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**DEREGULATION AND BEYOND: LABOR MARKET  
REFORMS AND EFFECTS ON EMPLOYMENT IN  
GERMANY, SPAIN AND ITALY**

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# INTRODUCTION

Since '90s the economic and political debate over labour policies has been dominated by the issue of deregulation. During '80s, a sharp increase in unemployment levels and the end of a prolonged and sustained period of economic growth (often called as *trente glorieuses*) pushed the academic sphere and subsequently the public opinion, especially in Western countries, towards labour market reforms to sustain full employment and enhance growth, in line with insider-outsider theory (Lindbeck and Snower 1988). Even if some initial policies were developed during those years, the real wave of deregulation took place from the subsequent decade.

After 2008 crisis, especially in European Union, a new political consensus on the necessity of further labour market deregulation emerged (Boeri 2011). According to the mainstream political and academic debate, the specific structure of the European Union and the combined recession, forced the member states, especially those where labour rigidities were most prominent, to act with rapid change in current regimes to tackle better with the economic crisis and improve growth and productivity.

Those changes were ratified by most of the Southern member States, including Portugal, Spain, Italy and Greece, together with other non-Southern countries that anyway experienced more bitterly the economic crisis and especially the so called “sovereign debt crisis” in 2011. A different case has been Germany, which succeeded in managing the economic crisis with stability and losing not so much its economic competitiveness: in this case, the European Consensus agreed that previous labour market reforms approved by Germany during the beginning of 2000s had a crucial role in restraining the effects of the crisis (Krebs and Scheffel 2013).

This dissertation will try to verify if the main ideas underlying most spread economic and political theories can be robustly proven; if deregulation, liberalization or some form of reregulation towards a more flexible labour market, can have a real positive effect on productivity and especially on unemployment. More specifically, will be discussed if levels of unemployment decreased after the implementation of such measures.

In Chapter 1, it is explained *what* is intended as a deregulation or a labor market reform and are exposed commonly recognized categories to describe labor market features. Afterwards, concern must lie on the economic mainstream consensus about rigidities and unemployment, to comprehend why such claims emerged after the beginning of '90s. Then, will be analyzed the choice upon three European case studies, Germany, Spain and Italy, which can constitute a good proxy to describe more general mechanisms of labour market in Europe.

In Chapter 2, will be provided a complete framework on labour legislation and its changes: will be not only presented the situation before deregulation, starting from Germany and continuing for Spain and Italy, but the

main concern will be on the legislative changes from '90s, with particular focus on Hartz package, Rajoy labour market reform and Jobs Act.

In Chapter 3 main literature on deregulation is reviewed and confronted with current economic data. The main purpose is to present the economic debate on such policy and especially the discussed relationship between labour market reform and job promotion, presenting different and contrasting point of view.

In last Chapter 4, is taken stock of the main results about the relationship between deregulation and employment. In the first section is presented a quantitative analysis on Beveridge curves for Germany, Spain and Italy, and then is reviewed main economic literature that criticize the relation previously cited. Finally, main thesis on the effect of deregulation is better explain, and a final section is dedicated to effective policy recommendations to promote employment.

# CHAPTER 1 – WHAT IS DEREGULATION

## *1.1 The labour market and the nature of deregulation*

In this analysis it is necessary to start from a complete understanding of how it is possible to evaluate and describe a labour market. Concerning the study of deregulation and flexibilization, a framework for the policies enacted is needed. According to a lineup widely used (Esping-Andersen and Regini 2000), four main categories can be distinguished for analyzing changes in national labour markets through times or among international comparison. Those main categories are employment protection, working time regulation, wage determination and social security, the last intended as the whole system made by unemployment insurance and benefits.

The first category can be intended as a wide group of different elements that regulates working life. More generally, employment protection is basically related to rigidities on hiring and firing. A widely used indicator that measures employment protection is Employment Protection Legislation Index (EPL Index) by OECD. This index is a weighted average of three indicators: individual dismissal for regular contracts, collective dismissal and legislation on temporary contracts (OECD 1999). For individual dismissal are measured 12 parameters on inconveniences for firing procedure, notice and severance pay for no-fault dismissal and more generally on definition of unfair release, compensation and reinstatement. For collective dismissal are used only 4 wide indicators on definition of collective firing, notification requirements and costs on employers. Finally, for temporary contracts there are 6 indicators on definition and legal restraints for fixed-term contracts and Temporary work agency (TWA) employment.

Some aspects on EPL index in Western countries is quite clear: despite the main distinction among states on employment protection is commonly intended between Anglo-Saxon and continental Europe countries, the real robust distinction exists within European regimes<sup>1</sup>. For example, Belgium legislation on regular contracts is more similar to United Kingdom than to Germany, while Netherlands has a regime on temporary contracts more like USA than Italy. Legislation on collective dismissal is more homogeneous in Europe, thanks to the action of common EU directives, while the great divergence is for unfair individual dismissal and restrictions on temporary contracts.

On employment protection can also act a dual flexibility. It is often distinguished a numerical and a functional flexibility. Numerical flexibility is proposed as possibility to adjust the number of workers to fluctuations of the market. In few words, is the possibility to dismiss employees, atypical and temporary contracts. In this sense EPL index covers only one type of flexibility understood as the comprehensive concept of employment

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<sup>1</sup> For the complete dataset, OECD Employment database Annual time series

protection. The second type is a subtler definition: functional flexibility can be defined as the employers' ability to reallocate workers to other tasks, when market fluctuation requires.

In this sense that two-sided categorization can be a more general way to include all the several aspects relating employment protection. Numerical flexibility is thus a sort of external flexibility, that regulates shifts in and out of a firm, while functional flexibility can constitute a sort of internal flexibility, that adjusts the relationship between employers and workers within an enterprise.

Other marginal, but not less important cases can be referred as employment protection. Short-time schemes and early retirement is more coherent as a form of employment protection rather than social benefit. The main reason for this choice is because those type of schemes are used to alleviate economic downturns or in period of unemployment increase. In this sense, to protect levels of employment is preferred to assume such arrangements. Another measure counted as employment protection are active labour market policies. Active labour market policies (ALMP) are intended as training and job searching assistance for job-losers which needs reallocation. Those types of policies, largely used in Scandinavian and Central Europe countries, in other national markets as UK and Southern Europe is only dedicated to weak groups, as young people and long-term unemployed.

After employment protection, the second section of labour market is constituted by working time regulation (Grubb and Wells 1993). For working time regulation is intended all legal arrangements established to regulate the amount of hour worked by an employee in a firm. Those rules are usually set by collective agreements: in UK and Denmark are fixed by firm-level arrangements, and usually national minimum standards exist for mainly health and safety reasons. In most countries of Continental Europe, those regulation is established in national sectorial agreements and some laws enact some statutory limitations on working times, including overtime and extra-wage for it. Working on reducing maximum time can be considered as a further form of employment protection.

In this case, European legislation has an important role. In the context of the European Pillar of Social Rights, a strong part is dedicated to the Working Time Directive<sup>2</sup>. It was signed in November 2003 and implemented by most European countries between 2004 and 2007, except for Croatia that implemented it recently in 2017. Italy enacted the Legislative Decree n. 66, Spain translated in national legislation this directive through several measure (most notable are Orden Ministerial 121/2006 and 107/2007 and Real Decreto 311/2016) and Germany acquired it without national transposition measures<sup>3</sup>.

Working Time Directive aims to guarantee a social minimum standard for time conditions in labour markets. Working weeks cannot have more than 48 hours on average, including overtime. There must be a period of rest of 11 continuous hours for every complete day and in addition a leisure day for every week. Paid leave

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<sup>2</sup> Directive 2003/88/EC

<sup>3</sup> For complete list of transposition measures: <http://eur-lex.europa.eu/legal-content/EN/NIM/?uri=CELEX:32003L0088>

cannot be under 4 weeks per year and more specific measures were taken for night work, as the maximum period of 8 hours per day and the right to transfer work on day for health reasons. This directive also includes some sectorial measures for sectors like sea fishing, passenger transport workers and training doctors. It passed through a double step consultation between European institutions, employers' and employees' organizations.

For working time, can be distinguished a new form of flexibility, after functional and numerical flexibility related to employment protection. It is commonly denominated temporal flexibility (Adam and Canziani 1998), and it is the possibility to harmonize the amount of work prescribed according to cyclical and conjunctural demand. A form of this kind of flexibility is part-time contracts, annual temporary contracts or extensive use of overtime. Often, it overlaps the concept of functional flexibility, especially when it concerns the internal organization of the workforce. It is also interconnected with the last part of Chapter 1.1, social benefits, and especially for women and parental leave.

The third constitutive element of labour market is wage bargaining and the aggregate of laws and arrangements that contributes to wage setting. Wage determination is then strongly connected to industrial relation system. This relation is mainly regulated through arrangements between employers' and employees' organization, but often the state has a role of mediation, active or passive, and sometimes laws establish minimum standard for wage or secondary conditions. According to economic literature, wage determination system has a strong role on inequality among wages. More generally, highly coordinated systems have a beneficial role on wage adjustment on economic conditions, in reducing inequality among different sectors and in neutralizing inflation (Soskice 1990). On the other hand, labour markets face a sort of trade-off: more equality tends to increase unemployment share of low-skilled workers to the benefit of so called "core" ones, without having significant role on overall unemployment level. Another central role is played by union density and levels at which bargaining takes place.

A substantive role is then played by tax wedge on work. If tax wedge is considerably high, this settlement can constitute a sort of rigidity in labour market. That kind of rigidities affect mainly low-skilled workers, because, being the leading share of temporary, short-term employment, suffers more strongly of disincentive to hire. This can be a signal of low-skilled workers gap between Europe and UK. Europe has in fact one of the highest tax rate on social contributions, especially in confront to Anglo-Saxon countries, and this tends to lower low-skilled workers share on total employment, with sharp effects in Belgium, Italy and France.

But which is the more general situation in Europe for wage bargaining structure? UK constitutes a model for decentralized bargaining. Wage determination is often settled at firm level, and in addition union density and coordination is extremely low. The opposite situation is the Scandinavian system, where coexist high degree of coordination and centralization, together with high union density. Central and Southern Europe has a more varying situation, but generally wages are settled on sectorial bases with agreements between employers and employees. Southern Europe relies more on different levels of bargaining, while Central Europe has basically

stronger unions, that centralize better relations. After 2008 crisis, practical customs in wage bargaining had some changes<sup>4</sup>. Main countries in Europe moved to a more decentralized bargaining structure, including Spain and Italy, even if the most important level remained fundamentally the same. Coordination is more generally decreased, like in Germany and Italy, even if increased in Spain. Spain was one of the few countries that had major changes in wage determination system. Also Italy reformed its system more than the median, while Germany adopted very few variations on bargaining scheme. More generally, most of the European countries changed quite few.

The final part on wage setting is devoted to minimum wage (Eurofound 2010). Minimum wage is present in most of the European countries, except for Austria, Denmark, Finland, Italy, Norway and Sweden. In Italy, during the recent political election, there has been a strong public debate on the introduction of minimum wage<sup>5</sup>. To conclude, after having treated numerical and functional flexibility (related to employment protection) and temporal flexibility (related to working time regulation), the last form of flexibility that will be used to describe later labour market reforms, can be associated with wage flexibility. This type of flexibility can be enhanced through decentralized bargaining, with derogations to statutory collective agreements or minimum wage laws. This aspect of flexibility, as already mentioned, is crucial for wage distribution across sectors.

The last aspect of labour market relations concerns unemployment benefits and social insurance. Under this wide category are covered all aspects of European welfare state that entail labour and working conditions. In our dissertation, the main concern is on policies that affects employment protection and more specifically on unemployment benefit, a grant assured to workers who lose job, and which is equal to a part of their last salary. In Europe there is a strong differentiation in the organization of unemployment benefits. In most of Europe, the main item of expenditure is devoted to non-employment benefits, as invalidity benefits and sickness benefits, but also work-related subsidies are quite generous, especially in Central and Scandinavian countries and in confront to Anglo-Saxons. To distinguish different systems of unemployment welfare, we can rely on the classic three-faces distinction of welfare states (Esping-Andersen 1990).

Scandinavian system is the most generous in unemployment benefits. In those countries replacement rates are the highest and in Sweden unemployment benefit has been almost indefinite until recently. On the other hand, especially in the above-mentioned country, this subsidy is sided with a period of effective training and often the provision of temporary public job. Southern Europe is instead the least advance on this field. Even if with

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<sup>4</sup> For a complete analysis of wage bargain after crisis: Paul Marginson, Changes to wage-setting mechanisms in the context of the crisis and the EU's new economic governance regime, Eurofound

<sup>5</sup> During the electoral campaign several parties stand with the introduction of Minimum wage, especially left-wing and Centre-left parties ("Partito Democratico", "Liberi e Uguali" and "Potere al popolo" strongly in favour, "+Europa" lightly in favour). Lega Nord made declaration in favour of minimum wage introduction, while "Forza Italia" and "MoVimento 5 Stelle" made no declaration on such policy. The only political parties against Minimum wage were Centrists "Noi con l'Italia" and "Civica Popolare".

For the complete electoral programs: <http://dait.interno.gov.it/elezioni/trasparenza/politiche2018>



recent development some sort of assistance has been introduced, their conservative welfare state, in case of unemployed worker, rely much on familiar solidarity. Furthermore, there is a strong segmented treatment for core workers (highly protected) and marginalized workers, as young and women (poorly or not protected). For this reason, first job-seekers must count on assistance provided by breadwinner. In Anglo-Saxon countries is active a system more like Scandinavian and Central European one, even if with sensitively lower replacement rates and lower universality (according to the means-tested approach of liberal welfare state). In this sense, the real exception are Southern European states.

What is the economic impact of unemployment benefits on labour market? According to a robust economic literature (Atkinson and Micklewright 1991), the effects of labour welfare state in only marginal on economics. The only real consistent effect detected is on duration of Unemployment insurance rather than replacement rate. A shorter unemployment assistance can have a material effect on incentives to find a job. Also tax wedge, quite heavy in Europe due to its massive nature of welfare state, has a consistent but not strong effect on work incentives. The other aspect (entitlement, coverage and replacement rate), can be considered marginal or absent.

## 1.2 Mainstream economic consensus on deregulation

In this section will be discussed the main economic theories that inspired the political debate about deregulation in labour market. After 1945, advanced Western countries experienced a long period of economic expansion. This expansion went together with a sharp decrease in unemployment, an increase in wage share

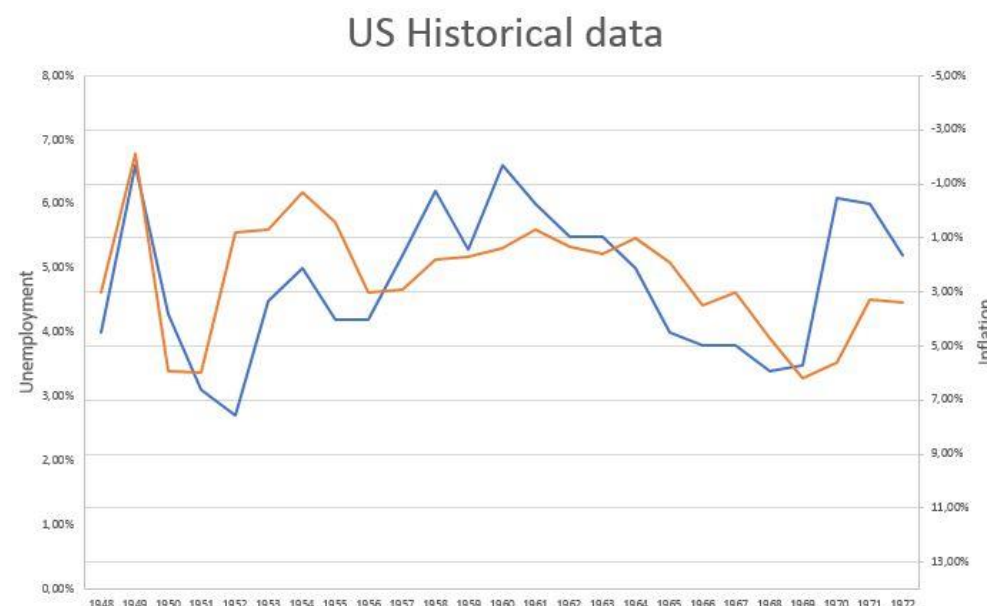


Figure 1 - Inflation and Unemployment in America (1948-1972)  
Source: Bureau of Labor Statistics & Bureau of Economic Analysis

were let on final prices, creating a price increase. This relation was theorized by Alban William Phillips in a very famous paper (Phillips 1958). This period lasted until '70s, when industrialized economies faced a new

and in more general increasing equality. In this context, the demand for growing salaries did not have strong effects in inflation. During that period, from public opinion emerged the perception of a link between higher wages and inflation, as proved by empirical data in Figure 1. The empirical rationale was that the cost for the employer of higher wages

problem in the relation between inflation and unemployment. As illustrated in Figure 2, USA (and most of Western countries) experienced a prolonged period (in red) of high inflation, backed up by a stagnant or decreasing rate of unemployment, that hold down also growth rate. Stagnant growth rate (and thus unemployment one) and high inflation was called *stagflation*. To tackle with this new phenomenon, it was

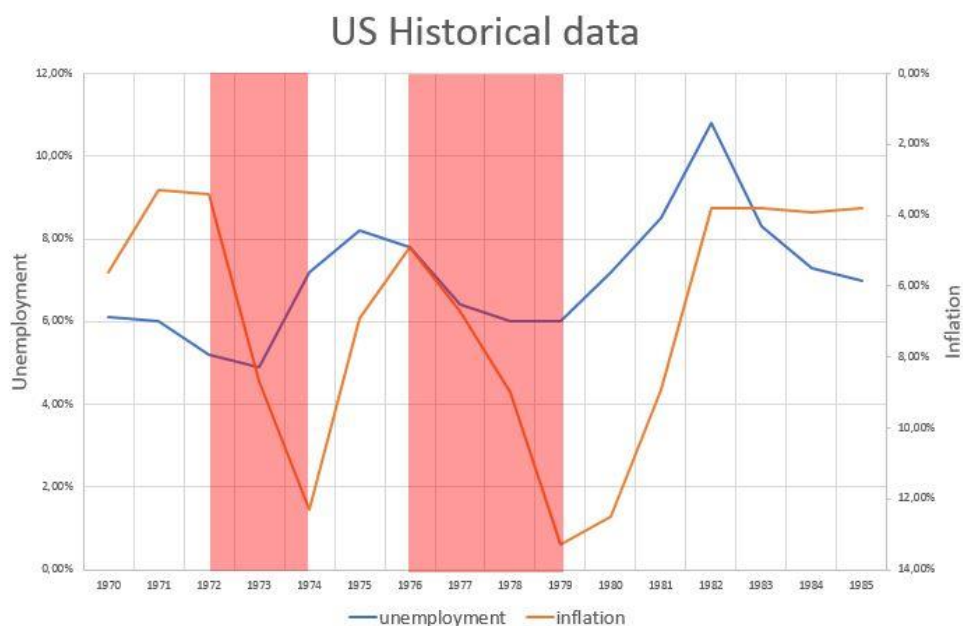


Figure 2- Inflation and Unemployment in America (1970-1985)  
Source: Bureau of Labor Statistics & Bureau of Economic Analysis

proposed a new relationship between those two variables. According to a revised interpretation of Philips Curve, the real relationship is not anymore between unemployment and inflation, but between unemployment and growth in rate of inflation. It was theorized the existence of a Non-Accelerating Inflation Rate of Unemployment (NAIRU) with a subsequent natural rate of

inflation. The relationship is so mathematically stated<sup>6</sup>:

$$\pi_t = \pi_{t-1} - \alpha(u_t - u_n)$$

In this equation, the current inflation is the previous inflation in a given period  $t$ , minus the difference between the current unemployment and the NAIRU. If  $u_t$  is less than NAIRU, economy does not experience simply inflation, but an accelerating price rising. According to this theory, to maintain stable inflation is necessary to stabilize economy on NAIRU. This was the rationale behind the main policies of restraining economic expansion enacted from '80s to stabilize inflation. Anyway, this kind of policies brought a new type of problems. In all Western countries, from the end of '80s, it was clear that unemployment rate lasted for too long higher than it was twenty or thirty years before. In United States, unemployment experienced an average of 4.71% during '60s. This rate increased during '70s (6.41%) and later balanced on a higher equilibrium, even with a non-accelerating inflation rate (7.21% in '80s)<sup>7</sup>. Those facts pushed an innovation in the mainstream theory related to wage determination and inflation dynamics. Thanks to a seminal paper by Blanchard (Blanchard and Summers 1986) most Western and especially European countries faced a growing structural rate of unemployment due to a mechanism called Hysteresis of unemployment. This process emerged when, for an external shock, the unemployment rate endures a short period of growth and

<sup>6</sup> Blanchard, Olivier, and David R. Johnson. 2013. Macroeconomics. Boston: Pearson.

