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State–Society Relationships, Social Trust and the Development of Labour Market Policies in Italy and Sweden

GIULIANO BONOLI and PATRICK EMMENEGGER

The first decade of the twenty-first century may be remembered for the rebirth of consensus on labour market policy. After three decades of bitter political and ideological controversy between a neo-liberal and a traditional social democratic approach, a new model, often labelled flexicurity, has emerged. This model is promoted by numerous political organisations since it promises to put an end to the old trade-off between equality and efficiency. Several countries are embracing the flexicurity model as a blueprint for labour market reform, but others, mostly belonging to the 'Mediterranean Rim', are clearly lagging behind. Why is it so difficult for these countries to implement the flexicurity model? This paper argues that the application of a flexicurity strategy in these countries is complicated by the lack of social trust between social partners and the state as well as political economy traditions that highlight the role of labour market regulation as a source of social protection.

The first decade of the twenty-first century may be remembered for the rebirth of consensus on the welfare state. After three decades of bitter political and ideological controversy between a neo-liberal and a traditional social democratic approach, a new model variously labelled with reference to social investment or the notion of flexicurity has emerged. This new welfare state gives a high priority to employment and focuses on effective, inclusive labour markets. The approach, promoted by academics, the EU, the OECD and other international organisations, promises to simultaneously improve the living conditions of disadvantaged people, and to provide returns for society as a whole, through lower welfare spending and higher tax receipts.

In the area of labour market policy, the topic of this paper, emphasis has focused on the so-called flexicurity model. Although there are various definitions of flexicurity, most of them tend to identify a three-pronged strategy aiming to reconcile labour market efficiency and economic security for workers. The model is based on: 1) a highly flexible labour market,

Correspondence Address: giuliano.bonoli@idheap.unil.ch

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which makes hiring and firing easy for firms; 2) generous unemployment benefits, which secure wage-earners' income in the event of job loss; and 3) a comprehensive system of active labour market policies (ALMP), which are needed to make sure that the (costly) unemployed are brought back to the labour market as soon as possible (Madsen 2002; Viebrock and Clasen 2009; Wilthagen and Tros 2004).

The model seems simple and effective. Countries that moved in this direction over the last 10–15 years generally display a better than average labour market performance. It is the case for example for Denmark, the Netherlands or Sweden: three countries which experienced significant employment problems in the early 1990s and that are now leading on most labour market indicators (European Commission 2006).[1] Effectiveness, broad consensus, and pressures from international organisations: all the ingredients are there for a paradigm shift in labour market policy throughout Europe and possibly beyond. Yet the evidence is more mixed. Several countries are embracing the flexicurity model as a blueprint for labour market reform, but some others are clearly lagging behind. This is the case especially in countries belonging to the 'Mediterranean Rim', where labour markets are traditionally most rigid (France, Greece, Italy, Portugal and Spain).

Why, in the context of clear incentives and policy consensus, is it so difficult for some countries to change policy and begin implementing the flexicurity model, which has seemingly proven such a success in other countries? Why have some countries enacted the policies constitutive for flexicurity whereas others have failed?

In this paper, we argue that the application of a flexicurity strategy in the countries of the 'Mediterranean Rim' is complicated by the lack of social trust between social partners and the state as well as political economy traditions that highlight the role of labour market regulation as a source of social protection. More precisely, we argue that a flexicurity strategy presupposes the weakening of job security regulations, here understood as restrictions on hiring and firing, in order to increase labour market flexibility. Such an endeavour, however, is impeded by the importance of job security regulations as a form of social protection in Southern and Continental Europe (Bonoli 2003). Attempts to compensate for the deregulation of job security regulations by providing generous unemployment benefits and ALMP are likely to fail due to a lack of trust between social partners and the state (Rothstein 2000). Coordinated reforms of several labour market institutions are simplified by a long history of political exchange and cooperation between social partners and the state, a condition which is given in Northern Europe, though not in countries belonging to the 'Mediterranean Rim' (Crouch 1993).

Theoretically, we stress the role of state–society relationships, path dependency and social trust. As argued in the next section of this paper, we focus on critical junctures, or crucial moments in the development of labour market policy, when key decisions affecting future developments have been made. The objective of the comparison is to reconstruct sequences of events that characterise the different national trajectories, and in this way shed light on the puzzle of why some countries have successfully implemented a flexicurity strategy while others have not.

In the subsequent sections, we present a parallel account of the historical development of labour market policies in Italy and Sweden from early post-war years to the present day. These countries have been selected on the basis of their prominence in the scholarly literature. Next to Denmark and the Netherlands, Sweden is one of the most prominent examples of a successful implementation of the flexicurity strategy while Italy is among the most prominent exponents of the 'Mediterranean Rim'. The selection of Sweden, a country that scores relatively high on job protection, might look controversial at first sight; however, it should be remembered that Swedish flexicurity policies are supported by collective bargaining at the company level (Philips and Eamets 2007: 16) and social partners are allowed, according to law, to negotiate away many features of law (Iversen and Stephens 2008: 609).[2]

The discussion is structured into three key moments in the development of the current labour market regime: the setting up of a regulatory system in the early post-war years, the responses to the employment crisis in the 1970s and the adaptation to a post-industrial labour market in the 1990s and 2000s. A final section discusses the two cases and three key moments in a comparative perspective and summarises the major findings.

