

The Italian *Jobs Act*

Lessons and Challenges

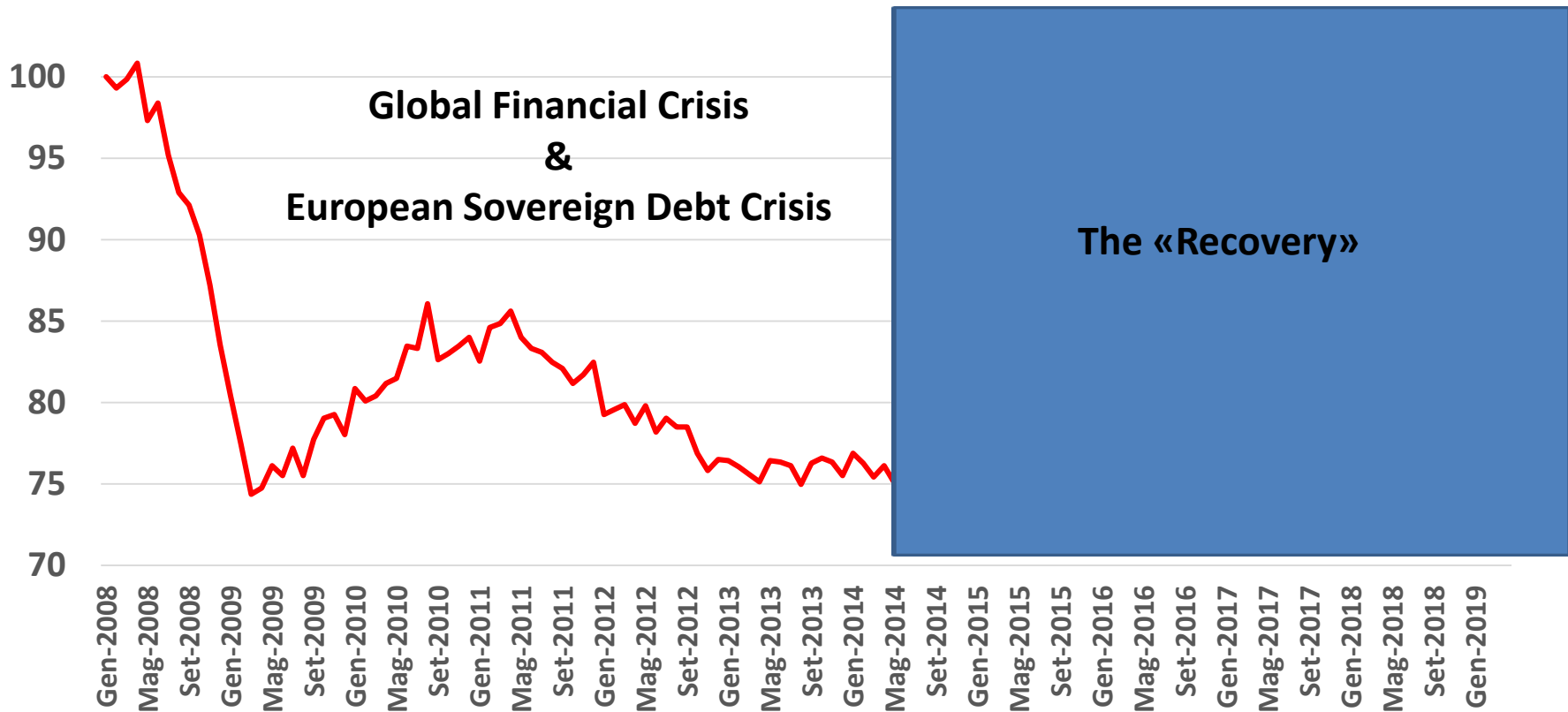
from Structural Reforms In Italy

Filippo Taddei

SARB, September 3rd 2020

Unprecedented Industrial Collapse after GFC

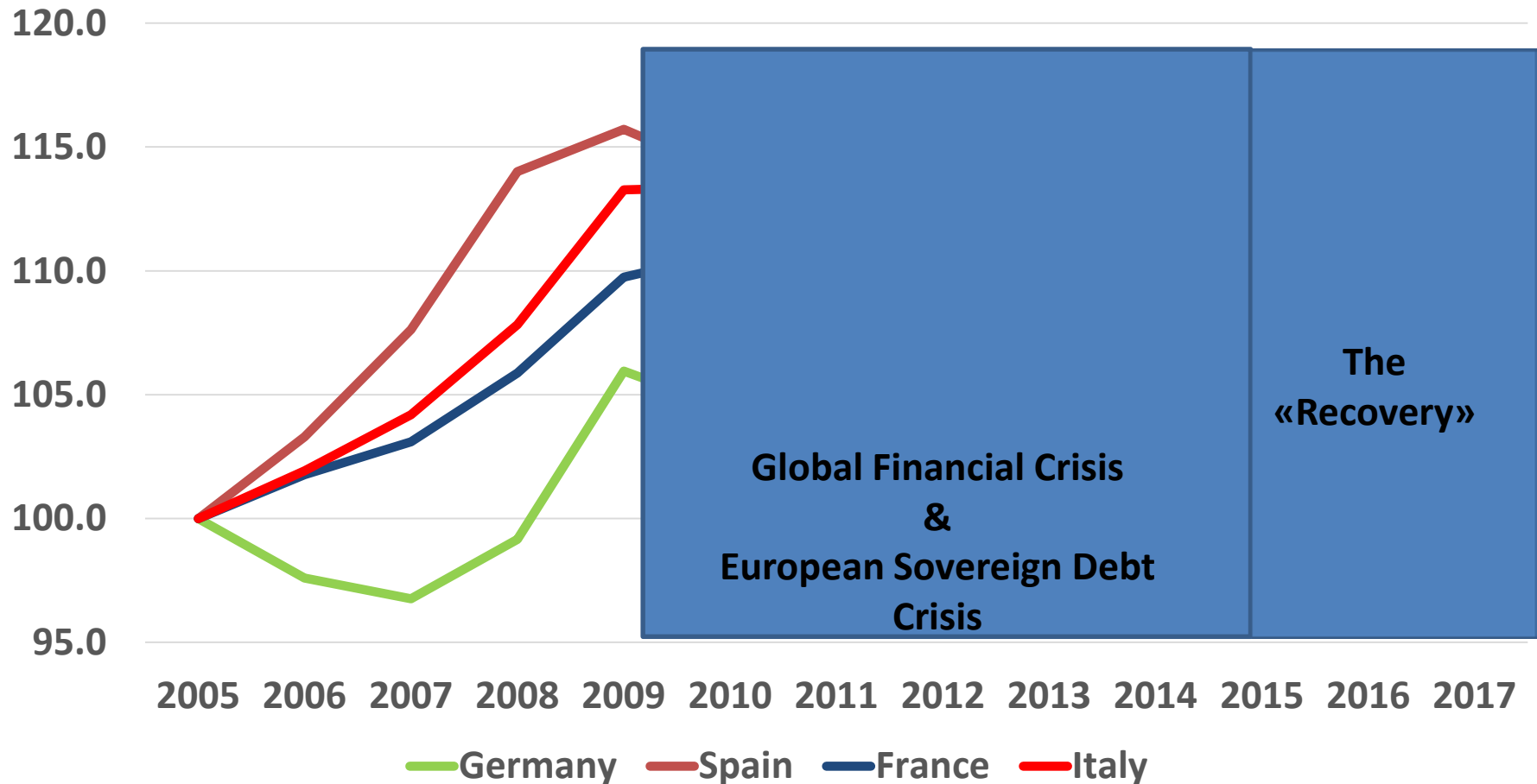
Industrial Production, Jan 2008=100



Fonte: Istat

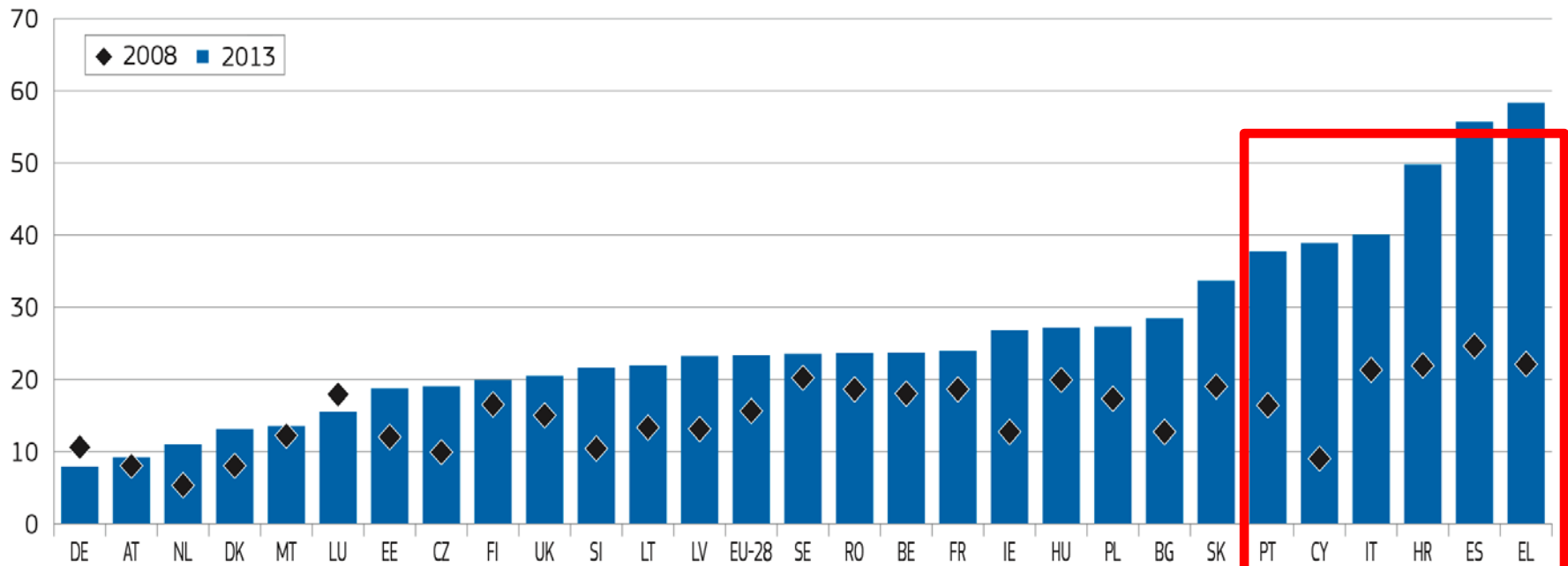
Italian Productivity Slow Adjustment: ULC