<sup>7</sup> Source: Bureau of Labor Statistics

subsequently cannot return on lower levels, also after recovery. This persistence of high unemployment (Hysteresis) can change the structural value of NAIRU and is triggered by three main features of labour markets.

The first factor is referred to physical capital. Just simply, the economic shock leads to a decrease in capital stock. When economy passed the crisis, it remains impossible in the subsequent period to absorb again the previous number of employees because of a lack of capitals. This can be simply explained by empirical data on capacity utilization: in Europe it remained stable over the cycle during '80s and '70s, even if unemployment raised constantly. This relationship shows a deep depletion of capital stock. Anyway, this explanation holds very weak historical validation.

The second explanation is related to human capital (Blanchard and Summers 1986, 27-29). According to this answer, workers who lived a prolonged period of unemployment can lose some skills or not upgrade them because of joblessness. Especially if crisis generates large long-term unemployed people, can emerge disaffection from labour force. This explanation has more robust examples, as the case for women participation in labour market: this rate had a strong increase during Second World War, and after the end of it, this effect had a significant role also during the subsequent economic boom, leaving participation of women who entered in the labour market during war always higher than younger females. The second negative case is the decreasing fertility rate caused by Great Depression. By the way, in this case is difficult to measure the impact of such factor on unemployment persistence. The dynamics of participation rate can be a signal: if after a shock this measure suffers from a decrease, this can be due to a part of previous labour force quitting the market. Even if it can be considered an element in such analysis, it cannot be a reliable and measurable aspect.

The latest aspect is referred by Blanchard as “insider-outsider” theory. It is stated that wage is determined by workers, the “insiders” of the model. In this case, unemployed people has no power on bargaining and have no way to influence wages. This means that insiders will set a wage necessary to self-maintenance of their group. In this situation is created a sort of cap that made difficult to “outsiders” (unemployed) to enter in the labour market. When a shock occurs, the group of insiders will be smaller, and the subsequent class will be interested in maintaining higher wages to sustain their self-subsistence and exclude older and new jobless citizens. This can also have a mathematical explanation. We can set such relation in wage determination:

$$W = PF(u, z)$$

Nominal wage is set in price levels and two distinct features: the rate of unemployment  $u$  and  $z$ , which is a major indicator for legal protection for workers and unemployment insurance levels. To have a simple relation between wage ( $W$ ), unemployment ( $u$ ) and protection ( $z$ ), we need to consider real wages ( $\frac{W}{P}$ ).

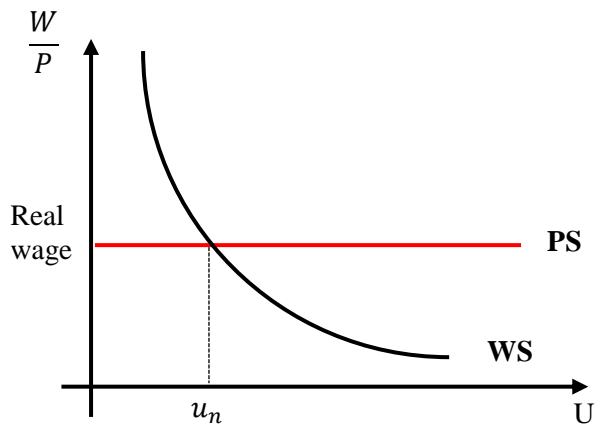


Figure 3 – Wage determination and unemployment relation

the possibility to hire unemployed people is more and insiders must accept lower wages. In this framework,  $z$  is the position of the curve in the graph. If it is assumed a protection increase, insiders will demand higher real wages for the same level of unemployment: as illustrated in Figure 4, WS curve shifts up. But in this case, the PS line which determines real wage is set constantly by businessman, determining an overall increase in unemployment. For this reason, conversely, a decrease in factor  $z$  will lower WS curve, determining a new lower equilibrium in Natural Rate of Unemployment.

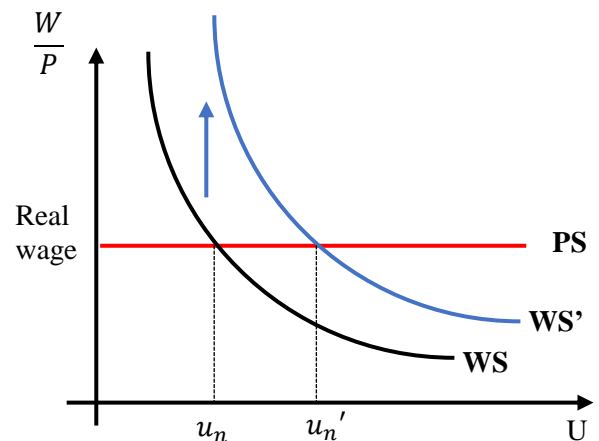


Figure 4 – Wage determination and unemployment relation with an increase in workers protection

This theory constituted the main inspiration for wage deregulation during the end of '80s, '90s and later. Also the recent papers that evaluated labour market reforms like the Italian jobs act and the 2012 Rajoy reform in Spain, that will be treated more completely in Chapter 3, they had as basic assumption the positive role of rigidities elimination, to increase employment, enhance growth and sustain productivity rise (Mortensen and Pissarides 1999). Especially for Southern European countries, the issue of labour market rigidities is most concerned, because they have remained until recently the most protective environment for so called “core workers” or “insiders”.

This theory has many criticisms. Many economists argued against the rigidity of markup real wage: a decrease in profit can be possible to arrest the increase of prices, especially in case of prolonged inflation. If profits can be cut, it is possible to preserve the natural rate of unemployment also in case of a rise in workers' protection. On the other hand, it is strongly debated the role of productivity: even if it is ignored in the theoretical framework, it has an effect in the long run equilibrium, completely unnoticed. Its increase will automatically let to a growth in real wage, but according to insider-outsider theory, real wage increase will not lead to a

higher natural rate of unemployment: lower prices will sustain growth. Anyway, this is not always true, as the emerging cases of technological joblessness can prove<sup>8</sup>.

### *1.3 The choice for Germany, Spain and Italy*

Before starting the juridical review of key labour market reforms in Germany, Spain and Italy, is necessary to spend some words on the reasons that led to choose these specific countries. The first choice was for Italy, the home country of the author. The original purpose was a deep analysis of changes in national welfare state and employment protection. The political debate and public opinion is nowadays very concerned about institutional reforms, due to a combined push by external actors, as European Union and OECD, and internal advocates. Those recommendations emerged because of the stagnant Italian economy: Italian GDP from 2008 to 2017 decreased of 5.9%, signaling that recovery from 2008 crisis is not achieved yet. Poor growth has not been triggered just by economic crisis but had deep roots: GDP increased annually on an average of 5.77% during '60s, then of 4.02% in the subsequent decade and of 2.55% in '80s. Real stagnation started in '90s when real GDP grew of only 1.48% annually, and stabilized during the first years of 2000s, with an average rate of 1.49%. From 2008, Italy yearly grew -0.7%<sup>9</sup>. This meagre performance is generally ascribed to low productivity development. Given as base 2010=100, productivity in Italy raised of 22.3 points during '70s, of 13.1 points in '80s, of 11.7 points during '90s, then productivity stagnated from 2000s (3.2 points in the period 2000-2007 and 1.2 from 2008-2017)<sup>10</sup>.

Especially from '90s, Italy was even more intended as the “sick man of Europe” (The Economist 2005): one of the biggest country with one of the lowest development rates. This problem prompted a strong domestic and international debate: the academic and public consensus agreed with the fact that Italy had a problem of worn institutions. In this sense, labour markets and political constraints had to be solved. In addition, an excessive role of the State in the economy, one of the biggest in Europe, had to be reduced. In this sense operated the main political actors from '90s until recently, as testified by current Jobs Act reform and Constitutional reform. Our concern is to analyze the effectivity of such reforms, focusing on labour market, and their effect in political realm, identifying winners and losers. In our claim, it's important to find some countries that are suitable for comparison.

Germany is very similar to Italy in structural terms, but opposite in performance outcomes. What are the main links between Germany and Italy? Germany is the main trade partner for Italy (16% of import and 13% of export are from and to Germany). Also, Italy has a primary role for Germany: Italy is the fifth commercial partner for imports and the sixth for export. Italy and Germany have similar productive structures: the main field of exports for Italy are cars, vehicle parts and packaged medicaments. For Germany, the main exports

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<sup>8</sup> For a complete review of criticisms to New Keynesian model: Brancaccio, Emiliano, 2013. *Anti-Blanchard. Un approccio comparato allo studio della macroeconomia*. Milan: FrancoAngeli

<sup>9</sup> Source: World Bank

<sup>10</sup> Source: OECD data

are the same (with cars having a distinctive bigger share of exports). On an aggregate point of view, machinery meant as domestic electrical appliance and industrial equipment are the biggest share of export for both the two countries. Imports for Italy and Germany are also similar: computers, petroleum, medicaments and cars in turn<sup>11</sup>.

Despite several common features, economic performance was the opposite. During '70s and '80s Italy grew more than West German. During '90s took place the overtaking (with an average annual growth of 2.2%) which held during 2000s (annual growth rate: 1.6%). After 2008, occurred the real divergence: while Italy did not recover, Germany experienced an aggregate growth of 8.7%, with an average annual growth rate of 1.1%<sup>12</sup>. Productivity had the same trend: under the Italian dynamics during '70s and '80s, it overtook during '90s but in this case the divergence started from 2000 (2010=100; for 2000-2007 increased of 10 points and for 2008-2017 of 7.4 points)<sup>13</sup>.

For many commentators, this economic performance and divergence from Italy must be explained right from the German capacity to innovate their institutions (Herzog-Stein, Lindner and Sturn 2013). Thanks to modern industrial relations, Germany succeeded in protect productivity growth and R&D investments, enhancing competitiveness on the international markets. A strong part of its efficiency is related specifically to labour market reforms: Hartz reforms, and especially Hartz IV, secured a flexible labour market which so was prepared to deal with 2008 economic crisis. Big part of German recovery was guaranteed by doing “the homework” before the crisis arrived. In Chapter 4 will be seen if Hartz IV reform was crucial in German economic performance.

In relation to Spain, must be considered Italian similarities in welfare state and labour market institutions (Esping-Andersen and Regini 2000, 50-51). Both countries share low degree of part-time workers, high degree of EPL stringency and low expenditure on active labour market policies (ALMP). In wage determination, they have similar rate of bargaining coverage (even if unionization is quite stronger in Italy). They also took during '90s the same deregulation measures: more relaxed legislation on dismissal, liberalization of fixed term contracts and increasing spending in ALMP. These two countries belong to a cluster composed by Southern European countries, characterized by similar features: corporative welfare state and strong reliance on family solidarity, high protection of “core” or “insider” workers, and low protection of atypical and temporary ones. They also have low employment population ratios and high youth unemployment<sup>14</sup>.

Economic performance is quite different: also in this case Italy does not play the role of virtuous state. Spain And Italy had similar growth rate during '70s and '80s, and divergence is more prominent from '90s, when Spain grew more than Germany (annual average growth rate: 2.5%). This gap increased during the first year

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<sup>11</sup> Source: the Observatory of Economic Complexity

<sup>12</sup> Source: World Bank

<sup>13</sup> Source: OECD data

<sup>14</sup> Esping-Andersen and Regini, *Why Deregulate Labour Markets?* Oxford: Oxford University Press, 2000 pp. 55-62;68

of the new millennium (3.9% against the Italian 1.5%) and reduced after 2008 economic crisis, when Spain had a 0 rate of growth. Anyway, differently from Italy, they fully recovered in 2017. Productivity had similar rates in Spain and Italy with the undeniable exception of post crisis years: in the period 2008-2017, Spain grew of 12.4 points (2010=100), a huge increase if compared to Italian performance (only +1.2 points). The economic recovery of Spain was advocated to their capacity to enhance radical labour market reform immediately after the beginning of the crisis: also in this case, for mainstream public opinion Italy is remained stuck in rigidities while Spain was more effectively able to manage them.

To verify these statements, is necessary to analyze the economic and political effects brought by main labour market reforms. But before the economic analysis in Chapter 3 and 4, is firstly assessed a comprehensive framework of legislative and political action undertaken by the three states in labour market. This will be the main topic of Chapter 2.

## CHAPTER 2 – THE LABOUR MARKET DEREGULATION

### *2.1 Deregulation in Germany*

Before discussing main measures of deregulation in Germany from '90s to Hartz IV is necessary to present a general framework of labour legislation. The industrial relations are quite complex and link different levels of bargaining. The main legal binding provision is given by the sectorial agreements among unions and employers' associations which is commonly set at regional level. The other fact different from other European states is the presence of works councils (Rogers and Streeck 1995, 53-78). Works council are representative institution that can be set up in firms with at least 5 employees, and their normal term of office is 4 years. The members of works council have special protection against dismissal and meet usually once a week. They represent all the workers and have three types of rights: information, consultation and codetermination. For information is meant the duty of employers to inform the council on economic performance and profits. They have consultation tasks on many financial issues, while on social matter can make compulsory opinions (matters as working rules, working hours, holiday or the introduction of specific technologies on workplace). With firms of more than 200 employees, work councils elect a supervisory board which must be intended as an in-effect Board of Directors. Is made by shareholders (which usually have majority) and workers representatives. This body elects the management board, which is the real daily management body of the company, composed by managers and a representative of workers<sup>1</sup>. For dismissal procedure, works councils can be consulted to make firing effective. Before market deregulation, individual dismissal had to be given with a notice of at least 4 weeks, while collective dismissal had usually longer periods of bargaining. In any case, employers were obliged to explore all possible alternatives to void it.

State as no role in industrial relations and cannot influence wage bargaining. While there is a low unionization, employers are almost completely organized in associations. Those types of associations are three: employers' association (the most important is Bundesvereinigung der Deutschen Arbeitgeberverbände – BDA), Chambers of Industry and Commerce, which is involved mainly in trade covenant, and finally Business Associations (the most important is Bundesverband der Deutschen Industrie – BDI). The BDA is the associations directly involved in wage bargaining and even if is strongly supported by entrepreneurs, some agreement can be negotiated outside employers' organizations, as happened for Volkswagen (Esping-Andersen and Regini 2000, 227).

Despite the low unionization, the coverage for collective agreement is quite wide. Anyway, the biggest trade union is Deutscher Gewerkschaftsbund – DGB: is a confederation of sectorial unions and joins eight

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<sup>1</sup> For a comprehensive and upgraded understanding of works council mechanism: <http://www.worker-participation.eu/National-Industrial-Relations/Countries/Germany/Workplace-Representation/>

For a complete review on board-level employee representation in Europe:

<https://www.eurofound.europa.eu/observatories/eurwork/comparative-information/board-level-employee-representation-in-europe>



federations. Neither BDA and DGB are involved in bargaining, because it is negotiated at branch level. For social and welfare benefits, German system until 2005 was two-sided. On one side, it exists a short-term unemployment benefit, which usually is 66% of last income. Then, for workers who were not eligible for unemployment benefit or which had expired it, there was a sort of unemployment assistance which is 50% of last income. All the insurance system is managed by German Labour Agency (Bundesagentur für Arbeit – BA) and is financed by employers and employee equally.

Before the discussion of Hartz reforms, it is important to present a summary of main policies adopted before 2002 in labour market. The first change was made in dismissal protection and was brought by the Employment promotion Act in 1985. This law relaxed the previous constraints on fixed-term employment contracts: they were liberalized with unconditional freedom up to eighteen months. Even if this new settlement should have a duration of four and a half years, this term was often postponed. Since January 1996, the new arrangement extended the maximum period for this type of contracts up to twenty-four months, renewable up to three times in a two-years period. For permanent contracts, according to previous legislation, in small firms up to 5 employees dismissal protection was exempted. In October 1996, this exemption was stretched to firms up to 10 employees. Anyway, according to literature review (Büchtemann and Höland 1989), the economic effect of such liberalization on employment is quite modest.

