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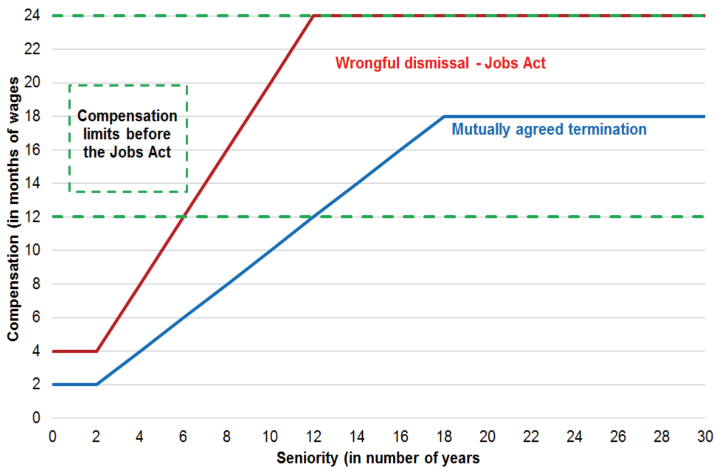
Labour market reforms in Italy

- In 2015, the Renzi government adopted a labour market reform, the "Jobs Act", in response to a relatively low labour force participation rate and a high degree of dualism in the labour market, . In addition and unlike its trading partners, productivity gains have stalled in Italy, which is becoming less competitive.
- Building on the 2012 Fornero reforms, the Jobs Act relaxed protections for employees on permanent contracts by setting a fixed scale of compensation in the case of dismissal, based on seniority (see chart). In a bid to reduce legal proceedings, the Act also introduced the possibility of mutually agreed termination of the employment contract.
- The Act regulates and clarifies the use of short-term contracts, especially of fixed-term contracts and so-called "atypical" contracts, the number of which has been reduced. It also introduced short-term measures in support of employment, such as temporary exemptions from employer contributions. Finally, it strengthens social shock absorbers, in particular by extending unemployment benefits.
- Although the limited timespan since its implementation does not allow for a definitive assessment, the academic literature emphasises that the Jobs Act should support productivity and wages, with ambiguous effects on employment. It could also reduce the duration of unemployment spells.
- Recent labour market reforms in Italy and France have made the dismissal process more flexible and have generally reduced the differences between the two countries' legislation, with respect to dismissal, fixed-term contracts and social security benefits. Whereas in France orders issued to bolster labour-management dialogue give pride of place to collective bargaining (at branch and company level), the Jobs Act does not specifically target wage negotiations. However, in April 2018, both sides of industry in Italy concluded an agreement that emphasised the need for collective agreements at both national (branch) and local (company or territory) levels.
- On the 7th August 2018, the Italian Parliament enacted the so-called "Dignity Decree", which contained several amendments to the Jobs Act, including an increase in the scale of compensation in the event of unfair or mutually-agreed dismissal, and a more restrictive use of fixed-term contracts.

Compensation scale in the event of unfair dismissal: Italy



Source: OECD, calculations by DG Trésor.

Note: Before the Jobs Act, compensation for wrongful dismissal ranged from 12 to 24 months' salary, regardless of seniority (green part). Now compensation is based on seniority, with a threshold of 4 months' wages and a ceiling of 24 months (red curve). In the case of termination by mutually agreed termination, the scale is lower (blue curve).

1. The financial and sovereign debt crises have highlighted structural weaknesses in the Italian labour market

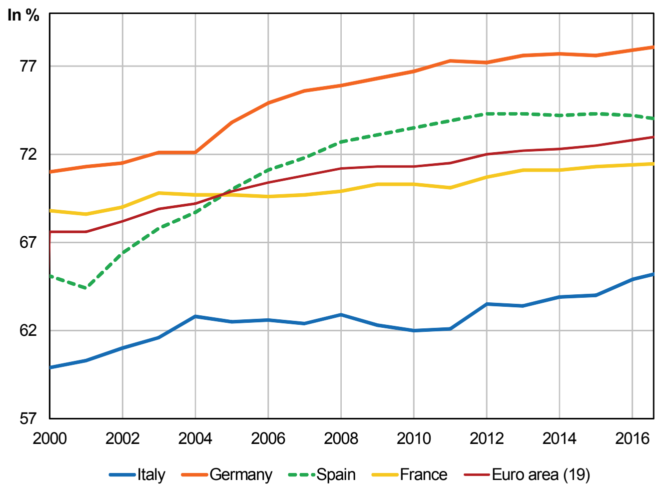
1.1 A fragmented labour market

The Italian labour market is marked by sharp differences between the country's northern and southern regions. In 2017, the unemployment rate was 7.1% in the north but reached 19.7% in the south. This contrast can also be seen in the figures for long-term unemployment (12 months or more), which is 3.5% in the north compared with 12.4% in the south.

In Italy, the activity rate - the ratio between labour force and the total working age population - is significantly lower than the euro area average (see Chart 1). This is particularly the case for women and young people.

The labour market is also characterised by a high dualism, with on the one hand, highly-protected employees on permanent contracts and, on the other hand, a range of different temporary and "atypical" employment contracts.

