



Flexicurity in Italy – how far is Rome from Copenhagen?

September 2012

The recently approved labour market reform in Italy is clearly inspired by the Danish flexicurity model. However, despite the noble intention and some improvements, the reform is failing to bring the long-hoped-for change, especially regarding the dualisation of the labour market and the universalisation of welfare provision.

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Ten years after the adoption of the flexicurity model in Denmark, the extraordinary performance of the Danish labour market started to attract the attention of policy-makers at EU level and it has been included as part of the European Employment Strategy. Unemployment rates before the crisis reached a record low of 3.8% in Denmark and touched 7.6% in the last quarter of 2011. Although this means that unemployment doubled in only three years, it is important to observe that what is considered high in Denmark today would be seen as a great success by many other European countries, and is still more than two percentage points below the European average (10%).

A dual labour market

The main reason why a flexicurity-oriented reform would be a good idea in Italy is the possibility it offers to overcome the dualism in the labour market which originated in the Treu and Biagi reforms of 1997 and 2003. These two major reforms reduced employment protection by creating flexible types of contract as alternatives to the classic permanent one. This change is recorded in the OECD Employment Protection Index, which indeed decreased from 3.06 in 1998 to 2.58 ten years later. However, the reforms applied only to new entrants and, as a result, 87% of workers enjoy full rights and the remaining 13% have temporary contracts. This percentage is in line with the EU average (14%). However, if only young workers are considered, at

RECOMMENDATIONS

Labour market legislation should be amended to:

- equilibrate the balance between open-ended and temporary contracts
- set up a universal system of unemployment benefits
- create a system of active labour market policies with competences devolved to the regions starting, ideally, with a pilot experiment in one or two

Though this policy brief is strictly focused on the Italian case, some of the facts and conclusions that have been drawn are also valid for other countries with fragmented labour markets. Spain in particular, where the imbalance between insiders and outsiders is literally exploding in the current months: older versus younger generations, temporary versus permanent contract holders.



What is flexicurity?

Flexicurity is a political strategy aimed at reconciling flexibility and security in the labour market by surmounting the apparent trade-off and generating a win-win situation. The Danish combination constitutes the textbook example. The Danish system is based on three pillars – dubbed the ‘golden triangle’ (Madsen 2004). The first is the freedom to hire and fire, or numerical/ external flexibility, recognised in Denmark by employee associations as long ago as 1899. The second pillar is the generous support of a welfare system that ensures income security in case of unemployment. The third element is an active labour market policy which guarantees employment security by offering workers the opportunity to obtain new skills and look for new jobs in the event that they do lose their job.

least half of them are employed on temporary contracts. To this one should add the population of self-employed workers. The numbers of self-employed without employees increased in Italy by 60% between 2000 and 2011, compared to a European average of 14%. A widespread problem in Italy is the (ab)use of freelancers to execute tasks that are normally performed by employees under rules and conditions that are not assigned to the self-employed, such as fixed and predetermined work schedules.

Considering the degree of dualism in the Italian labour market, flexicurity is a good model to draw inspiration from. The question that arises next is: how feasible is it for Italy to adopt flexicurity? There are two main obstacles: the

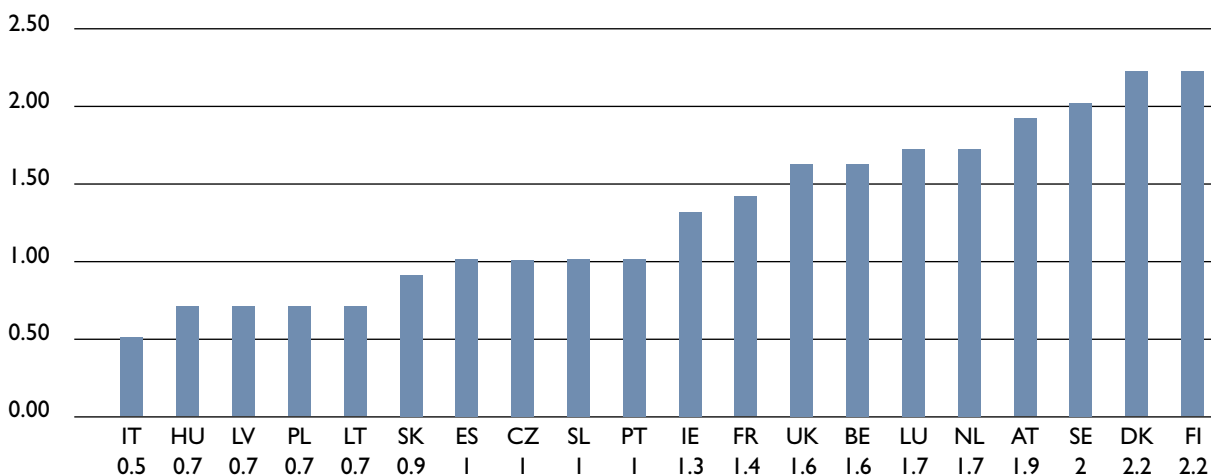
first is linked to the economic and administrative capacity to invest in and manage active and passive labour market policies, and the second is a ‘systemic’ barrier.

