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Italy: A dual labour market in transition

Country case study on labour market
segmentation

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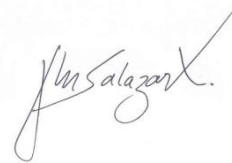
Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration on Social Justice for a Fair Globalization (2008),¹ and which has now been widely adopted by the international community. The integrated approach to do this was further reaffirmed by the 2010 Resolution concerning employment policies for social justice and a fair globalization.²

In order to support member States and the social partners to reach this goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations and elaborations of this integrated approach and related challenges are contained in a number of key documents: in those explaining the concept of decent work,³ in the Employment Policy Convention, 1964 (No. 122), in the Global Employment Agenda and, as applied to crisis response, in the Global Jobs Pact adopted by the 2009 International Labour Conference in the aftermath of the 2008 global economic crisis.

The Employment Sector is fully engaged in supporting countries placing employment at the centre of their economic and social policies, using these complementary frameworks, and is doing so through a large range of technical support and capacity building activities, policy advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.

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José Manuel Salazar-Xirinachs
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¹ See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf.

² See http://www.ilo.org/public/libdoc/ilo/2010/110B09_108_engl.pdf.

³ See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

Foreword

One of the key features of the labour market developments observed during the past decades throughout the world relates to a phenomenon of labour market segmentation, e.g. the division of the labour market into separate submarkets or segments, distinguished by different characteristics and behavioural rules. To a large extent, these attributes depend on the specific environment in which workers operate. Segmentation may arise from particularities of labour market institutions, such as contractual arrangements (permanent versus temporary employment), their enforcement (and the resulting informality), as well as types of workers concerned (such as migrant, domestic, or dispatch workers).

While the phenomenon is not new, the job crisis has brought an increasing attention to the segmentation/duality issue, especially in Europe. The implications and costs of segmentation are multiple, in both economic and social terms: they include wage gaps between segments, differences in access to training and social security, as well as in working conditions or tenure. Moreover, segmentation implies limited transitions to better jobs. The consequences of segmentation also have macroeconomic implications, such as lower productivity and higher employment volatility.

In this context, and as part of its objective of promoting decent work, the ILO launched, in 2012, a research programme to better understand how labour market institutions affect employment outcomes in both quantitative and qualitative terms. One of the main motivations of the research project is to put job quality at the forefront of the policy debates, informing the main stakeholders in the world of work of the extent of labour market segmentation and its implications for job quality in selected countries. Fourteen country studies on labour market segmentation and job quality were provided by external country experts, as well as thematic papers on job quality in segmented labour markets and the role of labour law, collective bargaining, and improved enforcement. These studies were discussed in a scientific Workshop held at the ILO in December 2012 and used as thematic inputs in a policy-oriented Workshop held at the ILO in April 2013.

The current paper is one in the series of such country studies. It makes an important contribution to the discussion on contractual segmentation of labour markets, providing an overview of the institutional setup as well as empirical evidence on the extent of segmentation and its implications for various aspects of job quality. The paper also offers a policy perspective on the ways to alleviate the negative consequences of segmentation.

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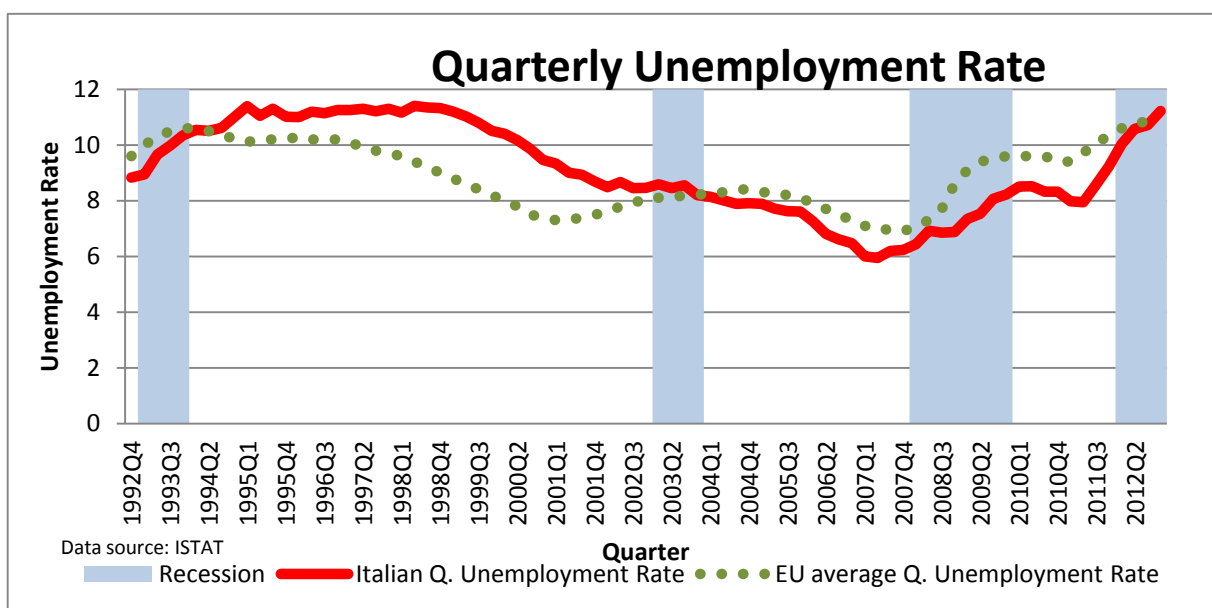
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1. Introduction⁴

The possibly most important economic challenge in Europe is low economic growth in the medium run. Italy is no exception; its labour market is among the least performing in Europe. This should not come as a surprise. Economic growth has been lagging in Italy for some 15 years. According to IMF data, only 3 countries out of more than 180 have had lower economic growth than Italy. It is also certainly the case that Italy still remains a relatively rich country, with a ratio between private net wealth and income that is one of the highest in the world. This wealth, however, is concentrated in the top 10 per cent of wealthiest households and, in particular, is held by relatively older generations. The disappointing performance of the Italian economy is also aggravated by population ageing and sharp fiscal consolidation induced by the debt crisis. In such economic context, it is very difficult to offer young generations' relevant opportunities. In fact, in addition to this disappointing growth performance, it is important to notice that the Italian social system, its labour market and educational system are poorly designed to address the needs of younger generations. All these factors combined are causing a rising inter-generational conflict, a conflict that the current recession is aggravating even further. This paper provides two main contributions. First, it documents how this economic environment affects the level of employment and unemployment and the various related features in the Italian labour market. Second, it discusses some of the major institutional changes that took place in the Italian labour market, how they fostered a dual labour market where young generations are heavily burdened and what challenges for policy still remain ahead.

Figure 1 Quarterly Unemployment Rate



Source: ISTAT and EUROSTAT

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In the aftermath of the great 2008-09 recession, a new social challenge has emerged in Europe. Rising unemployment puts great pressure on existing institutions. This is particularly the case in Italy where the unemployment rate has jumped from less than 7 per cent at the beginning of 2007 to more than 11.6 per cent in February 2013. At the same time the employment rate has started falling again breaking a streak of yearly increase that started in 1995. In February 2013, the overall employment rate fell to 56.4 per cent.

The surge in unemployment is especially concentrated among the Youth. Almost 6 million young people under 25 are unemployed in the EU 27; the youth unemployment rate stands at 22.4 per cent in the EU-27 (is more than twice the overall rate of 10.2 per cent). On top of that there are 7.5 million young people who are neither in employment nor in education or training (NEET). Double digit youth unemployment is a common feature to most countries. In many European countries one out of three young people (between age 15 and 24) are currently without a job. Unfortunately Italy belongs to this latter group.

In 2008 Italian youth unemployment was little less than 20 per cent. Though certainly not satisfactory, this level was the result of a decade long fall in the rate. Almost five years later, in February 2013, youth unemployment rate is at 37.8 per cent. Many commentators argue that youth unemployment data are poorly measured and do not capture well the phenomenon they are supposed to quantify. Even if this fact were true, youth unemployment is still measured today like it was in 2008 and it has almost doubled. This prolonged recession has concentrated most of its hardship on the youth. The youth-old age dualism is an essential component of Italian labour market and, in order to understand it, it is important to stress the nature of the duality in the Italian labour market. We will also point out how the recent changes in the Italian labour market are likely to fail to address this dualism.

By looking at the employment loss and its decomposition in terms of age, education and work status in Europe over the last two years, a few key facts seem to emerge. First, total employment loss was more than 2 per cent on average. Second, by looking at employment losses in terms of age, it is clear that they were largely concentrated among young workers. Whereas employment of the oldest workers increased, young workers experienced losses of as much as 8 per cent. In terms of education, the largest amount of job destruction was concentrated among the less skilled workers. Finally, employment losses in terms of work status were mainly concentrated among the temporary workers. Whereas workers with an open ended contract experienced only small losses, temporary workers experienced losses as large as 8 per cent.

The current rise in youth unemployment follows, in the past years, a large rise of temporary and fixed-term employment in Italy, as in a number of European countries⁵. Among these countries Italy is one where it is harder to reconcile the sharp increase in temporary contracts with workers' preference for short term positions. This segmentation of the Italian labour market, so strong to produce a true *duality*, is more likely to be the result of the combination of two factors.

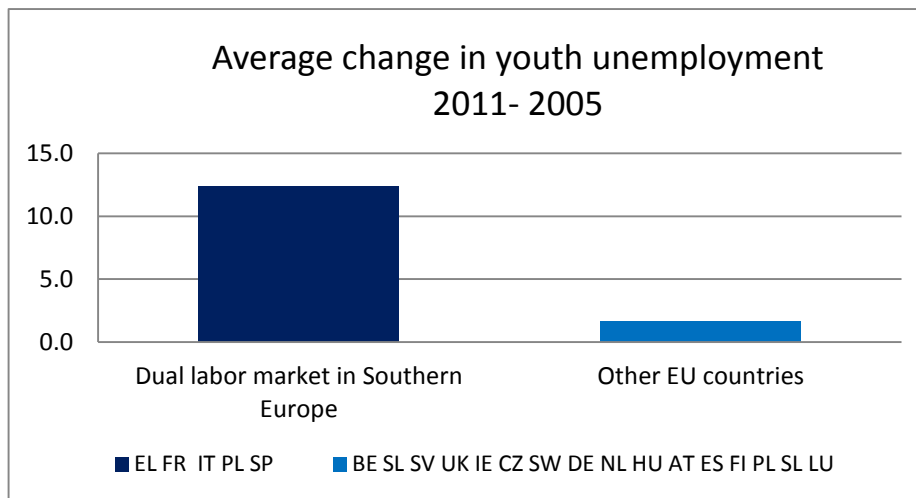
First, most of the labour market reforms of employment protection legislation (EPL) introduced flexibility *at the margin*. These reforms, in fact, have substantially

⁵ See Chapter 3, *Employment in Europe* 2010, European Commission for a thorough reference.

deregulated the use of temporary contracts while maintaining stringent firing rules on permanent contracts.

Second, starting from 2001, Italy has been lacking economic growth. The transformation of the Italian economy and the sectoral reallocation of employment from manufacturing to sectoring do not seem to have played a major role in this process. In fact, as Figure 2a shows, temporary contract have steadily increased as a share of total employment in both sectors from 1992 to 2011. During the period ranging from 1997 to the second quarter of 2007, the Italian unemployment rate fell substantially through what we could refer to as “growthless jobs.”⁶ Eventually though, the lack of growth has made a dent in employment growth. Unemployment first stabilized during the period 2001-2007 in which many European countries - Italy among them - struggled to adapt their productive structure to the new challenges of globalization. Finally, with the start of the *great recession* in 2007 the largest employment losses took place in the part of the economy most exposed to temporary contracts: the youth in the countries where the labour market is characterized by the most extreme *dual structure*.

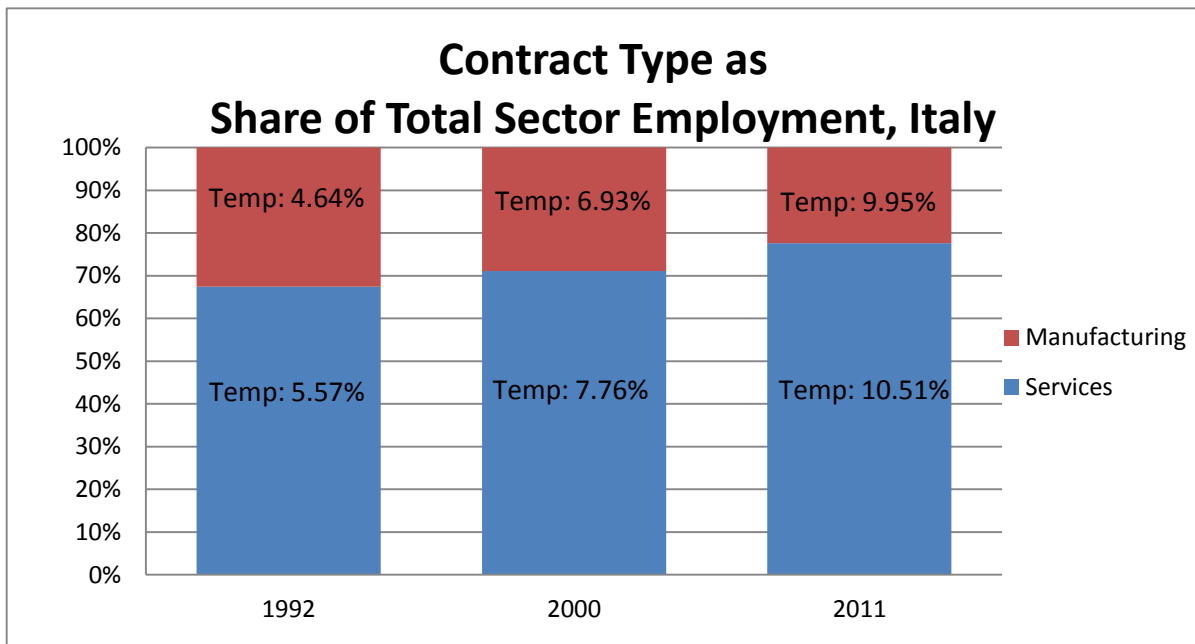
Figure 2 Average change in youth unemployment



Source: EUROSTAT

⁶ See Bertola and Garibaldi (2003) for a review of Italian labour market until 2001.

Figure 2a Contract Type



Data source: EU LFS 1983-2011

In dual labour markets a large share of temporary contracts, employing for the most part young workers, coexists alongside a stock of open ended contract with much stricter employment security. In other words, most of the adjustments over the last few years have been borne by the young workers. Figure 2 illustrates that this is particularly the case in southern European countries. In these economies youth unemployment has increased the most from 2005 to 2011. These are also the countries where the levels of employment protection and support between temporary and permanent workers differ the most, if compared with other EU countries. Whereas the liberalization of temporary contracts boosted hiring and job creation in the pre-crisis period in Italy, most of those contracts were not transformed at their termination into open-ended ones. This fact has been leading to reduced transition rates from temporary to permanent employment, which we document in this study. In segmented labour markets, temporary work is often used by firms as a cheaper factor of production, taking advantage of the large regulatory gap with respect to permanent contracts, rather than as a tool to adjust their production process to the changes in economic condition or as a *screening* device to evaluate the productivity/adequacy of new recruits.

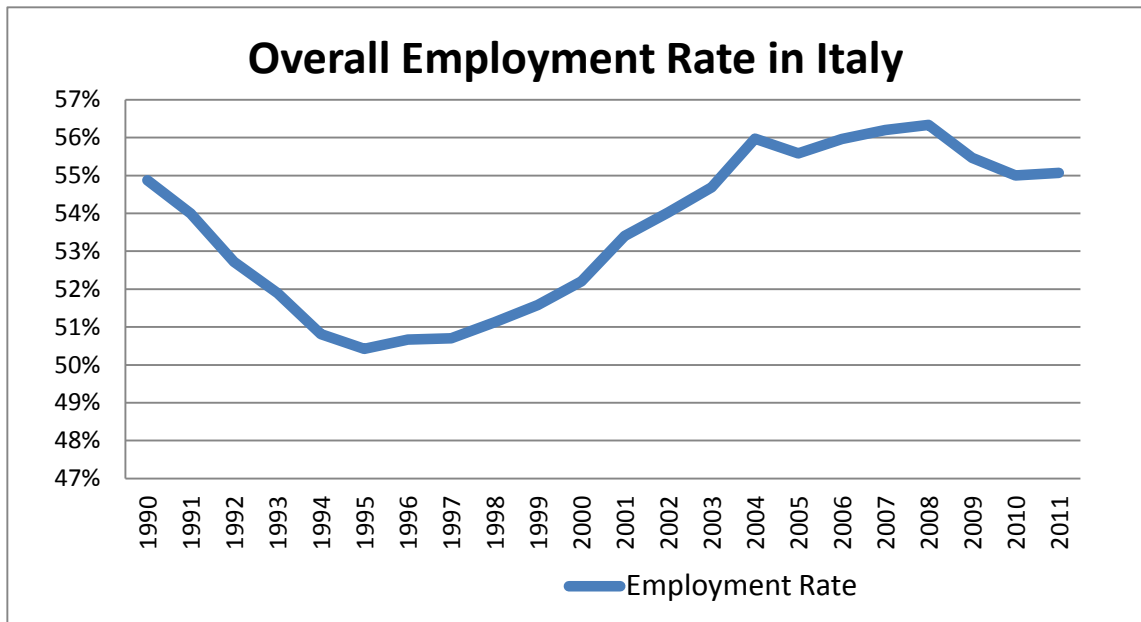
This equilibrium in the Italian labour market provides crucial challenges for policy. Addressing them is a particularly daunting task during a crisis as deep and prolonged as this one. This calls for a renovated perspective and, in the conclusion of this paper, we will put forward few options that could be pondered. The disproportionate impact of this "great recession" on temporary - and especially young-workers leaves us little time to act with a long term perspective.

This paper is organized as follows: section 2 presents the main features of the Italian labour market, section 3 presents the institutional background and the sequence of labour market reforms in the Italy following a European pattern, Section 4 addresses the major consequences of these reforms with particular attention on the segmentation of the Italian labour market, Section 5 discusses the *single contract* and related proposals to address the segmentation of the Italian labour market and Section 6 concludes.

2. The Main Features of the Italian Labour Market

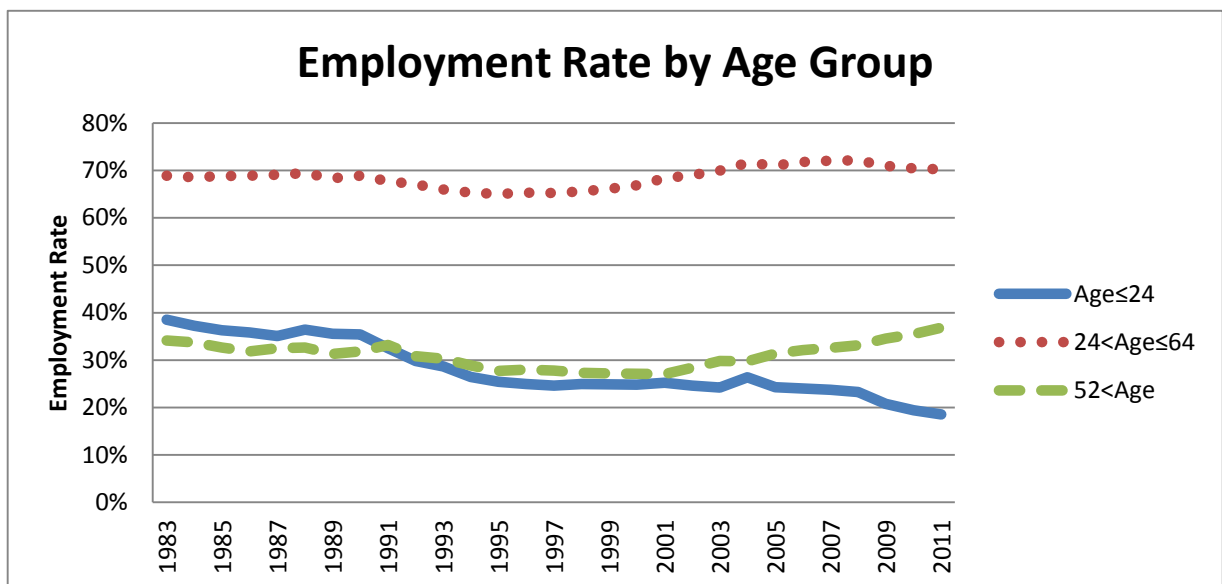
From the early eighties Italy has been an economy with high unemployment rate and low employment rate. These features changed starting from 1995 and until 2007. During this period the Italian unemployment rate fell substantially while the employment rate rose from close to 50 per cent to more than 56 per cent.

