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STUDY

Youth Unemployment in Italy at the Time of the New Great Depression

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- Italy is a typical example of the Southern European school-to-work transition regimes in which the education system is rigid and sequential, the labour market has become increasingly flexible through two-tier reforms and the family plays an important role in bearing the costs of transition to adulthood. The youth labour market question has many obscure facets, that have been exacerbated by the recent economic crisis.

- Italy has one of the toughest school-to-work transitions, with dramatic absolute and relative disadvantages in the labour market. The evolution of labour market reforms suggests that this may be due principally to the fact that the education system is unable to close the youth experience gap, rather than to an alleged rigidity of the labour market.

- Instead of implementing the dual training model used in Germany to help young people develop the problem-solving skills and competencies required by the labour market, the task of filling the youth experience gap has been left to the market itself. This has resulted in inadequate solutions such as temporary employment and the like. The 2011 reform of the apprenticeship system is a step in the right direction, but it has encountered difficulties in getting under way.

Content

Introduction

This paper studies the causes of youth unemployment in Italy by considering mainly the immediate impact of what Paul Krugman has referred to as a twenty-first century version of the Great Depression. The current economic crisis has not only made existing weaknesses in Italy's school-to-work transition system worse, it has also added further cause for concern. In fact, the current »Great Depression« has contributed to a dramatic increase in both the absolute and the relative disadvantage of young people compared to adults. This report sets out the main effects the current recession has had on youth labour market outcomes over the past decade.

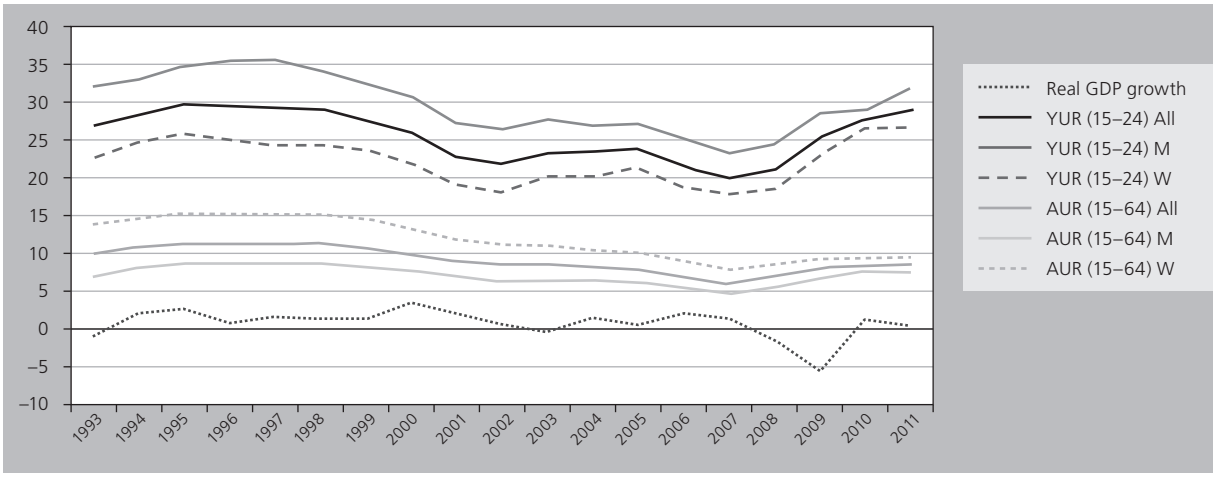
From a policy point of view, it is clear that up to now, Mario Monti's government has not been able to influence youth labour market outcomes in a positive way. However, this failure should probably be attributed more to the previous government than to the present one, since Silvio Berlusconi left his successor a very difficult legacy. In his last three years of office, the national debt rose from 103 per cent to an all time record of 120 per cent of GDP, that is, about 400 billion euros. Mr Monti's government therefore had little choice but to increase taxes, a move that has further depressed internal demand. The only way to increase the income available for consumption is to cut public spending in unproductive sectors and reduce Italy's massive tax avoidance and evasion which, according to recent estimates, amounts to about 120 billion euros per year. If this sum were made available to public finances, it would take only a few years to reduce both the national debt and tax pressure on low income earners. However, the government's much heralded campaign against tax avoidance and evasion is proving to be an uphill struggle. The self-employed (especially those engaged in private practice) and small entrepreneurs operating in trade, craft and even manufacturing sectors, are thought to have been avoiding and evading tax for decades. Rumour has it that some medium and large-sized industries are also involved in massive tax evasion. Instead of condemning these fiscal crimes, Berlusconi's government publicly justified them, with ensuing obvious effects on the cultural attitudes of the population. Mario Monti's government has announced a number of measures in this field, but it is reasonable to expect that Mr. Berlusconi's party, the PDL (the *Popolo della Libertà,* or People for Freedom), will oppose them, and at the present time, it is difficult to assess the eventual impact of such provisions.

In addition to its macroeconomic measures, on 27 June 2012, the Monti government introduced a labour reform (the so-called »Fornero Law«, named after Elsa Fornero, the Minister of Labour) whose principal aim was to eliminate some of the disadvantages young people encounter in entering the labour market. According to a number of observers, young people are meeting serious and increasing difficulties in finding permanent employment on account of the two-tier reforms implemented in recent years. These have increased job opportunities for young people, but mainly on a temporary basis. The Fornero Law aims to improve young people's chances of accessing permanent work in two ways: first, by lowering the cost of permanent employment, mainly through the removal of restrictions imposed by Art. 18 of the 1970 Workers Statute on the decision of firms to dismiss employees; and second, by increasing the cost of temporary work by granting workers social security rights that were not envisaged under the recent Treu (1997) and Maroni (2003) reforms. It is too early to assess the impact of this law, but the expected results of these measures on permanent employment may be over optimistic, as Art. 18 applies only to a small number of firms: over 90 per cent of firms have fewer than 10 employees, while about 46 per cent of employment is in firms with nine or fewer employees and about 50 per cent in firms with 15 or fewer employees.

The weaknesses inherent in the youth labour market are not a new phenomenon: young Italians have always had to negotiate one of the toughest school-to-work transition paths in the world. This paper also focuses on some of the factors that have generated such long-term outcomes.

On a national scale, the indicators of absolute and relative disadvantage of the young tend to form clusters of countries that share similar characteristics, rather than arranging themselves in an orderly line. Different school-to-work transition *regimes* can therefore be said to characterise more or less homogeneous groups of nations. These *regimes* tend to overlap those of the welfare state which, following on from Esping-Andersen's definition (2000), have been described as: (a) »Mediterranean European«; (b) »Continental European«; (c) »Scandinavian«; (d) »Liberal«; (e) »Post-communist«; and (f) »Asian«.

Figure 1: Recent evolution in YUR (15–24 years), AUR (15–64 years) and real GDP growth



Source: Istat.

