can see that it will disadvantage people in irregular employment since the German pension system is built around a person working full-time without significant interruptions. With the decrease of replacement rate from more than 70 per cent to 67-68 per cent, especially people under atypical employment will be forced to rely on private savings in order to reach the minimum income level for the retirement period.

(4) Another pattern of change which derives from the observations above is **conversion**, meaning the changed enactment of existing rules due to their strategic redirection. More concretely, it means that the **UB II** or the **unemployment assistance** that initially followed the aim to support unemployed people during their active search for a job, have been partly redirected. Linked to the flexibilisation of labour conditions through which atypical types of

employment either emerged or were extended, the low-wage segment expanded as well. This led to a considerable increase in working poor who needed to rely on income subsidies (Dribbisch and Birke 2012: 9). Thus, despite the fact that ca. half of the beneficiaries are unemployed people, a new purpose of Hartz IV emerged as well, namely to support workers whose earnings are not sufficient to cover their life expenses (O-Ton Arbeitsmarkt 2014). In this particular case, layering would not apply, because no new official rules for working poor were introduced. Displacement would not be suitable either since the old system of unemployment benefits was not replaced by a new one. Exhaustion is obviously not applicable either, since there was no negligence of old practices. Additionally, no introduction of new rules or change of old rules aiming at extending social protection can be observed, thus revitalisation did not happen either.

Due to the increasing importance of atypical employment, the next section of the paper will deal with this concept and its developments in the last years.

4.1.2 The extent of non-standard employment

Standard and Atypical Employment in Germany: Definitions and delimitations

In the existing literature, atypical (or non-standard) employment is usually defined in contrast to the so-called standard employment model. The concept includes rather heterogeneous substantive forms which require further clarification (Mückenberger 2007). Despite the lack of a broadly accepted definition, labour market scholars often regard the following characteristics as constituting the standard employment relationship:

- full-time employment with an income sufficient to enable independent subsistence,
- permanent employment contract,
- complete integration into the social security systems (particularly unemployment, health and pension insurance),
- work relationship and employment relationship are identical,
- employees are subject to the direction by the employer (Dostall et al. 1998; Duell and Duell 2002: 9; Keller and Seifert 2013: 458).

Atypical employment deviates from standard employment in terms of at least one of the indicated criteria:

- **Part-time employment** (Teilzeitarbeit), the most common form, is characterised by less regular weekly working hours than collective agreements define for standard employment (about 35 to 40 hours); pay is proportionally reduced.
- **Marginal employment** (geringfügige Beschäftigung) represents a specific German version of part-time employment that was extended in 2003/2004 by the Hartz laws. Monthly earnings resulting from these so-called "**mini-jobs**" have to remain below the threshold of 400 EUR.
- The Hartz laws also introduced so-called "**midi-jobs**", another German peculiarity, whose monthly remuneration limits are between 401 and 800 EUR.
- **Fixed-term (or temporary) employment** (befristete Beschäftigung) means that the contract automatically ends after an indicated period; existing legal provisions of dismissal protection do not apply.
- **Agency work** (Leih- or Zeitarbeit) differs from all other forms because of its tripartite relationship between the employee, the agency and the company hiring the employee. This peculiarity causes the important triangular link between the employment relationship (between the agency and the employee) and the work relationship (between the company as a client and the employee).
- **Self-employment** (Selbstständigkeit) can also be considered as a form of atypical employment. It has long-term consequences for social security systems, especially the sub-group without employees, the so-called solo-self-employment (Keller and Seifert 2013: 459).

Moreover, numerous empirical surveys show that all forms of atypical employment bear a higher risk of precariousness[8], since the wage gap between standard and atypical employment increases the risk of poverty during and after working life. Here, further differentiations are needed: people employed in part-time work have the lowest risk of

[8] Keller and Seifert (2013) use four indicators to analyse the risk of precariousness: a wage that is less than two-thirds of the median hourly wage; a lack of employment stability (a lack of the opportunity of continuous employment); low employability (the absence of the life-long ability of an individual to find and maintain employment); low level of integration into the different branches of the social system (pension, health and unemployment insurance) with special emphasis on the pension system.

precariousness, whereas employees carrying out fixed-term and agency work face the highest risk of poverty (Duell and Duell 2002; Keller and Seifert 2013: 464; Standing 2011).

The changing patterns in the work relationship in Germany

Closely connected with the Hartz reforms and with the decreasing influence of the trade unions since the 1990s (which will be addressed below), the German employment model also started to face various changes. Already since the 1990s, part-time employment increased steadily and it became the most widespread form of atypical employment. In 2013, more than 25 per cent of all employees worked part-time, which exceeds the EU average. This phenomenon is also closely related to the growing participation of women in the labour market, who account for more than 80 per cent of all part-time employees. (Brenke 2011: 15). About 20 per cent of part-time employees stated that they work part-time involuntarily (Statistisches Bundesamt 2013).

Furthermore, in 2013, more than 7.3 million employees work in so-called mini-jobs. When the Hartz Law was introduced in 2003, this category increased from 17 to 20 per cent of all part-time employees between 2003 and 2004. Since 2004, the number has remained more or less stable. However, further distinctions have to be introduced, since the mini-job can be the sole job or an additional one. The first form is dominant among the mini-job category (70 per cent), which makes it quite problematic with regard to the social policy regulation and also because approx. one third of the people employed in mini-jobs would prefer working more hours (see: Brenke 2011; Keller and Seifert 2013: 460).

Fixed-term employment has also increased by ca. 10 per cent in comparison to the early 1990s (in average, almost 50 per cent of all new employment contracts are fixed-termed). Agency work accounts for only 2 per cent of all atypical forms (although the numbers are quite modest compared to the UK and the Netherlands, it has doubled since the introduction of the Hartz Laws). Solo self-employment (among which bogus self-employment *Scheinselbständigkeit* is widespread) has increased from 4 to 7 per cent of the total workforce. Especially the construction sector saw the amount of solo-self-employed doubled within 10 years 66,000 in 1998 to 129,000 in 2009. (Bispinck and Schulten 2011: 14). Some evidence shows that dependent employees have been partly replaced by solo-self-employed

workers to circumvent higher employment costs prescribed by collective agreements (Ibid.), both in the construction sector and in the business-related services.

Additionally, ca. 4 per cent of all employees receive wage subsidies due to their low incomes. The majority of them are carrying out mini-jobs (Keller and Seifert 2013: 461 and 465). To illustrate the findings above, in 2012, for instance, every fifths employee (22 per cent) has been performing atypical work - especially women (33 per cent), young people between 15 and 24 years (33 per cent) as well as people without any vocational qualification (37 per cent) (Statistisches Bundesamt 2013[9]).

To sum up, atypical employment has grown to more than one-third of the entire workforce since the early 1990s when only ca. 20 per cent were in atypical employment relationships. This high proportion points to the fact that atypical employment cannot be considered applying only to a minor segment of the aggregated labour force anymore but it constitutes an increasingly frequent common "exception" (Keller and Seifert 2013: 461). Moreover, it is important to indicate that the decreasing unemployment rate between 2005 and 2008 was predominantly due to an increase in atypical forms of employment contracts through the Hartz reforms (Statistisches Bundesamt 2008). Because of these trends, the proportion of unemployment insurance recipients in comparison to unemployment assistance recipients decreased between 1999 and 2015. For instance, in 2004, 47 per cent of all those eligible for benefits received unemployment insurance and 53 per cent Hartz IV (Leschke 2006). In 2015, ca. 0.92 million received unemployment benefits, while around 4.5 million had to rely on Hart IV (Statista 2015a,b). From those 4.5 million recipients, only 2 million were unemployed (Bundesagentur für Arbeit 2014: 24; O-Ton Arbeitsmarkt 2014). The rest were carrying out atypical work, belonging to the so-called *Aufstocker*[10]. This shows that firstly only a small proportion of persons are eligible to the non-means-tested unemployment benefits. Secondly, the majority of persons receiving unemployment benefits II are actually in employment.

Table 5 Development of atypical employment in Germany 1991-2013

[9] For a detailed overview of the developments in the atypical employment relations from 1991 till 2013 see Statistisches Bundesamt 2013: Table 5.
[10] *Aufstocker* literally means people who work poor and receive top-up benefit (own translation).

Year	Self-employed (% of all workers)	Temporary (% of all employees)	Part-time (% of all employees)	Marginal employment (% all employees)	Agency work (% of all employees)	All atypical (%)
1991	9.7%	5.0%	14.0%	n.a.	0.4%	20%
1992	10.05%	7.8%	14.3%	n.a.	0.4%	n.a.
1997/9	10.8%	8.1%	17.7%	11.3	0.7%	n.a.
2000	10.9%	8.8%	19.8%	12.4%	1.0%	27%
2005	12.4%	10.1%	24.5%	14.8%	1.4%	34%
2013	11.2%	13.4%	22.4%	15.0%	2.3%	37%

(Source: own completion based on: Keller and Seifert 2013; OECD 2015b; Seifert 2010).

Forms of change in atypical employment in Germany

How can the patterns of change in employment relationships be interpreted by the theoretical model of Thelen and Streek? In the present case, we clearly face a differentiation of the labour market, since the majority of the labour market participants still work in standard employment relationships, while an increasing amount of people, namely about 37 per cent of all employed persons, works under atypical conditions.

(1) Looking through the lenses of Streeck and Thelen, **layering** as a pattern of change would come closest to explain the new reality in **employment relationships**. It means that the old system of traditional contracts in which a person (usually a man) works full-time, has an unlimited contract and does not have significant interruptions during his working life time, was not abolished. However, through the reforms but also through the demographical changes and especially the increased number of women participating in the labour market, once marginal elements of the German welfare model became far more important. Additionally, some new elements were added as well. All of them are covered under the realm of non-standard contracts. Therefore, standard and non-standard employments co-exist and together constitute a new reality on the German labour market.

Why are other patterns of change not suitable? Drift did not occur, since the condition of passive government is not fulfilled. Displacement does not apply because the condition of removing old rules is missing. Conversion does not suit, since there is no enactment of old practices as in the case of the Hartz IV reforms. Old rules were not neglected either, since the majority of workers enjoy strong labour rights, which speaks against exhaustion. Last but not least, there was no introduction of new rules and change in old practices aiming at strengthening workers' rights, thus revitalisation did not occur either.

Table 6 Atypical employment and conditions for access to social provisions before and after the reforms

	Germany (prior to reforms)	**Germany (today)**
Atypical employment	Between 20% and 27% (1991-2000)	37%
Conditions for access to social provisions relevant for atypically employed workers		
Hours or wage threshold	Earnings threshold of 322 EUR; threshold at 15 hours	Earnings threshold of 400 EUR
Minimum contribution period	UB: 12 months of contributions during last 3 years; UA: 150 days of contribution Part-time workers: no disadvantage Temporary workers: no disadvantage	UB: 12 months of contributions during last 2 years; UB II: no contribution requirement Part-time workers: no disadvantage Temporary workers: abolishment of unemployment assistance; shortening of reference period - problematic
Dependence on former wage level (only applies to part-time workers)	Unemployment benefits: yes: 67% Unemployment assistance: 57% Part-time workers: special rules for those who change from full time to part-time	Unemployment benefits: yes: 60% Unemployment benefits II: no, low flat-rate basic benefit Part-time workers: special rules for those who change from full time to part-time
Dependence on former contribution time	UB: yes, 12 months of contributions = 6 months of benefits (max. 32 months)	UB: yes, 12 months of contributions = 6 months of benefits (max. 12 months; 18 for people above 58); Social assistance: no Temporary workers: disadvantaged if short contract duration

Pattern of change	*Layering*

(Sources: own completion based on Keller and Seifert 2013; Leschke 2006: 132).