The Role of History in the Politics of Reform

Our argument is based on three theoretical approaches in comparative politics, which stress the role of history in the politics of reform: state–society relationships, path dependency and social trust. Countries entered given policy paths due to state–society relationships that were dominant at the time key decisions regarding the social protection of citizens were made (Bonoli 2003). The exact timing of these moments varied across countries, but it generally coincided with the emergence of social problems due to industrialisation and the break-up of pre-modern forms of social solidarity. Confronted with increasing social problems, states reacted by providing social security through channels that were available to them at that point of time.

In countries where capitalism developed in the context of authoritarian central states, as was the case in Italy, the state relied on the legal regulation of employment to provide social security to wage earners. In these countries, the conflict between the modernising state and the Catholic Church led to the development of dominant states that filled the political space and crowded out other social actors such as the church or the labour movement (Crouch 1993). By challenging the modern state, the Catholic Church, accidentally and indirectly, supported the development of a state apparatus that tried to take over as many responsibilities as possible (Badie and Birnbaum 1983: 88).

This also had important consequences for the labour movement. Entering the field when culture wars between the church and the state were already ongoing, it was met with state repression (Bartolini 2000: 395–6) and found the state inaccessible (Crouch 1993: 302). This often resulted in an ideological polarisation and fragmentation of the labour movement, which consequently reduced its power resources.

In contrast, collective bargaining played a more important role in countries characterised by traditions of power-sharing between organised interests and the state, such as Sweden. In these countries, the development of trade unions was not constrained by the state (Armingeon 1994). As a result, they quickly gained in strength and challenged employers. Employers responded by strengthening their organisation and by engaging in centralised bargaining with the trade unions, an organisational move that was quickly imitated by the trade unions (Swenson 2002).

These organisational moves led to the development of 'general agreements' between the trade union movement and the employers' associations such as the 1906 December Agreement in Sweden. Among others, this agreement regulated the employers' right to hire and fire. These regulations were established before Sweden introduced parliamentarism. This is important in order to understand the political parties' non-challenging attitudes vis-à-vis these regulations. The political parties accepted the labour market organisations' primacy in labour market questions. Put differently, the labour market organisations filled the political space (Crouch 1993).

Thus, the starting points could not have been more different. While Italy was characterised by an authoritarian state and a weak and fragmented trade union movement at the time of industrialisation, Sweden's trade union movement was centralised, encompassing and engaged in corporatist negotiations with the employers' association while the state only played a minor role.

Once these countries had entered a given policy path, initial decisions affected policy developments to a significant extent. In subsequent situations of economic and political crisis, policy-makers relied on well-known recipes and predominantly used those instruments that were already in place to react (Bonoli 2003). This pattern of policy-making corresponds to a path-dependent process. Path dependency implies that decisions taken at earlier stages lock countries into a given policy path (North 1990). Put differently, initial decisions increase the costs of moving to an alternative path and provide incentives to remain within the established path (Levi 1997: 28). This does not imply that other variables, e.g. the power resources of social actors, do not influence policy developments. However, their influence is constrained by political institutions.

Initial decisions not only affect the costs of moving to a different path, existing policies and state–society relationships also shape normative views as to what are appropriate policy instruments and options in given circumstances. Operating in social contexts of high complexity and opacity, political actors are heavily biased in the way they filter information into existing 'mental maps' (Pierson 2004: 38). Rather than considering all available options as equally possible, political actors tend to have a particular understanding of what is the right way of doing things. As argued by Wendt (1999: 188): 'Social systems can get "locked in" to certain patterns by the logic of shared knowledge, adding a source of social inertia or glue that would not exist in a system without political culture.'

This shared knowledge is often based on historical experiences and their interpretation by political entrepreneurs (Scharpf 1997). These 'collective memories' have a profound impact on the level of social trust in a society – here understood as 'the expectation of one person about the actions of others that affects the first person's choice, when an action must be taken before the actions of others are known' (Ostrom 1998: 12) – and the political options available to political actors (Rothstein 2000). Without norms of trust, social dilemmas are unavoidable as social actors are not able to find cooperative solutions to societal problems. The classic example is the prisoner's dilemma. In the absence of social trust, actors are likely to opt for a non-cooperative strategy as they expect the other party to maximise their outcome. As argued by Scharpf (1997: 89): 'If one party acts from a solidaristic orientation while the other is motivated by competitive preferences, then the trusting party would be left with its own worst-case outcome.' Thus, the ability to trust becomes the crucial problem. Only in situations of high trust can we expect actors to engage in a cooperative solution.

However, social trust is not a sufficient condition for cooperative solutions. If one of the parties can get a higher outcome by taking unilateral action, it will be tempted to so as it is difficult to resist the temptation to pursue a first-best policy choice even though second-best policy choices have been effective due to cooperation and high levels of social trust in the past. This defective strategy, however, adds to the collective memory of a society and may complicate future cooperative action. Therefore, *histories* of successful political exchanges are important in order to get parties to accept second-best solutions, i.e. political exchanges *here and now*. Thus, it is exactly the absence of social trust that complicates the development of social trust, as the collective memory of failed cooperation demonstrates that cooperation is unlikely (Rothstein 2000: 479). Put differently, the more we think that people cannot be trusted, the fewer people will indeed be trustworthy. As a result, societies tend to get trapped in situations of low social trust and, as a result, inefficient outcomes.

