

# **Plus ça change? Convergence and Constraint in British and Italian Labour Market Reforms**

*Elisabetta Gualmini & Jonathan Hopkin*

## **Abstract**

An extensive literature has examined the impact of Europeanization and globalization on the distinctive institutions of welfare capitalism found in advanced democracies. Our contribution is to compare policy developments in the area of labour markets in two very different cases (Italy and the UK), a useful test for convergence theories. We find that there is clear evidence of moves in a convergent direction in these two cases, but that there are various obvious obstacles to full convergence, and the two cases remain far apart. We conclude that pressures for convergence affect the available policy recipes that political leaders can call upon, but that the existing institutional configurations at the national level represent a powerful constraint on reforms. In the two cases studied here, policy makers drew on available templates of ‘best practice’ but were only able to adopt reforms that were consistent with existing institutional frameworks, through ‘layering’ and ‘conversion’ rather than wholesale ‘revision’ (to use Hacker’s terms). Increasingly welfare regimes are characterized by an uneasy coexistence of competing logics.

## Introduction

Over the past two decades an extensive literature has examined the impact of the twin forces of Europeanization and globalization on the distinctive institutions of welfare capitalism found in advanced democracies. Proponents of the ‘convergence’ thesis argue that a variety of forces external to the nation state push advanced democracies to adopt a more similar set of institutional arrangements. Opponents of this view stress the myriad forces of institutional *divergence* amongst advanced states, suggesting that this divergence is robust to outside pressures, and that continued diversity is the most likely outcome. These different approaches are generally founded on distinct theoretical premises, and make recognizably different empirical predictions about the state of the world. A range of empirical studies has attempted, using quantitative techniques such as regression or factor analysis, to gauge the extent of convergence. Conversely, the divergence school often bases its arguments on more detailed qualitative empirical analysis of single cases, or small n comparisons, which usually show the difficulties involved in institutional change and the persistence of national differences, stressing a lack of significant change over time.

Here we adopt a different tack, by presenting a largely qualitative and historical comparison of two countries in which there is evidence of substantial institutional change. The aim is to move beyond the stark dichotomy between convergence and divergence on the one hand, and continuity and change on the other, to examine how the very real pressures for convergence affect policy making in two interesting and rarely compared cases. A comparison of Italy and the United Kingdom provides a useful vehicle for examining the various theories of convergence and divergence familiar in the literature. On the one hand, Italy and the UK exhibit two very different forms of welfare capitalism, the former a Southern European variant of the ‘Bismarckian’ or ‘conservative’ welfare regime, the latter the clearest European exemplar of a liberal welfare regime. On the other, however, both countries have undergone recent processes of institutional change which have made them clearly more similar than in the past. This makes this comparison a good test of convergence theories.

Our paper examines these processes with a particular focus on labour markets

and welfare policy, a key area of the ‘structural reform’ agenda which has been promoted by various institutions over the past two decades. Our aim is to assess the evidence for convergence or divergence in labour market regimes, trace the processes of institutional and policy change, and draw conclusions about the ways in which national governments respond to exogenous pressures. We find that there is some evidence of convergence, but that this convergence is the result of political choices made within national constraints, given international pressures. This suggests that convergence, when it happens, is constrained by entrenched national institutions, which may undermine the effectiveness of reform measures, leaving behind awkward and potentially dysfunctional policy mixes.

### **Convergence *versus* Diversity: How National Institutions Constrain Reform**

A series of homogenizing forces have placed pressure on advanced industrial democracies to change their economic institutions in order to enhance economic performance. These pressures range from the economic (the increasing internationalization of some markets), to the legal (the normative changes required of European countries by virtue of their membership of the European Union) and intellectual (the increasing prominence of liberal pro-market ideas amongst Western elites). At the same time, advanced societies have their own diverse institutional traditions, many of which are resistant to reform for a variety of reasons. The tension between pressures for convergence and national institutional configurations have produced a large scholarly literature in the fields of comparative and international political economy and European Union studies.

Theories of convergence focus on two main exogenous factors: globalization and Europeanization. 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, Bouget 2003). In labour markets, this means a generalised push towards dismantling employment protection regimes, which are seen as inimical to ‘competitiveness’ and efficient clearing of job markets (Siebert 1997). European integration acts as a force for

convergence both through its explicit regulatory requirements and through the increasing economic openness constituted by the single European market (Hay, Watson and Wincott 1999, Hay 2006). Europeanization also takes other forms beyond regulation and competition (Radaelli 2000, Zeitlin *et al.* 2005, Graziano and Vink 2008, Exadaktylos and Radaelli 2010); for example, the adoption of European level initiatives in employment policy in the framework of the Open Method of Coordination (OMC) 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).