Unit Labor Cost per Hour Worked, 2005=100



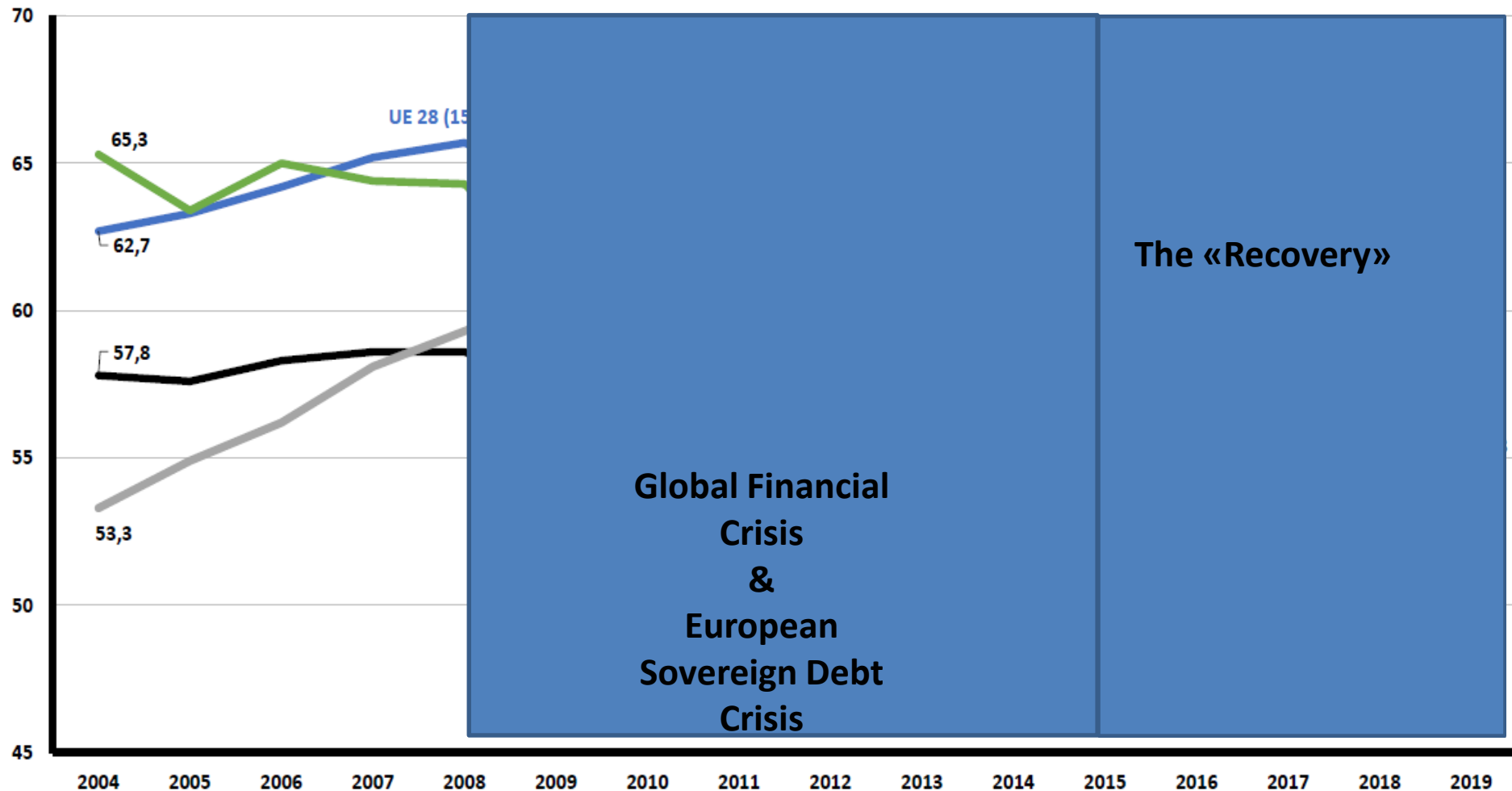
Worst Youth Unemployment in the South European Countries

Chart 8: Youth unemployment in % of active population (aged 15–24)



Source: Eurostat, EU-LFS [lfsa_urgan].

Heterogenous Response to the GFC in Labor Market Participation across Generations



When shall we Consider Structural Reforms?

Structural Weaknesses

- 1) Inequality *between* workers and inactives, thus generations
- 2) Dualism *within* labor market
- 3) Lagging Productivity and low innovation
 - ...incidentally, weak post crisis recovery
- 4) Globalization AND European integration



Policy Objectives and Political Constraints

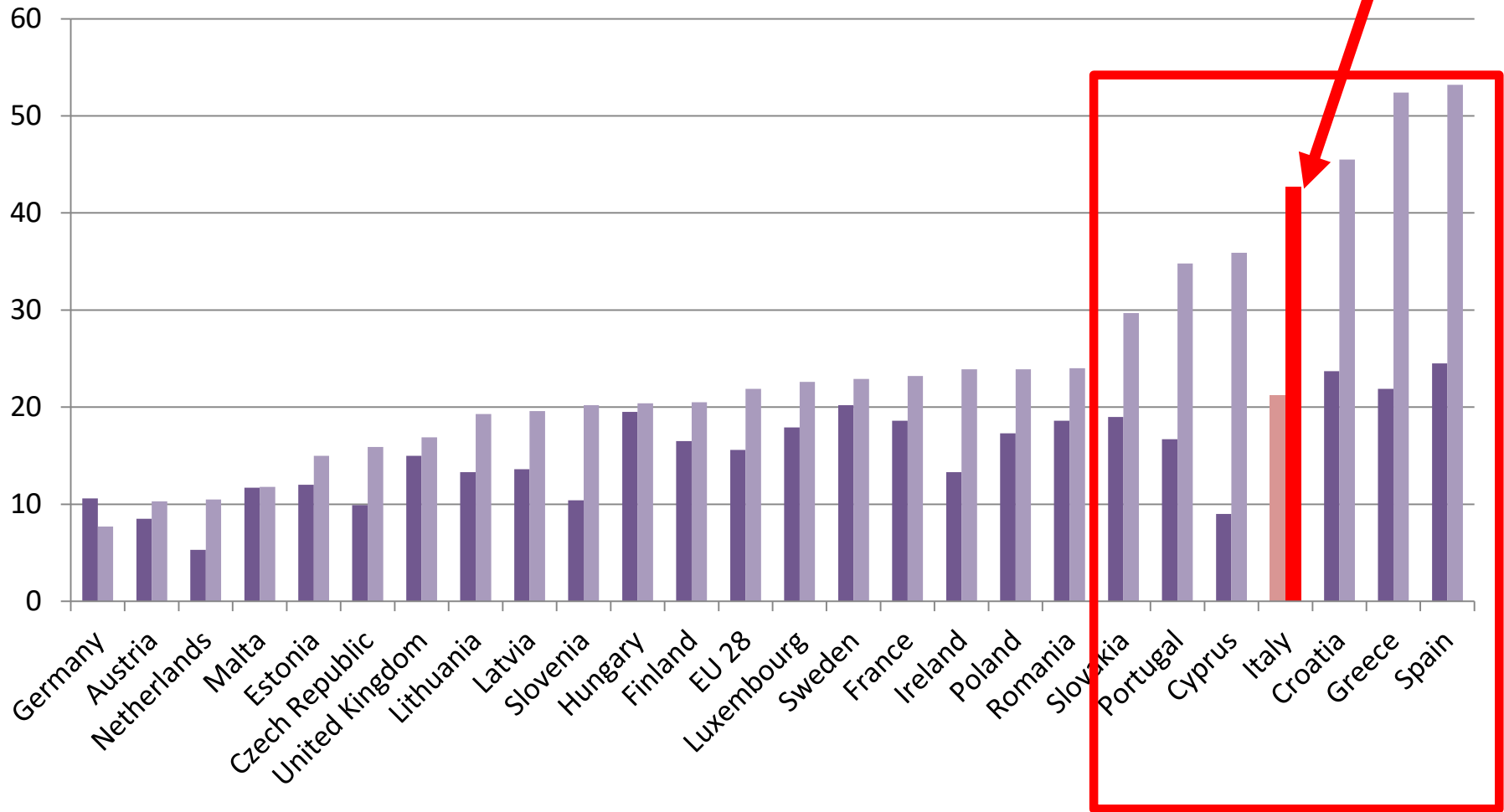
- 1) *Objectives*: address inequality and foster productivity
- 2) *Means*: Comprehensive Labor Market Reform (*Jobs Act*)
 - Labor Contracts
 - Unemployment Insurance and Short Time Work (*Furlough*)
 - Active Labor Market Policies for human capital enhancement
- 3) *Constraint*: political capital Investment

