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NEW GOVERNANCE AND DECENTRALISATION IN EMPLOYMENT POLICY¹

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ABSTRACT

When thinking about the traditional boundaries of the welfare state, particularly of labour and employment policies, we tend to place them within the boundaries of the nation-state. However, with contemporary processes of European economic integration and devolution of competences to sub-national entities, our understanding of the spatial configuration of the welfare state has been challenged. These developments are also partially related to 'new governance' patterns in social policy. The authors explore the 'downward' movement of employment and labour market policies (LMP) in Germany, the United Kingdom, and Italy and explore crossnational differences regarding the characteristics and degree of decentralisation. The paper finds that decentralisation in Germany and the UK is mainly related to the 'activation' and 'employability' agenda, as well as a broader trend of public management reform whilst in Italy a more general restructuring of the state is the main motor of LMP decentralisation. In addition, we see private actors at the local level gaining an important role in the provision and management of this policy area (i.e., de-concentration) in the three countries. Nonetheless, even if we observe this cross-national trend, in all three countries the national level retains an important role in LMP policy design and financing.

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INTRODUCTION

When thinking about the traditional boundaries of the welfare state, particularly of labour and employment policies, we tend to place them at the centre of the nation-state. However, with contemporary processes of European economic integration and the transfer of competences from central governments to sub-national entities, our understanding of the spatial configuration of the welfare state has been challenged. These developments are also partially related to 'new governance' patterns in social policy. On one hand, there has been an 'upward' movement, which has transferred labour and employment policies outside the boundaries of the nation-state to supra-national bodies. For example, the European Employment Strategy provides a new role for the EU in framing, coordinating and monitoring European employment policies.² On the other hand, in many advanced industrial countries, reforming centralised modes of policy delivery has become a priority (Ongaro 2006). More specifically, national levels of government have devolved some of their competencies over social policies to subnational levels and "local and especially regional contexts have increasingly affirmed themselves as optimal areas for the planning and the management of new forms of service provision" (Ferrera 2005: 172).

This paper explores the 'downward' movement of employment and labour market policies in Germany, the United Kingdom, and Italy. By studying cross-national trends in the decentralisation of these social policies in these countries, we seek to understand: 1) the different types and mechanisms of labour market policy in Germany, the UK, and Italy; and 2) why national governments have decided to cede some powers to sub-national entities and private actors. To explore these issues, this piece focuses on two different aspects of decentralisation: 1) vertical decentralisation (i.e., transfers from the central government to the subnational entities) and 2) horizontal decentralisation (i.e., transfer or share of responsibilities between the public, private and voluntary sector).

We have chosen Germany, the United Kingdom, and Italy as case studies because these countries represent contrasting examples of different political systems and welfare regimes. Italy belongs to the southern European welfare regime and is a regionalised country where the central level has traditionally played a strong role, but has been undergoing a process of decentralisation. Germany is the prototype of the conservative welfare regime and a federal state. Finally, the UK represents the liberal welfare regime and is a unitary state that has devolved some powers to Scotland, Wales, and Northern Ireland (Esping-Andersen 1990; Ferrera 1996; Ferrera 1998; Loughlin 2005). Given the different welfare regimes and institu-

² In the case of the European Union, there is a vast literature on the development of the Open Method of Coordination, specifically the European Employment Strategy, to coordinate labour market policy reforms and policies across Member States. On this topic, see for example, Büchs (2007 forthcoming) and (2008 forthcoming) and López-Santana (2006) and (2007).

tional configurations of the chosen cases, the conducted research allows us to develop a set of hypotheses about what drives cross-national processes of labour market policy (LMPs) devolution. More broadly, we are interested in the following questions; first, is decentralisation independent from institutional configuration and/or welfare regimes? Or, are some states more likely to devolve powers to sub-national entities? Second, what drives and justifies the project of decentralisation? Are there common trends within the European Union (EU)? Third, is the decentralisation of LMP a phenomenon that goes hand-in-hand with the call to restructure the nature of European welfare states? Or, is the devolution of LMPs independent from welfare restructuring and part of a national project to transfer powers to sub-national entities? Or, is it linked to 'something' else? These questions have important implications for future research; for instance, if states are in fact moving towards decentralisation, then we should rethink the traditional role of national governments as welfare organisers and providers. This is especially true, if we take into account arguments about the multi-level governance system of the EU (Hooghe and Marks 2001). Additionally, we need to consider the consequences of devolution on the character of European welfare states and the putative regionalisation of social benefits and rights.

To frame our discussion, the following part presents the literature on the pro and contra arguments of decentralisation. The subsequent sections examine labour market policy decentralisation in Germany, the UK, and Italy. Finally, the conclusion compares and discusses the presented findings and formulates hypotheses for future research.

THE DECENTRALISATION OF THE WELFARE STATE

In the last decade, the decentralisation and devolution of the welfare state have become 'fashionable' prescriptions among regional and international organisations to combat the problems of unemployment and social exclusion. For instance, the OECD has emphasised that the delivery of labour market policies, mainly *active* ones (i.e., policies that do not (only) involve spending on income maintenance for the unemployed, but seek to facilitate the creation of programmes to (re-)incorporate the inactive population into the workforce), takes place at the local level; therefore, policy-making, including the design and management of LMPs, should take place at the lowest level possible.³ The OECD "Jobs Study" (1994) and the "Local Economic and Employment Development Programme" that was founded in 1982 (OECD 2002) are examples of initiatives that promote the decentralisation of public employment services (PESs) and the local management of LMPs.

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³ Active labour market policies or 'welfare-to-work' strategies are destined to help facilitate the (re)incorporation of the inactive population into the workforce (e.g., training, subsidized employment). This type of policy does not involve spending on income maintenance.

In the same vein, the EU has actively advocated the decentralisation of LMPs. The local dimension of employment policy was mentioned as early as 1984 in a Council resolution. In addition, the 1994 White Paper on Social Policy emphasised the relevance of the local level and decentralised management to create policies to fight unemployment (European Commission 1994: 27). To achieve these goals, the Commission launched the Territorial Employment Pact initiative in 1997. Moreover, in 2000 the local dimension of labour market policy was promoted as part of the European Employment Strategy (EES) in the Commission's Communication "Acting Locally for Employment: A Local Dimension for the European Employment Strategy" (Commission of the European Communities 2000). This communication supported a more localised approach to employment policy and analysed the potential for local job creation through cooperation among local authorities, enterprises, and social partners. It also emphasised that the national, regional and local levels should all play a role in the design and implementation of policies as it seems appropriate (Commission of the European Communities 2001; EP/Council 2006: 16). Within this framework, national governments should retain a dominant role, particularly in the design and finance of LMPs. Simultaneously, sub-national levels should gain more responsibilities and flexibility in these implementing policies. The local dimension of employment also became a priority in the 2000-2006 structural programming of the ESF. The ESF initiatives equally aimed to include all levels of government—local, regional, national, and European—in the creation of jobs within the framework of the EES, to reduce implementation deficits and to promote the development of multi-level governance structures in LMP. Moreover, the promotion of subnational participation by the EU was partially grounded in the idea that decentralisation represents an institutional solution to the problem of unemployment.

Within scholarly debates, the literature on governance has paid special attention to these developments by capturing the expansion of the range of actors, forms of organisations, and instruments involved in policymaking, decision-making, and implementation.⁵ This line of thought acknowledges that traditional hierarchical modes of regulation (where national governments dominate) have become more inclusive and based on negotiated relations between different types of governmental and non-governmental actors (i.e., horizontal). Broader discussions of governance comprise debates on regionalisation, territorialisation, and decentralisation given that these strands of work emphasise that economic restructuring, internationalisation, and the process of European integration have empowered a range of sub-

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⁴ Council Resolution 84/C-161/01, 7 June 1984 quoted in the Commission's second Communication on the local dimension of employment policies (Commission of the European Communities 2001: 4).

⁵ Scott (2002: 60) provides a complete and interesting conceptualization of the term governance. The author states, "The rich concept of governance recognizes widespread dispersal of the key resources relevant to the exercise of power amongst public and private actors, and uses the insights both better to understand processes by which we are governed, and to provide a basis for reprogramming relations and institutions."

national and societal actors in decision-making and policymaking (see, for example, Jones and Keating 1995; Keating 1998a; Keating and McEwen 2005: Ferrera 2005).

In a similar fashion, scholars studying European integration have developed the notion of multi-level governance to describe a process in which the development and solidification of the EU and the provision of resources by the European institutions (e.g., European Structural Funds) have challenged the central role of national institutions and the dominant domestic patterns of territorial interaction.⁶ These authors argue that sub-national entities have become important actors at the supranational and the domestic levels through the transfer of power, authority, and resources by the EU to lower levels of government.

These developments have brought about a recalibration of Europe's system of multilevel governance (see Ferrera 2005). Still, we need to be clear about what type of changes are taking place. To do this, it is important to define and differentiate various notions. We define devolution as a reform that grants formal power(s) from the central governments to subnational entities. There are different types of devolution: administrative, political, and fiscal. Administrative refers to the implementation of central decisions by sub-national branches of government or, sometimes, semi-independent sub-national bodies. When political devolution takes place, sub-national levels gain autonomous decision-making capacity (most of the time it entails the creation of regional or local governments that are directly accountable to citizens). Fiscal devolution includes the power to raise taxes at the sub-national level, as well as budgetary responsibility of lower levels. Overall, devolution falls within the general phenomenon of decentralisation or the "process of spreading out formal authority from smaller to a large number of actors" (Ongaro 2006: 739). Thus, decentralisation entails a level of institutionalisation and permanency, whereas devolution is a more specific phenomenon that tends to take place within a policy area. In addition to the distinctions between devolution and decentralisation, we include the dimension of 'de-concentration', i.e. the shift of LMP responsibilities from the public to the private and voluntary sectors. We integrate this issue because it has important implications for the role of governments at various levels, and it is an important dimension of the discussion on new governance.

The issue of why central levels of governments might (not) want to cede or transfer power to smaller units has been popular among scholars. To frame our cross-national findings (to be presented below), we review the literature on the question 'why decentralise?' in the following pages.

5

⁶ See, for example, Keating and Loughlin (1997); Benz and Eberlein (1999); Loughlin (2000); Hooghe and Marks (2001).

Why Decentralise?

The choice to devolve power to sub-national entities could be theoretically justified in many different ways. More specifically, the literatures on regionalisation, decentralisation and devolution, territorial politics, and federalism (among others) have said much about why central governments might choose to devolve or share powers with sub-national entities in a given policy area. However, many authors have also stressed potential drawbacks of decentralisation. To frame this discussion, we should refer to two interrelated questions: 1) Why does a level of government want to control a policy area?, and 2) Why does a level of government want to cede or share decision-making with another level? Or, in other words, why does a central level of government might (not) want to transfer power vertically to a smaller territorial jurisdiction?

Within the field of economics, many authors regard decentralisation as conducive to the creation (and sustainability) of a competitive market (see, for example Trigilia 1991; Storper 1995). Within this line of work, many authors have used the notion of *efficiency* to explain which level of government should control the provision of a given good or service (e.g., Tiebout 1956; Peterson 1995; Qian and Weingast 1997). For example, Tiebout's interpretation (1956), which is one of the dominant models of decentralisation in economics, is grounded in the idea that decentralisation results in an efficient provision of public services given that jurisdictions compete against one another. Another interpretation is that decentralisation allows for flexibility, "understood as the capacity for rapid and effective adaptation to changes in the market" (Trigilia 1991: 311; Storper 1995). Given new modes of (postfordist) production, which tend to be viewed as uncertain and unstable, flexible adaptation through devolution and regionalisation could represent an element that provides a comparative advantage to a state, a region, and/or a firm(s) (see, for example, Piore and Sabel 1984).

