Labour Markets at a Crossroads

Labour Markets at a Crossroads: Causes of Change, Challenges and Need to Reform

Edited by

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INTRODUCTION

NILS KARLSON AND HENRIK LINDBERG

The European labour market models are at a crossroads. In many European countries, job creation, productivity and growth have for decades lagged behind the goals established by politicians and policy makers as well as the achievements of the United States and other parts of the world. Nearly every Western European country has experienced general unemployment; the problem is particularly pronounced among certain groups, such as immigrants, the young and the disabled. Along with the challenges posed by an ageing population, the problem of unemployment will eventually have serious effects on welfare in general and the public welfare systems in particular.

Beneath the labour market challenges lay fundamental shifts in how the world economy functions, including the economic restructuring of both companies and countries. In our view, labour market institutions, such as the systems of wage formation, play a key role in Europe's ability to meet these new challenges. A modern, competitive, and knowledge-based economy requires modern laws and regulations for its labour markets.

This volume, *Labour Markets at a Crossroads: Causes of Change, Challenges and the Need to Reform*, investigates numerous vital aspects of the European labour markets and the challenges they face. The chapters provide new perspectives regarding the ways in which Western Europe's labour markets and systems of wage formation function, as well as the consequences that these systems have. The authors are scholars in economics, political science, sociology and economic history from a variety of European countries. Several of the chapters are theoretical in nature, whereas others are empirical. Taken together, this approach offers a solid background and good opportunity for policy comparison and evaluation.

Three themes throughout the book

The volume is structured around three main themes. The first is *Flexicurity and Labour Market Dynamics*, which addresses the relationship between labour market flexibility and various forms of security for employees. This theme explores how “flexicurity” is achieved in different countries and what effects flexicurity has on labour market dynamics, including job creation.

In the first chapter, *Flexicurity Pathways for Italy: Learning from Denmark?* authors Caterina Gianetti and Marianna Madia identify the risks and benefits of adopting flexicurity policies in Italy with reference to the flexicurity system and policies in Denmark, a leading country in this field. Irmgard Borghouts addresses European employment security systems in the chapter *Employment Security for the Young Disabled: Policies and Practices in Europe.* Her chapter presents an analytical framework to explore the employment security systems in Europe. It also focuses on neglected categories of outsiders, i.e., young, disabled persons. Her study finds that financial subsidies are not sufficient to persuade employers to offer young, disabled persons employment. Across all countries, employers appear to be hesitant to hire disabled persons.

The third chapter, by Nuna Zekic, explores the question of *Trade Unions and the Development of Employment Security: Can They Deliver?* Social partners and trade unions in particular, play an important role in shaping and implementing the concept of security: becoming and remaining employed. Implementing employment security through collective bargaining has obvious advantages; however, the literature also identifies its limitations.

The book’s second theme is *Trade Unions and Industrial Action.* Unions play an important role in most modern European labour markets, but they also face serious challenges from globalisation and industrial restructuring. This shift has led to losses in membership and has changed unions’ behaviour concerning industrial action and bargaining in several countries.

Katrin Ólafsdóttir addresses the topic of the *Efficiency of Collective Bargaining: Analysing Changes in the Wage Structure in the Public Sector in Iceland.* This chapter raises the important question of whether it is possible to change the wage structure by altering collective bargaining agreements and decentralising the bargaining process. This topic is explored in light of the changes that were made to collective bargaining contracts in the public sector in Iceland at the same time that the bargaining process was decentralised. The results indicate that wage dispersion did not change significantly with the collective bargaining agreements, although the bargaining power of unions diminished.

In their chapter *Union Membership Employment Dynamics and Bargaining Structure*, Marcus Dittrich and Beate Schirwitz study the welfare effects of the (de)centralisation of union bargaining and membership dynamics in a dual labour-market model. The results indicate that the way in which bargaining is performed plays a decisive role in bargaining is done plays a decisive role concerning the impact of decentralisation on social welfare. Decentralisation increases social welfare if the unions and employers negotiate both wages and employment. To the contrary, if wages are the only subject of the negotiations, centralisation decreases social welfare.