The level of social trust is not solely the result of past encounters. Factors such as ethno-linguistic homogeneity (Fulcher 2002), country size

(Katzenstein 1985) or the level of equality (Rothstein and Uslaner 2005) are likely to influence the development of social trust. So are rare events such as wars. For instance, Katzenstein (1985) identifies the crisis experiences in the 1930s and 1940s as crucial for the high levels of social trust in small European states. In contrast, civil wars are likely to contribute to ideological polarisation even after the end of the violent conflict and thereby undermine the development of high levels of social trust.

At critical junctures when paths are either reconfirmed or left, the relative power of business and labour and the level of social trust among the partners determine the outcomes to a considerable extent. In the context of this article, this view implies that the three pillars of the flexicurity strategy are not the result of a grand design, but rather the consequence of power struggles between social partners who have an interest in arriving at compromises because none of them can get their first-best choice (a neo-liberal and a traditional social democratic strategy, respectively). The compromise is facilitated by previous political exchanges, which have been instrumental in producing a sufficiently high level of social trust to overcome collective action problems. In the absence of trust, it is likely that social partners remain trapped in a social dilemma, since both parties assume that the other party will be motivated by competitive preferences and, as a result, opt for a non-cooperative strategy themselves (Rothstein 2000).

Thus, our argument implies that policy-makers do have some choice on how to respond to new problems, but the menu of options they can choose from is constrained by the past. Coordinated reforms of several labour market institutions are simplified by a long history of political exchange and cooperation between social partners and the state, a condition which is given in Northern Europe, but not in countries belonging to the 'Mediterranean Rim'.

Trajectories of Labour Market Policy in Italy and Sweden

A rapid inspection of the labour market policy trajectories of Italy and Sweden allows us to identify three key moments in the development of the current labour market regime: the setting up of a new regulatory system in the early post-war years, the responses to the employment crisis in the 1970s and the adaptation to a post-industrial labour market in the 1990s and 2000s. Developments in the two countries are described in parallel.

Setting up a New Regulatory System

Sweden. Before World War II Sweden had already established a tradition of compromise and negotiation among the social partners, which culminated in the 1938 Saltsjöbaden agreement between the blue-collar trade union federation (LO) and the employers' association. Employers accepted the unions and the Social Democrats' preference for a strong welfare state in return for labour peace, preservation of private control over property and the capital market and economic openness (Katzenstein 1985: 141–42).

Building on this tradition, 1948 saw the setting up of a National Labour Market Board (AMS). AMS was staffed by representatives of employers and the trade unions, and had the important task of securing the smooth functioning of the labour market by administering the labour market exchange system. According to Swenson (2002: 280), AMS became a tool employers used in order to ration labour in the context of chronic labour shortages in the post-war years. Above all, AMS played an essential role in the development of ALMPs (Rothstein 1985).

The key element of the Swedish post-war model, however, was arguably the so-called Rehn–Meidner model. Put forward in 1951 by two trade union economists, the essential objective of the model was to achieve sustainable full employment, i.e. full employment that would not generate excessive inflationary pressures. Its main ingredients were restrictive fiscal and monetary policies and wage moderation. Wage moderation was to be enforced through a solidarity wage policy, which basically meant a strong egalitarian pressure on the wage distribution. This was supposed to provide incentives for Swedish producers to invest in productivity-enhancing technologies. If productivity lagged behind imposed wage growth, companies would find it difficult to compete.

But of course not every industry would be able to keep up with the pace of wage increases agreed centrally. Low productivity industries were to be priced out of the market as collectively bargained wages increased. It was in order to deal with the workers that would find themselves unemployed that Rehn and Meidner conceived ALMPs. As unproductive companies were pushed out of the market, the redundant workers were to be retrained and made available for expanding, high productivity industries. The idea came from the trade unions, but was clearly acceptable to employers. In fact, according to Swenson (2002: 275), it was probably them who suggested it in the first place.

The employers' support of ALMPs has to be seen in the context of increasing power resources of the trade union movement. From 1936 until 1976, Social Democracy had been in government (Esping-Andersen 1985). The Social Democrats' close links with the LO gave the trade unions a strong say in policy-making, while the Social Democrats' political dominance pushed employers towards a corporatist strategy (Fulcher 2002). Lacking the power resources to put an end to the LO's solidaristic wage policy, employers supported the introduction of ALMPs in order to offset its negative consequences. As a result, the employers' support for ALMPs should not be understood as a first-best but rather a second-best policy choice (Huber and Stephens 2001: 33).

There was no place for rigid job security regulations in the Rehn–Meidner model. Quite the contrary, restrictions on firms' ability to hire and fire would have constituted an obstacle to the occupational mobility on which the model was based. Restrictions on hiring and firing were mostly regulated by means of collective agreements. In Sweden, this tradition goes back to the 1906 December agreement. Given this tradition of labour market regulation by social partners, law-based job protection would have been difficult to implement. In a way, the Rehn–Meidner model already included the key elements of flexicurity: flexibility with regard to hiring and firing and an emphasis on training.