The real clash in German economy was the unification between the East and the West during 1990. One of the main problem was represented by currency union and wage leveling off. The main problem with currency union was the equal value that was given to East Germany Mark and West Germany Mark in the passage to the single currency. This policy was proposed because hooking a weak currency (East Germany Mark) with a strong one (as West Germany one) would have raised the purchasing power and saving values of working class. In reality, this measure was a shock for East-Germany industry. The other two ruinous measures implemented were privatization program for public East German industries, that were only partially successful, and especially wage determination policies. The “one-to-one” exchange rate policy was applied also to wages, and new unified federal government committed to wage parity between East and West. This achievement was planned through several wage increases in East industries until equivalence in 1994. The commitment was indeed postponed several times, and created several troubles for East German industries, paving the way to opening clause (the possibility to escape by regional collective agreements) at the beginning implemented only in the East, and from February 1997 introduced also in the West.

Opening clauses can be used to escape from collective arrangements in cases of severe economic difficulties. This room of flexibility concerns working hours, the suspension of negotiated wage increases, the lowering of salary and special payments. According to a 2006 study (Kohaut and Schnabel 2006) 13% of companies have opening clauses in their settlements and more than a half used them in the previous year. Anyway, branch-level collective agreements are still the most common way to negotiate wages, especially in big companies.

The survey also revealed that in East Germany, branch-level agreements are less common while company-level settlements are nevertheless more used than in the West<sup>2</sup>.

The last measures adopted before starting discussing Hartz reforms were on sickness benefits and the introduction of private placement services. On sickness benefits in 1995 Bundestag approved a reduction from 100 to 80 per cent of the income, and after a strong debate with unions it was partially abolished for 20 per cent of the employees. Nowadays, it is almost completely abolished. Finally, in 1994, was liberalized the market of placement agencies, from a public monopoly to private actors. Anyway, until the first years of 2000s, this type of private service was little spread.

During the years of the Red-Green government led by Gerhard Schröder it became central the necessity for labour market reforms, especially because the fiscal burden of unemployment and social insurance started to become unsustainable. In this new environment were developed a plan of several reforms that took the name from the chairman of the commission appointed to design them, Peter Hartz. Peter Hartz was a manager in Volkswagen which had stable relationship with Schröder since his political activity in Lower Saxony. The Hartz committee was established on February 22, 2002 and produced a modification of labour market divided in 4 steps, implemented between 2002 and 2005.

The academic literature dedicated to the exposition of main changes brought from those reforms is substantial (Alber and Heisig 2011, Engbom, Detragiache and Raei 2015). The first part of Hartz reform (Hartz I) was approved in 2002 and became effective in 2003. This package provided a reorganization of Personnel Service Agencies, the enhancement of vocational training by German Federal Labor Agency and a wide liberalization in legislation on temporary work programs. The second part, like the first one approved in 2002 and active from 2003, introduced subsidies for one-person companies, extended layoff rules to firms up to 10 employees (dismissal rules were already extended in 1996) and introduced mini-jobs and midi-jobs. The third part restructured the Federal Employment Agency, from an office made by tripartite boards to a more hierarchic structure. This part was approved in 2003 and became effective in 2004. The fourth and last part, for the importance and the effective role in changing the German labour market, will be treated more comprehensively in a while.

The real innovation in labour relationship is the introduction of mini and midi-job (Caliendoa and Wrohlichb 2010). The main characteristics of mini-job are analyzed at first. A mini-job is a new contractual form for low paid works which are usually fixed-term but can also be permanent. The monthly wage must not exceed 450€ with all una tantum rewards included. Anyway, in some special sector it can be higher than 450€, even if it cannot absolutely be over 5.400€ in a year. The week working hours cannot exceed 15 hours. The particularity of this form of labour relationship is that are exempted from most social security taxes: the total burden for the employer is about 30%. There are three types of mini-jobs: one for private households, one for firms and

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<sup>2</sup> For complete data: Eurofound, "Use of opening clauses in collective agreements", 2006

a third type that is for temporary work (often presented as a special case of mini-job for firms). Mini-job for private households are generally for house cleaning and domestic assistance. In the firms' market, mini-jobs are usually used by very low-skilled sectors or for seasonal workers, especially in agriculture, restoration and tourism. Mini-jobs are quite spread in Germany: from the adoption in 2006 to 2013 the number of workers who live with mini-jobs remained constant, about 4.9 million people. The real increase emerged among permanent workers who chose mini-jobs for make up their wages: in 2013 they were 2.7 million people. The midi-jobs are a middle term between mini-jobs and classical work status: they cover the wage between 450€ and 850€. They also have preferential treatment of tax wedge but less favorable in confront to mini-jobs and with a progressive rate. Even if this type of contract seemed to have created many jobs in the German economy, that can create a serious financial problem: the preferential tax treatment can be dangerous if this type of work becomes too much used.

The most famous part of the reform is Hartz IV, and it was implemented on January 1, 2005 (BGBl. I S. 2954). The main concept behind this package is the unification of unemployment and social assistance in just one scheme for able-bodied people and with a one-stop local job center. It was previously presented the unemployment benefit scheme before 2005: the system was divided in a short-term unemployment benefit and a long-term unemployment assistance. Separated from unemployment insurance, existed a more general welfare benefit called *Sozialhilfe* (social assistance). After Hartz IV, all people able to work had to join a unified assistance scheme to continue receiving the previous welfare benefit or unemployment assistance. The short-term unemployment benefit was renamed *Arbeitslosengeld I* and its requirements were restricted to only 12 months or more exceptionally for elder people. The new unified long-term benefit, called technically *Arbeitslosengeld II* but currently formally renamed "Hartz IV" was decreased to the lower level of previous social assistance.

The main difference of *Arbeitslosengeld II* (which has a monthly value about 390€), in confront to previous insurances, is that this benefit entitles the recipient with legal boundaries under public law. The citizen who joins Hartz IV is obliged in return to improve his job position, given the duty of the state to help him. This means that is compulsory the acceptance of any job offer, except for those which breaks basic freedoms of movement, family, marriage or human dignity. Often this system of duties had led to worker who interchanged mini-jobs and Hart IV, with a subsequent result of high precariousness and very low salary.

The main economic literature is till divided on the role of this reform package: for many mainstream scholars it constituted one pillar of the subsequent economic boom experienced by Germany after 2006. For other economists, those measure had not strong economic effects in fostering employment but had the only real outcome of creating a wide sector of temporary workers whit a very low pay. The dynamics of German wages is also important for their implication in European politics, to evaluate the indirect effect that a sharp reduction in unit labor costs can produce on international trade, especially within the internal European market. This

topic and many others will be treated in Chapter 3, where for every state will be dedicated a separate section on the economic outcome of the labor market reforms.

## 2.2 Deregulation in Spain

Spain is the second country treated in this argumentation. The reasons are exposed at the end of the first chapter, but more shortly, the main cause is the similarity of labour market institutions between this country and Italy. Before discussing the main deregulation policies adopted in Spain from '80s, is necessary a comprehensive description of how wage determination, employment protection and the other fundamental factors of labour market are regulated. All the labour market legislation active today went after 1975, because of the presence previously of an autocratic dictatorship led by Francisco Franco.

Under the dictatorship, labour relations in Spain were managed quite differently from a classic European Republic. Until '50s the economic relation were controlled by the state: working hour, conditions and wages were set by the government through decree. Only one trade union was permitted, the *Organizacion Sindical Espanola* (OSE) and strikes were prohibited. The situation changed relatively after 1953, with the signing of Pact of Madrid which established a military alliance between USA and Spain in exchange of economic relief, and especially after 1957, when within the regime started a political turn towards economic neoliberals. This change anyway did not extend workers' rights: the main result was a more international integration, with the join of Spain within the OECD, the International Monetary Fund and the World Bank. Even if the *Ley de Convenios Colectivos* of 1958 introduced limited local collective bargaining between employers and labour, the single trade union system and the prohibition of strikes remained. During '70s a strong popular claim started to rise for free unionism and freedom of strike but only after the end of Franco's dictatorship was established a Western system of labour relationships<sup>3</sup>.

For labour relationships after dictatorship (Funcas 1997), the basic text that regulates labour relationships is the *Ley del Estatuto de los Trabajadores* (LET), established in 1980. This law provides for three types of dismissal: disciplinary, objective and economic. The objective dismissal is the only type that is peculiar to Spanish legislation. It can be issued for organizational, technical and production reasons and it cannot be collective. More specifically, can be arranged in case of remodulation in the use of resources, but cannot increase the workload for the other workers. In addition, it can be used in substantial closure of branches of a firm or in changes in management. The third type of dismissal, the economic one, is more generally intended as collective dismissal and in this case is required a further step of negotiation between the employer and workers' representatives.

For wage determination, the system is regulated by the LET and from 1977 free unions and employers' associations were established for bargain salaries. This basic law provides only some requirements that must

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<sup>3</sup> For a more deeply understanding of labour relations under Franco's dictatorship: Eric Solsten and Sandra W. Meditz, editors. Spain: A Country Study. Washington: GPO for the Library of Congress, 1988.

be met, especially about the representative nature of workers' part. The rest is left to collective agreement, and especially provincial sector settlements. Anyway, collective bargaining is strongly fragmented: often relations are set by firm-level agreements, and more generally exists several clauses where a firm, under economic strain, can escape from strict contractual conditions. According to a study (Jimeno 1992) Spain is on a middle ground of centralization in collective bargaining, which is the worst case for wage dispersion and low coordination. In this sense, many measures were implemented from 1986 to centralize wage bargaining.

Also for working time a dominant role is played by sector agreements. LET set only the maximum working week of 40 hours and overtime, which can be a maximum of 50 hours per year and that must be paid at least 50% more than regular hours. In 1984 and especially in 1994 have been introduced some changes that will be discussed in a while,. Finally, to conclude the legal framework on labour market, must be cited the existence of an unemployment insurance given to fired workers with at least 6 months of contribution, with a maximum period of 24 months and a replacement rate of 80%. With 1984 was also introduced an unemployment assistance for fixed-term workers who did not have requirements for insurance.

The two main legislative reforms adopted before 2012 are the 1984 reform and 1994 reform. The 1984 reform was preceded by a period of sharp increase in unemployment: from the fall of Franco's dictatorship to 1984 the unemployment rate raised from below 5% to 20%. In this context, it became necessary for the public opinion the provision of a flexibility at the margin, claimed by unions too, to tackle with joblessness problem. In this context emerged the reform, which constituted the most radical liberalization of fixed-term contracts among the European countries. This new type of contract was called the "employment promotion fixed-term contract" and could be of 6 months up to 3 years. After the maximum period, the contract can be turned into permanent one, or the worker is laid off. In the latter case, the severance pay was of 12 days' wages per years of seniority, and employer could not hire new worker for the same work. On the other hand, the employee cannot sue the entrepreneur. The problem just after the approval was the extreme difficulty in controlling that employers did not hire for the same task several fixed-term workers consecutively, transforming the reform in a de facto complete liberalization of fixed-term contracts. In the reform package were also introduced new form of training and practice contracts.

During '80s, the share of permanent employees dropped by 10%, and many workers started to suffer from a severe precariousness (Jimeno and Toharia 1993). In 1989, a minor reform reshaped the unemployment insurance: after a general strike in 1988, the length of unemployment assistance was extended and the indefinite assistance until retirement reduced to 52 years. The amount of this assistance was 75% of the statutory minimum wage. During the first years of '90s, among academic debate emerged the conviction that such liberalization in temporary works had led to a strong segmentation in labour market, where temporary workers had just one-third of a similar core protected worker. In this context was enacted the 1994 reform, which is a partial retreat of the 1984 one.

In this new reform the temporary contracts introduced in 1984 were substantially eliminated, except for some cases as long-term unemployed. In turn, was decreased the severance pays in case of dismissal. The other measure was concerned on the elimination of training contracts, with the establishment of apprenticeship. The last relatable part was dedicated to a more centralization in wage bargaining. The last changes adopted in 1997 integrated within law a series of collective agreements among parts.

The most significant modification was on employment protection: more flexibility was introduced for permanent workers in turn of less for temporary ones. This led to the creation of a new permanent contract with lower severance paid in case of dismissal, addressed to social parts more concerned by temporary employment like young people and long-term unemployed. To push this new contractual form, were established stricter conditions for using fixed-term job and incentives to increase permanent contracts. Anyway, those measure did not have strong impact on worker segmentation.

In this sense, the several legislative actions taken during '80s and '90s determined the creation of a two-sided labour market: on one side one-third of employees, especially young people, trapped in a status of secondary labour market dominated by precariousness and threatened by social exclusion. On the other side, a majority (two-thirds) of employee in a status of permanent employment. The empirical findings also suggested that the secondary labour market is quite sensible to demand fluctuation, and in this sense expansion of employment is strongly related to period of economic growth. Finally, no substantial effects were measured for long-term unemployment. The liberalization "at the margin" revealed its beneficial effects for the whole economy thanks to the emergence of a new secondary labour market, but in the long run delayed the entrance of youth in a protected environment.

The 2012 reform adopted by Rajoy government emerged in a completely different political framework, dominated by the severe conditions of economic crisis (OECD 2013). The unemployment rate was the most striking indicator of the negative situation: in 2012 it was about 23% and continued raising until October 2013, reaching 26.7%. Within the unemployed people, the share of long-term unemployment increased from 19.1% in 2007 to 50.4% in 2013. The unemployment rate was the highest in Europe except for Greece, and from the crisis in 2008 4 million new unemployed workers emerged. In this context, according to mainstream economics, the rising of joblessness should lower the unit labour cost, pushing on the long run the economic recovery and decreasing unemployment. The main problem was the stagnant labour cost despite the current events. In this sense, the claim for more deregulation in labour market became stringent.

A first action was taken in 2010 under Zapatero government. The main aim was to equalize the protection between permanent and temporary contracts and to moderate the adverse effects of the two-sided labour market presented previously. Severance pay for temporary contract dismissal were raised, while the payments for permanent contract dismissal were subsidized. Anyway, this measure did not have strong effect on the Spanish economy and, in a context of rising tension on international financial market due to a spread crisis

and social unrest for new elections, the neo-elected Conservative government structured another more incisive reform.

The Spanish labour market reform enacted by the Rajoy government in 2012 is regulated by *Real Decreto Ley 3/2012*, confirmed by *Ley 3/2012 de medidas urgentes para la reforma del mercado laboral*<sup>4</sup> and subsequent implementation measures. As mentioned previously in Section 2 of Chapter 1, the reform was enacted to provide the right degree of flexibility in labour relationships for making possible the adjustment of wage to productivity and employment to fluctuation in the market.

The first aspect of the legislative action concerns wage determination. Priority was given on collective firm level bargaining rather than the previous system based on sectorial provincial level. Then, more favorable conditions were given to entrepreneurs interested in opt-out from such regional agreements on many aspects like wages, working hours and working schedule, given objective economic reasons. A tripartite body was established to evaluate the opt-out claims, and decisions by such body are hardly disputable.

Relating to dismissal, changes are several and effective (Uguina and Pinilla 2013). The explicit aim was to make labour relationships more flexible and market less segmented, trying to overcome the historical problems of Spanish job structure cited previously. The reasons for fair dismissal were extended more after the legislative intervention of 2010. Now, a fair dismissal is justified in case of loss of competitiveness or persistent decline in ordinary income. In addition, now the firm is not obliged to prove the severe condition beyond dismissals, conditions that should have threatened the life of the firm itself. Severance payment for unfair dismissal changed: from the 45 days' wage up to 24 months' solution, conditions were lowered to 33 days' wage up to 24 months'. Another change is related to juridical procedure: before the reform, during the conciliatory procedure which decided if dismissal was unfair, the entrepreneur had to pay an interim wage to workers. This duty often pushed employers to pay severance pay without clearing if dismissal was actually an unfair or a fair one. After the reform, the interim wage is cancelled, making easier for the manager to wait a judicial ruling.

For collective dismissal, were clarified better the possible objective reasons for making a collective redundancy possible. If dismissal concerns more than 50 workers, the employer has now the duty to provide training and a reallocation plan. Finally, it was eliminated the administrative permission to collective firing but remained the necessity to try a negotiation with unions. In this sense, were clarified also the rules on the establishment of negotiation committee and documentation that must be provided by the entrepreneur. In case of a cancellation by a court reinstatement is compulsory. Finally, more strict conditions were provided in case collective dismissal involves workers 50 years old or more.

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<sup>4</sup> For the full tex of the Decreto Ley 3/2012: [www.boe.es/boe/dias/2012/02/11/pdfs/BOE-A-2012-2076.pdf](http://www.boe.es/boe/dias/2012/02/11/pdfs/BOE-A-2012-2076.pdf)  
Ley 3/2012: [www.boe.es/boe/dias/2012/07/07/pdfs/BOE-A-2012-9110.pdf](http://www.boe.es/boe/dias/2012/07/07/pdfs/BOE-A-2012-9110.pdf).

The last aspect concerns the introduction of a new form of contract, the *Contrato de Apoyo a Emprendedores*, which is addressed to firms with less than 50 workers. If such firm did not have a collective dismissal in the past 6 months, this contractual form provides an extended trial period and fiscal incentives for hiring new workers. For very small firms under 25 workers, severance payments for fair dismissal were discounted of 40%, that is just 8 days' wage per year of service, paid by a wage guarantee fund.

The several similarities of this reform to the Italian version will be useful in the subsequent analysis of 2014 "jobs act". Economic analysis of the effects will be treated in Chapter 3.

### 2.3 Deregulation in Italy

Like the order study cases, the dissertation on Italy must start on a description of main features of its labour market (Bertola, Ichino and Ploeg 1995). The first aspect to analyze is firing rules and protection against dismissal. In Italy are provided three cases for individual dismissal: dismissal for "just cause", for "justified subjective reason" and for "justified objective reason". The first type is the quickest typology of dismissal, because it does not need a notice period, but concerns only severe breach of contractual duties. Collective agreements frequently list the grounds for just cause dismissal. The dismissal for "justified subjective reason" is another type of disciplinary firing, and so it does not concern the organizational or economic structure of the firm. In this case a notice period is compulsory. The last case of individual dismissal is on "justified objective reason" and it is used in case of organizational and economic crisis that must be a serious threat for the economic life of the firm and the worker cannot be reallocate for different tasks. Another cause for this last type of dismissal can be related to the lost by the worker of physical requirements to fulfill the task. Severance payment is provided in any case of individual dismissal and is about 7.5% of every year's salary, plus revaluation for inflation. For collective dismissal, as in many other states, the procedure is more complex because of the necessity to establish a discussion with the local trade unions. In general, if a dismissal is considered unjustified, the worker can be reintegrated or can be paid remedies. During the current reforms, legislator shifted the common use from restatement to paying remedies<sup>5</sup>.