In spite of all these powerful forces for convergence, economic policies and institutions remain stubbornly diverse amongst advanced democracies. Two main approaches can be evoked to explain this diversity. Paul Pierson’s ‘New Politics’ of the welfare state (2001) stressed the resilience of institutions, which lock in particular patterns of behaviour and generate protective coalitions, undermining reform attempts. Even though the forces of convergence may be ‘irresistible’, the welfare state is an ‘immovable object’ (Pierson 1996), so radical changes in response to the pressures for convergence – such as reductions in employment protection and dismantling of corporatist institutions - are unlikely. Second, the ‘Varieties of Capitalism’ approach (Hall and Soskice 2001, Hancké *et al* 2007) stresses that divergence is also functional, since different kinds of production regimes can be equally efficient in responding to external economic pressures. Globalization should not lead to convergence around a liberal market model, because Coordinated Market Economies (CMEs) can resolve coordination problems just as effectively as Liberal Market Economies (LMEs). 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), making radical change unlikely because ‘actors (...) face incentives to preserve the existing system of coordination’ (Hancké *et al.* 2007). For instance, coordinated labour markets are complementary to other economic institutions and contribute to economic performance.

These logics of institutional persistence are powerful and important, but it is important to recognize that existing models are under serious pressure to reform, and an

important strand of recent research draws on the notion of ‘post-determinist neo-institutional policy analysis’ (Hemerijck 2008), which rejects the idea of welfare states as ‘frozen landscapes’ in which the only interesting questions revolve around retrenchment and restraint. This kind of approach offers a more dynamic view of European welfare state change, focusing on patterns of welfare ‘recalibration’ (Ferrera, Hemerijck and Rhodes 2003)<sup>1</sup>, which are constrained by institutional legacies, but which can still result in substantial change. Developments in institutionalist theory also provide opportunities to improve our understanding of how institutions refract pressures for reform, such as the work of Thelen (2003, 2006), Streeck and Thelen (2005) and Hacker (2002, 2004) which introduces concepts to differentiate between forms of institutional change such as ‘displacement’, ‘layering’, ‘drift’, ‘conversion’ and ‘exhaustion’ (Hacker 2004: 246-8, Streeck and Thelen 2005: 18-30). These concepts permit a more nuanced understanding of the tension between continuity and change, and by extension, between convergence and divergence.

There is plenty of evidence that European welfare states have undergone significant change in the 1990s and 2000s, revising old policy programmes and introducing new ones, blending and experimenting old instruments and paradigms with innovative policy contents, emulating and borrowing ideas from other national experiences or from supranational agendas. The economic and social challenges of this period (the demographic revolution, the entry of the women in the labour market, the openness of markets and de-industrialization) and the related appearance of new social risks, particularly affecting the weakest categories of the labour market (Taylor-Gooby 2004, Armingeon and Bonoli 2006, Palier and Martin 2008), have had a destabilizing effect on national welfare states.

But although a powerful political and intellectual movement has built up around the Anglo-American model as a ‘one best prescription’ (Mukand and Rodrik 2005), crude assumptions of convergence around this model, driven by exogenous factors, are misplaced. Neither are the outcomes of reform processes given by the degree of ‘goodness of fit’ of national institutions with EU directives. A more plausible scenario is that such prescriptions are available to political actors seeking solutions to the policy problems facing them, and attempting, within the well documented institutional

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<sup>1</sup> For a commentary of post-determinist neo-institutional policy analysis see the special issue of the “*Rivista Italiana di Politiche Pubbliche*”, no. 3/2008, dedicated to the topic of welfare state change in Europe.

constraints on change, to carry out reforms. Even if we accept the importance of external, international economic and political pressures, the institutional legacies and differentially organized social interests of national polities will refract, or even absorb, these pressures in significant ways. This approach permits us to get inside the important processes of reform which we have observed in our two cases over the recent period, looking in particular for evidence of the degree to which policies change through displacement, layering or conversion. The next section assesses the degree of convergence between the two cases, and is followed by two case studies of institutional change.

### **Can Distinct Welfare Regimes Converge?: Bismarck, Beveridge and the European Template**

It is well known that Italy and the UK belong to two very different welfare regimes. 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 (for Ferrera 1996, a ‘Southern European’ regime), whilst the UK is a ‘liberal’ welfare regime. For the Varieties of Capitalism literature (Hall and Soskice 2001), Italy is mostly considered part of the group of ‘coordinated market economies’ (CMEs)<sup>2</sup>, 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. Moreover, the policymaking context is also very different in the two cases: Italy has historically shown a degree of corporatist policy-making and unstable and divided governments, whereas in the UK trade unions have been largely excluded from policy processes, and governments are strong and cohesive (Lijphart 1999).

In spite of these differences, labour market policies in the two countries have tentatively begun to converge over the last decade and a half (see Figure One). Italy has embarked on an ‘Anglo-Saxon style’ liberalization route, through the privatization and decentralization of its job centres, the introduction of a wide range of flexible

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<sup>2</sup> Or at least a “mixed market economy” (MME), (Hancké *et al.* 2007).

employment contracts and of specific programmes for the activation of the outsiders (the young and the women), and through the incorporation of more conditional logics into the allocation of unemployment support. 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, so that some observers have spoken of the shift to an ‘Anglo-Social’ welfare model (Hopkin and Wincott 2006). These changes are reflected in the OECD measures of employment protection for the two countries shown in Figure One. In short, from very different starting points the two countries have been moving closer together in labour market policy, although of course they remain very different in a number of respects.

