Labour Law, Economic Changes and New Society
http://www.dtcens.com

Liberalization within Diversity: Welfare and Labour Market Reforms in Italy and the UK*

Elisabetta Gualmini
Professor of Political Science
University of Bologna

Jonathan Hopkin
Reader in Comparative Politics
Department of Government, London School of Economics and Political Science

Received: 26 July 2012 / Accepted: 5 September 2012

Abstract: Are advanced democracies converging on a liberalized economic model, revolving around increasing penetration of markets and the decline of egalitarian institutions? The literature has tended to polarize between proponents of convergence and scholars who emphasize of the resilience of the distinct models of welfare capitalism. This article argues that although there is no strong evidence of convergence, the distribution of income in advanced democracies is becoming more unequal, suggesting significant change in a liberalizing direction. The article develops this argument by charting changes to the political economy of labour in two large European democracies: Italy and the United Kingdom. Despite belonging to entirely distinct 'families' of welfare capitalism, they have both undergone extensive changes to their political economy in the past three decades. We find that Italy and the UK were very different political economies in the 1970s, and remain very different today, but they have both undertaken reforms which have weakened egalitarian institutions and led to dramatic increases in poverty and inequality. This suggests that a focus on the diversity of institutional legacies and the distinct reform paths that we observe in advanced democracies should not distract from the conclusion that market-focused economic reforms in very different institutional contexts can still lead to the same outcome: the privatization of economic risk and increased income inequality.
Key Words: Welfare capitalism, inequality, Italy, United Kingdom, Economic reform.

I. Introduction

Are advanced democracies converging on a liberalized economic model, revolving around increasing penetration of markets and the decline of egalitarian institutions (Baccaro and Howell 2011)? An extensive literature has examined institutional change in the advanced industrialized economies, examining the impact of Europeanization, globalization and other structural economic changes on the different models of welfare capitalism found in the OECD countries. This debate has tended to polarize between proponents of convergence, who argue that common pressures push advanced democracies to adopt similar policies and institutions, and scholars who emphasize the resilience of the distinct models of welfare capitalism that evolved in the industrial age, although some recent scholarship seeks to bridge this divide. At the same time, there is increasingly firm evidence that the distribution of income

*The authors would like to thank Bob Hancke, Ken Shadlen, Marco Simoni, and Christa van Wijnbergen for their helpful comments. The usual disclaimer applies.

in advanced democracies is becoming more unequal, sparking a lively debate on how inequality can be measured and explained (OECD 2011).

This article seeks to contribute to this literature by examining changes to the political economy of labour in two large European democracies: Italy and the United Kingdom. Though infrequently compared by political economists, Italy and the UK offer a useful vantage point for observing the nature and consequences of institutional change in the advanced democracies. Despite belonging to entirely distinct "families" of welfare capitalism, they have both undergone extensive changes to their political economy in the past three decades. Whilst these changes have differed in many ways, the result in both cases has been a steady shift from being relatively egalitarian societies to having the highest levels of income inequality in Western Europe. By charting these changes, we aim to offer insights into the nature and implications of institutional change in the advanced democracies. We find that Italy and the UK were very different political economies in the 1970s, and remain very different today, but they have both undertaken reforms which have weakened egalitarian institutions and led to dramatic increases in poverty and inequality. This suggests that a focus on the diversity of institutional legacies and the distinct reform paths that we observe in advanced democracies should not distract from the conclusion that market-focused economic reforms in very different institutional contexts can still lead to the same outcome: the privatization of economic risk and increased income inequality.

II. Convergence, Divergence and Institutional Change in Western Europe

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 Western Europe. 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 *di*vergence 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.

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), and reducing income protection entitlements (Layard, Nickell and Jackman 1991, OECD 1994). Although the direst predictions of the damage to welfare regimes proved overblown (Garrett 1998, Drezner 2001, Swank 2002), there is cumulative evidence that the last two-three decades have seen a strong trend towards liberalization reforms in advanced economies (Baccaro and Howell 2011).

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 (Ferrera and Gualmini 2004, Hay 2006, Hay and Wincott 2012). 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). The main policy template of interest here is the European Employment Strategy (Ashiagbor 2005), which drew on "best practice" in mostly Northern European countries to propose labour market reforms combining liberalization and flexibility with social cohesion and social investment (Morel, Palier and Palme 2011).

In spite of all these powerful forces for convergence, economic policies and institutions remain stubbornly diverse amongst advanced democracies. Two main approaches can be invoked 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 1998), so radical changes in response to the pressures for convergence —such as reductions in employment protection and the dismantling of corporatist institutions— are unlikely. Second, the "Varieties of Capitalism" approach (Hall and Soskice 2001, Hancké, Rhodes and Thatcher 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, Rhodes and Thatcher 2007: 12). 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 existing models are under serious pressure to reform as shown by recent research which rejects the idea of welfare states as "frozen landscapes" in which the only interesting questions revolve around retrenchment and restraint (Hemerijck 2008). 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), which are constrained by institutional legacies, but which can still result in substantial change. Even apparent institutional stability and continuity can mask radical change, when existing institutions are "displaced" by new ones, allowed to "drift" in the face of new challenges, or "converted" to new functions (Hacker 2004: 246-8, Streeck and Thelen 2005: 18-30, also Hacker 2002, Thelen 2003, 2006). Moreover, distinct national patterns of institutional change may still produce convergent results, as countries choose different routes to adopting increasingly market-oriented arrangements (Streeck 2009, Baccaro and Howell 2011).

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. Pressures to adopt the Anglo-American model as a "one best prescription" (Mukand and Rodrik 2005) on the one hand, and the influence of EU directives on the other, have interacted with national institutional legacies in a variety of ways, creating a confusing picture.

