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Labour Market Measures in Italy 2008–13: The Crisis and Beyond

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Introduction[1]

This report deals with the Italian reforms undertaken by various Italian governments during the last decade, in order to alleviate the employment cost created by the financial crisis, which hit the country during 2009. According to the review of the macroeconomic performance illustrated in the first chapter, Italy had already adopted several measures of flexibilization of labour contracts, starting in 1997 and continuing in 2003. As a result of these moves, Italy witnessed a significant increase in employment (in the order of 2.5–3 million new jobs), in the face of stable (or even declining in real terms) wages. As such, this growth was not sustained by internal consumption growth or by a flourishing export sector. This equilibrium path was rather unstable in terms of growth performance, and its fragility became apparent after the outbreak of the financial crisis. The employment rate declined by five percentage points, mostly among adult males; youth unemployment increased at a much greater rate than total unemployment. Italy's reaction at the onset of the crisis was mainly based on the extension of the short-time work scheme known as *cassa integrazione*, which saves jobs temporarily. Nevertheless, this defensive stance did not prevent a double-dip recession in 2011.

Geographical differences in employment performance persisted or even widened over the period of analysis, while gender differentials declined all over the country. These are indications that the labour market reforms that occurred in the last decade were able to modify the dynamics of employment generation, without, however, being able to address the historical roots of these imbalances. The reason may lie in the intrinsic nature of these reforms, which were able to increase flexibility only for the weakest segments of the Italian labour market, without affecting the bulk of the (employed) labour force. In addition, the stance of the macroeconomic policies was restrictive, due to stability pact requirements coming from the European Treaty. Indications of the stagnation framework are evident when analysing data on private consumption, which starts declining from the turn of the current decade.

The subsequent chapters deal with the dynamics of different areas of reform concerning the labour market. In the second chapter the changes in the employment relationship are reviewed and, in particular, the issue of temporary employment and the development of other elements of labour market flexibility, such as partial unemployment and reduced working time in the private sector, as well as the public sector employment. The most recent reform (enacted by the Ministry of Labour under Mrs Elsa Fornero in 2012) fostered the use of open-ended contracts, reducing the opportunity of misuse of temporary contracts and concurrently reducing the costs of individual dismissals. Concurrently there was a liberalization of the apprenticeship contract. The flexibilization of labour dismissal progressed with the current approval of the so-called "Jobs Act", by the present government. While it is too early to provide an assessment of these reforms, aggregate evidence indicates that employers reduced the use of job on-call and collaboration contracts in favour of fixed-term contracts, while the use of apprenticeship contracts barely changed and has always been very low throughout the period.

The third chapter examines the reforms of the unemployment benefits system and of the short-time work scheme (*cassa integrazione*) which subsidizes the reduction of work hours during recessions (there is no social assistance coverage at central level). Reforms went in the direction of extending the unemployment benefit system in a universalistic direction and reinforcing the contributory nature of *cassa integrazione*. The coverage of *cassa integrazione*, which generously covers only a limited fraction of dependent employment, was also extended. A further element that also plays a role is pension retirement rules, which were tightened in order to reduce the impact of previous measures on government budget.

The fourth chapter considers the wage-bargaining system, which in Italy is centered on national contracts at the sector level, covering almost all blue and white

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collar workers in the sector. Due to productivity stagnation, in the last decade real earnings remained stagnant, and many occupations witnessed a decline in real terms (especially within the public sector). One of the main factors explaining this decline is the increasingly low levels of entry wages (i.e. for newly hired young workers) due to the diffusion of atypical and apprenticeship contracts for first-job seekers. This raised the wedge between insiders and outsiders (mostly young and/or female workers), thus posing the additional problem of increasing wage inequality. Worker unions support the proposal of compensating workers for the frequent delays in the renewal of national contracts with *una tantum* compensations, while employers push for a reduction in the role of the national contract in favour of firm-level agreements. In an agreement signed in 2011, the social partners agreed on the fact that firm-level bargaining can derogate from national contracts with respect to salary schemes, allocation of working hours, and hiring and firing practices. Despite legal (and fiscal) encouragement, firm-level bargaining did not expand afterwards, mostly due to the economic recession.

The fifth chapter reviews the limited evidence on active labour market policies (ALMP), which mostly consist of employment conditional incentives and for which Italy spends less than most other countries. This scarce attention is partly due to the fact that ALMP are attributed to 21 regional governments, which have different priorities and financial means.

The final chapter concludes with a discussion of the importance of reviving the productivity trends as the only viable strategy to structurally solve the imbalances of the Italian labour market.

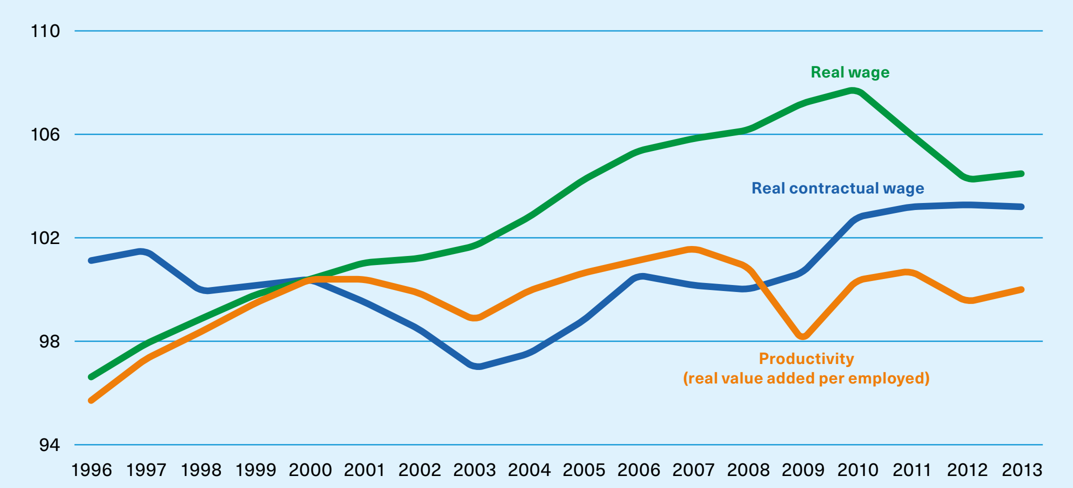
Trends in the Italian labour market

When looking at the macroeconomic indicators related to the Italian labour market over the previous decade (2000–09), one would be tempted to speak of a sort of economic miracle. A significant increase in employment, in terms of jobs (2.5 million) or people (almost 3 million) was accompanied by stable (or even declining in real terms) wages. Most of this change occurred in dependent employment, and drew a corresponding number of the working-age population into the workforce. The huge increase in employment was made possible by stagnating productivity growth[2] accompanied by a corresponding slow-down in real-wage growth (a yearly increase of 0.7 per cent over the sample period – see figure 1.1).

The aftermath of the financial crisis (which hit Italy only in 2009) reversed these dynamics in a significant way, yielding a decline in labour demand (as visible by the data on labour units) followed by a lighter decline in total employment. The following figures account for the main stylized facts which have characterized the evolution of the crisis in the Italian labour market since 2008 (see table 1.1). The overall employment rate, which for males has been stable at 70 per cent (in line with the European average), declined to 65 per cent as a result of the crisis. The female employment rate, which at 45 per cent has been far short of the European average (and of the Lisbon target of 60 per cent), has been stable at that level throughout the crisis.

The evolution of the unemployment rate confirms the relative advantage of females whose unemployment rate grew less than for males (although its level has always been higher). The picture of unemployment also makes clear the double-dip nature of the Italian crisis. Unemployment rose in 2009 after a prolonged period of decline (there was actually a hint of deterioration of economic conditions already in 2007 with unemployment mildly inverting the descending trend), then there were signals of recovery, but after few months at the end of 2010 the second dip of the crisis started, and with it unemployment started to grow again (see figure 1.2).

Figure 1.1 Wages and productivity – Italy (2000 = 100)



Source: Bank of Italy Annual Report – various issues.

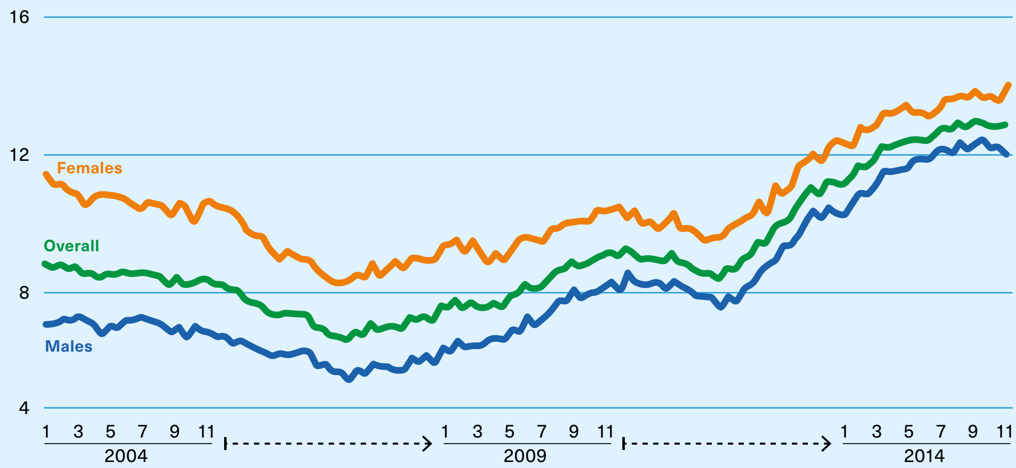
2. Measuring labour productivity with real value-added per capita and taking the year 2000 as reference point (equal to 100), it was 100.4 in 2008, fell to 97.6 in 2009, rose to 100.3 in 2011 and fell again in 2012 and 2013 (respectively 99.2 and 99.5).

Table 1.1 Employment rates, selection by gender, age and macro-region – Italy (per cent)

	Males 15–24	Females 15–24	Males 35–54	Females 35–54	Males (overall)	Females (overall)	North	Centre	South and islands	Italy
2003	33.1	24.6	89.1	56.8	70.0	45.2	65.2	60.5	46.4	57.4
2004	31.2	23.1	89.4	57.3	69.7	45.2	65.0	60.9	46.1	57.4
2005	29.9	20.8	89.8	57.7	69.7	45.3	65.2	61.0	45.8	57.5
2006	30.6	20.1	90.3	59.3	70.5	46.3	66.2	62.0	46.6	58.4
2007	29.6	19.5	90.3	59.8	70.7	46.6	66.7	62.3	46.5	58.7
2008	29.1	19.4	89.6	60.5	70.3	47.2	66.9	62.8	46.1	58.7
2009	26.1	17.0	87.9	59.7	68.6	46.4	65.6	61.9	44.6	57.5
2010	24.3	16.5	86.9	60.0	67.7	46.1	65.0	61.5	43.9	56.9
2011	23.1	15.5	86.7	60.3	67.5	46.5	65.2	61.1	44.0	56.9
2012	21.9	15.0	85.2	60.7	66.5	47.1	65.0	61.0	43.8	56.8
2013	18.8	13.7	83.3	60.1	64.8	46.5	64.2	59.9	42.0	55.6

Source: National Institute of Statistics.

Figure 1.2 Unemployment rates, by gender – Italy (per cent)

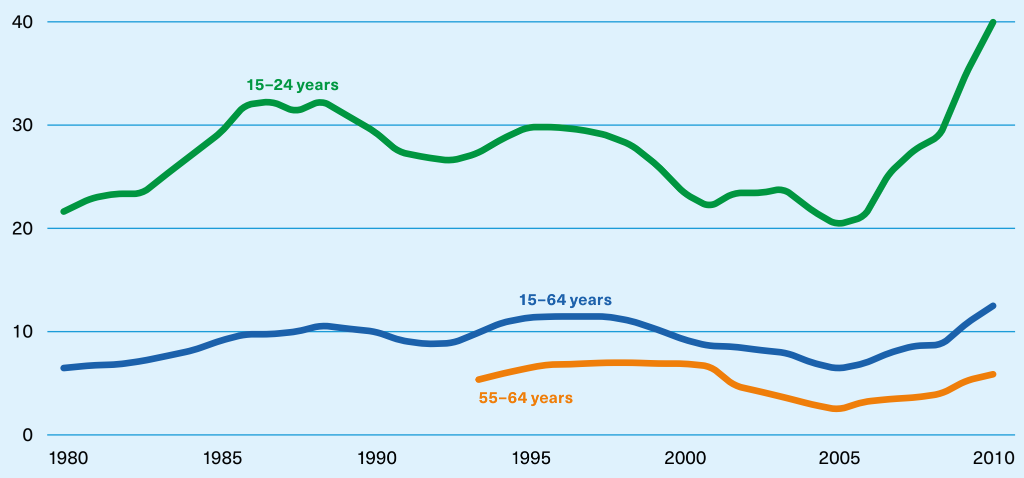


Source: Elaborations from National Institute of Statistics microdata.

What is startling is the difference by age: youth unemployment increased at a much greater rate than total unemployment. Figure 1.3 compares the series of individuals aged 15–24 with the total unemployment rate and unemployment of the old. The reasons for such a difference are to be found in the large number of temporary contracts which characterize the youth labour market: at the onset of the crisis most temporary contracts were not renewed and youth unemployment exploded. This explanation is not exhaustive though, and much of the increase can be explained by reduced labour market participation of the young: many more choose full-time education thus lowering the participation rate in the labour market. Another possible explanation is the concurrent pension reform, which in 2012 raised the pensionable age by three years. This caused a slight reduction in the unemployment rate of older workers (see figure 1.3) and increased their participation and employment rate. In Chapter 3, an attempt is made to establish a relationship between the higher employment rates of the old and the higher unemployment rates of the young.

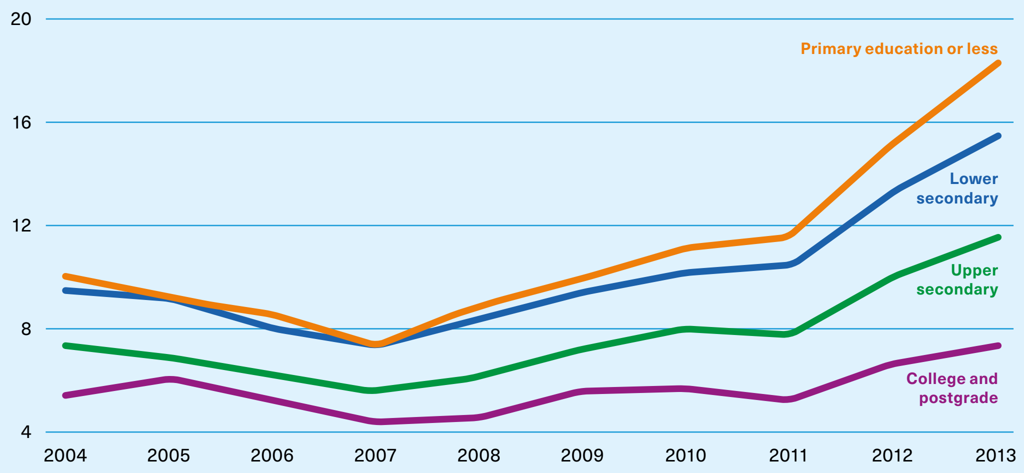
The unemployment rate by education level (see figure 1.4) signals a higher increase for the lowest levels of education, although the same group had a faster decrease in the good years before the crisis (i.e. workers

Figure 1.3 Unemployment rates, by age group (per cent)



Source: Elaborations from National Institute of Statistics microdata.