(Figure One about here)

In addition, a look at the two countries’ main social cohesion indicators (Tables One and Two) reveals another unexpected dimension of convergence. The spike in income inequality in the UK since the early 1980s is a familiar story; less familiar is the Italian movement away from a ‘Bismarckian-familistic’ model of social protection based on occupation-based social benefits and a variegated system of social shock absorbers, which had guaranteed relatively high levels of social cohesion. 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<sup>th</sup> decile to the 20<sup>th</sup> 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 appear aligned (a similar picture is obtained using other measures such as Gini coefficients). As for the risk of poverty after social transfers Italy exceeds (20%) the UK (19%) in 2008, (and the European average too, 17%) and the situation is even worse for women (21%) (Eurostat 2008).

(Tables One and Two about here)

The emergence of widespread acute poverty and high unemployment as new social risks in Italy destabilized the traditional labour market and welfare regime, and

elites have responded with a structural recalibration of existing institutions and policies, largely in a liberalizing direction. In the UK meanwhile, the 1990s saw the emergence of strong pressures to redesign the British welfare regime along more ‘social’ lines, apparently emulating a more ‘European’ social model. On the face of it, these developments suggest support for the convergence thesis against accounts of institutional stasis and persistent ‘family resemblance’. Moreover, the reforms undertaken in the recent period in both countries appear consistent with the policy advice of the European Employment Strategy (EES), which has advocated the adoption of both a degree of labour market liberalization and the development of a work-oriented ‘flexicurity’ model of social protection.

This degree of convergence in policy contents and policy outcomes in Italy and the UK is an interesting – and unlikely – development in labour markets and welfare policy. The UK’s adoption of an approach to work and welfare consistent with the EES, and the Italian move towards a more flexible labour market, are not predictable or obvious outcomes. The two cases therefore provide some leverage for assessing most recent theoretical hypotheses on welfare state reorganization, but looking beyond the ‘usual suspects’ to less studied, and even less frequently compared, countries. Italy and the United Kingdom are valuable cases because they exhibit very divergent institutional traditions, yet have both introduced policies which challenge their existing institutional logics. However close inspection reveals that this process of apparent convergence is constrained in important ways by existing institutional arrangements, and that the resulting policy mixes remained distinctive. The next two sections chart the processes of policy change in the two cases in turn, and the final section concludes.

### **From Flexibility to Flexicurity?: The New ‘Anglo-Social Model’ in the UK**

Esping-Andersen (1990) identified Britain as a ‘liberal welfare regime’ on the basis of 1980 data, 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. A series of legislative interventions 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, and the authorities encouraged – and refused to regulate - the growing use of temporary and part-time employment contracts. 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.

The other plank of the Thatcherite labour market model was to ‘roll back’ the welfare state, by reducing unemployment benefits and cutting taxes, with the aim of 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. 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. This implied a definitive move away from the insurance principle in unemployment support, and used a more rigid definition of active attempts to find work in allocating unemployment benefits (the Jobseekers’ Allowance) (Clasen 2005: 81). This built on the paring back of National Insurance as an effective supplementary tier of protection, which meant that most unemployed were already in receipt of means-tested benefits by the mid-1990s.

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). The model emerging out of two decades of marketizing reforms fit closely with the logic of the LME in the Varieties of Capitalism approach: low employment protection combined with limited welfare provision to generate a flexible labour market with wide wage dispersion and limited employer commitment to building collaborative relationships with employees. This model facilitated rapid firm adaptation to market change, and particularly suited the politically influential financial sector. However this was achieved at the price of exacerbating inequalities and the insecurity of a large part of the workforce, key concerns of the Labour party, which won election in 1997.

The election of the Labour government marked a change in approach in the area of welfare and labour market policy and represents an important test of the theories of institutional change outlined earlier. Labour was committed to tackling poverty and ‘social exclusion’, but was reluctant to upset employer interests (Hay 1997) and therefore committed itself to retaining many of the Thatcherite reforms, including those affecting trade unions. Its ‘third way’ approach in effect embraced the logic of institutional persistence: Blair and Brown promised a ‘fair and flexible labour market’, and won election on the commitment that the UK law would remain ‘the most restrictive on trade unions in the western world’ (Taylor 2002: 293). There were pragmatic reasons for adopting this position: to win power, Labour had to offer something to its traditional constituency, hard hit by Thatcherite policies, but also reassure the middle class groups which had supported the Conservatives in the 1980s (Heath and Curtice 2004), as well as heading off opposition from business elites. This set of circumstances set high barriers to formal displacement and revision of institutional arrangements, and incentivized working within the existing paradigm.

The Blair government also adopted a more pro-European tone than past British governments, including a commitment to the Social Chapter of the Maastricht Treaty rejected by the Conservatives. But Europe was not a convenient source of cover for Labour, which 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, and European pressures are not a plausible explanation of Labour policies in this area.

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. 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. The judicious combination of inducements and penalties aimed to enhance employment and social cohesion without impeding the flexible and deregulated operation of the UK labour market.