Structural Weaknesses

4 Stylized Facts (pre- *Jobs Act* before 2015)

1. Generational Dualism

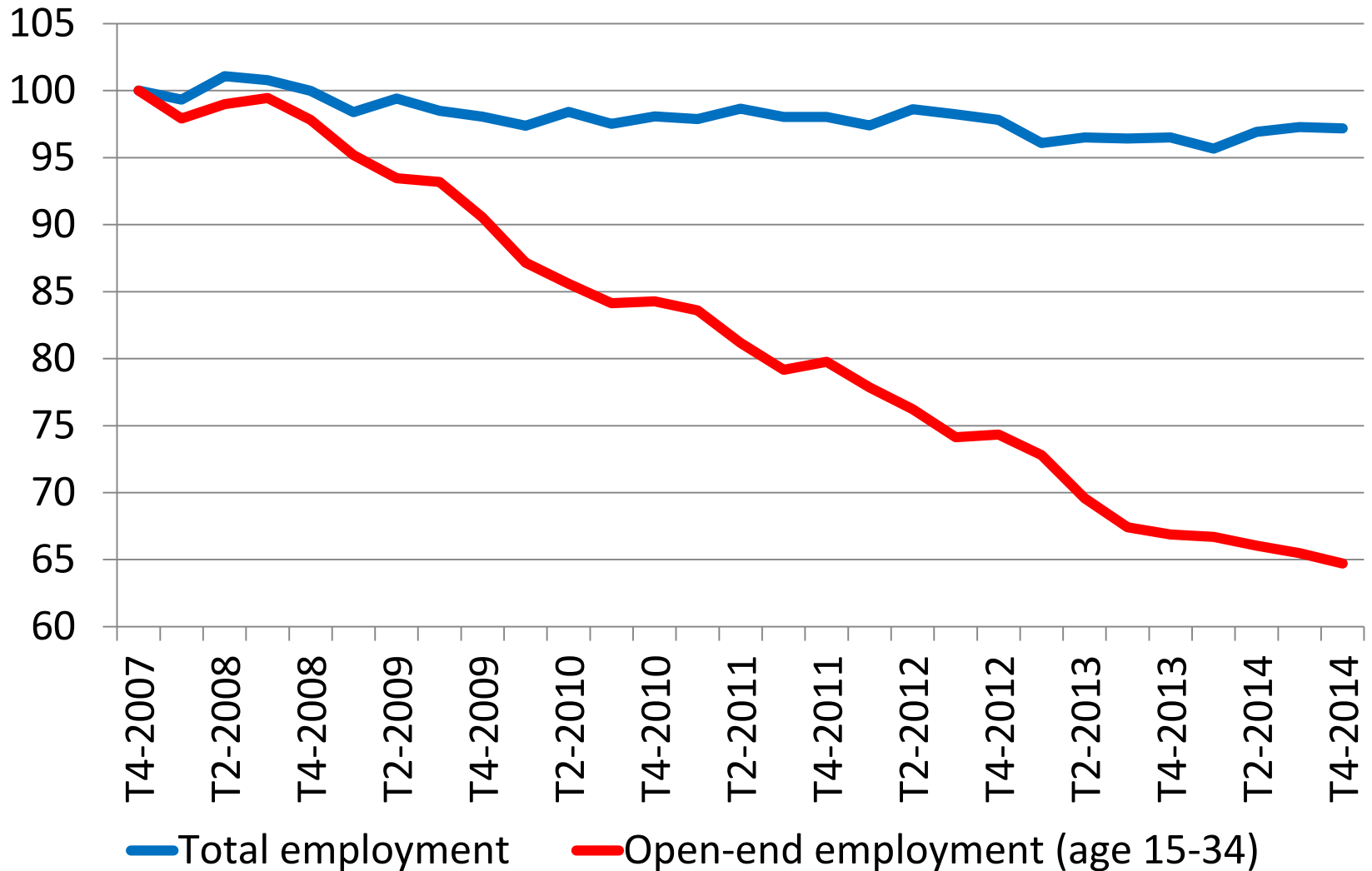
Youth Unemployment (age 15-24)



Source: Eurostat

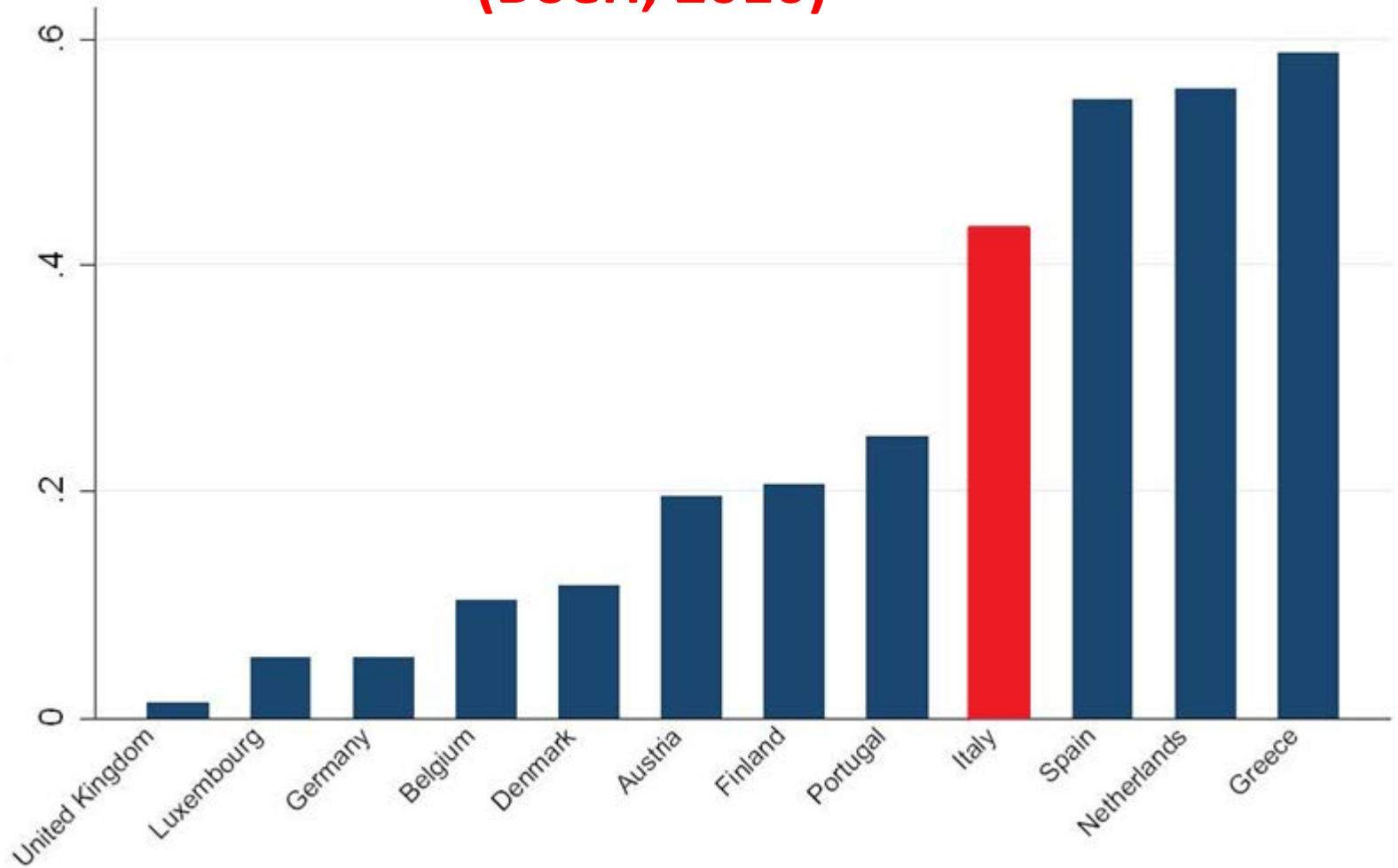
■ 2008 ■ 2014

2. Disproportionate Drop in Open-Ended Employment among Under 35

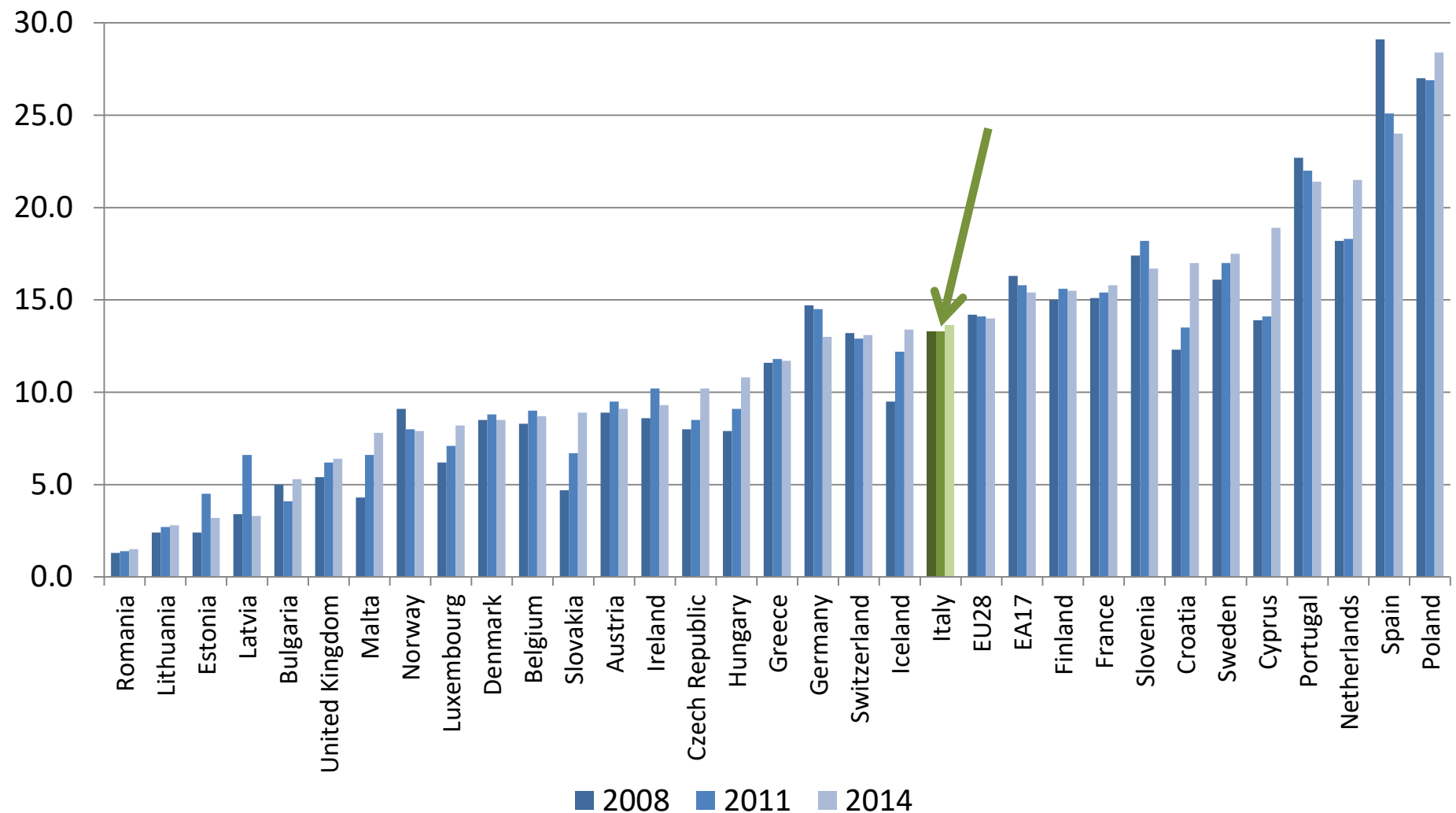


3. Delayed Human Capital Accumulation Outside of Open- Ended Employment (Boeri, 2010)

Difference in on-the-job training incidence
between permanent and fixed-term contracts



