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The Recent Reform of the Labour Market in Italy: A Review

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The Recent Reform of the Labour Market in Italy: A Review

Dino Pinelli, Roberta Torre, Lucianajulia Pace, Laura Cassio and Alfonso Arpaia

Abstract

Italy undertook a major reform of the labour market in 2014-2015 (Jobs Act). This paper provides a compendium of the key changes introduced. The analysis shows that the Jobs Act has contributed to bringing Italian labour market institutions more closely into line with international benchmarks and with the principles of flexicurity. Employment protection legislation for permanent contracts has been brought into line with that of major European partners, although it remains more restrictive than the OECD average. The focus of passive labour market policies has shifted from job to worker protection, which will facilitate the reallocation of workers to more productive occupations. The designed strengthening of active labour market policies would improve job matching and reduce structural unemployment, but thorough implementation remains the key factor for achieving this critical goal. Extending the new rules on employment protection legislation also to existing permanent contracts and the strengthening of the collective bargaining framework could be considered as a follow up to the recent reform. Flanking measures to open product markets and reform the public sector are crucial to deliver the entire potential impact of the reform.

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1. INTRODUCTION

Italy undertook a major reform of the labour market in 2014-2015 (Jobs Act). In March 2014, urgent measures were introduced to foster employment and simplify bureaucratic procedures for temporary contracts.¹ In December 2014, a wide-ranging enabling law was adopted, paving the way for eight legislative decrees, which were all adopted by September 2015.²

The Italian labour market was already deeply reformed during the 1990s. Following the financial crisis of 1992 and the sizeable devaluation of the Italian lira, tripartite agreements between the government and social partners led to abolition of the automatic mechanism of wage indexation (Scala mobile) and the reform of the framework for collective bargaining.³ A few years later, the Treu Package (1997) and the Biagi Law (2003) relaxed the rules for the use of standard temporary contracts and introduced a wide set of new (“atypical”) temporary contracts without however revising employment protection for open-ended contracts (Annex, Table 6.1).

Employment growth was strong in the aftermath of the reforms (reaching 1.4% per annum on average from 1997 to 2007) and the unemployment fell to a record low rate by 2007 (at 6.2%, nearly 1.5pp below the euro area average), as the availability of new forms of employment responded to employers' demand for flexibility and workers needs to reconcile work responsibilities with other needs.

At the same time, however, labour productivity growth deteriorated dramatically, leading to strong competitiveness losses and declining GDP per capita relatively to other EU countries. The 1990s reforms of labour market institutions were not neutral to the productivity slowdown. The strong take-up of the new (temporary) contractual forms created a dual labour market with more low-skill workers into employment and reduced incentives to invest in education and firm-specific skills (Larch, 2004; Sestito, 2002; Daveri and Parisi, 2015; Rosolia and Torrini, 2007, 2016). The traditional bias in passive policies towards job protection continued to slow down the re-allocation of resources towards more productive firms (Calligaris, 2016).

With the long-lasting crisis, the weaknesses of Italy's labour market institutions became evident and the unemployment rate shot up to more than 12.5% in 2014, 1pp above the euro area average. Young people were the most exposed, as they were more likely to be hired on temporary contracts. Youth unemployment rate skyrocketed reaching over 40% by 2014. The inability of the social safety net to cope with prolonged period of unemployment and the weaknesses of active labour market policies contributed to a strong increase in long-term unemployment and poverty rates. Given the ensuing strain on public finances, it became evident that a labour market compact unsupportive of labour market efficiency was not sustainable.

¹ Decree law n. 34 (“decreto Poletti”), entered into force on 20 March 2014.

² Law n. 183/2014, implemented by the following legislative decrees:

Legislative decree 23/2015, reforming employment protection legislation for permanent contracts;

Legislative decree 22/2015, redesigning the system of unemployment benefits;

Legislative decree 80/2015, including measures to reconcile work and family life;

Legislative decree 81/2015, reorganising the typology of labour contracts;

Legislative decree 148/2015 reforming wage supplementation schemes (“Cassa integrazione guadagni”);

Legislative decree 149/2015, reforming inspection activities;

Legislative decree 150/2015, reforming and strengthening active labour market policies;

Legislative decree 151/2015, including simplification measures and other dispositions concerning equal opportunities.

All documentation is downloadable from the Ministry of Labour website:

<http://www.jobsact.lavoro.gov.it/documentazione/Pagine/default.aspx>

³ Protocollo sulla politica dei redditi e dell'occupazione, sugli assetti contrattuali, sulle politiche del lavoro e sul sostegno al sistema produttivo, July 1993:

<http://old.cgil.it/Archivio/Storia/Documenti/12.%20II%20Protocollo%20Ciampi%20del%20luglio%201993.pdf>.

The Jobs Act, by building on the encompassing reform already introduced in 2012 (Fornero reform⁴), tried to address the above shortcomings by modernising Italian labour market institutions in the direction of flexicurity (Annex, Table 6.2). On the one hand, it relaxed employment protection legislation for permanent contracts while reducing the use of atypical contracts. On the other hand, it strengthened active labour market policies, traditionally very weak in Italy, and reformed passive policies, by rebalancing them towards the protection of workers and linking them with active labour market policies, through conditionality provisions and activation measures.

This paper provides a compendium of the key changes introduced by the Jobs Act, in comparison with the state-of-play before it and with that in other large euro area member states (notably France, Germany and Spain). The analysis shows that the Jobs Act has contributed to bringing Italian labour market institutions more closely into line with international benchmarks and with the principles of flexicurity. The reform has thus the potential to help address Italy's long-standing productivity problem and strengthen Italian economy's capacity to withstand external shocks and adjust to the ever-changing challenges of the global economy. An evaluation of the actual impact of the Jobs Act is outside the scope of the paper. Tentative analysis on the impact on segmentation is nevertheless carried out using available data at macro-level. The analysis shows some early positive impacts, but concludes that the jury is still out.

In what follows, Section 2 analyses the measures of the Jobs Act related to employment protection legislation, Section 3 those concerning passive labour market policies and Section 4 those regarding active labour market policies. Section 5 provides an overall assessment of the reform, highlights its weaknesses and implementation challenges and identifies the remaining policy gaps.

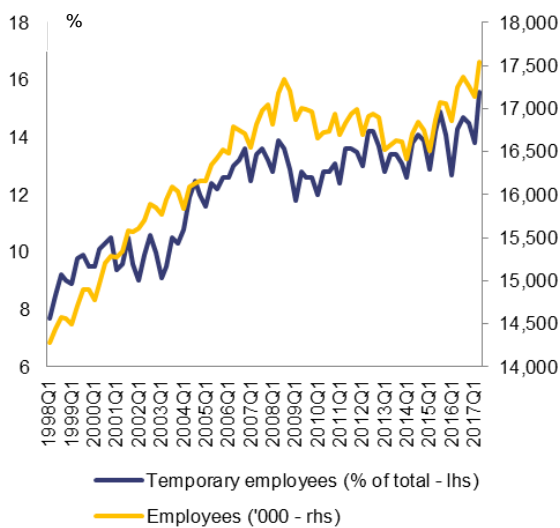
⁴ Law 92/2012.

2. EMPLOYMENT PROTECTION LEGISLATION

2.1 EMPLOYMENT PROTECTION LEGISLATION IN ITALY BEFORE THE JOBS ACT

Italy's labour market segmentation had been increasing since the late 1990s. The Treu Package (1997) and the Biagi Law (2003) relaxed the discipline for standard temporary contracts and introduced new forms of “atypical” non-permanent contracts (e.g., agency work) while maintaining existing rules on permanent contracts (Annex, Table 6.1). Also as a result of these reforms, employment grew strongly until the 2008 crisis and then again in 2014, but more than half of the new jobs were temporary (1.4m over 2.7m additional jobs created from 1998Q1 to 2015Q3). The share of temporary employment in the total number of employees increased from less than 8% in 1998 to nearly 15% in 2015Q3 (Figure 2.1). The percentage was slightly above the EU28 average in 2016Q4, albeit the EU aggregate hides great variation across EU countries (Figure 2.2). In line with the theoretical predictions, the two-tier labour market reforms had a transitory honeymoon effect on total employment (Boeri and Garibaldi, 2007).

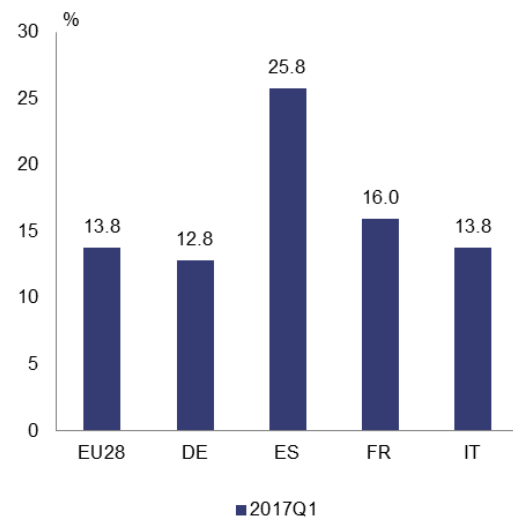
Figure 2.1: Share of temporary employees (%) and number of total employees in Italy, 1998-2016



Note: Data are not seasonally adjusted

Source: EUROSTAT, Labour Force Survey

Figure 2.2: Share of temporary employees (%) in the total number of employees in selected EU countries, 2017Q1



Note: At the cut-off date, data for 2017Q2 were not available for all countries. Data are not seasonally adjusted.

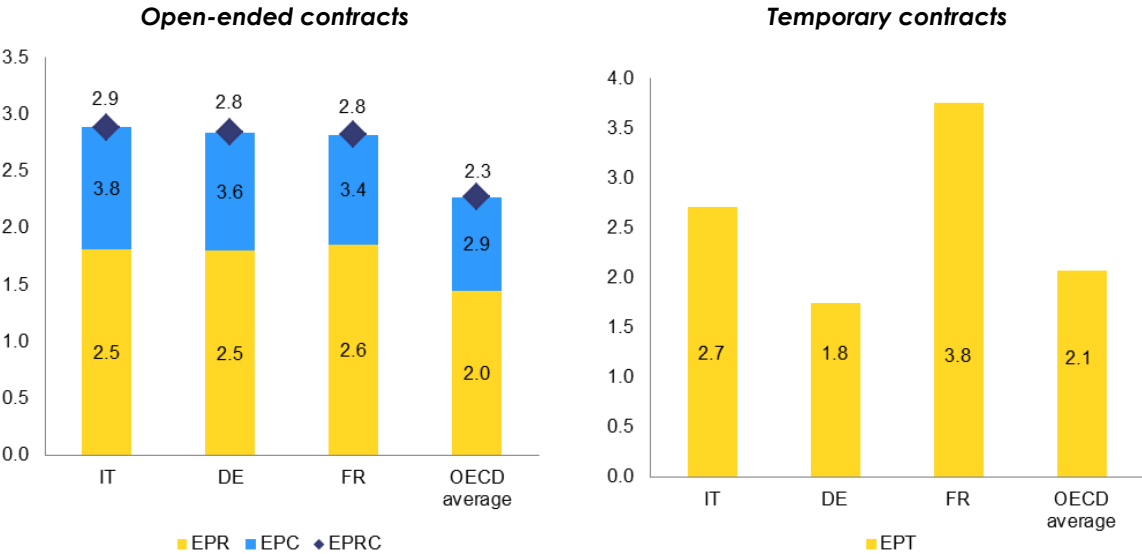
Source: EUROSTAT, Labour Force Survey

While temporary contracts have a role to play in the economy, excessive labour market segmentation is found to be associated with low access to training and weak career progression, with negative implications for productivity and labour market volatility. Temporary contracts can facilitate entry in the labour market after education, particularly in those countries where vocational education and training is not sufficiently developed, and may help improve skill matching as workers and employers can test against their desiderata before locking the relationship in a long-term arrangement. However, an excessive use of temporary contracts may also have negative economic and social implications. Negative aspects of temporary contracts include lower job tenure, less experience

acquired on the job, limited access to training and social security, lower wages. The larger the asymmetry between employment protection legislation for temporary vs. permanent contracts, the higher the possibility that temporary contracts become a trap, rather than a stepping stone toward quality employment (OECD, 2016). Such segmentation may have macroeconomic implications, such as lower productivity (Blanchard and Landier, 2002; Garibaldi and Taddei, 2013; Damiani et al, 2016) and higher employment volatility (Bentolila et al, 2012). In the specific case of Italy, an important stream of literature identified the 1990s reforms of the labour market as one of the root causes of the productivity slowdown that characterised the second half of the decade. According to this literature, the reform, by introducing more flexible part-time and fixed terms contracts, facilitated the entry into the labour market of less productive workers and reduced the incentives to invest in firm-specific human capital, for both employers and employees (see also Sestito, 2002; Garibaldi and Taddei, 2013; Daveri and Parisi, 2015). At the same time, by maintaining the strict regulation of permanent contracts, it continued to hamper turnover and the possibility of rapidly adjusting employment to external shocks.

In 2013 the employment protection legislation for permanent contracts in Italy was more restrictive than in France and Germany, according to OECD indicators. The employment protection legislation (EPL) indicators developed by the OECD measure the restrictiveness of employment protection legislation across countries. The index is composed of 21 items that range from 0 to 6, with higher values representing stricter regulation. The items are grouped in the following sub-indexes: the individual dismissal of workers with regular contracts (EPR); the additional regulations for collective dismissal (EPC) and the index for temporary employment (EPT). The weighted average of the first two sub-indexes gives the overall index for the protection of permanent workers (EPRC), with weights respectively of 5/7 and 2/7. The latest indicators were calculated by the OECD for 2013, thus accounting for the Fornero reform in Italy. As shown by Figure 2.3, EPL values were higher (i.e., regulation was stricter) for Italy, France and Germany than the OECD average. Italy’s overall indicator for permanent workers (EPRC) was slightly higher than that for Germany and France due to the more restrictive requirements for collective dismissal (EPC), reflecting the cumbersome bureaucratic procedures between employers and trade unions. For temporary contracts, legislation in Italy was more restrictive than in Germany but more flexible than in France.