Political scientists have also paid attention to the notion of efficiency by arguing that the level that is best able to supply a good or a service should be responsible for this task (subsidiarity). Nonetheless, this does not mean that the less efficient level is not involved in the provision of these goods, as it can share this task with the more efficient level of government (Peterson 1995). For instance, central governments might choose to devolve a policy area to shift the blame for unpopular policies on local governments (Ferrera 2005; Volden 2005).

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⁷ Peterson (1995) explains that the division of responsibilities in federal states is dependent on whether a policy is redistributive or developmental. The case of labour market policy is an interesting one as it is a policy area that covers both redistributive and developmental goals; for example, we can refer to the redistributive goals and the distributional consequences of welfare and workfare programmes/active labour market policy.

⁸ This debate has highlighted the significance of the region as an effective arena for situating the institutions of post-fordist economic governance (MacLeod 2001).

Others have assessed this issue by identifying which level of government is better at *managing* (vis-à-vis supplying) a policy area or a service. One interpretation is based on the idea that devolution might occur because of the administrative overload of central governments. As Ferrera (2005: 170) points out when theorising the decentralisation of welfare states, "the first wave of decentralisation (and in particular regionalisation) was partly a response to functional pressures originating in the administrative overload of the central state and the ensuing search for more effective management of public services and a better implementation of national policies". Based on the aforementioned arguments (which tend to be functionalist in nature), decentralisation and/or devolution might take place because a subnational level of government might be better at supplying and/or managing a policy area than the central government. But, why could this be the case?

Hayek (1945) suggests that local governments have the ability to make better decisions because they have more and better information about local conditions and preferences (from Qian and Weingast 1997: 83). Decentralisation could be a means of upgrading the government decision-making process given that lower levels of government can provide informed and pragmatic solutions to local problems (Amendola *et al.* 1997). Therefore, subnational entities might be better equipped to manage and deliver differentiated policies according to local priorities. For example, some have viewed decentralisation in France as a top-down initiative that seeks to increase government's efficiency and flexibility by giving sub-national entities a 'say' in the administration of welfare programmes (McEwen and Moreno 2005).

Similarly, other authors have emphasised that decentralisation allows for policy innovation given that sub-national entities could be 'policy laboratories' where experimentation takes place. Given the smaller scale of these entities and the availability of information, subnational levels may be able to experiment with different solutions, thus increasing the probability of innovation. For instance, Kollman, Miller and Page (2000) have emphasised that sub-national units may be better than central governments at searching for effective solutions to difficult problems through experimentation. Along similar lines, some authors have argued that decentralisation might be a good solution when there is a high degree of diversity of circumstances across sub-national levels of government (Seabright 1996). Thus, decentralisation might be a solution to handle the diversity of needs in different parts of a state.

Additionally, most advocates of decentralisation would agree with the argument that devolving powers to sub-national entities can increase the accessibility, accountability, and the transparency of the state to its citizens. In other words, devolving power to sub-national entities may sustain a nation-state and/or increase democracy (Keating 1998; Ansell and Gingrich 2003). By locating various decisions at the regional and local levels, national governments enhance access to government and foster participation (Rubin and Freeley 1994). In

addition, decentralisation may also enable citizens to hold sub-national decision-makers more accountable for their actions (Ansell and Gingrich 2003; Ongaro 2006). Finally, in states where there are salient ethnic/national/economic cleavages, decentralisation might allow for stability (vis-à-vis secession) by accommodating the aspirations of the regional sub-cultures within a respective territory (Sharpe 1993).

Along the same lines, students of territorial politics have also paid attention to the issue of devolution by emphasising that this process is a response to sub-state claims for sub-sidiarity and democratic accountability, which are related to an increasing importance of regional/local political identities (McEwen and Moreno 2005). More specifically, in the last couple of years, these scholars have studied systems of multi-level government and the decentralisation of policy-making in key areas of the welfare state (Keating and McEwen 2005; McEwen 2005; McEwen and Moreno 2005; Ferrera 2005). For instance, McEwen and Moreno (2005) view decentralisation within a framework in which states have sought to accommodate to diversity (based on language, history, traditions, and religious differences, for example) within the modern nation-state. All in all, the views presented here underline the idea that the region is a functional space for economic planning and political governance (Keating 1998).

However, decentralisation could also have negative side effects, such as lack of transparency and accountability, policy duplications, inconsistencies and differentiation, as well as increasing regional and social inequalities. Decentralised systems may also struggle with the issue of how to close the gap between legislation and implementation, particularly without entailing implementation disparities (and outcomes) across sub units (for example, refer to the Italian case). For instance, based on the principles of social protection, welfare clients should be eligible for the same type of unemployment benefits across jurisdictions. Hence, it is not uncommon for sub-national units to neglect issues of social equity by implementing different types of programmes and benefits for the unemployed and the inactive population across units. As a consequence, citizens of a nation state will often enjoy and experience different levels of benefits and burdens across different regions (e.g., levels of unemployment benefits, training programmes) (Obinger et al. 2005). This, in turn, can trigger hostilities, a 'race to the bottom', increasing social inequalities and clients 'voting with their feet' (Peterson 1995). Thus, in this context, decentralisation and devolution challenges the nation-building function of the welfare state, as well as the notion of 'social solidarity and citizenship' across group and territorial boundaries (McEwen and Moreno 2005; Ferrera 2005).9

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⁹ McEwen and Moreno (2005:16) argue that "sub-governments may be in a position to preside over the development of welfare institutions which can act as symbols embodying the sub-state community's solidarity and shared sense of belonging together."

There are various options to diminish the potential inefficiencies resulting from devolution, which include (but are not limited to): 1) developing a network of national-local and/or local public-private partnerships, 2) the central government being a strong overseer, 3) fixing minimum standards of supply and (re)distribution, and/or 4) the central government adopting a 'command and control' strategy. ¹⁰ More specifically, under decentralisation and devolution, national planning and a strong monitoring and enforcing role of the central government are essential elements to, for example, increase accountability, solve free-riding problems, facilitate the trade-offs between involved actors, as well as achieve full policy consistency. In addition, to overcome these inefficiencies and problems, national and sub-national levels of government can engage in intensive formal (e.g., intergovernmental conferences) and informal coordination. Nonetheless, even if the centre takes all these precautions, in the case of welfare policies the state and the regional levels need to make a greater effort to harmonise the supply and the demand of social services, as the municipal tier is not adequate to supply a set of goods in satisfactory amounts or at reasonable costs, without an active coordination of choices and resources (Trigilia 1991).

This array of pro and contra arguments regarding policy decentralisation is relevant as they frame our analysis of the reasons for decentralising LMPs in Germany, the UK, and Italy. The subsequent sections examine recent trends towards LMP decentralisation in these three countries. Each section starts with a description of the general features of the country's political and labour market policy system. Then, the following sections summarise the main developments regarding the devolution and decentralisation of this type of policy in these three countries.

GERMANY

Political and labour market policy system

Germany is a federal state with 16 constituent *Länder*. Federalism in Germany has been characterised as 'cooperative' and centralised (Schneider 2004 85; Obinger *et al.* 2005: 8ff.). The German constitution (Basic Constitutional Law, *Grundgesetz*) defines the areas in which the federal level has the exclusive right to legislate and those in which competencies are shared between the federal level and the Länder (competing competencies). However, within the category of competing competencies, the federal level has the right to legislate if the "establishment of equivalent living standards" is regarded as required (Art. 72 Basic Constitutional Law). Therefore, the federal level acquired the right to act as main legislator in almost all social policy areas, including labour market policy.

¹⁰ Some of the key elements of the 'command and control' strategy are: 1) emphasizing national standards, and/or 2) granting the central level substitutive powers with respect to 'failing' Regions.

Germany has a long-standing history of LMPs. Unemployment insurance was introduced in 1927. In 1969 the Employment Promotion Act (Arbeitsförderungsgesetz) was adopted, establishing a comprehensive system of unemployment insurance and active labour market policies (ALMP). Competencies in LMP are distributed in the following way. The federal level regulates the unemployment benefit system, i.e. eligibility and conditions for contribution-based and means-tested unemployment benefits (Arbeitslosengeld (ALG) I and II), benefit levels and duration of payments. The federal level also sets up general regulations for ALMPs, i.e. access to the PES and the types of services provided. Contribution-based unemployment benefit and measures of ALMP for ALG I recipients are solely administered by the Federal Employment Agency (FEA). The FEA is an autonomous organisation supervised and 'steered' by the Federal Ministry of Labour and Social Affairs through a management by objectives system (Kontraktmanagement). It is managed by a board of directors who are appointed by the federal cabinet and has a self-administrative tri-partite organ to which the board of directors is accountable. The FEA has three layers of administration, the federal layer, 10 regional directorates and 178 local employment agencies with 660 local offices. The local employment agencies have a certain degree of discretion of how to implement and apply federal law regarding active LMP since the majority of measures are discretionary measures not constituting subjective rights. Furthermore, each local employment agency can freely decide how to use 10% of its budget for discretionary ALMPs. 11 This was introduced through the Employment Promotion Reform Act in 1998.

The *Länder* are responsible for the implementation of the EU structural funds and have authorities in the area of regional economic development. They are also allowed to set up their own programmes for ALMP and have incentives to do so in order to become eligible for EU structural fund resources or to contribute to regional economic development (European Commission 2004: 31). *Länder* LMP programmes are not normally adopted as legislative but rather as administrative acts. LMP programmes at the *Länder* level must offer services complementary to those available through federal legislation. ALMPs at the *Länder* level are normally co-financed by the federal and *Länder* governments as well as the European Structural Fund. In some *Länder*, the share of ESF funding can amount to 95%. The level of engagement in LMP varies considerably among the German *Länder*. Some *Länder* with high unemployment and good access to European Social Fund resources, for example Bremen, Berlin and Mecklenburg-Vorpommern are very active in this area, while other *Länder* are less engaged in LMP, measured by the level of expenditure and innovativeness of active policy measures (see Schmid and Blancke 2001: 218ff.).

¹¹ According to §10 SGB III, which is called 'free support' (*Freie Förderung*).

Since 2005, means-tested unemployment benefit (ALG II), which is available to the long-term unemployed and those who do not qualify for contribution-based unemployment benefit, is administered by local consortia of public employment agencies and municipalities (*Arbeitsgemeinschaft*, ARGE). In 69 districts, it is administered by the municipalities alone. The local consortia and the 'opting municipalities' (*Optionskommunen*) have some degree of flexibility in delivering the measures of ALMP since more active measures are discretionary for ALG II than for ALG I recipients. The consortia can also organise themselves in slightly different forms and the 'opting municipalities' can decide to work in partnership with the local employment service and other private or third sector organisation.

The decision to create local consortia in most areas and give the exclusive responsibility to municipalities in a few other areas, which is related to the so-called Hartz IV reform, was a political compromise between the extension of labour market integration services provided nation-wide by the FEA to include previous social assistance recipients (which is therefore a standardisation of service provision) and the political aims supported by some Christian Democratic politicians to decentralise LMP responsibilities more generally. The collaboration between the employment agency and municipalities has created a range of problems and conflicts and the Federal Constitutional Court is currently scrutinising whether this design is lawful. In addition, the local consortia and the option municipalities are legally terminated until the end of 2010. By that time, based on evaluations of this experiment, politicians will decide which model is more suitable and should be continued.