The diversity of policy prescriptions – from Anglo-American liberalism to Nordic social investment strategies —and the complexity of diverse national traditions, make a simplistic theory of convergence untenable. Even if we accept the importance of 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. However, what we also know is that even before the financial crisis of the late 2000s, welfare and labour politics were conditioned by a climate of "permanent austerity" (Pierson 1996), and the strains imposed on the labour force by globalization and tertiarization. The variety of institutional options available to European welfare states may be much greater than early convergence theorists believed, but the outcomes have nevertheless been remarkably similar (OECD 2011). This suggests that beneath the complex and diverse nature of the policy process in different countries, powerful political and economic forces are pushing in a common direction (Baccaro and Howell 2011). The result is not institutional convergence, but it does reflect a common "direction of travel". Moreover, the process of liberalization inevitably involves some measures which seek to mitigate the social costs of pro-market reforms, although these measures appear insufficient to contrast the broad thrust of market incursions into social life. So liberalization may be the common underlying trend, but it is not a uniform process. In sum, this pattern of labour and welfare policy in European political economies can be described as "liberalization within diversity".

The rest of this article will present some evidence for this interpretation, by comparing welfare and labour reforms in Italy and the UK. The selection of cases allows us to assess the "liberalization within diversity" thesis. 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 processes of institutional change in their welfare regimes, which have not brought convergence, but which have resulted in increasingly similar outcomes for citizens. The article proceeds as follows: the next section compares the development of labour markets and social indicators in the two countries, charting the liberalizing trends in Italy and the UK, the following sections examine in greater depth the reform processes in the UK and Italy in turn, and the final section concludes.

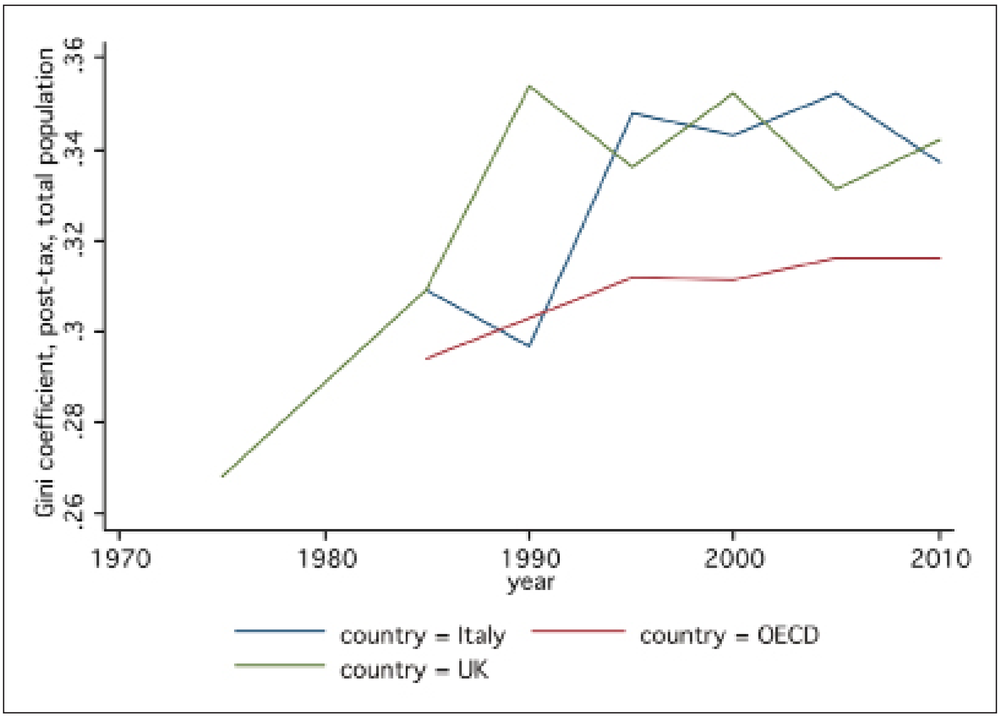
III. Liberalization Within Diversity: Bismarck, Beveridge and the Market

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 "Esping-Andersen's" 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 "mixed market economies" (MMEs) (Hancké, Rhodes and Thatcher 2007), with some features of the Northern European social market model, but also a distinctive "statist" inclination, through the use of regulation and state-owned enterprises to coordinate economic activity (Hopkin 2006, Schmidt 2009). Britain is the most prominent European exemplar of the "liberal market economy" (LME), characterized by competitive relationships between firms and deregulated markets, although in the past it had some features of an unstable coordinated market economy. 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, the two countries share a clear trend toward higher levels of poverty and inequality since the 1970s, as we can see in Figure 1. The Gini coefficient of post-tax income inequality for all households grew from somewhere around 0.30 in the early 1980s to around 0.34-0.35 in the late 2000s in both countries, with the biggest increases coming during the 1980s and early 1990s, and inequality stabilizing after then. Poverty rates also show substantial increases in the same period, as can be observed in Figures 2 and 3. Britain and Italy are not unique in experiencing pressures on their social cohesion in this period, and there is a well-known set of broader economic and social trends that explain the challenge to the more egalitarian post-war order in western democracies (see for example Streeck and Thelen 2005, Glyn 2006). But the distributional effects of the new economic order have been more powerful in these two cases than in the majority of OECD countries, which make them a valuable source of insights into the processes of change facing advanced capitalism since the 1970s.

