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**Labor Market Policy Decentralization in  
Germany, the United Kingdom and Italy—Dynamics and Reasons**

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**ABSTRACT**

This article argues that welfare-to-work or activation policies, which have been adopted across a range of OECD countries during the last two decades, do not only have led to changes in the substance of the welfare state but also to transformations in its institutional configuration. This institutional transformation includes the spatial re-configuration of the welfare state, which has given new roles to the supra-national, national, and sub-national levels of government as well as private actors in the management and creation of labor market policies. By bringing institutions into these debates, this article seeks to expand the literature on welfare-to-work and activation as to date authors working on this topic have said very little about the degree, types, and reasons for the spatial re-configuration of welfare-to-work policies *across* different states. To fill a gap in the literatures on changes in the welfare state and its territorial configuration in particular, we compare trends in the re-configuration of welfare-to-work policies in Italy, Germany and the United Kingdom. We find that there is a cross-national trend, when it comes to the institutional effects of the implementation of activation. These trends bear a tension between decentralization and centralization, as both central and sub-national levels of government have acquired new responsibilities to implement the activation paradigm.

## INTRODUCTION

Comparative research on contemporary transformations of the welfare state (WS) has tended to focus on changes in the content and generosity of social policies rather than on the potential consequences of these changes for institutional configurations. For instance, many authors have noted that in the last decade many advanced industrial states, the European Union and the OECD have been emphasizing the implementation of ‘activation’<sup>1</sup> policies. These policies differ from both ‘passive’ and more traditional ‘active’ labor market policies (PLMPs and ALMPs) in that they seek to remove ‘dependency’ and emphasize individual responsibility for labor market integration (for example by making ‘active’ job seeking behavior a condition for benefit receipt) as they undermine demand-side policies.<sup>2</sup> This article focuses on activation policies as their widespread implementation is often perceived as affecting the nature of the WS—from a provider of ‘passive’ benefits and ‘inducer of dependency’ to a manager of ‘activating’ benefits and self-responsibility. These changes, in turn, have affected notions of social citizenship, inclusion and exclusion, as well as the institutional organization of the WS.

In this context, it is increasingly acknowledged that to fully understand the character and extent of WS transformations, scholars must examine how policies and services are being (re)organized, administered and delivered in advanced industrial societies (Borghi and van Berkel 2007: 83), i.e., the ‘operational’ dimension of change (Carmel and Papadopoulos 2003). A literature on the territorial dimension of the WS has emerged (Ferrera 2005, Mabbett and Bolderson 1998; McEwen and Moreno 2005; Obinger *et al.* 2005b; Kazepov 2008; Williams and Mooney 2008), drawing attention to the notion that social policies are increasingly multi-layered and multi-level as competences are simultaneously shifting ‘upwards’ to supranational

bodies (such as the EU and the OECD)<sup>3</sup> and ‘downwards’ to sub-national levels of government (Ferrera 2005),<sup>4</sup> while the role of national/federal governments has changed.

Work on the territorial dimension of the WS is still at an early stage. It tends to be case-specific and mostly covers (simultaneously) a variety of sectors without emphasizing the particularities and differences among policy areas. More specifically, this literature rarely addresses in a systematic way two important elements of contemporary WS—‘welfare-to-work’ or ‘activation’ policies and marketization<sup>5</sup> or the inclusion of the private and voluntary sector in service design and provision. Marketization is a relevant trend as it moves the focus away from traditional organizers of social policy (i.e., public authorities) and captures the inclusion of the private and voluntary sectors in the provision, management and delivery of labor market policy (LMP) and services (Kazepov 2008).

Whilst the literature on the territorial dimension of the WS does not specifically focus on activation policies, it is conversely true that the activation literature does not primarily address the spatial re-configuration of these policies.<sup>6</sup> The latter literature has mainly focused on the conceptualization of different activation regimes, the question of convergence, and/or the impact of welfare-to-work policies on labor market outcomes and the content of social policies.<sup>7</sup> Thus, this body of work has not tended to bring institutions into its analysis. To examine the degrees, types, and reasons for WS re-configuration and its relationship to the activation paradigm, this paper links both of these strands of work. More specifically, we develop a cross-national, empirical analysis of the spatial *re*-configuration of LMP in the Italy, Germany and the United Kingdom (UK). We also briefly examine trends towards marketization in those cases where this development is a significant trend.

The three countries represent contrasting examples of political systems and welfare regimes. Italy belongs to the southern European welfare regime and is a regionalized country. Germany is a prototype of the conservative welfare regime and a federal state. Finally, the UK represents a liberal welfare regime and a unitary state which has devolved some powers to Scotland, Wales, and Northern Ireland (Esping-Andersen 1990; Ferrera 1998). The choice of these three countries allows us to compare re-configuration dynamics by taking into account different welfare regimes and intergovernmental settings. The data presented here come from domestic reports, official documents and thirty semi-structured interviews conducted with political actors and experts in Italy, Germany, and the UK, as well as from the EU and the OECD.

