

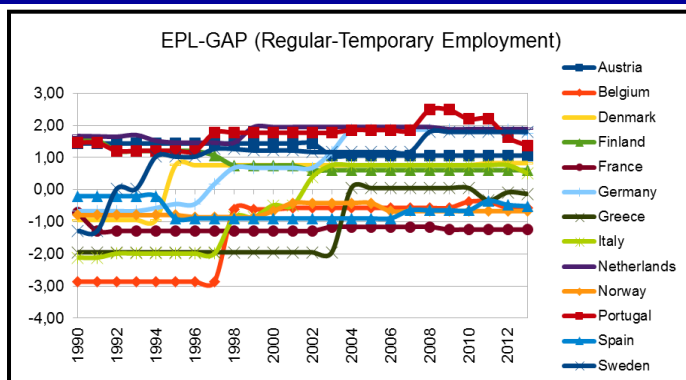
# Employment Protection Legislation, Labor Market Dualism and Inequality in Europe

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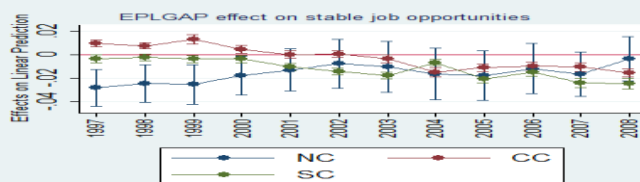
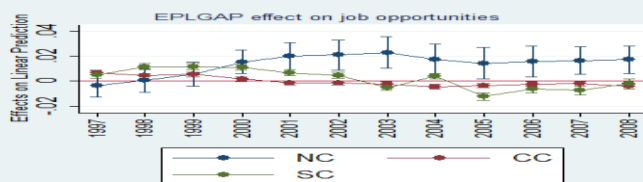
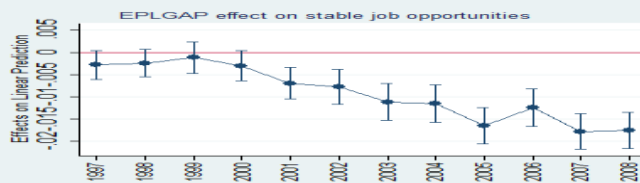
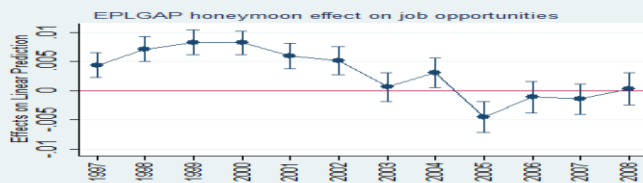
This paper deals with the relation between labour market regulation and the dynamics of overall employment and unemployment in continental Europe. We investigate the impact of the reforms of employment protection systems and of activating welfare policies across European labour markets, including Northern, Continental and Southern European countries.

We assess mid-term occupational outcomes of changing workforce exposure to unemployment and fixed term contracts and test the integrative strategies. Thus, particular attention is paid to the possible effect of “institutionally driven” labour market segmentation, mirrored by national discrepancy in employment protections of workers with distinct contractual arrangements and by the ratio of expenses on GDP in active versus passive labour market policies.

Our empirical analysis relies on pseudo-panel data based on EU-LFS (1992 – 2008) and 2013 updated OECD measures of EPL index. We apply fixed effect (FE) models with lagged independent variables.



The overall picture of results indicates a detrimental effect of unbalanced passive and active labour market policies, a negative trend of permanent employment and a ‘honeymoon effect’ of partial and targeted deregulation measures, whose effectiveness on overall employment, if any, appears to be progressively weakened over time. Indeed, even in presence of possible short-term “honeymoon effects” on employment, a strategy of labour market reform aimed to reduce labour market “frictions” merely by means of widening the insider-outsider cleavage, risks on the one hand to reduce stable job opportunities for the workforce, and on the other hand to rise economic uncertainty and employment volatility with no, or extremely poor, macro occupational gains.



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