

## THE PORTABILITY OF FLEXICURITY IN ITALY

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### **Abstract:**

A high unemployment rate is a typical European issue. During the '80s and the '90s one tried to solve such problem introducing labour market flexibility (due to the Neoliberals ideology). Though, social tensions had risen because of the uncertainty and the lack of securities flexibility implies. Flexicurity was born as a way to settle workers' and enterprises' requests. It worked well in Denmark and in the Netherlands. According to the European Commission, Danish flexicurity traced out a path for labour market reforms all over the European Union. The present work takes part into the debate on the portability of the Danish model in Italy. It is composed of 3 parts. In the 1<sup>st</sup> part we will expose and analyse the Danish model. In the 2<sup>nd</sup> one we will present the current situation of the Italian labour market and, finally, in the 3<sup>rd</sup> section we will deal with the doubts the application of the flexicurity in Italy presents.

*Keywords: flexicurity, Italian labour market; flexibility; unemployment*

## 1. INTRODUCTION

High unemployment rates have been troubling Europe since the '80s. The academic debate tried to understand which are the causes of such a phenomenon. According to the Neoliberal ideology one tried to solve the problem introducing labour market flexibility and reducing workers' welfare state. As the lowest social classes had to face the effects of those policies, it was inevitable that tension grew up.

The idea of flexicurity was born during the 90's, in the attempt to arrange social and production requests, by making securities functional to flexibility in order to go beyond the old fashioned trade-off. These brand new ideas were implemented for the first time in Denmark and in the Netherlands.

In Italy only marginal reforms took place: flexibility was introduced but it afflicted only the weakest labour market segments.

Pietro Ichino's proposal, the "Flessisicurezza", aims to renew Italian labour market making it more similar to the North-European ones.

The purpose of this work is to analyse Ichino's proposal trying to understand if it can fit Italian reality and to highlight the proposal's vulnerabilities.

## 2. FLEXICURITY AND THE DANISH MODEL

After the wide spread of non-standard employment contracts, Danish and Dutch academics tried to define a labour market model where flexibility and security in order to enjoy flexibility benefits and to avoid social tensions. Anyway, it is important to underline that an unambiguous definition of flexicurity does not exist, so flexibility and security must be analysed separately.

Economic literature (Wilthagen & Tros, 2004; Clasen & Viebrock, 2009) usually identifies four different "flexibilities": external numerical flexibility; internal numerical flexibility; functional flexibility, wage flexibility. Similarly, four different "securities" are identified: job security, employment security, income security, combination security.

The Danish flexicurity model is based on the three pillars: a flexible labour market, a generous unemployment insurance and a strong emphasis on active labour market policies (ALMPs). This model also implies collaborative relationships: both trade unions and entrepreneurs associations have arrived at a settlement by making concessions. Trade unions have accepted a high level of external numerical flexibility in return for a high wage level and a high unemployment insurance; entrepreneurs associations have accepted a generous welfare state in return for the ability to dismiss workers easily. It must be underlined that in this particular model the unemployment insurance and ALMPs are strictly connected: a dismissed worker receives his unemployment insurance but he must attend ALMPs programmes. This connection was created to avoid the "Eurosclerosis" phenomenon (Bentolila & Bertola, 1990; Boeri & Garibaldi, 2009). In addition, a remarkable part of the unemployment insurance is paid by the firm who dismissed the worker itself. It should work as an incentive to the quality of the ALMPs: as firms pay a remarkable part of the unemployment insurance, they are interested in that the dismissed workers find a job as soon as possible.

Anyway, some authors (Kongshøj Madsen, 2002; Tangian, 2010) highlight how Danish labour market is affected by the exclusion of many people who belong to the weakest segments (e.g. uneducated people and aged workers).

## 3. ITALIAN LABOUR MARKET

Current Italian labour market is composed of many different laws and interventions that make it difficult to enforce. That fragmentation concerns both the legislative bill and the workers protection system.

The most important vulnerabilities of the Italian protection system are:

- unemployment insurance discriminatory arrangement;
- ALMPs not connected with an effective job search;
- non-existing income support in case of long-term unemployment (e. g. a basic income guarantee or a guaranteed minimum income).

As we will show, Italian labour market is affected by a pre-market segmentation (Guidetti, 2001) and by a in-market segmentation. The first concerns the problems one has got to face before entering the labour market; the latter concerns the different salary and working conditions opportunities.

Speaking about the pre-market segmentation, we can look at the unemployment rates. Table 1 shows the unemployment rates from 1992 to 2009. Here we can see that the Italian rate is very different from the Dutch and Danish ones but quite similar to French or German ones. It must be underlined that flexicurity laws appear in 1993 (Denmark) and in 1997 (the Netherlands) and that in 2005 the Hartz reforms took effect in Germany.