Figure 2.3: OECD EPL indicator in the major European countries, 2013



Notes : EPR Protection of permanent workers against (individual) dismissal

EPC	Specific requirements for collective dismissal
EPRC	Protection of permanent workers against individual and collective dismissal (weighted average of EPR and EPC, with weight equal to 5/7 and 2/7, respectively)
EPT	Regulation of temporary forms of employment

Source: OECD, Indicators of employment protection:
<http://www.oecd.org/els/emp/oecdindicatorsofemploymentprotection.htm>

2.2 HOW THE JOBS ACT CHANGES EMPLOYMENT PROTECTION LEGISLATION IN ITALY

The Jobs Act revises employment protection for permanent contracts while limiting the use of atypical contracts. The Jobs Act introduces three major novelties to Italy's employment protection legislation:

- The *decree law n.34 of 20 March 2014* (decreto Poletti) reviews the legislative framework for the use of temporary and apprenticeship contracts. It allows temporary contracts to be renewed up to 8 times (from 5) within a maximum overall duration of 36 months and abolishes the obligation to express the rationale of the temporary contract ("*causalità*") under any circumstances (before the reform, the rationale was mandatory after the first year of contract). The total number of fixed-term contracts cannot exceed however the limit of 20% of the total workforce for firms with more than 5 workers. The decree law also relaxes the binding requirements on training in apprenticeship contracts to facilitate their take-up. It entered into force in March 2014 and its main provisions were immediately applicable.
- The *legislative decree n.23 of 4 March 2015* revises the EPL for new hires with permanent contracts. It overhauls Art. 18 of Workers' Charter, already modified by the Fornero reform, which regulates dismissals in firms with more than 15 employees. Specifically, it eliminates the possibility of reinstatement in case of individual dismissals for economic reasons (see Table 6.2 in Annex for a typology of dismissal) and certain disciplinary dismissals (notably, if the circumstance justifying the dismissal is proved) and in most of collective dismissals. Reinstatement thus remains a possibility only for individual discriminatory dismissals, the rest of disciplinary dismissals (if the respective circumstance does not exist) and collective dismissals in case of lack of written notification or violation of procedural rules. These provisions only apply to the private sector, not affecting those employed by the public administration. The new dismissal procedures are valid for new permanent hires as of 7th March 2015, while the old form of permanent contracts is protected by grandfathering existing rights. Table 2.1 illustrates the different possibilities under the new permanent contract.
- The *legislative decree n.81 of 15 June 2015* restricts the use of atypical contracts. In particular, it abrogates the contract of *lavoro di collaborazione coordinata e continuativa a progetto* (introduced in the 1990s - see Annex, Table 6.1), *lavoro ripartito* (job sharing) and *associazione in partecipazione con apporto di lavoro* (joint venture with contribution of labour), and provides a clear definition of dependent employment, under which existing atypical contracts are subsumed. This included cases of outsourcing (to workers that could previously be considered self-employed), which would now fall under the definition of dependent employment. Several well-defined contract typologies remained in place, however. The legislative decree entered into force on 25 June 2015 and its provisions were applicable as of 1 January 2016.

Table 2.1: Dismissal procedures before and after the 2015 Labour market reform

Typology of dismissal ⁵	Sanctions for hires before Jobs Act (until 6 March 2015)	Sanctions for hires after Jobs Act (from 7 March 2015 on)
1 Discriminatory dismissal Invalid dismissal Ineffective dismissal (lack of a written notification)	The worker is entitled to: <u>Reinstatement</u> or substitution benefit equivalent to 15 months standard wage; Reimbursement not lower than 5 months standard wage; Transfer of social security contribution; Payment of sanctions for missing or delayed transfer of social contribution.	The worker is entitled to: <u>Unchanged</u>
2 Illegal dismissal for missing justified objective reason (<i>motivo oggettivo</i>) – or <u>Economic dismissal</u>	<u>Reinstatement</u> or substitution benefit equivalent to 15 months standard wage; Reimbursement not higher than 12 months compensation; Transfer of social security contribution.	<u>Compensation</u> equal to 2 months standard wage for each year of service, with minimum 4 and maximum 24 months standard wage ⁶ .
3 Illegal dismissal for missing justified subjective reason or right cause (<i>motivo soggettivo o giusta causa</i>) - or <u>Disciplinary dismissal</u>		
<ul style="list-style-type: none"> In case of no existing circumstances 	<u>Reinstatement</u> or substitution benefit equivalent to 15 months standard wage; Reimbursement not higher than 12 months compensation; Transfer of social security contribution.	<u>Unchanged</u>
<ul style="list-style-type: none"> In case of existing circumstances 	<u>Compensation</u> between minimum 12 and maximum 24 months of standard wage.	<u>Compensation</u> equal to 2 monthly wages per year of service, with minimum 4 and maximum 24 months.
4 Ineffective for formal violation	<u>Compensation</u> between minimum 6 and maximum 12 months compensation of the standard wage.	<u>Compensation</u> equal to 1 month wage for each year of service, with minimum 2 and maximum 12 months ⁷ .
5 Collective dismissal:		
<ul style="list-style-type: none"> Ineffective (lack of a written notification) 	<u>Reinstatement</u> or substitution benefit equivalent to 15 months standard wage; Reimbursement not lower than 5 months compensation; Transfer of social security contribution; Payment of sanctions for missing or delayed transfer of social contribution.	<u>Unchanged</u>
<ul style="list-style-type: none"> Violation of the criteria provided by law or collective agreement to select redundant employees 	<u>Reinstatement</u> or substitution benefit equivalent to 15 months standard wage; Reimbursement not higher than 12 months compensation; Transfer of social security contribution.	<u>Compensation</u> equal to 2 months wages for each year of service, with minimum 4 and maximum 24 months.
<ul style="list-style-type: none"> Violation of procedural rules (e.g. prior information and consultation with trade unions) 	<u>Compensation</u> between minimum 12 and maximum 24 months compensation of the standard wage.	<u>Compensation</u> equal to 2 months wage for each year of service, with minimum 4 and maximum 24 months.

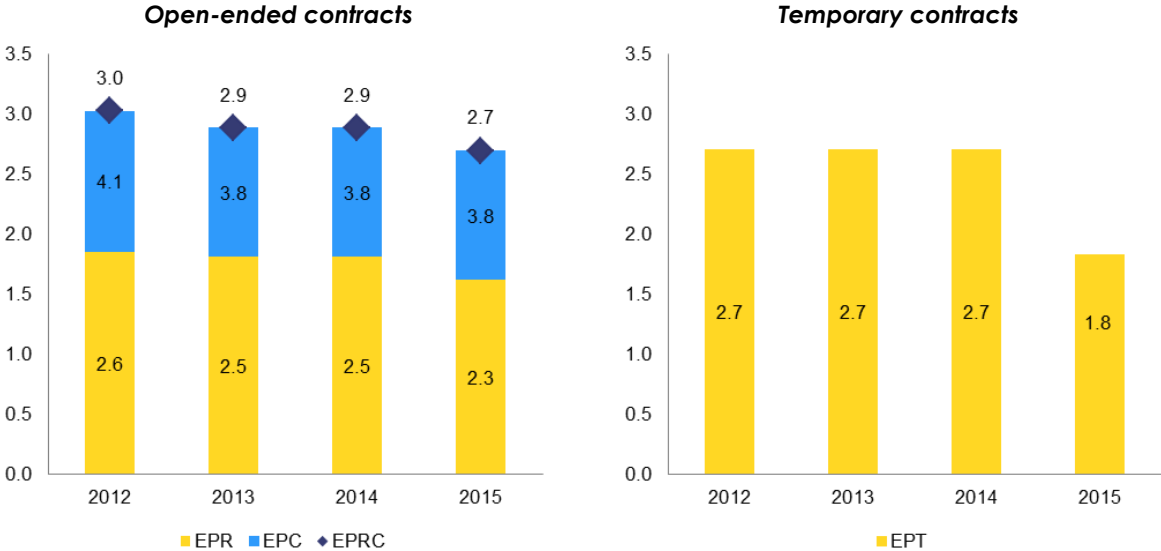
⁵ For further explanation, please refer to the Annex.

⁶ For firms with less than 15 employees, reimbursement equal to 1 month for each year of service, with minimum 2 and maximum 6 months compensation

⁷ For firms with less than 15 employees, reimbursement equal to 0.5 month for each year of service, with minimum 1 and maximum 6 months compensation

Following the Jobs Act, Italy’s employment protection legislation is less restrictive than in France and Germany, according to OECD indicators. Figure 2.4 provides our estimates of the changes on the EPL index introduced by the Jobs Act (see Table 6.4 in Annex for technical details of the calculation). As explained above, the indicators range from 0 to 6, with higher values representing stricter regulation. After the Jobs Act, the indicator for permanent workers is estimated to change from 2.9 to 2.7 which is slightly below the 2013 indicators for Germany and France (2.8) although still substantially higher than the 2013 OECD average (2.3). An important proviso applies: the EPL for new contracts will coexist with those regulating old permanent contracts for as long as the latter are still in place. The average indicator over the whole workforce will change therefore only gradually. The indicator for temporary employment is estimated to decrease even more (from 2.7 to 1.8) and to come in line with the 2013 indicator for Germany and below the 2013 OECD average (2.1). This relaxation is in fact counterbalanced by the substantial reduction of scope for the use of atypical contracts enacted by the Jobs Act, which is however not captured by the OECD indicator.

Figure 2.4. EPL indicators for Italy, own calculation for 2015



Notes: Latest published indicators are for 2013. We have derived the indicators for 2015 by applying to the 2013 indicators the changes implied by the Jobs act.
 EPR Indicators for 2014 are assumed to be equal to those for 2013.
 EPC Protection of permanent workers against (individual) dismissal
 EPRC Specific requirements for collective dismissal
 EPT Protection of permanent workers against individual and collective dismissal (weighted average of EPR and EPC, with weight equal to 5/7 and 2/7, respectively)
 Regulation of temporary forms of employment

Source: European Commission, OECD, Indicators of employment protection: <http://www.oecd.org/els/emp/oecdindicatorsofemploymentprotection.htm>

Even more importantly, the uncertainty that made dismissals very costly under the previous legislation is substantially reduced. Compared with the previous legislation, the reform substantially reduces the scope for reinstatement following unfair dismissals and increases the cases where the sanction leads to monetary compensation (see Table 2.1 for a detailed description of changes introduced). Monetary compensation is set to increase with tenure. To limit court cases, the reform allows the settlement of dismissal disputes through conciliation, with reduced compensation, which is exonerated from the income tax and social security contributions. Figure 2.5 shows the new schedule for monetary compensation with and without conciliation. Before the reform, the compensation could

be agreed in any of the point covered by the grey area. By establishing clear rules, the reform substantially reduces this uncertainty. Also, for tenures up to 6 (without conciliation) or 12 years (with conciliation), the compensation is always lower than before, thus increasing exit flexibility at the early stage of the individual's career. Compensation for unfair dismissal remains much higher than for fair dismissals (virtually zero in Italy), which may increase both the incentive to go to court and the cost of litigation.

Figure 2.5: Compensation in case of fair and unfair dismissal



Source: European Commission, 2016, Fig. 2.4.6.

2.3 THE EARLY IMPACTS OF THE CHANGES INTRODUCED BY THE JOBS ACT

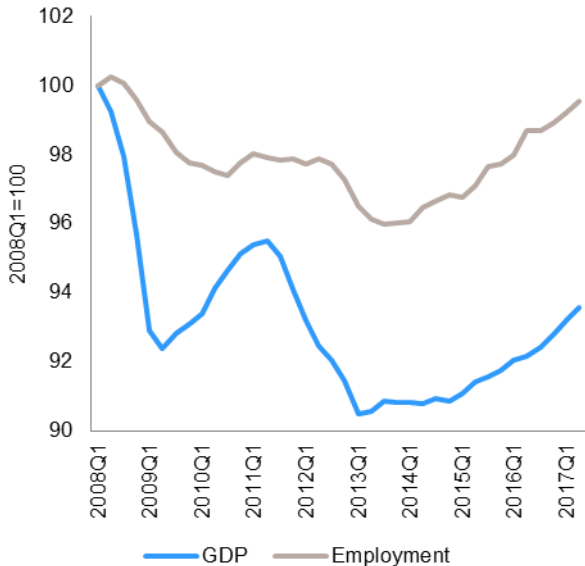
The main objective of the reform is to improve reallocation and reduce segmentation; the latter has been supported by generous hiring incentives. The reform, by reducing the scope for atypical contracts and increasing exit flexibility of permanent contracts, tries to reduce segmentation by playing at both ends of Italy's two-tier labour market system. The impact on resource reallocation may come more gradually, also because of grandfathering rights. The impact on job creation is likely to be small, as literature shows that the impact of employment protection legislation on the level of employment is ambiguous (Bassanini et al 2009, for a survey). To further support the medium term objective, the Government also granted an exemption from social security contributions paid by employers for three years on all new permanent contracts signed in 2015 (up to EUR 8,060). The budget law 2016 extended the incentives, albeit only limited to 40% of total social contributions, for 2 years on new permanent hires made in 2016. For 2017 and 2018, the exemption is available only for employers hiring young people who have just completed their education and have previously taken part in traineeship or on-the-job training in the same firm. The number of beneficiaries is estimated to be very limited (10,000 in 2017 and 20,000 in 2018).⁸ Furthermore, the tax burden on permanent