Figure 3 Overall Employment Rate



Source: EU LFS 1983-2011

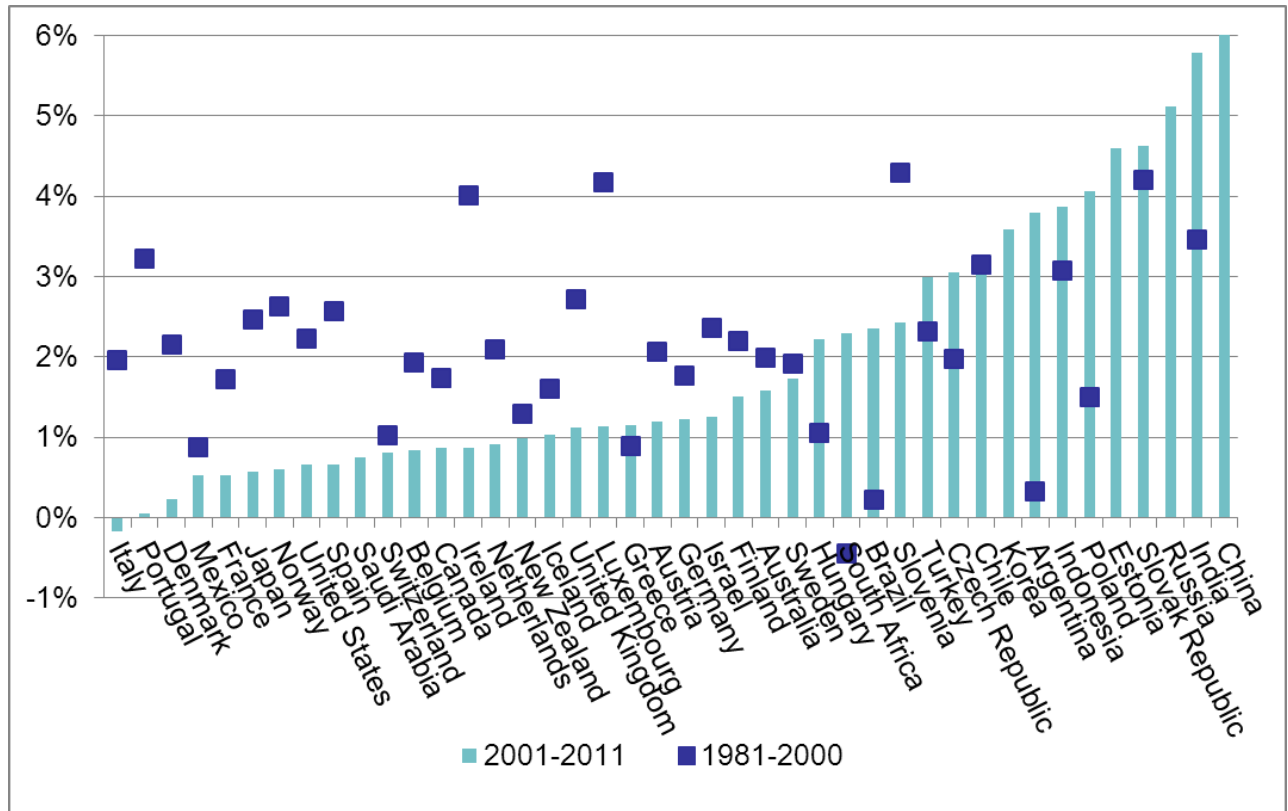
Figure 3a Employment rate by age group



Source: Labour Force Survey. Eurostat, 1983-2011

During these years the performance of the Italian economy was rather grim, with the exception of the years from 1995 to 2000. Given the fact that Italian economy grew the least among all OECD countries in terms of GDP per capita from 2001 to 2007, it is not an overstatement to talk about this period as one in which Italy created “growthless jobs”.

Figure 4 Growth in Real GDP per capita - per cent Annual Rate

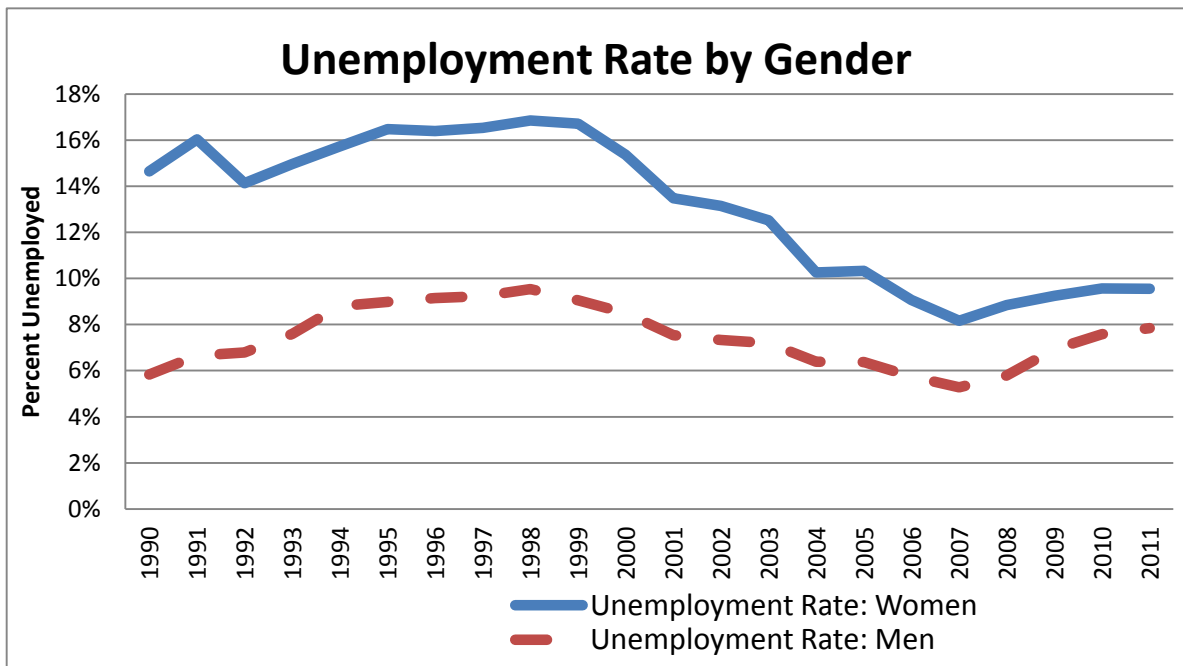


Source: OECD

In Italy employment growth and the subsequent unemployment rise did not impact all groups and categories of workers in the same way. It is worthwhile to observe that the major transformation of the Italian economy starting from 1995 did not overturn the three main divides of its labour market. These divides still remain and they can be identified around 3 fault lines: **gender**, **generations** and **regions**. We will analyze these in turn.

The first major divide is **gender based**. The Italian labour market displays impressive differences in the unemployment rates for male and females. Figure 5 shows that the unemployment rate for women has been closing the gap with the unemployment rate for men starting in 1998. This continued until 2008.

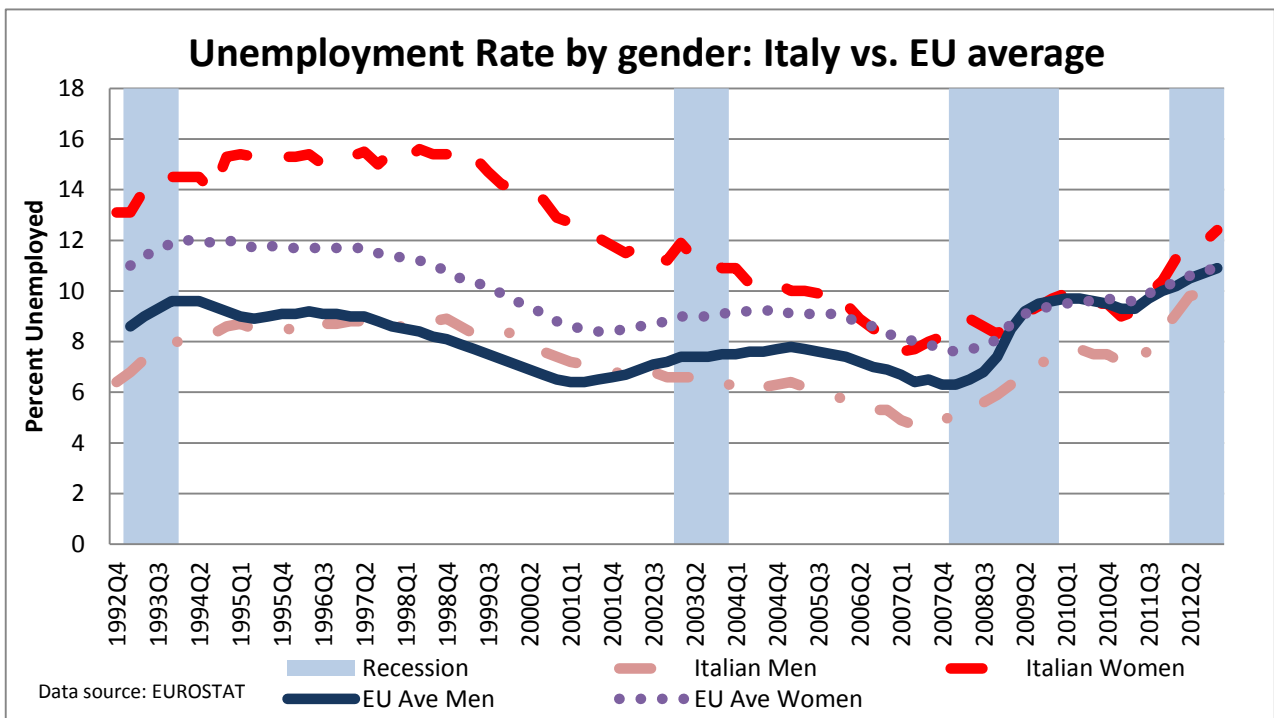
Figure 5 Unemployment rate by gender



Source: EU LFS, 1983-2011

The difference between the unemployment rate of men and women remains sizeable. This is an especially puzzling feature if one compares the behaviour of the Italian economy with the average of European Union. Figure 6 displays this difference. While the two rates have come to an overlap starting with recession of 2009 in the European Union, this is not the case in Italy. The gender-based divide remains strong in the Italian labour market if we measure it with the crude notion of the unemployment rate.

Figure 6 Unemployment rate by gender: Italy vs. EU average



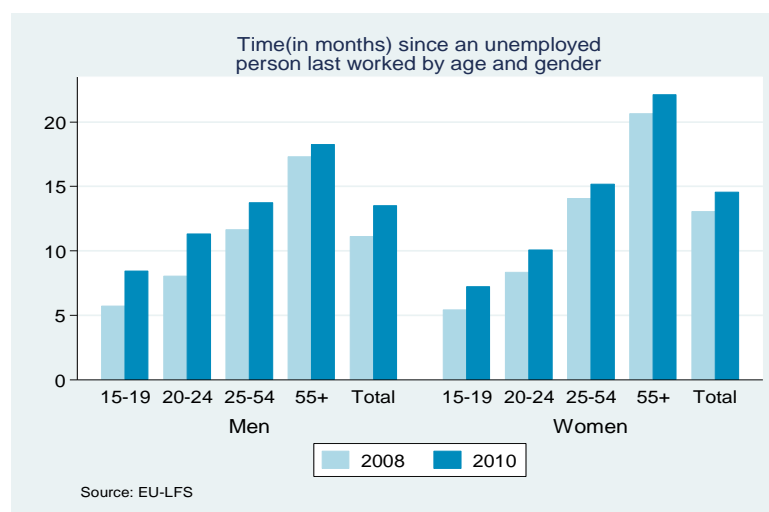
Source: ISTAT and EUROSTAT

As we anticipated, this is not the only divide present across Italian workers. The second one is possibly stronger and **generational** in nature. In 2010 the European Commission pointed out that “in industrialised countries, including EU Member States, the magnitude of employment creation and destruction flows relative to the stock of jobs is large (Cahuc and Zylberberg, 2005; Davis and Haltiwanger, 1999). In a recent OECD study (2009), covering eleven countries and using harmonized data, *job* turnover rates were estimated at 22 per cent (of total employment) over the period 1997-2004, and annual average *labour* turnover rates at 33 per cent (of total employment) between 2000 and 2005. According to EU LFS data, youth spend on average shorter periods in unemployment between jobs than older age groups and the crisis has not changed this feature, although it has increased the average duration of the unemployment spells.”⁷ In the Figures below we show that this fact persisted in Europe during the crisis and at least until 2010. Moreover, factors different from age, such as gender or education, can be associated with different labour market outcomes. All else being equal, women tend to have longer unemployment spells while workers with higher, often university, education tend to have shorter spells.

Figure 7 Time since unemployed by age



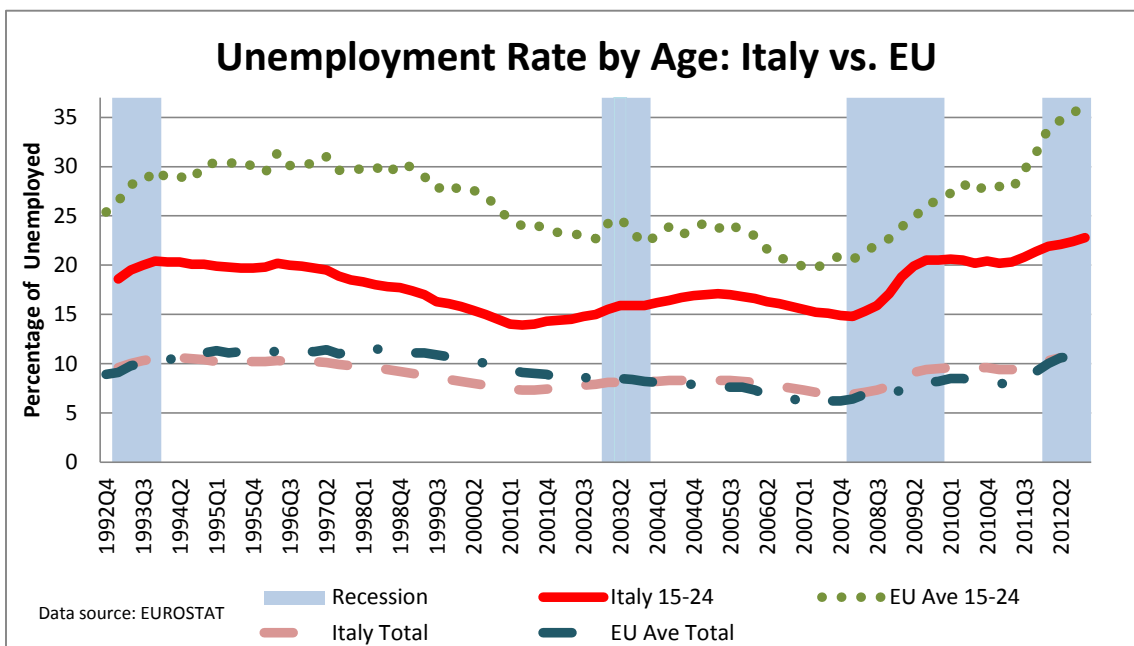
Figure 8 Time since unemployed by age and gender



⁷ Chapter 3, Employment in Europe 2010, European Commission.

The large number of youth transitions dominates the short duration of the intervening unemployment spells, resulting in a decreasing age profile for the unemployment rate. This is even more the case in Italy. What is particularly interesting about the Italian labour market is how much larger the difference between youth unemployment and total unemployment is compared to with the EU average. While the Italian unemployment rate has been aligned with the EU27 average over the period from 1992 to 2012, Youth unemployment has always been almost 10 per cent higher. This difference has been narrowing in 1998 to 2007 but it has been increasing after the recession of 2009 to spike up to an unusually high level in 2012.

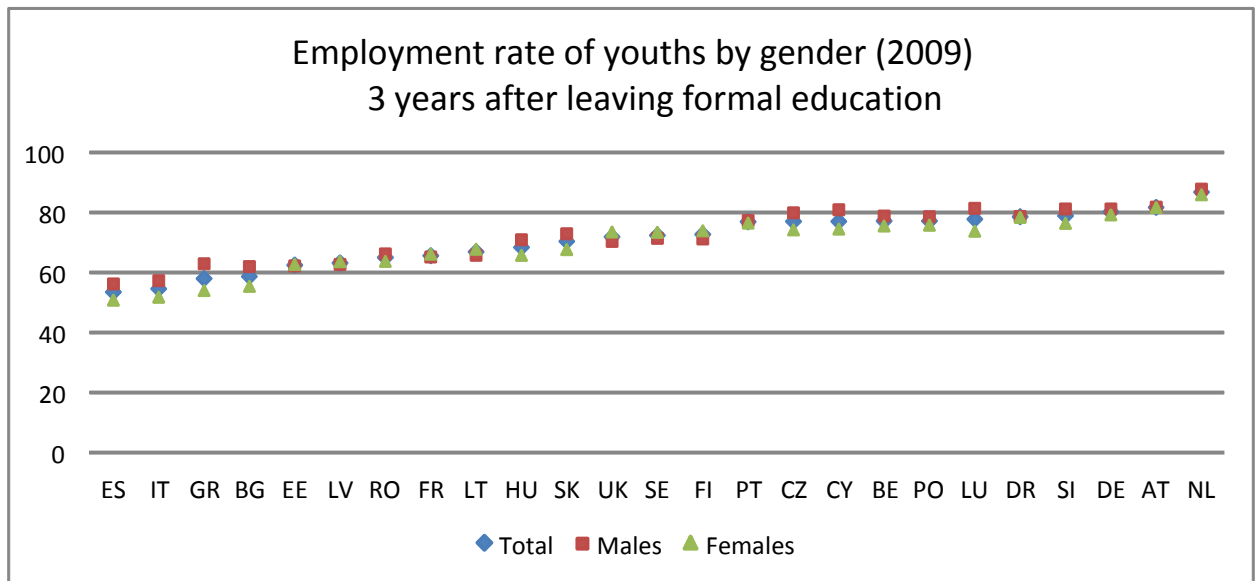
Figure 9 Unemployment rate by age: Italy vs. EU



Source: ISTAT and EUROSTAT

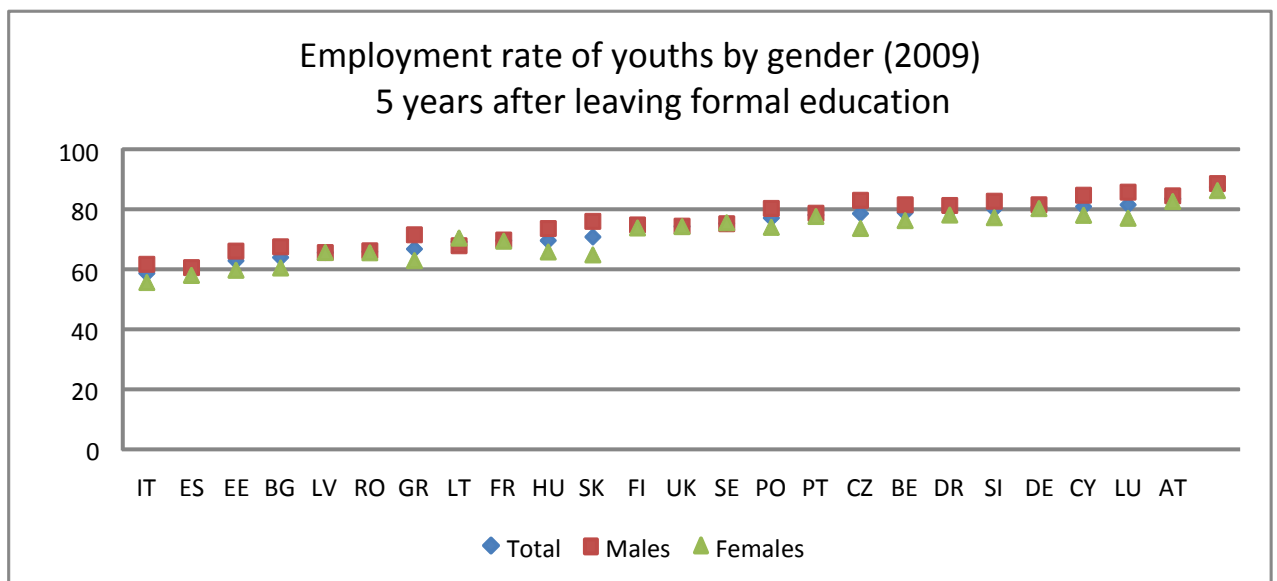
A common criticism to this observation comes from the fact that, by international ILO standards, youth unemployment is measured on workers ages strictly less than 25. This seems a particularly unappealing measure in a country like Italy where entry in the labour market is delayed in comparison with most (if not all) European countries. Figures 10 and 11 show that the employment rates at 3 and 5 years after graduation are in Italy among the lowest of the European Union. These rates are strictly below the average employment rates.