Henrik Lindberg examines the issue of *Industrial Action in Sweden: A New Pattern?* This chapter utilises primary data to study the patterns of industrial action and conflict dimensions in Sweden during the time period 1993-2005. The aim of the chapter is to trace and interpret the new patterns and dimensions of labour market conflicts. This chapter finds that a few small unions that primarily organise non-manufacturing blue-collar workers in the domestic sector account for the majority of sanctioned conflicts. Their ability to strike appears to be facilitated by the lack of competition in those sectors and the vulnerability of some employers to changing production concepts and new business logic.

The third theme is *Wages and Bargaining*, which analyses the consequences of different types of bargaining and degrees of bargaining centralisation for the economy. For example, what are the effects of firm-level bargaining on wages and productivity? The chapter by Anil Duman, *Union wage premium and Impact of Unions on Wage Equality in Turkey*, addresses how unions impact wages and wage equality in Turkey. The results suggest that unions are inefficient in decreasing wage inequality, as they raise wages for upper-level workers more than for their lower-level counterparts. However, these effects only hold true for male workers because the unions are more effective in compressing wages for female workers.

In the chapter *Mobility and Wages in Italy: the Effects of Job Seniority*, Michele Battisti uses panel data to estimate the returns to experience and job tenure using a simultaneous equation model in the wage-determination process. This chapter finds that the first two years of employment are associated with a two per cent yearly wage increase, whereas the effects of seniority are minimal thereafter. In their chapter *The Wage Costs of Motherhood: Which Mothers are Better Off and Why,* authors Anton Nivorozhkin, Ludmila Nivorozhkina and Lilia Ovtcharova analyse how motherhood affects women’s wages. Using a dataset from Russia, they adopt a matching technique to account for possible selection effects. Their findings indicate that mothers tend to suffer a moderate wage penalty.

Finally, the chapter *The Decentralisation of Wage Bargaining: Four Cases* by Nils Karlson and Henrik Lindberg compares the processes that decentralised wage bargaining in four countries during the 1980s and 1990s. The authors conclude that the importance of the different dimensions of decentralisation varies between the countries studied; however, decentralisation may occur through changes in the collective agreements themselves or through individual wage-setting outside the system of collective agreements. Moreover, the decentralisation process may occur either in the context of cooperation or conflict between the labour market organisations.

In this introduction, we will provide background information for the numerous policy implications that follow from the coming chapters. A central conclusion is that many European labour markets are characterised by what we term *corporative cartels*, that is, corporative arrangements wherein the state directly or indirectly confers various form of regulatory power to certain organisations of employers and employees. These organisations in turn act as cartels that aim to control the supply and demand of labour. The existence and functioning of these corporative cartels may, in our view, be one of the major causes of the European labour markets’ shortcomings.

In the last section of the introduction, we discuss four different scenarios for the future of European labour markets. As we will demonstrate, the policy direction selected at the European labour market’s current crossroads is significant.

European labour market models

When discussing European labour markets, it is important to note that there is no single European labour market model. Numerous labour market scholars have argued that there are three different European models (Sapir 2005, Boeri 2002). While each European country experiences its own particularities, one can distinguish at least four different labour market models in Europe (Karlson – Lindberg 2008): the *Continental, Latin, Scandinavian* and *Anglo-Saxon* models. Some researchers would join Esping-Andersen (1999) in arguing that different welfare state regimes and the various models of industrial relations are interconnected via numerous institutional path dependencies, concerning, for example, labour market regulations, systems of social insurance and the management of unemployment conditions.

These models have evolved over time and are characterised by numerous elements that refer to how industrial relations and wage-setting systems are organised, along with how employment conditions, including employment protections, are regulated.

