The Political Economy of Labour Market Reforms in Italy and the UK: Convergence for Different Reasons?

Elisabetta Gualmini (University of Bologna) & Jonathan Hopkin (London School of Economics)

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1. Introduction

It is well known that Italy and the UK belong to two very different political economy 'families'. For the Varieties of Capitalism literature (Hall and Soskice 2001), Italy is mostly considered part of the group of 'coordinated market economies' (CMEs)[1], with institutions conducive to sustaining patterned forms of 'strategic interaction' between firms, whilst Britain is the most prominent European exemplar of the 'liberal market economy' (LME), characterized by competitive relationships between firms and deregulated markets. In the welfare states literature, Italy is a classically 'Bismarckian' system of social protection, the UK a 'Beveridgean' model; or to use Esping-Andersen's 'Three Worlds' typology (1990), the former is a 'continental conservative' welfare regime, whilst the UK is a 'liberal' welfare regime. Moreover, the policymaking context is also very different in the two cases: Italy has a degree of corporatist policy-making and unstable and divided governments, whereas in the UK trade unions are largely excluded from policy processes, and governments are strong and cohesive (Lijphart 1999). These institutional differences could be expected to reinforce the respective political economy regimes (Hall and Soskice 2001).

In spite of these differences, labour market policies in the two countries have tended to converge over the last decade and a half. Italy has embarked on the privatization and decentralization of its job centres, incorporated more universalistic and more conditional logics into the allocation of unemployment support, and introduced a range of flexible employment contracts. In the UK, in contrast, recent reforms have introduced a statutory minimum wage, enhanced trade union participation in the workplace, and improved the rights of temporary workers. In sum, from very different starting points the two countries have been moving closer together in labour market and welfare policy. Does this constitute convergence? And if so, what would explain it?

In this paper we examine comparatively the recent experience of the two countries and suggest explanations for two such different political economies becoming more similar. Amongst the range of possible explanatory factors, such as globalization, European initiatives, and common structural economic change, we emphasize more 'political' factors related to conflict and competition for control over policy at the nation state level. We suggest that external constraints have been perhaps less important than the nationally generated impetus for change, and a less than systematic 'borrowing' of policy ideas from other countries in line with the political convenience of governing majorities. If there has been a degree of convergence, we argue that this convergence is the result of internationally popular ideas about how to run the economy being used strategically by politicians focused primarily on their domestic political goals.

2. Convergence, Divergence and Models of Capitalism

The last two decades have seen political economists battling over two radically different conceptions of economic change in advanced industrial societies. On the one hand, proponents of 'convergence' as the dominant feature of advanced political economies usually stress the homogenizing effects of international economic integration. On the other, scholars rooted in the tradition of 'comparative capitalisms' (Jackson and Deeg 2008), emphasize the robustness of divergent institutional arrangements, and the distinctiveness of national responses to global economic change. Here we briefly trace how this debate informs our research question.

The 'convergence' thesis holds that factors exogenous to a country's political and economic institutions push in the direction of a broad policy of liberalization in advanced industrial societies. Foremost amongst these factors is 'globalization', understood usually as a process of increasing internationalization of economic activity, reflected in increasing exchanges of goods and services across national boundaries, and movements of capital and people across these boundaries (Ravenhill 2008). Globalization exposes advanced countries to ever greater competition, undermining national economic institutions that protect society from the downside of markets and unleashing a 'race to the bottom' as governments abandon generous welfare states and strict regulatory regimes (Marquand 1994, Strange 1996). In labour markets, this would lead us to expect a push towards dismantling employment protection regimes, which are seen as inimical to 'competitiveness' and efficient clearing of job markets (Siebert 1997). A variant on this theme sees European integration as a similar force for policy convergence, both through its explicit regulatory requirements and through the increasing economic openness constituted by the single European market (Hay, Watson and Wincott 1999). In the most recent period, Europe can be seen as a force for convergence through the process of 'Europeanization' (Schmidt 2002, Graziano and Vink 2008); for example, the adoption of European level initiatives in employment policy in the framework of the Open Method of Coordination gives member states an incentive to evaluate policy according to shared criteria (Lodge 2002, Hopkin and Wincott 2006). Here, rather than a simple deregulation of labour markets, proponents of convergence see the likely outcome as a common move towards a more flexible but protected labour force on the 'flexicurity' model (Sapir 2006). Finally, convergence could be the result of other economic forces, such as deindustrialization or demographic change, which tend to affect mature economies in similar ways, eliciting similar policy responses.

The convergence thesis has been vigorously contested in the comparative political economy and the social policy literatures. In the former, a variety of 'institutionalist' perspectives have pointed towards the resilience of economic institutions that are national or local in scope (Jackson and Deeg 2008 for a recent review). Historical institutionalists have stressed the path dependencies that constrain and channel institutional change (Thelen 2006), predicting a variety of national responses to common exogenous challenges. Idiosyncratic national mixes of labour market policies can be expected to persist. The influential 'Varieties of Capitalism' (VoC) literature goes further, emphasizing that institutional complementarities reinforce divergent responses, such that increasing international competition will have anything but a homogenizing effect (Hall and Soskice 2001). Coordinated and liberal market economies may even become more distinct from each other, as the distinct comparative institutional advantages they bring become ever more important in competitive world markets. In labour markets, this implies that established levels of employment protection and wage protection will tend to complement other features of the political economy (bolstering skill formation and wage moderation, for example), and that therefore radical change is unlikely as 'actors (…) face incentives to preserve the existing system of coordination' (Hancké *et al* 2007). The comparative social policy literature also stresses the institutional resilience of distinct types of welfare regime (Esping-Andersen 1990, Ferrera 1998), in part because of the practical and political difficulties of reforming mature welfare states (Pierson 1996, 1998). To the extent that labour market reforms usually require changes to the provision and financing of welfare payments such as unemployment and sickness benefits, policy immobilism is the expected outcome much of the time.

