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Italy's labour market reforms of 2012: did they reduce unemployment?

Gabriele Piazza and Martin Myant

This Working Paper critically analyses Italy's labour market reforms of 2012 (Fornero Reform). It focuses especially on a measure designed to cut unemployment and labour-market dualism by reducing the protection against dismissal enjoyed by permanent employees.

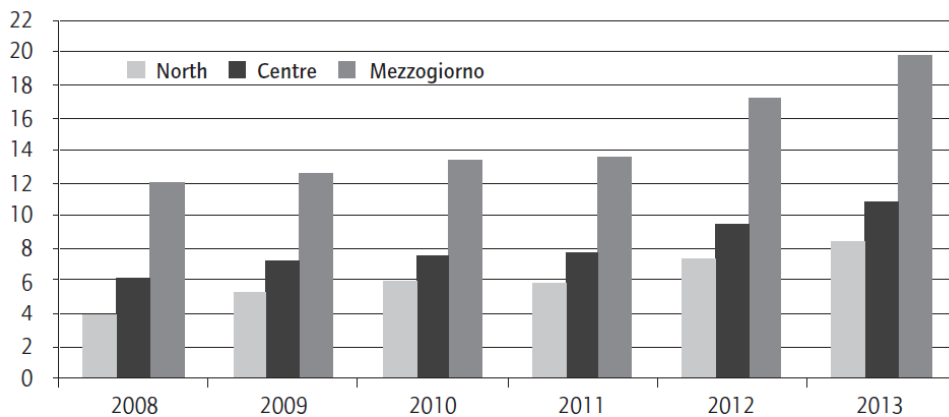
The main argument of this paper is that labour market reforms focused on promoting flexibility by lowering employment protection had no significant impact on the labour market. There is little evidence that protection for permanent employees actually affected employment levels. The reforms of 2012 were not followed – in the short period for which adequate data are available – by any increase in employment. Nor did the reforms lead to any redressing of permanent to the detriment of atypical contracts. Instead, the trend was for newly employed workers to be recruited on the basis of irregular contracts.

Key findings

- The high extent of regional differences across Italy before the recession seems to be an indicator of the rather low significance of the legislative framework in explaining employment and unemployment levels. In fact, Southern Italy has had a consistently higher level of unemployment and a lower level of employment.
- The employment rate in the North and the Mezzogiorno continued its downward trend after the Fornero reform, whereas in the Centre it fluctuated. The employment rate in the Mezzogiorno, much lower than the other regional groups, fluctuated until 2012 before decreasing more sharply. This observation supports the argument that the labour market in Southern Italy follows dynamics of its own and different from those observed in the rest of the country.
- An analysis focussed on employment structure shows that, in the brief period observed, the reform did not achieve its immediate aims of reducing the incidence of atypical employment and increasing the incidence of regular contracts. In the period since the reform, there has been a reduction in the number of regular contracts and no change in the trend of temporary contracts. The lowering of dismissal costs did not correspond to an increase in the numbers of jobs lost among workers covered by regular contracts. This may suggest that dismissal costs were not a particularly significant factor in firms' decisions during the period observed.
- In the 2012-2013 period, workers on atypical contracts were more likely to remain in this type of employment (56.4%) than to move on to full-time permanent employment (15.3%). This is a much lower percentage than in the pre-crisis period (24% in the 2007-2008 period), indicating that the reform did not improve the chances of a transition to more stable employment in the period observed.
- Any policy solution that aims to tackle the employment problems in Italy should start by addressing the structural problems in the Italian economy, meaning above all the difference between North and South and the need for a transition toward new economic activities.

Key data

Figure 1 Unemployment Rate by geographical area, 2008-2013



Note: North (Piemonte, Valle d'Aosta, Lombardia, Liguria, Trentino-Alto Adige/Sudtirolo, Veneto, Friuli-Venezia Giulia, Emilia Romagna), Centre (Toscana, Umbria, Marche, Lazio), Mezzogiorno (Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sicilia, Sardegna).

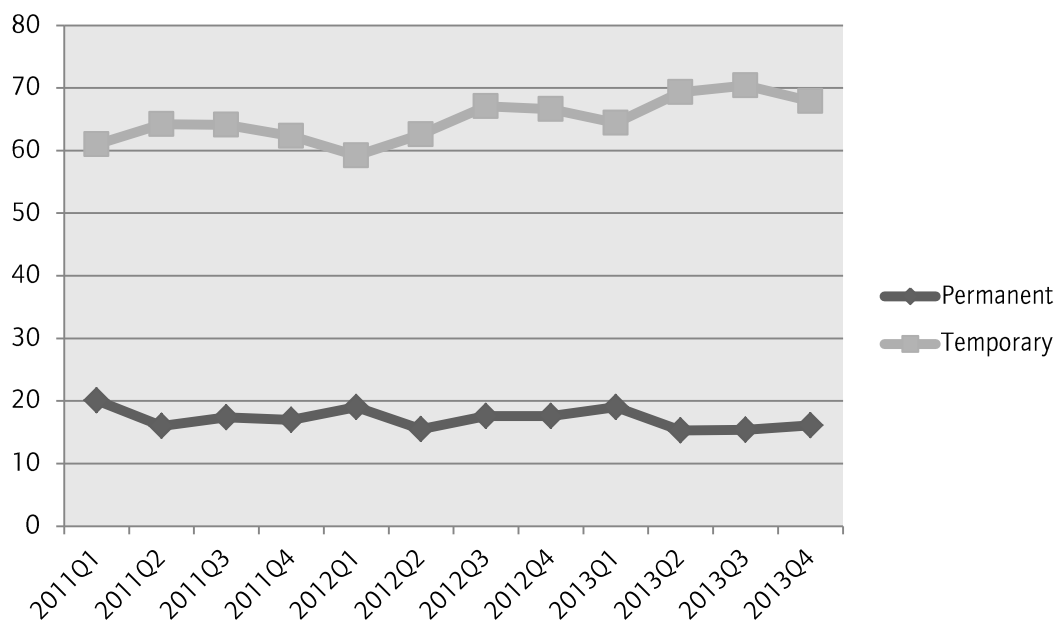
Source: Eurostat (lfst_r_lfu3rt)

Figure 2 Labour market outflows by type of contract 2012 Q1- 2013 Q1 (15-64)

Employment status at beginning of period	Employment status at end of period					Total Employed	Unemployed	Inactive	Total
	Full-time Permanent	Full-time Self-employed	Part-time Permanent	Part-time Self-employed	Atypical				
Full-time Permanent	89.6	0.9	2.7	0.1	1.3	94.5	2	3.5	100
Full-time Self-employed	2.4	87.5	0.3	3.1	0.7	94	2.4	3.5	100
Part-time Permanent	8.8	0.3	76.2	1	3.4	89.7	3.9	6.4	100
Part-time Self-employed	2.9	18.1	4.9	55.2	2.1	83.2	3.7	13	100
Atypical	15.3	1.2	4.8	0.5	56.4	78.2	9.5	12.3	100
Total Employed	53	18.3	10.5	2.1	7.9	91.7	3.2	5.1	100
Unemployed	5.1	2	2.9	0.9	13.2	24	41	35	100
Inactive	1.2	0.8	0.8	0.5	2.9	6.2	8	85.8	100
Total	30.8	10.8	6.4	1.4	6.4	55.8	7.5	36.6	100

Note: Atypical includes project workers and employees on fixed-term contract (full-time and part-time).
Source: Istat, Rapporto Annuale 2014

Figure 3 Share of jobs created by contractual arrangements 2011-2013



Further information

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