The Italian regime belongs to the Mediterranean European group, which also includes France, Greece, Portugal and Spain. In these countries, each institution that takes part in the transition process, namely the family, enterprises, the market, educational and professional training systems, employment agencies and labour legislation, plays a very similar role. Over the past twenty years there has also been a similar evolution in legislation that has witnessed the gradual reform of employment contract regulations. This reform has brought greater flexibility and diversity to work contracts and a radical overhaul of education systems, as outlined by the so-called Bologna Process, begun within the wider context of the Lisbon Agenda and continued under that of Europe 2020 (Pastore 2011a).

The main theory behind this paper is that the difficulties young people encounter in achieving *smooth* transitions depend not so much on insufficient labour market flexibility, as on the failure of the education system to deal with and overcome what appears to be the principal handicap of the young, the one that sets them apart from adults: namely, their lack of work experience (Pastore 2011a).

1. The Italian Scenario

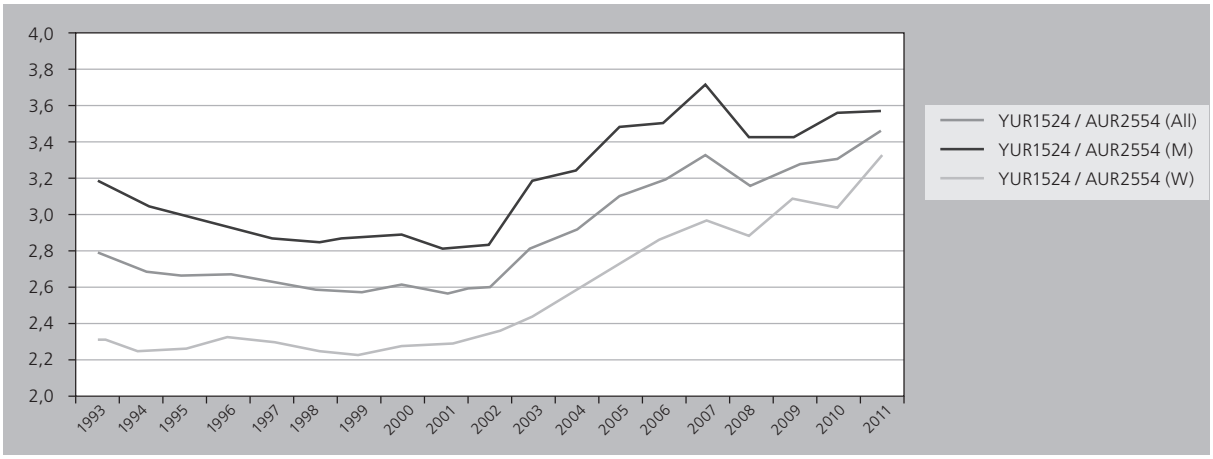
1.1 The Impact of the Current Great Depression

Italy differs little from other EU countries, especially the Southern European ones, with regard to the way the youth unemployment rate (YUR) has evolved during the current recession. Figure 1 shows the trend in the YUR and in the adult unemployment rate (AUR) by gender between 1993 and 2011.[1] Not surprisingly, the young have been the hardest hit by the recent recession. The weakness of young people during any economic recession is well known in the literature due to the tendency of firms to apply the so-called ›LIFO‹ (last-in-first-out) principle to their decisions concerning dismissals. The YUR increased from 24 per cent in 2007 to around 32 per cent in 2011. Currently available data for the first three months of 2012 show that the YUR has risen to 39.3 per cent, well above the 1995 level, recorded after the previous economic slump.

What is new when we compare the current economic crisis to that of 1991 is that the LIFO principle has tended to become stronger as a result of the widespread use of temporary employment contracts over the past 15 years. In fact, Figure 1 illustrates increased fluctuation in the YUR since 1997 when, for the first time, the Treu Law began to liberalise the use of short-term contracts. While

1. Annual data for 2012 are not currently available. In early June, Istat, the national statistical office, released some information regarding the first quarter of 2012.

Figure 2: Recent evolution in the YUR (15–24 years) and AUR (25–54 years) ratio



Source: Istat.

the late 1990s and early 2000s witnessed a reduction in the YUR, mainly on account of the widespread use of short-term contracts, at the start of the economic crisis in 2008, the YUR soared, quickly reaching the mid-1990s level by 2011, and dramatically overtaking it in the first quarter of 2012.

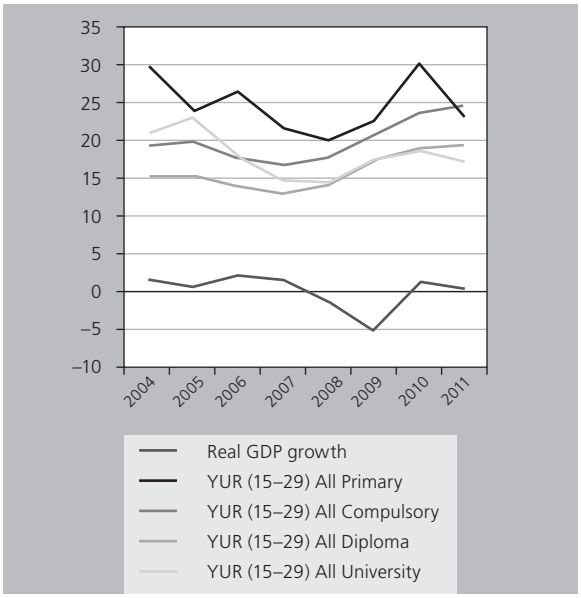
By comparison, the AUR has remained much more stable over the entire period. The recent two-tier reforms have, in some ways, reduced fluctuation in the AUR, since pressures on the business cycle have been transferred to the YUR. The AUR has also risen during the recent crisis, but much less than the YUR, as will be seen (at greater length) below.

Interestingly, in the period under consideration, we can observe a slight decrease in gender differences in unemployment rates both for the young and for adults. The gender gap in the YUR went down from 9.3 per cent in 1993 to approximately 5 per cent in 2011. This complex phenomenon, which has already been reported in other countries, is mainly the result of a growing educational gap in favour of women.

The YUR is an index of absolute disadvantage that expresses the importance of the youth labour market problem and how the latter is affected by the business cycle. It does not enable us, however, to understand whether the disadvantage of young people in the labour market is higher or lower than that of adults, or whether the relative disadvantage of the young has increased or gone down. The aim of Figure 2 is to show how the YUR/AUR ratio has evolved by gender from 1993 to the present day. It clearly indicates that not only has the mean value remained very high over the entire period under consideration, but the relative disadvantage of young people has escalated even more dramatically as a result of the severe economic recession. It is interesting to note that, after rising in the early 2000s and reaching a peak in 2006, the indicator fell slightly in the years immediately preceding the crisis, and soared again thereafter. These dynamics are also linked to the two-tier reforms and the increased employment rate of the first half of the 2000s.

An interesting way of assessing the impact of the crisis on the young is to examine the YUR in relation to the level of education of the unemployed. Figure 3 does this by focusing on the period from 2004 to 2011 and showing that the crisis has not had the same effect on all categories of workers. In fact, the worst affected groups are those with only primary education or less, and those whose education did not go beyond the compulsory level. The absolute position of young people with a secondary high school diploma has also worsened. Only for young people in possession of a university degree has there been a decrease in the unemployment rate. Although there is no available comparison of outcomes by gender, the reduction in the unemployment rate of young people holding a university degree may depend particularly on women. Other educational groups seem to exhibit similar evolutions across genders.