4.1.3 Industrial relations

The traditional role of trade unions and collective bargaining

This part aims at introducing the traditional role of trade unions and collective bargaining in Germany and its development. It also applies the enhanced theoretical framework of Streeck and Thelen to describe changes.

For most of the 1960s-80s, Germany was regarded as one of the countries being successful in combining economic growth and social equality (Lehndorff et al. 2009: 105). Traditionally, secure (equated with standard) employment has been a major institutional feature that reflected the strength of labour in the post-war period. Collective bargaining has been seen as a driving force in the development and definition of standard employment relationships (Haipeter 2013: 115). A high level of dismissal protection has been another key instrument of the decommodification of labour and a clear orientation to the single male breadwinner model, typical for a conservative welfare state model (see Jackson and Sorge 2012; Lehndorff et al. 2009). Some authors characterise the German system by virtue of the "beneficial constraints" (Streeck 1997) imposed on German capital by strong labour unions and institutions, fostering long-term strategies, both for employees' and employers' organisations.

The German system of collective bargaining was shaped in the 1950s and 1960s and can be characterised by two distinguished features: 1. a rather stable system of industry-level collective bargaining by trade unions and employer' associations (with around 80 per cent of employees being covered by collective bargaining agreements), with a relative lower density of unions' members (around 36 per cent in the late 70s) and a dominant German Trade Union Federation *(Deutscher Gewerkschaftsbund, DGB).* The low density of union's members can be explained, as Germany's Constitution *(Grundgesetz)* guarantees freedom of association, which means for workers the right to organise in trade unions. At the same time

this also implies that TU membership is not obligatory and nobody can be forced to join (Dribbusch and Birke 2012:2).

Because of the dominance of the DGB, unions were able to conclude centralised agreements with employers' associations even despite a low membership density. The DGB consists of eight affiliated trade unions, with around 6.2 million members at the end of 2011 and it represents the general interests of its individual trade unions with regard to political decision-makers and associations at federal, *Länder* and local government level. The DGB as a confederation is financed by the individual TU and workers are not members of the DGB, but of its affiliated TU, to which they pay their membership fees (ibid.). The individual DGB TU are: Metalworker´s Union, United Services Union, Trade Union for the police etc. Additionally, there are two other important TU confederations: German Civil Service Federation *(Beamtenbund und Tarifunion, DBB)* and the German Christian Trade Union Federation (*Christlicher Gewerkschaftsbund Deutschlands, CGB).*

2. The second characteristic of the German employment model has been codetermination by works councils, which are workers' representative bodies that enjoy legally defined rights of codetermination (along with consultation and information) that are formally independent of the TU (Haipeter 2013: 117). However, in practice, both bodies have worked closely together, with the majority of works council representatives being members of the TU. The works councils have carried out important functions such as recruiting union members and controlling the implementation of collective bargaining, whereas the TU have supported the works councils by providing them with consulting and training services (ibid.).

The industrial relations in flux

As it has been already noted, the historic turning point when the German model started to face problems were the years 1989/1990.

Alongside unification, other factors contributed to the faltering of the German model, which i.a. led to strong criticism of the trade unions and their positions. As a case in point, the German model has often been criticised for its high wage level. The effects of globalisation accelerated global competition: countries such as Japan could combine high quality production with significantly lower costs, which made the country more attractive for investors than Germany (Jacobi and Kluve 2006: 3). Additionally, the opening of Central and

Eastern European countries constituted a unique opportunity for German industry to relocate production abroad (Interviewee B; Dustmann et al. 2014: 182). Due to their stable investment climate, low labour costs and geographical proximity, the CEE countries became attractive for German investors. Although the process of moving the production to Central and Eastern Europe has taken place quite slowly and moderately (the German FDI to the CEE amounted to 2.3 per cent in 2010) (Dustmann et al. 2014: 182), the International exit options made it quite easy for employers to put pressure on both workers councils and unions (Haipeter 2013: 119). All in all, employers were willing to increase their competitiveness by reducing costs, were less eager to accept collective bargaining agreements and started to reject the former logic of wage increases based on advances in productivity (ibid.).

Hence, Germany came under pressure to decrease the cost of production, too. Thus, during the 1990's, Germany was often described as the "sick man of Europe", in particular for allegedly driving up labour costs and therefore impeding employment growth in the services sector, especially in the low-wage sectors (Lehndorff et al. 2009: 105).

In the course of reunification, the new *Bundesländer* predominantly had to embrace West German institutions, since there was no interest to transfer any GDR practices to the FRG (Vail 2010: 67). The extension of social protection to Eastern Germany, the creation of industrial-relations institutions, the adaptation of Western institutions of social partnership, state aid for restructuring and infrastructure improvements, support for private investment and the privatisation of the Eastern Economy have to be addressed in order to adjust the new *Länder* to the Social Market Economy of West Germany (ibid.: 74-75). Public support as well as the government´s activism to adjust the new *Länder* to Western standards led to a relatively smooth transformation. However, collective bargaining could not take roots in the East German *Länder* (Ritter 2006). Thus, the key feature of German corporatism and coordinated capitalism was absent in East Germany (Lehndorff et al. 2009: 113).

All in all, around 2000, the German export machine regained its momentum and the unemployment rates started to decrease in 2006, marking a revitalisation of the German economy (Dustmann et al. 2014). The regain of economic power was i.a. achieved through the liberalisation of the national economy, a process similar to many other Western countries. The voices of liberalisation were strengthened by the European Union, in order to

fulfil the Maastricht criteria and to comply with the European Central Bank policy[11] (Lehndorff et al. 2009: 113). However, even though the voices promoting neoliberalism began to become strong earlier, the German economy started to deregulate only after the unification, seeing it as the only way to overcome the crisis (ibid.: 111).

The new reality

The achievement in the economic performances left traces on the trade unions. Their membership decreased significantly, as did their influence. Trade union density fell from ca. 29 per cent in 1995 to approx. 20 per cent in 2004 (Keller and Seifert 2013: 460; OECD 2015b;). At the end of 2013 only 17.7 per cent of employees were members of trade unions meaning that just less than one out of five employees were members of a TU. There are many explanations for this tendency. When the majority of East Germany's trade union confederation, the Free German Trade Union Confederation (*Freier Deutscher Gewerkschaftsbund, FDGB)* joined DGB trade unions in 1990 and 1991, the DGB´s total membership increased. Shortly thereafter, however, during the restructuring and deindustrialisation of East Germany's economy, membership declined again. In the same fashion, many jobs in Western Germany in well-organised sectors of industry were lost due to rationalisation, restructuring and relocation. Privatisation of the railways and the post together with the workforce cuts in large former state-owned firms negatively influenced the membership as well. Likewise, immense outsourcing practices in the construction industry put the trade unions in a challenging position. In addition, the DGB failed to attract new members in private service companies (Dribusch and Birke 2012: 3f.).

A decreasing influence of trade unions is also connected with forms of atypical employment being on the rise since the early 1990s, albeit at different paces (ibid.). As a result of the growing deviation from collective bargaining norms, both because of the increased non-union sector (the collective bargaining sector covered about 80 per cent in the mid-80s and decreased to 65 per cent in West Germany in 2009 and to 54 per cent in East Germany) and the unwillingness of some companies to comply with the collective bargaining norms, Germany became the only country in the EU in which real wages fell from 1995 onward. Following these changes, TU lost much of their previous status and started to agree to

[11] For Germany, a prominent memorandum written by the former Minister for Economic Affairs played an important role in rethinking its policy (Lambsdorff 1982).

accept the decentralisation of collective bargaining in the form of derogation clauses and increasingly confining themselves to defending existing labour standards (Interviewee B; Haipeter 2013: 119; Lehndorff et al. 2009: 121).

Another important factor for a declining trade union density was that collective agreements apply to all employees of a company that fall under the scope of the agreement, independent of whether they are union members or not. Hence, there is a lack of incentives for employees to sign up for a trade union membership. Even members started to doubt the benefit of being a member. This had negative repercussions for the unions' negotiation position with the employers (Interviewee A) and led to less protection of workers and declining standards in the employment relationship as the Interviewees A and B mentioned (see also Dribusch and Birke 2012).

To sum up, it is to say that since the mid-1990s, the composition of the labour force changed significantly. These changes are closely connected with a decline in the TU membership and in the coverage of collective agreements which has been accompanied by increased concessions to the employers and the rise of atypical employment in the whole country (Dribusch and Birke 2012: 13).

Forms of change in industrial relations in Germany

What can be inferred from the theoretical model of Streeck and Thelen about the changes in the industrial relations in Germany? In the present case, we obviously face two parallel tendencies: the declining membership of the trade unions and the declining coverage in collective bargaining system. Similar to the two previous cases, there is a differentiation between the core workers who are still covered under the collective agreements and workers who have to negotiate their working conditions on their own. However, in this case layering would not be an appropriate pattern of change. In the GDR, the system of trade unions existed as well. However, the membership was compulsory for all workers and the Free German Trade Union Federation, the only TU in the GDR, was seen as the right arm of the state apparatus and not as the protector of workers' rights (Interviewee B). Thus, after the unification, many people cancelled their membership immediately, seeing the TU as a burden instead of an ally. These developments can be seen until today, where the density of trade unions and collective bargaining is higher in West Germany than in the Eastern *Länder.*

(1) Thus, **partial exhaustion** can best describe what has occurred in the field of **industrial relations**. The old system of collective bargaining was not abolished which speaks against displacement. But it was decisively weakened and individual bargaining started to play a much more significant role than it used to be in the 1990s. As it was the case in the previous two parts non-organised workers in atypical employment relations do not have a strong protection form the TU's side. Table 7 below summarises the development of union density and collective bargaining in Germany over the last decades.

Exhaustion occurred only partly because there is a significant difference between the old and the new *Länder.* However, it must be stressed that the implementation of old institutions in the new Länder is a special case, which is not perfectly captured by the theoretical model of Streck and Thelen, since in the case of exhaustion, the old rules are supposed to be neglected. For the GDR, everything was new, since everything had to be built from the scratch after the unification. Thus, the rules of Western Germany were partly neglected in the East or the acceptance of the old rules was much weaker in East Germany than it was in the Western part. Hence, despite some limitations, we can call it partial exhaustion.

Table 7 Development of union density and collective bargaining in Germany

Year	Union density (whole Germany)	Union density (West Germany)	Union density (East Germany)	Collective Bargaining – workers in % (whole Germany)	Collective Bargaining – workers in % (West Germany)	Collective Bargaining – workers in % (East Germany)
1979	35.3%	35.3%	n.a.	n.a.	n.a.	n.a.
1987	33.3%	30.0%	n.a.	ca. 80%	ca. 80%	n.a.
1997	27.00%	26.3%	25.7%	n.a.	76%	63%
2007/9	19.9%	21.2%	17.8%	61%	65%	54%
2013	17.7%	n.a.	n.a.	55%	60%	47%

(Source: own completion based on: Biebeler and Lesch 2006:4-5; DGB Einblick 2014; OECD 2015a).