Italy. Italy emerged from World War II with a balance of power strongly tilted in favour of the radical, essentially the communist left. However, the radicalisation of the left was not purely the result of World War II. Rather, first traces were already visible in the eighteenth and nineteenth centuries. The Catholic Church had challenged the young and modernising state in domestic policy, especially in the area of education and social policy. As a reaction to this challenge, the young state built up a comprehensive administration, a tight network of regulations and tried to fill the political space. Rather than engaging in cooperation with social and political actors, the state 'became ''jealous'' of political space, reluctant to share it, and thus exclusive in its claims to sovereignty' (Crouch 1993: 302).

This had important consequences for the labour movement. Confronted with a dominant state not willing to share political space, the labour movement remained organisationally weak and turned radical (Bartolini 2000). There were attempts to unify the labour movement and establish a more cooperative industrial relations system in the post-war period. However, the 'international politics of the Cold War intervened and returned relations to their familiar path before changes could be implanted' (Crouch 1993: 305). As a result, the Italian interest intermediation system remained one of 'contestation' and 'low trust', in which concerted efforts to reform existing social and political institutions were very unlikely. Moreover, the Italian trade unions remained fragmented, with communist, socialist and Christian democratic trade unions competing for members.

The first steps in labour market policy were taken very early in the post-war years, and they were clearly influenced by this balance of power. After the end of the war, a 'national unity' coalition government led by de Gasperi consisting of Christian Democrats, Socialists and Communists was formed that lasted until 1947 (Bedani 2002). It was this government that set the course for Italy's labour market regime. They emphasised law-based job protection. In 1945 a law imposing a moratorium on lay-offs was adopted. It remained in force until 1947. In 1946, a mechanism providing the automatic indexation of wages to inflation came into force. Finally, temporary unemployment benefits (*Cassa integrazione*), a state payment that provides a replacement income for workers who are temporarily laid off, was adopted in 1947. This is a unique Italian institution, which, by keeping unemployed people connected to their last employer, severely restricts workers' mobility

(Gualmini 1998: 100–101). Strikingly, the key elements of the post-war Italian regulatory regime had already been put in place by 1948.

In the following years, these instruments were strengthened, but one also saw serious attempts at introducing other instruments closer to the Swedish strategy of promoting workers' upskilling and mobility. Italian initiatives, however, differed from Swedish ones in at least two important respects. First, they were not managed by the social partners, and tended to be controlled directly by the state. Second, they tended to be extremely tightly regulated. Typically, for fear that employers might take advantage of such instruments to underpay workers, the unions managed to impose extremely harsh conditions. The result was that most of the active and positive flexibility measures were hardly used.

One example among many illustrates these two points: the system of labour exchanges. In 1949, the state took over from the unions the existing system of labour exchanges. The unions opposed the measure and managed to obtain some concessions in the shape of a tightly regulated process of access to employment. In the new system, job seekers were prioritised according to 'need' (breadwinner status, age, length of unemployment, other income). Employers had no choice on who to employ, except in some cases (management positions, specialised workers). As a result, during their first 40 years of existence, labour exchanges were avoided by employers (Gualmini 1998: 103–5).

These policies were the result of a cumbersome political situation. In the parliamentary arena, Italian politics was dominated by the Christian Democrats, which systematically excluded the electorally strong Communists from government participation after 1948. The corporatist arena was characterised by fragmentation along ideological lines. Awkwardly, the communist trade union federation, which had strong links to the Communist Party, was by far the strongest labour organisation. Moreover, the employers were unfavourable towards government involvement as they considered the Christian Democrats to be too dependent on the Christian Democratic trade union federation (Bedani 2002). In this situation of mutual distrust, collaborative solutions were next to impossible.

Summary. After World War II, both Italy and Sweden continued on the path they had entered several decades before. In Sweden, the 1906 December Agreement was followed by the 1938 Saltsjöbaden Agreement. Increasing egalitarian pressures due to centralised wage bargaining were compensated by investing in ALMPs while the labour market remained very flexible. Thus, the Swedish development has to be seen as a compromise between capital and labour made possible by a tradition of political exchanges. In contrast, in Italy, political actors attempted to move to an alternative path by establishing corporatist industrial relations and a 'national unity' government. However, already by 1948 mutual mistrust led to the collapse of the 'national unity' government and Italian politics moved back to its original 'low trust' path as the Christian Democrats systematically excluded the electorally strong Communists from government participation and dealt with a vociferous if divided, communist-led labour movement essentially by repression.

Responding to the Employment Crisis

Sweden. The Swedish response to the economic crisis of the 1970s was based on three key developments. First, public employment was expanded dramatically. Between 1970 and 1990 the proportion of working-age individuals employed by the government increased from 15.1 per cent to 25.7 per cent (Scharpf and Schmidt 2000: 343). This was partly an unintended consequence of the Rehn–Meidner model operating in an increasingly service-based economy. Many service jobs offer limited scope for increases in productivity. The Rehn–Meidner model would price these services out of the market, as it did with inefficient industries. At the same time, full employment could not be achieved in a post-industrial context without expanding employment in the service sector. The only way to do this, however, given the high level of wages imposed by centralised bargaining, was by expanding public employment (Iversen and Wren 1998). Consequently, total taxation amounted to 50 per cent of GDP by the end of the 1970s, more than ten percentage points above the OECD-18 average (Scharpf and Schmidt 2000: 360).