In 2006 an act to reform the system of federalism was adopted. Its main aim is to render policy-making more efficient and to establish more clearly divided responsibilities between the federal level and the *Länder*. For example, the rights of the *Länder* to veto federal law-making have been limited whilst in turn the *Länder's* autonomy to adopt their own laws has been expanded. These reforms have not had a direct effect on LMP legislation so far, but they may have in the future, particularly because a second part of the reform concerning the financial relationships between the federal level and the *Länder* is still pending.

The review of the general features of Germany's LMP system demonstrates that LMP is relatively centralised in Germany because the federal level has the exclusive authority to regulate the unemployment benefit system and plays the main role in the design of ALMPs. However, LMP is locally implemented and local offices have some discretion in applying provisions for active ALMP, the *Länder* can set up additional programmes for ALMPs and in a few districts means-tested unemployment benefit is administered by the municipalities alone.

Decentralisation of labour market policy?

Whilst the previous part describes the present distribution of responsibilities in the design and implementation of passive and active LMP, this section examines whether any decentralisation within this system occurred throughout the last decade. We will argue that overall the system remained relatively stable and that the Hartz IV reform is ambivalent in relation to decentralisation whilst overall a trend towards administrative devolution and de-concentration can be identified.

As explained in the introduction we distinguish between vertical decentralisation and horizontal de-concentration. Regarding vertical decentralisation the major change was induced by the Hartz IV reform that abolished the previous unemployment assistance and introduced the new means-tested ALG II which is now available for all previous unemployment assistance as well as for the vast majority of the former social assistance recipients. Before the introduction of this reform, the municipalities were responsible for social assistance recipients and could develop programmes for their labour market integration based on the "help to work" regulation within social assistance law. Municipalities in areas with high long-term unemployment and consequently high numbers of social assistance recipients had an incentive to make efforts to integrate their customers into the labour market because a previous social assistance recipient became eligible for contribution-based unemployment benefit paid by the FEA after 12 months of employment. In other words, municipalities could aim to shift their social assistance customers back to the FEA by providing local labour market integration measures.

The consequences of the Hartz IV reform in terms of decentralisation are, however, somewhat ambiguous. Through Hartz IV, the means-tested unemployment benefit is now administered by consortia of local employment agencies and municipalities or, in a few areas, only by the municipalities. On one hand one can argue that the municipalities now have to implement federal law and to administer federal financial resources and that, therefore, their autonomy in setting-up their own labour market integration programmes financed by their own resources has now been abolished. In addition, the Hartz IV draft law emphasised that the new system should provide access to cross-national labour market integration services for *all* employable benefit recipients so that services become more standardised across the whole country (Deutscher Bundestag 2003: 41f.). On the other hand, the local consortia implementing the means-tested unemployment benefit have now far more competencies than municipalities previously had in the area of ALMP and are responsible for a far greater number of

¹² In some rare cases the local public employment agency and municipality work together to implement Hartz IV but do not form a consortium.

customers since 68% of all unemployed are ALG II recipients (in June 2007). Since the organisational form of the local consortia and option municipalities is a temporarily restricted political experiment and currently reviewed by the Constitutional Court, the future degree of decentralisation remains unclear. Furthermore, the Hartz IV draft law supports the outsourcing of integration services to third parties (Deutscher Bundestag 2003: 48).

However, there is a second dimension to the implementation of LMP, where a clearer decentralisation trend can be observed. This dimension regards the internal organisation of the Federal Employment Agency. Firstly, the agency has become more autonomous vis-à-vis the Federal Ministry of Labour and Social Affairs because the ministry no longer uses administrative acts to steer the FEA. Instead, the FEA is now steered through contract management; this entails the usage of outcome objectives (introduced through the third Hartz Act in 2003). Secondly, local employment agencies have gained more flexibility in the usage of ALMPs, mainly through: 1) the autonomy of determining the concrete usage of resources from the budget for discretionary ALMP measures (*Eingliederungstitel*), and 2) the introduction in 1998 of the right to use a part, i.e. $10\%^{14}$, of this discretionary budget for experimental and innovative measures ('free promotion', *Freie Förderung*). In turn, local employment agencies are now more closely monitored through management by objectives mechanisms.

Overall it can, therefore, be claimed that there is not yet a clear trend towards vertical decentralisation of LMP design in Germany but only a slight decentralisation trend regarding policy implementation. Although the municipalities are now co-responsible – and in a few places even solely in charge – of administering the ALG II recipients, they have to operate under a national framework of regulation. However, the discretion and possibilities for experimentation of local employment services offices has increased.

The second dimension of decentralisation is *horizontal* decentralisation or deconcentration, a greater involvement of (or out-contracting to) the private and voluntary sector. Firstly, in Germany there is an increasing market for private employment agencies. The market for private employment agencies was opened up only in 1994 in Germany (Konle-Seidl 2005: 190). Their market share is, however, still relatively marginal (Konle-Seidl 2005: 201f.). During the last half decade, a range of measures has been introduced strengthening the rights to involve private agencies in job brokerage and to out-contract services. The Job AQTIV Act, most parts of which came into force in 2002, introduced the right of the employment service to involve a private employment agency in job brokerage, according to

¹³ See the FEA's monthly statistical report for June 2007, available under http://www.pub.arbeitsamt.de/hst/services/statistik/000000/html/start/monat/aktuell.pdf, download 28 June 2007, p 4. These are 2.5 million people. In 2004 there were 2.9 million social assistance recipients administered by the municipalities and cities.

¹⁴ Originally, 5% of the discretionary budget could be used when the new law came into force in 1998, this was raised to 10% in 2000.

which the unemployed person could demand the involvement of a private agency after 6 month of unemployment (§37a SGB III). In 2003, the first Hartz Act introduced further measures. § 37c SGB III introduced the 'core' of Hartz I, the so-called Personal Service Agencies. Each local public employment agency had to establish a Personal Service Agency, normally run by a private temporary work agency, which was then responsible for placing unemployed people into temporary work. This instrument did not work satisfactorily and therefore the obligation to establish such an agency was abolished in January 2006, whilst the instrument can still be used voluntarily.

Already in 2002, shortly after the FEA's 'placement scandal', a placement voucher (*Vermittlungsgutschein*) was introduced. This is regulated by § 421g SGB III which allows unemployed persons who have not been placed by the FEA after 6 weeks to be transferred to a private employment agency. If this agency successfully places the person into a job with at least 15 hours a week it receives a premium of €2000 from the FEA. This instrument is currently terminated until the end of 2007. Hartz I also introduced the possibility of outcontracting integration measures to third parties through public tender processes (§ 421i SGB III). In addition, it introduced the qualification voucher (Bildungsgutschein) in § 77, 3 SBG III. An unemployed person receives such a voucher if the public employment agency acknowledges that this person needs further education or training to further his or her chances of labour market integration. Having received such a voucher, the unemployed person can choose another public or private training institution to provide this measure. ¹5 Overall, the measures described in this paragraph support the outsourcing/outcontracting of services and greater choice of customers to choose between public and private providers.

In addition, we can identify a trend—the outsourcing of the implementation of LMP to the private or semi-private sectors (public private partnerships) at the *Länder* level and the administration of the European Social Fund. In some *Länder*, for example Bremen and Nordrhein Westfahlen, regional LMP is implemented by a so-called company with limited liability (*Gesellschaft mit beschränkter Haftung, GmbH*) in which the *Land* holds shares, in other countries through a public company. These companies are steered by the labour ministries at Länder level, but nevertheless the implementation of LMP becomes more autonomous through outsourcing. One common reason for outsourcing is the aim to save capacities and personnel.

To recap, the changes put forward by Hartz IV are ambivalent because, on the one hand, they introduced a more standardised system and the FEA now plays a greater role in the administration and labour market integration of means-tested benefit recipients. On the other hand, the administration of Hartz IV is shared with municipalities that gained responsibility

¹⁵ That training services are provided by private agencies is not new, rather, the measure aimed at increasing customer choice

for a greater customer group and are required to contribute to implementation through the utilisation of locally embedded service traditions and structures. But apart from Hartz IV, an increasing administrative decentralisation combined with local discretion occurred within the FEA, as well as a trend to out-sourcing service provision to private actors.

THE UNITED KINGDOM

Political and labour market policy system

The United Kingdom has long been regarded as a unitary state with a centralised government and a largely administrative system of local governments. In this context, there have always been slight differences between Scotland and Northern Ireland and the rest of the UK, mainly regarding the legal and education system. Since 1999 a range of powers has been devolved to the Northern Ireland Assembly and Government¹⁶, the Welsh Assembly Government, and the Scottish Parliament and Executive. The main reason for devolution was a greater demand for autonomy by Northern Ireland and Scotland and New Labour's more general decentralisation agenda.¹⁷ The powers of the devolved regions differ and the decision as to whether devolution should be extended, limited or even abolished, lies within the central government. Whilst the devolved regions are consulted in national policy-making processes, they do not play a formal role in these processes as it is the case in federal states. Therefore, the UK, remains *de jure* a unitary state.¹⁸ The devolved regions' main areas of authority are, for example, education, housing, social inclusion, regional economic development, culture, transport and environmental policy.

Historically, the UK has had a less coherent LMP system than Germany. Unemployment insurance was introduced in 1911 and integrated into the general system of social insurance in 1948. Despite some efforts in the area of occupational training during the 1960s and 1970s, ALMP has been less coherent than in other European countries. However, an 'activation' strategy that focussed on the requirement of 'actively seeking work' has been introduced in 1986 with the 'Restart Interview' and strengthened with the introduction of the Job Seeker Allowance System in 1996 and the New Deal programmes in 1998 (Whiteside 1998; Finn 2003).

The centralism of the United Kingdom's political system is reflected in its organisation of LMP. Overall one can argue that the system is even more centralised regarding LMP design than Germany, but that there is a slight tendency towards decentralisation through an

¹⁶ However, the Assembly in Northern Ireland was not operational between 2002 and 2006.

¹⁷ Such demands have been expressed several times during the UK history and there were earlier attempts and initiatives for devolution, for example some powers were devolved to Northern Ireland between 1921 and 1973. The labour government also tried to initiate devolution in Scotland in the late 1970s which however failed due to lacking support in a referendum in 1979.

¹⁸ According to Loughlin (2005: 157) the UK can be characterised as a "regionalised unitary" state.

increasing use of pilots and area-based initiatives, as well as through the delegation of tasks to the private and voluntary sector in regional and local partnerships. Overall, the UK government justifies a relatively high degree of centralisation and standardisation through the 'rights and responsibilities' framework whilst it regards decentralisation, more local flexibility and individualised services as necessary to integrate the particularly 'hard-to-place' into the labour market.

The unemployment insurance scheme (Job Seekers' Allowance) is legislated at the national level and rules regarding eligibility, conditionality, level and duration of payments operate nationally. The most important provisions for ALMPs, the New Deal programmes, apply nationally as well. However, there are some regional variations in eligibility for the New Deal programmes and a range of area-based initiatives such as Employment Zones, Pathfinders to Work, the Cities Strategy¹⁹, Action Teams for Jobs²⁰ and the Deprived Areas Fund exist. In the areas in which these programmes operate, particularly disadvantaged groups can receive special services, either alternatively or in addition to the JSA. Yet these area-based initiatives are nationally legislated. Whilst area-based initiatives create regional variability in the provision of services it does not mean that the authority for policy design has been devolved.