In recent years,"flexicurity" has become a buzz word in the discussion of labour market reforms. The assumption is that through certain institutional arrangements, employers can have the workforce flexibility they desire while workers' needs for security can be met. One popular idea is to combine liberal legislation regarding employment protections with generous income protections, active labour market policies and plentiful opportunities for continuing education for workers who are unemployed or disabled (Berglund – Furåker 2011, Wilthagen – Tros 2004). However, active labour market policies have received mixed evaluations in terms of their efficiency (Card – Kluwe – Weber 2009).

The following analysis of the four labour market models in Europe offers a brief overview of the models as well as their flexicurity arrangements (see also the chapters by Gianetti and Zekic). The first group of countries operate according to the *Continental model*, which dominates labour market relationships in continental Europe. This model has also been influential in the European Union legislation related to labour market issues. In this model, the role of the state is significant, and legislation is the most prominent regulatory instrument. Nevertheless, bargaining and collective agreements between the parties are also important in this model.

A distinctive feature of the *Continental model* is thus tripartism, meaning that the social partners and the state govern industrial relations together.

The emphasis on regulations is based on a view of labour as something besides a commodity. This view emerges from the Romano-Germanic legal systems and asserts the moral basis upon which the relationship between employer and employee should rest. The legislation thus aims to protect employees from market forces (Hepple – Veneziani 2009).

The collective agreements are legally binding for the bargaining parties (union and employer organisations) and can be enforced as such. An extension mechanism typically allows the collective agreements to be extended by government decree to non-members on both sides. Through this mechanism, the collective agreements have a high degree of coverage. Countries that employ this model also have high levels of employment protection legislation (EPL) and co-determination. These rights are predominantly based on individual employees' rights and are upheld by law through public authorities or works councils rather than by the unions.

Regarding flexicurity, this group of countries has strict rules regulating job protection, generous unemployment benefits and extensive industrial regulations. The need to improve the labour market's flexibility is often emphasised for this model.

The second model is the *Latin* or *South European model*, which is also based on the Romano-Germanic legal systems. It views labour as something other than a commodity. Here, as in the Continental model, the role of the state is important because the bargaining parties have less coverage and are more divided. Common features of the relations between the bargaining parties in these countries are high levels of industrial conflict, high politicisation and internally divided labour unions. The bargaining coverage is upheld by the employers' associations as well as a legal extension of the collective agreements to non-union workers and firms (Karamessini 2007).

The primary characteristics of labour market policies in these countries are a rigid EPL and a frequent reliance on early retirement policies as a means to reduce unemployment. Because of the rigid EPL and the partial deregulation of the EPL aimed at temporary employees, labour market segmentation has developed between two groups: 1) protected, predominantly male, middle-aged or senior workers and 2) young and predominantly female workers. The former group is experiencing relatively low unemployment rates and good job stability, while the latter group is experiencing high unemployment and employment instability (Skedinger 2009).

These countries are furthest from the flexicurity model, which places an emphasis on employment protection and has strict rules regarding dismissal. The welfare systems are often not aimed at labour market participation but instead place an emphasis on early retirement.

The third model is the *Nordic* or *Scandinavian model*, which includes a high degree of self-regulation by the bargaining parties. The role of the state is more limited, and the bargaining parties have traditionally been given the right to decide the rules governing the labour market. Hence, legislation simply provides a framework for the rules and regulations settled under the collective agreement. However, since the 1970s, there have been exceptions to this pattern. The collective agreements are legally binding for the organisations and their members. Employers are also obliged to apply the collective agreements equally, regardless of union membership.

In this model, the unions and employers' associations play an important role by drafting and upholding the collective agreements. Moreover, the unions exercise rights regarding co-determination and employment protection on behalf of the employees. Therefore, this model rests on a high level of membership on both sides. To achieve the anticipated level of coverage of the collective agreements, the labour unions have been given extraordinary rights of conflict through blockades of unorganised firms (also firms without union members). In some countries, this model has a relatively rigid legally regulated EPL for labour market *insiders*. In combination with high minimum wages within the collective agreements, this model generates a segmented labour market with high unemployment levels among the young and immigrant workforces (Skedinger 2009).