This constituted a major step in the direction of increasingly active, rather than passive, labour market policy in the UK, and there is some 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. These measures do not amount to displacement, since they mimick the existing work-oriented logic of the pre-1997

arrangements. Instead, existing institutions were converted to a much more determined pursuit of labour market integration, and underwent a degree of ‘layering’ (Hacker 2004) as supplementary programmes such as the New Deal were added to the labour market mix.

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 earn 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 increased the regulatory burden on employers, and deployed a range of fiscal and welfare measures to enhance labour market opportunities for the unemployed and low paid workers. All of this suggests a departure from the liberal logic of labour market and welfare policies in the 1980s and early 1990s, which challenges both the ‘globalization’ variant of the convergence thesis, and the more static accounts of institutional divergence (as well as assumptions of British Euroskepticism). After all, if ultra-flexible labour markets and minimalistic welfare assistance were a model for advanced democracies in the globalized economy, British policymakers would have had no incentive to deviate from this model once it had been achieved. Moreover, if the flexible labour market were as consistent with other institutional features of the British political economy as the historical institutionalist literature suggests, then reversing the push towards increased liberalization should have met

serious resistance and opposition from the social forces which had supported Thatcherite reforms. Instead, opposition to these measures from employers' interests (the CBI and the Institute of Directors) was not expressed with any particular intensity. Finally, the British tradition of Euroskepticism should have kept policymakers at good distance from measures promoted by the EES. How do we make sense of this?

Our answer rests on the understanding that these policies, despite making important changes to the labour market regime in the UK and having non-negligible distributive consequences, remain 'appropriate' and consistent with the broad institutional arrangements of the LME entrenched under Margaret Thatcher. In a majoritarian democracy such as the UK, shifts in policy preferences can be rapid and radical, but election victories involve the median voter changing sides, but not necessarily preferences. The Thatcher administrations had been able to mobilize middle-income voters around an anti-union pro-market message, the decline of the Conservative vote and reflected strong voter concern with some of the unexpected consequences of the Thatcher project: a high level of entrenched poverty, a decay in the quality of popular public services, and the apparent failure of Conservative macroeconomic policies, epitomized by the UK's forced exit from the European Exchange Rate Mechanism in 1992 (Heath and Curtice 2004). Support for the Conservatives in some sections of the business community was also weakened by the collapse in the UK's relationship with the rest of the European Union in the early 1990s. In order to win the election, Labour government had shifted its policy positions closer to those preferred by the median voter and the business elites, particularly in the City (Hay 1997).

The Labour governments new and different policy ideas therefore had to remain consistent with the logic of the LME: low taxes, flexible labour markets, and weak trade unions. The key to the Labour welfare strategy were the activation measures described above, and rather than resulting simply from European pressure, they drew on experiences from a range of countries, including the archetypal LME, the United States, where 'welfare to work' measures developed under Clinton (Dolowitz 2003) were clearly consistent with the logic of a liberalized labour market. The well established activation measures in Scandinavia were introduced to policymakers by Labour party economics advisors such as Richard Layard, but they were not deployed with equivalent

expenditures. This approach had the advantage of assuaging demands from the left of the party to redistribute resources and opportunities to the poorest whilst safeguarding the fiscal interests of middle-income swing voters. This kind of policy response fitted in with the ‘third way’ (Giddens 1998) approach adopted by Tony Blair, and could be built on top of the existing liberal welfare regime architecture, through layering and conversion, without the need for a conflictual strategy of displacement.

In this way the UK moved away from the dominant model of the early 1990s (articulated in the OECD’s 1994 *Jobs Study*), adding activation and further regulation, albeit with a ‘light touch’ (Davies and Freedland 2007): Britain remains at the low end of the EPL scale and Labour ministers could still boast that Britain had ‘the most flexible labour market in Europe’. One measure of this is the very high 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). Labour chose to encourage rather than undermine the creation of ‘atypical’ employment, as part of the ‘employment-friendly’ welfare strategy, although there was a further extension of temporary workers’ rights agreed with the trade unions in the 2004 Warwick agreement.

It is therefore not too much of a simplification to see current labour market arrangements in Britain as consistent with the logic of the LME model. Labour have maintained the flexible labour market and limited trade union involvement inherited from the Conservatives, and have sought to ameliorate the condition of the lowest paid workers and the unemployed through labour market activation and in-work social transfers. 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. The very high levels of labour mobility, part-time and temporary work, poverty and income inequality (see Table One) remaining after three legislatures of Labour government suggest that the LME logic has not been fundamentally challenged by its reforms. Rather than displacement or revision, the liberalization of the labour market under Thatcher has been complemented by state

interventions which seek to enhance both social inclusion *and* labour market flexibility; a combination of ‘conversion’ (for example the adaptation of Jobseekers’ Allowance to a genuinely activation-oriented institution) and ‘layering’ (such as the use of tax credits to enhance employment incentives without fundamentally altering the nature of the employment contract).