Figure 10 Employment rates of youth (15 to 34) by gender 3 years after leaving education



Source: LFS ad-hoc module 2009 - Entry of young people into the labour market

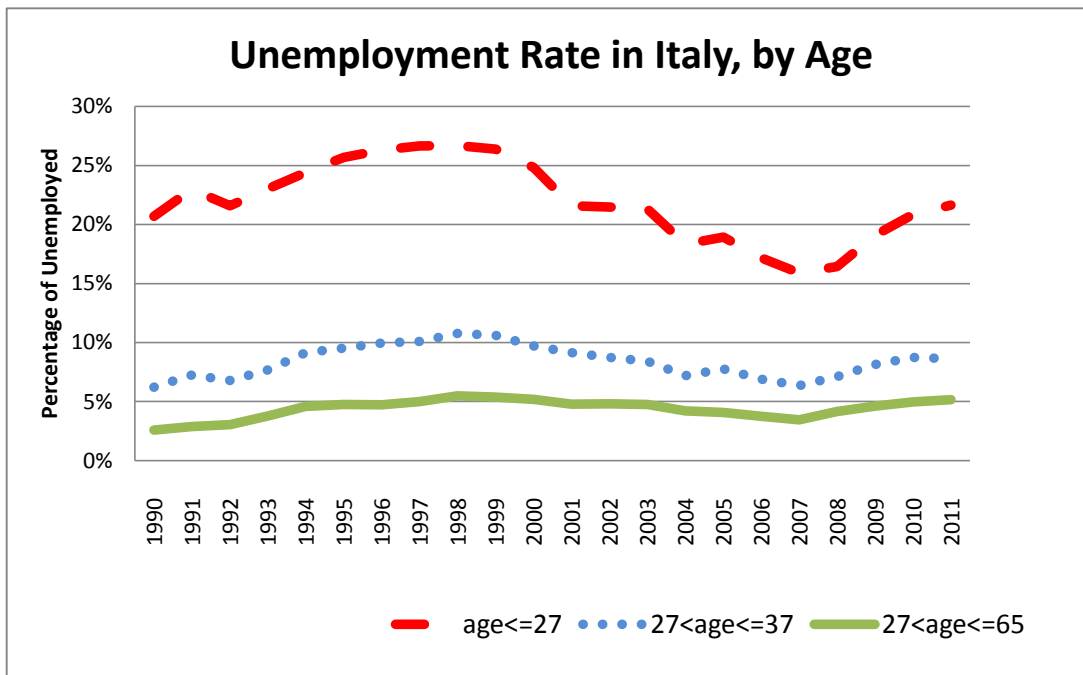
Figure 11 Employment rates of youth (15 to 34) by gender 5 years after leaving education



Source: LFS ad-hoc module 2009 - Entry of young people into the labour market

In Figure 12 we employ the Labour Force Survey to extract unemployment rates of people younger than 28. Only when we focus on workers in the age range 28-37 do we see the unemployment rate falling substantially. This leads us to conclude that a crucial determinant of the level of unemployment in Italy is what happens among the youth in the labour market.

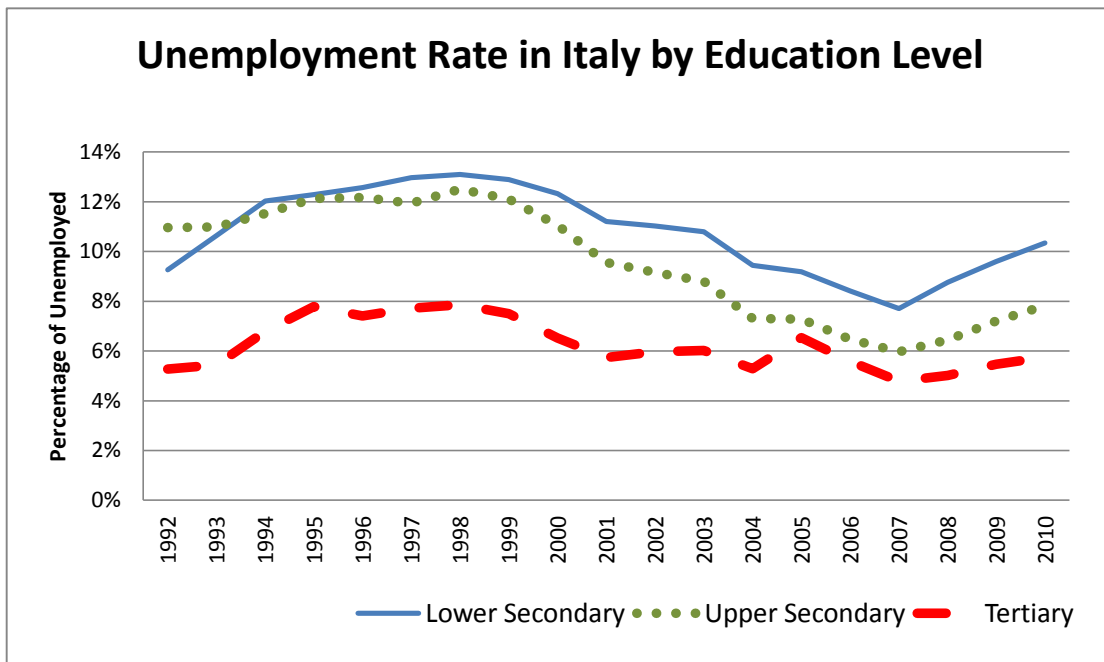
Figure 12 Unemployment rate by age



Source: EU LFS 1983-2011

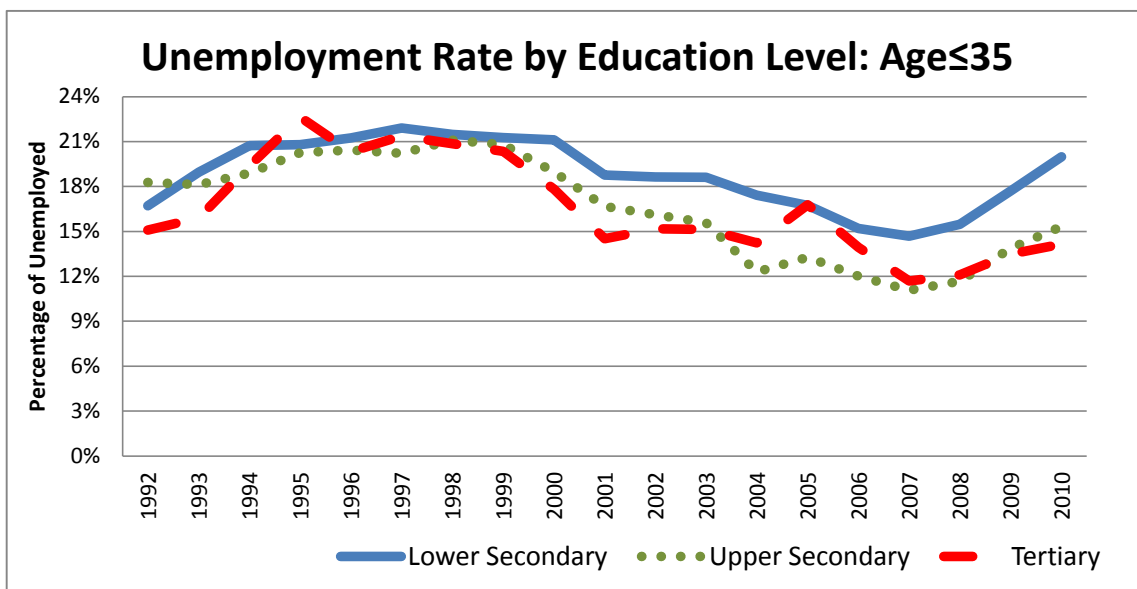
Education in principle offers a strong insurance against unemployment. This fact is confirmed by Italian data where we observe in Figure 13 that the unemployment rate falls with the level of education of the workers. Perhaps more surprising is the fact that this is not the case if we focus our attention on the people aged less than 35. In this latter group of people unemployment is certainly smaller for high school graduate than it is for people with less education. It is instead not always the case when we look at people with university education. In Italy, university graduates have been experiencing larger unemployment rate than high school graduates since 2004. This is shocking and it provides useful information regarding the likelihood of a severe skill mismatch in the Italian economy and, most importantly, on the sharing of the hardship of the crisis in the Italian labour market.

Figure 13 Unemployment rate by education level



Source: EU LFS 1983-2011

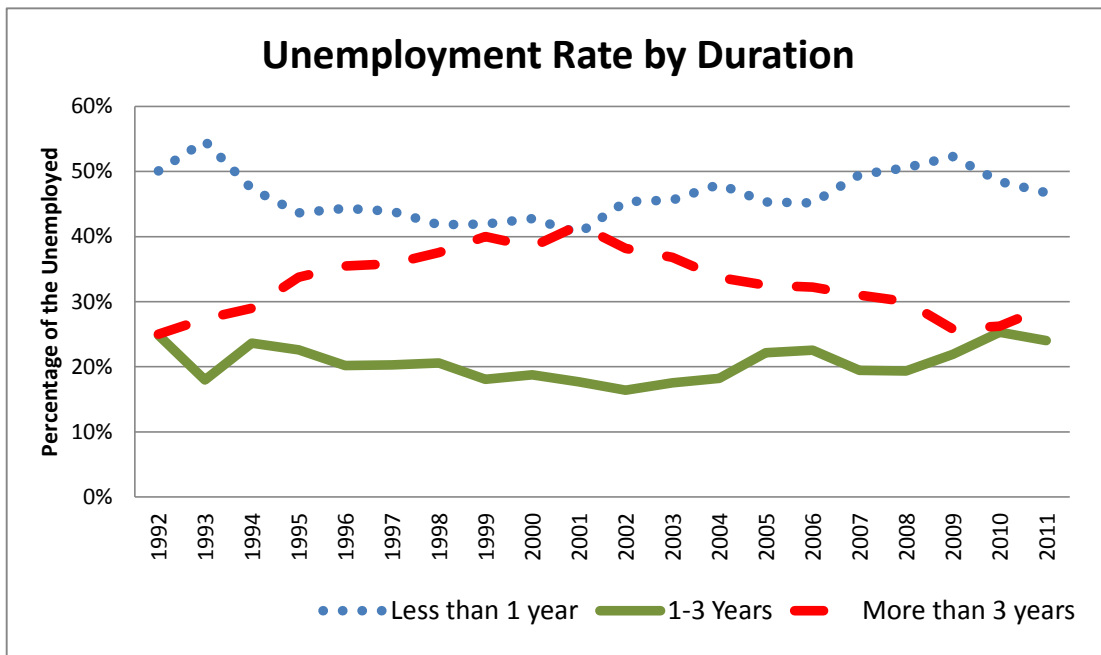
Figure 14 Unemployment rate by education level: age ≤35



Source: EU LFS 1983-2011

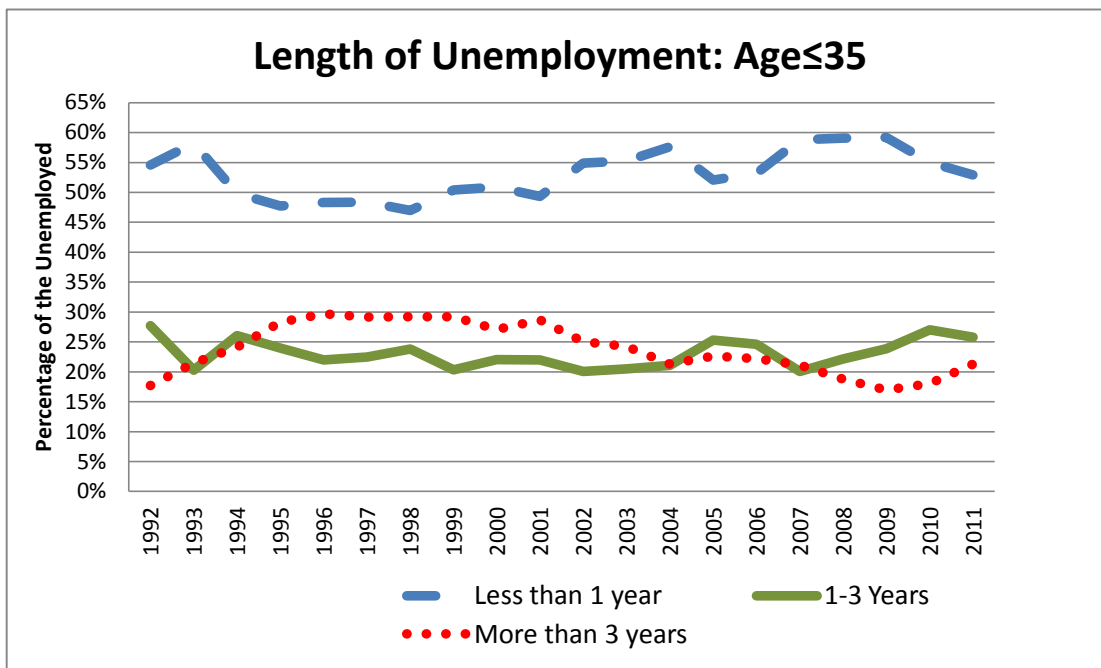
The only statistics on which the youth compares favourably with the rest of the labour force is given by **unemployment duration**. By comparing unemployment duration, i.e. how long unemployed stay without a job, workers aged less than 36 appear to have a lower likelihood, though not by sizeable amounts, of being unemployed for more than 1 year (Figures 15 and 16).

Figure 15 Unemployment rate by duration



Source: EU LFS 1983-2011

Figure 16 Length of unemployment: age ≤35

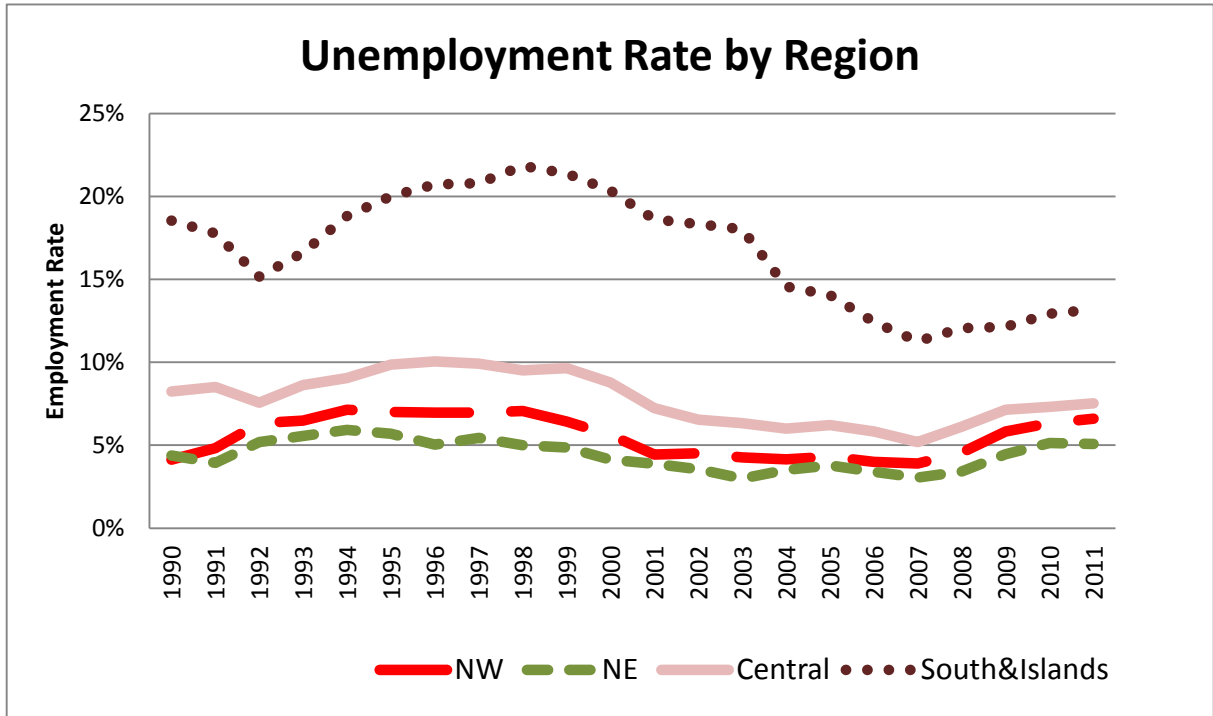


Source: EU LFS 1983-2011

While the crisis has increased the level of youth unemployment and worsened overall working conditions, it has preserved the third divide in the Italian labour market, the **regional** one. A substantial degree of heterogeneity in the labour market remains across different Italian regions. Both in terms of unemployment and

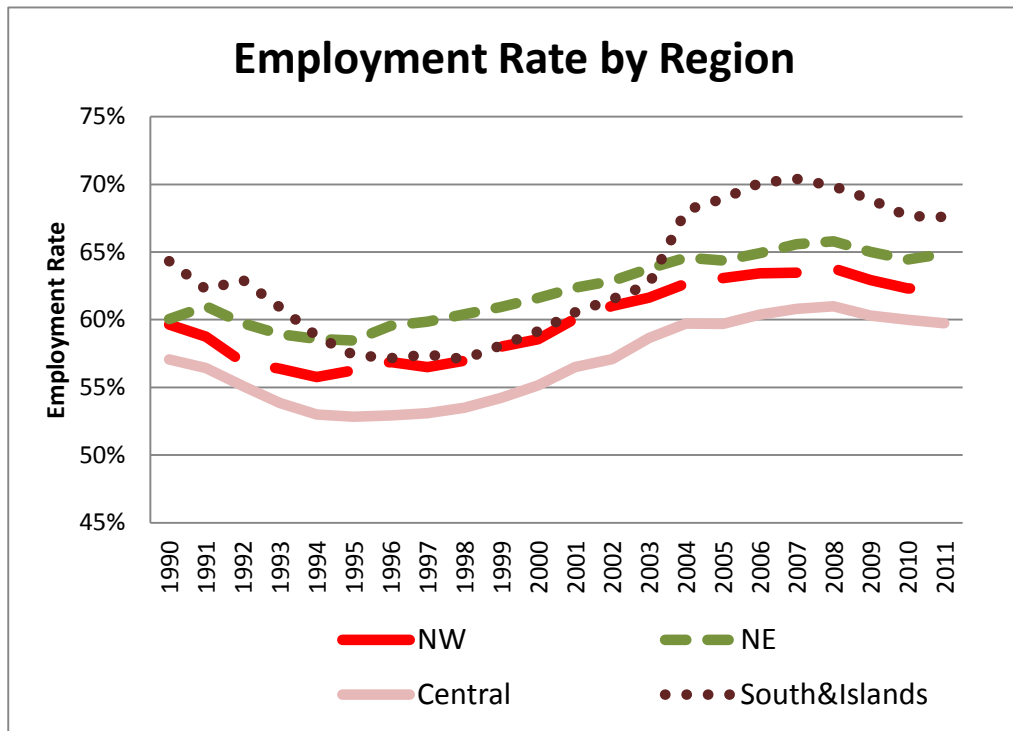
employment rates the differences are as large as 15 per cent between the South of the country and the most economically active regions (North East (NE) and North West (NW)). Figures 17 and 18 illustrate the fact.