⁸ Law n. 232/2016, Art 1 (308-310) and related 'Relazione tecnica'. <http://www.camera.it/dati/leg17/lavori/stampati/pdf/17PDL0045840.pdf>

contracts was reduced in a structural way by eliminating, as of 2015, the respective labour costs from the tax base for the regional tax IRAP.⁹

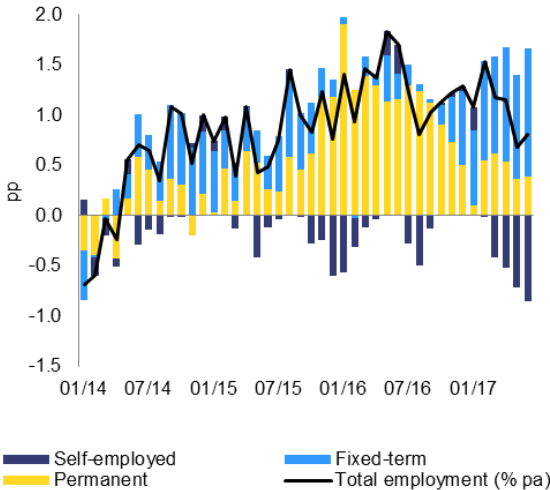
Since the reform was introduced, labour force survey data indicate that indeed labour market segmentation has decreased but the jury is still out. Italy's GDP and employment fell sharply in 2008-2009 and then again in 2011-2013. A gradual recovery started only in 2014 (Figure 2.6). Employment growth was initially driven by temporary employment. With the introduction of the reform in 2015Q2 (and of the hiring incentives at the beginning of the year), the contribution of permanent employment to employment growth became stronger than that of temporary employment, at least until the end of 2016 (Figure 2.7). With the (almost complete) phasing out of hiring incentives at the beginning of 2017, the contribution of permanent employment fell below that of temporary contracts but remains substantially positive. The fall of self-employment, particularly strong in 2015 and still continuing, may be partly driven by the abrogation of "contratti di collaborazione coordinata e continuativa a progetto" (see below and Figure 2.10) and by the restrictions imposed on the possibility of qualifying certain jobs as outsourcing (instead of dependent employment). Available data, although suggesting some effects, are not sufficient to give a definitive picture. Figure 2.8 shows the changes in the number of workers not under a dependent employment relationship, by professional status, over 2015Q1-2017Q2. Among the statutes most likely to be affected by the reform, the number of freelancers (*collaboratori*) fell indeed by more than 100,000 and so did the number of self-employed (*lavoratore in proprio*) without employees. However, the number of professionals (*libero professionista*) without employees has increased substantially, which may have absorbed some workers who were previously categorised as freelancer.¹⁰

Figure 2.6: Dynamic of output and employment, 2008Q1-2017Q1



Source: Istat

Figure 2.7: Contribution to y-o-y employment growth by contractual status, 2014M1-2017M6



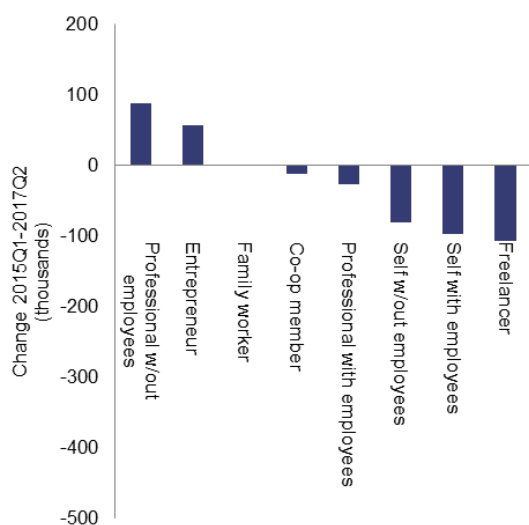
Note: Data are seasonally adjusted

Source: Istat

⁹ Law n.190/2014.

¹⁰ The number of new VAT registrations by physical persons fell by more than 15% in 2015 over 2014, by almost 4% in 2016 over 2015. In July 2017 their number was 5% lower than in July 2016. Successive changes to the tax regime for self-employment (including in 2014) may have also contributed. Data are from the Ministry of Economy and Finance (MEF), Osservatorio Partite Iva, analisi statistiche, http://www1.finanze.gov.it/finanze2/osiva/report_serie.php?req_classe=01&req_contrib=OSIVA&req_tema=02&req_pag=1&req_block_me_si=1&req_tree=ia_88&req_screen=1001

Figure 2.8: **Workers not under a dependent employment relationship, by professional status, change 2015Q1-2017Q2**



Source: Istat

Administrative data confirm that the net number of new permanent contracts increased substantially in 2015 compared to 2014. There are two other data sources that allow a better understanding of the evolution of contractual forms in Italy, namely data from the National Institute for Social Security (INPS)¹¹ and administrative data from employers' compulsory communications to the Ministry of Labour and Social Policy¹². Both these administrative data sources differ from Istat data inasmuch as they report the number of contracts signed or terminated in the period (with one person having one or more contracts in the period). Istat data, instead, refer to the number of persons that at a certain point in time has a contract (one or more). There are also differences between INPS and Ministry of Labour data: the latter includes all forms of dependent and quasi-dependent employment excluding contracts of "*somministrazione*". The former, instead, covers only private sector contracts (excl. domestic and agricultural workers) and public economic entities (i.e. the investment bank *Cassa Depositi e Prestiti*, whose 80% shares are owned by the Ministry of Finance) but excludes the public administration. The latter also does not take account of conversions. These differences explain the discrepancies in trends as gauged by the different sources. Looking at net new contracts (newly activated contracts plus conversions from other types of contracts minus terminations) from INPS (Figure 2.9), the number of new permanent contracts increased in 2015 compared to 2014 but then decreased again in 2016, although remaining positive. Data from the Ministry of Labour (Figure 2.10) show that net hirings on permanent contracts turned positive only in 2015. The increase in permanent contracts in INPS data may be due to conversions from temporary to permanent contracts, which is not captured by Ministry of Labour data. Figure 2.10 shows also the impact of the reform on net new atypical contracts (*collaborazioni*), which were strongly negative in 2015. Since mid-2016, Istat publishes, jointly with Ministry of Labour and INPS, quarterly data based on these administrative sources. Different from original raw data, these are seasonally adjusted and include data on conversions, but they have less detail on the contract typology.

¹¹ <https://www.inps.it/portale/default.aspx?iMenu=1&itemDir=10342>

¹² <http://www.clielavoro.gov.it/Barometro-Del-Lavoro/Pagine/Andamento-Mercato-Lavoro.aspx>

Figure 2.11 shows that net new permanent contracts have increased sharply since the beginning of 2015, when hiring incentives were introduced, but remained higher than before also in the outer period, sustained first by activations (until beginning of 2016) and then by conversions (from the second half of 2016). The number of activated and terminated temporary contracts (Figure 2.12) has been always much higher than that of permanent contracts but the number of net new contracts is broadly similar.

Figure 2.9: Composition of new contracts in INPS data, 2014-2016

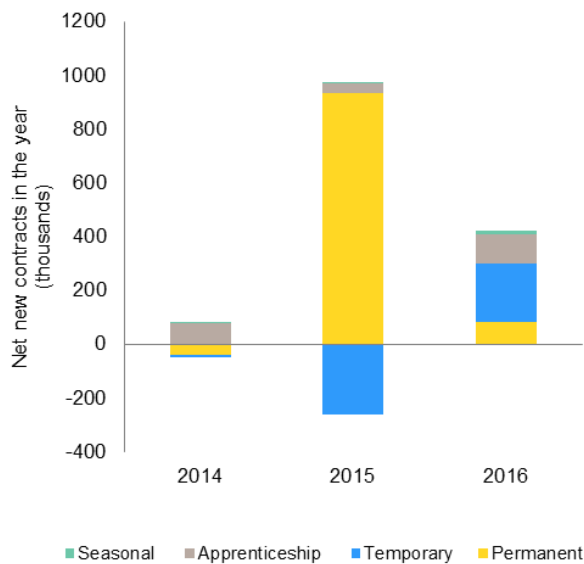
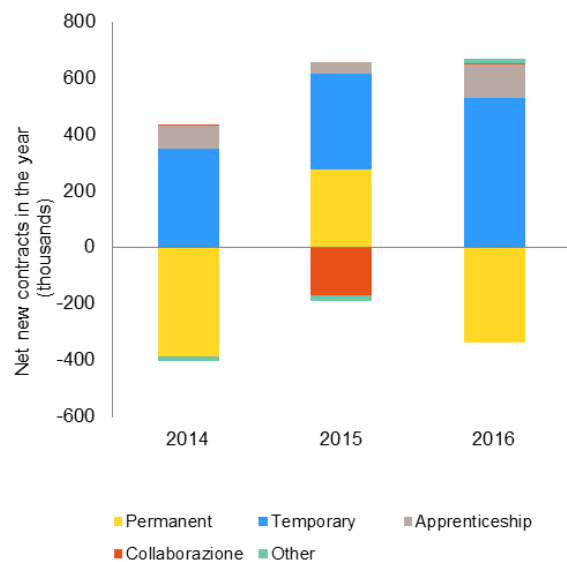


Figure 2.10: Composition of new contracts in Ministry of Labour data, 2014-2016



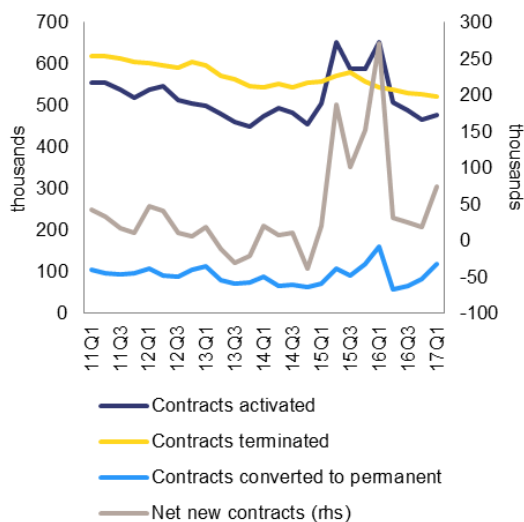
Note: Net new contracts are calculated as newly activated contracts plus conversions from other types of contracts minus terminations.

Source: INPS

Note: Net new contracts are calculated as newly activated contracts minus terminations. Data on conversions are not available.

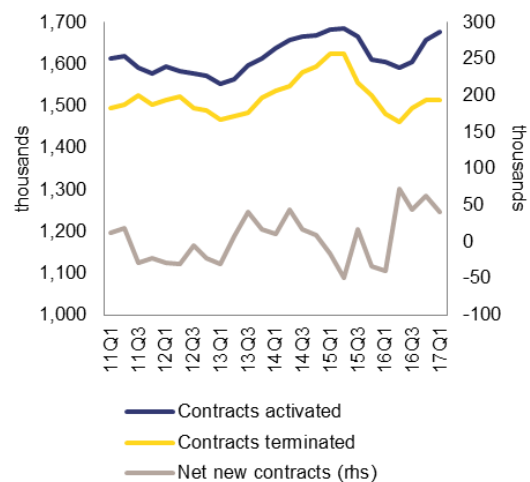
Source: Ministry of Labour

Figure 2.11: Permanent contracts: contracts activated, terminated and net new contracts



Note: Net new contracts are calculated as newly activated contracts plus conversions from other types of contracts minus terminations

Figure 2.12: Temporary contracts: contracts activated, terminated and net new contracts



Note: Net new contracts are calculated as newly activated contracts minus conversions and terminations. Conversions are not shown: they are

Econometric analysis on micro-data for the first half of 2015 indicates that the new rules on dismissals contributed to reduce segmentation while the exemption from social security contributions had an important impact on job creation. Based on micro-data for Veneto region, Sestito and Viviano (2016) estimate that the doubling of the monthly temporary-to-permanent conversion rate observed over the period Jan-June 2015 and 45% of the additional permanent posts can be attributed to the joint effect of the EPL reform and hiring incentives. Of the 45% increase of permanent posts, 40% appears to be explained by the hiring incentives and only the remaining 5% to the changes in employment protection legislation introduced by the Jobs Act. The limited, although positive, impact of the EPL reform on job creation is not surprising as existing contracts remain subject to the old rules, and any positive impact would occur only gradually over time. It is also consistent with the evidence showing that stricter employment legislation has an ambiguous effect on employment levels, as it reduces both hiring and firing (Bassanini et al, 2009, for a survey). In addition, easing of labour market regulation in a period of slack may foster firing more than hiring. Sestito and Viviano (2016) also find that the impact of the two measures on temporary hiring was in different directions. The reform of dismissal rules eased the recruitment of permanent workers who had not been tested before, thereby reducing employers' incentives to hire on temporary contracts, and thus affected negatively the recourse to temporary contracts. On the contrary, the fact that also the conversions of contracts from temporary to permanent were eligible for the social contribution exemption led to a rise of temporary hiring, as firms took advantage of the possibility of recruiting on a temporary basis to test the workers before transforming the contract into a permanent one. This may imply that, once the latter effect is taken into account, the actual impact of the EPL reform on segmentation may therefore be larger than what is evident *prima facie* from the Figures 2.7-2.9.

