

# G20

## Country Policy Briefs



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## Policies to promote the return to work

Despite a deep recession and relatively sluggish recovery, the impact of the crisis on the Italian labour market has been relatively mild. The harmonized unemployment rate peaked in June 2010 at 8.7 per cent, an increase of 2.7 percentage points compared with the end of 2007. The youth unemployment rate, which at 20 per cent was already one of the highest among advanced G20 countries at the onset of the crisis, soared to almost 29 per cent at its peak in April 2010. The proportion of the working-age population in employment has declined by 2 percentage points since the last quarter of 2007. This occurred in the context of an already low employment rate (about 59 per cent at the onset of the crisis), due notably to persistently low participation of women in the labour market.

In the current recovery phase, the overall and youth unemployment rates have started to decline despite relatively modest real GDP growth (1.3 per cent in 2010). Having extended social protection measures at the beginning of the crisis,<sup>1</sup> the Italian Government has taken a number of initiatives in the recovery phase to facilitate the return to work. Notable among these are temporary employment subsidies, incentives for private employment agencies, new apprenticeship contracts, and an integrated job-search/vacancy-advertisement website, “*Cliclavoro*”, by the Ministry of Labour.

### Temporary employment subsidies

Several employment-subsidy measures have been implemented on a temporary basis for the period 2010–12, in particular in conjunction with the 2010–12 Stability Law. Employers who hire unemployment benefit recipients on a permanent contract can claim a subsidy of an amount equal to the benefit the worker would have been entitled to for the remaining period of his or her benefit eligibility. The same applies for workers receiving payments under the short-time working scheme (*Cassa Integrazione Guadagni*, CIG). The subsidy is also available to the unemployed who set up their own businesses, which can be in association with other unemployed individuals through a cooperative. In this case, the unemployed worker can

ask to receive the remaining subsidy as a lump sum. Tax incentives and subsidized loans are also available in the southern part of the country, the *Mezzogiorno*, for the unemployed who start a new business. In addition, workers involved in the CIG can spend some of the lost working time in training and re-qualification programmes for different tasks or occupations. They are also entitled to additional occasional micro-jobs that must be paid through special vouchers.

### Incentives for private employment agencies

In the last decade, several policy prerogatives have been decentralized to regional, provincial and municipal authorities. In particular, responsibility for labour market policy, including the public employment service and most training, is delegated to the sub-national authorities. Since 2003, the Biagi law allows private employment agencies to provide employment services and job-search activities alongside the public employment services.<sup>2</sup> In practice, however, most services are provided by regional public employment agencies. Only a few private agencies operate in this area and tend to specialize in easy-to-place skilled workers.<sup>3</sup>

Against this background, the Government is planning a series of incentives to encourage the placement of disadvantaged workers by accredited private employment agencies. Such agencies will receive a bonus for their services. The bonus will vary depending on client and type of contract: from €800 for each unemployed person (or worker under the CIG scheme) hired on a temporary contract with a duration of one to two years, to €1,200 for a placement on a permanent contract or a temporary contract of a duration of at least two years. They can also receive a bonus ranging from €2,500 to €5,000 for each disabled person hired on a permanent or temporary contract of at least one year's duration.

### New apprenticeship contracts

On 5 May 2011 the Council of Ministers approved the introduction of three new types of open-ended

apprenticeship contract. These are: (i) apprenticeship for professional qualifications leading to a formal diploma (*apprendistato per la qualifica professionale*), available for youth aged 15 years or more; (ii) professional or occupational apprenticeship (*apprendistato professionalizzante* or *contratto di mestiere*), conceived for youth aged between 18 and 29 years who still have some training needs, particularly related to on-the-job experience; and (iii) higher training and research apprenticeship (*apprendistato di alta formazione e ricerca*), targeted at higher levels of training in research activities and professional services. In exchange for training services, all of these contracts allow employers to pay apprentices a wage below the level stipulated by collective agreements. At the same time, there are a number of guarantees built in to prevent exploitation of workers on these contracts, in particular to prevent employers from dismissing apprentices (except for fault) during the training period. It is envisaged that training provided by public entities will complement that provided or financed by the employer.