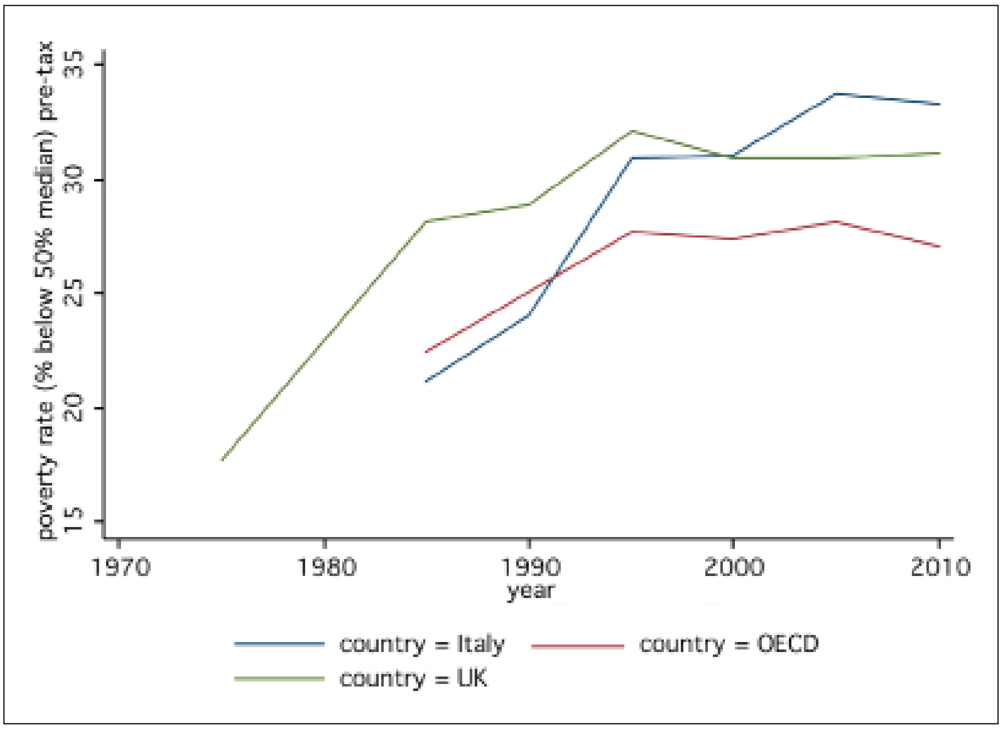
What makes the comparison of Britain and Italy particularly fruitful is that this growing inequality reflects neither their joint convergence on the free market liberal model, nor indeed a simple destruction of their welfare and labour market institutions. Instead, the story is more complex. First, the liberaliza-

Figure 1. Gini Coefficient of Post-tax Household Income mid-1970s to late-2000s, Italy, UK and OECD Average.



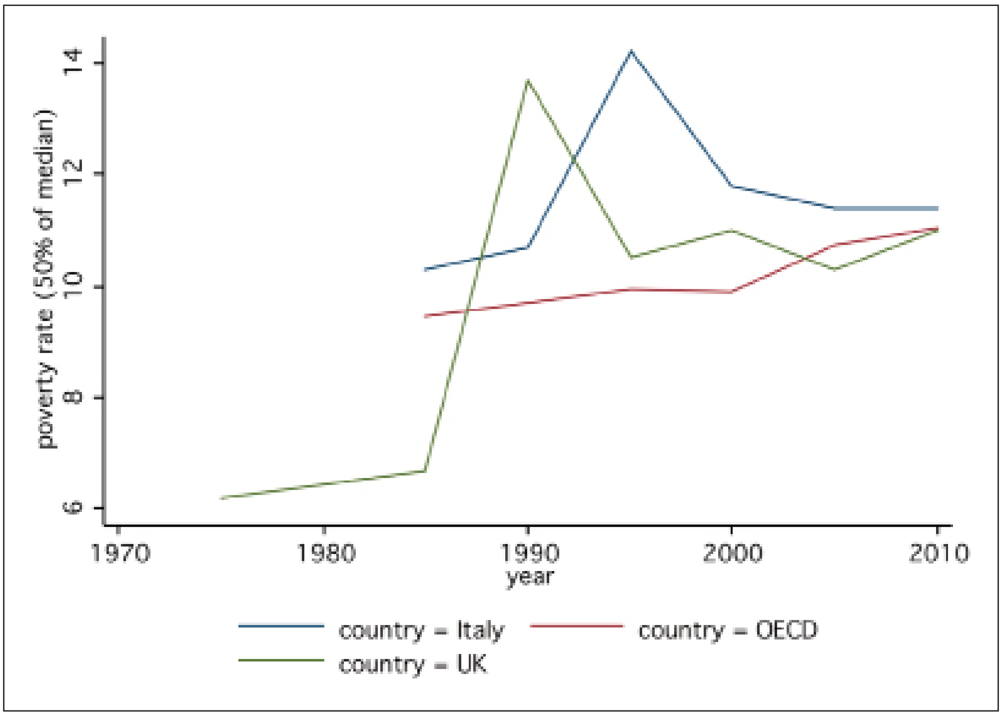
Source, OECD, 2012.

Figure 2. Pre-tax Poverty Rate (% on less than 50% median income) mid-1970s to late-2000s, Italy, UK and OECD Average.



Source, OECD, 2012.

Figure 3. Post-tax Poverty Rate (% on less than 50% median income) mid-1970s to late-2000s, Italy, UK and OECD Average.