#### **THE POTENTIAL SOURCES OF OPERATIONAL CHANGE**

Many scholars have referred to the notion of globalization and related pressures for competitiveness as a source for the spatial re-organizations of the state. For example, the literature on state re-scaling assumes that national governments respond to globalization by entering international and supra-national regimes, while shifting certain policy responsibilities to sub-national levels of government (Brenner 1999; Jessop 2002). To describe these trends, public discourses on WS decentralization and other 'operational' changes emphasize factors such as increased effectiveness of policies through locally tailored solutions and more 'market choice,' increased legitimacy and innovation through direct participation of local authorities and citizens, and greater accountability of the state (Smith 1985: 4f.; De Vries 2000; OECD 2003).

Whereas the existing literature on the territorial dimension of the WS links the resurgence of political identities with shifts in social policy authorities and features of

social citizenship, we suggest that changing political identities are not a key source of the spatial re-organization of welfare-to-work policies. Rather, efficiency calculations regarding what level of government is superior in administering and managing a policy area, framed within the paradigm of activation, appear as relevant factors in our case studies.

We claim that the activation approach carries a tension between the decentralization and centralization of LMPs. More specifically, as both the national and the sub-national levels have acquired new powers and responsibilities over social policies, recent trends have led to what we call *decentralization within centralization*. On the one hand, welfare-to-work emphasizes rights and responsibilities of socially excluded people that are translated into *national* legally binding regulations of eligibility and conditionality of benefit receipt to ensure uniformity and universality. On the other hand, activation approaches tend to focus on integrating people with multiple disadvantages into the labor market, e.g., disabled people, lone parents, young people, people over 50 and ethnic minorities. Welfare-to-work policies for this clientele seek to provide services for overcoming specific problems, such as insufficient skills, lack of affordable childcare, low self-esteem, or debt issues. In addition, when there are salient regional cleavages (as in the case of Italy), these policies also become ‘developmental’ policies as they seek to close structural gaps. In this context, designing appropriate and effective measures calls for decentralization and marketization as it requires familiarity with local settings, as well as sufficient flexibility to tailor these measures to personal and local circumstances. These trends have been common across many advanced industrial states, including the United States, Spain, Italy, Belgium, UK, and Germany.

The three case studies presented in the following sections analyze the degree to which activation policies are connected to domestic projects of re-configuration of LMPs, including ‘decentralization within centralization.’ Moreover, we examine which factors are driving these cross-national trends, i.e., ethnic/national pressures, domestic processes of policy reconfiguration (e.g., regionalization, federalization, devolution) (e.g., Keating and McEwen 2005, McEwen and Moreno 2006), and/or efficiency and effectiveness-related reforms of public sector management. To do this, the following sections examine trends of spatial re-configurations in the respective countries, while the conclusion provides a systematic comparison of our cases.

## **ITALY**

There has been a clear trend towards the spatial re-configuration of the WS in Italy since the mid-1990s. These changes in the spatial configuration of social policies go hand in hand with the ‘regionalization’ of the Italian state, as well as with the modernization of its limited WS. These changes have been ever-present in the Italian agenda, yet the transformation of the allocation of power across levels of government has been much contested. For instance, whereas the 1948 Constitution spelled out the legislative powers of the regions (including their capacity to legislate on matters regarding professional training), for many decades these constitutional mandates remained a dead letter.<sup>8</sup> In this context, the national level controlled the regions by “almost exclusively using earmarked funding” (Fargion 2005: 130) and by having responsibility over “direction and coordination” (Putnam 1993; Breton and Fraschini 2003), including LMPs and services.

In the 1990s, under the shadow of political decentralization and devolution, it became evident that the Italian WS needed to be reformed and expanded in part to improve the quality of ALMPs and the universality of passive LMPs (Negri and

Saraceno 1996; Borghi and Van Berkel 2007) as passive benefits mainly protected insiders (i.e., an ample pension system), while it excluded outsiders (e.g., limited, non-universal unemployment schemes). (Rueda (2006).<sup>9</sup> In addition, job placement offices, managed by the national government through local offices of the Ministry of Labor, needed to be transformed from small, bureaucratic (often corrupt), record keeping offices to multi-functional institutions in order to carry out new and diverse services, including the provision of ALMPs.

### ***Labor Market Policy Re-configuration?***

Partially pushed by supranational pressures (e.g., European Monetary Union, the European Employment Strategy, and Structural Funds) and by failed attempts to enhance the prospects of the South, in the mid-1990s the mandates to implement the Constitutional provisions and the 1977 presidential decrees regarding local entities and the decentralization of competences on social policies were fully taken on board (OECD 2003; Ferrera and Gualmini 2004; Kazepov 2008), thus transforming the institutional organization of LMPs. In 1997 the Bassanini reform was introduced, which limited national responsibilities by giving intermediary and local governments power over most public administrative functions (Amoretti 2002; Breton and Frascini 2003; Ongaro 2006). More specifically, the powers exercised by the national government through local placement offices were transferred to the regional level, creating the *Sistemi Regionali per l'impiego*.

By receiving the mandate to elaborate laws to regulate the new system, regional administrations assumed exclusive responsibility for planning, structuring, coordinating, managing, and organizing employment offices (including the design of objectives) (Rubio Barceló 2007: 90). In turn, the national ministry became accountable for establishing minimum standards and evaluating employment policies.



More specifically, the central level is responsible for: social security, pensions, securing social rights for all citizens, administering unemployment benefits and other passive labor market policies and determining the general line of ALMPs.

