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Italy: A crisis country of tomorrow? Insights from the Italian labor market

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KIEL POLICY BRIEF

**Italy: A Crisis Country
of Tomorrow?
Insights from the
Italian Labor Market**



NO. 107 September 2017

Klaus Schrader and Marta Ulivelli

ABSTRACT / ZUSAMMENFASSUNG

We analyze the shortcomings of the Italian economy and of the labor market in particular against the backdrop of the widespread fear that Italy could turn into a second Greece and could trigger some kind of domino effect. The analysis shows that Italy is not a second Greece but the Italian economy is losing ground towards the majority of EU countries. The labor market is a mirror of Italy's lingering crisis: Mass unemployment, lack of perspective for young people, low labor force participation and a dwindling competitiveness. The labor market reforms which had been initiated to enhance labor mobility, to increase the incentives to work and to improve the employability of the unemployed are regarded as adequate but they should be completed to achieve the desired success. A delay of labor market and other essential structural reforms would hamper structural change and thereby diminish the prospects for economic growth that is required for the sustainability of Italy's debt burden.

Vor dem Hintergrund der weit verbreiteten Befürchtung, dass sich Italien zu einem zweiten Griechenland entwickeln und einen Dominoeffekt auslösen könnte, werden die wirtschaftlichen Schwächen des Landes mit dem Fokus auf die Arbeitsmarktsituation analysiert. Es zeigt sich, dass Italien zwar in einer besseren Verfassung als Griechenland ist, aber gegenüber der Mehrheit der EU-Länder an Boden verloren hat. In der Arbeitsmarktentwicklung spiegelt sich die schwelende Krise Italiens wider: Massenarbeitslosigkeit, schlechte Jobaussichten für Jugendliche, eine geringe Erwerbsbeteiligung und ein Verlust an Wettbewerbsfähigkeit prägen das Bild. Die weitreichenden Arbeitsmarktreformen zur Steigerung der Arbeitsmobilität, zur Erhöhung von Arbeitsanreizen und zur Arbeitsmarktintegration von Erwerbslosen setzen zwar an den relevanten Schwächen an, sie wurden aber immer noch nicht abgeschlossen. Weitere Verzögerungen, auch bei anderen unverzichtbaren Strukturreformen, werden den notwendigen Strukturwandel ausbremsen und damit auch die Aussichten auf das Wirtschaftswachstum verschlechtern, das für die Tragfähigkeit des italienischen Schuldenbergs benötigt wird.

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ITALY: A CRISIS COUNTRY OF TOMORROW? INSIHTS FROM THE ITALIAN LABOR MARKET

by Klaus Schrader and Marta Ulivelli

1 MOTIVATION

Following the outbreak of the Greek crisis in 2010 the widespread belief emerged that domino effects would also impair other weak economies in Southern Europe. Although further countries of this group—namely Portugal, Spain and Cyprus—required economic adjustment programs and/or the recapitalization of financial institutions, the economic turmoil in Greece remained an exceptional case.¹ But no domino effects occurred, in contrast to Greece these countries could finish their programs as scheduled to a large extent successfully. Greece probably will have difficulties to complete its now third adjustment program, the required reforms have been implemented piecemeal at best and the Greek politics and society still lack the ownership of the reform process.

However, in the course of the euro crisis it has been discussed whether there are further candidates for some kind of adjustment program. Frequently, Italy has been named as a potential candidate due to its fiscal instability mirrored by a government debt and deficit failing the Maastricht criteria, weak financial institutions and an overall sluggish economic development. Among others, the OECD as well as the IMF observed a deep and long recession in Italy over the last decade, even though recently these institutions observed a modest recovery which appears to be more than just a glimmer of hope, an assessment also shared by the European Commission.² The economic improvements have been partly attributed to the structural reforms—especially those for the flexibilization of the labor market—that have been implemented during the euro crisis. At the same time, the lingering bank crisis, the growing government debt, the still high budget deficits and the absence of growth dynamics fuel the skepticism about a sustainable economic recovery in Italy. Hence, the idea that Italy could turn into a second Greece and could trigger some kind of domino effect is still on the agenda of European policy-makers.

Against the backdrop of these ambiguous assessments of Italy's economic situation and the potential threats for the Euro Area and the EU as a whole, it will be analyzed whether Italy has returned on a path of sustainable economic recovery or has to be still viewed as a loose cannon. We follow the assumption that Italy's economic problems refer to structural weaknesses whereby labor market distortions are playing a major role. For this reason, various Italian governments had laid the focus of their reform efforts on the improvement of labor

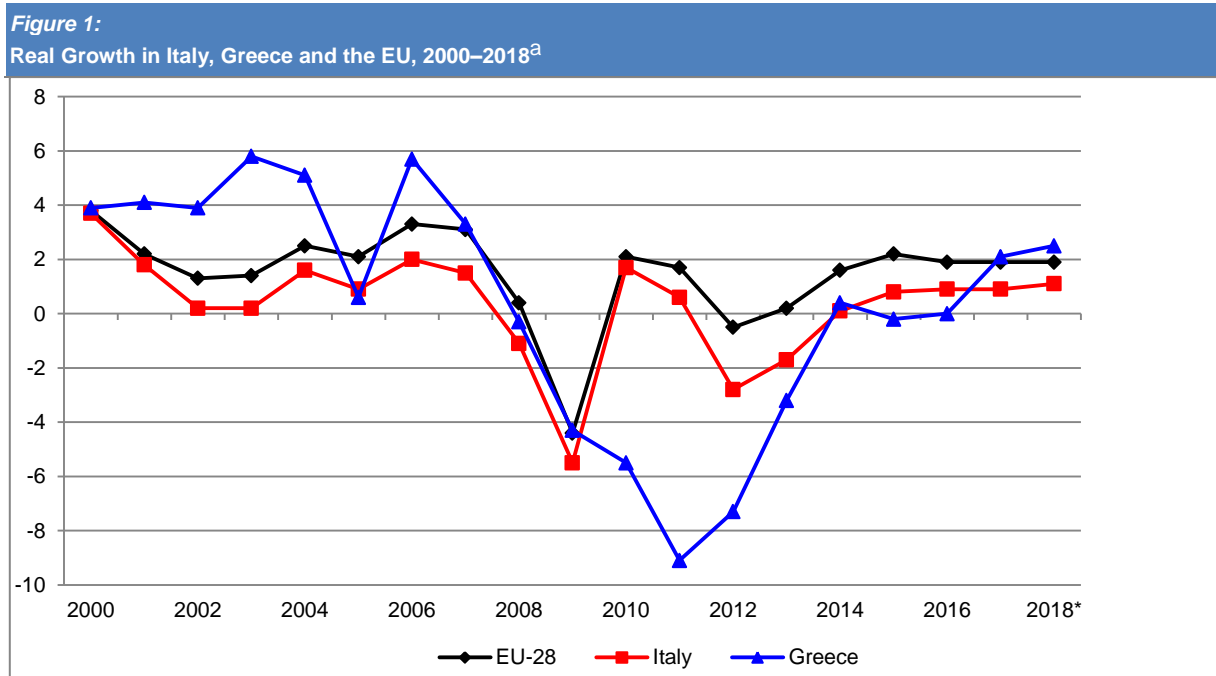
¹ For details see e.g. Schrader, Benček and Laaser (2017).

² See OECD (2017: 6-12), IMF (2017, 2016: 7-8) and European Commission (2017a: 84-85).

market regulations in the past. In the following, we analyze the shortcomings of the Italian economy and of the labor market in particular, we outline the reforms initiated and implemented so far and evaluate their effectiveness in terms of the improvement of relevant labor market indicators.

2 RATHER STAGNATION THAN DYNAMICS

After the global economic and financial of 2009, coming along with a drop of real GDP by 5.5 p.c., Italy did not return to a path of sufficient economic growth (Figure 1). Instead, the subsequent Euro crisis also hit the Italian economy which again contracted in two consecutive years, at that performing worse than the EU average. It is only cold comfort that Italy performed better than the crisis country Greece and returned to a modest annual growth of about 1 p.c. since 2015. This means that Italy's growth rate remained below the EU average and in 2016 the country ranked second to last in the EU growth ranking, just ahead of Greece. But according to the EU Commissions' (2017a) forecast for 2017 and 2018 the growth perspectives for Greece are now brighter than for Italy—although the forecasts for Greece proved to be overoptimistic in the past. Anyway, Italy's growth performance reveals that the often unnoticed Italian crisis is still smoldering with no end in sight.



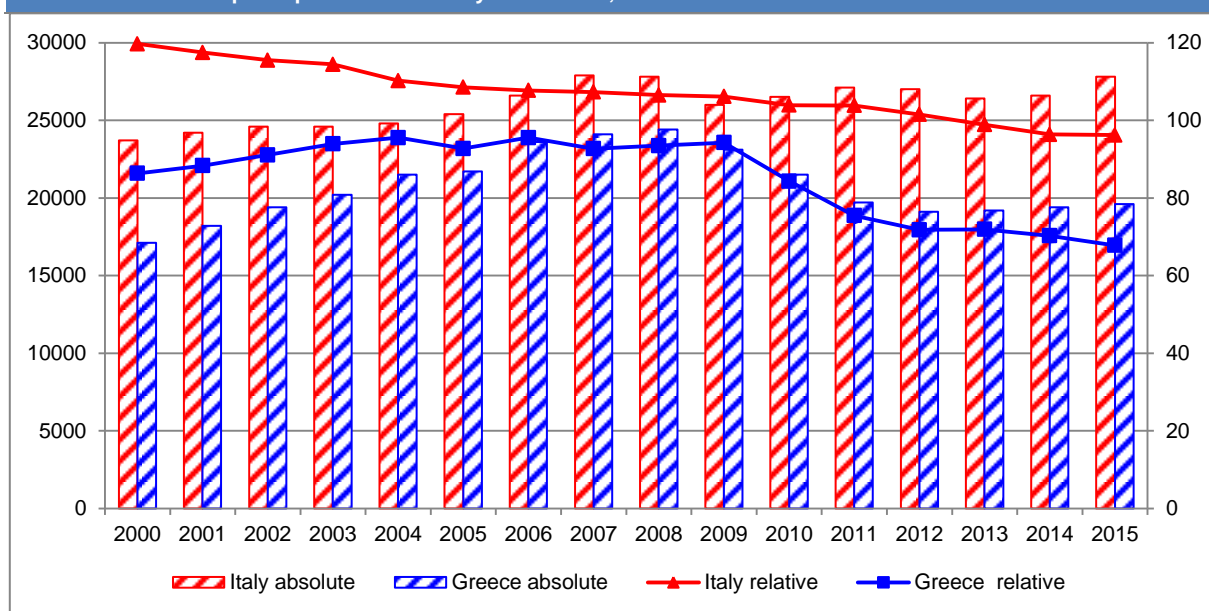
*Estimates by the European Commission (2017a). — ^aChain linked GDP volumes, percentage change on previous period.

Source: Eurostat (2017a); own compilation.

The below-average and partly negative growth also gave rise to a stepwise decline of Italy's relative per capita income during the 2000s (Figure 2). Prior to the crisis Italy's per capita

income already grew slower than the EU average respectively stagnated. In this period the relative per capita income dropped from 120 p.c. to 96 p.c., i.e. in the EU income hierarchy Italy only ranked in 12th place after a continuous relative decline in the 2000s. Even though, the rise of the Greek per capita income was followed by a sharp drop in the aftermath of the crisis and it is now significantly lower than the Italian in absolute and relative terms again. However, Italy appears to be a country that is losing ground in the EU.