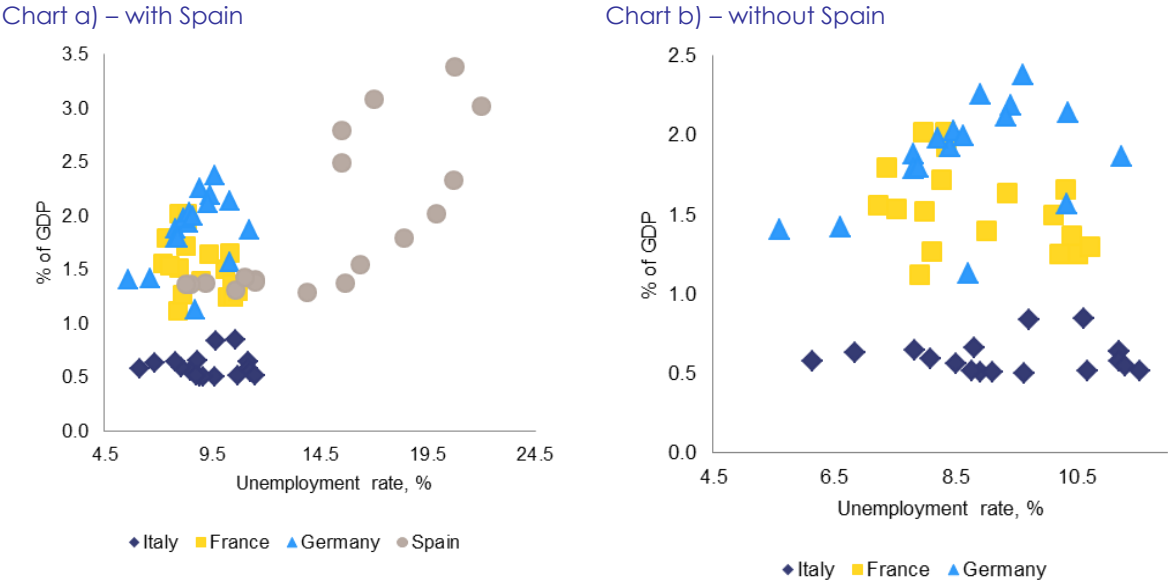
In the longer-long term, the reform of employment protection legislation is expected to deliver sizeable macro-economic gains. Simulations using the QUEST model of the European Commission show that the reform of the legislation on dismissal for permanent contracts could increase GDP over baseline by 0.1% by 2020 and by 0.5% in the long term (European Commission 2016, pp. 18-19 and Table 3.c). This takes place through an increase in productivity while employment remains broadly stable, consistently with the literature. The simulations were based on Bassanini et al (2009), which find that increasing protection of workers on permanent contracts has a negative impact on productivity, as the increase in implied firing costs reduces labour mobility, slows down labour reallocation and discourages firms from experimenting with new technologies. Bassanini et al (2009) find also that stricter regulation on temporary contracts has no or positive impact on productivity. Given the absence of robust results, the impact of changes in the regulation of temporary contracts was not modelled in European Commission (2016).

3. PASSIVE LABOUR MARKET POLICIES

3.1 PASSIVE LABOUR MARKET POLICIES IN ITALY BEFORE THE JOBS ACT

Italy’s pre-reform spending for income support was traditionally low and it was brought more closely into line with that of the other major euro area countries only as a result of the crisis. Figure 3.1 maps public spending for income support in the event of unemployment or working time reduction by the level of unemployment in the major euro area countries over 1990-2007 (for the sake of readability, we show the chart with and without Spain). The charts show that Italy had a lower level of public spending, for any given level of unemployment and that such spending was relatively flat over the period despite the wide variation in the unemployment rate. In response to the crisis, a new policy instrument was introduced in 2008 (*Cassa integrazione in deroga*, see below) and the level of spending was brought somehow closer to that of other countries (except France), given the rate of unemployment (Figure 3.2).

Figure 3.1: Public spending for out-of-work income maintenance and support, 1990-2007



Note: Data include both unemployment benefits and short-term schemes. For Spain, from 1999 data include expenditure data for autonomous communities and municipalities and from 2002 participant stock data for autonomous communities, which were not included in EC data until 2012.

Source: OECD

Note: Data include both unemployment benefits and short-term schemes.

Source: OECD

Figure 3.2: **Public spending for out-of-work income maintenance and support, 2007-2015**

Chart a) – with Spain

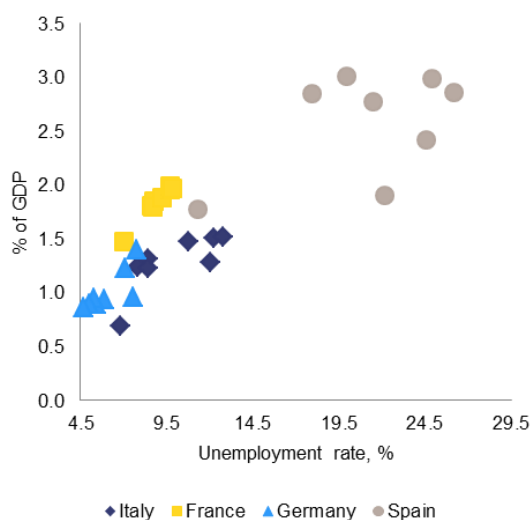
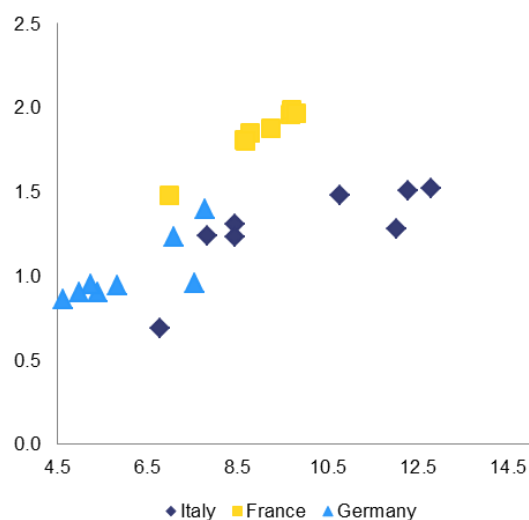


Chart b) – without Spain



Note: For Spain, from 1999 data include expenditure data for autonomous communities and municipalities, and from 2002 participant stock data for autonomous communities, which were not included in EC data until 2012.

Source: OECD

Source: OECD

The system of unemployment insurance was underdeveloped and very fragmented. In 2008, the replacement rate for the unemployment insurance benefits was among the lowest across the OECD countries (Figure 3.5).¹³ The system included a variety of ad-hoc schemes (e.g. unemployment benefits with reduced requirements, unemployment benefits for agricultural or construction workers) which depended more on the characteristics of specific markets (e.g. seasonality of production) or on previous job tenure than on the unemployment status (i.e. a state which is directly verifiable through monitoring job search intensity and readiness to work). Unemployment assistance was missing.

Wage supplementation schemes were characterised by fragmentation of coverage and excess discretion. Wage supplementation schemes are short-term working schemes aimed at substituting or integrating the wage for workers suspended or with a reduced time schedule. The ordinary supplementation fund (CIGO¹⁴) was introduced in the 1950s to support firms in temporary difficulties by reducing the cost of *temporarily unused* labour. CIGO is used when the suspension or reduction of working activity depends on unforeseen events or temporary market crises that are not attributable to the employer or the employees. Later, the extraordinary supplementation fund (CIGS¹⁵) was introduced to support firms in case of restructuring, re-organisation, crisis or bankruptcy procedures. The coverage of wage supplementation schemes is not universal but depends on the contract typology of the worker as well as on the size and sector of activity of the firm. Furthermore, access to funds is not automatic but it has to be authorised by the Ministry on a case-by-case basis following negotiations between the firms and the trade unions. This introduced further differentiations among firms and workers on the use of such schemes. In response to the crisis, Italian legislation was revised to allow the recourse to wage supplementation in derogation (CIGD¹⁶) to the limits characterising the

¹³ See also Hijzen and Venn (2011).

¹⁴ *Cassa Integrazione Guadagni Ordinaria*, introduced by legislative decree 869/1947, then ratified by law 498/1951.

¹⁵ *Cassa Integrazione Guadagni Straordinaria*, introduced by law 164/1975.

¹⁶ *Cassa Integrazione Guadagni in Deroga*, introduced by law 203/2008.

other two schemes (eg, extending the time limits or covering other sectors/firms sizes). In addition to CIGs, several industrial sectors also benefit from the mobility allowance scheme. Workers in mobility are formally laid-off and included in a ‘mobility list’ from which the old employer has to choose in case it intends to hire again. Other firms recruiting from such list also benefit from incentives. Access to mobility schemes is subject to procedures and limits similar to that for the use of wage supplementation schemes.

At the same time, they were very generous for the workers covered. The allowance at 80% of foregone earnings, with caps, for all forms of CIG (and mobility) resulted in a replacement rate much higher than for the unemployment benefits. Indeed, Italy CIG system was assessed in 2010 as the most generous short-term work scheme in the EU.¹⁷ Forms of financing vary across schemes (see Table 6.6 in Annex for a detailed description). CIGO is fully co-financed by both employers and employees contribution charged on salaries. CIGS is mostly financed by the State through the GIAS¹⁸ with employees and employers also contributing. In both cases, an additional contribution is charged on the wage supplement, varying with firm size. This additional *experience-rated* contribution could act as a disincentive to the use of CIG but was brought to zero in case the employer could prove that the reduction of working hours was due to exogenous factors and therefore rarely applied in practice (Boeri and Bruecker, 2011, p 19).¹⁹ Differently from CIGO and CIGS, the CIGD is financed by the general government budget, which makes it less expensive for firms. In practice, for all forms of CIGS, there was no link or conditionality on the participation to activation policies. The generosity of the benefits, the limited experience-rated contribution, the absence of conditionality, combined with strict employment protection legislation, made the recourse to wage supplementation schemes preferable to lay-off for both the employers and the employees. This resulted in intensive use of CIG and a relatively low responsiveness of the take-up rate to economic activity fluctuations (Boeri and Bruecker, 2011, in particular Table 2 and Figure 4).

The 2012 Fornero reform partly addressed these problems but stopped short of a substantial rationalisation of wage supplementation schemes. The Fornero reform²⁰ put in place, as from the beginning of 2013, an unemployment insurance system (*Assicurazione Sociale Per l'Impiego* - ASPI), more generous than the previous one in terms of both duration and replacement rates. ASPI was complemented by a scheme (mini-ASPI), with reduced requirements (for instance in terms of contributions) than ASPI. The Fornero reform also concerned wage supplementation schemes. Notably, it legislated the abrogation of CIGD, CIGS in the events of bankruptcy or insolvency, and of mobility schemes as of 2017. In order to extend coverage to sectors not covered by CIGO and CIGS, “bilateral solidarity funds” were introduced, to be established by social partner as part of collective agreements. Figure 3.3 shows public spending in unemployment insurance, CIG and mobility allowance over 1999-2015. The chart shows the sharp increase of CIG spending in 2008-2009, when CIGD was introduced in reaction to the rapid picking up of unemployment started in 2008 (see also Figure 3.4). It also shows that unemployment benefits sharply increased with the unemployment rate in 2013, following the 2012 Fornero reform.

Source: European Commission, AMECO, and Ministry of Economy and Finance, Documento Economia e Finanza 2017, Prestazioni sociali in denaro, Table 2.

¹⁷ Arpaia et al (2010), Short-time working arrangements as response to cyclical fluctuations, European Economy Occasional Papers 64, http://ec.europa.eu/economy_finance/publications/occasional_paper/2010/op64_en.htm

¹⁸ *Gestione degli interventi assistenziali e di sostegno alle gestioni previdenziali*

¹⁹ In principle, companies had to pay an additional contribution of 8% (if larger than 50 employees) or 4% (if smaller) of the wage supplement. However, this additional contribution was nil in case the employer could prove that the reduction of working hours was due to exogenous factors. In practice, therefore, this *experience-rated* component of the contribution was not applied.

²⁰ L. 92/2012.

Table 3.1: **Public spending in unemployment insurance, wage supplementation schemes and mobility allowance, 2007-2015, millions of Euros**

reports more detailed data by labour market policy instrument over 2010-2014. The fragmentation of tools and the relative importance of the wage supplementation and mobility schemes compared to the ordinary unemployment benefits tools remain evident, despite the measures taken in 2012.

Figure 3.3: **Public spending in wage supplementation schemes, unemployment insurance and mobility allowance, 1999-2015**

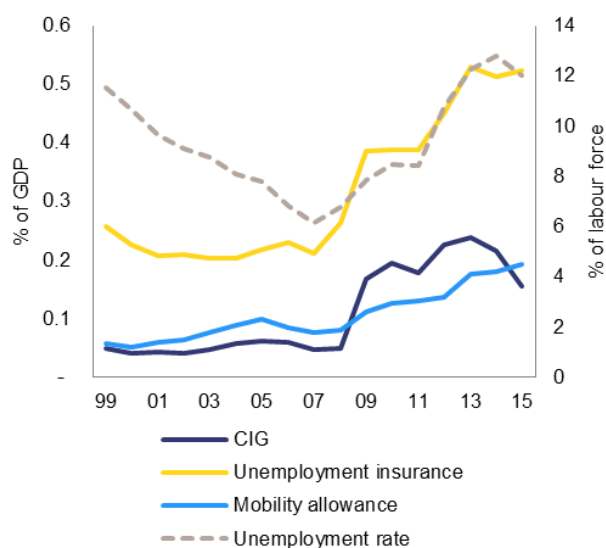
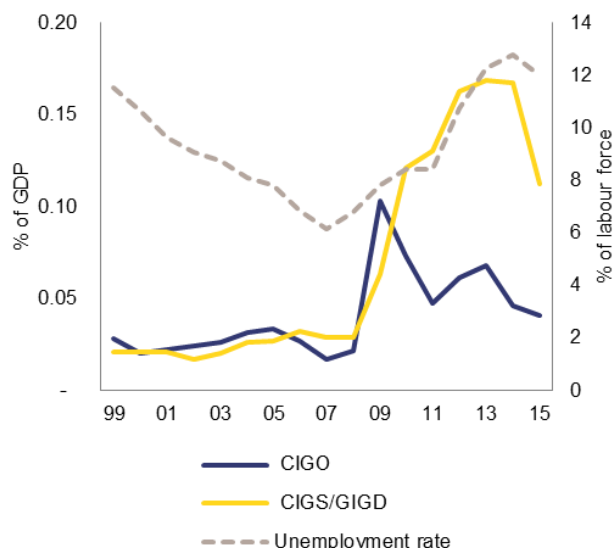


Figure 3.4: **Public spending in wage supplementation schemes, by scheme, 1999-2015**



Note: CIG = Cassa Integrazione Guadagni, including all wage supplementation schemes
 CIGO = Cassa Integrazione Ordinaria, allowed when the suspension or reduction of working activity depends on unforeseen events or temporary market crises that are not attributable to the employer or the employees
 CIGS = Cassa Integrazione Straordinaria, allowed in case of restructuring, re-organisation, crisis or bankruptcy procedures. The latter possibility was abolished by Fornero Reform as of 2017.
 CIGD = Cassa Integrazione in Deroga, allowed when necessary in derogation of the limits characterising the other two schemes (e.g., extending the time limits or covering other sectors/firms sizes). Legislation was revised substantially in 2008.