These institutional changes envisage the integration of PLMP and ALMP. To do this, ALMP became an exclusive responsibility of the regions (legislative power, administration, design, evaluation, and quality control of PESs), which included the planning and coordination of a wide range of policy measures between public and private actors (Basic Information Report: Italy 2003; Fargion 2005;). Finally, the private sector was endowed with the provision of employment services, such as orientation, provision of skills, and placement, after fifty years of national monopoly.<sup>10</sup> These changes were formalized in 2001 (Constitutional law 3/2001), when the Italian public voted to amend the Constitution to give the regions exclusive competencies over employment policy and to enhance the legislative powers and fiscal autonomy of these entities. “The aim [was] to bring legislative and administrative regional remits into line with the new organizational planning structure, which has altered the relationship between legislation and administration” (Basic Information Report: Italy 2003: 3).

By 2001, 17 regions issued laws acknowledging the new decentralized system and 481 Employment Centers were created (which covered 2/3 of the country). In addition, since 2001, the regions have covered nearly 40% of their expenditure with their own revenue (Italian National Action Plan 2001).

These developments have been further promoted in the 2000s as new initiatives and laws were passed to further implement the decentralization project within the activation paradigm. Table 2 summarizes the main national developments on the devolution of ALMP after the year 2000. It is important to note that in this period the

clash of political views regarding the effect of the re-configuration on social citizenship and on regional solidarity has had a huge impact on the likelihood of furthering this project as building up consensus has been at times very difficult.

**Table 2. The devolution of ALMPs in Italy: main developments**

LAW/ AGREEMENT	KEY POINTS
2000: Legislative decree no. 181/2000, Presidential decree no. 442/2000 (Implementing measures to improve free placement services)	Introduced new rules (obligations and sanctions) to match labor demands and supply with the aim of “activating” PESs. Established that job centers had to deliver new services to the long-term unemployed (counseling and work-entry schemes).
2000: Framework law no. 328/2000 (for the realization of an integrated system of social intervention and services)	Defined universal and cross-regional levels of social services. Sought to coordinate PLMP with ALMP. Emphasized the need to develop local concertation to develop ALMP. Gave more power to regions and municipalities to plan the provision of social services.
2001: White Paper for development	Referred to “federalist decentralization” of the labor market, and the activation, modernization, and liberalization of PES. Called for “social dialogue,” instead of trilateral, corporatist arrangements.
2002: Pact for Italy (Patto per l’ Italia) *signed by the government and the social partners (with the exception of CGIL)	Covered “welfare to work” policies and the re-organization of PES. Introduced the concept of “active protection” (emphasis on obligation and monitoring). Emphasized the implementation of Territorial Employment Pacts.
2003: White Paper on Welfare Reform	Aimed at introducing a decentralized system of social protection
2003: Law no. 30/2003 (Biagi Law) is approved by the Italian Senate (previously Proxy law no. 848) <sup>11</sup>	Underlined the need to implement the reforms of the late 1990s. Stressed the role of the regions as key actors in ALMP. <sup>12</sup> Defined a new system of public and private employment services, which would provide greater room for private intermediation. Underlined the notions of “welfare to work” and flexibility.

In this period, social partners and local actors were also actively engaged with the decentralization project as they sought to transform the local institutional architecture. To do this, they searched for alternative models of development characterized by less “top-down” intervention and local territorial concertation (Melo 2000; Barbera 2001; Cersosimo and Wolleb 2001). These partnerships differed from

past initiatives in that many of them were embedded in a national framework (Borghi and Van Berkel 2007). Consequently, the social partners and the government engaged in a variety of measures (*programmazione negoziata*) geared towards the development of depressed areas. One of the most significant measures were the “Territorial Pacts” (OECD 2001; OECD 2003; European Commission 2004), grounded in a bottom-up, horizontal model of cooperation to support the creation of capital and local autonomy. In part, the pacts sought to expand the ‘social triangle’ by actively including a variety of local actors, such as banks, NGOs, and private providers. Between 1998 and 2000, 230 Italian Territorial Pacts were approved (Italian Government 2003) and their blueprint was used by the EU as a model to launch their own European Territorial Employment Pacts (1997).<sup>13</sup>

The message stated in the Italian National Action Plan (Italian government 2003: 5, author’s translation) summarizes the Italian project of re-configuration:

Given the characteristics of the Italian labor market under a process of decentralization and devolution, to implement the notion of “welfare to work” the government intends to promote a bilateral and territorial model of implementation. *Territorialità* entails the development of bargaining mechanisms among the government, the regions, provinces and the social partners to agree on a way to implement the reform of the labor market and of LMP in a coordinated and efficient manner.

Yet for many people this remains a goal, not a reality, as some have argued that the process has been characterized by high levels of centralization, lack of coherence and a hierarchical implementation style (Ferrera and Gualmini 2005: 109). In addition, the re-configuration of LMPs and services has been highly politicized, thus slowing down potential reforms to further implement these mandates.<sup>14</sup> At this point there are limited evaluations of these initiatives, but many would agree that there are huge differences across regions (including the degree of national involvement) and that the

central government still plays a significant role in establishing the direction of LMPs, while regions are slowly becoming stronger entities.