Chart 1: Activity rate

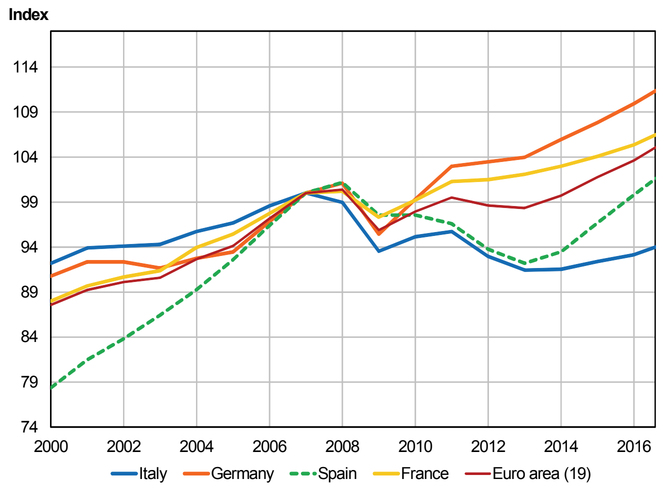


Source: Eurostat.

1.2 High unemployment and low productivity growth

As a result of the financial crisis and the subsequent sovereign debt crisis in the euro zone, which particularly affected Italy, the country experienced a double dip recession (2008-2009 and 2012-2013). Although Italy returned to growth in 2014, activity has less momentum than the euro area average. Italy's 2017 GDP was still 5% below its 2007 level, while in the euro area as a whole it has increased by 6% (see Chart 2). Labour market shortcomings and low productivity gains have led to significant losses in competitiveness and to higher unemployment.

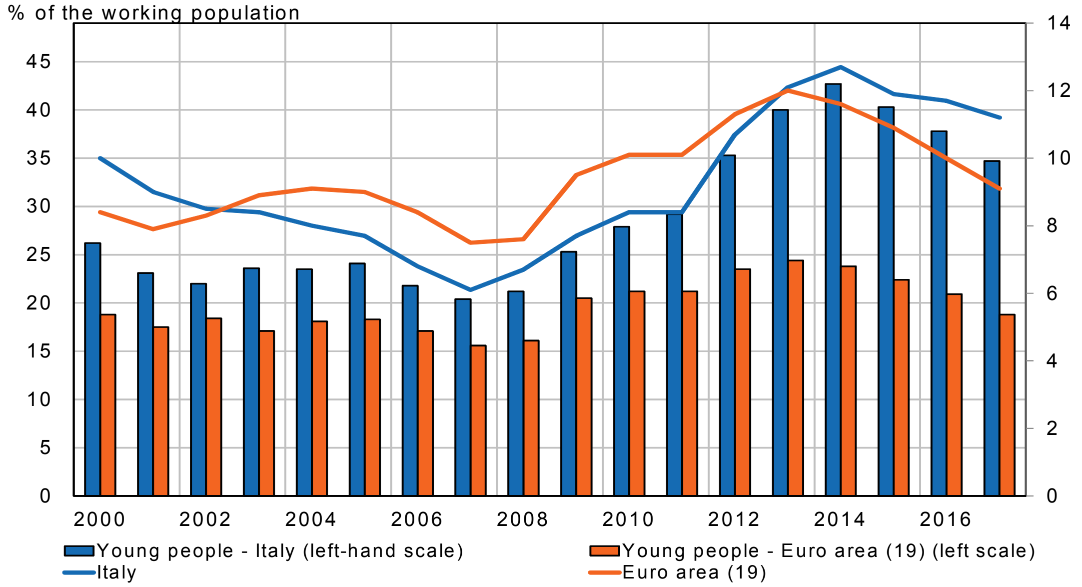
Chart 2: Italian GDP (base 100=2007)



Source: Eurostat.

Between 2008 and 2014, the unemployment rate in Italy nearly doubled, with young people being particularly hard-hit. In the 2000s, unemployment gradually declined, reaching its lowest level ever in 2007 (6.1%), below the euro area average (7.5%). Despite the financial crisis, unemployment remained below average until the sovereign debt crisis, before rising to a record high of 12.7% in 2014. The increase was more marked among young people, with unemployment rising from 20% to 43%, whereas in the euro area the increase was from 16% to 24% (see Chart 3). This is attributable to the fact that job losses were concentrated among younger workers and, more generally, among people holding temporary job contracts.

Chart 3: Unemployment rate



Source: Eurostat.

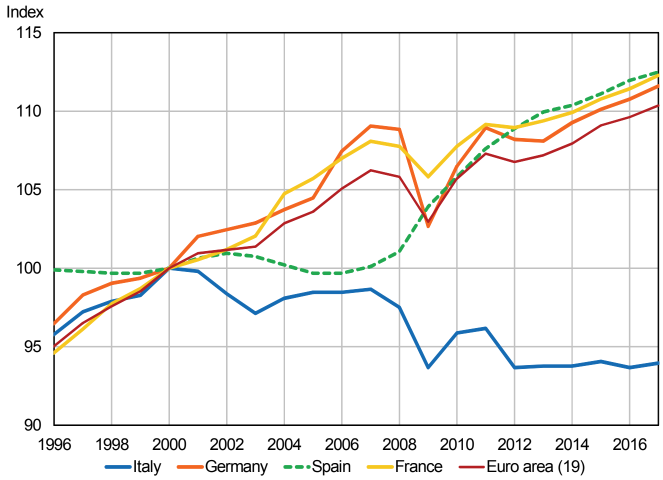
Unemployment has been on the decline since the end of 2014, but it remains high. Such persistent high level of unemployment increases the risk of long-term unemployment (58% of jobseekers have been unemployed for more than a year, compared to 49% in the euro area in 2017),[1] leading to a loss of skills and making jobseekers less employable. These so-called hysteresis effects can lead to an increase in structural unemployment. According to Rusticelli (2015), two-thirds of the increase in long-term unemployment would eventually translate into an increase in structural unemployment, so that two out of three long-term unemployed people would remain unemployed even after activity in Italy picks up.[2]