Source: European Commission, AMECO, and Ministry of Economy and Finance, Documento Economia e Finanza 2017, Prestazioni sociali in denaro, Table 2.

Table 3.1: **Public spending in unemployment insurance, wage supplementation schemes and mobility allowance, 2007-2015, millions of Euros**

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Unemployment insurance schemes	3,521	4,436	6,357	6,537	6,648	6,465	8,815	8,679	8,980
Non-agriculture sectors (Aspi from 2013)	1,526	2,234	3,857	4,092	4,166	4,974	5,708	5,857	6,452
Non-agriculture sector, restricted requirements (miniAspi from 2013)	684	872	890	831	883	903	1,489	1,112	650
Agriculture sector	202	216	206	203	206	225	218	240	233
Agriculture sector, restricted requirements	10	11	8	9	8	9	1	1	1
Agriculture - special	841	873	1,112	1,162	1,171	127	1,205	1,249	1,298
Construction - special	31	29	66	35	28	40	56	81	85
Other subsidies	227	201	218	205	186	187	138	139	261
Wage supplementation schemes	758	828	2,634	3,138	2,939	3,665	3,854	3,514	2,570
CIGO	279	352	1,626	1,175	774	989	1,096	744	673
<i>Manufacturing</i>	122	173	1,322	868	467	634	702	391	370
<i>Construction</i>	150	171	289	292	293	338	375	334	290
<i>Stone workers</i>	7	8	15	15	14	17	19	19	13
CISOA (agriculture)	8	6	14	17	21	33	35	37	22
CIGS CIGD	471	469	993	1,943	2,138	2,631	2,707	2,714	1,853
Other	-	1	1	3	6	12	16	19	22
Mobility allowance	1,280	1,337	1,785	2,084	2,192	2,277	2,880	2,998	3,246
Ordinary and in derogation	909	865	1,036	1,215	1,363	1,549	1,898	2,073	2,266
Anticipated	34	31	39	55	54	60	80	91	89
Redundancies fund	337	441	710	814	775	668	902	834	891
Total spending	5,559	6,601	10,776	11,759	11,779	12,407	15,549	15,191	14,796

Note: Excluding related support to households (and recovered amounts). The data for 2015 are partly affected by the Jobs Act. In particular, the reform of unemployment insurance and wage supplementation schemes entered into force respectively at the beginning of May and at the end of September 2015.

CIG, CIGO, CIGS: see Figure 3.4. CISOA is the wage supplementation scheme for the agricultural sector

Source: Ministry of Finance, Documento Economia e Finanza 2017, Prestazioni sociali in denaro

3.2 HOW THE JOBS ACT CHANGES PASSIVE LABOUR MARKET POLICIES IN ITALY

The Jobs Act aims to make Italy's passive labour market policies more equitable and growth-friendly by shifting the focus from job to worker protection, enhancing their potential coverage and strengthening conditionality mechanisms. Italy's traditional set up of passive policies was over-reliant on wage supplementation schemes, which slowed down the swift reallocation of resources from declining to growing firms (Calligaris et al, 2016), and was very generous with some workers while leaving many others with no or limited protection. The weakness of conditionality mechanisms left space for moral hazard. To address these issues, the Jobs Act strengthens the system of unemployment insurance, revises wage supplementation schemes and tries to better link passive and active labour market policies, as described below.

The ASpI and miniASpI are integrated into one single instrument while making the overall system more generous, in terms of benefits, duration and coverage, and better linked with activation policies.²¹ The new scheme NASpI²², which entered into force as of 1st May 2015, replaces both ASpI and mini-ASpI introduced by the Fornero reform, thus harmonising the different eligibility requirements and durations.²³ Coverage is extended to national registered journalists and apprentice journalists as well as to extra-EU seasonal employees. Requirements for eligibility (e.g, periods of employment and paid-in contributions before unemployment) are also slightly changed, a key change being that NASpI, unlike the previous ASpI, applies also to workers whose contract has been terminated consensually or following resignation. In terms of benefits, the differences are rather small. Like ASpI, NASpI grants 75% of the monthly standard wage for those who earn up to a threshold of around EUR 1,200 per month. For the wages above EUR 1,200, the benefit is equal to 75% of the threshold plus 25% of the difference between the monthly wage and the threshold itself. The overall cap to the monthly allowance is substantially higher in NASpI. In terms of duration, NASpI is granted for a number of weeks equal to half of the weeks of contribution the last 4 years (max 2 years), extending substantially on ASpI. Finally, NASpI associates more closely the entitlements to unemployment benefits with individual effort made to return to work, including mandatory employment programmes and professional requalification activities. New measures to support proactive research of a job and reinstatement in the working environment are introduced. Figure 3.5 shows how the proportion of net income in work that is maintained after job loss (net replacement ratios) has changed over time in comparison with peer countries. Both the Fornero reform and the Jobs Act have increased the net replacement ratio for the immediate period after exit, which is now in line with that of European peers. The Jobs Act has increased the ratio also over the five-year horizon, but Italy's remains still below that of European partners.

²¹ Legislative decree 22/2015.

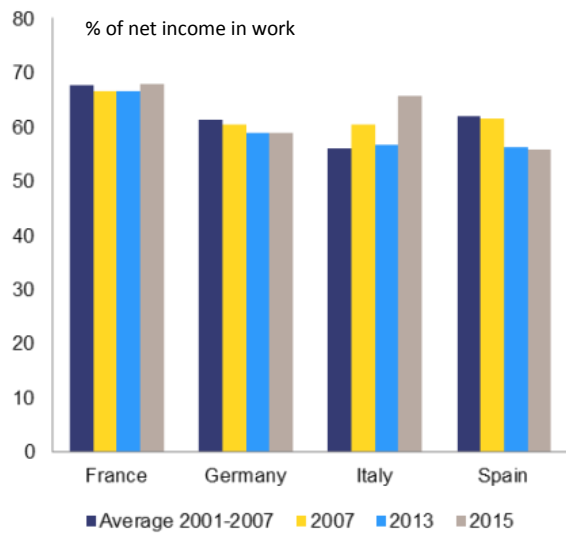
²² *Nuova prestazione di Assicurazione Sociale per l'Impiego.*

²³ A complete comparison of NASpI with ASpI/miniASpI is provided in Table 6.5. The budgetary costs of NASpI are estimated at EUR 414m in 2015, EUR 1181m in 2016, EUR 1446m in 2017 and EUR 1724.1m in 2018, accounting for in average 8.9 months of fruition, and 150 000 effective beneficiaries. The reported budgetary impact in 2018 includes the revision ex-post of the government analysis ('Relazione tecnica') accompanying the respective legislative decree 22/2015.

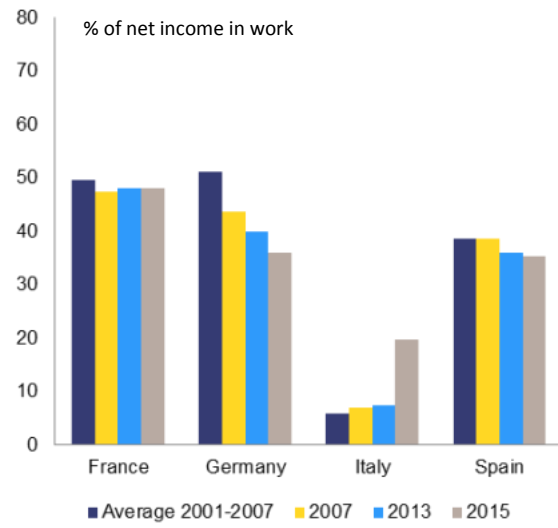
Figure 3.5: Net benefit replacement ratios in Italy, Germany, France and Spain, 2001-2015

Single person

Initial

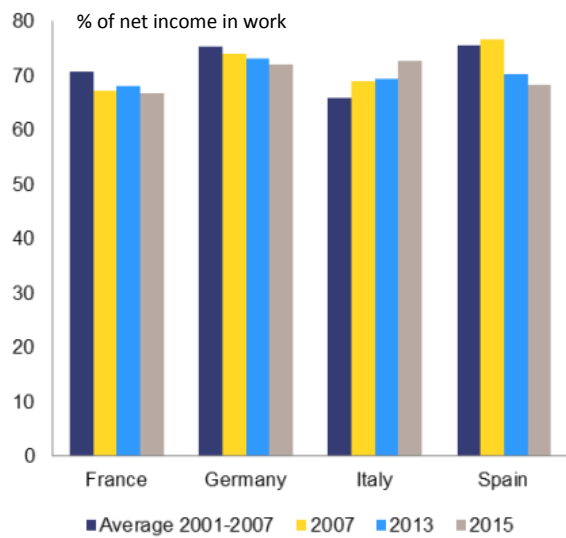


5 years

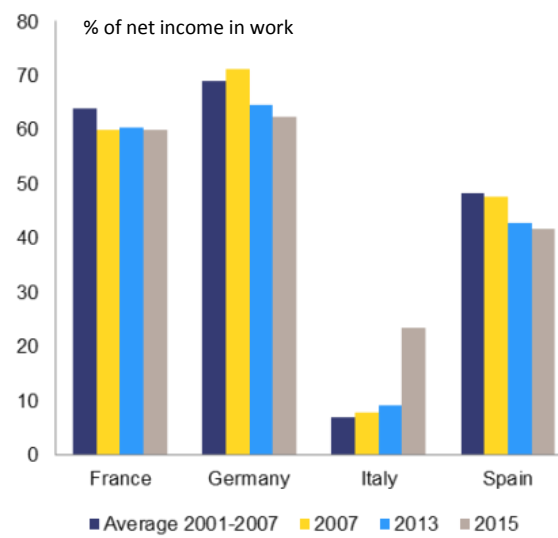


Married couple – 2 children

Initial



5 years



Note: Net replacement ratios show the proportion of net income in work that is maintained after job loss, during the initial year after unemployment and in the first five years.

Source: OECD

The reform also put in place an unemployment assistance scheme, which will be subsumed in the new anti-poverty scheme. The ASDI²⁴ is a benefit assigned to those who have exhausted NASpI and are still unemployed. It refers to workers in a condition of economic need, namely people older than 55 or belonging to families with minors. It is means-tested inasmuch as it is referred to ISEE²⁵ < 5000€ per year. It lasts 6 months and it is equal to 75% of the last NASpI benefit received (overall not more than the social allowance, eventually increased by family allowances). This scheme is conditional on the acceptance of a personalised project for the proactive research of an occupation, for orienteering and training. ASDI is set to be integrated as of 2018 into the scheme for active inclusion, following the entering into force of the respective legislative decree adopted by the government at the end of August 2017 under the enabling law against poverty.²⁶

The Jobs Act aims to harmonise wage supplementation schemes, reduce grounds for excessive use, extend coverage and provide for a better linking to activation measures.²⁷ The changes to previous legislation applying to both CIGO and CIGS are the following: (i) the coverage of contractual types is extended to all employees, in particularly including apprenticeships with a professional contract²⁸; (ii) the length of CIGO + CIGS cumulated is reduced to maximum 24 months over a moving five-year period, instead of 36 months over a fixed five-year period; (iii) workers whose working hours are reduced by more than 50% will be required to sign a "personalised pact of service"²⁹ with employment services aimed at bringing them back into employment; (iv) contributions are made more responsive to the actual use of the schemes to disincentive their use. This is done by making the additional contribution (charged to the wage supplement) varying with the duration of CIG use. However, the exemption for exogenous factors is maintained, which may reduce the effectiveness of the provision. Other changes are specific to each scheme:

- *Changes concerning only CIGO* include simplification of bureaucratic procedures; introduction of a maximum limit of CIGO hours equal to $\frac{1}{3}$ of the potential working hours in the productive unit over the period to encourage the reduction of working hours over the fully-fledged suspension of the work; re-modulation of the ordinary contribution (charged on salaries) by sector, taking into account how intensively the schemes are used.
- *Changes concerning only CIGS* are aimed primarily at rationalising its use. The reform definitely excludes the possibility of using CIGS in case the firm (or a part) exits the market and leaves only the following circumstances: (i) firm reorganisation³⁰. In that case CIGS can last max 24 months per productive unit; (ii) firm crisis³¹, max 12 months extendible to 24 months; (iii) solidarity contracts (agreements between union representatives and firms that have asked access to CIGS)³², max 24 months extendible to 36 months in some specific cases. In the first two cases, the number of CIGS working hours can be authorised only up to the limit of 80% of working hours potentially available in the productive unit over the period. This is to encourage the reduction of working hours over the full suspension of work (similarly to what it was done for CIGO).

