Italy: labour market dualization and the rise of inequality. A panel analysis of the impact of labour market deregulation on unemployment and the diffusion of temporary employment, between 1997 and 2014.

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Introduction and background

This paper focuses on the occupational impact of the labour market de/regulation undergone in Italy in the last decades, adopting a longitudinal perspective to describe characteristics and determinants – among which labour market legislation is expected to be one of the most relevant - of unemployment trends and of the diffusion of temporary employment, between 1997 and 2014. We rely on a self-constructed panel dataset based on 10 distinct cross sectional waves of SHIW (Bank of Italy) data, covering the period between 1995 and 2014, a period characterized by relevant labour market modifications as a joint product of institutional reforms (mainly in terms of welfare and labour market de/regulations) and economic downturn. By means of this extended observational window, we are able to depict the contextual framework and to look at the aim, the rationale and the strategy followed in the last two decades of reforms concerning employment regulations. In doing so, we provide a mid-term test for possible effects exerted by settings and variations of regulative dimension on employment opportunities of the Italian workforce. The influence of labour market regulation on occupational performances is estimated separately for the 1995-2006 and the 2008-2014 periods, thus allowing for the effect of labour market regulation to vary according to the economic cycle. Apart from the descriptive paragraphs in which we present level and trends of regulation also by means of OECD EPL measures (hereafter: EPL), in the following multivariate analyses, levels and modifications of labour market regulation are accounted for by means of a comprehensive measure of the subcomponent of the EFW index concerning the functioning of the labour market. The labour market regulation (hereafter: LMR) index, time varying on a yearly base, accounts for a wide set of regulative aspects: minimum wage, hiring and firing regulations, centralized collective bargaining, mandated cost of hiring, mandated cost of worker dismissal, working time regulation, recruitment. Compared with the common OECD EPL index, the LMR measure accounts for a broader set of institutional factors and it displays a more pronounced variability over time. The use of LMR index in this study responds to a twofold rationale. First, it provides a more complete picture on the influence of several regulative aspects on employment trends, not limiting the analyses to hiring and firing procedures. Second, due to its more pronounced longitudinal variation, the LMR index results more suitable than the OECD EPL index to enquire the role of labour market (hereafter: LM) de/regulations in shaping employment rate and temporary employment trends, both over time and across different economic conjunctures.

Moreover, we provide a sketch and a preliminary descriptive evaluation concerning a recent major normative change occurred in 2015, evocatively defined “Jobs Act”. This reform has been advocated and implemented in order to tackle both the strong dualism of the Italian labour market and the scarce employment growth that

2 Levels and trends of both indicators are displayed in the next paragraphs in Fig.2. The correlation between the LMR and the EPL index on temporary employment in Italy exceeded 0.8 in the period under consideration. As will be argued in the next paragraphs, this correlation can be traced back to the specific labour market reforms implemented in Italy between 1997 and 2014, with a strong focus on workforce’s hiring and firing procedures and, above all, with a predominance of “partial and targeted” LM reforms (Esping-Andersen, Regini 2000; Barbieri, Scherer 2008; Barbieri, 2011; Barbieri, Cutuli 2016; Barbieri et al 2016). We should stress that the LMR index is, as a matter of fact, a measure of LM Deregulation…
followed the recent economic crisis. The set of measures implemented in 2015 included a generous temporary hiring subsidy for permanent positions and new regulations lowering and fixing firing costs for newly hired permanent workers.

Before analysing the role played by de/regulations in shaping labour market dynamics in presence of the economic crisis, here we provide a first sketchy description of labour market trends over the past few years. According to several macro-economic indicators, Italy remains at the top of the international rankings in the distribution of both national overall GDP and manufactory output (World Bank, 2014; UN, 2014). Until the 2008 crisis Italy in fact knew a relative, modest growth in (mainly female: Cutuli and Scherer, 2014) employment levels and in speed of labour market entry (Barbieri et al. 2016a). In the same years, in line with the international trend, the overall unemployment rate almost halved, moving from about 12% in 1998 to around 6% in 2007 (Oecd Stats). Despite these positive considerations, if compared to other affluent countries Italian economic growth, independently on the crisis, has since long time been rather weak and uncertain (Landesmann, 2015). The crisis hit on such unsatisfactory economic situation: as shown in figure 1, the levels of (long term and youth) unemployment started to growth out of control (OECD Stats, 2015). Nowadays both the measures display higher values than in other OECD countries. Indeed, as reported in Figure 1, the capacity to cope with the crisis displayed by Italian labour market remains definitely low.