Second, the 1970s saw a reorientation of ALMPs. It is noteworthy that the crisis years (mid-1970s to the late 1980s) did not result in open unemployment in Sweden. This was partly the result of the expansion of public sector employment, but also a consequence of the liberal use of ALMPs. In fact, by providing an occupation to otherwise jobless persons, ALMPs allowed Sweden to keep employment at pre-recession levels (Mjøset 1987: 430). This was obviously a rather new function for ALMPs, which was adopted by default in the context of a stagnating economy with little net job creation outside the state sector. It turned ALMPs into a tool for reducing labour supply, more akin to early retirement than to its original function of promoting mobility and upskilling.

Third, under pressure from an increasingly powerful and radicalised labour movement as well as an unsatisfied public, Sweden turned to public legislation of job security regulations (Emmenegger 2010). Workers' discontent resulted in wildcat strikes and a radicalisation of the trade union movement. In the 1960s, the trade union movement tried to achieve restrictions of the managerial prerogatives by means of collective agreements. Despite some improvements in 1964 and 1966, they had to realise that the employers were not willing to concede their rights. Not able to satisfy the workers' demands on their own, the trade unions turned to the political arena. As argued by Kjellberg (1992: 99), 'this development was a substantial departure from the Swedish model of cooperation, of "agreement in preference of legislation"'.

Just a few months later the social democratic government established a labour law commission which was to draft an act on co-determination and increase workers' protection against dismissal. On the basis of the discussions in the labour law commission, the Riksdag enacted several public acts, which circumscribed the managerial prerogatives. In the context of this article, the 1974 Employment Protection Act is particularly important. Among other things, it introduced rules concerning grounds for dismissal, notice periods, consultation with trade unions and priority rules for dismissals in case of redundancies (Neal 1984).

Italy. The late 1960s and 1970s saw a reinforcement of union and more generally of left-wing influence. The Socialist Party was invited to join the ruling coalition in 1962. In the following years, the economic crisis combined with a radicalisation in politics resulted in an extremely tense political climate (Bedani 2002). It is in this context that many initiatives in labour market policy were taken. These tended to imply the reinforcement of the route adapted in the early post-war years: social protection through job security (Ferrera and Gualmini 2004).

Stricter job security regulations were a response to union demands, which prioritised job security after a wave of collective dismissals in 1964–65. One important piece of legislation was the 1966 law on individual lay-offs, which introduced the legal notion of an unjustified dismissal. In 1970, the rules governing individual dismissal were made even stricter. If a dismissal was found unjustified by a labour tribunal, the employer was forced to re-employ the worker, without having the option of paying compensation. By forcing unjustly dismissed employees back onto the firm's payrolls, Italy has one of the strictest job security laws among OECD countries. From the employers' point of view, individual dismissals are a highly cumbersome procedure with an uncertain outcome. This explains their preference for non-standard forms of labour contracts (Ferrera and Gualmini 2004; Samek-Lodovici and Semenza 2008).

The 1970s also saw a reinforcement of temporary unemployment compensation (*Cassa integrazione*). The replacement rate of the benefit was increased to 80 per cent of earnings and the duration extended to up to five years. During this period of time, the beneficiary remains technically employed by his or her original firm, but performs no work. Theoretically, once business picks up, beneficiaries are expected to go back to standard employment. However, in the context of industrial restructuring, with companies undergoing downsizing, this outcome seldom materialises (Ferrera and Gualmini 2004; Gualmini 1998: 115).

The institution of temporary unemployment benefit is arguably a major obstacle to the development of a flexicurity model. Jobless former workers remain technically employed by their old firm and may be more inclined to wait for better times than to look for a new job. Policy-makers certainly became aware of this shortcoming in the Italian unemployment compensation system, and tried on various occasions to reform temporary unemployment benefits. In 1977, for example, temporary unemployment benefits were coupled with a 'mobility allowance', a measure encouraging recipients to look for a job elsewhere. Workers wishing to make use of this opportunity had access to training. But this measure was hardly used, because of heavy bureaucratic requirements. Most excess workers were to remain indefinitely in *Cassa integrazione* (Barbier and Fargion 2004: 445; Gualmini 1998: 131–2).

The tense political climate of the 1970s was certainly not favourable to the development of an active and flexible regime of labour market regulation, which requires some degree of collaboration between the state, employers and employees. Yet even at the height of the crisis years some initiatives were taken in this direction, such as a new law on vocational training adopted in 1977. It contained incentives for employers who hired with 'training/work contracts'. The law was unsuccessful, because employers did not use the new contract. As in many past training initiatives, employers were not allowed to select candidates, who were sent to them by labour exchange offices (Gualmini 1998: 130).

Summary. The 1960s saw the strengthening and radicalisation of the labour movements in both Italy and Sweden. In Italy, the labour movement successfully enforced stricter job security regulations against the will of the employers. Moreover, the movement successfully sabotaged the introduction of more active elements in labour market policy by enforcing rules that restricted the employers' freedom to select candidates. As a result, Italy continued on its path of social protection by job security. In contrast, Sweden experienced a substantial departure from the basic principle 'agreement in preference of legislation'. The radicalised labour movement enforced the 1974 Employment Protection Act against the will of the employers. Moreover, the 1970s saw the usage of ALMPs as a labour reduction tool. This was possible because the ever stronger labour movement was no longer dependent on cooperation with the employers. However, the extent of path departure should not be overestimated. Even though the political climate became tense at the national level, company-level bargaining was still characterised by cooperation and the willingness of trade unions to accept dismissals for economic reasons (Iversen and Stephens 2008: 609).