Naturally enough, both the ‘convergence’ and ‘divergence’ theses have been subject to a good deal of criticism. First, many arguments about convergence have a suspiciously ideological flavour, raising the suspicion that their proponents see external forces such as globalization as a good justification for liberalizing policies they think should be imposed in any case (see Blyth 2003, Hay 2006). Signs of convergence may be little more than the result of pro-market forces winning political office and imposing desired reforms. Second, the actual transmission mechanisms through which external economic constraints are purported to bring institutional change are underspecified or poorly concepualized (Radaelli 2000), and the empirical record does not support a convergent response to common pressures (Boix 1998, Swank 2001, Hall and Soskice 2001). Finally, a growing literature in both economics and political science questions the homogenizing logic of convergence, stressing instead increasing returns to scale and divergence in both institutions and performance (Krugman 1991, Pierson 2004, Dowrick and DeLong 2001). In sum, political resistance to change, national policy autonomy and institutional complementarities can all account for the continued divergence in institutional arrangements, and may even point towards *increasing* divergence. Institutionalist approaches along the lines of VoC have themselves been criticized for their ‘functionalist’ reasoning (Hancké, Rhodes and Thatcher 2007), which overplays the interconnectness between institutions, and downplays the role of political conflict and the state in shaping – and changing - the political economy (Jackson and Deeg 2008). VoC has also come under fire for its simplification of a complex variety of political economy models into two broad types, which draw all too heavily on two familiar, but perhaps unrepresentative, cases (the US and Germany). Other richer typologies, of course, fall into the opposite trap of identifying so many ‘models’ that it is difficult to say anything about the broad trends in the political economy of advanced democracies. In any case, an emphasis on models and types, and the logics that sustain them, runs the risk of assuming persistence and overlooking change.

This paper aims to contribute to the debate on institutions and economic change by examining labour market policy and politics in two, very different, European countries. Italy and the United Kingdom are fascinating cases because they combine both very divergent institutional arrangements, yet have both introduced policies in recent years which on the face of it move them closer together than in the past. The two cases therefore provide some leverage for assessing the relative claims of the ‘convergence’ and ‘divergence’ schools, as well as offering new insights by looking beyond the ‘usual suspects’ to less studied, and even less frequently compared, countries. We proceed as follows: the next section provides some basic background to the two cases, assessing the degree of convergence or divergence on a range of relevant indicators. Then Sections 4 and 5 present, in turn, accounts of policy change and continuity in Britain and Italy, whilst Section 6 presents some preliminary comparative conclusions.

3. Indicators of Convergence

The Italian and the British labour markets have historically shown very different structural characteristics. Plagued by an irremediable dualism between the Northern and the Southern regions, the Italian labour market has long suffered from a very low territorial mobility, an insufficient women’s propensity to enter the labour market and an unbalanced (though sometimes generous) system of social shock absorbers. On the contrary, in the UK the economic model established by the Thatcher governments of the 1980s implies greater flexibility, together with a high job rotation and functional mobility, contributing to a rather high female and youth participation in the labour market. In contrast to the selectively generous social protection in Italy, the UK offers universalistic income protection, but at very low replacement rates. In this section we synthetically compare the main labour market and social cohesion indicators related to the two selected countries, according to EUROSTAT and OECD statistical series and making reference to the period 1996-2007.

Figure One presents the evolution of the employment rate in the two countries and in Europe over the recent period. What we observe is little change in the UK but rather stronger growth in Italy, though starting from very different levels of employment in 1996. The British employment rate has grown by only 2.5 points in the whole period (from 69,0 in 1996 to 71,5 in 2007), whereas the Italian one has increased by 7.5 points (from 51.2% in 1996 to 58.7% in 2007)[2]. If we consider that in the same period the real

GDP growth has been sustained in the UK (never below 2.8% on average between 1999 to 2006) and instead very slow in Italy (1.47% on average), this result is even more surprising. In Italy employment growth, though not sufficient to approach the European average and the Lisbon goals (70% as total employment), has been associated with the rapid introduction of active labour policies and especially flexible labour contracts (a marked departure from the past). In the UK the already quite high employment rate (above the EU average and the Lisbon target), and the adoption of liberalization measures much earlier, means that institutional change has had less scope to promote employment growth, most of which is related to macroeconomic phenomena in this period.

Tables One and Two (see tables and figures appendix) respectively display the main labour market and social cohesion indicators in Italy and the UK, in a comparison with the European average. Here it is worth underlining the still persistent diversity in terms of labour market performance on the one side, and a more similar picture in terms of social cohesion on the other. This is particularly striking for the Italian case: not only does the structural performance of the labour market still reflect the problems and inefficiencies of the past, but, in terms of social cohesion, Italy has embarked on an 'Anglo-Saxon' path of high inequality.

Starting with the labour market (Table One), we can in fact see that some significant differences remain between Italy and the UK, particularly in overall levels of employment and in the female presence in the labour market. In terms of the total employment rate, the gap between the two countries in the whole period has remained around 12 percentage points, in the UK's favour. Italian female employment, though on an upwards trend from 1996 to 2007, was still only 46.6% in 2007; this was almost 20% below the British figure of 65.5%, and also much lower than the European average (59.7%) and the Lisbon objective (60%). The weak female employment rate is still an alarming issue for the Italian labour market, also because it is often associated with a disincentive effects. This is particularly true for the regions of the Mezzogiorno, where women end up *preferring* not to look for a job and to stay at home to take care of the children and the family, whereas in the regions of the North the vast majority of women actively participate in the labour market and the Lisbon target has almost everywhere been pursued.

The problem of the low levels of employment in Italy also concerns the over-50s (and it is not by chance that the European Commission has taken this issue as one if its priorities since the very foundation of the European Employment Strategy). Whereas in the UK, in 2007, 61.8% of the people aged 55-64 (18,5 percentage points above the European average) work, in Italy only one third (33.8%) of that group has a job. The situation is more favourable for men (45.1% compared to 52.4% in Europe), but dramatic for women (23% compared to 38.1% in Europe).