Figure 2:
Absolute and relative per capita income in Italy and Greece, 2000–2015^{a,b}

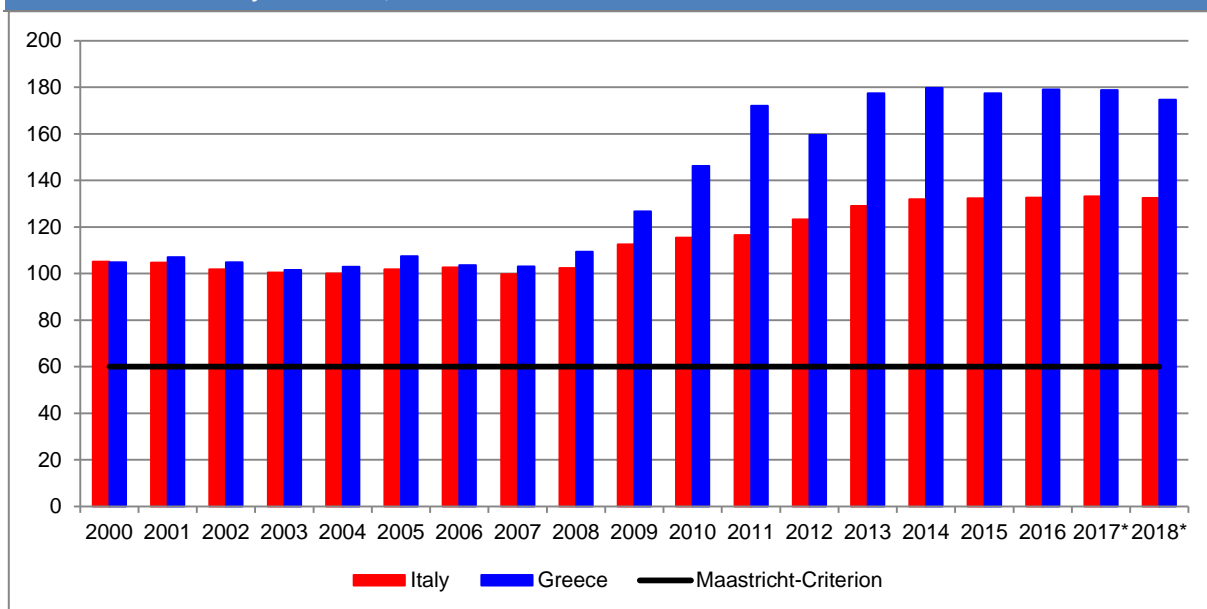


^aLeft axis: absolute: GDP in purchasing power parities per capita. — ^bRight axis: relative: Italian and Greek GDP in purchasing power parities per capita as a percentage of EU-28 GDP in purchasing power parities per capita.

Source: Eurostat (2017b); own compilation and calculations.

While the Italian growth is at best stagnating, the development of Italian government debt exhibits more dynamics: already prior to the introduction of the Euro Italy had not met the Maastricht criterion of 60 p.c. due to a debt to GDP ratio of about 100 p.c. (Figure 3). In the course of the economic and financial crisis the level of government debt swiftly rose to a peak of now 133 p.c. Although this level is significantly below the Greek record debt level of almost 180 p.c., Italy is second in place and doubts came up whether the Italian debt is sustainable any longer. These doubts can be in particular traced back to the following considerations: (i) A rigorous austerity policy is difficult to enforce due to the political competition and special factors like the banking or the refugee crisis; (ii) the ECB policy of low interest rates which noticeably facilitates the servicing of loan might come to an end in the near future; (iii) the actual and forecasted growth does not suggest that Italy could grow out of its debt in the foreseeable future.

Figure 3:
Government Debt of Italy and Greece, 2000–2018^a



*Estimates by the European Commission (2017a). — ^aGovernment consolidated gross debt in per cent of GDP.

Source: Eurostat (2017c); own composition.

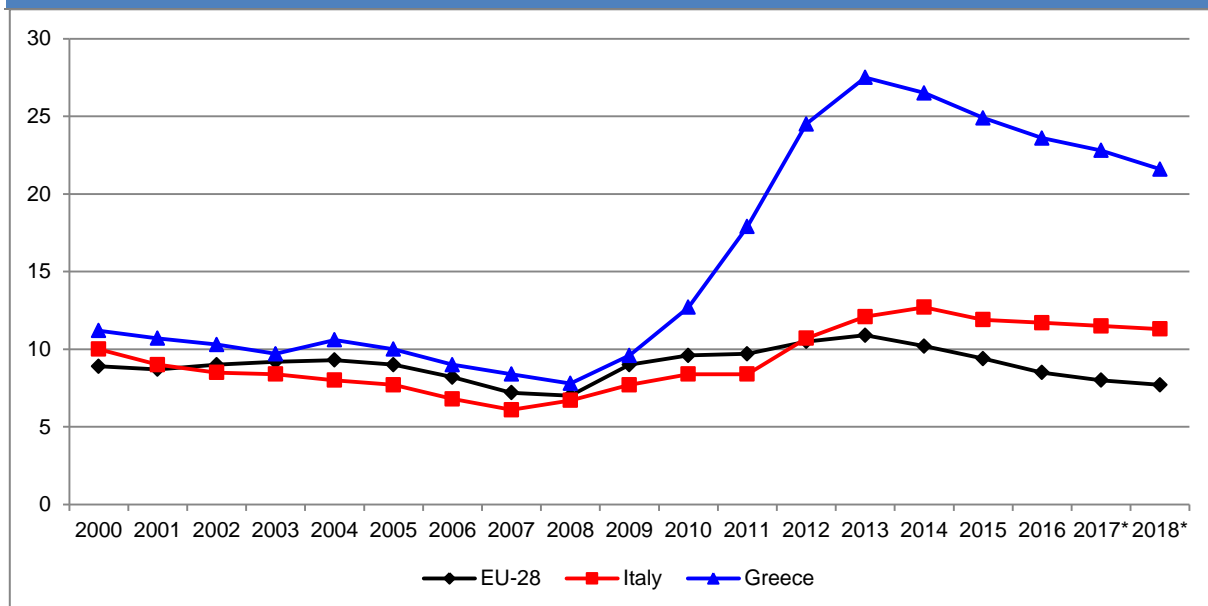
Against this backdrop, the idea suggests itself to improve the fundamentals of the Italian economy and to overcome structural deficiencies in order to enhance the growth potential. In contrast to Greece which had to implement a reform agenda given by the “institutions” the Italian politics had to design structural reforms on its own responsibility—although among others the European Commission, the OECD and the IMF proposed a wide range of structural reforms for Italy. As a key area of reforms, they identified the labor market because a lack of flexibility, disincentives to work, an inefficient labor utilization, a weak labor productivity and uncompetitive labor costs were regarded as main reasons for the poor employment situation and the ensuing limitations for growth.

3 LABOR MARKET IN CRISIS MODE

In the early 2000s the Italian unemployment rate declined gradually from 10 p.c. to about 6 p.c. until the onset of the crisis 2008/2009, one percentage point below the EU average—despite the sluggish economic growth in this period (Figure 4). In the aftermath of the crisis unemployment rose again beyond the 10 p.c. level and did not visibly recover up to now. While the EU average unemployment rate significantly declined and passed the 10 p.c. line, the Italian unemployment rate left its peak value of close to 13 p.c. not before the years 2015 and 2016 and remained at the two-digit level. With the fifth largest unemployment rate of the EU-28 Italy still exhibits severe labor market problems and the forecasts do not promise a fast convergence to the EU average. The EU Commission (2017a: 84) expects that the slow

economic development and a higher labor force participation will set the limits for the reduction in Italian unemployment and for a convergence with the EU average. Nonetheless, the Italian unemployment rate is far away from the Greek style mass unemployment with an unemployment rate more than 10 percentage points higher.

Figure 4:
Unemployment in Italy, Greece and the EU, 2000–2018^a



*Estimates by the European Commission (2017a). — ^aHarmonized unemployment rate, unemployed in per cent of active population.

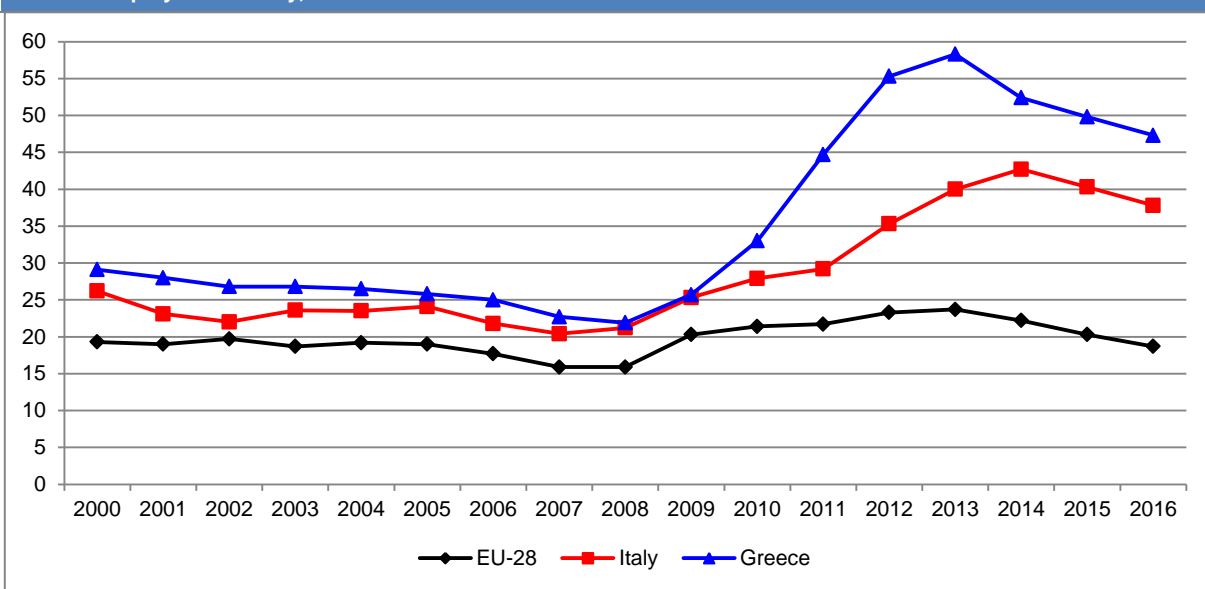
Source: Eurostat (2017d); own composition.

With respect to youth unemployment the Italian labor market crisis appears to be even more severe. After a peak of 43 p.c. in 2014 the Italian youth unemployment rate is still well above the EU average and it is the third-highest behind Greece and Spain although it dropped by five percentage points to 38 p.c. during the last two years (Figure 5). It means that more than one third of the young Italians available for the labor market did not find a job. Even if education and training are considered, the share of young people neither in employment nor in education and training is high (NEET rates): in 2016 close to 20 p.c. of Italians from 15 to 24 years fall in this category while the EU average NEET rate was only 11.5 p.c. (Eurostat 2017e).