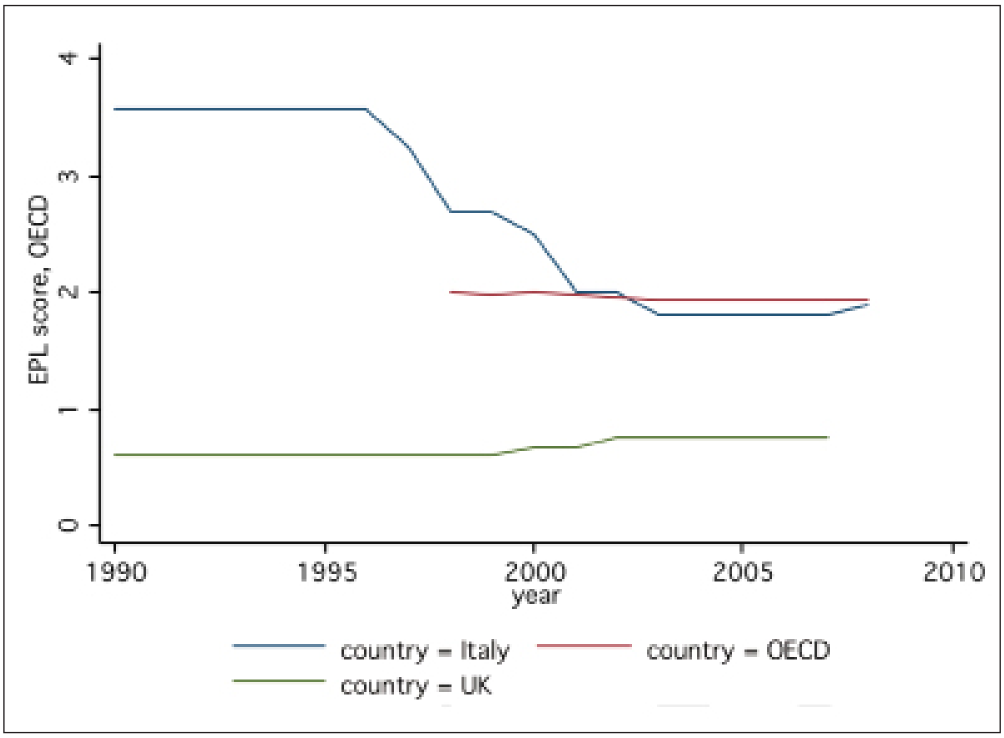


Source, OECD, 2012.

tion of the labour market has taken a different path in the two cases, given their very different starting points. Italy, with a more regulated labour market in the post-war era, has embarked on the privatization and decentralization of its job centres, the introduction of a wide range of flexible employment contracts and of specific programmes for the activation of the outsiders (the young and the women), and the incorporation of more conditional logics into the allocation of unemployment support. In the UK, in contrast, labour market protections have always been weaker, and recent reforms have introduced a statutory minimum wage, enhanced trade union participation in the workplace, and improved the rights of temporary workers, so that before the financial crisis some observers claimed to see a shift to an "Anglo-Social" welfare model (Hopkin and Wincott 2006). The changes to labour market regulation are shown in Figure 4, which charts the two countries' measures on the OECD Employment Protection Legislation (EPL) variable over the past two decades. It can be seen that Britain had very low levels of formal labour regulation all the way through, whilst Italy has liberalized, converging on the OECD average, but remains relatively protected by comparison to the UK.

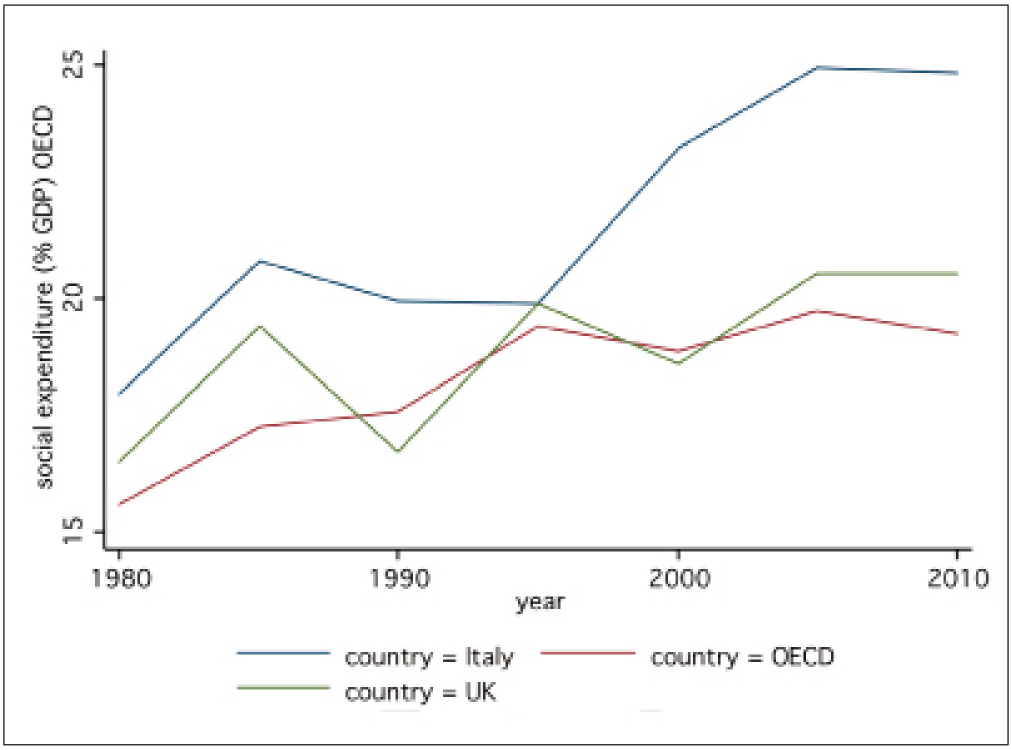
The push towards more liberal arrangements in labour markets has coincided with significant changes to welfare policies in both countries. On the one hand, policy drift has brought an increase in social spending, in part associated with the aging of the population, which has had particularly powerful effects in Italy, which has both less favourable demographics and more public pension provision than in the UK. Figure 5 shows that social expenditure on the whole has seen an upward rise in the period under study, particularly so in Italy, where state pensions outlays have reached 15% of GDP in the late 2000s. But the increase in social spending also reflects in part a response to the increased poverty that has resulted from the growing inequalities in the labour market, persistently high unemployment, and "new social risks" associated with changing patterns of family formation and life expectancy. The significant differences in poverty rates before and after taxes and benefits (Figures 2 and 3) in both countries shows that this social spending has had a powerful impact, but has not come close to arresting the trend towards higher inequality and poverty.

Figure 4. Employment Protection Index, Italy, the UK and OECD, 1998-2008.



Source, Online OECD employment database, 2009.

Figure 5. Social Expenditure (% GDP), Italy, the UK and OECD, 1980-2007.



Source, OECD, 2012.

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 liberalizing reforms of the 1980s were followed in the 1990s by strong pressures to redesign the British welfare regime along more "social" lines, apparently emulating a more "European" social model. The reforms undertaken before the crisis in both countries were 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. However these moves did not go far enough to bring either Italy or the UK particularly close to the Nordic "flexicurity" model which inspired the EES.