These data tend to confirm the rigid nature of the Italian labour market and the lack of an adequate level of job rotation and territorial mobility which raises the likeliness not to find a new job once the old one has been lost. The policy reforms of the last 15 years have actually firmly tackled this problem and some results are witnessed by the increasing employment trend shown by the table, but, in a context of slow economic growth, policy change itself does not seem to be sufficient.

A similar discourse can in fact also be made with reference to youth employment. In Italy, according to the latest available data, in 2007 the 15-24 employment rate amounts to 24.7% (29.6% for men and 19.5% for women); in the UK it equals 55.9% (57.3% for men and 54.6% for women), well above the OECD average (43.3%). Again, it is should not be forgotten that territorial differences are extremely important in Italy and that the North/South divide explains a lot, but – this notwithstanding - the general level of youth employment is scarce, which suggests that the linkage between the education system and the labour market is inefficient.

If we now turn to the unemployment rate, we can see a good performance of the Italian labour market in the period considered: the unemployment rate decreased from 11.3% to 6.1% in1996-2007, dropping below the European average and approaching the British figure. Long-term unemployment also diminished remarkably in Italy in the same period (from 7.3% to 2.9%), coming close to the European average.

Finally Table One compares the shares of GDP devoted to labour market policies, distinguishing between active and passive policies. In general the UK spends less for labour market programmes: 0.46% of GDP in 2006 for passive policies and 0.19% for active ones. The Italian expenditure is higher and more concentrated on passive policies (social shock absorbers): 0.79% of GDP in 2006 as against 0.53% for activation initiatives.

But the indicators referred to the labour market performance have to be related to social cohesion, in order to understand if the system gives rise to inequalities and imbalances among categories. Table Two offers an interesting general picture of the two countries, which suggests a revision of the conventional narrative of the Italian “familistic” and “Bismarckian” model of social protection, typically made of occupation-based social benefits and a variegated system of social shock absorbers, able to keep “together” the country and to guarantee high levels of social cohesion.

Data presented in Table Two do not support this account. The inequality of income distribution in Italy has reached ‘Anglo-Saxon’ levels over the past two decades, and income inequality in Italy is just as high as in the UK. In 1996 the ratio of income of the 80^{th} decile to the 20^{th} decile amounted to 5.6 in Italy against 5.0 in the UK, by 2004 it reached the maximum value of 5.7 (compared to 5.3 in the UK) and in 2007 the two countries are aligned (a similar picture is obtained using other measures such as Gini coefficients). As for the risk of poverty, the EUROSTAT database allows us to distinguish between *before* and *after* social transfers. It is interesting to highlight that the risk of poverty *before* social provisions is much higher in 2007 in the UK (30%) than in Italy (24%); but the situation turns the other way round *after* social transfers, when Italy exceeds (20%) the UK (19%) (and also the European average, 17%). The situation is even worse for women (21%). This clearly shows that Italy’s system of social benefits fails to protect the weakest categories of the labour market, whilst the UK has more universalistic (if minimal) kind of protection. This “new” and “unexpected” phenomenon of poverty in Italy is in fact at the basis of the current political debate on the reform of the social shock absorbers (*ammortizzatori sociali*).

Other measures of social cohesion also challenge the conventional view. The share of early school leavers is higher in Italy than in the UK: from 1996 to 2007, it has significantly diminished (from 31.7% to 19.3%) but the 2007 figure is still higher than the British rate (17.0%) and the European average (16.9%). However, other social cohesion indicators show instead a more negative situation for the British case: the share of children and adults living in households where no one works is much higher (16.7% and 10.7% respectively in 2007) than in Italy (5.8% and 9.2%) and in Europe (9.2% and 9.0%).

Table Three finally presents the evolution of two major flexibility instruments, fixed-term labour contracts and part time work (which are those conventionally considered in international statistics). In general, in the UK flexibility seems to result in a predominance of part time work, whereas in Italy fixed-term labour contracts prevail. In Italy the share of fixed-term employees has increased from 2000 to 2007 reaching 13.4% of total employment, while in the UK they have diminished from 6.8% to 5.8%. As for part time work, in Italy in 2007 it amounted to only 13.6% of total employment, whereas in the UK to 25.5%. In both countries, it is mainly women who are employed on temporary contracts: more than three quarters of part time workers are in fact women, as are more than half of fixed-term employees.

In sum, the two countries seem to be involved in an ongoing transition, which is gradually shortening the distance between them. This is clearer for the Italian case where the massive introduction of temporal flexibility has been more recent (2nd half of the 1990s) and where this liberalization has not yet been compensated by any recalibration of social protection, thus producing - maybe for the first time since the 2nd world war – inequality and widespread poverty. In this sense, the Italian labour market has undoubtedly taken on some Anglo-Saxon traits, whilst maintaining higher protection for the older 'core workforce' in a classic 'insider-outsider' dynamic (Rueda 2007). The UK – at least until 2008 – has a comparatively good record in terms of employment and unemployment (although see Howell, Baker, Glyn and Schmitt 2007) but suffers serious problems of poverty (including for those in work) and inequality. To address these, it has introduced some new policies drawing lessons in some degree from European (especially Northern European) welfare states, but also with some influences from the United States. The next two sections will discuss each case in turn, assessing the reasons for this apparent convergence.

4. Flexibility, Security and Partisan Politics: Where the British 'Model' Comes From

As of the late 2000s the UK gave the appearance of heading decisively in the direction of a policy mix similar to that advocated at the European level by the European Employment Strategy and the Lisbon agenda. Yet, Britain is known as a reluctant

European, an 'awkward partner' suspicious of European initiatives and unlikely to adopt policies for reasons other than of strict national interest. So if Britain has converged on the European Commission's favoured labour market model, there must be other reasons. This section reconstructs UK labour market and welfare policy over the recent period and offers an alternative answer to this question.