In fact, the devolved administrations have no original powers in the area of LMP, only in some adjacent policy fields such as education, skills and social inclusion. This has an effect for the delivery of ALMP, because labour market and skills/training policies often overlap and need to be coordinated. Therefore, delivery arrangements can slightly differ between Northern Ireland, Scotland, Wales and England and the devolved administrations increasingly play a role in coordinating the regional delivery of LMP, for example through partnership building and networking (Scottish Executive 2006). In addition, the social inclusion strategies of devolved administrations partially focus on the integration of disadvantaged groups into the labour market and may therefore provide some additional LMP related services to these groups (Scott 2006: 674ff.). In Scotland, for instance, employability measures are financially supported through the New Futures Fund and the Working for Families Fund (Scott 2006: 647ff.).

¹⁹ There are ca. 15 areas that have the status of being eligible for the Cities Strategy. In each of these areas, a local consortium will be established consisting of a range of partners, e.g. local authority, learning and skills councils, regional development agencies, primary care trusts and JCP (DWP 2006: 77).

²⁰ 24 such teams exist. They work on an outreach basis in the most deprived areas to support jobless people getting back into work. They have flexibility in the kind of support they offer, they can offer debt counselling, work clothes or help with childcare costs (DWP 2006: 74). It is planned to replace Action Teams by the Deprived Areas Fund if the proposals of the new welfare reform Green Paper are adopted (DWP 2006).

Local authorities, and the private and voluntary sectors at the local level have already been developing local programmes and initiatives for labour market inclusion for some years, such as job counselling and training, mainly for people who were not officially registered as unemployed (Finn 2000: 46; Convery 2007: 8, 13). These initiatives are often funded by a mix of sources, for example by local authorities, EU funds, Neighbourhood Renewal Fund, and now the Disadvantaged Area Fund.

In contrast to Germany and Italy, the PES in the UK (JobCentre Plus) is not autonomous but a government agency that is part of the Department of Work and Pensions (DWP). It is a hierarchically organised service directly 'steered' by the ministry. JobCentre Plus employees are civil servants. Due to the merger of the employment service and the social security benefit offices in 2002, JobCentre Plus is now the main access point for all benefit recipients in the UK and aims to provide universal access and services to all customers across the UK. A so-called Standard Operating Model is in place that determines in a very detailed way how customers can access the service, for example when exactly they have to attend an advisory interview, how long this interview may take, when they become eligible for the New Deal programmes, etc. Regarding funding, the local JobCentre Plus offices have relatively little discretion about how to use money. The only funds which can be spent with some degree of discretion are the district manager's and the advisor's discretion funds. Yet for the District Manager's Discretion Fund, relatively tight regulations exist, for example, resources from this fund can only be spent on customers living in designated deprived areas. The Personal Advisor's Discretion Fund allows each JobCentre Plus personal advisor to spend £100 per customer for whatever measure that could help the customer re-entering the labour market.²¹

Labour market policy decentralisation?

An analysis of developments over the last decade demonstrates that a distinction needs to be drawn between 1) the majority of unemployed people who leave Job Seekers' Allowance (JSA) within a relatively short period of time, and 2) those who once or repeatedly return to the New Deal programmes, and/or are particularly 'hard-to-place' or economically inactive. The 'hard-to-place' or economically inactive comprise, for example, disabled people, those with other health conditions, very low qualified people, lone parents, people over 50, ethnic minorities and other groups with 'multiple disadvantages', such as homeless people, people with drug or alcohol problems and ex-offenders (DWP 2004: 2).

²¹ However, the customer has no right that this money is spent to support him or her. The personal adviser can also apply to spend more money for an individual customer with the higher level of management if more is needed to overcome barriers to work, for example childcare costs.

The UK system is and remains very centralised for the 'easy-to-place' unemployed. JSA and New Deal regulations apply nationally and prescribe in much detail the eligibility and conditions for services. In other words, the rights and responsibilities agenda is universal with relatively little regional variation (apart from some pilot projects). Regarding the internal organisation of JobCentre Plus one can even argue that the delivery of services has become rather more centralised and controlled by the UK government. With the creation of JobCentre Plus in 2002 a new 'standard operating model' came in place that prescribes nationally and in great detail how customers have to contact JobCentre Plus, to what kind of interview of what length the customer is entitled – and obliged to attend – at which period of unemployment, etc. However, the policy paper "Building on New Deal – Local solutions meeting individual needs" (2004) proposed a slight extension of flexibility of local personal advisers and district managers by increasing the autonomous usage of local budgets to provide more individually tailored services and develop innovative strategies (DWP 2004).

Although there has been a more general trend towards decentralisation in the UK through devolution in Scotland, Wales and Northern Ireland, this has not directly affected ALMPs in the UK because the devolved administrations have no authority to legislate in this area. However, they have competencies in the areas of skills, training and social inclusion which are strongly linked to activation and inclusion into labour markets. In these areas some regional variability in the delivery of labour market related policies is therefore possible. For example, the devolved administrations can set up their own programmes providing additional support to make the most vulnerable groups in society more 'employable'. 22 The devolved administrations also increasingly play a role in coordinating the provision and delivery of policies through networking and partnerships where UK-wide policies are linked with devolved policies. Regional development policy has also been devolved to the administrations in Northern Ireland, Wales and Scotland and to the Regional Development Agencies (RDAs) in England. RDAs draw up regional development plans and can use government funding "as they see fit" (European Commission 2004: 32). Welfare-to-work policies can be part of these regional development plans, but the UK government cannot force the RDAs to spend money in this area. This led to a slight regional variation in how money is spent in this area since it is mainly Northern England's RDAs (North West and North East of England and Yorkshire and Humberside) that are active in this area. For instance, the North West RDA promotes em-

²

²² Scotland, for example adopted the strategy 'Closing the Opportunity Gap' one of which aims is 'to increase the chances of sustained employment for vulnerable and disadvantaged groups - in order to lift them permanently out of poverty', see http://www.scotland.gov.uk/Topics/People/Social-Inclusion/17415/opportunity, accessed 3 July 2007 as well as the 'Workforce Plus' strategy (Scottish Executive 2006). Wales adopted the 'Skills and Employment Action plan for Wales' in 2005 (Welsh Assembly Government 2005) and a range of other social inclusion initiatives that potentially link in with labour market policy.

ployment through improving job brokering, generating local employment opportunities and partnerships in various policy areas.²³

Table 1. DECENTRALISATION AND DE-CONCENTRATION IN THE UK

REGIONAL TARGETING AND LOCAL FLEXIBILITY	OUTSOURCING/PARTNERSHIPS
Cities strategy	Employment Zones
Employment Zones (introduced 2000)in 13 or 15	ND disabled people
areas with very high long-term unemployment,	
more local flexibility	
ND for Communities (since 1998) (delivered in	Pathways to work (mainly partnership with NHS
local partnerships, which also focus on employ-	and private sector through ND disabled people
ment issues)	choice)
Neighbourhood Renewal Strategy/Fund (in 88	
most deprived areas, launched 2001), can be	
flexibly used	
Deprived Areas Fund	
Action Teams for Jobs (40 most deprived areas	Planned Employment and Support Allowance and
and flexible and locally tailored with discretionary	nationally rolled out Pathways to work (but main
funding)	procurement still with DWP, main contractors can
	sub-contract)
Local Strategic Partnerships (previously linked to	Programmes Centres
Neighbourhood Renewal Strategy but now spread	
across that) / Community Planning Partnerships in	
Scotland and Communities First in Wales	
Local Area Agreements	

However, a range of developments occurred during the last decade marking a trend towards more local flexibility in the delivery of services, on the one hand, and a de-concentration of delivery through increasing out-contracting of services to the private and voluntary sector, on the other. More local flexibility is often combined with area-based initiatives or out-contracting or a combination of both. Services with more local flexibility, area-based initiatives and services with a greater use of out-contracting are mostly available for 'hard-to-place' unemployed or particularly disadvantaged and/or economically inactive people. Table 1 provides an overview of the different initiatives that have been introduced or increasingly used during the last decade.

A number of programmes and initiatives can be mentioned that strengthen local flexibility and extra services for deprived areas. Here one can distinguish between pilots, pathways, pathfinders and area-based initiatives. Pilots, pathfinders and pathways are essentially instruments for policy experimentation. They provide access to new programmes in selected areas, either in particularly deprived areas or in a mix of different geographical areas to

²³ See the North West RDA website on 'jobs and people': http://www.nwda.co.uk/areas-of-work/people--jobs.aspx, accessed 3 July 2007.

examine whether a programme works universally well or not. If the programme works well it may be rolled out nationally. The New Deal programmes, for example, were initially tested in pilots before they were introduced nationally. Although the Labour government has increasingly used pilots in the area of LMP, basically because it was more active in this area than the Major and particularly the Thatcher governments, the usage of pilots has not been invented by New Labour. This has been emphasised by an interviewee stating "we have more pilots than Heathrow" – not only since New Labour. Although pilots are temporarily restricted experiments they increase the regional variability of service provision.

Area-based initiatives (ABIs) have also been in use since several decades. However, the New Labour government was particularly active in using ABIs to tackle poverty and social exclusion in particularly deprived areas (Smith 1999: 1f.; Alcock 2003). In the area of ALMP there are a number of relevant ABIs, for example the recent Cities Strategy, Employment Zones, the New Deal for Communities, the Neighbourhood Renewal Strategy and Action Teams for Jobs.

The Cities Strategy tests in 15 selected urban areas with particularly high long-term unemployment how consortia between a range of local actors including the employment service, local authorities, the private and voluntary sector can deliver extra services for unemployed and economically inactive people.²⁴

Employment Zones exist in 13 deprived areas. It is an initiative in which the delivery of LMP, including the payment of benefits, has been out-contracted to the private sector. These private providers have more flexibility in delivering the New Deal programmes.

The New Deal for Communities has been introduced in 1998 and extended in 1999. It provided funding for 39 local pathfinder partnerships to develop strategies to tackle multiple problems in deprived areas such as unemployment, crime, low qualifications, health problems, poor housing conditions or problems with the physical environment.²⁵

The Neighbourhood Renewal Strategy introduced in 2001 in England provided special, discretionary funding for 88 particularly deprived areas through the Neighbourhood Renewal Fund to tackle multiple local problems (Cabinet Office 2001). Within the Neighbourhood Renewal Strategy local authorities can establish a Local Strategic Partnership, non-statutory bodies coordinating activities of the public, private and voluntary sector. The Local Strategic Partnerships adopt Local Area Agreements specifying policy priorities at the local level together with the UK government. The remit of Local Strategic Partnerships also includes long-term unemployment, employability and economic inactivity.

²⁵ See http://www.neighbourhood.gov.uk/page.asp?id=617, accessed 2 July 2007 and policy paper*

20

²⁴ See http://www.dwp.gov.uk/welfarereform/cities strategy.asp, accessed 2 July 2007 and latest DWP paper after Freud report, plus Freud report*.

Action Teams for Jobs, a pathfinder strategy running between 2000 and 2006, provided funding for flexible and locally tailored LMP measures in 65 deprived areas (Casebourne, Davis et al. 2006).

