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La disoccupazione strutturale e le riforme del mercato del lavoro in Europa – 1990 – 2015

Structural Unemployment and Labour Market Reforms in Europe 1990 – 2015

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Abstract – English

In the last 25 years, Europe's growth rate has slowed continuously, while globalization and emerging countries have put the old continent's countries in front to new challenges. The 2008 recession, in particular, highlighted even more the dysfunctionality of some EU labour markets: different from each other, fragmented and rigid. The need for reforms appeared crystal clear to governments and supranational institutions.

This work has a twofold aim: first, to review the vast literature about labour market and its institutions to investigate whether or else there is an "optimal" set of institutions and policies; second, to review the labour market reforms implemented in selected European countries and to evaluate them in the wider framework of the European debate on flexicurity. The goal is to contribute to the debate on the actual feasibility and meaning of international comparisons aimed at defining an "optimal" setting of labour market institutions.

Corcerning the first goal, it has not been found an "optimal" set of institutions, as the labour market performances appear to be influenced by a number of variables, many of which are country –specific.

Regarding employment performances, what resulted from the comparison is a dual situation: while countries like Great Britain and Germany, that implemented the reforms before the downturn, actually seem to have realized flexicurity, Southern Europe countries are facing greater rigidities in their labour markets and seem to be neglecting the initiatives related to job and income security, focusing, instead, on flexibility, thus creating dual and unequal labour markets. The analysis of reforming processes reveals, instead, that each country is following its own path, based not only on labour market institutions, but also on a number of other economic and social variables.

Abstract – Italiano

Negli ultimi venticinque anni il tasso di crescita in Europa ha continuamente rallentato, mentre la globalizzazione e le economie emergenti hanno posto le nazioni del vecchio continente di fronte a nuove sfide. La recessione iniziata nel 2008 ha sottolineato in modo ancora più evidente le disfunzionalità dei mercati del lavoro europei: diversi uno dall'altro, frammentati e rigidi. La necessità di riforme è apparsa chiara ai governi nazionali e alle istituzioni sovranazionali.

Questa tesi ha un doppio obiettivo: per prima cosa, la presentazione di una parte della vasta letteratura economica che si occupa dell'occupazione e del mercato del lavoro, con lo scopo di stabilire se esista o meno un mercato del lavoro "ottimale"; in secondo luogo,la narrazione storica delle riforme del mercato del lavoro in alcuni Paesi europei selezionati e di valutarle nel più ampio contesto del dibattito europeo sulla flexicurity. L'obiettivo è quello di dare un contributo al dibattito sulla fattibilità e sull'opportunità di condurre confronti tra Paesi, che hanno lo scopo di individuare la combinazione ottimale di politiche del mercato del lavoro.

Per quanto concerne l'esistenza o meno di un mercato del lavoro ottimale, il risultato pare essere negativo: le performance del mercato del lavoro sono influenzate da numerosi fattori, dipendenti sia dal mercato stesso, sia dal contesto economico più in generale. La situazione "ottima" per un Paese, dunque, dipende da elementi strettamente country – specific.

Per quanto riguarda le performance, il risultato è una situazione duale: mentre alcuni Paesi come il Regno Unito e la Germania, che hanno implementato le riforme prima della crisi, hanno davvero realizzato il paradigma della flexicurity, alcuni Paesi dell'Europa meridionale stanno affrontando maggiori rigidità e sembrano trascurare le iniziative mirate alla sicurezza del lavoro e del reddito, creando così mercati del lavoro duali e iniqui. Per quanto concerne, invece, i processi di riforma, l'analisi rivela che ogni Paese sta seguendo il proprio percorso, basato non solo sulle istituzioni del mercato del lavoro, ma anche su una serie di altre variabili economiche e sociali.

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Introduction

The objective of this work is to review some of the reforms of the labour market occurred in Europe from 2003 onwards and their main results.

Needless to say, labour market conditions are very important, as work affects the life of households, who in turn are the basis of society, as consumers, taxpayers, service recipients and workers. It is no surprise, therefore that ‘labour market reforms’ have been the object of lively debates, especially in Europe.

During the 1990s, Europe suffered from a quite high unemployment, due also to the 1992-’93 and the 1997-’98 downturns. Many welfare and unemployment insurance systems proved to be effective in reducing the social cost of the lack of work, but were heavy in terms of public finances and often created disincentives toward the return to work, so they basically failed to improve employment and labour productivity.

Therefore, from the beginning of the new millennium, several European countries reformed their labour markets and UI systems, with the common principles of back-to-work incentives and make-work-pay framework. These reforms were often focused on active labour market policies (ALMPs – activation of the unemployed) through better counseling, training and subsidies when taking on a job, but also PLMPs were improved to limit dependence on subsidies and dead-weight effects.

The severe crisis occurred at the end of 2007 heavily hit Europe. Automatic stabilizers and labour policies were implemented and reformed. Labour markets in different countries reacted to the recession in quite different ways, and this was partly due to different labour market institutions.

Labour markets in Europe, despite the EMU, are still regulated at the national level and therefore differ greatly about procedures and policies. Nevertheless, the EU influences policies with various supranational objectives: productivity has to increase, public finances must be sustainable, and labour-specific objectives have been set by the Europe 2020 agenda. All these issues obviously have an impact on national labour markets, through the channels of hiring-and-firing rules, of subsidies, of product market regulation, of retirement age and so on.

Moreover, after the 2007 crisis, it is clear that EMU lacks a fiscal coordination, which could instead be crucial to address labour market failures and future downturns.

Therefore, several experts and institutions are considering a European Unemployment Insurance scheme, which would harmonize the automatic fiscal stabilizers of member countries.

In this work, I will review the main European countries' policies and reforms, with the aim to detect best practices and disincentives created by both active and passive labour market policies. I will also try to highlight the role of economic integration in the national reform processes, trying to understand if some issues would be better targeted if dealt with at a supranational level, a topic that has returned in focus after the recent economic recession.

The work is organized as follows: Part 1 presents the economic and econometric analysis of the different labour markets observed in Europe; in Chapter 1 some theoretic concepts and models are presented, along with an historical framework; in Chapter 2 I tried to detect regularities in recent labour market reforms and policies, while registering differences as well. In Chapter 3, the impact of the Great Recession was taken into account, to investigate the way labour market institutions influenced European countries' reactions to the crisis. In Part 2 I conducted an historic review of the reforming paths of some selected European countries. Finally, the Conclusions represent impressions and opinions that I developed personally during the research work.

PART 1: Labour market institutions and economic performance

Chapter 1: Labour markets in macroeconomic theory

1. Theoretical framework

1.1. The concept of unemployment

Unemployment is the major problem that labour market policies attempt to tackle. It can be defined, in the common language, as the number of people in a particular country or area who cannot get a job[1]. More specifically, it is defined as the number of people in working age who are without a job, but who would work at current wages.[2]

This definition, however, suffers from an imprecision about the unit of measure, as it is unable to distinguish between people that are partially unemployed and people that are totally unemployed. Therefore, a more precise definition is the difference between the amount of working hours worked in a certain period of time and the amount that the whole working force would work at the current wages[3].

A univocal definition of unemployment, as well as of other labour topics, is important to grant international comparability of statistics. Thus, every five years, the International Conference of Labour Statisticians (ICLS) is convened by the International Labour Organization[4] (ILO) to set international standards on the various topics of labour statistics.

As unemployment is commonly used as an overall indicator of the current performance of countries, it is particularly important to agree on the definition. The international definition, adopted by the ICLS, is based on the following criteria, which have to be present simultaneously: (i) "without work"; (ii) "currently available for work"; (iii)"seeking work"[5] in a specified recent period (usually the past month or the past four weeks). This set of criteria is usually referred to as to the *activity principle*.

[1] Longman, Dictionary of Contemporary English, page 1806.

[2] J. Sloman, Essentials of Economics, Harlow, Pearson, 2004, in the Italian edition from il Mulino.

[3] C. Napoleoni et al., Dizionario di Economia Politica, Edizioni di Comunità, Milano, 1956.

[4] The International Labour Organization, founded in 1919, is a specialized UN agency that aims at "promoting social justice and internationally recognized human and labour rights, pursuing its founding mission that labour peace is essential to prosperity" (quote from ilo.org).

[5] Hussmann R. (1989).

"Seeking work" must be an objective criterion; thus, the definition of unemployment provides examples of active steps to seek work: registration at a public or private employment exchange; application to employers; checking at worksites, farms, factory gates, market or other assembly places; placing or answering newspaper advertisements; seeking assistance of friends or relatives; looking for land, building, machinery or equipment to establish one's own enterprise; arranging for financial resources; applying for permits and licenses; etc[6]. These steps can be both formal and informal and refer to paid employment and also to self-employment.

1.2. Activity and inactivity

The currently active population is defined by ICLS as "all persons above a specified minimum age (e.g. 15 years) who, during a specified brief period of one week or one day, fulfill the requirements for inclusion among the employed or unemployed.

Therefore, not all those who do not work are unemployed: there are also inactive people. The inactive are not included in the labour force. To ensure that each person is included in one and only one of the three main categories, a set of priority rules is set by the ILO: the first category to be defined is the "employed" category (persons above the specified age that are either working or temporarily absent from work in the reference period); then, the "unemployed" are identified; finally, inactive people fall out residually.

Inactivity can be defined as the situation in which a person is neither employed, nor unemployed, thus he/she does not have a job, but does not search for one. This category is difficult to measure and evaluate, since there are many reasons for inactivity, e.g. retirement, engagement in family duties, or other personal reasons. Some of these people are the so-called *discouraged workers*, people who gave up searching for a job, because they simply do not believe that there is a job available for them.

Among the inactive there is a particular category, called NEET[7], the young inactive. This group has to be correctly measured and targeted as it registers high probabilities of social exclusion, poverty and skill loss. Many policies designed for the young (grants,

[6] Hussmann (1989) page 14.

[7] Not in Employment, Education or Training.

subsidies for firms, dedicated contracts, etc…) have precisely the aim of reducing the number of the NEET.

1.3. Measurement of employment and unemployment and related issues

As already reported above, international standards are set by ILO to measure topics of labour statistics in a comparable way.

One basic concept highlighted by ILO to fully understand the other labour statistics definitions is that of *production boundary*: "activities carried out under the control and responsibility of institutional units (i.e. non-financial and financial corporations, government units, non-profitable institutions, and household including unincorporated enterprises owned by households) that use inputs of labour, capital and goods and services to produce outputs of goods and services"[8]. This definition is particularly important to separate services meant for the market from household domestic and personal services not produced for the market, which undoubtedly contribute to economic welfare, but have no suitable market price and would modify substantially the concept and dimensions of concept such as unemployment and inactivity, making them virtually non-existing.

From the concept of production stems the definition of *active population:* "the economically active population comprises all persons of either sex who furnish the supply of labour for the production of economic goods and services, […], during a specified time-reference period"[9]. Active population includes both the employed and the unemployed, as long as the activity principle[10] cited above is respected.

Data to build labour market statistics are collected through households surveys, labour force surveys (LFS), population censuses, but also from establishment sample surveys, economic censuses, social security records, public sector payrolls, or records on registered job seekers or recipients of benefits. Concerning surveys in particular, design

[8] Definition by System of National Accounts (SNA).

[9] Definition by System of National Accounts (SNA).

[10] The international definition of unemployment, adopted by the ICLS, is based on the following criteria, which have to be present simultaneously: (i) "without work"; (ii) "currently available for work"; (iii) "seeking work"[10] in a specified recent period (usually the past month or the past four weeks).

of the survey is crucial to obtain reliable datasets: respondents may have a different concept of economic activity, thus providing imprecise data.

Eurostat data about active, unemployed and inactive population in the European Union and in the biggest countries are reported respectively in Table 1, in Table 2 and in Table 3.

Active population (as a percentage of the working age population)	2015 – 1st quarter
EU 27	72.2%
France	71.5%
Germany	77.6%
Italy	63.9%
Spain	74.1%
United Kingdom	76.7%

Table 1. Source : europa.eu/eurostat, personal elaboration

Unemployed (as a percentage of the active population)	2015 – 1st quarter
EU 27	10.1%
France	10.8%
Germany	5.0%
Italy	13.0%
Spain	23.8%
United Kingdom	5.5%

Table 2. Source : europa.eu/eurostat, personal elaboration

Inactive population (as a percentage of the working age population)	2015 – 1st quarter
EU 27	27.8%
France	29.0%
Germany	22.4%
Italy	36.1%
Spain	25.9%
United Kingdom	23.3%

Table 3. Source : europa.eu/eurostat, personal elaboration

1.4.The Beveridge Curve

A useful device to evaluate the nature of unemployment is the Beveridge curve[11], which describes the negative relation that exists between the unemployment rate and the job-vacancy rate. When vacancies increase, unemployment tends to decrease, thus the pattern takes the shape of a downward-sloping curve. Shifts in the curve may signal structural changes in unemployment, which usually require a revision of the policies.

The curve is affected both by the level of efficiency in the labour market, demonstrating, therefore, the importance of the matching process in the correct functioning of the labour market on the one side, and by the business cycle on the other. Another important variable forming the intercept is the separation rate, i.e. the proportion of the total number of terminations of employment to the total number of workers employed. Separations may be of two types, voluntary quits or involuntary layoffs: several studies have highlighted that voluntary quits rise when economy is performing well, as a sign of the workers' good expectations about the labour market, while layoffs and discharges are increase when the economy is performing poorly.

Concerning the interpretation of the Beveridge Curve, while movements along the curve are usually interpreted as cyclical changes in unemployment, due to the different phases of the business cycle, shifts are considered signals of structural changes in the matching/hiring process in the economy. Observing the recent plotting of the US

[11] This curve was elaborated by J.C.R. Dow and L.A. Dicks-Mireaux in 1958 and was called Beveridge curve in the 1980s after William Henry Beveridge, who had studied the difficulties of the matching process in 1930s and 1940s.

Beveridge curve, Diamond and Sahin[12] highlight an important policy implication of such an interpretation of shifts: in the case of a recession that increases unemployment, stabilization policies will be useful to lower it, but not to take the unemployment rate back to pre-crisis levels, as the labour market is presumed to be structurally deteriorated and less efficient from the hiring/matching point of view. Moreover, the authors recommend to check the curve over a long period of time, as considering only one business cycle, defined as the period between one expansion and the following one, does not allow to verify whether the rise in unemployment, which is normal during recessions, is structural or not.

The traditional interpretation the Beveridge curve is being challenged also by other economists: for example, Klinger and Weber[13] question the common view that shifts of the Beveridge curve occur for structural reasons, whereas movements along the curve are cyclical: on the basis of a matching function, integrated with an unobserved components framework, both the key variables – unemployment and vacancies – and the shifting parameters – matching efficiency, separation rate and employment – are disentangled into a permanent and a transitory component. The first reflects structural changes, while the latter represents the trend deviation. Thus, every variable composing the Beveridge curve, and therefore influencing the labour market, can have either a permanent or a temporary effect on the curve, shifting it or changing the position on the curve.

Lubik and Rhodes[14], instead, use a model, developed by Lubik and Benati (2013), that takes into account real GDP and technological change, besides the two traditional variables, to explain the observed deviation from the common negative correlation. The authors assume that two kinds of shocks can occur: the first is a typical cyclical shock and determines that the unemployment rate and the job – vacancy rate move in opposite directions, following the common negative relationship; the second type of shock is due to technological change and determines a skill mismatch: job vacancies increase as well as the unemployment rate, causing the curve to shift outwards.

[12] Diamond, Sahin (2014).

[13] Klinger, Weber (2014).

[14] Lubik, Rhodes (2014).

Ball[15] tries to explain why also inflation sometimes increases along with unemployment, whereas, according to the Phillips curve[16], the two phenomena should follow opposite paths. Ball explicitly imputes this fact to *hysteresis*, defined as the possibility that, after long periods of high unemployment, the NAIRU[17] itself increases. Ball thus argues that NAIRU changes depend not only on supply-side variables, such as labour market imperfections or shocks, but also on aggregate demand. In particular, the author highlights the insider-outsider wage bargaining process and the possibility that long-term unemployed may become detached from the labour market. Diamond and Sahin[18] do not mention explicitly the concept of hysteresis, but highlight that a shift in the Beveridge curve may be considered a signal of structural changes in the labour market only if the unemployment rate does not reach its pre – recession level during the recovery period.

Strongly related to the Beveridge curve is the concept of efficiency, crucial in the so-called search theory[19]: the level of efficiency is low when the encounter between supply and demand for labour is difficult or imperfect. Elements that make the labour market less efficient could be, for example, a heavy EPL or a high tax wedge on labour. Also, during recessions, unemployment tends to increase, given its pro-cyclical 16ehavior, which follows quite exactly that of the business cycle.

The standard Mortensen and Pissarides matching model[20] is characterized by a continuum of risk neutral consumer-workers, whose total mass is equal to 1, and by a continuum of potential firms, having infinite mass, and whose only input for production is labour. Each firm consists of one worker, who provides time spent working equal to one, while the time is equal to zero when the worker is unemployed. To hire a worker, a firm must open a vacancy that incurs a cost c_{υ} per period. Worker-firm pairs can be destroyed either exogenously with constant probability $\rho^{\varepsilon\chi}$ or endogenously.

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[15] Ball (2009).

[16] The curve describes the inverse relationship existing between unemployment and inflation. The long-period curve, obtained by shifting successive short-period Phillips curves, indicates the non accelerating inflation rate of unemployment, which is generally considered the *natural* rate of unemployment.

[17] Non-Accelerating Inflation Rate of Unemployment. The concept appeared in the 1950s together with the Phillips curve.

[18] Diamond, Sahin (2014).

[19] D. Mortensen, P. Pissarides and P.Diamond won the Nobel prize for Economics in 2010 for their search theory.

[20] Fujita (2003).

Unemployed workers and firms with open vacancies engage in the search activity in a matching market, characterized by a constant return-to-scale aggregate matching function: $m_t = m(\upsilon_t, v_t)$, where m_t denotes the number of matches formed in the period t, υ_t denotes unemployment and v_t denotes job vacancies.

When a shock occurs in the economy, vacancies respond immediately: the negative shock lowers the expected returns for the firm with constant posting cost c_υ, thus vacancies drop, eventually raising the matching probability, until the equilibrium is restored. Vacancies also move back to the pre-shock level, since, as unemployment rises, the matching probability for firms grows, eliminating the firms' incentive to cut vacancies any further.

Fujita[21] recognizes the ability of the model in explaining important empirical regularities regarding job flows and employment, nevertheless underlines that the standard model is unable to generate realistic dynamics in vacancies and unemployment, i.e. a credible Beveridge Curve. Hence the author extends the benchmark model, adding three elements: (i) firms must engage in costly planning to introduce new jobs into the economy; vacancies are posted only after completing the planning stage; (ii) firms with currently operating jobs can decide to "mothball" them with no cost, temporarily destroying the jobs; the firms can then reactivate them, paying a retooling cost; retooled jobs can be immediately reposted; (iii) the new employment relationships that meet in period t-1 draw idiosyncratic productivity shocks at the beginning of the period t.

Since the firms have an option to mothball their jobs, endogenous job separations do not completely destroy the jobs. Fujita finds it inappropriate to assume that idiosyncratic shocks induce permanent job destruction; instead this only happens due to obsolescence of technology.

Thanks to these corrections, the model performs better in presenting dynamic correlations between unemployment and vacancies and in generating a realistic Beveridge Curve, while the standard benchmark model exhibits virtually no correlation. According to Fujita's model the initial decline in vacancies is faster than the initial increase in unemployment, because firms can mothball preexisting jobs, hence responding quickly to aggregate shocks.

[21] Fujita (2003).

The importance of efficiency in the matching process is on the main rationales of many labour market reforms that were recently implemented in Europe: individually-tailored job interviews and counseling, training programmes and a better management of vacancies posting are crucial to improve the efficiency of both public and private placement offices.

1.5. The Okun's law

The Okun's law[22] is a rule of thumb that relates changes in the rate of unemployment to changes in the rate of GDP growth. Traditionally, the law assigns a decrease of 2 – 3% decrease in GDP growth to a 1% increase in the unemployment rate.

Okun posited two versions of his law: the first is called the difference version and highlights the contemporaneous correlation between output growth and unemployment movements. The relationship between the natural log of observed real output (y_t) an the observed unemployment rate (u_t) is given by: $y_t - y_{t-1} = \alpha + \beta(u_t - u_{t-1}) + \varepsilon_t$ where α is the intercept, β ($\beta < 0$) is Okun's coefficient, which measures how much unemployment changes when output changes, and ε is the disturbance term.

The second version, called the gap version, highlights the connection that links the level of unemployment to the gap between potential output and actual output. The specification is given by the following expression: $y_t - y_t^* = \alpha + \beta(u_t - u_t^*) + \varepsilon_t$ where y* represents the log of potential output and u* is the natural rate of unemployment. This second version of the law is influenced by the measure of the potential output, since there are no observable data on y* and u*: different either univariate or multivariate statistical approaches can be used (e.g. the deterministic trend, the Hodrick – Prescott filter, quadratic trend, Baxter – King filter…) and this changes the estimations because of uncertainty about parameters and data.

[22] The law was posited by Arthur Okun, after whom it is named, in 1962. It is an empirically observed, rather than theory – derived, relationship between unemployment and losses in a country's output. This relationship rests on Okun's belief that potential output should be defined as the maximum output that an economy could produce when at full employment. Okun regressed changes in the unemployment rate on changes in the log of real GNP: $\Delta u_t = \alpha^d + \beta^d \Delta y_t + e_t^d$, where u_t is the unemployment rate, $y_t$is the natural log of output measured with real GNP. Based on data referring to USA FROM 1947:q2 to 1960:Q4, Okun derived that $\alpha^d = 0.3$ and $\beta^d = -0.3$; therefore a 1% increase in unemployment would be associated with a 3% decrease in the real output growth.

Over time, this law has been criticized as it lacks theoretical foundation and because, depending on the dataset, the period used for the estimation, and the estimation method, the estimate changes. On the other hand, some studies posited the hypothesis that there may be structural breaks in the relationship between unemployment and output growth, specifically related to business cycles. Owyang and Sekhposyan[23] conducted a regression – based analysis to verify time variations in the relationship between unemployment and output growth. In particular, the authors aimed at determining whether Okun's law changes permanently during recessions. First of all, the authors state, citing Okun himself, that potential output is the maximum the economy can produce in conditions of full employment. Such an assumption implies that each deviation of output from its trend is correlated to a deviation from NAIRU and viceversa.