### **‘Liberalization Without Compensation’: Flexibility and Labour Market Rigidity in Italy**

Just as recent patterns of labour and welfare policy in UK have been tied to distinct periods of Conservative and then Labour government, the process of policy change in the Italian labour market has also been closely intertwined with the dynamics of political power. After the institutional turmoil at the basis of the transition from the ‘First’ to the ‘Second’ Republic in the early 1990s, including an electoral reform introducing a strong plurality component to the election of the Chamber of Deputies, in 1996 Romano Prodi’s Olive-tree coalition formed the first government in post-war Italy to include ministers from the former communist left (*Democratici di sinistra*). Prodi’s government also rested on the parliamentary support of the radical left party *Rifondazione Comunista*. These developments have dual significance. First, the introduction of a majoritarian dynamic in party competition implied greater scope for policy change than in the deeply consensus-oriented politics of the ‘First Republic’. Second, the entry of the left into government would be expected to led to policy changes in the area of welfare and labour markets. Prodi’s majority drew on two different traditions: a reformist left mixing social democratic and Christian democratic inspiration, and the left of communist identity, represented by the party of *Rifondazione Comunista* and by the biggest Italian union (CGIL - *Confederazione Generale Italiana dei Lavoratori*, with almost 6 million members in 2008), hostile to liberalizing and deregulatory reforms.

The pressure for reform responded in part to political dynamics, in particular the end of the dominance of Christian Democracy in 1992-4, and its replacement on the centre-right of the party system by political forces far less sympathetic to worker protections, notably Berlusconi’s *Forza Italia* and the Northern League. But reforms

were also a response to objective deficiencies in the existing ‘conservative/corporatist’ model, which was based on strong legal protection of the jobs of core workers, an emphasis on passive rather than active labour market measures, and a welfare system which tended to protect already protected workers, creating insider-outsider tensions and hindering labour market adjustments (Esping-Andersen 1990, 1996).

The first major labour market intervention of the Prodi government was the so-called ‘Treu package’ (L. 196/1997 from the name of the Labour Minister), which for the first time in Italy legalized temporary agency work (*lavoro in affitto*), previously a state monopoly. The legislation was a compromise between the commitment of the Olive-tree coalition to dismantle labour market rigidities and the demands of the communists of RC to tame flexibility with boundaries and restrictions in order to prevent workers’ precariousness. Temporary work was allowed only for medium- and high-level qualifications of the industrial sector, and agencies could only operate within strict bureaucratic rules and conditions. However these restrictions were gradually relaxed in the following years, as temporary agencies and contracts became widespread, allowing temporary work for all qualifications and economic sectors (including the public administration)<sup>3</sup>.

Another important measure towards labour market liberalization was legislative decree no. 469/1997, which radically reformed employment exchanges after 50 years of state monopoly. The provision combined the re-scaling of placement competencies with the legalization of private employment agencies and a new ‘activation’ approach. Placement competencies were decentralized at the provincial level, private agencies (to be added to the agencies for temporary work) were allowed to act alongside state employment offices, and an attempt was made to introduce a ‘Scandinavian’ approach to welfare to work and activation. This involved the introduction of conditionality rules and a specific ‘client-deal’ (*Patto di servizio*), according to which the office was committed to getting the unemployed back into the labour market as soon as possible, provided that this latter did not reject any offers of work or training.

These two ‘liberal’ reforms – the dismantling of state’s monopoly on placement and the introduction of private labour market agencies on the one side and the decentralization and reorganization of public placement offices on the other – can be

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<sup>3</sup> In 2008 there were 142,000 temporary workers, i.e. 0.6% of total employment; not a very high share but qualitatively important given its concentration in the industrial regions of the North (Bertolini *et al.* 2009).

considered more than incremental change. A new logic of labour market regulation through the ‘assimilation’ and ‘invasion’ (Streeck and Thelen 2005) of foreign North-European practices (such as activation, coaching and tutoring, public-private competition, decentralization and localisation, etc.) implied a challenge to the logic of the existing hegemonic paradigm, based around high levels of employment protection and low labour mobility. The reforms sought to align the Italian employment services with the experience of the other European countries, in particular the North-European ones and the British one (especially looking at the 1996 Job Seeker’s Allowance).

However, there were difficulties and delays in implementing this new logic, not least of which was the difficulty in transforming the ‘old guard’ of employment exchange bureaucrats into a more pro-active service, and the relative scarcity of funds for the new service: spending on active labour market policy in Italy grew from 0.2% to 0.5% of GDP between 1995-2000, but this figure still placed Italy at the low end of the scale amongst advanced democracies (although slightly higher than in Britain; Rueda 2007: 75). Another constraint on reform was the Prodi government’s commitment to negotiating changes with the trade unions through ‘social concertation’ (Rhodes 2001, Ferrera and Gualmini 2004, Baccaro and Simoni 2009): the introduction of temporary work was anticipated in the ‘Pact for Work’ signed by Prodi with the unions in September 1996, together with other innovative measures on long-life training and local development. But the unions were concerned to ensure that reforms did not undermine the protected position of their core membership, mostly older tenured workers in large firms. Trilateral agreements were facilitated by the ‘emergency’ situation of tackling Italy’s budgetary problems in order to enter the first wave of EMU. When urgency began to decline, concerted action too became a much less powerful tool for negotiating reform, and the last social pact signed by all the three most representative Italian unions with the centre-left government (the D’Alema’s ‘Christmas Pact’ of December 1998) had largely symbolic contents and did not result in any structural reform. In particular, the project of enhancing labour market flexibility by reducing employment protection, promoted by many labour economists and policy advisors, did not prosper, hindering the mobility effects of the Treu reforms (Tompson 2009: 260).

