The results of Italy's 2012 labour-market reforms – no solution to unemployment

Gabriele Piazza and Martin Myant of the European Trade Union Institute *criticise recent labour market reforms in Italy which aim to tackle unemployment by cutting protection for workers on permanent contracts. There is no evidence that this works, and Italy would be better off addressing structural problems in the Italian economy*

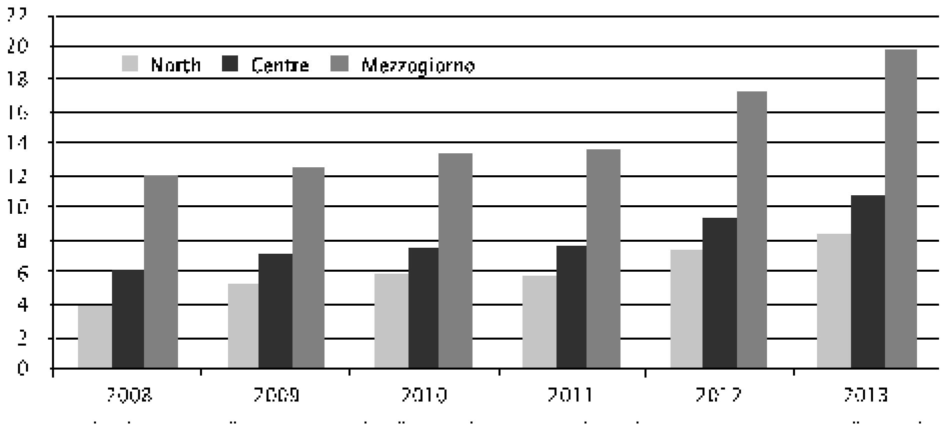
In June 2012 Italy introduced a package of labour-market reforms. One particularly controversial measure was a change to Article 18 of the 1970 Workers' Statute which had given employees found to have been unfairly dismissed the right to reinstatement. From then on it was to be for the judge to choose between reinstatement and financial compensation. A further reform in March 2015 eliminates the possibility of reinstatement for newly employed.

These reforms are part of the thinking from EU and other policy makers that protection to permanent employees has contributed to increasing unemployment and to creating dualism in labour markets. Employers apparently choose less secure kinds of contracts because permanent contracts offer 'too much' protection to employees. In fact, changes in this direction were an implicit requirement of the ECB in the infamous letter sent in August 2011 from its retiring and incoming Presidents, Jean-Claude Trichet and Mario Draghi to the Italian government when they agreed to buy government bonds to help prevent Italy from defaulting on its debts.

There is no evidence that either unemployment levels or the extent of irregular contracts were increased by Article 18. Nor is there any evidence that its alteration led to reduction in those levels. This is revealed by a careful analysis of changes in the Italian labour market from the 1990s to the present in an ETUI working paper.[1]

The key points are as follows;

1. The employment rate in Italy has traditionally been below the EU average (55.6% and 64.1% respectively in 2012), but this cannot be attributed to laws as such as they formally apply equally across the whole of Italy. The North has a slightly higher participation rate than the EU average (64.9% in 2012). In the South it is much lower (43.7% in 2012) with only part of the gap attributable to an estimated significant level of informal employment. The extent of these differences and of the changes after the 2008 crisis are shown in Figure 1 below, which indicates the unemployment rate by geograhphical area between 2008 and 2013.



2. There was a significant increase in employees on temporary contracts (from 7.0% to 9.7% of all employees) after labour reforms in 1997 and 2003 aimed at creating more flexible employment conditions. The increase in irregular contracts roughly matched an increase in total employment of about 1 million. However, this does not prove that flexibility led to more employment. More detailed investigation shows that two thirds of the increase in recorded employment corresponded to the numbers of regularised migrant workers in this period who could thereby emerge from the shadow economy. The increase in temporary workers was largely due to an increasing share in the 15-24 age group (from 23.3% in 2001 to 42.3% in 2007). It was not new jobs at all, but worsened conditions for an existing group of employees as employers took advantage of the new possibilities opened up within the law.

3. Article 18 applies only to the 44% of employees in units with 15 employees or more. A direct effect on total employment is therefore unlikely, but it might harm the economy by discouraging growth of firms beyond this threshold. In fact, there is no evidence of this, as would be indicated for example by a bunching of firms just below this size. The extent of reinstatements under Article 18 was probably always very small, just as dismissals are always a small proportion of employee turnover.

4. Evidence from 2012 to 2014 shows continuing decline in employment levels, explicable in terms of macroeconomic developments and the effects of austerity policies. More significantly, and conflicting with the predictions of the advocates of these labour market reforms, there was no sign of a move towards greater reliance on permanent contracts. In fact, the evidence shows exactly the opposite tendency. In the 2012-2013 period, those on atypical contracts were more likely to remain in this type of employment (56.4%) than to move on to full-time permanent employment (15.3%). This is a much lower percentage than in the pre-crisis period (24% in the 2007-2008 period). Thus the reform did not improve the chances of a transition to more stable employment in the period observed.

5. Regional differences continue to point to the importance of other factors apart from employment laws. The employment rate in the North and South, continued its downward trend after the 2012 reforms, whereas it fluctuated in the Centre. The employment rate in the South, much lower than the other regional groups, fluctuated until 2012 before decreasing more sharply. This observation supports the argument that the labour market in Southern Italy follows dynamics of its own and different from those observed in the rest of the country.

The conclusion must be that any policy solution that aims to tackle the employment problems by lowering employment protection is unlikely to bring positive results. Instead, it would seem more relevant in Italy to start by addressing the structural problems in the Italian economy, meaning above all the slow pace of transition to a more skills- and knowledge-based economy, a process stalled during the pst-2008 recession, and the difference between North and South. Indeed, across the EU as a whole the significance of labour law variations in determining employment levels has been greatly exaggerated.

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[1] Gabriele Piazza and Martin Myant (ETUI), Italy's labour market reforms of 2012: did they reduce unemployment? European Trade Union Institute Working Paper, 2015.11.

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