Esping-Andersen identifies Britain as a 'liberal welfare regime' on the basis of 1980 data in his much cited 'Three Worlds' book (1990), but most observers agree that it was the Thatcher governments of the 1980s that transformed the UK labour market into the 'flexible' deregulated model we are familiar with today. The Thatcherite reforms were motivated by an interpretation of the UK's relative poor economic performance in the 1970s inspired by the ideas of conservative economists. A series of legislative interventions[3] focused on recalibrating the balance of power in British industrial relations, by removing trade union legal immunities, requiring formal balloting of memberships before strike action could be taken, outlawing 'closed shop' arrangements, and restricting the scope for union strategies such as secondary action and picketing (Paterson and Simpson 1993, Wood 2001). Interestingly, the Thatcher reforms did not bring about a particularly dramatic reduction in employment protection legislation (EPL), which was already at the lower end of the scale: British workers had relied on trade union strength, rather than legislative restrictions, to provide job security. As well as curbing union power, the Conservative government also dismantled the wages councils and the minimum wage, freeing up wage determination from institutional restraints. These policies met wide support in the British electorate and contributed to the Conservatives' victory in the 1979 elections (Crewe and Sarlvik 1983).

The end result was that in the early 1990s the OECD's *Job Study* (1994) identified Britain, along with the US, as models of labour market flexibility and pressed other European countries to follow its deregulatory path. It is worth pointing out that rather than 'deregulation' as such, the Thatcher governments' assault on the trade unions actually constituted *increased* regulation of the labour market (consistent with Vogel's 'freer markets, more rules' thesis [1996]). Moreover, other aspects of Britain's 'deregulated' model were actually the result of inaction and drift (Hacker 2004) rather than legislative changes, as the UK failed to adopt the kinds of workplace rights that were being accumulated in other European countries, or place any restrictions on temporary and part-time employment contracts.

The other plank of the Thatcherite labour market model was to ‘roll back’ the welfare state, by reducing unemployment benefits and cutting taxes, thus incentivizing swift re-entry to the job market for those made unemployed. This policy was initially unsuccessful in reducing unemployment, and the persistently large numbers of claimants (and threat of social disorder) undermined attempts to reduce welfare transfers. Here again, the thrust of policy was to restrict welfare state growth, rather than reduce net provision, although deindexing of benefits did contribute to a decline in replacement rates and the regressive direction of tax cuts increased real wage dispersion. Despite high profile income tax cuts, the overall burden of taxation actually increased for most families, undermining the theorized incentive effects (Robins 1993). Various reforms sought to enhance activation, by tying receipt of welfare benefits to efforts to re-enter the labour market, most notably the Jobseekers Act of 1995, which introduced a number of job search requirements for the unemployed. There is some evidence to suggest that these policies were not as successful in job creation as the OECD initially claimed (Howell, Baker, Glyn and Schmitt 2007), but by the mid-1990s, the UK had low unemployment compared to the other large European economies, and relatively high employment (but also high levels of sickness benefit claimants, who do not figure in the unemployment statistics). However the British case also suggested a sharp trade-off between employment performance and social justice, as Britain experienced a dramatic increase in income inequality through the 1980s and the early 1990s (Jenkins 1996). However, in the UK’s majoritarian electoral system, the benefits to these policies of key middle income constituencies in Southern and Central England enabled the Conservatives to maintain sufficient electoral support to win elections in 1983, 1987 and 1992. The worse effects of increased inequality hit areas of traditional Labour support (Johnstone, Pattie and Allsopp 1988).

The election of a Labour government in 1997 – which coincided with the launch of the European Employment Strategy just a few months later - marked a major change in approach in the area of welfare and labour market policy. The government led by Tony Blair faced a different dilemma to many other European governments: after Britain’s exit from the ERM, unemployment had fallen rapidly compared with neighbouring countries, but poverty and inequality were much worse than in most of the rest of Western Europe. To this extent, the EES – which focused more on job creation than on anti-poverty measures – did not match Britain's specific labour market concerns. However, Labour was constrained in its response to poverty by a perceived reluctance of the British median voter – and of the British financial sector (Hay 1997) - to embrace higher taxation for the purposes of redistribution. To win power, Labour had to offer something to its traditional constituency, hard hit by Thatcherite policies, whilst reassuring the middle class groups which had supported the Conservatives in the 1980s (Heath and Curtice 2004). Labour's response to labour market problems was therefore a mix of social concern on the one hand, and pro-market and business-friendly thinking on the other. In practice, Labour aspired to resolve the poverty problem in part by encouraging and subsidizing greater participation in the labour market, so that the poor could improve their situation through paid work rather than increased government transfers. As Gordon Brown himself clearly stated, 'the best form of welfare is work' (1999, cited in Sloam 2007).

Labour's welfare and labour market strategy consisted of a series of inter-related measures. The first move was in the area of active labour market policy: the 'New Deal', initially aimed at the young, and later extended to a variety of categories of the long-term unemployed[4]. Claimants (those claiming benefits for 6 months, if under 25, and 18 out of the last 21 months, if older) are automatically enrolled on a 'Gateway' period giving extensive job search assistance, involving training in job search and interview skills. Those failing to find work after this first stage are offered a choice of education, paid voluntary work or subsidized paid work. Withdrawal of benefit was possible if no such choice was made. This constitutes a major step in the direction of increasingly active, rather than passive, labour market policy in the UK, and there is evidence that it has made an impact (van Reenen 2003, Hirsch and Millar 2004). Subsequent reforms sought to enhance the activation potential of the services for the unemployed: in 2002, the existing Job Centres (where the unemployed registered for work opportunities) and Benefits Offices (where unemployment benefits were claimed) were merged into a new agency, Jobcentre Plus, aimed at intensifying support for job seeking. Various pilot schemes have involved private employment agencies being contracted by the government to place unemployed workers[5].