When in 2001 Berlusconi formed a centre-right government with a strong parliamentary support, the season of concerted action ended, and labour market reform

became more conflictual. In October 2001 a ‘white paper’ (*libro bianco*) on labour market modernization was published, including the general framework of the reform going from the revision of labour law to the review of the whole range of active and passive labour policies. The document drew openly on the newly developed European Employment Strategy. New forms of flexible labour contracts and a further privatization of placement services were announced in order to encourage the creation of new jobs, together with the revision of social shock absorbers, addressed to correct the dualism between the insiders and outsiders.

In March 2003, some of the contents of the White Book were included in a delegation law (no. 30), which became known as the Biagi law. In terms of labour contracts, the law introduced new contractual forms and revised others: new instruments of temporal flexibility included job-on-call, work vouchers, job sharing and staff leasing. Project work (*collaborazioni a progetto*) and occasional work (*contratti occasionali*) were already widespread in Italy (since 1995); but they were amended and refined, including some improvements in the social rights of employees. In the field of placement, the law widened the number of private actors who could deal with the matching of labour market demand and supply, from universities to single consultants, introducing free competition between public and private agencies. The Biagi law sparked intense political debate, partly unleashed by the government’s simultaneous proposal to repeal Article 18 of the Workers’ Statute, which would remove workers’ rights to reinstatement as compensation for unfair dismissal. While the CGIL and the communist RC strongly opposed the reform for its ‘savage liberalization’, the DS and the *Margherita* (the two main parties of the Olive-tree), as well as the more centrist trade unions CISL and UIL, adopted a more conciliatory position, arguing that the number of flexible labour contracts was too high and that some of them (but it was not clear which ones) had to be abolished.

The main element of discontinuity with the Olive-Tree government’s approach concerned the relationships between the government and the social partners; instead of trilateral concerted action, the White Book introduced the concept of ‘social dialogue’, which implied a weaker role for the social partners, and the possibility for the government to unilaterally decide in case of no shared decisions. Divisions among the three main national trade unions did not take long to emerge, with the CGIL acquiring a

clear opposition role, and the CISL and UIL adopting a more strategic and from time to time ‘governmental’ profile. And in fact the ‘Pact for Italy’ of July 2002 and the agreement on collective bargaining of January 2009 were not signed by the CGIL. At the same time as the centre-right government encouraged divisions within the trade union movement, it also won strong support from the peak national business association, Confindustria, and of employers in general who welcomed the reduction of burdens and constraints for companies. Confindustria in this period was under a new leadership, more favourable to the concerns of small and medium-sized enterprises, who embraced labour market deregulation. Large firms, more comfortable with the existing labour market regime, were less supportive of this strategy.

However, in its content the Biagi law in many respects was showed a high degree of continuity with the previous reforms of the Olive-Tree government. The Treu package already introduced a greater degree of flexibility (above all concerning employment contracts), and the Biagi law extended this, although through a less consensual process. The high degree of continuity between the measures, suggests, like in the British case, that a process of ‘layering’ was taking place, based on the strengthening and extension of the flexibility paradigm on top of the existing, more protectionist, labour market regime. The main features of this regime - a high degree of employment protection for core workers, and limited unemployment coverage – remained intact, hampering the effective operation of the flexibility reforms. Strong opposition to reduction of worker protections, added to the Italian state’s weak position which made substantial extensions to unemployment compensation impossible, ensured that flexibility would be introduced ‘at the margin’.

The reforms probably had employment-generating effects: in the period 1996-2001 the yearly job growth was 223,000; 145,000 in the period 2002-2005 and 660,000 between 2006 and 2007 (Bertolini, Berton and Pacelli 2009), and in the same period the unemployment rate declined from 10,6% to 5,9% in 2007 (ISTAT, various years). However the international financial and economic crisis from 2008 on brought a rapid increase in unemployment. The Berlusconi government responded by including in the 2008 budget €8 billion for ‘supplementary social shock absorbers’ (*ammortizzatori sociali in deroga*) for the unemployed workers excluded from traditional unemployment compensation (flex-workers, autonomous workers, and those working in companies

with less than 15 employees). This measure, which also drew on the European Social Fund, applied only to 2009-2010 and a full structural reform of unemployment compensation was again postponed, despite bipartisan support for new arrangements. Again, the dominant pattern is one of layering, as measures to address structural problems are simply added onto the existing regime, which is of course a source of these problems. Instead of addressing the dualistic nature (Palier and Thelen 2008) of the Italian labour market, with high segmentation between core/regular workers and outsiders, these measures exacerbate it, offering ad hoc and contingent solutions to address the needs of non-core workers<sup>4</sup>. From ‘flexibility at the margin’ (which was the strategy of the first cycles of deregulation in the 1990s and 1990s) there has been a shift to ‘social protection at the margin’.