Figure 17 Unemployment rate by region



Source: EU LFS 1983-2011

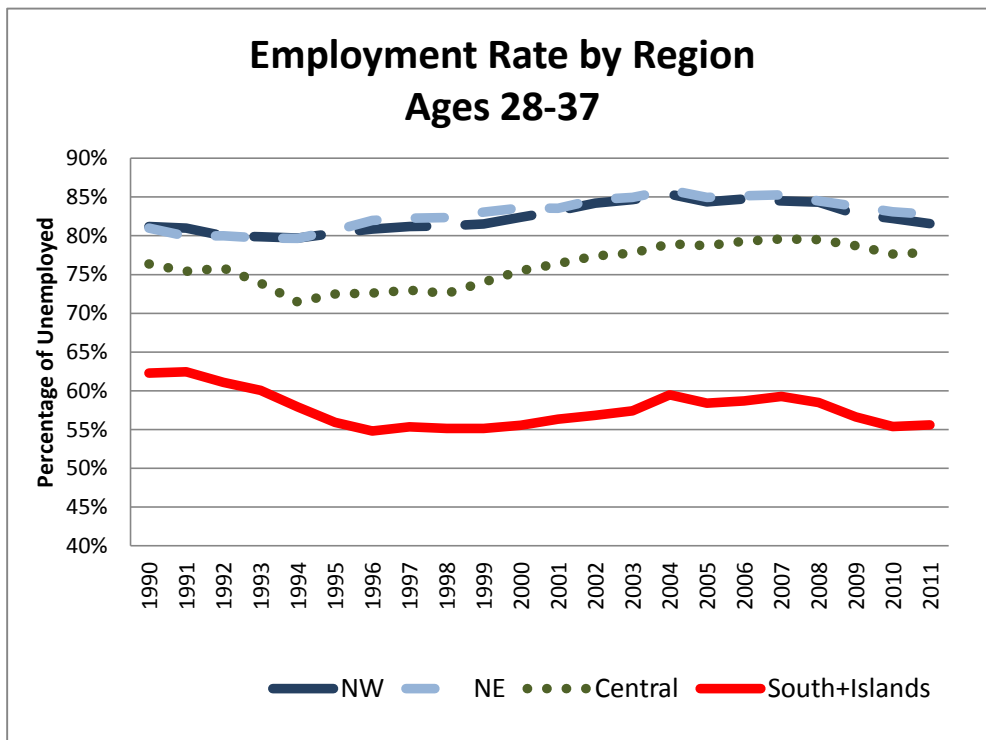
Figure 18 Employment rate by region



Source: EU LFS 1983-2011

An even more interesting fact is that, possibly not surprisingly, unemployment in the south is especially concentrated among the Youth. Figure 19 reports this evidence for workers aged between 28 and 37. Similar evidence could be reported using other age brackets to identify the youth, even the standard international classification (less or equal than 24 year old).

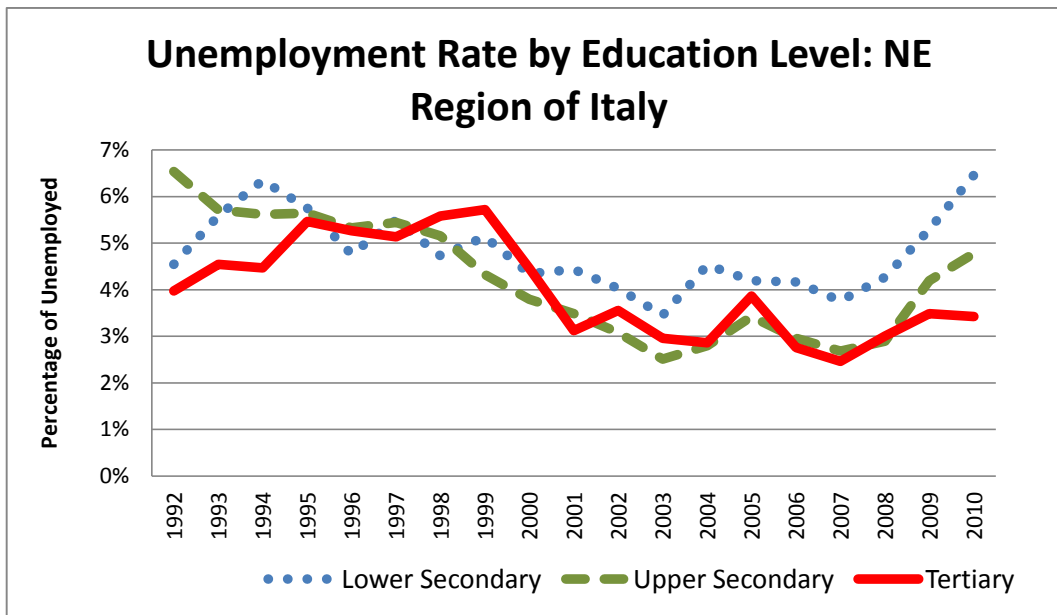
Figure 19 Employment rate by region: age 28-37



Source: EU LFS 1983-2011

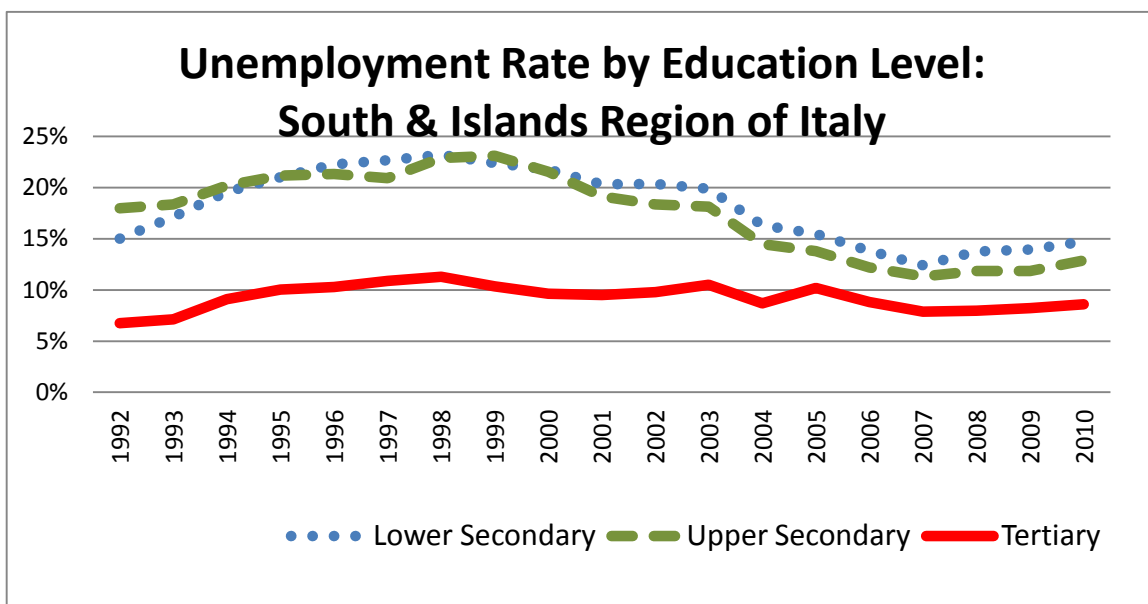
Another factor that seems to play a different role depending on the region of the Italian labour market is education. While unemployment rates do not differ substantially in the economically performing North, this is not the case in the South where lower and secondary education provide substantially larger unemployment probability than university education (Figure 20). These differences are reduced if one focuses on employment rates (Figure 21).

Figure 20 Unemployment rate by education level: NE region



Source: EU LFS 1983-2011

Figure 21 Unemployment rate by education level: South region and islands



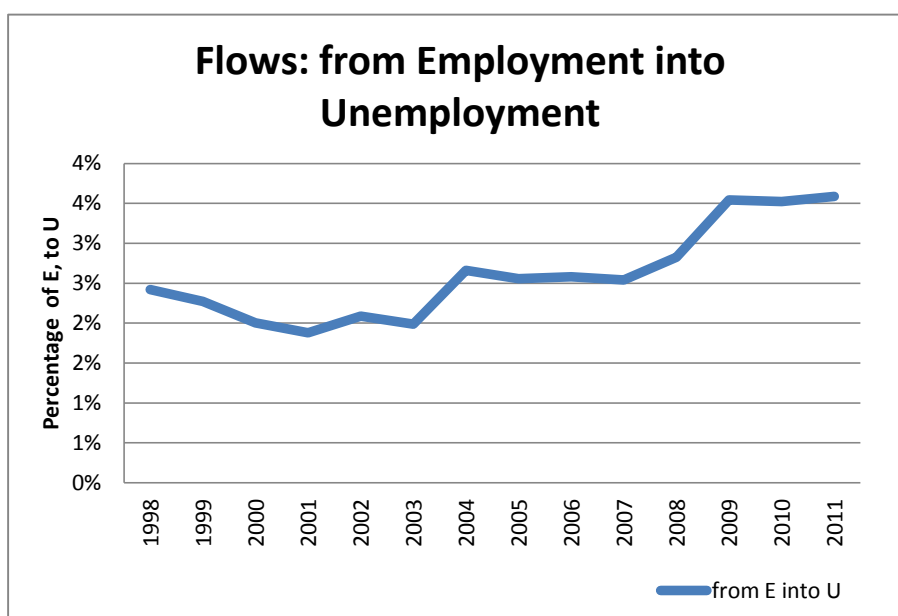
Source: EU LFS 1983-2011

To conclude, we can summarize our discussion by saying that while unemployment remains for the most part concentrated among the Youth, the likelihood of being unemployed increased substantially if the worker is a woman that lives in geographical South of the country. In the remainder of this paper, we would like to reconcile at least part of this heterogeneity to the segmentation present in the Italian labour market, a segmentation that is so deep as to give rise to a striking duality between temporary and permanent contract workers operating within the labour market. The study of this *duality* will be the focus of the analysis that follows.

3. Institutional background

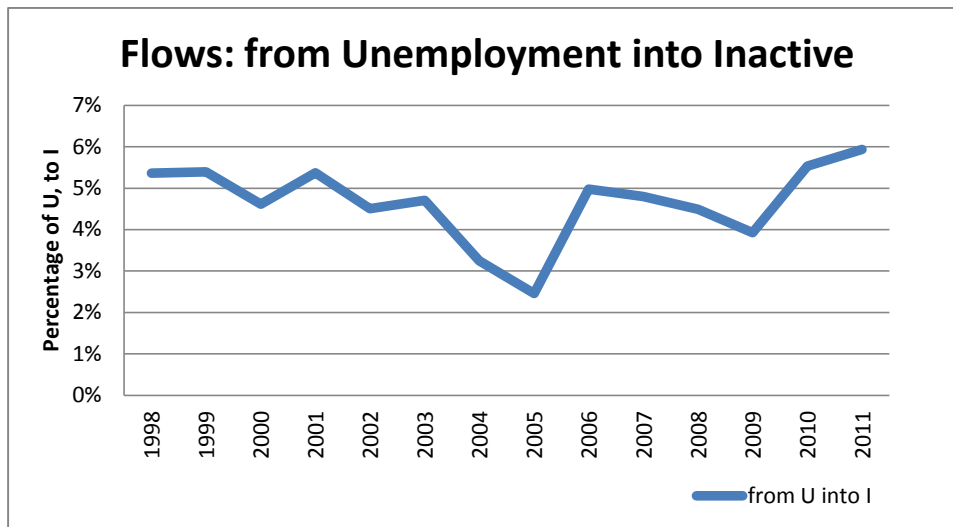
Temporary contracts can ease the transition process between education and the working environment. They can facilitate entry in the labour market, particularly in those countries where vocational education and training is not sufficiently developed. Temporary contracts may also encourage the selection of workers by employers and ease a better matching of job requirements to workers' needs/aspirations. However, recently, temporary contracts have failed to deliver on their promise and the labour markets in several EU member states have been featuring increasing segmentation, leading to a dualism where temporary workers fail to find stable and quality employment. It is possibly hard to keep workers motivated to work efficiently and to look for a job in this institutional setup. These European level dynamics have been particularly severe in the Italian economy, especially during the current crisis. We are observing larger flows of workers from employment into unemployment and from unemployment to inactivity as Figures 22a, 22b and 22c illustrate.

Figure 22a Flows from employment into unemployment



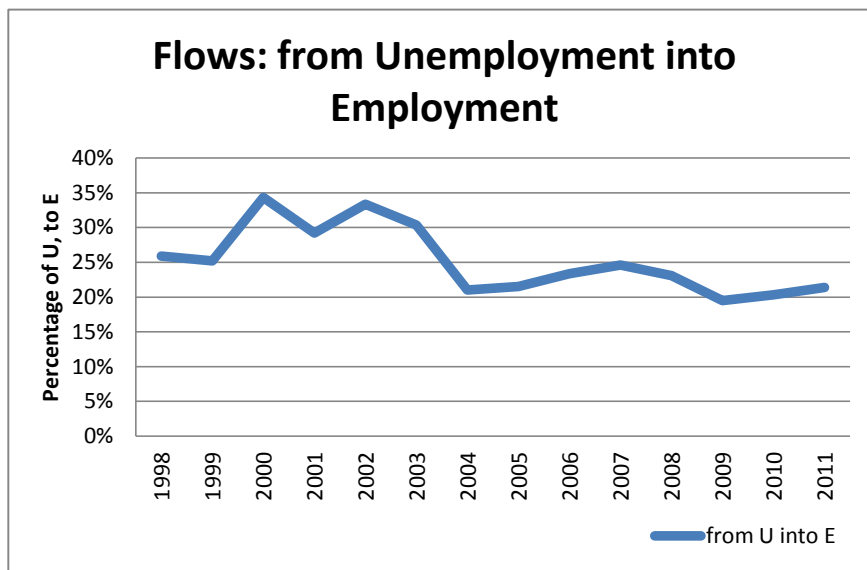
Source: EU LFS 1983-2011

Figure 22b Flows from employment into Inactive



Source: EU LFS 1983-2011

Figure 22c Flows from unemployment into employment



Source: EU LFS 1983-2011

Irrespective of the reason why we observe less workers transitioning from temporary to permanent jobs, it is certainly the case that temporary workers are now bearing a larger burden because of the crisis. The **dualism** in the Italian labour market has worsened. This term refers, essentially, to the coexistence of workers with stable (i.e. long-term) employment relationships and other workers with temporary employment contracts. If temporary workers are unable to transition into open ended contracts, the consequences may be adverse and long-lasting (Layard, 2005).

Boeri (2010) argues that labour market dualism results from a specific reform strategy with respect to Employment Protection Legislation (EPL). Some countries, especially in continental Europe, have enacted numerous reductions of EPL since the 1980s to curb high and persistent structural unemployment rates. These reforms have increased dualism by promoting flexibility *at the margin* - deregulation of temporary contracts and/or the development of agency work and other contracts of limited duration (e.g. consulting jobs) - while maintaining existing rules on permanent contracts. Figure 15 breaks down changes in the EPL overall indicator from mid-1980s to 2008 between permanent contracts (bright blue) and temporary contracts (dark blue).⁸

As summarized in Chapter 3 of the “Employment in Europe - 2010”: “in countries where permanent contracts represent the most common type of employment, governments were often unable to obtain support for reforms that weaken dismissal rules for permanent employees, and focused instead on easing the regulations on temporary contracts (Saint-Paul, 1999). Boeri (2010) labels these episodes as **two-tier reforms**”.

3.1. The Case of Italy

Italy is one of most prominent example of labour market dualism. Over the last 15 years the Italian labour market underwent a significant reform process. Indeed, these reforms are partly responsible for the changes in the composition of the Italian labour force highlighted in the previous sections- namely the increase in youth unemployment since 2009 and the widespread use of various forms fixed term contracts.

The core of the reform process has been a gradual liberalization of fixed terms jobs, alongside an almost unchanged legislation for open ended contracts. Following the definition given by the literature on labour market reforms (Boeri 2012), the Italian reform process is characterized by a *marginal and asymmetric* process, particularly from a generational standpoint. The reform process of the nineties and early two thousands created a labour market that was fairly flexible for the workers entering the labour market, namely youth and women. At the same time, prime aged workers, belonging to the “breadwinner generation”, were totally insured by the reform process. The reform process was thus marginal - in the sense that it applied only to new jobs, and asymmetric - in the sense that affected only a fraction of the population. In other words, the reform process acted mainly via the labour market flows.

The three most important piece of legislation up to the great recessions are the 1997 *Pacchetto Treu*, the 2001 reforms on fixed term contracts and the *Legge 30* in 2003.

⁸ Measured as the change in the overall indicator of EPL strictness calculated by the OECD (OECD, 2004, Venn, 2009), excluding rules on collective dismissals. Such indicator is the arithmetic average of two sub-components, i.e. regulations on dismissals of permanent employees (encompassing severance pay, advance notice periods, procedural requirements for dismissals, role of courts) and regulations on the use of contracts of limited duration (type of jobs, maximum legal duration, possibility for renewals etc.). Both indicators vary from 0 to 6 with a higher score indicating stricter regulations.

3.2. Marginal Reforms: Once Again

The 1997 *Pacchetto Treu* (Treu Bill) loosened the discipline concerning the conversion of fixed-term contract into an open-ended one. In particular, it reduced the sanctions in case of violation of the fixed term contracts' discipline. At the same time, the Bill allowed the establishment in the Italian labour market of temporary work agencies. "Atypical"- in the sense that they are different than the open ended contract for regular employee- were also encouraged by reducing social security contributions and pension provisions. Further, the transformations of fixed term contracts into open-ended ones stopped being automatic and began to require a court ruling. The package eased regulation of new apprenticeship (*nuovo apprendistato*) and work-training contracts (*contratto di formazione lavoro*) and sets incentives for on-the-job training (stages), temporary work via private agencies (*lavoro interinale*) and intra-regional labour mobility (*assegni per la mobilità geografica*).