In addition, Italy has experienced a slowdown in labour productivity than its main partners since 2000.[3] Structural factors seem to be at the root of this situation, which is atypical in Europe (see Chart 4).The first is the lag in labour-force educating and training, particularly for the young, which restricts the supply of skilled jobs. At the same time, the integration of young people –including the highest educated– into the labour market is difficult, and this can lead to an inefficient use of human capital. The second factor is that investment in R&D and information and communication technologies (ICTs) has been far lower than in other European countries.[4] Recent studies also suggest that the lack of labour productivity gains in Italy in recent decades is also due to a lack of meritocracy in the selection and rewarding of managers.[5]

At the same time, strong wage growth has led to losses of competitiveness. Even before the financial crisis, nominal wages grew in line with their euro area counterparts while productivity declined, resulting in poorer cost competitiveness (see Chart 5). Despite companies drastically cutting their margins to deal with this situation, Italian price competitiveness has also deteriorated. Since 2010, productivity losses have continued to pile up, but the wage slowdown has made it possible to regain some competitiveness and stabilise margins.

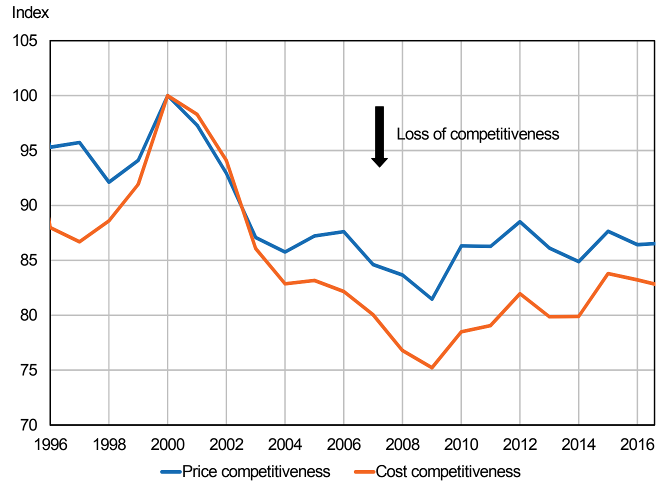
(1) Source: Eurostat.
(2) Rusticelli (2015), "Rescuing the Phillips curve: Making use of long term unemployment in the measurement of the NAIRU", *OECD Journal: Economic Studies*, Volume 2014.
(3) A portion of the growth gap may be the result of differences in measurement. Insee estimates that the divergence in the methods chosen by French and Italian national accountants (particularly the volume-price split with respect to certain categories of consumption and investment) would account for a gap of some 0.2 percentage points of growth between the two countries since 2000 (Giraud and Quévat (2017), "Why has Italy's growth declined since 2000 compared to France", INSEE's *Note de conjoncture*, June 2017.
(4) *Cf.* Mrabet H. (2016), "Why is Italian productivity so weak?," *Trésor-Economics*, No. 170, May.
(5) Pellegrino and Zingales (2017), "Diagnosing the Italian disease", *NBER Working Paper* no. 23964.

Chart 4: GDP per person employed (base 100=2000)



Source: Eurostat, calculs DG Trésor.

Chart 5: Italy: Price and cost competitiveness (base 100=2000)



Source: OCDE, calculations by DG Trésor, Scope: the entire economy.

How to read this chart: Price competitiveness corresponds to the ratio of the export prices of goods and services of OECD Member States to Italian export prices, while cost competitiveness corresponds to the ratio of unit labour costs (ULCs) of OECD Member States to Italian ULCs.

2. Post-crisis reforms have focused on providing flexicurity

In Italy, the employee protection regime developed with a ban on temporary employment in 1960 and the regulation of open-ended employment contracts in 1962. The 1970 Workers' Statute (Article 18) made it possible to keep permanent contracts extremely secure. In certain cases, the Statute – which applies to employees on permanent contracts signed prior to the Jobs Act – provides for the automatic reinstatement of an employee when his or her dismissal is ruled unlawful by the courts and for the payment of wages from the date of dismissal to the date of reinstatement. For companies with fewer than 15 employees, the choice between reinstating an employee or providing compensation is left to the judge's discretion. This rule meant that dismissing an employee is a costly and unpredictable exercise.