Why would other patterns of change be inappropriate? Layering is not applicable since no new rules were introduced. Drift is not suitable due to the lack of changed impact of old rules because of the inactive government. Conversion would not fit, since there is no case of enactment of old practices and obviously, there is no case of revitalisation, since the situation has rather worsened than improved for the system of collective bargaining.

4.1.4 Overall conclusions on the developments in the German welfare state

The traditional German welfare state with its core feature of employment related status maintenance started to totter during social-economic tensions caused by the oil crises. The turning point was the reunification, challenging the existing model of the welfare state even further. This event triggered a series of adaptive reactions.

However, the paradigm shift happened neither immediately nor entirely. The German model was extended by a new reality only after some years of struggle and a change of government. Why was the German government not more radical in pursuing liberalisation? One of the key factors was probably the consensus-seeking nature of German electoral politics and decentralisation of power through the system of federalism. All these characteristics oppose radical shift driven by top-down policies. In particular, the majority in Bundestag was often not the same as the majority at the *Länder* level in Bundesrat, due to different election period in all 16 *Bundesländer.* Through the "veto points" in Bundesrat the radical liberalisation of German social state became de-facto impossible (see also Jackson and Sorge 2012: 1155).

Thus, through a number of labour market reforms, the German welfare state has only gradually changed its paradigm from the traditional corporatist regime, which protects with a relatively high level of decommodification or status maintenance to the paradigm of citizens actively searching for a job. Being passive started to imply a negative connotation, meaning that a passive citizen exploits the state and free rides on her or his fellow citizens. As the former Chancellor from the Social-Democrat party, Gerhard Schröder, declared in the beginning of the 2000s: “Whoever is able to work but refuses an appropriate job should

have his support cut. There is no right to laziness in our society!" (quoted from Vail 2010: 106). Thus, the German state modified its traditional Bismarckian welfare model, by taking successive and decisive legislative actions. Key characteristics, however, remained intact.

There were incremental changes that transformed the German welfare state. The weakening of the TU was a long process, rather than a sudden breakdown. Moreover, it has also occurred indirectly, since there was no law passed explicitly aiming at weakening the system of collective bargaining but the increased atypical employment relationships had a direct impact on the changing role of the trade unions.

Thus, in all three domains of the welfare state, a direction towards greater liberalisation and flexibilisation can be observed. The generosity of the social provisions decreased after the Hartz reforms were implemented, the labour law has been flexibilised and collective bargaining together with the role of the trade unions has lost its power. Still, some core elements of the conservative model were preserved as well: the welfare state remained by far more generous as it is the case in an ideal-typical liberal model. The unemployment benefits are non-means-tested and the duration of the social programmes is relative long. The major share of pension is still provided by the state. The core labour force is still employed under typical contracts and enjoys a strong protection form collective bargaining and trade unions. These trends catered in-and outsiders alike. Table 8 summarises the main theoretical findings.

Table 8 Germany: types of institutional change: processes and outcomes

Core Elements of Welfare State	Patterns of change
Access to social provisions for all types of workers	Layering and Conversion
Extent of atypical employment contracts	Layering
Density of trade unions and system of collective bargaining	Partial Exhaustion

(Sources: own completion based on Busch et al. 2009; Streeck and Thelen 2005).

In terms of the theoretical model this means that we observe layering as the most common pattern of change. Moreover, we see conversion and partial exhaustion as well. This should

not surprise us. As the theory of Streeck and Thelen suggests, incremental changes are unlikely to modify all core elements of the entire welfare state model. However, they are likely to lead to a significant shift. As the German case has shown, the gradual changes were not capable of entirely transforming or abolishing individual elements which could have led to displacement or full exhaustion. It shows that path-dependency is quite strong and that institutions which were created long time ago and have been existing for many decades are not easy to overcome. However, the implementation of new rules does not seem to be as difficult either. The case of differentiation of the welfare state elements preserves the old practices to which people developed trust but it also enforces new rules. In the case of Germany, this led to divisions in society. One group benefits from old rules, which are associated with better protection and greater generosity, while another group has to rely on less generous provisions and less protection. Trends that we could observe above do not encompass the revitalisation of elements of the old conservative system. They rather point to the deepening of processes of layering, conversion or partial exhaustion.

These changes are typical not primarily for a conservative model but probably mainly for democracies seeking to reach broad consensus among different parties. Political regimes with many veto points and federal systems like Belgium or Switzerland are very likely to face similar changes. On the contrary, countries with majoritarian regimes such as the UK are more likely to change the system in a more radical way and thus a pattern such as displacement can emerge.

4.2 United Kingdom

This section deals with the welfare state reforms enacted mainly during the Thatcher and Major period. However, in case the successors of Thatcher deviated from her path and introduced contradictory reforms, they will be addressed as well. The next section analyses the key changes in the generosity of the welfare state, first in a broader sense, then connected to the unemployment benefits and pension schemes. After the analysis, the theoretical framework of Streeck and Thelen will be applied to explain the patterns of change. Afterwards, the extent in atypical employment will be addressed and the possible explanations of how the employment relationships have changed over the last decades. Thereafter, the role of trade unions will be discussed and the main changes in industrial relations. Here, the theoretical model of change will be applied as well.

4.2.1 The generosity of the welfare state

British welfare state - the Anglo-Saxon tradition

Ideologically, the United Kingdom, as a part of the Anglophone or liberal welfare model, is built around the concept of equality in opportunities, self-responsible individuals and on the belief that freely operating markets maximise welfare (Hemerijck et al. 2013:13). Because of that, key features of a liberal welfare model are: "(...) the lack of institutions for economic coordination, the dominance of financial constraints and shareholder power, and the correspondingly low power of labour, resulting in both flexible employment and weak employee voice" (Rubery et al. 2009: 58). The welfare state provisions mainly serve as a residual safety net, aiming at those in dare need, despite high dependency on the state apparatus due to the weak and fragmented family system (ibid.).

All of these characteristics tend to put the UK in the same typological box as the US, which belong to a highly liberal welfare state. However, the British welfare state looked different prior to reforms initiated by Margaret Thatcher between 1979 and 1997, who believed that the market can solve problems in a more efficient way than the state. Till 1979, Keynesian thinking prevailed in Great Britain, with "the commitment to voluntarily collective regulation

and to a strong public sphere" (ibid.) and with the belief that a growth in aggregate demand could increase employment.

Why reform the labour market?

Prior to Mrs. Thatcher, there was a general perception that the British labour market functioned less efficiently than those in other Western countries known as “British disease” (Blanchflower and Freeman 1993: 3). When Thatcher came to power, she was convinced that the British economic performance was poor because of the following factors:

- For a non-corporatist economy, the union density was high (about 48.7 per cent in 1979[12]) and unions often acted irresponsibly, as in the 1978-79 Winter of Discontent and the 1983 Miners Strike[13].
- Contrasting with the United States where high union wages coincided with higher productivity compared to non-union workplaces, productivity in the United Kingdom was no better in union than in non-union sectors, despite a 10 per cent union wage effect.
- The UK's nominal wage grew even unemployment rose in the 1970s. Through low productivity growth and high nominal wage increases, inflation rose faster than in the European Economic Community average from 1968 to 1979 (ibid.).
- Labour productivity and output grew slower in the UK than in other OECD countries. "Real GDP per person employed rose by 2.7%, 3.2%, and 1.3% in the U.K. over the periods 1960-68, 1968-73, 1973-79 compared to 4.6%, 4.3%, 2.4% in the EEC in total" (ibid.).

Promotion of the neo-liberal ideology

In order to tackle the "British disease", the New Right under the leadership of Thatcher declared Keynesianism as an out-dated model, believing that wages and employment were two distinct variables. In the Conservative view, high wages destroyed employment especially, if they were enforced by trade unions. Wages should be paid according to demand, or value of work, instead of the artificial levels established by the collective agreements (Whitton 2003:5). Thus, the idea that the market did not need to be constrained

[12] In Germany as a corporatist country the density of TU in 1979 was 35.5 per cent.
[13] Trade union movement will be addressed later in great detail.

by regulation and by redistributive social policy started to flourish only under Thatcher (Interviewee D; Rubery et al. 2009:58). While no single document exists pinpointing Thatcher's overall programme, most observers agree that it had four key objectives:

1. Limiting the power of unions. During the Thatcher government, closed shops[14] were abolished, the compulsory ballot for strike actions and elections for union leaders were introduced, the principle of fair pay was either abandoned or emasculated, and legal support for union recognition was withdrawn (Interviewee D; Purcell 1993:9);

2. Reducing government intervention on market outcomes together with privatisation and deregulation. The Thatcher government was seeking to "roll back" the state and to increase the role of the private sector. A key measure was the "Right to Buy" under which, during 1981 and 1995, around 1.7 million social housings were sold at lower prices to their tenants (see Hills 1998; Jones and Murie 2006). "Whereas in 1979 23 per cent of all housing in Great Britain was owned by local authorities, the proportion was under 19 per cent by 1995" (Hills 1998: 8).

3. Controlling public spending and enhancing the rewards of work relative to unemployment benefits. Additionally to housing, the role of the private sector gained more weight through increasingly transferring the task of providing pensions to the funded private sector (Blake 2000). "For each successive cohort retiring, a rising proportion received privately-funded occupational pensions, reducing the importance of state pensions in retirement incomes" (Hills 1998:8). Moreover, the Conservative government introduced a new system of unemployment benefits, abolishing earning related entitlements and restricting conditions for eligibility (Lefresne 2010: 177);

4. Enhancing self-employment and atypical employment in general[15] (Hills 1998:1; Rubery et al. 2008). The number of self-employed grew by almost 100 per cent during the Conservative government. The clearest growth can be depicted from 1981 and 1992 with the increase of more than 3 per cent and reaching 12.5 per cent of total employment (OECD 2015b).

[14] Closed shop is a form of union security agreement under which an employer agrees to hire (and retain in employment) only persons who are members of the trade union. Such an agreement is arranged according to the terms of a labour contract (Britannica).
[15] Will be covered later in the thesis.

New Labour reinforced many developments initiated under Thatcher rather than modifying or weakening them. In the next part, the thesis will describe the core reforms of the New Rights regime connected to the generosity of the welfare state and New Labour's response to them.

Rolling back the welfare state

The period from 1979 till 1997 can be described as an attempt to "roll back the state" (Giddens 2006:370). The first White Paper published by the new Government with regard to the public spending plans stated that *"Public expenditure is at the heart of Britain's present economic difficulties"* (HM Treasury 1979:1).

Indeed, the Social Citizenship Indicator shows significant cutbacks in the generosity of the welfare state provisions[16]. After the Thatcher government came into power in 1979, entitlement levels fell drastically until 1985, then slowly to 1995. In 1995, work accidence insurance, with 20 per cent replacement level, accounted to less than 50 per cent of its level in 1930; unemployment insurance, with 24 per cent, was about two thirds of the 1930 level. Finally, sickness insurance, with 20 per cent, was at about the same level as in 1930 (ibid.). The unemployment replacement rate continued to decline and in 2004 it was just about 54 per cent[17] (OECD 2004).