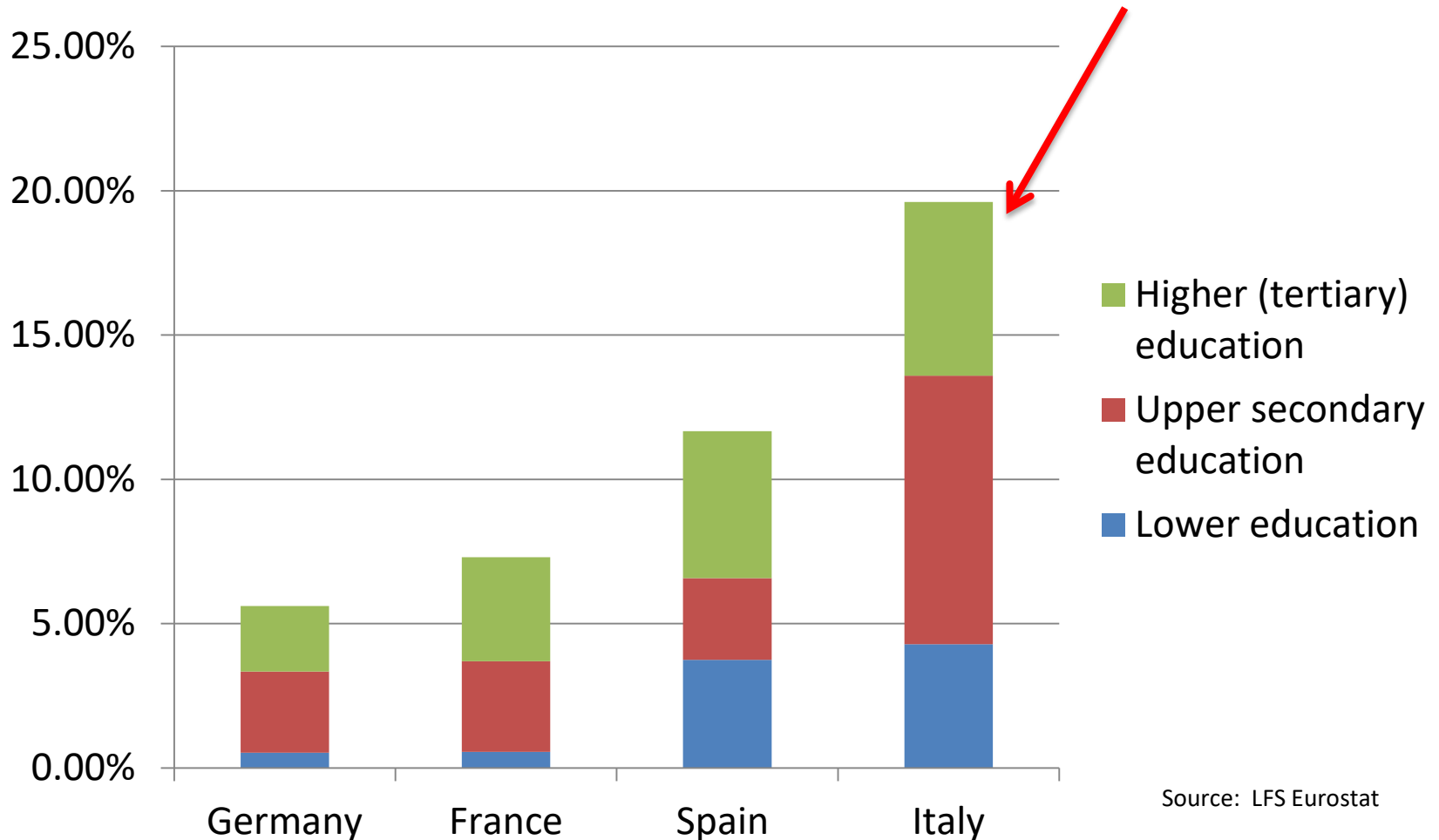
4a. Understanding Labor Market Dualism: Misleading to Assess it Through % Temporary Workers



Source: Eurostat

4b ... Disproportionate Share Self-Employed

2014



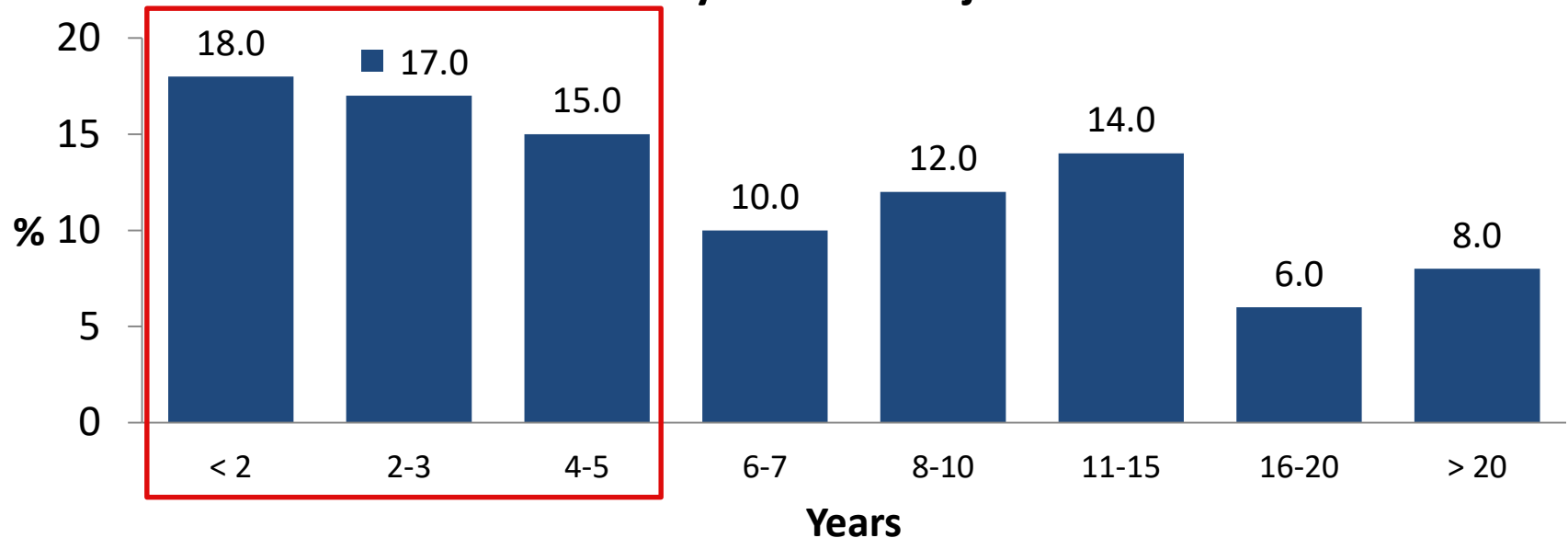
Source: LFS Eurostat

Job for Life? Not Any More!

Strong Workers Mobility

- **Actual Seniority on-the-job** in firms with > 15 employees is very different from what people expect

50% Open Ended Employees < 5 years on-the-job



Reforming the Labor Market before the Jobs Act (pre 2015)

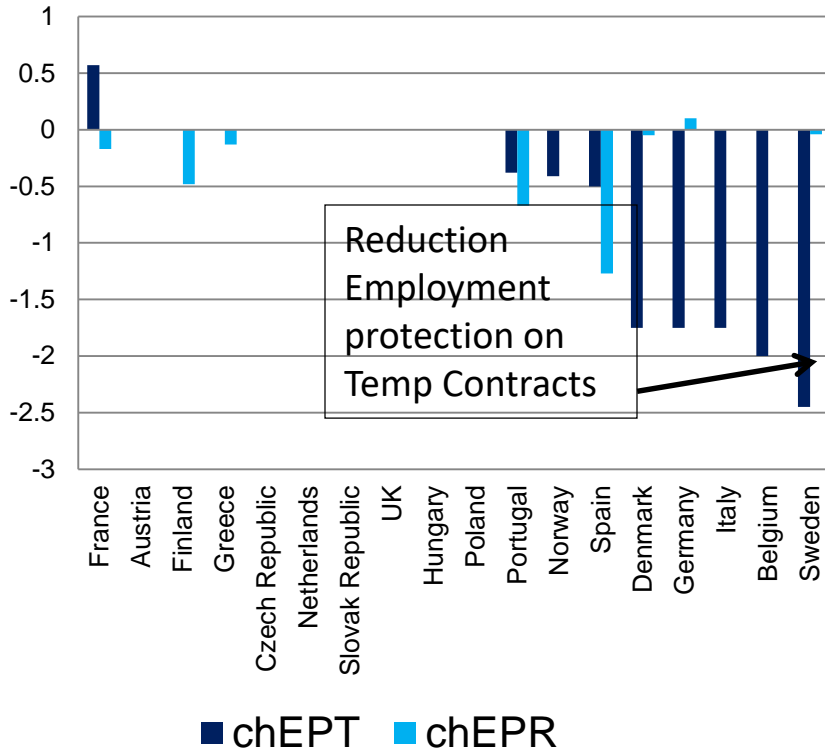
From Rigidity to Asymmetric Flexibility

Most labor market reforms liberalized temporary (EPT) instead of permanent/open ended (EPR) contracts