The need for more flexible and locally tailored labour market policies focussing on the 'hard-to-place' or on economically inactive people has been stressed in several recent policy papers by DWP (DWP 2004; DWP 2006). The brief overview in this section demonstrates that the UK government already introduced a range of initiatives that provide extra funding and flexibility to particularly deprived areas to support further inclusion into the labour market.

The overview has also demonstrated that some of these initiatives are related to outcontracting to the private and voluntary sector and/or an increasing use of local partnerships between a variety of actors. In general, the private sectors have always played a more important role in the UK in comparison to some other EU countries. For example, there has always been an open market for private employment agencies. However, recently, the cooperation between JobCentre Plus and private employment agencies has been intensified, JobCentre Plus basically treats them as employers and offers them the possibility to advertise their jobs, access to its information services system (for accredited agencies) and even usage of rooms within JobCentre Plus offices to directly interact with customers.

More recently, the government developed several initiatives in which out-contracting to the private and voluntary sector is key; it also plans to expand this strategy (Freud 2007). As described above, the delivery of LMP is out-contracted in all 13 employment zones. In the New Deal programmes, the provision of services related to the 'option phases' is also out-contracted to the private and voluntary sector. In the New Deal for Disabled People, even job brokering as well as additional training and support services are out-contracted. Finally, since 2002 the UK government develops new strategies to tackle increasing economic inactivity and high numbers of incapacity benefit recipients. In 2003 so-called Pathways to Work were introduced in a number of pilot areas (DWP 2002). In these pilots, incapacity benefit recipients are required to attend work-focussed interviews and are offered services promoting their employability. For example, Pathway to Work customers can be offered to take part in the New Deal for Disabled people and are therefore basically referred to services provided by the private or voluntary sector. In Pathways to Work, the employment service also works in partnership with the NHS (DWP 2002: 25ff.). DWP published a Green Paper on welfare reform in 2006 (DWP 2006) which was followed by David Freud's report in 2007 reviewing New

21

²⁶ 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) he or she will be offered either a subsidised job with an employer, occupational training, general employment related skills training or support with applications and interview technique.

Labour's welfare policies and proposing radical reforms (Freud 2007). These proposals focus on increasing the UK's employment rate to 80% and tackling economic inactivity, particularly of incapacity benefit recipients. Freud and the related DWP White Paper also propose to roll out Pathways to Work nationally and to introduce a new Employment and Support Allowance that replaces incapacity benefit. This would then require previous disability and incapacity benefit recipients to take part in programmes aiming at their labour market integration. In addition, it is planned to out-contract these services for the 'hard-to-place' to the private and voluntary sector and to operate by outcome-based payments (DWP 2006; Freud 2007). However, it must be noted that despite this trend to out-contracting procurement of external services still lies with the central level of JobCentre Plus and therefore remains centralised.

In summary, the UK is still a fairly centralised LMP system, particularly for the short-term unemployed. For this customer group it has probably even become more centralised through the establishment of a standardised 'rights and responsibilities' agenda. However, there is an increasing trend to local flexibility, discretion, regional variability and outcontracting to the private and voluntary sector to strengthen efforts to integrate particularly disadvantaged groups into the labour market.

ITALY

Political system

Since the foundation of the Italian nation-state, the question of how power should be allocated across levels of government has been much contested, thus making devolution and decentralisation difficult, long-term projects. In the 1950s, the call for decentralisation was partially materialised in the Constitution, which spelled out the legislative powers of the regions, including their capacity to legislate on matters regarding professional training. Nonetheless, the Italian constitutional design remained a dead letter (Fargion 2005). This meant, for instance, that the Job Placement Offices were managed by the central government through local offices (*uffici di collocamento*) of the Ministry of Labour, thus, holding 'exclusive' (*de facto*) competences over the employment service system.

After a long period of stagnation, the process of decentralisation started to be implemented and 15 ordinary regional governments were created in the 1970s.³⁰ More specifically,

²⁷ The Constitution established the creation of 15 regions under ordinary statue and 5 under special statute (which were created right after the creation of the Constitution).

²⁸ For more details, refer to Leonardi, Nanetti and Putnam (1981:100), Amoretti (2002), and Breton and Fraschini (2003).

²⁹ In 1949, the Job Placement Office was created with the aim of taking administrative records of workers enrolled in placement registers (*Liste di Collocamento*) (Amendola *et al.* 1997).

³⁰ Law No. 775/1970 created the Regional governments, but they did not start working until April 1, 1972.

the reforms enacted in 1972 and 1977 provided legislative, administrative, and some spending powers to the regions. Even if these were significant steps, the national level continued to control 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; Schmidtke 1993). After the wave of decentralisation in the 1970s, this process slowed down in the following decade and in the 1990s, it peaked again as the legislator took on board the mandates to implement the constitutional provisions regarding local entities.

In 1997, the 'Bassanini reform' gave intermediary and local governments power over most public administrative functions, and limited and explicitly listed state-level responsibilities (Amoretti 2002; Breton and Fraschini 2003; Ongaro 2006). The reform introduced the principle of 'vertical subsidiarity' to the Italian debate on devolution and decentralisation – public activities were to be carried out by higher levels of government only when they cannot be carried out by lower levels (OECD 2001; Rubio Barceló 2007). These trends were formalised in 2001 by an extensive reform of the constitution that gave substantive powers to the regions and local entities. That means the central level cannot 'repossess' powers from regional governments. But, as in the other attempts of decentralisation, moving from legislation to implementation has been truly challenging.

Labour Market System

In Italy, there are various bodies responsible for different aspects of LMPs, which in part reflects the ongoing process of 'administrative federalism.' The *Ministerio del Lavoro e della Providenza Sociale* is the national ministry in charge of labour matters, which have offices at the regional and the provincial levels. In addition, the *Ministerio della Soliedaritá Sociale* (the Ministry of Social Solidarity) is also responsible for several aspects of LMPs, mainly those related to social services. These national ministries are mainly in charge of setting national standards, monitoring, and evaluating the policies that are created by the regions, which are directly responsible for the implementation and the creation of ALMPs policies. Moreover, *ItaliaLavoro* is an agency (created in 1997 after the EES) that provides technical assistance about how to go from law (regarding new approaches of ALMPs, occupational policy, and social inclusion) into tangible solutions and programs. In addition, through its local network (in which there are both public and private actors), it provides technical assistance to PESs. Finally, the *Servizi per l'impiego* (Employment Services or the PESs), that are located at the provincial level, has direct contact with the clients (including unemployed people, firms, and public and private actors). As it will be explained below, between 1997 and 2003,

³¹ These developments are partly explained by two interrelated pressures: 1) the corruption scandal of the early 90s (better known as *Tangentopoli* and *mani pulite*), and 2) the significant political consensus of the Northern League (a separatist party) (Nappini 2005).

these entities became very autonomous (regarding placing and ALMPs) when the Ministry of Labour closed down its local offices at the regional level. Currently, the regions formally have exclusive competencies on ALMPs (legislative power, administration, design, evaluation, and quality control of PESs.³² In addition, they can apply for ESF funding (Fargion et al. 2006). The provinces, in turn, are responsible for the delivery and implementation of policies created by the regional level.

When referring to passive policies, the *Instituto Nazionale Previdenza Sociale* (National Institute of Social Security, INPS) is the main social security organisation that administers national unemployment benefits and issues pensions. The institute covers the vast majority of the population, including benefits for unemployment, sickness and maternity, accidents at work and occupational diseases, as well as old-age, invalidity and survivor's pensions, and family allowances. Throughout Italy, the INPS is based at the central level and it has 220 offices across the Italian territory.

From the institutional configuration of the welfare system, we can detect a set of pathologies which have led the Italian welfare state to protect insiders, while excluding outsiders. First, unemployment schemes and employment services have not represented a significant part of the Italian welfare state given that they have been underfunded and underdeveloped. Instead, pensions occupied a high percentage of the funds destined to welfare assistance. Second, for a long time Job Placement Offices did not fulfil their expected tasks as placement institutions. To make matters worst, PESs were characterised by its bureaucratic (often corrupt) and inefficient nature, and its small size.³³ Third, when referring to the shape of LMPs, the Italian welfare system can be labelled as 'passive' given that social assistance policies have been based essentially disregarded the creation of services addressed to individuals and families in need (Negri and Saraceno 1996); thus, basically excluding this population from the welfare state.

ALMPs were not developed until the late 1970s, when the government introduced a set of laws to promote youth employment through vocational training. During this period, there were several attempts to 'activate' Italian institutions; still they were insignificant compared to the high percentage of passive policies. A significant initiative was the creation of law no. 56 of 1987 that: 1) re-organised the national Ministry of Labour, 2) modified the procedures for placement, 3) established new regional agencies for employment (ran by the national Ministry) to place the inactive, and 4) promoted the development of ALMPs.³⁴ This law represented the backbone of a long-term reform of Italian PESs which sought to enhance

³² For a detailed account, refer to: http://db.formez.it/GuideUtili.nsf/SpiRiformaRegioni?OpenView.

³³ For instance, Ichino (1996) argues that at the end of the 1970s, the major part of expenditure for employment services was absorbed by personnel wages and the percentage of workers successfully placed through employment offices amounted only a 10% of the total workforce.

³⁴ For a detailed review of these policies, refer to Negri and Saraceno (1996).

the role of the regions by decentralising and dismantling their bureaucratic and clientelistic structures.³⁵ At the central level, the newly created General Directorate for Employment became responsible for ALMPs. At the sub-national level, various bodies were partly responsible for this type of policy – social committees for employment (co-ordinate and implement), and regional agencies for employment (technical and advisory bodies).

In the 1990s, it became evident that in order to reform Italian labour market institutions and employment policies to make them more active and flexible, it was necessary to overcome the aforementioned problems. Within this context, the duality of conditions between Centre-North and South is a notorious issue (reflected on parties' platforms) on how to modernise and decentralise long-lasting institutions. Partially pushed by supranational pressures (i.e., entrance to the EMU and participation in the EES) and by failed attempts to enhance the prospects of the South, the national government, the social partners and numerous private actors actively engaged with various initiatives to implement the decentralisation project and restructure PESs. To achieve these goals, the Job Placement Office needed to be transformed from a 'record keeping office' to a localised, multi-functional, administrative institution that would actively carry out diverse activities, including the matching of labour demand and supply. Under this new 'game', the role of the central level should be one of guidance, whereas the regions along with the local levels should be the key actors. Nonetheless, the "very low degree of substantive coherence, intersected with a system of public administration marked by high centralisation, a top-down, hierarchical implementation style and weak-problem solving capacity [of the Italian state]" did not make matters easy (Ferrera and Gualmini 2005: page 109).

Vertical decentralisation

In the context of the 1996 *Patto per il Lavoro* signed by the social partners and the government, and the *Programmazione Negoziata* (see below), the Centre-Left government introduced several changes to Italy's state structure in 1997.³⁶

➤ The powers exercised by the national government through local placement offices were transferred to the regional level, creating the *Sistemi Regionali per l'impiego*.

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³⁵ Another important input was the 1988 reform of the ESF which encouraged local entities to develop a real planning capacity (OECD 2001; Fargion et al. 2006).