In this model, flexicurity is based on an active labour market policy, strong mechanisms of safety and security in the welfare systems and flexibility within the collective agreements to adapt to different industries' needs. According to some researchers, the Nordic countries represent a benchmark for flexicurity compared to other countries (Hinst 2011, Sapir et al. 2003).

The fourth model is the *Anglo-Saxon model*, which offers a more market-based view of the labour market. This model is based on a classical liberal philosophy of small government and less-comprehensive welfare policies than in northern and continental Europe. Here, the coverage of collective agreements is low, as are membership levels in unions and employers' organisations. Moreover, this model has the system of common law rather than legislation as its foundation. Along with a small number of regulations, this model is based on the notion of a flexible labour market ruled by the price mechanism. In this model, the greater degree of freedom that individual employers enjoy to hire and fire personnel and to set pay, terms and conditions allows for greater business efficiency and higher productivity. In addition, the greater degree of flexibility avoids the problem identified in the other models: a permanent pool of unemployed workers unable to enter into a labour market because those who already hold positions are protected by regulations. In general, this model differs significantly from the others in several important respects.

The Anglo-Saxon model provides more flexibility than security in relation to the continental and southern European countries. Because this model has de-collectivised bargaining to a greater extent, there is a great degree of flexibility in wages and working conditions. According to Eamets – Philips – Alloya – Krillo (2009), the liberal Anglo Saxon labour market model approximates flexicurity, although it offers lower compensation rates for unemployed workers.

Corporative cartels in European labour markets

Three of the European labour market models—the Continental, the Latin, and the Scandinavian—share some important features despite their differences in form and details.

First, a system has developed in which the bargaining parties have been granted legislative functions. The state has directly or indirectly delegated various forms of regulatory power to certain organisations of employers and employees. To facilitate this shift, legal support for collective organisation and collective bargaining has been widely used. The system of collective bargaining has thus become the primary method for establishing employment conditions (Jacobs 2009). These corporative arrangements differ concerning the existence of a formal extension mechanism for collective agreements, which solely exist in the Continental and Latin models. In the Scandinavian model, a high level of coverage is instead achieved by allowing the unions to police the extension.

Second, the bargaining parties – the unions and employers' associations – act openly as cartels with the aim of affecting the supply and demand of labour and thereby the wage levels. These cartels are, as indicated above, upheld by supportive legislation and various institutions, such as special labour courts, wherein representatives from the organisations themselves act as judges. In general, employers' and workers' organisations have developed a mutual, symbiotic collaboration in exercising these functions. The cartels have in many cases also been granted the rights to administer portions of the social security systems. The Ghent system (which primarily exists in the Scandinavian countries) is the name given to the arrangement whereby the labour unions hold the primary responsibility for administrating unemployment insurance, which is often heavily subsidised (Karlson – Lindberg 2008, Nielsen 2002, Scruggs 2002).

The existence and functioning of these corporative cartels may be one of the primary causes European labour markets' shortcomings. Corporative arrangements, whereby the state directly or indirectly delegates regulatory powers to cartels, may be difficult to combine with the demands of a modern, competitive, and knowledge-based economy, where incentives, flexibility and decentralisation are often prerequisites to job creation, business dynamics and welfare.

The legitimacy of corporative cartels is frequently based on the notion that labour is not a commodity, that is, that its value should not be solely determined by market exchange. However, the cartels often also benefit existing industries, restricting entry, entrepreneurship and competition, thus hampering industrial restructuring and job creation. In certain cases, the employers rather the unions advocated this type of labour market arrangement (Swenson 2002). Moreover, these arrangements benefited labour market insiders at the expense of *outsiders*, such as young people and immigrants, with resulting high social costs. This result is especially true of corporative cartels that function within a context of strong EPL.
As mentioned, the Anglo-Saxon model differs dramatically from the other three models. Most importantly, there are no corporative cartels in this model. The labour market is essentially regarded as any other type of market.

