

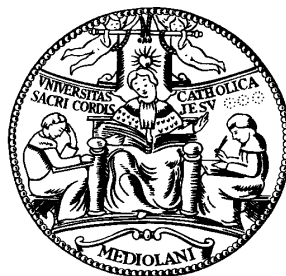
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The Italian Labour Market: Problems and Prospects

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THE ITALIAN LABOUR MARKET: PROBLEMS AND PROSPECTS

Carlo Dell'Aringa

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Introduction

Italy has one of the “worst” labour markets in Europe. This statement is often made by analysts and labour experts. One may disagree with that statement, but it is unquestionable, as the statistics show rather well, that Italy shares with some other southern European countries a series of negative records, such as the highest rate of long-term unemployment, the highest youth unemployment rate, the lowest participation rate of women and older workers, and, finally, the lowest employment rate, which is very far from the target of 70% of the working age population, that the European Union has set for 2010.

Two other important features characterize the Italian labour market. First the diffusion of undeclared work in the underground economy; the second is the regional disparities of the overall conditions of the labour market. The first part of the paper shall describe these key facts.

The search for an explanation of this poor performance leads to the institutional settings of labour and product markets , and the second part of the paper will deal with the relevance, in the Italian context, of those institutional factors that the existing economic literature consider as the determinants of the performance of the labour market. In the case of Italy at least some of these institutional factors not only contribute to explain the overall negative performance, but can also provide an explanation of the observed segmentation of the Italian labour market. Job opportunities are unevenly distributed among the labour force. Imperfections and rigidities produce the effect, among others, of increasing the marginalization of specific segments of the working population.

The final part of the paper will briefly describe the recent events and policy responses to these problems.

1. THE KEY FACTS

A standard way of assessing the functioning of a labour market is to look to a few indicators which are intended to capture the efficiency in using and allocating the available human resources. The usual indicators are the unemployment rate and the employment rate (the proportion of employed people over the working population). As shown in table 1 Italy is rather far away with respect to the average country in Europe. The unemployment rate was roughly similar in the early '90s, but in subsequent years things have been going much less well than in other European countries. Only in the most recent period the gap has been reduced. Much larger is the difference in the employment rate. The figures suggest that in Italy for every person employed there is another one who potentially could work, but for a variety of reasons, does not, because inactive, unemployed, retired, etc.. As a matter of fact quite a number of these people work, but they do so in the underground economy and they do not appear in the official statistics.

In principle there is nothing wrong in deciding not to work, because of a strong preference for other activities. However the high level of unemployment and undeclared work on one side, and the low participation rate of specific segments of the population on the other, make the aggregate distribution between work and not work difficult to be sustained in the long run, and in the specific case of Italy we must also observe that the population is aging more quickly in this country than in other parts of Europe (Dell'Aringa, Lucifora, 2000). The European Union's target of 70% to be reached by 2010 is very far from the actual Italian employment rate, and we would need to increase the speed of adjustment by five times the value recorded in the last ten years, if we want to achieve the target in time.

The factor which mainly contributes to the observed difference in employment rates between Italy and the other European countries is the far lower proportion of young, female, and older workers who are employed (European Commission,

2002) . On the other hand there is no difference in the employment rate of adult males: the Italian rate is very close to the European average.

Finally, as shown in table 3, the dimension of the underground economy is much greater in Italy than in other countries. The recent works of Schneider et al. report that the proportion of the shadow economy in Italy is almost twice as much as in other industrialized countries (Schneider, Enste, 2000).

2. THE INSTITUTIONAL FACTORS

In table 4 for each of the institutional factors which, according to the existing literature, can affect negatively the functioning of the labour market, the position of Italy in the rankings of the European countries is reported. The rankings are the results of previous studies and the position of Italy has been isolated in the table. The list of these factors include: union power, the features of the collective bargaining system, the tax-benefit system, active labour market policies, employment protection legislation, and regulations of the product markets.

Union power and collective bargaining

There are different methods through which the bargaining structure may affect wage levels and macroeconomic performance. A very important one consists in the internalisation of externalities (Boeri, et al., 2001). Higher wages for one category of workers may produce negative effects for other groups. Wage decisions under uncoordinated collective bargaining will not take these negative externalities into account, but under coordination they can be internalised. Coordination works in the direction for real wage restraint. As a consequence employment is higher under coordinated than under uncoordinated bargaining.

One important aspect of coordination is the degree of formal centralization i.e. the level at which bargaining takes place, whether the bargaining is single employer or multi-employer. The degree of centralization is highest when

collective bargaining occurs at the nation-wide level between peak associations and where agreements are binding for the entire labour force in the country.