³⁶ In this context, new concertation bodies were created--the 'Tripartite Regional Commissions' (*Commissioni Regionali Tripartite*), which included members of Regional public institutions, as well as the social partners, and the 'Inter-institutional Coordination Committees' (*Comitati interistituzionali di coordinamento*), where members of the different levels of government participated (Ferrera and Gualmini 2004). At the central level, intergovernmental bodies (such as the 'Conference of State-Regions,' 'Conference of State-Municipalities and other local authorities,' and the 'Unified Conference of State-Regions-Municipalities and other localities') were created to facilitate communication and coordination among different levels of government mainly on matters regarding the process of decentralization and devolution (OECD 2001).

- This meant that the regional administrations and other local authorities assumed exclusive responsibility for the planning, management, and organisation of employment offices (renamed as *centri per l'impegio*), including all job placement initiatives and the design of objectives and minimum standards, ³⁷ whereas the national level became responsible for establishing minimum standards, coordinating the general line and overseeing employment policies (it also settles disputes, verifies results, and manages the information system). Under this new system the provinces are responsible for the implementation of many of these measures (including the changes to the Employment Centres), under the supervision of regional governments.
- ➤ The former change envisaged the integration of PLMPs and ALMPs under the system of 'Regional Employment Services' (i.e., linking employment services with training and subsidies) (Fargion 2005). To do this, ALMPs also became an exclusive responsibility of the regions.³⁸
- The regions received the mandate to elaborate regional laws regulating the structure and functioning of the new regional employment system (Rubio Barceló 2007: 90).
- ➤ Private providers were brought into the field of provision of employment services, after fifty years of national monopoly (i.e., de-concentration).³⁹

Contrary to the trends of the 1970s, in the late 1990s and beginning of the 2000s there was an active attempt, both at the national and the regional levels, to implement and expand the reform of labour market institutions, in part by legislating administrative devolution. In this period, the creation of the EES, as well as the yearly delivery of Italian National Action Plans, reinforced the airs of change in Italy.⁴⁰ At the regional level, regional governments were passing laws to implement national prescriptions. These entities also created their own new regional and local institutions to govern and coordinate employment measures (Ferrera and Gualmini 2004). By 2001, 481 Employment Centres (that belong to the PES) were created and their operations covered 2/3 of the country (Italian National Action Plan 2001). In this period, a determinant development was the approval of a federalist reform (2001), which changed the Italian Constitution (thus, making previous changes 'irreversible'), formally giving the regions exclusive competencies over employment policy and enhancing their legislative powers and fiscal autonomy.⁴¹ Since 2001, the regions covered nearly 40% of their expenditure with their own revenue (Italian National Action Plan 2001).

³⁷ This was ruled by the *decreto Montecchi* (law no. 469/97). In addition, refer to delegated law no.59/1997 and law no. 196.

³⁸ For an account of the content of ALMPs in Italy, refer to Domenico (2005).

³⁹ This process was also pushed by the fact that in December 11, 1997 the European Court of Justice ruled that Italian state's monopoly over job placement was contrary to the principles of free competition.

⁴⁰ For an account of the effect of the EES on Italy refer to Ferrera and Sacchi (2005).

⁴¹ Until 2001, Regions were completely dependent on central state allocations; thus, having little power in the utilization of these funds. For more information,

Given space constraints, table 2 summarises the main developments at the central level related to the devolution of ALMPs after the year 2000.

Table 2. Main vertical developments regarding the devolution of ALMPs in Italy

LAW/	CONTENT
AGREEMENT	
2000 Legislative decree No. 181/2000 and presidential decree No.	Introduced new rules (obligations and sanctions) to match labour demands and supply with the end of 'activating' PESs
442/2000 (Implementing measures to improve free placement services)	Established that job centres must deliver new services to the long-term unemployed (counselling and work-entry schemes)
2000	Sought to coordinate PLMPs with ALMPs
Framework law No. 238/2000 (for the realisation of an integrated system of social intervention and services) 42	Emphasised the need to develop local concertation to develop ALMPs
	Gave more power to regional governments to plan the provision of social services:
	* The state will define social policy principles and objectives,
	* The regions will plan, target, and coordinate social interventions and the integration of the various social, health and labour market services, and control the quality and financial aspects of the services provided,
	Municipalities, together with provinces, will take part in planning and will be responsible for the administration and management of social services at the local level ⁴³
2001 Constitutional law 3/2001 ⁴⁴ (approved through referendum)	Reformed the Italian Constitution, specifically the section that governs the powers of regions, provinces, and municipalities
	Officially transferred employment policy to the regional level
2001 White Paper for development	Touched upon the impact of EU guidelines on PLMPs and ALMPs
	Referred to the development of current 'federalist decentralisation' of the labour market to the regions as one of the methods available to reach a set of objectives
	Referred to the modernisation and liberalisation of PESs and the reform of 'social shock absorbers' to help people search for a job in an 'active way.' The methods of such searches will have to be agreed upon with the PESs. ⁴⁵
	Called for 'social dialogue', instead of trilateral, corporatist arrangements (still, the executive would be considered the ultimate policy-maker)
2002	Covered 'welfare to work' policies and the re-organisation of

http://www.eurofound.europa.eu/eiro/2002/12/feature/it0212107f.html

and

http://www.eurofound.europa.eu/eiro/2001/09/inbrief/it0109101n.html

42 In Italian, Legge quadro per la realizzazione del sustema integrato di interventi e servizi sociali. For more details, refer to http://www.eurofound.europa.eu/eiro/2001/02/feature/it0102176f.html.

⁴³ For more information, see http://www.eurofound.europa.eu/eiro/2001/02/feature/it0102176f.html.

⁴⁴ For more details, refer to Pinelli (2006).

⁴⁵For more information, refer to http://www.eurofound.europa.eu/eiro/2001/10/feature/it0110104f.html.

D (C L)	DEC.
Pact for Italy	PESs
(Patto per l'Italia)	
*signed by the government and	Emphasised education and training for employability
the social partners (with the	
exception of CGIL)	Introduced the concept of 'active protection' (tutele attive),
	which emphasises obligation and monitoring
	Emphasised development in the Mezzogiorno
	Emphasised the implementation of Territorial Employment
	Pacts
	Emphasised incentives for companies to hire people
2003	Aimed at introducing a decentralised system of social protec-
White Paper on	tion
Welfare reform ⁴⁶	
2003	Defined a new system of public and private employment ser-
Law No. 30/2003 (Biagi Law) is	vices. The reform would provide greater room for private in-
approved by the Italian Senate	termediation
(previously Proxy Law No.	
848)47	Laid out a system of employment creation and incentives
,	, , ,
	Introduced new forms of employment and work/training con-
	tracts
	Aimed at also implementing some of the proposals put for-
	ward by the 'Pact for Italy', by emphasising the notion of 'wel-
	fare to work' from 2003 to 2006
	Introduced many policies to make the labour market more
	flexible
	Hemore

Overall, by 2001 the situation regarding the decentralisation of ALMPs and the reform of PESs was far advanced; for instance, seventeen regions passed laws to acknowledge the new decentralised system and Master and Regional Master Plans of the PESs were created with the end of laying out the timing, arrangements, and assessment indicators. The Biagi law of 2003 (inspired by the Italian White Paper and the Pact for Italy), once again, underlined the need to implement the reforms of the late 1990s by stressing the role of the regions as key actors in ALMPs. This mandate put special emphasis on how decentralisation should not stop at the regional level but should include the local level given that these entities are responsible for the administration and implementation of the reform. Moreover, the regions, as the main political entities in the realm of LMP, should work hard on achieving the right balance among the different tasks performed by lower levels of government (i.e., the issue of devolution within decentralisation).

⁴⁶ Issued by the Ministry of Labour and Social Policy. In Italian, Il *Libro Bianco sul welfare*.

⁴⁷ Legislative Decree no. 276/03 implemented the provisions contained in articles 1 to 5 of Law no. 30/2003. Previously proxy Law 848 to reform labour market institutions. See, National Action Plan (2003).

Within this context, it is important to point out that the issues of interterritorial transfers of power and responsibilities have been highly politicised by referring to the principles of solidarity and social citizenship. The electoral victory of the Berlusconi government (2001) ignited an ongoing debate between the Italian Left and Right about how far the decentralisation of LMPs should go. On one hand, following what some have called neo-liberal and European trends, the Centre-Right and the Lega-Nord were firm believers in the decentralisation of LMPs. On the other hand, the Centre-Left, the Left, and Catholic groups did not equally favour this project given that it has the potential to: 1) further undermine social citizenship rights and, 2) lead to differentiation and divergence across regions, thus, possibly exacerbating the existing Centre-North and South divide (Fargion 2005). This position explains why in the late 1990s the Centre-Left pushed a 'limited decentralisation' project, which gave some powers to the regions under the supervision of the central government.

This clash of views has had a huge impact on the project of decentralisation put forward by the Berlusconi government. Therefore, at times building up consensus to pass a set of laws was very unlikely. Moreover, the trade unions (mainly CGIL) were sceptical of Berlusconi's strategy to modernise labour market policies and institutions given that they view them as steps to render these institutions too 'liberal' and flexible. These clashes led to the 2006 popular referendum, which took place after less than two-thirds of the majority failed to amend the Constitution.

Horizontal decentralisation and de-concentration

While national institutions were busy with reforming labour market institutions and policies, in the 1990s social partners and local actors also actively engaged with this project. In this context, an important driving force was the end of direct central intervention to develop the *Mezzogiorno* after a public corruption scandal which led to the fall of the First Republic. Given bleak circumstances, most actors attempted to break down or weaken the existing local institutional architecture by searching for alternative models of development that involved more local empowerment and less 'top-down' intervention (Cersosimo 2000; Melo 2000; Cersosimo and Wolleb 2001). The creation of local projects represented an emergent trend in Italian regional developmental policy-making, which was characterised by territorial concertation and entrepreneurship, mobilisation, and the creation of multilateral contracts (*costruzione di politiche via contratti*) (Barbera 2001). Therefore, one of the main goals was to move regional entities from implementers to key decision-makers and planners.

To achieve these goals, in 1996 the social partners and the government signed a law (no. 662/1996) which sought to develop a *programmazione negoziata* (participatory planning) – a variety of measures geared towards the development of depressed areas through the establishment of public-private partnerships (see Melo 2000). Three main programs were included

in this law: the 'Territorial Pacts' (law no. 341/1995), 'Area Contracts' (law no. 662/1996), and 'Program Contracts' (Melo 2000). ⁴⁸ In contrast to the Area Contracts which are based on a 'top-down' approach to development, ⁴⁹ Territorial Pacts are grounded in a bottom-up, horizontal model of cooperation (vis-à-vis centrally, subsidised industrialisation) with the end of building up economic and social capital, as well as supporting local autonomy. The underlying model was not grounded in agreements between the traditional triangle (governments, employers' organisations, and trade unions), but rather it included a variety of local public and private actors (such as banks, NGOs, etc). These measures were extremely attractive to local and regional actors, partly given the significant amount of available national and ESF resources. For instance, between 1998 and 2000, 230 Italian Territorial Pacts were approved (National Action Plan 2003), and their blueprint was used by the EU as a model to launch their own European Territorial Employment Pacts in 1997. ⁵⁰ One of the outcomes of the Territorial Pacts has been the development of 'Local Development Agencies' (203 by 2004), which sought to act as catalysts for local development and an intermediary between public and private actors (European Commission 2004).

In addition to the aforementioned projects, between 2001 and 2003 'Integrated Regional Projects' (*Progetti Integrati Territoriali*), a type of local development project compromising a group of municipalities, were defined to implement the financial resources of the regional operating plans co-financed by EU funds (European Commission 2004). The action taken by the Ministry of Labour and Social Policies strives to strengthen the coordination of ALMPs (with the focus on employment services) inside the ESF Integrated Regional Projects by involving local institutions and actors, social partners, public and private employment service operators (National Action Plan 2004).