Unemployment benefits prior to and after the reforms

This part closely examines the system of unemployment benefits before and after the reforms. Prior to the era of Thatcherism, the idea behind the British welfare state was not only to relief poverty but also to provide welfare services on a universal basis and not only to those who are in dare need. Up until the early 1980s, the unemployment benefit system was notably stable, consisting of two components: unemployment benefit as a non-means tested social provision, paid for a maximum period of 12 month and of a fixed amount. Moreover,

[16] The Social Citizenship Indicator Program (SCIP) is a widely accepted indicator which measures the expenditures in major social insurance programmes over time across 18 European countries (SND). Korpi and Palme (2003) take three social insurance programmes which give benefits during short-term absences from work. They are sickness cash insurance, work accident insurance, and unemployment insurance. These three provisions are of key interest for short-term government financial balances and are likely to come under scrutiny in times of crisis (Korpi and Palme 2003: 433; Interviewer E).

[17] To compare with Germany, the level of replacement for sickness and work accident remained stable between 1975 and 1995, accounting for 74.3 per cent in 1995. However, during the 2000s, the level declined to 69 per cent in 2004 (OECD 2004; Korpi and Palme 2003: 435).

in 1966, a complementary benefit was introduced (Earnings Related Supplement (ERS)), which was proportional to previous earning up to a certain limit and paid for the first six months of unemployment. The second benefit was income support, a means-tested social provision, with no time limit and paid to unemployed persons who were ineligible for, or who exhausted their unemployment benefits (Lefresne 2010: 177).

The Conservative governments under Thatcher and Major implemented several changes to the unemployment benefits between 1979 and 1996. The key reform was the abolishment of the supplementary benefit based on previous earnings in 1982. The idea behind it was to make the access to unemployment entitlements more difficult and to reinforce control over jobless people, who would lose their benefits, if they violated the rules. Thus, in 1996, the Jobseeker's Allowance (JSA) was introduced, which became the only form of unemployment entitlements (ibid.: 178; Oakley 2014).

Two versions of JSA were created. The first follows the logic of insurance. Jobseekers who sufficiently contributed to social security schemes over the last two tax years were eligible to so-called JSA-C. JSA-C is a non-means-tested benefit paid for a maximum period of six months. Those, who are not qualified for JSA-C (80 per cent of cases), can receive a means-tested Income Support (JSA-IB), which is for a single person of the same amount as JSA-C but the amount varies according to the family circumstances (Lefresne 2010: 180ff.).

The access to unemployment benefits became more restrictive. Especially long-term unemployed started to face visible disadvantages. If unemployed for more than six months, they came under a general suspicion of being jobless voluntarily. Hence, they are now forced "*to donate a set amount of time per week to work voluntary for their local council or have their payments stopped*" (GovYou 2015). But also in general, the monitoring of people became one of the key tasks of so-called job centres plus, a modernised version of the former job centres. After 13 weeks of job-search, people lose their rights to be employed in a job with similar conditions as their last one. They become obliged to accept all kinds of job. Furthermore, during the Conservative government, means-tested benefits have increased and were 22 per cent in 1995-96, in comparison to 1979-80, in which they accounted only for 9 per cent of the total (Hills 1998: 10). All in all, the major task of the Conservatives became to provide a job for as many people as possible without paying much attention to the quality of work and to the background of the applicant (Clasen 2005).

Pension system prior and after reforms

The UK was one of the pioneers to introduce formal private pension schemes in the beginning of the 18th century and to start the process of systematically reducing unfunded state pension arrangements in favour of funded private ones (beginning in 1980). Since the intervention of Thatcher into the pension provisions, Britain has become a country in Europe with one of the lowest state pensions (in both terms: the replacement ratio and as a proportion of average earnings) (Blake 2003). The government's agenda was seeking to reduce the cost of public pension provisions by transferring the burden and benefits to the private sector. Thus, during the Conservative Governments, the following changes were introduced: 1. the state pension age was increased from 60 to 65 for women over a ten-year period starting in 2010; 2. the pension was reduced from 25 per cent of average revaluated band earnings over the best 20 years to 20 per cent (gradually over a ten-year period starting in 1999); 3. the spouse's pension was decreased from 100 per cent of the member's pension to the half (beginning in October 2001) (ibid.).

The current pensions system consists of three pillars and is extremely complex (Guardiancich 2010). A flat-rate pension constitutes the first pillar and is provided by the state known as the basic state pension (BSP). In the second and third pillar, additional pensions are provided by the state, employer and private sector financial institutions. Every person can chose between three options. The first one is a state system which offers a low level of pension relative to average earnings. The second is an occupational system with higher level of pension, however as a result of poor transfer values between schemes on changing jobs, only employees who work most of their working lives for the same company, can really enjoy its benefits. The third option is a personal pension system, which offers fully portable pensions but these are grounded on uncertain investment returns and are assigned to high administrative charges (Blanke 2003). Moreover, there are different sub-options in the second and third pillars and several combinations as well. The first pillar pension (state pension) was 95 GBR per week in 1997-1998 and 95.25 GBR per week in 2009-2010 for a person living in a single household and 133 GBR/152.30 per week respectively for couples. Thus, the replacement rate has remained almost the same during the last ten years. It is also obvious that the state pension is not sufficient to reach the minimum level of benefits. On

average, it makes up for about 64 per cent of all sources of retirement income. The remaining 36 per cent are covered by two other pillars (Blanke 2003; Guardiancich 2010).

All in all, the findings on the United Kingdom undoubtedly show that during the Thatcher period different reforms aiming at cutting back the benefits to a pre-Beveridge level were introduced. The unemployment benefits related to the previous earnings were abolished and monitoring of people reinforced. The already low state pension was further restricted. Changes in unemployment assistance indicate a state that pushes people into a job, independent of it being suitable for them or not. They also suggest a dramatic change in an advanced welfare state, carried out by a Conservative government with an absolute majority in the parliament and few veto points marked by a weakened Labour Party and a largely defeated trade union movement (Korpi and Palme 2003: 434). To compare it with Germany, we can see a clear difference between the majoritarian electoral system and centralised power and a federal system of decentralised power with several veto points, which did not allow drastic reforms to happen.

Consequences of "rolling back the state"

Many observers have argued that the British Labour market overcame the crisis due to the shift from the Keynesian model to the neo-liberal one (Whitton 2003: 4). The shift in the welfare state ideology was indeed a success in terms of reducing unemployment rates, which reached their peak of 12 percent in 1984. In 2014, the employment rate averaged 72 per cent (see Allmendinger 2013: 75; OECD 2015b; Taborda 2015), which indicates that in comparison to the average of the OECD countries (65.2 per cent), the UK performed quite well (OECD 2015b).

However, through the labour market reforms some negative externalities emerged as well. For instance, traditional patterns of one person one job were smudged, giving birth to a multiplicity of job contracts, of temporary labour relationships and above all part-time employment (Whitton 2003:4). Moreover, general inequality and child poverty increased dramatically. More than one in four UK children was living in relative poverty, compared to one in eight in 1979 (Hills and Stewart 2005). Income inequality has increased sharply: "in 1979 the post-tax income of the top tenth of the income distribution was about five times that of the bottom tenth; by the mid-1990s that ratio had doubled" (ibid.: 1).

Response from New Labour

Under the Labour Government most of these tendencies have been rather reinforced than changed. With regard to privatisation, New Labour continued Thatcher's agenda, by intensifying the product market deregulation and globalisation (Rubery et al. 2009: 60, 67). Likewise, the feature of Great Britain as a low regulated economy has been intensified. It has not only retained its status as the most deregulated economy since 1998, but it became the only country with a liberal approach in all three policy areas. They are: state control, barriers to entrepreneurship and barriers to trade and investment (ibid.: 66f.).

Concerning the attempt to "roll back the state", the New Labour did not entirely continue with the same strategy as the Conservatives (Interviewee D). On the one hand, there has been an intensification of the welfare system as a strongly targeted system on households means-testing. On the other, however, social safety nets under New Labour expended the range of households eligible for means-tested benefits (OECD 2005, Chapter 3). Starting from 1999 great attention was paid to the expenditure on health and education. The expenditure on health rose in real terms by 36 GBR billion between 2000 and 2007, the one on education by 23 GBR billion during the same period (Rubery et al. 2009: 64). Rubery et al. (2009) argue that the years 1999/2000 were the turning point for the British welfare state because New Labour shifted its focus from austerity and cutbacks to greater spending. "The sharp change in public spending is evident in the rise in health spending from an average of just 5.4 per cent of GDP during the 1990s to 7.3 per cent by 2006/07; and a parallel rise in education spending from an average of 4.8 per cent during the 1990s to 5.5 per cent in 2006/07" (ibid.).

Moreover, it was rather a personal commitment of Brown to reduce inequality and to eliminate child poverty. A special budget was created to support poor families with dependent children, focusing on single parents. As a consequence, child poverty declined by a third which was on the one hand a success, on the other, a failure, since the target of 50 per cent reduction by 2010 was not fulfilled (Rubery et al. 2009:65). Furthermore, in the UNICEF international comparison of children's welfare, the UK was ranked last out of 21 wealthy countries on the score of "material well-being" (ibid.). In comparison, Germany took the 11th position, being in the middle, while the Netherlands and Sweden shared the first

two places (UNICEF 2007:2). Additionally, the turning point in tackling child poverty and inequality by New Labour was closely linked with neoliberal ideas. They involved a high pressure on beneficiaries, including single parents, to search for a job connected with more generous provisions for those who do enter employment. The justification of this policy was that a job supports parents to escape the poverty trap. However, in reality, very often welfare recipients are forced to take any work, often low-paid, without a real perspective to increase their wealth. The only deviation from this strategy was the upgrading of the national minimum wage during 2001-2006, party so as to reduce the costs of the in-work benefits to the state (Rubery et al. 2009:65).

Furthermore, the higher levels of inequality at least at the top end of the distribution, continued to exist. In the late 2000s, the average income of the richest 10 per cent of earners was almost twelve times that of the bottom 10 per cent of the population, up from eight times in 1985 and above the European ratio of nine to one. Germany was in the middle, performing slightly better than the OECD average (OECD 2011; theguardian).

With regard to the pension system, the Blair Government rather continued Thatcher's agenda to reduce the cost to the state of public pension provision by transferring the burden of benefits to the private sector. Notwithstanding, New Labour put much greater emphasis on redistribution to poorer groups of society than it was the case under the Conservative government. As a key change, a means-tested minimum income guarantee (MIG) for pensioners was introduced in 1999, which ensures a minimum income of 75 GBR per week. The MIG is given to everybody, as long as they can prove their eligibility (Blake 2003). However, the problem of "under-pensioned" people has not been solved. The state pension in the UK has remained one of the lowest in Europe. This mainly affects low-income workers working in atypical jobs and women who, due to interruptions and also part-time jobs, accumulate disadvantages, which significantly lowers their income during old age (Guardiancich 2010).

All in all, we can observe a significant reduction in the generosity of the social provisions. This is indicated by the abolishment of the ERS proportional to previous earnings and being an additional assistance to the unemployment benefits. Instead the flat-rate jobseekers benefits aiming at bringing people as quickly as possible back to work, was introduced. Moreover, access to unemployment provisions became more difficult and its control stricter,

forcing people to “voluntarily” work in case they stay unemployed for more than six months. These changes were accompanied with waves of privatisation and deregulation, selling social houses, and setting free the market.

New Labour continued this path in principle, albeit framing the neoliberal ideas in a more social way, putting greater emphasis on the reduction of inequality and child poverty as well as spending more money on health and education. Moreover, the national minimum wage was increased as well. However, the created system of unemployment benefits under Thatcher and Major was in no way modified.