Britain is the country where collective bargaining is less centralized : multi-employer negotiations have almost disappeared. Norway, Finland, and Austria are the most centralized. In a number of countries bargaining takes place at the sectoral level and they are in an intermediate position in the rankings of the level of centralization.

The disadvantages of measures of degree of centralization is that they fail to capture informal or tacit cooperation and coordination of each side of the negotiating table. Different unions, as different employers' associations, can or cannot cooperate between themselves. Indicators of cooperation have been explored and elaborated by different authors. By necessity they involve more than subjective judgments and are more difficult to compare over time and across countries.

Rankings of countries according to centralization are only partly correlated with rankings of coordination-cooperation. Japan and Switzerland, for example, are usually classified as decentralized countries. Cooperation rankings instead tend to rank them as highly coordinated.

When collective bargaining takes place at the national level tends to be coordinated, but coordination can be reached also in a decentralized system.

A combined index of centralization and coordination has been calculated in a recent study (Iversen, 1998) and then used to produce a ranking of countries. Italy has been classified in an intermediate position, as a country which is neither very decentralized, nor centralized. The position of each country can change over time. There are many aspects of the institutional setting of the system of bargaining and some of them have undertaken variations in the last ten years. From many studies it emerges that there are just as many countries where national coordination has weakened, as there are countries where nation-wide coordination has strengthened during the '90s. Italy is certainly in the second group.

One form of coordination, which has been important in recent years, consists in the so called “Social Pacts”, which are agreement , usually tripartite, establishing norms of (moderate) wage policy. The convergence criteria of Maastricht and the implementation of “Emu” has inspired these Pacts between the government and the social partners, aimed at making the country fit for the target of the single currency.

One important effect of the Pact , signed in Italy in 1993 (Accordo sul costo del lavoro), was an increased cooperation in the fight against inflation and the public deficit. Cooperation increased not only between the unions and the employers’ organizations, but also among unions themselves. The three big national unions (CGIL, CISL,UIL) have different ideological roots and this diversity sometimes emerges and it becomes a strong factor of division. After a decade of cooperation, in the last two years factors of division have become stronger and they are now dominant in the relations among unions.

The indicator on “extra-coverage “of the table, refers to the legal framework in which collective bargaining takes place and in particular to the extension of rights stemming from the agreed contracts to workers who are not union members. A means of extending presence is the so called “erga omnes” mechanism. This ensures that collectively bargained wages (and other working conditions) act as binding minima for all workers in the relevant sector. “Erga omnes” extension can be reached in various ways: through an act of legislation or, as is the case of Italy, through court ruling on what is considered a minima or a “fair wage”. The constitutional law imposes a minimum wage as a worker’s right, and the courts take the sectoral collectively agreed wage rates as the levels of fair or minima wages to be paid to workers. Where an industry agreement exists, the coverage is automatically complete: all workers of that sector are covered by the agreement, whether or not they are union members. In Italy, while membership in the whole economy is 39% of the workforce, coverage is 82%. As a consequence “extra coverage” (the difference between the two) is 43%. Similar

mechanisms exist in other countries and Italy is in an intermediate position in the ranking.

The Tax-benefit system

A second important institutional factors which affects the functioning of the labour market is the so called tax-wedge. Taxes on labour, such as social security contributions and taxes on personal income tend to discourage the labour supply, while, on the demand side, increase labour costs and depress the labour demand.

Nominal incidence does not correspond to effective and final incidence. A tax on labour which is born by employers can be shifted onto workers (or the other way round), depending on a complicated set of responses on the part of agents to the tax. A crucial difference across countries is the existence of a minimum wage. If a floor exists for wages, workers can resist the shift of labour taxes from employers. This is a clear case where there is an important interrelation between different institutional factors. The existence of a minimum wage together with payroll taxes may be the cause of real wage rigidity and produce strong negative effects on the labour demand (Daveri, Tabellini, 2000).

Also in the ranking of the level of the tax wedge, Italy lies in an intermediate position. In Italy the amount of social contributions amounts to 32.2 % of the average wage level against 31.0 % for the average of 15 EU countries. Income tax is 14.2 % against 14.1 % for the average EU. These percentage are very similar. The position of Italy used to be much higher (it means higher taxes) in the countries' ranking, until few years ago. In the late 90's social contributions for the health service have been abolished and a new tax on value added has been introduced in their place.

A further factor is the system of income support in favour of the unemployed. Much has been said on the negative effects of the unemployment benefits on the level of unemployment and on the positive effects of policies aimed at reducing the "generosity" of the benefits.

Unemployment insurance systems provide income security during spells of unemployment and play a role both in the field of equity and in the field of efficiency. In fact not only they produce a more equitable distribution of income, but provide income support to persons who may face liquidity constraints, and need the resources to make a better job search. Then the unemployment benefit can facilitate the match between jobs and workers. But while the income support makes job search more profitable, it can also discourage workers from searching altogether or make search to take longer than needed.

