



Risks in the labor market and social insurance preferences: Germany and the USA

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Abstract

Purpose – The purpose of this paper is to attempt to look at the link between labor market risks and social insurance demands by taking occupational unemployment rates, and specificity of skills into account.

Design/methodology/approach – Occupational unemployment rate is treated as an estimate of labor market risk in addition to human capital investment. Then, the variations in Germany and the USA – with diverse labor markets and a considerable difference in terms of social insurance support – are examined.

Findings – The results suggest that occupational unemployment rate is explanatory for the demands for social insurance along with income.

Practical implications – Conclusions reached in the paper aim to contribute to the understanding of the political support for social insurance and hence provide tools for the design of such insurance mechanisms.

Originality/value – Contrary to the widespread association between the type of human capital and social insurance preferences in the literature, the paper argues that the cross-country variations can be explained by occupational unemployment rates.

Keywords Human capital, Investments, Unemployment, Social benefits, Germany, United States of America

Paper type Research paper

1. Introduction

Advanced economies have a wide range of social policies addressing labor market issues. Even though the specific policies vary both from country to country and over time within a given country, all advanced economies have comprehensive unemployment insurance systems, which comprise a sizable amount of public expenditures. For example, in 2005, Germany spent nearly 1.9 percent of her net national income on unemployment compensation while the USA spent approximately 0.3 percent in the same year (OECD, 2009). In addition to variation in unemployment insurance schemes, the labor markets of advanced economies are marked both by distinct types of risks and considerable variation in the degree of risk exposure for individuals. Thus, understanding the motivations underlying the political support for social policies across countries, and the role labor market risks play in shaping these preferences, can prove very useful for analysis and policy making.

One dominant standpoint regarding the motives giving rise to demand for social policies emphasizes the redistributive aspect of government policies. Meltzer and Richard (1981), Alesina and Rodrik (1994), Benabou (1996) and Krusell and Rios-Rull (1999) develop a rational democratic model of redistribution where the relevant



dimension for redistribution is from rich to poor[1]. An alternative explanation of demand for social insurance policies originates from the need for social insurance and claims that the welfare state provides insurance to its citizens. People with riskier resources, physical or human capital assets, look for broader social safety nets to guard against individual specific risks. Thus, self-interested voters will support welfare policies that shield against these risks[2]. Estevez-Abe *et al.* (2001), Ebbinghaus and Manow (2001), Huber and Stephens (2001) argue that the problem of uninsurable risks in the labor market, which can only be mitigated by the state, will lead to a demand for social insurance. In turn, government policies shielding against these risks will generate higher human capital investment and different forms of production regimes.

In this literature, factor specificity is attributed a central role in shaping the preferences of workers and firms over major policy dimensions, which includes the size and scope of social policy programs. Additionally, it determines the manner and pace in which each economy adjusts to exogenous shifts in world markets and technology by reallocating productive inputs between industries.

The specificity of labor arises from human capital investment and hence skills acquired. It is presumed that in “coordinated market economies”, labor is more specific and less mobile between firms, sectors, or industries, whereas in “liberal market economies”, it is versatile and can move among jobs, sectors, or industries easily[3]. Therefore, the insurance aspect of social policy is essential for coordinated market economies where individuals with specific skills, due to limited mobility across industries, would call for extensive protection against shifting world markets. Further, this protection would be supported not only by workers, but also by employers as well. The higher the prevalence of skill specific workers and employers in a coordinated market economy, the higher the expected cost of job loss due to non-transferability or immobility of skills, the higher the demand for social insurance (Iversen, 2005).

On average, however, rates of inter-industry labor mobility[4] tend to be higher in “coordinated” economies than they are in “liberal” economies, and these rates differ across nations within each classification as much as they vary across nations in different categories (Hiscox and Rickard, 2002). There are several studies demonstrating higher mobility among workers in Europe offering a handful of potential explanations. One explanation is that government spending on active labor market programs, which subsidizes the retraining and relocation of workers, has a clear positive effect on inter-industry labor mobility. Additionally, retraining and readjustment lead to better job matches both within the same industry and across sectors. Therefore, a closer look at the immobility argument is required.