Forms of change in the welfare provisions in the United Kingdom

Table 9 Core principles of British social provisions before and after the reforms

	UK (prior to reforms)	**UK (today)**
Unemployment benefits/Contribution-based Jobseekers' Allowance (JSA-C)	**Non-means-tested** Aim: relief poverty and provide welfare services on a universal basis	**Non-means-tested** Aim: relief poverty
Conditions	Contributions paid over 1 year and over each of the 2 years; easy access	More difficult access[18] contributions paid over 1 year and over each of the 2 years
Duration	Max. 1 year/6 months for ERS	Max. 182 days in any job seeking period
Amount	2 types: flat-rate and ERS average replacement rates: 16.3% (single); 26.2% (couple)	Flat-rate; Aged 25 or over: approx. 320 EUR per month replacement rates: 12.4% (single); 20.1% (couple)
Sanctions	Allowance not paid for a certain period if the jobseeker is not active; in practice: no strict control	Allowance not paid for a certain period if the jobseeker is not active; in practice: strict control
Patterns of change	***Layering, Displacement***	
Income Support/ JSA-IB	**Means-tested**	**Means-tested**
Conditions	Exhaustion or non-eligibility to the unemployment benefits	Exhaustion or non-eligibility to the JSA-C[19]
Duration	Unlimited duration	Unlimited duration

[18] Only 20% of registered unemployed people qualify for JSA-C (2010).

[19] Other conditions are: to be involuntarily unemployed; to be available for work; to be actively seeking employment; must not have savings in excess of GBP 16,000 (€20,009); 80% of registered unemployed qualify for the JSA-IB.

Amount	Flat-rate	the level for single people is the same as for JSA-C, for couples varies
Sanctions	See sanctions for unemployment benefits	See sanctions for JSA-C
Pattern of change	***Layering***	
Pension schemes	**Three pillars system**: combination of state, employers and private contributions Aim: to relief from poverty	**Three pillars system**: combination of state, employers and private contributions; reduction in the state pension provisions; introduction of MIG Aim: to relief from poverty
Patterns of change	***Layering, Revitalisation***	

(Sources: own completion based on Blanchflower and Freeman 1993; Lefresne 2010; MISSOC 2014).

Table 9 above summarises the main changes. **(1)** Using the theoretical framework of Streeck and Thelen we can observe **layering** in the case of **unemployment benefits and income support**. The changes have certain similarities with the German reforms, despite their different extent. The old practises of non-means-tested provisions were not abolished but new rules were implemented on top of the ones already in place. Only a small minority of jobseekers is now eligible to the non-means-tested JSA-C, while the vast majority of unemployed has to rely on low means-tested entitlements. Long-term unemployed started to be the most disadvantaged group, becoming a subject of strict control and of voluntary work. Exhaustion would not be suitable to describe the emerged system, since there was no practice of negligence of old rules. Drift would not be a right pattern of change either, since no changed impact through political inaction appeared. Quite to the contrary, politicians were very active in modifying the system of unemployment benefits. Conversion would not be appropriate either, because already existing practises were not used for different purposes. Revitalisation is obvious not the right pattern of change, since the unemployment benefits did not become more generous.

(2) In addition, short-term unemployed people began to face greater disadvantages as well, as the Earnings Related Supplement was abolished and control mechanisms became sticker for everybody. Still, some old elements of the model remained in place, especially the non-means tested nature of the JSA-C. Because one great element of social provisions, namely

the ERS ceased to exist, there was **displacement** as well**.** In this case layering would not be suitable due to the abolishment of a traditional practice. Drift does not apply because of the active government. Conditions for exhaustion are not satisfactory either due to the lack of negligence of old rules. Conversion does not apply either because old practices were not enacted. Last but not least, revitalisation is not suitable either, since the conditions for the unemployed did not improve.

(3) Talking about the **pension system**, evidence of the reduction of state pension was shown in the previous part of the thesis. Thatcher followed a clear aim to reduce the state intervention and to put greater burden on private actors. The pension age was increased and the amount of benefits reduced affecting especially people working in low-income jobs. The British pension system has always been among the least generous in comparison to other European countries. However, during the New Right's period, this feature was reinforced even more. Observing the model of Streeck and Thelen, **layering** would best describe the patter of change in the pension system, moving the British model away from the ESM and bringing it closer to the US purely liberal one. Displacement or exhaustion would not be an appropriate description, since the basic state pension still exists and it is not neglected. Drift would not be suitable either, since we cannot find any evidence of a changed impact on the pension schemes due to inactivity of the government. Lastly, revitalisation would be least suitable since no improvements were made.

(4) Despite these neoliberal tendencies, a case of modest **revitalisation** can be observed. With regard to the **public expenditures on pension**, New Labour turned out to be more generous than its predecessors. Blair aimed at addressing people of old age suffering from poverty by introducing the Minimum Income Guarantee. However, the attempt of revitalisation was rather modest in extent, since the logic of neoliberalism remained stable. Thus, the introduction of the MIG with 75 GBR per week is anything but sufficient to exceed the poverty line in old age.

4.2.2 The extent of non-standard employment

Standard and atypical employment in the United Kingdom: definitions and delimitations

Before analysing changes in the employment relationship, it is vital to define some central terms. As stated above, atypical employment is often defined in contrast to standard employment.

A Eurofound study devoted to the UK defines non-standard employment as encompassing employees: without employment contract; who report working a very small number of hours (less than 10 hours a week); who are employed on the basis of temporary employment contracts of six months or less. Additionally, apprentices, unpaid family members and bogus self-employees are considered to be in the category of atypical employment (Broughton 2010). Some authors also underline the existence of Zero hours contracts in the UK: under these contracts employees work only upon request by the employer. Also, no contractual obligation exists that guarantees a certain amount of work (Caldarine et al. 2014: 103). Other researchers subsume marginal part-time employment (with less than 20 hours per week), substantial part-time employment (with 20 hours per week and more but less than 35 hours a week) and solo self-employment (without employees) under the concept of atypical employment in the UK (see Allmendinger at al. 2013). Agency work is also considered to be a type of atypical employment (Edwards 2006: 2).

In the next section, the development of atypical employment in the UK will be critically analysed. Categories described above will be used to observe the changes on the labour market.

The changing patterns in the work relationship in the United Kingdom

It is probably understandable that due to the high rates of structural unemployment during the late 1970s and the beginning 1980s, the growth of atypical employment was hardly a major preoccupation for British governments. "In many respects it was seen as being an inevitable fact of labour market life and was both condemned and tolerated as such" (Whitton 2014: 5). Table 10 presents types of atypical forms of work that are distinguished in

the OECD survey (OECD 2015b). The table indicates that the rise of atypical employment in the UK started considerably earlier than in Germany, namely between the 1970s and 1990s. Thus, it is necessary to start observations earlier as well.

The table indicates the following trends: the share of self-employed almost doubled during the last 40 years. The clearest growth can be observed between 1981 and 1992 with the increase of more than 3 per cent and reaching 12.5 per cent of total employment. Temporary employment increased in 1997 and reached 7.8 per cent in comparison to 1981, where it accounted for 6.16 per cent, but then it decreased again and accounted only for 6.2 per cent of total work in 2013. In comparison to Germany, this number is quite low: in Germany in 2013, 13.4 per cent of employees were temporary employed. Temporary work in the UK is wide-spread in the public sector, where it occurs twice as often as in the economy as a whole. It is very common in occupations such as teaching, where one out of five employees work temporary. Approx. 50 per cent of all temporary employees have fixed-term contracts, 20 per cent are in "normal" employment, while 10 per cent are employed through agencies. The rest is in seasonal or "other" types of work (see Edwards 2006: 3).

Table 10 Development of atypical employment in the United Kingdom 1971-2013

Year	Self-employed (% of all workers)	Temporary (% of all employees)	Part-time (As % of all employees)	Unpaid Family (in thousand)	Zero hours (As % of all employees)	All atypical (In %)
1971	8.29%	n.a.	15.0%	n.a.	n.a	ca. 17%
1981	9.2%	6.16%	20.6%	n.a.	n.a.	n.a.
1992/3	12.5%	5.9%	23.3%	141	n.a.	n.a.
1996/7	13.2%	7.8%	25.3%	113	0.6%	21.6%
2000	12.82%	6.8%	23.0%	n.a.	n.a.	n.a.
2005/8	12.7%	5.9%	25.7%	92	0.5%	18.7%
2013	14.4%	6.2%	24.5%	110	1.9%	21.9%

(Source: own completion based on: Brinkley 2014; Edwards 2006: 3; Labour Force Survey, spring each year; OECD 2015b; Smith 2003).

As Smith in his research (2003) shows the case of Great Britain is not as straight forward as Germany. For instance, part-time employment has been growing significantly in Britain during the post-war period. However, the growth was more pronounced in the 1970s than in the 1980s, with the first half of the 1990s recording an almost static share for part-timers and the late 1990s witnessing a slight decrease in the proportion of the part-time employment (Smith 2003:252).

Unfortunately, the OECD data and the British Labour Force Survey measure atypical employment in rather broad categories. For more differentiated information about workers in atypical employment presented in the previous section, no long-term data exists (Broughton 2010). However, some authors attempt to estimate certain types of atypical employment in present. Although long-term comparisons do not exist, the knowledge of nowadays situation is vital in order to see the holistic picture of the labour market in the UK. Hence, below, data on different types of non-standard work based on contributions from Broughton 2010; Caldarine et al. 2014 will be presented.

In 2013, the majority of British workers continued to work on standard full-time contracts (21.65 million or 73 per cent of those in employment). From these 21.65 million, 18 million worked full-time, which means that they worked under contracts of employment with access to the full range of statutory employment rights. Another 3 million worked under “contracts for services” defined as “workers” in legal terms. It means that they were treated as self-employed and enjoyed less social welfare protection. For example, “workers” have no right to protection against unfair dismissal (even if they have worked for a company several years) and they do not fall under “fixed-term workers regulations” (Regulation 2002), which provides employees with the right to “no less favourable treatment”. Over the last decade, the use of temporary agency work has grown notably. In 2005, there were some 6,000 employment agencies operating through 14,400 branches and sourcing 1.2 million workers a day which makes 5 per cent of the national workforce (Caldarine et al. 2014: 101f.).

Only little data on workers with Zero hours contracts exist. Broughton in the Eurofound Survey estimates that approx. 5 per cent of workplaces hired at least some workers on zero hour’s contracts (Broughton 2010). Concerning the workers on a very small number of hours, there are calculations that approx. eight per cent of the workers are employed by contracts where they have to work less than 10 hours a week (Caldarine et al. 2014: 103). There is also

only very little data on the length of fixed-term contracts. According to Broughton (2010), the majority of fixed-term contacts in the United Kingdom is of less than 12 months duration. There are no accurate statistics on bugger self-employment. However, in 2013, from 4.2 million people being identified as self-employed, 3 million worked full-time. Last but not least, unpaid family members is rather a small category, in which only about 100,000 persons declared to be (2013) (ibid.: 104).

To sum up, this section has shown that although the majority of the people are employed under a standard contract, there is a significant part of people working in atypical types of employment. It is also obvious that the number of people being employed atypically has increased during the last decades. However, not all categories were equally affected. Especially the number of people working under temporary contracts remained relatively stable since the 1970s. However, there has been a significant increase in self-employed and part-time employed persons. In comparison to Germany, the UK has much less people working on temporary contracts (13.4 per cent vs. 6.2 per cent in 2013). In terms of part-time employment, Germany (22.4 per cent) and the UK (24.5 per cent) are neck and neck. However, even the picture of the UK does not seem to be too pessimistic, important differences in the organisation of the welfare state makes it more difficult for employees in the UK to maintain a high standard of life.