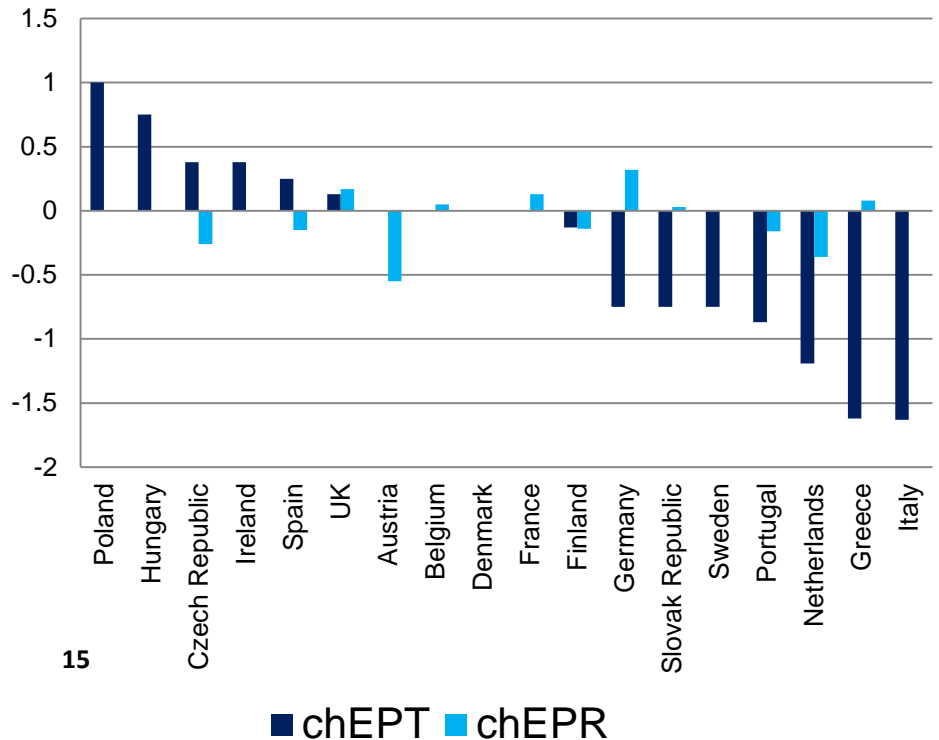
Employment Protection Legislation (EPL) reforms in the EU

Change of EPL index from 1985 to 2008

Change from 1985 to 1998



Change from 1998 to 2008



How does a Dual Labor Market Adjust?

- **Dual Labor Market:** high on-the-job protection for permanent workers/no protection on temporary workers
- **“Honey Moon Effect”:** Dualism temporary-permanent contracts explains “significant improvements in the youth labour market observed **prior** to the crisis”, Boeri- Garibaldi (2007)
- **“Marriage”:** when employment increases during upturns, share of temporary contracts increases in total employment (job creation effect)
- **“Painful Divorce”:** Employment drops during recessions (large job losses), BUT increase in job losses concentrated asymmetrically on temporary (typically young) workers

The Jobs Act

A Comprehensive Labor Market Reform and its Aftermath

Intellectual Paradigm Shift: from Dualism to Flexsecurity

- ***Job Property***

- Employment Protection

- ***Pre-Reform Status quo***

- Protection on-the-job
- Flexibility *at-the-margin*:
Temporary Contracts and Self-Employment as Entry Gate to Job market
- Unemployment Support segmented and biased
- Training *on-the-job* only

- ***Liability Rule***

- Workers Protection

- ***Post-Reform perspective***

- Permanent Contract with Increasing Protection
- Extend and Enhance Unemployment Insurance
- Training *off-the-job*

Jobs Act: Sequential Implementation Objectives

- 1) From Protection **on-the-job** to Protection **on-the-worker**
- 2) Facilitate **reallocation workers across firms**
- 3) **Incentivize labor market entry through open ended contracts** because most conducive to human capital enhancement
- 4) **Re-train** share of labor force with **obsolete skills**



Comprehensive Strategy: Policy Complementarities (2015)

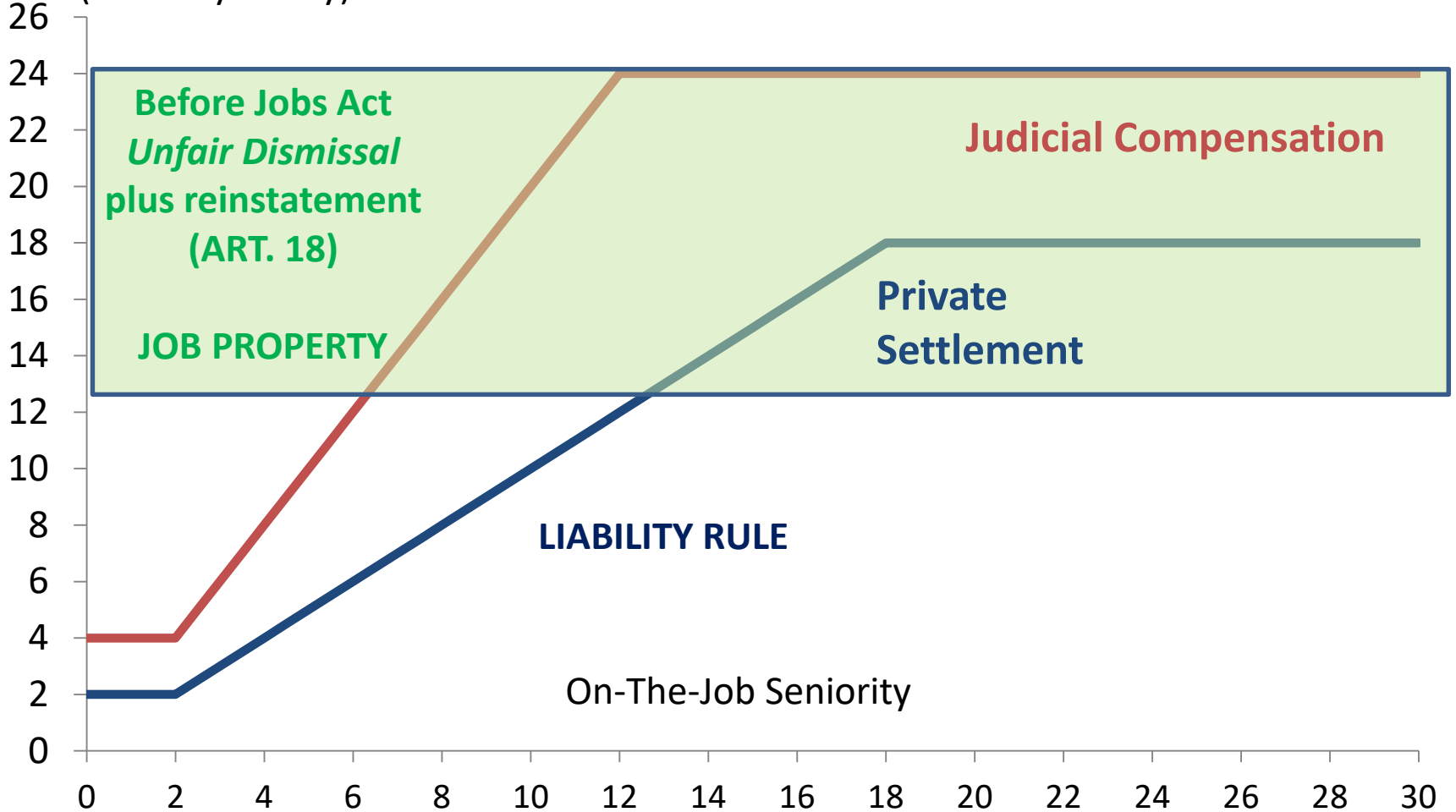
- 1) Extend **Unemployment Insurance** and tighten **Short-time Work** (*Cassa Integrazione Guadagni - CIG*) – March & Sept
- 2) **National Level Active Labor Market Policies** for Reskilling - Sept
- 3) New **Open-Ended Contract with Increasing Protection: curb cost and Judiciary Uncertainty** and **social security Tax cut on new hires** - March

The new Open Ended Labor Contract

Increasing Protection Contract

Indemnization Vs Unfair

Dismissal (Monthly Salary)



Partial 2018 Dilution

3 Main Policy Reversals

- 1) 2016, Constitutional Referendum side-effect: **unconstitutional to organize active labor market policies at *national* level**
- 2) 2018, Government decree: **Tightening Regulation to Hire Temporary Workers and Restored Firm Subsidy**
- 3) 2018, Constitutional Court: **workers' indemnity can not be seniority based *only*, restored some degree judiciary uncertainty**