Through a regression – based model[24], then, the authors estimate the correlation between changes in the unemployment rate and output growth using data referring to the USA in a sample period including 1949: Q1 – 2011: Q4. The authors detect significant variations over business cycles: in particular, the correlation decreased significantly between 1965 and 1975, while it increased significantly during the 1990s and then during the Great Recession. There seems to be strong evidence that the Great Recession intensified the unemployment rate – output growth relationship compared with an average historic recession.

Owyang and Sekhposyan's conclusion is that when the average unemployment rate fluctuations are high, the unemployment rate is also more sensitive to output growth variations; moreover all recessions seem to alter the unemployment fluctuations. Such alterations persist also after recoveries, indicating that recessions create hysteresis effects on the unemployment rate and on its elasticity to output growth variations.

Cazes, Verick and Al Hussami[25] found similar results in their study about the different labour market responses to the Great Recession across OECD countries and, in

[23] Owyang, Sekhposyan (2012).

[24] The model uses an extension of the original Okun's law: $\Delta u_t = \alpha^l + \beta^l \Delta y_t + \beta_1^l \Delta y_{t-1} + \beta_2^l \Delta y_{t-2} + \gamma_1^l \Delta u_{t-1} + \gamma_2^l \Delta u_{t-2} + e_t^l$, which allows the current and past values of output growth to affect the changes in the unemployment rate differently.

[25] Cazes, Verick, Al Hussami (2011).

particular, between the US and Europe, on the basis of their labour market institutions[26]. In fact, in the 1980s and 1990s, the United States had low unemployment and a very flexible labour market, whereas continental Europe was accused to experience hysteresis, high unemployment rates and low job creation effectiveness because of strict EPL, over – generous unemployment benefits and strong unionization. At the end of 2010, however, the US had swapped places with Europe: the US's labour market was deeply deteriorated by the crisis, while continental Europe[27] showed a good level of resilience.

To explain this divergent patterns, Cazes, Verick and Al Hussami used the Okun's law as a framework, investigating the role of labour market institutions in explaining the different shifts in Okun's coefficients both across the business cycle and across countries. Through the technique of rolling regression the usual linear equation describing the Okun's law is estimated and the results show a considerable divergence during the Great Recession: coefficients change across countries and time, in the latter case following the business cycle.

Turning to studies that consider the parameters to be substantially stable over the business cycle, Perman and Tavera[28] take the Okun's Law coefficient as the net effect of several macroeconomic structural parameters representative of the macroeconomic behavior of a country and check if some sub-groups of European countries are constitute an optimal zone, testing for convergence of the Okun's Law coefficient. Different sets of groups are considered: (i) the first group includes all the EC countries; (ii) the second set of grouping is based on the level of GNP – high, intermediate and low GNP; (iii) the third is based on geographical considerations – northern, southern and western countries; (iv) the last set of groups in constructed on the basis of the Bayoumi – Eichengreen classification of European countries according to the degree of correlation of demand and supply shocks across countries – it distinguishes between core and periphery countries. The rolling regression estimates suggest that short – run OLC of European countries follow parallel paths, but there is no evidence that such a

[26] The authors specifically focus on EPL, unemployment insurance schemes and unionization as the key institutions that are likely to have an impact on firms' extensive margin of adjustment in case of shock.

[27] The crisis hit European countries differently because of the different economic structures, as will be discussed further in Chapter 4; in particular, countries like Spain, Ireland an Baltic States were hit by the collapsing of housing bubbles.

[28] Perman, Tavera (2007).

convergence holds for the medium – or the long – term. If the group of Occidental countries (Austria, Belgium, France, Germany, Luxembourg and Netherlands) is considered, convergence of both the short – run and the medium – run OLC is found.

The authors' conclusion about these findings is that there may be an underlying common trend for output gaps movements on unemployment gaps in Europe, whose time evolution is influenced by country – specific disturbances, e.g. labour market rigidities, technology adoption rates, market structure..). In the authors' opinion, this is the reason for the diverging resulting unemployment rates movements as a consequence of a common shock. The results of this study will be reprised in Chapter 4, to verify the different levels of resilience of European countries after the Great Recession.

1.6. The international differences in labour market institutions

The flexicurity model vs the transitional market model

Debates in Europe about the organization of labour markets are converging towards two models[29]: the flexicurity model and the transitional market model. As Van Vliet et al.[30] described "flexicurity refers to a combination of loose employment protection (EPL), generous unemployment benefits and strong efforts on active labour market policies (ALMPs). The transitional labour market model offers a broad view[31] of possible transitions that individuals may make during their life course". The two models differ in the combination of duration and generosity of unemployment benefits, strictness of EPL and efforts, conditionality and spending on ALMPs, reviewed in this paragraph.

Van Vliet and colleagues focused their attention on the generosity of unemployment benefits in flexicurity models across Europe, taking as independent variables influencing the benefits partisan politics, industrial relations and ALMPs. They found that partisan policies have a smaller role than expected at high unemployment rates and when the budgetary situation is deteriorating, even though left-wing parties are more prone to increase benefits, while right-wing parties tend to cut them.

[29] The two models will be presented in detail in this paragraph.

[30] Van Vliet, Caminada, Goudswaard (2012).

[31] The transitions will be presented later, following the work of Schmid.

Concerning industrial relations, coordinated and centralized bargaining has a positive impact on benefit generosity, especially in times of high unemployment, when unions tend to safeguard unemployment protection, possibly in exchange for wage moderation.

The authors basically confirm the idea that, in the flexicurity model, more flexibility in the labour market is compensated with more generous unemployment benefits, an idea that is criticized by several economists and politicians across Europe.

For example, Barbieri and Cutuli[32] observe that flexibility created a highly segmented labour market, in which is very difficult to get a stable job. The reason, in the authors' opinion, is that the deregulation occurred mainly for the fixed-term contracts, which are thus less protected. The authors observe two effects of the deregulation: a "honeymoon" effect, i.e. a transitory positive effect on employment, and a substitution effect of undetermined-term contracts with unprotected fixed-term contracts. The situation is particularly severe for Southern European countries, whereas the Scandinavian and in general Northern European labour markets were already less regulated and therefore experienced smaller segmentation effects.

The alternative model debated by economists is that of transitional labour markets. Schmid[33] argues that the traditional macroeconomic notion of full employment is no longer sustainable because of various trends, such as globalization, information technology diffusion and individualization. A *new full employment* paradigm has to be developed, mainly through a working time reduction and redistribution. The author, then, introduces the concepts of *transitional employment* and of *transitional unemployment*: setting the standard working time at, say, 30 hours per week, any deviation from this standard is a phase of transitional employment. Unemployment thus becomes an extreme of such a phase, and it can be made transitional as well through forms of transitional employment, e.g. short-time work, temporary part-time work, training or career leaves.

Schmid individuates eight "critical events" in the labour market: (i) job loss – transition to unemployment; (ii) school-to-work transition; (iii) transition from one employer to another; (iv) transition from one skilled job to another; (v) transition from dependent to

[32] Barbieri, Cutuli (2015).

[33] Schmid (1998).

self-employment; (vi) transition from full-time to short-/part-time work; (vii) transition from unpaid family work to gainful employment; (viii) transition to retirement[34].

To deal with these critical events, transitional labour markets use a set of institutions and active labour market policies, which satisfy four basic criteria: empowerment – individuals not only receive a benefit for income protection, but are also put in the condition to cope with critical events; sustainable employment and income – individuals are supported and "activated" in a framework of effective employment promotion; flexible coordination between individuals and local agencies; cooperation between private and public agencies to create synergies.

Such a labour market model is viewed also as a remedy for the current dual working time regime, in which some people work regularly overtime and others (mainly women) involuntarily have part-time jobs, but would be available for longer working hours.

2. What lessons – if any – can be learnt from international comparisons?

2.1. Econometric analysis in the literature

As clarified in the introduction, the aim of the present work is to evaluate and compare the labour market reforms implemented in the major European countries, to retrieve similarities and recognize differences. But what lessons – if any – can be learnt from cross – country analysis?

To date, there is no consensus about how "optimal" labour market institutions should be, as labour market functioning is influenced not only by its own structure, but also by a number of other elements, e.g. product market regulations, public finances situation, employment culture and so on. Each country, therefore, follows a different path and has different needs and results. Thus, it does not seem that an optimal labour market institution framework can exist for all countries.

Moreover, methods like the Beveridge curve or the matching model might result in unreliable forecasts, as they only take into account a number of variables, while the

[34] Schmid (1998) page 9.

performances of a labour market are determined by many others, not considered in models, or whose magnitude cannot be foreseen by models.

Nevertheless, many economists have studied the functioning of labour markets, considering different context and using different methodologies, in order to find regularities and draw general conclusions.

Different outcomes in labour markets

From a theoretic point of view, Scarpetta[35] uses a model of equilibrium[36] in the labour market to analyse the differences in the unemployment rate across countries and to evaluate the impact of policy variables and labour market institutions affect the level of structural unemployment and the speed of labour market adjustment to shocks.

Scarpetta assumes that a number of variables explain the differences in the unemployment rate across countries; in particular, the author identifies the following: (i) cyclical factors – at any point in time countries may have different positions in the business cycle and this affects the size and dynamics of the cyclical component of unemployment; to account for these factors the measure of the output gap is used; (ii) policy variables – in particular active labour market policies (proxied by expenditure on ALMP per unemployed person relative to output per capita), unemployment benefits (measured as the average of net replacement rates for individuals with different spell durations), employment protection legislation (proxied by the average of the two OECD indexes measuring the strictness of EPL rules for regular and fixed – term contracts) and the tax wedge (average tax rates for average production workers); (iii) institutional factors – union density, the wage bargaining process and exposure to trade; (iv) other factors – real interest rates and terms of trade.

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[35] Scarpetta (1996).

[36] The model assumes an economy of imperfectly competitive profit – maximizing firms, each facing exogenously determined product market conditions and predetermined capital and technology; wages are bargained between workers and firms, the latter deciding the level of employment, output and prices once the agreement has been reached (cit).

The two main equations describing the model are the one that illustrates the structural unemployment rate $u^* = \frac{\alpha\delta_l Z_w}{1+\alpha\gamma_l} + \frac{\delta_2 Z_p+\beta Z_n}{1+\alpha\gamma_l}$ and the one that illustrates the long- run steady – state equilibrium unemployment rate $su^* = \frac{\alpha\delta_l Z_w+\delta_2 Z_p+\beta Z_n}{1+\alpha\gamma_l+\alpha\gamma_2} + \frac{u_{t-1}}{1+\frac{1+\alpha\gamma_l}{\alpha\gamma_2}}$.

The results of the regression analysis show that high levels of unemployment benefits and stringent employment protection legislation are associated with high rates of structural unemployment and non – employment; worker bargaining power may lead to high unemployment, unless it is accompanied by a well – coordinated bargaining process; the analysis by Scarpetta also shows that the estimated impact of active labour market policies and of tax wedge are small and statistically not very significant.

Scarpetta explains differences across different countries' structural unemployment rates through the joint impact of wage bargaining institutions and of employment protection legislation and through the generosity of the unemployment benefits, confirming that ALMP only explain a small proportion of unemployment differentials.

Active labour market policies

Escudero[37], instead, analyzed the direct and indirect effects of active labour market policies. The author uses an aggregate impact approach based on a pooled cross – country and time – series database and a panel data model[38]. The analysis shows that ALMP have a significant negative impact on the unemployment rate, proving particularly effective in reducing the rate of unemployment of low – skilled population. The author also verifies the effects of job rotation and job sharing, finding a negative but non – significant effect on unemployment. Implementation, instead, resulted important: raising the share of PES in total ALMP expenditure proved to be effective in reducing unemployment, although not very significantly for the low – skilled population. Finally, timing seems to be an important determinant of the effectiveness of ALMPs: countercyclical policies have a more significant effect in reducing unemployment. Findings of the employment rate estimation are very similar to those of unemployment rate. Finally, Escudero finds significant positive effects of ALMPs on the participation rate.

[37] Escudero (2015).

[38] The model is based on the following structural equation: $LM = f(ALMP, IMPL, DC, STRUC, INST)$ where LM represents the selected labour market indicators, ALMP denotes active labour market policy indicators and IMPL, indicators relative to implementation characteristics, DC includes determinants of demand conditions, STRUC the structure of the labour market and INST a range of institutional arrangements.

Passive labour market policies

Tatsiramos[39], instead, analyses the effects of unemployment benefits. The literature highlights the disincentive effect of unemployment insurance systems, which reduce significantly the hazard rate for leaving unemployment, especially when the system is very generous, e.g. in Germany and France. Tatsiramos, although recognizing this negative direct impact, also posits a positive effect of unemployment benefits: they can be interpreted as search subsidies, therefore increasing reservation wages and the subsequent quality of job matching. Thus, the author uses a multivariate mixed proportional hazard model to estimate the effect of unemployment benefits, using data from the European Community Household Panel (ECHP) for eight European countries. The author found that receiving benefits has a significant increasing effect on unemployment in all countries, especially if the system is very generous; moreover, older and/or low skilled workers are less likely to leave unemployment. On the other hand, though, benefit recipients are less likely to exit subsequent employment and this result is significant in all countries. Especially younger, married and well – educated workers have a higher employment stability.

On the basis of these results, Tatsiramos suggests that, although no conclusions can be drawn about the optimal level of unemployment benefits, both the effect of longer unemployment spell and the effect of higher employment stability should be taken into account when designing this kind of policies.

[39] Tatsiramos (2006).

Collective bargaining and wage setting

Related to both active and passive employment policies, collective bargaining has the aim of addressing and rebalancing the asymmetry between individual workers and employers regarding access to information and bargaining power. Literature traditionally considers the level at which bargaining is carried out as the most important element for the outcome of the process; in particular, centralized or coordinated bargaining is associated with the internalization of the externalities caused by wage increases and with better effects on unemployment. Firm – level bargaining allows for innovation, for better adjustments to specific productivity levels and for internal flexibility. The least effective models of collective bargaining seem to be the sector or regional level and cross – sector imitation, as these levels usually delay adjustments to productivity changes and create an excessive upwards pressure on wages[40].

Visser[41] investigates different aspects of collective bargaining institutions to figure out how they are evolving in OECD countries, bearing in mind that no consensus has been reached about which model works best. The first dimension taken into account by the author is bargaining coverage, i.e. "the proportion of employees or wage earners to whom a collective agreement signed by a union or worker representative and the employers or employers' association applies"[42]. The rate of bargaining coverage describes the degree of collective organization much better than the unionization rate and the data about the two rarely coincide. In fact, many European countries show low (and diminishing) rates of unionization but high coverage rates, demonstrating how the wage effects of collective bargaining often exceed union membership, also because, in many cases, employers are required by law to apply collective agreements to all employees, including the non – union members.

The second dimension investigated by Visser is the degree of centralization. In recent times, several countries converged towards decentralization, defined like the "downward movement of placing the locus of decision making over wages and working hours closer to the individual enterprise". The author argues that the reasons for this trend are: (i) the diminishing ability of multi – employer agreements to prevent low – wage competition; (ii) the changes in organization and management functions in firms,

[40]OECD (2013a).

[41] Visser (2012).

[42] Visser (2012) page 6.

which create a mismatch between sector agreements and firms' activities; (iii) the increased volatility of global markets, which create a need for quick adjustments regarding the number of employees, the amount of working hours or wages, which are easier to reach at firm level.

Decentralization is evaluated by the author through three elements: the dominant bargaining level, the articulation of levels and the use of opening clauses. In general, Visser states that, in Europe, central/national or sector/industry bargaining is the most common for SMEs, while derogations and opening clauses often exist for larger firms[43]. The articulation of levels is an important issue for organization and governability of multi – employer and multi – level systems of bargaining and it relates to the interdependence relations between the different levels. The author argues that a stable and efficient nesting of company bargaining within sector or central agreements rests on the existence of a strong and competent union – based workplace representation and of a peace clause established by the higher – level agreement, which binds to refrain from strikes.

Finally, concerning the effect of minimum wages, literature traditionally states that excessively high minimum wages have a negative effect on employment; this result is confirmed by empirical observation, which shows also that moderate to low minimum wages have a negligible or even positive effect. In fact, Brown, Merkl and Snower[44] provided new theoretical explanations for these facts through a dynamic incentive model that contains a two – sided selection in the labour market: both the demand and the supply side of the market are taken into account; after the first contact between workers and firms, idiosyncratic shocks arise – i.e. firms learn about different suitability of workers and workers learn about the disagreeability of work. Given these shocks and the minimum wage, firms make their job offers and workers their job acceptance decisions[45]. From the numerical analysis the authors conclude that, although large wages tend to depress firms' job offers, they raise workers' acceptance rates: therefore,

[43] The different bargaining structures of the countries in exam will be discussed in detail in Chapters 2 and 3.

[44] Brown, Merkl, Snower (2014).

[45] The employment dynamics equation of the model is: $n_t = \mu_t + (1 - \sigma - \mu_t)n_{t-1}$ where $\mu_t = \eta_t \alpha_t$ is the match probability (the product of job offer probability η_t and of job acceptance probability α_t) and σ is the exogenous separation rate.

the negative effects of a moderate minimum wages could be offset by the job acceptance effect.

Gorry[46] investigated, in particular, the relationship between minimum wages and youth unemployment. The author expanded the Mortensen – Pissarides search model, including two types of worker on the basis of experience. In particular, experienced workers are different from inexperienced workers on four dimensions: (i) experienced workers have a fixed productivity level, while inexperienced ones have match specific productivity draws from a known, fixed distribution; (ii) inexperienced workers face idiosyncratic match productivity shocks that influence their separation rates; (iii) experienced and inexperienced workers face different potential separation probabilities; (iv) workers search for jobs in separate markets with different flow costs of posting vacancies and match rates. The parameterization, made to match key features of the labour market in the United States shows that the model is consistent with empirical data: as minimum wages rise, unemployment increases among young workers become more dramatic; moreover, the exposure to high minimum wages at young ages has long-run effects: human capital accumulation is lower and results in lower wages for older workers who did not gain enough experience.

The different European social models

One of the results of applying these analysis to the empirical reality is the taxonomy "of social Europe", a series of clusters of European countries that are quite homogeneous from the point of view of labour market institutions. In particular, the clusters highlighted are the following: (i) *Scandinavian countries* – characterized by extensive interventions in the labour market, especially through active policies, substantial tax wedges and employment protection in the form of insurance systems against the risk of unemployment; (ii) A*nglo – Saxon countries* – characterized by weak unions and decentralized bargaining that allow for wage dispersion and by active labour market policy schemes conditioning the access to benefits; (iii) *Continental countries* – which rely essentially on unemployment benefits combined with relatively stringent employment protection legislation; (iv) *Mediterranean countries* – characterized by high levels of employment protection and low unemployment benefits, centralized

[46] Gorry (2013).

collective bargaining systems and substantial underdeveloped active labour market policies and employment services.

Actually, also this kind of distinction is losing part of its significance, as Boeri[47] noticed, because, while labour market institutions have been subject to frequent policy changes in the last 25 years, the clusters have been converging one towards another, while countries of the same cluster have been implementing different reform solutions.

2.2. Methodology

In the present work, I argue that there are no optimal labour market institutions, policies or reform paths; rather there are many elements that concur to the labour market performance and different settings of institutions and policies that may prove effective for different countries.

In the following chapter, thus, I try to compare the reforms and to analyse them within a common framework. In particular, the reforms are categorized in one of the following groups of measures: (i) employment protection legislation; (ii) unemployment benefits; (iii) active labour market policies; (iv) wage setting institutions. The goal of such a categorization is to show that, although the measures can be reconciled in quasi – homogeneous groups, there is no such concept as an optimal setting or combination of labour market policies. This result is justified by the different employment and unemployment rates and by the different labour market performances of the countries reviewed in this work.

In Chapter 3 the impact of the Great Recession is introduced to complete the analysis of the different labour market performances. In particular, I tried to highlight the interdependence between the structure of national economies, labour market institutions and economic shocks in shaping the outcomes of countries in the recent downturn.

In the second part, after introducing the European Union's general framework, I review the main reforms implemented in selected European countries since 1990.

I chose to select the biggest European countries – i.e. France, Germany, Italy, Spain and the United Kingdom – to draw a general framework of the main labour market reforms

[47] Boeri (2011).

implemented in Europe in the last 25 years. To have such a view, an accurate historical narrative is essential; in fact, the different outcomes of labour market institutions and the more recent trends are the result of the different paths followed by the governments.

The selected countries account almost for the 63% of the total population of the European Union and for more than the 64% of the labour force; thus, I find that they can be somehow representative of the main European approaches to labour market failures and challenges.

Chapter 2: Comparative analysis of the major reforms and labour market institutions in Europe

1. Drivers of labour market regulation reforms

According to literature, there are a number of determinants which stimulate the implementation of labour market reforms. The first driver on which literature has traditionally focused is the timing over the business cycle: the hypothesis is that when economic conditions are deteriorating, the need for reforms is perceived as more stringent, increasing the political feasibility of changes. For example, in the 1980s, the Thatcher government implemented several reforms of the labour market to cure the so – called "British disease": despite a modest rate of unemployment, the productivity and output growth rates were quite low, while labour costs and inflation were raising fast. The recent downturn as well induced several countries to undertake reforms to contrast job losses and slower output growth.

Adascalitei and Pignatti Morano[48] constructed a measure of reform intensity[49] that can be applied to both developed and developing countries, making the data about reforming process more comparable across countries. The results of the authors' analysis show that the statistically significant drivers for reforms are: (i) unemployment levels; (ii) low GDP growth rates – for developed countries[50]; (iii) government net debt – countries with limited fiscal space implement labour market reforms as a budget neutral tool to improve the performance of labour markets.

While macroeconomic conditions may be bad, the budget balance of a country wanting to implement structural reforms ought to be sound. In fact, reforms, especially deep and structural ones, usually have both winners and losers; the latter have to be compensated by governments. Hence, the public finances must be solid enough to allow for these

[48] Adascalitei, Pignatti Morano (2015).

[49] The model takes the following form: $Reforms_{it} = \beta_0 + \beta_1 * Unr_{it} + \gamma * GDP\_Growth_{it} + \delta * Debt_{it} + \zeta * Trade_{it} + \eta * GDP\_Capita_{it} + \lambda_t + \varepsilon_{it}$ where $Reforms_{it}$ represents the total number of reforms passed at time *t* in country *i; β_0* represents the constant in the model; Unr_{it} is the growth rate of GDP; $Debt_{it}$ represents the general government net debt as share of national GDP; $Trade_{it}$ is the sum of exports and imports of goods and services as share of GDP; GDP_Capita_{it} is the natural logarithm of GDP per capita; λ_t are the dummies and ε_{it} is the error term.