Employment in the UK is characterised by a comparable low level of social protection. Additionally, social protection is based on the concept of full- and permanent employment and there are no particular measures seeking to address people with non-standard contracts. In contrast to Germany, UK workers are largely unprotected at work. For instance, there is little protection against unfair dismissal, unless they worked for the same employer for more than two years (Solicitors 2014). In case a person loses her or his job, she or he can apply for the Job Seekers' Allowance (JSA) of maximum six months. However, as a previous sub-section has shown, only the minority of the unemployed are eligible to claim unemployment benefits based on contributions. The type of contract is the main explanation for this discrepancy. For instance, for agency workers, it might be hard to claim JSA-C because they often work during irregular periods and have a lower salary than is required in order to be eligible to claim unemployment benefits. Additionally, they are more likely to be defined as "self-employed", a category which is excluded from the JSA-C scheme. However,

due to the dramatic increase in self-employment during 1981-1992, this rule seems to disadvantage a significant group of workers who have only the possibility to claim means-tested benefits.

Moreover, non-standard contracts make it more difficult for workers to receive the state pension, which is also based on the contributions made during the working life. For example, breaks in work affect the number of years of contributions, which is problematic for fixed-term workers (Caldarine et al. 2014: 105). Thus, they are likely to be eligible only for the MIG, which is low. The overall picture indicates an increase in atypical employment, albeit less stringent than in Germany. Still, around 22 per cent of all workers have atypical contracts.

Forms of change in atypical employment in the United Kingdom

Table 11 below summarises the development in atypical employment and conditions for access to social provisions before and after the reforms.

Table 11 Atypical employment and conditions for access to social provisions before and after the reforms

	United Kingdom (prior to reforms)	**United Kingdom (today)**
Atypical employment	ca. 17 %	21.9%
Conditions for access to social provisions relevant for atypically employed workers		
Hours or wage threshold	An earnings threshold applies	An earnings threshold applies
Minimum contribution period	Unemployment benefits: 25x of min. contribution in the last year + in the last 2 years min. 50x of contribution; Income Support: no conditions, but means-tested; Part time workers and temporary workers: difficult to gain entitlements for the ERS for persons with low earnings; easier access for atypical workers	JSA-C: 25x of min. contribution in the last year + in the last 2 years min. 50x of contribution; JSA-IB: no conditions, but means-tested Part time workers and temporary workers: difficult to gain JSA-C for persons with low earnings; self-employed and most atypical are not eligible for JSA-C;

	ERS : yes, other entitlements: no	
Dependence on former wage level (applies to part-time workers) **Dependence on former contribution time**	No, ERS 6 months for all; other entitlements: unlimited, means-tested	No, since JSA-C and JSA-IB are low flat-rate benefits No, JSA-C 6 months for all; JSA-IN: unlimited, means-tested
Patterns of change	***Layering and Drift*** (for self-employed)	

(Sources: own completion based on Leschke 2006: 132; MISSOC 2014).

What can the theoretical model of Streeck and Thelen say about the patterns of change in the British employment model?

(1) First of all, similar to the German case, we observe **layering**. While the majority of employees are still covered by standard **employment**, more than 20 per cent of the workforce has atypical contracts. They clearly face disadvantages in terms of social benefits and later on pension arrangements, being forced to rely on the MIG in order to escape ending up under the poverty line. Through a series of regulations the employment rights were more and more flexibilised and through the restrictions on unemployment benefits in conjunction with stricter control mechanisms, an increasing number of people were forced to take any job, even if they were overqualified for it. These tendencies were reinforced by systematically weakening the position of trade unions and collective bargaining, which undermined the rights not only of atypical employees but also of people employed under standard contracts, since the average wage of an individual contract is lower with more working hours. Thus, other theoretical patterns would not satisfy the real outcome. Displacement is not observable, since there is no removal of old rules that would change the whole system. Exhaustion did not happen either because existing practices were not neglected. Conversion is also an inapplicable pattern of change, since the condition of old rules enactment is not given. Last but not least, we do not find any evidence of revitalisation of the unions' movement.

(2) The second pattern of change is **drift**. This applies to the self-employed people. Drift is an institutional change through political inaction. In the case of **self-employment** it means that this category had always a restricted access to unemployment benefits based on contributions. However, this group was of an insignificant number and for this reason did

not play a big role in terms of redistribution. However, during the Conservative government, it increased by almost 100 per cent and thus stopped to be a marginal category. Despite this fact, the government did not attempt to include this group into the social protection system by extending the unemployment benefits to the self-employed. They remained excluded from social provisions based on contributions and are eligible only to means-tested entitlements. Conditions for revitalisation or layering are not satisfied, since there was no introduction of new rules to protect or to weaken the position of self-employed. Displacement did not occur either, since old rules were not removed. Finally, existing practices were not neglected which speaks against exhaustion.

All in all, we can say that a worker being employed in whatever type of contract is less protected in the UK than in Germany. During the reign of Thatcher but also under New Labour, workers' rights were weakened even more, with atypical employees becoming the most vulnerably group.

4.2.3 Industrial relations

The traditional role of trade unions and "free collective bargaining"

Historically, and in contrast to many other European countries, the British (proto-) capitalist class rolled back the prerogatives of the monarchy gradually and peacefully. This mouthed in a separation of relatively weak public institutions from economic life, commonly described as the laissez-faire doctrine (Gumbrell-McCormick and Hyman 2013: 25). A weak legal framework in turn hampered the legalisation of trade unions and their recognition as partners instead of "enemies". In practice it means that employers were not obliged to negotiate with unions and collective agreements were never legally binding (Fairbrother 2007: 146).

The Trade Union Congress (TUC), the national organisation of British trade unions, was founded in 1868 and shaped the modern industrial relations structure of Britain for most of the 20th century. Albeit restrained in the early years, the TUC managed to gradually unite a huge number of trade unions across the majority of sectors of the economy and maintains close ties with the Labour Party (Fairbrother 2007: 145; TUC 2010). Till today the TUC is the

sole national union which is comparable with the German DGB, although the German union landscape looks more differentiated. Today, there are around 60 unions in the TUC, though their size varies from a couple of ten thousand members to over a million members in the case of Unite, the strongest sectoral union (TUC 2010: 14).

During the whole history of the TUC, voluntarism has been a key characteristic of union identity, emphasising on "free collective bargaining". For instance, the trade unions were firmly opposing a statutory minimum wage throughout the 20th century. During the 1960s and 1970s, the British TU could be described as being moderate and militant at the same time. One characteristic was that the TUC almost always started its actions with strikes before they entered into a constructive dialogue with the employers. On the other hand TUC was in a way also moderate, as its actions primarily aimed at maintaining their position rather than extending their influence (Gumbrell-McCormick and Hyman 2013: 26). During the post-war period, the TUC was quite successful with its strategy based on the idea of voluntarism. For instance, in 1948 the National Health Service (NHS) was created as a result of union campaigning. In 1970 the Equal Pay Act abolished the legality for employers to pay a woman a different wage (TUC 2010: 15). Before the oils crises, a favourable employment structure with a low unemployment rate, employers willing to compromise and a state that did not intervene in collective bargaining, made it quite easy for them to be successful in asserting better working conditions and in improving workers' rights. To sum up, although based on "voluntary" character, the TUC was widely recognised by employers. The principle of union membership together with collective bargaining in the public sector appeared to be deep-rooted in British industrial relations, which led to high union density in the country (Purcell 1993: 8). The union density was indeed much higher than in Germany: in 1979, e.g. 48.7 per cent of all workers were union members, while in Germany only 35.3 per cent of the working population belonged to a trade union (OECD 2015a).

The industrial relations in flux

However, since the late 1970s, unions started to face declining memberships, a difficult relationship with employers, and a hostile conservative government. Moreover, some of the TU have troubled relationships with their key political supporter, the Labour Party (Interviewee D; Fairbrother 2007: 145). The trigger of the unions' crisis was the promotion of

a "Social Contract", an arrangement between the Labour Government and the TUC, which implied a voluntary wage restraint in return for the government's commitment to improve the "social wage" (such as an increase in public spending on schools, hospitals and pensions, supplemented by food subsidies, as well as price and rent controls). The burden of the agreement would have rested on the public sector unions. "However, the viability of the "Social Contract" was imperilled in 1978-9 when a number of these unions rebelled" (ibid.: 146). The so-called "winter of discontent" strongly contributed to alienating the unions and the labour party from each other. Furthermore, after 1979, when Conservatives took office, the position of the TUC started to weaken significantly through the legislative attack initiated by Thatcher (Purcell 1993:8). In particular, the miner's strike in 1984-85 served the government as a pretext to introduce legislation to limit the unions' power even further (Whitton 2003:5).

During the Thatcher government, closed shops were abolished, the compulsory ballot for strike actions and the compulsory election of top union members was introduced, the principle of fair pay was either abandoned or emasculated and legal support for union recognition was withdrawn. Moreover, the National Economic Development Council[20] (NEDC) was abandoned as well. The last act marked the end of any attempt to develop a corporatist union role at government level (Purcell 1993:9). This attack was facilitated by the decline of the manufacturing sector, where the unions traditionally recruit the majority of their membership (ibid.). In 1983, the unemployment rate reached 11 per cent following a time in which both the traditional manufacturing and "heavy" industries such as steel and coal mining had experienced massive losses in quantities of jobs. Competition from abroad had reinforced this tendency, contributing to decreasing the attractiveness of many British products (Whitton 1003:5). The Conservatives put heavy restrictions on unions, mainly because they believed that the TU were largely responsible for the British long-term economic decline (Interviewee E; Coates 2000).

The new reality

[20] The NEDC was a corporatist economic planning forum launched in 1962 in Britain, bringing together management, trades unions and government in an attempt to address UK's relative economic decline (Hain 2015: 97).

The analyses of Purcell (1993) and of Addison et al. (2011) based among all on the Workplace Industrial Relations Survey (WIRS) clearly show the consequences of the shifts mentioned above. First, numerous companies withdrew from the collective agreements, which led to a strong growth of single employer bargaining with the employee being put in a much weaker position. For instance, in the private service sector, in 1990 there were only 16 per cent of non-manual employees with a wage concluded through collective agreement, compared with 40 per cent in 1984. In the public sector, collective bargaining declined from 91 to 84 per cent coverage for manual workers, and from 98 to 84 per cent for non-manual in the same period from 1984-1990. The proportion of companies that recognised trade unions fell from 66 per cent in 1984 to 53 per cent in 1990. In 2004, the share of establishments with 25 or more employees that recognised one or more unions for collective bargaining was 22.3 per cent, while it used to be 49.5 per cent in 1980 (Addison et al. 2011: 493).

Addison et al. (2011) compared the decline in collective bargaining in Britain between 1998 and 2004 with the German one. The authors show that the decline was markedly in both countries, however in the British case, it was twice as sharp as in Germany and the levels of collective bargaining coverage remained considerably higher in Germany than in Britain throughout the period. By 2004, over 50 per cent of German establishments were covered by a collective agreement. With ca. 15 per cent, the union recognition rate in the UK was less than one-third of that of Germany, having decreased by over one-quarter in the previous six years. The rate of decline was one-and-a-half times steeper in Britain (30 per cent compared with around 20 per cent in Germany) (Addison et al. 2011: 498). Closely related to the decrease in collective bargaining, the union density was on decline as well. It fell from 48.7 per cent in 1979 to 38.1 per cent in 1990; and in 2013 it amounted just for 25.4 per cent of the working population (OECD 2015a; Purcell 1993:14f.).