The causes of change

All four European labour market models, especially the models based on various forms of corporative cartels, are currently under strong pressure to change. Various forces are driving this development. Unions are weakened both in terms of membership and their role in facilitating collective bargaining. There is an erosion of collective bargaining coverage, and more regulatory matters are being transferred to the firm level. Collective bargaining, where it exists, takes place at a more decentralised level, closer to the firm or workplace (Karlson – Lindberg 2011).

First and foremost, globalisation places increasing importance on multinational enterprises, international trade and capital flows, global competition in a growing number of sectors, and a shift towards globally integrated production systems. Because numerous enterprises have the option to move their production or investments abroad, this shift will place restrictions on both policymakers and the bargaining parties, including their respective decisions to take industrial action.

We have also observed that the hierarchically structured enterprises have become more flexibly organised entities. The *Fordist* organisations have been replaced by so-called integrated production systems. This change implies that a far-reaching horizontal division of labour and principles of specialisation regarding certain operations in the production process have been replaced with, for example, more decentralised work organisations and autonomous teams with job rotation. Thus, more decentralised decision-making in the workplace may increase the job satisfaction and efficiency.

Moreover, we have witnessed a major shift towards a service economy. The long-term transition in the economy from industrial production to service production appears to have occurred alongside globalisation. This transition means, among other things, that the proportion of employees who have completed higher education has risen considerably, whereas the number of traditional blue-collar workers has diminished. Moreover, investments in competence and knowledge may be just as important as investments in physical capital.

A final factor that is fundamentally changing the labour market conditions is the de-collectivisation of industrial relations across Europe and the industrialised world. In most OECD-countries, unionisation reached its peak approximately 1980 and has since decreased substantially. Between 1980 and 2008, unionisation fell from 19 to 8 per cent in France, from 54 to 29 per cent in Great Britain and from 23 to 12 per cent in the US. According to the Visser (2009) database on union density, the un-weighted average unionisation rate has declined by 0,35 per cent each year between 1974 and 2007. The slowest decline has occurred in the Nordic countries, where the process of decline began later (Bacarro – Howell 2010).

This trend is partly explained by structural changes in the economy. The growth of smaller business and enterprises in the service sector has shifted the economy towards jobs that unions have found more difficult to penetrate. Moreover, the number of traditional, full-time, permanent jobs is steadily shrinking while being replaced by non-standard contracts, such as part-time jobs, fixed-term contracts or hiring through temporary work agencies. The crumbling union membership was also an effect of individualism; collective solutions have generally declined since the 1980s.

In addition, the de-collectivisation of industrial relations was an effect of the rise of human capital and the new requirements of competence in industry and service production. New ideas regarding techniques and organisations shifted focus from the employee collective to the individual employee. Standardised solutions concerning working conditions and pay were therefore replaced with non-standardised solutions and contracts.

The figures for industrial action reveal a similar pattern. Here, we also note a marked decline in the numbers of strikes and working days lost among European countries between 1974 and 2007. The logical interpretation of this finding is that union strength is weakening, as indicated by Bacarro – Howell (2010). In some countries, such as Great Britain, this decline was caused by reforms that outlawed some forms of industrial action; however, legislative changes were not generalised feature in Europe. The decline may have been an effect of globalisation and increasing competition because the few strikes and lockouts that take place now tend to occur in the sheltered industries (Lindberg 2011).

At the crossroads: Four scenarios

These challenges are common to all European labour market models, and institutional changes are taking place in most countries. However, we believe that the models characterised by corporative cartels must make reforms if the problems of unemployment, job creation and growth are to be managed.