[50] The opposite holds for developing countries: governments more likely implement reforms when their GDP growth rate is higher.

compensations. Other authors have found also other reasons for the importance of a sound fiscal position: Eichengreen and Wyplosz[51] highlight that poor finances may force governments to turn to unpopular fiscal adjustment measures, leaving them with less political ability to undertake a structural reform; Duval[52] argues that a strong initial fiscal position allows to have more room for fiscal policy to stimulate aggregate demand.

Also existing levels of regulation may be important for the decision of reforming either the product or the labour market: stringent regulations are likely to call for structural reforms, usually towards relaxation. Moreover, when a country opens to foreign competition, structural reforms are often observed, usually with the aim of aligning the country's legislation to that of competitors.

Finally, evidence suggests that implementing structural reforms in one policy area stimulates the policy interconnections across other areas, fostering reforms in other domains, like product market and finance.

The findings of literature seem to be justified in Europe by the empirical observation of policy interventions during the Great Recession: the number of reforms between 2008 and 2014 has increased in the European Union, following an increase in the rate of unemployment and by a slow GDP growth rate. Moreover, as we observed in Chapter 2, inequality increased in the labour markets of virtually all European countries, becoming another challenge to face for governments through labour market policy tools.

Contrary to what literature would predict, trade openness has been found to be not statistically associated with the probability of implementing reforms in Adascalitei and Pignatti Morano's study.

Finally, Adascalitei and Pignatti Morano found that the impact of institutional and macroeconomic variables change depending on the labour market subdomain: the business cycle, for instance, stimulates reforms regarding collective dismissals and working hours, while the unemployment rate predicts reforms regarding permanent contracts, collective bargaining and dismissals, while it is not significant for the legislation of temporary contracts and other forms of employment.

[51] Eichengreen, Wyplosz (1998).

[52] Duval (2008).

Duval conducted a similar work to that of Adascalitei and Pignatti Morano, largely confirming their hypothesis, and adding that also the commitment to a fixed exchange rate regime may make governments more prone to structural reforms, as cuts to the interest rates and the depreciation of exchange rate is prevented.

2. Comparing the reforms in Europe

To compare the reforms, the following categories[53] will be used: (i) employment protection legislation; (ii) unemployment benefits; (iii) active labour markets policies; (iv) wage setting. Moreover, the different versions of the single/unified contract proposed across Europe will be discussed.

Employment protection legislation

Employment legislation is significant for labour markets' outcomes, as theoretical and empirical research suggests that hiring and firing regulations have an impact on the allocation of labour resources; in particular, high employment protection levels seem to be associated with lower hiring rate, lower separation rates and slower resilience to shocks[54].

To benchmark international differences in the stringency of employment protection, OECD elaborated indicators that quantify the costs and procedures involved in dismissing either individuals or groups or hiring workers on fixed – term or agency contracts, as in force on the 1st January of each year.

The indicators concerning dismissals of regular workers cover the following elements: (i) procedural inconveniences that employers face when starting the dismissal process, e.g. notification or consultation requirements; (ii) notice periods and severance pay; (iii) difficulty of dismissal, i.e. the circumstances in which dismissal of workers is considered fair and the consequences of unfair dismissal, i.e. compensation and reinstatement; (iv) additional restrictions to dismissal, e.g. additional costs, delays, notifications or procedures, for example on collective redundancies.

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[53] Some reforms do not belong to just one category, but link two or more labour market institutions.

[54] OECD (2013a).

Looking at the EPL indexes and at the reforms of the countries reviewed in Chapter 2, various approaches can be detected, although the duality between regular and temporary contracts is a common issue in all countries.

Germany has not eased its employment protection, which remained at a medium level (2.87 for regular contracts and 1.12 for temporary contracts in 2013). Another country that did not reform its EPL is the United Kingdom: the index is traditionally low for both regular and temporary contracts (respectively around 1.19 and 0.3 since the beginning of 2000s); thus, the British labour market was already quite flexible.

Other countries, instead, maintained a high level of EPL for regular contracts, introducing flexibility at the margin. France, for instance, introduced the CIP (*contrat d'insertion professionelle*) in 1994 and the CPE (*contrat de première embauche*) in 2006 for the young (both repealed) and various forms of CDD (*contrat à durée indeterminée*) over the period considered, and changed various times the scope of the *contribution Delalande*, but never really reformed EPL for regular contracts (CDI – *contrat à durée indeterminée*). It must be noted, however, that French legislation is very precise and strict about the cases in which CDDs can be used and about their duration. Therefore, France's EPL strictness indexes for regular and temporary contracts were respectively 2.34 and 3.6.

Spain was the first country to introduce temporary contracts in 1984 and also the country where this form of employment was more used; for these reasons, over the period considered, Spanish EPL reforms had the aim of reducing the share of STJ. First of all, restrictions to the use of temporary contracts were introduced, then severance pays were reformed several times, in order to make firing costs of STJ and LTJ more similar and incentive the use of permanent contracts. Nevertheless, the EPL strictness index is still very high: for regular contracts decreased slightly, although remaining over 2 in 2013, while it decreased more decidedly for temporary contracts, though remaining over 2.5.

In Italy EPL was very high at the beginning of the period considered in the present work; over time it has been slightly reduced, although remaining very high. The main reforms prior to Jobs Act mainly introduced flexible forms of contract, without substantially touching the protection level of insiders. In 2013, the EPL index was 2.89 for regular contracts and 2.7 for temporary contracts. Only in 2014, with the introduction of the so called *contratto a tutele crescenti*, the issue of the segmented

Italian labour market: a single open – ended contract was introduced, with new layoff procedures; the general idea is that easier firing will encourage firms to hire more. However, it is still too early for updated EPL indexes and to draw conclusions about the results of the reform.

Unemployment benefits

Unemployment benefits are a key instrument to support income an provide assistance to the unemployed and to smooth aggregate shocks, but, if not properly designed, they may have important adverse effects, e.g. sub – optimal job search intensity, unemployment and inactivity traps or benefit dependence.

To assess reform needs in this policy area, Stovicek and Turrini[55] propose a methodology that considers the effectiveness in ensuring income support, the effects on the incentive to take up jobs and the generosity of the benefit system[56]. The results of this benchmarking process show homogeneity within country groups (Nordic, Continental, Anglo – Saxon, Southern and Central/Eastern countries) and with respect to the EU average, although the combination of the dimensions may show greater variability; the overall generosity, instead, varies widely across Europe and shows a remarkable stability over time.

Concerning the reforms, the first country to reorganize its unemployment benefit system was the United Kingdom: in the 1980s the Thatcher government tightened the eligibility criteria and the value of transfers, while making interviews with the Employment

[55] Stovicek, Turrini (2012).

[56] Regarding the effectiveness in ensuring income support, the authors consider entitlement conditions; assessing the effects on the incentive to take up jobs, they consider unemployment and inactivity traps, duration of the provision of benefits, the time profile of benefits and job search and work availability; to compare systems across Europe, the EU average and the average within relevant country groupings (Nordic, Continental, Anglo – Saxon, Southern and Central/Eastern); finally, to assess the generosity the following formula is used: $UBgenerosity = \sum_{i=1}^{k} nrr_{UI \cdot i} * duration_{UI \cdot i} + nrr_{UA} * duration_{UA}$, where nrr stands for the net replacement rates, UI and UA respectively for unemployment insurance and unemployment assistance and the index i represents the different replacement levels over the spell. Generosity is assessed taking into accout also the real GDP per capita, the unemployment rate, the long – term unemployment rate, the government budget balance and the expenditure on activation policies.

Service a condition to receive benefits. The same approach was maintained by the Blair government, introducing the New Deal for the Young Unemployed.

The German Hartz reforms reorganized the whole unemployment benefit and the social assistant system: a 12 – month unemployment benefit (*Arbeitslosengeld I*, ALG I) is provided to jobseekers on the basis of the former earning; after the expiry of the ALG I, jobseekers receive a flat – rate benefit (*Arbeitslosengeld II*, ALG II) that replaced the social assistance benefit.

Pooling benefits in a single transfer to avoid errors and frauds and to make the system simpler for recipients was a measure taken also in France and in Great Britain; in 2009 France merged two benefits into the *Revenu de solidarité active*, a single means – tested benefit for the unemployed; it has the aim of making work more profitable than staying on welfare, through a higher and gradual exit point from RSA and the so – called *droits connexes*. In Great Britain, in 2012, all the main means – tested benefits were pooled in one single transfer, the Universal Credit, to simplify and rationalize the benefit system.

It was a common measure among the reviewed countries to tie benefit receipt with activation initiatives and stricter eligibility conditions; this way pf designing UI and ALMP as the two facets of the same coin allows to reduce the disincentive effects of welfare and to avoid dependence and skill loss.

Active labour market policies

As noted above, activation policies are an important instrument to balance the potential adverse effects of unemployment benefit systems. However, ALMPs have also other aims: they reduce imbalances and rigidities, facilitate the matching process and maintain the level of effective labour supply by keeping the outsiders attached to the labour market. The positive effects of ALMPs have already been highlighted in Chapter 1; Escudero[57], using a panel data model based on an aggregate impact approach, finds that training, employment incentives, supported employment and rehabilitation and direct job creation are actually effective in improving the outcomes of the labour market, with a particular positive effect for the low skilled. In particular, the author highlights a decrease in unemployment and an increase in labour force participation.

[57] Escudero (2015).

Activation policies may have adverse effects as well; the main risks are: (i) displacement of other categories of workers and substitution effects; (ii) reduction in search efforts; (iii) in – work poverty; (iv) dead weight effects.

In addition to being one of the first countries to tighten the eligibility for unemployment benfits, the United Kingdom was also one of the first to make interviews with the Employment Service compulsory for benefit recipients, with the Restart Programme in 1986. The scope of British ALMPs was increased by the Labour party with the New Deal, through which the young unemployed get an intensive assistance in job search and then enter in subsidised work programmes. A measure taken by several countries was that of making job centres one – stop customer centres that bundle all labour – related services: in Great Britain they're called Job Centres Plus, in Germany Job Centres, in France *Pôle Emploi*.

In Italy, instead, the Biagi reform introduced a network of employment services, *Borsa nazionale del lavoro*, which links several different kinds of public and private bodies. The Jobs Act introduced a new agency for ALMP, *Agenzia nazionale per le politiche attive del lavoro*, although it is not operative yet. The Jobs Act also introduced a re – employment contract, through which jobseekers can get both the income support and the assistance to find a new job, and a regional voucher that jobseekers can spend in private employment agencies.

Germany also introduced particular forms of contracts, characterized by the easing of the tax wedge on low – wage earners, the so – called Mini- and Midi – Jobs.

Finally, some countries also introduced grants, loans and subsidies to encourage self – employment: for example *Ich AG* in Germany, the Enterprise Allowance Scheme in Great Britain, and *Garanzia Giovani* in Italy, besides a specific unemployment benefit for dependent self – employed workers.

Wage setting

In his already mentioned study[58], Visser states that European countries generally have a multi – employer and, in most cases, multi – level bargaining system. An important exception is represented by the United Kingdom, where, since 1980, the government has encouraged single – employer bargaining instead of sector bargaining. To date, in fact the 88% of agreements are signed at company/enterprise level. British workers' bargaining coverage rate is quite low (31.2% in 2011) compared to other countries' data.

Regarding France, the bargaining system can be defined as "mixed": company/enterprise agreements and industry/sector agreements account for approximately 40 – 50% each. In particular, sector bargaining regards mainly the SMIC and work conditions, while working hours are bargained at the enterprise level since the 1990s. The coverage rate is quite high, 61% in 2011, despite the decline of unions; this is probably due to the duty, provided by the law, for employers to bargain with workers introduced in the 1970s with the Grenelle agreement, about mandatory recognition of union representatives in workplaces, and reinforced in 1982 with the Aurox laws, which obliged employers to bargain annually wages and work conditions with union representatives.

Germany has, since before the unification, an industry/sector level bargaining system; only the 7 – 9% of agreements are signed at the single enterprise level. This system has resisted the disaffection process that affected both unions and employers' association, once very powerful, in the post – unification period. It is important to note, however, that the coverage rate has declined in the past few years, though remaining high: it was 76% in 1996 and diminished to 61% in 2011.

Spain and Italy have, apparently, similar bargaining systems: both rely mostly on the sector level, with an enterprise/company level accounting for less than 15% in both countries. Despite the common result, the national paths have been very different over time. In fact, in Italy, union representation in larger firms, was made compulsory in 1970 with the *Statuto dei Lavoratori*. Over the decades the industry level bargaining system was consolidated, although a few bi- or tri – partite social pacts were signed at

[58] Visser (2012).

the central level. Since the 1990s, bargaining takes place both at the industry level, at which framework agreements are signed, an at the company level (for bigger firms).

In Spain, instead, collective bargaining has been illegal until 1958 and free unions were made legal only in 1977. Traditionally, bargaining in Spain took place at the regional and at the sector level; in the post – Franco period, instead, a few experiments of centralization were made. The resulting system, though, was unarticulated, confused and characterized by a very low degree of governability. Thus, already during the 1980s, the old regional and sector system was recovered. After the Great Recession, the levels of bargaining multiplied: in 2011 a bipartite incomes policy agreement was signed to provide a set of guidelines for industry/sector bargaining and in 2012 firms were given more opportunities to opt – out of agreements to regain competitivity.

Concerning minimum wage, the findings by Brown, Merkl and Snower[59] have already been reviewed; the authors provided a new two – sided explanation for some stylized facts: (i) Minimum wages that are low may have negligible or even positive employment effects; (ii) Minimum wages that are high have negative employment effects. Through a two – sided labour market flow model, which considers both the firms' job demand and the workers' job offer, the authors show that large wages depress firms' job offers, but raise workers' acceptance rates and that, under moderate wages, the latter effect may offset the former. Gorry[60] confirms these empirical facts specifically for young workers.

2.1. The proposal of a single contract

Due to the diffusion of temporary contracts, labour markets in Europe have grown more and more dual: on one side there are highly protected open – ended contracts, while on the other we find under – protected deregulated fixed – term contracts and atypical jobs. Most of the reforms analysed in the present work have the aim of increasing the level of flexibility of labour markets, but were often implemented at the margin, thus increasing employment, but also the turnover rate.

[59] Brown, Merkl, Snower (2014).

[60] Gorry (2013).

To answer to this growing inequality in the labour market, several economists have proposed to introduce a single/unique contract; debates on the single contract have been particularly fruitful in France, Italy and Spain. The common characteristics of the national proposals are an open – ended contract by default and protection that increases with seniority.

In France, Cahuc and Kramarz[61] propose a single contract to stop the proliferation of atypical contracts, to ease the access to certain jobs and to improve the assistance to the unemployed. The authors argue that better active labour markets should be implemented, especially for the better skilled jobseekers, who can be placed relatively easily. Also the employment service should be reformed to make it more efficient and effective, pooling all the employment – related services, including training in a one – stop customer centre. Finally, Cahuc and Kramarz argue that the CDD should be suppressed and substituted with a single contract characterized by the possibility for employers to fire employees more easily, but in exchange for a tax. The authors argue that such a system would simplify the labour law and reduce inequalities.

In Spain the share of temporary jobs had reached unprecedented levels already in 2006 and was one of the most heavily hit countries during the Great Recession; dualism and inequality, thus, are extremely serious problems. Given this situation, 100 Spanish economists subscribed a manifesto proposing a single open – ended contract that would suppress the firing cost gap between temporary and permanent contracts. In particular, this contract should be open – ended by default, with legal protection for all workers and severance pay growing in time. In addition, a radical reform of the unemployment benefit system is proposed: each worker would be the holder of an “unemployment account” to which both the employer and the employee contribute. In case of unemployment, the worker would have an account to use, otherwise the account would accumulate and add to the worker’s pension at the end of his/her working life.

Finally, in Italy Boeri and Garibaldi[62] proposed three initiatives to fight precariousness and dualism in the Italian labour market: (i) a single contract; (ii) the national minimum wage; (iii) a unified system of social security contribution. The contract proposed by Boeri and Garibaldi is very similar to the French and Spanish ones and is open – ended by default; it is composed by two phases: the first phase is of entry and lasts up to three

[61] Cahuc P., Kramarz (2004).

[62] Boeri, Garibaldi (2007).

years. During this first period the employee can be laid off in exchange of pecuniary compensation[63]. The second period, called *fase di stabilità*, is regulated by the current rules about layoffs.

Indeed, the Italian Jobs Act has introduced a single contract, called *contratto a tutele crescenti*, applied to workers hired after March 2015. The contract has no ex – ante time limit and protection levels increase with the workers' seniority. The two – phase system proposed by Boeri and Garibaldi was not implemented, nevertheless layoffs are resolved through a monetary indemnity as suggested by the authors.

Although single contracts are a very popular labour market institution to fight dualism in Europe these days, this does not mean that it is a panacea for all problems and that it cannot have side – effects. Barbieri and Fazio[64] argue that the single contract entails the possibility of anticipated contracts: since the firing cost increases with seniority, the last hired are more at risk, as the cost of firing them is the lowest. In particular, in the transition period between the dual and the new single – contract system, the incidence of layoffs would still be concentrated in the new entrants, while there would still be a group of incumbent workers with a high employment protection. Precariousness, thus, would not be solved, but only anticipated in time. This could also disincentive the investments in human capital, which in turn would jeopardize the growth of labour productivity.

3. Similarities and differences in the reforming paths

Eichhorst and Konle – Seidl[65] argue that differences in national labour market performances can be largely explained by the capacity of economic actors to adapt to structural shifts or business cycle variations, which in turn is influenced by labour market institutions like EPL, unemployment benefits and active policies. The authors also remind that complementarities between these institutions are important for the

[63] Unless the firing is for just cause or for discriminatory reasons; in the first case there is no compensation for the employee, in the second the art. 18 of the *Statuto dei Lavoratori* is applied (reintegration).

[64] Barbieri, Fazio (2012).

[65] Eichorst, Konle – Seidl (2006).

effectiveness of reforms and policies, which, therefore, often address more than one area.

Eichhorst and Konle – Seidl also argue that the interactions between labour institutions have different positive and negative effects on the interference with markets: strict EPL can stabilize employment and income, but, on the other side, reduce adaptability. It can also increase the duration of unemployment spells and hamper participation of weaker worker categories, i.e. older workers and women. Finally, introducing flexibility at the margin can create segmentation of the labour market, making transitions from flexible to stable jobs more difficult. With regard to unemployment benefits, too generous systems exert upward pression on wages and increase unemployment spells, creating disincentive to search a new job. On the other hand, benefits work as search subsidies and improve the matching process. To offset the negative effects of generous benefits, activation policies can be implemented: a combination between high reservation wages and stricter criteria, tests for eligibility, availability and compulsory participation in training programmes are the most common measures. Also ALMP can have adverse effects: in particular, lock – in effects that reduce search efforts, dead – weight and substitution effects that hamper the employment possibilities of non – participants.

Finally, the authors single out some conditions that increase the capacity of a government to manage policy complementarities; first, the existence of veto points, like second chambers in federal systems, the necessity of social partners negotiations, or self – administration in social security, make governments weaker in implement policies that affect different policy areas. Second, if control of areas of economic policy is shared with social partners, complementarities can only be mobilized if there is coordination with employers' associations and trade unions. In general, finally, reforms are more easily implemented when there is consensus on societal problems and objectives.

On the basis of what said so far, two stages of the reforming process seem to be recognizable in Europe: some countries seem to have completed the reforming process to create the flexicurity system – Germany and the United Kingdom – while others are still blocked at the "flexi" stage – in particular Italy and Spain, France being somewhere in-between.

Germany and Great Britain have traditionally had less rigid employment protection legislation and, combining it with effective unemployment benefits implying back – to –

work active policies, have been able to mitigate the employment effects of the Great Recession. In these countries, the issue to be faced now seems to be more related to in – work poverty and to welfare dependence.

Concerning Southern Europe, instead, Spain still faces a severely dual labour market, due to the excessive – sometimes improper – use of temporary contracts; the initiatives undertaken so far, e.g. subsidies for employers hiring workers with permanent contracts, do not seem to be sufficient. The suggested single contract could be a suitable solution, although it must be carefully designed and evaluated to avoid the transitional side effects mentioned above[66].

France and Italy have both seen the proliferation of forms of temporary and/or atypical contract, while in the field unemployment benefit and in the field of active labour market policies little was done, compared to countries like Germany. Italy introduced the long – debated single contract, but it is too early to evaluate its effects on the labour market and especially on precarious workers.

Following Eichhorst's[67] analysis of internal flexibility, part – time contracts have proved more effective in granting flexibility than short – term ones, which seem to rather increase precariousness.

The labour market reforming path in Europe is surely far from its ending and it must be combined with initiatives in different, though related, fields: education policies and employment policies must be designed in a complementary framework, so that school leavers find an easier way into the labour market and incumbent workers can undertake a life – long skill building journey; social security systems must be adapted to current demographic and fiscal conditions, in order to be sustainable and equal; wage bargaining processes should be both flexible and reliable, so that both underemployment and in – work poverty are avoided.

[66] i.e. the anticipation of layoffs and, although probably temporarily, an additional reason for dualism.

[67] Eichhorst, Escudero, Marx, Tobin (2010).

Chapter 3: European labour market institutions during the Great Recession

1. The impact of the Great Recession on labour market institutions

The recent crisis has been the deepest economic shock after the Great Depression in the 1930s and it has had different impacts on different countries. These differences depend mainly on the structure of the economy – i.e. the relative weight of different sectors on the economy of a country, the state of the financial sector and of public finance, etc. – and on the labour market institutions of a certain country – e.g. employment protection legislation, unemployment benefits and active labour market policies. While the first element determines the degree of exposure of a country to economic shocks, the latter determines the ability of the labour market to absorb the shock and to cushion the negative effects on labour and the social impacts.

Overall, the crisis has slowed down the employment growth, while job losses increased: the combination of labour market new entrants diminishing and of job losers increasing determined a rise in the unemployment rate in almost all countries, with the exception – in Europe – of Germany. In addition, the unemployment outflow rate has continuously decreased, highlighting an hysteresis effect, which suggests that the recovery will be slower compared to other downturns.