Figure 1.4 Unemployment rates, by educational attainment (per cent)



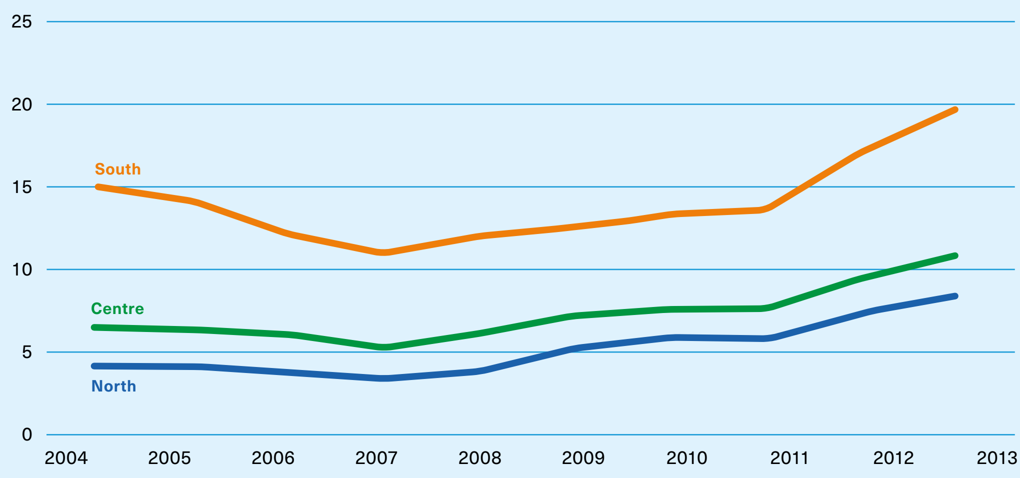
Source: Elaborations from National Institute of Statistics microdata.

with the lowest levels of education are more sensitive to the business cycle). The unemployment rate also increased among the graduates, and it is well known that graduates in Italy have trouble finding their first job, more than their counterparts in other countries.

Finally, the South of Italy suffered the most in the last period of the crisis (figure 1.5). The evolution of the unemployment rate in the South is more sensitive to the business cycle: the reduction of unemployment before the crisis was faster in the South, but then the second dip of the crisis after 2011 was particularly bad for the southern part of the country (see again table 1.1). In addition, the industrial North suffered because most jobs lost in the crisis were in manufacturing.

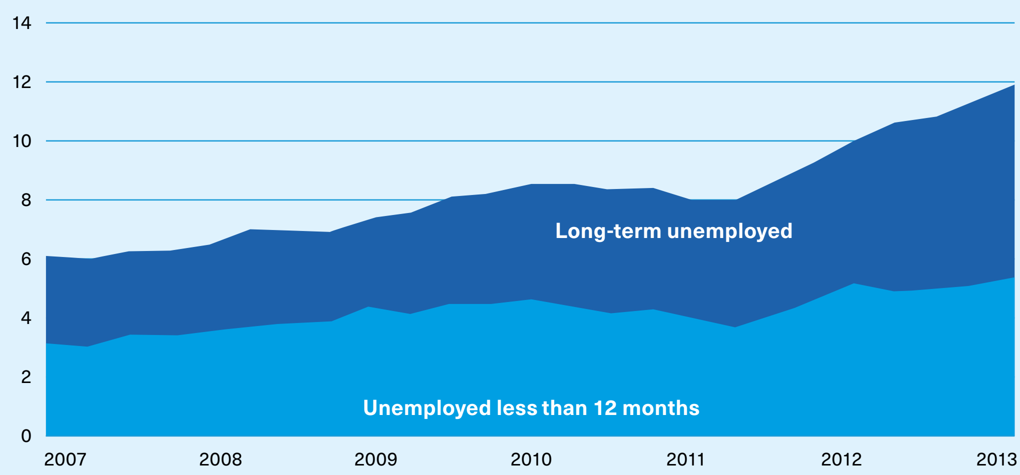
At the onset of the crisis Italy's reaction was based mainly on the extension of the short-time work scheme known as *cassa integrazione*, which saves jobs temporarily (see Chapter 3). The approach has been defensive due to the lack of the possibility of increasing public expenditure due to the heavy burden of debt and the stringent European rules on the deficit. Two years into the crisis, while other countries (such as Germany or the UK) saw the end of the tunnel, Italy had a double-dip recession in 2011; at that point a major labour market reform was approved. The main changes of the reform will be outlined, starting from the period before the crisis and focussing on the reform of 2012. In the meantime, long-term unemployment has risen (figure 1.6).

Figure 1.5 Unemployment rates, by macro-regions (per cent)



Source: Elaborations from National Institute of Statistics microdata.

Figure 1.6 Unemployment rates, short and long term (per cent)



Source: CNEL annual report on the Italian labour market 2014.

The rise in unemployment was accompanied by a partial reduction in the use of overtime by employers (see table 1.2), whereas the main contribution to employment reduction came from firm dynamics. Looking at figure 1.7 one may notice that net turnover of firms (defined as the difference between registrations and striking offs over the stock of active firms) became negative in 2007 and worsened during the ensuing two years. The mild recovery in 2010 was nullified by the continuation of the crisis. The combined picture of both cyclical indicators seem to suggest that the recession was initially addressed by varying the degree of capacity utilization, which was then found to be insufficient to cope with the decline in the aggregate demand.

These trends should correlate with another feature of the Italian labour market, often neglected in official accounts, namely its high degree of labour flexibility. While official accounts tend to depict Italy as a rigid country, the indicators of turnover rates suggest a different view. Looking at table 1.3, it can be seen that the number of jobs that change incumbents in a year declined over the decade, but remained somehow higher in southern regions, due to the greater fragility of the local economy. If these rates can be taken as evidence of the robustness of the employment relationship, a potential cyclicality of the robustness of the employment relationship can be seen: when employment was growing, labour turnover was high (mostly due to high quit rates

Table 1.2 Incidence of overtime, firms with at least 20 employees – Italy (per cent)

	Industry (excluding construction)		Private service (excluding financial sector)	
	Overall	20–49 employees	Overall	20–49 employees
2001	4.2	3.9	5.7	4.3
2002	4.1	3.9	5.6	4.5
2003	4.1	3.7	5.3	4.2
2004	4.1	3.7	5.4	4.0
2005	4.0	3.5	5.4	3.9
2006	4.2	3.6	5.4	3.7
2007	4.3	3.9	5.4	3.8
2008	4.3	3.8	5.4	4.0
2009	3.6	3.1	5.0	3.8
2010	3.7	3.2	4.9	3.3
2011	3.9	3.3	5.1	3.6
2012	3.9	3.4	5.2	3.3
2013	3.8	3.6	4.7	3.2

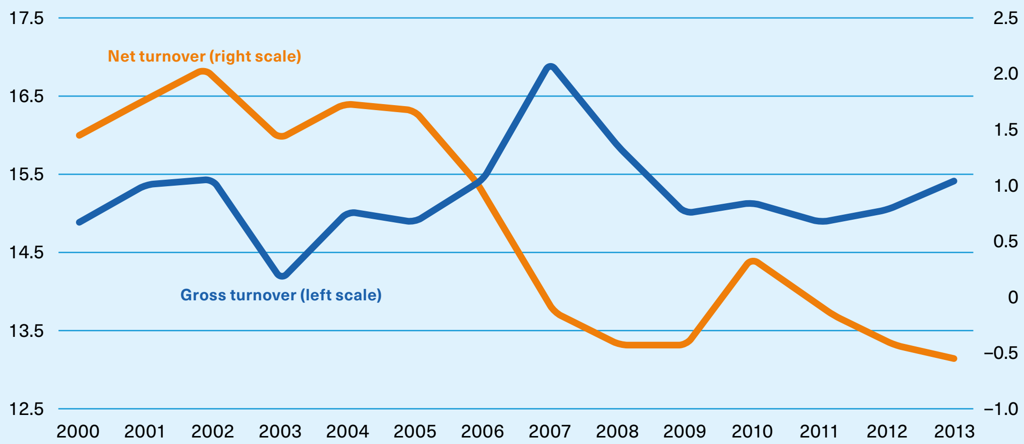
Source: Bank of Italy surveys (Indagine sulle imprese industriali e dei servizi).

Table 1.3 Gross turnover rates (hiring plus firing/quitting), by firm size and regions – Italy, manufacturing

	Total	20–49	50–199	200–499	Beyond 500	North-West	North-East	Centre	South
2003	29.9	34.2	30.6	27.4	25.8	23.8	31.5	30.0	34.2
2004	26.1	25.5	27.7	24.8	25.7	20.9	29.2	28.3	37.2
2005	24.0	25.4	24.4	23.2	22.3	18.3	24.7	26.7	35.3
2006	25.7	26.5	27.0	24.3	23.8	20.7	26.1	27.7	37.0
2007	26.9	26.1	29.8	27.5	24.2	22.0	28.6	30.3	38.8
2008	24.1	23.5	25.5	23.2	23.3	20.1	24.9	26.4	34.6
2009	17.5	17.4	19.2	17.0	16.1	15.2	17.0	17.8	28.0
2010	18.8	18.9	20.4	19.4	16.5	15.9	19.4	18.2	27.7
2011	18.5	19.3	19.7	17.7	16.7	15.5	18.4	18.2	27.3
2012	17.2	17.8	18.8	15.4	15.8	14.2	16.5	18.3	27.3
2013	16.1	16.4	16.8	14.0	16.2	13.0	16.2	16.5	25.2

Source: Bank of Italy survey on firms.

Figure 1.7 Creation and destruction of firms – Italy (per cent)



Source: Elaborations on Unioncamere database (http://www.infocamere.it).

in small firms), but when it started declining, workers became reluctant to abandon available jobs, while firing was probably driving the reduction in employment. Nevertheless, Italy remains a country with a significant number of long-lasting employment relationships: according to OECD data (www.stats.oecd.org) the average job tenure was 13.4 years in 2013, in comparison with 11.7 for Germany or Spain and 9.5 for the UK.

Last, but not least, despite huge unemployment differentials, which should be reflected in the expected wages (though alleviated by significant differentials in the cost of living), internal migration is almost absent.[3] This is partially offset by foreign immigration, which concentrates in the northern regions where the labour market is tighter with respect to the rest of the country (according to unemployment data). Despite the decline in domestic employment, the share of migrant workers in total employment increased even in recession years (from 7.5 per cent in 2008 to 8.2 per cent in 2009).

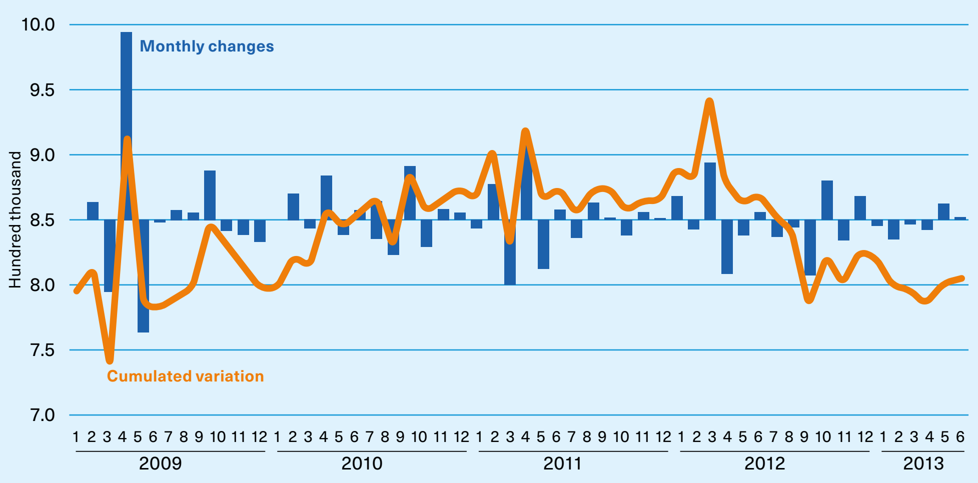
The overall picture of the Italian labour market is therefore contradictory. On one side, there is a remarkable performance in terms of employment growth, followed by impressive job destruction over a couple of years. On the other side, geographical differences persist or even widen over the sample period; in addition, the gender differential declines all over the country. These are indications that the labour market reforms that occurred in recent decades were able to modify the dynamics of employment generation, without, however, being able to address the historical roots of these imbalances. The reason may lie in the intrinsic nature of these reforms, which were able to increase flexibility only for the weakest segments of the Italian labour market, without affecting the bulk of the (employed) labour force.

1.1 Hiring and firing

Figure 1.8 shows the total number of monthly hirings over the years 2009–13. As one can see, the double-dip recession had an effect on hiring and the number of accessions sharply declined in 2012.

At the end of 2012, 58 per cent of new employment contracts were fixed-term contracts, while only 21 per cent were open-ended contracts, 9 per cent were collaboration contracts[4] and 3 per cent were apprenticeship contracts, other contracts (temporary work agencies)

Figure 1.8 Monthly hirings, overall (1st quarter 2009 to 3rd quarter 2013, seasonally adjusted) – Italy



Source: Elaborations of MLPS and ISFOL from Sistema informativo statistico (SISCO).

3. According to Moccetti and Porello 2010, internal migration was at its highest in the 1990–2005 period, when approximately 2 million people migrated from the South to the North of the country (mostly young tertiary-educated people, attracted by better employment prospects). But this flow slackened in more recent years. On the contrary, external migration continues, with a positive balance: according to official register data in local municipalities in 2013 there were 307,454 new entries and 125,735 cancellations, with a positive addition of 181,719 people. This balance was 492,823 in 2007 and 453,765 in 2008, on the eve of the crisis.

4. These contractual arrangements have been in place since the early 1970s and have been regulated by national legislation in 1997 and again in the "Biagi Law" of 2003. They provide a contractual framework for individuals who are not formally employees of the firm and yet provide their regular working services (material or immaterial – i.e. consultants) to firms which often utilize them as normal employees. Thanks to a reduced regime of compulsory pension and other social contributions, which make labour costs lower compared with regular employees, many firms use them to a very large extent.

covering the remaining 9 per cent (see table 1.4). Every year 54 per cent of separations are the natural expiry of fixed-term contracts, therefore if one wants to have a better idea of the changes occurring in the number of persons in employment, one has to look at net numbers.

Table 1.5 classifies the separations by motive instead. Table 1.4 shows only the employers' separations, while table 1.5 adds workers' separations (voluntary separations and retirement). Layoffs are only 10 per cent of the total number of separations but they still amount to 1 million layoffs per year (including individual and collective layoffs).

Although new contracts are mostly fixed term, their incidence in the stock of employees is still in line with the EU average (13 per cent) thanks to the high transformation rate of fixed-term contracts into open-ended contracts. From the panel component of labour force statistics it is possible to obtain information about transformation rates. The data contained in table 1.6 show that from 2012 to 2013, 27 per cent of fixed-term contracts became open ended. Similarly, 18 per cent of apprentices and 25 per cent of other contracts (which includes self-employed persons and collaboration contracts and all other minor contractual forms) transform into open ended contracts from one year to the next. Table 1.6 also shows that the probability of unemployment or inactivity is higher for fixed-term contracts or other contracts rather than open-ended contracts and apprentices (from 2012 to 2013 around 20 per cent of fixed-term contracts transformed into unemployment or inactivity, while only 6 per cent of open-ended contracts did so). Finally, the flows out of unemployment into employment are of the order of 7 per cent into open-ended contracts, 8 per cent into fixed term and 7 per cent into other forms of employment.

Table 1.4 Hiring and firing in 2012 by type of contract – Italy

	Hiring		Firing	
	No.	%	No.	%
Permanent contracts	1 788 830	20.9	2 202 341	25.3
Temporary contracts	5 011 019	58.4	4 664 905	53.6
Apprenticeship	277 496	3.2	211 828	2.4
Collaboration contract	756 582	8.8	832 111	9.6
Other	745 247	8.7	791 384	9.1
Total	**8 579 174**	**100**	**8 702 569**	**100**

Source: Ministry of Labour.

Notes: "Other" includes agency contracts and job on-call also in the public sector.

Table 1.5 Separation by motive – Italy, 2012

	No.	%
Separations (requested by the workers)	1 627 951	15.7
Resignations	1 531 805	14.7
Retirements	96 146	0.9
Separations (requested by the employer)	1 286 686	12.4
Firm closure	129 671	1.2
Firing	1 041 693	10.0
Other	115 322	1.1
End of contract	6 443 130	62.0
Other	1 034 676	10.0
Total	**10 392 443**	

Source: Ministry of Labour.

Table 1.6 Contractual transition rates – Italy, 2012–13 (per cent)

	Permanent (2013)	Fixed term (2013)	Apprentice (2013)	Other (2013)	Unemployed (2013)	Inactive (2013)
Permanent (2012)	91	1	0	3	2	4
Fixed term (2012)	27	45	2	5	10	10
Apprentice (2012)	18	8	53	9	4	6
Other employed (2012)	25	22	2	21	16	11
Unemployed (2012)	7	8	0	7	46	25
Inactive (2012)	2	2	0	3	10	80

Source: Panel component of Labour Force Survey 2012–13. Other contracts include collaboration contracts, self-employed and all minor contractual forms.