**Fig.1. Descriptive trends on Italian Labour Market, 2007-2014.**

Since the crisis, the overall Italian unemployment rate continuously went up reaching about 13% at the end of 2014 (and currently, the recovery trend is rather flat, since GDP growth rate is well below 1 % and, at the time of writing, employment rate still falls more than 2 percentage points below the pre-crisis period). This aggregate result in terms of unemployment diffusion came with a clear disproportion of the employment retrenchment among different social groups. Mid-age male workers, less
qualified segments of the workforce and especially young people were the most exposed to increased unemployment risks. The youth unemployment rate more than doubled in the same period, moving from about 20% to over 43%, thus exacerbating the youth-old age dualism as a relevant component of the Italian labour market. Side by levels and composition of unemployment, also the quality of the unemployed sensibly worsened, with the quota of long-term unemployed that reached 60%, signalling another problematic aspect of the segmentation of the Italian labour market, namely the lack of mobility between non-work and work.³

To what extent these long-term trends over time in the main occupational indicators and in labour market performances can be traced back to deregulation policies, remains an open question. Moreover, even in international perspective, empirical evidence on possible positive effects of labour market deregulation appears rather mixed and not straightforward (Kahn 2010; Skedinger 2011; Advagic, 2015; Noelke, 2015; Gebel and Gisiecke, 2016; Barbieri, 2016). This holds especially in segmented labour market (like the Italian one), where the expected positive effects of deregulation at the margins have proved to be highly transitory, originating what the literature has labelled a “honeymoon effect” (Boeri and Garibaldi, 2007; Barbieri and Cutuli, 2015).

**Labour market de-regulation and occupational trends**

To deal with the nexus between labour market deregulation and labour market performances, in the following we extend the analysis of the occupational performance of the Italian labour market starting well before the crisis, tracking employment trends in response to variations in the diffusion of temporary employment and labour market regulations up to nowadays. Indeed, the identification of possible heterogeneity in the effects of temporary employment diffusion and regulation trends according to the economic cycle can shed further light on the appropriateness of the diagnosis attributing the poor Italian labour market performances and the scarce resilience to the crisis to an excess of regulation, in line with the “Eurosclerosis” argument.

It is now generally acknowledged that the “Eurosclerosis” concept, especially if framed in cross-sectional cross-country comparisons and confined to a mere discussion of the effects of employment regulation strictness, is getting less and less useful in accounting for recent labour market trends across European countries (Boeri, Garibaldi 2009; Myant et al. 2016). On the contrary, labour market dualism has recently emerged in the socio-economic literature as a problematic by-side and (partly) unexpected consequence of labour market reforms (Barbieri, 2009; Boeri, 2011; Bentolila et al. 2010). This is particularly the case of Italy, already characterized by strongly segmented labour markets. Indeed, Italy can be conceived as an ideal-type of the “Southern Model

³ It is worth noticing that the low turnover rates, further falling due to the economic downturn, are particularly problematic in Italy. Indeed, prolonged unemployment spells tend to come with significant socio-economic risks for entrapped individuals due to the bad match between eligibility criteria of unemployment insurance schemes and the actual distribution of unemployment risks among different social groups (Berton et al. 2009; Anastasia et al. 2011).
of Welfare” (Ferrera 2010), as it shares with other Mediterranean countries institutional and contextual characteristics that have been proved to be relevant factors in shaping a dual labour market (Barbieri, 2011). These features can be summarised by the strong work-based orientation of the welfare state, the (still) relatively modest female labour market participation, the weak welfare support devoted to households and family policies. Last, but certainly not least, the process of partial and targeted labour market deregulation (Esping-Andersen, Regini 2000) with labour market policies and reform efforts characterized by strong insider-outsider scenery. Indeed, Italy displayed significant and increasing labour market dualization as a consequence of the reforms at the margins aimed at relaxing the regulation of non-standard forms of employment. Virtually all the labour policy measures undertaken in the last two decades were essentially targeted to young people and labour market re/entrants. Even if this general pattern has been shared by EPL reforms of most of the European countries, Italy (together with Spain) can be safely considered a paradigmatic example of normative dualization in labour market regulation.

It is possible to grasp the institutional and normative segmentation looking at the separate trends of de/regulations referred to permanent and temporary employment: figure 2 shows the remarkable stability of the employment protection legislation for regular contracts and, on the other side, the trend of progressive deregulation that affected atypical positions.⁴

### Fig.2. Trends of labour market regulation in Italy, 1994-2013.

![Trends in labour market de/regulation in Italy, 1994-2013](source: OECD and EFW data)

⁴ Even if in this chapter we do not explicitly consider the discrepancy in regulation between different workforce segments, it can be noticed that OECD EPL indexes for permanent and temporary employment share the same scale. Moreover, they can both be indirectly considered as proxy of turnover or hiring/firing costs. Therefore, net of the level of regulation characterizing each country (and more than a mere cross country comparison), the longitudinal trend displayed by the gap between the two indexes at the national level has been interpreted as a measure of the process of institutionally driven labour market dualization (Barbieri, Cutuli, 2016).
Indeed, figure 2 makes clear the asymmetry of the labour market reforms undertaken “at the margins”, with the vast majority of them targeted to relax the legislation governing eligibility criteria, cumulative duration, and reiteration of temporary contracts. The graph displays a pronounced intensification of deregulation efforts taking place between 1997 and 2004, followed by a substantial stability in the second half of the 2000s, until the end of the observational window. Moreover, by comparing different indicators, the graph shows the strong (negative) correlation between levels and timing of different sources of labour regulation indexes. The sign of correlation between OECD EPL measures and Fraser Institute LMR indicator is negative since the EPL is a measure of strictness of labour market regulation, being higher the more stringent the rules, while the Fraser LMR is an index of labour market flexibility, being the higher the less stricter the legislation.