In order to design the optimal response to the effects of the crisis, it is necessary to figure out whether the rise in unemployment is structural or cyclical. Though distinguishing cyclical and structural changes may be difficult, as it has already been discussed in Chapter 1, several studies argue that most of the large increase in unemployment during the 2007 – 2009 recession appears to be cyclic. Still, the intensity of the cyclical effect was by no means the same throughout Europe: significant cross-country differences exist in the impact of the crisis in Europe, depending both on the structure of economy and on the labour market institutions; as already mentioned, the employment shares of vulnerable sectors greatly influenced the impact of the crisis. In particular, the sectors considered vulnerable are those of manufacturing and that of housing; countries that rely on one of these sectors – for example Spain, which has a large construction sector – were heavily hit by the recession when the financial turmoil spread to the real economy. Likewise, some countries the public finances of which did not permit counter-cyclical fiscal policies, like Greece and Italy, suffered a relatively high increase in unemployment; the same may be said of Ireland, where the financial sector had been hit with special severity.

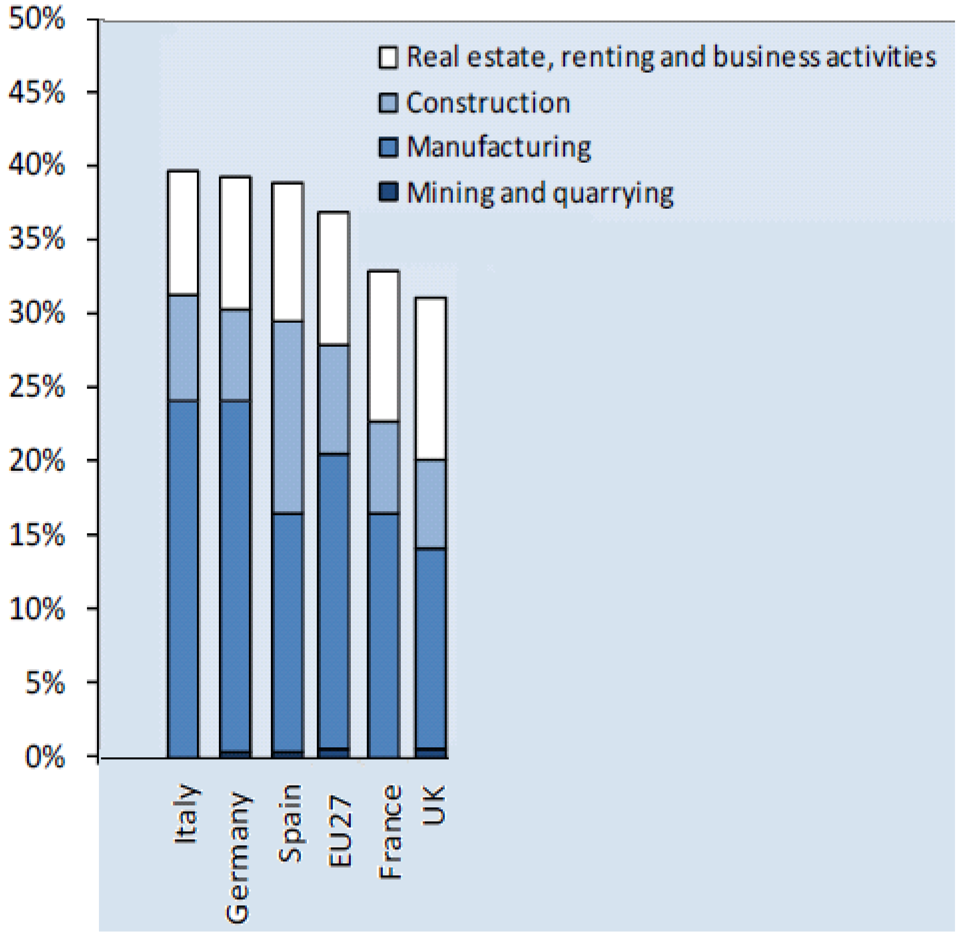

Figure 1. Employment shares of vulnerable sectors in the countries under analysis and in EU 27. Source: www.ec.europa.eu/eurostat.

2. The impact of labour market institutions and policies on unemployment during shocks

Bachmann, Bechara, Kramer and Rzepka[68] analysed labour market transitions before the Great Recession and during the early phase of the crisis. One interesting element of this study is that in the period 2008 – 2010 the shock effects exerted by the economic and financial crisis seem to go in the same direction across countries, whereas, after

[68] Bachmann, Bechara, Kramer, Rzepka (2015).

2011, the economic consequences of the recession grew divergent across Europe. The authors, thus, take into account labour market dynamics in the early phase of the crisis, to test the role of worker heterogeneity in the transition probabilities.

Through multinomial logit models[69], the authors estimate the probability of passing from one labour market state to the other. They, thus, found that, the early phase of the crisis (2008-2010) affected mainly the transitions from employment to unemployment (by increasing its rate) and the opposite transition from unemployment to employment (by diminishing its rate). The authors also highlight the role of heterogeneity among workers: the crisis seems to have hit more severely men, as the gender difference[70] declined since 2008, young workers (15 – 24) and medium – skilled persons. Another element that was found to be significant is the kind of contract: transitions from employment to unemployment increased more strongly for temporary contracts than for permanent contracts.

Although the trend in the sample is the same, the aggregate figures hide country heterogeneity; Bachmann and his collegues followed Esping – Andersen in defining country clusters: (i) Anglo – Saxon (very flexible labour markets); (ii) Scandinavia (high flexibility and high social security); (iii) Continental Europe (low flexibility and high social security); (iv) Mediterranean Europe (dual labour markets and low social security); (v) Central and Eastern Europe (high flexibility and low social security)[71].

Results show that employment stability declined particularly in the Anglo – Saxon countries, which also displayed the strongest labour market reaction (the increase in the respective transition rate was above average), while in the Mediterranean, Scandinavian and CEE countries the probability increased, but to a smaller extent. The Anglo – Saxon cluster was singled out also for what concerns the transition probability to inactivity, while the opposite happened in the Continental cluster.

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[69] The formulation of the model is the following: $Pr(y = m|X) = \frac{exp\,(X^l\beta_{m|b}}{\sum_{j=1}^{J} exp\,(X^l\beta_{j|b})}$ with m= 1…j, where y is one of the j labour market states (employment, unemployment, self – employment, education and inactivity), b is the base category, and X is a vector of explanatory variables.

[70] Before the crisis, women had higher unemployment rates than men.

[71] In order to reconcile Bachmann et al.'s study to the methodology of this work, I specify that the UK belongs to the Anglo – Saxon cluster, France and Germany to the Continental cluster, Spain and Italy to the Mediterranean cluster.

Dal Bianco, Bruno and Signorelli[72] investigate the interaction between labour market institutions and shocks, highlighting that institutions can shape the effects of shocks by affecting their impact on unemployment and hysteresis. In particular, through a longitudinal panel data analysis on the relationship between the unemployment rate and labour market policies[73], the authors test the following hypothesis: (i) labour market policies exert an impact on the level of unemployment; (ii) the country – specific severity of the crisis will be a determinant of the long – lasting effect of the crisis on unemployment; (iii) the severity of the crisis will moderate the impact of labour market policies on unemployment, and vice versa.

The analysis substantially confirmed the hypothesis: highly generous unemployment benefits and the crisis impact with a positive sign on unemployment, although moderate levels of benefits may reduce unemployment during a crisis. Turning to ALMPs, rotation policies do not seem to have a significant effect on unemployment during a crisis, unless they are at a particularly low level: in this case they are detrimental. Rehabilitation and training policies, on the contrary, prove particularly effective in reducing unemployment when the crisis is very severe.

Youth unemployment, tested separately by Dal Bianco et al., responds differently to labour market policies and crisis: total passive labour market policies are highly detrimental for the young if they are too generous, while rotation and start – up policies have no effect. On the other hand, similarly to total unemployment, rehabilitation policies have a positive unemployment – reducing effect when the policies are not too generous and the crisis is particularly severe.

Eichhorst, Escudero, Marx and Tobin[74], divide the labour institutions in three groups[75]: (i) those related to external flexibility – e.g. dismissal protection, fixed-term

[72] Dal Bianco, Bruno, Signorelli (2014).

[73] The estimable equation of the model is: $unrate_{it} = \beta_0 + \beta_1 Policy_{it} + \beta_2 Crisis_{it} + \beta_3 (Policy * Crisis)it + \mu i + \tau t + \varepsilon it$, where $unrateit$ is the rate of unemployment, $Policyit$ stands for the labour market policy (either active or passive), $Crisis_{it}$ represents the severity of the crisis, $Policy * Crisis$ is the interaction between labour market policy and crisis severity and μ_i and τ_t represent the country and year dummies, respectively.

[74] Eichhorst, Escudero, Marx, Tobin (2010).

The authors define external flexibility as that referred to the labour force: for instance, the external numerical flexibility is the possibility to adapt the number id employees to the economic situation, while the external functional flexibility refers to the skills of the labour force, educated in such a way to be able employment, temporary agency work; (ii) those related to internal flexibility – e.g. working time reductions, wage flexibility and subsidized short-time work schemes; (iii) policy/programme buffers – active labour market policies (e.g. employer subsidies, placement, training) on one hand, unemployment benefits on the other.

Regarding external flexibility, the appropriate level of employment protection is a popular matter of debate. A certain level of protection is necessary to insure workers against arbitrary dismissals and against improper use of temporary and atypical contracts; nevertheless, an excessive protection may prevent firms from quickly adapting to technological change, consumer demand and economic shocks.

Although they recognize the importance of EPL and highlight the recent trend in Europe towards relaxation of such legislation, Eichhorst et al. find that it does not seem to have a direct effect on the management of the crisis.

Eichhorst et al. also analysed the importance of instruments of internal flexibility during the crisis. Measures such as working time reductions and part – time employment have been largely used by firms to limit job losses. The use of this kind of instruments did not result to be linked to a particular level of employment protection: countries with different levels of EPL have experienced similar reductions in the number of hours worked.

Related to the decrease of hours worked, wage flexibility, often in the form of wage cuts, is another tool that was used to limit excessive falls in employment during the downturn.

De Serres and Murtin[76] analysed the effect of some labour market institutions on the level and on the volatility of unemployment, to assess whether some policies, aimed at decreasing the rate of unemployment, actually increase its volatility.

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to adapt to structural changes. On the other hand, internal flexibility refers to the firm-level: internal numerical flexibility is achieved through variations of the working hours rather than through adjustments in the number of staff, while internal functional flexibility is the ability to adapt to changing demand with a flexible organization of the production process.

[75] The same categories will be used to evaluate the labour market reforms described in Chapter 2.

[76] De Serres, Murtin (2013).

First of all, the authors split the volatility of unemployment into two components: One is the degree of unemployment persistence over time, the other is a measure of "cyclical volatility, i.e. the elasticity of the unemployment rate to the output gap[77].

Using a wage and price – setting model, the authors estimated the statistical significance of some labour market institutions. The replacement rate, the active labour market policies, the tax wedge and the union density resulted to be significant determinants of the level of unemployment. The duration of unemployment benefits and the level of employment protection were found to influence unemployment volatility. Overall, the authors' conclusion is that in the long run weaker labour market institutions tend to reduce the volatility of unemployment even though they may increase the short-run reactivity of unemployment to shocks.

There are, however, some institutions whose effect on volatility is ambiguous: a stricter employment protection for regular contracts, for instance, seems to decrease cyclical volatility, but is associated to a higher persistence of unemployment over time. Active labour market policies, instead, are associated with a lower persistence and with a higher cyclical volatility[78].

3. The Okun's Law during recessions

Several studies on this topic show that the Okun's law holds for most cases and thus it can be used as a "near – rational rule of thumb"[79] for unemployment and GDP forecasts.

Even before the Great Recession, Lee[80] argued that, although Okun's law proves to be statistically valid for most countries, the estimates are sensitive to a number of elements: the choice of the model, the country in exam and the time sample. In particular, the author found that output and unemployment dynamics in Europe have changed after the 1970s oil shocks: job losses following a reduction in output seem to tend to increase over time and the one – percentage point change in unemployment

[77] More specifically, cyclical volatility is defined as "the capacity of specific institutions to either mitigate or amplify the impact of changes in business cycle conditions on unemployment".

[78] The two effects tend to cancel out, yielding a virtually neutral effect in terms of total volatility.

[79] Villaverde, Maza (2009) page 295.

[80] Lee (2000).

seems to be associated with a two – percentage point reduction of GDP, rather than three, as originally estimated by Okun. These changes have been considered by Lee as structural rather than a result of the business cycle, reflecting the persistent rigidities of European labour markets, due to the downward inflexibility of wages, high unionization and generous unemployment benefit systems.

Also the already mentioned studies by Cazes, Verick and Al Hussami[81] and by Owyang and Sekhposyan[82] both highlight the instability of the Okun's coefficients across time and space; Casez et al. analysed the divergence in unemployment rates between the US and Europe: while before the Great Recession European labour market institutions were considered to be too generous and thus responsible for the higher unemployment rates, after 2010 they appeared to be more resilient. In particular, countries like Germany, which exploited working hours adjustment mechanisms, registered lower unemployment rates. This result, in the opinion of the authors, was due to the greater protection offered to workers and job losers. On the other hand, countries that were severely hit by the recession, like Spain, experienced an increase in the Okun's coefficient, that departed from pre – crisis levels: the authors argue that this increase was due to the high volatility of labour market.

Casez, Verick and Al Houssami, thus, argue that the Okun's coefficient is not stable over time, but that it is rather influenced by the business cycle. Owyang and Sekhposyan[83] push this hypothesis even further, questioning whether the Okun's law might change permanently. In particular, significant changes seem to coincide with recessions.

Perman and Tavera[84], instead, investigated the convergence of the Okun's law coefficients across European countries to evaluate the asymmetric reactions to symmetric euro area shocks. In fact, several countries show an increase in the absolute value of the unemployment – output trade off recently; this increase might be explained following two hypothesis: (i) European countries have different Okun's law coefficient trends, that stem from country – specific labour market institutions and dynamics; (ii)

[81] Cazes S., Verick S., Al Houssami (2011).

[82] Owyang M.T., Sekhposyan (2012).

[83] Owyang and Sekhposyan's analysis refers to the United States in a sample period that goes from1949:Q1 to 2011:Q4; therefore, it will not be discussed further. For a more detailed discussion about this study see Chapter 1.

[84] Perman, Tavera (2007).

the Okun's law coefficients follow a common trend across European countries, caused by the growing integration of labour and product markets and the harmonization of macroeconomic policies. To test these hypothesis, the authors perform rolling regressions of the coefficients of 17 European countries, including the five countries in exam in my work, and examining the convergence through a series of groupings: (i) the first group includes all the EC countries; (ii) the second set of grouping is based on the level of GNP – high, intermediate and low GNP; (iii) the third is based on geographical considerations – Northern, Southern and Western countries; (iv) the last set of groups in constructed on the basis of the Bayoumi – Eichengreen classification of European countries according to the degree of correlation of demand and supply shocks across countries – it distinguishes between core and periphery countries. Despite the number of groupings considered, no clear evidence of parallel movements in the estimated values of the medium – run coefficients, with the exception of the Western countries (Austria, Belgium, France, Germany, Luxembourg and Netherlands), which exhibit a convergence of both short – and medium – term coefficients. The conclusion of this study, thus, is that the time evolution of the unemployment – output trade off relationship is strongly influenced by country – specific elements, such as labour market rigidities, technology adoption rates and product market structure, and, therefore, a common symmetric shock on European output results in diverging unemployment rate movements across countries.

Finally, Ball, Leigh and Loungani[85] report as well the scepticism about the validity of Okun's Law since the wake of the Great Recession: in fact, the authors recognize that there seems to be little correlation across countries between decreases in output and increases in unemployment during the crisis.

However, Ball et al. find that claims of a breakdown of the law are exaggerated. The motivations given for such an opinion are related to the length of recessions and to country – specific coefficients: first of all, the crisis has had different time durations across countries; a longer recession implies a larger rise in unemployment. An example of this fact is the exceptional unemployment dynamics of Spain, in which the recession lasted for six quarters.

The second element taken into account by Ball and his collegues is the country – specificity of Okun's Law coefficients: some coutries have a larger coefficient (β_i),

[85] Ball, Leigh, Loungani (2013).

therefore a larger increase in unemployment is exactly what had to be expected in comparison to countries with a lower coefficient. The underlying determinants of country – specific coefficients seem to be strongly correlated to those which influence average unemployment, however Ball et al.'s results about them are largely negative.

The only quite robust finding concerns Spain: the natural explanation for the unusually high coefficient of this country seems to be the high incidence of temporary contracts. Fixed – term contracts might make adjustment easier for firms when output changes; moreover temporary contracts do not have the (high, as demonstrated by OECD EPL index) level of protection of permanent contracts. This fact would raise the Okun coefficient, justifying the greater reaction of Spain to the Great Recession.

PART 2: Paths of labour market reforms in selected European countries

Chapter 1: The main labour market reforms in selected European countries: A review

Introduction: Labour market conditions and policies in the EU

Although labour market policies are set at national level, the membership in the European Union influences the governments about several aspects.

As noted by Bertola[86], the European Economic and Monetary Union stimulates the performance of labour markets, fostering wage coordination, employees' mobility and employment efficiency, but it can also increase the elasticity of labour demand, causing more serious jobs losses in case of shocks, while deregulation can be politically difficult to implement, especially where redistributive issues are addressed through employment policies. Therefore, the European countries still have very different preferences and necessities, which make it difficult to find a "one-fits-all" model of labour market strategy.

Nevertheless, the European Employment Strategy[87] (EES), introduced in 1992 with the treaty of Maastricht, sets the explicit, though general, goal of "the creation of more and better jobs throughout the EU". The strategy is currently part of the Europe 2020 growth strategy and is implemented through the European Semester[88].

As it is stated in the webpage of the Strategy, "… the implementation of the EES - supported by the work of the Employment committee - involves the following four steps of the European Semester**:**

2. Employment guidelines are common priorities and targets for employment policies proposed by the Commission, agreed by national governments and adopted by the EU Council.
3. The Joint employment report (JER) is based on (a) the assessment of the employment situation in Europe (b) the implementation of the Employment Guidelines and (c) an assessment of the Scoreboard of key employment and social indicators. It is published by Commission and adopted by the EU Council.

[86] Bertola (2008).

[87] The EES can be consulted at http://ec.europa.eu/social/main.jsp?catId=101&langId=en.

[88] During the European Semester governments seek a closer coordination among member states and EU institutions.

4. National Reform Programmes (NRPs) are submitted by national governments and analysed by the Commission for compliance with Europe 2020.
5. Based on the assessment of the NRPs the Commission publishes a series of Country reports, analyzing Member States' economic policies and issues Country-specific recommendations."[89]

In particular, the Employment Guidelines, created in 2005, renewed in 2010 after the launch of the 2020 agenda and updated in March 2015, support "smart, sustainable and inclusive growth" and are the common base upon which country-specific recommendations are formulated. Here is a brief presentation of the guidelines:

- Increasing labour market participation
- Developing a skilled labour force
- Improving education and training systems
- Promoting social inclusion
- Boosting labour demand
- Enhancing labour and skills supply
- Improving the functioning of the labour market
- Enhancing fairness, fighting poverty and promoting equal opportunities.

Moreover, the Europe 2020 agenda sets a specific employment goal, i.e. to employ at least the 75% of the 20 – 64 year olds, and a flagship initiative, "Youth on the Move", to foster the education, the employment and the training of young people.

Finally, after the latest recession, the idea of the European unemployment insurance has resurfaced, as the crisis highlighted one of the flaws of EMU, i.e. the lack of fiscal coordination and solidarity among its members (Fattibene, 2015).

The origin of this project actually dates back to the 1970s: the Marjolin Report[90] already proposed a similar system of fiscal stabilizers as an effective reaction to asymmetric shocks. The report proposed a temporary system of Community allowances for the unemployed, while a generalized harmonization of national systems was to be prepared.

[89] http://ec.europa.eu/social/main.jsp?catId=101&langId=en.

[90] The report was named after Robert Marjolin (1911-1986), commissioner of Economic and Financial Affairs from 1958 to 1967, who chaired the "Economic and monetary Union 1980" study group who worked at the report.

The Marjolin Report already recognized the European dimension of unemployment, especially after the creation of the Community, which caused the quick transmission of fluctuations from a country to another. However, it recognized the difficulties of harmonizing the various national systems as well.

In the following thirty years, the situation has changed in many fields; nevertheless the project of a European unemployment insurance system, i.e. a system of unemployment benefits provided at the European level, has regained popularity.

Enderlein, Guttenberg and Spiess[91] argue that some kind of European automatic stabilization mechanism is necessary to minimize the impact of shocks in the Euro area, as short-term factor mobility is not a viable channel: labour mobility is very low, and will remain so in a multi-lingual and multi-cultural currency union; capital mobility, instead, is a suboptimal solution, as, even in fully integrated capital markets, a private insurance against asymmetric shocks does not allow private agents to internalize externalities.

The authors also note that, in EMU, persist different growth rates and inflation differentials, which are the causes for the slow adjustments of European countries to their unsynchronized business cycles. A cyclical shock insurance system would lead to more synchronized business cycles and to more rapid adjustments to asymmetric shocks.

Citing the Four Presidents' Report[92], such a mechanism should (i) It should not lead to permanent transfers between countries or to transfers in one direction only,; (ii) It should neither undermine the incentives for sound fiscal policy-making at the national level, nor the incentives to address national structural weaknesses; (iii) It should be developed within the framework of the European Union; (iv) t should not be an instrument for crisis management. The European Stability Mechanism (ESM) already performs that function. Instead, its role should be to improve the overall economic resilience of EMU and individual euro area countries.

Enderlein, Guttenberg and Spiess propose a Cyclical Shock Insurance scheme (CSI) that satisfies these conditions. The authors start from the idea of reducing the difference

[91] Enderlein, Guttenberg, Spiess (2013).

[92] Juncker J.C. in collaboration with Tusk, Dijsselbloem, Draghi, Schulz (2015).

between individual member states' business cycle positions and that of the EMU in order to achieve a higher level of convergence, which would smooth the adjustments to asymmetric shocks. If a country's GDP is above its potential output, there is a rise in inflation; if, on the contrary, total output id below potential, unemployment increases more than necessary. The aim of fiscal policy is to keep the output gap small in absolute terms, as neither of the two situations described above is desirable.

In a currency union like the EMU, an asymmetric shock – which only affects a part of the union – output gaps diverge and they cannot be stabilized through individual monetary policies. At this point, the necessity for a common fiscal stabilizer to bring output gaps back close together.

The formula to calculate the amount of transfers to each individual country is based on the output gap[93], as the authors indicate it as the cleanest measure of the business cycle position of a country. Moreover, the output gap is already used both at the European and at the national level to elaborate economic forecasts.

