



After the Italian “Jobs Act”

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Labor Market Reforms: Lessons from Both Sides of the Alps

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* The Bank of Italy and the Eurosystem bear no responsibility for the analyses and conclusions, which are solely those of the authors. I thank Emanuele Ciani and Eliana Viviano for suggestions and the permission to use their most recent elaborations

Outline

1. **2010s' Labor Market Reforms in Italy:** a comprehensive agenda but with some aspects either missed or practically undelivered
2. **A focus on contractual arrangements** (temporary vs permanent contracts): what done
3. **The counterfactual evidence** about its impact
4. **A step back?** Factors behind it and preliminary evidence about its impact

1. 2010s' Labor Market Reforms in Italy

- **Strengthening of a universal UB system** (widening UB coverage and access, while dismantling some rather long-duration sectoral schemes)

Done

- **Setting up of an effective national ALMP system** (never before experienced in Italy and intervening upon a set of regionally fragmented institutions)

Failed

- **Tackling employment contracts dualism** substantially increased over the previous 15 years

**Important novelties introduced,
currently under partial dismantling**

- **Towards a more decentralized and more flexible (also over time) collective wage bargaining system**

Listed but finally missed

2a. Individual dismissals in 15+ firms in the old Art 18 regime

Permanent contract employees' individual dismissal: no severance payment (but for a financial penalty due to the disbursement of a deferred payment fund)

However, if the dismissal is judged to be unfair (by a judge, after a generally lengthy worker's initiated litigation):

- monetary compensation in small firms

- possible reinstatement in 15+ firms

Hence:

- Uncertain costs, which may become large (in expected terms) only for firms 15+

- Workers getting eventually a compensation when less needed

Implications:

- Disincentive to firm's growth [statistically significant, but economically not very large: Schivardi&Torrini, 2008]

- Widespread firms' preference for temporary contracts (and other non standard arrangements, e.g. "parasubordinate" arrangements)

2b. A flagship issue

Whatever its material impact, that of Art. 18 had become a very controversial issue, used by economic agents as well as international observers as a “signal” of the underlying tendencies

Gradual easing in the use of temporary contracts as a way out for firms: increase in labour market dualism (both equity and efficiency concerns)

Repeated political attempts (and failures) to change Art 18, by:

D'Alema centre-left government (1999)

Berlusconi centre-right government (2002)

During the 2010s, Fornero reform (2012) and then the Jobs Act (2015)

2c. A new contractual arrangement, but also a further easing of temporary contracts

The JA limited to very few cases the possibility of reinstatement, reducing and strictly predetermining (with a 1 to 1 mapping to seniority) the compensation due in case a judge deemed as unfair the individual dismissal in firms 15+:

- **less uncertain and slightly lower (expected) firing costs in 15+ firms**

Notice:

- **no change in firms below threshold (but previous status for firms overpassing the 15 threshold)**
- **Grandfathering, as new rules applied only to new permanent contracts (including conversions to perm)**