The 2001 reform established a further liberalization of the fixed term contract. The reform was based on an EU directive, and was aimed at extending the scope of temporary contracts. Technically, starting from 2001, temporary contracts became largely allowed as long as the motivation for their use was given in writing. In the same years, part time contracts became also more flexible. The disadvantages in terms of non-proportional compensation and additional regulation vis-a-vis their full time counterpart were gradually lifted.

In 2003, the *legge Biagi* introduced various other "atypical" labour contracts. While most of these contracts (job on call; job sharing, etc.) turned out to have negligible aggregate dimensions over the rest of the decade, the "*contratto a progetto*" deserves special attention. Technically speaking, or *de iure*, the *contratto a progetto* refers to a fixed term labour service provided by a professional self-employed to a specific employee for a well-defined "professional project", i.e. a task with predetermined objective and output. De facto, these contracts turned out to play a key role in the growing of fixed term relationships of new entrants, and many workers end up providing service very similar to those of regular employees. These contracts not only were fixed in nature, but they had lower social security contributions, did not envisage any maternity or sick leave compensation, and did not allow workers to be entitled to unemployment benefits. The labour market that emerged was both dual and unequal, especially from a generational standpoint. The increase in the demand for workers' flexibility was not accompanied by the reform of unemployment benefit provision. Such a reform would seem a natural complement of the increase in flexibility and its absence contributed to the depth of dualism in the Italian labour market.

In 2005 the total duration of ordinary unemployment benefit was raised from 6 to 7 months for workers aged less than 50 years and from 9 to 10 months for workers aged 50 or more. The level of ordinary unemployment benefits was raised from 40 per cent to 50 per cent of reference salary for the first six months and was set at 40 per cent during the seventh month for workers aged less than 50 years. The level was raised to 50 per cent of reference wage (from 40 per cent) for the first six months and is set at 40 per cent for the following three months and 30 per cent during the tenth month for workers aged 50 or more. Definition of the conditions for the immediate implementation of those measures (Article 13) of Law 276/2003 which provide for incentives to private employment agencies that ensure the insertion or reinsertion in the labour market of difficult-to-employ persons (so-called "*presa in carico*"). To this effect, regional governments were no longer required to individually legislate in order to bring this measure into effect.

Italy was not the only country that underwent these types of reform, but it appears one of the countries with the most asymmetric institutional reforms, as recently pointed by academics (Boeri (2010)) and policy makers (European Commission (2010)). Figures 23a and 23b show that the change in Employment Protection Legislation (EPL) for regular contracts (chEPR) was typically smaller than the change of the index for temporary contracts (chEPT). Figure 24 highlights such institutional features over time for the Italian economy and disaggregates the behaviour of the different components of the EPL index for Italy. Whereas the index measuring the protection of regular contracts was largely unchanged, the legislation on Italian temporary contracts pushed toward substantial levels of flexibility.

Figure 23a Change from 1985 to 1998

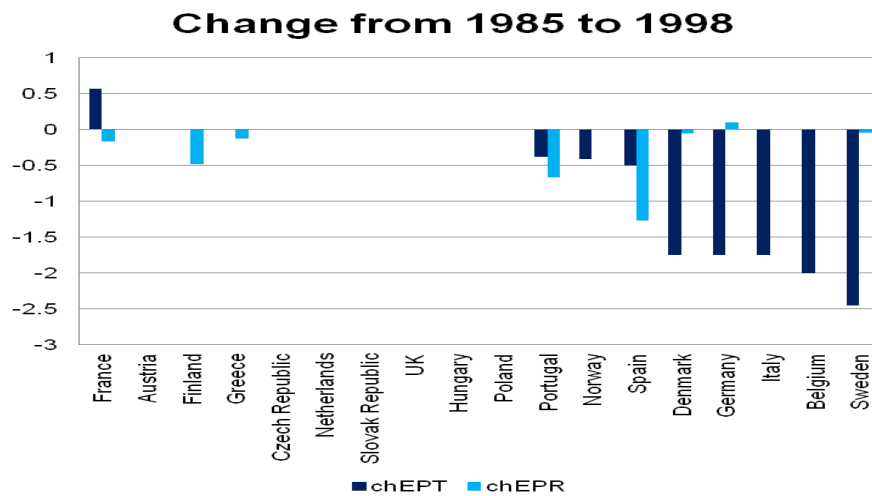
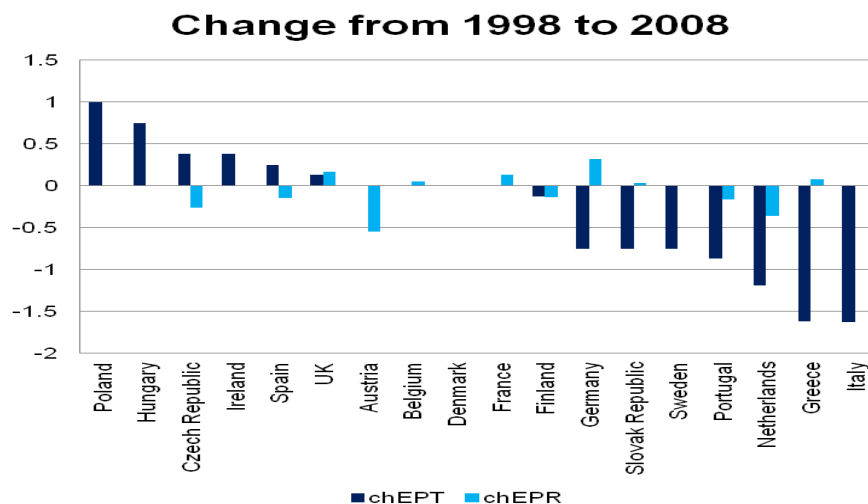
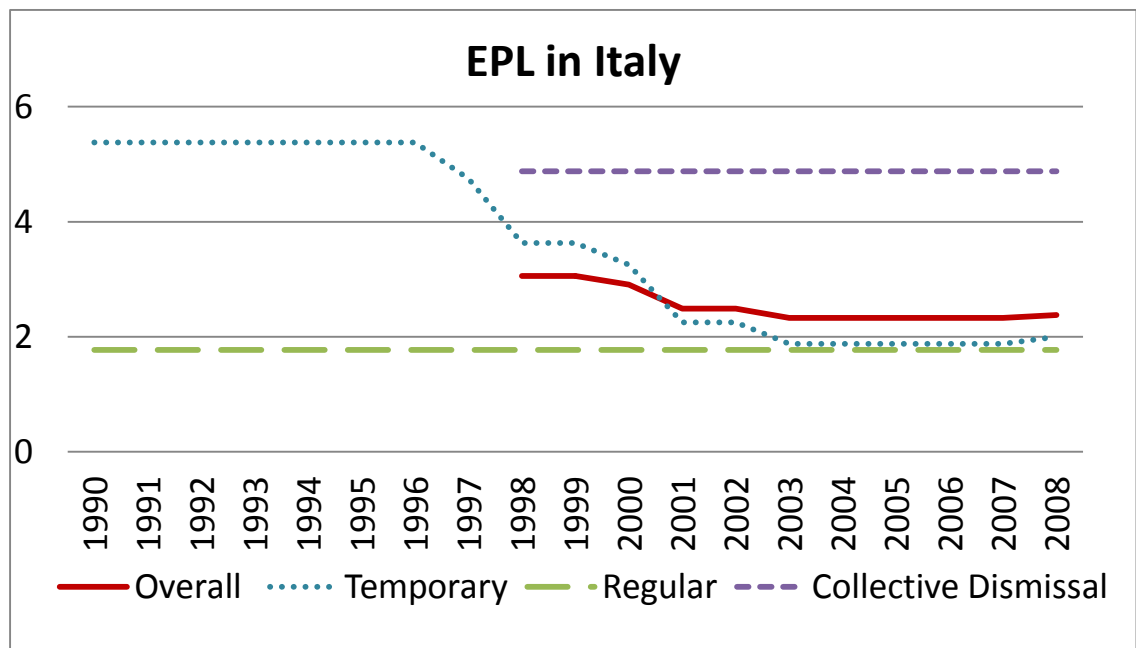


Figure 23b Change from 1998 to 2008



Source: EPL data available at www.oecd.org/employment/protection.

Figure 24 EPL



Source: OECD.Stat

3.3. The Honeymoon Effects of Marginal Reforms

The frequency of two-tier reforms highlights the importance of focusing on these reforms as opposed to complete ones. In terms of labour market outcome, marginal reforms seemed to work fairly well, certainly at the beginning of their implementation. As we highlighted in the introduction and Figure 3, between 2000 and 2008 the Italian labour market expanded consistently, with a declining unemployment and a rising employment rate. This aggregate outcome of rising employment is consistent with the so called *honeymoon effect* of marginal reforms, highlighted in a contribution by Boeri and Garibaldi (2007).

In the two-tier system, employers take full advantage of the opportunity to hire workers during economic upturns, mostly through temporary contracts to avoid paying the firing tax if the economy slows down. The two-tier system between temporary and permanent contracts contributes to explaining why dual labour markets displayed significant improvements in youth employment prior to the crisis. During downturns sizeable job destruction takes place, mainly because temporary contracts are not renewed at expiration and workers laid off. Honeymoons are doomed to finish: the extensive use of temporary contracts in countries with large differentials in the protection of permanent and temporary contracts increases the volatility of employment to economic fluctuations, as illustrated by recent developments in a number of countries, beginning with Italy.

In addition to facilitate job creation in the short run, the reform process appeared politically viable. The older generation of employees appeared substantially isolated from any legislative change and the standard labour contract (with its strong employment protection) remained unaltered. Simultaneously, thanks to the new flexible labour contracts, the younger generation had the possibility of entering in the labour market, albeit with a more flexible system with respect to that of their parents. From 1997 to 2006, while population growth was basically negligible, both the total number of people in employment and employees increased by more than 2 Million. This represented a 10 per cent increase that remains impressive. The average salary of

these jobs was also fairly modest and lower than the corresponding salary for regular jobs, but the significant labour expansion partly offset the growth in social inequality inherent in such reforms. If we consider the post crisis period, we can observe that temporary contract are mostly concentrated in the bottom and top quintile of self-reported income distribution according to the LFS. This fact suggests that there two well distinct temporary jobs in the Italian economy: one large group for very unskilled individuals that benefit from temporary contracts by taking advantage of their unique skills, another one at the other end of the skill distribution where temporary contracts are only used to cut labour costs and possibly accommodate temporary production needs.

Figure 24a Contract type: Poorest quintile

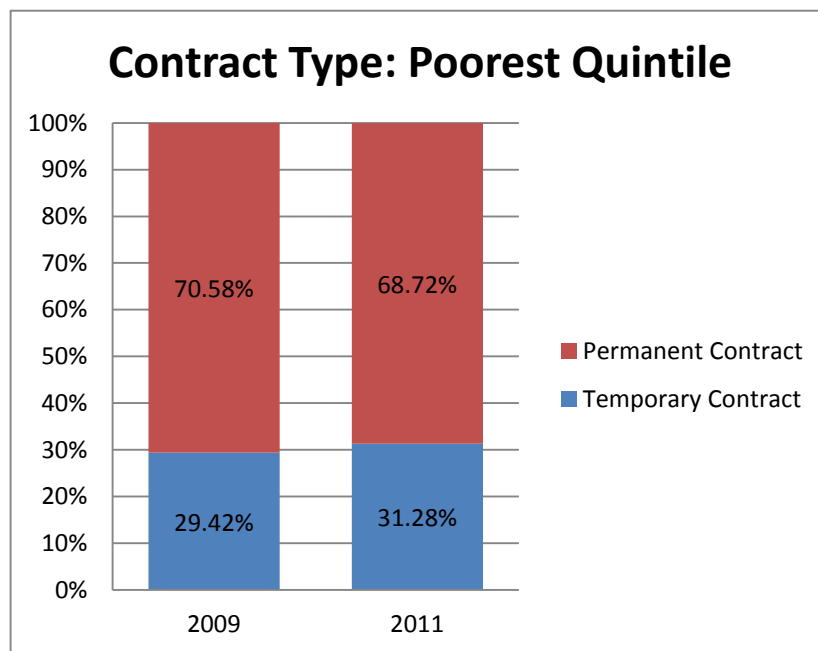
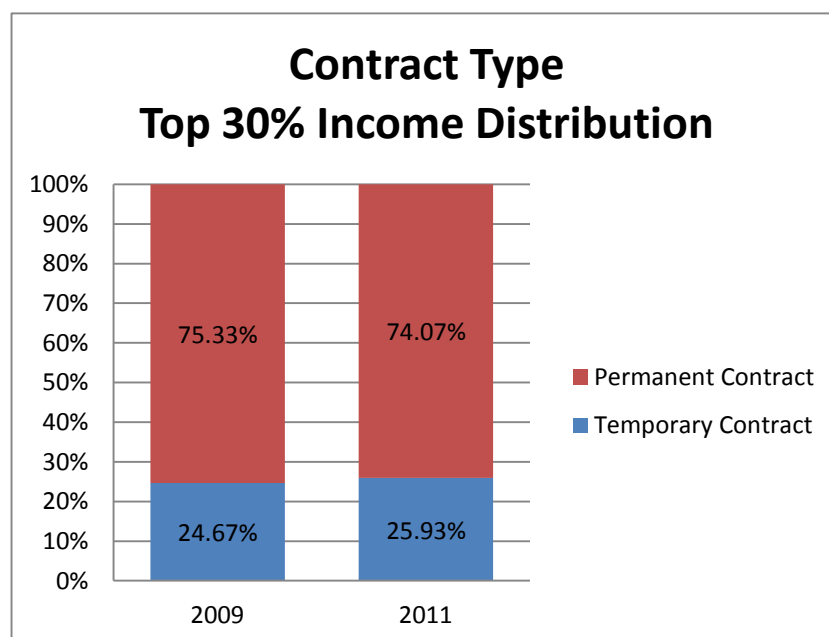


Figure 24b Contract type: Top 30 per cent income distribution



Data source: EU LFS 1983-2011

The older generation appeared also protected in terms of social security reforms. Italy had introduced a contribution based social security reform back in 1995. Nevertheless, its transition phase was extremely slow and was not expected to enter into a full regime until 2025. Over the past decade there were some attempts to tighten and delay the retirement age, but they were not successfully and were always relatively mild. Up to 2012, the effective retirement age in Italy remained around 60 years of age.

3.4. The Double Recession and the *Monti-Fornero* Reforms

In the aftermath of the financial crises, Italy experienced two deep recessions. In 2009 GDP fell by 5 percent, it shortly recovered in 2010 and it started falling again well into 2013. These deep recessions showed clearly that the marginal approach to reforms was far too asymmetric. As we highlighted in the introduction, youth unemployment almost doubled since 2008, and it is now as high as 37.8 per cent. The ratio between youth and total unemployment is above 3 and it is the highest among EU countries.

With the advent of the Monti government in the Fall 2011, the reform process gained new impetus, particularly so in the area of social security. The pension reform of December 2011 was indeed fairly bold. The transition to a contribution based system (whose idea was dated 1995) was dramatically accelerated. In addition, any provision for early retirement was basically removed. The older generation- largely untouched by the marginal reform process- was significantly hit for the first time in twenty years.

The pension reform turned out to have a significant aggregate impact on the labour market. In Italy, large firms have traditionally used early retirement as a soft way to downsize their labour force. Through a variety of agreements with the unions, firms managed to negotiate smooth exit of their older workforce directly into early retirement. The sudden elimination of early retirement - albeit perfectly desirable from the standpoint of social security - delivered dramatic effects on the labour market. On the one hand, more than 150,000 (estimate) workers suddenly ended up with no job, no unemployment benefits and no pensions. The government had to intervene with ad hoc measure to save the so called *esodati* (those undergoing an exodus). On the other hand, as firms could no longer use the soft exit into early retirement as a downsizing policy, many firm-level agreements that had already been signed lost a key support. In fact, many workers had accepted to resign from their job under the promise that the firm would pay their salary until early retirement. As the reform cancelled the possibility to retire early, these agreements between firms and workers left some workers with the prospect of a period without a job and pension benefit. This is the question of the so called *esodandi* which, at the time of writing, remains still unresolved.

The other major reform of the Monti Government was the labour reform of June 2012 under the supervision of Minister Fornero. This is, as we shall argue below, probably a missed opportunity. Up to this moment, it does not seem to have particularly changed any feature of the Italian labour market, though it is too early for a fair and complete assessment. The reform addressed various dimension of the labour market, i.e. the legislation on temporary contracts, the legislation of the regular contracts, and unemployment benefits.

Temporary contracts are now marginally more stringent, particularly in some technical requirement of the *contratto a progetto* as well as in the minimum time of unemployment necessary to subscribe subsequent temporary contracts with the same employee. There was also some reordering of unemployment benefits, but various

institutions that affect different workers in different sectors (*liste di mobilità*) will remain in place until 2017. The most significant reform effort - from the political standpoint - has been an attempt to modify the employment protection of currently employed workers. Under the current legislation, employees in firms with more than 15 employees are entitled to reinstatement in the case of unfair dismissal, through the so called "Article 18" of the Labour Code (*Statuto dei Lavoratori*).

3.3. The Debated *Articolo 18*

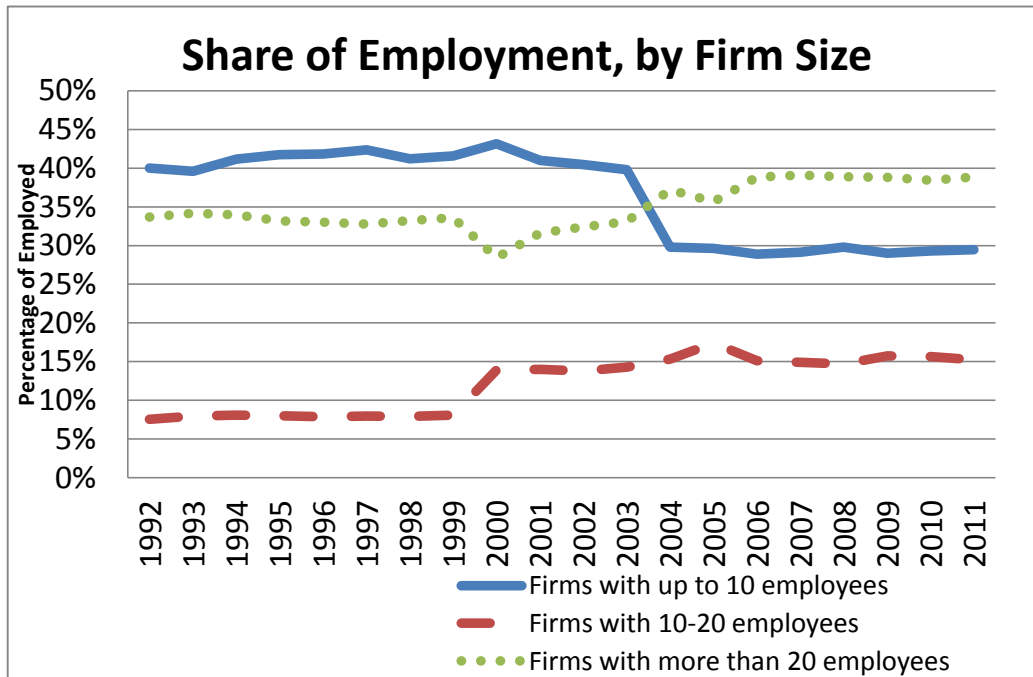
In the Italian labour law the protection against unfair dismissal is based on Article 18 of the Italian Labour Code (*Statuto dei Lavoratori*). According to this piece of legislation, a worker that is dismissed unfairly is entitled to a full reinstatement into the workplace. Inevitably, the ultimate decision in terms of fairness versus unfairness of a specific dismissal rests with a court trial and a judge ruling. Until June 2012, once a judge ruled the dismissal unfair, the worker had the right of being reinstated. Alternatively, the worker had the option of being compensated with 15 months of salary, in addition to any foregone salary from the time of the dismissal to the time of the sentence. Since June 2012, through the so called *Fornero reform*, under specific circumstances such a choice is given to the judge. In other words, the judge can now avoid a full reinstatement and opt for a monetary compensation that can be as large as 27 months of salary. It is certainly too soon to provide any serious evidence of whether such marginal change in the legislation provided any substantial change in the functioning of the Italian labour market.