Although Italian unemployment is relatively high and the labor force is by far not working to capacity, real labor productivity is low compared to other EU countries and did not increase visibly since 2000. The comparison to the EU-28 average reveals that Italy's real labor productivity in p.c. of the EU-28 average productivity declined permanently from close to 120 p.c. to just 103 p.c. during the observation period (Figure 6). Again, Greece performed worse than Italy with a productivity level of now 62 p.c. well below the EU average. However, Italy's productivity problem becomes even more clearly when Italy's productivity level is related to the EU-15 average—the appropriate benchmark for a highly industrialized country: From an

initial value of close to 100 p.c. in 2000 the relative real labor productivity declined to 86 p.c. of the EU-15 average in 2015 (Eurostat 2017f).

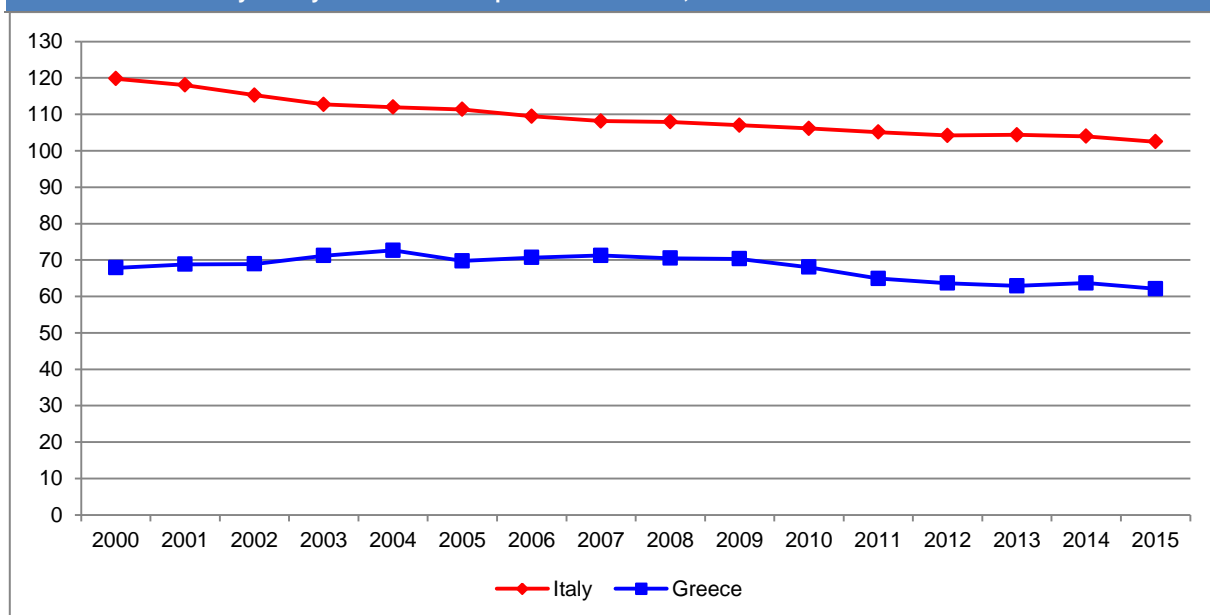
Figure 5:
Youth Unemployment in Italy, Greece and the EU 2000–2018^a



^aHarmonized unemployment rate, unemployed in per cent of active population for age group less than 25 years.

Source: Eurostat (2017d); own composition.

Figure 6:
Real Labor Productivity in Italy and Greece compared to the EU-28, 2000–2015^a



^aReal labor productivity (gross value added in chain linked volumes (2010) per hours worked) in per cent of average EU-28 real labor productivity.

Source: Eurostat (2017f); own composition and calculations.

According to the OECD (2017: 30-32) the comparatively weak Italian productivity growth can be attributed to the growing weight of low productivity industries only to a minor part—in contrast to other EU countries. Instead, lower productivity growth within industries appears to be crucial for the Italian productivity problem which is explained by various factors: resource misallocation across firms, low innovations, scant use of information and communication technologies, inadequate management practices, public administration inefficiency and tax evasion. With respect to manufacturing it is further observed that the productivity of Italian firms at the technological frontier is significantly lower than the productivity of global benchmark firms due to the small size of the Italian firms.

Quite different from the development of labor productivity the Italian labor costs pursued a different path: Prior to the crisis of 2008/2009 Italian labor costs developed in line with the EU average despite the diverging productivity growth (Table 1). However, in the post crisis period the Italian hourly labor costs only rose by 10 p.c. (to EUR 27.80), whereas the EU labor costs rose by 18 p.c. from 2008 to 2016 (to EUR 25.40). Thereby social contribution and other costs paid by the Italian employers even rose more slowly. It can be observed that following a peak in 2014 these costs declined in the consecutive years. Thus the below-average increase of Italian labor costs compensated the poor productivity growth to a certain degree. But despite this convergence process Italy's labor costs remained 10 p.c. higher than the EU average.

Table 1:
Labor Costs in Italy and the EU, 2000/2008/2016^a

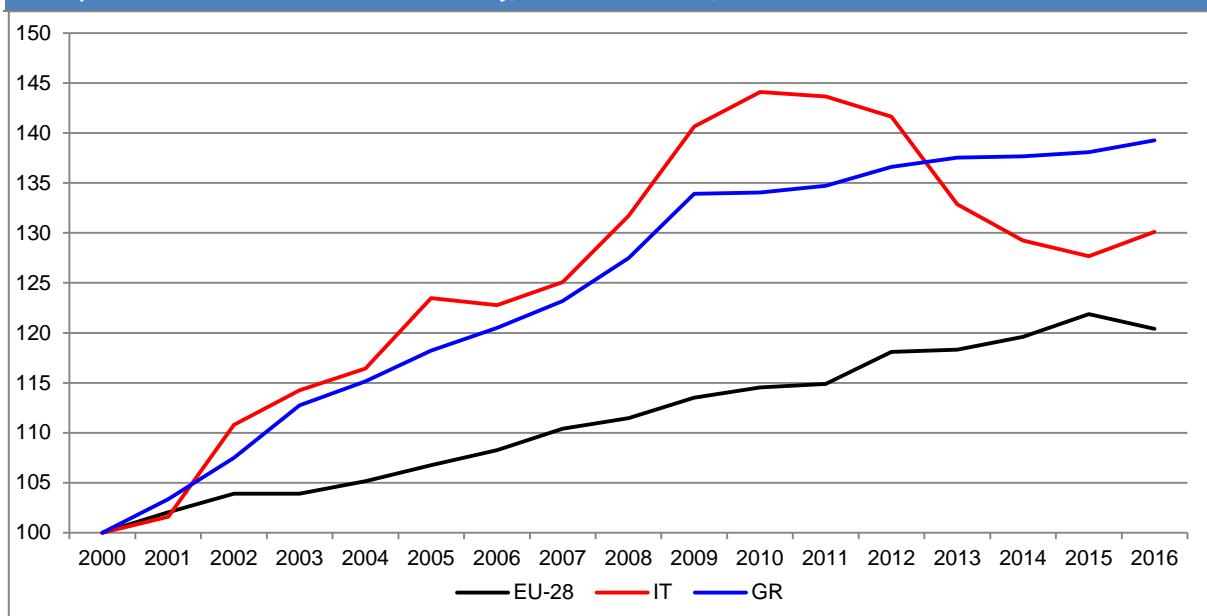
| | Italy | | | EU 28 | | |
|--|-------|------|------|-------|------|------|
| | 2000 | 2008 | 2016 | 2000 | 2008 | 2016 |
| Total Labor Costs | 19.7 | 25.2 | 27.8 | 16.7 | 21.5 | 25.4 |
| <i>Thereof:</i> | | | | | | |
| Wages and salaries | 14.2 | 18.2 | 20.2 | 12.6 | 16.4 | 19.3 |
| Employers' social contributions and other labor costs paid by employer | 5.5 | 7 | 7.6 | 4.1 | 5.1 | 6.1 |

^aHourly labor costs in Euro in industry, construction and services (except public sector).

Source: Eurostat (2017g); own composition.

The development of productivity and labor costs is mirrored in the development of Italian unit labor costs: In the early 2000s prior to the crisis the unit labor costs diverged significantly from the EU average, a convergence process started not until the post crisis period but this trend remains volatile and an again growing divergence cannot be ruled out (Figure 7). In contrast to Italy, the Greek unit labor costs did not converge to the EU average during the whole observation period—at least in the aftermath of the crisis the gap did not become wider.

Figure 7:

Development of Nominal Unit Labor Costs in Italy, Greece and the EU, 2000–2016^a

^aNominal unit labor cost (ULC) based on hours worked: 2000 = 100; nominal ULC = total compensation of employees/real GDP.

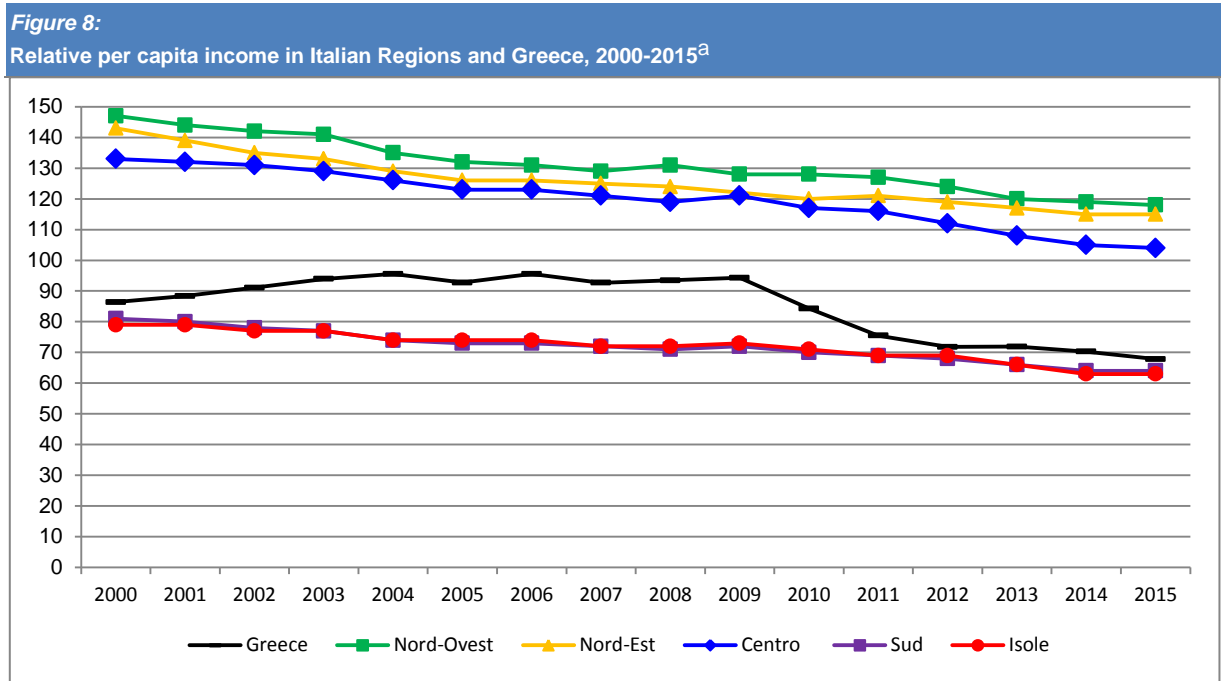
Source: Eurostat (2017h); own composition and calculations.