A Regulatory Regime for a Post-industrial Economy

Sweden. Swedish labour market policy was to change with the recession of the 1990s. The severity of the downturn, the loss of confidence of international investors which culminated in the 1992 devaluation of the krona (by some 20 per cent) and the degree to which the post-war model had already been overstretched to deal with previous recessions allowed no room for manoeuvre. The government did put more and more people in employment programmes (in 1994 6 per cent of the economically active population, see Anxo and Niklasson 2006: 357). In the end, however, Sweden had to let go, and open unemployment rose from 1.6 per cent in 1990 to 8.1 per cent in 1996 (Scharpf and Schmidt 2000: 341).

What role did ALMP play during those years? In the Swedish case, from the 1970s onwards, ALMPs increasingly resembled alternatives to market employment. On offer one finds training programmes or relief works, i.e. temporary jobs arranged mostly in the public sector. Typically, these jobs were used to renew entitlement to unemployment insurance (theoretically limited to 14 months). During these years, there was a relative shift away from supply-side measures towards demand-side interventions, i.e. job creation programmes (Anxo and Niklasson 2006: 360). Micro-level evaluations pointed out that most of these schemes were rather ineffective in terms of favouring labour market re-entry (Calmfors *et al.* 2001). The original aim of ALMPs, to upskill workers so that they can enter more productive occupations, had somewhat fallen out of sight.

Since the mid-1990s, however, ALMPs have adopted a more pragmatic stance, favouring labour market re-entry for excluded individuals. Work requirements have also been strengthened so that those who are still jobless after 100 days of unemployment may be required to accept a job anywhere in the country and a wage up to 10 per cent lower than the unemployment benefit (Clasen *et al.* 2001: 211).

The unemployment insurance reform of February 2001 further strengthened the pro-employment orientation of ALMP. This was done through a number of measures. First, the possibility to renew entitlement to unemployment insurance through participation in labour market programmes was abolished. Second, the reform introduced an 'activity guarantee' for the long-term unemployed or people at risk of becoming long-term unemployed. This consists of more individualised activities clearly geared towards re-employment (Swedish Government 2002; Timonen 2004).

Some commentators have interpreted this reorientation of ALMP in terms of a return to the original model (Anxo and Niklasson 2006: 360). What is important, however, is that Sweden has turned towards the same mix of positive and negative incentives in labour market policies that characterises the flexicurity strategy. Although tempted in the 1980s to use ALMPs as de facto 'labour reduction tools', Sweden managed to return to a more efficient use of labour market programmes.

The political responsibility for the reorientation was clearly with the Social Democrats, in power without interruptions from 1994 to 2006. However, despite the continued electoral success of the Social Democratic Party, these reforms took place in a different environment than those in the 1970s. The economic changes since the 1980s had strengthened the position of employers, which had used their regained strength to implement, among other things, a dramatic decentralisation of wage bargaining (Pontusson and Swenson 1996). As a result, the labour movement was no longer in a position to enforce its policies against the will of the employers. Rather, it had to settle for second-best solutions.

Similarly, employers regained interest in cooperative solutions after the Social Democrats seized control over the government in the mid-1990s. Immediately after the establishment of a minority government led by the Social Democrats and supported by the Left Party and the Green Party in 1998, the employers' association and the LO embarked on collective negotiations in an attempt to revive the 'spirit of compromise' (*Saltsjöbadsanda*), which had guided labour market politics in Sweden from the 1930s to the 1960s (Pestoff 2002). Clearly, this decision was influenced by the fear that this new wholly left-wing government coalition might implement policies that run counter to business interests.

Italy. As elsewhere in Europe, the 1980s in Italy were characterised by a reduction in the influence of the labour movement. Even though the Socialist Party was part of the ruling coalition, its contribution to policy was less radical than in the past. Its overall orientation in labour market policy included elements that would in the late 1990s become part of the Third Way.

Under the rubric of deregulation one of the most significant developments was probably the abandonment of automatic indexation of wages in 1982. In addition, some of the cumbersome labour exchange regulations introduced in the early post-war years were undone, allowing, for example, employers to select candidates for work training contracts. In 1987, regional employment agencies were introduced, which were meant to be more dynamic actors than the existing labour exchanges (Gualmini 1998: 143). Legislation on new forms of employment, such as part-time employment, was also initiated during the 1980s, in general following the familiar pattern: a new tool was introduced but it was wrapped with so much red tape that it was hardly used. However, like elsewhere in continental Europe, the main tool for dealing with labour market problems was reduction of the labour supply, through a variety of channels including invalidity insurance and early retirement programmes.

The 1990s were characterised by the collapse of the post-war party system and by the emergence of new parties organised in left-wing and right-of-centre coalitions. Employers became more assertive in demanding labour market deregulation. The key political parties were willing to pursue this type of policy, also because of the pressures coming from international organisations and the EU. The EU became particularly influential towards the end of the decade through the European employment strategy which actively promotes a flexicurity approach to social and labour market policy (Goetschy 1999).