This recommendation does not imply that the labour market models or the national systems of industrial relations are necessarily converging in an institutional form (Wailes – Bamber – Lansbury 2010). Rather, it suggests that different institutional forms are altering to fit the common imperative of liberalisation (Bacarro – Howell 2010).

Since Kerr et al. (1960) formulated their convergence thesis on the grounds of “the logic of industrialism,” which would make the industrial relations systems more similar, scholars have argued that path dependencies, institutional complementarities and national features would resist the drivers of change.

Scholars of industrial relations have typically been hostile to the notion of convergence, and a predominant portion of this field has instead held the view of enduring diversity within a range of distinct national systems (Streeck 2009). A related influential school of thought in comparative employment relations research is the so-called *Varieties of Capitalism* model (Hall – Soskice 2001, Hall – Thelen 2009).

Others theories (see Ohmae 1995) claiming that globalisation and other factors would place common pressures on all countries to introduce similar systems of industrial relations outcomes have been labelled as the “simple globalisation approach”. Somewhat more popular is Streek and Thelen’s (2005) argument that increasing competition via globalisation may exert pressure on existing institutions to change incrementally.
In other words, it is not sufficient to say that the European labour market models are moving in the direction of the Anglo-Saxon model. There is no determinism involved, as the models continue to differ. Moreover, there are options for policy choice both for the legislators and for the social partners themselves.

In the following paragraphs, we will briefly present four different scenarios describing what the future European labour markets may look like, depending upon which path they select at this crossroads (Karlson – Lindberg 2008). We hope that the scenarios described below may function as frameworks for the discussions to come.

Disruption

The first scenario, *disruption*, entails developments that may occur if nothing in the labour market changes. In that case, there is a risk that several of the European labour market models will disintegrate. As discussed above, the Latin, Continental and, possibly also, the Scandinavian models will not be stable over time. The contributing factors to this scenario are the increasing globalisation and competition that increasingly free capital from its home countries. As union participation rates continue to decline, the cartels may be unable to uphold their functions any longer. They will find it difficult to coordinate wage bargaining to remain competitive because of their loss of membership and legitimacy. The need for substantial reforms may, however, be blocked by vested interests that are protected by legislation and support from influential groups. The case of public or state employees blocking reforms in Southern Europe, most notably Spain, Portugal and Greece, during the 2010–2011 European sovereign debt crisis is an example of this phenomenon.

Re-regulation

The second scenario, *re-regulation*, is the on-going process of harmonising the rules and regulations concerning labour markets and the social agenda within the European Union. Re-regulation is an attempt to protect workers from possible exploitation with legislative supports. Such legislation tends to occur less frequently at the national level in the Nordic or Anglo-Saxon countries; thus, harmonising rules and regulations across Europe would entail an increase in legislation for many countries. On the one hand, because the EU is actively promoting the flexicurity agenda, re-regulation may contribute to more labour market flexibility and security for employees exposed to labour market risks (Pedersini 2008). On the other hand, the Nordic and Anglo-Saxon countries may be hesitant to adopt more direct state regulation in their labour markets.

De-regulation

The European countries may instead opt to follow the Anglo-Saxon model with its more market-based view of the labour market. Given the diminishing influence of the corporative cartels due to membership decline and increasing globalisation, many economists have argued for a de-regulated labour market. In this model, the corporative cartels on both sides will lose influence because their privileged positions were based on corporative arrangements. The bargaining parties were granted legislative functions to, for example, control low-wage competition or workers' exploitation.

In a de-regulative context, the labour market institutions would be restructured in an Anglo-Saxon fashion by reducing the amount and duration of unemployment benefits, lowering employment protections, and de-collectivising wage bargaining, thus making wages more adaptable to the free market (Nickell 1997). De-collectivisation and the diminishing role of collective bargaining are apparent in large swaths across Europe and may be a possible outcome of the current trends.