Contractual arrangements, including Employment Protection Legislation (EPL)

2

The focus of this chapter is on changes in the employment relationship, and in particular the issue of temporary employment and the development of other elements of labour market flexibility such as partial unemployment and reduced working time in the private sector as well as the public sector.

In the past two decades, the major policy response to high unemployment rates in Europe has been the reduction of Employment Protection Legislation (henceforth EPL) through the liberalization of temporary contracts. Italy was no exception. In continental Europe, many countries relaxed the rules concerning the use of temporary contracts with the aim of reducing adjustment costs for firms facing high EPL for standard open-ended contracts. Therefore the reforms designed to make the use of temporary contracts easier constitute a reduction in EPL but also create dual or two-tier labour markets.

The most important legislation in the past 20 years was:

(i) Law 196/1997 (the so-called "Treu-Package", named after the then minister of labour) which legalized temporary work agencies, regulated collaboration contracts and liberalized both apprenticeship and fixed-term contracts. A few years later Decree Law no. 368/2001 eased restrictions on fixed-term contracts further.

(ii) Law 30/2003 (the so-called "Biagi Law", named after the labour law scholar and government consultant killed by terrorists) which introduced a number of changes in the national legislation and reformed the apprenticeship contract.

(iii) Law 92/2012 (so called "Fornero Law" after the Minister of Labour) which changed the legislation of individual dismissals (decreased EPL on standard open-ended contracts) and eased the use of fixed-term contracts to absorb very short-term contracts. It made it more difficult for workers to be hired under "fake" self-employment contracts instead of dependent employees' contracts and tried to stop the abuse of collaboration contracts. The Fornero Law also reformed the unemployment benefits system (see Chapter 3). The current government enacted a further reform in 2014.

The Fornero reform explicitly acts on four pillars:

(1) Create incentives to use apprenticeship contracts as entry contracts for young workers.

(2) Absorb the excess number of self-employed persons and collaborators, limiting the use of those contracts and increasing the use of fixed-term contracts.

(3) Reform the individual firing procedure and costs.

(4) Overhaul the system of unemployment benefits and short-time working schemes (*cassa integrazione*).

The spirit of the first three points of the reform can be summarized in the following: to increase the use of open-ended contracts, the reform reduced the opportunity for misuse of temporary contracts and concurrently reduced the costs of individual dismissals. Concurrently, there is a liberalization of the apprenticeship contract. A description of the changes in the first three points is found in the following pages and the fourth point is discussed in the following chapter.

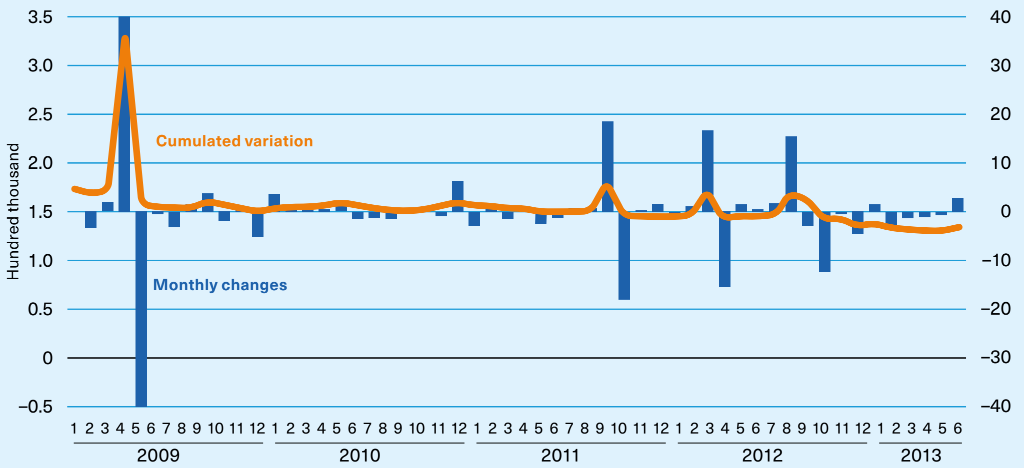
This chapter describes of the use of the various types of contracts and the effects of the Fornero reform on the use of one type of contract rather than another. In the following sections, the situation before and after the Fornero reform is briefly discussed as well as the debate that led to the current reform of the labour market.

2.1 Permanent contracts

The most typical form of labour contract in Italy is the **permanent** contract, which has no termination and, depending upon firms' characteristics, is characterized by relatively stringent EPL and, consequently, higher firing costs. In particular, firms with more than 15 employees are obliged to reintegrate workers dismissed with unjust cause, while firms with less than 15 employees are subject to much more lenient rules (see below).

Permanent contracts account for the vast majority of the Italian employment stock, almost 15 million employees, corresponding to 65 per cent of total employment in 2013 (see table 2.1). Of these, around 6.7 million are in

Figure 2.1 Monthly hirings, open-ended contracts (1st quarter 2009 to 3rd quarter 2013, seasonally adjusted) – Italy



Source: Elaborations MLPS and ISFOL from Sistema informativo statistico (SISCO).

Table 2.1 Labour force composition – Italy, 2013

	No.	%
Dependent employees full time	12 407	54.2
Self-employees full time	4 669	20.4
Dependent employees part time	2 432	10.6
Self-employees part time	584	2.5
Fixed-term employees	2 375	10.4
Collaborators	433	1.9
Total	**22 899**	**100**

Source: Elaboration from Istat microdata.

firms with more than 15 employees and benefit from higher employment protection. Among temporary contracts, fixed-term contracts are the most popular, followed by collaborators, apprentices and agency workers. All those contracts differ in labour costs: firms pay a social security contribution rate at 31 per cent of gross earnings for permanent, fixed-term and agency contracts. Contributions rates are lower for collaborators and apprentices, at 17 per cent and 10 per cent respectively. There are 3.3 million public employees (permanent and fixed term) out of the total 22.9 million employees.

Although the stock of permanent contracts is still the largest, as noted above, the main type of contract for newly-hired employees is fixed term, and the hiring of persons under permanent contracts has decreased over time. Firms faced with the uncertainty of the crisis and high labour costs do not want to hire workers on permanent contracts, and the number of hirings has been decreasing (see figure 2.1).[5] Therefore recently the debate has centered on how to maintain the prevalence of the open-ended contract.

The strategy to stimulate the use of the open-ended contract consisted of two steps: the first step involved the discussion of the rules for individual dismissal for economic reasons (to be discussed later in this report); the second step involved incentives for apprenticeship contracts to be used as entry into the labour market. The debate about the incentives for the use of apprenticeships has centered on the alternative possibility of introducing a new “single contract” i.e. an open-end contract with no legal protection against individual dismissal for the first three years (only a severance payment) followed by full legal protection after the third year. The introduction of this new contract requires a discussion of EPL on standard employment contracts (at least for the first 3 years) and the limitation of the use of fixed-term contracts. The lack of a political consensus on these two points resulted in putting off the decision in favour of the well-known apprenticeship contract. Notwithstanding the big political investment (although there was no monetary investment) in the apprenticeship contract, this type of contract has never really taken off (see below). As a result, the debate about the current reform of the labour market has returned once again to the discussion of the EPL of open-ended contracts.

5. The blip in 2009 is due to a change in the classification method.

2.2 Apprenticeship contracts

There were fewer than 400,000 apprentices in Italy in 2013.[6] Unlike fixed-term contracts, firms can only use apprenticeship contracts for younger workers up to 29 years of age, for whom they must provide certified training. The legislation provides for lower social security contributions for apprenticeship contracts. The amount of this reduction and the maximum duration of these contracts depend on the type and size of the employing firm: on average the firm pays social contributions which are one-third of those paid for standard contracts. The maximum cumulated duration is three years.

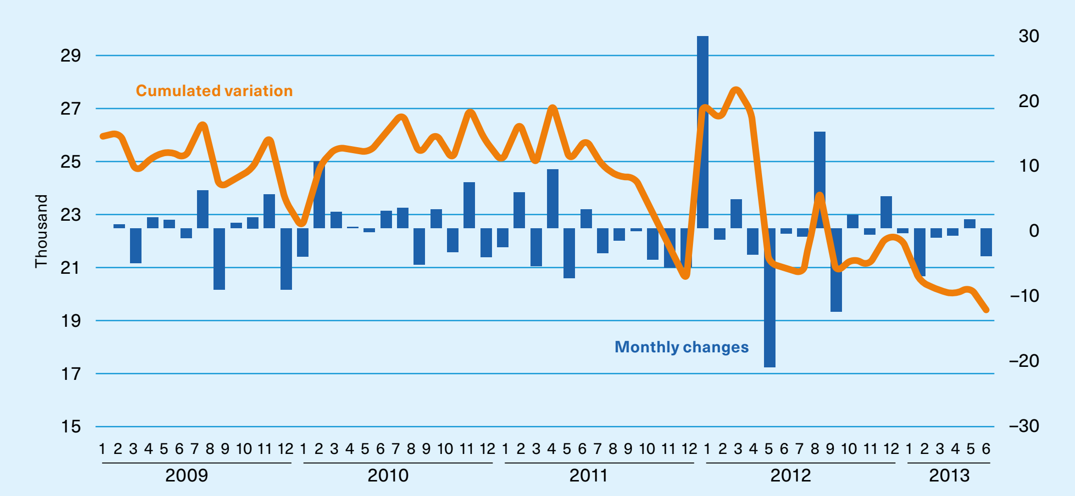
Legislation to regulate apprenticeship contracts has existed for a long time and has also been frequently reformed. The lower labour costs associated with these contracts make them particularly convenient to employers and are intended to compensate firms for the training costs that they incur.

The limitation of the use of apprenticeship contracts is threefold: the need to provide certified training, the age limits of the contracts, and interference with the procedures from regional guidelines. Many reforms have tried to simplify these three regulations to no avail because, as of 2014, apprenticeship contracts accounted for only 3 per cent of new hirings (and less than 20 per cent of hirings of 15–29-year-olds). Figure 2.2 shows that the number of apprenticeship contracts has actually declined after the new reforms.

Firms are required to share training costs by giving apprentices time off work to attend external training courses that are provided by local authorities or accredited training institutes sponsored by the regions outside the premises of the firm. At the end of the training period, apprentices should receive a certificate for the qualification they have attained. There are, nevertheless, limitations to this formal training activity: lack of public funding for training, a lack of infrastructure for training courses and little control over compliance with compulsory training obligations by firms using these contracts. As a consequence, most of the training is on-the-job.

The Biagi Law liberalized this contract further in 2003. A new form of apprenticeship was introduced (*apprendistato professionalizzante*, aimed at easing the transition of young graduates into a job providing practical training) with the same reduction in labour costs as before. The new legislation abolished the certification of qualifications and extended the scope of the contract to include persons up to the age of 30 (the previous age limit was 25). The option of performing training at the

Figure 2.2 Monthly hirings, apprenticeship contracts (1st quarter 2009 to 3rd quarter 2013, seasonally adjusted) – Italy



Source: Elaborations MLPS and ISFOL from Sistema informativo statistico (SISCO).

6. Administrative data indicate between 500,000 and 600,000 apprenticeship contracts (the net flow accounts for less than 20 per cent of young people on their first contract). Labour force data indicate fewer than 400,000 apprentices probably because survey data miss very short spells of employment, which apparently are frequent for apprentices. Apprentices are mainly in the manufacturing sector.

workplace as a substitute, at least in part, for external training courses was also introduced. This last amendment made it even more difficult to monitor a firm's compliance with this obligation. Before the new law could be implemented, regional governments, which have exclusive power to legislate over vocational training including the training content of the new apprenticeship contracts, had to issue regional regulations. The regions were, in general, very slow in issuing these regulations, partly because they lacked the funds needed to organize the external training for apprentices.

In recent years the Fornero reform has attempted to ease the use of apprenticeship contracts but the failure to simplify the regional procedures implied decreasing use of this contract. In 2014 the "Poletti decree" made a new attempt at reviving this instrument by cutting the training requirements. Notwithstanding the many interventions during these years, the number of new apprenticeship contracts has always been low.

2.3 Fixed-term contracts

A second type of contract is represented by **fixed-term contracts**. The only difference between these and permanent contracts is the presence of a fixed term and lower firing costs (the firing cost is virtually zero if one waits until the contract expiry; since Fornero's reform there has been a tax on fixed-term contracts that are not transformed into open-ended contracts). A fixed-term contract can be renewed only once and its cumulated duration cannot be longer than three years in the same firm. Furthermore, employers have to state explicitly in the labour contract their reasons for using fixed-term in place of open-ended contacts. If either of the two conditions (limited duration and explicit reasons) is not met, an employee can sue the employer and eventually obtain from the labour court the conversion of the temporary contract into an open-ended contract. The burden of proof is on the employer, i.e. it is up to the employer to demonstrate the temporary nature of the fixed-term contract. All other working conditions such as wages, working times, pension rights and probationary period, are identical to the conditions of permanent contracts.

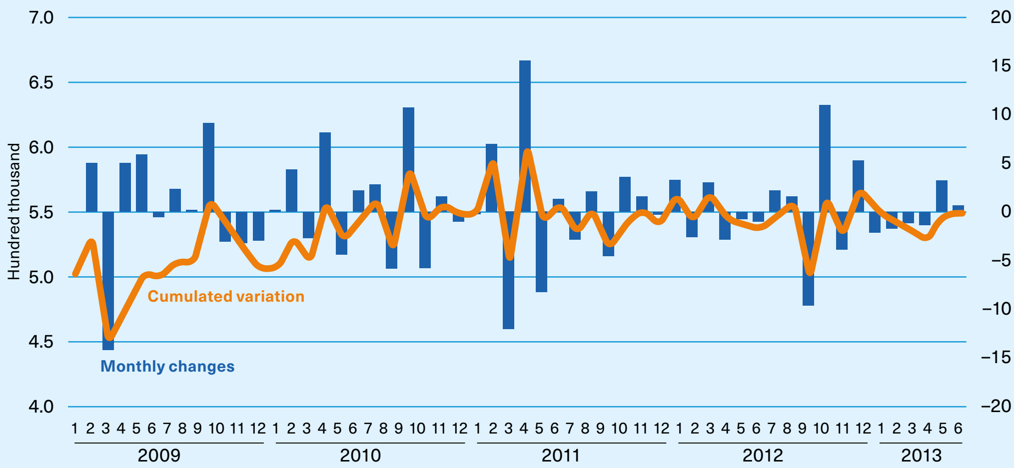
Over the years, there have two main approaches to encourage the use of fixed-term contracts above other contracts: the rules concerning the motivation of a fixed-term contract; and those concerning the role of collective national contracts.

The first and definitely most important modification concerns what are termed the "reasons", i.e. the circumstances in which this type of contract may be used. Prior to 2001 the law regulating fixed-term contracts provided a very specific list of circumstances under which firms could use those contracts, for example peaks in production or replacement of workers on sick leave. The 2001 decree liberalized the contract by abolishing the detailed list of specific reasons and introduced the following single general reason: "reasons of a technical, organizational, production or replacement nature". In principle, this new legislation was meant to be less stringent than the previous legislation and allowed firms to use more fixed-term contracts to adapt quickly to changes in economic conditions. After a brief period during which this provision increased employers' uncertainty (making the requirements for the use of these contracts too generic and, in the case of court disputes, too dependent on judges' interpretation of the norm), the use of temporary contracts took off. While there was a lively debate amongst labour scholars as to whether this reform made the use of this type of contract more rather than less costly to firms, over time the use of temporary contracts increased, but their share in the total employment stock is still within the average of France and Germany.

The Fornero reform of 2012 further simplified the use of fixed-term contracts by requiring the reasons for the use of the fixed-term contract to be stated only on the first contract. The Poletti decree in 2014 eliminated the general reasons for all fixed-term contracts (within the maximum limit of three years).