England is one of the countries where lower levels of unemployment have been reached by cutting the maximum allowed duration of the benefit.

In Italy “generous” unemployment benefits never existed, at least for the great majority of unemployed people. Until few years ago the daily benefit was less than one euro, the price of a cup of coffee !

The unemployment insurance system present many dimensions and relevant aspects, but whatever dimension or aspect is considered, whether eligibility criteria, entitlement conditions, benefit duration, replacement rate, Italy appears always at the bottom in the rankings as the less generous system.

The financial resources, as a proportion of GDP, spent on unemployment benefits, is the statistics used for the ranking reported in the table. In Italy they amount to 0.6 % of GDP against a 1.7 % of the average EU country. Italy shares with Greece the position at the bottom of the classification.

An important point is to be made in this context. The system of income support is very “generous” with those workers who risk to lose their jobs when redundancies occur in large manufacturing firms. They are only a tiny fraction of all workers who become unemployed. Two schemes can be used for this category of workers: the “CIG” (a fund for temporary layoffs) and the “mobility list” (a benefit for collectively dismissed workers, waiting to be placed in another job). On the whole the insurance against the risk of unemployment is unevenly distributed across different categories of workers.

The institutional factors so far considered do not seem to affect negatively the Italian labour market more than they do in other countries. The indicators used to measure the importance of these institutional factors in different national contexts do not put Italy in an unfavourable ranking order. As a consequence it is difficult to see in these factors the reasons of the relatively poor performance of the Italian labour market. The question now is: are there other institutional factors which can explain what we observe ? The bottom part of the table tries to give an answer to this question.

Active labour market policies

One way to prevent people to stay unemployed for long is to adopt the so-called “active labour market policies” (ALMP). These policies include interventions such as : public employment service (for job search assistance), public training programs, youth measures, subsidized employment, and measures for disabled and other disadvantaged workers.

According to the results of a rich literature on the effects of ALMP, it appears that training programs, job creation in the public sector, subsidies to private sector employment are not much effective, unless they are small in scale and well targeted to the specific need of both job seekers and local employers (Martin,2000). But this is exactly what does not happen in Italy , where most of the resources spent on ALMP are absorbed by employment programs and job creation incentives that are large in scope and scale and not at all targeted. This is for instance the case of the incentives given to enterprises which hire young people. The scheme applies to the whole population of young people and the result is that many subsidized hirings would have taken place even without the financial incentives.

The amounts of resources spent on ALMP in Italy, is not low, when compared with other countries, but it is the qualitative aspects of the policies that are lacking. The Public Employment Service (PES) has been recently reformed and the running of the system has been decentralized from central to local

government. But they are still badly organized and the results are very poor: the “penetration rate” of the PES is roughly 4%, which is extremely low if compared with the correspondent rate of other countries (Ministero del Lavoro 2002). Only in the last two years there has been some improvement in the quality of the services offered by the PES , but it concerns only few regions and provinces of the North-Centre of Italy (where ALMP are less needed).

Employment protection legislation

The potential incompatibility of employment protection legislation (EPL) with labour market flexibility has motivated a large body of research. Strict regulation raises the costs to employers to adjust the size and the quality of the labour input to the need of production. The central question has been whether strict EPL is an important contributor to the persistently high level of unemployment and to the low employment rate experienced in many countries (Bertola, 1999). Many studies have documented statistical associations between stricter EPL and several measures of labour market performance, but in multivariate regression analysis estimates of the impact of EPL have not turned out to be always robust. They used to be robust in the early studies (OECD ,1994), then they became rather elusive in other studies (Layard, Nickell, 1999), and finally they seem to return to be again significant in more recent research (Nicoletti, et al., 1999).

On the whole, while the effect on overall unemployment seem to be rather small, more relevant and negative effects are produced by stringent EPL on the employment rate of particular categories such as young, women and old workers , and also on the rate of long-term unemployment. In fact EPL is associated with lower turnover in the labour market and more in particular with lower turnover of the unemployment stock. Firing and hiring restrictions decrease the probability for a worker to become unemployed, but it decrease also the probability for a worker that is unemployed to find a job. As a consequence spells of unemployment tend to last longer.

For the definition of EPL the table refers to the research done by the OECD. EPL is defined and measured according to the strictness of the legal and “de facto” regulations governing hiring and firing. The most recent studies of the OECD expand the original analysis of “The Job Study” published in 1994 (OECD, 1994).