**Table1:** Unemployment rates in Italy and in other European Union Countries.

	1992	1995	2000	2005	2009
Italy	9,3	11,7	10,8	7,7	7,8
France	10,2	11,8	10,2	8,8	9,1
Denmark	9	7	4,5	4,8	6
the Netherlands	5,6	7,2	2,7	4,7	3,4
Germany	6,6	8,1	7,7	11,1	7,7
United Kingdom	9,7	8,6	5,5	4,6	7,7
OECD	7,25	7,43	6,21	6,60	8,14

Source: World Bank.

Trying to analyse Italian unemployment rate, we will find (table 2 and table 3) that the difficulties to enter the labour market are related to age, gender and different geographical areas.

**Table 2:** Unemployment rates in Italy.

Unemployment in Italy by geographic area									
	2005			2009			2011		
	M	F	Tot	M	F	Tot	M	F	Tot
Italy	6,2	10,1	7,7	6,8	9,3	7,8	7,6	9,6	8,7
North	3	5,8	4,2	4,5	6,4	5,3	5	6,8	5,8
Centre	4,9	8,3	6,4	4,6	8,2	6,1	6,7	8,9	7,6
South	11,4	19,6	14,3	10	15,7	12	12,1	16,1	13,8

Source: Italian National Institute of Statistics (ISTAT).

**Table 3:** Unemployment rates in Italy.

Unemployment rates in Italy by ages									
	2005			2009			2011		
	M	F	Tot	M	F	T	M	F	T
15 - 24	21,5	27,4	24,0	23,3	28,7	25,4	27,1	32	29,1
25 - 34	8,2	12,9	10,3	9	12,5	10,5	10,2	13,7	11,7
45 - 54	3,2	5,1	3,9	4,2	5	4,5	4,8	5,4	5,1
55 - 64	3,6	3,2	3,5	3,7	2,8	3,4	4,6	2,7	3,9

Source: Italian National Institute of Statistics (ISTAT).

It is easy to see that the most disadvantaged segments are women and young people. There is a double dispersion going on: on the one hand there are people immediately available to work but unproductive and, on the other hand, young unemployed people are also the labour force most educated segment and so they could improve significantly both productivity and production.

Finally, speaking about the in-market segmentation, it attains people who entered the labour market

(i.e. workers)<sup>1</sup>. It has a negative effect on the most disadvantaged groups as they are relegated to the same salaries and the same contracts regardless to the productivity of the worker (Giudetti, 2001, p. 7). It is also related with informal work (Monteleone, 2004), because of a direct relationship. In Italy, in fact, informal work is socially accepted and it is usually considered as a real job opportunity or, at least, as some kind of social security<sup>2</sup>.

#### 4. THE "FLESSICUREZZA"

The current situation of the Italian labour market could be analysed with the insider-outsider theory. This theory is based on a struggle between unemployed people and those who have a job and/or enjoy more favourable job opportunities. The reason for such a struggle are the costs related to hiring and firing people, which are usually called turn over costs.

It is usually believed that the insider-outsider distinction could be applied to the Italian labour market segments: young people and old people; men and women; employed and unemployed. To discuss if such a comparison is right or not is not the aim of this work. Anyway, even accepting that, it is obvious that the outsiders have to enter the labour market while insiders have not to get out of it.

Even though Italian situation appears to be quite deteriorated, the only proposal received concerning the labour market as a whole is the "Flessicurezza" by the Senator Pietro Ichino. The starting point of this proposal is a new definition of wage labour, which is based on:

- the continuity of the employment relationship;
- being employed by one only employer;
- an income limit.

So, it is an employee anyone who sells its own labour to one single employer and draws more than two-thirds of its income if the income itself does not exceed 40.000 euro per year. The "new labour code" (as Ichino explains) should be applied to the employee thus defined. Any employee would enjoy the same protection beyond the size of organization and type of contract labour. The employment contract provides growing protections: for the first six months there will be a trial period during which you can be fired with no kind of sanction, either legal or economic, to the employer. Then, from the sixth month onwards, in case of dismissal there is the obligation to pay compensation equal to a maximum of two months wage. From the second year onwards, the severance pay is based on the duration of service beyond the second year (it would be equal to one month per year of service).

After two years of service, the employer and the employee must sign a reallocation contract including a complementary unemployment benefit and outplacement services (i.e. ALMPs). The allowance is paid for three years and it guarantees the dismissed worker who gets get 90% of their previous final salary for the first year, 80% of the salary for the second year and, finally, 70% for the third year of unemployment. During the first year the allowance is paid for the 80% by the Italian Social Security Agency<sup>3</sup> and for the remaining 20% by the company which dismissed the worker. During the second and the third years the allowance is paid by the dismissing company (table 4).