The second provision that restricts or eases the use of these contracts is the possibility of collective agreements interfering with the national regulation. For the first time, in 2001, the decree reduced unions' ability to affect the implementation of national law provisions through collective bargaining that takes place at the industry level. Under the previous legislation, collective bargaining agreements could list additional and specific reasons for the use of fixed-term contracts over and above those contained in the national legislation. The decree abolished any specific reasons, including those contained in collective agreements, thereby reducing union power to bargain with employers' associations over the addition of further valid cases to the national list. The legislation maintained a role for collective bargaining in fixing the maximum share of fixed-term employees in firms' total employment. For this reason, the new law had to wait for the renewal of the collective agreement in order to become applicable in a given industry. In practice, all collective agreements confirmed the maximum share of fixed-term contracts

Figure 2.3 Monthly hirings, temporary contracts (1st quarter 2009 to 3rd quarter 2013, seasonally adjusted) – Italy



Source: Elaborations MLPS and ISFOL from Sistema informativo statistico (SISCO).

set in the previous bargaining rounds, so that the implementation of the reform did not introduce additional differences in employment flexibility across industries. All other aspects of the implementation of the reform are homogeneous across industries. As of 2014, the national ceiling for the use of fixed-term contracts was 20 per cent of the firms' total workforce, but collective agreements can still diverge from this rule in any sector.

The Fornero reform of fixed-term contracts in 2012 acted in two apparently contradictory directions: the first abolished the necessity to give any justification for the use of the first contract (the maximum duration of a fixed-term contract for a single worker is three years) thus making its use very convenient for employers; the second direction instead rendered the use of fixed-term contracts more costly as it imposed an additional social security contribution of 1.4 per cent in cases where the fixed-term contract was not being transformed into an open-ended one. The rationale of this cost is that fixed-term employees are more likely to experience unemployment, creating a negative spill-over on public expenditure, and therefore firms are required to contribute more.

A further liberalization of the use of fixed-term contracts occurred in 2014 with the Poletti decree, when the new government abolished the necessity of a justification for the use of this contract for the whole period of 36 months while putting a ceiling on the maximum share of employees that can be on fixed-term contracts at 20 per cent of the firms' workforce. As a result of these multiple attempts at liberalizing the contract, the number of hirings with fixed contracts rose over time (see figure 2.3).

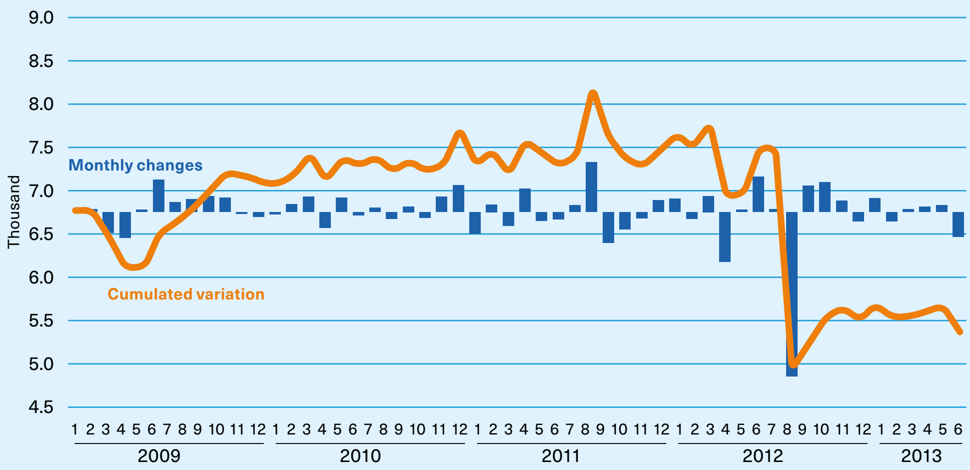
The debate on the use of fixed-term contracts was very lively in 2012–14 with two waves of liberalization (Fornero and Poletti). The critics maintained that fixed-term contracts crowd out the standard open-ended contract, while the supporters claimed that they substitute more flexible employment contracts such as collaboration contracts (see below) and job on-call and potentially also absorb the "false" self-employed.

2.4 Temporary work agencies and collaboration contracts

There are other contractual arrangements through which firms can use the labour services of external workers. As in many other countries, there are **temporary work agencies** (TWAs) which supply labour services upon the payment of an agency fee. Agency workers must receive the same pay and the same working conditions as equivalent workers within the same firm. Because of agency fees, the cost of using temporary agency workers is higher relative to hiring workers on permanent contracts. In exchange, the user firm has lower hiring and firing costs to bear (often no costs). There are no official figures on the number of TWA contracts in Italy; often they appear together with "other" contracts in flow data on hiring and firing and together with permanent contracts or fixed-term contracts in stock data. They are deemed to be less than 70,000 workers.

Additionally, and this is mostly an Italian peculiarity, firms can use **collaboration contracts**. The reform also acted directly to impede abuses and stated that a collaboration contract of more than eight months for

Figure 2.4 Monthly hirings, collaboration contracts (1st quarter 2009 to 3rd quarter 2013, seasonally adjusted) – Italy



Source: Elaborations MLPS and ISFOL from Sistema informativo statistico (SISCO).

two consecutive years and yielding 80 per cent of individual income should be deemed a standard dependent employment contract if the employee decided to bring the issue to court. Although apparently there have been very few court rulings on these cases, the new provisions of the law were enough to deter the use of collaboration contracts (and of job on-call, which had a very similar evolution), which dropped abruptly after the reform (see figure 2.4).

Finally, the reform also tried to stop the abuse of "stage" contracts for graduate students. Firms had taken to using stage contracts for newly graduated young workers instead of standard employment contracts, viewed as expensive in terms of labour costs. Stages were often unpaid and repeated. The Fornero reform imposed a minimum compensation of €400 monthly and forbade the repetition of the stage with the same firm.

2.5 Self-employed

Together with collaboration contracts, Italy is characterized by a large number of self-employed workers, much larger than in other countries. Many self-employed workers actually work for firms, and do not benefit from the protection of standard contracts; this is a way for firms to circumvent the obligations of paying social security contributions and contractual minimum wages attached to standard employment contracts.

Table 2.2 shows the differences in employment shares of self-employed workers between Italy and the EU average: of total employment (around 22.8 million employees), there were around 5.6 million self-employed in 2012 (the 2013 data are not available yet), around 1.5 million small entrepreneurs and 4.1 million self-employed with no dependent workers (1.5 million of them are deemed to have the characteristics of dependent employees). It is not easy to detect the characteristics of dependent employees, but when asked in surveys whether they have fixed hours of work, the same location of work and one single client, many of them responded affirmatively (such as to produce the estimate of 1.5 million).[7] This is the main way firms circumvent the legislation on fixed-term contracts or under-report activities as a way to escape regulations.

As explained above, the Italian anomaly in terms of employment lies in the excess of self-employment, while the share of fixed-term contracts is in line with the EU average. It is not easy to quantify the share of "false" self-employment (i.e. those workers that are used

7. Understanding how many of these are not really self-employed but "economically dependent" on a single firm is not an easy task and depends on the interpretation and the definition of "economically dependent". In a representative survey run by ISFOL, a research institute of the Ministry of Labour, self-employed workers were asked: (1) whether they had one single principal; (2) whether they worked exclusively at the principal's office; and (3) whether they had a fixed working time imposed by their principal. Anastasia (2012) reports that those who responded affirmatively to all three questions totalled only 100,000, but those who replied "yes" to at least one of those questions totalled 2 million. The best estimate of "economically dependent" self-employment is probably around 1.5 million workers, i.e. those who work exclusively at the principal's office. In this sense, the inclusion of this type of worker in the category of temporary employees makes their incidence substantially higher in the Italian labour market than in other European countries, and increases the share of temporary contracts from 13 to 19 per cent of the employed population aged 15–64 and from 50 to 70 per cent of the employed population aged 15–24.

Table 2.2 Employment shares of self-employed workers of various types (per cent)

	Small entrepreneurs		Self-employed without dependent employees		«Real» self-employed, Italy
	Italy	EU 15	Italy	EU 15	
2004	7.3	4.9	20.7	11.1	
2005	7.2	4.8	19.5	11.1	
2006	7.1	4.9	19.3	11.0	
2007	7.0	4.8	18.6	10.9	13.0
2008	6.9	4.8	18.6	10.6	13.0
2009	6.7	4.8	18.2	10.6	12.8
2010	6.7	4.7	18.5	10.9	13.4
2011	6.6	4.6	18.3	10.9	13.2
2012	6.6	4.6	18.2	11.1	12.9

Source: Authors' calculations on Istat data.

instead of dependent employees). Official surveys put the number at around 1.5 million self-employed who have all the characteristics of dependent employees. If one wanted to include the share of "false" self-employed among the numbers of temporary contracts, the overall share would rise from the current 13 per cent to 19 per cent, well above the EU average.

2.6 What can be said of the effects of the reform during the crisis?

The first point of evaluation of the Fornero reform regards the use of different contracts: the purpose of the reform was to move away from very short-term flexible contracts to fixed-term contracts and incentivize the use of apprenticeships as the open-ended contract for the young.

Previous graphs show that the use of open-ended contracts has been decreasing during these years of crisis while the use of fixed-term contracts has been steadily increasing. If one concentrates on the year 2013 to evaluate the effects of the labour market reform, the apparent conclusion is twofold. The first objective of substituting flexible employment contracts with the relatively more stable fixed-term contract was met: in 2013, employers reduced the use of job on-call and collaboration contracts in favour of fixed-term contracts (unfortunately there is no information on the use of "fake" self-employment contracts). On the other hand, the second objective of incentivizing the apprenticeship contract did not succeed: the use of apprenticeship contracts barely changed and was very low throughout the period.

Given the ease with which firms use fixed-term contracts and the positive results in terms of decreased use of collaboration and job on-call contracts, the current government decided in 2014 (Poletti decree) to further liberalize the use of fixed-term contracts (doing away with the necessity of giving a justification for their use for the entire period of three years). Supporters say that this provision will further reduce the use of flexible contracts and "fake" self-employment contracts. Critics claim that fixed-term contracts will progressively crowd out the open-ended contract.

The second point of the Fornero reform is an evaluation of the reform of individual dismissal rules, the purpose of which was to incentivize the use of permanent contracts. This part of the reform met a lot of opposition. As a form of worker protection for open-ended contracts, labour codes specify the causes for fair dismissal, and establish workers' compensation depending on the reason for termination. Employers could freely dismiss workers either for economic reasons (considered as a fair "objective" motive) or in cases of misconduct (considered as a fair "subjective" motive or as a just cause). In any case, workers could take employers to court and judges would determine if the dismissals were indeed fair or unfair. In cases of unfair dismissal, provisions differ markedly for firms with less than and more than 15 employees. Firms with more than 15 employees have to reinstate workers and pay wages forgone in cases of unfair dismissals. Firms with fewer than 15 employees have to pay severance payments of between 2.5 and 6 months.

The reform introduced changes only for firms with more than 15 employees and provides for the possibility that the judge decides severance pay of between 12 and 24 months instead of reinstatement. Reinstatement remains for discriminatory dismissals but it is only a possibility for dismissals for economic reasons, only when the judge does not believe that the employer is being truthful.

This change in the regulation raised a debate on workers' rights especially in the first phase of the reform where the intention was to scrap reinstatement altogether for dismissals for economic reasons. One of the most important provisions of the reform is that from 2013 the two parties must go through an official conciliatory body and only in cases where an agreement has not been reached can they access the courts. The intent is to favour the voluntary agreement and relieve courts of many cases.

The critics of this reform claim that this is a limitation of workers' rights because the threat of reinstatement is what stopped firms from individual firings. The supporters claim that this is a small step in the right direction towards the abolition of article 18 (i.e. the reinstatement rule in cases of unfair dismissals). Surely this reform closed the gap that Italy used to have with respect to other European countries in terms of rules of individual dismissals; however, the application of the new norms leaves a wide scope for judges' interpretation and therefore is unlikely to dispel firms' uncertainty in cases of dismissal. Up until the reform, firms with more than 15 employees were very wary of individual dismissals because of the uncertainty and length of the procedure (after 3–4 years spent in the courts, they could easily face a sentence, which imposed reinstatement of the worker and the payment of all wages forgone since dismissal). After the reform, firms have in principle been less wary, although there is a lot of uncertainty about the costs and the length of the procedure.

As far as the reform of the individual dismissal procedures is concerned, the monitoring of the effects of the reform highlights positive data on the conciliatory mechanism: the preliminary data show a sharp increase in voluntary conciliation, which avoids many court rulings. The change of the judiciary procedure introduced with the aim of reducing the number of court cases has not worked, and the government is currently considering further reform.

As a result of the reform, for the first time the OECD EPL index decreased due to the changes in dismissal rules for open-ended contracts (see table 2.3 below). In the past, the changes to the EPL index were only due to the introduction of more flexible rules regarding fixed-term contracts, as table 2.3 shows.

Public sector employment did not undergo any substantial reform in this period apart from measures aimed at limiting the extent of absenteeism. In the public administration there is still widespread use of collaboration contracts (although there are no numbers to define the phenomenon), and the number of employees in the public sector at large has been declining for years due to the policy of non-renewal of retiring employees. The debate with respect to changes in EPL for individual dismissal has not involved the public sector.

Table 2.3 EPL index 1998, 2008 and 2013 (post Fornero) – Italy

	Number of procedures	Difficulty in dismissals	Fixed-term contracts	Open-ended contracts	Collective dismissals	Overall index
1998	2.5	4.5	4.0	2.8	4.1	3.3
2008	2.5	4.5	2.3	2.8	4.1	2.7
2013	2.8	3.5	2.3	2.5	3.8	2.5

Source: OECD 2013.

Unemployment benefits, social insurance, social assistance and pensions

3

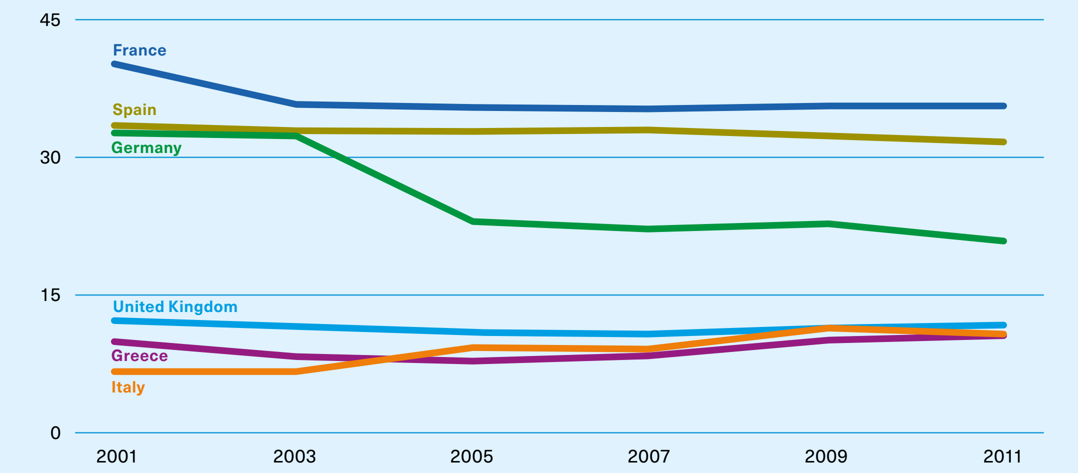
This chapter will examine the effects of the reform in the unemployment benefits system, social insurance and social assistance on the economy and the labour market.

The Italian unemployment benefit and social assistance system has long been inadequate to support the many workers with temporary contracts. When compared with the prevailing situation in the OECD area, the low level of generosity that characterizes the Italian system was apparent (see figure 3.1): even among Mediterranean countries (often indicated under the common heading of "imperfect welfare" model) only Greece ranks as low as Italy. After the Treu reform of 1997, which introduced the first wave of temporary contracts, it was already clear that the system designed to support workers with standard open-ended contracts could not protect those with a less stable work life. Workers on temporary contracts of various types are five times more likely to become unemployed than those on open-ended contracts, yet they are often excluded from protection.

The discussion about the upheaval of the system started in 1998 but never turned into real reforms until the recent Fornero reform. In 2007 there was a small increase in the replacement rate of unemployment benefits but no comprehensive reform. Currently the unemployment benefit and assistance system is based on two pillars: the unemployment benefit (divided into ordinary and reduced contributions) and the *cassa integrazione* (a short-time work scheme divided into ordinary, extraordinary and exceptional). The Fornero reform extensively changed both pillars in 2012. In Italy there is no social assistance when the benefits have expired; the only assistance for poverty relief is not a national benefit but a plethora of various small schemes which are different across cities. The combination of various instruments provides partial support only in the initial phase of unemployment, conditional on family circumstances, which is rapidly decaying (see table 3.1 for a temporal perspective in comparison with the OECD average).