At a more general level, it has proved very difficult to provide hard econometric evidence of the effect of Article 18 on the labour market. The cases that actually end up in court are a very limited proportion of the total firm initiated separation. Indeed, most separation goes through a bargaining between the firm and the worker (mediated by the union) that is typically resolved with a monetary compensation and an agreement to avoid a court ruling. Nevertheless, in the general perception the court ruling is typically perceived as very long, very costly, and somewhat random. While it is difficult to find proper evidence on these procedural costs, one possibility is to look into the cross country difference in court behaviour. Ichino et al. (2012) recently looked closely into the trials for *unfair dismissal* in three large cities (Milano, Roma and Torino) in the years 2003-2005. They closely inspected more than 3500 trials in Rome, 6500 in Milano and 1736 in Torino. They report two main findings. First, the average length of the cases is always larger than 6 months. Second, there is huge cross-city heterogeneity in the length of trials, from approximately 7 months in Torino to more than 15 in Rome. The difference is indeed remarkable and suggests that the existing protection -as perceived by the general public- really involves elements of randomness and uncertainty.

Indirect econometric evidence of the effect of Article 18 is based on the fact that its provision applies only to firms and establishments with more than 15 employees. Such threshold effects have been studied by Garibaldi et al (2004) and Schivardi and Torrini (2008). They find that the effects of Article 18 are statistically significant on the job separation but quantitatively small. Overall, the evidence suggests that passing the threshold reduces the mobility of firms by some 2 percent. The size distribution of firms -similarly- does not provide any particular discontinuity between 15 and 16 employees. One of the reasons why Article 18 does not appear so important around the size threshold is correlated to the fact that firms - around the employment threshold- may use more intensively other form of labour contracts, more flexible ones, or even hire in the black market in order to avoid crossing the threshold without being subject to the provision of Article 18.

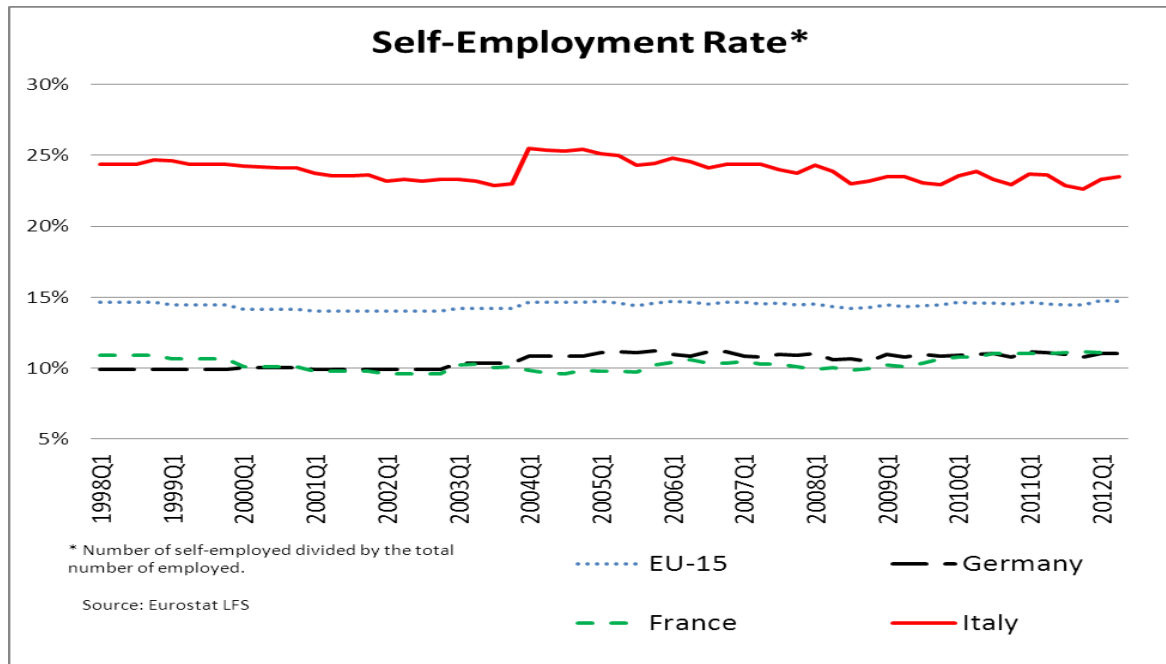
Although the right to reinstatement is a hotly debated issue in Italy and very much central to the platform of the social partners, its impact remains unclear in a labour market where less than 50 per cent of the employees work in companies with more than 15 employees (Figure 25) and the percentage of self-employed is more than one order of magnitude larger than in France and Germany (Figure 26a). Most noticeably, workers hired under the *contratto a progetto* introduced in 2003 by the *legge Biagi* as the most flexible, “atypical”, labour contract, are categorized as self-employed even in cases when they have had only one employer for few subsequent years.

Figure 25 Share of employment by firm size



Data source: EU LFS 1983-2011

Figure 26a Self-employment rate



The new legislation introduced by the Monti government and approved by the parliament under the label *Fornero Reform* before the summer 2012 has reduced the likelihood of an automatic reinstatement clause and gives to the judge the option of choosing between a full reinstatement or a monetary compensation equivalent to 15 month of the dismissed worker. Before the Fornero Reform, the choice was in the hands of the employee. As of June 2012, the choice will be in the hand of a judge, though in some specific cases the judge has limited choices. The system is certainly very complex. As we mentioned above, it is still too early to evaluate whether the reform will have any impact, but it is clear that the uncertainty of the dismissal procedure- particularly serious in the case of Italy where the labour-trials can last more than few years-is still extremely pervasive in the new legislation.

4. Labour Market Segmentation and its Implications for Job Quality

The duality of the Italian labour market is apparent as it divides the labour force into two sizeable different groups, defined in terms of job security - measured by the duration of employment - compensation and likelihood of receiving on-the-job training. This is not a phenomenon limited to Italy: in most EU Member States, the proportion of young people in employment who are working in temporary jobs is very high, especially among those under 25 years of age where 40 per cent are in this position. However, this general statistic does not elicit the large cross-country heterogeneity as the share of temporary employment among workers from age 15 to 24 ranges from more than 50 per cent in SI, PL, DE, ES, PT, SE and FR to less than 20 per cent in CZ, CY, SK, UK, MT, LV, BG, LT and RO. This cross-country heterogeneity has remained somewhat unaffected by the current crisis when we compare 2007 with 2011, as Table 1 shows.

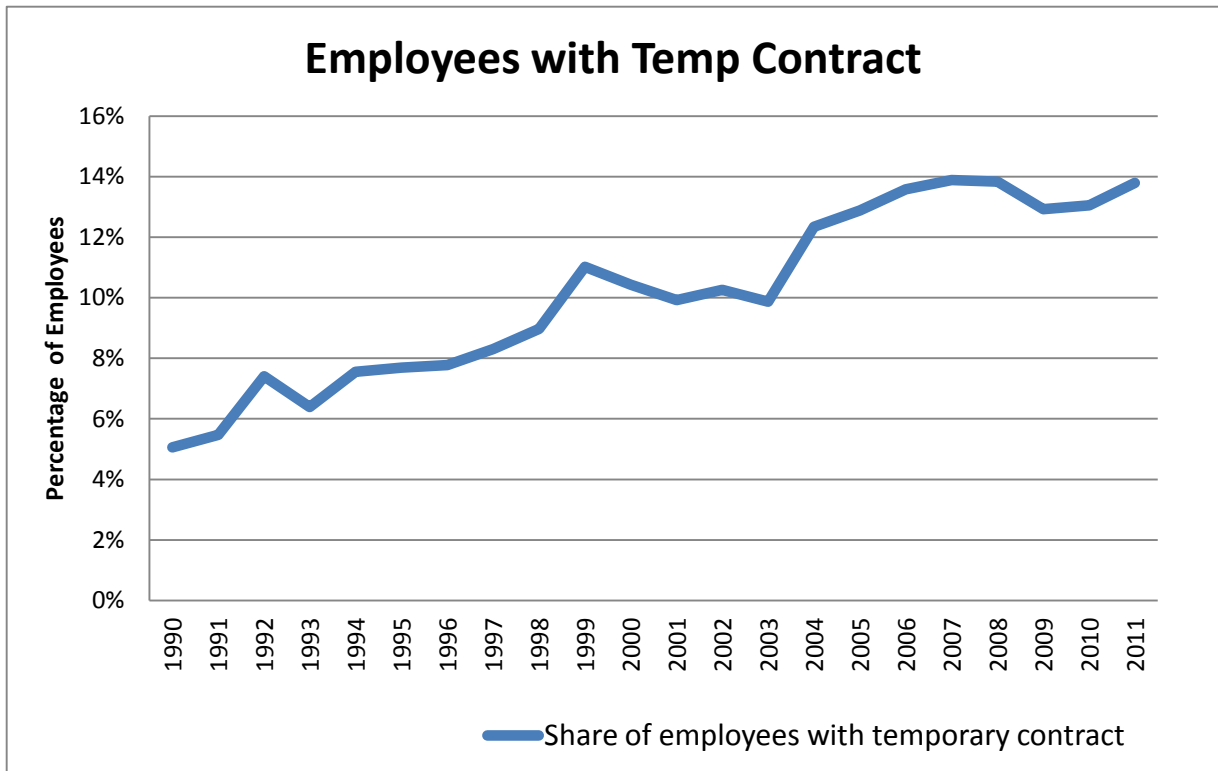
Table 1 Fraction of temporary contracts in percentage of total employees by age before and during crisis time

Country	between 15 and 24		between 25 and 49		between 50 and 64		between 15 and 64	
	2007	2011	2007	2011	2007	2011	2007	2011
Austria	34.9	37.2	4.7	5.6	2.5	2.4	8.9	9.6
Belgium	31.6	34.3	6.9	7.5	4.3	3.8	8.6	8.9
Bulgaria	10.3	8.3	4.5	3.6	5.0	4.3	5.1	4.1
Cyprus	23.3	17.2	14.0	15.6	5.2	6.2	13.3	13.7
Czech Republic	17.4	22.3	5.8	6.9	9.5	6.8	7.8	8.0
Denmark	22.5	22.1	7.4	7.6	4.3	3.5	9.0	8.9
Estonia		13.8		3.4		3.4	2.2	4.5
Finland	42.4	43.4	14.1	14.3	7.6	6.9	15.9	15.5
France	53.5	55.0	12.0	12.3	6.9	7.5	15.0	15.2
Germany	57.4	56.0	9.9	11.0	4.7	4.8	14.7	14.8
Greece	27.0	30.1	10.5	11.5	6.1	7.4	10.9	11.6
Hungary	19.1	22.9	6.8	8.5	4.8	6.5	7.3	8.9
Ireland	20.5	34.2	5.5	7.8	4.6	5.9	8.0	9.9
Italy	42.3							
Latvia	9.3	10.7	3.5	5.9	3.2	6.5	4.2	6.5
Lithuania	9.8	9.1	2.9	2.5	2.9	1.9	3.5	2.8
Luxembourg	34.1	34.5	5.6	6.2		3.0	6.8	7.1
Malta	11.0	17.7	3.8	4.3			5.1	6.5
Netherlands	45.1	47.7	14.1	14.5	6.8	6.8	17.9	18.2
Poland	65.7	65.6	25.1	25.1	18.2	17.6	28.2	26.9
Portugal	52.6	57.2	21.1	21.7	10.6	11.0	22.4	22.2
Romania	4.6	5.8	1.4	1.4	0.9	0.8	1.6	1.5
Slovakia	13.7	18.6	3.9	5.7	4.0	5.2	5.0	6.5
Slovenia	68.3	74.5	14.0	14.7	6.7	7.5	18.4	18.0
Spain	62.8	61.4	31.0	26.3	15.3	11.7	31.7	25.4
Sweden	57.1	57.3	14.0	12.3	7.3	6.0	17.2	15.9
UK	13.3	13.5	4.3	4.9	4.3	4.6	5.7	6.0
EU27	41.3	42.5	12.4	12.4	6.9	6.7	14.6	14.0

Source: EUROSTAT

In Italy, the **upward trend toward temporary contracts** has been steady. Figure 26b shows how the percentage of temporary and fixed term employees has increased from 5 per cent to 14 per cent during the period that started in 1990 and finished in 2008. In addition, also the number of self-employed remains substantially larger in Italy than in the rest of Europe.

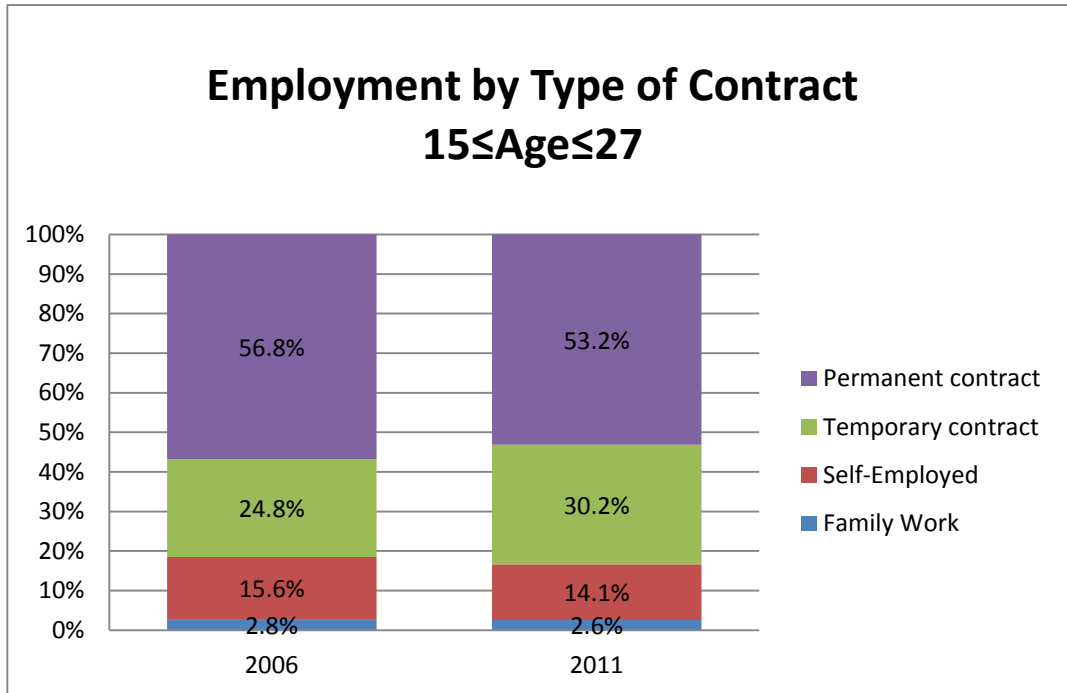
Figure 26b Employees with temporary contracts



Source: EU LFS 1983-2011

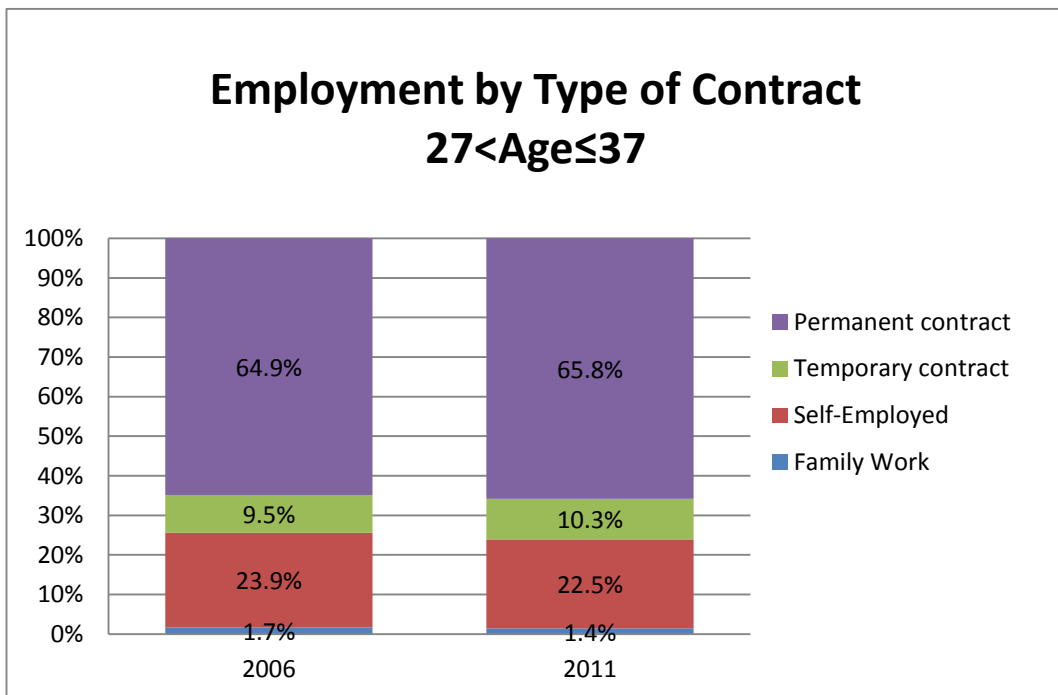
These percentages are especially **imbalanced across generations**. Comparing the share of temporary workers by age groups (Figures 27a, 27b, 27c and 27d) between before (2006) and after the crisis (2011), we find that the share of temporary workers over total employment has increased by more than 20 per cent for workers under 28 years old, by less than 10 per cent for workers from 28 to 37 years old, and only by less than 5 per cent in the other age classes. This evidence is consistent with the view that, as total number of people employed fell during the period (Figure 27e), while both young and old workers were laid off because of the crisis, some of the young workers were hired back but only as temporary workers while older workers had seen a much lower chance of being hired back.