Against the same backdrop, Jara and Sutherland[94] argue that a European unemployment benefit system would grant greater risk sharing across member states, thus providing better shock absorption against asymmetric economic fluctuations. In fact, national unemployment benefit schemes vary greatly across countries, in particular concerning the following dimensions: (i) eligibility in terms of minimum required amount of work or contributions; (ii) eligibility in terms of other conditions – e.g. employment status, type of contract, age and so on; (iii) level of payments – flat rate or proportional to previous income; (iv) duration of the entitlements; (v) the existence or otherwise of an unemployment assistance scheme. The EMU unemployment benefit system that Jara and Sutherland suggest would reduce these differences, leveling up the extent of protection for the unemployed, thus helping to smooth also the reactions to economic shocks[95].

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[93] The output gap is the difference between a country's GDP – gross domestic product – and its potential output – the highest level of output that is sustainable in the long term.

[94] Jara, Sutherland (2013).

[95] This effect has been measured by Jara and Sutherland through the following "income stabilization coefficient": $\tau = 1 - \frac{\sum_i (Y_i^{post} - Y_i^{pre})}{\sum_i (X_i^{post} - X_i^{pre})}$ where Y_i is the income available for household i before and after the

The system proposed by the authors is available for all employed and self – employed[96] up to 64 years old who have work contributions for at least 3 months in the previous 12. The payments are provided from the 4th month, up to the 12th. For what concerns the replacement rates, the authors propose two models: the first is a flat – rate payment, amounting to 33% of the average income in the country the unemployed lives; the second follows a proportional formula: the replacement rate amounts to 50% of the previous gross earning. In both cases the authors do not propose floors or ceilings.

To evaluate the additional effects of their EMU unemployment benefit system (EMU – UI), Jara and Sutherland use EUROMOD, i.e. a tax – benefit microsimulation model of the EU, based on micro – data representative of households in each member state, recalculating the available income for households with the EMU – UI, both for the flat – rate and the proportional formula: the sample includes 10 EMU states, among which Germany, France, Italy and Spain.

The results of the analysis show, first of all, that the coverage rate of the EMU – UI is higher than that of national systems; Italy stands out with a 21% increase in the coverage rate, due to the large proportion of self – employed, excluded from the national unemployment benefit scheme. The increases in the other countries are significant, though smaller.

Turning to replacement rates, the EMU – UI increases the protection to household incomes: in all countries the additional benefit has a positive effect, although in some countries, like France, the effect is quite small. The authors also found that the payment calculation formula matters: the effect is larger under the proportional scheme. The EMU – UI also reduces the dispersion of net replacement rates.

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transition to unemployment and X_i is the market income of household i before and after the transition to unemployment.

[96] Self – employed are excluded from unemployment insurance systems in most countries.

Country-specific policies

1. Germany

1.1. German labour market after the reunification

For years, Germany was considered the “sick man of Europe”, the best example of Eurosclerosis, suffering from low productivity and growth, low rates of participation in the labour market, high unemployment. After the reunification in 1989, the situation of employment in Germany grew worse (Table 1): labour force suddenly increased because of low skilled workers coming from the East, creating high unemployment and downward pressure on real wages (Akyol, Neugart, Pichler – 2013)[97]. Moreover, after the collapse of communism, civil wars in Yugoslavia led a large flux of refugees in Germany.

Time	**Unemployment rate in Germany (%)**
1989	5.3
1993	7.9
1997	9.8
1998	9.2
1999	8.4
2003	9.6
2007	8.7
2011	5.8
2014	5.0

Table 4. Unemployment in Germany before and after the Hartz reforms as a percentage of active population.Source: OECD.org/employment/labour-stats/

[97] Akyol, Neugart, Pilcher (2013).

The authors single out a decline in real wages about two years before the employment rate started to rise. They impute this decrease in wages to a strong decline in union power since the mid-1990s. The Hartz reforms may have further weakened the role of collective bargaining.

Since Germany is a constitutionally social state[98], a growing share of social assistance expenditure was devoted to unemployment benefits and long-term care. The expenditure on labour market policies passed from 1.87% of GDP in 1989 to 3.89% in 1993 and remained above 3% until 2005.

German welfare system consisted of a rather generous unemployment benfit scheme, which paid 60% of lost net earnings to singles and 67% to parents with dependent children, funded through contributions, and of a means-tested unemployment assistance scheme for those who either exhausted their benefit duration or who had never reached a sufficient amount of contributions. This second kind of benefit was funded through general taxation.

Besides long-term unemployed, also refugees coming from Yugoslavia could claim for benefits. The generosity of the scheme plus the number of people who could claim for benefits caused major fiscal crisis in local governments.

Moreover, German labour market suffered from two other sources of rigidity: a very high degree of union density and a strict employment protection legislation, which caused high firing costs. It was noted above how these two elements have a negative impact on employment, as they change firms' hiring behaviour.

Finally, the Federal Employment Agency was historically inefficient, both from a job-matching and from an organizational point of view.

The first reaction to this situation was, in 1996, the so-called Sparpaket, which deregulated and liberalized temporary contracts. It was the first step towards the flexicurity paradigm, although it was insufficient to solve the high unemployment problem. At the beginning of the 21st century, in fact, Germany was still in stagnation, with a declining economic performance and high unemployment rates.

In the meanwhile, the Maastricht criteria and the Growth and Stability Pact set further constraints to Germany's possibilities of an expansive monoeuvre, and shortly later the monetary sovereignty was transferred at the European Union level, preventing,

[98] In fact, German constitution states: "The Federation shall be responsible for subsidies toward meeting the costs of social security, including unemployment insurance and public assistance to the unemployed." Basic Law for the Federal Republic of Germany in the revised version published in the Federal Law Gazette Part III, classification number 100-1, as last amended by the Act of 11 July 2012 (Federal Law Gazette I p. 1478).

therefore, the government from acting on exchange rates to try to regain competitiveness.

1.2. The Hartz reforms

After the Placement Scandal[99] (*Vermittlungs Skandal*), the chancellor Schr*ö*der[100] set up the Hartz[101] Commission to analyze the German labour market and suggest policies to reform it. In 2002 the commission presented its report, which was translated, between 2003 and 2005, into the four so-called *Hartz reformen*[102].

The main aims of the reform package were of increasing the efficiency of the matching process and of reorganizing the Federal Employment Agency, as required by the public opinion after the scandal. In addition, the government implemented also a series of activation policies (ALMPs), on the backdrop of EU's Lisbon Strategy[103], to finally decrease the high unemployment rate and increase the employment rate, and completely reformed the benefit system to avoid fiscal crisis on one hand, and to create incentives to returning to work on the other.

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[99] In 2001, an investigation about the statistics of the Federal Employment Agency revealed that, while the official placement rate was of 50%, the real rate was somewhere close to 17% instead. This scandal highlighted the inefficiencies of the Agency and called for a deep reform.

[100] Gerhard Schröder was Chancellor from 1998 to 2005, after Helmut Kohl and before Angela Merkel, with a coalition between the Sozialdemokratische Partei Deutschlands (SPD), his party, and the Bündnis 90/Die Grünen (Green).

[101] Named after Peter Hartz, chairman of the Commission, adviser of chancellor Shröder and human resources executive at Volkswagen AG until 2005. The commission was formed by: Norbert Bensel, Jobst Fiedler, Heinz Fischer, Peter Gasse, Peter Hartz, Werner Jann, Peter Kraljic, Isolde Kunkel-Weber, Klaus Luft, Harald Schartau, Wilhelm Schickler Hanns-Eberhard Schleyer, Günther Schmid, Wolfgang Tiefensee, Eggert Voscherau.

[102] Laws for Reform of the Job Market.

[103] The employment goal set within the Lisbon Strategy was of increasing employed population to 70% in 2010. Since the goal was not reached it has been proposed again in Europe 2020 agenda.

The contents of the four acts are briefly illustrated in Table 5.

Table 5: contents of the Hartz packages	**Subject**
Hartz I (2002)	De-regulation of employment contracts (e.g. agency work and temporary contracts)
Hartz II (2002)	Reform and facilitation of minor employment
Hartz III (2003)	Reorganization of the Federal Employment Agency
Hartz IV (2004)	Unification of unemployment and social assistance into one comprehensive relief scheme

Source: Alber, Heisig (2011), personal elaboration.

The guiding strategy was threefold: (i) improving job matching and the related strategy, (ii) activating the unemployed through a "rights & duties" system, (iii) fostering employment demand.

Hartz I

With this first act, effective from 2003, hiring procedures were reformed and simplified: job centres were created in the form of one-stop customer centres that bundle all labour-related services, like counseling, social welfare and youth welfare. Job centres can now contract out training and job creating to *Personal-Service-Agentur*, i.e. private agencies that provide temporary employment. The Hartz I act introduced also training and placement vouchers, through which the jobseeker can mandate private agencies to find him/her a job.

Finally, the act tightened the definition of suitable work and reinforced the sanction system to activate jobseekers. In particular, jobseekers that are out of work for more than a year are obliged to take up any job regardless of the wage level; otherwise the unemployment benefit can be withdrawn for a period of three to 12 weeks.

Hartz II

The Hartz II act (2003) was all about activation of the unemployed. First of all, the act introduced a start-up grant, called *Ich AG*[104] (literally Me Inc) to encourage self-employment as a way out of unemployment. The programme consists in a decreasing[105] contribution paid to jobseekers entitled for employment benefits or participating in a job creating programme. The contribution is paid for up to three years, as long as the income is below 25000€.

Two other instruments of activation introduced by Hartz II are Mini- and Midi-Jobs, designed not only for jobseekers, but also for low-wage earners. Mini-Jobs are those paid up to 400€ and are tax- and social-contribution-free for employees. Midi-Jobs are those paid 400.01€ to 800€, for which employees pay increasing social insurance, from 4% to the normal percentage of 21%.

Hartz III

The Hartz III act, effective from January 2004, reformed the Federal Employment Agency, after the *Vermittlungs Skandal* that highlighted the inefficiency of the former organization. Before the reform, in fact, the Agency was administered by tripartite system, consisting in a committee of 50 people. The same committee elected the executive board that was in charge of the operational business administration, while daily operations were dealt with by civil servants.

This structure was closely linked to politics and was not enough independent and efficient, as was demonstrated by the scandal. Therefore, the administration was made more business-like and autonomous: a chief executive officer and a management board dealing with management plus a supervisory board. Management is organized on the basis of objectives agreed by the Ministry of Economics and Labour and the Public Employment Service, as the Federal Employment Agency is now called. The same objectives rule the work of the 180 district offices on the German territory.

[104] The official name is *Existenzgründungszuschuss,* grant for setting up businesses.

[105] The contribution is of 600€ per month for the first year, 360€ for the second and 240€ for the third.

Finally, market mechanisms and the contracting-out of services have increased, improving quality and competitiveness and creating a stronger public-private mix to provide placement services.

Hartz IV

The Hartz IV act, released in 2005, completely reorganized and reformed the unemployment benefit and the social assistance systems.

As already mentioned above, the German welfare scheme was considered to be too generous and disincentive: in fact, employers and employees paid 3.25% each of the gross salary to employment insurance funds. In case of unemployment, employees received 60 to 67% of their last-earned salary for up to 32 months. After this period had expired, the jobseeker received a means-tested unemployment benefit, consisting of 53 to 57% of their last-earned net income, through a benefit that was tax-financed and paid for an unlimited period.

After the reform, the period in which the jobseeker receives the income-related benefit, now called *Arbeitslosengeld I* (unemployment benefit I), has been limited to 12 months (18 months for workers over 55). This benefit's level is earning-related. After its expiry, jobseekers receive a flat-rate benefit, called *Arbeitslosengeld II* (unemployment benefit II), whose amount is fixed at the former social assistance rate and is independent from former income. Jobseekers receiving ALGII must accept reasonable offers of employment; otherwise their benefit is reduced. Social assistance is now limited to people unable to work. The resulting benefit level is lower, thus it should make re-employment more profitable than staying on welfare.

1.3. Present conditions

As noted above, during the 1990s Germany was considered the "sick man of Europe", the symbol of Eurosclerosis, affected by high unemployment and low growth.

After the Hartz reforms, the situation changed dramatically: Employment rose sharply and remained very high even during latest recession**.** In 2014 the employment rate was 73.8%, while the European average was only of 64.8%.

Hartz IV, in particular, seems to have fully achieved its goal: As Krebs and Scheffel[106] found the reform reduced the non-cyclical component of unemployment, through the reduction of unemployment benefits, which created an increased incentive to search for new jobs.

Hartz IV also increased the growth rate (annual long-.run growth rate increased of about 0.1%). Krebs and Scheffel highlight two reasons for this: the increase in employment directly expanded output, while the higher investments in human capital stimulates growth, especially as labour taxes can be reduced.

Nevertheless, Hartz IV creates winners and losers: the substantial reduction of the level of unemployment benefits, in fact, affected particularly the long-term unemployed, who saw a quite large cut to their income source. This effect is in line with economic theory's predictions. On the other hand, employed households gained from the reduction of benefits because the social security taxes declined correspondently.

Moreover, Hartz IV determined a decline in real wages, which on the one hand reduced employees' income, but on the other increased German international trade competitiveness. Arent and Nagl[107] show that the decrease in unemployment benefits (especially in ALGII) weakened the bargaining position of workers, thus determining a decrease of wages as well. This could be another reason for the rise in employment, as lower wages increase labour supply.

The combined effect of the other three Hartz acts has sped up the matching process, thus increasing employment in their turn. Fahr and Sunde[108], using empirical matching functions to evaluate the determinants of employment inflows, found that the first two Hartz acts, implemented simultaneously, increased the job finding rate by between 5 and 15%, depending on the type of occupation, while Hartz III accounts for another 15%. The data are particularly spectacular for the long-term unemployed.

In sum, it can be affirmed that the Hartz reforms have actually reduced the non-cyclical components of unemployment, also protecting German labour market from the recent Great Recession, thanks to enhanced flexibility and the creation of a new steady-state level of unemployment, which cushioned the effects of the crisis.

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[106] Krebs, Scheffel (2013).

[107] Arent, Nagl (2013).

[108] Fahr, Sunde (2006).

While the macroeconomic results of the Hartz reforms seem to be clearly positive, the microeconomic evaluation is more difficult. As Akyol, Neugart and Pilcher[109] observed it is difficult to identify any single successful policy, despite the positive aggregate data. The results of the authors' analysis is reported in Table 6.

Policy	Objective	Study	Evaluation method	Result	Average number of yearly participants†
Measures targeting labour supply and reservation wages					
Lowering generosity of unemployment benefits; merging the systems of unemployment benefits and social assistance (Hartz IV)	Increase incentives for job search and reintegration of long-term unemployed by lowering reservation wages.	Möller et al. (2009): no causal analysis possible due to lack of counterfactual event.	Evaluation studies largely missing	NA	NA
		Krause and Uhlig (2011)	Search-and-matching-general equilibrium model with heterogeneous skills		
		Franz et al. (2012)	Computable general equilibrium micro-simulation		
Reorganisation of activation policies (Hartz I)	Stricter requirements for eligibility for unemployment benefits in order to create incentives to apply for jobs.	Mosley (2006)	Difference-in-differences with control group getting the treatment at a later stage	No effect	1,407,757 (since 2000)
Further vocational training (Hartz I)	Integrate workers into the labour market by increasing their human capital through improvements in the quality of training measures.	Schneider (2006) Schneider and Uhlendorff (2006)	Conditional propensity score matching	Increases employment chances of 5–10%.	345,009 (since 2000)
Public job creation (Hartz III)	Ease entry into the labour market for long-term unemployed by giving them the opportunity to gain work experience and modestly reimbursing them.	Hohmeyer and Wolff (2007)	Propensity score matching	No overall effect; small positive effect on female participants, long-term unemployed, and older participants	75,538 (since 2000)
Salary protection for older employees (Hartz I)	Provide incentives for the elderly to pick up new employment.	Ammermüller et al. (2006) Zwick (2006)	Difference-in-differences with control group aged 48/49	No effect	9,796 (since 2003)
Measures targeting labour demand					
Ease the issue of temporary contracts to older employees (Hartz I)	Increase attractiveness for firms to hire older employees by allowing temporary contracts for individuals older than 52 without need for justification.	Bundesministerium für Arbeit und Soziales (2006)	Difference-in-differences with control group aged 50/51	No effect	NA
Contribution bonus (Hartz I)	Increase attractiveness for firms to hire older employees by exempting employers from unemployment insurance contributions for new hires older than 55.	Zwick (2006)	Difference-in-differences with control group aged 54	No effect	NA
Mini-Jobs (Hartz II)	Increase attractiveness for firms to hire part-time employees by exempting employees with monthly income below €400 from tax and social security contributions.	Fertig and Kluve (2006) Caliendo and Wrohlich (2010)	Potential outcome model based on panel data Difference-in-differences with control group getting no treatment one year before	Increase of two percentage points in the share of Mini jobs; probability of having a secondary job increased for single men	NA
Midi-Jobs (Hartz II)	Increase attractiveness for firms to hire part-time employees by partly exempting employees with monthly income between €400 and €800.	Fertig and Kluve (2006)	Potential outcome model based on panel data	Increase of 0.3 percentage points in the share of Midi jobs	NA
Wage subsidies (Hartz III)	Increase attractiveness for firms to hire hard-to-place workers by issuing wage subsidies.	Boockmann et al. (2012)	Difference-in-differences with control group aged 49	No employment effect	215,609 (since 2000)
Start-up subsidies (Hartz II)	Create incentives for transition into self-employment.	Caliendo and Steiner (2007)	Propensity score matching	Effects range from 24% to 46 % probability of being employed after 16 months; size of effects drops after 28 months.	Me Inc. and Bridging Allowance have been replaced by a new scheme. 215,547 (since 2000)
Improving matching efficiency					
Reorganisation of employment agencies (Hartz III)	Increase matching efficiency by giving local labour agencies more leeway in implementing and choosing policy measures to react to local labour market conditions.	Bundesministerium für Arbeit und Soziales (2006)	Difference-in-differences with control group getting autonomy later	No effect	NA
Contracting-out to private placement agencies (Hartz II)	Create competition between private and public placement agencies to speed up the matching process.	Bundesministerium für Arbeit und Soziales (2006) Bernhard and Wolff (2008)	Propensity score matching	No overall effect, but effective for hard-to-place workers.	349,250 (since 2004)
Placement vouchers (Hartz I)	Create competition between placement agencies in order to speed up placement.	Bundesministerium für Arbeit und Soziales (2006)	Propensity score matching	No effect for initial proposal; for reformed policy probability of being unemployed after 4 months 10% lower	60,961 entrants since 2003
Temporary help firms (Hartz I)	Increase matching efficiency with placements and targeted training measures and increase flexibility of firms at the margin.	Hess, Kaps and Mosley (2006)	Propensity score matching	No sustainable effect	25,742 (since 2003)
Deregulation of the temporary help sector (Hartz I)	Decrease restrictions on employment of temporary workers to increase flexibility in hiring.	Fertig and Kluve (2006)	Potential outcome model based on panel data	No effect	NA
Transfer measures (Hartz III)	Avoid unemployment due to business failures by offering benefits or reintegration measures.	Bundesministerium für Arbeit und Soziales (2006)	Propensity score matching	No effect	NA

†*Source*: Bundesagentur für Arbeit.

Table 6: analysis of the Hartz reforms. Source: Akyol, Neugart, Pilcher (2013).

[109] Akyol, Neugart, Pilcher (2013)

A possible reason for the difficulty in evaluating the single reforms is actually the lack of sound control groups and reliable empirical estimations, caused also by changes in data definitions and measurement procedures. Nevertheless the reforms have been evaluated in several studies using propensity score matching technique, which basically compares two similar statistical groups, one treated, the other not treated, and difference-in –differences approach, which compares treated individuals before and after the reform.

2. France

2.1. The reforms of the 1990s

During the 1980s and the 1990s France experienced high and growing rates of unemployment (Table 7). To address this issue, France has reformed its labour market over the years, introducing flexibility, popular as an unemployment-reducing device in Europe in that period.

However, flexibility was mainly introduced at the margin, thus creating a two-tier segmented labour market, with long-term contracts benefiting from high employment protection and short-term contracts with little or no protection at all.

Time	**Unemployment in France (%)**
1990	9.4
1993	11.3
1997	12.6
2000	10.2
2003	8.6
2011	8.8
2014	10.3

Table 7. Unemployment in France as a percentage of active population. Source: ILO.org/ilostat using LFS.

The reform process was not a single articulated body like the Hartz reforms in Germany, rather a series of particular dispositions mostly about different forms of contract.

The contrat à durée déterminée

While the open-ended contract[110] (*contrat à durée indéterminée – CDI)* is the normal labour contract, the *contrat à durée déterminée*[111] (*CDD*) is intended by French labour law[112] to be used in particular cases, specified by the code. In particular, these cases are: (i) the replacement of a worker who is absent; (ii) for a temporary increase of the activity of the firm; (iii) for seasonal activities[113].

The law establishes that this kind of contract cannot be renewed more than two times and that the maximum cumulative duration of successive contracts cannot exceed 18 months.

The Delalande tax changes in 1992 and 1998

The *contribution Delalande*, introduced in 1987, is a tax that has to be paid by companies laying off workers above 50 years old. It only concerns private-sector workers employed under an indefinite term contract, and is proportional to the gross wage of the worker.

Originally, the tax was introduced to restore the employment protection of older worker, after the suppression of the administrative authorization that used to be required for layoffs, in 1986. In fact, without the authorizations, firms found less costly to fire older workers, instead of involving them in early retirement schemes, and therefore turned to layoffs.

[110] « *Le contrat de travail à durée indéterminée (CDI) est la forme normale et générale de la relation de travail. Par définition, il ne prévoit pas la date à laquelle il prend fin. Il peut être rompu sur décision unilatérale soit de l'employeur (licenciement pour motif personnel ou pour motif économique, mise à la retraite), soit du salarié (démission, départ à la retraite), ou encore pour une cause extérieure aux parties (ex : cas de force majeure). Sa rupture peut aussi résulter d'un accord des deux parties élaboré dans le cadre du dispositif de « rupture conventionnelle » mis en place par la loi n° 2008-596 du 25 juin 2008.*

[111] *First introduced in 1979, then several times reformed in the framework of updating of the labour law.*

[112] *Code du Travail, articles L.1241-1 to L.1248-11.*» Extract from the website of the Ministry of Employment,http://travail-emploi.gouv.fr/informations-pratiques,89/les-fiches-pratiques-du-droit-du,91/contrats,109/le-contrat-de-travail-a-duree,3932.html.