Wage bargaining currently occurs at national sectoral level and at the firm level. At national level labour relations are governed by contracts that last for 4 years. For nominal pay exists a two-years settlement. At the local level, are regulated more basic aspects like the internal labour conditions, some specific wage increase linked to the economic situation of the firm and productivity gains. Even if national agreements have legal value only on the contracting parties, subsequent judicial rulings have established the extension of those settlements to all workers employed in a given branch. In this sense, the existence of a minimum wage is indirectly deferred to national contracts.

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<sup>5</sup> For a complete review on dismissal rules: [http://www.ilo.org/ifpdial/information-resources/national-labour-law-profiles/WCMS\\_158903/lang--en/index.htm](http://www.ilo.org/ifpdial/information-resources/national-labour-law-profiles/WCMS_158903/lang--en/index.htm)



In Italy, given the high degree of rigidity on wage determination and especially dismissal procedure, on working time law exists a strong flexibility. A more comprehensive regulation has been introduced with *Decreto legislativo 66/2003* which received the European Directive 93/104/CE. With this legislative decree was established the total amount of work hours in a week, which must be 40 and not more than 48 including overtime. In case of an excess in working hours, it is allowed if the local public administration is informed. In addition, there must be 11 hours of rest daily. Anyway, working schedule is usually regulated within collective agreements, and often at firm level too: especially overtime remains strongly flexible and is widely used to manage internal organization. Atypical hours are more widespread than in any other EU country.

Unemployment benefit has been absent until recently. In Italy, like in many other Southern European countries, the level of protection for dismissal was often related to “insider” workers, creating a very peculiar welfare net based on the protection given to breadwinner. In this context, social security has been substituted by familiar solidarity, especially for those that were not entitled to access to insiders’ protection, like young workers, women and long-term unemployed. Even if the overall system has been deeply reformed since 2012, previously we could distinguish 3 types of benefits: Cassa Integrazione Guadagni, which will be explained subsequently, mobility and unemployment compensation. Another important problem in Italy is the wide spread of self-employed, even when many are de facto employed: in this case, there is no insurance.

Cassa Integrazione Guadagni (CIG) is very peculiar and widely used in Italy (Papaleoni 1992). There are two types of CIG: Cassa Integrazione Guadagni Ordinaria (CIGO) and Cassa Integrazione Guadagni Straordinaria (CIGS). CIGO is a benefit paid by the National social welfare system for the workers of a firm temporary dismissed due to adverse market conditions or suspension of productive activity. The insurance lasts for 3 month and cannot be renewed for not more than 12 months. CIGS is triggered in case of company crisis of wide social relevance or firm closing. CIGS has different expiration dates according the causes, but is generally longer than CIGO, from 6 months to 36. During CIG, workers are never considered fired but just suspended from work. In case of the expiration of CIG, workers can go to mobility (in case of big firms) or to unemployment compensation (until 2012).

The deregulation reforms enacted before 2000 are essentially the “Treu package” of 1997 and the Social Pact of 1998. The “Treu package”, officially called Law 196/1997, took its name by the Ministry of labour Tiziano Treu. The most important measure in “Treu Package” was the liberalization of fixed-term contracts: especially before 1987, fixed-term contracts were strictly limited by Italian labour legislation, and from 1997 regulation became more and more flexible. There were also increased the number of times a temporary contract could be renew, and sanction in case of violation were lowered. Treu package introduced also apprenticeship and new temporary contracts to ease the transition between education and work. Another aspect reformed by this law was the Temporary Job Scheme (*Lavori Socialmente Utili* – LSU). LSU were a sort of temporary job introduced in 1993 to absorb better unemployment out from medium and big firms, previously covered only by CIGS. The *Decreto Legislativo 468/1997*, a legislative appendix of “Treu package”, gave a definitive

regulation: extended this service also for long-term unemployed and provided a more precise framework on the tasks required (personal and environmental care, protection of cultural and agricultural heritage). Finally, the last two measures included were a limited bulk of incentives for working time reductions and part-time contracts, and the liberalization of Agency contracts. Before 1997, labour market and more specifically the match of demand and supply was monopolized by the State. With the Law 196/1997, were introduced private agencies that could be a third party in the match of employers and employee. In case of hiring, the new labour relationship is normed by a new contract, a fixed-term type useful for the future reintegration of the worker in the firm.

The “Social Pact” of 1998 was an agreement among the state, unions and employers’ associations. It’s a minor package of measures focused on tax wedge, incentives for Southern Italy and concertation mechanisms. Tax wedge was reformed, transferring social provisions like health, maternity and family contributions to general taxation and so reducing tax rate. In the general reform of employment incentives, they were more addressed to Southern Italy and finally concertation was enhanced, reformulating the main tasks of social bargaining and introducing new social actors previously excluded.

The last reform before 2012 is Law 30/2003 or “Biagi Law” (Vietti, Negrini and Travers 2003). The main change was the comprehensive regulation of atypical contracts, called in Italian *Contratto di collaborazione coordinata e continuativa* (co.co.co). This type of contract, normed for the first time in “Treu Package”, was a middle point between employed job and self-employment. In this context was introduced a new contractual form, a sort of spin-off of co.co.co called *Contratto a progetto* (co.co.pro). Those type of atypical contracts were categorized as *Parasubordinato* (pseudo self-employed) and the main aim of legislator was the protection of wide shares of Italian employment, often working under a regime of self-employment, which were de facto employed but without the classical protection of the latter. Anyway, also *Parasubordinato* work was a serious loss of workers’ rights, because of the absence of vacations, sickness benefits or maternity. These contractual forms were abolished by 2012 and 2013 labour market reforms.

Anyway, the economic effects of such reforms were ambiguous and poor. The 1997 and 1998 reforms had similar problem with Spanish reform at margin. The substantial preservation of insiders’ rights and the high liberalization of temporary and atypical contract, given the economic recession of first years of ‘90s, had no effect on the transition to permanent employment of most weak part of the society, as women and youth. With the cyclical recovery after 1996, the new jobs created precarious positions and permanent employment had an overall decreasing effect. Flexibilization ad no effect on long term unemployment. Biagi reform had very weak effects on employment too. The only real effect was the increase of temporary and part-time contracts, a decay in male employment balanced by an increase in female employment only partially. Unemployment in Southern Italy remained stable<sup>6</sup>.

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<sup>6</sup> For a complete analysis: [https://www.wdowiak.me/marco-biagi/Wdowiak\\_legge-Biagi\\_en.pdf](https://www.wdowiak.me/marco-biagi/Wdowiak_legge-Biagi_en.pdf)

The Italian labour market remained substantially unchanged until 2012. After 2008 crisis, Italian entered in a period of severe recession, that had a major hit in 2011 during the so called “Spread crisis”. The interest rate started to increase significantly after the failures of the government in charge, led by Silvio Berlusconi, to reduce fiscal deficit. Between July and August, the spread between the Italian Government Bond and the German ones skyrocketed until November, when reached 574 basis points. On November 12<sup>th</sup>, Berlusconi government asked for resignation, and was appointed a new government led by Mario Monti. During this Government many measures were taken to tighten national spending, and some minor ones focused on labour relationships. We’ll present those and the more comprehensive labour market reform enacted by the Renzi government in 2013, called “Jobs Act”.

The “Fornero reform” followed the pension reform enacted in 2011 (Jin and Lenain 2015, 7). That measure was adopted to secure Italian Government expenditures and its debt position through a tightening in pensions eligibility requirements. The 2012 labour reform was passed to provide labour market better capacity to response at economic shocks. Firstly, it was ruled a relaxation of employment protection rules on permanent contracts, notably limiting the possibility of reinstatement following unfair dismissal. This change acted on the famous Article 18 of Workers’ Statute, a very sensible topic in the Italian public opinion. In addition, it was also introduced mandatory conciliation mechanism before lodging a complaint with courts. For fixed-term contracts, it was no more need a justification for the signing of the first one, if no longer than one year. On the other hand, the interval period between two fixed-term contracts was extended. The other two measures were on atypical labour contracts (the so called “co.co.co” and “co.co.pro”) strongly restricted, and an overall reform of unemployment benefits: mobility and unemployment compensation were merged in a new general benefit (*Assicurazione Sociale per l’Impiego* - ASpI) which was related to the search of a new job by the worker, like in many other state, a limited period and lower replacement (75% of last wage). Unemployment benefits were finally extended on temporary workers through the adoption of an insurance scheme called Mini-ASpI.

The Jobs Acts, passed in 2014 and subsequently implemented by Renzi government, is the final step in this path of labour market deregulation. The first part was introduced by a Decree Law 34/2014 called “Poletti Decree”, by the name of the Ministry of Labour at that time. This first measure was a new liberalization in the use of fixed-term contracts: it was eliminated the necessity of a justification for such contracts up to 3 years and increased the number of possible renewals. On the other hand, it was established a limit of 20% of fixed-term contracts that an employer can issue in its firm (previously this limit was set in sectorial collective agreements).

The Law 183/2014, also known as “Jobs Act” is the second and definitive step of deregulation action led by Renzi government. The main topic is the introduction of a new standard employment contract: *Contratto a tutele crescenti* - CTC. This new type of contract will be the only open-ended contract provided, and so from 2015 all new permanent workers must be hired with this new contractual form. This new form has less rigid

dismissal protection than the current open-ended contract, and more specifically provides more stringent rules on possibility of reinstatement, in favor of severance pay. This measure meant the complete abolition of Article 18 of Workers' Statute, a very debated measure in the Italian public opinion. Also unemployment benefit system was reformed: ASpI and Mini-ASpI were merged in a new universal insurance scheme for all workers, called NASPI and in addition was normed a tightening of requirements for CIG and complete abolition of CIG by derogation (usually, CIG asked by closed firms after the time period of CIGO and CIGS). The last measures were the set-up of the National Employment Agency and the experimental introduction of a legal minimum wage (not normed yet). The former are agencies responsible for provision of unemployment benefits (based on mutual obligation) and accountable for harmonization of ALMPs across regions.

## CHAPTER 3 – THE ECONOMIC EFFECTS OF DEREGULATION

### *3.1 The economic debate on reform in Germany*

The economic debate in Germany on Hartz reform is mainly unanimous on the goodness of such reform (Zimmermann and Rinne 2013). This consensus is dictated by the incredible performance of German economy. As mentioned in the last section of Chapter 1, Germany is one of the most solid, powerful and productive economy in Europe: its productivity growth is one of the highest, GDP growth is stable on the European average (+2.2% in 2017) and the unemployment rate is one of the lowest (3.4%), under only Czech Republic, Malta and Iceland. About labour market, during the last electoral campaign in 2017, which ended up with a new government led by Angela Merkel (the fourth one), supported by CSU, CDU and SPD, the issue of “full employment” started to emerge. This performance seemed not ruined at all by 2008 economic crisis: Germany has recovered almost completely from 2011 yet, while unemployment started decreasing from 2005 with an average rate of -0.62% and only in 2009 had a little increase (+0.24%). Considering the economic situation before the approval of Hartz reform, the distinction is even sharper: in 2002 Germany was in stagnation and in 2003 fell into recession (-0.71%). From 2001 to 2005 unemployment raised from 7.77% to 11.17% and if productivity had a modest increase during those years, it was almost stagnant from 1997 to 2001<sup>1</sup>.

A quick analysis would suggest that Hartz reforms played a central role in the up rising of German economy. A more detailed study on Beveridge curves in Chapter 4 seems to confirm this statement: unemployment is decreasing almost constantly from first years of 2000s as mentioned, but also vacancies, given mini-cyclical upswings and downturns, is rising from more than 10 years. This is normally explained by expansionary phases in the economy, but such prolonged periods of economic development, especially in an advance country, are quite difficult to explain. One way to understand such performance is focus on exports: for 2016 exports of goods and services count as 46.1% of GDP, while for France is only 29.3% and in Italy is 29.8%. Trade balance is in 2016 +8% in Germany, -1.9% in France and +3.3% in Italy (in EU is +3.3)<sup>2</sup>. The great data reported in previous paragraph showed a solid and competitive economy. This data remarks a prolonged period of economic expansion and finally becomes evident that such expansion is export-led, or anyway strongly pulled by trade balance.

If we try to evaluate politically at the expenses of who was led this economic upturn, is obvious that Hartz reform had a major important role: decrease wage share and make labour extremely cheap. In figure 1 is highlighted the Wage share, the part of GDP given to workers, indexed as base 1998=100. From the approval of first part of Hartz package, the GDP raised of 13% from 2003 to 2007 and the hours worked remained

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<sup>1</sup> Source: World Bank – For productivity: GDP per hour worked (OECD)

<sup>2</sup> Source: World Bank.

stable: this means a strong increase in productivity, which was not sided by an equal increase in wages. In fact, compensation for employees raised of only 4%, meaning a sharp tightening of previously cited wage share, that decreased from 2003 to 2007 of -4%. In France wage share from 2003 to 2007 was -1.14% and in Italy increased of +0.50, especially due to the stagnant productivity<sup>3</sup>. This phenomenon led to a sharp decrease in unit labor costs and made German product extremely convenient in international trade, as mentioned in the literature (Berger and Wolff 2017).

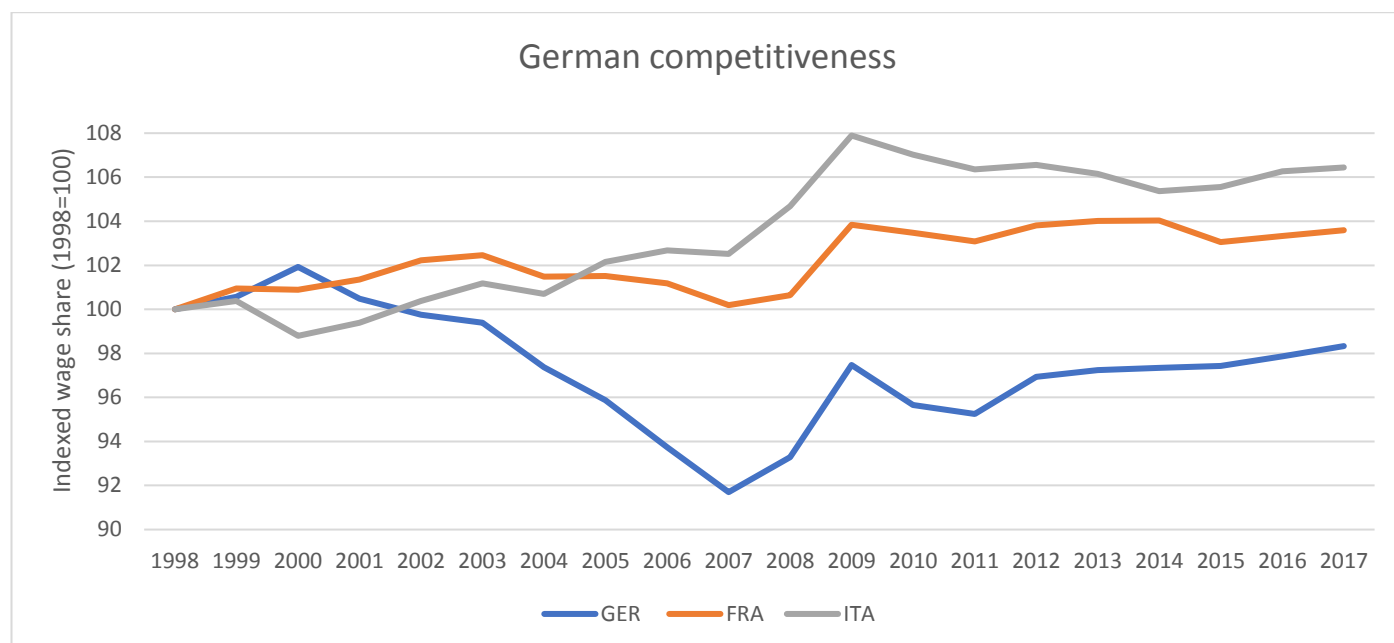


Figure 1- Indexed wage share for Germany, France and Italy (1998=100) (1998-2017)

Source: Eurostat

Anyway, the economic literature in favor of Hartz package is distinctively broader than the criticisms. In this dissertation will be presented the two opposed sides, trying to analyze the best and most seminal study for both thoughts.

According to main economic consensus Hartz package is the main reason for German performative response to 2008 financial crisis (Krebs and Scheffel 2013). According to Krebs and Scheffel, Hartz reform has a substantial role in declining unemployment. Globally, they counted a decrease of noncyclical unemployment of almost 2.9%, which is more than half of the decline in unemployment rate from 2005 to 2012. The most striking effect is given by Hartz IV: it valued solely a decrease of -1.4%. The main force which drove the reduction was the increase in incentives for finding jobs and higher job finding rates for both short-term and long-term unemployed, with sharper effects for long-term ones. More precisely, the reform decreased short-run unemployment of -1.1% and the long-run unemployment of -1.5%, while the job finding rate increased of +8.6% in short-term unemployed and +3.1% in long-term ones. The most effective part of the reform package was Hartz IV as previously mentioned, and it was also evaluated the time necessary to the reform to be effective: almost two years.

<sup>3</sup> Source: Eurostat (for worked hours: OECD)

Relatively to welfare gains, can be made a comprehensive framework of the aggregate increase in output triggered by the reforms, and how was distributed, identifying winners and losers. The annualized growth rate increased in the short run of +0.6%, and after 5 years, on the long run, it stabilizes on +0.1%. The average wage had a different behavior: it decreased of -0.6% in the short run, after three years should start to stabilize into a positive effect, which on the long run will be of +0.1%. Evaluating the distributional effect, the winners of Hartz reform are households with stable employment (for them the overall effect was +0.44% in lifetime consumption). The losers of the reform were unemployed people, especially long-term unemployed, who suffered more from the reduction in social benefits (-0.13% in lifetime consumption for short-term unemployed and an astonishing -0.74% for long-term).

Finally, the analysis focused on the effect of Hartz reform to help German economy during 2008 crisis. According to Krebs and Scheffel, the good performance by Germany during the financial downturn was made possible also by Hartz reforms. The model reported that unemployment rate should have risen of +1.94% due to the crisis, but thanks to the positive effects of Hartz reforms in matching better work demand and supply, the model measured an increase of only +1.63%. The real increase is even lower, +0.8%, and this lower value is explained by the simultaneous effect of employment increase, always made possible by Hartz reforms, which emerges after almost two years, as mentioned before. For this reason, Germany succeeded in have a strongly better response to economic crisis in confront to the other European countries. This type of literature is quite spread and highly considered (Krause and Uhlig 2012, Klinger and Rothe 2012).

Anyway, also in the academic sphere are recently emerging more and more critical voices to Hartz reforms and deregulation policies to boost employment. Especially some new studies are widening the debate on labour market relations, and economic literature on this task is increasing. In this dissertation, are provided the observations presented in a study by Centre for European Reform (Odendahl 2017).