Looking jointly at the OECD EPL index on temporary employment and at the LMR index, it emerges a specular trend, even if these measures are provided by distinct sources and refer to distinct dimensions of labour market de/regulation. On the one side, with the OECD EPL index on temporary employment, reference is made to hiring procedures of non-permanent workers. On the other side, with LMR index, reference is made to a broader set of institutional characteristics including minimum wage, hiring and firing regulations, centralized collective bargaining, mandated cost of hiring, mandated cost of worker dismissal, hours regulation - included in the index as further possible forms of labour market rigidity (Aleksynska, Cazes 2014). The specular trend and the high correlation displayed by the two indexes (-.8) have a substantial interpretation. Firstly, they tell us that the institutional dimension mostly affected by the reform activism has been the definition of hiring and firing costs, while the relative weight of other institutional changes has been actually negligible. Secondly, they confirm how the progressive labour market deregulation (by far the most relevant policy measure undertaken) has been almost exclusively targeted on temporary contract, thus increasing the normative dualism across distinct (contractual) segments of the workforce.

These considerations explain why the analysis of the role played by labour market deregulation is of particular relevance in Italy. In line with what happened in most of the other European countries, labour market deregulation has been considered and (mis)used as the most relevant policy lever to foster employment creation and firm competitiveness as well as to reduce workforce exposure to long unemployment spells. The rationale behind these expectations was that the poor labour market and the weak competitiveness performances were largely due to a mix of institutional rigidities or “imperfections”: the role played by trade unions, the excessively centralized system of wage bargaining, the inefficient design of social and unemployment benefits and over-strict setting of hiring and firing regulation, which depressed labour demand (Addison, Teixeira, 2003; Nickell, 1997; Siebert, 1997). Following these – mostly based on cross sectional comparisons- premises, starting from the mid-90s a set of reforms have been progressively implemented in order to make the Italian labour market more flexible. The political option of choosing job security rather than wage as the main adjustment lever (Maurin and Postel-Vinay, 2005; DiPrete et al., 2006) and of targeting the reforms efforts to the peripheral workforce had the advantage of avoiding opposition both by permanent workers and by those in unemployment, as neither of these two groups was
being directly affected by the reforms (Sanfey, 1995; Saint-Paul, 1996; Dolado et al., 2002; Palier and Thelen, 2010; Rueda, 2014).

Before considering the possible influence of these changes in regulation on employment levels, it is worth looking descriptively at the workforce exposure to temporary employment in response to change in the relative costs of permanent vs temporary contracts. As shown in figure 3a, over the period between 1994 and 2014, Italy displayed a step increase of the share of temporary employment, doubling from around 7% to around 14% of dependent employment, equally distributed among genders. Moreover, Figure 3b indicates a relevant concentration of temporary job positions on youths, while a modest increment and a substantial stability are displayed by core workforce age groups and especially for those aged more than 55. Obviously, these trends can be conceived as a direct result of the political option of sheltering permanent employment and the already existing labour market positions against any deregulation of their employment legislation.