4 REGIONAL DISPARITIES

The Italian economy is not at all homogeneous but characterized by distinct regional disparities. Although the average Italian per capita income declined to a level below the EU average in the course of the 2000s, the wealthy regions in the North and in the Center of Italy are still well above EU average (Figure 8). In contrast, in 2016 the Southern regions' per capita incomes amounted to less than two thirds of the EU average and were even below the Greek per capita income—a catching-up of Italy's South did not take place. Instead the relative per capita incomes of the Northern and Southern regions both declined. This also means that in Italy no region took the part of a growth engine: Between 2000 and 2015 the real gross value added of the Northern regions only grew by 0.4 and 0.5 p.c., respectively. In the same period the Southern regions did not catch up to the North but their gross value added even declined by 0.2 and 0.3 p.c., respectively (Eurostat 2017j). As a result, regional disparities remained and Italy's Northern and Southern regions both could not keep pace with the majority of EU countries.

Regional disparities also characterize the Italian labor market where the relevant parameters mirror the economic north-south divide (Table 2). With respect to employment, the regional employment rate diverges by about 20 percentage points with the Northern regions in the upper range. Even though in the Southern regions the employment rate grew until the beginning of the crisis in 2008, the positive employment trend turned negative again

in the post crisis years and only a small increase remained in 2016. The Northern regions were more successful in keeping the employment gains of the early 2000s—as a consequence thereof the employment gap between North and South further widened.



^aPurchasing power standard (PPS) per inhabitant in percentage of the EU average.

Source: Eurostat (2017b, i); own composition and calculations.

Table 2:
Regional Labor Market Situation in Italy 2000, 2008 and 2016

| | Employment Rate ^a | | | Unemployment Rate ^b | | | Relative Labor Productivity ^c | | |
|--------------|------------------------------|-------------|-------------|--------------------------------|------------|-------------|--|--------------|--------------|
| | 2000 | 2008 | 2016 | 2000 | 2008 | 2016 | 2000 | 2008 | 2014 |
| Italy | 53.4 | 58.6 | 57.2 | 10.8 | 6.7 | 11.7 | 100.0 | 100.0 | 100.0 |
| North | | | | | | | | | |
| Nord-Ovest | 60.2 | 66.1 | 65.4 | 5.5 | 4.2 | 8.1 | 111.0 | 112.0 | 111.8 |
| Nord-Est | 62.7 | 67.9 | 66.5 | 4.2 | 3.4 | 6.8 | 104.9 | 104.0 | 105.3 |
| Centro | 55.8 | 62.8 | 62.0 | 8.8 | 6.1 | 10.4 | 106.4 | 104.9 | 102.8 |
| South | | | | | | | | | |
| Sud | 42.7 | 45.9 | 43.8 | 20.1 | 11.4 | 19.1 | 80.1 | 79.8 | 80.6 |
| Isole | 41.1 | 46.2 | 42.6 | 22.9 | 13.3 | 20.7 | 84.4 | 84.5 | 82.6 |

^aEmployed persons (from 15 to 64 years) as a percentage of the population. — ^bUnemployed persons (15 years and over) as a percentage of the economically active population. — ^cRegional labor productivity (gross value added at basic prices per hours worked) in per cent of national labor productivity.

Source: Eurostat (2017k); own compilation and calculations.

The labor market divide also becomes visible by the regional unemployment rates: The Southern regions are much more affected by unemployment than the North. In 2016 the South still had to deal with mass unemployment at the 20 per cent level (Table 2). Although in

2016 the unemployment rates of the Northern regions were significantly higher than in the pre-crisis period, they only amounted to the half or less of the regional unemployment rates in Southern Italy.

With respect to labor productivity as a further regional performance indicator, a standstill can be observed: The comparison of regional and national labor productivity levels reconfirms that the Southern regions did not catch up to the North in the course of the 2000s (Table 2). The disparity remained, the Nord-Ovest region, which includes Lombardia, still exhibits a productivity level about 30 percentage points higher than the Southern regions. Again, the north-south divide of Italy's economy is immense.

Nevertheless it has to be discussed whether the economic weight of the Southern regions is enough to draw down the Italian economy as whole. Throughout the observation period from 2000 to 2015/16 the relative weights of the Northern and Southern regions did not change crucially: The South accounts for less than one quarter of the Italian GDP, for one third of the population and for more than one quarter of Italian employment (Eurostat 2017i, l, m). It means that the economic weakness of the Southern regions is a major burden for Italy's national economy but it cannot explain the overall economic paralysis. In fact, it can be observed that the wealthy Northern regions also contribute to Italy's economic stalemate by a lack of economic dynamics. Hence, reforms that improved the allocation process on the national labor market would be advantageous for all Italian regions.

5 UNCOMPLETED LABOR MARKET REFORMS

5.1 MILESTONES IN THE REFORM PROCESS

Against the backdrop of the structural weaknesses of the Italian labor market and the associated poor growth performance of the Italian economy, since the 1990ies various Italian governments introduced labor market reforms to enhance the flexibility of labor relations. There was great ambition to create a job machine by increasing labor productivity and fostering employment participation. The policy tools applied covered legal frameworks for part-time work, temporary employment and staff-leasing contracts as well as apprenticeship schemes and the decentralization of the wage bargaining process. Especially the "Legge Biagi" (law 30/2003) supported the increase of atypical employment contracts. But obviously these reform efforts were not appropriate to overcome the structural weaknesses of the Italian labor market, the employment did not increase. Instead, the new tax incentives supported a trade-off between full and part-time jobs, accompanied by a decrease of total hours worked.³

It was the financial and economic crisis of 2008 which reminded the Italian policy on the need to implement a comprehensive labor market liberalization. In a first move in 2012 the Monti Cabinet finally launched the "Fornero Reform" ("Legge Fornero", law 92/2012) with a focus on the relaxation of employment protection on permanent contracts, the reduction of

³ For an overview of the Italian labor market reform chronicle see Fana et al. (2015: 9-11).

labor market duality and the design of a universal employment benefit system with a broadened accessibility (see Box 1). The idea was to ease the entry to and the exit from the labor market cushioned by the unemployment benefit system. But again the reform missed some consequence because the possibility of long and costly court procedures in case of disputes over dismissals was not excluded.

Box 1:
The "Fornero Reform" (June 2012)

- Relaxation of employment protection rules on open-ended contracts: The previous intervention by law 300/1970 (namely Article 18) on the protection of workers with open-ended contracts from invalid lay-offs was weakened, narrowing the possibility of reinstatement to cases with missing justification and to discriminatory dismissals.
- Tax incentives for employers to hire on open-ended contracts.
- The reduction of fiscal incentives for fixed-term contracts and stricter limits to the use of "atypical" labor contracts.
- Apprenticeship as the main entry path for young people to the labor market.
- Introduction of a new unemployment benefit scheme: (1) ASpl (Associazione Sociale per l'Impiego), integrating the ordinary unemployment benefit scheme and one special benefit scheme for collective dismissals; (2) MiniASpl for those with a shorter contribution period who are not qualified for the ASpl with a shortened duration; (3) easier access to the wage supplementation scheme "Cassa Integrazione Guadagni" (CIG) which provides a specific benefit following collective dismissal.

Source: Leonardi and Pallini (2013); Fana et al. (2015: 10-11); Jin and Lenain (2015: 7, 20-21); own composition.

Therefore, a second move was inevitable to realize a breakthrough in the field of labor market reforms: Additional measures were taken by the Renzi Cabinet with the so-called "Jobs Act" (law 183/2014) which started in 2014—not least because of the political pressure by the European Commission, the International Monetary Fund and the European Central Bank (Box 2 in the appendix). The Jobs Act has been designed to address two main structural weaknesses of Italian labor market, namely the massive unemployment and the weak labor market productivity in order to revive growth. The Jobs Act has four key goals:

- rationalizing employment protection,
- improving the quality of active labor market policies,
- making social protection more effective,
- raising labor force participation, with particular attention to females.

5.2 EMPLOYMENT PROTECTION

Italy's employment protection system has always manifested the duality of the labor market, leading to an unequal distribution of unemployment, especially at the expense of the young generation. Therefore the government submitted a reform of employment protection as part of the Jobs Act in order to avoid threshold effects, which characterize a dual system, and to foster job creation (IMF 2013: 21-25). In March 2015 the new standard employment contract ("Contratto a tutele crescenti") introduced a new model of employment protection to rationalize and rebalance job protection.

Following the "Fornero Reform" of 2012, the new standard contract significantly restricted the reinstatement of workers in case of arbitrary dismissal. The reform introduced a new form of out-of-court procedure which allows the employers to pay workers an indemnity of one monthly salary per year of service. Since the indemnity is not subject to social contribution or taxation it created an additional incentive to resolve disputes through this procedure. The revision of the rules for dismissal reduced legal risks and financial costs associated with dismissal provisions, and thereby rebalanced the bargaining power of employers and employees, increased flexibility and fostered job creation (Ministero dell'Economia e delle Finanze 2015: 40-43).

The reform also comprised financial support for employers using open-ended contracts. The government introduced a permanent full deduction of the labor costs under open-ended contracts from the regional tax on productive activities (IRAP). Furthermore the 2015 "Stability Law" introduced a three-year exemption from contribution to social security of up to a maximum of EUR 8060 per year as an incentive for private employers who have been recruiting in 2015 through new open-ended contracts. However, the 2016 "Stability Law" reduced these incentives to a two-year exemption from social contribution at the maximum of EUR 3,250 per year.

These measures were introduced to shift the employers' preferences towards open-ended contracts, thereby reducing labor market duality. The effectiveness of this kind of rationalizing employment protection was tested by the development of employment and of the number of contracts. Probably, the new regulations for contracts and the tax relief had an initial positive impact on job creation. A study of the Bank of Italy (2015: 31-32) assessed that the new rules for dismissal and the tax incentives explained about one quarter of net job creation in the first half of 2015.

In the light of the statistics available through Eurostat (2017n) the reform outcome is less impressive up to now: From 2014 to 2016 the number of employment contracts with unlimited duration was growing in each year, the total increase amounted to 2,6 p.c. But in the same period the increase of contracts with limited duration, totaling to 6.5 p.c., clearly outnumbered this rate (see Box 2 in the appendix). Thus, the share of unlimited contracts even declined. The cut of the exemption from paying social security contributions last year might further undermine the growth of unlimited contracts.

5.3 ACTIVE LABOR MARKET POLICIES

The Jobs Act aims at strengthening Italy's active labor market policies (ALMPs) primarily by a centralization of responsibilities which have been dispersed across national, regional and local authorities so far. Accordingly, the design and goals of ALMPs have been different, the national monitoring and exchange of information has failed because of the absence of a common methodology to collect data and a national database. Similar deficiencies have affected the employment service: The regionally organized public employment services were not able to provide transparent and comprehensive information to job seekers and to meet the needs of employers due to a lack of information infrastructure and capacity for data exchange (European Commission 2016: 32-41).

These organizational flaws were identified as a main cause for the long unemployment duration and the failure of the public actors to foster quick and sustainable reemployment. Therefore the Italian government planned to raise the effectiveness of ALMPs in order to improve job matching efficiency and workers' skills with a focus on the long-term unemployed. To achieve this goal in January 2016 a “National Agency for Active Labor Market Policies” (Agenzia Nazionale per le Politiche Attive del Lavoro) (ANPAL) was established and is operational since January 2017. It replaces the “Direzione Generale” of the Ministry of Labor which was so far responsible for active labor market policies, employment services and education (see Box 2 in the appendix).