These two cases provide some leverage for assessing most recent theoretical hypotheses on welfare state reorganization, 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. These policies have certainly moved them in a liberalizing direction, and the egalitarian institutions which upheld the post-war settlement have been severely weakened. At the same time, liberalization has been accompanied by measures, albeit largely insufficient, which respond to the social costs of freer markets. The research design is an example of selecting on the dependent variable, but this choice is justified by the usefulness of seeing how advanced democracies with different institutional histories can follow quite different routes toward a similar outcome: a more marketized economy and greater inequality. The next two sections chart the processes of policy change in the two cases in turn.

IV. Liberalization in a Liberal Market Economy: Welfare and Work from Thatcherism to New Labour

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, 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 de-indexing 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 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 liberal market economy (LME) type 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 collaborate 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 of approach of 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 2005: 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 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 (Hopkin and van Wijnbergen 2011).

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 were 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 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 moved beyond simply deregulatory liberalization, focusing instead on creating institutions that would make the labour market clear more effectively.

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-1990— 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 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 amounted to a departure from the straightforward liberal logic of labour market and welfare policies in the 1980s and early 1990s. However this does not imply a reversal of the broad push towards liberalization observed by Baccaro and Howell (2011). These policies, despite making important changes to the labour market regime in the UK and having non-negligible distributive consequences, remain consistent with the broad institutional arrangements of the LME entrenched under Margaret Thatcher. The Labour government's policy ideas followed the logic of LMEs: low taxes, flexible labour markets, and weak trade unions. As well as the "flexicurity" ideas of the EES, the Labour welfare strategy also drew on experiences from the archetypal LME, the United States, where "welfare to work" measures developed under Clinton (Dolowitz 2003) sought to make welfare provision 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 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 welfare regime architecture without challenge the liberal paradigm.

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" (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 worker's 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. This policy mix was consistent with European-level initiatives, but European pressures probably did not take the Blair government very far from the goals it had set for itself in any case. The high levels of labour mobility, part-time and temporary work, poverty and income inequality remaining after three legislatures of Labour government suggest that the LME logic was not fundamentally challenged by its reforms. The liberalization of the labour market under Thatcher was been complemented by state interventions which seek to enhance both social inclusion *and* labour market flexibility; for example by adapting the Jobseekers" Allowance to a more activation-oriented function, or the use of tax credits to enhance employment incentives without fundamentally altering the nature of the employment contract. This leaves Britain with a liberalized political economy, and a welfare state which works with the grain of the flexibile and mobile labour market, providing a safety net without challenging the growth of inequality.

V. Liberalization in a Statist Political Economy: Rigidity and Reform 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 (*Ulivo*) 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 lead 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 Italian political economy that had developed by the early 1980s was characterized by a high degree of state interventionism, heavily regulated labour and product markets, and serious budgetary imbalances (Padoa-Schioppa Kostoris 1993, Locke 1995). The financial crisis of the early 1990s, in which Italy came close to debt default and had to exit from the European Exchange Rate Mechanism, was a trigger for a series of reforms. Although these reforms covered a range of areas, including the budgetary process, the organization of local and central government, and the financial sector, our attention here is focused on the labour market and welfare provision.

The first major labour market intervention of the Prodi government was the so-called "Treu package" (Law 196/1997 named 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 communist left to tame flexibility with boundaries and restrictions in order to limit worker insecurity. Temporary work was allowed only for medium -and high-level qualifications in 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 in the public administration). By 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, Berton and Pacelli 2009).

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 specific "client-agreements" (*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 the latter did not reject any offers of work or training.

These two liberalizing 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 considered more than incremental change. A new logic of labour market regulation through the "assimilation" (Streeck and Thelen 2005) of Northern European practices (such as activation, coaching and tutoring, public-private competition, decentralization and localisation) 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 Scandinavian countries and the United Kingdom (the 1996 Job Jobseekers' Allowance proving particularly influential). They marked a move away from the rather bureaucratic logic of the post-war arrangements — where employers were formally required to hire workers from employment agencies according to strict rank orders— towards a more flexible, market-oriented model.

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 proactive 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 2008): 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 created by the risk of Italy's budgetary problems keeping it out of the first wave of EMU. When this urgency began to subside, concerted action 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 (Corregir 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). The Italian trade unions, though much weaker than in the 1960s and 1970s, retained sufficient strength in this period to place limits on the liberalization agenda.

When in 2001 Berlusconi formed a centre-right government with a large parliamentary majority, 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 Paper were included in a delegation law (no. 30), which became known as the Biagi law, named after the Law Professor involved in its drafting who had been murdered by Red Brigade terrorists. 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 with 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 (*Statuto del Lavoro*), 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 (though it was not clear which ones) should be abolished.

The main element of discontinuity introduced by the Berlusconi government concerned the relationships between the government and the social partners; instead of trilateral concerted action, the White Paper 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 disagreement. Divisions among the three main national trade unions did not take long to emerge, with the CGIL expressing clear opposition, and the CISL and UIL adopting a more strategic and at times pro-government profile: the "Pact for Italy" of July 2002 and the later agreement on collective bargaining made with the third Berlusconi government in January 2009 were not signed by the CGIL. At the same time as the centre-right 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 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 flexibility paradigm was imposed 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. The reforms probably had some 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, it is not so clear that the reforms benefited the younger workers it was designed to ease into the labour market: the activity rate of population aged 15-24 decreased from 38.8% in 1995 to 32.5% in 2006, considerably lower than the EU average (Simoni 2010: 17).

Labour market liberalization in Italy has run up against a number of institutional constraints that have hindered its progress. The first is that the trade union movement, though much weakened, remains strong in the public sector and in large firms where workers benefit most from labour protection legislation. This has created an "insider-outsider" dynamic (Rueda 2007, Palier and Thelen 2008, Emmenegger, Hausermann, Palier and Seeleib-Kaiser 2011) which incentivizes governments to liberalize "at the margin" whilst leaving protectionist institutions intact for the core workforce. Italy's fiscal position makes it difficult to overcome resistance to liberalization, since there is no real fiscal room for manoeuvre to allow for extensions to unemployment compensation, which could ease the passage of reforms.