Second, the implicit assumption in this framework – that the expected cost of job loss is higher for skill specific workers – is not substantiated by empirical evidence either. In a study by Lefranc (2003), it is pointed out that the wage losses are greater for US workers compared to the workers in France in the case of displacement. A decline of 13-20 percent is experienced in the former case as opposed to 10 percent loss in terms of previous wage in the latter. Moreover, Leonhard and Audenrode (1995) documented that displaced workers experienced no wage loss in Belgium, and Burda and Mertens (1993) found very low post-displacement wage losses in Germany. They argue that this is because job security may or may not be a problem for several groups of highly skill specific workers, and that if workers in this group are displaced; they can find similar jobs more easily in Europe[5]. Hence, it is not entirely clear why risk is positively

related to skill specificity, independent of skill levels, especially for industrial or occupational skills.

There are several models that try to analyze how social preferences affect unemployment insurance decisions. For example, Wright (1986), Saint-Paul (1996) and Hassler *et al.* (2002) model unemployment benefits as the endogenous political choice of fully rational and informed agents. These papers, however, do not touch on the heterogeneity of workers, and do not focus on the human capital investment aspect of the choice. Iversen and Soskice (2001) developed a model looking at skill specificity, and have shown that skill specificity is positively related to social insurance preferences. This model included one dimension of heterogeneity in the discussion but required a very strong assumption to establish the claimed link between social insurance and skill specificity, namely equal unemployment probabilities for workers with specific and general skills, respectively.

The argument in this paper adds a second dimension, occupational unemployment rate, to the heterogeneity of workers. The labor market is characterized by the skill specificity and unemployment distributions, and the equilibrium tax or benefit rate depends on the type of the decisive voter. The employment prospects of each type of worker will depend on the nature of skills they hold, and I will claim that certain specifically skilled workers face lower risk of job loss compared to their generic counterparts[6]. Human capital investment itself can be viewed as insurance against the possibility of unemployment, thus decreasing the association between the risk of unemployment and skill specificity. I use data from the 2006 International Social Survey Program (ISSP) collected in Germany and the USA. The two countries have very different labor markets in terms of skill specificity and job loss risks, which provide the variation necessary to empirically test the validity of my claims. This is one of the first studies utilizing the last wave of the survey.

To briefly summarize the results, I find that the occupational unemployment rate and individual income are the key factors determining public support for social insurance. This suggests that skill profiles and social protection programs are not perfectly correlated, and that the cross-country variation in social protection policies cannot be fully attributed to differences in skill specificity. My main findings contradict the thrust of the recent literature, which states that skill profiles – measured by human capital investment – and the type of welfare regime in a country will be interrelated. The primary reason for the divergence between my results and those in the existing literature is due to the relative importance of the alleged link between risk and specificity.

The remainder of this paper is organized as follows. In Section 2, a brief review of the literature on the skill specificity-social protection nexus and its critique are provided. Section 3 presents details about the central hypotheses, econometric methodology, and operationalizations of the key variables. Section 4 presents a brief overview of the German and the USA's unemployment compensation and education policies, and the results of the regressions. Section 5 concludes.

2. Human capital investments, labor market risks, varieties of social protection

Becker (1964) forms the basis for most of the literature surrounding human capital investments. Becker (1964) argues that workers choose the level of human

capital investment that maximizes their return on the investment given their initial level of skills, competencies, and talents. Workers devote resources to accumulate skills to the point where the marginal cost of doing so is equal to the marginal benefit gained by the skill premium and increases in productivity. However, a given individual will likely under-invest in firm, occupation, or industry specific skills because, as argued above, investing in specific skills at the expense of general skills increases the cost of job loss. Firms will also under-invest in training that will produce specific skills since there could be labor poaching by other employers.