The 1990s (and 2000s) saw instances of concentration among the partners, both in the industrial relations arena (wage bargaining) and in social policy (pension reform), through the agreement of a number of social pacts (Haddock 2002). While this development may have contributed to strengthen trust between the social partners (and state actors), its impact on the key elements of flexicurity was limited. Instead of reducing job security and developing ALMPs, the main gist of policy has been towards introducing labour market deregulation at the margins of the labour market, while leaving intact the protection for core workers.

Some important elements of deregulation at the margins were introduced with the 1997 labour law reform. These included the deregulation of part-time employment, the abolition of the state monopoly on employment services, and some social investment elements such as the setting up of a fund paying for the training of atypical workers, financed by a levy of 5 per cent of total gross wages paid by temporary employment agencies, and a revised regulation of employment/training contracts. The 1997 reform also introduced some of the least protected forms of employment: fixed-term contracts, 'project-based contracts', which basically treat the person who is hired for a fixed term as a self-employed (Samek-Lodovici and Semenza 2008: 169).

The most fundamental labour market reform adopted since the turn of the century is the so-called 2003 Biagi Law. This reform introduced a number of different labour contracts that employers can use as an alternative to the overprotected standard open-ended contract. The aim of the reform was to facilitate access to employment for disadvantaged workers, to fight informal employment, but also to improve the protection of some of the most precarious contracts introduced in 1997. Some contracts introduced previously were subjected to somewhat stricter rules, adding up to 35 different types of work contracts.

The Italian route to labour market deregulation is clearly characterised by a strong dualism. Labour market insiders continue to enjoy the full protection of the post-war model, whereas outsiders, mostly young workers, women and immigrants, are employed on extremely precarious terms. This dualism is the result of the fact that outsiders did not have any voice in the negotiations between employers and trade unions (Graziano *et al.* 2008). Temporary employment is certainly a better stepping stone to an open-ended contract than unemployment, but the risk of being trapped in it for a long time is high.

Spending on ALMPs has increased since 2000 (although it remains very low if weighted by the unemployment rate), but the Italian unemployment compensation system continues to lack some basic elements of an ALMP. As Samek Lodovici and Semenza (2008: 168) put it:

> There is no relation between the payment of benefits and retraining or job search requirements. Active policies to support job-searching and

incentives to accept regular but poorly paid jobs, together with screening devices to detect moral hazard are usually lacking, especially in Southern Italy.

Summary. The 1980s and 1990s were characterised by a (re-)strengthening of employers and increasing demands for flexibility in open economies. This new political situation favoured political compromise in both countries. In Sweden, ALMP was reoriented towards the original model. Thus, after the failure of the more contentious strategy, the social partners returned to the original path, thereby supporting our argument that shared knowledge and collective memories facilitate the adoption of coordinated and collaborative solutions. In the Swedish case, a return to the successful pre-crisis model was deemed to be the right move. In contrast, in Italy, a shorter experience of concertation, facilitated by the exchange of political personnel, but limited to specific pacts, did not result in the adoption of broader coordinated solutions in labour market policy, such as the reduction of job security regulations and introducing decent unemployment compensation and ALMP. Initial attempts to introduce some elements of flexibility without corresponding improvements in the area of social security were successfully challenged by the trade unions. However, the increasing power resources of Italian employers led to some changes at the margins of the labour market. As a result, Italy is increasingly characterised by a dualism between labour market insiders protected by trade unions and labour market outsiders who carry the burden of adjustment.

Conclusions

The objective of this article is to shed light on the factors that promote or prevent the development of a flexicurity-oriented labour market regime. The empirical evidence is limited to two countries and one should certainly be cautious in generalising on this basis. The two-country comparison nevertheless allows us to say something about the theoretical arguments put forward at the beginning of the paper.

State–society relationships had a profound impact on the choice of means of social protection after World War II. In Italy, capitalism developed in the context of a strong and authoritarian state. For a long time, the state had to fight with the church to gain control over social or educational policy issues. This conflict led to the development of a dominant, though not necessarily efficient, state that filled the political space and crowded out other social actors. In contrast, negotiated adjustment played a more important role in countries characterised by power-sharing between organised interests and the state such as Sweden.

These initial developments were very consequential for the labour movement. In Italy, the labour movement entered the field when culture wars between the church and the state were already ongoing. As a result, they were met with state repression and found the state inaccessible. This often resulted in ideological polarisation and fragmentation of the labour movement, which consequently reduced its power resources. The situation in Italy contrasts sharply with the Swedish case. In the Scandinavian countries, the development of the trade unions was not constrained by state. As a result, they quickly gained in strength and engaged in collective negotiations with the employers.

In terms of social trust, the situation in Italy and Sweden could not have been more different. Swedish social partners reaffirmed their preference for cooperative agreement over state legislation in the 1938 Saltsjöbaden agreement. In contrast, attempts to establish a more cooperative industrial relations system in the post-war period in Italy failed as the conflict between centre-right forces led by the Christian Democrats and the radicalised left led by the Communists intensified due to international politics. While the first Italian post-war 'national unity' government consisted of the Christian Democrats, the Socialists and the Communists, the subsequent governments, all led by the Christian Democrats, excluded the Communists despite their electoral success and the important role of the communist trade union federation in the corporatist arena. As a result, Italy was trapped in a situation of low social trust.