The 2012 Fornero reform significantly curtailed the application of the reinstatement requirement stipulated in Article 18. After the reform, reinstatement applied only in cases of dismissal where no reason was provided (an "ineffective" dismissal, under Italian law) or for discriminatory reasons, or in cases where there was no factual basis for the dismissal. In the other cases, the penalty was no longer reinstatement but the payment of compensation, the amount of which, determined by the judge, varied from 12 to 24 months' salary, with no direct link to seniority.[6]

Following on from previous reforms by the Monti government that were initiated in 2012, the Jobs Act, which was introduced by the Renzi government in 2015, had two main objectives: lowering protection of employees on permanent contracts and making the Italian labour market more flexible. The main changes were: (i) the introduction of an open-ended contract with "gradually increasing protection"; (ii) the relaxation and regulation of short-term and so-called "atypical" contracts; (iii) the relaxation of the voucher system (similar to France's Universal Service Employment Cheque, but with a much broader scope); and (iv) the enhancement of social shock absorbers.

2.1 Significant loosening of regulations governing permanent contracts, but falling short of introducing a single employment contract

The permanent employment contract with "gradually increasing protection" introduced by the Jobs Act differs from the former permanent contract with respect to sanctions for dismissals that the courts deem unjustified (or unlawful), the elimination of the rule automatically reinstating employees (except in certain exceptional cases) and the introduction of a fixed scale for dismissal compensation. It is therefore a reform of unjustified dismissal rather than a new legal form of employment contract. Reinstatement now only applies to dismissals that have been declared void due to discrimination, and in a few

(6) Prouet E. (2015), "Contrat de travail: les réformes italiennes", France Stratégie, *Note d'analyse* no. 30, May.

other cases. Otherwise, the court can only order the employer to pay compensation, according to a scale that is proportional to the employee's length of service, with a floor (4 months' wages) and a ceiling (24 months) (see chart on page 1).[7] However, these new rules only apply to permanent contracts signed after the Act was passed. The 14.5 million Italian employees on permanent contracts signed before 7 March 2015 remain subject to the old provisions.

At the same time, to avoid litigation, contracts can now be terminated by mutually agreed termination (at the sole initiative of the employer, unlike in France). The compensation scale (between 2 and 18 months' wages) is lower than that for dismissal and depends on the employee's length of service in the company. However, this less advantageous scale allows the employee to receive termination indemnities more quickly: agreeing to compensation terminates the employment contract and means that legal challenges to the dismissal can be avoided.

2.2 Short-term contracts: regulation and clarification

Italian law allows the use of fixed-term contracts for technical reasons or for reasons having to do with production or organisation, or with replacement of employees, including as part of the company's regular activity. The reform has made it easier to use fixed-term contracts by extending their maximum duration from 12 to 36 months, without having to justify their use.[8] The waiting periods between two fixed-term contracts have also been eliminated,[9] which means that a contract can be renewed up to 5 times during the 36-month period. However, the Jobs Act has capped the number of employees on fixed-term contracts at 20% of a company's workforce,[10] with the exception of companies with fewer than 5 employees.

To combat abuse, the Jobs Act also limits the use of "atypical" contracts. Italy had a host of temporary employment contracts such as project collaboration contracts ("co.co.pro"),[11] coordinated and continuous collaboration contracts ("co.co.co"),[12] "jobs on call", "jobs sharing", and "joint venture contracts with contribution of work". Thus, "job sharing" (work contract shared between two people) and "joint venture contracts with contribution of work" (contract by which a partner is paid according to the company's profits) have been eliminated. The Jobs Act also changes the rules to reclassify "co.co.pro" and "co.co.co" contracts as permanent contracts with "gradually increasing protection"[13] when they correspond to actual employment contracts. On the other hand, some contracts have been maintained, such as collaborative contracts governed by collective bargaining, or those specific to sports associations and certain intellectual professions.

The 2015 reform encourages apprenticeships. Companies with more than 50 employees now must give permanent contracts to least 20% of their apprentices who have been kept on for 36 months before they can take on a new apprentice. The Jobs Act has also made it possible for employees over 50 years of age to be hired on apprenticeship contracts, provided they receive unemployment benefits. As it turns out, the increase in the retirement age initiated in 2011 has increased the difficulties of integrating seniors into the labour market.

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(7) For companies with fewer than 15 employees, the floor is 2 months' wages and the ceiling is 6 months.
(8) Poletti Decree Law of 12 May 2014 (DL 34/2014).
(9) Previously, the 2012 Fornero reform stipulated a 60-day waiting period for fixed-term contracts of less than 6 months and 90 days for fixed-term contracts of more than 6 months.
(10) This provision has been in force since 1 January 2015. Failure to comply with this cap may result in financial penalties.
(11) Employees are not bound by an exclusive relationship and the compensation takes into account the average level of compensation in the company.
(12) This contract allows freelance employees to provide a service on behalf of employers that do not employ them.
(13) The co.co.co and co.co.pro are now recast as permanent contracts provided that three conditions are met: (1) the work is done exclusively by the person in question (no subordinates, no substitution by another employee); (2) the work is continuous (no term fixed in advance); and (3) the employer organizes the employee's work (setting working hours and place of work).