Following the arguments above, Estevez-Abe *et al.* (2001) relate the strength of social welfare programs to the degree of skill specificity with a given labor market. They assert that people are less likely to invest in specific skills if the occupations requiring those skills have a high unemployment risk, unless the risks are mitigated by social policy. Since there are complementarities between human capital and product markets, employers, who rely on specific skills to compete effectively in international markets, would also favor certain insurance policies[7]. Thus, in countries that produce products which require specific skills and a labor force equipped with those skills, a strong alliance between skilled workers and their employers would likely emerge in favor of social protection policies that are advantageous to both groups.

From the workers' perspective, it is not beneficial to invest in specific skills unless there are explicit arrangements ensuring the stability of wages and employment. This cannot be achieved by contractual terms between employers and employees, hence social protection must play a major role. Also, firms will spend money on training programs if there is some form of guarantee that there will be no transfers of these skills, or in the case of transferability, there is a sufficient pool of specifically skilled workers to overcome the loss. Alt *et al.* (1999) affirmed that employers who are interested in developing firm specific skills are more willing to advocate for social policies.

Hassler *et al.* (2002) argue the difference in labor market performance and institutions between Europe and the USA is driven by the complementarity between individual labor market behavior and the collectively chosen social policies. Unemployment insurance is generous in Europe partly because European workers have accumulated highly specific human capital making them more concerned about unemployment risk than American workers. Hence, European workers muster stronger political support for unemployment insurance than American workers. In addition, the existence of generous unemployment insurance gives incentives to European workers to acquire more specialized human capital, associated with higher unemployment risk. American workers, faced with low unemployment insurance, will instead tend to accumulate more flexible human capital featuring less risk. Thus, a "virtuous" cycle exists, generating divergence between the US and European labor markets.

First and foremost, the literature that treats asset specificity as an explanatory factor for social policy demands undermines a vital part of Becker's model. A specifically skilled worker faces a lower risk of job loss but, in the event of a job loss, the gap between the worker's current income and the income for the unemployed is much larger. In equilibrium, there is no theoretical reason to expect that these two risks will be higher for the specifically skilled. In fact, most of the specifically skilled jobs are also more secure because the companies are willing to keep highly trained workers (Parsons, 1972). Thus, the connection between skill specificity and higher risk is broken. The occupational unemployment rate, in this regard, will be a better proxy for

individual risk exposure. People with specific skills in occupations with high unemployment rates are clearly expected to support social insurance policies, but when an individual has asset specificity in human capital and a low probability of being unemployed, the argument is much less clear.

Second, it is not clear why the risks involved in investments in specific assets would automatically deter such investments if expected returns rise with risk. The ways through which the costs related to riskier human capital investments, are distributed may vary across countries. Nevertheless, it does not lead to the conclusion that such investments are not undertaken in “liberal” economies[8]. It may well be that in more market-based economies, like the USA, the risks of owning specific assets tend to be assumed almost completely by individual workers and firms anticipating the “rents” that will follow if such assets earn above-market rates of return in the future. As argued, markets in which individuals assume all the risks of investing in specific skills may actually lead to massive over-investment in such assets. It has been estimated that firms and the federal government combined have spent approximately \$60 billion for on the job training in 2002; however, 90 percent of the total expenditures are shouldered by the employees in the USA (Mikelson and Nightingale, 2004).

Also, in most studies, there is no discussion of the different social insurance mechanisms (i.e. employment protection versus unemployment insurance) and their relationship with skill profiles. Boeri *et al.* (2003) argue that there exists an empirical trade-off between employment protection policies and unemployment insurance even though both aim to insure against labor market risks. This is imperative for skill specificity investments since employment protection is a more effective method of insurance for firm specific skills, while unemployment benefits will help workers more when skills are industry or occupation specific. Thus, it is not clear what type of social insurance will be chosen when there are workers with both firm specific and industry/occupation specific skills in a country. Finally, while factor specificity is obviously assigned a critical analytical role in this approach, it is not altogether clear whether specificity is regarded as exogenous or endogenous with respect to regulations and institutions. Because of this, the starting point of the formation of a specific labor market is ambiguous. And whether the institutions and regulations precede specificity or skill specificity is the leading factor is not discussed comprehensively.