Figure 3: YUR (15–29 years) by educational level

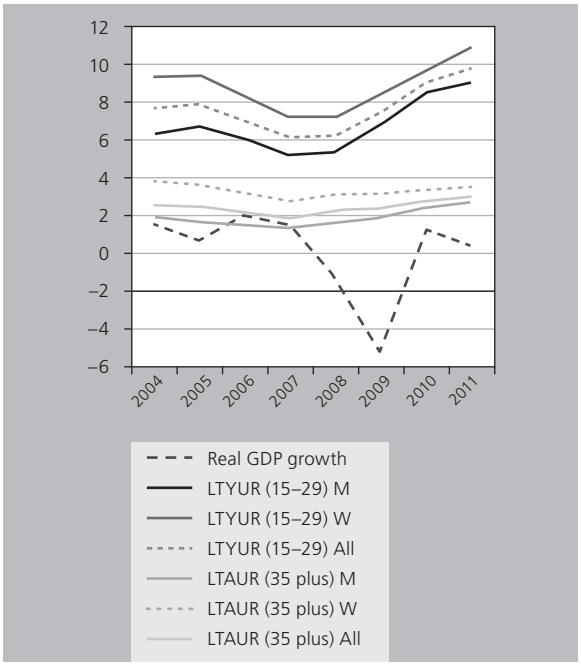


Source: Istat.

Figure 4 focuses on one of the most vulnerable groups: the young and adult long-term unemployed in the years ranging from 2004 to 2011. This figure shows that the share of youth long-term unemployed has increased dramatically, and much more rapidly than that of the adult population. This trend is confirmed by Figure 5 that illustrates the long-term YUR/AUR ratio. Although the latter had fallen immediately before the economic crisis, it increased dramatically when the full force of the downturn was felt**,** confirming the dramatic increase in the YUR, both in absolute and relative terms. This effect has been caused mainly by the worsening position of young women.

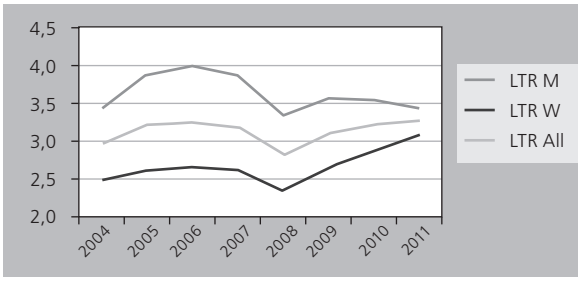
Figure 6, which presents a quarterly breakdown of the YUR and AUR up to the first three months of 2012, reveals the extremely volatile trend of the YUR compared to the much more stable AUR during the business cycle. Fluctuations in the YUR are largely due to women. The female YUR rose to approximately 60 per cent in the first quarter of 2012, although this does not represent the peak for the female YUR. Likewise the male YUR reached 30 per cent in the first quarter of 2012, but had been higher in previous quarters, especially at the beginning of the current Great Depression.

Figure 4: Long-term YUR and AUR



Source: Istat.

Figure 5: Ratio of long-term YUR and long-term AUR

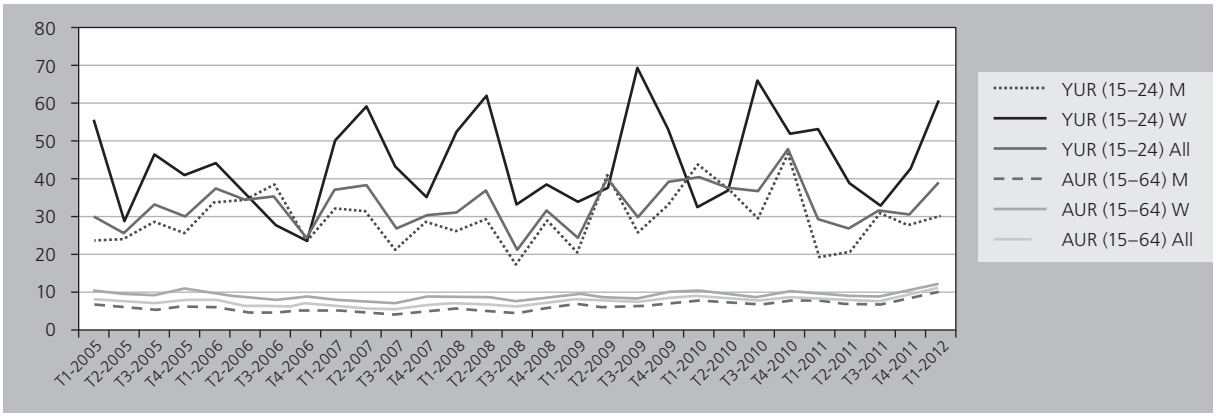


Source: Istat.

1.2 Long-term Facts

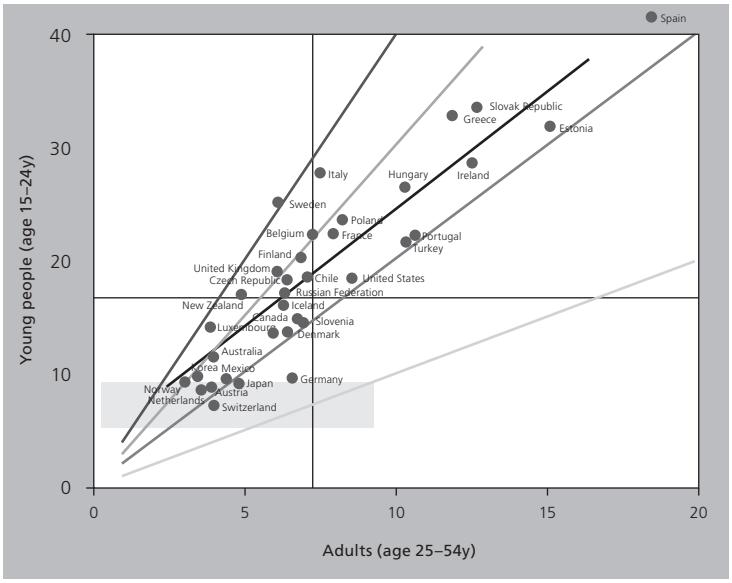
The facts we are about to report with regard to the current Great Depression are actually the result of structural problems. More than 60 per cent of the unemployed in Italy belong to the category of *new entrants* (workers entering the labour market for the first time) as compared to *job losers, job quitters* or *re-entrants*. Despite a greater proliferation of temporary, casual and short-term jobs, in 2010, 26.1 per cent of the unemployed admitted to a complete lack of work experience.

Figure 6: The quarterly YUR and AUR



Source: Istat.