The financial crisis from 2008 on did lead the Berlusconi government to introduce €8 billion of "supplementary social shock absorbers" (*ammortizzatori sociali in deroga*) for the unemployed workers excluded from traditional unemployment compensation (temporary workers, the self-employed, and those working in companies with less than 15 employees). But 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. The other major social policy innovation of the crisis period —the so-called "social card" introduced in 2008— cannot be considered a "structural" or "radical" policy intervention, amounting to just €40 per month for one year, addressed to the poorest elderly and families (with 1.3 million beneficiaries).

In sum, liberalizing reforms spurred a transformative change in Italy, which gave the country a more markedly Anglo-Saxon profile; but this selective liberalization was designed to work alongside the dualistic Bismarckian model of welfare provision and labour regulation. 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, without which a liberalized labour market could not properly function. Differentials in social protection thus widened and are the basis of the growing inequalities discussed earlier. Italy has therefore combined liberalization with the maintenance of parts of the pre-existing model, which suffered from a lack of effective institutions to encourage competition and efficiency or protect social cohesion. The result is some distance away from being a liberal model like the UK or US, but the broad thrust of policy change has been a liberalizing direction, and the failure to progress on the provision of universal income replacement policy ensures that inequality and poverty remain high.

VI. Conclusion: Liberalization and Diversity

This article has provided an account of innovations and reforms in labour and welfare policy in Italy and the UK in the last 30 years, two national cases rarely examined together in comparative welfare studies. We have shown that the dominant trend in both countries has been towards greater liberalization of the labour market, which helps explain the increasingly unequal distribution of income in the same period. This supports the "common neoliberal trajectory" thesis of Baccaro and Howell (2011).

However, these moves in a liberalizing direction do not amount to convergence on a neoliberal model, for two reasons. First, the very different institutional legacies of Italy and the UK continue to shape the way labour markets and the welfare state work, and interact with liberalizing measures in different ways. Second, at least to some extent the Italian and British models of liberalization have some elements in common with the "flexicurity" agenda of the European Employment Strategy, stressing the concepts of "conditionality" and "activation" to deal with problems of social exclusion, poverty and employability. The picture is therefore more nuanced than a simple focus on neoliberalism would permit. However, our account shows that the "flexibility" trend has been stronger than the "security" trend, and that policy change has cumulatively moved both Italy and the UK toward a more liberal and less egalitarian model of labour relations and welfare.

In Italy the firm belief in the flexibility recipe, considered as an effective answer to low unemployment and competitiveness, has pushed the political agenda in a liberal direction (with the support of trade unions during centre-left governments, and through unilateral policy making during centre-right governments which nurtured union divisions). But the instability inside the government coalitions, especially for the centre-left, the lack of fiscal room for manoeuvre, and entrenched opposition from the unions, have hindered any effort to go ahead with the reform of employment protection and unemployment compensation to extend flexibility to the core workforce. Ad hoc and temporary interventions were introduced for limited categories of outsiders but these innovations have not modified the functioning, the eligibility rules and the coverage of the old system. The bipartisan support for liberalization 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" has increased the inequalities between insiders and outsiders, and dismantled the Italian model of employment protection for many younger workers.

In the UK, two decades of radical reforms under the Conservative party weakened trade unions and collective bargaining, leaving in place a residual welfare state and a mobile, flexible and increasingly polarized labour market, characterized by high levels of wage inequality. The Labour governments led by Blair and Brown made important changes to this model 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 Beveridgean universalistic system was 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 financial crisis since 2008 has placed heavy pressure on the more distributive institutions introduced by Labour, and current policy under the Conservative-Liberal Democrat government moves firmly in a neoliberal direction.

The two countries have thus both undertaken important labour market reforms in the recent period, which have led to them liberalizing labour markets and introducing stronger elements of conditionality in the welfare regime. However we do present some evidence – particularly in the Italian case – that policy change was not solely in a neoliberal direction. 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 1996, Ferrera and Gualmini 2004). Britain did not face the same kind of fiscal pressures, but UK policymakers did draw on the repertoire of policies in the EES, in part because the New Labour government under Blair lobbied hard to push for the "uploading" of policies consistent with his "third way" thinking (Hopkin and van Wijnbergen 2011). Timid moves towards "activation" —the active labour market policies successfully pioneered by the Nordic countries— were made in both countries, but lacking the necessary supporting institutions, the result was some distance away from the "flexicurity" model advocated by European policymakers. Moreover, once Italy had achieved entry into the first phase of EMU and Blair's difficulties over Iraq undermined his own European policy agenda, the symbolic appeal of supranational prescriptions such as the EES became much less powerful. So European pressures to adopt labour market reforms that would attenuate liberalization with strong measures of social compensation had only limited impact.

In our view then, the dominant picture is one of continued liberalization in labour markets and welfare institutions, but the persistence of diversity stemming from the two countries' very different histories. Convergence around a pure neoliberal model is unlikely, because of the well-known inertia and stickiness of institutions governing labour and welfare, and the political appeal of more socially progressive policies. But where changes have taken place, these changes have tended to imply liberalization and greater role for markets, whilst reforms adopted to attenuate the social consequences of liberalization have had less powerful effects. The timing of liberalization and the "fit" of market reforms with existing institutions may differ, but the outcome remains that Italy and the UK have progressively dismantled the most egalitarian elements of their post-war settlements, and left in place an increasingly liberal model of welfare and work.

Bibliography

Armingeon, Klaus and Giuliano Bonoli (eds.) (2006). *The Politics of Post-Industrial Welfare States: Adapting Post-War Social Policies to New Social Risks*. London: Routledge.

Ashiagbor, Diamond (2005). *The European Employment Strategy. Labour Market Regulation and New Governance*. Oxford: Oxford University Press.

Baccaro, Lucio and Chris Howell (2011). A Common Neoliberal Trajectory: The Transformation of Industrial Relations in Advanced Capitalism, *Politics and Society* 39(4): 521-63.