The unemployment benefit system is universal and based on past contributions. The situation pre-Fornero reform was the following: access was granted to those who had contributed for at least 52 full-time weeks in the previous two years. The replacement rate was 60 per

Figure 3.1 Gross replacement rates of unemployment benefit, average worker (per cent)



Note: Weighted average computed over two earning levels, three family situations and three durations of unemployment.
Source: OECD tax-benefit model (http://www.oecd.org/els/benefitsandwagesstatistics.htm).

Table 3.1 Net replacement rates, initial phase of unemployment (per cent)

	67% of average wage						100% of average wage					
	No children			Two children			No children			Two children		
	Single person	One-earner married couple	Two-earner married couple	Single parent	One-earner married couple	Two-earner married couple	Single person	One-earner married couple	Two-earner married couple	Single parent	One-earner married couple	Two-earner married couple
2001												
Italy	53	54	76	58	59	80	49	54	70	61	65	74
OECD median	*62*	*64*	*81*	*69*	*71*	*85*	*56*	*56*	*75*	*63*	*64*	*78*
2012												
Italy	69	73	85	78	75	87	56	60	75	69	70	77
OECD median	*64*	*65*	*84*	*73*	*73*	*85*	*57*	*57*	*75*	*67*	*65*	*77*

Source: OECD tax-benefit model (http://www.oecd.org/els/benefitsandwagesstatistics.htm).

cent for the first six months and declined to 40 per cent for the 12th and last month of benefit. The duration was eight months except for the over-50s, who were granted up to 12 months.

Apprentices and collaborators were formally excluded, and the strict access requisite of 52 weeks also excluded about 30 per cent of part-time workers and 60 per cent of workers on fixed-term contracts. The reduced-contribution unemployment benefit required only 78 days of contributions in the previous year and was also available to apprentices, though the amount of the benefit was very small and worked in an uncommon way: the sum was paid ex-post, since one can apply to obtain the due sum the year after the unemployment period. The small amount of the benefit and also the inconvenient system left out many from this system. Finally, for those who work with collaboration contracts, the system provided only an *una-tantum* sum of 10 per cent of the previous year earnings. The weak protection of collaborators was justified on the basis that they are virtually self-employed.

The Fornero reform changed both the ordinary and the reduced-contribution systems.[8] The reform increased the replacement rate to 75 per cent of the previous wage and increased the maximum duration to 12 months (and 18 months for those over 55), while the eligibility conditions for the ordinary unemployment benefit system have not changed. Apart from generosity and duration of the ordinary benefit, the biggest change is in the reduced-contribution benefit. The reduced-contribution system became a real unemployment benefit system (i.e. the inconvenient ex-post payment has been eliminated) and the eligibility conditions were relaxed. In this way, most of those excluded from the ordinary system for lack of contributions can benefit from the second-tier reduced-contribution mechanism. The access requirement is at least 13 weeks of contributions in the previous year and the replacement rate is 75 per cent of the wage for a maximum duration of half of the number of weeks of contributions.

This more lenient access requirement allows for a much larger number of potential beneficiaries; however, the generosity and duration of this second-tier unemployment benefit system is considered low, especially when the coverage of *cassa integrazione* will be limited (see below a the description of the main changes to *cassa integrazione)*. The transition period for the full implementation of the reform is three years.

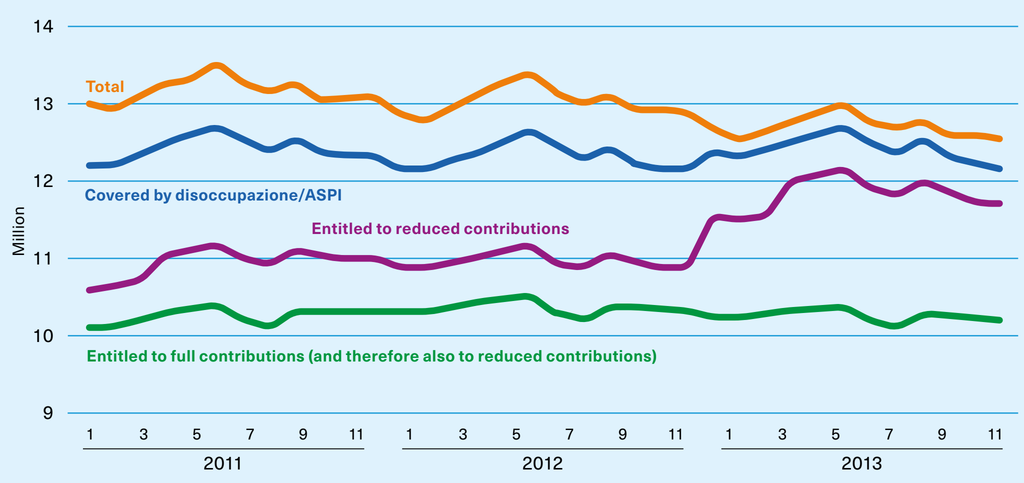
The larger number of potential beneficiaries is evident in figure 3.2: while for years the number of workers excluded from benefits was around 1 million out of 13 million dependent workers, today the number of excluded is around 0.4 million due to the more lenient access requirements to the reduced-contribution system (red line).[9]

At the end of 2013 the number of unemployment benefit beneficiaries was 632,865, +5.2 per cent with respect to the previous year (+6.4 per cent for females and +4.2 per cent for males – see figure 3.3, which also shows the increasing number of beneficiaries during the crisis).

8. The new names for the two systems are ASPI (Assicurazione Sociale Per l'Impiego – *social insurance for employment*) and Mini-ASPI respectively.

9. Of course those qualifying for the ordinary system also qualify for the reduced-contribution system; this explains the fact that the red line is always above the green line in the figure.

Figure 3.2 Workers covered by unemployment schemes (disoccupazione or ASPI) – Italy



Source: Ministry of Labour.

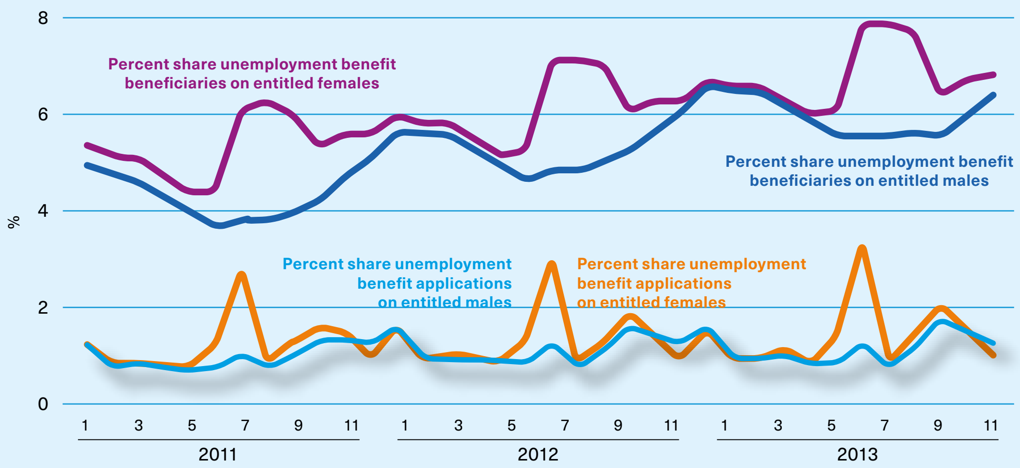
Figure 3.3 Beneficiaries of unemployment benefits, by gender and period – Italy

Source: Ministry of Labour.

A measure of the take-up rate is given in figure 3.4, which plots the number of requests (percentage share of number of potential beneficiaries) and the number of actual beneficiaries (percentage share of number of potential beneficiaries).[10] The rising trend of the series reflects the increase in unemployment during these years, given that these series are provided with respect to the number of employed workers entitled to the subsidy and not to the number of unemployed. Females have a take-up rate higher than males, probably due to seasonal jobs, as is clear from the cyclicality of the series and its peaks during the summer months for the female component. Most of these seasonal jobs are teachers in the public sector: there are a high number of female teachers (from elementary to high school) without tenure who take unemployment benefits during the summer months. This seasonality should disappear by the end of 2015, given the European Union censure against the Italian Ministry of Education's practice of firing and rehiring teachers during the summer interval. As a result, the government has promised the hiring of 150,000 full-time teachers during the next year.

10. The Ministry of Labour provides the number of those entitled to the subsidy (i.e. those employed workers who meet the eligibility requirements). To have a standard measure of the take-up rate, one should divide the number of beneficiaries by the number of unemployed.

Figure 3.4 Unemployment benefit take-up rate (number of applications by those entitled and number of entitled beneficiaries – disoccupazione or ASPI) by gender – Italy



Source: Ministry of Labour.

Although formally there is conditionality upon receipt of unemployment benefits (i.e. workers are asked to search for new opportunities and are not supposed to reject reasonable job offers), in practice there is none. The reason is that conditionality should be enforced by the public employment office which registered the unemployed person, but the incentive to do so is null given that the benefit is paid centrally by the social security office while the public employment office is run at the local level and there is no connection between the two. How to correct this inefficiency is the topic of much debate within the proposed reform of public employment offices which also have the duty to run the European Youth Guarantee (see Chapter 5).

Finally, in Italy there is no social assistance beyond unemployment benefits. Some limited programmes of poverty relief are available at the city-level. There have been multiple proposals to introduce a national program of social assistance; however the lack of funding and the large number of potential beneficiaries have always been an obstacle. Some experimental trials have been conducted in big cities during 2012 and 2013 (the so-called *social card*) but the amount provided was rather small (€200 per month) and conditional on buying food stamps. The experiment has been extended to the whole southern Italy since 2014.

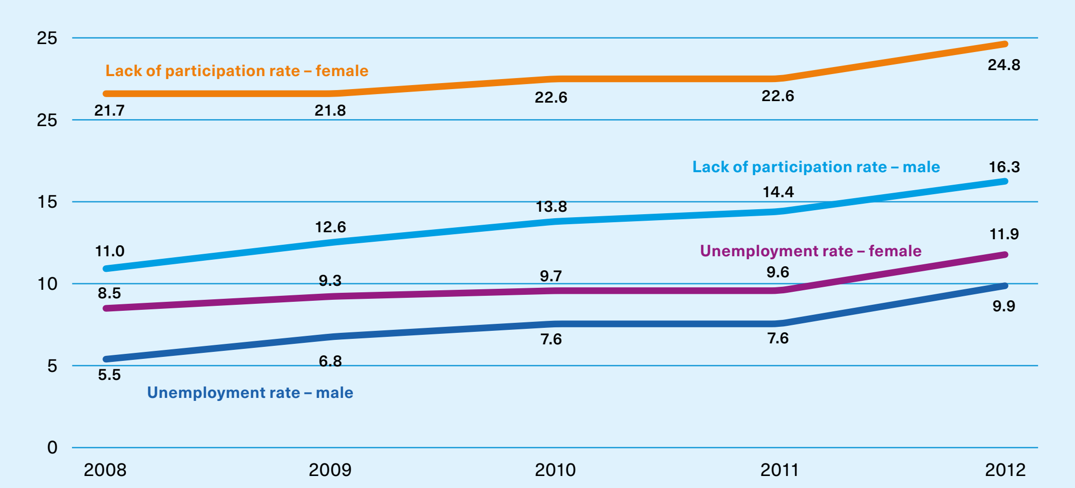
The official male unemployment rate in Italy stands at 10 per cent but once the discouraged workers are included (i.e. those who are available for work but did not perform any search in the past two months), the numbers are much higher (see figure 3.5 below, which plots inactivity rates with this larger definition of unemployment). The low administrative capacity of public employment offices that should also run a social assistance programme has scared policymakers away from proposing a programme, which could potentially underestimate the number of potential beneficiaries.

The second pillar of the Italian assistance system is *cassa integrazione* (CIG); it is similar to equivalent systems in Germany and Austria and keeps the worker attached to the firm with a reduced number of work hours. Unlike the unemployment benefit system, which is a universal right of the individual (conditional on the access requirements), CIG in principle is a discretionary measure of the Ministry of Finance.

CIG is divided into three types: *ordinaria* (CIGO), *straordinaria* (CIGS) and *in deroga* (CIGD). Firms in the manufacturing sector with more than 15 employees and commercial firms with more than 50 employees pay yearly contributions to the CIGO and can lay-off workers in cases of "temporary crisis", i.e. CIGO is granted to workers of contributing firms in cases of temporary reduction of demand: workers' hours are reduced (typically part of the firm's workforce stops working for some months in turn) and then production is resumed at the end of the crisis.

CIGS is granted for "restructuring, reorganization or change of production"; only manufacturing firms with more than 15 employees and large commercial firms have access to CIGS but the duration of the benefit is discretional. In many cases the CIGS is paid even to

Figure 3.5 Unemployment rates and inactivity rates, 15–74-year-olds by gender (per cent) – Italy



Source: Istat Labour force statistics.

firms which have closed production and have no hope of resuming it, i.e. it is used to resolve high social impact situations (large plant closures in deprived areas).

Finally, CIGD is an exceptional CIG given to firms which have either finished benefiting from the regular CIGO/CIGS but still request support for their workforce, or to smaller firms which have not contributed to the CIG system but still need it. CIGD has been vastly expanded during the crisis starting in 2009: to address the multiple closures of firms (many of which are small firms that did not have access, and obviously did not pay contributions), the government promptly widened the access criteria, granting help basically to all firms which applied for CIGD. Although the system was expanded to support temporary lack of demand during the crisis, it has *de facto* become an improper substitute for unemployment benefits (improper because the CIG keeps the worker in a dying firm instead of favouring reallocation) since it also protects firms with no hope of resuming production. In this sense the CIGD has provided an automatic linkage between access to benefits and the business cycle, as in the United States, where unemployment benefits are more generous when the labour market tightens.

The formal CIG system (CIGO/CIGS) currently covers 5.5 million workers, and CIGD covers the rest if firms apply for it.[11] Since firms' closures have not stopped since 2009, this system has brought about a large expenditure in the three CIG types, with the side benefit that workers in CIG do not appear in unemployment statistics, since workers are formally on a reduced-hour scheme but they are still attached to the firm. Figure 3.6 shows the number of workers in CIG since 2008 (in thousands). There have been around 250,000 workers per year in CIG in recent years. On the extreme (and wrong) assumption that none of them would be rehired by the firm, the calculation of those workers among the unemployed would raise the unemployment rate by 1.5 per cent.

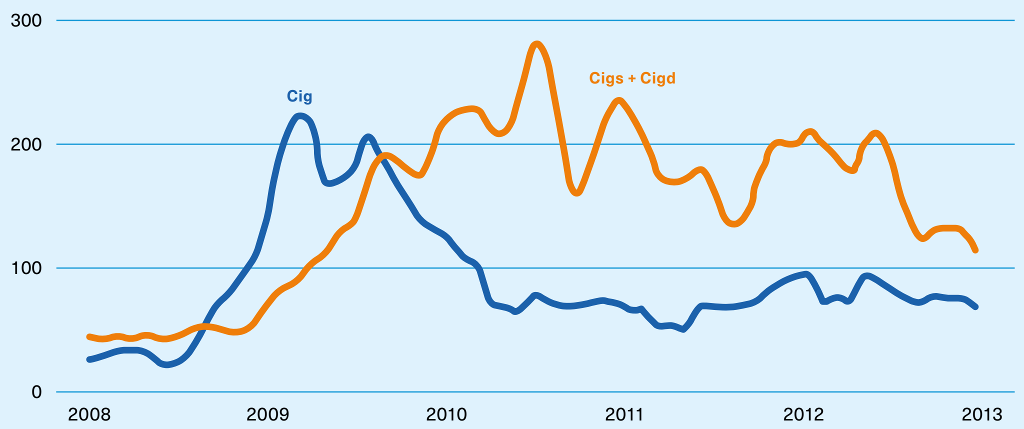
Figure 3.7 plots the number of authorized hours of CIG (divided by type): in 2013 30 per cent were CIGO, 45 per cent were CIGS and 25 per cent were CIGD.