In the late 1960s and 1970s, a 'red wave' (Mjøset 1987: 420) came over Western democracies. New social movements mobilised against the post-war capitalist system and the transformation of the manufacturing system. All over Europe, labour unrest increased, new radical left-wing parties emerged and the capitalist economy came under pressure. In Italy, the state reacted to this wave of labour unrest with the enactment of social protection that tied the worker to the firm by means of job security regulations or temporary unemployment compensation. Thus, Italy reinforced the route adopted in the early post-war years: social protection through job security.

In Sweden the 'red wave' led to important changes. Unsatisfied with the current state of affairs, the radicalised labour movement put the high trust equilibrium to the test. After failing to abolish the managerial prerogatives by means of collective agreements, the trade unions turned to the social democratic government and demanded public legislation, which ultimately led to the 1974 Employment Protection Act. Moreover, the 1970s saw the usage of ALMP as a 'labour reduction tool'. However, the extent of the shift was limited by what was happening in other policy fields, most notably the development of a child care system resulting in a massive expansion of female labour supply. Moreover, company-level bargaining remained cooperative. Nevertheless, these policy changes can be interpreted as a path departure. However, as we argue, this departure proved to be temporary.

The economic developments since the 1980s, most notably the internationalisation of capital markets, led to a strengthening of the employers' position. In Sweden, the employers used their regained strength to implement a dramatic decentralisation of wage bargaining. In Italy, the employers successfully pushed for reforms that facilitated the usage of non-standard employment contracts, while the trade unions managed to prevent a deregulating of job security for permanent workers, thereby leading to an increasingly dualised labour market.

In the 1990s, both Italy and Sweden experienced a re-orientation of their labour market policies. In Sweden, this re-orientation implied a turn towards the same mix of positive and negative incentives in labour market policies that characterises the flexicurity strategy. To a certain extent, this can be interpreted as a return to the original model. After the failure of a more contentious strategy, the social partners returned to the original path, thereby drawing on shared knowledge and collective memories of successful past encounters. Interestingly, Swedish-type policy proposals and actual legislation are adopted in Italy as well. However, they seem to come at the wrong time, when policy has already taken a different course, and fail.

In terms of the 'politics of flexicurity', interesting patterns can be detected. It seems that the relationship between a strong left and flexicurity is rather complex. A strong and radical left seems to be associated with advances in the direction of stronger job security regulations (first-best policy choice). There are three periods that can be characterised as strongly influenced by the radical left: Sweden in the 1970s, Italy between 1946 and 1948 and again in the 1970s. These are all moments at which job security regulations were reinforced, in either of the two countries examined.

The left seems to turn to flexicurity when it is more prone to compromise and consensual solutions to employment problems. This is the case in the 1950s and in the 1990s in Sweden and in the 1990s in Italy. To explain why left-wing parties take different positions in economic policy matters is beyond the scope of this article. What is clear, however, is that there is no invariant relationship between left-wing power and flexicurity. Flexicurity seems to be some sort of second-best option for the left: the choice it makes in power but forced to negotiate. This may be as a result of international pressure or structural weakness.

What role did employers play? Swedish employers endorsed flexicurity, in the 1950s in the shape of the Rehn–Meidner model. However, keeping the power resources of the labour movement in mind and considering the negative consequences of the LO's solidaristic wage policy on low productivity industries, the employers' support for ALMPs has to be seen as a second-best policy choice. Italian employers seem to be an absent actor until the 1990s. Between 1945 and the late 1980s they were quite clearly unable to influence policy since they refrained from using the various new tools adopted by successive governments. Things changed in the 1990s, when the new less protected employment contracts were introduced. These are clearly more in line with employers' preferences, given their widespread use.

The biggest difference between the two countries analysed here is the presence (Sweden) and absence (Italy) respectively of a tradition of cooperation between the social partners. One reason for the nearly systematic failure of Italian flexicurity measures lies in the lack of social trust between trade unions and employers. Trade unions, rightly or wrongly, expect employers to misuse the tools of flexicurity (ALMPs, flexible contracts, training contracts, etc.). They impose so much 'red tape' that employers refrain from using them. In this context, it is extremely difficult to see how a flexicurity-oriented model can emerge. The route taken by Italian policy-makers in the 1990s, of selective deregulation, may not go in the right direction in so far as the need to build social trust between the social partners is concerned. Given the choice, employers have shown a clear preference for the new flexible types of contract, which in a way confirms the view held by the unions that strict rules are needed to prevent exploitation taking place in the labour market. As a result, the social 'partners' in Italy continue to be trapped in a social dilemma.

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Notes

1. Not all scholars agree that these countries' good labour market performance is the result of a flexicurity strategy (e.g. Abrahamson 2006; Becker 2005; Schwartz 2001).
2. The selection of Italy might be criticised for country-specific factors that complicate the implementation of a flexicurity strategy (regional balance, role of the family, etc.). However, such country-specific factors are likely to exist in all countries. Moreover, these factors are potentially dependent on state–society relationships and the level of social trust.

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