Closely connected to the declining role of British unions and to the shift in the sectoral composition of the workforce, a new alternative employment model started to emerge. Moreover, the Conservatives began to promote any type of job, extolling the merits of each and every employment in comparison to welfare dependency, arguing that the majority of the population got used to profit from welfare benefits and thus must be activated (Whitton 2003: 5). Following this rhetoric, the minimum wage protection that was adopted by the

Wages Council was modified, now excluding young people. The argument was similar that "low wages are better than no wages" (ibid.: 6). In 1993, the Wage Council was fully abolished with the argument that setting the wage is a matter between an individual and their employer and that an external intervention could destroy a "natural" equilibrium, which binds the two contract parties in their professional relationship (ibid.).

Thus, the political landscape during the Thatcher period was highly receptive for the emergence of new models of employment. These new models emphasised much less the quality of work, employee development and fair payment but mainly minimising the costs of labour[21] (Interviewee E). Although acknowledging its drawbacks, atypical employment was seen as a merit, since it was not only better than being unemployed but also corresponded the adaptation of labour to the requirements of the modern global market (Whitton 2003:6).

In comparison to Germany, where there was no legislation against trade unions, the British case clearly indicates a desire of the Conservative government to reduce the influence of the TU significantly. Especially the system of collective bargaining suffered seriously and the employment contracts reached through collective negotiations drastically declined over the past decades. Thus, In Britain, the decline of collective bargaining has been more pronounced than in Germany where, in 2013, collective bargaining still accounted for 55 per cent of the workforce. Although the density of trade unions is higher in the UK than in Germany (in 2013: 25.4 per cent versus 17.7 per cent), the position of the TU in Great Britain was significantly weakened and employers started to prefer individual negotiations with employees.

Forms of change in industrial relations in the United Kingdom

Table 12 Development of union density and collective bargaining in the United Kingdom

Year	Union density	Collective Bargaining – workers in %
1979/84	48.7%	70%
1987/90	43.2%	54%
1997/98	30.9%	41%
2007	27.9%	n.a.

[21] They can also be described as an atypical employment relationship with "a higher rate of industrial injuries; more often used performance-related pay; no use job evaluation; higher pay differentials between the bottom an top earners; a higher proportion of employees earning low pay; higher probability of hiring freelance and temporary labour; with a dismissal rate twice that of unionised firms" etc. (Purcell 1993:21f.).

2013	25.4%	29.2%

(Source: own completion based on: OECD 2015a; Schmidt and Dworschak 2006).

The table above summarises the developments of union density and collective bargaining in the UK. How can these changes be described with the theoretical framework of Streeck and Thelen?

(1) There is evidence of **partial displacement** of the **industrial relations** because through the "legislative attacks" of the conservative government, only a small part of the working population is nowadays covered by collective agreements. A clear majority has to negotiate working conditions tete-a-tete with the employer. Moreover, compared to 1979, where almost 50 per cent of workers were members of the TU, trade union density has halved. Only 29.2 per cent of all workers were covered by collective agreements in 2013 and only 25.4 per cent were members of a union. These developments play an important role with regard to the quality of work and the amount of earnings. According to the UK government, union members earn 15 per cent more per hour than non-union members. Moreover, workers covered by a collective agreement have an average working week of 37.3 hours compared to 41.4 hours for those not covered by a collective agreement (Crook 2010). Because of a large number of workers not being covered by collective agreements, we can speak of **partial displacement** of the system. A basic assumption behind this decision is that, if more than 50 per cent of the workforce does not belong to a certain system anymore, then the system lost its influence and has been partly displaced by a new one.

In the present case, exhaustion would not be suitable to describe what happened in the field of industrial relations, since it needs the condition of negligence of old practices, which is not the case. Drift is not appropriate either, since there is no changed impact due to the governmental inaction or inactivity of social partners. Conversion does not fit, since there is no enactment of existing rules. Finally, revitalisation obviously did not occur due to the continuous decline in power of unions and the system of collective bargaining.

All in all, through the legislative attacks of Thatcher we can observe a dramatic change in the British system of union relations and collective bargaining.

4.2.4 Overall conclusions on the developments in the British welfare state

This section summarises the main results and puts the theoretical outcomes of all three domains in one table to ease the comparison of results.

The British liberal welfare state model has never been the most generous among the European welfare regimes. However, it experienced its peak in the post-war period with a low unemployment rate, a stable system of "free collective bargaining", a high density of trade unions, the vast majority of people working in standard employment contracts and earnings related non-means tested unemployment benefits. Thus, the British model, despite being commonly perceived as a liberal welfare state, consisted of many social components typical for the European Social Model and distinguishable from the US' purely liberal welfare regime.

After the "Golden Age" came to an end, the unemployment rate increased and the economic performance of the UK stagnated. Thatcher was convinced that the UK's difficult economic situation was due to an expensive social state together with too high wages and too powerful trade unions. She held that Keynesianism does not work anymore and that neoliberal ideology is the right answer to "British disease". Thus, she developed a four pointed strategy how to tackle it and since that time the paradigm shift began.

The paradigm shift came more decisive than in Germany. Radical reforms were possible mainly due to the majoritarian centralised system of the UK. Thatcher managed to decrease the influence of the trade unions in a few years, using "legislative attacks". Moreover, through her encouragement to self-employment and through "rolling back" the welfare provisions, she succeeded in diminishing the unemployment rate. A new culture of work was promoted that made the unemployed solely responsible for their failure to find an appropriate job and forced them to accept any work.

These new developments made the British welfare system look more similar to the US model and dislodged it from the ESM. New Labour was not per se against the reforms undertaken during the New Right period, however it attempted to make the liberal model more social in a way that more financial resources were dedicated to tackling inequality and

child poverty, which reached alarming dimensions during the Conservatives' reign. More investment in health and education together with the introduction of the MIG were also distinctive for New Labour. Still, the neoliberal logic was never questioned, especially because Thatcher managed to reduce the unemployment rate, which was seen as lying at the heart of the British employment agenda. Table 13 summarises the main theoretical findings.

Table 13 United Kingdom: types of institutional change: processes and outcomes

Core Elements of Welfare State	Patterns of change
Access to social provisions for all types of workers	Displacement, Layering and Revitalisation
Extent of atypical employment contracts	Layering and Drift
Density of trade unions and system of collective bargaining	Partial Displacement

(Sources: own completion based on Streeck and Thelen 2005; Busch et al. 2009).

Contrasting with Germany, not only layering but also (partial) displacement appears to be a common pattern of change. As the theory of Streeck and Thelen assumes, gradual changes are unlikely to modify all key elements of the entire welfare regime. However, they are likely to lead to a significant shift. This shift in the British case is more visible than in Germany, since in the UK it was more because of the ideological belief that less state and freer markets are the best medicine to address the economic challenges and to regain economic growth. Thus, the reforms were more radical and decisive in their nature and happened during a few years, while in Germany the transformation was much more gradual.

On the one hand the fact that layering seems to be one of the most common patterns of change, indicates that even decisive reforms are unlikely to completely modify all key elements of a welfare regime. On the other hand, in the case of trade unions and collective bargaining we can observe partial displacement, since the vast majority of workers are not covered by collective agreements anymore. In the domain of atypical employment not only layering but also drift occurred. Although self-employed started to constitute a significant group of the labour population, the government did not react. Due to the government's inaction, they were excluded from the contributions based unemployment benefits. In the

case of the generosity of the welfare state, we even face a great mixture of outcomes. Together with abolishing the ERS and the discrimination against atypical workers, we can observe some attempts to revitalise the Anglo-Saxon model, by upgrading a national minimum wage and by investing more in health, education and equality issues. A modest revitalisation happened during the New Labour's government, which at least partly tried to respond to the reforms undertaken by the New Right and to include more social elements typical for a social-democrat party.

To sum up, similar to Germany, the British welfare model experienced a liberalisation process during the last decades. It aimed at setting free the market, diminishing the power of the trade unions and rolling back the (welfare) state. Still, while some domains were as radically changed that one can speak of (partial) displacement, other changes fall under the category of layering or drift and some even experienced a modest revitalisation. These findings seem to confirm Streeck and Thelen's suggestion that incremental changes are unlikely to lead to a shift of the entire model. However, they are likely to change the nature and the logic of the welfare regime.

In the case of the UK we clearly see the advantage of a one-party system to implement radical reforms. As it was already mentioned before, the UK being a highly centralised and majoritarian system is quite likely to shift institutions in a different direction or even abolish them. While in Germany a "need" forced the Red-Green coalition to deregulate the welfare state and to open a door for atypical employment which made social-democrats very unpopular until today, the conservative party still enjoys a neat popularity among their electorate. How can this be explained? Possibly, it is because the British electorate was already familiarised with liberal ideas that emphasised self-responsibility and market mechanisms. Another explanation can be that the United State was a major source of inspiration for the UK, also in terms of welfare state development.

5. Conclusion

The European Social Model was a distinctive feature of Western Europe for nearly 30 years. Decent jobs, reasonable working time, little unemployment and comprehensive retirement benefits gave people a strong guarantee to plan their future and to establish families.

However, it started to totter after the oil crises, which impinged on the economic performance and led to climbing unemployment rates. All European countries were forced to find ways in addressing the emerging challenges. Besides the economic woes, these solutions had to be reflective of changing demographics and an economic paradigm, Keynesianism, which did not seem to give the right answers anymore. In this context, neo-liberal ideas were diffused by various entities such as international organisations like the OECD but also some MS such as the UK. This is where this thesis sets in because it asks:

What changes of the welfare state models can be observed in Germany and in the United Kingdom during the last decades and how can they be described?

During the last decades, a coherent shift of the welfare state regimes in both countries towards the liberal ideal-typical welfare state can be observed. This occurred in all three dimensions described above, including the access to social protection, the extent of atypical employment and the decreasing role of trade unions and collective bargaining. Applying the enhanced theoretical model of Thelen and Streek, these transformations can be described through all six pattern of change, while layering prevails. However, country as well as domain specific differences can be observed.

Germany, as a blueprint of a conservative model, was confined by its federal political system and by the regional parliaments with different coalitions than on the federal level. Also because of extensive welfare provisions being popular among the population, the German government was very cautious in implementing reforms aiming at greater flexibilisation. However, by the beginning of the 2000s, it became clear that without substantial reforms Germany may remain "a sick man of Europe". Thus, under the Red-Green coalition, reforms were implemented aiming at the flexibilisation of the labour law, restricting the welfare entitlements and activating people for work. *"Fördern und Fordern"* became a slogan of the

Schröder's government and unemployment status started to be framed as a state of laziness and failure to integrate oneself into society.

However, the paradigm shift was only partial, with layering being the most common pattern of change. Moreover, conversion and partial exhaustion occurred as well. The government's use of UB II to protect the working poor can be described as conversion. Here, we see the active reaction of the state trying to protect the most vulnerable group of society. This active involvement of the state is typical for a conservative model in which it plays a much more important role than in the liberal regime. The partial exhaustion is due to very specific historical circumstances in Germany. It was the unwillingness of the people from Eastern Germany to accept the traditional system of collective bargaining and trade unions, rather than a governmental attempt to weaken an existing institution. Despite this isolated case, the overall observations clearly indicate how path dependent the German welfare regime was in general. This can be explained by the rigidity of its institutions and several veto points together with a high popularity of the welfare state among the German population that prevent radical reforms. Finally, the label "conservative" may already be indicative of the limited will to reform and innovate.