### Cliclavoro website

Since 22 October 2010, the Ministry of Labour has made available a new job-search/vacancy-advertisement website called “Cliclavoro”, which is designed to improve the matching of labour supply with demand. Employers and jobseekers can freely post their current vacancy announcements and curriculum vitae on this website. The site contains a database of all unemployment benefit recipients and information on vacancies in the public administration and placement activities. *Cliclavoro* has a large potential to improve the accessibility of information on job openings and potential candidates, although social networks still play a big role for screening job candidates in the private sector in Italy.<sup>4</sup>

All of the above measures are likely to foster a faster recovery in the labour market, although targets have not yet been clearly stated. The budgetary costs of these measures are estimated at around € 1.5 billion. At the same time, significant resources have been devoted to the extension of the CIG, budgeted at some €8 billion (about 0.5 per cent of one year’s GDP) for the period 2009–10.

### Limited mobility and atypical contracts still of concern

Italy is still characterized by relatively limited labour mobility. In Italy, only about one out of three workers separates from his/her employer or is hired in an average year, against one out of two in countries such as Denmark or the United States.<sup>5</sup> In addition, about a third of Italian employment was on “atypical” jobs at the onset of the crisis: in the last quarter of 2007, 9.8 per cent of employed workers were on temporary jobs and 25.5 per cent were self-employed. The brunt of the employment adjustment during the downturn weighed on these atypical jobs. For example, in the

year to the second quarter of 2009, 442,000 jobs were destroyed among fixed-term contracts and self-employed, even as 65,000 regular jobs were created.<sup>6</sup> The incidence of temporary and atypical employment is especially high among youth.

### Income support for the unemployed

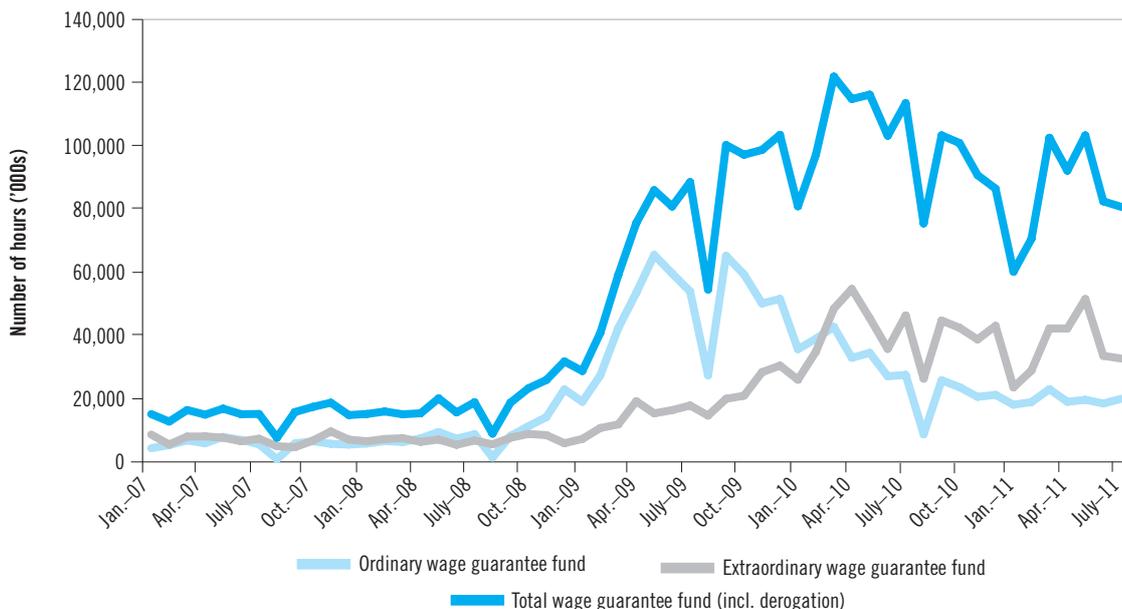
In terms of income support for the unemployed, the social protection system relies essentially on two pillars: a large short-time work scheme and several unemployment insurance benefit schemes.