Employment regulation has a multi-dimensional nature and the construction of indicators faces many difficulties. One should bear in mind the intrinsic limits of such an analysis. The variables that are considered are expressed either in unit of time (notice periods, months of severance pay. Etc.) or as scores on ordinal scales for each indicators . Three broad items of EPL have been investigated: a) strictness of dismissal regulations for regular or permanent workers; b) regulation of fixed-term contracts and of temporary agency work (TAW); and c) strictness of collective dismissals regulation.

a) Three broad areas have been identified as being indicative of the strictness of individual dismissal protection: 1) procedural requirements which the employer faces; 2) notice and severance pay; 3) prevailing standard of and penalties for unfair dismissals . It is in this last area that Italian regulation is very strict. In this area the indicators refer to length of trial period during which no claim for unfair dismissals can be made. This trial period in Italy is very short which means that it is rather early in the employment relation that the employer has to face difficulties in dismissing his workers (in case he needs to do so).

Further indicators refer to the amount of compensation pay which must be paid in case of unfair dismissal, and to the well known (at least in Italy) reinstatement principle according to which the worker in case of unfair dismissal, has the right to choose between a rather high compensation pay or reintegration in his/her previous job. The norm applies only to workers in establishments with more than 15 employees.

According to the OECD’s studies, the position of Italy has relatively deteriorated in the last ten years, because while Italian legislation has remained the same,

other countries, such as Spain, have eased their legislation, gaining a better position in the rankings of countries .

According to the indicators used for temporary workers and collective dismissals, Italy's is again in a position which reflects a rather strict regulations .

b) Regulation of temporary workers. Countries can change the overall strictness of their EPL by facilitating other options to increase labour flexibility such as fixed-term contracts with a specific termination date and recourse to workers hired from TWA. In these cases no dismissal procedure, no notice, no unfair dismissal, no compensation pay, are foreseen. But there may exist restrictions in the use of fixed-term contracts and TWA. The indicators of such restrictions used by the OECD refer mainly to the types of works allowed and the maximum allowable duration. There are countries such as England and other anglo-saxon countries where there are no restrictions, contracts can be renewed at will and TWA are completely liberalized. In other countries fixed-term contracts are allowed only in particular circumstances, and for particular reasons. In some countries courts can be called upon to investigate whether fixed-term contracts have been used by employers to circumvent the rules of regular and permanent contracts and can declare the fixed-term contract not valid. The same considerations apply to TWA. Restrictions can be imposed by legislation on types of work, range of sectors, maximum length of employment where the TWA can operate. A number of countries have eased the legislation in these matters in the last ten years. It is the field where more innovative steps have been taken. Italy allowed TWA to operate only in the late '90s. For this reason the rank of Italy has improved, but it is still very high in the classification of strictness.

c) Collective dismissals. The table provides evidence of the rankings of countries when regulation of collective dismissals is added as a third summary measures. Collective dismissals are the most important instrument used by employers to adjust the size of the labour input and the restrictions against it concern the size of redundancy above which this regulation applies. One indicator refer to the delay procedures required in addition to those applicable for individual

dismissals. Other additional requirements are to be fulfilled: waiting period notification of public authorities, consultation and even negotiations with unions, selection criteria to choose workers to dismiss, short-time working schemes, etc. The ranking of countries sees Italy very close to the top; only Sweden has a stricter regulation.

The summary indicators for the three main components of EPL that appear in the table show that there are only two countries in Europe where the EPL is slightly stricter than in Italy and they are Portugal and Greece. Spain is in the fourth position in the classification of rigidity.

Product markets regulations

One further institutional factor that can explain the poor performance of the labour market is product markets regulation. This factor has nothing directly to do with the labour market, but can have indirect effects as it creates an environment conducive to bad employment prospects (Freeman, 2001). The preliminary results of recent studies on this topic show that the combination of product market regulations and EPL produces negative effects on employment (Nicoletti, Scarpetta, 2001).

The indicators that have been taken from these studies and are proposed in the table describe the regulations restricting markets mechanisms and international trade and these indicators allow to rank countries according to an increasing level of unfriendliness to competition. The indicators cover barriers to entry in the market, public ownership, price controls, government involvement in business operations, administrative burdens, market concentration and vertical integration (Jean, Nicoletti, 2001).

Not only economy wide regulations are considered. Industry specific data have also been used and they refer mainly to network services and utilities (telecommunications, post, railways, etc.) Finally summary indicators were derived taking the simple average of the many dimensions covered in each industry.

Regulatory policies should minimize interference with market mechanisms where these work properly and should favour competitive forces in industry where some market power is unavoidable. For a long time Italian regulatory policy took the opposite approach maximizing interference with competitive market and protecting market power.

Italy's regulatory environment is much stricter than in the average European country. While barriers to trade and international investment have been gradually eliminated during the process of European integration, economic regulations at home are very restricting and they include widespread public control in the business sector, legal limitations to competition in a wide range of service markets, administrative controls over few prices, and restrictions to the provision of some services.