A further aspect to be taken in consideration looking at figure 3ab is the time pattern of the diffusion of temporary employment. Leaving apart the prompt response of temporary employment shares to normative changes of 1997 and 2003, it is worth noting how the increments were generally associated to years of positive economic growth (such as those occurred in the 1994-2001 and 2004-2007 periods). As it will become clear in the next parts of this analysis, the empirical evidence suggests that this co-occurrence of temporary employment diffusion and positive GDP growth has to be interpreted in terms of mere association. Loosely speaking, it does not imply that the expansion of temporary employment has constituted a determinant of economic growth or that it played a direct role in explaining the reduction of unemployment rates in the years before the crisis. This simple descriptive is nonetheless informative, since it makes evident that temporary employment has not been only used as a tool of potential labour market adjustment in context of economic uncertainty. Temporary employment rather represented the main hiring strategy independently from the economic cycle, and the shares of temporary employment keep growing also in phases of economic expansions, despite the potential room for contractual conversions of those already employed on a temporal base. In other terms, these dynamics are consistent with (and possibly mirror) a combination of demand side pressures for labour costs reductions and low bargaining power of new hires. Moreover, interestingly enough, the time path of the reforms appear largely independent from the economic cycle and clearly not in line with expectations according to which liberalization measures on permanent employment tend to occur more likely in period of expanding economies.
Considering the overall share of temporary employment, it rather emerges how the trend tend to become more flat (or even slightly negative) in periods of economic retrenchment (such as in concomitance of the crisis started in 2008). More precisely, the trends display a significant drop in the immediate aftermath of the intense GDP and employment drop of 2008-2009, while they recover in the following years, in a phase of still-ongoing economic crisis. This dynamic suggests that during the economic crisis temporary employment was the first one in suffering a contraction in the initial and more intense phase of employment retrenchment.
In this period, temporary workers clearly played a buffer role in comparison to permanent ones. At the beginning of the downturn, the latter were indeed able to maintain unchallenged their occupational levels, and over time suffered, at least in relative terms, a minor employment retrenchment. When, subsequently, the economic crisis protracted, the share of temporary employment segment began to recover, due to the increasing exposure to unemployment risks also for permanent contracts and to the prevalent shares of temporary positions among the new hires. This pattern indicates that temporary employment represented a relevant adjustment lever for firms during the first phase of employment contraction and that they were used as a “low risk” re-investments strategy at the end of the most severe phase of the downturn. If our interpretation is correct, a reinforced trend of substitution of temporary workers for permanent ones can be expected as a by-side consequence of the crisis, given the Italian slow recovery trend.

Source: OECD data
Looking at the recovery trend from the crisis, it has to be recalled how Italian prolonged and severe economic recession is still persisting in 2016, as Italy’s GDP has still to catch-up its pre-crisis (2007) levels (OECD, 2016). This situation is mirrored by the growth of the (certified) unemployment rate due to the economic crisis (around 6 p.p. between 2008 and 2014), with a loss of one million jobs (Sestito and Viviano, 2016). As shown in figure 4c-d, since the start of the crisis, while self-employment share remained relatively stable (figure 4c), it occurred a pronounced reduction in the employment rate that had been consistently growing since 1994 (figure 4d).

However, apart from the dynamics associated with the negative phase of the economic cycle, it has to be stressed how the long lasting process of substitution of temporary workers for permanent ones and the presence of lock-in effect in temporary employment are partly independent from the crisis (Barbieri et al. 2016) as they date back to the early 2000s (Barbieri, Scherer, 2008, 2009). Nonetheless, focusing on the crisis period, and looking at the Italian labour market in a comparative perspective, the outflow from temporary employment has been significantly lower than in other EU labour markets, with a within-three-year transition rate from temporary to permanent contracts below 30% (OECD, 2014). On this point, the empirical evidence suggests how this result can be traced back to the normative labour market segmentation, mirrored by the weak legislation ruling, respectively, temporary hirings and regular employment firing processes (Barbieri and Cutuli, 2015; Passaretta and Wolbers, 2016). According to the segmentation argument, the more diverse are the normative constraints connected with hiring and firing workers in temporary and permanent contracts, the stronger the demand for temporary workers and the disincentive to upward contractual conversions⁵.

⁵ It has been also shown that the normative segmentation of the labour market represents an issue not only in terms of social inequality. Indeed, according to recent contributions, labour market dualism can exert a detrimental influence on the aggregate level in terms of productivity growth (Battisti and Vallanti, 2013), job
There are reasons to expect that this holds particularly during economic downturn, since there is empirical evidence showing that the effects of de-regulation measures targeted on temporary employment tend to be stronger in periods of high unemployment (Kahn, 2010).

Not surprisingly, after a phase of relative normative stability, the economic crisis that affected the Italian economy with significant losses in terms of industrial production, overall productive capacity and employment ended up renewing the debate concerning the effectiveness of labour market liberalization as a policy tool to improve economic and employment recovery. Despite these pressures, hiring and firing regulations remained substantially unchanged at least until 2014, before the above-mentioned Jobs Act implemented in 2015.

Data and methods

As anticipated, aim of this analysis is to shed light on the role played by the legislation ruling employment in shaping employment chances and temporary employment diffusion in the Italian labour market along almost two decades of labour market reforms. In order to tackle our research question, we make use of the last ten biannual cross-sectional datasets of the Survey on Household Income and Wealth (Bank of Italy, SHIW data) as well as of their longitudinal components⁶. The data include information on the main personal and labour-market-related characteristics of employees (full time, part time workers, and temporary workers) and self-employed, in the Italian labour market⁷.

The estimations rely on about 53 thousands individuals, both men and women, aged between 18 and 65, while yearly person-spells of inactivity are kept out of the sample. The dataset is an unbalanced panel; the number of observations for each unit varies between 1 and 10, and about 50% of the units are followed for a period between 4 and 12 years.