In sum, there has been a noticeable re-structuring of the WS in Italy, which fits within the project of 'administrative federalism' and which occurred in the general context of closing the regional gap, regionalization, devolution, and decentralization. Regions have become key planners, administrators, and implementers of multiple LMPs and institutions (e.g., PESs). Yet in order to avoid regional heterogeneity, the central government has retained control over: 1) common definitions regarding levels of benefits across regions, 2) basic functions of the PESs, and 3) treatment of unemployed people (Dau 2003). The main driver of reform were calculations based on the question: "which level of government is best equipped to carry out a policy (e.g., activation)?" rather than on other factors, such as regional mobilization of interest groups (Trigilia 1991).

## **GERMANY**

Germany provides a clear example for the tensions surrounding the re-configuration of LMPs. These tensions become apparent in the conflicts surrounding the administrative design of the Hartz IV reform which has been the most important LMP reform during the past decade. It was introduced in 2005 to launch a new nationally operating system of LMP to previous employment and social assistance recipients, which were administered by local authorities. The implementation of the Hartz IV reform required collaboration between the Federal Employment Agency (FEA) and local authorities as both bodies were responsible for the delivery of different aspects of the new benefit regime. However, as it will be shown, this collaboration has been confronted with a range of constitutional and administrative problems.

Germany is a federation in which competencies are shared between the federal level and the Länder. In the area of LMP, the federal government plays a major role. This is partly due to a constitutional principle stating that the federal level has the right to legislate in those areas in which the establishment of equal living standards across the different Länder or the maintenance of legal and economic unity justifies federal law (Schneider 2004: 85; Obinger *et al.* 2005a: 8ff.). Therefore, the federal level regulates unemployment benefits and ALMP. The German WS is characterized by two schemes: 1) contribution-based benefits and ALMP, based on the Social Security Code III (SGB III), and 2) means-tested unemployment benefits, based on the new Social Security Code II introduced in 2005 with the Hartz reform. Within this institutional framework, the Länder are allowed to set up their own ALMP programs; however, these programs, which are co-financed by the federal level and the European Structural Funds, must complement existing federal measures.

Before the introduction of Hartz IV, the municipalities had an important role to play in integrating social assistance recipients into the labor market. For that purpose they could set up their own programs. Their responsibilities, however, have changed since the introduction of Hartz IV as explained in the following section.

#### *A Re-configuration of labor market policy?*

The developments surrounding the potential re-configuration of LMPs in Germany are mixed. The Hartz IV reform (2005), which created the new Social Security Code II (SGB II), merged unemployment and social assistance into a new means-tested, 'welfare-to-work' unemployment benefit regime.<sup>15</sup> SGB II requires those who are able to work to seek a job as a condition of benefit receipt. SGB II is currently implemented in three different models. In the first model, which has been adopted by 346 local districts, the FEA and municipalities form new local consortia (ARGEn). According to this model, the FEA is responsible for benefit payments and

ALMP, whereas the local authority is responsible for accommodation and heating costs as well as debt counseling. Under the second model, SGB II is autonomously implemented by municipalities, which are also responsible for benefit payments and the provision of ALMPs. This model has been chosen by 69 districts. Finally in 24 districts SGB II has been implemented by both the FEA and the municipality, but without the formation of a consortium between both levels of government (separated implementation). The legislator determined that not more than 69 districts were allowed to adopt the “municipal model.” Apart from that local districts were free to choose which model they preferred.<sup>16</sup>

The implementation of SGB II has been accompanied by administrative and legal problems. In December 2007, the Federal Constitutional Court decided that the first model of implementation, i.e. the direct collaboration between the FEA and municipalities in local consortia, is not coherent with Germany’s constitution as it violates the principle of ‘municipal self-administration’, meaning that the federal level cannot directly regulate any matters for which the municipalities are responsible. According to this decision, the legislator must find a new solution that must be compatible with the constitution, to be implemented until 2010. To solve this problem, in spring 2008, the Federal Ministry for Employment and Social Affairs suggested introducing new ‘cooperative jobcentres’ in which the different SGB II services would be implemented separately by the FEA and the municipalities. These two bodies would still closely cooperate on a contractual basis (BMAS/BA 2008). This model is similar to the one adopted in the 24 districts of separate implementation.

The questions on the table are: Has the introduction of SGB II led to a re-configuration of LMP in Germany? What is the potential for re-configuration according to the possible models of SGB II implementation to be adopted by 2010?

One main argument supporting the view that the Hartz IV reform has actually contributed to a centralization of LMP is that the municipalities collaborating with the FEA in implementing SGB II must now implement *federal* law more directly than previously. This means that they have lost their autonomy in designing local integration measures. Under the model currently proposed by the Federal Ministry for Employment and Social Affairs, there is a high chance that the FEA will be the more powerful partner in the implementation process. Yet, if the implementation of SGB II were delegated to the municipalities then this would represent a significant move towards decentralization; nonetheless, currently the adoption of this model seems unlikely. By contrast, Hartz IV has institutionalized a more localized and flexible system of ALMP for the majority of the unemployed, as the local consortia have more discretion regarding the provision of ALMP within SGB II than local FEA offices implementing the SGB III. In 2006, amongst all unemployed people there were almost 80% SGB II and only about 20% SGB III recipients (Bundesagentur für Arbeit 2007: 80). However, this only applies to the provision of ALMP, whilst overall, the municipalities' role in integrating long-term unemployed into the labor market is now more directly subsumed under a federally operating system.