The geographic distribution of the CIG is pictured in figure 3.8, which shows that this measure is mostly in the industrial north where most firms are concentrated.

The direction of the reform was twofold. First, CIGD was abolished on the grounds that this is an exceptional measure which worked in emergency times during the crisis but cannot be maintained without proper contributions on the part of firms. In the last two years (2012–13) €2.5 billion per year were spent on CIGD. Second, CIGO/CIGS was extended (which should see a return to the original aim of helping firms in temporary difficulties rather than firms in hopeless demise) to all firms with more than 15 employees. The extension to all firms with more than 15 employees takes place with the help of bilateral sectoral funds managed jointly by

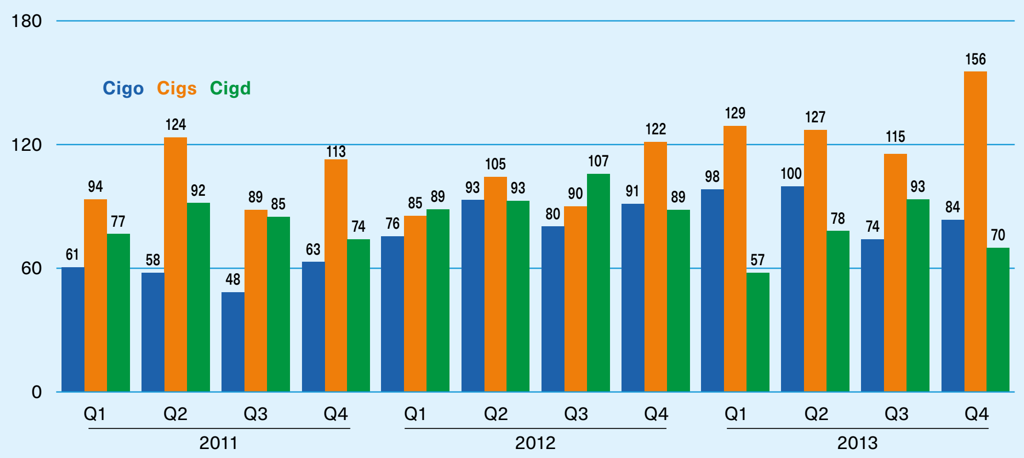
11. Part of CIGD financing has drawn on European funds run at the regional level with the requirement that activation measures had been in place for the beneficiaries.

Figure 3.6 Extent of use of CIG



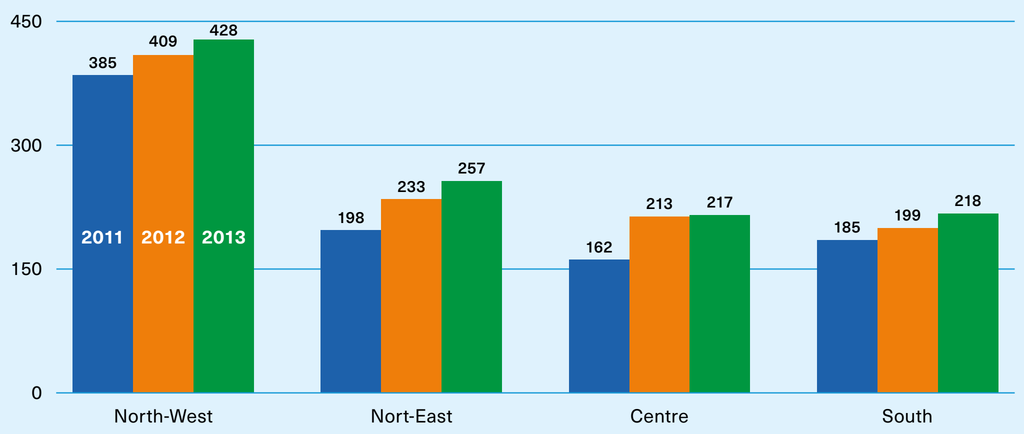
Note: Number of hours converted into full-time equivalent, 2008–13.
Source: Elaborations by REF Ricerche from INPS data (social contributions).

Figure 3.7 Number of authorized hours, by type of intervention (millions)



Source: Ministry of Labour.

Figure 3.8 Number of authorized hours, by macro regions (millions)



Source: Ministry of Labour.

employers' and workers' unions. So far only few funds have been set up (in the public transport and banking sector) and 2.7 million additional workers are covered in a "residual" fund.[12] At the end of this process all firms with more than 15 employees and a total of almost 10 million workers (including the artisans who have their own fund even for firms with less than 15 employees) should be covered by a system which should grant help to firms in temporary need for a maximum of two years. The money saved from the abolition of CIGD should go to reinforce the unemployment benefit system.

3.1 Pension reform

Similar to the labour market reform (including both contractual forms and unemployment benefits), the Fornero reform also touched on the pension requirement, forcing a postponement of the transition to retirement for a fraction of older workers. The Fornero pension reform came into effect in 2012. The most important change is the introduction of new transformation coefficients. The transformation coefficients are the parameters determining the actuarial equivalence between the payment of contributions and the future pension.

Since 1995, Italy has established a defined contribution (DC) pension system because the generosity of its existing defined benefit (DB) system was unsustainable with an old-age dependency ratio of close to 1/3 (one 65+ for every two of working age). The Fornero reform completed the 1995 reform which continued to pay pensions in a DB–DC blend in a very gradual (and costly) transition to the DC system. The DC formula was applied only to new entrants to the labour force. As of 1 January 2012, benefits accruing to all Italian workers have been calculated using a DC formula.

The pension reform occurred at a period of turmoil when financial markets were threatening Italian government bonds. To reduce the country's short-term expenditure, a simultaneous increase in retirement age was necessary and the minimum age was lifted for both sexes. The retirement ages (now 66 for men, 62 for women) will be aligned over the next five years. The Italian seniority pension (still available in the public sector) was abolished. By crediting years worked against the retirement age, it enabled funded retirement as early as 56 after 40 years of contribution.

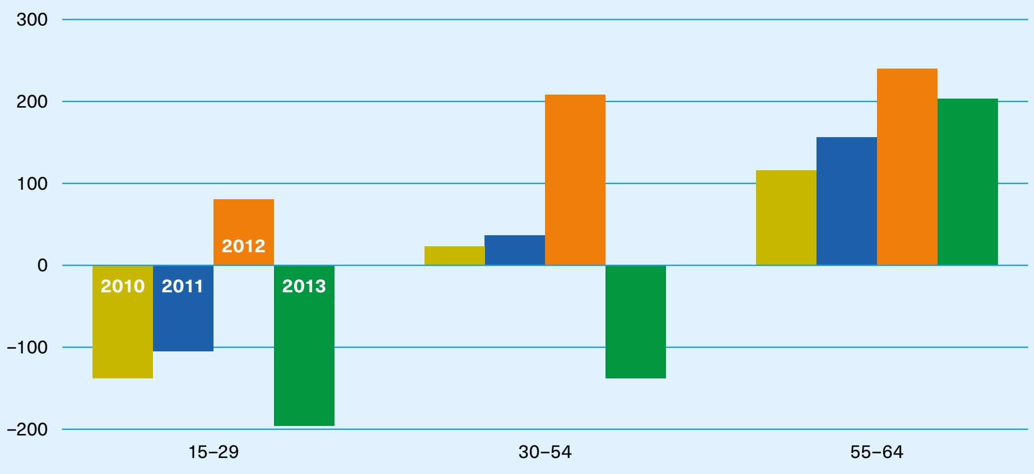
The increase in the retirement age increases pension adequacy: nowadays, 50 per cent of the population live on a retirement pension of €1,000 or less per month. The system has now achieved an overall equilibrium (despite the fact that groups of workers – such as managers or artisans – are still contributing much less than they receive once retired) and the World Bank and the IMF believe the reforms now make Italy's pension system one of the world's strongest, leading to a reduction in pension expenditure of €22.2 billion. However, the problem remains for those with poor or discontinuous working careers. And in a country where youth unemployment is currently around 35 per cent, this could have serious long-term implications.

The system also relies fully on the first pension pillar, and the crisis made it hard for workers to save money in private pension funds. Budgetary constraints also rule out providing tax incentives for the pension fund industry. Finally, the reform gave rise to the issue of *esodati* (i.e. those with no work and no pension – from the Biblical word exodus). The reform raised the retirement age abruptly, and some workers had in the meantime signed private agreements with their companies to leave before the retirement age in exchange for support for the years leading to the retirement age. When the reform moved the legal retirement age forward by 3–4 years for some cohorts, these workers were left in no man's land with no job and no pension. They had to be rescued by specific laws.

Potentially, the pension reform also had a negative effect on youth unemployment. The reform induced higher employment and participation among older workers, at least in the short run. The opposite direction of employment and labour force participation of young and old is evident in figures 3.9 and 3.10. While it is very unlikely that in the long run there is substitution between workers of different ages (especially so far apart as the very young and older workers), some analysts have claimed that, given the large impact of the pension reform on older workers' employment, this may have had a short-term effect on employment of the young, especially in big firms where programmes of job rotation between older workers and young apprentices are standard practice. Following the pension reform, these programmes have been frozen for three years as a consequence of the higher pensionable age of older workers.

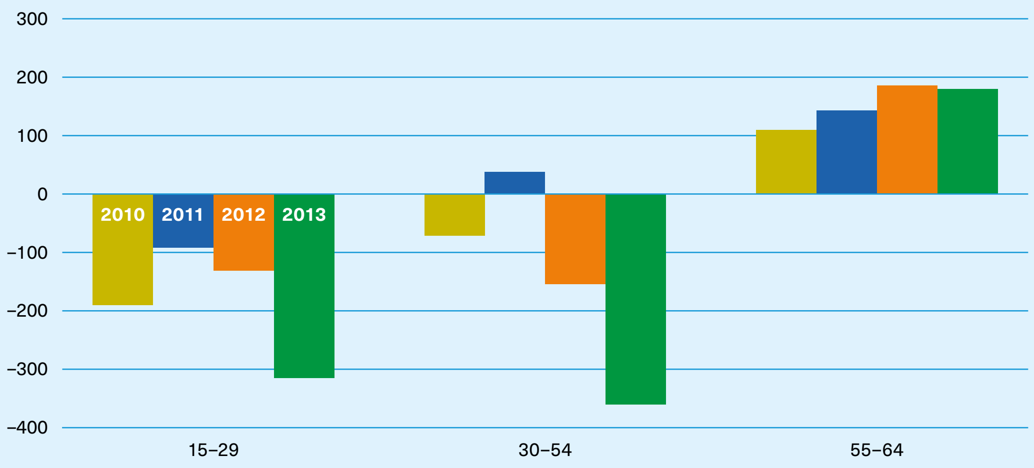
12. Bilateral funds are public entities managed jointly by firms and workers' unions in a specific sector. Firms pay contributions to the fund and can draw funds in cases of need. It constitutes an alternative arrangement to the pure public system managed by INPS which covers most firms and the "residual fund" of those firms who do not want or do not have a bilateral fund. The extension of the CIG system has been organized through bilateral funds rather than through the INPS public system to relieve the public system of a new burden.

Figure 3.9 Yearly changes in the labour force, by age – Italy



Source: CNEL annual report on the Italian labour market 2014. Units are in thousands.

Figure 3.10 Yearly changes in employment, by age – Italy



Source: CNEL annual report on the Italian labour market 2014. Units are in thousands.

4 Wages

While the bargaining activity of unions was able to protect the purchasing power of wages until 2004[13] through national contracts and firm-level agreements (widespread only in large firms, mostly located in northern regions), after that year inflation started eroding real earnings of workers not covered by firm-level bargaining. The effects of wage moderation in recent years can be seen from table 4.1. After one decade real earnings remained stagnant, and many occupations witnessed a decline in real terms (especially within the public sector). One of the main factors explaining this decline is associated with the diffusion of entry wages, made possible either by national contracts or by the possibility of hiring using the apprenticeship contracts for first jobseekers (see figure 4.1), which raised the wedge between insiders and outsiders (mostly young and/or female workers), thus posing a problem of increasing wage inequality (within the labour force).[14]

Slack productivity accompanied declining wages, and as a result, wage share did not decline (see table 4.2). The debate on stagnant labour productivity has been lively. On one side, many opinion-makers blamed the excess of uniformity in the Italian wage-setting system, due to the evident divide between North and South in terms of productivity and prices. On the other, wage uniformity

Table 4.1 (Real) gross earnings per full-time equivalent employees – Italy (2005 = 100)

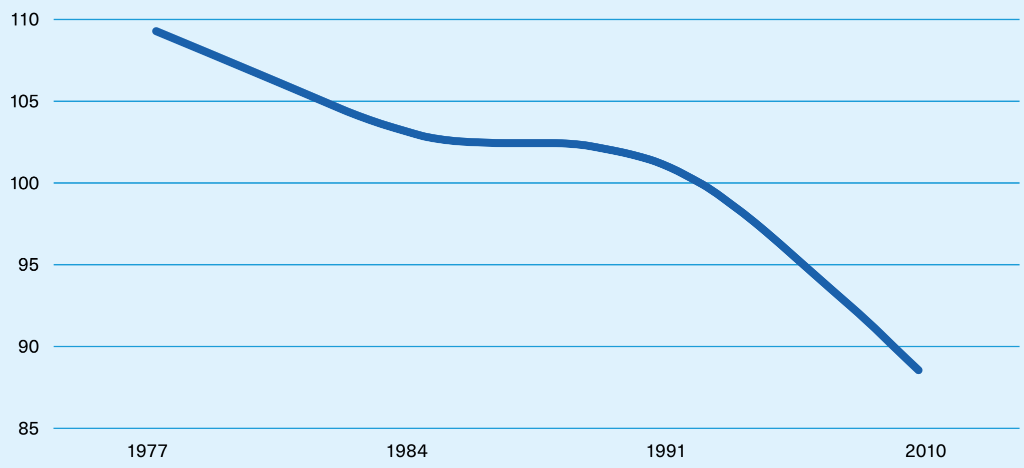
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Agriculture, forestry and fishery	100.0	99.2	100.9	98.6	100.8	101.0	100.5	97.5	98.9
Industry	100.0	101.4	102.8	103.4	105.6	108.7	108.8	107.8	108.6
Construction	100.0	100.7	101.6	102.5	105.8	107.2	107.7	106.7	107.2
Services	100.0	101.2	101.1	100.9	101.4	102.2	99.7	97.5	97.2
Retailing	100.0	99.8	100.5	100.3	102.0	104.2	102.9	101.4	102.7
Tourism	100.0	100.0	101.0	101.4	101.4	103.3	101.7	100.7	103.3
Transport and communication	100.0	100.4	100.8	99.8	100.6	101.4	99.9	98.6	98.5
Financial sector	100.0	105.9	108.2	102.7	97.9	98.9	96.8	94.6	93.1
Services to firms	100.0	101.5	102.0	103.5	104.8	106.1	104.2	102.7	102.4
Public administration	100.0	101.7	101.6	103.9	105.0	104.6	102.4	98.4	98.0
Education	100.0	100.8	102.5	98.1	103.2	102.6	96.5	95.2	93.4
Health services	100.0	103.7	98.9	102.1	99.4	100.4	96.1	93.2	92.3
Total	**100.0**	**101.1**	**101.5**	**101.6**	**102.7**	**103.9**	**102.2**	**100.4**	**100.5**

Source: Bank of Italy annual report – based on national accounts.

13. The cumulated growth rate of earnings over the period 1994–2004 was 35 per cent in the private sector and 35.5 per cent in the public sector, while the consumer price index grew by 36 per cent.

14. According to the data from the Bank of Italy biannual survey on household incomes and wealth (the main source of microdata on incomes available in Italy), between 1986 and 2002 the ratio between the net monthly wage of male young workers (aged 15–30) and the corresponding wage of male adult workers (aged 45–65) declined from 80 to 70 per cent. Corresponding figures for women indicates a decline from 86 to 77 per cent.

Figure 4.1 Relative wage of 30-year-olds to average wage – Italy



Source: Bank of Italy survey on household incomes.