Figure 27a Employment by type of contract (15-27)



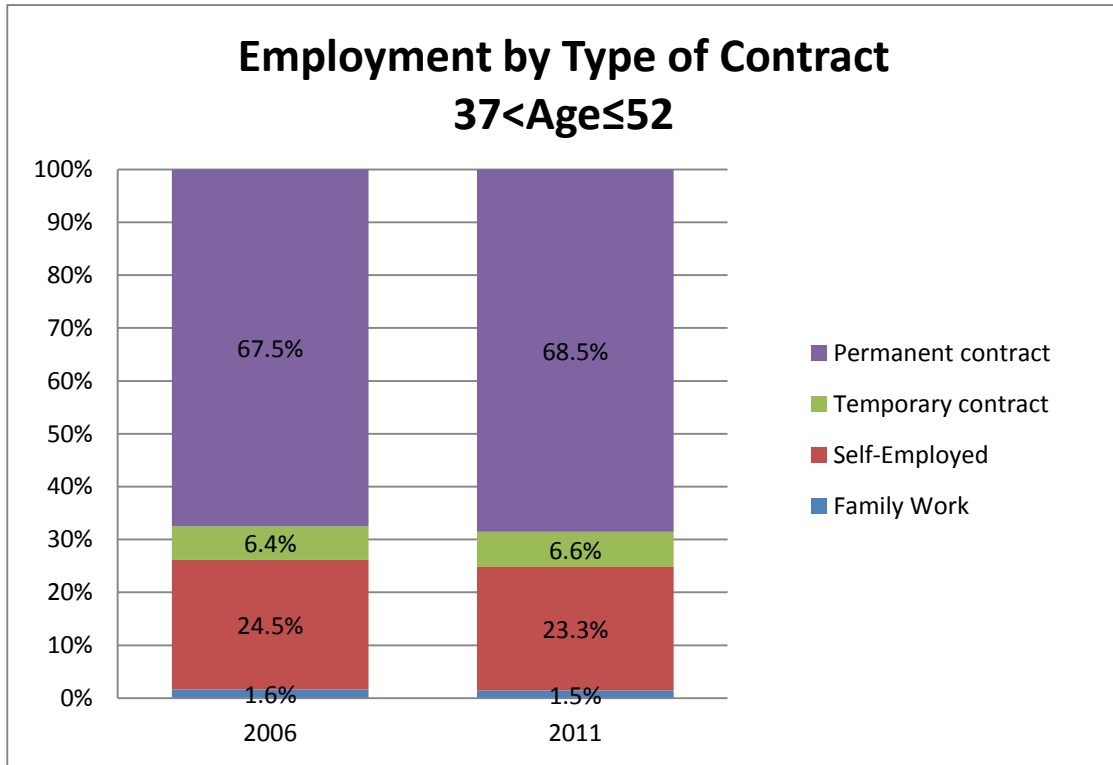
Source: EU LFS 1983-2011

Figure 27b Employment by type of contract (27-37)



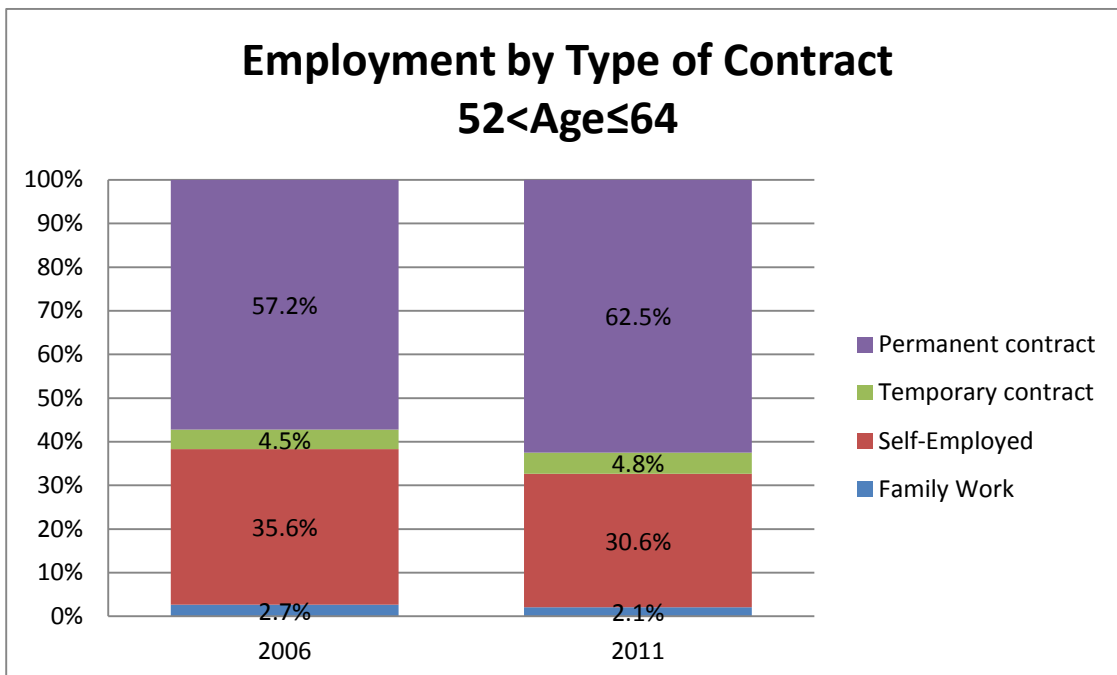
Source: EU LFS 1983-2011

Figure 27c Employment by type of contract (37-52)



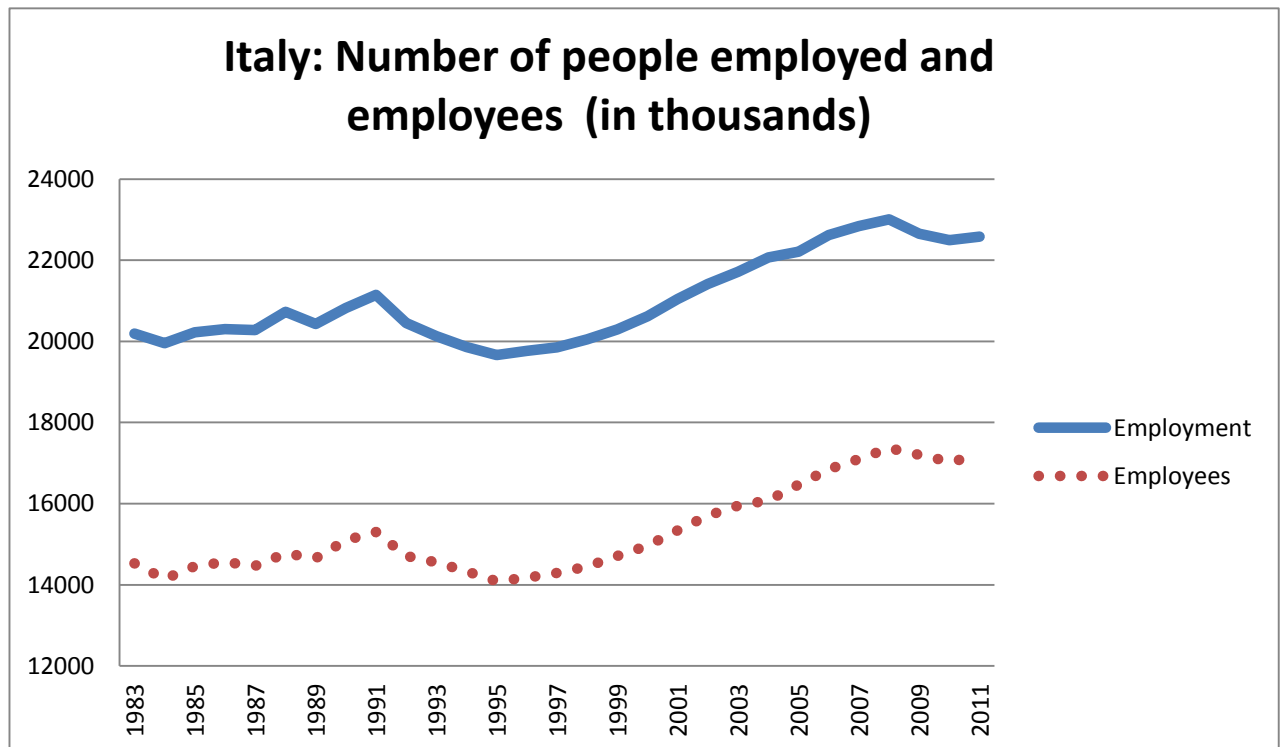
Source: EU LFS 1983-2011

Figure 27d Employment by type of contract (52-64)



Source: EU LFS 1983-2011

Figure 27e Number of people employed and employees

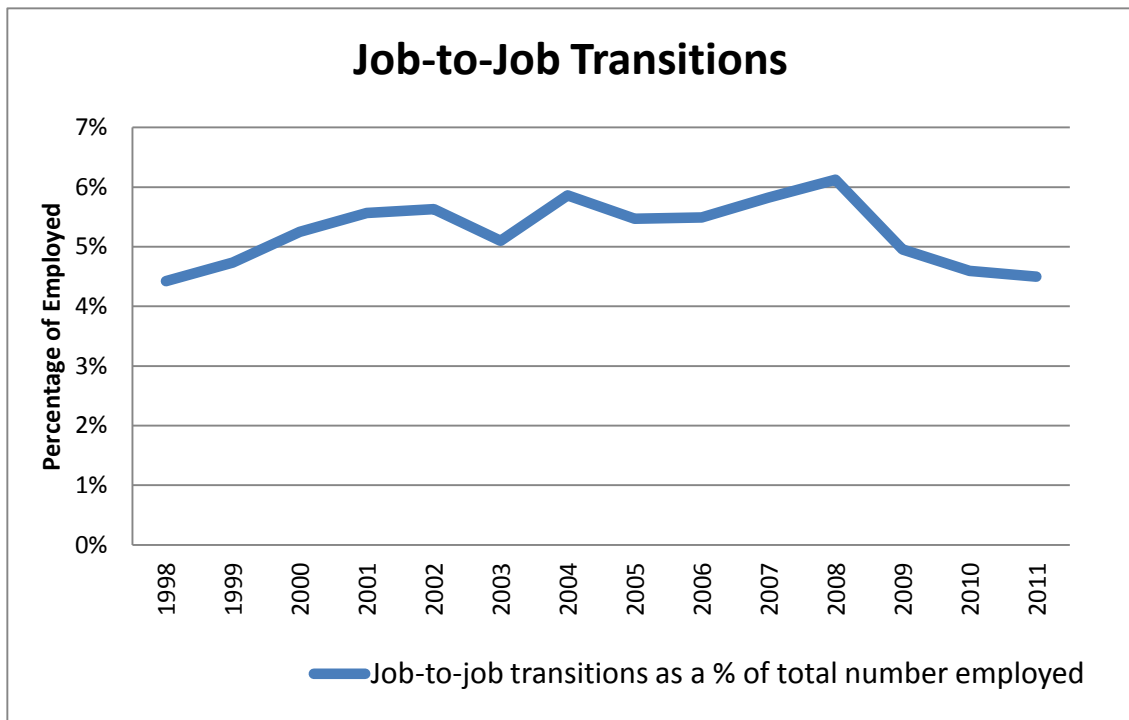


Source: EUROSTAT

Boeri (2010) and Bentolila (2010) argue that, in general, “the widespread use of temporary contracts, resulting from two-tier EPL reforms, increases the business cycle volatility of employment. There is a considerable body of evidence suggesting that the young, the least educated and ethnic minorities are more severely hit during downturns, while young people do especially well in upturns.” Moreover, “Blanchflower and Freeman (2000) identified the disproportionate large response of youth employment and unemployment to changes in overall labour market conditions. The sensitivity of the labour market for young people to changes in the economic cycle tends to dominate the effects of any sizeable demographic (e.g. smaller cohorts) and structural changes (e.g. better educated) effects which tend to be favourable to youth employment in general compared to other age groups” (Employment in Europe (2010)).

These findings imply that, during recessions, the share of young and temporary workers among jobless people increases. This is consistent with evidence reported in Figure 28. This shows the reduction of job-to-job transitions during recessions.

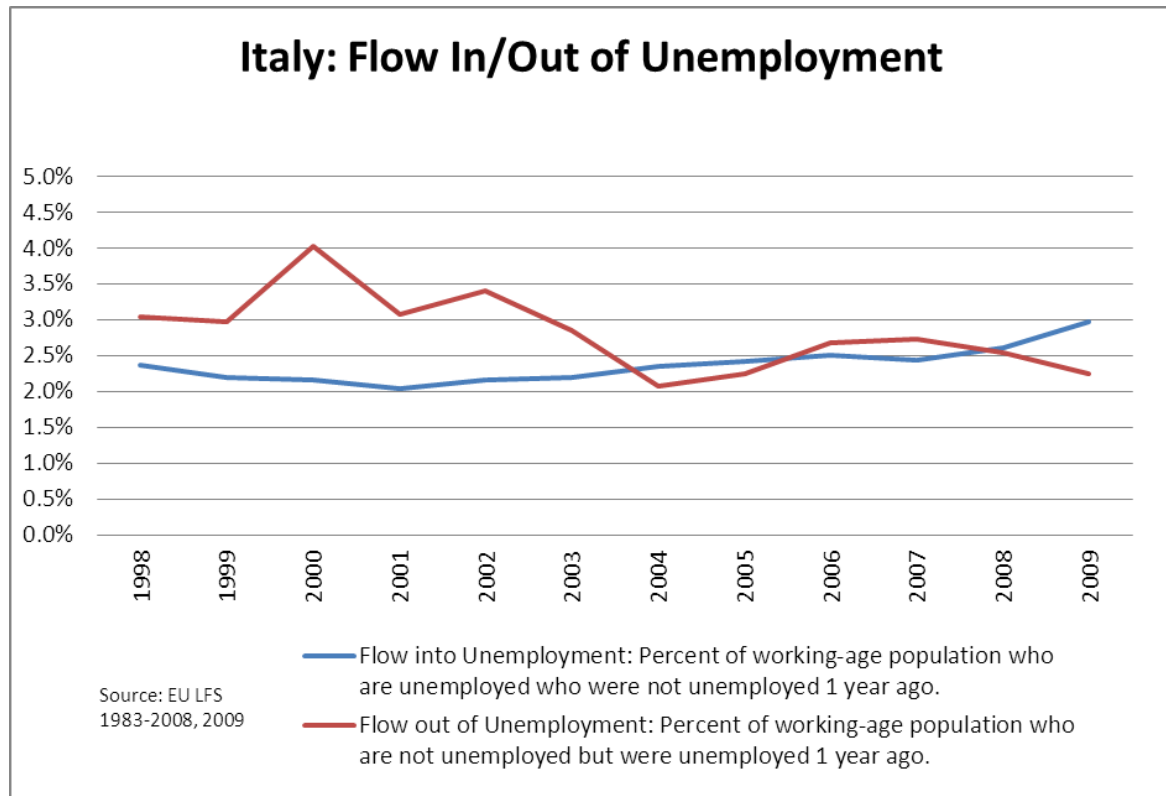
Figure 28 Job-to-job transitions



Source: EU LFS 1983-2011

Moreover, temporary workers also have to compete for a reduced number of job vacancies with better qualified job-seekers with more stable employment histories, and who might also have been made redundant, particularly in deep recessions like the current one. As better-qualified workers are likely to be preferred by firms making recruitments decisions, dismissed temporary workers have a significantly higher risk of becoming long-term unemployed following an economic downturn. Consistent with this view, Figure 29 shows how, during the recession of 2009, it was the flow of workers out of unemployment to fall more than the flow into unemployment that increased.

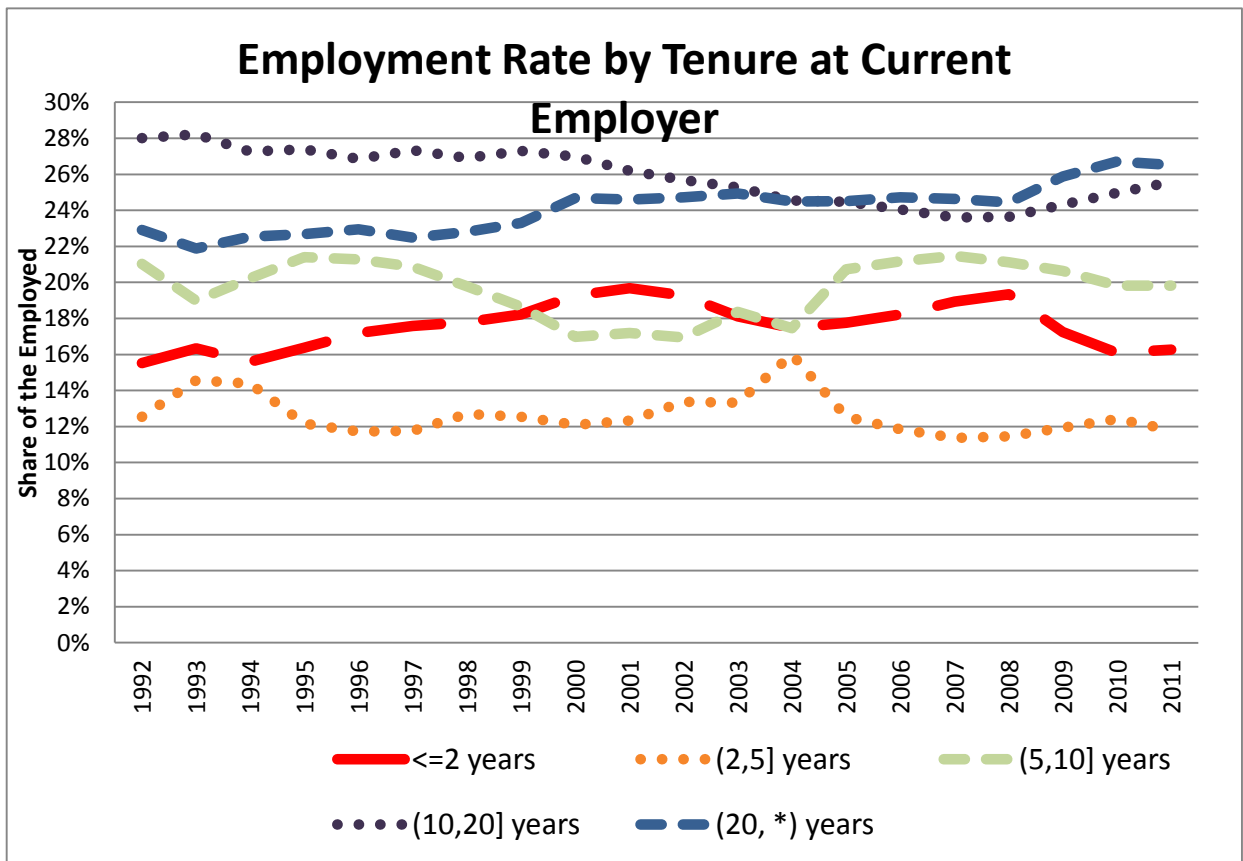
Figure 29 Flow in/out of unemployment



Source : EU LFS 1983-2008, 2009

The effect of temporary jobs on long-term unemployment is also liable to be exacerbated by lack of eligibility for income safety nets in case of job loss due to too short or intermittent work histories (OECD, 2009). An indicator of the difficulty that workers may find in benefitting from unemployment insurance and safety net can be found by looking at the distribution of duration in employment. Figure 30 provides this evidence regarding the Italian Labour market where employees are distinguished by the duration of their current employment. Although we do not know whether employees with less than 2 years on the job have had previous working experience, it is unlikely that as much as 26 per cent of the employees in 2008 – those who have had been at their job for 2 years or less – are first-time employees. It is likely that, within this group of people, individuals have experienced discontinuous coverage by unemployment insurance, as the Italian labour market regulation does not guarantee unemployment benefit to workers that have been employed *less* than 1 year in the last two.

Figure 30 Employment rate by tenure at current employer



Source: EU LFS 1983-2011

We know that different unemployment rates, like the ones we observed for Italian youth, women and Southerners (Figures 5, 6, 9 and 17 respectively) are responsible for differences in the perceived insecurity of workers, an important determinant of youth behaviour. The European Commission noted⁹ that “survey data allow to measure insecurity in terms of the perceived probability of being unemployed (or losing the current job). The fear of unemployment is found to increase with age, with a history of previous unemployment, with having a temporary or part-time contract, as well as with the level of regional unemployment (Green et al., 2001).”

Another important adverse effect of dual labour markets comes through **wage pressure**. Boeri (2010) argues that higher number of temporary workers increases the bargaining position of permanent employees if trade unions bargain with the objectives of maximizing the interests of the latter group.