Following a multivariate approach and relying on micro level data allows us to control for compositional effects in terms of sex and education of the workforce, and therefore to take into account the changing structure of the workforce associated to the increase of female participation and to educational expansion occurred in the two decades under scrutiny. Moreover, adopting a longitudinal approach and looking at

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⁷ Data from the Survey on Household Income and Wealth are distributed in cross sectional form within international datasets appropriately harmonized. In particular, since 2010, the survey provides data for Italy for the Household Finance and Consumption Survey (HFCS), coordinated by the European Central Bank. Moreover, from several years the Bank of Italy participates in the Luxembourg Income Study and in the Luxembourg Wealth Study.
time varying normative indexes allows to estimate the contribution of labour market regulations net of other institutional factors and separately from period effects.

We use micro panel data, applying Linear Probability Random Effect Models, allowing both between-units and within-units variation to concur to the estimations. Two dichotomous micro level dependent variables are investigated: the self-reported employment condition in the reference year (1 if mainly in employment, 0 otherwise) and the contractual condition (1 if in temporary employment, and 0 otherwise). All the models control for age, age-squared, sex, education and geographical area, which is particularly relevant in the analysis of the Italian labour market. As already mentioned, in all models labour market regulation is accounted for by means of the LMR index, which constitutes the main variable of interest. A specific control is added to account for other possible regulative confounders, here captured in all the models by the inclusion of Business Freedom Index, a proxy for product market (de)regulation. Given the focus on the recent negative economic conjuncture, depending on the specifications, period effects are accounted for by means of two different dummy variables indicating either the crisis period 2008-2014, or, as an alternative, a variable indicating the years characterized by negative GDP growth rates.

**Empirical results**

In what follows we provide a summary of the main results concerning the influence of labour market regulation (LMR) on employment chances and the distribution of its effect over the economic cycle (by means of interactions between LMR and 2008/2014 time-dummies or GDP). Moreover, the influence of atypical employment is further investigated looking at the trends of the outcome variable in response to the variation in previous exposure of specific groups of individuals to the diffusion of temporary positions (by means of interaction terms between lagged values of group-specific percentage of fixed term contracts (FTC) and either 2008/2014 time-dummies or GDP). The groups has been defined in terms of sex, age-class, geographical area and educational level.

The results presented in table 1 show that the process of labour market deregulation undergone in Italy between 1995 and 2014 has not produced a significant increment of the employment opportunities experienced by the workforce. On the contrary, along the entire observational window the LMR net contribution to the employment growth appears to be slightly negative (see M1-M2), thus indicating, if any, a negative influence of the progressive deregulation of temporary employment. Consistently across the different models, the rest of coefficients in table 1 are in line with our expectations and confirm previous results in the literature with respect to the effects of age, education and sex, as well as the relevance of within-country

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8 Indeed, even if in case of single country studies unobserved heterogeneity at the country level is less relevant than in (especially cross sectional) comparative analyses, a longitudinal approach is here to be preferred since it allows to better grasp the net influence of regulative dimension on labour market functioning.

9 In light of the uninterrupted growth of unemployment rates between 2008 and 2014, the “crisis effect” has been empirically accounted by the inclusion of a specific dummy variable being 1 for all years after 2007.

10 Alternative specifications, using OECD EPL index on temporary employment do not change the substantial interpretation of this result.
heterogeneity. Interestingly enough, the other macro regulative variable, i.e. the Business Freedom Index (here interpreted as a proxy of product market flexibility) shows a positive correlation with employment trends. This suggests that the rigidities on product market (rather than the regulation of hiring and firing legislation in itself) have a role in explaining at least part of the poor performances of the Italian labour market in the last years, a result that reconfirms previous research findings (Barbieri, Cutuli, 2015). Coming to the distribution of the effect of labour market deregulation over time (or according to the economic cycle), it emerges how increasing deregulation tends to produce negative effects on aggregate employment, especially in a context of economic downturn (see M3) as firms are incentivized to reduce staff members, plausibly preferring numerical flexibility over functional flexibility tools. Once again, alternative definitions of the crisis period (using a dummy variable coded 1 in case of null or negative GDP growth), does not alter this empirical evidence (see M4).

Moreover, for the waves in which the contractual variable was available (2000-2014), the de-jure information concerning the amount of labour market regulation has been substituted with the actual exposure of specific groups of the workforce to temporary employment, measured two years before the occupational outcome. The rationale behind this strategy is threefold. First, looking at temporary employment concentration allows to analyse directly the mid-term occupational consequences of increasing workforce exposure to the contractual arrangements that have been actually de-regulated over time. Second, it allows to test for the influence of labour market deregulation even in periods of relative normative stability. Third, by means of variations in temporary employment diffusion (both over time and according to socio demographic characteristics) it allows to look at distinct occupational consequences of temporary employment diffusion depending on the economic conjuncture. The evidence of M5 suggests that the growing exposure of the workforce to temporary employment did not come, on average, with an increase of the overall employment opportunities between 2000 and 2014. On the contrary, M5 clearly shows a concentration of the negative effect of previous exposure to temporary positions in concomitance with the economic crisis. This evidence is consistent with the idea that employment retrenchment and substitution effects associated with previous temporary employment diffusion come into play and result exacerbated in period of economic uncertainty.