According to Odendahl, Hartz reforms had a very little impact on employment dynamics and productivity growth. The only real effects were on wage decrease, particularly for low wage workers. Expanding the pool of workforce and making unemployment an unpleasant experience, this made heavy pressure on unions and workers' council (from 2004 to 2008 such salaries decreased about -8%<sup>4</sup>). Anyway, also the effect on inequality is dubious: if it is true that from 2005 Gini coefficient stabilized after a long period of increasing inequality, it is also true that other countries experience similar path, without an equivalent phase of GDP and employment growth. This means that, more generally, unit labor cost had sharply decreased.

Another central topic is the role of Hartz reforms on German capacity to recover from 2008 crisis. Deregulation had very little or no role according some scholars: the first important factor was the surge of industries in

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<sup>4</sup> Source: Dustmann, Fitzenberger, Schönberg and Spitz-Oener, 'From sick man of Europe to economic superstar: Germany's resurgent economy', *Journal of Economic Perspectives*, 2014.

emerging economies. This phenomenon led a sharp increase in demand for machineries, a sector greatly occupied by Germany. The second fact, more influential than labour market reform, is credit reform made by Schröder in 2000. This reform dismantled the safety net created by local banks with industries, a mechanism that did not enhance productivity increase. For this reason, German firms had to restructure mainly outsourcing labor in Eastern European countries, freshly members of EU, where labour was much cheaper. For Odendahl the real key in order to understand the German miracle is the outsourcing of German firms: if it is true that after 2003 unit labour cost of value added decreased, the unit labor cost of the final product diminished steadily from 1997 and from 2003 literally fell down. This path is indicative of restructuring forces of German firms through outsourcing. The final reason for German recovery is the end of a pluriennial crisis in construction sector and the re-emerge of productivity in such branch.

Finally, what was the only real result of Hartz reforms, and which lessons were suggested? The only real effect is the creation of a vast low wage sector: in 2016 in Germany 22.5% of all employment had a salary which was below two thirds of the median wage, that is 10.50€ per hour<sup>5</sup>. This proportion is the seventh among European countries, under only Baltic states, Poland, Romania and Croatia. The lessons are simple: in Germany, the diagnosis was incomplete, focusing on important issues in the labour market but ignoring the country's macroeconomic situation; there are smarter ways to reform the labour market, for example invest in training and incentives; finally, and more generally, more flexible labour markets do little if anything to boost productivity.

### *3.2 The economic debate on reforms in Spain*

The economic debate on labour market reform enacted by Rajoy government in 2012 is still at an early stage and for this reason economic literature is not so abundant. Anyway, the analysis can start by the major macroeconomic statistics to provide the current state of the art and present the seminal debate in the academic sphere (Montalvo 2012).

In the last years of '90s, a sluggish growth in productivity made Spain on the last productive economy in Europe. From 2000s, after a prolonged period of sustained growth, Spain from 2008 started having slow growth rate. From 2009 to 2013 it grew less than most of European countries: the average growth rate was -1.84%, lower than Italy with -1.54% and Germany with +0.64%, and only three countries, Slovenia, Croatia and Greece, made worse<sup>6</sup>. From July 2011, in addition interest rates started to increase, threatening public finances and leading Spain into a real spread crisis: spread between *Bonos* and German *Bund* remained above 300 base points until July 2013. On the other hand, from the first steps of 2009 Spain was able to expand its public deficit as never before: it started in 2008 with a deficit of -4.42% and continued until now (in 2017 ran a deficit of -3.11%). Rightly after 2009, productivity started increase again and until 2013 grew at incredible

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<sup>5</sup> Source: Eurostat

<sup>6</sup> Source: *ibid.*



rate. From 2010, vacancies skyrocketed: they passed from 0.7% to 1.4%, after a prolonged crisis of worsening of labour market. This shift is graphically provided also by the analysis of Beveridge curves that will be made in Chapter 4. This trend is usually related to period of economic expansion, and it can be explained by the action of government in deficit spending. Anyway, the new problem seemed to be unemployment, in a stable increase during all the years of the crisis, from 2008 to 2013. We have mentioned the ambiguous economic situation in Spain after 2008 crisis: a country with real economy indicators in serious problems, but with potential ones like productivity and vacancies sustained by deficit spending. In this context was enacted the labour market reform by Government Rajoy in 2012 and the subsequent year, in 2013, situation started to change drastically.

Unemployment started to decrease continuously: from 26.2% of late 2013, went to 23.1% in 2015, 20.4% in 2016 and 18.2% in 2017. Now unemployment in Spain is currently at 16.2%. GDP had an astonishing growth: Spain growth from 2014 to 2017 at an average yearly rate of +2.8%, well more than Germany (+1.9%) and Italy (+0.9), above the European average and below only Eastern Europe, Scandinavia and Ireland. To what extent this economic performance is linked with labour market reform is a very debated issue which will be the central topic in the subsequent paragraphs, treated using the main literature review. As for Germany, also in this case will be presented two opposite point of view about deregulation applied in real economic situations, with mainstream advocates and some criticism. It will be found that main findings are doubtful and questionable, and a clear effect on employment dynamics cannot be traced.

One of the most reliable advocates of Rajoy reform is OECD (OECD 2013). Their study was a complementary assessment to a dissertation made by the *Ministerio de Empleo y Seguridad Social* of the same year. The first issue examined was the impact of deregulation labour costs. In this case, the main argument taken from economic theory is that a major flexibility in wage adjustment to productivity can be useful to tackle better periods of economic downturns. In this framework, wage moderation can protect jobs in period of crisis, so in new periods of economic expansion wage can adjust back again on higher levels. In this field, wage moderation achieved substantial progresses: between the fourth quarter of 2011 and the second quarter of 2013, unit labour costs declined by 3.9%. The paper does not have subsequent data, but from a quick check, unit labor costs stabilized on the levels of 2013<sup>7</sup>. Even if the most important decrease happened in public sector for reasons not correlated with labour market reforms, a trend is also highlighted in non-public sectors (-2.1% annually). The econometric estimates, which eliminates the cyclical effects and inflation, gave as drop in labour costs a value between -1.2% and -1.9%: this means that more than a half of general decrease is due to the labour market reform.

The second aspect analyzed was the effect on labour market flows and trends in hiring and dismissal. According to OECD the reform contributed to promote hiring, particularly on permanent contracts, and reduce

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<sup>7</sup> Source: Eurostat

unemployment periods after firings. It also made possible faster transitions into permanent contract from precarious situations. On the other side, the reform of collective dismissal disincentivized them, making less effective other aspects of the reforms on the numbers of permanent hiring in big firms. A good indicator of hiring propensity is the share of employees with less than 3 months of tenure. This data substantially decreased after 2008 and stabilized only by the second quarter of 2012. According to econometric analysis, the prevention of further decrease is to ascribe to the effects of reform. The model estimations finally indicate a real positive effect on the possibility for unemployed people to find quickly new jobs: this effect is significantly strong for possibilities of unemployed transition to permanent contract hiring, which increased of 24%.

The final part focused on the long-run effects of the Rajoy reform. According to estimation provided by OECD, the general impact is modest: the productivity gain is +0.25% every years on business sector industries, that means a general increase in growth of +0.15%. Anyway, in the paper is highlighted that are ignored the effect of positive externalities, for example in the promotion of employment and wage moderation. However, it is explicitly stated that labour market reform can have a real positive effect only if it is sustained by other policies: particularly reforms in product and service markets can boost competitiveness and improve labor market performance. In this sense, OECD suggested the equivalence of unlawful collective dismissal with individual one, limiting the possibility of ordering reinstatement. Generally, is considered anyway a positive reform that made more dynamic the Spanish labour market and reduced its old problem of segmentation.

The economic literature that suggests different opinion is not so spread, but we can find some studies especially among unions' think tanks. One of the most reliable analysis is provided by the European Trade Union Institute – ETUI (Horwitz and Myant 2015). Horwitz and Myant try to evaluate the Rajoy reform on three main aspects of labour market: collective bargaining, promotion of permanent contracts and change in employment protection. The first aspect concerns collective bargaining, and more specifically working hours and wage flexibility. Academic opinion mostly agrees (Herzog-Stein, Lindner and Sturn 2013) on the fact that working time flexibility helped Germany to tackle better with 2008 crisis: often employers and employees preserved jobs and adjust to economic downturn through time reduction. Working time flexibility pursued by Rajoy reform, according to Horwitz and Myant was not obtained: statistics by Eurostat highlights paradoxically an increase in hours worked per week after 2012. In construction sector, the most damaged one from the beginning of the downturn, statistics shows a stabilization of hours worked after 2011 and a diminishing trend in employment: the main strategy pursued by employers is dismissal rather than time reduction, especially at expenses of temporary workers. Therefore, is treated the topic of wage flexibility: wage restraints from the reform approval were significant (-10.3% from 2007 to 2010 and -6.3% from 2011 to 2013), often obtained thanks to derogations to collective agreements. This trend is advocated as the main force for export boost experienced after 2011 in Spain. Anyway, its effect is dubious: most increase in export took place in technology-intensive sectors with low price elasticity and restrained wage decreases. The most burden of wage flexibility went on sectors which do not compete internationally.

The second aspect concerns promotion of permanent contracts. From a quick review on data for temporary contracts, those seems to decrease in the share of all contracts after 2011. Anyway, this statistic can be spurious. Horwitz and Myant argue that in this case such share is declining only because more temporary workers than permanent ones were fired during crisis. This trend is confirmed by the share of fixed-term contracts on new ones. This share remained almost stable after 2012, showing an unaltered approach of employers to type contracts and a scant inclination also to the new *Contratos de Emprendedores*.

The last aspect concerns the central issue of our study, employment promotion. As mentioned several times, according to major economic literature strictness in dismissal protection can inhibit efficient job creation (Mortensen and Pissarides 1999). This principle also guided the determination of main policies by Rajoy reform, and the sharp decrease in employment protection is measured by EPL index: between 2010 and 2013 Spain experienced one of the main decrease in protection against individual and collective dismissal, leading the country to the last position in Europe for the latter variable. This measure tried to reduce the problem of Spanish labour market duality, often mentioned in this dissertation. Anyway, this not seemed to have success: checking employment statistics of the weakest people in labour market, long-term unemployed and youth, no real improvement is detected. Paradoxically, both aspects worsened, pushing Spain in the last positions in Europe (+8.7% in long-term unemployment between 2009 and 2013 and +9.3% in unemployment ratio from 2008 to 2013).

### 3.3 The economic debate on reforms in Italy

As mentioned in the first Chapter, even if Italy has an economic structure very similar to Germany, especially during the last years the economic performance was more fitting to Spanish one. A brief look to tendencies in three main aspects of labour market can give a more comprehensive outlook.

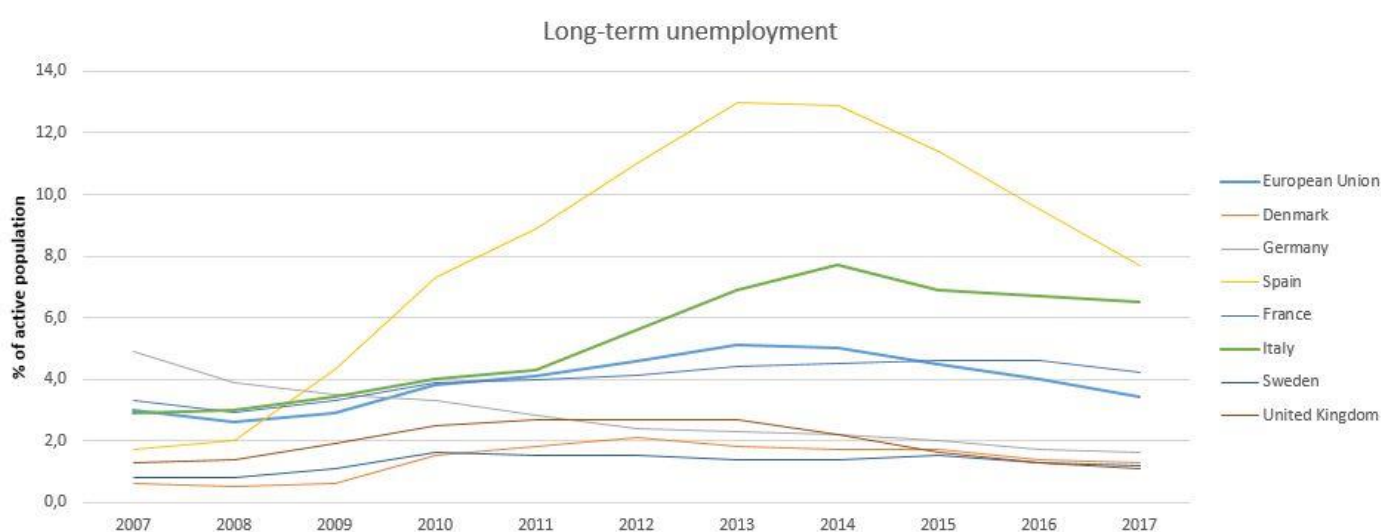


Figure 2 – Long-term unemployment as share of active population (2007-2017)

Source: Eurostat

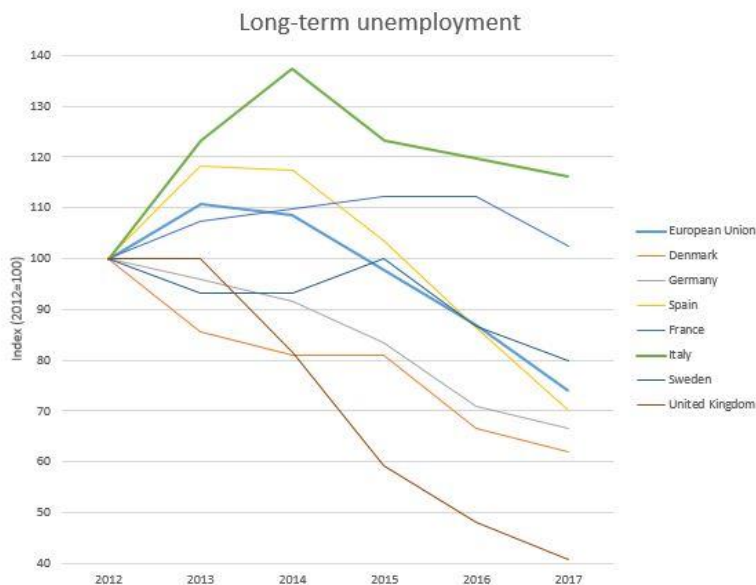


Figure 3 - Indexed long-term unemployment share (2012=100)  
Source: Eurostat

decrease took place, in Italy this did not happen. This trend is indicative of Italian difficulties of exit from recession.

The second aspect is given by youth employment. In this case the starting position of Spain and Italy was different, because the latter was above the EU average. A rapid diminishment in Spain during 2009-2012 led it to the Italian levels, as showed by Figure 4. At the same time for this case too, Spain after 2012 has proven better response to new expansive phase of European economy, while Italy remained stuck in one of the last positions in Europe.

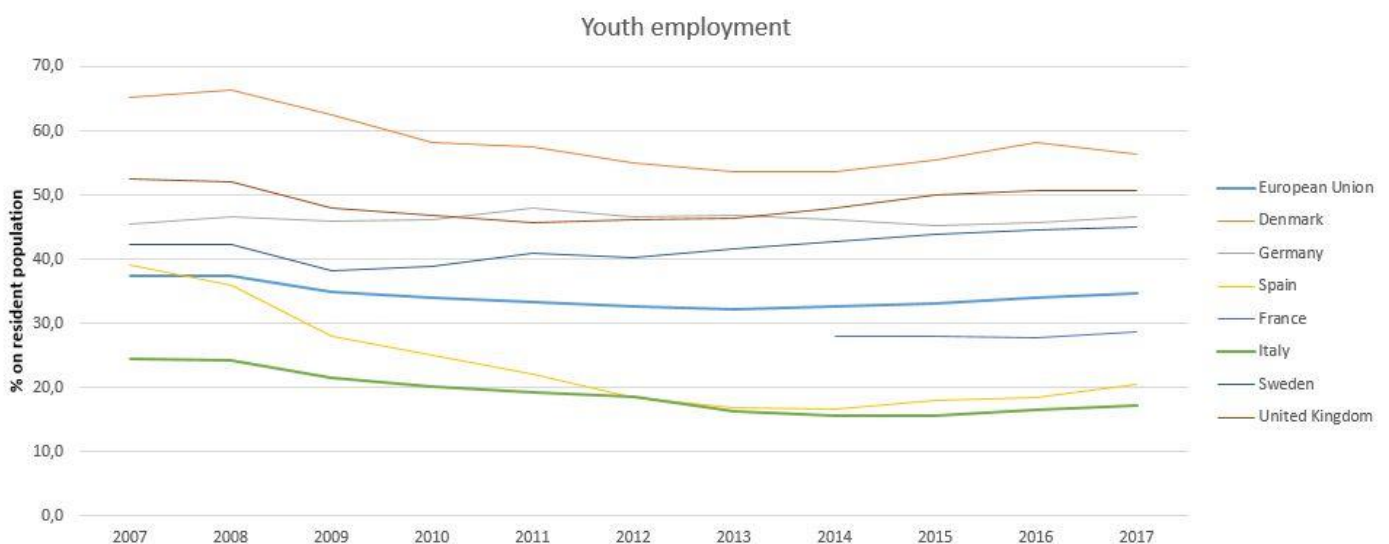


Figure 4 – Youth employment as share of active population (2007-2017)

Source: Eurostat

The last aspect is female employment: this factor, together with youth unemployment, are the real pain in the neck of Italian economy. Also in this case, Italy is at the bottom among European states: In 2007 Italy was the last country, with 46.6% of employment, above only Malta. The percentage remained almost flat, also after

the starting of positive economic phase: it increased between 2007 and 2017 of only +5.9% and +5.4% from 2012 to 2017. This last indicator is one of the lowest in Europe, above only, Netherlands, Denmark, Finland and Austria. Anyway, these countries had all rates upon 65%, while Italy was stuck at 47.1%, the worst performance except for Greece.