Overall, the conclusion regarding the re-configuration of LMPs in Germany, therefore, remains ambivalent. The introduction of Hartz IV signifies an inherent tension between standardization and localization borne by activation policies. Activation policies, including those that were previously solely run by municipalities, have been integrated into a more comprehensive, federally operating system, whilst the FEA is now required to collaborate more closely with the municipalities, providing for personalized and localized approaches.

## THE UNITED KINGDOM

The United Kingdom is another example which demonstrates the increasing tension between centralization and decentralization within activation approaches. Overall, the UK displays a fairly centralized system of LMP, particularly in relation to the short-term unemployed. However, when it comes to policies for the ‘hard-to-place’, one can argue that there is a slight trend towards decentralization and more local flexibility as well as a significant trend towards out-contracting of service delivery. This section briefly describes the centralized system of rights and responsibilities and the operation of the national employment service and social security benefit agency for working-age people (Jobcenter Plus). We also discuss the role of devolution and analyze more recent trends of regional targeting and out-contracting.

In the UK, the national level legislates on ALMP provisions and unemployment benefits, better known as the Job Seekers Allowance (JSA)<sup>17</sup>. These regulations cover the eligibility and conditionality of benefit receipt, as well as relatively standardized and precise rules regarding access to and operation of the New Deal programs which are the main and nationally operating ALMPs. In comparison to Germany and Italy, where ALMPs are discretionary, the ALMP system is more standardized and centralized in the UK. For instance, Jobcentre Plus, which administers JSA and ALMPs, is not autonomous but rather a government agency that is part of the Department of Work and Pensions (DWP). Thus, the system of LMP service delivery is hierarchically organized, directly “steered” by the ministry and operates within a national ‘Standard Operating Model.’ Based on these very detailed and nationally operating standards, Jobcentre Plus staff can determine, for example, how and when customers have access to services, what type of interview the customer is entitled (and



obliged) to attend, and when a client can become eligible for the New Deal programs. Within this system, the local Jobcentre Plus offices have relatively little discretion about how to use the financial resources allocated to them.<sup>18</sup>

As aforementioned, the most important ALMP provisions, the New Deal programs, are managed nationally as well. For instance, the central government legislates on the criteria for people to access these programs, the concrete design of the schemes and options available. The programs can be classified as an activation approach, thus making participation in intensified job-search, training and work experience options compulsory for young unemployed people after six months, and for the long-term unemployed usually after 18 months.

Overall, one can argue that both the unemployment benefit and the ALMP systems are centralized in the UK and they have become even more standardized through the introduction of JSA (1996), Jobcentre Plus (2001) and the New Deal programs (introduced in different stages from 1998 on). However, some recent developments and planned reforms point to more local flexibility and re-configuration, which are examined in the following section.

#### ***Labor market policy re-configuration?***

To assess the degree of LMP re-configuration in the UK, first we must discuss recent patterns of devolution. At first sight, devolution in Scotland, Wales, and Northern Ireland has not directly affected the configuration of ALMPs in the UK because the devolved administrations have no authority to legislate in this area. However, these regions have acquired competencies over education, skills, health, and social inclusion policies, which are tightly linked to activation policies. This has required close coordination between the central government and the devolved administrations resulting in slight administrative variations in the delivery of these

programs. In addition, to make the most vulnerable groups in society more ‘employable’, the devolved administrations can set up their own programs to provide additional support to this population (Scott 2006: 647ff.). Based on these developments, it can be argued that while devolution has not affected the standard system of passive and active LMPs for short-term unemployed people, responsibilities have become more decentralized for people with multiple barriers to the labor market.

In addition, during the last decade there has been a trend towards regional targeting, personalizing services and out-contracting of service delivery, which sometimes occur in tandem, leading to greater regional or local flexibility and variability of service delivery. Table 1 provides an overview of the different initiatives that have been introduced, or increasingly used, in the last decade in the UK.

**Table 1. Re-configuration in the United Kingdom**

<b>REGIONAL TARGETING AND LOCAL FLEXIBILITY</b>	<b>OUTSOURCING/ PARTNERSHIPS</b>
<ul style="list-style-type: none"> <li>• Cities strategy (2006)</li> <li>• Neighbourhood Renewal Strategy (2001) and Working Neighbourhood Fund (2007)</li> <li>• Local Area Agreements (2004)</li> </ul>	<ul style="list-style-type: none"> <li>• Employment Zones (2000)</li> <li>• Local Strategic Partnerships (2000)</li> <li>• New Deal for disabled people (2001)</li> <li>• Pathways to work (2006)</li> <li>• Planned service delivery by specialized providers outside Jobcentre Plus after 12 month of unemployment (DWP 2007b)</li> </ul>

First, there has been an increasing trend towards ‘regional targeting’ – specific programs, also called ‘area-based initiatives’, that seek to promote social inclusion and community building in deprived areas (Alcock 2003). A range of different initiatives can be mentioned here, for example the recent Cities Strategy<sup>19</sup>, the Neighbourhood Renewal Strategy (Cabinet Office 2001) and its new ‘Working Neighbourhood Fund’<sup>20</sup> and Local Area Agreements which are adopted by Local

Strategic Partnerships.<sup>21</sup> Some of these programs have discretionary funding available to develop social inclusion and employability measures and most of them are implemented in local private-public partnerships. For example, the Cities Strategy, which was set up in 2006 and is currently tested in 15 pathfinder areas across England, brings together the public, private, and voluntary sectors to design local strategies for tackling worklessness in areas with very high unemployment rates. City Strategy consortia in each pathfinder area can decide how to spend the financial resources available.