[113] L. 1242-2, Code du Travail.

In 1992 the schedule of the tax was changed: workers above 50 hired before this age or employed for less than three months if hired after 50, are now liable for the tax, and the amount due in case of layoff varies with age.

The rationale for these changes is the effort of the French government to increase the employment rate of older workers, extending their career life, also foreseeing a severe slowdown of growth.

In 1998 the tax schedule was extended to firms with more than 50 workers.

Behaghel, Crépon and Sédillot[114] observed that the Delalande tax creates difficulties for men aged more than 50 to be hired, compared to their younger counterparts, while the effects on women are more difficult to detect. The probability of being laid off at 50 or more seems to be decreasing, but this fact is probably due to the higher selection of workers.
The authors, therefore, conclude that the main effect of the Delalande tax, and inferring, of employment protection in general, is to deteriorate the hiring probabilities of the target group, while the effects on layoffs are more difficult to detect.

In 2006, a particular CDD was introduced for older workers, aged more than 57 years old. This contract is designed to ease the reintegration into active labour force of older workers.

The Contrat d'Insertion Professionelle

At the beginning of the 1990s, France suffered from an exceptional high rate of youth unemployment, depending both on structural and cyclical causes: on one hand the minimum wage and the comparatively high cost of unskilled labour, on the other tight macroeconomic policies (necessary to meet the Maastricht criteria) and the then-current conjuncture.

The issue was faced by the government Balladur[115] in 1994: a new type of contract was introduced for the young, the so-called *contrat d'insertion professionelle* (professional insertion contract – CIP), which allowed employers to pay young workers 80% of

[114] Behaghel, Crépon, Sédillot (2005).

[115] Édouard Balladur, French Prime Minister from 1993 to 1995, member of the party *Union pur la France, UPF*.

France's minimum wage[116] for up to two years, regardless of the employees' qualifications and without any compulsory training to be provided.

Since France is traditionally a highly centralized state, the five-year labour law, in which the CIP was foreseen, was elaborated mainly by the government and by the Ministry for Labour and Social Affairs, without a "concertation" approach.

The CIP was considered by social partners substantially a SMIC dedicated to young people, which risked of having dramatic substitution effects, to the detriment of older low skilled workers. Moreover, the CIP did no distinction on the basis of qualifications: unqualified teenagers and graduated people in their twenties were treated the same way.

The protests were quite violent, and resulted in a series of government concessions: at first the government tightened the rules on training, making it compulsory for 15% of the contract; the wage was not calculated on SMIC anymore, but on reference salary of each branch of industry instead. A new decree was published, and contained also another concession: 20% of the duration of contract must be dedicated to "practical training".

After a setback in local elections of March 1994, the prime Minister choose the strategy of trying to please his electorate, and released a further decree, that replaced the CIP with a 1000 – franc subsidy to be paid to companies that hired young workers. Later during that year the subsidy was increased and an agreement was signed about apprenticeship contracts, while the CIP was repealed.

2.2. The reforms after 2000

Particular forms of fixed-term contracts

Besides this general CDD, some particular forms were introduced between 2006 and 2008. The *contrat d'usage* is a fixed-term contract linked to a particular task to be accomplished, more flexible than the "normal" CDD. Workers are not hired on permanent contract because of the nature of the task to be accomplished. This kind of

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[116] *SMIC – Salaire minimum interprofessionel de croissance,* introduced in 1950 and reformed various times. Currently, it must be applied to every worker aged more than 18 and must be recalculated on 1st January each year. In 2014 it was fixed at €9.53 per hour (gross).

contract can only be used in sectors indicated in a list provided for by decree or collective agreement.

Moreover, the *CDD à objet défini* was introduced in 2008. This contract specifies a particular task or assignment that the worker must accomplish. Once the job is done the contract ends and it cannot be renewed. The duration is between 18 and 36 months.

The Contrat de Première Embauche

In 2006, de Villepin[117] announced a new project to fight youth unemployment: the *Contrat de Première Embauche* (first employment contract). This new kind of contract was designed for workers aged less than 26 and forecasted an initial "trial period" of two years, during which the employee could be dismissed without reasons and had right to limited compensation. After the trial the layoff is subject to the same rules of CDI[118].

The aim of this reform was that of encouraging employers to hire young people by softening the very rigid French EPL, introducing flexibility.

Unions and associations of students harshly criticized the so-called "Kleenex-contract", as they considered it a violation of the basic principles of French labour laws, first of all the need of a motive for dismissal of employees. Also, they agreed that such a contract would be detrimental for low-skilled young workers.

Thus, there were very violent protests against this amendment across France, accompanied also by strikes and university occupations, until the CPE was withdrawn and substituted by new measures.

The Revenu de Solidarité Active

The *Revenu de Solidarité Active* (*RSA* – earned income supplement) was introduced in 2009 to replace both the minimum integration income (*RMI – Revenu Minimum d'Insertion*) and the single parent allowance[119] (*API – Allocation Parent Isolé*), creating

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[117] Dominique Galouzeau de Villepin, French prime minister from 2005 to 2007, member of the UMP, *Union pour un Mouvement Populaire.*

[118] Contrat à Durée Indeterminée.

[119] The RMI was a means-tested benefit reserved to jobseekers who are not eligible for unemployment benefits. Among the eligibility criteria for this benefit, it is important that the recipient must commit to finding a job. The API was designed for parents raising dependent children on their own. It was a means-

therefore a single means-tested benefit with the objective of making return to work always more profitable than staying on welfare.

Besides these primary benefits, that are national and statutory, there are also the so-called *droits connexes*, a wide range of secondary benefits, some of which are local and/or non-statutory, such as the Christmas bonus, social tariffs for utilities, housing support, school meal allowances or travel benefits.

In fact, as D. Anne and Y. L'Horty noticed in their analysis[120], RMI and API, together with the *droits connexes*, made returning to work unprofitable, as it represented basically a loss of income. The exit point from RMI/API was quite low, and, once households reached the threshold, local and non-statutory benefits dropped sharply.

The new scheme, instead, is designed to gradually reduce transfers as earned income increases and it sets a higher exit point, so that the fall in local and non-statutory transfers occurs later, leaving therefore to households a higher available income.

Moreover, RSA makes any level of work worthwhile, thus providing strong incentives for returning to work, eliminating welfare traps.

Unemployment insurance system reform

Unemployment benefits are managed by an independent body, *Union nationale interprofessionnelle pour l'emploi dans l'industrie et le commerce – UNEDIC*[121], controlled by employers and social partners. UNEDIC sets the amounts of the benefits and the eligibility criteria through joint meetings every three years. The government proposes the agreement to the Parliament, which gives it force by law. Thus, even though the agency is officially independent, public institutions have a major role in the unemployment benefits system: the financial resources, in fact, are guaranteed by the state.

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tested benefit, whose level was calculated on the basis of the income of the recipient and of the number of children.

[120] Anne, L'Horty (2011).

[121] In 2009, *UNEDIC* was merged with *ANPE (Agence National Pour l'Emploi)* to create the new *Pôle Emploi.*

Currently, the benefits amount to a 70% replacement income for a maximum duration of two years (three for jobseekers aged 50 or more). The system is considered by many, among which Égert[122], to be quite generous. This fact is justified by the aim to ensure that jobseekers find an appropriate job for their skills, but Égert suggests that such a scheme is coupled with retraining programmes and effective incentives to shorten unemployment spells and find a new job as soon as possible.

Bearing in mind not only the unemployment benefits, but also the RSA and the various *droits connexes*, Égert proposes degressivity and further conditioning on participation in training programmes or obligation to take up reasonable job offers. These mechanisms should increase incentives to find a new job, reducing the duration of the unemployment spell and the amount publicly spent on benefits and ALMP, which in France amounts to 10% of GDP.

Job centres

Finally, also France, like Germany with Hartz III, merged the unemployment insurance structures (*UNEDIC*) and the job search assistance in a single centre, called *Pôle Emploi*, thus abolishing the *Agence Nationale pour l'Emploi*.

In 2009 public job centres began facing the competition of private agencies. This novelty highlighted two characteristics of *Pôle Emploi*: the assistance is less intensive and personalized than the private one, but back-to-work rates are higher. Therefore public job centres have to be carefully monitored and empowered to make employment services truly effective.

In 2012 a three-year plan was launched for *Pôle Emploi* with the goal of making it more efficient and of better targeting its interventions. Additional resources will be available, while staff will be better employed. In fact, in 2013, a single counselor monitored on average 160 jobseekers; the goal is that of reducing this number to about 70 to provide jobseekers with more tailored training and job solutions.

[122] Égert (2013).

2.3. Current conditions

As already noted, most of the reforms that were recently undertaken in France have introduced flexibility at the margin, creating a segmented labour market. In fact, while EPL for permanent jobs has remained almost stable over time, protection of temporary contracts has been consistently reduced[123]. The high level of EPL tends to increase the share of temporary jobs, alimenting the two-tier system. Temporary jobs suffer from both lower protection and lower wages.

Another characteristic of STJ in France is a particularly low transformation rate to permanent jobs: While in countries with low EPL this rate is quite high (about 50%), in France it is below 15%. While the impact is negligible on aggregate employment, this excess of labour turnover significantly shortens the job duration for temporary workers.

Moreover, Blasco and Givord[124] note that, especially for women, temporary contracts do not represent a stepping-stone[125] towards a permanent job in France; rather they lead more often to unemployment or inactivity.

Since segmentation causes the labour market to function abnormally, it is broadly recognized that a change is needed. Le Branchon and Malherbet[126] (2013) present the two most popular proposals in France.

The first project is lined out in the *Accord national interprofessionel (ANI)*, signed between social parts in January 2013, and consists in increasing the employers' contributions to unemployment insurance for short-term contracts[127]. This should spur the use of temporary contracts.

The agreement also deals with the procedure for collective dismissal in large firms, i.e. firms with more than 50 employees. Negotiations between the social partners should be privileged to shorten and simplify the conciliation; alternatively, the redundancy programme has to be presented to the work council and then be homologated.

[123] Le Barbanchon, Malherbet (2013).

[124] Blasco S., Givord (2007).

[125] Terminology by Booth et al.

[126] Le Barbanchon, Malherbet (2013).

[127] In particular, for contracts whose duration is less than one month the contribution would increase from the normal 4% to 7%, while it would be 5.5% for contracts whose duration is one to three months.

The second proposal, promoted at European level by several authors, is that of a single or unified contract, that would eliminate fixed-term contracts, without increasing the EPL level, but introducing the missing element of security besides flexibility. This project will be described in greater detail in Chapter 3.

Despite the controversial effects of partial labour market reforms, as noted by Askenazy and Erhel[128], during the Great Recession, French automatic stabilizers managed to avoid excessive harm for households and firms. Social security schemes and cuts on income taxes for low-middle-income households cushioned the effects of the crisis. Thanks to this quite sound performance, employment and unemployment trends did not follow disastrous paths: the unemployment rate remained below the 2-digits threshold, whereas in many other European countries the rate grew much higher.

Flexibility, however, was guaranteed to firms through two channels: first, wages have shown a significant downward trend, despite the SMIC; second, firms exploited "time saving accounts"[129] and short-time work.

Moreover, the current trend for temporary workers is increasing, affecting especially youth employment, while a new trend is emerging in the French labour market landscape: a boom of self-employment.

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[128] Askenazy, Erhel (2012).

[129] "Time saving accounts" are arrangements established in the framework of the 35-hour week. During times of intense activity, the firm can oblige employees to work additional hours, while during downturns workers take up the "saved" vacations.

3. Spain

3.1. The situation after Franco's regime

During the 1980s and 1990s Spain suffered from a very high unemployment and from a highly dysfunctional labour market. In 1980, the democratic government established the Workers' Statute (*Estatuto de los Trabajadores*), but kept the employment rules established during the Francoist regime[130], with the aim of a smooth political transition. Moreover, the productivity was exceptionally low, TFP growth even negative. Finally, Spain had traditionally one of the highest levels in EPL strictness index (OECD), ranking 3.9 on 1985 – 1993.

All these elements contributed to increase the unemployment rate, as shown in table #.

Time	**Unemployment in Spain (%)**
1990	16.1
1993	22.6
1997	20.7
2000	13.9
2003	11.5
2007	8.2
2011	21.4
2014	24.4

Table 8: Unemployment in Spain as a percentage of active population. Source: personal elaboration of data from OECD.org/employment/labour-stats/

[130] Francisco Franco established a fascist regime in 1939, after the Spanish civil war, and remained head of the State until his death in 1975. During the Francoist regime, Spain experienced a remarkable economic boom, called the *Desarollo*. In the field of employment policies, there were no particular measures, except the *Sindacato Vertical*, created in 1940, which was the only legal trade union, controlled by the regime.

Given this situation, Spain was a pioneer in the strategy of flexibility, but introduced it at the margin; in 1984 the first forms of atypical contract were introduced. From this moment onwards, the Spanish labour market has grown more and more segmented over the years, while experiencing the most volatile rate of unemployment in Europe.

Fixed-term contracts introduced in 1984 allowed firms to hire employees with a lower severance pay for any kind of job. The contract duration was between 3 and 6 months, with compulsory conversion into permanent contract thereafter.

Since their introduction, the share of temporary contracts has been very high and continuously rising. Therefore, from 1994 onwards a long series of (partial) EPL reforms has taken place to limit the number of temporary jobs.

3.2. The reforms

The Reforma del Estatuto de los Trabajadores

In 1994, restrictions to the use of temporary jobs were introduced, although temporary work agencies have been allowed. The two policies substantially cancelled each other out.

Severance pays for permanent workers were also mildly cut, slightly reducing the gap between the firing costs of permanent and temporary jobs.

The Pacto sobre Estabilidad en el Empleo

In 1997 the *employment-promotion permanent contracts* were created. These contracts were characterized by lower severance payments and were targeted towards to specific groups of workers. Besides this contract, in 2002, rebates were applied on contributions for firms directly hiring with or converting existing contracts into permanent, even though only for a limited period[131]. Despite these measures, the share of temporary jobs continued to be extremely high: during the mid-2000s more than 33% of the employees had a STJ.

[131] Usually 3 years, after the expiration of which the firms often fired workers.

The Acuerdo para la Mejora del Crecimiento y el Empleo

In 2006, the share of temporary contracts in Spain was the highest in Europe: 34.4%. To limit this phenomenon, which was creating instability, and to prevent abuse, the Government agreed with unions and employers' organizations about a series of measures.

The main goals of the reform were: (i) better regulation of temporary employment agencies and of the related contracts and subcontracts; (ii) incentives for employers to grant permanent contracts; (iii) improved management of the *Fondo de Garantía Salarial* (wage guarantee fund).

Concerning temporary contract chains, the reform established that such a series of contracts was automatically converted into a permanent contract if the worker is employed for more than 24 months in the same enterprise and for the same mansion, simply demonstrating the factual situation. Indirect recruitment, through agencies, is considered, while training contracts and internships are not.

A new kind of temporary contract was introduced for disabled workers. In this case STJ were used as means of job creation, since they are precisely targeted: it is the only case in Spanish law.

The Medidas Urgentes para la Reforma del Mercado Laboral of 2010 (Ley 35/2010)

Despite the partiality of these measures, the Spanish labour market experienced a long period of expansion, which lasted until 2007. The economic boom was due to low interest rates, that eased the access to credit, and to a large immigration inflow, especially of low skilled workers, attracted by the specialization of Spain in low value added and high labour intensive industries, such as constructions and tourism.

In 2009, the housing bubble exploded, causing the crisis of the construction sector. Unemployment surged to more than 17%, but the Socialist government did not consider that a structural reform was necessary. The government changed their mind only in 2010, after the European Financial Stability Fund was created to limit the sovereign debt crises subsequent to the Greek bailout.

In February the government issued a set of guidelines for EPL reform to be discussed by social partners. The reform covered four key areas: (i) severance pay, (ii) hours reduction, (iii) active labour market policies and (iv) collective bargaining[132].

Individual dismissals were deeply reformed; first of all, the economic reasons for fair dismissal were finally defined[133]. A new employment-promotion contract was introduced, with an enlarged group of eligible workers and an *express dismissal procedure*, which consists in a severance pay of 33 days to avoid going to court.
Also temporary contracts were reformed: now severance pay period progressively increases from 8 to 12 days, and the maximum duration of a sequence of temporary contracts in a single firm has been set at 3 years.
Moreover, hours reductions were facilitated, reducing social security contribution on firms and extending workers' entitlements to unemployment benefits.
Concerning ALMPs, the group of workers eligible for job creation subsidies was reduced, while private placement agencies were finally authorized.
Lastly, firms in distress were authorized to opt out of the collective bargaining process, setting agreements with its own employees instead.

Despite the fact that several aspects of employment were reformed, the system remained substantially segmented: the dual EPL system was reformed only marginally, while the collective bargaining process was touched only regarding firms in distress. Moreover, many measures were designed to benefit incumbent (permanent) workers, leaving temporary workers and jobseekers with a very low protection level.

The Medidas Urgentes para la Reforma del Mercado Laboral (Ley 3/2012)

In February 2012, a new labour market reform was implemented with the aim of restoring the competitiveness Spain had lost because of the recession. The new labour law mainly addressed collective bargaining and EPL.

First of all, firm – level bargaining was enhanced, giving the chance to firms to opt out of national and regional collective agreements, in order to adjust more closely to specific needs, and to exploit internal flexibility as an alternative to job destruction.

[132] Bentolila, Dolado, Jimeno (2012).

[133] Current and expected losses, persistent reduction in revenues, technological, organizational and productive reasons.

Moreover, the agreements can only be prolonged for a year after their end date; in this way, social partners should have more incentives to renegotiate often agreements, in order to make them always aligned to current economic conditions.

Second, in the area of employment protection legislation, the definition of fair (individual) dismissal was redefined, particularly for economic reasons[134]. For collective redundancies, the need of an administrative authorization was eliminated, although it is still compulsory to negotiate with unions before serving individual notice. The circumstances under which a collective redundancy can be undertaken was better defined. Workers over the age of 50 that are affected by the collective redundancy have to be retrained and relocated at the expense of the firm.

Finally, severance pay for unfair dismissal was reduced to 33 days' wage per year of seniority up to 24 months and the workers' right to interim wage between the dismissal and the final court ruling.

Dualism, however, remains substantially unaddressed. The reduction of the firing-cost gap between permanent and temporary contracts, achieved through the first set of measures, is not sufficient to make firms less prone to use STJ in a massive way.

Currently the unemployment benefit system is considered to be quite generous and among the causes of the high job turnover which characterizes Spanish labour market.
The unemployment insurance is accessible for all employees who involuntary become unemployment, provided that they have worked for at least 12 weeks in the previous 72 weeks. Therefore, voluntary job quitters, individuals receiving full – time disability benefits and individuals aged more than 65 are excluded from this benefit.

The replacement rates are calculated on the average income of the 12 months before unemployment: the payment is 70% of the average wage for the first 4 months, 60% from the fifth month onwards; the benefit is however subject to limits: it must be always be between 75% and 220% of the minimum wage. The maximum duration of the unemployment insurance is 24 months.

Individuals who are not eligible for unemployment insurance or have reached the time limit receive the unemployment assistance.

[134] A firm is now said to be in economic distress when it has at least 3 consecutive quarters of decline in revenues or income.

Both unemployment insurance and assistance are financed through payroll taxes; in particular, employers and employees pay UI contributions: in case of permanent contract the contribution rate is 7.55% (employees: 1.55%, employers: 6%), for fulltime fixed – term it is 8.3% (respectively 1.6% and 6.7%) and 7.7% in case of part – time work or temporary agency work.

Such a generous benefit system was not properly counterbalanced by activation measures: since 2002 Spain has pursued a decentralization process, making the 17 Spanish Autonomous Communities responsible for the ALMP programmes and the income support policies. This has mainly created fragmentation and inequality between different regions, because the system lacks the coordination necessary for efficiency. Moreover, resources allocated by AC to activation and/or support programmes are often insufficient and participation very low, thus the impact on welfare dependence, social exclusion and poverty is negligible.

3.3. Current conditions

Even if the Great Recession stimulated the reforming process, the measures remained at the margin, thus perpetuating the dual system and the persistent unemployment. Academics mostly agree that, as long as the measures will be targeted at the margin, they will remain substantially remain ineffective. In particular, as highlighted in the OECD preliminary assessment[135] of the *Ley 3/2012*, although the reform increased dynamism and is likely to bring about lower dualism and faster productivity growth in the medium term, the share of temporary contracts remains high and a more decided convergence of employers' costs of termination for permanent and fixed – term contracts would be desirable. Finally, the OECD recommends a better integration of passive and active policies to increase the effectiveness of Spanish matching process.

In 2009, 100 academic economists signed a manifesto proposing a single open-ended contract, which would suppress once and for all the firing-cost gap and the temporary contracts[136]. This new kind of contract would have no *ex ante* time limit and severance payments that increase progressively with seniority. This measure should encourage job

[135] OECD (2013b)

[136] The only exception would be that of replacement contracts for maternity or sickness leave.

creation and longer job duration, while protecting and fostering the creation of human capital.

Besides the single contract, Bentolila et al.[137] propose other policies that could help overcoming the segmentation in the Spanish labour market. First of all the authors consider reforming collective bargaining as crucial to improve the development of wages; in particular, both real and nominal wage adjustment mechanisms are important to restore output, employment and productivity growth: these goals could be better met by giving more scope to firm-level bargaining. Bentolila and collegues give also great importance to unemployment benefits and to active labour market policies, fields that were substantially disregarded by the reforms so far.

[137] Bentolila S., Dolado J.J., Jimeno (2012).

4. United Kingdom

4.1. The labour market in the 1990s

Time	Unemployment rate in the United Kingdom (%)
1990	6.9
1993	10.2
1997	6.8
2000	5.6
2003	5.0
2007	5.3
2011	8.0
2014	6.1

Table 9. Unemployment in the United Kingdom as a percentage of active population. Source: personal elaboration of data from oecd.org and ec.europa.eu/eurostat.

The Thatcherism

When Margaret Thatcher[138] became Prime Minister, despite British unemployment rate was modest compared to U.S. and OECD rates (5.3% in 1979), productivity and output growth were quite slow, labour costs and inflation were raising and employees were relatively less skilled than in other European countries. Thus, during the 1980s, the Thatcher government implemented a series of laws and programs related to labour market to "cure the British disease".

Although no programmatic document exists, some authors, for instance Blanchflower and Freeman[139], highlighted some specific goals: (i) weaken the unions; (ii) make work pay, compared to unemployment benefits; (iii) reduce the role of the public sector in

[138] Margaret Thatcher (1925 – 2013), Prime Minister of the United Kingdom from 1979 to 1990 and Leader of the Conservative Party from 1975 to 1990, called "the Iron Lady".