Activation was quickly complemented with other measures to enhance incentives for excluded groups to enter the labour market. The most important was the introduction of 'tax credits', which subsidized the income of low paid workers according to certain criteria to ensure a higher minimum income for families. These credits (Working Families Tax Credit and Child Tax Credit) were paid to families with children in order to overcome the 'poverty trap' resulting from low-skilled workers being unable to enough in the labour market to compensate for the loss of social benefits on achieving employment. Complementary to these measures were moves to provide more widely available and affordable childcare facilities – in which Britain lagged badly behind most of the EU in the mid-1990s – in order to encourage unemployed lone parents to take up paid employment. Finally, the introduction of a national statutory minimum wage in 1998 contributed to the increased attractiveness of employment for workers at the low-wage end of the labour market. Other regulatory measures include extensions of maternity rights, rights to request flexible working times (Employment Act 2002), an enhancement of protection against unfair dismissal and a right to union recognition in all workplaces (Employment Relations Act 1999). In other words, Labour has actually increased the regulatory burden on employers, albeit with a 'light touch' (Davies and Freedland 2007): Britain remains at the low end of the EPL scale and Labour ministers could boast that Britain had 'the most flexible labour market in Europe'. One measure of this is the very levels of temporary, part-time and agency employment in the UK compared with other European countries, developing through the 1980s and 1990s, again more the result of broad socio-economic changes and changes in companies' recruitment strategies, rather than the direct result of any liberalizing legislation (Nolan 2004).

It is therefore not too much of a simplification to see current labour market arrangements in Britain as the result of two processes of divergence, rather than one process of convergence. In short, the Conservative administrations of 1979-97 pushed the UK decisively in the direction of the LME, residual welfare state model characteristic of the United States, whilst Labour governments after 1997 have pushed – rather more timidly – in the opposite direction. The resulting mix is therefore the result of the cumulative policies of partisan governments with distinct objectives: the creation of a flexible labour market and the defeat of militant trade unions for one party, the amelioration of the condition of the lowest paid workers and the unemployed through labour market activation and social transfers for the other. That this policy mix seems consistent with European-level initiatives does not imply a causal relationship, except in a very weak sense: European pressures facilitated Labour adopting some regulatory measures which their trade union sponsors had pushed for, but these pressures probably did not take the Blair government very far from the goals it had set for itself in any case. Indeed, the 'third way' ideas promoted by Blair's New Labour government may have influenced the content of European initiatives (for instance at the 2000 Lisbon summit) as much as these initiatives influenced Labour policies.

5. New Social Risks and Policy Responses in Italy: From the "Insider - Breadwinner model" to Activation for the Outsiders

The last ten years have been ones of intense policy change in the Italian labour market. Starting from 1996, i.e. from the first Prodi government (the first government in postwar Italy containing ministers from the former communist left), several innovations were introduced, which for the first time were mostly addressed to the outsiders of the labour market (the young in search for their first job, the women, the long-term unemployed, the flex-workers, etc.). After the 1992-93 institutional turmoil – at the basis of the transition from the "First" to the "Second" Republic - and after the 1995 structural reform of the pension system (initiated by Berlusconi but completed by his successor Dini because of harsh trade union opposition), the political debate was mature enough to divert the attention from the traditional labour policies' recipients (regular workers, mainly men, who had paid in sufficient contributions to be eligible for unemployment benefits) to the excluded categories.

A large degree of continuity - as for the contents and goals of labour market reforms - can to be observed between the centre-left and the centre-right governments which followed the Olive tree coalition. Innovations were so numerous that it is worth grouping them into three main categories: a) the massive introduction of flexible labour contracts; b) the privatization and decentralization of the placement system; c) the strong promotion, for the first time, of policies against social exclusion. There is a lowest common denominator at the basis of these reforms: the shared recognition that new social risks (Taylor-Gooby 2005; Armingeon and Bonoli 2006; Palier and Martin 2008) had unquestionably emerged in the Italian society and were more and more pressing decision makers to radically adapt "old" welfare institutions and programmes.

The first set of innovations has two main legal references: law 196/1997 (the so-called "Treu package", from the name of the Ministry of labour at the time), under the Prodi I government, and law 30/2003[6] (the so-called "Biagi law" from the name of the labour law academic tragically killed by the Red Brigades in March 2002), under the Berlusconi II government. The first law, following two condemnation sentences of the European Court of Justice, allowed temporary work (lavoro interinale) to be legally introduced in Italy and consequently dismantled state's monopoly on placement functions (which was still in force only in Italy and Greece out of 15 EU-member states!). Private work agencies were thus enabled to settle down in the Italian regions and to intermediate between ad hoc companies' requirements and available employees.

Temporary work was passed after a very lively parliamentary debate between the opponents and the defenders of the flexibility recipe (Gualmini 1998): the former, like the Refounded Communists' Party, were worried about the introduction of precariousness-American style in Italy, the latter, the Olive tree coalition on the one side and Forza Italia and the Lega Nord on the other, wanted instead to grant Centre-Northern companies higher degrees of freedom of manoeuvre hoping to raise employment levels. What came out was no more than a compromise: in its very first version temporary work was permitted only for the middle- and high-skilled categories of the industrial sector and forbidden for the lowest (and weakest) ones. But through some following acts and amendments it was gradually extended to all the labour market qualifications and to the public sector, becoming a very diffused kind of contract allowing companies to "test" workers before eventually hiring them[7].

After the Treu law, in 2000 and 2001 three legislative decrees (61/2000; 100 and 386/2001) strongly encouraged part time and fixed-term labour contracts in order to spur female employment; and then under a centre-right government the Biagi law (30/2003) introduce a further major extension of flexible labour contracts. The Biagi law has been one of the most important reforms of the II Berlusconi government, strongly supported by all the members of the coalition, not only as a highly symbolic acknowledgment of Marco Biagi's contribution to the action of government but also as an important moral victory in the route of deregulation after the failure to revise the restrictive legislation on firing (article 18 of the 1970 Workers' Statute). Some labour contracts were new, some other were revised. Job-on-call, work vouchers, job sharing[8] and staff leasing[9] were new formula of temporal flexibility whose aim was to respond to companies' shifting production needs. Project work (collaborazioni a progetto) and occasional work (contratti occasionali) were already widespread in Italy (since a 1995 measure); but they were amended and refined and some more guarantees in terms of workers' social rights were included.