Box 1 : The voucher system: eased by the Jobs Act and then recast in 2017

To encourage the regularisation of undeclared temporary workers, the 2015 Jobs Act made the so-called "voucher" system, which was introduced by the Berlusconi government, more flexible. With a unit value of €10, vouchers could be purchased by a company or private individual from a tobacconist and used to pay an hourly rate for occasional work, including farm work. The Jobs Act increased the annual cap from €5,000 to €7,000 per worker. This scheme was a great success, and some 800,000 previously unknown – and possibly undeclared – workers are thought to have been declared in employment through vouchers in 2015, a large portion of them young people.[a]

According to the Italian trade unions, the system was misused on a massive scale and encouraged the development of precarious employment. Some companies have reportedly used them instead of traditional employment contracts for stable jobs. "Voucherists" thus became a new category of workers deprived of sick leave, maternity leave and severance pay.

In 2017, a new voucher system was introduced: The Act of 21 June 2017 put rules in place to prevent abuse. The "PrestO" voucher is designed for companies with up to five permanent employees who want to use occasional labour. Its unit amount is €12.41 gross and €9 net (per hour remuneration). The Libretto Famiglia voucher is designed for private individuals employing people at home, with a value of €10 gross and €8 net. The annual per-worker cap has been reduced to €5,000, with a limit of €2,500 per employer (companies, or individuals for the *Libretto Famiglia*). Henceforth, benefits are recorded online using a platform of the National Social Security Institute (*Istituto Nazionale della Previdenza Sociale* - INPS), which allows a better oversight of how vouchers are used and compliance with the caps.

a. Source: Fondazione Consulenti per il Lavoro (Foundation of Labour Advisors), March 2017.

2.3 Enhanced social shock absorbers

As a counterpart of making the labour market, the Jobs Act strengthens workers' security by boosting the country's "social shock absorbers". This is accomplished by extending social benefits to previously non-beneficiary workers and companies.[14] In terms of unemployment insurance, efforts to create universal unemployment insurance (known as "Naspi")[15] were introduced as part of the 2012 Fornero reform and carried forward by the Jobs Act. Naspi now covers all workers, including some self-employed workers known as "parasubordinates". To be eligible, workers must report 13 weeks of contributions over the previous four years and 30 working days over the previous twelve months. The length of compensation is longer than under the Aspi (the previous regime), with a maximum of 18 months as from 2017. The amount is degressively based on the employee's previous income and is capped at €1,300 per month.[16] It also decreases over time from the fourth month on (3% per month). Eligibility for unemployment insurance is conditioned on the beneficiary taking part in measures provided for under active employment policies.

At the same time, use of the *Cassa Integrazione Guadagni* (CIG), the "technical unemployment" funds, has been regulated. This system is comparable to France's "partial employment" scheme, under which employees can be kept on when their company is facing temporary economic difficulties. The CIG provides additional income to employees in certain sectors (mainly industry, craft work and construction) who are subject to a temporary suspension of their employment contract or a reduction in the number of hours worked. These funds, which are managed by the National Social Security Institute (*Istituto Nazionale della Previdenza Sociale* – INPS) and funded by employee contributions, pay compensation of 80% of the wages not received by the employees in question. This system has now been extended to all companies with between five and fifteen employees, which has previously been excluded (previously, only those with more than fifteen employees were eligible). In return, the Jobs Act shortens the duration of the payment and prohibits the use of the scheme in the event of the company's cessation of activity.[17]

(14) The Decree on social shock absorbers was adopted by the Council of Ministers on 20 February 2015 and entered into force on 1 May 2015. The goal is to extend coverage of the scheme, introduced in 2012, by establishing a truly universal unemployment insurance scheme.
(15) Nuova assicurazione sociale per l'impegno, which replaces the "Aspi" scheme as from 1 May 2015.
(16) The substitution rate is 75% for incomes below the reference monthly salary (€1,195) and 25% for incomes above this level, until benefits reach the maximum of €1,300 per month. These amounts are before the application of the degressive system over time.
(17) Temporary support may no longer exceed two years over a rolling five-year period.

2.4 Active employment policies

The Jobs Act introduced a National Agency for Active Employment Policies (ANPAL),[18] which was tasked with national-level coordination of the various public and private employment services spread throughout the country. The aim is to harmonise services for jobseekers and companies, which have heretofore varied widely between regions, and to implement a unified, nationwide employment policy. However, since the rejection of the constitutional reform of 4 December 2016, which was intended to allow for a recentralisation of employment policy remits, shared between the central government and the regions, to the benefit of the central government, the role of the Agency has been smaller than originally intended. In November 2016, ANPAL created a single platform for the exchange of information between the various actors in employment policies. Job seekers can upload their CV and consult their personal account and any job offers received.

The Jobs Act also introduced a system of "replacement cheques" that can be used by jobseekers to pay for public and private job search assistance services. This scheme concerns those who have been beneficiaries of the Naspi for at least four months. The amount of the subsidiary is paid to the agency that provides the service, provided that the jobseeker has re-entered the labour market, which is an incentive to producing results.

Its amount varies from €250 to €5,000 (with an average of €3,000-4,000), depending on the individual's employability profile and the type of employment contract. For example, it is higher for jobseekers who sign employment contracts in southern Italy.