In conclusion, from 1996 to 2008, the alternation in power of three centre-left governments and four centre-right governments brought to a model of policy change that we can call ‘liberalization without social compensation’. The goal of deregulation of the labour market was shared by both the political coalitions, but reformers dodged the thorny but crucial issue of reforming social expenditure. Differentials in social protection thus widened and are the basis of the growing inequalities illustrated in Table One. Liberalizing reforms spurred a transformative change in Italy, which gave the country a more markedly Anglo-Saxon profile; but this selective liberalisation was designed to work alongside the dualistic Bismarckian model of welfare provision and labour regulation.

### **Reform, Persistence and Diversity: The Layering of Labour Market Logics**

This paper has provided an account of innovations and reforms in labour and welfare policy in Italy and the UK in the last 15 years, two national cases rarely examined together in comparative welfare studies. The two countries’ comparison shows that in the last 15 years there have been both possibilities and limits for reforms, whose final result has been a narrowing of the gap between the two, and that

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<sup>4</sup> Also the so-called “social card” introduced by the government in 2008, 40 Euros per month for 1 year, addressed to the poorest elderly and families (1.3 million beneficiaries, with the exclusion of the immigrants) cannot be considered a “structural” or “radical” policy intervention.

convergence can paradoxically happen without fundamentally changing the logic of the two models.

Certainly analysis of the two reform processes suggests that common pressures and policy templates have had an effect on policymaking. Our analysis shows how the policy profiles of the two selected countries in the field of labour markets and welfare arrangements have changed, and they have changed in ways which provide some support for ‘convergence’ arguments. The Italian model of ‘liberalization with no social compensation’ has many elements in common with the ‘Anglo-Social’ model to which the UK has moved; both have stressed the concepts of ‘conditionality’ and ‘activation’ to deal with problems of social exclusion, poverty and employability. ‘Conditionality’, that is a tighter connection between the delivery of unemployment benefits and the acceptance (on behalf of the unemployed) of a job or of training initiatives, was at the basis of the British Job Seeker’s Allowance introduced in 1996 and of the Italian reorganization of the placement system inaugurated in 1997. ‘Activation’ was then the explicit goal of the Labour’s ‘New Deal’ and of the intense introduction of the policies for temporal flexibility in Italy.

Moreover there is some evidence – rather stronger in the Italian case – that external pressures can be directly linked to policy change. The Biagi law, in particular, drew openly on the European Employment Strategy, and the role of European Monetary Union in hastening fiscal policy change in Italy is well documented (Dyson and Featherstone, Ferrera and Gualmini 2004). However, a simple translation of European initiatives to the national level is implausible, but for different reasons. First, Italian politics has taken a more Euroskeptic turn over the past decade or so since Euro membership, raising the costs for Italian governments of adopting European ideas to the national context. The second new element is the progressive weakening of the conditioning power of external forces in pushing convergence, in opposition to what a wide literature seems to argue (see earlier). In 1990-1992 when national states were urged to restore their financial conditions and to catch the train of the EMU, policy makers referred to the EES to legitimise and introduce radical reforms, once these priorities faded, the symbolic appeal of supranational prescriptions have become much less powerful and domestic actors have regained again a full control on the policy making.

In our view though, the dominant picture is one of continued diversity, despite a number of convergent measures. The main explanation for this is that the UK and Italy have very different, and rather coherent, institutional legacies and that convergence has only been possible in those areas where policy innovation would not fundamentally undermine the extant institutional logic. To focus on policy changes emphasizes the trend towards convergence, but an assessment of the broad set of institutional arrangement in place after several years of reform confirms that the diverse logics of the two systems remain intact. Changes have been possible where the new institutions could coexist with the existing ones, leading to layering and conversion being the dominant modes of reform.

In Italy the firm belief in the flexibility recipe, considered as an effective answer to low unemployment and competitiveness, has pushed rightward the political agenda (with the support of trade unions during centre-left governments, and through unilateral policy making during centre-right governments which nurtured union divisions and brought to decoupling). The instability inside the government coalitions, especially for the centre-left, the lack of fiscal room for manoeuvre, and the entrenched opposition from the unions, have hindered any effort to go ahead with the reform of employment protection and unemployment compensation to enhance flexibility to the core workforce. Ad hoc and temporary interventions were introduced for limited categories of outsiders (through the experimentation of the *ammortizzatori in deroga*), but these innovations have not modified the functioning, the eligibility rules and the coverage of the old system. The bipartisan support for liberalisation has allowed for a ‘layering’ of liberal institutions on top of a Bismarckian and corporatist framework, a highly institutionalised dualistic system of social protection dating from the 1950s and 1960s. Flexibility ‘at the margin’ is then a ‘deviant behaviour’ with respect to the consolidated policy path, but which comfortably coexists with it (Streeck and Thelen 2005).