It is very difficult to evaluate the impact of the Biagi law on employment levels; on the one hand some new labour contracts were not very much used by firms (like job on call, vouchers and job sharing) in favour of the already experimented atypical contracts; on the other hand it is still maybe too early to make a precise balance. This notwithstanding, these policies undoubtedly contributed to the extension of active labour policies in Italy and contributed in part to the women's and the young's employability.

The second group of innovations has to do with the reform of the Italian placement system, already sketched out in the 1993 Ciampi Agreement with the social partners. On the basis of the legislative decree 469/1997 (connected to the Law no. 59/1997 on administrative decentralization), placement competencies were delegated from the state to the regions and private agencies were allowed to compete with public services.

New placement offices were built up each 100,000 inhabitants in place of the "old" ministerial units, under the supervision of provincial governments. The cultural approach to placement was completely changed: from bureaucracy and red-tape to prevention and counselling. Civil servants had to attend training courses in order to qualify for the new functions and professionals (psychologists, management consultants, trainers) were called to collaborate. The main idea was the one to put in place a tutoring service (drawing lesson from the Danish model, Liso 2009, Tiraboschi 200?) where the unemployed are followed step by step by their "individual" coach until they re-enter the labour market. Activation and welfare to work were the main slogans: unemployment benefits had to be connected to active "re-insertion" into the labour market, either through vocational training initiatives or through some form of work, in order to keep people "employable". The reform was extremely promising in theory, but implementation was actually difficult. "Old" bureaucrats found it hard to automatically "reconvert" as efficient counsellors; financial resources were limited and above all temporary work agencies rapidly spread out in the whole country toughly competing with public offices which could not but play in defence. In any case, new placement offices began gradually to work - in particular, in the regions of the Centre-North - and workfare programmes were set up especially in favour of the weak categories of the labour market.

The third group of innovations, the policies for social inclusion, is the most recent one and in some way the widest. It has already been pointed out how the "unexpected" phenomenon of increasing poverty is more and more affecting the Italian society. Social care policies have been historically lacking in Italy. The welfare state was built up around "classical" provisions like pension policies, unemployment benefits and accident insurance, all requiring previous contributions on behalf of the workers. Only in the year 2000 was a large reform of social assistance passed by the Parliament, which figured out as framework-law of the whole sector (no. 328). The main novelty was the principle of "integration" of social provisions. The State had to formulate a National Social Plan where the financial resources were distributed and the essential standards of services were fixed. The Regions had to plan and coordinate territorial social needs and to supervise the action of municipalities which were directly responsible for social services provisions (also by means of the cooperation with the private sector). Local governments could thus deliver services in the field of the dependent-elderly care, of healthcare, family aid, policies for the disabled, etc. depending on the available amount of resources. In 2001, the Constitutional Law no. 3, which completely revised the division of labour between the state and the regions in favour of the latter, transferred social aid competencies to the regions further encouraging local action in the name of a "neighbourhood approach".

Besides social assistance reform, always in 2000, law no. 53 revised the rules on parental leaves in order to stimulate female employment. As it is well known, women are another weak category of the Italian labour market: in 2007, the employment rate for women with children under 12 was 33%, much lower than the overall total of 46,6%, which itself is almost 13% below the European average (EU-27, 58,8%) (Donà 2009)[10].

The law on parental leaves considerably extended the length of parental leaves, both compulsory and voluntary, for men and women with children under 8 for a maximum period of 11 months and with a 30% monthly salary. As for crèches, after their institution in 1974, under the II Prodi government some additional financings were founded, even though the overall reception rate is still very much below the Lisbon target (9,9% in 2008 as against to 33,3%).

The last policy in favour of the outsiders of the labour market which is worth mentioning is the one of "supplementary social shock absorbers" (ammortizzatori sociali in deroga), introduced for the first time in the financial law of December 2003 (no. 350). They are managed by the regions on the basis of ad hoc agreements with the Ministry of Labour and are addressed to people who is excluded from existent provisions (flex-workers, autonomous workers, companies under 15 employees) with the aim to filling the gaps of national legislation. Connected to that, tax credits for the working poor are also being examined in these last months by the Ministry of the Economy as a special form of social aid for the working people who lay under a certain level of income, already experimented in the UK, France and Sweden.

In conclusion, the three groups of policies presented here mark a clear change of direction from the protection of the insiders of the labour market to the protection of the outsiders. Even if it is maybe too early to evaluate the concrete impact of these measures on the targeted recipients; it is indisputable that a paradigm shift from a particularistic-segmented tradition of state intervention based on the "breadwinner" needs to a more universalistic one is under way, although the existing arrangements remain very distant from the British model. Italy's slow growth and high unemployment in the early 1990s, and the consequent poverty problems emerging out of the 'insider-outsider' dynamics associated with them, were the main spur to reform. However the nature of the reforms was, once again, influenced by changes in the Italian party system and in the partisan composition of governments. The decline of the Communist Party opened up the Italian political system to greater left-right competition, and pushed the axis of competition rightwards. Whilst both centre-left and centre-right governments carried out labour market liberalizations, the centre-left accompanied these with measures to extend universalistic income support and family services, whilst the centre-right focused on tax cuts. The resulting mix is therefore in part a function of left-right alternation in power, although European initiatives had more political legitimacy than in the UK and could be exploited to justify aspects of the reform programmes, especially for the left. Of course, Italy's more consensus-oriented political institutions, and the deep divisions within the successive governing coalitions of the centre-left and centre-right, meant that partisan alternation in power had a less decisive impact on policymaking than in the UK.