The main task of ANPAL is the coordination and improvement of the national network of institutions and agencies (such as public employment services, INPS, INAIL⁴, chambers of commerce) to overcome the fragmentation of information and the dispersment of competencies. The agency has to manage, monitor and evaluate ALMPs and its outcomes. The effective implementation of this task requires cooperation at the national and regional level which covers the provision of services, information sharing to ease the matching of labor demand and supply, strengthening the placement capacity and the monitoring of service delivery (Iudicone 2016, Jin and Lenain 2015: 22-24, European Commission 2016: 37).

But ANPAL's main task would have been easier to fulfil only if the responsibility for the management of ALMPs had been shifted from the regions to the central administration as ruled in the constitutional reform launched by the Renzi Government⁵. This reform remained incomplete because the constitutional referendum on December 4, 2016 stopped the transition of responsibilities from the regional to the central level thus hampering further opportunities of cooperation. It is not foreseeable whether and when a new attempt will be started—as matters stand, this part of the reforms has failed.

With respect to single ALMPs, the EU Youth guarantee, which came into force in mid-2014, is of special importance. It is regarded as a blueprint for a permanent improvement of the whole activation system. The program includes an information system for monitoring the target group of young people to identify policy measures which meet the special requirements of this group. Such a system could be also applied to other groups of job seekers.

The Youth Guarantee Program plays an important role in addressing one of the most challenging deficiencies of the Italian labor market: the low youth employment rate. As a result of the youth employment crisis, Italy is experiencing a strong “brain drain” since many high-skilled young people are emigrating abroad. This phenomenon has been compensated neither by inflows of equally qualified Italians returning to the country nor by a “brain exchange” in form of an inflow of high-skilled young foreigners to Italy (European Commission 2016: 41). The brain drain rather reflects better job opportunities and conditions abroad.

⁴ INPS (Istituto Nazionale di Previdenza Sociale) is the national government agency for the social security; INAIL (Istituto Nazionale Assicurazione Infortuni sul Lavoro) is the national government agency for the insurance against work-related injuries.

⁵ The constitutional reform included a recentralization of a number of devolved functions and aimed at eliminating concurrent competences between the regional and the central administration (OECD 2017: 40, IMF 2016: 21).

Accordingly, in the “Global Competitiveness Index 2016-2017 ” Italy only ranked 107 out of 138 with respect to the “country capacity to retain talent” indicator and 105 to the “capacity of attracting talent” (WEF 2016: 212-213).

Against this backdrop, the Youth Guarantee Program is meant to facilitate school to work transition of young people aged 16 to 25 years through apprenticeship or traineeship. The participants also have access to a bundle of measures including guidance, further education and training to raise their employability (Jin and Lenain 2015: 23) (see Box 2 in the appendix).

The first phase of Italian Youth Guarantee started in May 2014 and lasted until December 2015 when more than 900,000 young people were registered to the program. Only less than a third of them received an offer (254,252). In March 2016 the second phase of Italian Youth Guarantee started with a new measure: a "superbonus" for young people aged 16-29 within the thresholds EUR 3,000 to 12,000, paid in 12 monthly instalments for the employer who transforms an apprenticeship contract or a professional training into a permanent contract. Finally, in December 2016, the number of young people registered to Italian Youth Guarantee amounted to 1,048,119—an increase by 33.9 p.c. year-on-year. The number of offers grew by 68 p.c.; i.e. at least more than 40 p.c. of the registered people received one (Garanzia 2016: 1-2).

These offers do not mean that the participants become necessarily integrated into the labor market. Although apprenticeship contracts increased by 31 p.c. in 2016 compared to 2015, at the same time the number of apprenticeship transformed into permanent contracts decreased: In 2016 the number of apprenticeship contracts transformed into unlimited contracts was 81305, i.e. minus 5 p.c. compared to the transformation recorded in 2015 (INPS 2016). Accordingly, the apprenticeship contract is not yet the key port of entry into the labor market.

Another indicator for the evaluation of the Youth Guarantee Program is the development of the youth unemployment and NEET rates. As already outlined in chapter 3 youth unemployment is still extraordinarily high in Italy: 37.8 p.c. versus the EU average of 18.7 p.c. in 2016 (Figure 5). At least in 2015 and 2016 the Italian youth unemployment rate decreased by 2.4 and 2.5 percentage points, respectively. These figures are in line with the development of the Italian NEET rate which measures the share of young people neither in employment nor in education and training: In 2015 and 2016 the NEET rate decreased consecutively by 1.5 percentage points and finally amounted to 19.9 p.c. versus an EU average of 11.5 p.c. (Eurostat 2017e). These figures suggest that the Youth Guarantee Program has probably contributed to lower youth unemployment and NEET rates which however remain among the highest in the EU. But the observation period is too short for a final assessment.

5.4 SOCIAL PROTECTION

The new regulation of unemployment benefit schemes by the Jobs Act includes a modified conditionality for the provision of benefits. To support active job search and reintegration into the working environment, recipients are now required to participate in activation measures such as professional training or retraining programs and community service projects proposed by the employment services. Ultimately, the idea is to realize a flexicurity approach

which on the one hand ensures a high degree of flexibility of the unemployed and on the other hand secure them financially.

The Jobs Act integrated the unemployment benefit schemes of ASpl and MiniASpl which had been introduced by the "Legge Fornero": The "New Social Insurance Provision for Employment" (NASpl) provides for a longer duration of benefits while maintaining the previous level and reducing the contribution period⁶ (see Box 2 in the appendix). The new system extends the benefit scheme to all kind of workers, targeting all employees working in the private sector (except workers in agriculture). In return, the beneficiaries are obliged to accept certain rules for their reintegration in the labor market (referring to types of job, geographical mobility, job referrals and active job search) as well as to participate in employment and training programs. In case of noncompliance with these rules and the denial of activation measures, benefit sanctions are the consequence (Jin and Lenain 2015: 22).

In addition, part of the reform was the wage supplementation scheme "Cassa Integrazione Guadagni" (CIG). It curtailed job cuts during recession but at the same time delayed economic restructuring and labor reallocation which impaired productivity growth and workers' employability. The revision of the wage supplementation scheme introduced in September 2015 intends to tackle policy weaknesses such as the focus on job protection rather than on the protection of workers as well as the weak link between passive and active labor market policies.

The CIG reform's objective is to promote workers mobility across jobs and enhance the reallocation of labor resources. Therefore the government streamlined the scheme by reducing the duration of wage supplements and tightening the eligibility criteria. The wage supplementation was still restricted to the support of workers affected by corporate reorganization and business crises. The reform also improved the CIG's insurance dimension because since then firms utilizing it more frequently are supposed to make higher contributions to its financing. As a possible result of these changes the claiming of benefits dropped in 2016 (see Box 2 in the appendix) (European Commission 2015: 34, 2016: 6; ISTAT 2016).

In general, the effectiveness of these reforms which focus on the activation of unemployed resp. of workers facing unemployment depends on the efficiency of Italian employment services. As previously mentioned the public employment services lack an information network, capacity for data exchange and tools to match the supply and demand of labor sufficiently. Therefore a reorganization and a monitoring of the employment services performances are also needed (European Commission 2016: 31-41).

⁶ The contribution period of NASpl is 13 weeks over a period of four years prior to unemployment instead of the two-year contribution period of ASpl and the 13 weeks during 12 months of MiniASpl (Eichhorst et al. 2016: 15, OECD 2017: 63).

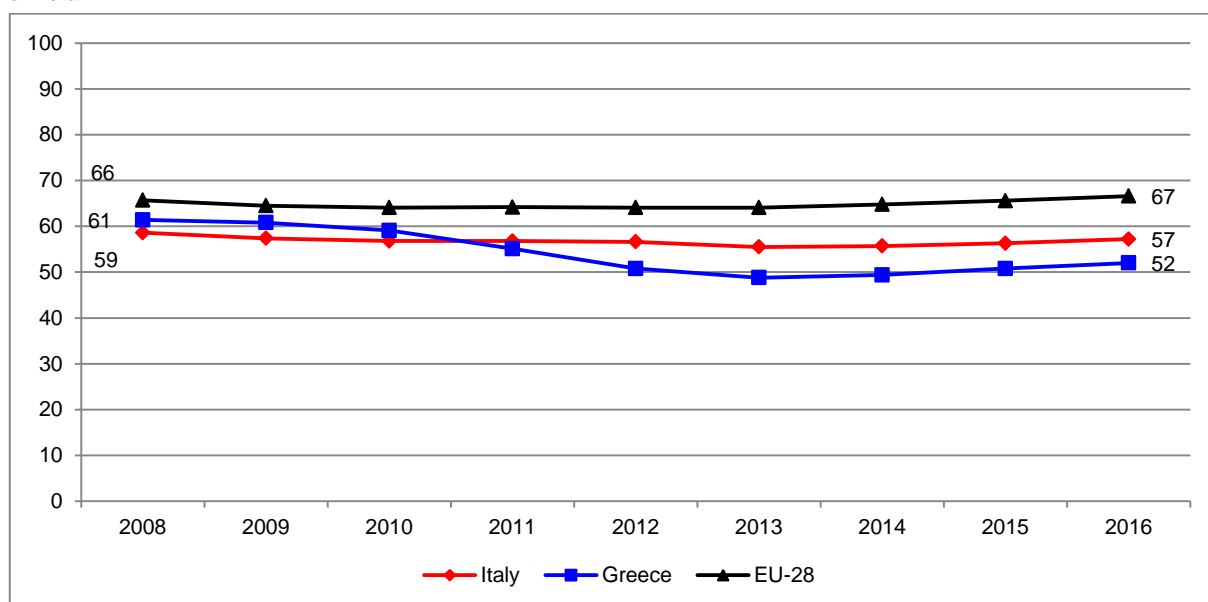
5.5 LABOR FORCE PARTICIPATION

Italy's labor force participation rate is among the lowest in the EU and restricts the potential output of the country significantly (Figure 9). In 2016 only the employment rates of Croatia and Greece were lower. Due to demographic factors labor force participation is threatened to shrink further in the foreseeable future thus keeping up the downward pressure on the potential output, *ceteris paribus*. The low labor force participation especially concerns Italian women, with persisting strong differences across regions and a peak of low participation in the South. Italian women often have a strong responsibility for children and older family members in the context of still persisting unfavorable social norms that hampers their opportunities to enter the labor market. By that time the Italian birth rate is very low but the traditional female role as care providers for elderly family members gained in importance (Fana et al. 2015: 6-8, European Commission 2015: 73, 2016: 38-82, Jin and Lenain 2015: 31, OECD 2017: 119).

Matters are complicated further by missing infrastructure and incentives to work: Public spending on family services, which include early education and childcare for little children, is low; the access criteria for childcare facilities are rigid due to capacity constraints⁷; the tax burden for two-earner households creates disincentives to participate in the labor force for a married women as the typically second wage earner (European Commission 2015: 38, IMF 2016: 21, OECD 2017: 117-149). At least the 2011 pension reform raised the age and contribution requirements for a full pension (Jin and Lenain 2015: 29).

