

Fagan, Colette; Halpin, Brendan; O'Reilly, Jacqueline

## Article

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## Service Sector Employment in Germany and the UK

By Colette Fagan, Brendan Halpin and Jacqueline O'Reilly

### Abstract

Given the poor jobs record in Germany since the mid 1990s, much political interest has been shown in the potential for job creation in the service sector. However, service sector employment raises a number of controversial issues associated with the encouragement of low-skill, low-wage jobs in a country traditionally classified as having a high-skill, high-wage equilibrium. Thus, a cross-national comparison with a country like the UK appears to be of interest, where labor market structures are quite different in terms of labour market regulation and levels of female employment (Hall and Soskice 2001; O'Reilly and Bothfeld 2002).

Our analysis covers the different patterns of growth in services tracking transition patterns between occupations and employment and non-employment to see how precarious service employment is in each of the countries, and for whom. In conclusion, the empirical analysis is set within national debates in economics, concerning the role of macro-economic policy impacts on the domestic demand for services. The findings are also located in relation to the sociological literature on self-serving households and the impact of strong male breadwinner households, which dampen demand for service jobs. This project is work in progress.

*JEL Classifications: J21, J23*

### 1. Introduction

In western societies, the service sector has been the main source of job growth in recent decades (Anxo and Storrie 2001). Who has benefited from this growth? In the research presented here we are interested in examining what kinds of people have been able to take up these new job opportunities. We are particularly interested in where they came from, what type of jobs they end up with, and how long they stay in this form of employment.

In Germany there exists a controversial debate over the development of the service sector. Initially these debates were concerned with whether or not Germany had a service sector gap (*Dienstleistungslücke*), or whether this was a

statistical artefact (Haisken-DeNew et al. 1996, Wagner 1998, Streeck and Heinze 1999, Bosch 2000, Freeman and Schettkat 2000). Persistently high levels of unemployment have increasingly focused attention around the job creation potential of the service sector. For those who accept that more could be done to encourage service sector employment there have been a wide range of different policy recommendations. One explanation for this gap is attributed to high wages and non-labour costs in Germany which makes the creation of low productivity jobs prohibitively expensive. Freeman and Schettkat (2000), on the other hand, dismiss this argument that wage costs are the key factor in explaining the service gap in Germany; the problem lies in more than just wage costs.

More sociological approaches to explaining these cross-national differences can be drawn from the work of Gershuny and Miles (1983) who argues that as societies become more prosperous and working time is reduced, families spend more time and money on self-servicing activities rather than buying in services from the market. Research on conservative welfare states and strong male breadwinner households suggests a dampening in demand for bought in services as these are provided unpaid by the mother.

At the heart of this debate in Germany lies a 'political' choice of continuing to support the traditional characteristic of the German model with high-quality diversified production (Streeck 1992) associated with a high-wage, high-skill equilibrium (Soskice and Finegold 1988), alongside the development of low-wage and marginal employment more often associated with higher levels of female employment (Fels et al. 1999, O'Reilly and Bothfeld 2003).

Employment in the UK is more heavily concentrated in the service sector<sup>1</sup> compared to Germany, which still has a larger manufacturing base than most other EU member states. The deregulated UK economy stands in contrast to the more regulated or corporatist German model. Structural adjustment has been managed differently associated with different institutional systems (e.g. labour market regulations, education and training, social protection regimes), policy debates and government agendas (Hall and Soskice 2001). In part policy debates in these countries have been more concerned with the polarisation effects of differentiated forms of employment generated by the growth of service work. On one hand, the service sector economy is seen as generating 'Mc Jobs' associated with low wages and poor employment conditions. While on the other hand, service employment in higher status occupations has also been evident in both of these 'liberal' economies. Given the critical levels of unemployment in Germany what lessons are there to learn from the job 'boom' in the UK service economy? The research questions addressed fall into two parts: What type of service sector employment is growing in Ger-

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<sup>1</sup> In our work we use both occupational and sector classifications: ISCO 88, SIC 92 and NACE to measure the service sector.

many and the UK? And, what impact is it having on labour market transitions in terms of integrating, excluding or enabling upward mobility?