BACCARO, LUCIO and MARCO SIMONI (2008). Policy concertation in Europe, *Comparative Political Studies* 41: 1323-1348.

BERTOLINI, SONIA, FABIO BERTON and LIA PACELLI (2009). Gli obiettivi della flessibilità, in Fabio Berton, Matteo Richiardi and Stefano Sacchi (eds.), *Flex-insecurity*. Bologna: Il Mulino, pp. 47-72.

BOUGET, DENIS (2003). Convergence in the Social Welfare Systems in Europe: From Goal to Reality, *Social Policy & Administration* 37 (6): 674-693.

CLASEN, JOCHEN (2005). *Reforming European Welfare States*. Oxford: Oxford University Press.

DAVIES, PAUL and MARK FREEDLAND (2007). *Towards a Flexible Labour Market: Labour Legislation and Regulation Since the 1990s*. Oxford: Oxford University Press.

DOLOWITZ, DAVID (2003). A Policy-Maker's Guide to Policy Transfer, *Political Quarterly* 74(1): 101-8.

DREZNER, DANIEL (2001). Globalization and Policy Convergence, *International Studies Review* 3(1): 53-78.

DYSON, K. AND FEATHERSTONE, K. (1996). Italy and EMU as a "Vincolo Esterno": Empowering the Technocrats, Transforming the State, *South European Society and Politics* 1(2): 272-299.

EMMENEGGER, PATRICK, SILJA HAUSERMANN, BRUNO PALIER and MARTIN SEELEIB-KAISER (eds.)(2011). *The Age of Dualization: The Changing Face of Inequality in Deindustrializing Societies*. Oxford: Oxford University Press.

ESPING-ANDERSEN, GOESTA (1990). *Three World of Welfare Capitalism*. Cambridge: Polity.

ESPING-ANDERSEN, GOESTA (1996). Welfare States Without Work: The Impasse The Impasse of Labour Shedding and Familialism in Continental European Social Policy in Goesta Esping-Andersen (ed.), *Welfare States in Transition*. London: Sage, pp. 66-87.

EXADAKTYLOS, THEOFANIS and CLAUDIO RADAELLI (2010). Do We Need Distance to Get Close? Looking for Causality in Europeanization Studies, paper delivered to the Workshop on Establishing Causality in Europeanization Research, Centre for European Governance, University of Exeter, 22-23 February 2010.

FERRERA, MAURIZIO (1996). The "Southern Model" of Welfare in Social Europe, *Journal of European Social Policy* 6(1): 17-37.

FERRERA, MAURIZIO and ELISABETTA GUALMINI (2004). *Rescued by Europe? Social and Labour Market Reforms in Italy from Maastricht to Berlusconi.* Amsterdam, Amsterdam University Press.

FERRERA, MAURIZIO, ANTON HEMERIJCK and MARTIN RHODES (eds.)(2003). *The Future of European Welfare States*. Oxford: Oxford University Press.

GARRETT, GEOFFREY (1998). *Partisan Politics in the Global Economy.* Cambridge: Cambridge University Press.

GLYN, ANDREW (2006). *Capitalism Unleashed*. Oxford: Oxford University Press.

GRAZIANO, PAOLO and PETER MAARTEN VINK (eds.) (2008). *Europeanization. New Research Agendas*. Basingstoke: Palgrave.

HACKER, JACOB (2002). *The Divided Welfare State*. Cambridge: Cambridge University Press.

HACKER, JACOB (2004). Privatizing Risk without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States, *American Political Science Review* 98(2): 243-60.

HALL, PETER and DAVID SOSKICE (eds.) (2001). *Varieties of Capitalism*. Oxford: Oxford University Press.

HANCKÉ, ROBERT, MARTIN RHODES and MARK THATCHER (2007). Introduction: Beyond Varieties of Capitalism, in Robert Hancké, Martin Rhodes and Mark Thatcher (eds.), *Beyond Varieties of Capitalism*. Oxford: Oxford University Press, pp. 3-38.

HAY, COLIN (1997). Anticipating Accommodations, Accommodating Anticipations: The Appeasement of Capital in the "Modernization" of the British Labour Party, 1987-1992, *Politics and Society* 25: 234-256.

HAY, COLIN (2006). What's Globalization Got to Do with It? Economic Interdependence and the Future of European Welfare States, *Government and Opposition* 41(3): 1-22.

HAY, COLIN and DANIEL WINCOTT (2012). *The Political Economy of European Welfare Capitalism*. Basingstoke: Palgrave MacMillan.

HEATH, ANTHONY AND JOHN CURTICE (2004). *The Rise of New Labour*. Oxford: Oxford University Press.

Hemerijck, Anton. (2008), Welfare Recalibration as Social Learning, *Rivista Italiana di Politiche Pubbliche* 3: 21-52.

Hirsch, David and Jane Millar (2004). Labour's Welfare Reform: Progress to Date. Research Report. York: Joseph Rowntree Foundation.

Hopkin, Jonathan (2006). Rocks and Hard Places: The Catholic-Statist Model in Southern Europe, paper presented to 14th Conference of Europeanists, Chicago.

Hopkin, Jonathan and Daniel Wincott (2006). New Labour, Economic Reform and the European Social Model, *British Journal of Politics and International Relations* 8(1): 50-68.

Hopkin, Jonathan and Christa van Wijnbergen (2011). Europeanization and Welfare State Change in Britain: Another Case of "Fog Over the channel"? in Paolo Graziano and Bruno Palier (eds.), *Europeanization and Welfare State Change*. Basingstoke: Palgrave, pp.254-79.

Howell, David R., Dean Baker, Andrew Glyn and John Schmitt (2007). Are Protective Labor Market Institutions at the Root of Unemployment? A Critical Review of the Evidence, *Capitalism and Society*, 2(1): Article 1.

Jenkins, Stephen. (1996). Recent Trends in the UK Income Distribution: What Happened and Why?, *Oxford Review of Economic Policy* 12: 29-46.

