

**T**he Jobs Act and the previous “Poletti decree”—named after Labour Minister Giuliano Poletti—that was issued in March 2014 and which further deregulated the usage of fixed-term contracts – have been based on the assumption that the Italian labour market was characterized by too many rigid rules about hiring and firing, thus guaranteeing too much to those working with open-ended arrangements, and creating a sort of apartheid against those, especially the young, employed with fixed-term and atypical arrangements. Following this assumption, increasing flexibility in contractual arrangements would have made the Italian labour market more dynamic, thus favouring employment and GDP growth.

However, the tightness of the Italian labour market, and the co-existence of insiders with an excess of guarantees, and outsiders trapped in atypical jobs for many years—prerequisites for suggesting further deregulations—have been usually assumed as a truth without presenting sound empirical (rather than anecdotal) evidence.

In order to assess the efficacy of the aforementioned measures, analysing whether the flexibility of the Italian labour market before the reforms was effectively so low seems, instead, crucial. To this aim, we seek to verify whether, before the reforms, on the one hand, open-ended employees (the insiders) were effectively not exposed to higher risks of being fired thanks to the guarantees established by Article 18 of the Workers’ Statute introduced in 1970, and, on the other hand, atypical workers faced higher risks of being trapped in low-paid and insecure contractual arrangements.

To properly analyse the degree of flexibility of the labour market and the extent of workers’ vulnerability, we rely neither on prescriptive indexes such as the Employment Protection Legislation (EPL) index developed by the OECD, nor do we observe workers’ conditions (e.g., in terms of wages or contractual arrangements) in a point in time (e.g., measuring the share of atypical workers in a given year). Instead, making use of micro-data on working histories collected in a sample extracted from the Italian Social Security Institute (INPS) administrative archives, we analyse employment trajectories in the period 2001-2011 of those individuals who were employed in 2000 (excluding from the analysis those who died or retired in the observed period). Investigating individual employment trajectories in a long-term perspective is indeed crucial in order to define a correct diagnosis for labour market diseases, and to implement effective reforms.

## Downgrade risks for open-ended employees

The first question we seek to address concerns the effective tightness of the Italian labour market. To this aim, we focus on those employed as open-ended employees in the private sector in 2000—i.e., the supposed hyper-guaranteed insiders, according to conventional wisdom, especially when employed in firms with at least 16 workers—and measure how many of them were characterized by risks of downgrading their contractual arrangement at least once in the period 2001-2011. We consider as downgrading those individuals that in the aforementioned period experienced the following statuses as the prevalent working condition in a year: employed with a fixed term contract, employed with a para-subordinate arrangement (i.e., with a bogus self-employment arrangement), or unemployed for at least 27 weeks in a year (note that we consider weeks spent receiving maternity, sickness, or Cassa Integrazione allowances as working periods).

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By looking at the “downgrade risks” experienced by open-ended employees, the Italian labour market does not seem to be as tight as pointed out by conventional wisdom. Indeed, 41.2% of open-ended employees in the private sector in 2000 experienced an occupational downgrade in the following 11-year period (Figure 1), a proportion well beyond the share that would have emerged if the insiders had been hyper-guaranteed. Downgrade risks are higher for weaker groups of workers (i.e., females, those aged less than 35, those living in the South, or working in small-sized firms), but a wide vulnerability emerges also within the most advantaged groups (i.e., among males, those living in the North, and working in large enterprises). No significant differences in workers’ risks emerge among permanent employees hired in firms whose size is around the threshold of 15 employees. This suggests that the long-lasting debate about the supposed constraint on labour market efficiency

engendered by the guarantee of reinstatement of employees in their job in the case of unfair dismissal for those employed in firms with at least 16 employees (established by Article 18 of the Workers' Statute and abolished by the Jobs Act), focused on a minor issue, and did not deal with the actual limits of the Italian labour market.