3. Data and empirical methodology

Following the above discussion, I test the link between preferences for social insurance and skill specificity. Germany, because of its apprenticeship system, is viewed as an economy where jobs are highly specific. It also has more extensive unemployment insurance than the USA. The USA, with a more general education system, is regarded as a generically skilled economy and has limited unemployment insurance. There are contradicting studies finding higher expected cost of job losses but lower actual costs in Germany than the USA. This may be due to the fact that the comprehensive protection system in Germany provides workers the means to wait until they find a more suitable job. Considering that these countries are taken as prime examples of specific and generic labor markets in the literature, respectively, the estimation results should be fairly illustrative.

Regression equation is estimated as an ordered probit model since the dependent variable has ordinal values[9]. The central idea of this model is that, underlying the

ordered response is a latent, continuously distributed random variable representing propensity to see more spending on unemployment insurance. Additionally, I have used a multiple imputation technique, Amelia[10], to handle missing observations instead of list-wise deletion.

In the estimation, the dependent variable is based on a direct question on preferences about unemployment insurance. The question asks whether the respondents want to see higher, lower or the same level of government spending on unemployment benefits. They are informed about the possible costs in terms of tax increases for choosing greater spending. It should be noted that, for the present purposes, there will not be an explicit discussion on the differences between actual performance and perceived performance of public programs.

To estimate the model above, I use data for income, skill specificity, the occupational unemployment rate, and numerous control variables. Skill specificity is represented by two measures. The first measure comes from a question in ISSP (2007) survey (s1). The question asked in ISSP survey is: "how difficult or easy would it be for you to get a similar or better job with another employer?" Second measure is constructed by making few adjustments to the index employed by Iversen and Soskice (2001)[11], s(2). They base their skill specificity estimations on the classification of occupations by the International Labour Organization (ILO, 1999)[12]. The ILO categorization uses four broad skill levels based on "the range and the complexity of the tasks involved" and explicitly incorporates both informal and formal training.

Risk is represented by occupational unemployment rates of workers, which might better capture the demand for social insurance policies. It is calculated using data from each country's national statistical institutes, which provides unemployment and employment data according to the national classifications of occupations. I then transformed these national categories to ISCO-88 occupational classification and estimated the three-digit level unemployment rates. The earnings are directly taken from the ISSP (2008) survey, which provides the income for each respondent.

There are several control variables used in the estimation including, age, gender, union membership, labor market status (i.e. unemployed, non-employed, part-time employed, and self-employed), party affiliation, and education. Workers usually become more supportive of the welfare state as they get closer to retirement. Female workers may demand more protection than men, in comparable jobs, because of the generally more vulnerable position of women in the labor market[13]. Additionally, the need for childcare would lead to greater support for public assistance. Given that one of the main functions of a union is to insure members against risks, it is realistic to expect that union members are particularly concerned with social protection (Korpi, 1989). The unemployed will support higher income protection because they rely on transfers as a source of income. Esping-Andersen (1999) maintains that the non-employed might demand social policies if they believe these policies would help them to reenter the labor market. However, the group is too heterogeneous to anticipate a common policy preference. The preferences of part-time employed workers can also go both directions since they are the most vulnerable but at the same time they need more flexible labor markets. The self-employed are expected to favor lower levels of social protection given that they depend on flexible labor markets and usually on comparably low-paid workers. Education is expected to have a negative relationship with social protection policies. However, this may be contingent on the type of education one receives.

Finally, ideological orientations are important indicators for attitudes towards social policy and we will expect left party supporters to ask for broader welfare programs.

I estimate the preferences for unemployment insurance in Germany and the USA separately to test if there is a significant difference in the two countries' coefficients. Germany is considered to have a specifically skilled labor market; hence it is expected to have a more prominent relationship between specifically skilled workers and demand for unemployment insurance. The results are presented in the next section.