## 2. Defining services

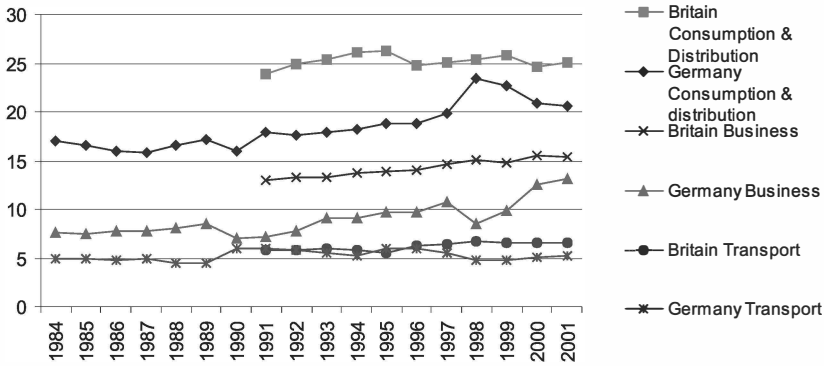
Defining service sector employment is not so simple. Criticism of using a sectoral approach is based on the claim that German manufacturing firms often provide services in-house, compared to the use of subcontracting in Anglo-Saxon economies (Haisken-DeNew et al. 1996). Erlinghagen and Knuth (2003:11) argue that this sectoral base underestimates the extent of tertiarisation in Germany, and therefore researchers have tended to move towards an activity based, i.e. occupational definition, rather than an industry-based approach. Using both measures<sup>2</sup> we still found that there are comparatively fewer service sector jobs in Germany than in Britain, for example, as a percentage of total employment in 2003 services accounted for 74 % in Britain and 68 % in Germany, whether measured by occupation or by industry definitions. Restructuring activities are responsible for part, but not all, of the service activity growth.

## 3. Employment change in sub-service sector

The biggest loss of jobs in both countries has been in the traditional production sector where employment fell by nearly 7 in Germany and 4 in Britain since 1991: in Germany such jobs accounted for 33 % of all employment in 2002 compared to 26 % in Britain. The consumer sector in both countries has the highest rate of employment growth of all sub-service sectors accounting for nearly 24 % of jobs in Britain compared to 20 % in Germany (Figure 1a). Despite a rapid growth in Germany during the mid 1990s, since 1999 employment has fallen significantly. Business services are more developed in Britain than in Germany, although this is a sector which has increased in terms of employment rapidly since the late 1990s, accounting for nearly a 5 % increase in jobs. Employment in transport accounts for around five percent or less of total employment and have not changed radically over this observation period. The health and education sector in Britain has over the 1990s tended to employ more people as a percentage of total employment than is the case in Germany. However, since 1992 employment rates here have increased more so in Germany. There was also a small fall in employment in public administration in both countries (Figure 1b).

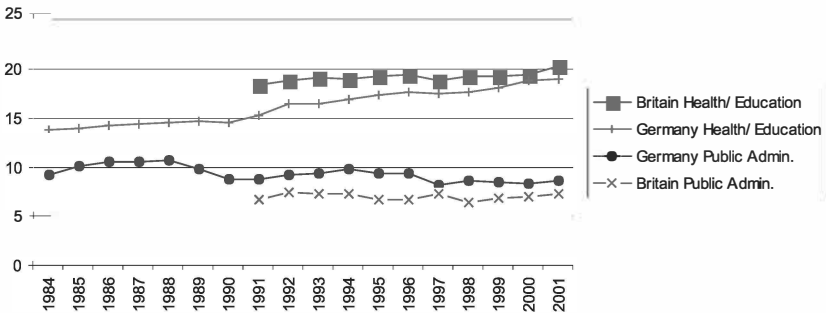
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<sup>2</sup> Our analysis is based on data from the British Household Panel Survey (BHPS) and the German Social Economic Panel (SOEP).