Lack of competition in product market is likely to have significantly harmed Italian consumers by preventing the prices of some services to decline as fast as in other OECD countries. Data taken from the European Central Bank show that the prices of telecommunications, gas, and electricity in Italy were still above the Euro area in year 2000. These mark-ups on costs which keep prices at high levels, play the same role as the tax-wedge : they increase the distance between the labour costs paid by firms and the real consumption wages of employees.

Some reforms took place in recent years. The regulatory environment has been changed but not enough. In the field of administrative regulations, burdens and requirements have been reduced, in particular for start-ups.

Some liberalisation of telecommunications took place, but at a slower pace than in other European countries. Steps have been taken also in electricity and gas to ensure access to competitors in the market, but on the whole competitive pressure are still much lower than in other EU countries.

Some preliminary conclusions

On the whole it is fair to say that labour market institutions prevailing in Italy combine the stringent job protection observed in Southern European countries

with an intermediate - high degree of centralized union control over wages and working conditions that is observed in Northern European countries. The mix of these two features, together with relatively weak income support to the unemployed, a tax wedge that funds social transfers that are largely employment related (pensions) and active labour market policies that are rather ineffective in training and placing unemployed most in need, tend to provide a strong power to insiders.

The corporatist protection is reinforced by product market regulations which restrict competition and create an environment conducive to the exploitation of economic rents that firms tend to share with insiders.

An important feature of this system is that the protection of insiders is not evenly distributed all over the economy. Workers in large manufacturing firms tend to be much more protected. As we have seen, income support during spells of unemployment is much higher for these workers. Compliance requirements, compensation pay, right to reinstatement, are all aspects of the regulation of individual dismissals that are much stricter for bigger firms. Additional procedural requirements for collective dismissals are typical of large firms (see the recent case of FIAT), which have to open a table where to negotiate with unions and government on timing, consistency, composition of redundancies. When these disadvantages of being big are added to huge administrative burdens and requirements that usually increase more than proportionally with size, the effect is a composition of Italian employment dominated by a large share of self employment, by firms with less than 15 employees, an increasing number of the so called “parasubordinati” (“quasi-regular”) labour contracts, not to speak of the astonishing diffusion of the underground economy.

3. THE NORTH-SOUTH DIVIDE

In Italy, as in other European countries, there is a considerable variation of the

rate of unemployment across regions. Unemployment is concentrated in the regions of the South where the poor performance of the labour market reflects the unsatisfactory general economic conditions of these regions. These regional imbalances indicate that one or several mechanisms of adjusting this situation are not functioning . The same considerations apply to Spain and Germany, to name the countries where regional imbalances are most relevant. A recent research (Davies, Hallet, 2002) shows the difference in the rate of unemployment across regions in these three countries. In Italy the distance is greater than in the other two: between “Trentino-Alto Adige” and “Calabria” there is a difference in the unemployment rate of almost 25 percentage points, an amount which is more than twice the economy- wide unemployment rate. The interregional differential has progressively increased. At the same time internal migration flows from the South to the North has decreased. Only recently the migration flows have been increasing, but they are still insufficient and inadequate as an adjusting mechanism. Moreover the working age population is increasing faster in the South than in the North, so that the regional mismatch between labour demand and supply tend to deteriorate further.

Other indicators of the labour market reveal the importance of this mismatch. As shown in table 5, long term unemployment is very high in the South and at a very low level in the North. The rate of unemployment of adult males in the North is at a level which appears even lower than a frictional one. In fact labour shortages are diffused in all Northern regions. In the South unemployment seems to be concentrated among the younger labour force. For some categories of the working population unemployment in the South reaches astonishing levels. Out of five young girls in the labour force, three are unemployed and looking for their first job !

This huge amount of unemployment might be explained, at least in part, by the fact that a considerable proportion of all these young people declare to be unemployed, but in fact they are not, because they do some work in the black economy. The underground economy is probably the most important problem of

those regions. Although present everywhere in Italy, it is much more diffused in the South, as it appears from the “official” statistics of the National Institute for Statistics. The size of the shadow economy of the South is probably even higher than ISTAT estimates. According to other studies the proportion of undeclared workers in the total of regular workers can be as high as 30-40 per cent ! Supposing that only a minor fraction of these workers declare themselves as being also unemployed and in search for a regular job, the conclusion should be that the poor performance of the Italian labour market is not due to the high unemployment and the low employment rate of the Southern regions, but more simply to the enormous diffusion of the underground economy. In any case the need to find explanations of facts and to propose cures of problems , would still be there.

There is a rich literature that tries to explain why the “Mezzogiorno” of Italy has never closed the gap with the rest of the country. In this paper only factors dealing with the functioning of the labour market are considered. The list should include the following ones.