Challenges to the adoption of flexicurity in Italy

Starting from labour market policies it can be observed, first of all, that Denmark has one of the highest expenditures in the EU on active and passive measures as % of its Gross Domestic Product (GDP): 2.9 in total compared to the EU average of 1.9. Of these, 1.7% of GDP is devoted to passive measures (unemployment insurance and early retirement schemes) and 1.2% to activation measures such as job rotation training and start-up incentives (2010 data). To understand how big these numbers are, it is perhaps more useful to divide aggregate expenditure into expenditure per unemployed person. The average expenditure in Denmark is 15,000 euros on activation measures and 17,000 on passive ones, whereas the equivalent in Italy is respectively 2,500 and 10,700.

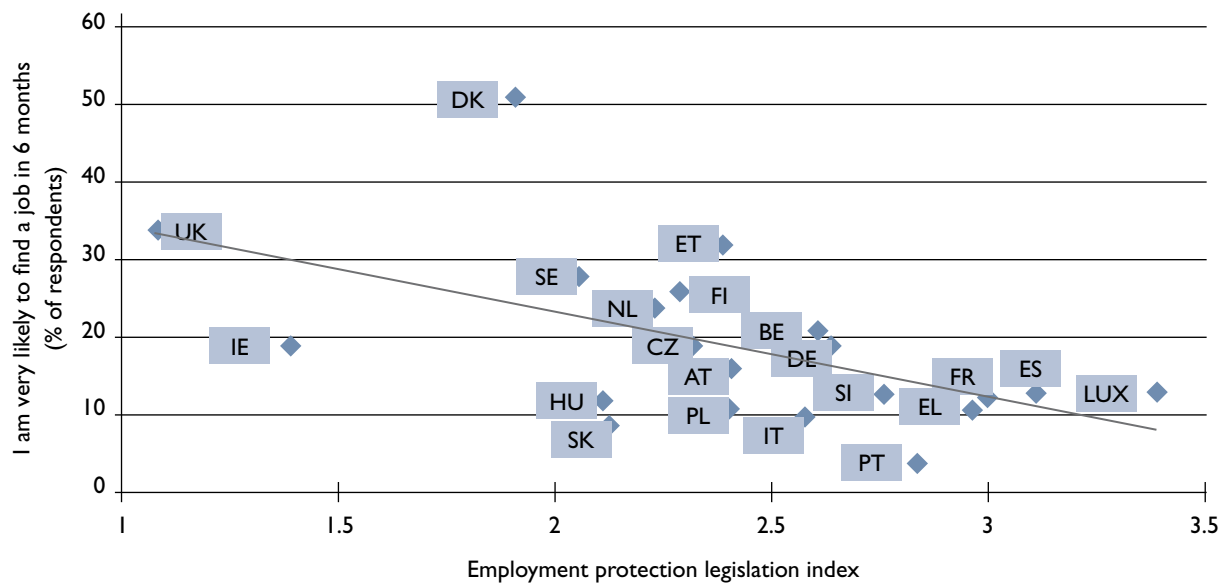
In times of austerity it is extremely hard to find the resources to finance an adequate and universal system of unemployment benefits and active labour market policies, especially in light of the low Italian employment rate (56.9% in Italy compared to 72.9% in Denmark and 64.3% in the EU according to Eurostat for the last quarter of 2011). Yet, this is only half the problem: the management of active and passive measures requires a strong administrative capacity to put the systems in place and to organise adequate controls. For example, it is important to make sure that the displaced worker does not work without a contract while s/he receives money from the insurance. The World Bank Governance effectiveness indicator, shown in Figure 1, helps to visualise how big the gap between Italy and Denmark is in terms of administrative capacity. This indicator captures “perceptions of the quality of public services, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies”. What is par-

Figure 1: Governance effectiveness in 2012



Source: World Bank Governance Indicators

Figure 2: Employment protection legislation and perception of job security



Source: OECD and Eurobarometer 261

ticularly difficult from this point of view is turning current employment offices into agencies that are actually able to match demand and supply of jobs and to offer adequate services to the job seekers as well as to companies.

The second main obstacle relates to the overall perception of labour market regulation. What matters in Denmark is employment security, which means the security that in case of job loss it will be possible to find another job. The Italian system is instead centred around job security – that is the idea that in principle one should be able to keep the same job for life. In this context, job loss is lived as a drama.

The choice between unemployment insurance schemes and employment protection legislation lies in a fundamental balance that is struck at the foundation of any social security system, which puts the two into a position of trade-off: if a worker cannot be fired, unemployment insurance becomes unnecessary. Any shift from the latter towards its opposite needs to take into account that the Employment Protection Index does not significantly affect job security for highly skilled workers, while it protects the less skilled but, nonetheless, it does not increase the overall sentiment of security. A Eurobarometer survey (261, October 2006) provides numerical evidence on this. When asked “If you were to be laid off, how would you rate on a scale of 1 to 10 the likelihood of your finding a job in the next six months?” 51% of Danes replied “very likely”, compared to 10% of Italians and 18% on average in Europe. Figure 2 sets these answers in relation to the OECD Employment Protection Index to show that the relation between the two is negative rather than positive: higher employment protection does not increase confidence in labour market outcomes.