4. Labor market characteristics in Germany and the USA

In the literature, it is widely affirmed that German workers invest more in specific human capital, while US workers invest more in general human capital. Also, the government in Germany supports this type of human capital investment more than the US Government does. While public expenditure on labor market training was 0.25 percent of gross domestic product (GDP) in Germany[14], it was only 0.05 percent of GDP in the USA in 2005 (OECD, 2007). In Germany, apprenticeship and vocational training have been the main pillars of post-secondary education; 72 percent of all workers receive such training and very few workers enter into the labor market without any post-secondary training. Most of these programs are sponsored by government and all the investment costs, except the time of the trainee, are paid by government. In addition, Germany has more generous unemployment benefits. In 2006, the replacement rate in Germany was 60 percent of gross earnings with duration of 12 months. In the USA, the replacement rate was 50 percent and the duration was only six months (OECD, 2007). At face value, these numbers seem to support the skill specificity arguments. However, there are no theoretical reasons to believe that German workers, given their higher specific skills, will favor more social protection given their more secure positions in the labor market.

Germany, with its apprenticeship system, is viewed as an economy where jobs are highly specific. It also has more extensive unemployment insurance, whereas the USA, with a more general education system, is regarded as a generically skilled economy and has limited unemployment insurance. But the risk of having specific skills does not follow the pattern necessary for the asset specificity argument to hold. The displacement costs are actually lower in Germany than the USA, which is counter to the claim that specifically skilled workers, upon becoming unemployed and then re-employed, would earn a lower wage in the new job. Burda and Mertens (1993) found that in Germany, there are almost no wage losses for those who reenter employment. But in the USA, there are considerable losses and they are primarily caused by lower wages in post-displacement jobs. This might be due to the fact that the comprehensive protection system in Germany provides workers the means to wait until they find a more suitable job.

It also appears as if jobs are more secure in Germany than in the USA. It is estimated that on average a male worker experiences ten lifetime job changes in the USA, compared to four in the case of male Germans (Winkelmann, 1994). In both countries, it is unskilled workers, rather than specifically skilled workers, that have to deal with increased job instability and poor employment prospects. The differences between the levels of job security can also be derived from the employment protection measures. According to the index of employment protection, Germany scores 0.86 and the USA scores 0.14 on a scale from 0 to 1[15]. This illustrates that once a worker is

employed it is relatively more difficult to get fired in Germany. Thus, why a German worker would support unemployment benefits is not obvious, when considering the role of the risk of job loss and the cost of job loss alone.

According to the descriptive statistics obtained from the ISSP surveys, 48.7 percent of all German respondents are employed in a job that has skill specificity slightly above the sample mean[16]. The biggest shares of the workers are employed in craft and related trades in this country. Technicians and associate professionals, and professionals are second and third, respectively. For spending on unemployment benefits, only 14.86 percent ask for greater levels whereas 49.83 percent wants to keep the same level. The mean of the unemployment benefit index is 2.88 for Germany. The mean of skill specificity premium measure is 1.39 in the USA, which is slightly lower than the sample average and most of the people are employed under the groups of professionals and clerks. For unemployment insurance, 34.2 percent of respondents favor more spending, which is higher than Germany. About 46.92 percent of the surveyed people prefer the same level of spending and the mean for the index is 3.08, a little higher than Germany. It should be keep in mind that the expenditure on unemployment insurance in Germany is already much higher than the levels in the USA.