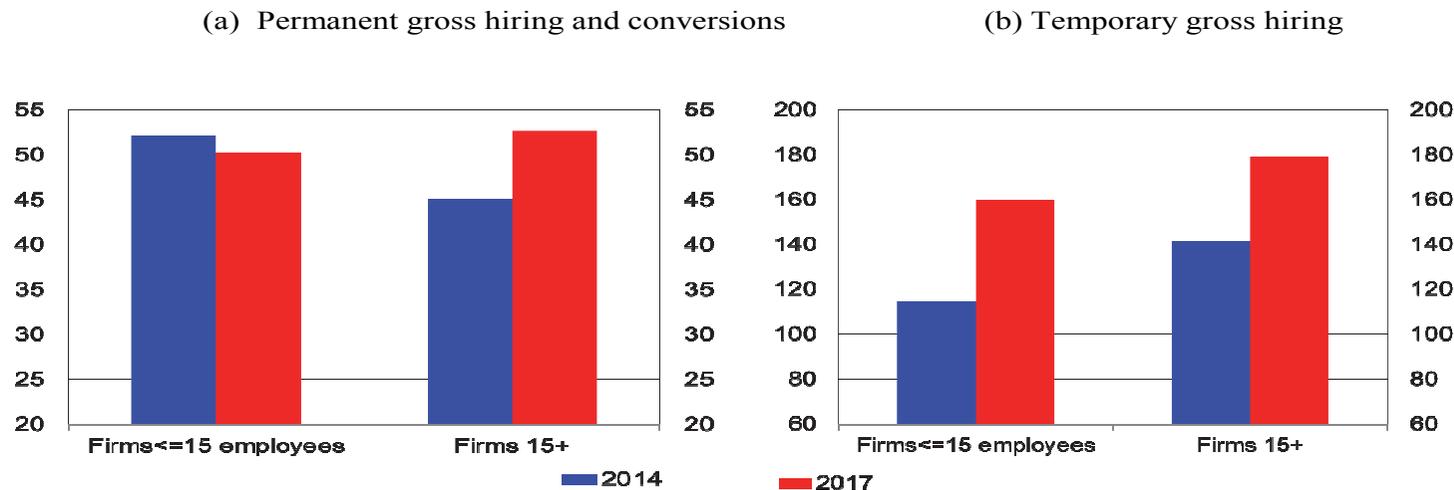
At the same time, **Poletti decree eases temporary contracts.**

Furthermore, **hiring subsidies are massively used** in order to stimulate employment (and political acceptance of the reforms, albeit unions are too weak to oppose them)

3a. Impact evaluation

Overall, both temporary and permanent hires increased and both components appear to be more reactive to output fluctuations [Bovini&Viviano, 2018]; comparing 2014S1 and 2017S1, the former rose across the board and the latter in the 15+ firms

The evolution of gross hires and contract conversions in small (≤ 15 employees) and medium-large firms (15+ employees)



Source: Bovini and Viviano (2018). Based on the authors' calculations using data from Veneto Lavoro (Comunicazioni Obbligatorie). The figure plots the cumulative number (thousands of people) of gross permanent hires and conversions (panel a) and gross temporary hires (panel b) in the private non-agricultural sector of the northern region of Veneto.

3b. Focusing upon the JA (comparing firms 15+ to 1-9 firms) [Sestito&Viviano, 2018]

**Increase in gross and net permanent hires.
Slight reduction in the bias against hiring directly on a permanent basis an “unknown” worker**

Table 3: Firms 15+ vs. others (excluding firms 10-14): gross and net hiring of permanent workers. ^{a b}

Notes:

^a Robust standard errors; p values in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

	Gross hiring	Net hiring	Gross hiring	Net hiring	Ratio known workers ^c
δ_1 (effect of FC)	0.102 [0.000]***	0.032 [0.000]***	0.085 [0.000]***	0.016 [0.005]***	-0.028 [0.001]***
Fixed effects	no	no	yes	yes	yes
Observations ^d	3,448,1 16	3,448,1 16	3,448,1 16	3,448,1 16	118,563
Firms	117,298	117,298	117,298	117,298	51,518
Average dependent variable	5.05%	0.34%	5.05%	0.34%	55.8%

^b All models include a “post” dummy, month dummies, and the province-level unemployment rate interacted with firm class-size.

^c Sample of firms with positive gross hiring. Share of workers who had past work experiences within the firm in total hires of permanent workers. Conversions excluded.

^d Firm * number of months in the sample.