Italy, after the financial crisis of 2008 and spread crisis of 2011, had worsen its economic conditions. In this context was approved Jobs Act, a comprehensive labour market reform exposed in Chapter 2, which had the intent to introduce external flexibility, lowering employment protection, enhance employment growth and boost productivity. Due to the novelty of the reform approval, economic literature is extremely scarce. Anyway, a couple of important studies can light up on the real effects of Jobs Act. The first important study is produced by OECD (Jin and Lenain 2015). According this Working Paper, the broad orientation of Jobs Act policies seems to be effective reforming labour market and contrasting dualism, which is also in this case considered the main cause of Italian poor performance problem. The extension of social benefits and the stringency of their requirements are also a good tool to strengthen incentives to work. Finally, wage flexibilization can introduce the possibility to hook better with business cycle and respond quickly to productivity changes, enhancing employment growth. Anyway, no empirical analysis is provided.

Another empirical analysis tries to give a positive response to the topic of labour market dualism (Boeri and Garibaldi 2018). Boeri and Garibaldi analyzed the trend in size of firms and new contracts hires between January 2013 and December 2016 in sample of companies between 10 and 20 employers, to catch better the effects of new contractual form, which was available only for firms above 15 employers (in this case the *Contratto a tutele crescenti* – CTC is called “graded security contract”). Using a difference in differences method, regression was made among smaller firms, which was the control variable, and treated larger firms. The propensity to hire with open ended contracts is 60% more in larger firms. Similar method is used in another study (Sestito and Viviano 2016). In this case, regression models are also used to distinguish which part is more significative for the increase in new hiring with open ended contracts: the fiscal subsidies introduced with the law, or the new firing regulation. In this case is found that a major role has had the subsidies brought together with the approval of the reform. They counted for 40% of new total gross hires, while the new firing rules counted only for 5%. Anyway, no study has an insight on the correlation between employment growth and the labour market reform.

The disapproving voices are even less, but one of the most influential evaluation of jobs act is given by Laboratory of Economics and Management – LEM of *Scuola Superiore Sant’Anna* (Fana, Guarascio and Cirillo 2015). Fana et. al. also identified three main historical problems relating to the Italian economy: the low women employment rate, the high youth unemployment rate and the North-South economic divide. Those three main aspects did not improve with the approval of Jobs Act, as we also have mentioned previously. In addition, the main explanation to employment increase is due to the economic subsidies and a new policy

ignored in previous studies: Youth Guarantee implemented in 2014. In this framework, the new contractual form had a very little role in promoting employment.

Finally, analyzing the data provided by the Ministry of Labour, is clear that the contrast to job insecurity had not significant effects. Studying a variable already used in previous papers on Spanish reform (Horwitz and Myant 2015, 24), are reported in Figure 5 the share of fixed term contracts on total new contracts from 2011 to the end of 2017: except form the last three months of 2015, at the end of monetary contributions, the share of temporary contracts has not decreased.

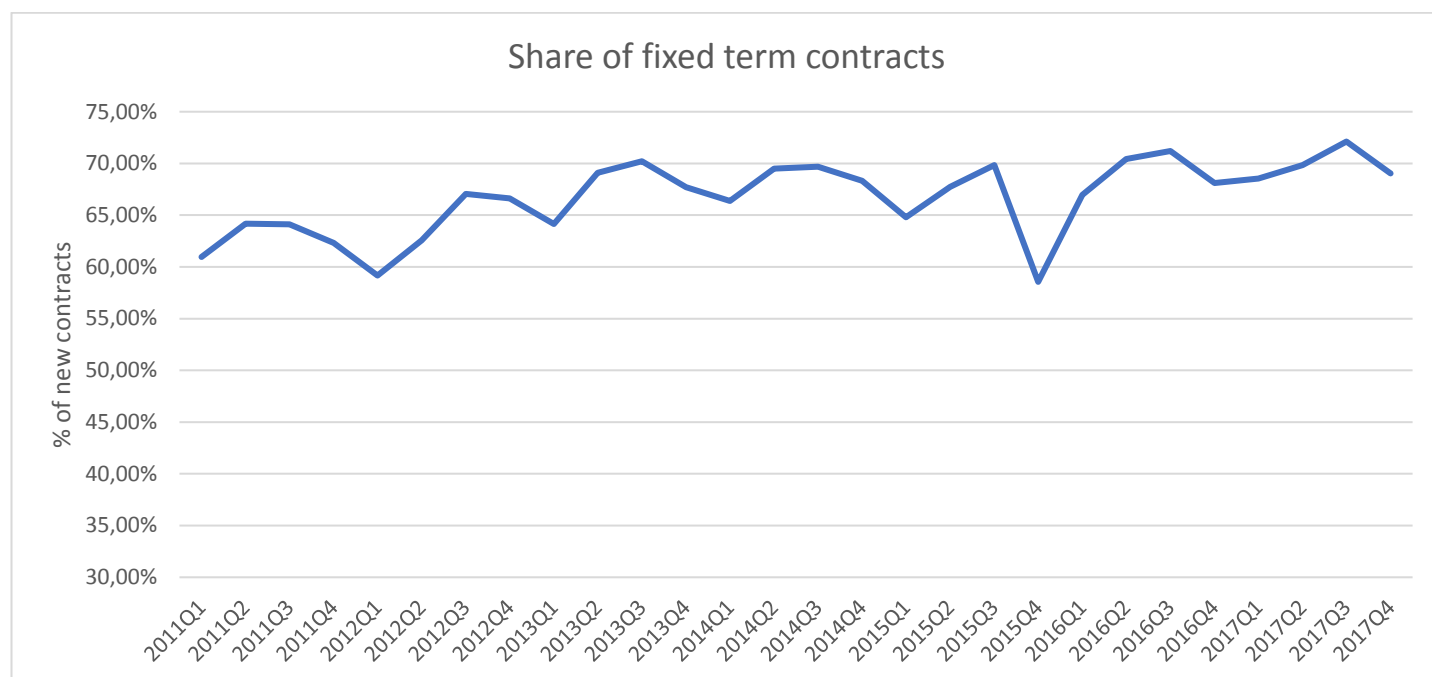


Figure 4 – Share of fixed term contracts on all new contracts (quarterly data 20011-2017)

Source: Ministry of Labour

## CHAPTER 4 – DEREGULATION IN EMPLOYMENT PROMOTION

### *4.1 An initial exploration on Beveridge curves*

In the previous discussion we made a comprehensive outlook of juridical and economic debate over the main labour market reforms, from middle '80s until recently, with specific focus on Hartz package in Germany, Rajoy reform in Spain and Jobs Act in Italy. In Chapter 1 were reviewed the main economic theories on insider-outsider labour market, highlighting the rationale behind the claim for deregulation. Those theories, sustained by a large empirical literature (Nickell 1997), inspired the main measures adopted by developed economies from '80s. Then were exposed the main contrasting analysis on the effectivity of such reforms, especially in the relationship between labor market rigidities and unemployment. The analysis highlighted that, despite many theoretical provisions, the empirical evidence between deregulation and increase in employment is weak.

For better understand such link, can be useful apply current data on Beveridge curve scheme. Beveridge curve comes from the work of two British economists, Dow and Dicks-Mireaux (Dow and Dicks-Mireaux 1958). In their economic research, they tried to evaluate excessive demand in goods markets: because of the absence of a single indicator, they used unemployment and its relationship with job vacancies. They found that vacancies and unemployment move around a downward sloping curve in an unemployment-vacancies space. This means that in downturn cyclical phases there is a low degree of vacancies and high unemployment, while during cyclical expansion coexist high vacancies and low unemployment. Anyway, the real interest of the two economists was the diminishing return of fiscal expansionary policies: while they have massive effect on employment during economic downturn, during cyclical upswings increase in job demand (vacancies) has very little effect on unemployment decrease. However, the recent most spread use is different, and related to the analysis of three different types of unemployment: frictional, structural and deficient demand unemployment (Brown 1976). The last case is due to cyclical downturns, as the opposite case (an increase in vacancies and a decrease in unemployment on the same curve) is because of the same process. The first two are instead due to market mismatch between demand and supply and are usually associated with shifts of the entire curve towards the origin (better market conditions) or away from it. Frictional unemployment is more related to market mismatch, while structural unemployment is more concerned to the crystallization of such mismatch, resulting in higher long-term unemployment, human capital depletion and less investment.

In this final chapter will be designed three Beveridge curves with latest data from Germany, Spain and Italy. With this analytical instrument we will try to evaluate the real effect of deregulation in labour market, distinguishing unemployment trends between frictional, structural and cyclical joblessness. Using data until the end of 2017 real effects can be better estimated thanks to a wider temporal window, never adopted in recent literature. The most interesting graph is the Italian one, showed in Figure 1.

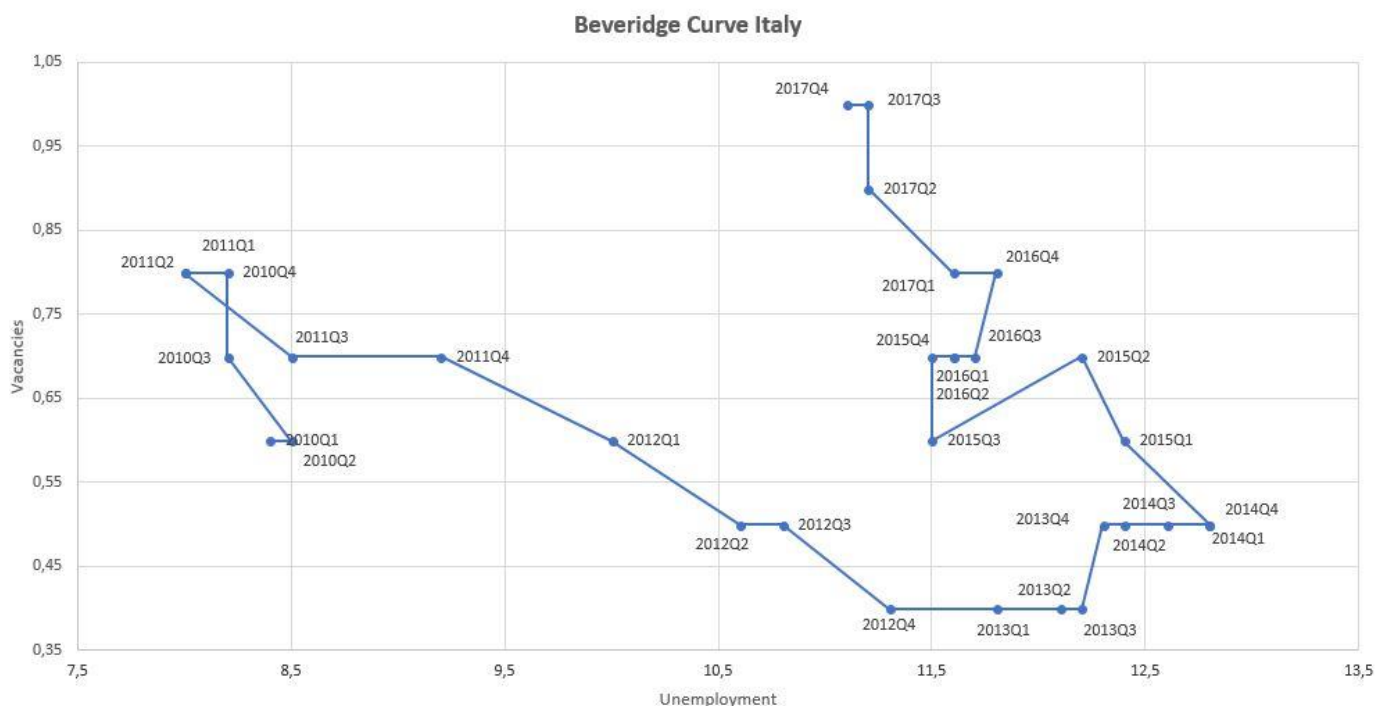


Figure 1 – Beveridge curve: Italy (quarterly data 2010-2017)

Source: Istat & Eurostat

Data covers 7 years from 2010 to 2017, are divided quarterly and the main source is Eurostat for Unemployment levels, while vacancies are provided by Istat. We can identify 4 main phases: the first one is during 2010 and is characterized by a cyclical upturn. This trend is confirmed by GDP growth data: during 2010 Italy's GDP growth was only -0.5% from EU average, while the long-run level is -1.5% under<sup>1</sup>. From the beginning of 2011, starts a long cyclical decline, characterized by declining vacancies and rising unemployment, until the end of 2012, when starts to emerge a real worsening of labour market conditions. The third phase, from first quarter of 2013 until the end of 2014, is characterized by a strong rise in frictional and structural unemployment: at the end of a relatively long downturn cycle, unemployment did not start to decline, but continued rising and vacancies remained low. From beginning of 2015 a new phase seems to emerge: unemployment started to decline, and vacancies goes up, appearing as a new phase of cyclical upturn since 2010. The first steps of this trend coincide with the implementation of Jobs Act, but in the graph does not emerge a shift of the curve towards the center, that should signal an improvement in labour market conditions. That shape is rather more like a new curve, classical during economic cyclical upswings. Also data on GDP growth confirms this explanation: from 2014 aggregate output goes out from stagnation and start increase at an annual rate of 1/1.5%. In this interpretative framework, Jobs Act has no role in unemployment declining rather than GDP growth: just from middle 2015 to middle 2016 this cure seems to bend toward the center, and this period coincide with subsidies for hiring. In this framework, the only real effect is constituted by monetary contributions. Despite the real clear situation of the Italian UV graph, Germany and Spain has more complex results.

<sup>1</sup> Source: World Bank, own calculation



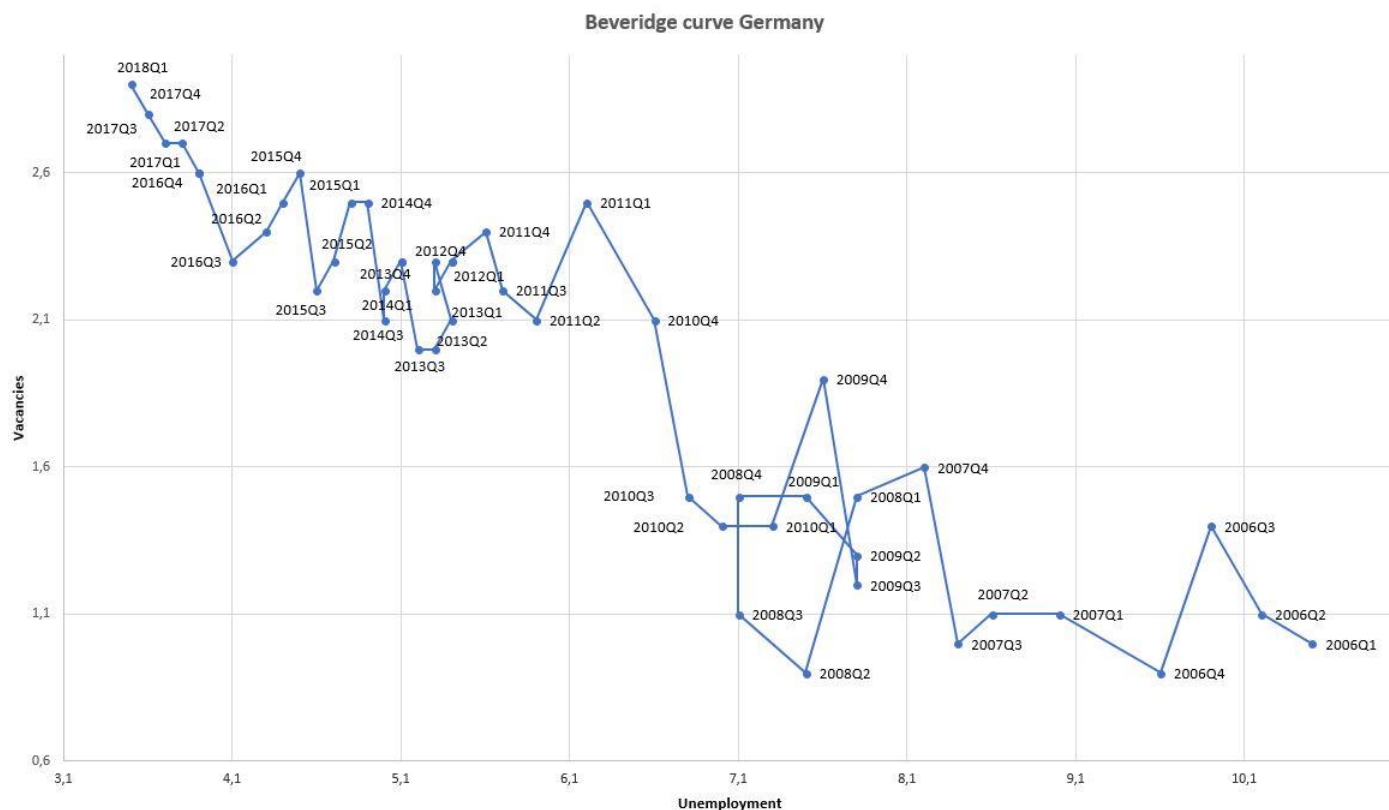


Figure 2 – Beveridge curve: Germany (quarterly data 2006-2017)

Source: Eurostat

Figure 2 shows the Beveridge curve designed from German data about labour market from 2006, when occurred the last part of implementation of Hartz package, until the first months of 2018. In this case data are all provided by Eurostat. The curve has a design less clear, anyway some conclusion can be traced. The period is longer because of the approval of the reform, quite older than the Italian one. The general trend seems to be a prolonged period of cyclical expansion: Germany for last 10 years had an almost steady increase in vacancies and decrease in unemployment. Anyway, in the period between 2006 and the end of 2007 the shift is flatter along the horizontal axis.

This pattern, according the classic theorization of Beveridge curve, reveals decreases in structural unemployment, and so an improvement in labour market. Unfortunately, the absence of previous data cannot make possible a comparison with labour market performance before Hartz package, anyway, this shift, triggered right after the promulgation of Hartz IV, seems to be related to that reform.

In this sense Hartz reform seems to have a good effect on labour market, increasing incentives on long-term unemployed for job searching, helping match between labour demand and supply, and securing existent jobs. Anyway, it is also necessary to report that economic literature shows that shifts in Beveridge curves can have many causes (Börsch-Supan 1991). The last study case is Spain, whose Beveridge curve is presented in Figure 3.