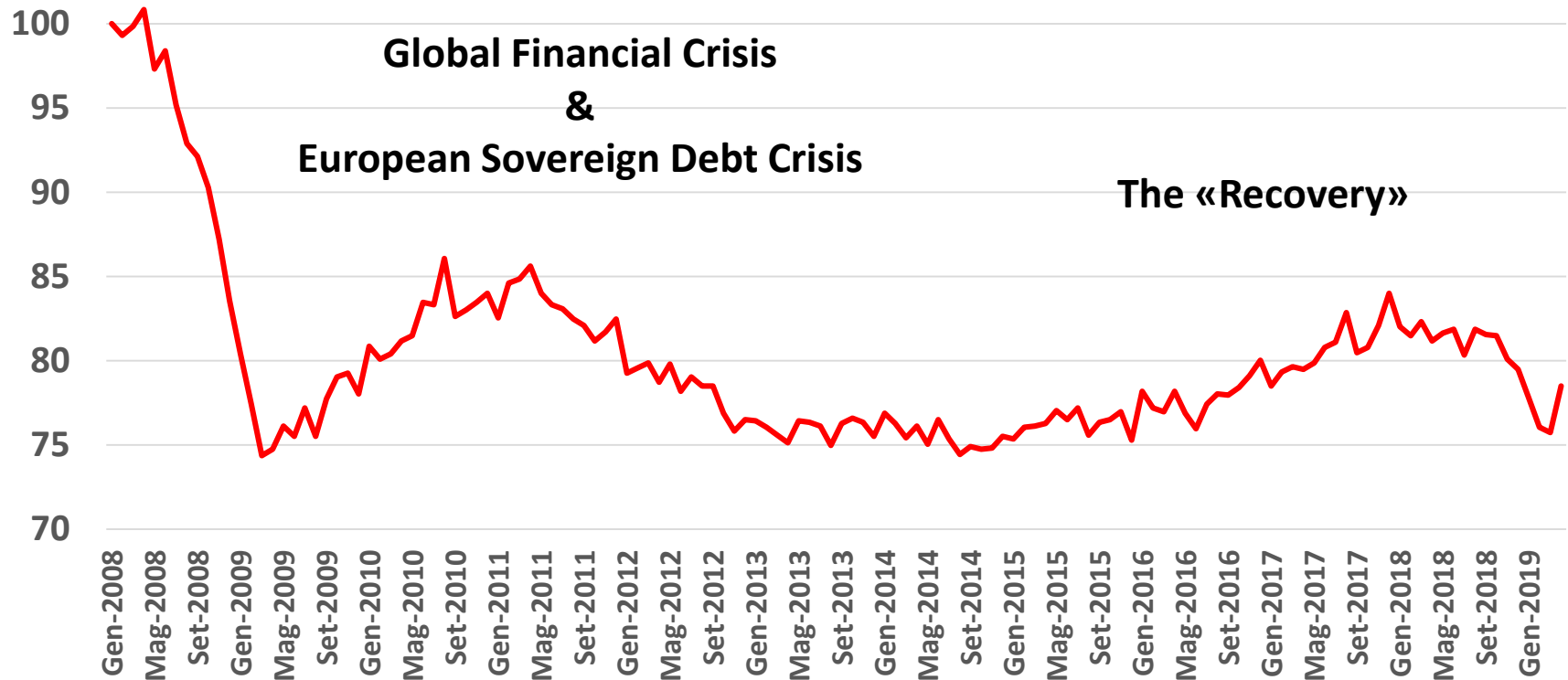
Same old, Same old (Fiscal Policy Incentives)

- 1) **Tax subsidy for new (permanent) hires**
- 2) **Enhanced *de facto* unemployment insurance through "citizens' income" (minimum income scheme)**
- 3) **Set of uncoordinated subsidies to small firms**

The Jobs Act: Some Evidence on the Impact

Unprecedented Industrial Collapse after GFC

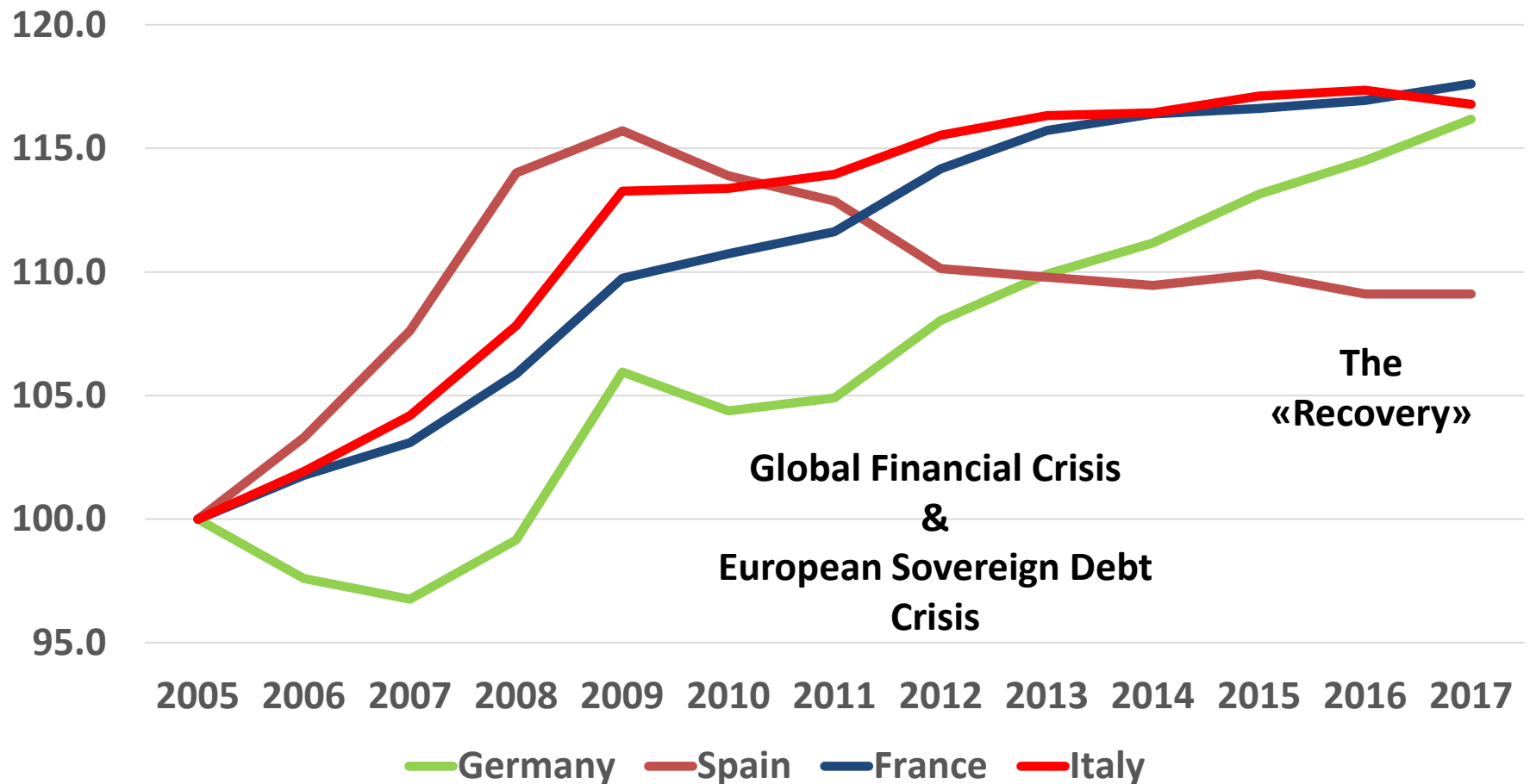
Industrial Production, Jan 2008=100



Fonte: Istat

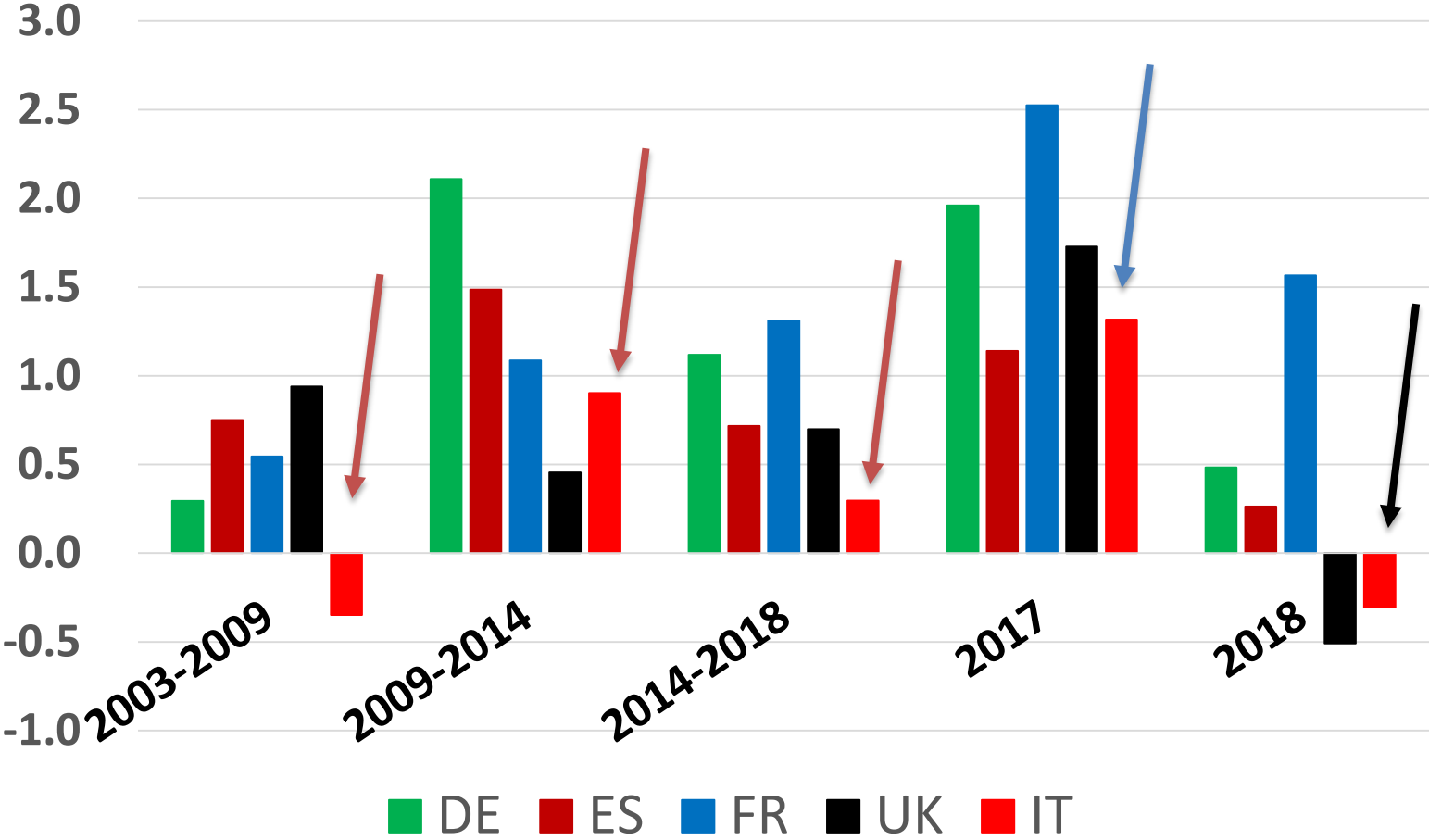
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Unit Labor Cost per Hour Worked, 2005=100