3c. Focusing upon workers “at risk” of being converted to perm status [Sestito&Viviano, 2018]

Increase in conversion rates from temp to perm Hiring subsidy effect is however larger

Table 5: Veneto; Probability of contract conversion. ^{a b}

	Full sample		Being employed in September 2013 or 2014, with no open ended job position		
δ_1 (effect of FC)	0.0042 [0.000]***	0.0028 [0.000]***	0.0041 [0.000]***	0.0024 [0.000]***	δ_1 (effect of FC)
β_1 (effect of HS)		0.015 [0.000]***		0.0177 [0.000]***	β_1 (effect of HS)
Fixed effects	yes	yes	yes	yes	Fixed effects
Individuals	185,559	185,559	140,423	140,423	Individuals

Notes:

^a Linear probability models. Robust standard errors; p values in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%. Workers who find an open-ended position at time t, are excluded from the sample from t+1 onwards.

^b All models include a “post” dummy, month dummies, and the province-level unemployment rate interacted with firm class-size.

^c Individuals * number of months in the sample

4a. The problems left out

Firms still preferring temporary contracts which can (but do not have to) be converted into permanent positions:

Conversions more likely whenever the worker has alternative chances (tighter labor markets, higher skills..)

Weaker bargaining power of temp workers (monopsony power vs less nominal downward rigidities) may counterbalance the «safety» premium of perm positions

How to intervene:

Regulate temp contracts (peaking in 2017):

- Administrative fixed limits? [less renewals, lower overall duration ..]
- Administrative conditions? [allowing them in strictly predefined cases]
- Increasing social security contributions?
- Putting overall quantitative limits?

Fully eliminating the perm/temp status difference

4b. The policy novelties

Decreto dignità (July 2018), while avoiding to reshape the legal principles underlying the JA, drastically changed the picture:

- **More limits to temporary contracts (less renewals, lower overall duration, need to insert specific clauses beyond a 12 months period, slightly increasing social security extracosts)**
- **Sharp rise in the (seniority related) compensation due in case of unfair dismissal**

The **Constitutional Court (Autumn 2018)** stated that judges, in case of unfair dismissal, need not to limit to seniority parameters in fixing the compensation due to the worker:

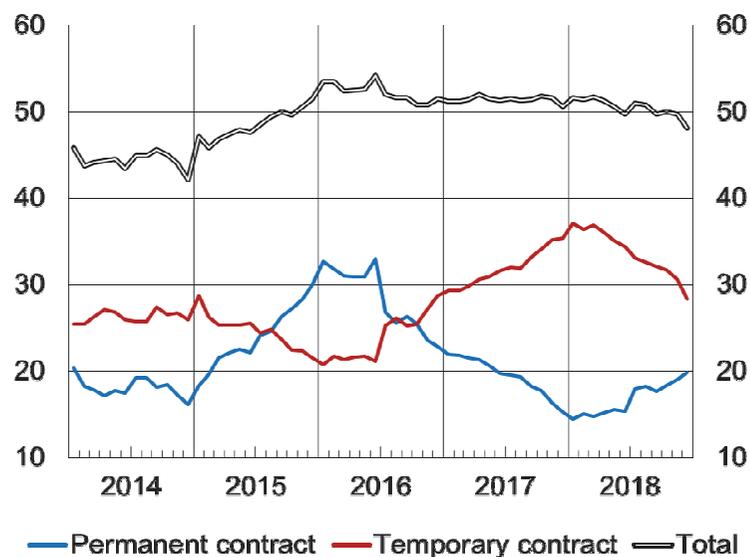
- **more uncertain and higher again (expected) firing costs in 15+ firms**

4c. Some preliminary evidence

Interference of hiring subsidies (for youths and Southern regions), cyclical developments and massive amount of temporary hires in 2017 (ie. people “at risk” of being converted to a permanent position in 2018)

Rise in the conversion rates (notwithstanding cyclical negative outturns), **but decline in the overall prob of being employed** (for temporary workers) **and of getting a new job** (for recently dismissed people) [also after controlling for the cycle]:

Fig. 1 - Probability of being employed with any firm 12 months after signing a temporary contract



Source: Bank of Italy Annual report

Fig. 2 - Probability of being hired with a permanent contract in a new firm within 6 months from the end of the previous contract