Figure 7: Youth and adult unemployment rate in OECD countries (2010)



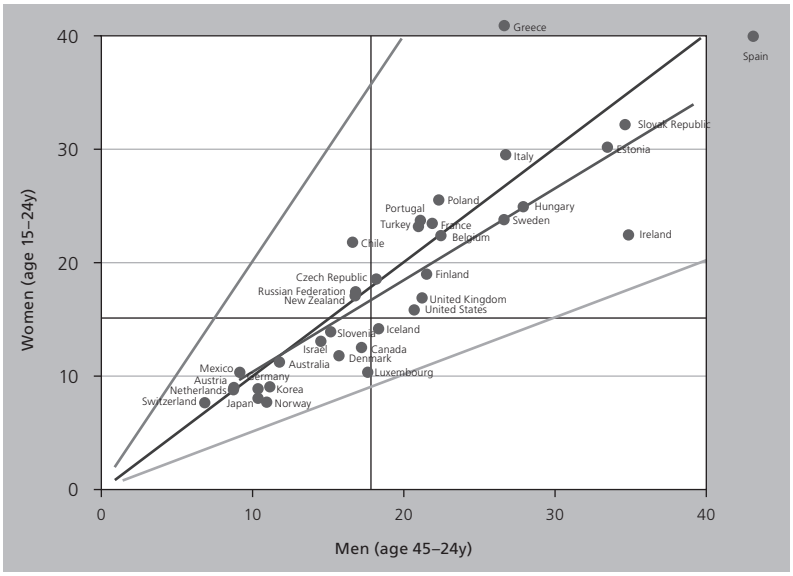
Note: Data on Israel and Russia refer to 2008.
Source: Author's processing of OECD data.

The abovementioned ratio of the YUR (15–24 years) to the AUR (25–54 years) is just over 2 in the European Union (EU), whereas the corresponding figure for Italy is close to 4, that is to say, double the EU average (Figure 7).

The share of long-term youth unemployment (more than 12 months) is much higher in Italy than in other European countries. This is a rather unusual phenomenon compared to elsewhere. As Clark and Summers (1982) have pointed out, the duration of youth unemployment is usually lower than the mean on account of the tendency of the young to change frequently from one situation to another on the labour market. Young people seek the *best job/worker match,* but before finding it, they often follow winding paths that lead them to experiment with a variety of labour market conditions. This search tends to interrupt the mean duration of their periods of unemployment.

What causes even greater concern on the Italian scene is the period of transition from school to permanent employment. According to an estimate made by Quintini, Martin and Martin (2007, Table 2), it is the highest among OECD countries. This period of transition which was 62.4 months (5.2 years) in 1995, reached 70.5 months in 2000, and fell to 51.3 months in 2005

Figure 8: Gender gap in youth unemployment rates, 2010



Source: Author's processing of OECD data.

when temporary jobs became more available. During the same period, the EU average was 30 months, that is, less than half.

How can these differences be explained? They depend on a number of different factors:

- the excessively rigid education system, particularly in the tertiary stage, that results in very late entry to the labour market;

- the low level of both secondary and tertiary education;

- insufficient contact between the world of education and the labour market, that prevents young people from gaining work experience;

- the lack of an adequate vocational training system;

- the lack of intermediation between demand and supply of qualifications.

Another typical Italian problem is the dualism between North and South: the unemployment rate of young people aged between 15 and 24 in the South of Italy is three times higher than in Central and Northern parts of the country. This disadvantage stems from the supply of human capital, since young people from the South of Italy have a lower mean level of education. Moreover, their education is of a poorer standard. PISA data indicate, for example, that mathematical, literary, scientific and *problem-solving* competencies are lower, even at the age of 15.

As in the other so-called Latin Rim countries, gender differences among the young favour men. This is the opposite of what occurs in Northern and East European countries. For example, Figure 8 shows that in Italy, as in Greece, and a limited number of other traditionally Catholic countries, such as Chile, Portugal, Poland and Belgium, the gap clearly goes against young women (Pastore 2011b).

According to Eurostat data (2009), Italy is near the bottom of the EU table for the number of young university graduates. In fact, in 2011, in the population aged between 25 and 34, only 27 out of every hundred had a university degree. This figure has risen in the past decade, but remains below the European mean of 30 per cent, while countries such as France, Spain, Denmark, Sweden and the United Kingdom have reached a total of 40 per cent.

This is surprising as 75 per cent of Italian students (one of the highest percentages in OECD countries) obtain a secondary high school diploma that gives access to university. However, this high percentage is due to the fact that in Italy nearly *all* secondary high school diplomas

give access to university. Why then does only a small percentage of students obtain a degree? Difficulties seem to arise at the time of enrolling for university. In fact, only just over 70 per cent of those who *could* enrol (55 per cent of the total number of young people with a secondary high school diploma) actually sign up for a university course (OECD 2009: A2.2).

This initial ›creaming off‹ of students precedes a subsequent ›selection‹ during the course of university studies. Italy is the leader among OECD countries for the number of students who drop out: in 2006, approximately 55 per cent of students dropped out without even obtaining the three-year degree qualification, a percentage that is considerably higher than the average 31 per cent (OECD 2008: Chart A4.1). This means that out of 100 young people holding a secondary high school diploma, less than 40 per cent get a degree. The percentage for women is much higher, almost 50 per cent, compared to 30 per cent for men (Chart A3.1).

Another problem is the excessive duration of university studies *(fuoricorsismo – many students fail to finish their degree courses in the prescribed time)*. This diminishes the incentive to invest in education (Pastore 2009) and leads to inefficiencies that lower the standard of the human capital produced, thus contributing, for example, to overeducation (Aina and Pastore 2012).

Moreover, Eurostat (2009) claims that in Italy, the probability of obtaining a degree is still closely linked to family social background. In fact, graduates aged between 25 and 34 who come from families with a ›low standard of education‹, comprise only 9 per cent of the total number. The offspring of better educated citizens have a sevenfold greater chance of obtaining a degree compared to their peers from poorer backgrounds. In the United Kingdom, this probability is two-fold, while in France and Spain it is 2.5 times higher. It is easy to imagine the negative consequences for young Italians caused by static social mobility (Caroleo and Pastore 2012a).

In addition to a low standard of education, it is important to underline the significant *mismatch* of human capital generated by disparities in demand (technical) and supply (humanistic). *Mismatching* often results in *overeducation:* because of the lack of demand for their particular type of qualification, young people are forced to accept jobs designed for candidates with lower qualifications. McGuinness and Sloane (2010, Table 3.6) report that in Italy the percentage of graduates employed in posts designed for those with a secondary high school diploma is one of the highest (23 per cent for first-time hiring) in the EU countries included in their sample. With a total of 13 per cent five years after graduation, Italy is third lowest in terms of performance, just marginally ahead of Spain and the United Kingdom. In other EU countries, *overeducation* is usually below 10 per cent. *Overeducation* is associated with a wage penalty, even if this is less than in other countries, possibly on account of the greater frequency of the phenomenon and a compressed salary framework (Caroleo e Pastore 2012b).