The tendency to “queue” for regular jobs is particular common in the South, due also to the sectoral structure of the region’s employment , which is dominated by public services and construction, sectors depending on public transfers. Substantial state subsidies are given to firms and households, and this can explain why, according to a survey conducted by Istat, it has emerged that the reservation wage of young people is similar both in the South and in the North of the country. High reservation wages and diffused opportunities to do undeclared work, contribute to explain the mass “waiting” unemployment .

The existing wage differentials between the two parts of the countries must also be taken into account. The levels of wages has converged between the South and Centre-North since the late 60’s, following the introduction of centralized collective bargaining and the abolition of the so called “gabbie salariali”, i.e. regional wage differences in basic wage-rates that were introduced in the ‘50s through an economy-wide national agreement. While wages in the South were

around half of the Centre-North level in 1960, they rose to around 90% by the early '80s (Brunello, Lupi, Ordine, 1998) and this rate has remained relatively unchanged ever since. A difference of 10% is not enough to compensate for lower productivity, lack of public investment in infrastructures, administrative and other costs that firms must bear when deciding to locate in the Southern regions.

Labour costs in the South have been reduced by means of significant state subsidies for employment, not least in terms of reduced social security contributions. Nevertheless even with these subsidies the effects of regional wage equalization have been detrimental for employment in the South. Moreover the European Commission has decided that region-specific forms of tax relief constitute a form of state aid which distorts competition between member states. New instruments of tax relief have developed in late years, but they have been less effective in reducing labour costs of companies which invest in the Southern regions.

The cost of living represents a further aspect of the issue. Although no official statistics exist, the cost of living is estimated to be lower in the South, so that the imbalance is even greater if measured in terms of real wages. High labour costs on the demand side and high real wages on the supply side represent a mix that explains the co-existence of waiting unemployment, underground economy, and high reservation wages. It explains also the low level of labour mobility from the South to the North of the country. Internal migration reached very high levels in the late 50's and early '60s, but since then the ratio of gross migration flows to population has decreased to the point that it is now lower than in any other European country. Incentive to migrate may also have been negatively affected by a rise in the fixed costs associated with migration, due to factors such as increased rigidities in the housing market (Cannari, Nucci, Sestito, 1996).

In the Southern regions labour market policies are characterized by a number of weaknesses. The Public Employment Service is rather inefficient and is not

organized well enough to deliver the services required by the huge amount of existing unemployed people.

Vocational training too is not well-managed and it is not enough diffused to help unemployed to acquire the skills needed by local enterprises. More in general pro-active regional policies are characterized by inefficient organization, poor strategic decisions, frequent institutional change, discretionary (and often distorting) allocation mechanisms, lack of project monitoring and evaluation. Region specific state aid remains high, at the highest level in the EU –15, as a percentage of GDP, but spending for pro-active policies is low in comparison with expenditure aimed at equalising consumption across regions.

4. RECENT DEVELOPMENTS

The 1993 “Accordo sul costo del lavoro” marked a new wave of labour market reforms. A target inflation rate was to be used in both private and public sector collective bargaining as a reference for wage determination. Some decentralization in wage setting has taken place, both with the introduction of performance-related pay schemes negotiated at the local level and with the so-called “Patti territoriali” and “Contratti di area” which allowed various types of incentives, exemptions, and temporary “opting out” from national collective agreements, to specific enterprises in selected disadvantaged areas, mainly located in the South. Whilst both income policies and the more cooperative industrial relations climate are considered a major success for the sharp reduction in the inflation rate, the effects in job creation and reduction of unemployment have been modest until the late 90’s.

In more recent years, several additional reforms concerning different aspects of the employment relationship have been introduced (Treu, 2001). The so-called “Pacchetto-Treu” (from the name of the minister of labour of the time) increased the possibility of firms to use fixed-term contracts, it started a gradual abolition

of the monopoly of the Public Employment Service by opening the market to private job placement agencies. It extended the diffusion of part-time employment, and fixed term training and apprenticeship contracts for young entrants, which has been the main area of job creation in recent years. In the late years almost 80 per cent of the new posts created have been accounted by these types of “atypical” contracts.

The search for increased flexibility has been directed also to a range of labour and product market institutions, as well as administrative rules. Some examples are legislative changes introduced in industrial action procedures (regulation of strikes) and in internal union organization and financing. The measures were introduced to increase not only flexibility, but also transparency and democracy. Additional measures concerning administrative simplification in the public sector have been introduced.

In sum, institutional changes to the wage formation process and the functioning of the labour and product markets brought about by the mild program of reforms, deregulation and simplification, has been pervasive though the process is still far from complete. The major shortcoming to the functioning of the labour market discussed above show only some improvements without any strong and important effect on the overall performance of the labour market .