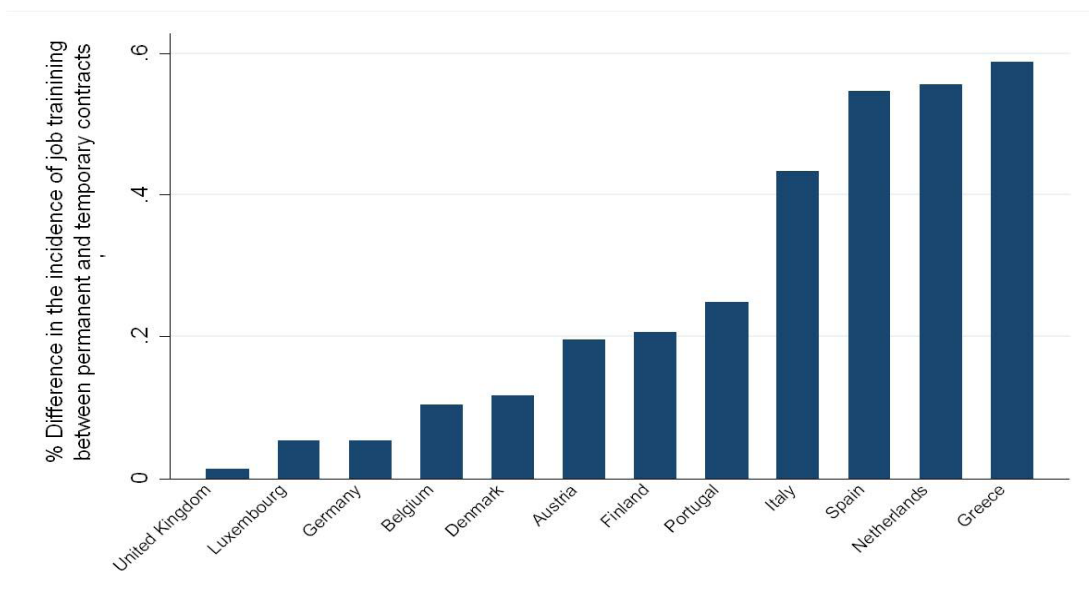
With the exception of Austria, Denmark, Germany and possibly France, only small percentage of workers that combine education and work do so while under a temporary contract. Given the increasing role played by temporary and part-time jobs as entry modes into employment, there are growing concerns about the possibility for young people to transition into more stable and well-paid jobs, using temporary or low-paid jobs as stepping-stones. As far as working income is concerned, Quintini

⁹ Chapter 3, Employment in Europe 2010, European Commission.

and Martin (2006) show that young workers with discontinuous or absent work experience are more likely to receive low wages. The likelihood of working for an hourly wage that is 2/3 of the median wage is greater for workers in the youth. However, employing ECHP¹⁰ data between 1995 and 2001, they show that the likelihood of low pay falls over time and exit rates from low salary jobs are higher than exit rates from non-employment. This evidence suggests that it remains “better (for career progression) to be working in a low-paid job than to have no job at all.”¹¹

This is suggestive of the fact that temporary contracts serve as a valid entry in the labour market and provide a path to stable employment if they are linked to an opportunity of professional development in the form of education and or training. The pay is not the only, and possibly not even the most important, indicator of job satisfaction, especially at the beginning of the working career. Another fundamental feature is the amount of training received on the job. Especially with temporary contract, low pay can be considered a negligible factor if the amount of training conveyed through these contracts were considerable. Using ECHP data, Boeri (2010) provides relevant and disappointing evidence in this respect. Figure 31 documents that firms provide considerably less education or training opportunities to temporary workers than they do to permanent workers.

Figure 31 Education or training provided to the employed



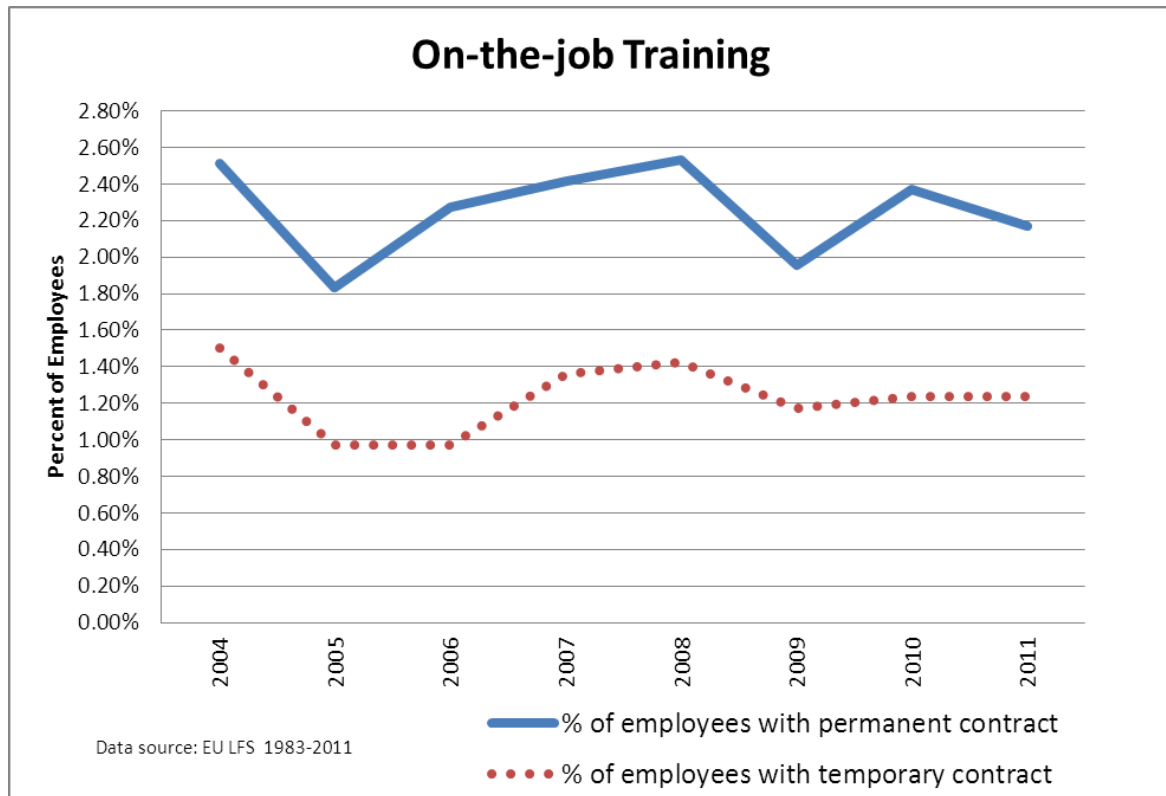
Source: Boeri (2010) based on the ECHP

Our analysis of LFS data of more recent Italian data seems to confirm Boeri’s findings. Figure 32 shows that the unconditional probability of receiving on-the-job training self-reported by the employee is twice as much under regular contract in comparison with temporary contract.

¹⁰ European Community Household Panel.

¹¹ Chapter 3, Employment in Europe, 2010

Figure 32 On-the-job training



Source: EU LFS 1983-2011

Table 2 provides a more detailed account. The difference in the probability to receive training at the workplace between temporary and permanent workers is smaller for men than for women, larger for individuals with higher education residing in the South and, more interestingly, smaller for young workers (within 27 years old) than for older workers. This last fact suggests that, while temporary contracts may provide a valid entry to the labour market used to screen workers that are trained during their employment, they serve a completely different purpose at later age. In fact among workers older than 27 years old, the incidence of on-the-job training differs drastically between temporary and permanent workers.

Table 2 Fraction of workers receiving on-the-job training as percentage of the reference group

On-the-Job Training, 2011		Employment Relationship			
		Family Work	Self-Employed	Temporary Contract	Permanent Contract
Age	15≤Age≤27	0.01%	0.22%	0.50%	0.57%
	27<Age≤37	0.01%	0.53%	0.12%	1.27%
	37<Age≤52	0.00%	0.50%	0.06%	1.78%
	52<Age≤64	0.00%	0.39%	0.03%	1.37%
Gender	Male	0.01%	0.54%	0.09%	1.35%
	Female	0.01%	0.34%	0.17%	1.54%
Education Level*	Lower Secondary	0.01%	0.16%	0.03%	0.44%
	Upper Secondary	0.01%	0.43%	0.09%	1.72%
	Tertiary	0.01%	1.49%	0.30%	3.57%
Region	North	0.01%	0.48%	0.16%	1.76%
	Central	0.89%	0.00%	0.56%	0.12%
	South & Islands	0.00%	0.35%	0.06%	0.89%

Source: Labour Force Survey, Eurostat

It is almost self-evident that, at the current level of dualism in the Italian labour market, the discrepancies between the probability to receive on-the-job training across temporary and permanent workers persist and are strong. The challenge for policy remains to reduce the underlying dualism. We turn to this issue in the following section by discussing the *Single Contract* proposal.

5. A Proposal Affecting the Linkage between Duality and Labour Market

5.1. Outcomes: the *Single Contract*

We presented above the last wave of reforms that have just been approved in Italy. The difficult employment situation for many young workers, clearly associated to the dual structure of the labour market in many European countries, calls for additional policy action. This is because, as we argued above, in the Italian labour market there are still unresolved problems related to the stabilization of temporary workers. In this setting and at this stage of the economic crisis, simply phasing out or dismantling temporary contracts would be a tremendous mistake for a variety of reasons. First, temporary contracts clearly contributed to the employment gains prior to the crisis. Second, and most importantly, phasing out temporary contracts now could give us the worse of all possible worlds, with large job losses experienced during the great recession without the large job gains if the recovery were to become reality.

An effective reform should balance two different forces that, at first, are moving in opposite directions. On the one hand, we need to facilitate the transformation of the productive structure by letting firms enjoy flexibility at entry. As we already mentioned, on the labour demand side, firms benefit from a labour market where experimentation is allowed. Temporary contracts do represent a form of experimentation with respect to the quality of the labour market match. Hiring labour is a form of investment, and labour is a quasi-fixed factor of production. Temporary contracts reduce the fixed cost component associated with labour and are thus welcome. On the other hand, a reform effective at addressing the dual labour market should try to provide workers with a well-defined path to employment stability and satisfaction. Workers do benefit from a labour market in which there is a clearly defined long-term employment prospect. Open-ended contracts are an obvious way to guarantee workers such a long-run entrance.

The policy proposal for balancing these two opposite forces is the so called *single contract*, an open-ended contract where employment protection increases with worker's tenure. In other words, with a single contract workers would be hired under a long-term, open-ended contract. However, employment protection would be initially mild, only to smoothly increase as the worker increases tenure. Ideally, the protection should increase smoothly.

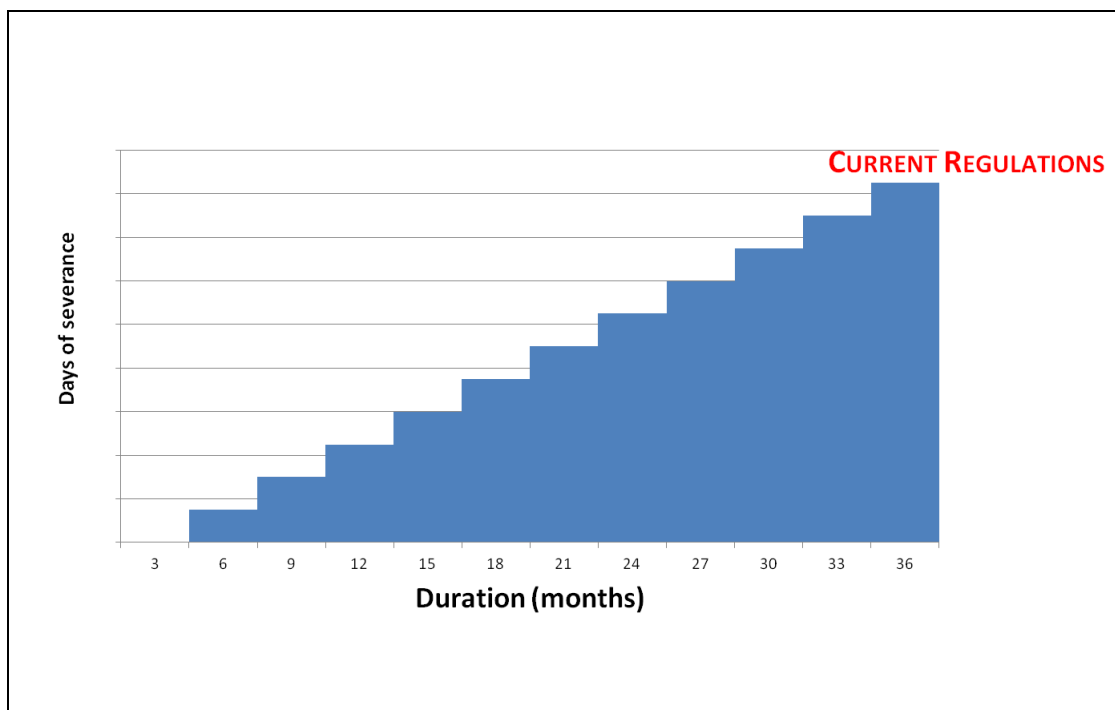
The proposal of a single contract is currently being considered in different countries. In Spain one hundred academic economists drafted a bill. In France Blanchard and Tirole (2006) and Cahuc Kramarz (2004) and in Spain Bentolila (2010) propose a similar scheme. The idea behind a single contract for the Italian legislation is based on the policy proposal of Boeri and Garibaldi (2008). In Italy, Boeri and Garibaldi (2008) extensively argued a proposal of *contratto unico* and other reforms to contrast the dualism present in the labour market. There is a common philosophy in all these proposals across countries, even though the structure is tailored to country specific regulations.

The basic idea is based on an open ended contract with protection increasing with tenure. For the case of Italy, the single contract aims at introducing a contract with no termination composed of two phases: an entry phase and a stability phase. The entry phase is the initial one and lasts three years. During this phase firms may lay off workers but, differently from current temporary contracts, the worker has the

right to severance payments proportional to tenure: dismissal without just cause requires up to 6 months in severance payments (Figure 34). In the stability phase that follows, the existing legislation comes in place.

In 2010 a draft bill submitted to Italian parliament outlined the legislative details behind the policy proposal. The *Contratto Unico d'Inserimento* (as the draft bill called the new contract) is a fully open ended labour contract that envisages two different phases (see Figure 33 for reference). The entry phase lasts up to three years and -during such period- the firm is entitled to dismiss the worker for economic reasons against a monetary compensation that increases by 5 days per month of tenure and reaches 6 months after three years. During such period the reinstatement clause of the article 18 does not apply. In the confirmation phase, the traditional employment protection legislation applies.

Figure 33 *Contratto Unico d'Inserimento*



The draft bill specifies also that fixed term contracts should be kept in place only for very specific tasks (such as purely seasonal jobs, substitution for maternity leave, etc.). With respect to other form of flexible labour contracts (particularly the so called *contratto a progetto*), the draft bill does not envisage their full elimination, as some of the opponents of the proposal wrongly argue. Nevertheless, the draft bill specifies that any form of dependent contract for relatively *low and midlow salaries* should be automatically transformed into the single contract. The rationale for such clause is the fact that very flexible labour contract should be perfectly legitimate as long as they apply to relatively high salaries.

The single contract has been thoroughly discussed in the Italian policy debate. The discussion and potential criticism comes- for opposite reasons- from two main sources: one from the employer associations and the other from the unions. The employer association finds somewhat too restrictive the idea of having a single main form of entry into the labour market. Unions, on the other hand, argue that the three years period in the entry phase is far too long and should probably be reduced. This

discussion makes clear that a compromise between these two positions is certainly feasible via parliament discussion and- further- shows that a single contract is potentially compatible with the incentives of both employers and workers.

In addition, various policy players (from politicians to social actor) argue that apprenticeships- rather than the single contract- should be the main entry road into the labour market. A properly designed apprenticeship system can certainly be a viable way for entering the labour market. Yet in the Italian legislation, the apprenticeship legislation faces various problems. First, it applies only to young workers. Second, in the existing form a firm has the right to freely dismiss the worker at the end of the three year apprenticeships. In addition, it involves costly subsidies in the form of reduced social contributions.

An additional position in the policy debate is that dualism should be dealt with via a subsidy to hire workers under a permanent contract. There are two main problems with such a proposal. First, similar policies were introduced in 2002 and 2003 and turned out to have very limited impact, as most of the subsidy seemed to end up to workers that would have been hired permanently even without the subsidy (Cipollone Guelfi et al. 2006). Second, and more importantly, the proposal has fiscal implications in terms of increased spending. The single contract, conversely, does not imply any direct cost for the Italian public budget.

The proposal of the *contratto unico* is a compromise between the stated objectives. First, we have seen that the degree of skill mismatch is persistently high in the European Union. The proposal aims to allow firms to enjoy flexibility to identify the most fitting candidate, but it offers this benefit only in exchange for a compensation to the worker (i.e. additional severance payment) if this flexibility does not lead to employment stabilization. Second, by introducing an additional cost on firms during the entry phase, it builds an incentive for firms to invest in the worker's training and foster his productivity. Under the single contract, the employer would find it less convenient than today to "fire and hire" at will a new different temporary worker. This would become a relatively more costly activity that the alternative of identifying the right person for the job and training him/her appropriately.

The proposal of the single contract is universal. With the exception of seasonal workers or few specific tasks, fixed term workers should then become a much more narrowly defined group in the labour market. The idea is that they should be allowed only for specific tasks that are genuinely temporary or "high pay jobs". Policy makers should thus not focus on job security for high income workers. In addition, during the transition, firms who hired on fixed term and later converted into *contratto unico* would forgo the entry phase.

6. Conclusions

The possibly most pressing economic problem in Europe is low economic growth in the medium run. Yet, in the aftermath of the great 2008-09 recession, a new social challenge in Europe emerged. Almost 6 million young people under 25 years old are unemployed in the EU 27. In Italy more than one out of three young people (between age 15 and 24) are currently without a job. Double digit youth unemployment is a common feature to most European countries but it is especially high in Italy. In addition to Youth unemployment, the Italian economy is plagued by considerable gender and regional differences in unemployment and employment rates.

During past decades, reforms of employment protection legislation (EPL) introduced in European countries have often been ‘partial’ or ‘two-tier’, i.e. they have allowed a more flexible use of temporary contracts while they have mostly kept unchanged the firing rules for permanent contract. The reforms EPL have therefore been asymmetric. A consensus has been reached that two-tier reforms have initially delivered sizeable increase in employment, especially temporary and, at alter stage, they have led to the creation of a dual labour markets split between permanent employees (‘insiders’) with stable employment and certain career and earnings prospects, and another for temporary employees (or ‘outsiders’) who risk to be ‘trapped’ into temporary jobs. This is, unfortunately, an accurate description of the Italian labour market.

Many European economies use temporary contracts as an important means of hiring. This is particularly the case with young workers where temporary positions are around 40 per cent of total dependent employment (see Table 1), a much larger level than the one observed in the total working-age population. Temporary jobs can fulfil a number of functions. They can provide a “screening” device allowing firms to evaluate workers' ability/adequacy for the job. In this line, temporary jobs can act as a “gateway” to the labour market and as potential “stepping stones” to more stable and better paid jobs. Otherwise, temporary contracts can simply be a convenient way for firms to cut labour costs by increasing (cheaper) temporary workers while they decrease the number of (more expensive) permanent employees. The Italian evidence supports the view that the second function may in fact be quite relevant in practise.

In addition, young workers, especially the one employed in temporary contracts, fail to acquire the skills necessary to accommodate the transformation of the European economy. The skill mismatch is increasing in Europe and in Italy (European Commission (2012)), although positive examples remain (e.g. Austria and Germany). This is particularly the case in those labour markets where temporary workers are less likely to be stabilized in their employment conditions. Looking at Italy, we have confirmed that temporary workers receive less training on-the-job as the nature of their employment reduces the incentive to invest in firm-specific human capital.

Temporary workers in general and youth in particular are especially hard-hit during the current crisis. Low conversion rates of temporary into permanent jobs discourage the work effort of temporary workers, prevent the accumulation of professional skills and delay the overall transformation of the European economy. Besides providing a large number of facts to gain a thorough picture of the Italian labour market, this paper argues in favour of the *Single Contract* - a proposal aimed at reducing the duality of the Italian labour market.

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