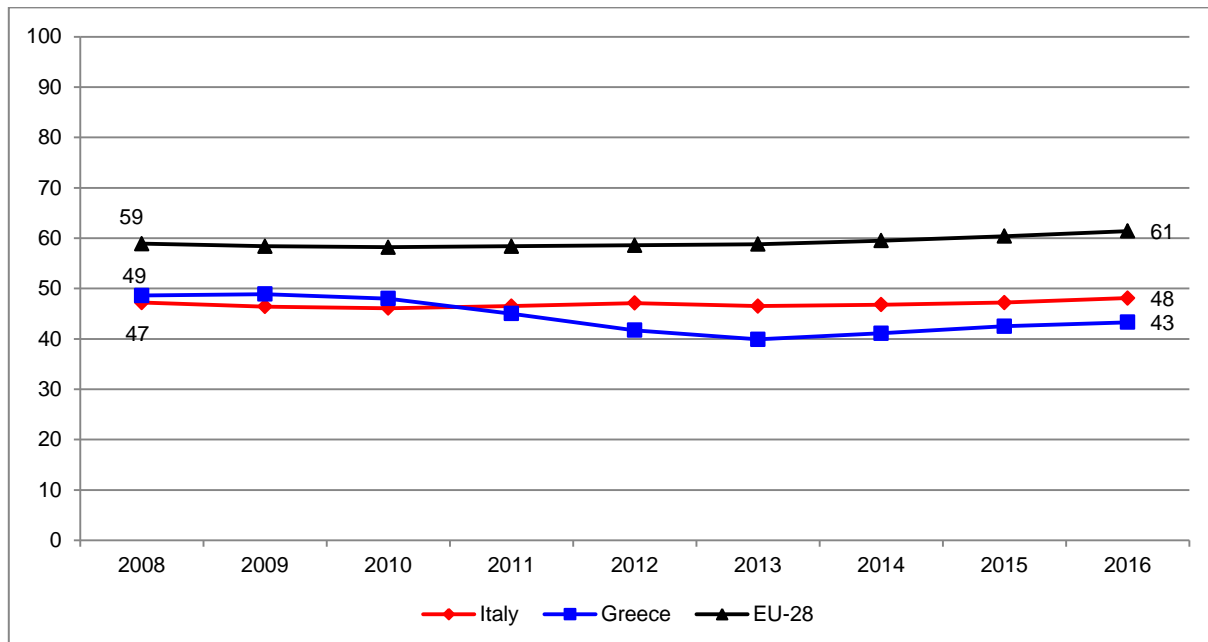
Figure 9:
Employment rates of Italy, Greece and the EU by gender, 2008–2016^a

a. Total

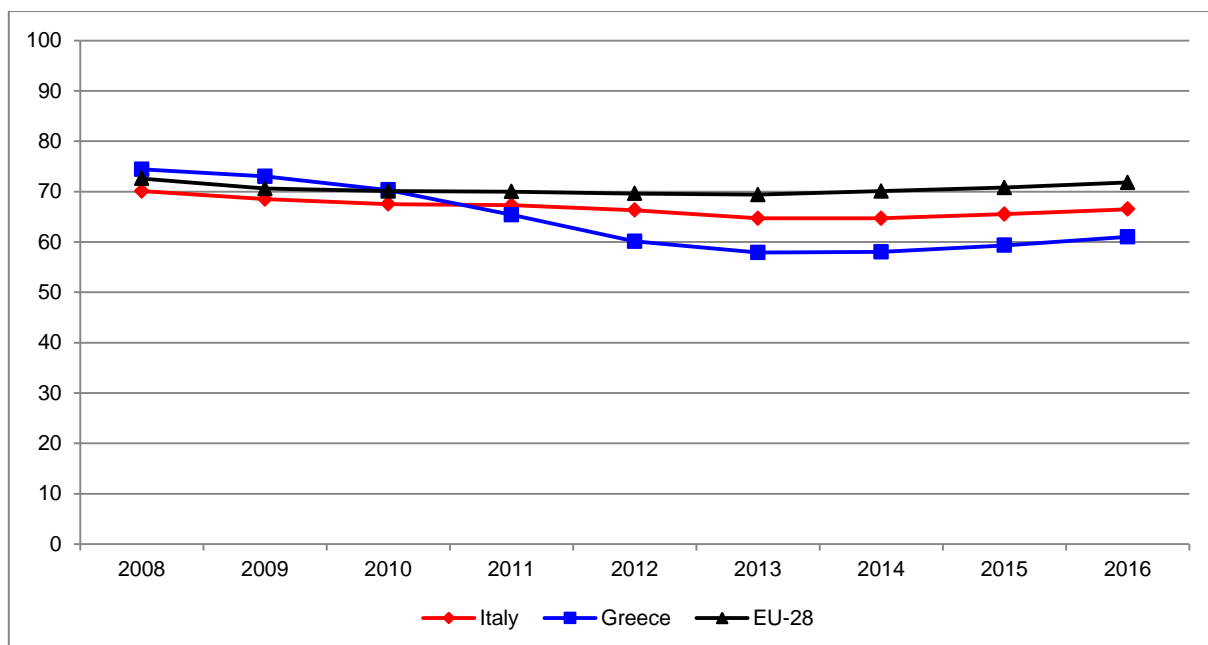


⁷ The availability of childcare facilities is limited: only 24 p.c. of Italian children up to three years are enrolled in formal childcare versus the OECD average of 33 p.c. (OECD 2017: 60).

b. Female



c. Male



^aEmployment rates as employed persons (15-64 years) in per cent of total population (15-64 years).

Source: Eurostat (2017o); own compilation.

In June 2015 the Italian government adopted a package of policy reforms—as a component of the Jobs Act—with aimed at improving maternity protection and the sharing of care responsibilities between women and men. These reforms included a bundle of work-life balance measures: the provision of maternity leave cash benefits even when employers did not contribute to social security; the option of part-time work with reversibility to replace

parental leave; financial incentives for measures that help reconcile work with family responsibilities including telework and an investment of EUR 100 million in the creation of childcare services (European Commission 2016: 38, 2017: 42, ILO 2016: 79, OECD 2017: 60-119) (see Box 2 in the appendix).

The measures introduced with the reform of 2015 did not become effective up to now which can be explained by time lags and missing implementation. The total employment rate is still stagnating and has not yet reached the pre-crisis level (Figure 9). In 2016 the female employment rate recorded an increase of 0.9 percentage point and amounted to 48.1 p.c. which was above the pre-crisis level. But the positive development of female employment could not compensate the shrinking male labor force participation. And despite this positive development, the Italian gender gap in labor force participation still remains second to last in the EU ranking. In line with this finding, the Global Competitiveness Report of 2016-2017 ranks Italy 89 of 138 countries with respect to "Female Participation in the Labor Force Index" (WEF 2016: 212-213).

5.6 UNDECLARED WORK

In Italy labor force participation is also affected by undeclared work. It is estimated that in 2015 undeclared work involved about 12 p.c. of persons in working age—the majority of them were women, but also (primarily illegal) migrants as well as people with low qualification and of relatively old and young age (European Commission 2016: 38).

The Jobs Act introduced measures to address Italy's large informal economy by facilitating the transition from undeclared to declared work. One measure was the change of regime on voucher or "buoni lavoro": Vouchers are hourly tickets with a nominal value of 10 euros used for the payment of "accessory jobs" in sectors such as agriculture, tourism and home services. The Jobs Act raised the maximum yearly amount of revenues that can be received in vouchers from EUR5,000 to 7,000. The Jobs Act also revised the sanctions in case of violating labor laws and raised penalty payments for undeclared work—namely "Maxisanzione" increased by 20 p.c., the penalty payment for employing foreign workers without a residency permit.

Additional measures were adopted to rationalize the system of labor inspections with the creation of the new National Labor Inspectorate (INL) in May 2016. The INL incorporated three distinct institutions⁸ and changed the way inspections work (see Box 2 in the appendix) (European Commission 2017b: 43). The supervision by the inspectorate proved that 61 p.c. of the firms monitored committed violations in the first 9 months of 2016—reflecting an increase of 1.5 percentage point compared to the same period in 2015 (INL 2016). These findings can be taken as an indication of the higher efficiency of labor inspections but they also reveal that the problem of undeclared work is still unsolved.

⁸ The institutions incorporated are the Ministry of Labor and Social policies, INPS (Istituto Nazionale di Previdenza Sociale) and INAIL (Istituto Nazionale Assicurazione Infortuni sul Lavoro).

5.7 WAGE BARGAINING

In the early 2000s unit labor cost in Italy were rising faster than on EU average, revealing a mismatch between wage and productivity growth (see Figure 7). The wage setting system obviously did not compensate disadvantages in productivity and by this means contributed to the falling competitiveness of Italy's labor and rising unemployment in the course of the economic and financial crisis. According to the Global Competitiveness Index of the World Economic Forum Italy is ranking 131 out of 138 for flexibility of wage determination (WEF 2016: 212-213). This means that the Italian potential is high to realize gains from a reform of the wage bargaining system which would rebalance wage and productivity growth.

In Italy collective bargaining takes place primarily at the national sectoral level with "Contratti collettivi nazionali di lavoro" (CNNL). CNNLs are binding industry agreements between business associations and labor unions in each industry, applied uniformly for all enterprises across the country. Negotiated wages are set every three years on the basis of a three years (core) inflation forecast⁹. Therefore, once committed, adjustments can be only made at the next round of negotiation three years later. Thus, delayed wage adjustments in a context of low inflation and sluggish labor productivity growth obstruct the alignment of wages with productivity (European Commission 2015: 34; Jin and Lenain 2015: 25) (see Box 2 in the appendix).

Furthermore the collective bargaining reduces the scope for firm-level negotiations (European Commission 2017b: 40).¹⁰ This hampers the adoption of innovative solutions at the firm level which could improve productivity and make wages more responsive to labor market conditions. Therefore a more flexible wage bargaining system could boost Italian competitiveness by resolving the misalignment of wages with productivity.

To support firm-level bargaining the 2016 Stability Law introduced tax rebates on productivity-related premiums agreed at firm-level. Nevertheless second-level bargaining is still not sufficiently developed and diffused in Italy. Accordingly the country specific recommendations on Italy of the European Commission (2016: 34) require an effective framework for second-level contractual bargaining in consultation with social partners.

But the renewal of the collective bargaining framework has not been implemented. Social partners have not yet reached an agreement because they disagree on the respective role of first- and second-level bargaining, in particular on which elements of bargaining should be covered by the second level¹¹.

⁹ This has been first established in 2009 with the "Productivity Pact" (European Commission 2017b: 30).