2.5 Short-term temporary tax measures to support employment

In addition to these structural measures, there are tax incentives: temporary reductions in employer contributions for permanent contracts – including those which are changed from fixed-term to permanent contracts. The 2015 Italian Budget provides for three years of tax incentives to employers who hire in 2015 (100% exemption for three years, capped at €8,060 per year). This was extended in 2016 (40% for two years, up to a maximum of €3,250 per year) and in 2017 for companies in southern Italy (100% for one year, capped at €8,060).[19]

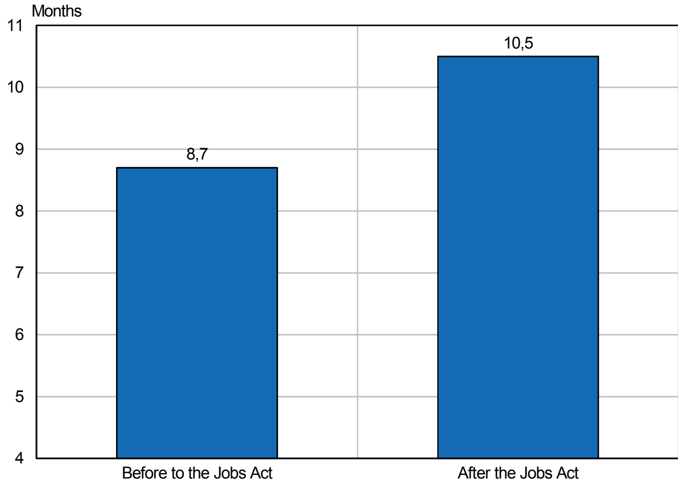
In addition, apprenticeships are encouraged for tax purposes. In the 2017 Budget Act, exemptions from employer social security contributions for up to 36 months are offered for companies that hire students on permanent contracts in 2017 and 2018, at the end of their apprenticeship period. Since the Jobs Act, a significant number of apprenticeship contracts have been converted to permanent contracts: 48% of apprentices in 2014 were identified as having permanent contracts in 2016 (according to the INPS Annual Report).

3. Although the upturn in the labour market since 2014 is encouraging, it is too early to draw definitive conclusions about the Jobs Act reforms

The Jobs Act reforms described above, which follow on from those of the 2012 Fornero reforms under the Monti government, have made it possible to extend the average length of unemployment benefits (see Chart 6). In addition, the number of employment contract-related disputes has fallen off sharply since 2012, particularly those relating to fixed-term contracts (down to 90% between 2012 and 2017) and those relating to permanent contract dismissals (down to 60% between 2012 and 2017). This can be partly attributed to the introduction of the permanent contract with gradually increasing protection, which limits the courts' discretionary powers, and by the introduction of the mutually-agreed termination mechanism. In 2015, expenditures on active employment policies increased (see Chart 7), mainly driven by employment incentives and vocational training. The effects of the reforms are expected to support activity in the long term and make the labour market more fluid, although, unlike the labour market reforms in Spain in 2010 and 2012,[20] they do not include a focus on wage negotiations, which might have helped reduce wage rigidity more significantly and increase competitiveness.

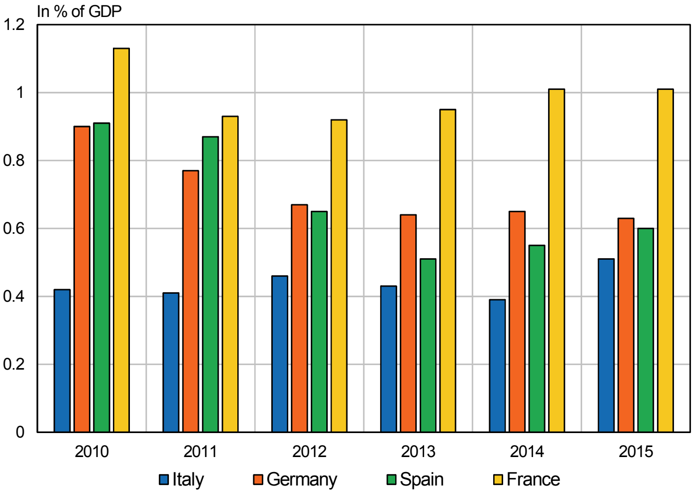
(18) Established by Legislative Decree 150/201 5, the ANPAL has been operational since early 2016.
(19) After 2017, these measures were refocused on young people.
(20) See Anne-Braun J., Bogue M., Gouardo C. and R. Mathieu (2016), "Spain's labour market reform: an initial assessment", *Trésor-Economics*, no. 174, August.

Chart 6: Italy: Average length of unemployment benefits



Source: DG Trésor.

Chart 7: Expenditure in active employment policies



Source: DG Trésor.

3.1 *Ex-ante* evaluations suggest that the reforms have had a positive impact in making the protection of permanent jobs more flexible

The Jobs Act has resulted in a decline in employment protection that could support productivity and wages. It makes the labour market more flexible, due to less restrictive rules on individual dismissals. After the Jobs Act was introduced, the OECD's Employment Protection Legislation indicator (EPL) for those on permanent contracts fell from 2.74 to 2.54 (on a scale of 0 to 6, with 6 being the most restrictive), a reduction of 0.2 points.