[139] Blanchflower, Freeman (1993).

labour market outcomes; (iv) encourage self-employment. The main aim was of making the British labour market more flexible and mobile.

To achieve these results, the Thatcher government deeply reformed the unemployment benefit system, tightening the eligibility criteria and the value of transfers. This made working more advantageous over being unemployed, creating strong incentives towards employment, thus reducing the unemployment rate and the duration of the spell, which, prior to the reform, was exceptionally long, compared to other OECD countries. In 1986 the Restart programme made interviews with Employment Service mandatory as a condition to receive benefits for all those unemployed for more than six months.

Moreover, measures were introduced to help individuals, including the unemployed, to become self-employed, such as secured loans, advice centres, financial incentives (Enterprise Allowance Scheme), grants, training programs and tax deductions. While the benefit reform actually created incentives to employment, the measures to encourage self-employment were of ambiguous success: the proportion of self-employed workforce in Britain increased, but there was an increasing flow from self-employment to unemployment or inactivity as well.

Finally, a side-effect of the Thatcher's reforms was the increase of wage inequality, which remained a problem of the British labour market until the 1990s, especially after the wage councils (statutory body empowered to fix minimum wages in some industries) were abolished in 1993. The introduction of National Minimum Wage, by the Labour government of Tony Blair in 1999, slightly improved the situation, especially for women.

4.2. The reforms after the Thatcher government

New Labour

In 1997 a Labour government was elected, opening an innovative period for the Labour Party, called New Labour.

The main labour market reform of Blair[140] government was the so-called New Deal for the Young Unemployed: all individuals aged between 18 and 24 who have claimed

[140] Tony Blair, Labour Party member and Prime Minister of the United Kingdom from 1997 to 2007.

unemployment benefit (Job Seekers Allowance – JSA, introduced in 1996) enter the programme: in the first period – Gateway – the claimant is given intensive help with job search and is monitored by a personal advisor. If the claimant does not find an unsubsidised job during this stage, which lasts up to four months, he/she is given a set of New Deal options, including: (i) subsidised training or education for up to 12 months; (ii) a wage subsidy paid to the employer; (iii) voluntary work for six months, paid an allowance at least equal to JSA; (iv) a job on the Environmental Task Force, i.e. government provided employment.

The choice of one of the four options is mandatory and if an option is refused the claimant is sanctioned through the withdrawal of benefit for a period of 2 to 13 weeks.

In certain specific areas, were long-term rate is particularly high, the so-called Employment Zones, both public and private employment service agencies provide job assistance, monitoring and counselling to New-Deal-eligible clients.

Van Reenen[141] analysed the programme to evaluate its effectiveness and found that, despite analysis might be biased by substitution effect and by the lack of a truly comparable control group, the British New Deals appears to have had significant positive effects on young employment. The probabilities for young unemployed to find a job have increased considerably, without deteriorating the quality of jobs.

Jobcentre Plus

In 2001, the Department for Education and Employment and the Department for Social Security were merged into the new Department for Work and Pensions. Together with the departments, also the placement and benefit administration functions were combined as Jobcentre Plus (JCP), which became a one-stop centre that provides both employment services and income support for inactive and unemployed customers of working age.

[141] Van Reenen J. (2003).

Work Programme

Work programme was introduced in 2011, with the aim of creating a welfare scheme that protects the most vulnerable without creating unemployment and poverty traps[142]. The programme supports return to work for benefit claimants, such as disabled people and young low skilled people. Customers are provided with personalized support to undertake active and effective job-search. The providers, both public and private, get incentives and payment for results, in exchange for innovative approaches in welfare-to-work schemes.

Universal Credit

In 2012, in the framework of the Welfare Reform Act, the main means-tested benefits were pooled in one single transfer, called Universal Credit. At the same time, support for childcare is made more accessible. The Council Tax Benefit will be excluded.

This reform had as a major aim that of rationalizing the set of benefits, simplifying the re-application from one benefit to another and reducing the risk of fraud and error. Moreover these measures should decrease the risk of welfare dependence and provide better incentives for work: METR[143] will decrease, leaving a higher available income for recipients that go back to work and lowering the probabilities of in-work poverty.

For what concerns childcare, it is now accessible for parents regardless of the amount of hours per week they work, while in the previous system there was a threshold of 16 hours. This element has a particular scope regarding child-rearing-aged women, although, to really facilitate women's employment childcare costs should be further lowered.

4.3. Present conditions

The United Kingdom has always been a leading country in both the fields of active labour market policies and of flexible labour market; these characteristics allowed the

[142] André, Garcia, Giupponi, Pareliussen (2013).

[143] Marginal Effective Tax Rate, i.e. the amount which will be lost in taxes and loss of benefits from earning an additional pound.

UK to face the Great Recession maintaining a quite high rate of employment, while other European countries experienced serious falls.

In fact, the British labour market has traditionally been very flexible, while real wages have been responding quickly to changing productivity and output levels during the crisis, limiting the number of layoffs[144].

Nevertheless, as in many other European countries, involuntary part-time and fixed-term jobs have increased significantly and youth unemployment is at a quite high rate.

Moreover, the recent developments of the labour market, in particular the introduction of flexibility, has created a wide income gap between full-time employees and workers with part-time, insecure and/or low skilled jobs. Together with the "traditional" drivers of inequality, e.g. globalization and technological change, these elements are favouring high-skilled workers rather than low-skilled ones.

Finally, youth unemployment is a major challenge for British policy makers, as young people who fall in poverty and social exclusion are likely to permanently remain in this situation. Therefore, not only measures have to be introduced to facilitate the entry of young jobseekers in the labour market – e.g. apprenticeships, dedicated job opportunities and contracts, subsidies and tailored assistance – but there must be a strong coordination and collaboration between the educational system and the labour market, as to avoid skill deficiencies and improve the matching process.

[144] André, Garcia, Giupponi, Pareliussen (2013).

5. Italy

5.1. The situation in the 1990s

Italy in the 90s grew very slowly and performed poorly in the labour market: traditionally, the participation and the employment rates have been quite low and fell steadily during the 90s. Black economy was probably a quite important share of the whole, with ISTAT estimating it as a 20-25% of GDP.

Time	**Unemployment in Italy (%)**
1990	9.0
1993	9.7
1997	11.2
2000	10.6
2003	8.7
2008	6.1
2011	8.4
2014	12.7

Table 10. Unemployment in Italy as a percentage of active population. Source: personal elaboration of data from oecd.org/employment/labour-stats/ and istat.it.

Moreover, the Italian labour market suffered from an additional rigidity, i.e. an extremely heavy regulation, made even stronger by the economic situation.

Finally, the Italian system of social security was limited and inefficient: unemployment benefit have always been low (on average 30% of the gross wage, payable for six months) and many workers were not eligible for them, while for workers in the manufacturing sector the benefit was represented by a short-term replacement wage called *cassa integrazione guadagni*[145] (CIG). Therefore, the social safety-net had to be reformed and coupled with a set of labour market policies to reduce unemployment.

5.2. The reforms

The Treu law

The Treu[146] law, promulgated in 1997, was the first organic reform of the labour market regulation after the introduction of the Labourers Statute (l. 300/1970 - Statuto dei lavoratori) in 1970. It was aimed at reducing unemployment, especially in the South of Italy (Mezzogiorno), through the introduction of new flexible types of contracts. In particular, the package reformed apprenticeship and work-training contracts and liberalized temporary contracts.

The reform can be considered as part of the Italian way toward the European Economic and Monetary Union (EMU): the need to meet the Maastricht criteria, the effects of European rules and the growing international competition urged for structural reforms that could boost Italy's performance: The Treu law was an important element of this process.

The Treu reform was prepared by the Minister himself together with a cabinet of experts, many of which were labour lawyers, and in concertation with the social partners, including the representatives of parties.

The government had to rely on the far-left Rifondazione Comunista for its majority in the Chamber of Deputies; this created serious constraints for the reform, especially on the side of layoffs. Therefore, Treu and his colleagues focused on the liberalization of entry, legalising temporary and agency work. Apprenticeship and on-the-job training were reformed as well, while labour grants were made available for young people facing their first job.

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[145] The CIG is still used and it is funded by private contribution plus complementary statutory contributions. It provides a replacement wage, usually 80%, in case of temporary reduction of working time or suspension of activity.

[146] Named after the Italian Minister of Labour and Social Affairs Tiziano Treu, during the government of Lamberto Dini (1995 – 1996) and the government Prodi (1996 – 1998).

The government had also other projects: it committed both with RC and with Europe to prepare the transition to a 35-hour work-week and was considering a reform of unemployment benefits, jointed with an easing of EPL for permanent workers, but the cabinet fell before the bill was presented to the Parliament.

The Biagi law

Introduced in 2003, the Biagi[147] reform was targeted on the same disadvantaged social group to whom the Treu reform was dedicated: youth, women, older workers and job-seekers, especially in Southern Italy. The measures already introduced by Minister Treu were improved and amplified in the new law.

The reform was based on three pillars: employability, adaptability and equal opportunities. The same concepts were the labour policy guidelines of the European Employment Strategy.

The Biagi law designed a new network of employment services, run by both public and private bodies, linked together by an online database, called *Borsa nazionale del lavoro.*

Public employment offices provide a wide range of services, e.g. job searching assistance, recruitment, career guidance and training and employment agency work, sometimes in cooperation, some other in competition, with private-sector agencies.

Private agencies must be authorized by the Ministry of Labour and Social Policies and entered in a national register, i.e. *Albo delle agenzie del lavoro*, in a particular category, depending on the kind of service that the agency provides.

The online database aims at increasing efficiency and transparency of the labour market. It is accessible directly by jobseekers, workers and employers, or through private or public employment services. It should favour the matching between supply and demand for labour.

Besides these interventions, the Biagi reform introduced several new forms of contracts, with the goals of providing more flexibility both to firms (in case of temporary changes

[147] Named after Marco Biagi, the Italian labour lawyer who drafted the White Book of the reform and of the law. He was assassinated in 2002 by a group of terrorists.

in the activity volume) and to workers (to reconcile personal and family life, or education, or responsibility duties, with job), and of regulate some forms of black or hidden employment, thus giving workers more protection. Moreover, the new contracts were intended to encourage firms to hire and to ease the way to (or back into) labour market of school-leavers or long-term unemployed.

Apprenticeship contracts

These contracts are designed essentially for young jobseekers, graduated or school-leavers. There are three types of apprentice: Educational training, vocational training, and higher-level apprenticeships. They are designed for different age and qualification levels, but all consist in training at the employer's expense in addition to remuneration. Educational apprentice contract may last for up to three years, while vocational training may last from two to six years. The contract can be terminated by the employer only for a just cause.

Access to work contracts

These contracts are dedicated to young jobseekers, long-term unemployed or individuals affected by physical or mental disability, to let them acquire the skills required for a certain job. They substitute the old work training contract. The contract's duration may be of nine to 18 months (36 for workers with disabilities). This kind of contract cannot be renewed by the same employer, while the worker can take up another job with the same contract.

Project work contracts

This is a kind of quasi-subordinate contract, as it relates to a certain project or task, specified in the contract, which is autonomously managed by the worker. It was introduced to limit the improper use of such a form of work and to provide more protection to workers subject to it. In fact, there are limitations about the sectors in which project work contracts can be issued. The contract has to be written and to establish exactly the project (or the part of a project), the payment criteria and times, any health and protection measures, and many other details.

Occasional labour

This form of work is intended particularly for individuals risking social exclusion. It enables workers to access the official labour market, leaving behind the hidden economy. Mainly these contracts have as an object housework, childcare or assistance to older persons, gardening, cleaning, dealing with emergencies and so on. The payment system is particular for this kind of jobs: vouchers with an established value must be purchased by the employer in advance and given to the employee, who has to present them to authorized centres to have the cash and to have social insurance and injury insurance contributions paid. The worker cannot work more than 30 days a year and he/she cannot earn more than €5000 per year.

Job sharing

Two (no more) workers can take up an individual employment contract, dividing the hours the way they want. The goal of this kind of contract is to give the chance of reconciling work with other personal responsibilities. Even if the number of hours must be specified in the contract, the workers can organize their working time differently, notifying the arrangement to the employer on a weekly basis. If the contract is terminated for one of the workers, also the other is automatically dismissed.

On-call work

This kind of contract is designed to manage intermittent work with flexibility for both firms and workers. The worker can agree to work on certain times of the week, of the month or of the year. There are two types of on-call work: with or without a stand-by allowance. In the second case, the worker gets a monthly allowance, but he/she is bounded to accept any offer to work. An unjustified refusal can determine the termination of the contract, the repayment of the allowance and damages.

Employment agency work

Through this mechanism a user company can utilise work employed by an agency. The channel can be temporary work or staff leasing. In this kind of arrangement, there are two contracts: the first takes place between the worker and the agency, the second between the agency and the user firm, each of which can be either open- or fixed-term. This type of work was designed to allow firms to expand their workforce very quickly and flexibly, through a form of outsourcing. The worker is normally paid by the agency, but if the latter fails to pay the agreed amount, the worker has to right to demand the payment to the user firm.

The Monti – Fornero reform

In 2012, the technical Monti[148] government passed a new labour market reform that had the explicit intention of overcoming the duality between insiders and outsiders. The reform was elaborated on the backdrop of a quite diffused opinion: high unemployment rates, especially among the young, and the increased use of atypical and precarious contracts are caused by the high levels of protection for workers in salaried (open – ended) employment.

The reform proposed to social partners a more cooperative and collaborative setting for the management of the labour market, but the level of social concertation was very peripheral, given the opposition of *CGIL* and *Confindustria*[149]to this approach.

The reform touched upon three different areas of intervention: (i) limiting the scope of atypical and temporary work; (ii) making dismissal easier, in order to introduce greater flexibility in hiring; (iii) renewing the safety – net system. All these measures only regard the private sector. Moreover, it must be noted that, soon after the passing of the

[148] Mario Monti, Italian Prime Minister from 2011 to 2013. The reform was named after him and after the Minister of Labour and Social Affairs of his government, Elsa Fornero. Monti’s government was a technical one, nominated by the Italian President Giorgio Napolitano after the resignation of Silvio Berlusconi and of his government in 2011.

[149] The first is one of the major Italian trade unions, the second the most influential employers’ association.

reform, several amendments were made; thus, the resulting reform is more limited than the initial intentions of the government.

Concerning fixed – term contracts, while the Biagi reform required specific technical, productive or organizational reasons to issue such a contract, the Monti – Fornero reform aimed at normalizing the recourse to such contracts. Thus, the law introduced a new form of temporary contract that can be used in two cases: (i) if the worker is being hired for the first time, with a maximum duration of 12 months, no particular reason is required; (ii) if the worker is hired under fixed – term contract for an indefinite period, no reason is required if the clause is agreed upon in collective agreements, if it involves not less than 6% of workers in each production unit and if it is carried out in certain organizational processes, e.g. start ups, launch of new products, researches. Employers who hire workers on a fixed – term contract are required to pay an additional contribution (1.4% of pension – qualifying income) to finance the occupational fund (*Assicurazione Sociale per l'Impiego)*, which is reimbursed if the employment relationship is converted into a full – time, open – ended contract or the worker is hired within six months of the termination on the fixed – term relationship.

Agency work is regulated almost in the same way as the other forms of fixed – term employment: the recourse to agency work is possible providing a justifying reason, save for two cases, identical to the ones already cited for fixed – term employment.

The Monti – Fornero reform considered apprenticeship the pivotal institution for the young who first enter the labour market. Therefore, the number of apprentices that an employer can recruit was increased and it is calculated on the number of qualified workers in employment. In addition, employers with at least ten employees can hire apprentices on the condition that they had recruited at least 50% of apprentices whose contract ended in the previous 36 months. Finally, apprenticeship contracts should have a duration of at least six months, with the exception of seasonal work.

Concerning dismissals, first of all, the reform changed the procedure: the reason for the layoff has to be stated in the communication, while before it was only a right of the worker to request it; the term for the contestation of the dismissal has been diminished and set to 180 days, from the previous 270.

Second, the obligation to re – hire the worker dismissed without a just cause or justified reason held now only for discriminatory layoffs; for all the other cases, the worker has right only to a pecuniary compensation.

Finally, the safeguards provided to workers who lose their job are a key aspect of the reform, which balance the new measures that provide flexibility in hiring and in dismissal.

The old unemployment benefits and mobility allowances were substituted by a Social Insurance for Employment (*Assicurazione Sociale per l'Impiego – ASPI*) to supply income integration and protection to workers in case of job loss. The scope of application was widened: all workers are concerned by ASPI with the exception of agriculture workers, enrolled in special registers, and inactive people. The benefits duration was set to 10 – 16 months, depending on the workers' age.

Besides ASPI, the reform also introduced a benefit dedicated to workers who meet only some of the eligibility criteria; it is called *Mini ASPI*. To have access to this benefit, workers must have paid social contributions amounting to 13 weeks in the 12 months preceding redundancy.

For both the allowances, the benefit amounted to 75% of the first € 1,195 of wages, 25% of wages over € 1,195. The maximum allowance was set at € 1,167, and decreased by 15% every six months.

In order to avoid welfare dependence and disincentive towards work, the reform introduced a number of conditions to be satisfied to maintain the status of unemployed and thus receive the benefits. In particular, benefit recipients must take part to interviews, training, active job – search activities and must accept job offers. Unjustified refusal to take part in such initiatives or to accept a job may result in the termination of benefits.

The "Jobs Act"

In 2014, to react to the high and persistent unemployment caused by the Great Recession, the Renzi government[150] promulgated a new labour market reform, the so called *Jobs Act*.

The first novelty introduced by this reform is the *contratto a tutele crescenti* (contract with increasing protection), which foresees new procedures for layoffs. While the worker dismissed for discriminatory reasons is reintegrated through a judicial decision, all the other "unjustified" dismissal cases are now resolved through a monetary indemnity, whose amount is based on seniority (two months for every year of work).

A conciliation agreement is also introduced: in case of layoff, the employer can offer a tax-free indemnity to the former employee. By accepting this sum, the worker gives up on the judicial recourse.

The same mechanism (the indemnity) is applied to collective layoffs that do not follow the procedures established by law.

By making the legislation on layoffs less strict, the government intends to lighten EPL, thus making firms more prone to hire and creating new jobs. The new contract only applies to workers hired after the release of the decree (March 2015).

Another important novelty introduced by the *Jobs Act* is the *contratto di ricollocamento* (re-employment contract). Through this contract the jobseeker can get both the income support and the assistance he/she needs to find a new job.

The Regions[151] offer to the jobseeker a voucher that can be spent for an outplacement service. The jobseeker can choose the agency, which can be private or public, in a context of quasi-market. This creates a positive competition among agencies that will increase their efficiency.

The voucher has a different value on the basis of the difficulty to place the unemployed, but can only be cashed by the agency after placing the jobseeker.

[150] Matteo Renzi, Italian politician, secretary of the Partito Democratico (PD), Prime Minister from 2014.

[151] In Italy, the Regions are competent for labour services, while the State only finances these services.

The jobseeker is assisted by a tutor, who has also the task of controlling the availability of the jobseeker to take up suitable jobs: after one unjustified refusal of a suitable job the indemnity for income support is halved, after the second refusal the provision of the benefits is interrupted. The unemployed, therefore, is strongly incentive to take up a new job as quickly as possible.

Through this new contract, which combines rights and duties, the spending for passive labour market policies could be reduced and spent more effectively. Moreover this mechanism has the required characteristics to be funded by the EU, through the European Social Fund and the Youth Guarantee Fund.

Finally, the system of employment services was re-organized: the national system of labour policies (*Rete Nazionale dei servizi per le politiche del lavoro*), consisting of the regional bodies for employment (*Centri per l'Impiego*), the private agencies and the social security bodies (INAIL and INPS), together with training institutions, is now coordinated by the new agency for ALMP, *ANPAL –Agenzia Nazionale per le Politiche Attive del Lavoro.*

The private agencies working in the field of employment must be registered in the *Albo Nazionale dei Soggetti Accreditati a Svolgere Funzioni in Materia di Politiche Attive del Lavoro.* Another register, *Albo Nazionale degli Enti Accreditati a Svolgere Attività di Formazione Professionale,* will be created to monitor the institutions dealing with formation and training.

The Jobs Act reformed also the unemployment benefits system, introducing a new allowance, called *NASPI* (*Nuova Assicurazione Sociale per l'Impiego* – new social insurance for employment). To be eligible for the allowance, the worker must have paid at least 13 weeks of social contributions in the four years before redundancy and receives the benefit for half the number of weeks for which social contribution were paid, for a maximum of 24 months. The amount was not changed, except for the maximum allowance, now set at € 1,300 and for the fact that the benefit decreases by 3% each month after the fourth.

The Jobs Act finally provides for two experimental benefits: (i) an unemployment benefit for dependent self – employed workers (*DIS – COLL* - Indennità di disoccupazione per i lavoratori con rapporto di collaborazione coordinata e continuativa e a progetto);

5.3. Current conditions

The Italian labour market was heavily hit by the Great Recession: employment has been decreasing from 2008 to 2013 and has started recovering only in 2014. The employment rate is slightly increasing, reaching 55.7% in 2014, but remains well below the European average (64.9% in 2014). On the other hand, while in the EU the unemployment rate decreases, while in Italy it continues to increase, particularly among the young and in the Southern regions (14.9%).

The rise in the employment rate is the result of various dynamics; in particular the rise in the share of workers aged +50, in the participation of women, although the rate remains below the EU average, while the employment rate for the young (15-34) is continuously decreasing. If, on the one hand employment increases, the share of standard contracts continues to fall; atypical and part-time contracts, instead, are increasing, contributing to the segmentation in the Italian labour market.

Thus, involuntary part-time employment increases, together with the flow of people who leave inactivity to unemployment and to potential labour force. On the other hand, though, also the number of discouraged workers is increasing.

Concerning the new kind of open-ended contract (*contratto a tutele crescenti*), it should become the normal form of contract for open-ended jobs. The aim of the reform is of reducing the segmentation of the Italian labour market and the gap between the (old) normal contract (strictly protected) and the various (more than 20) kinds of atypical contracts. Nevertheless, Fellini[152] (2015) estimates that the dualism will increase at least in the short term, as a result of the competition between the old contract and the new *contratto a tutele crescenti*. The author, although, expects the new contract to substitute the atypical and short-term jobs, at least as an effect of the incentives for open-ended hiring.

[152] Fellini (2015).