Turning to the estimation results for Germany, seen in Tables I and II, which are regressed by using the two different measures of skill specificity, the estimated coefficient on income is significant and has a negative sign meaning that higher income workers favor lower transfer levels. The coefficient on skill specificity is positive pointing out that those with more specific skills ask for greater unemployment insurance. However, the coefficient is not statistically significant. This is also the case with the second measure of skill specificity (s2)[17], namely that the coefficient is

	Ordered probit estimates		Marginal effects at sample means dy/dx
	Coefficient	SD	
Income	-0.034**	(0.006)	-0.12**
Skill specificity (s1)	0.05	(0.1)	0.04
Age	0.0006	(0.002)	0.004
Gender	0.05	(0.05)	0.03
Union membership	0.15**	(0.07)	0.03*
Part-time employment	-0.1	(0.1)	-0.04
Self-employed	-0.2**	(0.07)	0.14**
Unemployed	1.04**	(0.12)	0.3**
Non-employed	0.41**	(0.08)	0.18**
Party affiliation	-0.04**	(0.02)	-0.07*
Education	-0.02	(0.01)	-0.02
Occupational unemployment	0.34**	(0.1)	0.06**
Test on joint significance	$\chi^2 = 143.04$		
- 2 log likelihood	2,652.7		
Pseudo R^2	0.34		
Number of observations	2,287		

Notes: * $p = 0.05$ and ** $p = 0.01$, one-tailed tests of significance; estimates are ordered probit estimates; standard errors are in parentheses; the dependent variable contains five categories ranging from “much less” to “much more” in response to a question on whether the individual wants to see more spending on unemployment benefits

Table I.
Support for
unemployment insurance
in Germany (2006)

	Ordered probit estimates		Marginal effects at sample means
	Coefficient	SD	dy/dx
Income	-0.034**	(0.006)	-0.14**
Skill specificity (s2)	0.04	(0.07)	0.03
Age	0.0005	(0.002)	0.009
Gender	0.05	(0.04)	0.02
Union membership	0.12**	(0.06)	0.05*
Part-time employment	-0.11	(0.1)	-0.03
Self-employed	-0.3**	(0.07)	0.14**
Unemployed	1.03**	(0.14)	0.2**
Non-employed	0.32**	(0.05)	0.16**
Party affiliation	-0.3**	(0.02)	-0.04*
Education	-0.11	(0.03)	-0.03
Occupational unemployment	0.4*	(0.13)	0.09**
Test on joint significance	$\chi^2 = 143.04$		
-2 log likelihood	2,652.7		
Pseudo R^2	0.34		
Number of observations	2,287		

Table II.
Support for
unemployment insurance
in Germany (2006)

Notes: * $p = 0.05$ and ** $p = 0.01$, one-tailed tests of significance; estimates are ordered probit estimates; standard errors are in parentheses; the dependent variable contains five categories ranging from “much less” to “much more” in response to a question on whether the individual wants to see more spending on unemployment benefits

positive but insignificant. The occupational unemployment rate is significant and positively related to preferences over unemployment insurance. This appears to be supportive of our argument. Variables on occupational status turn out to be significant with expected signs. Also, party support has a negative sign indicating people affiliated with right wing parties prefer less spending on insurance.

Aside from the coefficients of each variable, one can look at the effect of a change of one standard deviation in these variables. In addition to the dummy variables on employment status (unemployed, non-employed, self-employed, and part-time employed), income has the greatest effect for both specifications. A one standard deviation increase in the occupational unemployment rate leads to a 0.06 and 0.09 percent increase, in each specification, respectively, in the probability of choosing a higher level of unemployment spending, keeping everything else constant. It is 0.01 percent when we employ (s1) and only 0.002 percent when I use (s2).

Tables III and IV repeat the same exercise for the USA by employing different skill specificity estimates as mentioned earlier. In Tables III and IV, the coefficient on income has a negative sign and it is statistically significant for the USA as well. Also, the coefficient on skill specificity is positive for both (s1) and (s2), though again the coefficients are not significant in either specification[18]. Occupational unemployment is positively related and it is significant both alone and when skill specificity and the interaction variable are not included.