(Table Three About Here)

In the UK, after two decades of radical reforms under the Conservative party, the Labour governments tried to hold the support of business and the median voter through strategies of partial re-coupling with the trade unions and of social

policymaking aimed at correcting the most rooted inequalities among categories and to stimulate participation into the labour market. The redeployment of old practices and institutions – after the Conservative era – and their reinterpretation towards the direction of activation (conversion) was a way to find a compromise between the recipes of the last decades. Where policy innovation has been developed, it has been layered on top of the still highly flexible and decentralized labour market and the essentially residual and means-tested welfare provision. The Beveridgean universalistic system was certainly amended by new rules for fighting social exclusion, like tax credits, statutory minimum wage and more rights for the workers in the workplaces. But evidence on wage and income inequality and poverty suggests that the fundamental logic of the labour market and social protection inherited from the Thatcher years has been revised but not overturned.

The two countries have thus both undertaken important labour market reforms in the recent period, which have led to them becoming more similar – or less dissimilar – than in the past. This constitutes, in a basic sense, convergence. This result has been obtained in the two countries by different types of policy change: a degree of displacement, but a heavy emphasis on layering and conversion, working within the existing frameworks to bring about change consistent with well entrenched institutional logics. The survival of these logics suggests that real convergence, despite a range of powerful pressures, is running up against ‘immovable objects’, as described by Pierson (1998). The response to these obstacles, however, is often to work around them, so that increasingly welfare regimes are characterized by an uneasy coexistence of competing logics.

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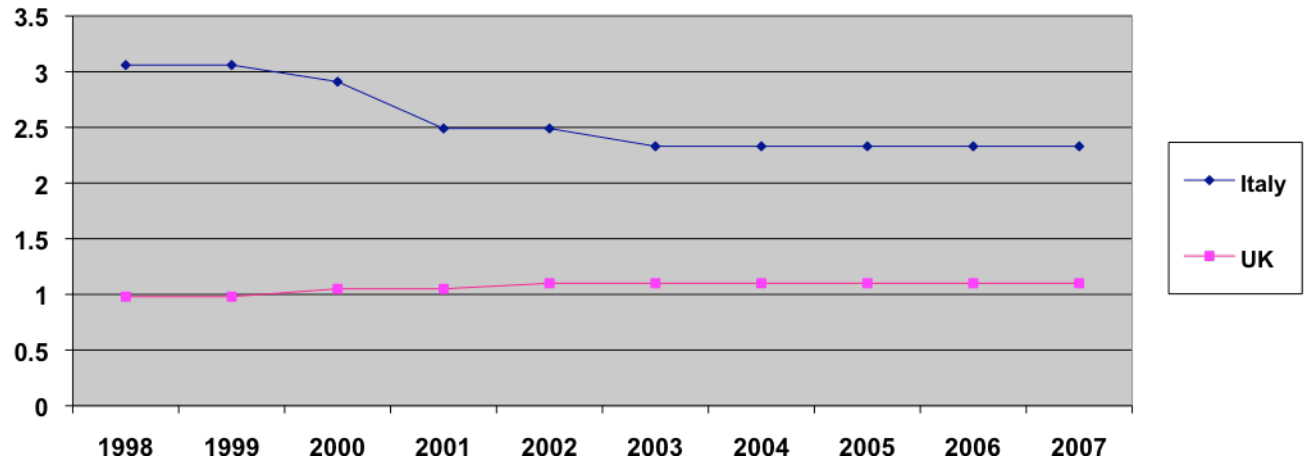
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**Figure One**

**Employment Protection Index, Italy and the UK , 1998 2007**



Source, On line OECD employment database, 2009.

**Table One****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. \*\*Referred to the year 2006. Source: EUROSTAT on-line database, 2009

**Table Two**  
**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
			25									
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 Three**

**Modalities of Institutional Change in Italian and UK Welfare and Labour Regimes**

	ITALY		UK	
<i>Conditionality</i>	Reform of the public placement system and dismantling of state's monopoly (legislative decree 469/1997; L. 30/2003)	<i>Displacement and conversion</i>	Job Seeker's Allowance (1996)	<i>Conversion</i>
<i>Activation</i>	Introduction of temporary work ('Treu package', L. 196/1997) Introduction of many other flexible labour contracts ('Biagi Law, no. 30/2003)	<i>Displacement in the first phase and then layering</i>	New Deal' for Young People, New Deal for 25+, New Deal for Lone Parents, for Partners, New Deal 50+, for Disabled People (1998-2001) New Deal for long-term unemployed (2007)	<i>Layering and conversion</i>
<i>Social Protection</i>	Dualistic system of social shock absorbers (for the regular-core group of workers) 'Supplementary' Social Shock Absorbers for outsiders (2008-2010)	<i>Layering</i>	Tax Credits (1998) Minimum Wage (1998) Extension of maternity rights and of the rights to request flexible working times (2002) Improvement of protection against unfair dismissal and of union rights in all workplaces (1999)	<i>Layering, some displacement</i>