Second, there has been a trend towards marketization or out-contracting of service delivery. For example, the delivery of the New Deal programs, including benefit payments, is out-contracted in 13 so-called 'employment zones', which have been introduced in areas with particularly high unemployment (Bruttel 2005). These private providers have more flexibility than Jobcentre Plus, when it comes to the implementation of these programs. Within the regular New Deal programs, the provision of services related to the 'option phases'<sup>22</sup> is also out-contracted to the private and voluntary sector. Out-contracting is particularly prevalent within the New Deal for Disabled People. In addition, the delivery of the second round of 'Pathways to Work', a labour market integration program for incapacity benefit recipients (DWP 2002), has been out-contracted.

Finally, within the current Labor government's welfare reform plans, it is also foreseen to render the New Deal programs more flexible and personalized to target particularly disadvantaged unemployed people (DWP 2007a; DWP 2007b). The government intends to make some ALMP measures available much earlier than they are available now and to provide instant access to ALMP for particularly disadvantaged customers (DWP 2007b: 15). Jobcentre Plus will remain the main

service provider for all unemployed people during the first 12 months of unemployment. However, the welfare reform agenda also intends to refer unemployed people to specialist private or voluntary sector service providers after 12 months of unemployment on the assumption that this customer group is “likely to have serious and multiple challenges” (DWP 2007b: 15).

To sum up, the UK is still a fairly centralized LMP system, particularly for the short-term unemployed. For this customer group it has arguably even become more standardized through the introduction of Jobcentre Plus and its ‘Standard Operating Model’ and the New Deal system. However, within this framework, there is an increasing trend towards local flexibility, discretion, regional variability and out-contracting to the private and voluntary sector to strengthen efforts to integrate particularly disadvantaged groups into the labor market.

Having presented the case studies, the following section highlights the main findings of our study. We then conclude with a discussion of theoretical concepts together with the potential implications of our findings on the spatial re-configuration of the WS in the EU.

## **DISCUSSION OF CROSS-NATIONAL TRENDS**

A cross-national comparison of re-configuration trends in the three countries shows significant differences, as well as similarities, regarding the characters and degrees of these transformations and their particular justifications. Dissimilar trends can be linked to country-specific political situation and institutions, as well as LMP approaches. In addition, decentralization in some areas can be paralleled by centralization and a standardization of rules and obligations in other areas. Common cross-national developments and trends are presented in table 3.

**Table 3. Summarizing the findings: cross-national trends**

<b>TRENDS</b>	
<b>Centralization/Standardization</b>	- Unemployment Benefits (IT, G, UK)
	- General ALMP standards (G, UK) - Operation of PES (G, UK), Basic functions of the PES (IT)
<b>Decentralization</b>	- ALMP legislation, PES organization (IT)
	- More flexibility and responsibilities in the implementation and management of ALMP (IT, G, UK)
	- Support for local ALMP initiatives (IT, G, UK)
<b>Marketization</b>	- Local initiatives and services created and provided by public-private partnerships (IT, G, UK)

In the Italy, Germany and the UK, central governments retain an important role in the design of law on unemployment benefits. In addition, it oversees the policies and services managed and provided by sub-national entities, particularly by PESs. With the new emphasis on activation, in all three countries there has been a shift towards centralization and standardization of rights, benefits, and obligations for the short-term unemployed. This means that the same rules, set at the central level, apply nation-wide (for instance, the UK model of the personal adviser and the Jobseeker's agreement and the German integration agreement). Furthermore, in Germany and the UK, the national government remains the dominant actor in the legislation of ALMP, whereas in Italy ALMP has been devolved to the regions.

To understand centralization and standardization, we must refer to the arguments regarding the disadvantages of decentralization, specifically to issues of inequalities of performance and access to benefits services across sub-units (primarily held by social democratic parties in these three countries). These concerns are crucial to comprehend why in these countries the central government plays a protagonist role in setting national legislation and uniform standards as this level of government

attempts to establish a homogenous set of rules all involved players should comply with, including different levels of government and beneficiaries. For instance, in Germany the constitutional principle that national legislation is required to maintain equivalence of living standards across regions remains crucial, whereas in the UK the Labor government has supported the principle of universalism in the area of unemployment insurance. In Italy, the regional gap supports the role of the central government as strong overseer.

