

- **Estevez-Abe, Margarita, and Torben Iversen and David Soskice. 2001. “Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State,” Chapter 4 from *The Varieties of Capitalism*.**

The authors argue that social protection aids the market by helping economic actors overcome market failures in skill formation. Employers who rely on specific skills to compete effectively in international markets need to institutionalize some sort of guarantee to ensure workers against potential risks. Without implicit agreements for long-term employment and real wage stability, their specific skills will be undersupplied, leading to a market failure problem in the provision of skills. Employer's promises of employment protection lack sufficient credibility, causing social protectionism as government policy to become critical. They consider the welfare state as a complement in national production systems, and the authors identify the main varieties of what they call “welfare production regimes” and their consequences for distribution and economic outcomes. They develop a model of micro-links between skills and social protection which predicts what types of political alliances are likely to emerge in support of a particular type of social protection. Rejecting the “power-resources” explanation of the welfare state, they argue that employment and income protection can be seen as efforts to increase workers' dependence on particular employers, as well as their exposure to labor market risks. They further contend that different types of social protection are complementary to different skill equilibria, where employment protection increases the propensity of workers to invest in firm-specific skills, and unemployment protection facilitates investment in industry-specific skills.