Modernisation

A fourth possibility is the modernisation of the European labour market models. The modernisation alternative builds upon a common understanding of the challenges confronting the labour market. This scenario addresses entails reforming collective agreements and supporting legislation with the involvement of both bargaining parties and the government. Modernisation may take different forms in different parts of Europe because the different labour market models face different challenges.

The legislation surrounding such matters as strike rules, employment protection, employment participation, and collective bargaining was drafted in an era of vastly different production conditions. Modernisation must therefore reflect the erosion of bargaining coverage and the transfer of more regulatory matters and questions to the firm level due to a new business logic. Collective bargaining takes place at a more decentralised level that is closer to the firm or workplace because organisations and workplaces are fundamentally different than they were several decades ago. The employees of an increasingly knowledge-based economy require additional flexicurity within the labour market dynamics but not necessarily outside of the collective bargaining arrangements.

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PART I

FLEXICURITY AND LABOUR MARKET DYNAMICS

CHAPTER ONE

FLEXICURITY PATHWAYS FOR ITALY: LEARNING FROM DENMARK?

CATERINA GIANETTI[1] AND MARIANNA MADIA[2]

Abstract

The aim of this work is to identify the advantages and risks of adopting flexicurity policies in Italy. In the first part, this paper analyzes flexicurity in Denmark, one of the leading countries in this field. Even though it is not possible to directly transpose policies from Denmark onto Italy, important insights are provided by such an analysis. In the second part, we focus on the possibility of countries with segmented labour markets, like Italy, adopting the first European flexicurity pathway, which suggests relying on contractual arrangements that gradually result in better working conditions to address labour market segmentations. To investigate such an issue, we additionally provide some evidence from an experimental analysis in which the level of unemployment level is determined endogenously and the level of effort made is observable by firms with a certain degree of uncertainty. Overall, the analysis suggests that, especially in countries where there is limited scope for increasing spending, these contractual arrangements can improve labour market efficiency by reducing the unemployment level and increasing workers' performance.

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1. Introduction

The flexicurity model, which combines labour flexibility with different forms of security, is looking increasingly attractive to policymakers in Europe. The European Employment Strategy (EES) calls for labour market institutions to adopt '*flexicurity*' principles. Specifically, guideline No. 21 of the Integrated Guideline for Growth and Employment for the period 2005-2008 calls on Member States to "*...promote flexibility combined with employment security and reduce labour market segmentation*". Likewise, the Annual Progress Report adopted by the Commission in the re-launched Lisbon strategy also calls on Member States to " *...seek convergence of views on the balance between flexibility and employment security (i.e. flexicurity)*". The Joint Employment Report 2006/2007 reiterates the main priorities of the EES by once again emphasising the need for more stringent reforms in order to strike a better balance between flexibility and security in the labour market. In December 2007, following the Communication of the European Commission on 'Towards Common Principles of Flexicurity', the Council of the European Union endorsed the final and consensual version of the common principles of flexicurity. However, the EU is also aware that different countries face different challenges and that therefore there is no single way, but rather several pathways, that can lead towards flexibility. The various ways to improve national labour markets are linked to historical choices, as well as to economic and social institutions. Although common principles can drive reforms, different modalities of flexicurity in combination with security can follow. Thus flexicurity can (and should) take different forms from country to country.

After presenting a preliminary overview of the balance between flexibility and security, the aim of this work is to analyse what are the advantages and risks of adopting flexicurity policies in countries such as Italy with segmented labour markets and budgetary constraints. In order to do so, the first part of the paper briefly outlines flexicurity in Denmark, one of the leading countries in this field, with particularly favourable labour market outcomes and a long-standing tradition of successfully implementing flexicurity principles. Even though it is not possible to strictly compare their respective labour markets and directly transpose policies from Denmark to Italy, important insights can be gained from making such a comparison. In particular, the focus will be on institutional/policy differences between these two countries. The second part of this work focuses on the Italian labour market to investigate the adoption of the first