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Did Italy Need More Labour Flexibility?

The Consequences of the Jobs Act

The dramatic impact of the 2008 crisis on the Italian economy led to policy responses including structural reforms and labour market liberalisation to reverse the worrisome output and employment trends. A key action by the Italian government, the evocatively named Jobs Act of 2014, has deeply changed Italian industrial relations. The Jobs Act has introduced a new contract type that substantially limits workers' rights to reinstatement in case of firms invalidly firing them. This article frames the Jobs Act within the overall liberalisation process begun in Italy in the 1990s, providing an initial evaluation of its impacts. Using detailed data sources, we show that the expected boost in employment cannot be detected, the share of temporary contracts over open-ended ones has increased and the number of part-time contracts has risen. This evidence suggests that the Jobs Act is failing to achieve its main goals.

The 2008 financial crisis dramatically impacted the Italian economy. The main effects have been experienced in terms of reductions in GDP and the destruction of jobs and productive capacity. The Italian unemployment rate nearly doubled from 6.7% in 2006 to 12.7% in 2014; over the same period, Italian GDP dropped by 7.1% and the productive capacity by 25%.¹ As a result, a set of policy interventions were put in place to reverse the negative trend affecting the economy.

In late 2014, the Italian government attempted to staunch the increasing unemployment through a reform of the

labour market. It introduced Law 183/2014, evocatively named the “Jobs Act”, which established a deep change in industrial relations via a substantial reduction of workers' protections. This completed a deregulation process that had begun in the mid-1990s. Thus, in line with the other Southern European countries, Italy relied on labour market liberalisation to increase employment, foster productivity and restart growth. The Jobs Act has been the main pillar of this agenda. In addition, the Law has the objective of countering labour market dualism and encouraging permanent employment.²

The Jobs Act has several key features. First, a new contract type has been introduced for new hires, “*contratto a tutele crescenti*”, which eliminates any obligation for workers' reinstatement in case firms invalidly fire them. Second, the legal constraints for firms intending to monitor workers through electronic devices of various kinds have been weakened. Third, the use of temporary contracts has been facilitated by the elimination of previous restrictions on their adoption; before implementation of the Jobs Act, no more than 20% of a firms' contracts could be temporary. Moreover, just before the introduction of the new contract type, a substantial monetary incentive was provided to firms hiring under a permanent

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1 Eurostat and OECD data.

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2 An analysis of the emergency interventions previous to the Jobs Act can be found in V. Monastiriotis, N. Hardiman, A. Regan, C. Goretti, L. Landi, J.I. Conde-Ruiz, C. Marín, R. Cabral: *Austerity Measures in Crisis Countries – Results and Impact on Mid-term Development*, in: *Intereconomics*, Vol. 48, No. 1, 2013, pp. 4-32.

contract or transforming other contracts into permanent ones.

The Italian case turns out to be revealing, especially when framed within the European debate regarding the appropriateness of austerity policies and labour market liberalisation as tools to recover growth and employment after the crisis. Italy shares with some other Southern European countries a series of dubious economic achievements: the highest rate of long-term unemployment, the highest youth unemployment rate, the lowest participation rate of women and older workers, and, lastly, one of the lowest employment rates in Europe. At the same time, a huge amount of flexibility has been introduced into the Italian labour market, with the Jobs Act constituting the final and most radical step in this direction.³

Since the 1990s, the mainstream approach to tackling the Italian economy's weaknesses has been based on removing market "rigidities", which were considered responsible for hampering (labour) market clearing, preventing efficient factor allocation and, as a consequence, avoiding social welfare maximisation. Examples of such rigidities are strong trade unions, generous social benefits, high minimum wages, powerful insiders and firing restrictions. In particular, employment protection has been increasingly seen as an obstacle to job creation due to the high costs of dismissals. Accordingly, many forms of employment protection have been identified as the major cause of longer spells of unemployment.⁴ However, a large strand of literature challenges the thesis supporting the need for structural reforms – directed at removing such rigidities – and labour market liberalisation. Howell et al. highlighted the fragility of the available econometric evidence which has found a positive impact of labour market liberalisation on employment, productivity and innovation dynamics.⁵ On similar lines, Baker et al. and Avdagic show that many findings in the empirical literature which support liberalisation are sensitive to changes in data, model specification and econometric

techniques.⁶ Moreover, neither Armingeon and Baccaro nor Avdagic find a statistically significant relationship between employment protection and unemployment, while Noelke does not find any evidence regarding the link between employment protection and negative employment performance for low-skilled and young workers.⁷

Despite this lack of consensus in labour market studies and policy prescriptions, as well as the disappointing productivity and employment performance throughout the reform process, Italy undertook a reform path in which labour market liberalisation played a fundamental role. As argued above, the 2008 crisis provoked a substantial acceleration in this process. Pini as well as Cirillo and Guarascio have discussed the rationale for and the potential implications of this further liberalisation which has been put in place during the crisis years.⁸ These contributions analysed the appropriateness of such a policy strategy as a way to recover competitiveness and tackle the economy's structural problems. In particular, the authors refer to the rise of structural unemployment – especially in the southern regions – and the persistent stagnation of productivity. These two negative trends were exacerbated in the aftermath of the 2008 crisis. This evidence shows that freeing firms from the remaining constraints they have in terms of labour regulations (i.e. firing restrictions) would not help to address the Italian economy's structural diseases. On the contrary, it is claimed that further reductions in firing restrictions could deepen the state of economic depression, negatively impacting the dynamics of internal demand and reducing the incentives for firms to make investments.

A further stream of literature argues that the adoption of cost competitiveness strategies in the EU periphery – with labour market liberalisation identified as a key element of such strategies – in order to recover competitiveness after the crisis could be counterproductive and damaging. Conversely, the lack of internal demand and investments – particularly innovative ones – is identified as the

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