Layard, Richard, Stephen Nickell and Robin Jackman (1991). *Unemployment: Macroeconomic Performance and the Labour Market.* Oxford: Oxford University Press.

Lijphart, Arend (1999). *Patterns of Democracy*. Oxford: Oxford University Press.

Locke, Richard (1995). *Remaking the Italian Economy*. Ithaca: Cornell University Press.

Lodge, Martin (2002). From Varieties of the Welfare State to Convergence of the Regulatory State? The "Europeanization' of Regulatory Transparency, *Queen's Papers on Europeanization*, p0019, Queen's University of Belfast.

Marquand, David (1994). Reinventing Federalism: Europe and the Left, *New Left Review* 203(1): 17-26.

Morel, Nathalie, Bruno Palier and Joakim Palme (2011). *Towards a Social Investment Welfare State? Ideas, Policies and Challenges.* Bristol: The Policy Press.

Mukand, Sharun W. and Dani Rodrik, (2005). In Search of the Holy Grail: Policy Convergence, Experimentation, and Economic Performance, *American Economic Review*: 95(1): 374-383.

Nolan, Peter (2004). Shaping the Future: The Political Economy of Work and Employment, *Industrial Relations Journal* 35(5): 378-87.

OECD (1994). *The OECD Jobs Study.* Paris: OECD.

OECD (2011). *Divided We Stand. Why Inequality Keeps Rising.* Paris: OECD.

Padoa-Schioppa Kostoris, Fiorella (1993). *Italy: The Sheltered Economy.* Oxford: Oxford University Press.

Palier, Bruno and Claude Martin (2007). From "a Frozen Landscape" to Structural Reforms: The Sequential Transformation of Bismarckian Welfare Systems? *Social Policy and Administration* 41 (6): 535-554.

Palier, Bruno and Kathleen Thelen (2010). Institutionalizing dualism: Complementarities and Change in France and Germany, *Politics and Society* 38(1): 119-48.

Paterson, Ian and Leslie Simpson (1993). The Economics of Trade Union Power, in Nigel Healey (ed.), *Britain's Economic Miracle: Myth or Reality?* London: Routledge, pp.195-210.

Pierson, Paul (1996) The New Politics of the Welfare State, *World Politics* 48(2): 143-79.

Pierson, Paul (1998). Irresistible Forces, Immovable Objects: Post-Industrial Welfare States Confronting Permanent Austerity, *Journal of European Public Policy* 5(4): 539-60.

Pierson, Paul (ed.) (2001). *The New Politics of the Welfare State*. Oxford: Oxford University Press.

Radaelli, Claudio M. (2000). Whither Europeanization? Concept Stretching and Substantive Change, *European Integration online Papers (EIoP)* Vol. 4 (2000) N° 8; http://eiop.or.at/eiop/texte/2000-008a.htm.

Rhodes, Martin (2001). The Political Economy of Social Pacts: "Competitive corporatism" and European Welfare Reform, In Paul Pierson (ed.), *The New Politics of the Welfare State*. Oxford: Oxford University Press, pp.165-194.

Rueda, David (2007). *Social Democracy Inside-Out. Partisanship and Labour Market Policy in the Advanced Industrialized Democracies.* Oxford: Oxford University Press.

Sapir, André (2006). Globalization and the Reform of European Social Models, *Journal of Common Market Studies* 44(2): 369-90.

Schmidt, Vivien (2009). Putting the Political Back into Political Economy by Bringing the State Back in Yet Again, *World Politics* 61: 516-46.

Siebert, Horst (1997). Labour Market Rigidities: At the Roots of Unemployment in Europe, *Journal of Economic Perspectives* 11(3): 37-54.

Simoni, Marco (2010). Labour and Welfare Reforms: The Short Life of Labour Unity in Contemporary Italy, Andrea Mammone and Giuseppe Veltri (eds.), *Italy Today: The Sick Man of Europe*. London: Routledge, pp.229-42.

Sloam, James (2007). Blair, the Third Way and European Social Democracy: A New Political Consensus?, paper presented to Britain After Blair conference, Chicago, 29 August.

Strange, Susan (1996). *The Retreat of the State: The Diffusion of Power in the World Economy*. Cambridge: Cambridge University Press.

Streek, Wolfgang (2009). *Re-forming Capitalism*. Oxford: Oxford University Press.

Streek, Wolfgang and Kathleen Thelen (eds.)(2005). *Beyond Continuity*. Oxford: Oxford University Press.

Swank, Duane (2002). *Global Capital, Political Institutions and Policy Change in Developed Welfare States.* Cambridge: Cambridge University Press.

Taylor, Robert (2005). Mr Blair's British Business Model: Capital and Labour in Flexible Markets, in Dennis Kavanagh and Anthony Seldon (ed.). *The Blair Effect 2001-5*. Cambridge: Cambridge University Press, pp.184-206.

Taylor-Gooby, Peter (2004). *New Risks, New Welfare*. Oxford: Oxford University Press.

Thelen, Kathleen (2003). How Institutions Evolve, in James Mahoney and Dietrich Rueschemeyer (eds), *Comparative Historical Analysis in the Social Sciences.* Cambridge: Cambridge University Press. 208-240.

Thelen, Kathleen (2006). *How Institutions Evolve.* Cambridge: Cambridge University Press.

Tompson, William *et al* (2009). *The Political Economy of Reform: Lessons from Pensions, Product Markets and Labour Markets in Ten OECD Countries*. Paris: OECD.

Van Reenen, John (2003). Active Labour Market Policies and the British New Deal for the Young Unemployed in Context. *NBER Working Paper* N. 9576.

Wood, Stewart (2001). Business, Government and Patterns of Labor Market Policy in Britain and the Federal Republic of Germany, in Peter Hall and David Soskice (eds.), *Varieties of Capitalism*. Oxford: Oxford University Press, pp. 247-74.

Zeitlin, Jonathan, Philippe Pochet and Lars Magnusson (eds.)(2005). *The Open Method of Coordination in Action. The European Employment and Social Inclusion Strategies*. Brussels: PIE-Peter Lang.