The way forward – step by step

All this said, what is the way forward? Despite potential obstacles, a flexicurity-oriented reform can only improve the current system and should therefore be pursued. One potential solution is to adopt the reform in steps.

The first step would be to put in place the first two pillars of the system: to equilibrate the balance between open-ended and temporary contracts and create a universal system of unemployment benefits. Two proposals to abolish the distinction between open-ended and temporary contracts and organise a universal system of unemployment benefits have received substantial attention in the political debate. The first is authored by two economists called Boeri and Garibaldi, and the other by Pietro Ichino, a Democratic Party senator. This is obviously easier said than done, because it would destroy two fundamental institutions of the Italian welfare system, namely: Article 18 of the Statute of Workers that protects people from dismissal, and the Cassa Integrazione Guadagni, an unemployment insurance scheme that only applies to industry workers and therefore has no universal coverage.

The second step would be the creation of active labour market policies. This competence could be devolved to the regions. Ideally, a pilot experiment would be organised in one or two regions to test the capacity of the local authorities and the reactions of citizens to the new system.

The reform and its shortcomings

The reform, approved by the Parliament at the end of June, is good in its intentions and does bring changes in the right direction. However, it fails to propose the broad and universal transformation so widely advocated and much needed. The main changes to the current system are:



1. The creation of ASPI, an unemployment insurance for people in the private sector not covered by 'Cassa Integrazione'. Starting from 2017, after a period of transition, workers will receive 75% of their previous salary, for salaries of up to 1,180 euros. The upper limit of the benefit is 1,119 euros with a 15% reduction every six months. The duration will be maximum of 12 months for workers younger than 55 (18 months for those above this age). For less tenured and more precarious workers, a reduced version of ASPI is available: in case of unemployment these workers have access to the benefit for half the number of weeks for which they paid contributions in the preceding 12 months.
2. An attempt to intervene in the legislation on dismissal (the famous 'Article 18' of the Statute of Workers): the proposal opens the way for an easier dismissal for economic reasons but leaves the decision to evaluate case-by-case to judges.

How does this compare with flexicurity? The creation of ASPI goes in the right direction because it extends unemployment insurance to workers so far totally excluded. However, it does not constitute a perfect solution to the current lack of an unemployment benefit system in Italy because:

- Duration and replacement rates are tight.
- A number of precarious workers will not have access to it.
- Even if it is supposed to be financed by employers, it risks being de facto paid for by workers through a decrease of their salaries because of the lack of minimum salary legislation.
- Most importantly, the allocation of ASPI is not linked to job search.

The changes to Article 18 are the most controversial part and also the one where public debate is concentrated. If the principle is to facilitate firing, the net effect of the amendment proposed is not clear yet because of the sluggishness

of the Italian judicial system. This also increases uncertainty for firms, who are hardly able to quantify how long procedures will last and how costly they are likely to be. In the text of the reform, very few words are spent on active labour market policies.

Taken overall, it is worth noting that the proposal does not put up for discussion the responsibilities and roles of the different institutions involved in the process of certifying unemployment status, allocating benefits and helping the unemployed to find new occupations. The lack of consolidation of these tasks under a single institution entails that no progress can be expected from the administrative point of view.

Most importantly dualism remains, even if the declared intention of the reform proposal is to redistribute protection more equally within a more efficient and consistent system. Steps in this direction are small (the creation of ASPI mainly) but the clear distinction between permanent and temporary workers remains and no universalistic approach is used. In other words, at the end, the system will not create a unique type of contract with a unique unemployment benefit system.

All in all we can therefore conclude that although the new reform does bring Rome and Copenhagen slightly closer to each other, in no measure does it close the gap, even though, in principle, the negotiation between social partners and the government to reform the system could have been easy. Lower but better distributed employment protection could have been traded to form a universal unemployment benefit system. Unfortunately this has not been the case because all parties lobbied to change the status quo as little as necessary, consistent with an insider–outsider model. Moreover, the reform does not look beyond the borders of flexicurity in the sense that it is not complemented by a debate around the other problems of the Italian labour market, notably low productivity and low competitiveness.

FURTHER READING

- Boeri, Tito and P. Garibaldi (2007): Two Tier Reforms of Employment Protection: A Honeymoon Effect? *The Economic Journal*, vol. 117, issue 521, pp. F357-F385, June 2007.
- Boeri, T., J. Conde-Ruiz and V. Galasso (2004): Cross-skill redistribution and the trade-off between unemployment benefits and employment protection, CEPR Discussion Paper 4711.
- Madsen, P. K. (2004) The Danish model of 'flexicurity': experiences and lessons, *Transfer*, vol. 10, no.2, pp. 187-207.
- Rothstein, Bo, *Social Traps and the Problem of Trust (Theories of Institutional Design)*, Cambridge University Press, 2005.
- Una tabella per confrontare le proposte di riforma del diritto del lavoro in discussione nel PD, www.pietroichino.it

The opinions expressed in this policy brief are those of the author alone and do not necessarily reflect the official opinion of the Danish Institute for International Studies.