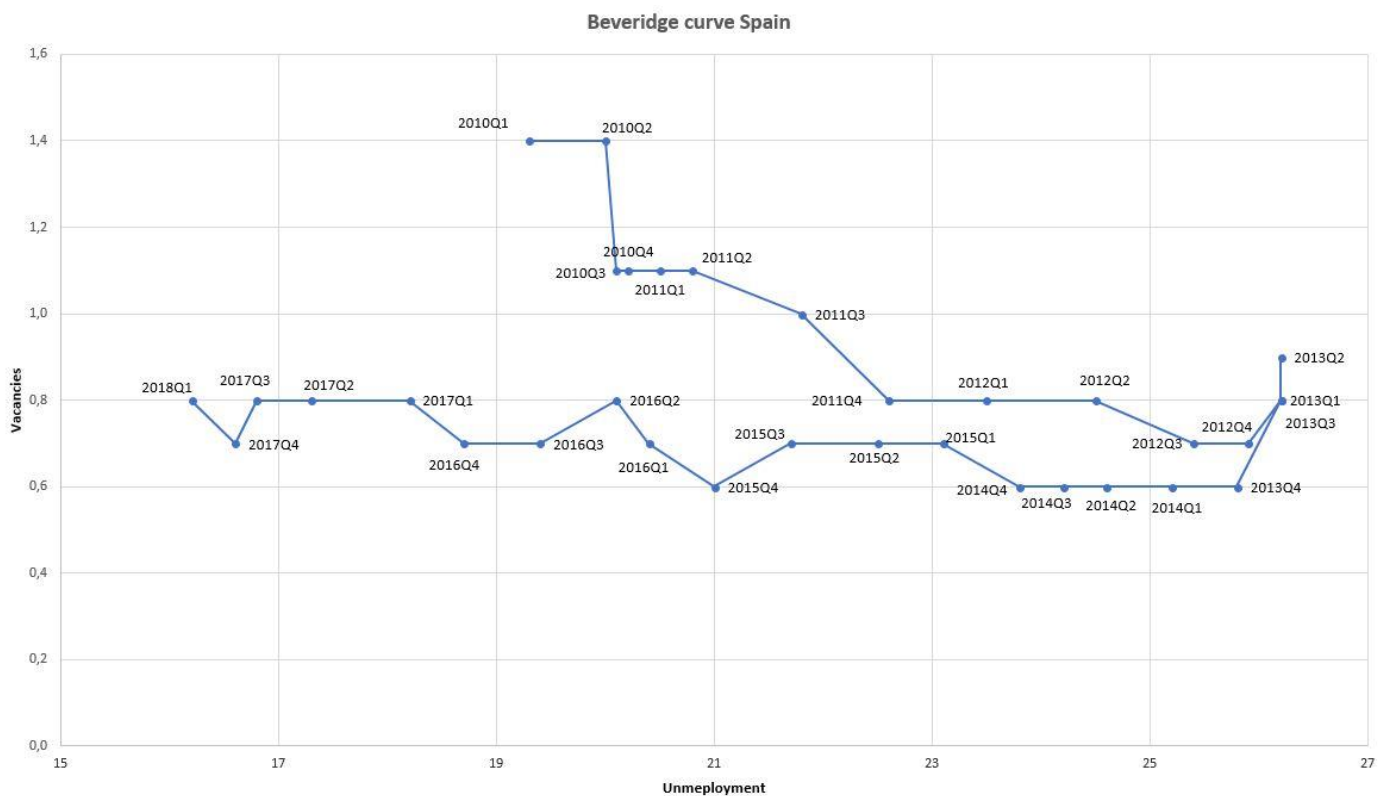


Figure 3 – Beveridge curve: Spain (quarterly data 2010-2017)

Source: Eurostat

Spain's Beveridge curve is more like the Italian one, but with the difference that in this case the curve makes a shift towards and not away from origin. During the beginning of 2010 Spain seems to be at the top of the curve that is drawn from 2010 to 2013. Anyway, reality is quite different: between 2001 and 2008, unemployment in Spain was on average 10.1%. From the last months of 2008, started a long increase in unemployment rate, without a change in vacancies, as cyclical turns have taught should be. This flat trend stopped just at the beginning of 2010: from 2008 to 2009 vacancies remained stable at average 0.7%, half of the level registered in 2010. This sharp increase can be due to a brief economic recovery. Anyway, from 2011 Spain turned back to recession, and this fact is mirrored in Beveridge curve: trend start to decrease following the cyclical path. Anyway, after 2008-2010, this pattern shifted on unemployment axis on average of +12%. Only after 2013 a quite flat track towards origin, with steady declining unemployment and almost no effect on vacancies. This last phase would suggest a sharp improvement in market labour. Anyway, this change does not seem to be correlated with Rajoy reform, which was approved during 2012, at center of a declining phase. This behavior seems to follow better GDP growth rate: only from 2014, like in Beveridge curve, Spain started experienced positive growth rate, until recent astonishing performance<sup>2</sup>.

As was seen, only from Germany we can detect a real improve in relationship between unemployment and deregulation: in literature review this link is not so clear, and many scholars have written arguing that more than lowering employment protection, for boost employment and consequently productivity is needed growth.

<sup>2</sup> Source: Eurostat, own calculations

The first commonly cited book is from Tito Boeri and Jan van Ours (Boeri and Ours 2008). In Chapter 10, the authors faced the issue of Employment protection. They started by the definition and measurement of employment protection. Afterwards, is provided an overall framework of trends in EPL index from '90s to first years of 2000s: some convergence among states on EPL had occurred, but mostly thanks to reforms of temporary contracts. This mechanism led to dual track deregulations: reforms were made at margins for new hires, while the position of the incumbent workers remained unchanged. Then, are designed two models of different environments: one in which EPL is 0 and one where strict rules are applied. The results are that average employment levels are the same. More generally, in countries where EPL is lower (in this paper called "Flexiland") employment fluctuates more. With risk-neutral agent, Flexiland would be more efficient but if workers are considered risk-adverse (as more probably it is in reality), in this case employees are better off in countries with high EPL (in this paper called "Rigidland").

Then Boeri and Ours analyzed the effect of deregulation at margins. In this case would occur what they call "the Honeymoon effect on employment": flexibility on temporary contracts would create a sort of "buffer stock" of fixed-term new jobs. The positive effect on employment is transitive and fades away when those contracts will be fully replaced by permanent ones. In this study, flexibilization and especially flexibilization at margins is considered not effective in reducing unemployment. The last part is dedicated to a natural experiment on firm size, similar to the method used in the previous study to verify the effects of Jobs Act (Boeri and Garibaldi 2018). In this natural experiment is found that enforcement of EPL is casually related to unemployment and not the opposite: for example, judges are more protective with workers in depressed labor markets. This can explain, according to the author, the loss of strict correlation between unemployment and employment protection, because of problems of reverse causality.

Olivier Blanchard himself had to retreat about correlation between employment protection and unemployment (O. Blanchard 2005). In this work, the main inspirator of insider-outsider theory, starts from a general review of historical facts, especially focusing on the explosion of unemployment during late '70s, and presenting main basic correlation, as employment and participation rate, or youth and overall joblessness. Then identified two main shocks that triggered job loss, which was oil price crisis and productivity slowdown. In this situation, only a sharp decrease of real wages would stop unemployment rise. This restriction did not happen because of rigidities on real and nominal wages, as theorized for the first time by two important economists (Bruno and Sachs 1985). This trend stopped only during '90s, when started the academic and political debate over the role of institutions in labour market. However, last data imposed a further move of the current academic studies on the focus again on external shock, not related to institutions. Preserving the main findings of his theory, the French economist had anyway to admit that

<< differences in employment protection seem however largely unrelated to differences in unemployment rates across countries>>

and that

<<What is important in essence is to protect workers, not jobs>>.

Further empirical studies seem to be in line with such statements on GDP growth (Brancaccio, Garbellini and Giammetti 2017). According to Brancaccio et al., was found no statistical positive impact between decreasing EPL, employment and GDP growth, while a direct effect of protection dismissal is measured on decrease in wage share: a decrease of 0.4 points in EPL index is associated with a negative change of -4% in the latter indicator during the following five years. For the authors, such findings cannot be explained by mainstream economic theory, according which change in income distribution can interact with growth. According to a competing paradigm, developed firstly by Italian economist Piero Sraffa (Sraffa 1960), distribution of income and production are not related: the first aspect is determined by institutional and historical factors, while the second one is related to more contingent factors. In this sense, being EPL an institutional factor related to historical evolution in the bargaining power of social parts, it is completely coherent its effect on income distribution, and the subsequent poor effect on employment and GDP growth. This does not mean that the two sides of the economy are strictly uncorrelated, but on the other hand is wiser to reject also the strict correlation, and the subsequent statement that labour market reforms can stimulate productivity, employment and growth (Kurose 2013). The thesis that will be exposed subsequently try to evaluate, away from the issue of income distribution, a more precise and comprehensive outlook on relationship between deregulation and unemployment.

#### *4.2 Deregulation: effects on levels or structure?*

As mentioned several times in the previous section, the link between deregulation and unemployment levels is weak. Labour market reforms did not obtain reasonable effects on employment promotion, despite their general purpose was that too. This can be explained by heterodox economic theories with the distinction between institutional and distributional logic on one hand, and the employment and productive logic on the other one. Anyway, also the most radical thesis cannot deny in some way an effect of deregulation on the productive trend. According to a wide literature (Scarpetta 1996) the real effect of deregulation is “at margins”: these types of measures have a real force on employment promotion of specific sectors of labour markets.

Taking inspiration from the work of Esping-Andersen et. al (Esping-Andersen and Regini 2000, 89), can identified some major trends: such policies of deregulation seem to change more the flow of unemployment rather than the stock. Making dismissal of core workers easier and hires effortless, this characteristic enhance dynamism in labour market, expanding the levels of flow out and in new jobs. Given as stable the level of unemployment, the flexibility in labour market has effects which can help a specific type of employees: youth and low-skilled. Those two types of workers are the real recipient of deregulation: expanding the dynamism of labour market is made easier to enter in it, while strict employment legislation can harm seriously such possibility. Can be said that in case of high or relatively increasing unemployment, the burden of job loss can

disproportionally go to low-skilled and young workers in case of high employment protection. For this reason, deregulation can be considered a form of redistributive policy, because it realigns the share of unemployed workers, distributing the weight of economic shocks more equally on core and outsiders. Anyway, this does not solve the problem on joblessness: as mentioned several times yet, if hires are less complicated also firings are more available, and that means that in case of external events the stock of jobless workers will increase even in a flexible market. This also explains the great increase in unemployment lived by Western countries during '80s, more linked rather than to rigidities with several complementary factors, like the mass deindustrialization and exit from agriculture not sided by equivalent absorption in service sector (Glyn 1995).

More specifically, distinguishing different types of regulations, social benefits and minimum wages are more effective on low-skilled workers, while protection against dismissal is more linked to youth employment. Finally, a central role is played by institutions too. According to Esping-Andersen et al., a good institutional precondition to tackle better with youth bias, that is lower levels in youth employment, is the presence of strong bargaining structures, with high unionization and coordinated negotiation strategies. Centralized bargaining can improve supportive mechanism and a more general trend of wage equalization among sectors and age classes, characteristic that can dampen severe periods of economic shocks.

After the recognition of real trends and effects of deregulation, is now provided a brief section of policy recommendations to promote employment: more than labour market reforms, especially in periods of low or negative growth, must be used a bulk of different policies more directly aimed at the creation of jobs.

#### *4.3 Policy recommendations for employment promotion*

Even if labour market reforms can be considered a policy of social justice, because distribute the burden of economic shocks more equally between precarious and core workers, this policy has very weak links with employment promotion. Full employment was at base of Western economic expansion during the post-WWII period, and the enhancing of such condition made possible the creation of solid Welfare states, especially in Continental Europe. Anyway, after 1973 this system started to collapse, especially after Yom Kippur War and the subsequent Oil crisis. In order to stop inflation generated by Oil embargo, started the rise of unemployment and monetary contraction, which soon spread from US to all Europe. From that point, full employment did never reappear in Western economies. A subsequent wave of deindustrialization, badly absorbed by service sector, prolonged this trend until during '90s was decided to intervene addressing the so-called rigidities in labour markets. Anyway, also these measures appeared weak. Are now presented some measures that according to economic literature can be effective to promote employment.

In this case some proposal is provided another time by Olivier Blanchard (O. Blanchard 1999). According to the French economist, a great role especially after '80s in Europe was played by the coordinated presence of high interest rates and macroeconomic strict fiscal policies. Citing his work:

<< higher interest rates and tight macroeconomic policy contributed to higher equilibrium and actual unemployment >><sup>3</sup>

In this sense, an explanation also for the rise in European unemployment after 2008 and especially during 2011 can be explained with the austerity policies, which were mainstream in European consensus until the introduction of Quantitative Easing in 2011 by ECB governor Mario Draghi (Krugman 2013). In those years seminal works by Alberto Alesina (Alesina and Ardagna 2009), and other studies by Carmen Reinhart e Kenneth Rogoff (Reinhart and Rogoff 2010) focused on the possibility of economic expansion in cases of fiscal restriction, also in critic economic environments. This thesis drove the first “Memorandum of understanding” which dictated economic conditions to European countries in economic trouble during the first financial crisis of 2008.

Following this outlook, the first and most effective response for promote employment and development is fiscal expansion, especially in period of low or absent GDP growth. Most reliable literature on political economy of development (Rodrik 2007) highlights the necessity of a kick-start strategy, led by public investment, for promoting development take off. Of course, to stabilize and prolong economic expansion must be taken also institutional reforms that hold in the long run the beneficial effects of triggering policies, but at first glance is fundamental a kind of economic stimulus.

Other policies are related to the possibility for women to access to labour market. The very low rate of women employment, especially within Southern countries, are a threat to unemployment erosion and economic growth prior than a question of justice. Policies that solves this problem are primarily important: one example can be the possibility of universal affordable child care. Radical flexibilization and massive deregulation on wages have no or counter-productive effects on unemployment. Being unemployment bias concentrated among specific groups of society (youth, low-skilled or women) according to Esping-Andersen can be useful the adoption of targeted policies, like the previously cited plan on child care. Other measures can be specific subsidies in favor of youth hires, or active training and job search assistance directed to low-skilled unemployed. Also early retirement, albeit very costly, researches have proven they are also extremely effective in better off youth employment (Esping-Andersen and Regini 2000, 106).

Another proposal made mostly by post-Keynesian economists can be the Job Guarantee. According to heterodox economists like Tony Ramsay and many other scholars like William Mitchell and Randall Wray, the main aim of such policy is enhancing full employment by the adoption of insurance scheme that can guarantees a job to every unemployed people through the public intervention (Mitchell and Wray 2005). According to the advocates, this policy cannot trigger inflation, which is the main criticism by mainstream economists, because the state always has the power to control through stimulus the ratio of employees that are in the private labor sector through managing the quota of unemployed covered by Job Guarantee. For such

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<sup>3</sup> Quoted above, pp. 11

economists this is sufficient, because the real determinant of inflation is the proportion previously cited. Anyway, also rejecting the most radical proposal, a targeted policy for youth unemployment guarantee can prove to be extremely effective.

## CONCLUSION

Here are summarized some findings and some important elements from the dissertation. Our aim was to investigate about the relationship between labour market reform and employment levels, and in order to make such analysis we proceeded as follows:

In Chapter 1 were exposed firstly the main analytical instruments useful for the investigation of labour market. This kind of market can be characterized by 4 features: employment protection, working time regulation, wage determination and social benefit scheme. Also 4 main types of flexibility were identified: functional and numerical flexibility, related to employment protection, temporal flexibility, related to the second feature and wage flexibility, related to the third one. Afterwards, were provided the main economic theory about deregulation: after a brief historical outlook, the insider-outsider theory and NAIRU theory were told as the inspirators of reforms adopted during '90s. Finally, was justified the choice for Germany, Spain and Italy: starting from a deep analysis of Italian welfare state, the author had to enhance the analysis trying to study Germany, which has a very similar commercial structure but different economic performance, and Spain, which has similar economic performance and welfare state but different commercial outlook.

In Chapter 2 a wide review of legislative measures in those three countries was presented. It started from Germany and its basic mechanism of labour market, with a focus on the characteristic presence of Works Councils. Deregulation process in Germany started from Employment promotion Act of 1985 and reunification economic measures after 1990. A more interested focus was posed on Hartz reforms. The first part of Hartz reform (Hartz I) provided a reorganization of Personnel Service Agencies, the enhancement of vocational training by German Federal Labor Agency and a wide liberalization in legislation on temporary work programs. The second part introduced subsidies for one-person companies, extended layoff rules to firms up to 10 employees (dismissal rules were already extended in 1996) and introduced mini-jobs and midi-jobs. The third part restructured the Federal Employment Agency and the fourth and last part unified unemployment and social assistance in just one scheme for able-bodied people. Afterwards it was the turn of Spain: also in this case all started with the presentation of basic labour relationships, with a brief attention on dictator Franco's period. Before the most interesting reform, the Rajoy reform of 2012, was also reported previous measures like the liberalization of fixed term contracts of 1984. Relating to 2012 reform, the first aspect concerns wage determination: priority was given on collective firm level bargaining rather than provincial level. In addition, the reasons for fair dismissal were extended and was introduced a new form of contract, the *Contrato de Apoyo a Emprendedores*. Finally, Italy received the same treatment, with a brief dissertation on main labour market mechanisms and the presentation of main reforms: 1997 Treu Package, 2003 *Legge Biagi* and 2014 Jobs Act. The main topic from Jobs Act was the introduction of a new standard employment contract: *Contratto a tutele crescenti* – CTC, a new contractual form with less rigid dismissal protection. In addition,



unemployment benefit system was reformed: ASpI and Mini-ASpI were merged in a new universal insurance scheme for all workers, called NASPI.

In Chapter 3 was the turn of economic debate: firstly was treated the German labour market conditions. According to the advocates of Hartz reforms (Krebs and Scheffel 2013), these measures was the core of subsequent German economic competitiveness and had a great role in helping Germany to tackle 2008 economic crisis. According to critical scholars (Odendahl 2017), the reform package did not help competitiveness, boosted by other factors, but the only real outcome of such policies was the creation of a large low-wage sector. According to Odendahl, the real factors of German miracle are three. The first one was the surge of industries in emerging economies, with their demand of machineries. The second factor was outsourcing in Eastern European countries and last point was the end of a pluriannual crisis in construction sector. Passing to the Spanish case, the real aim of all market regulation was the elimination of market fragmentation and dualism. While OECD (OECD 2013) reported a positive effect on such dynamics, other scholars (Horwitz and Myant 2015) presented empirical evidence that showed a weak effectiveness. According to Horwitz and Myant, from data seems that the main strategy pursued by employers during the crisis is still dismissal rather than time reduction, an alternative policy explicitly requested by legislator of 2012 reform. In addition, checking employment statistics of the weakest workers, long-term unemployed and youth, characteristic of dualistic labour market, no real improvement is detected. Finally, even if Italian debate is less developed because of the novelty of the reform, anyway it was accounted the different position of advocates (Jin and Lenain 2015, Boeri and Garibaldi 2018) and critics (Fana, Guarascio and Cirillo 2015). For the critics of the Italian reform, the duality that also the Italian labour market has, was not solved by this reform: the low women employment rate, the high youth unemployment rate and the North-South economic divide had no statistical improvement. According to this point of view, employment increase is due to the economic subsidies and a new policy ignored in previous studies: Youth Guarantee.