Note: Based on the NACE classification for Germany and the SIC 92 for the UK.  
 Source: BHPS and SOEP.

Figure 1a: Employment change in consumption, business and transport services in Britain and Germany



Note: Based on the NACE classification for Germany and the SIC 92 for the UK.  
 Source: BHPS and SOEP.

Figure 1b: Employment change in health, education and public administration services in Britain and Germany

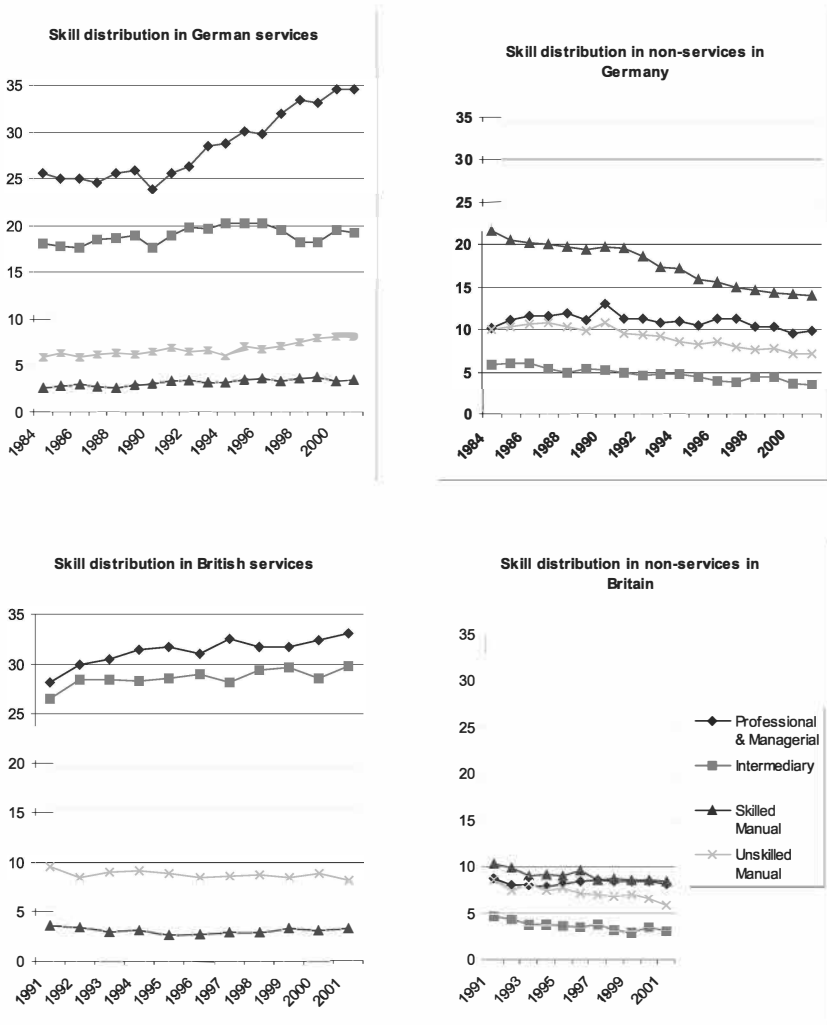
#### **4. Distribution of skilled jobs in the service and non-service sector in Britain and Germany**

Using the international standard classification of occupations (ISCO-88) we distinguish between four skill groups: Professional / managerial, Intermediate, Skilled manual and Unskilled manual. Figure 2 shows how the proportion of high skilled professional and managerial jobs has increased in the German service sector during the 1990s, rising from 26 % in 1984 to 35 % of all employment by 2001. In Britain there were more of these high skilled jobs at the beginning of the 1990s, but a significant and continuous increase mean that the number of people in such jobs is broadly similar between the two countries.