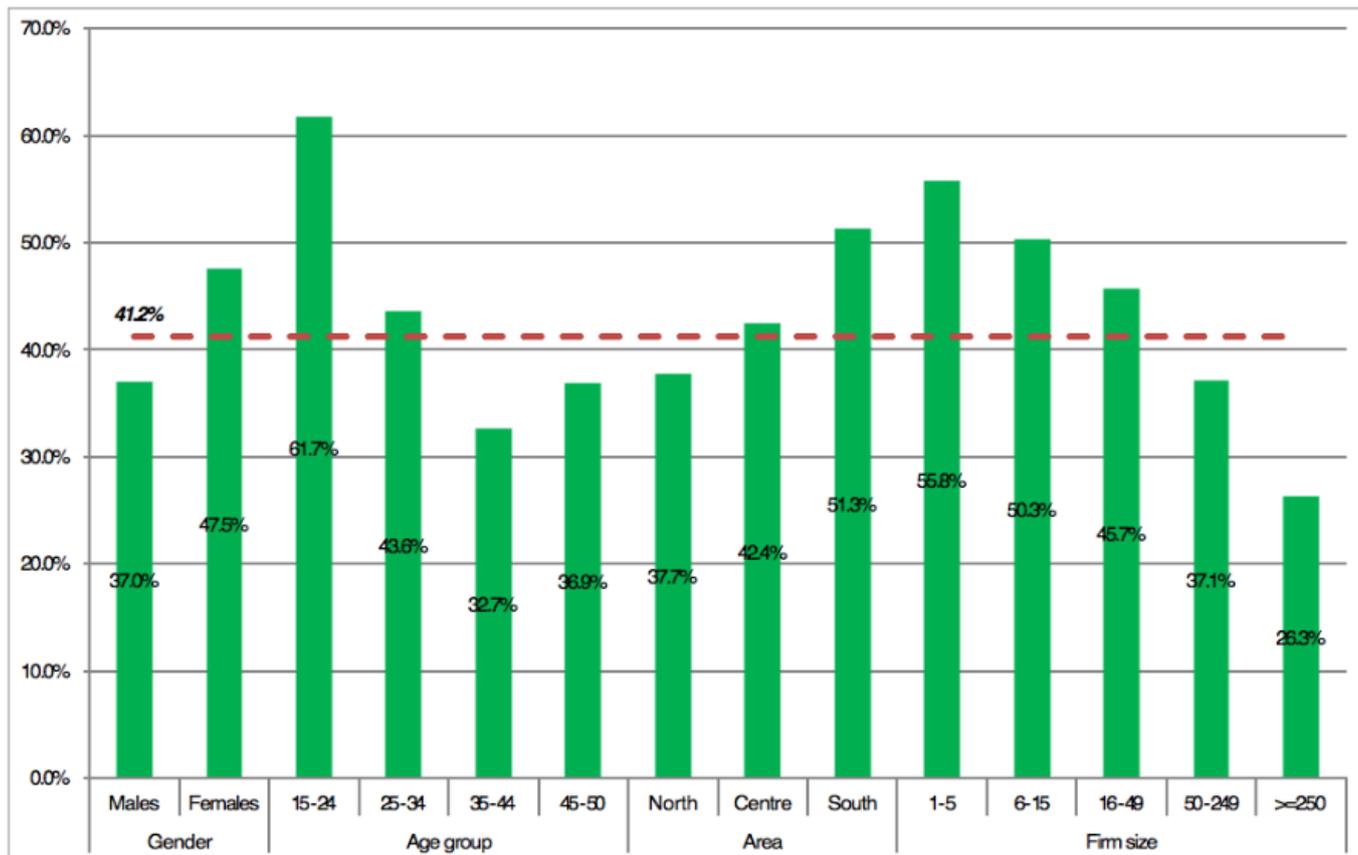


Figure 1: Downgrade risks of those working as an open-ended employee in the private sector in 2000 during the period 2001-2011.

Source: Author's own elaborations of INPS data.