These findings do not fit into skill specificity explanations of social protection. Although the results for the USA and Germany do have meaningful differences, in both countries job loss risk is significant and has a direct relationship with preferences for social insurance. Finally, several control variables come out as significant over all

	Ordered probit estimates		Marginal effects at sample means dy/dx
	Coefficient	SD	
Income	-0.05 **	(0.02)	-0.16 **
Skill specificity (s1)	0.14	(0.2)	0.04
Age	0.0006	(0.001)	0.01
Gender	0.05	(0.05)	0.02
Union membership	0.18 **	(0.09)	0.07
Part-time employment	-0.16 *	(0.07)	-0.04
Self-employed	-0.03	(0.09)	0.006
Unemployed	0.5 **	(0.3)	0.08 *
Non-employed	0.1	(0.083)	0.05
Party affiliation	-0.3 **	(0.1)	-0.2 **
Education	-0.15 **	(0.034)	-0.14 **
Occupational unemployment	0.71 **	(0.04)	0.07 *
Test on joint significance	$\chi^2 = 145.8$		
- 2 log likelihood	1,576.3		
Pseudo R^2	0.46		
Number of observations	1,587		

Notes: * $p = 0.05$ and ** $p = 0.01$, one-tailed tests of significance; estimates are ordered probit estimates; standard errors are in parentheses; the dependent variable contains five categories ranging from “much less” to “much more” in response to a question on whether the individual wants to see more spending on unemployment benefits

Table III.
Support for
unemployment insurance
in the USA (2006)

	Ordered probit estimates		Marginal effects at sample means dy/dx
	Coefficient	SD	
Income	-0.04 **	(0.01)	-0.14 **
Skill specificity (s2)	0.7	(0.09)	0.03
Age	0.0006	(0.001)	0.01
Gender	0.05	(0.05)	0.02
Union membership	0.17 **	(0.1)	0.07
Part-time employment	-0.15 *	(0.08)	-0.05
Self-employed	-0.02	(0.07)	0.005
Unemployed	0.6 **	(0.3)	0.06 *
Non-employed	0.1	(0.083)	0.03
Party affiliation	-0.3 **	(0.04)	-0.2 **
Education	-0.17 **	(0.04)	-0.16 **
Occupational unemployment	0.6 **	(0.03)	0.06
Test on joint significance	$\chi^2 = 145.8$		
- 2 log likelihood	1,576.3		
Pseudo R^2	0.46		
Number of observations	1,587		

Notes: * $p = 0.05$ and ** $p = 0.01$, one-tailed tests of significance; estimates are ordered probit estimates; standard errors are in parentheses; the dependent variable contains five categories ranging from “much less” to “much more” in response to a question on whether the individual wants to see more spending on unemployment benefits

Table IV.
Support for
unemployment insurance
in the USA (2006)

specifications in the USA. Among those, education and left-right party support are interesting. The coefficient on education has a strongly significant and negative sign meaning that the higher the level of education the respondent has, the less supportive she will be for welfare programs. This is in line with the suggestion that higher degrees of education can be seen as a form of insurance. Party affiliation is statistically significant as well and has a negative relationship with spending on unemployment benefits. The index for this variable goes from left to right party support and one reason why it is explanatory in the USA could be because there are no far left and far right parties included[19].

Looking at the effect of a one standard deviation change in these variables, it can be seen that income, party affiliation, and education have the biggest effects. A major dissimilarity is the relatively low effects of employment status variables in the USA (unemployed, non-employed, self-employed, and part-time employed) compared to Germany. In the USA, a one standard deviation increase in the occupational unemployment rate leads to 0.07 and 0.06 percent increase, for each specification, respectively, in the probability of choosing a higher level of unemployment spending, keeping everything else constant. It is 0.04 percent when we employ (s1) and 0.03 percent when we use (s2) for Germany.

5. Conclusion

In this paper, I develop an econometric model to consider the primary factors explaining the demand for social insurance programs, in particular specifically unemployment insurance. I find that the occupational unemployment rate and income are the key factors determining public support for social insurance. As opposed to the literature on asset specificity, I did not find a robust relationship between specificity and unemployment insurance preferences. This arises from the fact that there is no one-to-one correspondence between skill specificity and riskiness at the occupational level. Because of this, workers with highly specific job skills do not automatically demand greater social protection. The risk profiles of any individual employee is highly contingent on the occupational position, hence the type of skills alone do not provide the basis for wage losses.