6. Conclusion: Convergence for Different Reasons?

Our brief overview of labour market policies and indicators in the two cases point towards a degree of convergence in the direction of policy, although the legacies of very different political, economic and social institutions remain, of course, very strong. Our preliminary finding is that there is not much evidence that this convergence is owed to any common cause driving the adoption of similar measures in both cases. Instead, we interpret reform programmes in terms of the emergence of particular kinds of social risks and the way these risks were addressed by the different political parties in each country. In other words, although the nature of the policy problems faced by the UK and Italy was a function of inherited institutional arrangements, the response to them, and the new policy challenges emerging from these responses, was very much an outcome of party political and ideological competition. The British 'model' of employment and welfare policy is best understood as a consequence of two decades of radical liberal reforms under the Conservative party, followed by a more (timidly) progressive set of arrangements established by Labour government concerned to maintain the support of business and the median voter. The Italian 'model' is the result of a shared belief amongst key policymakers on both left and right that Italy's restrictive employment legislation undermined the integration of young workers into the labour market, but a reluctance to dismantle employment rights enjoyed by older workers. The decline of the Italian Communist movement and its transformation in the 1990s into a weaker and more centrist force anxious to display its 'liberal' credentials facilitated this process. Centre-left and centre-right parties displayed differences of emphasis, but were constrained by Italy's deep structural problems and unwieldy policy process.

This comparative analysis leads us to express some scepticism as to the value of both the 'convergence' and 'divergence' hypotheses. Accounts of convergence tend to assume that common economic pressures (whether external or internal-structural) point to common policy solutions, and that these recommended solutions tend to be adopted by national governments. Account of divergence argue that national institutional frameworks will be resistant to change either because of the inertia they generate, or because these institutional frameworks respond to coherent logics. However, the Italian and British cases suggest that not only are these common pressures refracted through different sets of institutional arrangements, but also that the solutions are contested, and the adoption of policy responses depends on the strategic decision-making and electoral success of parties and politicians. In other words, this paper offers little support to notions of a 'race to the bottom', to 'comparative institutional advantage', nor to a 'new politics of the welfare state'. Instead we propose a qualified 'responsible party government' approach, which focuses on the electoral and ideological logic of competitive partisan politics. This approach does not exclude the importance of lesson drawing (Rose 1993) or broader considerations of ideational change in the political economy (Hall 1989, Blyth 2002), but places these dynamics in the framework of interparty competition for votes, political finance, interest group support and ultimately political office.

Notes

[1] Or at the very least a 'mixed market economy' (MME), (Hancké *et al* 2007).
[2] We do not have yet reliable statistical data on the impact of the tremendous financial and economic crisis of 2008, started in the US at the end of 2007, and provoking a real jobs crunch also in Europe. We of course expect that the indicators referred to 2008 will be worse than the ones of 2007.
[3] Notably the Employment Acts of 1980, 1982, 1988 and 1990, and the Trade Union Act of 1984 (see Wood 2001).
[4] The various programmes were: New Deal for Young People, New Deal 25+ and New Deal for Lone Parents (1998), New Deal for Partners (1999), New Deal 50+ (2000), and New Deal for Disabled People (2001). From 2007, New Deal 25+ was mandated to all long-term unemployed (DWP 2007).
[5] Apparently unsuccessfully – one report as early as 1999 ('Private Firms Fail New Deal', *Guardian* 17 May 1999) claimed private agencies had the lowest success rate, and another in 2009 suggested very disappointing results (*Financial Times*, 2009).
[6] Law no. 30 is as a matter of fact a delegation law, that is it was received by two different legislative decrees: no. 276/2003 regarding flexible labour contracts and no. 124/2004 referring to the reform of the inspection system.
[7] In 2008 temporary employment amounts to 1,7% of total employment (Osservatorio Ebitemp 2009); it is not a very high percentage but still significant. It is highly concentrated among the male labour force and within the industrial sector.

[8] To tell the truth job sharing was already foreseen in a Ministry of Labour's act in 1974; but it has never been applied for.
[9] This is actually the new name for temporary work but referring to groups of workers and not to one worker only.
[10] In addition, the percentage of employed women that interrupt working after the birth of the first child is 20,1%. On this point cf. Donà (2009).

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Tables and Figures

Figure 1. Total employment rate growth in Italy and the UK, 1996-2007.