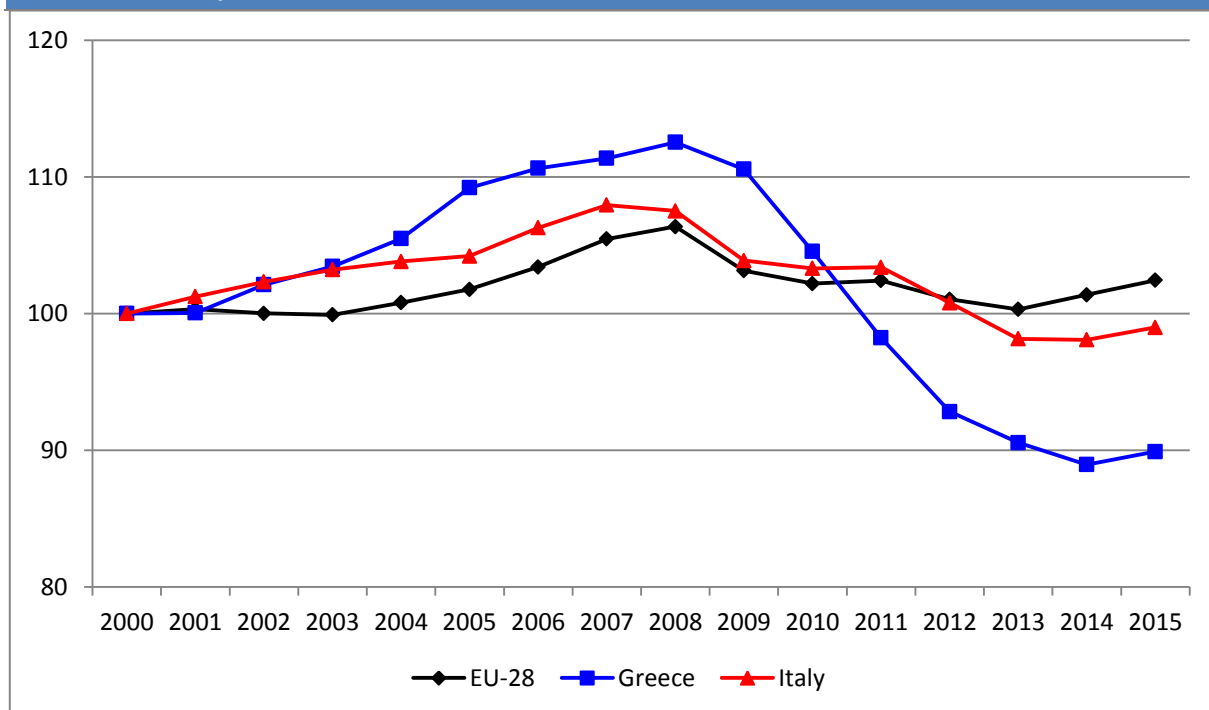
¹⁰ The CNNL is not binding when the partners at the firm level prefer direct negotiations (Jin and Lenain 2015: 25). But firm level bargaining may only concern those issues that have been delegated from the national sectoral contract (European Commission 2016: 39).

¹¹ In January 2016, the three main trade unions agreed on a proposal for a new bargaining framework. However, an agreement with the employers' associations still needs to be found (European Commission 2016: 91).

6 EMPLOYMENT TRENDS IN THE COURSE OF REFORM

Although the Italian labor market reforms gained momentum five years ago and the Jobs Act of 2014 stands for a comprehensive approach to deal with the Italian labor market deficiencies, these efforts are still not visibly reflected in Italy's employment trends. The volume of hours worked has not recovered from the sharp decline after the outbreak of the economic crisis in 2008 (Figure 10). Although in 2013/14 a turning point was reached, the recovery remained modest until 2015 and in contrast to the EU average the working level of 2000 was missed. With no doubt, the development in crisis-ridden Greece was by far more severe than in Italy and the Greek prospects of recovery are clearly worse.

Figure 10:
Hours Worked in Italy, Greece and the EU 2000–2015^a



^aHours worked based on the total employment domestic concept, 2000=100.

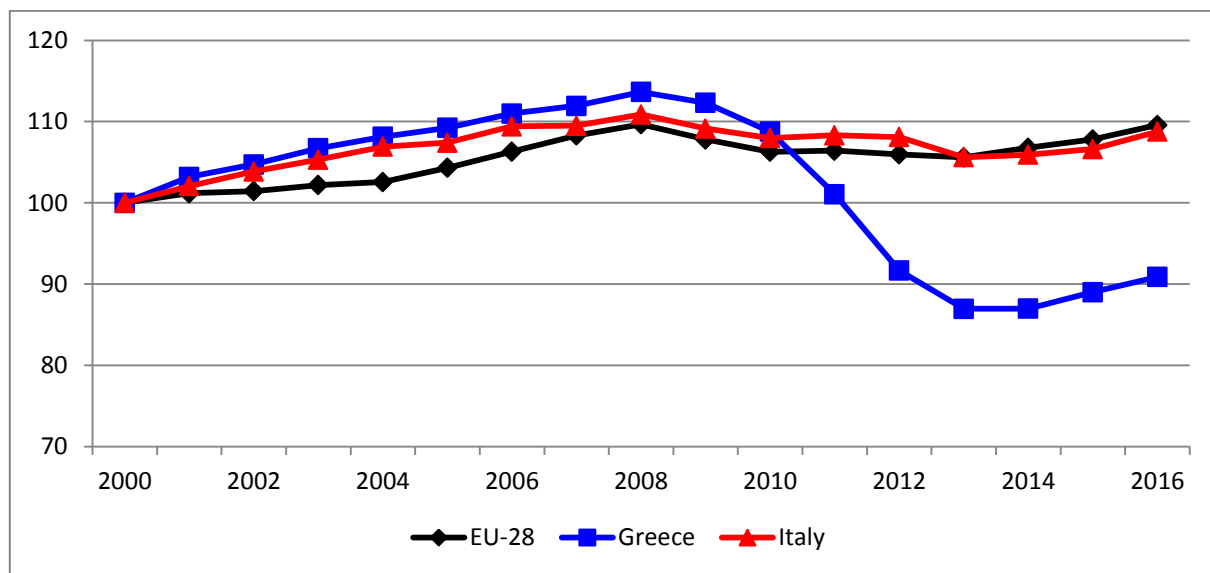
Source: Eurostat (2017p); own composition and calculations.

The Italian labor market situation appears in a more favorable light if the number of employed persons is chosen as an indicator for employment development. Until 2016 the peak values of the pre-crisis years seemed to be in reach again, Italy's employment grew in line with the EU average and the discrepancy with Greece was even more pronounced (Figure 11a.). However, it is the growth of part-time employment that rules this development: While the number of part-time employed persons more than doubled during the observation period, the number of full-time workers declined and is still below the level of the year 2000 (Figure 11b., c.). Italian part-time employment now accounts for more than 18 p.c. of total employment while in 2000 this share was about 10 percentage points lower. A similar

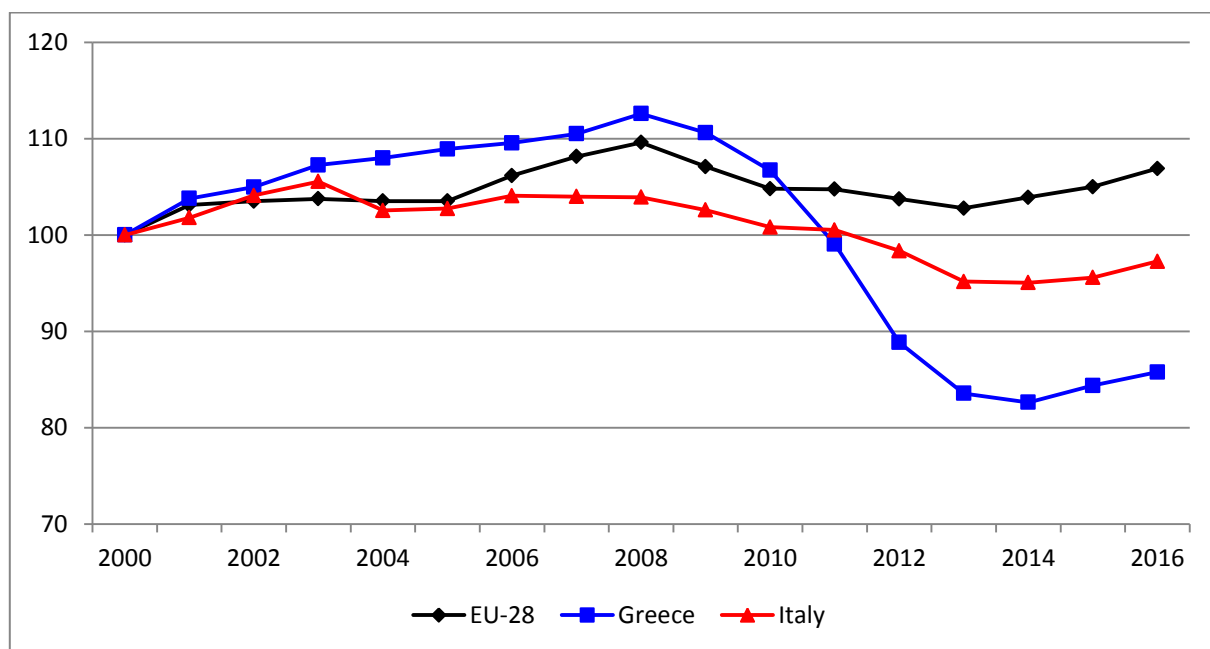
development took place in Greece while in the EU as a whole full-time employment recovered more strongly and part-time employment rose only moderate. Accordingly, in Italy no contradiction exists between the diverging developments of hours worked and employed persons.

Figure 11:
Employment in Italy, Greece and the EU 2000–2016^a

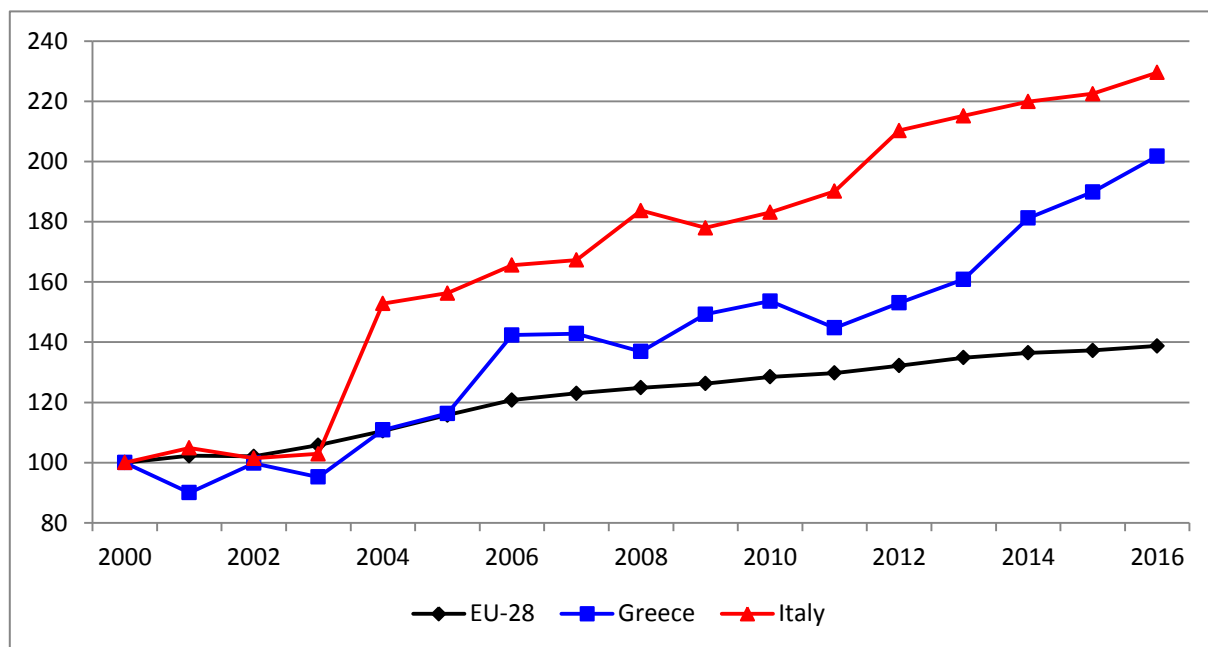
a. Total



b. Full-time



c. Part-time



^aEmployed persons in the 2nd quarter of each year, 2nd quarter 2000=100; EU-28: Estimates for 2000 and 2001.