1. The *Cassa Integrazione Guadagni* (CIG), or Wage Guarantee Fund, established in 1945, has traditionally been the main pillar. This scheme helps enterprises facing temporary financial difficulties to retain their skilled labour force by allowing workers to work part time and providing some compensation for wage losses. Originally limited to large firms in manufacturing, in response to the crisis its coverage was temporarily broadened by the Government to small and medium-sized firms and to the tertiary sector – including retail companies with more than 50 employees, tourist agencies and operators with more than 50 employees, and security companies with more than 15 employees. The OECD estimates that 120,000 jobs were saved in 2008 and 2009 because of the CIG.<sup>7</sup> Data on authorized reduced working hours from the National Social Security Institute (INPS) illustrate the role that the CIG has been playing in the downturn in the and early phase of the recovery (figure 1).
2. Four types of unemployment insurance benefits exist in Italy: (i) ordinary unemployment benefits (180 days); (ii) mobility benefits that vary between 12 and 48 months depending on the age or region of residence of the claimant (who cannot be re-hired by the same employer or who has been dismissed via a collective dismissal); (iii) benefits for dismissed workers in agriculture and (iv) benefits for dismissed workers in construction. In 2009, the coverage of unemployment benefits was extended to workers who were previously ineligible, such as those on fixed-term or atypical contracts. These claimants are now entitled to a lump sum of 30 per cent of wage and self-employment income in the previous year. Unemployment insurance benefits and CIG payments are provided by the INPS, which also finances training activities. There is a legal obligation for unemployment benefit recipients to look for work, but enforcement by public employment services is often weak.

### Assessment of effectiveness

These policy measures are expected to reinforce the ability of employment services to provide effective support to the unemployed. Public spending on active labour market programmes was 0.4 per cent of GDP in Italy in 2009, below the 0.8 per cent average of the European Union. Much of the responsibility for labour market policy is largely decentralized

Figure 1. Reduced working hours authorized and covered by partial unemployment schemes, January 2007– July 2011



Source: INPS – National Social Security Institute.

but effectiveness is constrained by limited finance. Resources channelled to private agencies are expected to have positive effects, even if the limited number of accredited providers and their uneven geographical distribution clearly limit the scope of their intervention.

Like other advanced countries, Italy is facing the challenge of preventing unemployment from becoming entrenched. In the last quarter of 2007, 2.9 per cent of the labour force had been unemployed for more than one year. This figure has risen since: in the first quarter of 2011, long-term unemployment reached 4 per cent of the labour force (50 per cent of the unemployed). In this context, the new hiring subsidy schemes introduced in Italy are a step in the right direction, as they can facilitate more rapid reintegration of the unemployed into jobs. However, past evaluations of hiring subsidies in other countries show mixed evidence on their effectiveness, in so far as deadweight losses and substitution effects might be large. Employment subsidies are more cost-effective when targeted at net hiring. It will be important to monitor take-up rates, including whether the schemes encourage employers to hire workers at the beginning of their unemployment spell at the expense of the long-term unemployed and workers with limited unemployment benefit rights (such as workers in precarious and atypical jobs).

The new apprenticeship contract is another important step in promoting a smoother school-to-work transition for youth. In Italy, employers find it particularly difficult to hire the skilled workers they need to compete on international markets,<sup>8</sup> while many young people are underemployed because their competences are

ill-suited to the needs of enterprises or can be used only in sectors and spheres experiencing low employment growth.<sup>9</sup> This skills mismatch requires, on the one hand, improved guidance and, on the other, a reorganization and upgrading of technical education.

## Conclusions

The labour market policy package developed by Italy in the wake of the crisis tackles a number of key weaknesses in passive and active labour market policies and will likely strengthen the recovery in terms of job creation. However, deeper structural reforms are likely to be needed. In particular, a comprehensive reform of employment contracts, encompassing both temporary and permanent workers, would be required. Such reform would have to be accompanied by additional efforts to improve the provision of adequate unemployment benefits as well as training opportunities, considering the budget constraints.

<sup>1</sup> ILO (2010).

<sup>2</sup> The Biagi law is a Ministerial Decree approved by the Council of Ministers on 6 June 2003.

<sup>3</sup> The Budget Law of July 2011 includes provisions that further extend the range of institutions authorized to provide employment services, including academic institutions and specialized non-profit associations.

<sup>4</sup> Cingano and Rosolia (2006).

<sup>5</sup> OECD (2009).

<sup>6</sup> Eurostat, [epp.eurostat.ec.europa.eu](http://epp.eurostat.ec.europa.eu)

<sup>7</sup> OECD (2010).

<sup>8</sup> ItaliaLavoro (2007).

<sup>9</sup> OECD (2011b).

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