2. The Evolution of Labour Market Rules

2.1 A Brief Historical Digression

At the beginning of the 1990s, there were two important reasons for increasing labour market flexibility. The first was related to Italy's unusual position within the international division of labour. Although it is an advanced country, it continues to produce a significant share of its GDP in the traditional manufacturing sector. This encourages industries to request greater labour flexibility, since price competition can be important in traditional sectors.[2]

The second reason concerned the elevated degree of labour market rigidity, especially if we compare it with the United States, but also in relation to other European countries. A series of economic publications culminating in the 1994 OECD *Job Study* and a well-known work by Nobel Prize Winner Paul Krugman (1994), attributes the unemployment gap between Europe and the United States almost entirely to what is called Euro-sclerosis.

In the early 1990s, Italy was considered to be one of the most rigid countries in what was already an inflexible Europe. Salary indexation had widened the gap between internal and European inflation to values above zero. The CIG (Cassa Integrazione e Guadagni – Redundancy and Earnings Fund) had made the closure of enterprises and collective dismissals both difficult and costly. Some observers argued that individual dismissals were also con-

2. *Price competition* which is typical of traditional manufacturing markets that function in a very similar way to those of perfect competition, is considered here to be in contrast with *competition for capacity of product innovation,* typical of markets characterized by imperfect or monopolistic competition.

siderably impeded by Art. 18 of the Workers' Statute that prohibits dismissal without a ›just cause‹, a generic term which, according to prevailing case law, tribunals always interpret in favour of workers.

Not surprisingly, then, as early as the 1980s, the term ›flexibility‹ became a kind of obsession among employer associations and in political debate. In fact, firms demanded wage, functional and numerical flexibility.

To obtain wage flexibility, salaries needed to be linked to work productivity instead of inflation. This issue was tackled in a series of large-scale political and social clashes in the decade between the 1984 St Valentine Referendum and the 1993 Protocol Agreement. The latter led to *institutional indexation,* that is, an agreement between unions, management and the government with regard to planned inflation. The institutional nature of the agreement meant that if real inflation rose above planned inflation, the trade unions had to wait until the subsequent national labour contract had been signed before they could recover the loss of purchasing power they had suffered. This mechanism led to an immediate dampening of inflation, but every time real inflation exceeded the programmed rate, it also involved an inevitable loss of wage purchasing power for the entire period between one contract and another. Moreover, the duration of collective labour contracts was prolonged, so that in the following period, real wages actually sustained substantial losses, often falling below growth in labour productivity and therefore curbing growth in internal consumption (see also Tronti 2010; Pastore 2010).

Functional flexibility[3]in public administration has been pursued by means of the so-called 1997 Bassanini reform and a series of other measures, including that of former Minister Renato Brunetta. However, whereas wage flexibility seems to have been fully achieved, the same cannot yet be said for functional flexibility.

Starting with the 1997 Treu Law that legalised the use of so-called atypical employment, a number of measures have succeeded in introducing greater numerical flexibility, especially for temporary work and coordinated and continuous collaboration (the so-called *co.co.co*). However, some aspects of this law, which were designed to prevent temporary work being used in a ›non-standard‹ way, have never been put into practice. Furthermore, no insurance provisions have been brought into effect to cover the loss of income during periods of unemployment. This prevents workers from gaining access to credit, thus limiting their possibility of purchasing a house and producing serious effects on the fertility rate.[4]

The following period witnessed new legislative provisions for achieving numerical flexibility rather than for protecting temporary workers. The introduction of the so-called ›White Book‹ presented by Marco Biagi (the labour law expert murdered by the Red Brigade in March 2002) and partially converted into Law 30 in 2003 by former Minister Roberto Maroni marked an important step forward. However, many labour law experts claim that this law enables employers to avoid their obligation of stipulating permanent contracts.

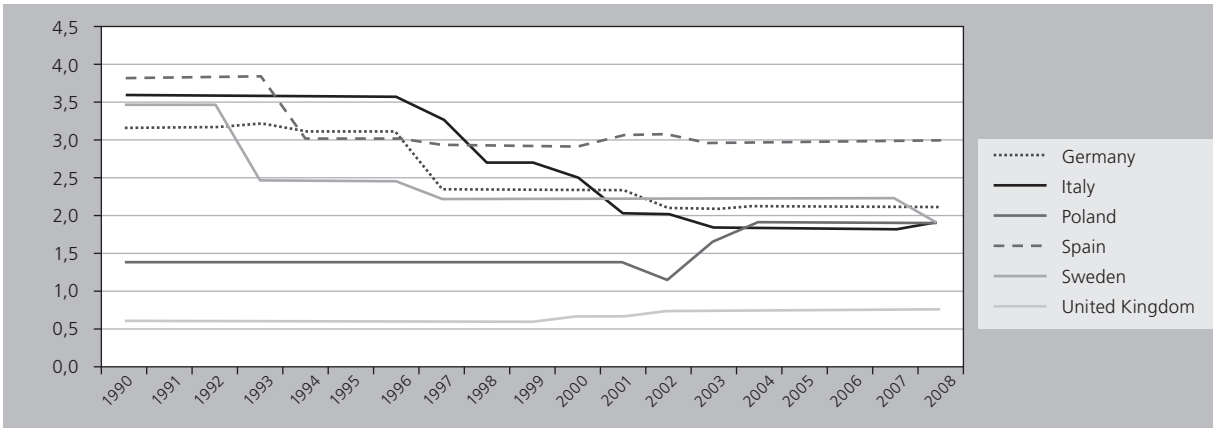
However, at the same time, the Maroni law did introduce a more restrictive regulation with regard to »co.co.co.s«, »co.co.pro.s«, which took on a different definition to become known as coordinated collaboration contracts linked to a project (co.co.pro.s). Unlike under the Treu Package, employers were obliged to make contracts official, thus granting workers some important juridical and economic rights. Nevertheless, the eagerly-awaited conversion of co.co.pro.s to permanent employment contracts rarely occurs and many young people continue to work under a kind of semi-dependent employment contract for years.

Overall, the aforementioned legislative measures diverge significantly from the 1970 Workers' Statute. Nevertheless, the strongest supporters of flexibility have criticised both the Treu Package and Biagi's Law for not reducing the costs of dismissal. In fact, it was no accident that the Berlusconi government was forced to withdraw its proposal (2002) for repealing Art. 18 of the Workers' Statute after meeting strong and joint trade union opposition and the dissatisfaction of the general public.

3. Functional flexibility means the possibility firms have of using their staff to carry out different work tasks according to productive requirements. A lack of functional flexibility leads to inefficiency since some workers are idle in their own work tasks, while being needed for other work activities.

4. The increase in temporary and flexible employment has contributed to raising the age at which women give birth to their first child.

Figure 9: Rigidity of legislation for employment protection, 1990–2008



Source: Author's processing of OECD data.