## Upgrade chances for fixed-term employees

As a further indicator of flexibility, we also compute an index of the chances of upgrade in the working status over time, measured as the share of those employed with a fixed-term arrangement in the private sector in 2000 who achieved, at least once, an open-ended contract, in the public or in the private sector, in the period 2000-2011 (Figure 2). The share

of temporary employees that moved at least once to a permanent arrangement is rather high (on average 67.1%, but the figure rises to 81.9% and 75.6% among those aged, respectively, 15-24 or 35-44, in 2000), even if the upgrade chances are much lower for those living in the South. However, obtaining an open-ended arrangement is not a “final status” for workers that makes them much less vulnerable. Indeed, many of the upgrades to a standard arrangement have a short duration, as also confirmed by data provided by the [Ministry of Labour](#) which shows that 41% of contracts which were transformed from a fixed-term to an open-ended arrangement in the 2012-2014 period ultimately lasted for less than three years.

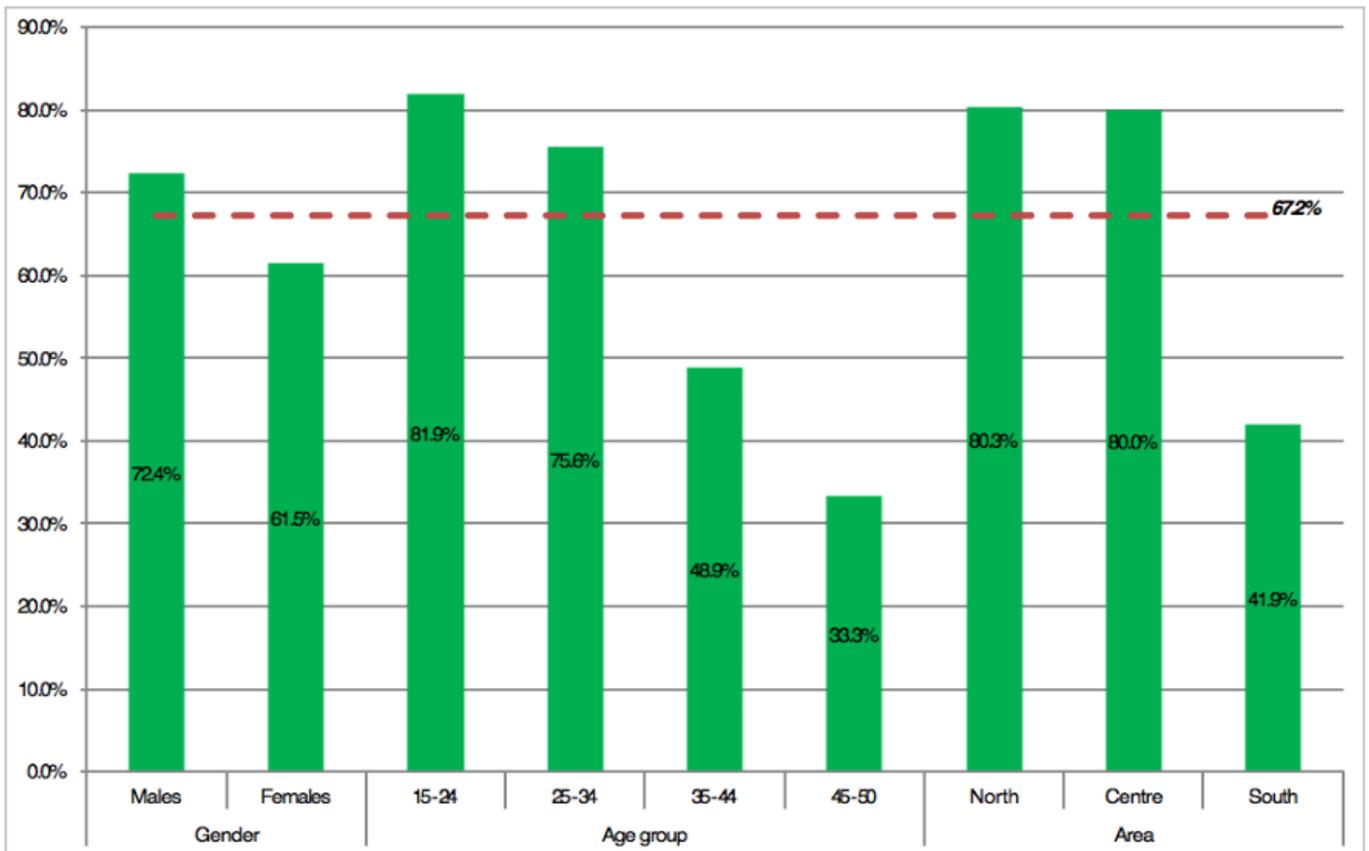


Figure 2: Upgrade chances of those working as a fixed-term private employee in the private sector in 2000 during the period 2001-2011.