²⁴ *Assegno di disoccupazione.*

²⁵ *Indicatore della Situazione Economica Equivalente.* ISEE is an indicator of the household economic conditions, taking into account both income and property (movable and immovable).

²⁶ Law 33/17, Implementing legislative decree: http://www.governo.it/sites/governo.it/files/TESTO_53.pdf.

²⁷ Legislative decree 148/2015.

²⁸ *Contratto di apprendistato professionalizzante*

²⁹ *Patto di servizio personalizzato*

³⁰ Firm reorganisation is intended as aimed at changing the organisational and productive structure.

³¹ In case of structural economic problems made evident by negative economic and financial indicator's trend.

³² Solidarity contracts determine a reduction of working hours to avoid partial or total dismissal of workers. In this sense the Ministry of Labour and Social Politics allows the treatment of wage integration up to 60% of the lost salary, granted that the reduction is lower than 70% of the working hours.

The reform extends the scope of Bilateral Solidarity Funds, introduced by the Fornero reform to secure wage integration and income support for workers not covered by CIGO or CIGS and therefore to replace the expiring CIGD. The Jobs Act revises the threshold for the creation of the funds, which is made compulsory for firms with more than 5 employees on average (instead of 15), including apprenticeships.

Overall, the Jobs Act and Fornero reforms imply a substantial reduction of the financial resources for wage supplementation and mobility scheme. Table 3.2 summarises the financial effects of the reform. A substantial reduction of the CIG (particularly CIGS) is expected. In addition, the mobility scheme and *Cassa Integrazione Straordinaria* are expected to be discontinued as of 2017, as already set out by the Fornero reform. This is a welcome change and may free some resources for passive and active labour market policies.

Table 3.2: **Estimated fiscal effect of the legislative decree on wage supplementation schemes**

	2015 (million euro)	2016 (million euro)	...	2024 (million euro)
I. Revision of CIGO	-18.2	-124.6		-165.7
1.1 Revision financing system	-25.7	-173.9		-228.9
1.2 Extension to apprenticeship contracts	2.8	25		38.3
1.3 CIGO hours limit (max 1/3 of potential)	4.7	24.3		24.9
II. Revision of CIGS	43.8	298.6		853
2.1 Revision financing system	24.6	145.3		338.3
2.2 Limitation of cases in which CIGS can be granted to crisis and restructuring	0	112.9		223.7
2.3 Extension to apprenticeship contracts	-0.4	-2.8		-6.4
2.4 CIGS hours limit (max 80% of potential)	0	0		60.1
2.5 Revision solidarity contracts' treatment	15	66.7		183
2.6 Other	4.6	-1.5		54.3
III. Revision of duration for CIGO and CIGS				189.6
TOTAL	25.6	174		876.9

Notes: - indicates negative effects on public finance
+ indicates a positive effect on public finance

CIGO = Cassa Integrazione Ordinaria, allowed when the suspension or reduction of working activity depends on unforeseen events or temporary market crises that are not attributable to the employer or the employees

CIGS = Cassa Integrazione Straordinaria, allowed in case of restructuring, re-organisation, crisis or bankruptcy procedures. The latter possibility was abolished by Fornero Reform as of 2017.

CIGD = Cassa Integrazione in Deroga, allowed when necessary in derogation of the limits characterising the other two schemes (e.g., extending the time limits or covering other sectors/firms sizes). Legislation was revised substantially in 2008.

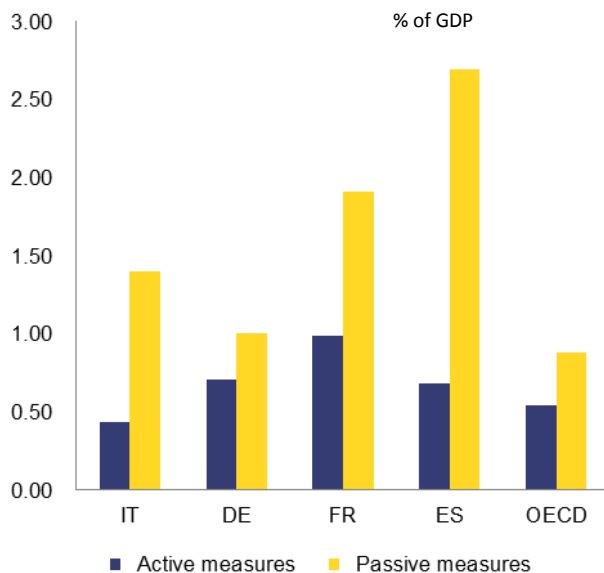
Source: Technical report (Relazione Tecnica) accompanying Legislative decree 22/2015

4. ACTIVE LABOUR MARKET POLICIES

4.1 ACTIVE LABOUR MARKET POLICIES IN ITALY BEFORE THE JOBS ACT

Active labour market policies are an essential part of flexicurity but they remain underdeveloped in Italy. Active labour market policies (ALMPs) constitute a crucial building block in the Jobs Act approach to flexicurity. By facilitating the right encounter of demand and supply of work, they are expected to reduce structural unemployment and skill mismatches, thus helping potential growth, the key challenge for Italy. At the same time, by facilitating the adaptability and reinsertion of workers in different sectors they are expected to help cushion the impact of crises and industrial transformations on workers, de facto taking over the role played in the past by CIG/mobility scheme and rigid employment protection in shielding the workforce from shocks. This is essential to limit any potential negative impact of the reform on the social fabric. Effective ALMPs are thus indispensable to both the success of the reform and its socio-political feasibility. However, the starting point is very challenging. Expenditure on labour market policies in Italy is skewed towards passive measures and expenditure on ALMPs in Italy is lower than in other EU countries (Figure 4.1). Over 2010-2015, on average, in Italy active labour market policies constituted around 24% of total expenditure on labour policies, a share in line with that in Spain (20%), but much lower than in France (34%), Germany (41%) or the OECD as a whole (38%). This is partly explained by the higher responsiveness of passive policies to unemployment rise, much higher in Italy and Spain than in France and Germany.

Figure 4.1: Public spending in active and passive labour market measures, average 2010-2015

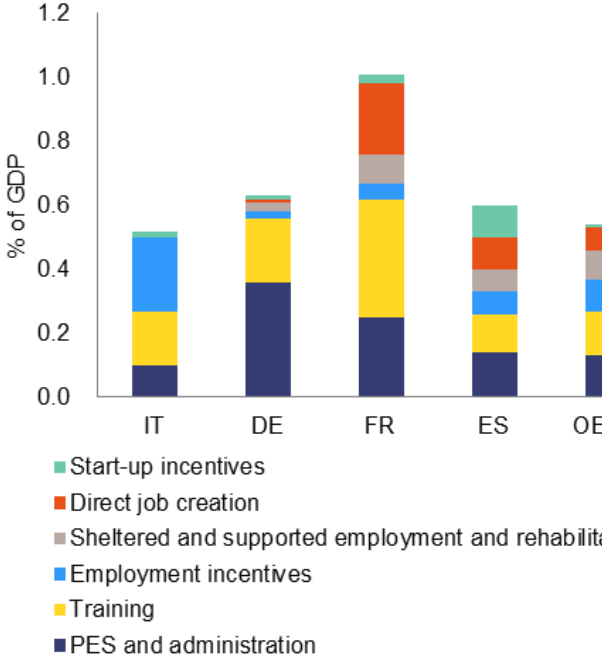


Note: Temporary hiring incentives have substantially increased the expenditure on active labour market policies in 2015 (see Section 2). Notably, employment incentives passed from 0.15% to 0.23% of GDP.

Source: OECD

ALMP expenditure is also allocated proportionally more to employment subsidies, as opposed to employment services, than in partner countries. Typically, active labour market policies comprise three broad categories of measures: (i) the support to the unemployed given by public employment services (PES) in terms of jobs matching, vocational guidance, support in job search, search for training, technical support for start-ups etc; (ii) the provision of training schemes to improve the skills/employability of job seekers; (iii) employment subsidies to support jobs either in the public or private sector; and (iv) other measures, including those to support self-employment and start-ups. Employment services (either public or receiving public funding) are pivotal in the management of ALMPs. Literature confirms that investment in PES and in their staffing is directly related to PES performance and employment outcomes (Bergamante and Marocco, 2014). Figure 4.2 shows how Italy and peer countries allocate ALMP expenditure. In Italy, the bulk of expenditure focuses on employment incentives, while it is very limited on employment services, training and other ALMPs.

Figure 4.2: Public spending in active labour market policies, 2015



Note: Temporary hiring incentives have substantially increased the expenditure on employment incentives in 2015, from 0.15% to 0.23% of GDP (see Section 2).

Source: OECD

In the last twenty years, competences on ALMPs in Italy have been shifting across government levels. Competences for ALMPs were attributed to the Regions in 1997 (legislative decree 469/1997). The process of administrative decentralisation was reaffirmed with the 2001 Constitutional reform, which gave to the central Government and the Regions concurrent legislative powers in the field of labour protection and security and active labour market policies, as well as exclusive powers to Regions in the field of vocational training. From then until 2014, the Regions were in charge of the coordination of PES, whereas their concrete management of PES was assigned to Provinces. The central Government was tasked with the responsibility to define the national standards for the services

(*livelli essenziali di prestazioni*', as defined in Art. 117 Costituzione). However, such definition of standard was never achieved, also because of the absence of instruments to enforce compliance. In 2014³³ the system of Provinces was reformed, and most of their competences, including ALMPs, were transferred to the Regions. In the national government's intentions, competences for ALMPs were to be soon recentralised to the national level, following a new Constitutional reform which had to be adopted through referendum. The negative outcome of the referendum created a situation of serious uncertainty, which still has to be sorted out.

Resources devoted to PES are limited and were reduced during the crisis. The average expenditure per person wanting to work is EUR 4 317 in Italy, EUR 9 535 in Germany and EUR 11 364 in France.³⁴ Financial resources devoted to PES have actually decreased in Italy during the crisis while the unemployment rate doubled. Italy's public employment services also employ a significant lower number of people than in other countries (Figure 4.3). The 2014 reform of Provinces (see above) created additional problems for PES. In fact, the management responsibility and the staff of PES were transferred from Provinces to Regions but the corresponding budget was not transferred. On 30 July 2015, an agreement between the State and the Regions³⁵ established a repartition of costs between the State and the Regions (2/3 for the national Government and 1/3 for the Regions) to ensure continuity in the maintenance of PES. Such agreement decayed following the negative outcome of the referendum, and a solution is still under negotiation between the State and the Regions on who should bear the costs for personnel. The situation at July 2017 may be described as a limbo, with severe repercussions on continuity of services. Finally, Italian PES are also substantially absorbed by the obligation to carry out administrative tasks, which could be easily reduced or outsourced. The registration of users through the compilation of a Statement of Immediate Availability (*Dichiarazione di immediata disponibilità*, DID) largely absorbs the capacity of many employment offices (Mandrone and D'Angelo, 2014).

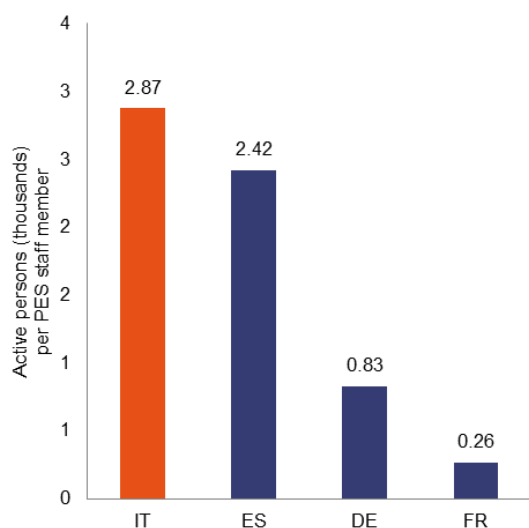
PES' performances are weak, also because of the limited resources. The placement capacity of Italian PES is extremely limited. The 2012 Isfol Plus survey reports that over 2003-2010 only 2.9% of jobseekers have been directly placed into employment by a PES (Isfol, 2012). In 2015, only 10.2% of people out of work had a contact with a PES (Istat, 2015). Co-operation with employers is usually very limited, and coordination with education institutions and social services has practically not existed so far. This reflects also the scarcity of resources devoted to PES.

³³ Law 56/2014

³⁴ Eurostat, measured in purchasing power standard.

³⁵ Accordo quadro in materia di politiche attive per il lavoro del 30 luglio 2015

Figure 4.3: **Active persons per staff member of public employment services in selected EU countries, 2013**



Note: Active population data are for the 15-64 age class.
For France data refer to 2014

Source: Eurostat (active population)
Italy's Ministry of Labour and Social Policies, 2014 (2014)

There are wide regional disparities in PES staffing and quality of services. The decentralisation of competences on ALMPs as from 1997 (see above), combined with the absence of national standards and monitoring, has led to a deepening of regional disparities. Available data on the numbers of staff in PES and on their qualifications, for instance, point to large interregional differences. According to the latest national monitoring report on employment services (Isole, 2016), staff in PES amounted to 8 798 operators, with large variations across Regions. Sicily alone, for instance, employs more than 1 600 operators (18.4% of the total). The ratio of permanent/temporary staff varies also substantially across Regions. In Sicily, practically all PES staff are permanent, while this is the case for only 50% of PES staff in Molise.

Skills and qualification of PES staff are low, which weighs on the quality of the services rendered. The absence of national standards may also partly explain why the level of qualifications of the staff in PES is rather low as an average, with very large disparities across Regions (Table 4.1). A rather substantial part of the personnel in some Regions only has basic education (in some cases even below compulsory education). At the national level, only 27 % of operators have a tertiary education degree or higher, and 18.1% have at most lower secondary education. No information is available on the specific training or specific qualifications (in vocational guidance/human resources management etc) of the staff, nor on the upskilling measures and on-the-job training which they receive. This rather low overall qualification level means that delivering quality services to employers and specialised guidance and placement services to job seekers may be particularly arduous.