All in all the message stated in the 2003 Italian National Action Plan (2003: 5, author's translation) summarises the Italian project of horizontal decentralisation and deconcentration,

Given the characteristics of the Italian labour market under a process of decentralisation 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 labour market and of LMP in a coordinated and efficient manner.

⁴⁸ With Program contracts, designed in 1996, the central government promotes the implementation of large-scale industrial development projects in lagging areas.

⁴⁹ The instrument is designed for circumscribed areas undergoing a phase of restructuring with significant decline in employment (OECD 2001).

The EU funded ten European Pacts in Italy (89 in total). For a thorough analysis of the similarities and differences of the Italian and EU pacts, refer to Melo (2000).

Yet, for many people this remains a goal, not a reality. At this point, there are limited evaluations of the "reform of the reform" (as many have called it), but many would agree that the central level still plays a significant role in the direction of LMP and that regions are slowly becoming stronger entities (Interview, Italy, 2007). In this way, the division of responsibilities and chores is still being worked out. Simultaneously, most evaluations of the projects that promote horizontal decentralisation have found that even if regions have had problems implementing these reforms, a new model of social concertation have been developed at lower levels of government.⁵¹

Final remarks on the Italian case

As presented in the last section, in the last two decades, in Italy there has been a noticeable shift of power from the central to the regional levels. Legally speaking, both decentralisation and devolution have been formalised (laws and the Constitution), therefore making the regions key planners, administrators and implementers of multiple policy areas, including ALMPs. In this way, *de jure* we see a clear transformation in labour market politics and institutions. By attempting to implement a model of 'administrative federalism', regions have moved from entities controlled by the central level to key political actors.

In this country, the devolution of ALMPs has occurred in the general context of regionalisation and decentralisation, which is sustained by the notion of subsidiarity. This means that the calculation and the decision to transfer power to sub-national entities have been mainly based on the question: 'what level of government is better equipped to carry out a public activity?,' rather than on other factors, such as regional mobilisation of interest groups (Trigilia 1991). Given the high degree of heterogeneity (both at the individual and the collective level) in the circumstances surrounding (un)employment, placement, and the provision of skills, the most efficient option is to give authority to the level that is closer to the citizens to decide on the particularities of a policy, as well as the provision of services. This is also true for many other policy areas, which have also been regionalised. In this way, institutional decentralisation is a way of upgrading and making more efficient the centre's decision-making process (Amendola *et al.* 1997).

In this context, the gap between Italian regions, as well as the available European resources (and their soft pressure), are determinant factors to transfer these powers to subnational entities (Fargion *et al.* 2006). Another important factor to understand this project is the eminent failure of traditional models and policies to close the North-South gap based on centrally subsidised developmental policies. More specifically, to truly understand and cap-

31

⁵¹ There is a broad literature on territorial pacts, for instance, refer to Barbera (2001), Cersosimo and Wolleb (2001), Ministero dell'Economia e delle Finanze (2003), Dipartamento della Funzione Pubblica per l'efficienza delle amministrazioni (2004), Magnatti, *et al.* (2005), and De Vivo (2006)

ture recent trends in Italy (particularly after the late 1990s), we must take into account several interconnected issues – decentralisation and devolution, modernisation of PESs, the design of ALMPs, and developmental policy (to close the Central-North/South gap).⁵²

From the conducted research, one thing became evident (at least legally speaking), after the reform of the 1997, which marked the second wave of decentralisation, the underlying political and administrative model of ALMPs is increasingly less centralised and hierarchical, and more horizontal and localised (based on a localised network model), whereas unemployment benefits are managed by the central level. Under this model, regions should be the key political entities and decision-makers (under the supervision of the central level), whereas the provinces, municipalities and private actors mainly administer and supply training and educational services. In the beginning, this approach was mainly linked to the modernisation of PESs, but slowly there has been spillover to other issues and policy areas given that the complexity and multidimensionality of the notion of 'activation' has been recognised and internalised by multiple actors and levels of government. A quick glance through the National Action Plans supports this idea as the relevance of the regions has become increasingly present throughout the years.

Nonetheless, the gap between law and implementation is a concern for everyone. To tackle this issue, some have advocated the implementation of asymmetrical decentralisation (i.e., a process in which constituent units have different type of powers relative to the central government). In Italy, different levels of central intervention might be a solution given a set of institutional legacies, which makes the process of reform more challenging in some regions than others. Still, given the long-lived centralism of the Italian government, achieving equilibrium (i.e., the right balance and mix between centralisation and decentralisation given the existence of multiple tiers of government and actors that are responsible for different phases of the policy-making process) is a delicate matter, especially if we take into account the complex nature of ALMPs. This debate has been especially salient given the increase of unemployment rates and slow economic growth in the South. Thus, at this point, it is difficult to say whether the process of decentralisation and devolution has led to the creation of new subnational alliances and localised spaces for welfare creation.

CROSS-NATIONAL COMPARISONS

The emerging literature on the territorial dimension of the welfare state has made claims about an increasing decentralisation of social policies across many states (McEwen and Moreno 2005). More specifically, research on the emerging 'welfare-to-work' and employability

⁵² For instance, the European Commission (2004) has argued that in Italy when it comes to the design of public policies, the boundaries between development policies, decentralization, LMPs (especially ALMPs) are extremely blurry.

agendas in a range of OECD countries have emphasised the growing importance of the local level in these policy areas (e.g. Theodore and Peck 1999; Finn 2000). Given our interest in such developments, this paper has examined with empirical data whether: 1) such a trend towards decentralisation can be identified in Germany, the UK, and Italy, and 2) there are crossnational trends regarding the patterns and the reasoning for decentralising LMPs. This section summarises and compares the findings from our case studies. Furthermore, the conclusion develops three ideal types of decentralisation within labour market policy in which this phenomenon is either related to: 1) reforms of the political system and public management, 2) welfare reform, or 3) re-awakened territorial identities and fragmentation. We finish up with the potential implications of our findings on the multi-level governance of the welfare state in the EU.

In this paper, we used the term decentralisation to refer to the 'spreading out [of] formal authority from smaller to a large number of actors' (Ongaro 2006: 739). Within this broad term we distinguished between political, administrative and fiscal devolution (granting of powers from the central to sub-national governments), as well as de-concentration (the outsourcing or share of responsibilities to or with private and voluntary actors). As mentioned above, to examine this topic, we have chosen Germany, the United Kingdom, and Italy as three contrasting cases. These European countries differ considerably regarding their political systems and labour market policy traditions (Esping-Andersen 1990; Ferrera 1996; Loughlin 2005). A comparison of these countries shows significant differences regarding the character and the degree of decentralisation and their particular justification. These dissimilar trends can be linked to the country-specific political institutions, labour market policy approaches, and the political situation. More specifically, developments in LMPs are not clear-cut and decentralisation in some areas can be paralleled by centralisation and a standardisation of rules and obligations in other areas.

Nevertheless, there are some common developments across states. First, in the UK, Germany and Italy, the central level retains an important role in the design of national law on unemployment benefits. Moreover, the national level still plays a strong role as overseer of policies and services that are managed and/or provided by sub-national entities. Particularly in Germany and the UK, the national level remains the dominant actor in the legislation of ALMP. Second, the research shows that in all three countries, the sub-national levels have gained more competencies and flexibility regarding the implementation and management of policies. In addition, private and voluntary actors play an increasingly important role in the implementation and delivery of this type of policies in all three countries. Third, in all three countries some trends towards decentralisation were identified.

This trend was most pronounced in Italy. Here, the reform and modernisation of PESs, which includes a process of devolution and decentralisation, regions (and increasingly provinces and

municipalities) have been playing a strong role in the labour market, especially when it comes to the design, management and provision of ALMPs. In these scenarios, the role of the central level has been weakened. Moreover, we observe a trend towards de-concentration as the private sector plays an increasing role in service provision. Finally, many initiatives (e.g., territorial employment pacts) to promote local development have been introduced, as part of the commitment to further develop the *Mezzogiorno*.

In contrast, the UK remains the most centralised country when it comes to LMPs, particularly regarding policies for the 'mainstream unemployed'. In this country, a national legal framework for the eligibility and conditionality of Job Seekers' Allowance and the New Deal programmes exists. Jobcentre Plus is part of the Department for Work and Pensions and operates according to nation-wide standards. In the UK, regional and local flexibility has increased mainly in relation to policies aiming at improving the employability and labour market integration of the most disadvantaged unemployed, and the economically inactive population. This development has taken two main routes. One route is an increasing use of areabased initiatives, pilots and pathfinders. The provision of extra services in the most deprived areas in the UK has generated regional variability regarding the access to services. These initiatives are often implemented by local partnerships, which have a considerable degree of flexibility and discretion. The second route is the contracting-out of the implementation of LMP and related services to the private and voluntary sector. This is already used for a range of initiatives, but it will probably also be extended to the whole area of labour market related services, mainly to those services provided for incapacity benefit recipients (incapacity benefit will be replaced by the Employment and Support Allowance). The New Deal for Disabled People and Employment Zones initiatives are examples in which this route has already been taken.

In Germany, the development is more ambivalent. According to Germany's centralised structure of federalism, the national level has the main responsibility for active and passive LMP legislation whilst the Länder are allowed to adopt complementary ALMP programmes. This distribution of responsibilities has not changed recently. The introduction of the Hartz IV reform has mixed effects in terms of decentralisation because policies to promote the labour market integration and employability of the long-term unemployed have now become more centralised whilst the municipalities have been given a stronger role in implementing this reform.

The devolution of ALG II administration to local consortia, or to the municipalities in 69 areas, is a political experiment terminated until 2010. Therefore, it is unclear which direction these developments may take after this experiment has been reviewed. In addition to the aforementioned issues, local flexibility has also increased in the implementation of ALMPs for contribution-based unemployment benefit (ALG I) recipients due to an extended discre-

tion exerted by local branches of the Federal Agency for Employment. Overall, the last decade of LMP development in Germany has been characterised by radical reforms which bear the potential of more far-reaching decentralisation, but the situation is still in flux; thus, clear-cut conclusions cannot yet be drawn.

In all three countries, this trend towards more responsibilities for the regional and local levels in the implementation of policies, as well as increasing flexibility and discretion at the sub-national level is, however, accompanied by a centralisation and standardisation of LMP for the short-term unemployed. Until the introduction of Jobseekers' Allowance in the UK in 1996 and the Job AQTIV Act and Hartz I-IV (2002-2004) in Germany more variability existed regarding the way in which local employment service offices could deal with clients. Similarly, after the year 2000, in Italy, those unemployed for more than twelve months were required to report to job centres to certify their status. Consequently, within the six months, the employment service had to provide some level of intervention (individual interviews, counselling and a proposal of training to enter the job market). If a person does not report to the centre or fails to attend counselling, he or she could lose her status as unemployed worker, thus losing her benefits. Moreover, if a person refuses a job offer, he or she would lose his or her length of unemployment record and some benefits. With the new emphasis on these 'welfare-to-work' and 'activation' approaches the rights, and particularly the responsibilities of the unemployed person entering the service have been specified, centralised and standardised in all three countries, i.e. the same rules, set by the central level, apply nation-wide. Examples for this standardisation are the model of the personal adviser and the Jobseeker's agreement in the UK, the integration agreement in Germany, and the personalised contracts in Italy.