Conclusion

The vast literature about labour market institutions and policies, partly reviewed in this work, demonstrates both at the theoretical and at the empirical level that there is no "optimal" labour market: the efficiency of a set of labour market institutions is correlated to several country – specific variables, depending both on the labour market itself and on the national economic system in general.

For these reasons, also the instruments of labour economics and statistics, e.g. the Beveridge curve or the Okun's law, need to be completed with country – specific characteristics to be significant in the evaluation and in the forecasting about labour market conditions.

On the basis of the theory reviewed and of the historic narration of this work, the following overview appears: after the Great Recession, some European labour markets appear weak and dysfunctional, while others, which had undergone reforms before the downturn, resisted quite well to the consequences of the crisis.

Flexicurity seemed to be the solution to labour market failures; thus, several countries deregulated various forms of temporary and/or atypical contracts. On the other hand, though, flexibility, where it was not linked to an increased security, created dualism and precariousness: social security must balance the effects of temporary contracts.

The aim of the present work is also to analyse and compare the reform paths of selected European countries, also considering the EU framework, against the backdrop of the literature labour statistics and econometrics, to evaluate whether and how policies have created flexibility and efficiency or, on the contrary, precariousness and dualism.

Through this analysis, two main positions were recognizable: some countries, namely Great Britain and Germany, which had undertaken the reforms before the crisis, seem to have contemporary flexible and secure labour markets: unemployment benefits have been reorganized and simplified, while activating programmes have been made compulsory for benefit recipients in order to avoid welfare dependence and to "make work pay". These initiatives have allowed these countries to better face the downturn, keeping the employment rate above the European average. Nevertheless, this does not mean that further improvements cannot be made, especially in the field of available income for low – wage earners and benefits recipients.

Other countries, instead, e.g. France, Spain and Italy, are still in the “flexibility stage”: the share of temporary and/or atypical contracts is very high, making the market dual and unequal. Moreover, Italy and France have experienced the proliferation of different forms of temporary contracts, which increased the precariousness of fixed – term workers and the dualism, regarding both employment protection and wage, compared to the permanent workers. Thus, governments have reacted, though taking different paths: Italy has recently introduced a single contract with increasing protection, while France has reorganized its benefit system, increasing the exit point, in order to make work profitable also for low income households on welfare. Spain, also given its difficult fiscal position, has not undertaken any reform regarding unemployment benefits or active labour market policies. However, also in the other two countries, policies in all the three areas of intervention (external and internal flexibility and policy buffers) should be carefully designed to avoid imbalances.

Hence, the reforming path in Europe is far from being complete: in the “flexicurity” contests, like Germany, the risk is that of in – work poverty, while in Southern Europe activation policies are still too weak to insure workers against long – term unemployment or precariousness, while unemployment benefit systems should be better designed.

Further analysis is necessary, as there is no “one size fits all” formula: European labour markets are very different from each other and are also influenced by other sectors of economy and society. Nevertheless, harmonization and some kind of employment protection system at the European level might be the future, as global challenges, like international competition and global shocks, are the issues that European countries are likely to face.

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Appendix

1. Unemployment rates 1990 – 2014

Source: oecd.org/employment/labour-stats/

Dataset: Short-Term Labour Market Statistics

Subject	Unemployment rate, Aged 15 and over, All persons					
Measure	Level, rate or quantity series, s.a.					
Unit	Percentage					
Frequency						
Time	1990	1991	1992	1993	1994	1995
Country						
France	..	..	..	..	..	..
Germany	(E) 4,8	5,6	6,6	7,9	8,4	8,1
Italy	..	..	..	..	..	..
Spain	..	..	..	..	..	..
United Kingdom	..	..	..	..	..	..
European Union (28 countries)	..	..	..	..	..	..

Data extracted on 15 Feb 2016 18:22 UTC (GMT) from OECD.Stat

Legend:

B: Break

E: Estimated value

1996	1997	1998	1999	2000
..	..	..	..	..
8,9	9,8	(B) 9,2	8,4	7,8
..	..	11,8	11,4	10,6
..	..	..	15,7	(B) 13,9
..	..	..	..	5,6
..	..	..	..	..

Annual				
2001	2002	2003	2004	2005
..	..	8,1	8,5	8,5
7,8	8,7	9,6	(B) 9,8	11,2
9,5	9	8,7	8	7,7
10,5	11,4	11,5	11	9,2
5	5,1	5	4,7	(B) 4,7
..	..	..	..	8,9

2006	2007	2008	2009	2010
8,4	7,7	7,1	8,7	8,9
10,3	8,7	7,5	7,7	(B) 7,1
6,8	6,1	6,7	7,7	8,4
8,5	8,2	11,2	17,9	19,9
5,3	5,3	5,6	7,5	7,8
(B) 8,2	7,1	7	8,9	9,5

2011	2012	2013	2014
8,8	9,4	(B) 9,9	10,3
5,8	5,4	5,2	5
8,4	10,7	12,1	12,7
21,4	24,8	26,1	24,4
8	7,9	7,5	6,1
9,6	10,4	10,8	10,2

2. Strictness of employment protection legislation 1990 – 2015

Source: oecd.org/employment/labour-stats/

Dataset: Strictness of employment protection – individual and collective dismissals (regular contracts)

Series: Version 1 (1985-2013)
Unit: Index

Country / Time	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
France	2,34127	2,34127	2,34127	2,34127	2,34127	2,34127	2,34127	2,34127	2,34127	2,34127	2,34127
Germany	2,5833333	2,5833333	2,5833333	2,5833333	2,6785715	2,6785715	2,6785715	2,6785715	2,6785715	2,6785715	2,6785715
Italy	2,7619047	2,7619047	2,7619047	2,7619047	2,7619047	2,7619047	2,7619047	2,7619047	2,7619047	2,7619047	2,7619047
Spain	3,5476191	3,5476191	3,5476191	3,5476191	3,5476191	2,3571429	2,3571429	2,3571429	2,3571429	2,3571429	2,3571429
United Kingdom	1,0952381	1,0952381	1,0952381	1,0952381	1,0952381	1,0952381	1,0952381	1,0952381	1,0952381	1,0952381	1,2619047

Country / Time	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
France	2,34127	2,34127	2,4682541	2,4682541	2,4682541	2,4682541	2,4682541	2,4682541	2,3849206	2,3849206	2,3849206	2,3849206	2,3849206	..	..
Germany	2,6785715	2,6785715	2,6785715	2,6785715	2,6785715	2,6785715	2,6785715	2,6785715	2,6785715	2,6785715	2,6785715	2,6785715	2,6785715	..	..
Italy	2,7619047	2,7619047	2,7619047	2,7619047	2,7619047	2,7619047	2,7619047	2,7619047	2,7619047	2,7619047	2,7619047	2,7619047	2,6785715	..	..
Spain	2,3571429	2,3571429	2,3571429	2,3571429	2,3571429	2,3571429	2,3571429	2,3571429	2,3571429	2,3571429	2,2142856	2,2142856	2,0476191	..	..
United Kingdom	1,2619047	1,2619047	1,2619047	1,2619047	1,2619047	1,2619047	1,2619047	1,2619047	1,2619047	1,2619047	1,2619047	1,2619047	1,0952381	1,0952381	..

Dataset: Strictness of employment protection – temporary contracts

Series: Version 1 (1985-2013)
Unit: Index

Country / Time	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
France	3,0625	3,625	3,625	3,625	3,625	3,625	3,625	3,625	3,625	3,625	3,625
Germany	3,25	3,25	3,25	3,25	3,25	3,125	3,125	2,5	2	2	2
Italy	4,875	4,875	4,75	4,75	4,75	4,75	4,75	4,75	3,625	3,625	3,25
Spain	3,75	3,75	3,75	3,75	3,75	3,25	3,25	3,25	3,25	3,25	3,25
United Kingdom	0,25	0,25	0,25	0,25	0,25	0,25	0,25	0,25	0,25	0,25	0,25

Country / Time	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
France	3,625	3,625	3,625	3,625	3,625	3,625	3,625	3,625	3,625	3,625	3,625	3,625	3,625	..	..
Germany	2	2	1,5	1	1	1	1	1	1	1	1	1	1,125	..	..
Italy	3,25	2,375	2	2	2	2	2	2	2	2	2	2	2	..	..
Spain	3,25	3,25	3,25	3,25	3,25	3,25	3	3	3	3	2,5625	2,6875	2,5625	..	..
United Kingdom	0,25	0,25	0,375	0,375	0,375	0,375	0,375	0,375	0,375	0,375	0,375	0,375	0,375	0,375	..

3. Expenditure for LMP as a percentage of GDP 1990 – 2013

Germany

Dataset: Public expenditure and participant stocks on LMP

Frequency: Annual
Country: Germany

Programmes	Measure	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
PES and administration	Public expenditure as a percentage of GDP	0,18	0,21	0,22	0,23	0,22	0,21	0,22	0,2	0,21	0,23	0,22
Training		0,35	0,47	0,66	0,59	0,47	0,45	0,53	0,44	0,46	0,51	0,52
Employment incentives		0,06	0,05	0,05	0,05	0,05	0,07	0,08	0,06	0,06	0,08	0,08
Sheltered and supported employment and rehabilitation		0,12	0,15	0,14	0,14	0,12	0,12	0,13	0,13	0,11	0,12	0,12
Direct job creation		0,09	0,27	0,41	0,38	0,31	0,32	0,31	0,25	0,31	0,34	0,25
Start-up incentives		0	0	0	0	0,01	0,02	0,03	0,03	0,03	0,04	0,04
Out-of-work income maintenance and support		0,98	1,45	1,46	1,94	1,98	2,04	2,32	2,45	2,21	2,05	1,83
Early retirement		0,01	0,29	0,45	0,56	0,46	0,28	0,15	0,05	0	0,01	0,01
Total		1,79	2,89	3,4	3,89	3,63	3,51	3,76	3,61	3,38	3,36	3,09
Active measures (10-70)		0,79	1,15	1,48	1,39	1,18	1,19	1,3	1,11	1,17	1,3	1,24
Passive measures (80-90)		1	1,74	1,91	2,5	2,45	2,31	2,47	2,5	2,21	2,06	1,84

Programmes	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
PES and administration	0,22	0,23	0,24	0,23	0,3	0,3	0,3	0,33	0,38	0,38	0,34	0,33	0,35
Training	0,56	0,58	0,52	0,44	0,4	0,35	0,3	0,3	0,36	0,27	0,25	0,22	0,24
Employment incentives	0,09	0,1	0,11	0,08	0,05	0,06	0,07	0,08	0,1	0,09	0,06	0,03	0,02
Sheltered and supported employment and rehabilitation	0,13	0,14	0,15	0,14	0,14	0,03	0,03	0,03	0,04	0,03	0,03	0,03	0,03
Direct job creation	0,2	0,16	0,12	0,11	0,09	0,09	0,07	0,07	0,06	0,05	0,03	0,03	0,02
Start-up incentives	0,04	0,05	0,08	0,13	0,15	0,12	0,07	0,07	0,07	0,08	0,07	0,03	0,01
Out-of-work income maintenance and support	1,84	2,05	2,19	2,22	1,91	1,62	1,19	1,01	1,42	1,23	0,94	0,9	0,96
Early retirement	0,02	0,03	0,04	0,04	0,05	0,05	0,06	0,05	0,05	0,05	0,05	0,05	0,05
Total	3,11	3,34	3,44	3,39	3,1	2,62	2,09	1,93	2,47	2,18	1,76	1,62	1,67
Active measures (10-70)	1,24	1,26	1,21	1,13	1,14	0,94	0,84	0,87	1	0,9	0,77	0,67	0,67
Passive measures (80-90)	1,87	2,08	2,23	2,26	1,96	1,68	1,25	1,06	1,48	1,29	0,99	0,95	1,01

France

Dataset: Public expenditure and participant stocks on LMP

Frequency: Annual
Country: France

Programmes	Measure	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
PES and administration	Public expenditure as a percentage of GDP	0,14	0,15	0,16	0,17	0,17	0,17	0,17	0,17	0,15	0,16	0,17
Training		0,35	0,38	0,42	0,48	0,45	0,42	0,43	0,44	0,4	0,37	0,36
Employment incentives		0,09	0,1	0,14	0,17	0,2	0,22	0,27	0,3	0,2	0,2	0,15
Sheltered and supported employment and rehabilitation		0,05	0,05	0,05	0,06	0,05	0,06	0,06	0,06	0,08	0,08	0,08
Direct job creation		0,07	0,13	0,17	0,25	0,25	0,28	0,29	0,24	0,29	0,36	0,39
Start-up incentives		0,03	0,02	0,02	0,02	0,03	0,04	0,02	0	0	0	0
Out-of-work income maintenance and support		1,15	1,3	1,44	1,53	1,41	1,28	1,28	1,33	1,27	1,25	1,16
Early retirement		0,22	0,2	0,19	0,2	0,23	0,23	0,25	0,25	0,23	0,22	0,17
Total		2,1	2,34	2,59	2,89	2,81	2,7	2,76	2,81	2,63	2,65	2,49
Active measures (10-70)		0,72	0,83	0,96	1,16	1,17	1,19	1,24	1,22	1,13	1,18	1,15
Passive measures (80-90)		1,37	1,51	1,63	1,74	1,64	1,51	1,53	1,59	1,5	1,47	1,34

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
0,19	0,2	0,23	0,22	0,23	0,24	0,22	0,2	0,25	0,3	0,25	0,25
0,32	0,28	0,29	0,3	0,28	0,28	0,29	0,28	0,35	0,37	0,34	0,33
0,13	0,11	0,08	0,1	0,1	0,1	0,09	0,07	0,06	0,07	0,03	0,03
0,09	0,09	0,08	0,08	0,08	0,08	0,09	0,09	0,11	0,11	0,09	0,09
0,4	0,39	0,33	0,23	0,17	0,19	0,2	0,15	0,15	0,21	0,14	0,13
0	0	0,01	0	0	0,01	0,03	0,03	0,04	0,05	0,05	0,04
1,19	1,41	1,59	1,58	1,49	1,3	1,16	1,12	1,38	1,4	1,36	1,41
0,18	0,13	0,09	0,08	0,06	0,04	0,04	0,02	0,02	0,01	0,01	0,01
2,49	2,61	2,7	2,59	2,42	2,25	2,12	1,96	2,36	2,51	2,27	2,28
1,12	1,08	1,02	0,93	0,87	0,9	0,91	0,82	0,96	1,1	0,9	0,87
1,37	1,53	1,68	1,66	1,54	1,35	1,21	1,14	1,39	1,41	1,36	1,41

Spain

Dataset: Public expenditure and participant stocks on LMP

			Frequency	Annual										
			Country	Spain										
			Time	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Programmes	**Measure**													
PES and administration	Public expenditure as a percentage of GDP	i		0,12	0,12	0,11	0,1	0,09	0,09	0,08	0,07	0,06	0,1	0,08
Training		i		0,23	0,21	0,17	0,15	0,14	0,14	0,13	0,13	0,15	0,22	0,18
Employment incentives		i		0,12	0,06	0,19	0,1	0,08	0,1	0,08	0,08	0,21	0,33	0,31
Sheltered and supported employment and rehabilitation		i		0,02	0,02	0,02	0,02	0,02	0,02	0,02	0,03	0,02	0,03	0,03
Direct job creation		i		0,11	0,07	0,04	0,05	0,04	0,05	0,04	0,06	0,07	0,11	0,12
Start-up incentives		i		0,18	0,19	0,13	0,04	0,04	0,03	0,03	0,03	0,03	0,05	0,05
Out-of-work income maintenance and support		i		2,56	2,87	3,17	3,49	3,1	2,4	2,08	1,85	1,55	1,38	1,29
Early retirement		i		0,05	0,05	0,05	0,04	0,04	0,04	0,03	0,03	0,03	0,03	0,03
Total		i		3,39	3,59	3,87	3,99	3,55	2,86	2,49	2,28	2,13	2,24	2,09
Active measures (10-70)		i		0,78	0,68	0,66	0,46	0,41	0,43	0,38	0,4	0,54	0,83	0,78
Passive measures (80-90)		i		2,61	2,92	3,21	3,53	3,14	2,44	2,11	1,88	1,58	1,41	1,32

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
0,07	0,08	0,09	0,11	0,12	0,13	0,12	0,13	0,16	0,16	0,14	0,08
0,17	0,14	0,14	0,14	0,17	0,16	0,15	0,17	0,18	0,19	0,19	0,15
0,28	0,29	0,28	0,29	0,3	0,32	0,27	0,23	0,22	0,26	0,26	0,21
0,03	0,03	0,03	0,03	0,02	0,02	0,06	0,07	0,07	0,08	0,08	0,03
0,12	0,12	0,11	0,11	0,09	0,07	0,08	0,09	0,1	0,09	0,08	0,03
0,05	0,05	0,05	0,04	0,06	0,08	0,09	0,1	0,1	0,12	0,11	0,11
1,31	1,41	1,39	1,43	1,38	1,36	1,37	1,78	2,85	3,01	2,76	2,95
0,03	0,03	0,03	0,04	0,04	0,05	0,06	0,06	0,06	0,04	0,04	0,04
2,06	2,14	2,11	2,2	2,18	2,18	2,19	2,62	3,75	3,96	3,67	3,6
0,72	0,7	0,69	0,73	0,75	0,77	0,77	0,79	0,84	0,91	0,87	0,61
1,34	1,44	1,43	1,47	1,43	1,41	1,42	1,84	2,91	3,05	2,8	2,99

United Kingdom

Dataset: Public expenditure and participant stocks on LMP

Frequency: Annual
Country: United Kingdom

Programmes	Measure	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
PES and administration	Public expenditure as a percentage of GDP	0,17	0,19	0,21	0,22	0,2	0,18	0,17	0,15	..	..	..
Training		0,19	0,14	0,15	0,14	0,12	0,08	0,07	0,06	..	..	..
Employment incentives		0,01	0,01	0,01	0,01	0,01	0,01	0,01	0,01	..	..	..
Sheltered and supported employment and rehabilitation		0,02	0,02	0,02	0,02	0,01	0,01	0,01	0,01	..	..	..
Direct job creation		0	0	0,02	0	0,01	0,01	0	0,01	0,01	0,01	0,01
Start-up incentives		0,02	0	0	0	0	0	0	0	0	0	0
Out-of-work income maintenance and support		0,66	0,96	1,14	1,11	0,92	0,8	0,65	0,46	0,41	0,36	0,3
Early retirement		0	0	0	0	0	0	0	0	0	0	0
Total		1,07	1,32	1,54	1,5	1,28	1,1	0,91	0,71	..	..	..
Active measures (10-70)		0,41	0,36	0,4	0,39	0,36	0,3	0,26	0,24	..	..	..
Passive measures (80-90)		0,66	0,96	1,14	1,11	0,92	0,8	0,65	0,46	0,41	0,36	0,3

Programmes	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
PES and administration	..	..	..	0,38	0,36	0,27	0,26	0,29	0,35	0,31	0,2
Training	..	..	..	0,03	0,02	0,01	0,01	0,02	0,02	0,02	0,01
Employment incentives	..	..	..	0,01	0,01	0,01	0,01	0,01	0,01	0,01	0,01
Sheltered and supported employment and rehabilitation	..	..	..	0,01	0,01	0,01	0,01	0,01	0,01	0,01	0
Direct job creation	0,01	0	0	0	0	0	0	0,01	0,01	0,04	0,01
Start-up incentives	0	0	0	0	0	0	0	0	0	0	0
Out-of-work income maintenance and support	0,26	0,25	0,23	0,18	0,18	0,18	0,15	0,2	0,32	0,29	0,32
Early retirement	0	0	0	0	0	0	0	0	0	0	0
Total	..	..	..	0,61	0,58	0,48	0,45	0,53	0,72	0,68	0,54
Active measures (10-70)	..	..	..	0,43	0,4	0,3	0,3	0,33	0,4	0,39	0,23
Passive measures (80-90)	0,26	0,25	0,23	0,18	0,18	0,18	0,15	0,2	0,32	0,29	0,32

Italy

Dataset: Public expenditure and participant stocks on LMP

Frequency: Annual
Country: Italy

Programmes	Measure	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
PES and administration	Public expenditure as a percentage of GDP	..	..	..	..	..	..	..	..	..	..	..
Training		0,19	0,3	0,24	0,18	0,17	0,17	0,21	0,23	0,25	0,26	0,24
Employment incentives		0,04	0,03	0,04	0,05	0,08	0,08	0,09	0,11	0,15	0,18	0,22
Sheltered and supported employment and rehabilitation		0	0	0	0	0	0	0	0	0	0	0
Direct job creation		0	0	0	0	0	0,01	0,04	0,05	0,06	0,07	0,05
Start-up incentives		0	0	0	0	0	0	0	0	0	0,01	0,04
Out-of-work income maintenance and support		0,53	0,58	0,68	0,87	0,88	0,66	0,66	0,6	0,55	0,52	0,52
Early retirement		0,29	0,3	0,36	0,31	0,28	0,28	0,29	0,23	0,13	0,12	0,1
Total		..	..	..	..	..	..	..	..	..	..	..
Active measures (10-70)		..	..	..	..	..	..	..	..	..	..	..
Passive measures (80-90)		0,82	0,88	1,04	1,18	1,17	0,95	0,95	0,83	0,67	0,63	0,62

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
..	..	..	0,09	0,09	0,08	0,08	0,1	0,11	0,1	0,11	0,12	0,09
0,21	0,22	0,26	0,22	0,2	0,17	0,18	0,18	0,17	0,15	0,13	0,14	0,15
0,3	0,4	0,35	0,24	0,2	0,18	0,15	0,15	0,15	0,15	0,15	0,18	0,16
0	0	0	0	0	0	0	0	0	0	0	0	0
0,04	0,03	0,03	0,01	0,01	0,01	0,01	0,01	0,01	0,01	0,01	0	0
0,06	0,02	0,05	0,05	0,05	0,04	0,03	0,02	0,02	0,02	0,01	0,01	0,01
0,5	0,51	0,52	0,58	0,65	0,63	0,58	0,69	1,24	1,31	1,23	1,49	1,51
0,1	0,09	0,1	0,09	0,09	0,1	0,08	0,09	0,1	0,1	0,08	0,08	0,07
..	..	..	1,28	1,29	1,22	1,11	1,24	1,79	1,82	1,72	2,02	1,99
..	..	..	0,61	0,54	0,48	0,44	0,46	0,46	0,42	0,41	0,46	0,41
0,59	0,6	0,62	0,68	0,75	0,73	0,67	0,78	1,33	1,4	1,31	1,56	1,58