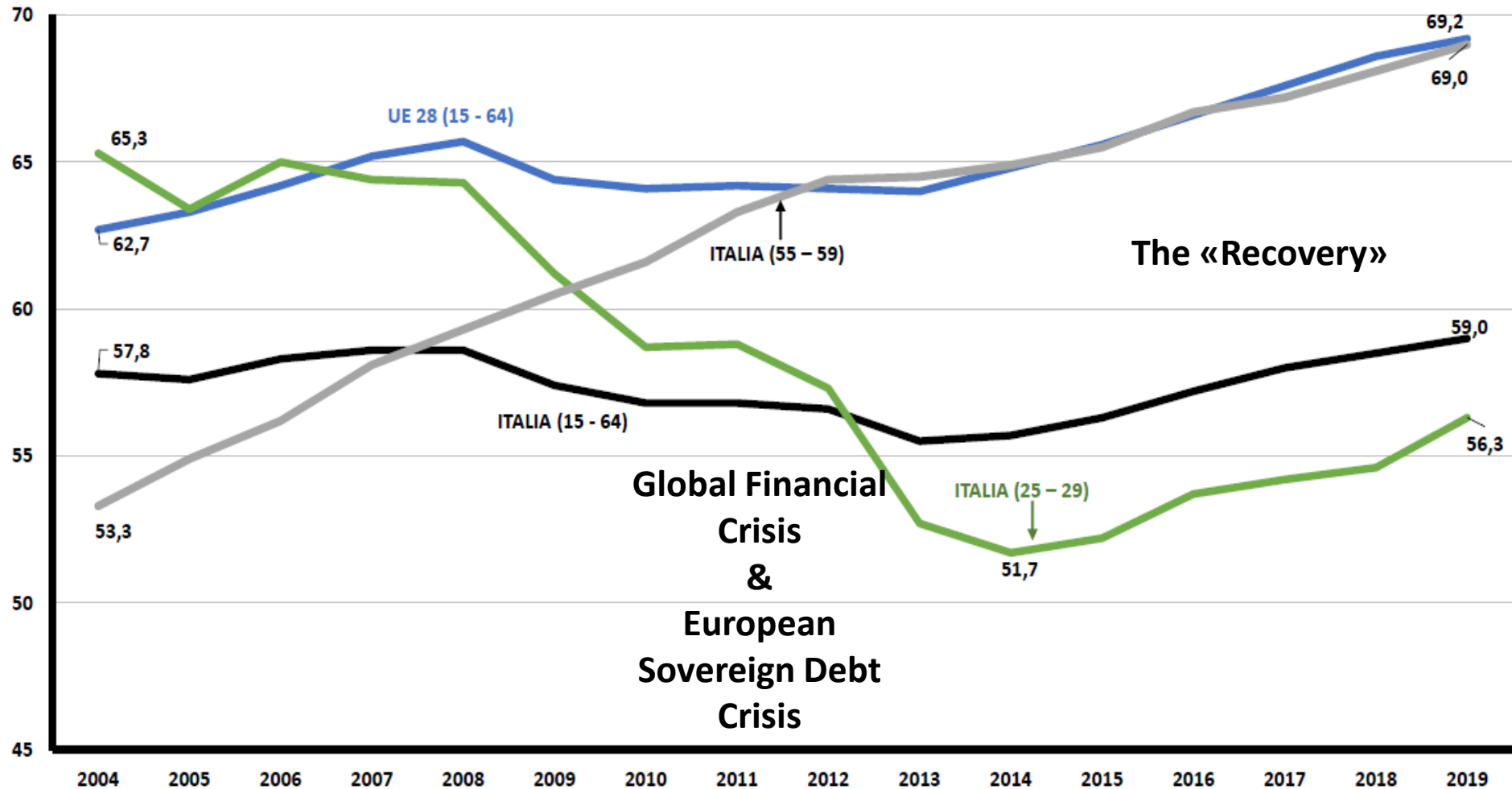


Italian Lag: Labor Productivity

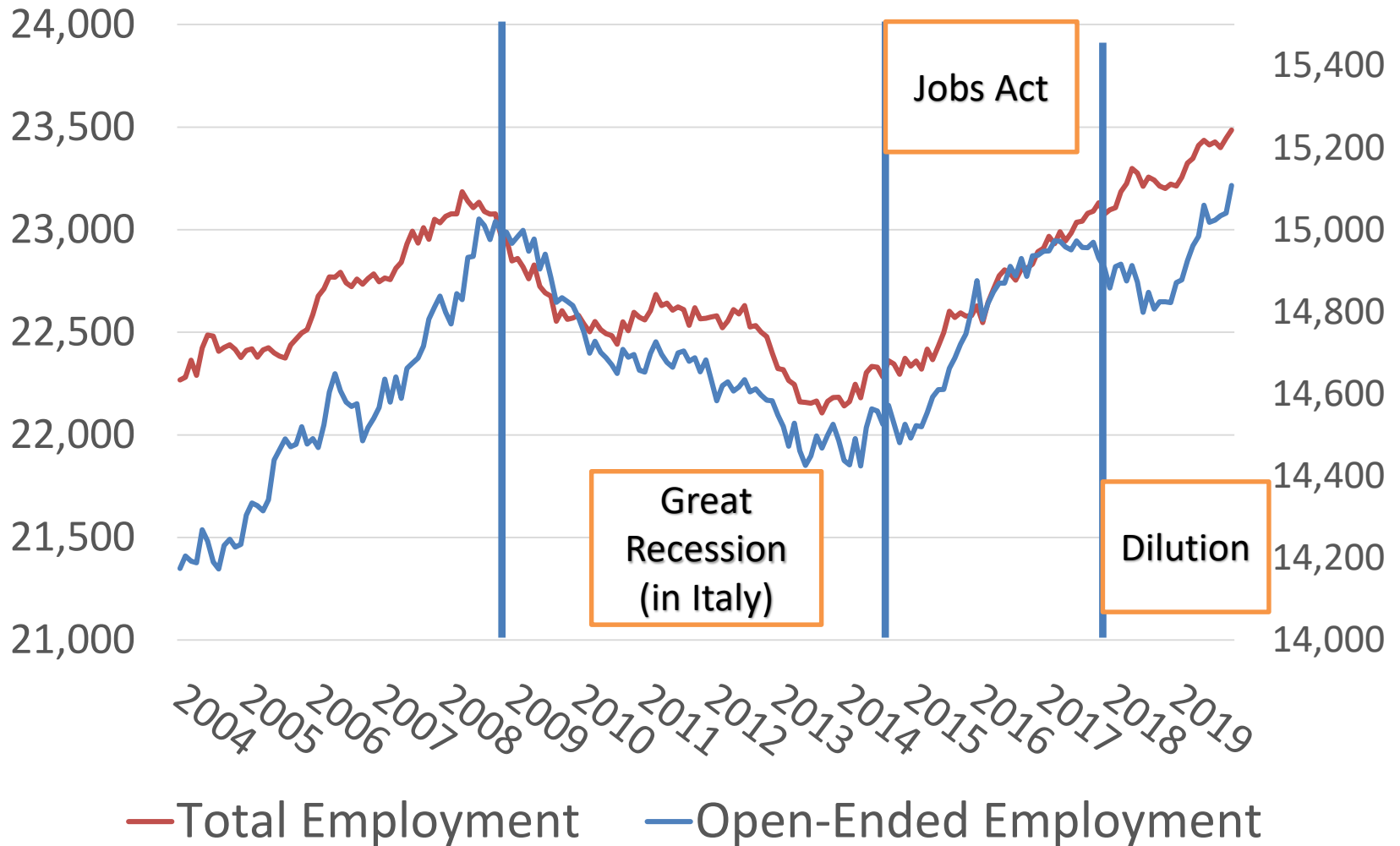
Annual Growth Rate – Production per Worker



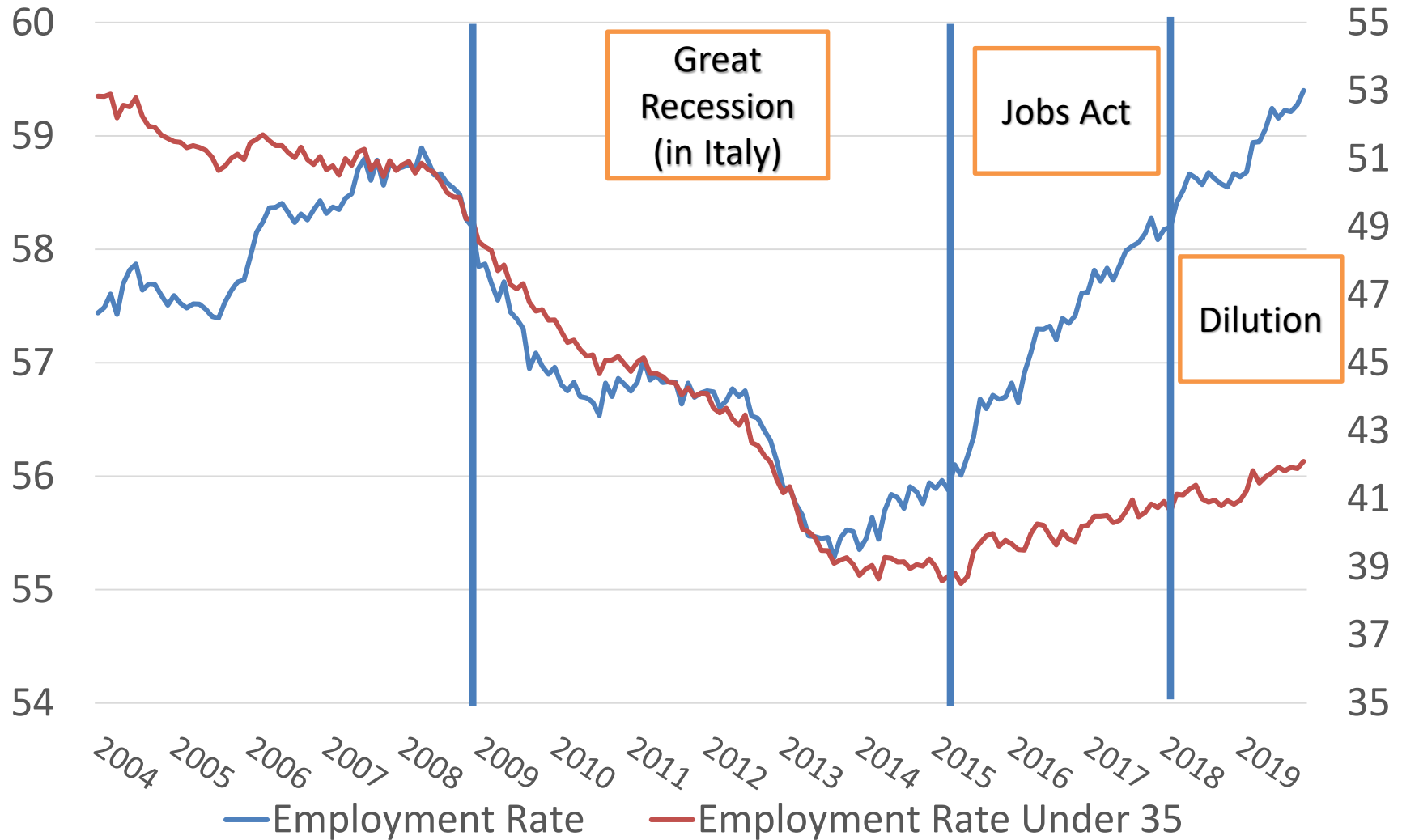
Heterogenous Response to the GFC in Labor Market Participation across Generations