This is likely to boost productivity and real wages. In general, reforms to reduce the cost of dismissals – by better matching labour supply and demand and by making it easier to distribute labour to the most productive firms and sectors – are primarily aimed at reducing dualism and improving long-term productivity growth (OECD, 2016).[21] This increase in productivity is likely to lead to increases in real wages. Better allocation of labour also makes it possible to reduce the length of time spent unemployed, which is likely to increase the labour market participation rate and limit the phenomenon of "discouraged jobseekers".

These theoretical effects are confirmed by the empirical literature. On the one hand, Egert (2017) finds a negative correlation coefficient between the level of employment protection (EPL indicator) and human capital,[22] while Bassanini *et al.* (2009) estimate that a 0.2 point reduction in the indicator would increase productivity by about 0.1 point in the long term.[23] On the other hand, the OECD estimates that, over the long term, a reform in favour of relaxing the legislation on dismissal for permanent contracts (reduction of 0.2 percentage points in the indicator for the protection of permanent workers) would raise hourly wages by 0.4% and that the reforms would have a positive impact on the employment of low-skilled workers while the effect on total wage employment would remain negligible.[24] In addition, empirical research indicates that these reforms tend to reduce the portion of temporary contracts in total employment.[25]

(21) OECD (2016), OECD Employment Outlook 2016.
(22) Egert (2017), "Regulation institutions and productivity – new macroeconomic evidence from OECD countries", OECD Economics Department, *Working Papers* No. 1393. Correlation coefficients are adjusted for fixed effects per country and per year.
(23) Bassanini et al (2009), "Job protection legislation and productivity growth in OECD countries", Economics Policy, vol. 24, No. 58, April, pp. 349-402, finds that a one-point decline in the EPL indicator would increase productivity by 0.3 points in sectors where the layoff rate is higher than the US average between 2001-2003.
(24) OECD Employment Outlook (2016). OECD estimates based on EU KLEMS and the database of legislation on the protection of permanent contracts.
(25) This is a relatively consensual result in the literature, for example: Bassanini *et al.* (2009), "Job protection legislation and productivity growth in OECD countries", *Economics Policy,* vol. 24, No. 58 April, pp. 349-402.

In an *ex-ante* analysis of previous Italian reforms, the IMF finds a positive impact of the easing of employment protection on activity. In an assessment of the macroeconomic impact of structural reforms in Italy, the IMF points out that labour market reform, taken in isolation, would have a significant positive impact on GDP.[26] These estimates focus on the effects of the 2012 Fornero reforms under the Monti government and not on the reforms of the Jobs Act. Using a DSGE model,[27] the IMF estimates that these reforms led to an increase in GDP over the ensuing five years and over the long term of +1.1% and +1.8%, respectively. The IMF breaks down the impact of these reforms on GDP into three components: employment protection legislation, active labour market policy and the labour force participation rate. The decline in the EPL indicator (by 0.1 point after the Fornero reform) had a positive but relatively small effect on GDP, (0.1% in 5 years and 0.3% in the long term).[28] An extrapolation of these results on the extent of the drop in the EPL indicator following the Jobs Act (0.2 points according to the OECD estimate discussed above) would suggest a slightly larger impact on GDP (0.6% in the long term).

3.2 According to the Bank of Italy's first ex-post evaluations, the Jobs Act is responsible for a small share of the recent turnaround in employment

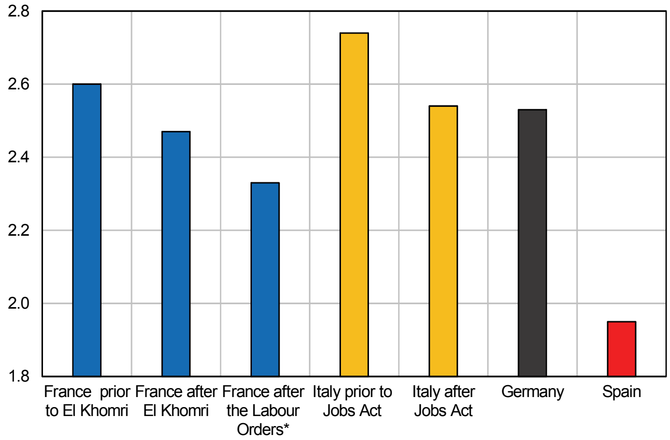
The Bank of Italy has attempted to assess the impact of the 2015 reforms (exemptions from social security contributions and the Jobs Act) on the upturn in paid employment.[29] The results suggest that the current employment momentum is mainly driven by the economic recovery and the contribution incentives. On the basis of individual data[30] from the Veneto region from 2015, the Bank estimates that: (i) the measures account for about a quarter of the increase in employment in Veneto in the first four months of the year (about 10,000 jobs), with the rest attributable to growth in economic activity; (ii) exemptions from social security contributions account for two-thirds of the job growth attributable to the measures taken, with the remaining third linked to the new dismissal rules.[31] In addition, the authors point out that the measures encouraged job creation and the conversion of temporary contracts into permanent contracts, thanks to the reduction of termination costs in the event of hiring mistakes.