Table 4.2 Share of wages in gross domestic product (factor costs) – Italy (per cent)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Agriculture, forestry and fishery	77.8	77.8	76.9	75.0	76.7	82.7	75.8	75.4	71.0
Industry	68.9	68.6	67.3	69.4	72.8	70.6	72.5	75.0	75.9
Construction	69.0	68.6	69.6	71.1	75.4	78.4	78.0	76.6	75.0
Services	62.8	63.9	63.3	63.7	64.2	64.5	64.1	65.4	64.7
Retailing	74.7	76.4	77.2	78.6	83.4	83.9	83.6	84.0	84.5
Tourism	69.0	68.1	67.5	69.7	68.4	70.5	71.1	73.7	75.1
Transport and communication	57.9	60.1	58.8	60.0	60.5	60.5	61.1	62.3	62.1
Financial sector	63.3	68.8	63.7	62.7	62.6	60.5	58.7	60.8	57.7
Services to firms	31.0	31.4	32.1	32.4	32.4	33.5	33.8	35.5	35.2
Public administration	77.1	76.9	76.1	76.2	75.9	75.5	75.7	75.1	75.0
Education	97.2	97.2	97.4	97.7	97.8	98.3	98.2	98.5	98.2
Health services	87.7	88.6	86.9	88.1	85.8	86.6	85.7	86.9	86.1
Total	**65.8**	**66.6**	**65.9**	**66.6**	**67.9**	**68.0**	**67.9**	**69.2**	**68.6**

Source: Bank of Italy Annual report – share corrected to account for self-employment.

was defended on the grounds that higher wages in the unemployment-dense southern regions may alleviate poverty and/or reduce earnings inequality.[15]

In an attempt to prolong the benefit of wage moderation, the social partners (including the government) extensively discussed the reference inflation rate for national contracts. While previous national agreements were based on actual past inflation, in 2004 the reference rate became the *consensus forecast*, which gives more freedom of action to governments and employers.[16] However, the

15. In a recent paper, Boeri et al 2014 argue that reduced wage differential in nominal wages (due to centralized wage bargaining) creates large geographical differences in real wages (i.e. adjusted for the cost of living) as well as in unemployment and cost of housing.

16. It may be useful to recall that Italy does not have a legal minimum wage provision, since wages are set by private agreements between social partners, worker unions and employer associations. However, the bargained wage also acts as a floor to wages in the uncovered sector, since the Constitutional law speaks of a right

Table 4.3 Indicators for (lack of) wage pressure – Italy

	2007	2008	2009	2010	2011	2012	2013
Share of dependent employment waiting for national contract renewal (%)							
Agriculture	–	3.3	–	31.7	–	4.4	–
Industry	27.8	17.3	2.2	9.2	3.1	1.3	28.8
Private services	79.2	37.3	17.9	34.8	34.5	18.4	39.0
Total private sector	**50.5**	**26.1**	**9.4**	**22.9**	**18.8**	**10.0**	**32.9**
Public administration	87.7	100	38.1	100	100	100	100
Total economy	**59.2**	**43.2**	**16.1**	**40.3**	**37.2**	**30.4**	**48.1**
Average duration of postponed renewal for workers without renewal (months)							
Agriculture	–	3.0	–	0.8	–	5.5	–
Industry	4.5	2.9	1.9	4.3	8.4	5.5	5.5
Private services	11.4	15.2	17.3	16.5	19.7	34.2	21.1
Total private sector	**9.2**	**13.4**	**15.7**	**14.1**	**18.9**	**32.1**	**14.7**
Public administration	18.5	9.3	18.9	9.3	18.5	30.5	42.5
Total economy	**12.2**	**10.5**	**16.9**	**11.3**	**18.4**	**30.8**	**27.8**

Source: National Institute of Statistics.

slowdown in productivity growth reduced the wage pressure expressed by worker unions and raised the resistance of employers to sign new wage contracts. There is clear evidence of this in an index, originally introduced in the literature by Ezio Tarantelli, an Italian labour economist killed by a terrorist cell in 1985. The index takes the postponement of national bargaining activity as a proxy for union weakness in opening a bargaining table with their employer counterpart. Table 4.3 shows two alternative measures (fraction of workers waiting for contract renewal and average delay for renewal): both indicators show a rising trend, reaching the highest values in very recent years.

In the absence of automatic indexation against price inflation, the postponement of national contract renewal translates into a real-wage reduction, unless firm-level bargaining compensates for this decline (*wage drift*).[17] Since the fraction of workers covered by firm-level bargaining does not exceed half of the dependent employees (the fraction varying according to the presence of fiscal incentives), the issue of protecting the purchasing power of wages became an issue in the national debate.

Unions supported the idea of *una tantum* compensation of workers employed in workplaces where decentralized bargaining was absent. This was the case for the renewal of the metalworker contracts in 2005, where partial compensation for all workers not covered by firm bargaining was introduced, and then extended to other workers in similar conditions in the textile sector. On the contrary, employers pushed for a reduction in the role of the national contract, to be replaced by firm-level agreements when and where additional resources were available.

The conservative government supported this view and provided fiscal incentives to local wage bargaining: with law no. 247 issued on 24/12/2007, the marginal tax rate on overtime hours was introduced, accompanied by a flat tax of 10 per cent on overtime wages and on firm-level bargaining of wage increases, starting from 2008. This measure had a modest effect on the expansion of decentralized bargaining, as can be seen in figure 4.2.[18]

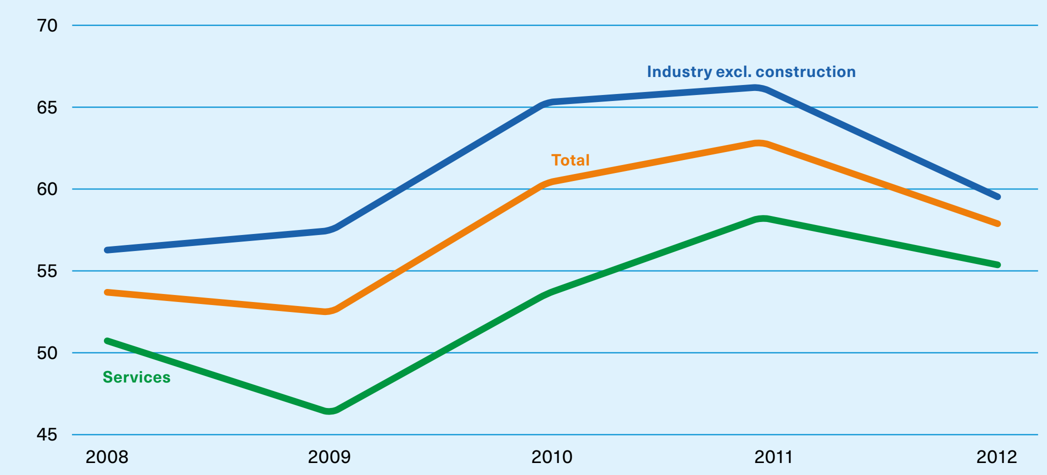
In a parallel way, some innovations were introduced in the bargaining between social partners at national level. Starting from the national contract signed in 2008 for the chemical sector, overriding clauses were introduced in the presence of industrial crisis: workers

to fair compensation. Traditionally, Italian judges have taken the national contracts as a reference for defining what a fair wage is, *de facto* extending the coverage rate.

17. D'Amuri and Giorgiantonio 2014 estimate that over the period 2002–12 the fraction of wages bargained at firm level account for 10.5 per cent of total wage.

18. There are no official data on bargaining activity in Italy (such as the workplace condition surveys in the UK) and the proxy used here is the fraction of firms accessing the benefit of the partial fiscal exemption associated with local bargaining activity, reported in figure 4.2.

Figure 4.2 Fraction of workers benefiting from tax reduction on locally bargained wage increases – Italy (percentage points)



Source: D'Amuri and Giorgantonio 2014. Bank of Italy estimates on Invind database.

and employers could agree on worse conditions in terms of flexibility of hours, but they could not go below the national tariff for hourly wage (in order to avoid the possibility of wage dumping).

Not all of these innovations solved the problem of granting full indexation of the equivalent of a minimum wage, namely the wage of workers not covered by firm-level bargaining. Clear evidence of this problem emerges when comparing time series of nation-wide contractual wages and actual wages: while the former did not cover price inflation (because national contract increases were well below actual inflation, in order to leave space for manoeuvre at workplace level), the latter were just above it. The unions advanced a proposal in 2008 in order to introduce an automatic wage increase in cases of non-renewal of national contracts, as had already occurred in the metal production sector, but the proposal was not accepted.

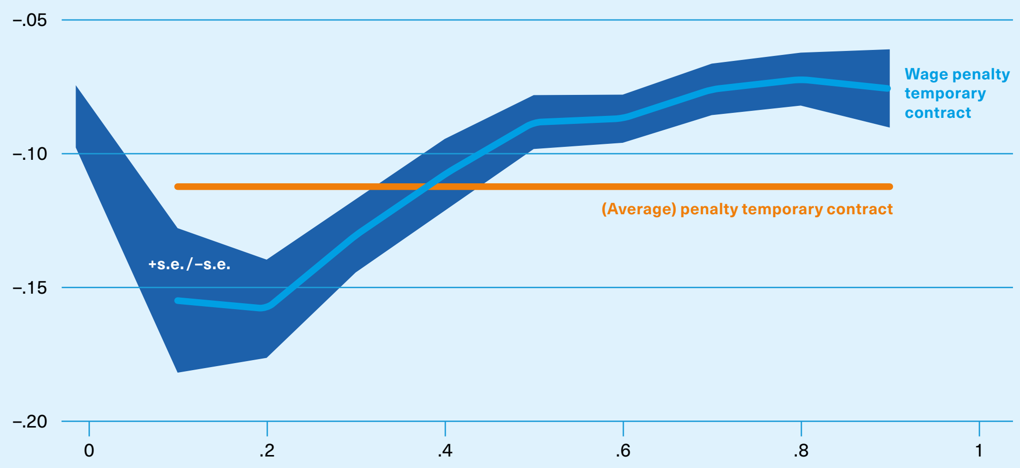
The theme remerged three years later, when the social partners signed a nation-wide agreement in June 2011, then acknowledged by law No. 148 issued on 14/9/2011. In this agreement, firm-level bargaining can derogate from national contracts with respect to salary schemes, allocation of working hours, and hiring and firing practices. Despite legal (and fiscal) encouragement, firm-level bargaining did not expand, mostly due to the economic recession.[19] Another legal provision (territorial agreement aggregating a group of firms), intended to overcome the fragmentation of small firms that characterize most of the productive fabric in Italy, did not materialize for similar reasons. For different budgetary reasons, a wage freeze was introduced in the public sector (initially in 2011 and then extended for three additional years).

The overall picture of wage dynamics in recent years is one of wage moderation imposed by external economic condition, which was left unaffected by changes of rules aiming to foster decentralized wage setting. The governments that followed the Conservative government did not change their trend in this respect. According to law no. 228 issued on 24/12/2012, wage increases obtained from firm-level bargaining and associated with productivity increases are partially exempted from contributing to payroll taxes and personal income taxation over the period 2013–15. Despite this reduction of the tax wedge, there are currently no signs of wage bargaining taking over again.

From time to time, there are proposals to introduce a minimum wage in Italy (even recently in the Jobs Act proposal launched by the current government), but unions are reluctant to accept it, since they fear that it may weaken their role. The problem is clearly connected to the level at which such minimum would be set, and whether this would allow for territorial differentiation. It is clear that the unemployment differential between North and South is creating more problems (in terms of internal migration and cost of living) than those it is expected to solve. However, there is no empirical evidence that increased downward wage flexibility would solve the problem.

19. Empirical evidence, provided by Bank of Italy survey on firms (Invind). The likelihood of observing a firm level contract is associated with the economic condition of the firm (total revenues) as well as the local economic condition (province-level unemployment rate).

Figure 4.3 Wage penalty associated with temporary contracts – Italy, 2006 (percentage points)



Source: Quantile regression estimated in IsfolPLUS 2006 – controls include gender, age, age squared, years of education, past results in schools, city size and region of residence.

The real problem is the mutual composition of alternative goals. The more the government pushes in the direction of liberalizing access to employment, the stronger the wage inequality consequences of such a strategy become. Using quantile regressions to assess whether the wage penalty is uniform along the entire wage distribution or whether it concentrates somewhere, figure 4.3 shows that the estimated average penalty of –11 per cent associated with working under a temporary contract mostly affects workers in the two bottom quintiles, while workers in the top quintile are less penalized.[20] Whenever a legislative reform expands the share of workers under temporary contracts then, other things being constant, an increase in earnings inequality can be expected.

There is some microdata evidence that accounts for such an increase in inequality. Most of the existing literature has focused on whether people under non-standard labour contracts are trapped in a work history consisting of intermittent contracts at low wages. Making use of different datasets,[21] some authors find a persistent wage penalty that is a result of the "deregulation at the margins" of the Italian labour market. They estimate a persistent wage penalty, of the order of 10 per cent, associated with working under a temporary contract, which is halved when individual fixed effects are included. This suggests that increasing labour market flexibility increases wage differentials, partly by sorting individuals according to their unobservable characteristics and partly by changing the equilibrium wage for less qualified occupations. This indicates that there are at least two types of temporary workers: the "professionals", who take advantage of temporary contracts to increase their market power by enlarging the set of potential employers; and the "precarious", who do not succeed in achieving a permanent job because they do not have abilities that are sufficiently demanded in the labour market. Different opinions are found in Barbieri and Sestito (2008), who show that workers on temporary contracts have higher probability of being in employment – after extension of their contract – than being unemployed.[22]

Aggregate descriptive evidence, reported in table 4.4, indicates that the wage gap between open-ended and temporary contracts has widened over the last decade by approximately 10 percentage points, suggesting that wage adjustment has mostly affected the marginal sector of the economy (namely those who are more likely to end up signing a temporary contract).

A general increase of wage inequality can also be detected by looking at wage differentials by broad categories of occupations. Some evidence of wage polarization can be seen in figure 4.4: while the median wage of managers

20. The bands around the solid line of figure 4.3 indicate the confidence interval of one standard deviation, including 90 per cent of the probability for the coefficient being different from zero.
21. Barbieri and Cutuli 2009 make use of the Survey on Household Income and Wealth (SHIW) conducted by the Bank of Italy, the European Community Household Panel (ECHP) and the European Union Survey on Income and Living Conditions (EUSILC), the last two from Eurostat.

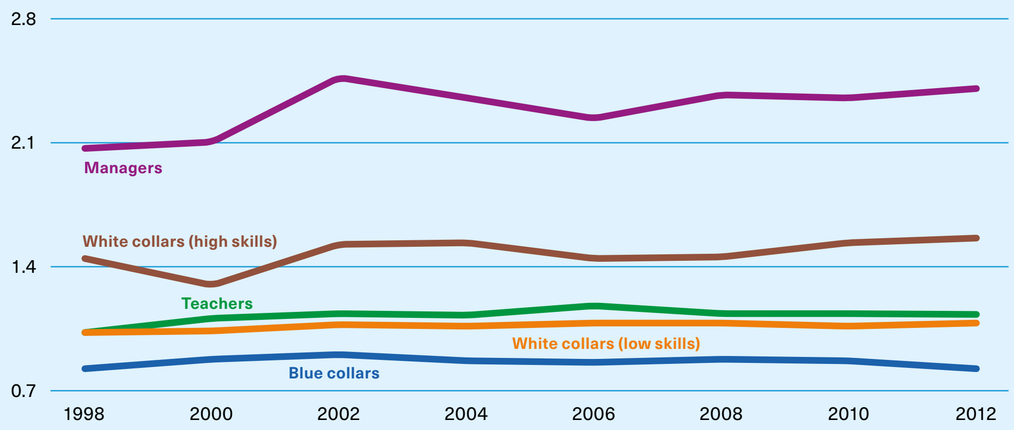
22. Barbieri and Sestito 2008.