In table 2, retaining the specification of the models presented in table 1, we look instead at the influence of employment legislation on the trends of temporary employment shares, and its distribution over the economic cycle. Additionally, as in table 1, we look at the impact of the local variations in the previous exposure to temporary positions. We do so by means of different interaction terms between lagged values of group-specific percentage of fixed term contracts (FTC) and either 2008/2014 time period, or GDP trend. The overall pattern of results presented in table 2 shows that the normative changes occurred between 2000 and 2014 have been accompanied by a significant increase in the exposure of the Italian workforce to temporary employment. Along the entire observational window, the net contribution to the amount of temporary employment appears to be positive and significant (see M1-M2). Considering this result jointly with the empirical evidence of table 1, it is therefore possible to argue that the reforms of the Italian employment legislation have been associated with a significant substitution of temporary employment for permanent ones. This evidence recalls the
responsibility of the institutional reforms implemented by the past governments (both centre-right/left orientation) in the progressive dualization of the Italian labour market.

Consistently across the different models, the rest of coefficients in table 2 are in line with our expectations and confirm previous findings in the literature concerning within-country heterogeneity and with respect to age and sex variables (more specifically, it emerges the overrepresentation of young individuals and women in the secondary, atypical labour market). Additionally, the models show the u-shaped distribution of temporary employment according to the individuals’ educational endowments, thus confirming the relatively high risks of temporary employment also for those with tertiary education. Interestingly enough, also the second macro variable, i.e. the Business Freedom Index (proposed as a proxy of product market regulation) shows a positive correlation with temporary employment diffusion. This suggests that also demand side factors and changes in the workforce composition associated with product market flexibility have a role in the expansion of temporary employment shares. Nonetheless, jointly looking at the results of table 1 and table 2, contrary to what we found with respect to LMR index, the net positive influence of the Business Freedom Index on temporary employment seems not to be associated with substitution effects of temporary workers to permanent ones, but rather with a moderate increase of the overall employment rate.

Coming to the distribution of the LMR effect over time (i.e. according to the economic cycle), it emerges how increasing labour market deregulation especially in a context of economic downturn has been correlated with increases in temporary employment shares (see M3). Once again, alternative definitions of the crisis period (using a dummy variable coded 1 in case of null or negative GDP growth), does not alter this empirical evidence (see M4).

Finally, M5 clearly indicates a stronger positive effect of previous exposure to FTC positions in concomitance with the economic crisis, indicating that contractual lock-in dynamics barriers to contractual mobility are particularly relevant depending on the economic conjuncture.
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<th>Employment M3</th>
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<tr>
<td>1995/2006 # % FTC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008/2014 # % FTC</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: Our own elaborations on Bank of Italy 1995-2014 data

*** p<0.001, ** p<0.01, * p<0.05
### Tab. 2 Linear probability random effects models on temporary employment opportunities

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Temporary M1</th>
<th>Temporary M2</th>
<th>Temporary M3</th>
<th>Temporary M4</th>
<th>Temporary M5</th>
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<tr>
<td>Age</td>
<td>-0.0200***</td>
<td>-0.0200***</td>
<td>-0.0200***</td>
<td>-0.0200***</td>
<td>-0.0279***</td>
</tr>
<tr>
<td>Age^2</td>
<td>0.000176***</td>
<td>0.000176***</td>
<td>0.000176***</td>
<td>0.000176***</td>
<td>0.000271***</td>
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<td>Woman</td>
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<td>0.0412***</td>
<td>0.0411***</td>
<td>0.0412***</td>
<td>0.0648***</td>
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<td>3yrs Sec.educ.</td>
<td>-0.0331***</td>
<td>-0.0329***</td>
<td>-0.0323***</td>
<td>-0.0329***</td>
<td>-0.0551***</td>
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<td>5yrs Sec.educ</td>
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<td>-0.0480***</td>
<td>-0.0481***</td>
<td>-0.0480***</td>
<td>-0.0550***</td>
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<td>Tertiary educ.</td>
<td>-0.00983*</td>
<td>-0.00966*</td>
<td>-0.00996*</td>
<td>-0.00967*</td>
<td>-0.0221*</td>
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<tr>
<td>2008-2014</td>
<td>0.0314***</td>
<td></td>
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</tr>
<tr>
<td>LM Deregulation Index</td>
<td><strong>0.0477</strong>*</td>
<td><strong>0.0582</strong>*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Freedom Index</td>
<td>0.0421***</td>
<td>0.0402***</td>
<td>0.0423***</td>
<td>0.0402***</td>
<td>0.0277***</td>
</tr>
<tr>
<td>Centre</td>
<td>0.0214***</td>
<td>0.0216***</td>
<td>0.0214***</td>
<td>0.0216***</td>
<td>0.0931***</td>
</tr>
<tr>
<td>South</td>
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<td>0.0893***</td>
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<td>GDP(-) trend</td>
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<td>0.0620***</td>
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<td>1995/2006 # % FTC</td>
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<td></td>
<td><strong>0.128</strong>*</td>
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<td>2008/2014 # % FTC</td>
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<td><strong>0.337</strong>*</td>
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</tbody>
</table>