An agenda of further reforms and deregulation has been prepared by the new government which has published a White Paper with proposals on various issues. The list of the proposals include the following ones: a) measures to increase the efficiency and effectiveness of Public Employment Service and vocational training through better managed funds and improvements in monitoring and evaluating procedures and results. Pro -active and welfare-to-work policies are to be improved too; b) legislative interventions to ease the regulation of employment relations and to introduce new forms of temporary contracts (leasing of work force, job on call, etc.); c) a reform of the wage bargaining system to allow wage levels to respond to differences in regional labour productivity levels and living costs.

These proposals have translated in a bill to be discussed in the Parliament, but a couple of new proposals have added to the content of the White Paper. One is a new formulation of “article 18” of the “Statuto dei lavoratori” (the “Charter of Workers’ Rights” introduced in 1970). “Article 18” is the norm which provides for the re-engagement of workers in case of unfair dismissals in firms with more than 15 employees. The proposal of the government was to extend to these firms the regulation of unfair dismissals applying to smaller firms, which cannot be compelled to re-engage the worker who has been unfairly dismissed . The worker has a right to a compensation pay , but not to the reinstatement.

The unions strongly opposed this reform and called for a general strike which took place, with great participation of workers, in spring 2002. After that the government and two of the three big unions (the Christian-democrat, and the socialist) opened a negotiating table to discuss the whole set of reforms to be introduced. In July 2002 a “Patto per l’Italia” was agreed on and was signed by the government and all the social partners, excluded the ex-communist union CGIL which strongly opposed any form of agreement on the reform of “article 18”.

The new Social Pact included a reform of “article 18” which was much milder than the previous proposal of the government. Two further measures strongly supported by Cisl and Uil, were introduced. The first is a reform of the system of unemployment insurance, and the second is a more effective policy in favour of the “Mezzogiorno”. A new bill was prepared and it included this revised set of initiatives. In the meanwhile more resources will be provided for in the new Budget both for financing initiatives to favour employment and investment in the South and to reform the unemployment insurance system .Both the maximum duration and the amount of the unemployment benefit will be increased. The duration will be extended from 6 to 12 months and the amount will be increased to reach a replacement rate of 60% in the first six months of unemployment and 40% in the remaining six.

As a response, CGIL called for a new general strike against the “Patto per l’Italia”. The strike took place on October 18 (!).

The three big unions have never be so distant from that “unità sindacale “ (union unity) that represented the target to achieve of the last 50 years. At the same time the government and the major employers’ organisations start worrying about the consequences of this deep division among unions. The lack of common action might have negative consequences on the negotiations that will soon take place in important sectors of the economy where important national contracts are to be renewed.

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Table 1 - Employment and Unemployment (1993-2001)

	Employment Rate		Unemployment Rate	
	1993	2001	1993	2001
Italy	52,1	54,8	10,1	9,4
European Union	60,0	63,9	10,2	7,4

Source- European Commission (2002)

Table 2 - Key employment indicators (2001)

	Italy	European Union	Position of Italy in rankings (15 countries)
ALL			
Employment rate (aged 15-64)	54,8	63,9	15
Empl. rate (15-24)	26,3	40,7	14
Empl. Rate (24-54)	69,2	77,1	14
Empl. Rate (55-64)	28,0	38,5	13
Self-employed (%Empl.)	25,8	14,8	3
Part-time (% Empl.)	8,4	17,9	13
Fixed term Contracts (%)	9,8	13,4	11
Unemployment rate (total)	9,4	7,4	3
Unempl. Rate (15-24)	28,1	14,9	1
Long term unempl.	5,9	3,3	1
MALE			
Employment Rate (15-64)	68,5	73,0	
Empl. Rate (25-54)	85,5	87,3	
Unempl. Rate (tot)	7,3	6,4	
FEMALE			
Employment rate (15-64)	41,1	59,9	
Empl. Rate (25-54)	52,8	66,8	
Unempl. Rate (tot)	12,9	8,7	

Source: European Commission (2002)

Table 3 – Dimension of the Underground Economy: Italy and average OECD Countries (% GDP)

	Schneider 1990-1993	Johnson et al. 1990-1993	Schneider – Enste 1994-1999
Italy	24,0	20,4	27,2
OECD	13,0	11,3	16,9

Source: Schneider – Enste (2000)

Table 4 – Institutional Factors in Labour Markets (Position of Italy in rankings of European Countries)