2.2 An Attempt to Measure the Degree of Labour Flexibility in Italy

Has flexibility increased, and to what extent? Close observation of the way in which the OECD synthetic indicator of degree of employment protection has evolved (Figure 9) clearly reveals that Italy is an emblematic example of reforms at the margin. At the end of the 1980s, with a score of 3.6, Italy almost topped the table for the most rigid labour market in European countries. Since then, however, it has witnessed the largest reduction in this indicator which, in 2003, dropped to 1.9, closer to the minimum 0.7 level recorded in the UK than to the maximum of 3.5 reported for Portugal. This reduction was related to the relaxing of restrictions on temporary employment (in fact, the relative rigidity indicator fell by 60 per cent),whereas protection for regular employment remained the same.

Table 1 shows how the incidence of part-time and fixed-term employment evolved in Italy and in the EU from 1990 to 2010. Before the Treu reform, the share of atypical employment was considerably below the EU mean, especially for temporary work. In 2010, despite the impact of the economic crisis that predictably led to a decrease in atypical employment in particular, the gap between the Italian figure and the European mean was all but filled, above all for women. The incidence of female part-time employment was also within the European mean. In Italy, atypical employment is principally a female phenomenon.

Despite all the debates, and possibly on account of methodological difficulties in calculating flow data, there are still few indices to measure numerical flexibility on the labour market. Table 2 describes the annual rate of *job finding* as a percentage of the total number of unemployed, and *job separations* as a percentage of the total number of employed, in a range of countries. The table highlights the fact that in Italy there has been a gradual but significant increase in the *turnover* rate, especially with regard to *job finding* (tripled from 13.1 per cent to 33.5 per cent), while the percentage of job separation has remained unchanged. In the same period, the duration of unemployment fell from 7.6 to roughly 3 years.

This confirms that the reforms have had a significant impact on the degree of flexibility and on the unemployment rate, which fell from 11 per cent to 8 per cent, mainly due to workers finding atypical jobs rather than permanent employment.

Italian labour flexibility is still below that of the United States and former communist countries. However, it is worth considering whether the latter are examples to be followed: the United States offers few guarantees of stable employment, while post-communist countries are undergoing a dramatic, albeit historically unique, process of structural change.

A number of studies point to the existence of a *causal* effect of temporary employment on the probability of finding permanent employment. In a quasi-experimental context, Ichino et al. (2008) reported a positive net im-

Table 1: Temporary and part-time labour in Italy and the EU15, 1990–2009

		Italy			EU-15		
% dependent employment	**Year**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Part-time	1990	9.8	4.0	19.9	14.0	4.1	28.0
	1998	12.6	5.1	24.5	16.5	5.6	30.3
	2000	13.6	5.8	25.2	16.9	5.8	30.6
	2003	13.1	4.8	31.6	18.5	7.1	31.4
	2008	16.9	5.6	31.6	18.5	7.1	31.4
	2010	17.5	5.9	32.2	19.5	7.7	32.3
Fixed-term	1990	5.2	3.9	7.6	10.6	9.9	11.6
	1998	8.5	7.4	10.2	12.0	11.8	12.2
	2000	10.1	8.8	12.2	12.6	12.3	12.9
	2003	9.9	8.2	12.2	13.4	12.8	14.1
	2008	13.3	11.6	15.6	14.6	13.7	15.8
	2010	12.8	11.4	14.5	15.1	14.7	15.6

Note: Common definition measurements. Fixed-term labour figures are with reference to the EU.
Source: OECD data.

Table 2: *Job finding* and *job separation* rates for various countries and various years

Country	**Job finding**	**Job separation**
United States, 1992–93	65.9	2.8
Poland, regions with low unemployment1994–05	36.3	2.5
Poland, regions with high unemployment 1994–05	31.5	4.4
Russia, 1994–95	40.8	3.7
Italy, 1994–95	13.1	1.6
Italy, 2001–02	20.3	1.5
Italy, 2007–08	33.5	1.6

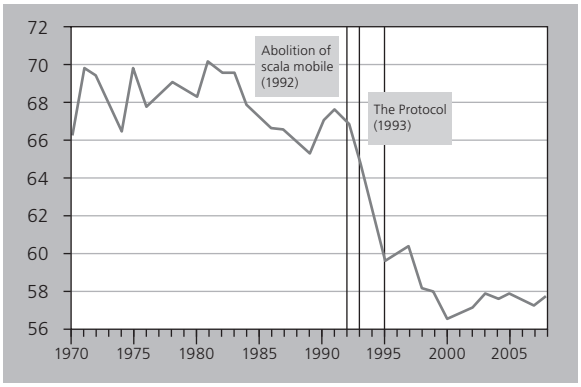
Source: For Poland, Newell and Pastore (2006, Tables 6 and 7); for Russia and the United States, compare Boeri and Terrell (2002); for Italy, 1994–95 and 2001–02, compare Istat (various years), for 2007–08, compare ISTAT (2010).

pact of 19 per cent in Tuscany and 11 per cent in Sicily, where the effect was, however, only slightly significant when compared to a gross effect of 31 per cent and 23 per cent, respectively. In other words, in – for example – Tuscany, the share of temporary workers who find permanent employment after a year is 31 per cent, a value 19 per cent higher than that of individuals with similar characteristics (education, work experience and others), but unemployed. This means that holding a temporary contract implies a higher probability of finding a permanent job than being unemployed. Using INPS data, Berton, Devicienti and Pacelli (2011) confirmed that temporary employment could act as a port of entry for permanent employment, but that it could also become a trap. In fact, they found that temporary contracts tended to persist in the same firm, probably because enterprises benefited from a reduction in employment costs.

The very nature of wage flexibility makes it difficult to measure unequivocally. A synthetic measurement can be

obtained by the rate at which real wages return to their equilibrium level, as determined by the dynamics of labour productivity. According to an estimate by Pastore (2010), the 1993 income policy agreements caused the rate at which real wages readjusted to their long-term value, based on labour productivity, to increase from 46 per cent to 79 per cent. In other words, after 1993, only 20 per cent of the gap of any given year between real wages and labour productivity is not recovered the following year and left to later years. Increased wage flexibility also resulted in the share of dependent employment income undergoing a dramatic reduction (–11 per cent of GNP) from the mid-1990s onwards (Figure 10).

Figure 10: Share of GDP allocated to dependent employment income, 1970–2008



Source: Quoted in Pastore (2010, Fig. 3).

Labour market flexibility has advanced in different directions, bringing Italy closer to the European mean. However, the Italian market still has not reached the type of conditions that characterise the most flexible Anglo-Saxon countries.

2.3 The Fornero Law

The Fornero labour market reform, passed on 27 June 2012, on the eve of an important EU summit during which the Italian Prime Minister called for more substantial financial backing against the risks of the current Great Depression, moves in two directions. It aims, on one hand, to make temporary employment more costly by giving workers more protection, and on the other, to make permanent employment less costly by reducing the cost of dismissal, after also reducing the cost of hiring labour.