Second, and in contrast to the former point, our research shows that in all three countries sub-national levels have gained more competencies and flexibility regarding the implementation and management of ALMP. This development was most pronounced in Italy with its process of decentralization, which includes the reform and modernization of PESs. As a consequence, Italian regions have the exclusive authority for ALMP legislation. The UK, by contrast, remains the most centralized country of our sample, particularly regarding LMPs for the 'mainstream unemployed.' The devolved UK regions did not gain new competencies in LMP, and only the implementation of programs for particularly disadvantaged groups has become more flexible and regionally diversified. This is mainly due to the UK's legacy as a unitary state, and the New Labour's emphasis on standardized rights and responsibilities and local flexibility to target the 'hard to place.' Finally, in Germany, the developments regarding decentralization are ambivalent because the Hartz IV reform brought about a certain degree of centralization and standardization in LMP, whilst it also provided for a closer collaboration between the FEA and the municipalities. Overall, the situation in Germany could be described as a recalibration of relationships between the federal and the municipal levels within a federal framework, rather than a dismantlement of the system.

In all three countries, the decentralization agenda is mainly driven by a re-framing and a reform of LMP—moving from ‘passive’ and demand-led policies to a supply-side approach based on the agendas of ‘activation’ and ‘employability’ that includes the modernization of the PESs. Welfare-to work approaches, on one hand, require a clear ‘universal rights and responsibilities framework’ and, on the other hand, entail more localized and tailored approaches to provide specialized and holistic services to the most disadvantaged groups in society. Moreover, in Germany and in Italy, the decentralization of LMP is potentially related to ongoing institutional reforms which seek to establish a clearer division of responsibilities between the different levels of government.

Third, private actors and the voluntary sector increasingly play a key role in the implementation, management, and delivery of policies. In all three countries, the out-contracting of services to the private and voluntary sectors, as well as internal reforms within the PES are directly linked to a more general agenda of public management reform. In these scenarios, one should also take into account the role played by the EU (specifically the open market and free competition principles) which has ruled against public monopolies over job placement, as the Italian case illustrates.

But, what has driven these trends in these countries? Based on our findings, different reasons were dominant for the changes observed. The developments in Germany are mainly driven by the introduction of a new ‘activation’ and ‘employability’ framework. Germany’s major LMP reform, the Hartz laws, bore an inherent tension between centralization and decentralization as the federal level became responsible for activating the ‘hard to place’ whilst the municipalities continue to play an important role in the implementation of this scheme. In the UK, more local flexibility for integrating particularly disadvantaged groups into the labor

market is closely linked to out-contracting service delivery. These reforms seem to be mainly driven by a new emphasis on 'activating' the most disadvantaged people in society as well as broader new public management reforms. The radical decentralization of ALMP legislation in Italy is mainly a side-effect of a general attempt to reform and restructure the Italian (welfare) state, which included the reform of the PES. In addition, this trend is also justified by the 'activation' agenda, which is extremely salient at the EU level.

Having presented these general findings, in the following section we return to the theoretical question that drives this article – why re-configure? – to put forward a set of general hypotheses about what drives LMP re-configuration.

## **THEORETICAL PROPOSITIONS AND CONCLUSIONS**

A number of general hypotheses and conclusions can be drawn from our study, which can be tested and applied to other states. The new emphasis on activation and employability in advanced industrial countries does not only include a change in policy content but also implies transformation in the ways in which LMPs are institutionally organized and implemented. A general tension seems to exist between a national and standardized framework for this approach, on one hand, and the requirement to introduce more locally flexible, decentralized and personalized implementation strategies facilitating labor market integration of multiple disadvantaged groups in society, on the other hand. More specifically, it is commonly argued that services aiming at labor market integration of the most disadvantaged groups in society need to be more flexible and tailored to local needs. Given new paradigms of LMP provision, based on the activation agenda, policy-makers regard sub national levels as better equipped to create regional and local policies to provide personalized services. In addition, decentralization allows governments to supply



differentiated services given specific personal and regional conditions. At the same time, the findings show that the principles of social citizenship and universalism are still crucial within political discourses as centralization is the institutional solution to guarantee a set of benefits across regions.

The tension between standardization and local flexibility leads to more complex relationships between different levels of governments as central levels of government retain key roles in LMP whereas sub-national levels gain more autonomy and flexibility regarding the 'activation' of the hard-to-place. Overall, LMP in Europe is increasingly characterized by a multi-level governance framework, not only within states but also in the context of European integration as the EU has taken on new roles in coordinating and monitoring LMP (López-Santana 2006; Büchs 2007). Overall, all levels of government – the European, national, and sub-national – have taken on new roles in 'operating' and managing LMPs. It is, therefore, not accurate to talk of general trends towards centralization or decentralization of the WS, rather it appears as if there is an increasing inter-linkage of different layers of government and actors in which certain levels take over specific roles regarding certain policy-making functions.

In the second part of the paper, we pointed out that the spatial re-configuration of LMPs can be explained by three different factors: 1) as part of a process of WS restructuring, which emphasizes the implementation of welfare-to-work approaches, 2) as a side-effect of a restructuring of the institutional architecture of a polity, and 3) as led by demands of sub-national groups and regions. Whilst the emphasis on welfare-to-work or activation seems to be a common factor across countries, we found that a resurgence of sub-national loyalties and political identities, as suggested by the emergent literature on the territorial dimension of the welfare state (McEwen and

Moreno 2006) is not relevant for this policy area. Further research is required to establish whether that is commonly the case or whether sub-national identities can be a driver of reforms, for example in countries such as Spain where sub-national levels have asked the national level for more power to manage ALMP within a process of regionalization. In this way, and as proven by the Italian case, decentralization can be part of a more general reform of domestic constitutional structures.