<u>Institutional Factors and indicators used</u>	<u>Position of Italy in rankings</u>	<u>Number of countries</u> <u>(only E.U.)</u>
1. UNION POWER AND COLLECTIVE BARGAINING		
a) Union density (Rank 1= highest density)	6	15
b) Coverage of collective bargaining (Rank 1= highest coverage)	7	14
c) Excess coverage (Rank 1= highest excess coverage)	7	13
d) Centralization and coordination of collective bargaining (Rank 1= highest centr. and coo.)	6-7	15
2. TAX –BENEFIT SYSTEM		
e) Social Security contributions (Rank 1= highest contributions)	7	15
f) Total tax (social sec. Contrib.+ income tax) (Rank 1= highest tax)	6	15
g) Total unemployment benefits in % of GDP (Rank 1= highest %)	14	14
h) Average effective tax rate (Rank 1= highest tax)	14	15
3. ACTIVE LABOUR MARKET POLICIES		
i) Spending on ALMP as % of GDP (Rank 1= highest spending)	9	15
l) Spending on ALMP per person unemployed (Rank 1= highest spending)	11	15

Table 4 – (Continued)

<u>Institutional Factors and indicators used</u>	<u>Position of Italy in rankings</u>	<u>Number of countries</u> <u>(only E.U.)</u>
4. EMPLOYMENT PROTECTION LEGISLATION		
m) Strictness for individual dismissals (Rank 1= highest strictness)	3-5	15
n) Strictness for collective dismissals (Rank 1= highest strictness)	2-3	15
o) Regulation of temporary employment (Rank 1= highest strictness)	2	15
p) Overall EP strictness (Rank 1= highest strictness)	3	15
5. PRODUCT MARKET REGULATION		
q) Home oriented regulation (Rank 1= strictest regulation)	1	15
r) International oriented regulation (Rank 1= strictest regulation)	13	15

Notes (Table 4)

- a) Source: Nicoletti et al. (2001)
- b) Source: Nicoletti et al. (2001)
- c) Excess coverage is defined as the difference between coverage and union density. Source: OECD (1997)
- d) It is the Visser index which combines elements of centralization and coordination. Data refer to the period 1993-1997. Source: Iversen (1999)
- e) Social contributions as a percentage of earnings. They refer to single person at the average wage with no children - OECD data set, reported in: Carone, Solomaki (2001)
- f) See: e)

- g) Data are taken from Eurostat, social protection database and reported in: Carone, Solomaki (2001)
- h) The average effective tax rate indicates the share of the extra earned income not received by the family (due to taxes and with drawal of benefits) when one of the spouses moves from unemployment to employment. Data from OECD, referring to 1997 and reported in : Carone, Solomaki (2001)
- i) Source: Martin (2001)
- l) Source: Martin (2001)
- m) Strictness depends on: procedural requirement, notice, severance pay, standards and penalties for unfair dismissals. Source: OECD (1999)
- n) Strictness depends on standards, procedural requirements, delays and de facto difficulties, in addition to those applicable for individual dismissals. Source: OECD (1999)
- o) Strictness depends on types of work allowed, maximum permitted duration, reasons for which contracts are allowed, etc. Source: OECD (1999)
- p) Average of m), n), o)
- q) Strictness of regulation depends on state control, barriers to entry, administrative burdens, price control, etc. Source: Nicoletti, Scarpetta, Boyland (2001)
- r) Strictness of regulation depends on barriers to trade and foreign investments. Source: Nicoletti, Scarpetta, Boyland (2001)

Table 5 – Employment in the underground economy and foreign population in Italy

	<u>Employment in the underground economy as a percentage of total employment</u>	<u>People living in Italy from non E.U. countries (total = 100)</u>
North West	11,1	33,2
North East	10,9	23,4
Centre	15,2	28,0
South	22,6	9,8
Total	15,1	100,0

Source: ISTAT (1999)

**Table 6 – The North–South Divide
(Labour Force and Employment : 2002)**

	Male	Female	Total
<u>Activity rate</u>			
North	76,2	56,0	66,2
South	71,7	37,0	54,2
<u>Unemployment Rate (Total)</u>			
North	2,6	5,4	3,8
South	13,7	25,8	17,9
<u>Unemployment rate (Long Term)</u>			
North	1,0	1,9	1,4
South	9,3	17,9	12,2
<u>Unemployment Rate (Young 15-24)</u>			
North	9,3	11,8	10,4
South	42,4	58,9	49,0

Source: ISTAT (LFS)

Table 7 – Regional wage dispersion and migration in E.U. countries

	<u>Coefficient of variation of regional average hourly earnings 1995</u>	<u>Gross internal migration flows as share of population 1995</u>
Belgium	8,0	1,27
Germany	13,7	1,24
	(1994)	(1993)
Greece	4,7	-
Spain	11,7	0,60
France	18,4	1,49
Italy	9,4	0,50
Netherlands	4,9	1,61
Austria	4,3	-
Portugal	19,5	0,54
		(1990)
Finland	-	0,92
Sweden	19,3	1,61
United Kingdom	19,3	2,30
		(1998)

Source: OECD (2000)

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