However, one of the striking differences has been in the development of intermediary skilled jobs in services. Here there has been little change in Germany, while in Britain a much higher proportion of employment can be found in this category. These jobs largely consist of office clerks, personal care and protective service workers in retail. As we will see in later analysis these jobs provide an important “sponge” in the UK economy both for integrating those not in employment as well as absorbing both downward and upward occupational mobility. Our analysis would suggest that it is in these intermediary jobs that Germany has the biggest deficit compared to the UK.

In terms of unskilled manual jobs in the service sector we have seen a convergence between the two countries: in Germany these have increased from around 6 % of all employment in 1984 to just over 8 % in 2001. In the UK the proportion of such jobs has fallen slightly from 9.4 % in 1991 to 8.2 % in 2001.

The picture of employment in the non-service sector shows a continued downward decline in particularly for skilled manual jobs which in Germany fell from 22 % of employment in 1984 to 14 % in 2001. The slight ‘glitch’ in the proportion of professional and managerial jobs in 1990 is most probably due to the integration of the former East Germany. In Britain traditional industrial employment is considerably lower than in Germany and it is unskilled manual jobs that have seen the biggest fall here. Intermediary and higher skilled jobs have remained fairly constant.



Source: BHPS and SOEP.

Figure 2: Skill distribution of employment in services and non-services in Germany and Britain, (as a percentage of total employment)

### 5. Transitions

We examined transition patterns for service workers by pooled cross-section time series analysis comparing an individual's employment status in the previous year and where they ended up in the following year. This data can give

us an indication of the types of mobility patterns we can observe in each country as well as indicating the relative importance of different occupations for absorbing people from outside employment.

### 5.1 Integrative transitions

#### *Moving from non-employment into work*

The vast majority of those without employment tended to stay in this category from year to year. However, German women were less likely to move out of non-employment compared to all other groups. Of those that did move out of non-employment German women ended up in professional and managerial jobs (4 %) or intermediate services (6 %). This was fairly similar to transition patterns for British women, except that nearly twice as many moved into intermediate services with nearly 11 % of female transitions ending up in this status a year later. Transitions to manual service jobs was negligible for women. German men also ended up in professional and managerial service positions (4 % of transitions) intermediate services (2.5 %) or unskilled manual services (2.5 %) after a period of non-employment. A higher proportion of British men moved out of non-employment and their transitions were fairly similar to those of German males although twice as many British men ended up in intermediate services (5 %). Intermediate services in the UK clearly absorbs a lot more people who were previously not employed, than is the case in Germany.

### 5.2 Upward mobility

*Unskilled manual service* workers are less likely to move than those in skilled manual jobs. However British workers seem to have a higher likelihood of ending up in a better job than is the case in Germany. Amongst British women over 16 % of transitions out of these jobs were into the intermediate services which was much higher than in Germany where only 6 % of female transitions fell into this category. A similar pattern is also identifiable among *skilled manual service* workers: British women are the most likely to move out of these jobs compared to all other groups. When they move they are also more likely to end up in intermediate jobs (14 %) or professional and managerial jobs (13 %). Only around 5 % of the transitions made by German women are in this direction. It would seem that there are more opportunities for British women to move up the occupational structure than appears to be the case for German women in lower manual skilled jobs.

British men were more likely than any other group to move out of intermediate services and they usually ended up in professional and managerial jobs (nearly 15 % of transitions) which is nearly twice as many as the case for German men (just under 8 % of male transitions). More British than German



women also appeared to be able to move up to a higher status job from intermediary service work (6.5 % in Germany compared to 10 % in the UK). This difference in mobility patterns between the two countries could well reflect the impact of the more regulated credential and training system in Germany which effectively acts as a barrier to movement between different occupations (Gangl 2001).