In the UK, the transformation happened more radical, since the British system allows for more decisive reforms with only few veto points and a single party in office. Moreover, it was a personal commitment of Mrs. Thatcher to apply a neoliberal strategy in order to overcome the "British disease" by weakening the power of trade unions, "rolling back" the social provisions and privatising public goods. During that time, the British model definitely became more liberal than it was before. However, even with her decisive reforms, Thatcher did not manage to completely transform the core elements of the welfare state and only succeeded in partly displacing collective bargaining as well as fully abolishing the earnings related supplements. This example of displacement shows that in a majoritarian polity it is easier to withdraw an entire element without facing strong institutional constraints. On top of that, there was relatively strong support for the reforms among the population. This is very distinctive to the British liberal model which emphasises on the self-responsibility. Thus the abolishment of the earnings related benefits was accepted among the population and Thatcher was re-elected, while in Germany the social-democrats failed to remain in office. Drift occurred in the domain of self-employed. This is again a distinctive characteristic for a

liberal model. In contrast to the German case, where the government actively reacted to the working poor and protected them through the unemployment benefits, the government in the UK did not change their rules at all. This inactivity and residual state is very typical for a liberal government, which tries to intervene as little as possible unless there is an urgent need to do so.

All in all, the results on German and British welfare changes are theoretically underpinned by the model of Streeck and Thelen, which assumes the unlikeness of radical transformation of the entire model through incremental changes. However, the model of Streeck and Thelen cannot explain why the reforms are more radical in some welfare state regimes than in others. This limitation will be discussed below.

By moving closer to the liberal ideal type, both countries were successful in tackling high unemployment rates and regaining economic momentum. However, some negative externalities such as rising inequality, child poverty and increasing the number of people working in atypical contracts was the price both countries had to pay for it. Many challenges emerged that may have to be addressed in the near future.

Welfare state models continuously undergo a process of transformation and it is not easy to predict, if both the UK and Germany will continue the path of liberalisation, if they will stick to a mixture of Keynesian and liberal instruments or if they will return to their initial positions. Further research is needed in order to estimate the influence of the financial crisis on both economies and to observe further changes that the countries will undergo.

The last part of the thesis will touch upon major challenges for Germany and the United Kingdom and discuss the limitations of the thesis.

6. Discussion

Previous sections suggested that due to the reforms undertaken under Schröder's government, Germany regained its strong position in the world economy. In the United Kingdom, the trajectory of neoliberalism succeeded in strengthening economic performance and lowering unemployment rates as well.

As a side effect, however, the labour market has become more fragmented, differentiated and decentralised as it was at the beginning of the 80s for the UK and 90s for Germany. Even though the unemployment rates in both countries are relatively low, the total working volume is at 1990 levels, which implies that the increase in atypical forms of employment partly replaced regular jobs. People in non-standard employment are frequently not able to sustain themselves and have to rely on state subsidies. Inequality has grown as well as the gap between rich and poor. There are more working poor and connected to that, more poverty in old age, since people with a low income also receive extremely low pensions. In order to address this challenge, Germany implemented the minimum wage of 8.50 EUR in 2015, which affected approximately 8.5 million workers (Interviewee B; Bispinck and Schulten 2011: 35, 39). This was a first step in the right direction but 8.50 EUR is far from sufficient to overcome old age poverty. In the United Kingdom, there was also a guaranteed minimum income introduced, which, however, does not protect old people from falling below a poverty line either.

For the trade unions, precarious employment and working poor have become their top priority (Interviewees B and E; Bispinck and Schulten 2011: 3). In Germany, the TU state that non-standard contracts are inconsistent with the traditional German model of a social market economy. Atypical employment has also led to increasing inequality that might become a "ticking bomb" for the economic and social order of German capitalism (DGB 2007). In the United Kingdom, the TU do not oppose the non-standard employment per se. They recognise changing dynamics of the labour market and do not demand permanent contracts for all. However, they are fighting against precarious employment in which workers have far less rights than those with standard contracts (Interviewee E).

German trade unions developed some strategies to address precarious employment. This includes the demand to re-introduce stronger legal restrictions to limit precarious employment relationships (such as the abolition of mini-jobs; the right of the part-time workers to get full-time employed; full access for dependent self-employed workers to social security) (Ver.di 2011). The TU also promote a greater coverage by collective agreements to improve conditions of precarious employment and to limit its practice. They advertise a vision of "good work" *(Gute Arbeit[22])* and put it into opposition with precarious employment (Bispinck and Schulten 2011: 28; IG Metall 2007).

Both British and German TU are also trying to reach workers in precarious employment and to provide them with practical information and legal support. Since about one third of all workers are employed under non-standard contracts, it is vital for the TU to reach this group. Different internet platforms were developed in order to offer the unregularly employed information about their rights (such as http://decentjobsweek.org/ (UK); www.hundertprozentich.de (GER)). "As a pilot project in 2007, the DGB regional organisation of Oldenburg-Wilhelmshaven was first local union which opened three local "information offices for precarious workers" where both union and non-union members could get individual support" (Bispinck and Schulten 2011: 34).

However, these attempts can be successful only with political support. Besides the minimum wage implementation in Germany and the MIG in the UK, not much happened in order to address atypical employment. Quite to the contrary, the conservative governments, which hold the majority in the parliaments in both countries, do not make it easier for the TU to take a stand for decent jobs. In Germany, just some weeks ago (May 2015) the

[22] According to a broad survey initiated by the government-led project "Initiative New Work Quality" (Initiative Neue Qualität der Arbeit, INQA) involving more than 5,000 workers and asking the question what good work means to them, the answer can be seen as follows: “Work is always rated as being particularly satisfying and positively experienced when it offers as many development, influencing and learning opportunities as possible and is characterised by good social relationships. At the same time, it must prevent inappropriate loads. If work impacts on health too much, this cannot be offset by so many development and learning opportunities, creative and social potentials. Vice versa, work which is described by the employees as not being a negative burden but not as exciting and promoting is also far removed from good work. Thirdly, income also plays a major role. If it does not secure a livelihood or it is in a very unfair relationship to performance, this is perceived by the workers as an inappropriate load and has an impact on daily work. The greater the lack of these three main factors of good work is, the more frequently dissatisfaction, frustration and resignation dominate the picture, which workers paint of their current work. Moreover, these workers report frighteningly often of a high degree of health disorders on working days and, subjectively speaking, consider it rather improbable that they will be able to maintain their workability under these conditions up to retirement age” (INQA 2007: 34).

"Tarifeinheitsgesetz" ("Collective bargaining unity" - the principle of one establishment, one collective agreement) was introduced. It means that in companies with overlapping collective agreements, only the agreement concluded by the majority trade union would apply (Deutscher Bundestag 2015). This principle may damage bargaining autonomy by diminishing the right of smaller unions to conclude collective agreements. It is also very likely to effectively restrict the right to strike for small trade unions, "if the labour courts outlaw industrial action in support of collective agreements they are campaigning for, but which are likely to be superseded by an agreement negotiated by a bigger union" (Kraemer 2015). Hence, the "*Tarifeinheitsgesetz*" weakened rights of smaller trade unions although the German tradition foresees a right of freedom of coalition, as well as solidarity and cooperation among trade unions.

In the UK even more radical changes can be observed. David Cameron is planning to implement a bill that would ban public service strikes unless they are supported by 40 per cent of the workforce. This intention clearly shows a hardening of the party's line against the unions. Now, even 15 per cent of the workforce can initiate industrial action (Toynbee 2015). Another change David Cameron has declared is the way membership duties are collected. Now, the members of the TU do not have to transfer fees personally, since employers collect them and directly transfer them to the trade unions. The new bill would mean that every member of a trade union is responsible for his or her payment to the TU. This act would make it more difficult for the unions to collect money from their members (Interviewee E). Hence, both bills are planning to reduce the power of the employees' organisations even further.

These developments definitely would not help to improve workers' conditions and to reach greater equality in the society. In the UK, the TUC recognised that the European Union channel is sometimes more efficient than the national level, since the TU in the UK is among the weakest unions in Western Europe. Thus, greater cooperation between European trade unions is very likely to strengthen their position and to support their promotion of decent jobs (Interviewee E).

One thing is clear: non-standard employment has become a new reality and is unlikely to stay. It is up to politicians to regulate it in a way that atypical employment ceases to equal precarious employment in numerous cases.

This thesis was an attempt to map out the institutional changes in the welfare state regimes in Germany and the United Kingdom. Although the work was done as faithful as possible, it has some limitations.

The findings seem to suggest that both the British and the German welfare state were moved by their governments into the direction of the ideal-typical liberal welfare state model. However, they did so at a different pace. Whereas the conservative majority governments in the United Kingdome attempted to decisively "roll back" the welfare state and to set free the market forces, change was significantly less pronounced in Germany. A limitation of this thesis is that it cannot be precisely determined why the UK's welfare state seems to be more prone to the pressures entailing change than the German welfare state. One explanation may be that the liberal ideology fell on more fertile ground in a liberal welfare state regime than in a conservative one. Another explanation may be that the German political system with its multiple veto points is generally more stable and averse to change than the majoritarian system of the UK. Thus a limitation of the model applied in this thesis is that it cannot explain why some welfare states change more quickly than others because there is more than one potential explanatory variable. In order to answer this question, more in-depth research is needed.

This influences the generalisability of the results of this thesis. Although the typology is meant to ease the generalisability of scientific findings, this is undermined by the fact that the political system of a country seems to be an influential variable as well. Consequently, the findings of the thesis can only be generalised to states that fall under the liberal or conservative category of welfare state regimes and that have a similar political system to the countries under scrutiny in this thesis. Thus, further research should focus on how the relation between political systems and welfare state typologies affects institutional change. Moreover, to clarify the impact of each of these factors, a quantitative analysis should be conducted to identify the correlation between welfare state type, political system and specific concepts of institutional change. For instance, research should clarify, whether certain patterns of change appear to be generally more associated with a certain welfare regime or political system. Eventually, this would mean that the theoretical framework of Streeck and Thelen would be amended by solid indicators that allow predicting a certain form of transformation.

Finally, it is worth mentioning that the majority of Interviewees were pleading for better labour rights and more quality work, since they were affiliated with trade unions or social-democratic parties. I got also a chance to speak with a representative of a business organisation (businesseurope), however, after assessing the interviews, I recognised that it hardly contributes to answering the research question. The reason was that their focus on employers' interests does not fit well with the theme of the thesis. Thus, I did not conduct any further interviews with employers' representatives.

Due to limited time, space and resources, this thesis could not fully exploit all its potential. For instance, it would have been interesting to take on board a third case to also research institutional change in a social democratic welfare state regime. Furthermore, the thesis may have benefitted from being more solidly underpinned by empirical evidence, e.g. by conducting interviews with more people to diversify the input. In particular, it was difficult to get in touch with interviewees from the national context, who may be even more aware of the changes that occurred in their domestic context. However, in doing so, I would have needed to travel to Germany and the UK which was not possible due to the lack of time and financial resources.

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