Source: Our own elaborations on Bank of Italy 2000-2014 data

*** p<0.001, ** p<0.01, * p<0.05
The 2015 'Jobs Act'

Side by the empirical evidences provided so far with respect to the effects of labour market deregulation in Italy, in what follows we depict the most recent trends of both employment and employment regulation, and discuss them. After almost two decades of labour market reforms at the margins, in 2015 the Italian government implemented, under the label of “Jobs Act”, an ambitious set of measures aimed at making more flexible the “rigid” Italian labour market, boosting employment and reducing labour market normative segmentation (OECD, 2015). Apart from other ancillary interventions of passive labour market policies, two main measures strictly referring to the employment legislation are worth to come under scrutiny, given the purpose of this chapter.

First, a remarkable but limited in time, reduction (up about 30% in firms’ social contributions costs per employee) of non-wage labour costs, which applies (only) to all new permanent work contracts, including conversions from fixed-term to open-ended positions. Second, the abolishment of the right to be reinstated in case of unfair dismissal. With this second act, which abolished the s.c. “articolo 18” of the law 300/1970 (workers’ rights statute) the Renzi centre-left government muscularly redefined the firing rules of the permanent work contract, a goal that had always been in the program of the previous right-wind Italian governments, but never achieved. The formal reason for such reform was to reduce the level and the uncertainty of the firing costs for all those newly hired with the “new” permanent contract (named graded security contract). Such new permanent contract has been designed to become the prevalent work contract in the Italian labour market, hopefully reducing the demand for temporary employment. 11 This redefinition of firing and hiring costs between alternative contract types is so far highly debated among researchers – as well as its effectiveness in reducing the strong segmentation of the Italian labour market (Fana et al. 2015). Indeed, the 2015 reform is a quite controversial one. Differently from previous measures, the reform was not explicitly targeted to temporary employment but it rather relaxed the legislation ruling (new) permanent contract, thus reducing the EPL gap between different segments of the workforce. Notwithstanding this, there are different reasons to be sceptical with respect to its capacity to significantly reduce the Italian labour market dualism and to simplify the jeopardized structure of contractual types. These reasons lie in the exclusion of the public employment from the reform, the enlargement of the possibility to indefinitely renew temporary contracts within the same firm without motivating it (thanks to the “Decreto Poletti” of the 2014), and the

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11 The Jobs Act was approved the 4th of March 2015. The incentive to hirings with the new “graded security contract” is disposable since January 1st 2015. In its initial formulation, it reached the amount of 8.060 Euros per year, per contract, and was to last three years. The incentive is payed also in case of transformations of FTC into the new graded security contract. Subsequently, the so called 2016 “stability law” (l. 208, 28.12.2015) reduced both the amount of the contribution (up to a maximum of 3.250 Euros) and its length (two years).
dramatic extension of the eligibility for voucher payments\(^\text{12}\) of a series of “accessory” jobs – the new form of precarious work in the present Italian Labour market.\(^\text{13}\)

Due to the current absence of nation-wide micro data covering the period of the reform, it is not possible to reach a comprehensive evaluation of the efficacy of these measures in terms of employment creation and of the possible re-balancing of permanent and temporary employment shares. The empirical evidence produced so far using aggregate administrative or regional data (Figure 4) shows relevant heterogeneity in the results. If some authors have casted doubts on the expected boost in employment (Fana et al. 2015), other authors have instead underlined the presence of a moderate (about 0.5%) positive effect of the reform (Sestito and Vallanti, 2016). Nonetheless, the largest part of this employment growth (in a context or enduring economic crisis) has to be attributed to the positive (but expensive) shock of the time-limited rebate of the labour costs, which accompanied the Jobs Act, thus confounding causal and trivial impacts on employment creation. The drop in new hirings – as well as in total employment: Figure 4 - which followed the progressive cancellation of the public incentives, happened at the end of the 2015, albeit not representing a robust causal analysis, is however a clear signal that in spite of the incredible waste of rhetoric on the salvific effects of the Jobs Act and its deregulatory content, what really pushed the demand for labour were the fiscal incentives: once they ceased, or were sensibly reduced (end of 2015), the emperor's new clothes appeared for what they are.