Previous papers evaluated specificity as a measure of risk; however, there is low correlation between these two determinants. Instead, this paper proposed that the occupational unemployment rate at a detailed level might better capture the labor market risk associated with any given job type. The overall demand for social insurance will therefore be contingent on the level of risk exposure and income for each type of worker. Given the differential occupational risks, and low correlation between these and skill requirements, the specific skills play a less central role for the individual policy preferences.

To this end, I have investigated the hypothesis that skill specificity is positively related to unemployment insurance and accordingly it would be demanded more in countries with higher levels of specificity. Additionally, I have tested my hypothesis that job insecurity is central to the demands for greater social protection. Cross-country variations are argued to depend on job security, and capacity to self-insure, which is measured by earnings. In this respect, I have inspected two representative countries, the USA and Germany, more closely. The two countries are believed to be

representative of labor markets that are characterized by specific and general skills, respectively, hence quite illustrative.

The skill specificity variable turns out to be insignificant in all estimations for both countries when estimated alone and with the job loss risk variable included. This validates my criticisms that preferences for social protection cannot be explained solely by human capital types. For Germany and the USA, the occupational unemployment rate is statistically significant and positively related to support for greater unemployment spending. Hence, job loss risk is a useful variable explaining people's attitudes towards social insurance. It can be concluded that once the appropriate theoretical variables are employed the explanatory power of skill specificity vanishes and job loss risk is useful to understand the attitudes towards social protection. In other words, the distinction in the social policy arena between countries with specifically skilled labor force and countries with workers holding generic skills could not be empirically verified, and is thus unwarranted.

Notes

1. As long as the current income is low relative to the mean income people would opt for greater social policies. Therefore, if the income distribution is more skewed, it would lead to an increase in support for redistribution.
2. For studies of social welfare as publicly provided insurance, see Barr (2001), de Donder and Hindricks (2000) and Sinn (1995).
3. See Hall and Soskice (2001) and Huber and Stephens (2001) among others for a detailed comparison of "coordinated" and "liberal" market economies.
4. Hiscox and Rickard (2002) use data on changes in sectoral employment patterns to gauge the speed and extent of inter-industry labor movement over time.
5. More generous unemployment benefits in Europe might give workers enough opportunities to search for "acceptable" jobs.
6. Parsons (1972) argues that firms hold on to their specifically skilled workers since these investments are paid mostly by the employers themselves.
7. The specific skill requirements will be under-supplied without implicit agreements for long-term employment and real wage stability but imperfect contracts will mean that employers' promises are not credible. This will lead to government policy securing jobs and wages.
8. There is an extensive literature on the growing importance of worker training in US manufacturing industries during recent decades, and the related expansion in the use of fringe benefits tied to seniority as a way to encourage longer tenure among employees once they have been trained on the job.
9. An explanation as to why a linear regression could not be suitable for ordered outcomes, see Daykin and Moffatt (2002).
10. For details of this program and software, see King's web site: <http://gking.harvard.edu/stats.shtml>
11. The skill specificity indicator in Iversen and Sockice is derived by comparing the share of unit groups in any higher level class to the share of the workforce in that class.
12. The International Classification of Occupations (ISCO-88) categorizes the jobs according to the level of skills required for an occupation and the degree of specialization of those skills.
13. Also, there might be sectoral and occupational differences between men and women.

14. Includes Länder spending in Germany, which has not been allocated across sub-categories.
15. The index has been generated by looking at the employment protection legislation, collective dismissals protection, and company based protection.
16. The sample mean of skill specificity is 1.395 and the German mean is 1.418.
17. These results hold under many different specifications that are not presented here with the exception of including skill specificity (s1) alone.
18. Unlike Germany, skill specificity measures are insignificant under any specification.
19. Democratic Party is counted as Left, Center Left and Republican Party is counted as Right Conservative in the USA. The Center, Liberal position is for Independent nominees.

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Further reading

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