In last Chapter 4, a more precise analysis tried to answer to the final question: have labour market reforms enhanced employment? To answer to that question was designed three Beveridge curves for the three case studies, and empirical evidence showed that only for Germany can be found a real positive effect in diminishing structural employment. Afterwards, were reviewed the main economic contributions in debunking the link between deregulation and employment, some of them also highly considered like Olivier Blanchard (O. Blanchard 2005). The main statement about labour market deregulation is that it does not have any direct link with employment levels, but with employment structure: in case of unemployment rise, the adoption of deregulation policies makes possible the distribution of joblessness burden better to core and temporary workers instead of only fixed-term ones. Anyway, it doesn't seem it can promote growth and stable hires. This last thesis brought us to the last part of dissertation, in which were reported main policies widely recognized to promote job creation: targeted subsidies and light early retirement for young people, child care for women

participation in labour market, job training and job search assistance for low-skilled workers. More general the greatest claim was for state economic intervention.

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*Capitolo 1*

In una breve introduzione sono stati esplicitati gli obiettivi e gli argomenti dell'indagine: fine ultimo della dissertazione è capire i meccanismi che legano deregolamentazione sul posto di lavoro e rafforzamento dell'occupazione. Nel primo capitolo ci si è dedicati in prima battuta ad una categorizzazione del mercato del lavoro. Secondo un framework ampiamente utilizzato (Esping-Andersen e Regini 2000), si possono distinguere quattro categorie principali per analizzare i cambiamenti nel suddetto mercato. Tali categorie principali sono: tutela dell'occupazione, regolamentazione dell'orario di lavoro, meccanismo di determinazione dei salari e sistema di welfare lavorativo. Le norme in tema di tutela dell'occupazione sono fondamentalmente legate alle rigidità nelle assunzioni e nei licenziamenti. Un indicatore ampiamente utilizzato che misura la suddetta tutela è l'indice EPL dell'OCSE. Nonostante la principale distinzione tra gli stati in tema di tutela è comunemente intesa tra paesi anglosassoni e quelli appartenenti all'Europa continentale, la vera e forte distinzione è all'interno dei regimi europei. Infine, in tema di tutele occupazionali può essere intesa una doppia flessibilità: spesso si distingue tra flessibilità numerica e funzionale. La flessibilità numerica è interpretata come possibilità di adeguare il numero di lavoratori al ciclo economico, mentre la flessibilità funzionale può essere definita come la capacità dei datori di lavoro di riallocare quest'ultimi ad altre mansioni. la seconda parte del suddetto framework è dedicata alla regolamentazione dell'orario di lavoro (Grubb and Wells 1993). Per la regolamentazione dell'orario di lavoro si intendono tutte le disposizioni legali stabilite per regolare la quantità di ore lavorate da un dipendente in un'impresa. Tali regole sono solitamente stabilite da contratti collettivi, ma in questo caso, la legislazione europea ha un ruolo importante. Nel contesto del pilastro europeo dei diritti sociali infatti, una parte importante è dedicata alla direttiva sull'orario di lavoro (Directive 2003/88/EC). La terza forma di flessibilità, dopo quella funzionale e numerica, è comunemente denominata flessibilità temporale (Adam and Canziani 1998), ed è la possibilità di armonizzare la quantità di lavoro in base alla domanda congiunturale. Il terzo elemento costitutivo del mercato del lavoro è la contrattazione salariale e l'insieme delle leggi e degli accordi che contribuiscono alla fissazione delle retribuzioni. La determinazione del salario è fortemente connessa al sistema di relazioni industriali. Questa relazione è regolata principalmente attraverso accordi tra organizzazioni padronali e sindacali. L'ultimo aspetto delle relazioni del mercato del lavoro riguarda le indennità di disoccupazione e l'assicurazione sociale. Nell'ambito di questa ampia categoria sono trattati diversi aspetti dello stato sociale europeo. Per distinguere i diversi sistemi di welfare lavorativo, possiamo fare affidamento alla classica distinzione triplice degli stati sociali (Esping-Andersen 1990). Il sistema scandinavo è il più generoso dei sussidi di disoccupazione, l'Europa meridionale è invece il meno progredito in questo campo, mentre nei paesi anglosassoni è attivo un sistema più simile a quello scandinavo e centro-europeo, anche se con percentuali retributive sensibilmente inferiori e requisiti molto più ristretti.

Nella seconda parte del primo capitolo, sono state presentate le principali teorie economiche che hanno ispirato il dibattito politico sulla deregolamentazione nel mercato del lavoro. Partendo dalla relazione teorizzata da Alban William Phillips in un paper molto famoso (Phillips 1958), si è passati al caso degli anni '70, in cui negli Stati Uniti (e nella maggior parte dei paesi occidentali) ha avuto luogo un periodo prolungato di alta inflazione, sostenuta da un tasso di disoccupazione stagnante o crescente. Questo fenomeno prese il nome di stagflazione. Fu quindi teorizzata l'esistenza di un tasso di disoccupazione di inflazione stabile (NAIRU): se il tasso di disoccupazione in un determinato periodo è inferiore al NAIRU, l'economia non sperimenta inflazione, bensì un aumento del suddetto tasso. Secondo questa teoria, per stabilizzare l'inflazione è necessario mantenere la disoccupazione appunto sul NAIRU. Infine, dagli anni '80 emerse un nuovo meccanismo chiamato "isteresi della disoccupazione". Questo processo emerge quando, per colpa di shock esterni, il tasso di disoccupazione subisce un breve periodo di crescita e successivamente non riesce a tornare a livelli più bassi, anche dopo la ripresa. Quest'ultimo aspetto è stato attribuito da Blanchard agli effetti della teoria "insider-outsider" e alle rigidità del mercato del lavoro. Questa teoria ha rappresentato la principale ispirazione per la deregolamentazione degli anni '80, '90 e successivi. Questa teoria in realtà ha molte critiche: molti economisti si sono opposti all'idea di rigidità del markup, in quanto una diminuzione del profitto può avere luogo per arrestare l'aumento dei prezzi, specialmente in caso di inflazione prolungata. D'altra parte, è fortemente discusso il ruolo della produttività.

Nell'ultima sezione del Capitolo 1, sono stati esposti i motivi per la scelta dell'Italia, della Germania e della Spagna. La prima opzione è stata per l'Italia, il paese d'origine dell'autore. Lo scopo originale era elaborare un'analisi dei cambiamenti dello stato sociale nazionale e della sua tutela occupazionale. In seconda battuta, è emersa la similitudine tra Germania e Italia in termini strutturali, e allo stesso tempo l'opposta performance economica. I due paesi hanno strutture produttive simili, dato che condividono esportazioni ed importazioni. Nonostante alcune caratteristiche comuni però, la performance economica è stata l'opposto: dopo il 2008, si è infatti verificata una vera e propria divergenza. In relazione alla Spagna, devono essere considerate le somiglianze italiane nello stato sociale e nelle istituzioni del mercato del lavoro (Esping-Andersen e Regini 2000, 50-51). Entrambi i paesi condividono una bassa percentuale di lavoro part time, l'alto grado di rigidità in tema di tutele, e la scarsa spesa per le politiche attive del mercato del lavoro (ALMP).

## *Capitolo 2*

Nel capitolo 2 è stata presentata un'ampia rassegna delle misure legislative adottate nei tre paesi analizzati. L'indagine è partita dalla Germania e dai suoi meccanismi di base del mercato del lavoro: un focus è stato fatto sulla caratteristica presenza dei consigli di fabbrica. In tema di salari, la principale disposizione giuridica è data dagli accordi settoriali tra sindacati e associazioni padronali, comunemente fissati a livello regionale. Lo Stato non ha nessun ruolo nelle relazioni industriali e non può influenzare la contrattazione salariale. Il processo di deregolamentazione in Germania è iniziato dalla Arbeitsförderungsgesetz nel 1985 e dalle misure economiche dopo la riunificazione del 1990. Si è passati quindi alla presentazione della riforma



Hartz. La prima parte della riforma ha previsto una riorganizzazione delle agenzie per il personale e il potenziamento della formazione. La seconda parte ha introdotto i famosi nini-jobs e midi-jobs. La terza parte ha ristrutturato l'Agenzia federale del lavoro, mentre la quarta ha unificato l'assegno di disoccupazione e l'assistenza sociale in un unico schema per persone abili al lavoro.

Successivamente è stato il turno della Spagna: anche in questo caso abbiamo iniziato con i meccanismi base del mercato lavorativo. Il testo che regola i rapporti di lavoro è la Ley del Estatuto de los Trabajadores (LET), istituito nel 1980. Questa legge prevede tre tipi di licenziamento: disciplinare, obiettivo ed economico. Per la determinazione salariale, la legge lascia spazio al contratto collettivo, e in particolare a quelli settoriali di livello provinciale. Tuttavia, c'è da dire che la contrattazione collettiva è fortemente frammentata. Le due principali riforme legislative prima di quella adottata dal governo Rajoy sono la riforma del 1984 e la riforma del 1994. La riforma del 1984 ha significato una delle più decise liberalizzazioni a livello Europeo dei contratti a tempo determinato, e ha contribuito a creare un mercato del lavoro fortemente duale. Per questo la riforma del 2012 aveva come obiettivo esplicito il contrasto a questa forma divisiva di mercato del lavoro. Il primo aspetto dell'azione legislativa riguarda la determinazione dei salari: la priorità è stata data alla contrattazione collettiva a livello aziendale piuttosto che al precedente sistema basato sul livello provinciale. Inoltre, in relazione al licenziamento, l'obiettivo esplicito era quello di rendere i rapporti di lavoro più flessibili e il mercato meno segmentato (Uguina e Pinilla 2013). Per questo le cause di licenziamento sono state estese: ora, un licenziamento è giustificato anche in caso di perdita di competitività o di persistente declino degli utili. Infine, l'ultimo aspetto riguarda l'introduzione di una nuova forma di contratto, il Contrato de Apoyo a Emprendedores, che è rivolto a imprese con meno di 50 lavoratori.

L'Italia è stato oggetto di una simile analisi, con all'inizio una breve dissertazione sui principali meccanismi del mercato del lavoro (Bertola, Ichino e Ploeg 1995). In Italia sono previsti tre casi di licenziamento individuale, mentre la contrattazione salariale avviene attualmente a livello settoriale nazionale e a livello di impresa. Di fatto l'esistenza di un salario minimo è indirettamente rinviata ai suddetti contratti nazionali. Data l'elevata rigidità del mercato, storicamente si è sviluppata un'enorme flessibilità sull'orario di lavoro, che è uno dei più flessibili d'Europa. Dopo l'esposizione delle due grandi riforme precedenti al Jobs Act, che sono il Pacchetto Treu del 1997 e la Legge Biagi del 2003, ci si è occupati della riforma del 2014. Il tema principale della riforma Renzi è l'introduzione di un nuovo contratto di lavoro a tempo indeterminato: il Contratto a tutele Crescenti – CTC, che ha una tutela dal licenziamento meno rigida, e che dal 2015 è l'unica forma di assunzione a tempo indeterminato. Inoltre, anche il sistema di indennità di disoccupazione è stato riformato: ASpI e Mini- ASpI sono stati uniti in un solo sistema di assicurazione universale, chiamato NASPI.

### *Capitolo 3*

Nel capitolo 3 è stata la volta del dibattito economico: in primo luogo sono state trattate le condizioni del mercato del lavoro tedesco. Il dibattito economico in Germania sulla riforma Hartz è principalmente unanime

sulla bontà di tali misure (Zimmermann e Rinne 2013). Questo consenso è dettato dall'incredibile performance dell'economia tedesca, e per molti la ragione principale della sua prova negli anni della crisi finanziaria del 2008 è da amputare proprio al suddetto pacchetto (Krebs e Scheffel 2013). Secondo Krebs e Scheffel, la riforma Hartz ha avuto un ruolo sostanziale nel combattere la disoccupazione. Valutandone invece l'effetto distributivo, i vincitori della riforma Hartz sono famiglie con occupazione stabile, mentre i perdenti della riforma sono i disoccupati, in particolare i disoccupati di lunga durata, che hanno sofferto maggiormente della riduzione delle prestazioni sociali. Ad ogni modo, anche in ambito accademico stanno emergendo di recente voci sempre più critiche per questa riforma e per le politiche di deregolamentazione. Secondo Odendahl (Odendahl 2017), le riforme Hartz hanno avuto un impatto minimo sulle dinamiche occupazionali e sulla crescita della produttività. Il primo fattore realmente importante è stato l'aumento dell'industria nelle economie emergenti: questo fenomeno ha comportato un forte aumento della domanda di macchinari, settore leader in Germania. Il secondo fattore è rappresentato dalla manodopera in outsourcing nei paesi dell'Europa orientale, appena membri dell'UE, vera chiave per capire il miracolo tedesco. L'ultima ragione per la ripresa tedesca è la fine di una crisi pluriennale nel settore delle costruzioni. Per Odendahl, l'unico effetto reale è la creazione di un vasto settore di lavoratori a basso salario

Il dibattito economico sulla riforma del mercato del lavoro attuata dal governo Rajoy nel 2012 è ancora in una fase iniziale e per questo motivo la letteratura economica non è così abbondante. Uno dei sostenitori più affidabili della riforma di Rajoy è l'OCSE (OECD 2013). Il primo tema esaminato è stato l'impatto dei costi della deregolamentazione del lavoro. In questo caso, l'argomento principale tratto dalla teoria economica è che una maggiore flessibilità nell'adeguamento dei salari alla produttività può essere utile per affrontare periodi di crisi economiche. Il secondo aspetto analizzato è stato l'effetto sui flussi del mercato del lavoro: per l'OCSE, la riforma ha contribuito a promuovere assunzioni, in particolare sui contratti a tempo indeterminato. La parte finale si è concentrata sugli effetti a lungo termine della riforma di Rajoy, e secondo le stime fornite dall'OCSE, l'impatto generale è comunque modesto. La letteratura economica che suggerisce invece opinioni diverse non è così diffusa, ma possiamo trovare alcuni studi specialmente tra i think tanks sindacali. Una delle analisi più affidabili è fornita dall'Istituto europeo dei sindacati - ETUI (Horwitz e Myant 2015). Il primo aspetto analizzato è più specificamente legato all'orario di lavoro: nel settore delle costruzioni, il più danneggiato dall'inizio della crisi, le statistiche mostrano una stabilizzazione delle ore lavorative dopo il 2011 e una tendenza dell'occupazione a diminuire: la principale strategia perseguita dai datori di lavoro è quindi il licenziamento piuttosto che la flessibilità degli orari. Il secondo aspetto riguarda la promozione dei contratti a tempo indeterminato: i dati evidenziano che la quota di contratti a tempo determinato sui nuovi rapporti di lavoro è rimasta pressoché stabile dopo il 2012, dimostrando un approccio inalterato dei datori di lavoro alle nuove tipologie di contratti come il Contratos de Emprendedores. L'ultimo aspetto concernente la promozione dell'occupazione, avrebbe dovuto portare ad una reale riduzione della natura duale del mercato del lavoro spagnolo. Ad ogni modo, questo non sembra avere successo: controllando le statistiche occupazionali delle

fasce più deboli del mercato del lavoro, come disoccupati di lunga durata ed i giovani, non viene rilevato alcun reale miglioramento.

Come menzionato nel primo capitolo, anche se l'Italia ha una struttura economica molto simile alla Germania, anche se negli ultimi anni la performance economica è stata più simile a quella spagnola. Il primo studio importante è prodotto dall'OCSE (Jin and Lenain 2015). Le politiche sembrano essere efficaci nel riformare il mercato del lavoro e contrastarne il dualismo, che è anche in questo caso è considerata la causa principale della debolezza economica italiana. Ad ogni modo, non viene fornita alcuna analisi empirica. Un'altra analisi empirica che cerca di dare una risposta positiva sul tema del dualismo nel mercato del lavoro (Boeri e Garibaldi 2018) evidenzia che la propensione all'uso dei contratti a tempo indeterminato è del 60% maggiore nelle grandi aziende. Ad ogni modo, nessuno studio ha mostrato una correlazione tra crescita dell'occupazione e riforma del mercato del lavoro. Tra le voci critiche, una viene dal Laboratorio di Economia e Management – LEM della Scuola Superiore Sant'Anna (Fana, Guarascio e Cirillo 2015). Fana et. al. Hanno invece identificato le tre principali cause della segmentazione prima citata: sono il basso tasso di occupazione delle donne, l'alto tasso di disoccupazione giovanile e il divario economico Nord-Sud. Di questi tre aspetti principali nessuno ha visto un miglioramento, e l'aumento dell'occupazione è da attribuire maggiormente alle sovvenzioni economiche e allo Youth Guarantee dell'Unione europea.

#### *Capitolo 4*

Nel quarto e ultimo capitolo, un'analisi più precisa ha cercato di rispondere alla domanda fondamentale: le riforme del mercato del lavoro hanno migliorato l'occupazione? Per rispondere a questa domanda sono state progettate tre curve di Beveridge per i tre casi studio, e le prove empiriche hanno dimostrato che solo per la Germania si può trovare un reale effetto positivo di diminuzione dell'occupazione strutturale. In seguito, sono stati rivisti i principali contributi economici di critica al legame tra deregolamentazione e occupazione, alcuni dei quali sono anche altamente considerati (O. Blanchard 2005). La tesi principale sulla deregolamentazione del mercato del lavoro è che non ha un legame diretto con i livelli di occupazione, ma con la sua struttura: in caso di aumento della disoccupazione, se il mercato del lavoro è propriamente deregolamentato, è possibile distribuire il peso sociale dei licenziamenti meglio tra lavoratori precari e fissi. Ad ogni modo, questa politica non sembra che possa promuovere la crescita e le assunzioni stabili. Quest'ultima tesi ci ha portato all'ultima parte della dissertazione, in cui sono state riportate le principali politiche ampiamente riconosciute per promuovere la creazione di posti di lavoro fissi: sussidi mirati e piccole forme di prepensionamento per i giovani, assistenza all'infanzia per la partecipazione femminile al mercato del lavoro, formazione professionale e assistenza nella ricerca di lavoro per lavoratori poco qualificati. Più generale la più forte affermazione da fare è a favore dell'intervento economico statale.

Infine, una breve conclusione ha tirato le somme di quanto trattato all'interno della dissertazione.