**Table 4:** Unemployment insurance according Ichino's proposal.

Period	Allowance in relation to the last final salary	Finanziamento dell'indennità
1 <sup>st</sup> year	90 %	80 % - Istituto Previdenza 20 % - Firm
2 <sup>nd</sup> year	80 %	100 % - Firm
3 <sup>rd</sup> year	70 %	100 % - Firm

Source: Ichino P., 2011

It must be underlined that the complementary unemployment benefit and outplacement is not an alternative to the allowance: to dismiss workers would be expensive but, on the other side, it could be possible to calculate the firing-costs before dismissing.

<sup>1</sup> Pre-market segmentation, instead, attains people who have to enter the labour market (i.e. unemployed people).

<sup>2</sup> Something similar happens in relation to tax evasion.

<sup>3</sup> The Italian name is: I.N.P.S. (Istituto nazionale per la previdenza sociale).

Outplacement services aim to assist the dismissed worker to find a new job as soon as possible and they can range from employee counselling or CVs writing to job placement help. Such services are financed by the dismissing company but they can be also co-financed by public sector (e.g. Regions or the E.S.F.). Anyway, the subject providing them must be chosen by the company which dismissed the worker: as the company pays the costs of the allowance and those of the outplacement services, it is supposed to be interested in that they are as much efficient as possible. On the other side, the dismissed worker is compelled to cooperate actively looking for a new job, otherwise former employer can terminate the contract of reallocation.

Ichino tries to reduce moral hazard risks as much as possible designing a checks-and-balances mechanism. The relationships system is similar to the Danish one: employers accept to pay "generous" allowances and the outplacement services in return for external and internal flexibility while workers accept the possibility to be dismissed easily in return for a three years income security and the employment security (i.e. employability).

## 5. VULNERABILITIES OF THE "FLESSISICUREZZA"

Ichino's proposal received both positive and negative feedback.

Anyway, it is possible to think that the reallocation services are the nodal point of this proposal. They must be sufficient in comparison with the number of employed people and to let the unemployed people to find a new job they must be financed significantly by the public sector<sup>4</sup> and it is difficult to think that those services will be efficient and effective without boosting public spending. In addition, Italian structural unemployment rate is higher than other country's one. This means that many people could participate and that many people will not find a job, regardless to the ALMPs training.

Then, one must think that Italian economic system main feature is low productivity caused by an abuse of non-standard contract (with an entrepreneurs' opportunistic behaviour) and by a lack of R&D investments. Ichino's proposal is based on a growing protections contract which is expected to allow the outsider to enter labour market as firms are aware that they can dismiss redundant or useless workers and they can even calculate exactly firing-costs. On the other hand, the training-costs a firm must face during the first period are supposed to be an incentive to avoid opportunistic dismissal. Even though this argument could seem correct or, maybe, attractive, it is totally flawed. First of all, it is not serious to think that jobs which are available in Italy need, in general, a three years training and investments that would prevent layoffs because they would be disadvantageous (Imperia, 2012, p. 102). It would be realistic to think that workers will be dismissed before the ending of the training period<sup>5</sup> with a huge substitution effect.

Speaking about the macroeconomic effect, this reform would increase competition between workers with a consequent decrease of wage. Such a deflation process could not be seriously considered positive because of two reasons: (1) to decrease wages level means that consumptions would decrease too with a consequent increasing of the unemployment; (2) to decrease wages level also means decreasing production prices but this would not necessarily mean an exportations increase sufficient to compensate the internal consumptions drop (Imperia, 2012, p. 104).

It must be underlined that economic literature made the same criticisms to Danish model as we said in the first part of this work.

Finally, Danish labour market is based on collaborative relationships. To increase job flexibility and the consequent possibility for the employer to blackmail employees could generate social tension clientelism difficult to manage. This would exacerbate the current conflicting relationship within Italian society.

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4 Danmark ALMPs spending on GDP is 1,20%; the Netherlands ALMPs spending on GDP is 1,40. Italy ALMPs spending on GDP is 0,5% (OECD).

5 This would mean that the reallocation contract must not be signed and so the ALMPs argument is flawed too.

## 6. CONCLUSIONS

Danish labour market is the model for Ichino's proposal, whose declared aim is to improve Italian labour market conditions.

People will accept the new labour market structure only if it would be able to create new jobs. In order to do this, outplacement services must be effective and efficient and it would require a boost in public expenditure.

It is also important to understand whether Italian productive system needs a growing protections contract or not. In fact, jobs available in Italy usually do not require a three years training and it is serious to think that this particular contract would generate a huge substitution effect.

Finally, the flexibility, in presence of a structurally high unemployment rate, would lead to a drop of the internal consumptions (and it is not sure that external ones could compensate them) and to worst relationships between employers and employees (while Danish model is based on collaborative relationships).

Finally, after the analysis of Italian rates of unemployment and the conditions of Italian productive system it is clear and self-evident that Italian labour market needs a reform to improve it. But, after the analysis of the flexicurity as they implemented it in Denmark, it is possible to question the portability in Italy of the Danish model, and it is even difficult to questionable if it would be alluring to implement such model.

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