Overall, our research demonstrates that changes in policy content (i.e., activation and employability) can imply wide-ranging reforms in domestic balances of power and institutional configurations. The newly emerging multi-level framework of LMP raises new questions regarding authority migration, including where power should ultimately reside and what level should be accountable, the management of the increasingly complex and overlapping responsibilities of different levels of government, the financial implications of these arrangements, as well as the chances for innovation and experimentation.

## NOTES

<sup>1</sup> Several concepts are used to refer to the notion of ‘activation’ (e.g., welfare-to-work or workfare or work-first policies). Since we are not making any assumptions on the type of activation regime prevalent in any one country we simply refer to welfare-to-work or activation policies.

<sup>2</sup> PLMPs provide income maintenance to the unemployed and inactive and have increasingly been suspected of generating ‘dependency.’ Traditional ALMPs focus on incorporating the unemployed population into the labor market through (re-) training, demand-side policies or temporary public employment initiatives.

<sup>3</sup> There is an extensive body of literature on the ‘upward transfer’ and its effect on member states (e.g. Geyer 2000; Leibfried 2005; Büchs 2007).

<sup>4</sup> Some scholars have also focused on the impact of the territorial organization of the WS on the generosity of social benefits (Obinger *et al.* 2005a; Obinger *et al.* 2005).

<sup>5</sup> Research examining recent trends of privatization, out-contracting and new public management in the delivery of social policies has become increasingly salient. For example, see Clarke and Newman 1997, Le Grand 2007; Powell 2007.

<sup>6</sup> *Social Policy and Society* has recently published an issues on the ‘governance of activation,’ see van Berkel and Borghi (2008), Bredgaard and Larsen (2008).

<sup>7</sup> For instance, see Lødemel and Trickey 2000; Pierson 2001; van Berkel and Hornemann 2002; Møller 2002; Handler 2003; Barbier and Ludwig-Mayerhofer 2004; Serrano Pascual and Magnusson 2007.

<sup>8</sup> In the 1970s, there was a brief wave of decentralization, which resulted in the creation of 15 Regional governments with legislative, administrative, and some spending powers.

<sup>9</sup> Italy does not have a national income safety net and a uniform system of social assistance (Borghesi and Van Berckel 2007: 92). Ferrera and Gualmini (2004) argue that the LMPs are very fragmented given their incremental and reactive development.

<sup>10</sup> This was introduced by the 'Treu package' (Law 196/1997) and ruled by the *Decreto Montecchi* (Law no. 469/97). It was made compulsory by the European Court of Justice (1997) given that it ruled that the Italian state's monopoly over job placement was illegal and contrary to the principles of free competition.

<sup>11</sup> See, Italian government (2003).

<sup>12</sup> This mandate puts special emphasis on decentralization not stopping at the regional level, but also including provinces and municipalities given that these entities are responsible for the administration and implementation of the reform.

<sup>13</sup> There is ample literature on Italian territorial pacts, for instance, refer to Cerase (2005), Piera (2005), Magnatti, *et al.* (2005), and De Vivo (2006).

<sup>14</sup> Following what some labeled neo-liberal and European trends, the Center-Right and the Lega-Nord have been firm believers in the decentralization of LMP. However, the Center-Left, the Left, and Catholic groups have not supported the re-configuration because it could undermine social citizenship rights and lead to differentiation and divergence across regions, thus, possibly exacerbating the regional divide (Fargion 2005).

<sup>15</sup> SGB II now complements the contribution-based unemployment benefit regime based on Social Security Code III (SGB III).

<sup>16</sup> These figures are based on an internal document from the FEA, sent to the authors by e-mail on June 2<sup>nd</sup>, 2008.

<sup>17</sup> There are two different types of JSA, one is contribution-based and available to those who paid sufficient social security contributions, the other is 'income-based' or means-tested for those who have not paid sufficient social security contributions or are no longer eligible for contribution-based JSA.

<sup>18</sup> The only funds that can be spent with some degree of discretion are the "District Manager's and the Personal Advisor's Discretion Funds" which are, however, relatively restricted.

<sup>19</sup> The Cities Strategy aims at "[tackling] worklessness in our most disadvantaged communities across the UK"

([http://www.dwp.gov.uk/welfarereform/cities\\_strategy.asp](http://www.dwp.gov.uk/welfarereform/cities_strategy.asp), accessed May 28 2008.

Also refer to DWP (2006), Freud (2007).

<sup>20</sup> This fund replaces the previous Neighbourhood Renewal Fund. Together with the previous Deprived Areas Fund it merges into one individual fund.

<sup>21</sup> Local Strategic Partnerships (LSPs) are non-statutory and non-executive partnerships between public, private and voluntary organizations at the local level. Their aim is to design more effective strategies to tackle deprivation and other problems at the local level through collaboration. LSPs now exist in the majority of local authority areas in England (Geddes *et al.* 2007).

<sup>22</sup> If an unemployed person on the New Deal for young people enters the 'option phase' (or the 'Intensive Activity Period Phase in the New Deal for Long-Term Unemployed Persons) she will be offered either a subsidized job with an employer, occupational training, general employment related skills training or support with applications and interview technique. The rejection of an "offer" can lead to benefit sanctions.

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