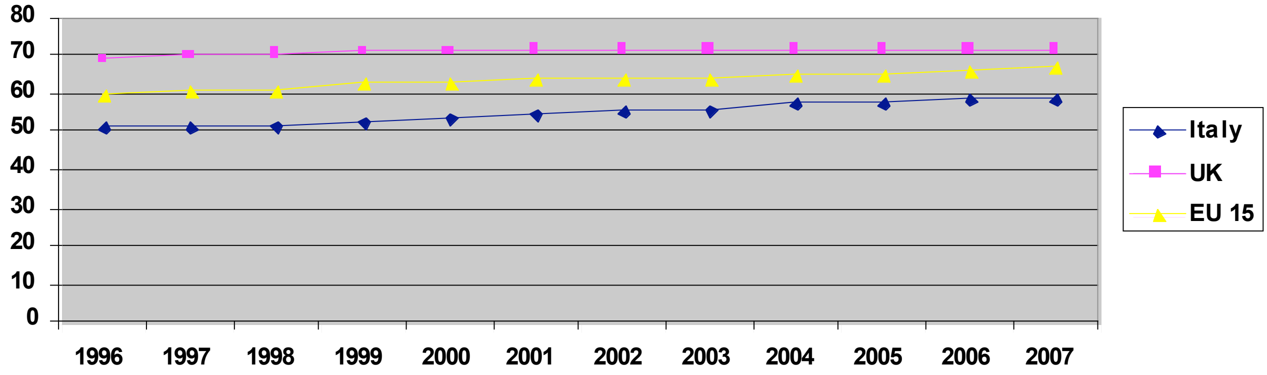

Table 1. Main labour market indicators in Italy and the UK, 1996-2007

	Italy				UK				EU 15			
	1996	2000	2004	2007	1996	2000	2004	2007	1996	2000	2004	2007
Employment rate	51.1	53.7	57.6	58.7	69.0	71.2	71.7	71.5	60.3	63.4	63.2	65.7
Men	66.7	68.0	70.1	70.7	75.5	77.8	77.9	77.5	70.4	72.8	72.7	74.2
Women	36.0	39.6	45.2	46.6	62.5	64.7	65.6	65.5	50.2	54.1	57.0	59.7
Employment rate 55-64	28.6	27.7	30.5	33.8	55.9	57.7	59.9	61.8	36.3	37.8	38.6	43.3
Men	43.9	40.9	42.2	45.1	57.1	60.1	55.7	66.3	44.8	44.9	48.7	52.4
Women	14.5	15.3	19.6	23.0	38.7	41.7	47.0	48.9	25.8	28.0	33.2	38.1
Employment rate 15-24 (OECD)	-	27.8	27.2	24.7	-	61.5	60.1	55.9	-	45.6*	43.1*	43.5*
Men	-	33.2	31.2	29.6	-	64.0	61.9	57.3	-	50.3	47.1	47.4
Women	-	22.1	23.1	19.5	-	59.1	58.2	54.6	-	41.0	39.0	39.6
Total unemployment rate	11.3	10.1	8.1	6.1	6.8	5.4	4.7	5.3	9.8	7.7	8.1	7.0
Men	8.7	7.8	6.4	4.9	7.6	5.9	5.1	5.6	8.8	6.7	7.4	6.4
Women	15.3	13.6	10.6	7.9	5.8	4.8	4.2	5.0	11.2	8.9	8.9	7.8
Unemployment 15-24 (OECD)	-	29.7	23.5	20.3		11.7	10.9	14.4	-	11.9*	13.6*	11.9*
Men	-	25.4	20.7	18.2		13.2	11.8	16.0	-	11.8	13.7	12.1
Women	-	35.4	27.2	23.3		10.1	9.9	12.7	-	12.1	13.4	11.6
Long-term unemployment rate	7.3	6.3	4.0	2.9	3.1	1.4	1.0	1.3	4.9	3.4	3.4	2.8
Men	5.5	4.8	2.9	2.2	4.2	1.9	1.2	1.6	4.2	2.9	3.1	2.6
Women	10.2	8.4	5.5	3.9	1.7	0.9	0.6	0.9	5.7	4.1	3.8	3.1
Expenditure for PLMP (%GDP)	0.95	0.62	0.74	0.79**	0.28	0.25	0.42	0.46**	-	-	-	-
Expenditure for ALMP (%GDP)	-	-	0.62	0.53	0.68	0.31	0.19	0.19	-	-	-	-

*OECD countries. **For 2006. Source: EUROSTAT on-line database, 2009

Table 2. Main social cohesion indicators in Italy and the UK, 1996-2007.

	Italy				UK				EU 15			
	1996	2000	2004	2007	1996	2000	2004	2007	1996	2000	2004	2007
Inequality of income distribution (80/20 ratio)	5.6	4.8	5.7	5.5	5.0	5.2	5.3	5.5	4.8	4.5	4.8	4.9
At-risk-of-poverty rate, pre-fisc*	23	21	24	24	29	29	30	30	25	23	26	26
Men	22	20	22	23	27	26	29	28	24	22	24	24
Women	24	21	25	25	32	32	31	32	26	24	27	27
At-risk-of-poverty rate post-fisc**	20	18	19	20	18	19	19	19	16	15	17	17
Men	19	19	18	18	16	16	18	18	15	15	15	15
Women	21	19	20	21	20	21	19	20	18	16	18	17
Early school leavers (18-24)	31.7	25.3	22.3	19.3	-	18.4	13.6	17.0	21.6	19.5	17.2	16.9
Men	34.5	28.8	26.2	9.6	-	18.9	14.1	5.0	23.7	21.8	19.8	7.6
Women	29.0	21.9	18.4	26.4	-	17.9	13.1	6.3	19.7	17.2	14.7	16.0
Dispersion of regional employment rate	-	17.5	15.6	16.3	-	7.1	5.9	5.4	-	13.3	11.0	10.5
Jobless households children***	8.6	7.6	5.9	5.8	20.1	17.0	16.3	16.7	11.2	9.8	9.8	9.2
Jobless households: 18-59****	12.2	11.1	9.4	9.2	13.5	11.3	10.8	10.7	11.5	9.8	9.8	9.0

* The share of persons with an equivalised disposable income, before social transfers, below the risk-of-poverty threshold (set at 60 % of the national median equivalised disposable income. Retirement and survivor's pensions are counted as income before transfers and not as social transfers. **The share of persons with an equivalised disposable income, after social transfers, below the risk-of-poverty threshold. ***Share of persons aged 0-17 who are living in households where no-one works. ****Share of persons aged 18-59 living in households where no-one works. *Source*: Eurostat data base, 2009.

Table 3. Incidence of temporary and part time employment in Italy and the UK, 2000-2007.

	Italy			UK			EU 15		
	2000	2004	2007	2000	2004	2007	2000	2004	2007
Permanent employment	89.9	88.1	86.6	93.3	94.3	94.3	86.5	86.5	85.3
Temporary employment	10.1	11.9	13.4	6.8	5.7	5.8	13.5	13.5	14.8
Men (permanent)	91.3	90.3	88.9	94.1	94.8	94.9	87.4	87.3	86.1
(temporary)	8.7	9.7	11.1	5.9	5.2	5.1	12.6	12.7	13.9
Women (permanent)	87.8	85.1	83.4	92.3	93.7	93.6	85.4	85.5	84.3
(temporary)	12.2	14.9	16.6	7.7	6.3	6.4	14.7	14.5	15.7
of which share of women	48.2	52.9	52.6	53.8	53.9	54.8	48.4	45.9	49.8
Full time	91.5	87.2	86.4	74.7	73.8	74.5			
Part time	8.5	12.8	13.6	25.3	26.2	25.5			
Men (full time)	88.1	86.5	85.5	90.9	89.4	89.2			
(part time)	11.9	13.5	14.5	9.1	10.6	10.8			
Women (full time)	83.5	75.0	73.1	55.6	55.8	57.5			
(part time)	16.5	25.0	26.9	44.4	44.2	42.5			
of which share of women	72.1	77.2	77.9	80.6	78.3	77.4			

Source: OECD on-line statistical database, 2009.