\[\text{Fig.4 Italy, Dependent employment 2004-2016 (February). Permanent (blu line, right axis) and FTC employees (red line, left axis), de-seasonalized data, in 1000s} \]

\[\text{Source: Istat data, reworked by Veneto Lavoro. In: Bruno Anastasia, 'Analizzare il mercato del lavoro: tra discussione pubblica (sociale e politica) e problemi di misura'; BBS seminar, Dept Sociology and Social Research, 21 aprile 2016} \]

\(^{12}\) The voucher payment is a system aimed to regulate the compensation of occasional jobs for pensioners, students, part time workers, unemployed and inactive individuals. The voucher system releases the employer from the obligation of hiring the worker on the base of a formal contract up to a maximum of 9333 euro per year, while workers are guaranteed against workplace injuries. The value of the voucher bought by the employer is 10 euros, and 7.50 net euro is the net hourly payment for the worker. The voucher system does not make the worker eligible for unemployment benefits, sickness or maternity leaves.

\(^{13}\) At June 2016, a total amount of 69,899,824 voucher, each of them of 10 Euros gross/hour, had been sold. [https://www.inps.it/docallegati/DatiEBilanci/osservatori/Documents/Osservatorio_Precariato_-_Gen-Giu_2016.pdf](https://www.inps.it/docallegati/DatiEBilanci/osservatori/Documents/Osservatorio_Precariato_-_Gen-Giu_2016.pdf)
Conclusions

In the light of the discussion and of our empirical analysis, it is possible to provide an overall evaluation on the progressive re-definition of labour market regulation underwent in Italy during the last years. The empirical evidence concerning the process of reforming the labour market and the employment legislation teaches us two lessons. The first one is that reducing labour costs by means of temporary employment and insisting on numerical flexibility can be considered as much as short-range - and not effective - remedies that do originate neither good jobs nor effective employment growth. The second is that, notwithstanding it is often advocated as a policy tools favouring labour market adjustments, the increase in temporary employment and the parallel weakening of labour regulation, result in deep labour market dualization. Indeed, despite some improvements of labour market functioning occurred in the phase between the second half of the 90s and the pre-crisis period, the comparative labour market performances in terms of female labour market participation, overall employment and unemployment rates, youth unemployment and long-term unemployment rate, remained rather unsatisfactory. The analyses we provided show that the protracted process of redefinition of labour regulation, and particularly to reforms largely adopting a supply side perspective and insisting on hiring regulations of temporary workers, did not represent a solution. Moreover, the normative segmentation resulting from labour market deregulation at the margins came with increases in intergenerational inequality of occupational opportunities and negative outcomes entrapment in atypical employment and substitution between permanent and temporary employment (Barbieri et al. 2016b).

Two additional points that are worth of consideration: first, the pattern and the results of labour market regulations over the business cycle; second, the weight of employment legislation within the broader institutional setting related to labour market dynamics. The analyses presented indicate that, contrary to what can be expected, the pattern of reforms has occurred largely independently from the economic conjuncture, and a relative normative stability accompanied the most intense phase of the crisis, between 2008 and 2014. Nonetheless, the diffusion of temporary employment shares has been pronounced both in phases of economic growth and in contexts of GDP retrenchment. According to the empirical evidence, it is plausible to explain the demand for flexibility more as a tool of reduction of overall labour costs than as a second best solution for the need of extended probation periods in presence of information asymmetry.

Moreover, differently from what occurred concerning the time patterns of both labour market deregulation and reduction in permanent employment shares, the occupational consequences of normative changes and temporary employment diffusion have been shown to interact with economic conjuncture. More precisely, the deregulation measures and in particular the diffusion of temporary employment in periods of crisis, have proved to exert a negative influence on employment chances of the workforce and a positive influence to further reductions of permanent employment shares. The overall pattern of results does not offer empirical support for the claims of a positive nexus between LM efficiency and LM deregulation. It rather confirms, in line
with other empirical evidence (Tangian, 2010) that temporary employment diffusion had a role in reducing the resilience of Italian labour market to the crisis.

Finally, all the analyses are consistent with the idea that even in presence of distributional effects among different social groups, the long process of labour market reforms and labour market dualization occurred in Italy, did not exert strong influence on the aggregate occupational outcomes, first of all the overall unemployment rate. In fact, even the last recent reform (Jobs Act), characterized for the first time by a reduction of protection also for permanent workers, would have had only a minor impact on employment dynamics if not complemented by generous hiring incentives.

All in all, it can be safely concluded that despite representing the main labour market policy over the last twenty years, the repeated and progressive decrease of employment protection legislation has largely failed in producing the expected results on job growth and unemployment reduction.

The evidence of our analyses suggest that other factors and other domains (product market rigidities, scarce productivity, underdevelopment of training, low human capital investments etc.) are plausibly at the basis of the gap between the performances of the Italian labour market and the ones of other affluent countries. Unlikely enough, these factors, whose possible interactions with labour market regulation certainly deserve further investigations, have remained so far out from the policy agenda of Italian reform attempts.
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