Employment Recovery, Open-Ended for Some Time

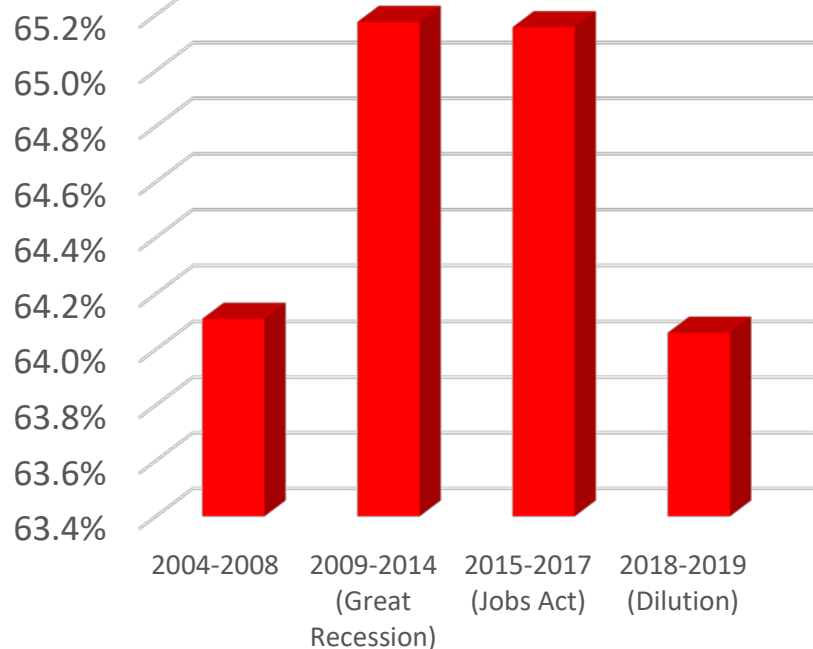


Employment Rate Record High, not Under 35

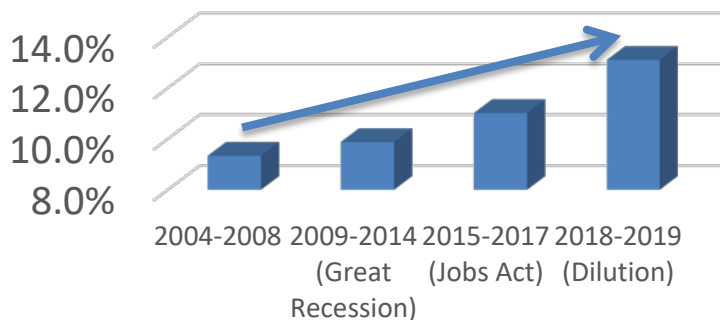


Improving Employment Composition

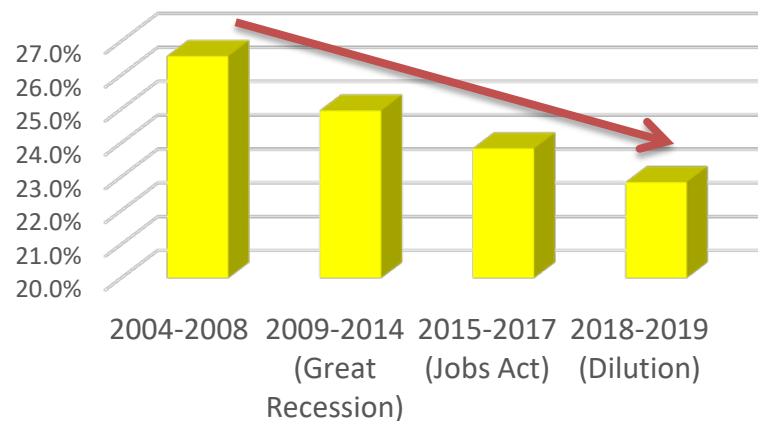
% Open-Ended



% Temporary



% Self-Employed



Italian Labor Market Reform: Some Lessons

- Incomplete adoption new paradigm but

Record High Employment Rate (Pre-Covid)

Open Ended Employment Recovered but Not as Planned

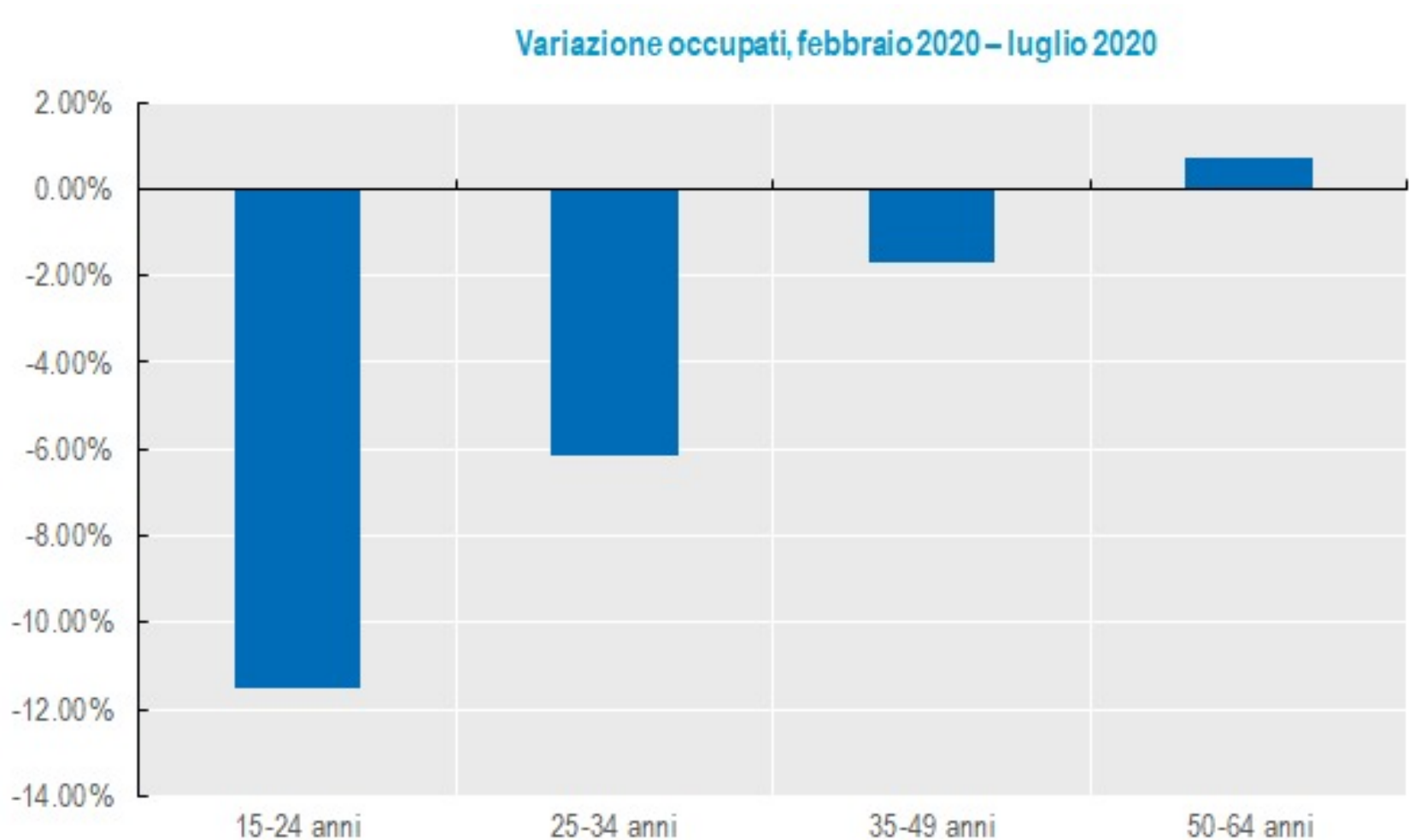
Under 35 Employment Recovered but not as Hoped

- Internal **Consistency** of the reform: ok!
- **Persistence** of the new paradigm: somewhat...
- **Political Investment**, not just technical choice

Additional Slides

Is Dualism Resolved?

Change in #employed – Feb/July 2020



Italian Labor Market Reform: Some Literature

- Structure of the reform

- *The Recent Reform of the Labour Market in Italy: A Review* by Dino Pinelli, Roberta Torre, Luciana Pace, Laura Cassio and Alfonso Arpaia

(https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en)

- Preliminary Assessments

- *Graded Security and Labor Market Mobility: Clean Evidence from the Italian Jobs Act* by Tito Boeri and Pietro Garibaldi
- *A Tale of Comprehensive Labor Market Reforms: Evidence from the Italian Jobs Act* by Tito Boeri and Pietro Garibaldi