All three countries also have in common a trend towards a stronger role of the private and voluntary sector in the implementation of policies. Again, country-specific characteristics could be identified in this area. As described above, the role of the private and voluntary sector was strengthened in the UK regarding the local or regional implementation of services for particularly disadvantaged groups or in especially disadvantaged areas. In employment zones, for example, the entire implementation of services is out-contracted to the private sector. However, procurement of services remains with Jobcentre Plus so that regional and local levels have little influence on the process of out-contracting. In Germany, de-concentration is related to the opening of the market for private job brokers in 1994, the out-contracting of integration services in Personal Job Agencies (however, this has proved to be a failed project), and the outsourcing of LMP implementation to companies at the *Länder* level (which are, however, often at least partially or even entirely owned by the *Länder* governments). In Italy, the market for job-brokering services has been opened in 1997 and local and regional partnerships between the public, private and voluntary sector play an increasingly important role.

In sum, whilst there are common trends towards more responsibility and flexibility of regional and local levels in LMP implementation, as well as an increasing role for the private and voluntary sector in policy implementation, the three countries display considerable differences. In addition, the trend towards decentralisation is not clear-cut because the national level remains crucial for setting nation-wide legal frameworks and a certain degree of standardisation for the 'easy-to-place' unemployed. Normatively speaking, this is necessary if a country wants to avoid the negative consequences of decentralisation (see below). This means that ALMPs are being increasingly managed by local entities, whereas unemployment insurance remains within the remit of the central level. This trend is understandable if we refer to the arguments put forward on 'why decentralise?' (see below).

Why decentralisation?

In the second section of the paper, we presented a set of justifications as well as possible disadvantages of decentralisation discussed in the literature. The general justifications for decentralisation can be summarised in the following ways: decentralisation 1) enhances the efficiency of government through the provision of locally tailored services in a context of fast changing and diverse social and economic environments, 2) disburdens central governments by shifting responsibilities to sub-national levels, 3) creates more accessible, transparent, accountable and responsive governments, and 4) enhances regional and local political identities, as well as calls for more autonomy at these levels.

The disadvantages include: 1) increasing regional inequalities in access to services, 2) a race-to-the-bottom of standards and services due to increased regional and local competition, 3) increasing social inequalities, less transparency and accountability of government, and 4) policy duplications and inconsistency.

A comparison of our cases demonstrates that some of these justifications and concerns regarding decentralisation were more important than others in national policy-making processes. The main justification for the decentralisation of LMP implementation in all three countries is that services aiming at the labour market integration of the most disadvantaged groups in society (who suffer from multiple barriers) need to be more flexible and tailored to local needs. This is especially true for ALMPs, but not for unemployment insurance. This could explain the different degrees of (de)centralisation across these two types of LMPs. This argument for the decentralisation within ALMP has certainly been most important in the policy discussion in the UK and Italy (directly linked to developmental policies of the Southern part). In Germany, decentralisation is mostly favoured by the Christian Democrats who support a more general trend towards social policy decentralisation and more competition and responsibility at the *Länder* and local levels of government when it comes to the provision of services.

In contrast, arguments related to increasing the transparency and accountability of government have rarely played a role in the policy discourse in either of these countries, neither as a justification of decentralisation nor as a concern. If it has been a concern our impression is that central governments have started taking some precautionary measures, for example by increasing monitoring and evaluation of the performance of local levels and the establishment of intra-governmental committees and/or horizontal networks to gather and exchange information and coordinate policies.

Additionally, concerns about inequalities of access and performance, mainly held by social democratic parties in the three countries, are an important factor for the continuing crucial role of national governments in the adoption of legislation and uniform standards for implementation. In Germany, the principle based in the Basic Law (i.e., that national legislation is required if the equivalence of living standards is to be established or maintained) remains crucial for justifying a major role of the federal government to issue legislation on passive and active LMP. In the UK, it is the tradition of universalism, particularly established in the National Health Service, which plays a major role for the emphasis on nation-wide, universal rights and the responsibilities framework. In Italy, the gap between Centre-North and the South sustains the role of central government as strong overseer. This approach justifies a highly centralised and standardised approach regarding the eligibility and conditionality of 'mainstream' labour market services. In Italy, party platforms and the clashes between them explain the different waves of decentralisation and why it has taken more than three decades to implement a set of reforms to transfer competencies and powers to the regional level.

All in all, the character and justifications of LMP decentralisation in these three countries can be summarised as follows. In Germany and the UK, the decentralisation agenda is mainly driven by a re-framing and reform of LMP representing a move away from 'passive' LMP and a demand-led approach within 'active' LMP towards a supply-side 'activation', 'welfare-to-work' and 'employability' agenda. This approach not only focuses on the reduction of unemployment but also on the increase of employment rates, i.e. the reduction of economic inactivity. This requires a clear 'universal rights and responsibilities framework', on the one hand, and a more localised and tailored approach to 'activating' the most disadvantaged groups in society (who need more specialised and holistic services to become 'employable'), on the other. An indicator for this interpretation is that LMP decentralisation in the UK is not linked to devolution as such as the devolved administrations have not gained new competencies in this area. In Germany, however, the decentralisation of LMP is potentially related to ongoing reforms of the system of federalism in which advocates of a model of competitive federalism with a clearer division of responsibilities between the different levels of government plays an important role. Consequently, Christian-Democratic proponents of this approach support a US-style model when it comes to the distribution of social policy authorities

in which the federal level plays a much weaker role than it is traditionally the case in Germany. In all three countries, the out-contracting and out-sourcing of services to the private and voluntary sector, as well as internal reforms within the PES is directly linked to a more general agenda of public management reform.

In Italy, the situation is slightly different. The decentralisation of LMP seems to be related more closely to a general process of state reform which includes considerable decentralisation of the political system. This goes hand in hand with a shift towards more active LMPs which is in line with the trend of European employment policies (EES). Therefore, the regions have greater constitutional authority in designing and financing LMPs compared to those in the UK and Germany. In addition, Italy has a less developed tradition of ALMP, thus the expansion of the decentralisation project is directly related to the need to modernise PESs and the welfare state and to establish an 'activation' and 'employability' agenda.

CONCLUSIONS

Based on our research, we suggest that there are three ideal types or models of decentralisation. Our typology only serves epistemological and conceptual purposes; therefore, we do not claim that these types exist in their pure form. Most likely, decentralisation processes will display a mixture of these characteristics: A) state reform, B) welfare reform, and C) surge of regional identities. Under type A reforms, LMPs are decentralised because either the whole polity undergoes decentralisation reforms, or because LMP decentralisation is related to far-reaching public management reforms (for example, with a stronger emphasis on new public management and service delivery). According to our research, Italy fits most clearly with this category since LMP decentralisation is linked to a wider agenda of state decentralisation. Germany and the UK also display elements of this type of decentralisation because the increasing use of local partnerships in the UK as well as out-sourcing and out-contracting of services to the private and voluntary sector in both countries are linked to more general public management reforms.

In type B reform (welfare), LMP decentralisation occurs because a new LMP policy approach⁵³ pragmatically requires a more regionalised and localised approach. In this way, this type of model is directly linked to a restructuring of the nature and the functions of the welfare state (through its policies, not through institutional structures). This is plausibly the case if LMP increasingly aims to 'activate' the most disadvantaged and 'hard-to-place'

⁵³ One should note that 'tackling welfare dependency' and encouragement to take up work has traditionally been related to a localised approach because intensive 'case management' is required (Peck

tionally been related to a localised approach because intensive 'case management' is required (Peck 2001: 312f.). Though this is an open question one could argue that New Labour's current approach differs from a purely neo-liberal stance of fighting 'welfare dependency' but seeks to support and help people who are suffering from multiple disadvantages. However, there is always a fine line between conditionality and pressure to take up work and real support to fight social exclusion.

groups in society. For people who face multiple obstacles, such as disabilities, other health conditions, very low qualifications, or drug and alcohol problems, complex services that are tailored to the individual and local circumstances are required. At the same time, these services will only be effective in terms of labour market integration if active partnerships exist between social services, training agencies and employers, which require a localised approach. Services for the most disadvantaged groups in society are traditionally located at the local level. In this sense, it is the new focus of LMPs that regards labour market integration as the best safeguard against poverty that contributes to LMP decentralisation (Handler 1972; Peck 2001). Our research demonstrates that the move to decentralisation in all three countries, probably most pronounced in the UK, is driven by this new welfare agenda that aims to radically increase employment rates and reduce the proportion of the economically inactive by moving them into work (which is directly linked to the supranational agenda).

We also wish to include the third type C model of decentralisation, according to which decentralisation is a response to the (re)-awakening of regional and local identities. This type is derived from claims made by McEwen and Moreno (2005) that welfare state decentralisation is currently taking place due to an increasingly important role of regional and local identities. However, the cases that we studied did not seem to be related to this type of decentralisation. Nevertheless, McEwen and Moreno have formulated an interesting hypothesis that should be examined in future empirical research.⁵⁴

Based on these ideas, one can hypothesise that institutional structures do matter when attempting to understand cross-national trends. For instance, it could be hypothesised that federal states are more likely to be under model B given that decentralisation is already institutionalised. In the same manner, regionalised states (those moving towards some sort of federal structure (e.g. Italy, Spain)) are more likely to fit within model A. However, as the case of the UK suggests – which fits under model B – this categorisation seems to depend on the character of devolution and regionalisation. A further question is, are unitary states (e.g., Denmark, Sweden, France) more likely to be under model A or B? Moreover, how do political institutions interact with welfare regimes? Based on these issues, our research raises a couple of questions for future research. For example, in which way is the decentralisation of LMPs influenced by existing traditions and institutions of LMP, as well as by the structure of the country's polity? What is the impact of this increasingly differentiated system of multilevel governance in LMP for the transparency, accessibility and accountability of policies? What are the implications of decentralisation and de-concentration on disadvantaged groups and/or territories? Which mechanisms will national governments develop to coordinate, moni-

⁵⁴ For instance, it could be the case that new demands for regional autonomy based on resurging subnational identities lead to a decentralisation of state structures, which in turn may include labour market policy decentralisation. Spain could be an example for such a scenario.

tor and evaluate LMP design and implementation at the various levels of government? These questions remain on the table and will be explored in future extensions of this paper.

To conclude, our results suggest that LMP does not simply become decentralised but increasingly multi-layered within the European Union. In the late 1990s, the EU itself gained a new role in LMP through the establishment of the European Employment Strategy which supports a supply-side, 'rights and responsibilities', 'activation' and 'employability' agenda of European LMPs. Comparative research on LMP and the potential influence of the EU demonstrates that despite of path-dependent country-specific developments a trend towards this approach can be identified across Europe (Zeitlin 2005; López-Santana 2006, Büchs forthcoming 2007). National governments retain an important role in LMP, particularly in the design of unemployment benefit systems, but in many countries in the design of ALMP as well. At the same time, national governments increasingly undertake reforms to decentralise the implementation of LMPs. This process is accompanied by an increasing involvement of the private and voluntary sector in the implementation and provision of LMPs. Therefore, whilst national governments remain to play a crucial role in LMPs, the last decade has been characterised by a parallel up- and downwards shift of LMP responsibilities to the supranational and sub-national levels of government. This means that we must reconsider our assumptions about what the welfare is and where power lies within the territory and the system of multi-level governance.

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