Monitoring and performance evaluation are practically absent. The efficiency of services is hampered by the systematic absence of evaluation and monitoring of public employment services, partly stemming from the previously mentioned absence of standards, and partly from the responsibility of the corresponding level of government. Italy is one of the few EU countries (together with Malta and Slovakia) which do not collect any data on the actual delivery of services by PES. This is also due to the absence of a common methodology for data collection and of a national database.

Information on PES are gathered centrally by questionnaires but the last survey, published in May 2016, does not contain information on the quantity of the support measures provided by PES to job seekers (or employers), nor on the effectiveness of ALMPs in general and PES activities in particular. The absence of monitoring and evaluation of the delivery of services implies that no corrective mechanism is in place to redress underperforming services. There are only sporadic cases of Regions which have in place a system of performance evaluation, linked above all to the rating and accreditation of private employment services (Lombardia; see Isfol, 2016). The national job vacancy database (“Labour National Stock Exchange” (*Borsa nazionale del lavoro*)³⁶ should facilitate the matching of labour demand and supply, based on a network of regional nodes. However, the system is not fully operational due to differences in (or absence of) regional databases. The relatively strict information requirements imposed by the Youth Employment Initiative (YEI) brought about some improvements in the development of the national information system.

Table 4.1: **Distribution of PES staff by educational qualification in Italian regions**

Regions	% of PES operators with			
	up to lower secondary education	higher secondary education	university degree education	post-degree education
Piemonte	13.1	62.9	24.1	0.0
Valle D'Aosta	18.2	68.2	13.6	0.0
Lombardia	15.1	53.5	31.1	0.3
Prov. Aut. Trento	18.8	55.1	26.1	0.0
Prov. Aut. Bolzano	13.9	52.5	32.7	1.0
Veneto	46.0	16.9	1.3	35.8
Friuli Venezia Giulia	14.9	56.0	26.2	2.8
Liguria	19.6	48.0	31.1	1.4
Emilia Romagna	10.1	48.3	36.6	5.0
Toscana	5.6	39.3	53.2	1.9
Umbria	5.3	48.9	45.0	0.8
Marche	11.2	47.9	37.0	3.9
Lazio	14.9	67.1	16.1	2.0
Abruzzo	11.4	55.9	29.5	3.1
Molise	8.0	36.4	42.0	13.6
Campania	31.1	56.2	12.3	0.4
Puglia	14.2	72.6	12.9	0.4
Basilicata	19.6	71.6	7.8	1.0
Calabria	14.9	53.7	31.3	0.0
Sicilia	19.8	70.2	9.9	0.1
Sardegna	18.1	52.1	26.0	3.8
Italy	18.1	54.9	22.4	4.6

Source: Isfol, Monitoraggio sui servizi per l'impiego, 2015. survey carried out between August and November 2015 referring to personnel employed in 2014

³⁶ Law 30/2003. It replaces the previous "Sistema Informativo Lavoro-SIL".

Training programs depend largely on EU funds and evaluation of their effectiveness is limited.

The European Social Fund (ESF) covers around 90% of the overall expenditure on vocational training. This creates a situation of dependence on EU programming cycles. The planning of active labour market policies provisions (such as training) belongs to the regions. It is typically carried out through Masterplans, which are agreed by regional authorities with the central authority, social partners and relevant stakeholders. In principle, therefore, the view of the employers' associations should be taken into account in the design of ALMPs. For instance, they should be consulted to design training programmes at the sectoral, territorial, firm or individual levels, as well as those implemented in the form of company-level vouchers to be defined within collective agreements. However, scarce evidence is available on the extent to which firms' needs in terms of skill requirements are actually considered in the design of ALMPs at the local level. Evaluation of the effectiveness of the spending is limited and usually linked to obligations in the framework of ESF management.

4.2 HOW THE JOBS ACT CHANGES ACTIVE LABOUR MARKET POLICIES IN ITALY

In the perspective of flexicurity, the Jobs Act puts renewed emphasis on ALMPs with the objective of complementing to the reform of EPLs and passive policies. The Jobs Act aims to strengthen the capacity and effectiveness of employment services while tackling the longstanding weaknesses of the system (e.g. understaffed public employment services, the lack of an information infrastructure, fragmented monitoring, regional disparities). The key provisions of the reform are set out in the legislative decrees 150/2015 and 22/2015 and described below. However, it should be taken into account that the whole design of the reform was based on the expectation of a favourable outcome of the referendum on the Constitutional reform, to be held on December 4, 2016. The negative outcome of the referendum created a situation of serious uncertainty and it has severely delayed the implementation of the reform.

A contract between the employment agency and the job seeker is expected to play the pivotal role in the new approach. The Jobs Act envisages a new model of personalised support for job seekers. It foresees a contract ("*patto di servizio personalizzato*") between the employment agency and the job seeker. The agreement will commit the former to provide a range of opportunities tailored to the job seeker and the latter to accept them, if appropriate. The conditionality mechanisms are reinforced by means of gradual sanctions in case the job seeker fail to respect the agreement (i.e., does not show up to a meeting, participate in the proposed orientation or training measures or accept a job offer). The actual implementation of the conditionality is also reinforced by disciplinary and financial sanctions for the employment officers who fail to apply it. The conditionality mechanisms for workers who are benefitting of wage supplementation schemes (CIG) are also detailed. The system implemented by the NASpI is similar to those of most OECD countries. For example, in Australia the "Newstart Allowance" requires the unemployed to actively search for a job, namely to follow the agreed "Job Plan" in addition to the attendance of relevant trainings. Failure to respect the plan leads to the reduction or the end of the cash benefit.³⁷ In UK the "Jobseeker's Allowance (JSA)" foresees the reduction and then the end of the subsidy if the "Claimant Commitment" is not respected³⁸. Similar mechanisms are in place in Switzerland³⁹, Finland⁴⁰, Denmark⁴¹, France⁴² and US⁴³ (see Langanbucher, 2015 for a detailed description for OECD and European countries). The principle of

³⁷ <https://www.humanservices.gov.au/customer/services/centrelink/newstart-allowance>

³⁸ <https://www.gov.uk/jobseekers-allowance>

³⁹ <http://www.area-lavoro.ch/arbeitslos/FAQ/>

⁴⁰ <http://www.kela.fi/web/en/right-to-unemployment-benefits>

⁴¹ <https://www.a-kasser.dk/benefits.html>

⁴² http://www.cleiss.fr/docs/regimes/regime_france/an_5.html

⁴³ See, for example, North Carolina <https://des.nc.gov/des> or Colorado <https://www.colorado.gov/cdle/unemployment>

conditionality was present in the Italian legislation also before the Jobs Act, but it was never really implemented. Indeed, implementation will represent a major challenge also for the current reform, given the practical difficulties likely to be encountered in the actual application of such mechanism, the state of public employment services and, more broadly, of Italy's public administration and justice system (e.g. the difficulty to "prove" the worker's refusal to take up a job offer).

Through a system of vouchers, private operators are expected to play an important role, compensating for the weaknesses of PES. The Jobs Act emphasises the potential role of private operators in the delivery of employment services, also to overcome the weaknesses of public services. The adoption of a quasi-market solution for the employment services is in line with most of recent PES reforms both in Europe and in the OECD countries, where the development of ALMPs was often accompanied by a gradual introduction of competition in the delivery of the employment services, in order to increase both efficiency and effectiveness. Australia and the Netherlands were the first countries to introduce a market solution at the end of the last century. In the following years, Austria, Denmark and the UK also decided to end the public monopoly, adopting mixed public/private solutions. Currently, different set ups are in place: in the Netherlands private employment agencies freely compete each other and with public services, in the UK, agencies are selected through a tender procedure which allows agencies to adopt the preferred system of delivery provided a certain result in job placement (European Commission, 2011; Fuller, 2011). In Italy, the shift towards a quasi-market model is centred on an outplacement voucher (*Assegno di ricollocazione*), which is assigned to unemployed workers and can be redeemed either at public or at private employment services. The payment of the voucher is based upon the attainment of set objectives (*payment-by-results* financing model). To limit the possibility that private agencies cherry-pick most employable workers, the value of the voucher is proportionate to the person's employability, based on observable factors (e.g. employment history, gender, age). A pilot was launched in 2017, but the take up has been lower than expected. The reform also foresees the creation of a national register (*'albo'*) for the accreditation of private employment agencies – an important element, given the current fragmentation and absence of clear standards in the sector, even though little is known to date about the accreditation model that will be adopted. Overall, the recourse to private operators is not without risks, particularly with regard to the provision of services to the weakest, most disadvantaged job seekers. The system is based on the approach developed in Lombardy (*Dote Unica del Lavoro*, DUL) and already used in the implementation of the Youth Guarantee.

The Jobs Act lays down a re-centralised governance of the system, organised around a new national agency for active labour market policies – the Agency for Active Labour Market Policies (ANPAL). In the intention of the lawmakers, the Agency should have been in charge of coordinating and monitoring a wide network of institutions and agencies involved in labour policies (the National Network Services for Labour Policies).⁴⁴ The objective was to enhance policy consistency and improve the effectiveness of ALMPs throughout the country. However, the failed constitutional reform meant that competences for ALMPs remained with the Regions. When ANPAL was finally created, in January 2017, it had to deal with the major challenge of sorting out its role in this revised context. Since the beginning of 2016, the Ministry had been working at a strategic plan on ALMP (*Piano per le Politiche Attive*), which included support from the 2014-2020 European Social Fund (EUR 6.7 billion). The plan aimed to strengthen public employment services, also through staff hiring and training, with a unified information platform and a national accreditation system of employment

⁴⁴ The network includes the national social security institute (INPS, Istituto Nazionale per la Previdenza Sociale), the national insurance institute for employment injuries (INAIL, Istituto Nazionale Assicurazione Incidenti sul Lavoro), the national research institute for vocational education and training (ISFOL, Istituto per lo Sviluppo della Formazione Professionale dei Lavoratori), regional services, labour agencies and both bilateral and professional funds.

services and agencies to be created. This should have replaced regional systems, which are not yet functioning properly everywhere. The agency would determine standard measures and costs for all regions, and indicators are envisaged for evaluating the performance of employment agencies. After the referendum, the plan had to be renegotiated, and as of July 2017 no agreement has been reached.

Overall, the reform is going in the right direction but implementation challenges are proving formidable. The measures taken with the Jobs Act go in the right direction to strengthen active labour market policies. Their effective implementation would be absolutely necessary to the success of the whole reform. Effective ALMPs are necessary to implement the conditionality mechanisms correctly designed into the new passive policies schemes and so prevent any negative impact the new more generous schemes may have on labour supply. It would also help the political resistance to the downscaling of CIGs and the phasing out of CIGD and mobility schemes. However, the failed recentralisation of competences hindered any effective progress in implementation. The main focus is now on finding a solution to ensure a balanced governance. In this context, making the reform happen appears a formidable challenge, taking into account particularly the situation of PES and the multiple uncertainties on their financing.

5. CONCLUSIONS

The analysis in Sections 2 to 4 shows that the Jobs Act has contributed to bring Italian labour market institutions more closely into line with international benchmarks and with the principles of flexicurity.

Employment protection legislation for (new) permanent contracts is now aligned with that of major European partners, although it remains more restrictive than the OECD average, according to available international comparisons. At the same time, the use of ‘atypical’ contracts, which are characterised by very weak employment protection and very low social benefits, is restricted. These measures are expected to reduce segmentation and its alleged negative impact on the economy.

The focus of passive policies has shifted significantly from job to worker protection, which facilitates the reallocation of workers to more productive occupations, and unemployment insurance was made more generous and extended in coverage, which enhances the fairness of the system. The planned strengthening of active labour market policies and of conditionality mechanisms will help reduce moral hazard issues in passive policies and improve job matching, in turn helping efficient matching and reducing structural unemployment.

Overall, by increasing flexibility, reducing segmentation and favouring the swift reallocation of workers from slow to fast-growing firms, the Jobs Act is an important step towards addressing Italy's long-standing productivity sluggishness, and enhancing the ability of the Italian economy to withstand external shocks and adjust to the challenges of the ever-changing global economy.

Labour segmentation has shown some signs of improvement since the reform, but this could also be explained by the accompanying generous hiring incentives for new open-ended contracts in 2015 and 2016. The jury is therefore still out, as discussed in Section 2. The impact of the overall reform on productivity is expected to materialise in the longer term, through entry-exit of firms, human capital accumulation and innovation.

Thorough implementation remains key. Also, flanking measures in other areas are necessary to compound the effect and deliver the entire potential impact of these measures.

In particular, the reform of ALMPs, possibly the key pillar in the overall architecture of the Jobs Act, is still at an early stage and implementation challenges in this domain remain significant (see Section 4.2). Adequate monitoring is also necessary to ensure that implementation progresses as planned and that any need for fine-tuning or corrective action is timely identified. To this end, the law establishes a yearly monitoring report. This legal obligation was introduced by the 2012 reform and confirmed by the Jobs Act. A first monitoring report was therefore due in 2016 but has not been produced yet. A report in 2018, possibly by an independent body, would be an important tool to assess the impact of reform three years after its introduction and identify any policy gaps.

Looking forward, important policy gaps remain, in particular:

- In the medium term, the new employment protection legislation, which currently applies to new hires only, could be more effective if extended to existing permanent contracts (to the extent possible). Grandfathering, which could have been justified at a time of recession to limit the possible negative impact of the reform on employment, is less justified during recovery. Moreover, it might lead to a new form of segmentation in the labour market, to the detriment, again, of the young generation. Grandfathering delays significantly the potential impact of the reform on resource reallocation. Research shows that relaxing employment protection legislation

when the economy is growing has limited consequences on employment and unemployment levels. Such impacts are further reduced if adequate activation strategies are in place (OECD, 2016).