Perhaps the most important innovation introduced under the Fornero Law is the abolition of Art. 18 of the 1970 Workers' Statute concerning dismissals for so-called ›just cause‹. As mentioned previously, in firms with more than 15 employees, Art. 18 gave workers who claimed they had been fired unfairly the right to be taken on again (the so-called *reintegro sul posto di lavoro or reinstatement*). Art. 14 of the new law envisages three different types of dismissal: for economic, disciplinary or discriminatory reasons, while *reinstatement* is contemplated in only a few cases.

Another innovation concerns a new system which is more rigid and less generous towards permanent employees, while also becoming available to temporary workers. This system substitutes the old Redundancy Fund *(Cassa Integrazione)* and Unemployment Benefits *(assegno di mobilità)* with a new social shock absorber, the Unemployment Insurance plan (the so-called ASPI – *Assicurazione Sociale per l'Impiego*), which will provide the unemployed with a 12-month benefit of 1,119 euros. This will be reduced by 15 per cent after 6 months and another 15 per cent after a further 6 months. For those over the age of 58, the benefit will last 15 months. To be eligible for this benefit, workers must have paid insurance (1.3 per cent of their wage) for at least two years or 52 weeks over the preceding two years.

Temporary employment is subject to further intervention. First of all, it will be possible to interrupt a temporary contract of 6 months or less without cause. The period between two temporary contracts will increase from 10 to 60 days for a six-month contract, and from 20 to 90 days for longer-term contracts. The aim is to reduce the common tendency to favour temporary rather than permanent contracts, even when the job is a permanent one. Social contributions for temporary contracts will be higher than for permanent contracts. If a temporary contract is renewed after three years, it becomes permanent.

Youth apprenticeship contracts, reformed by a Consolidated Act in 2011, will become the main route of entry to the labour market. These will last at least six months, but cannot apply to more than 50 per cent of the staff of firms employing fewer than 10 workers. The new Apprenticeships Act had already outlined a type of apprenticeship contract that differed from the German model that inspired it by not being linked to the school system and dual principle. Apprenticeship is now seen as an en-

try contract for young people (up to the age of 29), although it also entails formal training for apprentices. Like all other temporary contracts, after three years this type of contract will become permanent. Firms will not be allowed to hire new apprentices if at least 50 per cent of the apprentices taken on in the previous three years are not already on a regular contract. As a temporary transition measure, this share will be kept down to 30 per cent for the first three years of implementation of the reform.

The so-called »VAT people« (with a *partita IVA*), or *co.co.pro.s,* will become dependent employees if they are not ›truly‹ self-employed. This decision will be based on three criteria: (i) the contract has a duration of more than six months per year; (ii) the contract provides more than 75 per cent of annual income; and (iii) the work is performed within the firm. In cases where two out of three of these criteria are fulfilled, the worker can ask for the contract to be converted into dependent wage employment. As a transitory measure, this rule will come into force one year after the law was passed.

In addition, under the Fornero law, an entrepreneur who fires a woman within three years of her pregnancy, can be put on trial. In Italy, it is common for employers to ask a female employee to sign a letter of resignation to be used if the woman becomes pregnant. In point of fact, roughly 27 per cent of employed women resign when they get pregnant. It is now a criminal offence to ask a woman to sign such a blank letter of resignation, and employers can be imprisoned or fined a sum ranging from 5,000 to 30,000 euros.

Last but not least, the Fornero reform will also apply to the state sector. In fact, the Minister for Public Administration is working on this new law.

On the whole, this labour reform seeks to increase the degree of flexicurity in Italy. Of course it is too early to assess its impact, but the aims of the law are clear: (a) to reduce the share of temporary employment by making it less economically viable for firms than permanent employment; (b) to combat all types of »abuse« of temporary employment arrangements for jobs that are not of that type; (c) to provide greater protection against unemployment for temporary workers, so that »job protection« can be substituted by »employment protection«; (d) to smooth the school-to-work transition process by providing first-time job seekers with more chances of reducing their work experience gap and thereby enhancing their employability.

3. The Education and Vocational Training System

Although the Italian labour market is becoming more flexible, the education system still presents numerous inefficiencies, such as the extremely high dropout rate at all stages of schooling, and the unduly prolonged period required by many university students to complete their degree courses *(fuoricorsismo)*. How can we explain the difficulty young people – especially those from poorer backgrounds – encounter in getting a proper education? The answer involves factors that concern both demand and supply.

3.1 Demand-side Explanations

First of all, we must point to the low demand for human capital in a production system, characterised by limited technological innovation. This leads to poor returns for educational qualifications: in other words, the salary premium that companies give employees with diplomas and degrees for each year of study beyond those of compulsory education. Recently, Naticchioni, Ricci and Rustichelli (2008) demonstrated that economic returns for degrees and secondary high school qualifications (already low compared to those in other advanced economies), have lost considerable ground with regard to humanistic and professional degrees, although this is not the case for degrees in scientific subjects. The salary premium for secondary high school has fallen by at least 30 per cent in all salary distribution quantiles, both for lyceum diplomas and for technical high school qualifications.

The decline in economic returns for education in Italy becomes all the more surprising if we compare it to the strong increase in returns witnessed in other developed countries, be they Anglo-Saxon or Northern European. In fact, in these countries, technological innovation is thought to have led to disproportionate economic returns for the most highly qualified. This would indicate that Italy is moving along what some refer to as the *low road to development*. Another possible explanation emphasises the role of income policy in producing a curb on wages.

3.2 Supply-side Explanations

If education brings fewer economic returns than elsewhere, why do young Italians continue to enrol *en masse* at university? ISTAT figures indicate that between the academic years 1999–2000 and 2003–2004, the number of students matriculating rose from 286,893 to 353,199. A significant increase (+12 per cent) occurred following the introduction of the »3 + 2 years« Zecchino reform.

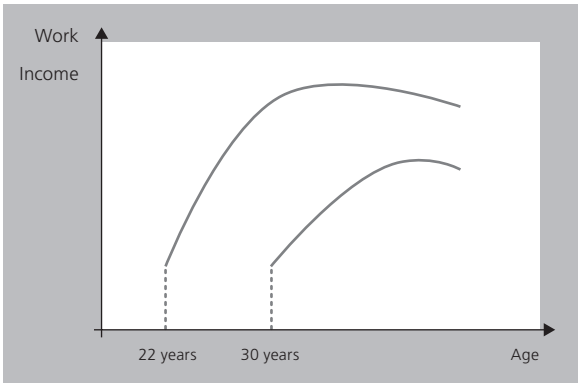
This indicates that a provision for reducing the unduly prolonged duration of university studies had been eagerly awaited and also that the procedure for producing human capital was inefficient. As Bratti, Checchi and de Blasio (2008) point out, tertiary education reforms have led to a far greater increase in the number of university enrolments than in the number of graduates.

The reason for this failure lies in the limited democracy of the reform process, which has prevented university lecturers, students and parents from absorbing the positive elements of the reforms that seem nevertheless to be perfectly in keeping with the Lisbon and Bologna agendas (Pastore 2011a).

The reforms have not succeeded in eliminating a contradiction inherent in a system that initially allows nearly all holders of a secondary high school diploma to enter university (following the 1969 reform), but then induces most of them to drop out, possibly after wasting many years.