### 5.3 Downward mobility and dropping out

In the category of professional or managerial jobs German men were the least likely to move out of these higher status jobs, while British women had a higher rate of transition out of this employment status. Nevertheless nearly 5 % of transitions for German men ended up in non-employment and 2.4 % in intermediate services. British men who moved out of professional and managerial jobs were more likely to end up in intermediate services (4.5 %) or to a lesser degree in manual occupations; nearly 4 % of transitions were into non-employment. Women in these higher status jobs had a higher risk than men of moving to non-employment (9 % in Germany and 7 % in Britain). Nearly twice as many British women moved into intermediate services (10 % in the UK compared to 6 % in Germany).

Among intermediate service workers nearly 4 % of transitions for British men were into unskilled manual jobs in the service sector compared with only 2 % for German men. Transitions from intermediate services to unskilled manual work accounted for 2 % of transitions for British women and just over 1 % for German women. Women were more likely than men to move into non-employment (just over 11 % of transitions for German women and 10 % for British women compared with around 7 % for men in both countries).

German women employed in *skilled manual services* were more likely to end up as non-employed (14 %). And, to a lesser degree, German men are also more likely than British men to end up in non-employment (9 % in Germany compared to 6 % in the UK). German workers in these types of jobs have a higher tendency to end up outside employment than is the case for British workers. *Unskilled manual service workers* had the highest drop out rates of all workers, with nearly 10 % of German male transitions and 16 % of German female transitions ending in non-employment, compared to 8 % and 15 % for British men and women respectively.

The main message coming out of this analysis is

1. There is more mobility in the UK where workers seem to experience both more downward and upward status mobility than is the case in Germany.
2. Intermediate occupations in the UK provide an important 'sponge' absorbing a lot of incomers and movers both in terms of downward and upward occupational mobility.

3. When German workers move out of a job they are more likely to end up in non-employment, especially women.
4. Men have a higher likelihood of being able to move up to a better status job than is the case for women.
5. Lower status jobs are associated with higher rates of transition into non-employment.

## 6. Some initial conclusions

One of the most significant differences in the composition of service sector employment in the two countries is the higher proportion of intermediate jobs in the UK. This group appears to be more open for those outside employment. It also plays an important role in Britain in absorbing those who are upwardly mobile, from both skilled and unskilled manual service sector jobs, as well as those who were previously employed in higher status professional and managerial jobs. One of the reasons there would be appear to be a gap in these types of occupations in Germany can be seen from our earlier comparison of the development of different sub-sectors. Here we saw how the consumer sector in Germany has experienced a significant fall in employment since 1999, and this is where we might expect to find more of these intermediate types of employment. There are a number of factors which could account for this development.

One of the major issues in German debates has been the impact of macro-economic policy. Given the relatively low rates of inflation in the German economy the effectively high interest rates maintained by the European Central Bank, together with lower wage rises has meant that there has been an effective lack of purchasing power in domestic demand (see Haisken-DeNew et al. 1996). In particular this would appear to affect the consumer sector most immediately. This type of explanation would seek to identify why there has not been sufficient domestic demand for services which would lead to a growth of employment in this sector.

Additionally, we also need to make an attempt to explain why German mobility is more closely associated with labour market exits, in contrast to the absorbing effect played by intermediate service occupations in the UK, both in terms of accommodating downward and upward occupational mobility. One potential explanation for this could lie with at the door of the much exalted apprenticeship training system. This tends to be orientated towards manufacturing occupations so that a smaller proportion of training positions are available in newly developing sectors and in particular in consumer services. The development of these intermediate jobs is taking place more slowly in the German employment system than is the case in the UK. For a discussion of the development of call centre jobs in both countries see Rubery et al. (2000).

Other explanations of why there is this gap would focus on the constellation of institutions which serve to encourage a male breadwinner household model where the wife drops out of paid employment and provides these services to the home. This would also tie in well with the arguments made by Gershuny (1978 & 2000) that reduced working time, together with increased overall levels of wealth tend to encourage households to become increasingly self providing. This could fit well with the German constellation, and is one that we will need to examine in the future.

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