- A more comprehensive approach is needed to increase female labour market participation. The activity rate has been increasing during the crisis, but only in line with the EU average, and it remains the lowest in the EU. Available estimates suggest that increasing the female activity rate to the level of men would potentially increase Italy's GDP by 15% (IMF, 2016). The Fornero reform introduced some fiscal incentives for hiring women in disadvantaged regions, albeit limited in time.⁴⁵ The Jobs Act included some measures to facilitate work-life balance, including with regard to parental leave, rights of self-employed parents, and access to part-time work. Other measures have been adopted since.⁴⁶ The effectiveness of these measures is however unclear and a more ambitious and comprehensive strategy seems warranted.
- The framework for collective bargaining needs to be strengthened, to cater for local differences in productivity developments. Already in 1993, the tripartite agreement (Table 6.1) introduced the possibility of bargaining at the firm and territorial level. The idea was to move towards a two-tier bargaining system whereby sectoral agreement at national level would set the wage pace while intra-sector firm- and local level arrangements would cater for productivity growth and cross-firm differences. A series of social partner agreements have since been signed to pursue this objective but in 2016 only some 20% of firms were covered by firm- or territorial-level contracts. The key hindrances are the uncertain legal framework, related to trade union representativeness, and the limited scope for bargaining below the national level (European Commission, 2016). Different types of fiscal incentives to promote second-level contracts have been in place since 1997 but their impact on take-up of decentralised bargaining seems to be small. Further decentralisation seems necessary to allow wages differentials to adequately reflect the productivity differentials at regional and firm-level. This will help reduce structural unemployment in the south and favour a better allocation of resources. It would also help maintain wages dynamics more in tune with productivity dynamics. Real wages grew less than labour productivity when this was growing until late 1990s, but outpaced productivity growth in the run up to the crisis when productivity growth was very low.

Finally, it is important to stress that the benefits of the Jobs Act will only be reaped if adequate flanking measures are put in place. The efficient delivery of passive and active policies crucially depends on the capability of the public administration at large, and of public employment services in particular. Similarly, the functioning of the justice system is crucial to ensuring legal certainty about the application of new labour contracts and to deliver the expected faster reallocation. Following several reforms since the 1990s, Italy's product market regulation is assessed to be broadly in line with European peers, according to international indicators. However, the weak implementation of legislation on the ground and a difficult business environment often hamper competition in reformed markets while important barriers remain in other sectors (Pinelli et al, 2015). Continuing to address barriers to competition is thus necessary to avoid that increasing flexibility of labour markets translates into higher rents for firms and fails to benefit consumers (Blanchard and Giavazzi, 2003). Without addressing these bottlenecks, the impact of the Jobs Act risks remaining limited.

⁴⁵ L. 92/2012, Art. 4.

⁴⁶ Measures include a cash allowance of EUR 80 per children born or adopted (2018 Budget law), the possibility to exchange parental leave with baby-sitting vouchers (introduced by Fornero reform and re-financed for 2017 and 2018 by 2017 Budget law), and a non-means-tested EUR 1,000 voucher to be used with private or public nurseries. Paternity leave was extended from two to four days as of 2017, but remains among the shortest in Europe.

6. ANNEX

Table 6.1: Overview of the main labour market reforms in Italy prior to the Jobs Act

Trilateral agreements (Patti sociali, 1992-93)

In 1992-1993, trilateral agreements between the government and social partners paved the way to the abolition of the wage indexation scheme (*scala mobile*) and the reform of the collective bargaining system.

Treu Bill (Pacchetto Treu, 1997)

The 1997 *Pacchetto Treu* (Treu Bill) loosened the provision for the conversion of a fixed-term contract into an open-ended one. At the same time, *inter alia*, the bill allowed the establishment in the Italian labour market of temporary work agencies and introduced new temporary 'atypical' contracts with reduced social security contributions and pension provisions ('*contratti di collaborazione coordinata e continuativa*'). Technically speaking, such contracts refer to a fixed-term labour service provided by the worker to a specific company or organisation without the obligations typical of dependent employment. De facto, these contracts turned out to play a key role in the growing of fixed term relationships of new entrants, and many workers ended 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 workers were not entitled to unemployment benefits.

2001 reform and Biagi Law (Law 30/2003)

The 2001 reform established a further liberalisation of the fixed term contract. 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 Biagi law introduced additional "atypical" labour contracts (job on call; job sharing, etc.) and restricted the use of most '*contratti di collaborazione coordinata e continuativa*' to those working relations taking place under a well-defined "professional project" ('*contratti di collaborazione coordinata e continuativa a progetto*'), i.e. a task with predetermined objective and output.

Fornero Reform (June 2012)

The reform eased employment protection legislation for permanent workers was by substantially amending "Article 18" of the Labour Code (*Statuto dei Lavoratori*). Temporary and atypical contracts were made marginally more stringent, particularly in some technical requirement of the '*contratti di collaborazione coordinata e continuativa a progetto*' as well as in the minimum time of unemployment necessary to subscribe subsequent temporary contracts with the same employee. The reform also started the long awaited reform of passive policies, by, *inter-alia*, strengthening unemployment insurance while enlarging its coverage and reducing the scope of wage supplementation scheme, with transitional period extending to 2017.

Table 6.2: **The flexicurity principle**

'Flexicurity' refers to an integrated strategy to enhance, at the same time, flexibility and security in the labour market. In the context of the European Employment Strategy the Commission and the Member States, drawing on experience and analytical evidence, have reached a consensus that flexicurity is an effective mean to remedy structural shortcomings on the labour market. Policies can be designed and implemented across four policy components:

Flexible and reliable contractual arrangements (from the perspective of the employer and the employee, of "insiders" and "outsiders") through modern labour laws, collective agreements and work organisation;

Comprehensive lifelong learning (LLL) strategies to ensure the continual adaptability and employability of workers, particularly the most vulnerable;

Effective active labour market policies (ALMPs) that help people cope with rapid change, reduce unemployment spells and ease transitions to new jobs;

Modern social security systems that provide adequate income support, encourage employment and facilitate labour market mobility. This includes broad coverage of social protection provisions (unemployment benefits, pensions and healthcare) that help people combine work with private and family responsibilities such as childcare.

Table 6.3: **Description of dismissals' typology**

1	Discriminatory: based on race, religion or sex Invalid: based on wedding or decision to benefit from maternity/paternity leave Ineffective: no written form
2	Justified objective reason: compelling business reason - Economic dismissal
3	Justified subjective reason: significant non-compliance with contractual obligations - Disciplinary dismissal Right cause: behaviour outside the contract sphere that have negative consequences on the working environment
4	Formal violation: missing motivations
5	Collective dismissal: in firms with more than 15 employees and over a period of 120 days, at least 5 layoffs in a single production unit or in several units within one province

Source: Commission services based on official documents

Table 6.4: **Quantifying the changes implied by the Jobs Act to the OECD employment protection indicator for Italy**

The following items of the OECD indicators are concerned by the reforms:

- Individual dismissals for permanent workers
 - 'compensation following unfair dismissal' (item 7). The reform does change it, but being the index calculated taking into account only the maximum value and not the minimum (which decreases from 12 months to 4), the value of the indicator does not change.
 - 'Reinstatement option for the employee following unfair dismissal' (item 8) decreases slightly.
- Collective dismissals per permanent workers. The same rules apply than for individual dismissals; hence, the value of the indicator remains unchanged.
- Temporary employment:
 - 'valid cases for use of standard fixed term contracts' (item 10) is expected to increase substantially.
 - 'maximum number of successive standard FTCs' (item 11) decreases substantially.

Items	Assignment of numerical scores and short description	ITALY score and OECD average (2013)	Regulation in force until 6 March 2015	Unit values IT estimates (2015)	Regulation in force from 7 March 2015
A. Individual dismissals of workers with regular contracts					
7: Compensation following unfair dismissal	Scale 1-6 Score assigned depending on compensation in months' pay ⁴⁷ , i.e., typical compensation at 20 years of tenure, including back pay and other compensation (e.g. for future lost earnings in lieu of reinstatement or psychological injury), but excluding ordinary severance pay).	IT: 4 OECD average : 1.70	>15 employees in one establishment, if the labour court finds that the dismissal is unfair or unjustified, indemnity of between 12 and 24 months' salary, depending on circumstances such as age, length of service, number of employees and size of company.	IT: 4	>15 employees in one establishment, if the labour court finds that the dismissal is unfair or unjustified, indemnity of between 4 and 24 months' salary, depending on circumstances such as age, length of service, number of employees and size of company. ⁴⁸
8: Reinstatement option for the employee following unfair dismissal	Scale (0-3) × 2 0: no right or practice of reinstatement; 1: reinstatement rarely or sometimes made available; 2: reinstatement fairly often made available; 3: reinstatement (almost) always made available.	IT: 4 OECD average : 2.12	Reinstatement in case of: discriminatory dismissal; objective reason does not apply or inexistent – economic dismissal; disciplinary reason did not take place in case of no existing facts.	IT: 0	No more reinstatement for economic reasons.

⁴⁷ Score 0 is assigned for a compensation ≤ 3 months' pay. Then score 1 if compensation is ≤ 8 months' pay; 2: ≤ 12; 3: ≤ 18; 4: ≤ 24; 5: ≤ 30; 6: >30.

⁴⁸ Since the maximum compensation (24 months) has not changed, Italy's score remains at 4.

B. Temporary employment

<p>10: Valid cases for use of standard fixed term contracts</p>	<p>(Scale (0-3) × 2) 0: fixed-term contracts are permitted only for "objective" or "material situation", i.e. to perform a task which itself is of fixed duration; 1: if specific exemptions apply to situations of employer need (e.g. launching a new activity) or employee need (e.g. workers in search of their first job); 2: when exemption exist on both the employer and employee sides; 3: when there are no restrictions on the use of fixed-term contracts.</p>	<p>IT: 2 OECD average : 1.44</p>	<p>Fixed term contracts can be used for technical, production and organizational reasons including the replacement of absent workers, and for types of work normally carried out by the firm. The first contract between an employer and a worker does not need justifications if its duration is no longer than one year</p>	<p>IT: 0</p>	<p>For fixed-term contracts lasting up to 3 years employers no longer need to specify the reason of the termination of the contract.</p>
<p>11: Maximum number of successive standard FTCs (initial contract plus renewals and/or prolongations)</p>	<p>Number</p>	<p>IT: 4 OECD average : 2.44</p>	<p>One extension is possible provided that the duration initially agreed is less than three years.</p>	<p>IT: 1</p>	<p>Temporary contracts can be renewed up to 5 times, for a total maximum duration of three years. Limit of 20% of temporary contracts on total firm's employment (can be modified by sectorial agreements with the social parts).</p>

C. Additional regulation for collective dismissals

No additional changes.

Source: Commission services based on official sources. For scoring methodology see in particular the OECD publication <http://www.oecd.org/els/emp/All.pdf>.

Table 6.5: The Jobs Act reform of unemployment insurance schemes: NASpl vs ASpl and mini-ASpl

	ASpl	Mini-ASpl	NASpl
Recipients	All private employee (including apprentices and associate working in cooperative); Public employee with fixed term contracts. Excluded: Public employee with open-ended contracts; agricultural workers; journalists; extra-EU seasonal employees.	Private employee (including apprentices and associate working in cooperative). Same exclusions as for ASpl.	All private employee; Public employee with fixed term contracts. Excluded: Public employee with open-ended contracts; agricultural workers.
Requirements	The involuntary unemployment status; 2 years of working insurance and at least 1 year of contributions in the last 2 years before unemployment.	Unemployed instantly available to work or looking for a job according to pre-defined terms, with at least 13 weeks of contributions in the last 12 months before unemployment.	The involuntary unemployment status; 13 weeks of contributions in the last 4 years before unemployment; 30 days of effective work in the last 12 months before unemployment.
Coverage	In 2014: w ≤ 1192.98€ → 75%*w; w > 1192.98€ → 75%*1192.98€ + 25%*(w-1192.98€); max 913.14€ if w ≤ 2098.04€; max 1165.58€ if w > 2098.04€; -15% after 3 months and -30% after 6 months.	Same as for ASpl.	In 2015: w ≤ 1195€ → 75%*w; w > 1195€ → 75%*1195€ + 25%*(w-1195€); max 1300€; -3% every month starting from the 1st day of the 4th month of fruition.
Duration	From 2016: 12 months if age <55; 18 months if age ≥ 55, limited to contributions' weeks in the last 2 years.	Monthly distribution for a number of weeks equal to half of the contributions' weeks of the last year.	Monthly distribution for a number of weeks equal to half of the contributions' weeks of the last 4 years.

Source: Commission services based on official documents

Note: w=wage

Table 6.6: Employers and employees contribution to CIGO and CIGS

Additional contribution for CIGO and CIGS (charged to employers)		Ordinary contribution for CIGO (charged to employers)		Ordinary contribution for CIGS (charged to employees and employers)	
9%	Of the foregone wages, within the limit of 52 weeks in 5 moving years	1.70%	Of wages, for employees of manufacturing up to 50 employees	0.60%	Ordinary contribution for employers
12%	Of the foregone wages, within the limit of 104 weeks in 5 moving years	2.00%	Of wages, for employees of manufacturing with more than 50 employees	0.30%	Ordinary contribution for employees
15%	Of the foregone wages above the limit of 104 weeks in 5 moving years	4.70%	Of wages, for firms in construction (incl. crafts)		
		3.30%	Of wages, for firms in stone industries (incl. crafts) – 1.70% in firms up to 50 employees		
		2.00%	For employees and managers in construction firms with more than 50 employees		

Source: Legislative decree 22/2015

Note: CIGD is entirely financed by the state.

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