Table 4.4 Ratio of group median wage to overall median wage by type of contract – Italy

	2000	2002	2004	2006	2008	2010	2012
Open-ended contracts	1.01	1.04	1.07	1.05	1.03	1.06	1.06
Temporary contracts	0.44	0.47	0.54	0.57	0.59	0.50	0.50
Temporary work agency	0.31	0.46	0.54	0.40	0.46	0.38	0.38

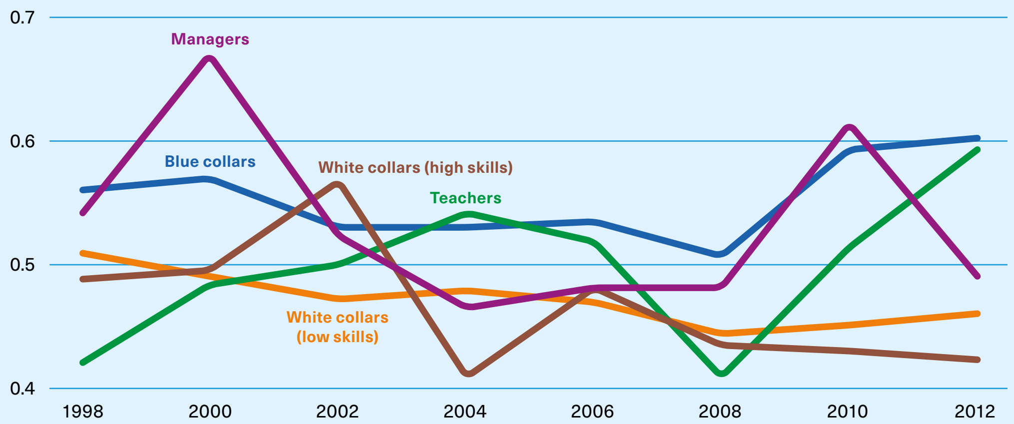
Source: Bank of Italy survey on household incomes.

Figure 4.4 Wage inequality among groups of workers (difference between group median log-earnings and overall median log-earnings) – Italy



Source: Elaborations from the Bank of Italy surveys on household incomes.

Figure 4.5 Wage inequality among groups of workers (standard deviation of logs) – Italy



Source: Elaborations from the Bank of Italy surveys on household incomes.

and high-ranking cadres reached two-and-a-half times the median wage, the blue-collar wage declined below the four-fifths of the same reference wage.

The between-group inequality does not account for compositional changes or for within-group inequality, as can be observed from figure 4.5: increasing inequalities are observed among the blue-collar group as well as among the largest component of public employees (teachers). Given previous evidence of the reduced contractual activity by unions, it can be inferred that fragmentation of working hours and increased variation across contract types are mostly responsible for this combined evidence.

Active labour market policies (ALMPs)

5

Italy is well known to allocate more scarce resources to active labour market policies (see table 5.1) than most of the European countries. In addition, the internal allocation of funds diverges from common patterns. A traditional classification of ALMPs[23] considers five types of activities: Services and sanctions (intended to increase job search efficiency); Training; Private sector incentives (wage subsidies, self-employment assistance and start-up grants); Public sector employment; and Out-of-work income support. Not all of them are cost-effective, and some tend to produce displacement effects. Among them, Italy is characterized by a larger fraction of its (limited) resources devoted to ALMP invested in the last type of activity (approximately two-thirds – see table 5.2). Negligible resources are allocated to services as well as to additional public employment. The main reason for this unusual configuration has to do with competence attributions of the Italian constitutional law: labour market policies are attributed to 21 regional governments, which have different priorities and financial means.

Most of the public expenditure in labour policies is absorbed by passive policies, as can be seen from table 5.2, where active measures do not reach 20 per cent of the total expenditure. This is mirrored by the limited number of employees in public employment services (PES) which is reported in table 5.3. It shows that the overall expenditure for PES is very low in Italy with respect to other countries which started to invest

Table 5.1 Expenditure on active labour market policies and beneficiaries, 2011

Country	Expenditure in national currency units	Expenditure (% of GDP)	Participants	Participants (% of labour force)
Austria	2249.57	0.73	155087	3.59
Belgium	3186.50	0.84	327248	6.74
Denmark	35439.26	1.93	191731	6.56
Finland	1929.20	0.98	119194	4.41
France	18596.06	0.90	1474023	5.20
Germany	20793.29	0.77	1572319	3.72
Ireland	1536.45	0.90	91218	4.19
Italy	6725.75	0.41	1375703	5.49
Netherlands	6600.63	1.03	382160	4.36
Portugal	1013.85	0.58	194019	3.57
Spain	9334.12	0.87	2643067	11.28

Source: OECD.

23. See for example Kluve 2010.

Table 5.2 Public expenditure on labour policies – Italy (millions of euros)

	2006	2007	2008	2009	2010	2011	2012
Employment agencies: employees	321	349	362	374	384	384	288
Employment agencies: other expenditure	134	153	204	67	30	34	37
Vocational guidance and individual support	66	96	115	76	33	67	71
Total individual services	**521**	**598**	**681**	**517**	**447**	**485**	**396**
Vocational training	644	718	645	581	543	640	505
Retraining employment *(contratti causa mista)*	1.946	1.991	2.182	2.042	1.700	1.578	1.699
Incentives to employment	3.014	2.723	2.705	2.430	2.301	2.335	2.608
Direct hiring by public agencies	132	129	112	91	81	82	73
Incentives to self-employment	633	438	384	315	311	211	213
Total (active labour market policies)	**6.369**	**5.998**	**6.028**	**5.459**	**4.937**	**4.846**	**5.097**
Unemployment benefit	9.597	9.214	11.126	19.202	20.981	20.207	23.045
Early retirement	1.493	1.353	1.440	1.567	1.569	1.334	1.247
among which: *for plant closures*	398	193	162	138	121	175	175
Total (passive labour market policies)	**11.090**	**10.566**	**12.566**	**20.768**	**22.550**	**21.541**	**24.292**
Total (active + passive LM policies)	**17.459**	**16.564**	**18.594**	**26.227**	**27.487**	**26.387**	**29.389**

Source: Bank of Italy Annual report – 2012 is the latest official figure available.

Table 5.3 PES consistency across European countries, 2011

	PES employees (2011)	Unemployed per PES employee	Unemployed enrolled in a PES agency (2011)	Unemployed recorded in a PES agency per PES employee
Spain	7 996	229.4	4 060 756	358.4
Italy	6 062	494.0	1 387 686	228.0
Portugal	3 839	116.9	558 638	139.0
Belgium	6 470	54.6	469 629	47.8
Finland	3 700	49.6	264 813	98.1
Netherlands	5 633	49.3	489 800	25.4
Germany	74 099	48.6	3 238 421	28.2
Ireland	2 240	45.9	441 689	234.7
France	28 459	45.7	2 679 778	54.2
Austria	4 348	42.7	250 782	46.3
Sweden	10 248	28.9	231 313	21.4
United Kingdom	67 110	24.2	1 473 040	19.0
Denmark	6 400	17.3	137 910	55.2

Source: Elaborations from Statistica Studi e Ricerche sul Mercato del Lavoro (SSRMdL).

in better services decades ago. The number of staff employed in PES is also much lower and as a result the burden in terms of unemployed to serve is very high.[24]

PES in Italy have traditionally been run by the local authorities in autonomy from central directives. The result has been a mixture of different systems with different governance models and different efficiency according to the region of reference. For example, Lombardy runs a system where PES and private employment agencies are in competition to serve the unemployed. Central regions such as Emilia Romagna and Tuscany run a public system and outsource the number exceeding what the public sector can serve to private agencies. Southern regions often have no recognition of private employment agencies and therefore run everything solely with the PES.

Focusing on specific interventions in the period under analysis, most of the Italian ALMPs consisted of introducing and/or modifying employment conditional incentives, according to what were deemed the categories mostly needing employment opportunities at that moment. Law No. 183 issued on 12/11/2011 extended to the female component of the labour force the possibility of accessing subsidized labour contracts (*contratti d'inserimento*) originally introduced in 2003 to support youth unemployment. The subjective requisite was being unemployed for at least six months in a region where the gender difference in unemployment rates was large enough. One month later, law No. 214 issued on 22/12/2011 (often quoted as decree *salva Italia*, save Italy), introduced a further discount on young female employment in the South of the country by reducing the tax wedge created by a specific tax measure (IRAP).

These measures are in opposition to other measures, which have reduced employment opportunities of the labour force in the country. Starting with law No. 247 issued on 24/12/2007 and ending with the already mentioned law No. 214 issued on 22/12/2011 the minimum retirement age has been gradually raised, obviously creating an unemployment effect for the youth component (see Chapters 2 and 3, where the effects of retirement incentives have been discussed).

The public sector reform and hiring freeze led to a 7 per cent reduction in public employment, as can be seen from table 5.4. While this was only partially effective in containing the public expenditure on public employment (also mitigated by the agreement linking pay to productivity signed in 2011), it was effective in reducing the employment opportunities in sectors which were traditional absorbers of graduate new entrants (namely education and health services). The negative impact on the youth component was only partially alleviated by transforming the apprenticeship into an open-ended contract in 2011, as already discussed in Chapter 2.

Empirical evidence on enacted policies is very limited. Recent papers have applied counterfactual methods to the evaluation of specific policies in specific regions, without being able to provide a global picture of the effectiveness of specific policies. The lack of adequate administrative data that are publicly accessible prevents the development of this line of research. One aspect

Table 5.4 Public sector employees – Italy (thousands of units)

Administration	2007	2012	Diff.	Growth rate (%)
Central administration	2042.9	1859.4	–183.5	–9.0
Local administration*	1519.9	1450.1	–69.8	–4.6
of which: regions, provinces, municipalities	619.1	568.4	–50.7	–8.2
Social security	55.5	47.3	–8.2	–14.8
Total	**3618.3**	**3356.8**	**–261.5**	**–7.2**

*Includes employees in the regional health care units.

Source: Istat, *Unità di lavoro delle Amministrazioni pubbliche per sotto-settore*, 1990–2012. From Bordignon et al 2014.

24. Data on beneficiaries are scarce and inconsistent across different sources. In Istat *Annuario statistico italiano*, Rome 2014, we find that in 2011 (latest data available) there were 491,510 beneficiaries of incentives to apprenticeship contracts and 362,109 beneficiaries of employment conditional transfers. For the same year Eurostat provides an overall figure of 634,704 beneficiaries of employment incentives and 17,105 new jobs created.

which has been considered in this (admittedly limited) literature is the effect of mixed active–passive measures, using different thresholds of age and firm size to appreciate their combine effect.[25] The authors use a specific dataset developed in the Veneto region, which combines social security information with the regional public labour exchange archive and finds evidence of a negative effect of this component of the programme on the short- to mid-run re-employment probability, especially for middle-aged women.

The effectiveness of privately provided (and publicly financed) employment services in Lombardy are studied by a different research group.[26] They find that services increase employability only when combined with training. They use a local labour exchange archive, but draw attention to the self-selection process of unemployed people into different networks associated with different providers.

The effectiveness of training is typically not assessed, despite increasing pressure from European Union monitoring agencies. When the effectiveness is monitored, it is traditionally measured by comparison of employment (or unemployment) rates of treated versus non-treated persons, without any random allocation to treatment.[27] A notable exception comes from the Trentino region,[28] where locally organized vocational courses are evaluated using *propensity score matching* techniques. The authors find an overall positive effect on the probability of finding a new job in the medium term, despite ineffectiveness for Italian males and for participants aged below 25 or above 45.

On this limited evidence-based knowledge, it is hard to identify good practices in ALMPs in the country. In addition, with the start of the youth guarantee programme in 2014, the issue of the efficiency of PES is becoming an urgent matter of policy. Access to the European funds implies a commitment to serve several hundred thousand youths within a four-month period from their application. The PES should make an offer to the young unemployed of an apprenticeship, a job in the private or public sector or a training period. The lag in terms of resources for the PES is deemed too large to be filled in a short period of time (and public finances cannot afford expenditures to the tone of the UK or German PES). The government has therefore devised a short-term strategy in two steps: first, create a national agency to coordinate the different regional systems; and second, encourage a system of private employment agencies to sideline the public PES system in all regions. This requires procedures to give recognition to reliable private agencies and control their operations when they use public funds.

The new Italian government which took office in early 2014 has made plans to further overhaul the labour market in the face of stubbornly high unemployment rates, especially of the young. Plans were made to: (1) further simplify the open-ended contract which today suffers from competition from the fixed-term contract; (2) unify the ASPI and Mini-ASPI in a new more generous unemployment benefit system with a larger potential number of beneficiaries among those with low tenure and little unemployment benefit contributions; and (3) overhaul the inefficient system of public employment services using funds coming from the Youth Guarantee scheme of the European Union.

25. See Mazzarella et al. 2015. Liste di Mobilità (LM) is a labour market programme targeted at dismissed workers. It combines an active component for all dismissed workers and a passive one to which only workers dismissed by firms with at least 16 employees are entitled; 50 per cent of the residual passive component the worker would have received had they remained unemployed is transferred to any firm hiring them from the LM.
26. Ballarino et al 2011.
27. See for example Ministero del Lavoro e delle politiche sociali – Isfol, *XIV rapporto sulla formazione continua*. Rome 2013 (http://sbnlo2.cilea.it/bw5ne2/opac.aspx?WEB=ISFL&IDS=19686) and previous issues.
28. See De Poli and Loi 2015

Conclusion

In this report the main characteristics of the Italian labour market and its evolution during the recent crisis was assessed. It is still a time of vast reallocation of resources and the labour shedding does not appear to have ended. To respond to the crisis, the various governments have introduced labour market reforms which were intended to stimulate more stable contracts (open-ended contracts) rather than the ever more popular fixed-term contracts. The idea is that if the government cannot create jobs, it can at least affect the composition of contracts. At the same time, the government has alleviated the employment losses of the crisis, repeatedly financing CIG in the emergency effort of limiting labour shedding. This effort was successful in limiting job losses, especially considering the huge loss in terms of GDP since the crisis. However, CIG is very expensive and cannot be maintained for too long. Italy is facing the sixth year of crisis and CIG has been used massively throughout.

Since 1993 there has been a regime of wage moderation and the diffusion of fixed-term contracts over the years (due to successive reforms in 1997 and 2003) has brought about an increase in the number of jobs (at least until 2008) but very little productivity increase. Wage inequality has increased but to a much lower extent than in many other countries.

So far the labour market reforms have set out a plan of long-term overhaul of the labour market: measures to regulate hiring and firing, the revision of unemployment benefits, and the reform of public employment services. However, at the time of writing, these reforms are mainly on paper and their full implementation will take a long time to reach full applicability, even though the process started in 2012. Furthermore, in the government plans there are still no details as to how to overhaul the industrial relations and wage-setting systems. Italy still has a wage-setting regime based on national contracts at the sectoral level. Firm-level contracts are evenly spread across the country, with an industrial structure based on small firms with scarce union presence. In January 2014 the unions and the employers' association signed a long-awaited agreement to determine the rules of workers' participation and of firm-level contracts. Since then the agreement has never been applied, and government intervention by law in the industrial relations system could be a possibility, not only to regulate the sharing of productivity increases but also to raise productivity in the workplace.

Of course productivity also depends on many other factors outside the labour market. The long-term imbalances of the Italian economy have long been known and have worsened during the crisis. Italy's growth is driven by strong exporters in the manufacturing sector; public debt has increased during the crisis and it is still increasing at the time of writing, notwithstanding long years of austerity and primary surpluses; school-to-work transition is the weak link of youth unemployment; product and service markets are often still very protected by strict accession rules; the judicial system is slow; and private and public investment has plummeted since the crisis.

Some reforms have started to take place. A specific law was dedicated to support the development and financing of innovative start-up firms. Renewed attention was given to improving the conditions for research, development and innovation by both the private sector and the universities. It is well known that exporting firms need to be supported, since they are the only ones which withstood the long crisis.

The government recently approved a set of liberalizations in crucial service sectors (professional services, gas and retail, among others). The measures included strengthening the powers of the antitrust authority, creating an independent authority in charge of regulating access to network infrastructures and setting tariffs, as well as quality standards in the transport sector. The new rules make some cuts in administrative burdens for firms relating to environmental, labour, public procurement and privacy regulations. The procedure to start up a business activity was simplified and unnecessary authorizations were eliminated.

As for the education system, provisions have been made for self-assessment by each school as well as an evaluation of school managers' performance. A national evaluation system will be introduced. A set of measures was adopted to improve the working of the civil courts and to speed-up court rulings. They included plans to reduce the courts' backlogs, the reorganization of judicial districts, the introduction of compulsory conciliation procedures and the creation of specialized courts dealing with company law disputes.

The economic impact of these reforms is hard to evaluate and it may take a long time for the effects to be visible. In some cases, the link of reforms with economic performance is indirect and the approval of new laws is only the starting point of a long process of implementation.

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