Human capital theory may help to explain the poor supply of first-class qualifications. Educational choices are influenced by the prospect of better future net remuneration. Not only does education pay less in Italy compared to other countries, it also costs more. While direct expenditure (university fees, books, lodgings) is the same, indirect costs (no earnings on the part of the student for the prolonged period needed to obtain a degree and complete the transition from university to employment) are a burden on the family budget. Let us compare Italy and the United States (Figure 11). The earnings curve is steeper in the United States: the return for each year of education is approximately 18.4 per cent as compared to 6.7 per cent in Italy. The other difference concerns the indirect cost of education. In the United States, the earnings curve commences around the age of 22–23 years, when students get a degree (21 years) and find employment (almost immediately). In Italy, the same curve starts further over to the right, since the mean graduation age is 27–28 years, and young people enter their first job at roughly 30 years of age. Since the retirement age is the same, Italian graduates fail to make the best use of the complementary relationship between education and work experience, merely because of delayed entry to the labour market (Pastore 2009).

Figure 11: Earnings curve. A comparison of Italy and the United States



But why do university studies last so long? As Pastore (2011) and Aina and Pastore (2012) point out, the most obvious answer is that the aim is to kill many birds with a single stone by making it difficult to obtain a degree. Since anyone with a secondary high school diploma can enter university, there is no proper entry selection, except for the more remunerative faculties (for example, the School of Medicine). Selection therefore occurs in the course of university study, slowing down even those students who would have been capable of graduating on time. Moreover, because of lack of funding, there is a limited choice of courses and attendance is low.

Furthermore, courses focus mainly on the theoretical aspects of a subject. Little attention is given to practical applications, thus preventing young students from learning the problem-solving skills that are extremely useful in the world of work. In addition, there are few links between the education system and the labour market. This is evident not only in the lack of apprenticeships, internships and other company training schemes that are typical of other education systems based on the dual principle, but also in the absence of links during the post-graduation period. In fact, *job placement* activities are virtually non-existent. All this means that it takes many years to get a

degree and that the transition period to a permanent job is extended.

3.3 The »Class-oriented« Education System

The discouraging effect of the low returns and high costs of education is influenced by social class: the poorer a student is, the lower his cultural background, the higher the direct (effort, motivation) and indirect (time) costs of getting an education, the lower the economic returns for education. The offspring of professionals graduate earlier not only on account of their above-average cultural background, but also because of the better prospects of future earnings. These prospects give them a greater incentive to overcome the obstacles that lead out of the difficult transition tunnel towards a stable and satisfying job.

A study by Hertz et al. (2007) shows that Italy has one of the lowest social mobility rates in the world, below that of countries such as the United States, where university fees are much higher. Checchi, Ichino and Rustichini (1999) were perhaps the first to report this paradox in a very interesting comparison with the United States where selective entry mechanisms based on merit and family income are highly developed. Cappellari (2004) found that there is a strong association between the type of secondary high school attended, family background and previous school performance.

Checchi and Flabbi (2010) point out that in Germany, an early tracking system determines, at the age of ten, whether a child will become an apprentice or attend an academic high school (gymnasium), the latter being the only route of entry to university. In Italy, decisions concerning the choice of a secondary high school are taken at the age of 14, and all secondary high school diplomas give access to university. In theory, family background should influence this choice more in Germany than in Italy, but in practice the opposite occurs, probably because parental choice is not necessarily linked to a child's school performance, whereas German parents must accept a mandatory rule.

About 10 years after the Bologna Declaration and subsequent university reforms, it is essential to assess the results in terms of levels of education and disparity (Caroleo and Pastore 2012a). Cappellari and Lucifora (2009) claim that the Bologna Process has not succeeded in significantly modifying the Italian education system that is biased to favour inequalities. Following the reform, students who dropped out of school had a 15 per cent better chance of enrolling for university than students who were otherwise their peers. This increase was found principally among those who had a better school performance and a poorer family background. The authors interpreted this result as indicating that the most talented students from under-privileged families encounter impediments when choosing the best education path. They also found that the reform has had a slightly negative impact on the university dropout rate.

Nevertheless, there is now clear empirical evidence that in the past decade, there has been only a moderate increase in the percentage of graduates coming from families with a poor social background and/or educational level (see also the annual Alma Laurea reports).

4. Conclusions

The Italian school-to-work transition regime is a typical example of the Mediterranean system where the presence of the State is marginal compared to the central role played by the family. The latter has to bear the costs of the difficult transition period young people undergo on their way to stable employment.

In the past two decades, there have been reforms designed, on one hand, to make the labour market more flexible, and on the other, to make both secondary and tertiary education more inclusive. A number of different indicators point to an increase in wage, functional and numerical flexibility. These changes in the labour market have opened the way to lower unemployment, but have not succeeded in altering the overall school-to-work transition period that remains one of the longest in the world. This also explains why in Italy, as in other Latin Rim countries, the disadvantage of the young compared to adults is still severe.

The education system is one of the factors that can be further exploited, once labour market flexibility has been achieved. The »3+2« university reform aimed to give more young people the opportunity to undertake tertiary studies in a country where the mean level of education is one of the lowest in the EU. However, more than

10 years after its introduction, it seems clear that this reform has only partially produced the expected results. In fact:

(a) there has been only a small increase in the percentage of graduates;

(b) the university dropout percentage is still very high;

(c) nearly all the graduates with a three-year degree sign up for the specialist degree course, thus contributing to increasing rather than reducing the mean duration of university studies;

(d) it has not been possible to introduce some elements of the dual principle, choosing instead to shift the problem downstream to the labour market and rely on temporary employment.

In connection with this last and vital point, there have been only a few positive innovations such as the Moratti school reform and the so-called ›Testo Unico‹ on Apprenticeships passed in September 2011. Mario Monti's government is changing this shortcoming in the education system in various ways. A recent measure enables young undergraduates who have reached the final year of their degree course to start practical training. Much more could and should be done, but the roadmap that has recently been adopted is undoubtedly the right one.

These conclusions naturally pose a series of questions for *policy makers,* since the 2001 university reform has not yet reduced the cost (indirect) of education and this often proves to be an insurmountable obstacle, especially for the more vulnerable social classes, regardless of individual ability. What can be done to ensure equal access to university?

Clearly, expenditure on scholarships and university equipment and facilities is still insufficient. In fact, recent university reforms have not envisaged any additional costs. Therefore, as a first step, this tendency needs to be inverted. Moreover, the 2001 reform should be adjusted so as to introduce measures that would drastically reduce the mean duration of university studies without impinging on standards.

Furthermore, to reduce the school-to-work transition period, private practice and many goods and services markets should be liberalised, and efficient vocational training and careers guidance systems should be developed. There are various ways of building closer links between the education system and the world of work. Germany has a dual model, in Japan schools and universities place qualified students directly in firms and there is also the Anglo-Saxon *job placement* model where both young people and individual firms play important roles. It is absolutely vital that Italy opts for one of these alternatives and does not leave the situation unchanged.

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