(26) Lusinyan and Muir (2013), "Assessing the Macroeconomic Impact of Structural Reforms: The Case of Italy", *IMF Working Papers* 13/22.
(27) Based on the assumption that the reforms reduce the gap between Italian labour market regulation and best practices in the OECD area, each time the gap is halved. The reforms are expected to be implemented in the period 2013-2018.
(28) The long-term effect of the reforms on GDP, estimated at +1.8%, is mainly driven by the increase in the female labour market participation rate (1.0 point) and by active employment policies (0.5 points).
(29) Economic Bulletin n°4 /2015 referring to Sestito and Viviano's paper (2016), "Hiring incentives and/or firing cost reduction? Evaluating the impact of the 2015 policies on the Italian labour market", Bank of Italy, *Occasional Papers* No. 325.
(30) Administrative data from mandatory employer declarations to the Ministry of Labour and Social Policy (*Communicazioni obbligatorie*).
(31) The results were obtained using difference-in-difference estimators, which compare the trend in firms' employment before and after the implementation of the reform, distinguishing firms by size and workers by eligibility.

Box 2 : Comparison of labour market reforms in France and Italy

Labour market reforms have led to a reduction in the EPL indicator in both countries. The Jobs Act reforms in Italy, as well as the Act of 8 August 2016 (El Khomri Act) and the Orders of 22 September 2017 (Labour Act) in France have made it easier to dismiss employees.

Chart 8: Permanent Employment Protection Indicator (EPL) against individual dismissals



* Orders of 22 September to bolster labour-management dialogue

Sources: Final OECD data published for Germany (2013), Spain (2013) and France prior to El Khomri (2013), Italy prior to Jobs Act (2014), Italy after Jobs Act (2015). DG Trésor estimates for data concerning France after El Khomri (2016) and France after the Labour Orders (2017).

These reforms aim to make the labour market more flexible in the following areas:

- Individual dismissal: the Jobs Act abolished the rule of automatic reinstatement of employees (except in exceptional cases) and introduced a fixed scale of compensation for dismissal, based on seniority. In France, reinstatement is almost never applied. The El Khomri Act introduced a scale for determining contentious severance pay, which was made binding by the 2017 Orders.
- Definition of redundancy on economic grounds: in Italy, the concept of economic dismissal[a] is broader than the one used in French law, which is based on the existence of economic difficulties, the criteria of which have been specified in the El Khomri Act to secure economic dismissals. Since the 2017 Orders, the scope for assessing economic grounds has been set at national level, not global level, as in most European countries.
- Legislation on fixed-term contracts: in Italy, the use of fixed-term contracts no longer has to be justified, up to a maximum of 36 months and five renewals. In France, since the Orders, the use of fixed-term contracts remains governed by law (cases where fixed-term contracts may be used) but branches can define the rules governing fixed-term contracts: their duration, renewal and waiting period.
- Social shock absorbers: In Italy, reforms have extended unemployment insurance to a greater number of beneficiaries. In France, the government plans to extend unemployment insurance to the self-employed and those who have resigned.
- Collective bargaining: In France, the successive reforms carried out since 2008[b] have encouraged social dialogue and given pride of place to collective bargaining, giving companies the ability to quickly and securely react to the economic context. In Italy, where collective bargaining is traditionally important, in April 2018 the social partners (Confindustria – an organisation representing Italian companies – and the main trade unions) concluded a national framework agreement reaffirming the principles of trade union democracy and the two levels of contractualisation: national (branch) and decentralised (company). The framework agreement aims to combat the proliferation of "race to the bottom" company agreements, for which the representativeness of the signatories is not guaranteed.

a. Based on "an objective justified reason" because of "reasons inherent to the productive activity, the organization of work and its regular functioning".
b. Act No. 2008-789 of 20 August 2008 on Reforming Democracy in the Workplace and Working Time; Act No. 2014-288 of 5 March 2014 on Vocational Training, Employment and Workplace Representation; the Act of 17 August 2015 on Labour-Management Dialogue and Employment; Act No. 2016-1088 of 8 August 2016 for Employment, Modernisation of Labour-Management Dialogue and Strengthening of Safeguards for Employees; Orders of 22 September 2017.

Box 3 : Changes to the Jobs Act reforms

On 7 August 2018, the Italian Parliament adopted the Conversion Act of the Decree Law known as the "Dignity Decree", containing several amendments to the Jobs Act. This text makes the following changes:

- Individual dismissal: the scale of compensation for unjustified dismissals is increased, with a cap of 36 months for 12 or more years' service compared to 24 in the Jobs Act, and a threshold of six months instead of four; the scale was also increased in the event of termination by mutual consent: the cap is now 27 months' salary, compared to 18 in the Jobs Act, and the threshold is now three months, compared to two months.
- Legislation concerning fixed-term contracts (applicable from 31 October 2018): the possibilities of renewal and extension are regulated[a]. The maximum number of renewals is reduced to four over a total duration of 24 months, compared to five over 36 months for the Jobs Act.
- Voucher system (PrestO system): the maximum continuous duration of an occasional service is increased to ten days (compared to three days previously) and companies in the hotel and accommodation sector can include up to eight employees on permanent contracts (compared to five previously).

a. The renewal of the fixed-term contract is only authorized for the following reasons: (i) temporary and objective needs, unrelated to the employer's ordinary activity, or for replacement needs; (ii) temporary, significant and unforeseeable increase in ordinary activity, (iii) seasonal activities and peaks in activity. In addition, each renewal leads to a 0.5% increase in employers' social security contributions.

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