Source: Author's own elaborations of INPS data.

## Policy suggestions about the efficacy of contribution reliefs and firing flexibilization

These data clearly show that “stabilization” towards open-ended contracts, also in large firms, does not cover individuals against the risks of reverting back in worse conditions. Therefore, being hired through an open-ended arrangement, or moving from a temporary to an open-ended arrangement, seem not to be enough to permanently reduce workers’ vulnerability in the labour market. Accordingly, left alone, measures addressed at favouring open-ended arrangements—such as the relief on contributions for firms who hire on an open-ended basis (as the reliefs introduced together with the Jobs Act)—might not be very effective in order to improve long-term workers’ prospects, and are very costly for public finances (as shown by [Patriarca & Raitano](#) and [Fana & Raitano](#)).

More generally, the empirical evidence on workers’ long-term employment trajectories rejects the idea that before the Jobs Act the Italian labour market was very tight. Instead, the Italian labour market appeared more “liquid” than tight (or merely segmented), because many workers, especially the youngest, frequently moved between different working statuses, alternating periods spent working with a standard contract with periods spent in unemployment or working with atypical arrangements.

Therefore, the mere contrast between tightness and flexibility is not very helpful for singling out the most effective policy measures. Definitively, reducing differences among types of contracts is unavoidable in reducing inequalities between workers and improving atypical workers’ conditions. However, these objectives should have been pursued by abolishing the most disadvantaged and less guaranteed arrangements (for instance, making the continuous renewal of fixed-term arrangements less easy by increasing their cost, and abolishing the possibility to work through vouchers), rather than weakening the open-ended arrangement, as the Jobs Act did. Indeed, as noted above, the guarantees of the “old-style” open-ended contract did not represent a constraint to workers’ mobility across different statuses.

Furthermore, it must be pointed out that the evidence of various and complex employment trajectories—instead of the existence of simple careers moving from atypical to standard arrangements—makes finding policies to improve the chances of less advantaged workers more complex, since, as already mentioned, merely incentivising the attainment of an open-ended arrangement is not enough for reducing workers’ vulnerability in a multi-year period.

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Thinking that it would have been enough to incentivize firms to hire with open-ended arrangements (using considerable public resources and without any requirements placed on firms' behaviours for receiving contribution relief), without also considering that before the Jobs Act, most of the new permanent jobs did not represent a stable and safe status, appears, therefore, a short-sighted strategy. Indeed, job insecurity, instead of coming from alleged regulatory constraints on contractual arrangements, depends on structural characteristics of the Italian productive system.

Labour market equilibrium depends on the match between labour supply, conditioned by the characteristics of workers and contractual forms, and labour demand from firms. The vision that inspired the Jobs Act focused almost exclusively on the supply side, considering that changes in contractual arrangements, and the provision of temporary contribution relief, were a necessary and sufficient condition to restart employment growth. Much less attention has been dedicated to interventions that follow a more complex strategy in being adopted, but which are surely more effective in the longer term, and would have tried to change the conditions of labour demand through, for example, a consistent plan of public investment, and industrial and credit policies providing incentives to entrepreneurs to move production to more innovative sectors. By contrast, economic policies that focus on only one side of a single market, and without any strategic vision, are likely to be scarcely effective or even harmful, especially if, as seen above, they are based on a short-sighted diagnosis of the diseases of an economic system and on "false myths" on the functioning of the labour market, rather than on clear empirical evidence.

Italy's Jobs Act: An ineffective remedy to a wrong diagnosis  
By Michele Raitano

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