Source: Eurostat (2017q); own composition and calculations.

For a comprehensive evaluation of these employment trends it is also necessary to consider the quality of the jobs lost and created whereby the wage level can be applied as an adequate indicator for quality. In the post crisis-period since 2008, the peak year of hours worked, 431,500 employees lost their jobs on balance (Table 3). The analysis of the sectoral employment structures reveals that especially in manufacturing and construction the number of employees declined (-1,000,000) whereas the number of employees increased with a focus on “household activities” and “accommodation and food service activities” (about +570,000). The structural effects become visible by assigning the job gains and losses to wage categories: The gains can be detected at the upper end with sectors having “well-above average wages” (+131,000) and at the lower end with sectors having “well-below average wages” (+660,000). The latter is dominated by employees in private households, comprising e.g. maids, gardeners or caretakers, at the bottom of the income hierarchy. The losses on balance mainly affected employees with below-average (-721,000) and average wages (-281,000) whereby the latter is ruled by manufacturing jobs (-520,000) while the losses in sectors with above-average wages were only marginal (-14,000). This means that structural change of Italian employment in the post-crisis years was a change for the worse, the quality of jobs declined overall.

Table 3:**Structural Change in Italy's employment structures during 2008 and 2016^a**

| NACE_R2 code | Lable | Absolute change in 1000 | Per-centage change | Share in per cent of total employment | Wage categories ^b |
|--------------|--|-------------------------|--------------------|---------------------------------------|---------------------------------|
| | | 2016Q2 to 2008Q2 | 2016Q2 to 2008Q2 | 2016Q2 | 2016 |
| T | Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use | 340.4 | 82.6 | 3.4 | well below-average ^c |
| I | Accommodation and food service activities | 226.1 | 18.9 | 6.4 | well below-average |
| Q | Human health and social work activities | 182.1 | 11.1 | 8.1 | average |
| N | Administrative and support service activities | 136.5 | 16.2 | 4.4 | well below-average |
| R | Arts, entertainment and recreation | 62.0 | 23.9 | 1.4 | well above-average |
| E | Water supply; sewerage, waste management and remediation activities | 57.0 | 31.8 | 1.1 | average |
| A | Agriculture, forestry and fishing | 43.4 | 5.6 | 3.6 | well below-average ^c |
| J | Information and communication | 38.4 | 7.4 | 2.5 | above-average |
| D | Electricity, gas, steam and air conditioning supply | 32.6 | 30.8 | 0.6 | well above-average |
| H | Transportation and storage | 30.2 | 2.8 | 4.9 | below-average |
| K | Financial and insurance activities | 23.8 | 3.8 | 2.9 | well above-average |
| L | Real estate activities | 11.1 | 8.6 | 0.6 | well above-average ^c |
| M | Professional, scientific and technical activities | 3.4 | 0.2 | 6.2 | above-average |
| B | Mining and quarrying | 1.9 | 5.6 | 0.2 | well above-average |
| U | Activities of extraterritorial organizations and bodies | -8.1 | -35.7 | 0.1 | n.a. |
| P | Education | -56.0 | -3.5 | 6.9 | above-average |
| S | Other service activities | -86.7 | -11.8 | 2.9 | well below-average |
| O | Public administration and defence; compulsory social security | -198.2 | -14.0 | 5.4 | n.a. |
| G | Wholesale and retail trade; repair of motor vehicles and motorcycles | -262.6 | -7.8 | 13.9 | below-average |
| F | Construction | -488.8 | -25.4 | 6.4 | below-average |
| C | Manufacturing | -520.0 | -11.3 | 18.2 | average |
| | Total employment | -431.5 | -1.9 | 100.0 | |

^aEmployees from 15 to 64 years, economic activities according to NACE, Revision 2; ranked by absolute change. — ^bBased on average hourly wages and salaries in NACE_R2 one-digit groups B to S without O; wage categories are defined as follows: average = 90-110, below-average = 89-80, well below-average = <80, above-average = 111-120, well above-average = >120; the wage level for each sector is calculated as: (wages per sector/average wage of B to S without O) x 100. — ^cMissing wage data, plausible assignment.

Source: Eurostat (2017r); own composition and calculations.

7 CONCLUSIONS

The analysis shows that Italy is not a second Greece but the Italian economy is losing ground towards the majority of EU countries. Due to a sluggish economic growth over many years Italy has fallen back in the EU income hierarchy while public debt has risen to a new record level. The Italian labor market is a mirror of the lingering crisis: Unemployment and especially youth unemployment are well above the EU average and indicate barriers to entry which diminish the prospects of “outsiders”, in particular young people. Although the demographic trend is negative in Italy, labor force participation, particularly the employment of women,

remains one of the lowest in the EU. Over a long period productivity growth has not kept pace with the rising labor costs which impaired the competitiveness of Italian enterprises. Even though the number of employees increased again, the volume of work declined due to a rise of part-time jobs and the quality of work deteriorated because low-paid jobs grew at the expense of well-paid jobs on balance.

Consequently, labor market reforms were launched whereby the Jobs Act of 2014 was the cornerstone of this process. The reforms comprise a rebalancing of employment protection to give incentives for permanent contracts, the reorganization of the inefficient labor organization to improve the activation of the unemployed and to raise the incentives to work, special programs for the youths, more support for families to facilitate female employment, measure to fight undeclared work and legal steps to foster the development of a decentralized wage finding systems. The reform catalogue is comprehensive, responds to the observed labor market problems and is in line with recommendations of international organizations.

However, the desired success of the reforms has not shown up to now. Relevant labor market indicators suggest that the employment situation has not improved basically. Of course, the labor market reforms are still incomplete and possible time lags of recent reforms make it difficult to come to a solid assessment. But the labor market developments should remind Italian politics to continue this reform process which is a crucial part of an extensive reform program to push the badly needed structural change in the Italian economy.¹² Unfortunately, the reform spirit has diminished recently.

The analysis also clarifies that Italy's economic problems cannot be attributed to the traditional underdevelopment of the Southern regions. It is true that a visible catching-up of Italy's South did not take place during the last decades. But it is also true that the wealthy Northern regions themselves lost growth dynamics and could not take the lead as an Italian growth engine. Thus it is not the time for an expansion of regional policy but for policy initiatives to improve the national regulatory framework. The Italian economy as a whole has to become more competitive and make use of its high potential to provide the basis for the economic growth which is required for the sustainability of Italy's debt burden. Italy copes with homemade structural problems which cannot be overcome by cheap ECB money or financial assistance from the European partners. A look at Greece helps to understand the consequences a permanent delay of structural reforms would have.

¹² Other areas of reform are the liberalization of the goods and service markets, the tax system, the public administration and the judicial system (see Gern and Stolzenburg 2016: 13-14).

APPENDIX

| Box 2: The Job Act Reform (2014–2016) | | |
|---|------------------------|---|
| Specific Reform | Implementation | Reform Outcome |
| Employment Protection | | |
| (1) New standard contract with employment protection increasing with tenure (open-ended contract); further limits for reinstatement of workers following unfair dismissal to avoid court proceedings in favour of monetary compensation rising with tenure. | March 2015 | New dismissal procedures are only applied to new contracts. According to Eurostat (2017n) since the introduction of the new standard contract the increase of unlimited contracts came up to 0.7 p.c. (2014/2015) and 1.9 p.c. (2015/2016), i.e. to 2.6 p.c. for 2014/2016. |
| (2) Financial support for employers using open-ended contracts (exemption from social contribution and deduction of the regional tax on productive activities (IRAP)) | June 2015 | In 2016 the two-year exemption for private employers from paying social security contributions for new open-ended contracts contributed by 38 p.c. of the total amount of open-ended hiring. This reflects a strong slowdown from 2015 when the financial support was a three-year exemption that contributed to open-ended hiring by 61 p.c. |
| (3) Support for temporary contracts: Abrogation of the limit given by the fixed fraction of 20 p.c. of permanent contracts; in line with the earlier "Decreto Poletti" which deleted most of the requirements for temporary contracts | May 2014 | From 2014 to 2016 the number of temporary contracts increased by 6.5 p.c. (Eurostat 2017n). |
| Active Labor Market Policies (ALMP) | | |
| (1) Creation of a National Employment Agency (ANPAL) | January 2016 | The "Direzione Generale" for active policies, employment services and education has been abolished. The outcome of the Constitutional Referendum (December 2016) has stopped the transfer of responsibilities for the management of ALMP from the regions to the central administration. At the end, the capacities for activation will depend on the efficiency of employment services, i.e. on the state of the ANPAL (IMF 2016: 56). |
| (2) Youth Guarantee Programme I: incentives for employers to hire young people (aged 16-29) for a minimum 6 months contract; simplifying the conditions for apprenticeship contracts; easing the transition from education to work. | May 2014–December 2015 | The number of young people registered reached more than 900,000 at year end 2015, but less than a third of them received a job offer (254,252). |
| (3) Youth Guarantee Programme II: Employers who transform an apprenticeship contract into an open-ended contract for young people receive a bonus amounting to € 3,000-12,000 ("Superbonus"). | March 2016– | In December 2016 the number of young people registered increased to 1,048,119 while the number of people receiving a job offer rose to 426,246. |
| Social Protection | | |
| (1) New unemployment benefit scheme, NASPI (new social insurance for employment) | May 2015 | The reform modified the conditionality for the provision of benefits which now requires recipients to participate in activation measures which are offered by the local employment centres. ANPAL coordinates and supervises regional centres in charge of activation measures. A pilot plan for 20,000 recipients was launched by the government at the end of 2016 (OECD 2017: 134-135). |
| (2) Revision of the wage supplementation scheme (CIG): reduced duration, tightened eligibility criteria | September 2015 | The number of CIG supported hours dropped from 2015 to 2016: from 17.7 to 12.5 hours per 1000 working hours. |

| Labour Force Participation | | |
|---|----------------------|--|
| (1) Work-life balance measures: improved maternity protection, support of shared care responsibilities | June 2015 | From 2015 to 2016 the female employment rate increased by 0.9 percentage points to a value of 48.1 p.c. (Eurostat 2017o); but the gender gap gender for (labour force participation of women vs. men) remains one of the highest among EU countries (WEF 2016:2011). |
| (2) Action against undeclared work: facilitating the transition to declared work by vouchers; introducing new sanctions, improving labour inspections by the creation of the National Labour Inspectorate (INL) | Since September 2015 | In 2016 the number of undeclared workers expanded by 8 p.c. (or 30,146) compared to 2015 (INL 2016). |
| Wage Bargaining System | | |
| (1) Incentives for firm-level bargaining through a tax relief on productivity wage components. | March 2016 | Second-level bargaining is still not sufficiently developed in Italy. |
| (2) Renewal of the bargaining framework | To be implemented | The social partners did not reach an agreement on a new collective bargaining framework. |
| | | |

Source: See the corresponding paragraphs of chapter 5; own composition.

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