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Stefano Sacchi

Patrik Vesan

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# **Interpreting employment policy change in Italy since the 1990s: nature and dynamics**

Stefano Sacchi<sup>†</sup> and Patrik Vesán<sup>‡</sup>

<sup>†</sup>University of Milan and Collegio Carlo Alberto of Turin. Em: stefano.sacchi@unimi.it

<sup>‡</sup>University of Aosta Valley. Em: p.vesan@univda.it

**Abstract:** This paper analyzes the evolution of employment policy in Italy, focusing on the period from the mid-1990s to the economic crisis started in 2008. Two aspects of the policy change process are taken into consideration: its nature and its dynamics. As regards the former, three dimensions – strategic, distributive and organizational – are singled out in order to analyze the specific employment policy reforms occurred in the period taken into account. A framework is then developed for the interpretation and explanation of the dynamics of change, based on causal sequences identified by the combination of politico-institutional factors, and a preliminary appraisal of the impact of reforms on the pre-existing institutional configuration is provided. The paper concludes focusing on the shortcomings of the reform process, and highlighting foreseeable directions of future change.

**Keywords:** employment policy, policy change, veto opportunities, unemployment benefits, active labour market policies, employment protection legislation

**JEL classification:** J08, J38, J65, J68

## **1. Introduction**

This paper analyzes the evolution of labour (or employment) policies in Italy, focusing on the period between the mid 1990s and the economic crisis that started in 2008. We will refer to three sets of policies: proactive labour policies, i.e. policies directly aimed at promoting employment; passive policies, i.e. policies, aimed at supporting workers' income in case of job loss, reduction or suspension of working hours; and policies for the regulation of employment relationships. An aspect related to the management of proactive policies concerns the organization of employment services, which, due to its peculiar characteristics, will be treated separately. The paper focuses on the regular labour market; hence, we will not deal with the policies for the regularization of workers and, in general, with the aspect of undeclared or underground work.

The paper is organized as follows. Next section provides a bird's eye view on the main trajectories of development in Italian employment policies until the early 1990s, in order to establish a baseline for the analysis of labour policy change since then, undertaken in the following sections. Section three concentrates on the *nature* of Italian labour policy change: it identifies three key dimensions – strategic, distributive, and organizational – through which the specific reforms and changes occurred in this period are investigated and interpreted. Section four develops an analytical framework to interpret and explain the *dynamics* of change on the basis of political-institutional factors; it also assesses the impact of the various reforms on the pre-existing institutional configuration. The conclusions consider the most relevant issues in the evolution of employment policies in Italy since the 1990s, and put forward some considerations on foreseeable directions of future changes.

## **2. Labour policies in Italy until the early 1990s**

The main features of the model adopted to protect workers from the risk of unemployment were defined in the period between the end of the Second World War

and the mid 1960s. The first public scheme of compulsory insurance against unemployment had been introduced in 1919 and it had been reformed during the fascist period without undermining its fundamental principles.

In comparison to most Western European countries, Italy was peculiar in its extensive use of discretionary schemes to supplement the salary of workers with reduced working hours (in the international terminology, *Short Time Work - STW*). Although STW schemes exist in several European countries – and particularly in those with Bismarckian welfare systems – only in Italy have they been used as functional equivalents of unemployment insurance schemes [Sacchi, Pancaldi and Arisi 2011]. Two main STW schemes exist in Italy - the conjunctural scheme introduced in 1947, and the structural scheme introduced in 1968<sup>1</sup>. In the 1970s and 1980s major investments were made in these schemes [Gualmini 1998]. By contrast, the amount and the duration of rights-based unemployment benefits were rather modest at the time (daily flat-rate, for a maximum duration of 180 days). The reasons for this lie in the politics of unemployment compensation, in a balance deriving from the dynamics of political exchange between the government, the trade unions, and the entrepreneurs, faced with the company crises of the 1970s and 1980s and with increased risk of unemployment, from which they tried to protect the core workers of the larger industries and of their smaller suppliers.

Similarly, in the same period, Italy did not introduce, alongside the social insurance pillar, any unemployment assistance schemes – typically designed for workers who exhaust the right to insurance-based, contributory benefits without having found work in the meantime – or any minimum income schemes for the national population as a whole, both subject to means testing. At the beginning of the 1980s, passive labour policies in Italy were complemented by the introduction of early

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<sup>1</sup> From now on, the acronym CIG (Cassa Integrazione Guadagni) will be used to indicate STW in general. When needed, the adjectives “conjunctural” (corresponding to CIG ordinaria) and “structural” (corresponding to CIG straordinaria) will be added to provide further specification.

retirement schemes, which were extensively used to deal with the labour surplus characterizing the entire decade.

At the end of the 1980s, the unemployment compensation system was innovated. For the first time since its institution in 1919, the amount of the benefit (OUB, ordinary unemployment benefit) was no longer flat-rate, but it corresponded to a percentage of the previous wage, initially equal to 7.5% (the CIG replacement rate amounting to 80%! ). A further innovation concerned the introduction of an unemployment benefit with reduced eligibility requirements (RUB). It was designed for those who, although meeting the same minimum vesting period requirement of the OUB, were not eligible to it due to insufficient contributions paid<sup>2</sup>. A “reduced” eligibility requirement was established, so that although still following an insurance approach, the OUB would cater to those workers who had previously enjoyed no protection against unemployment due to their discontinuous work careers<sup>3</sup>. Yet, it was – and still is – not paid out when the unemployment period starts, but rather as a lump sum in the following year. Hence, several months can elapse between the beginning of the unemployment period and the time when the benefit is paid out, thus greatly limiting the ability of this measure to support a worker’s income at the time when he or she is out of work. As such, it does not fall within the category of income support measures in case of unemployment, but it is rather a form of compensation given for the previous year, given with no consideration of the current employment condition of the claimant at the time of request.

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<sup>2</sup> Eligibility to both OUB and RUB is conditional to a minimum vesting period of two years of enrolment in the unemployment insurance fund (so-called insurance seniority requirement), which tends to exclude from eligibility all new entrants into the labour market. A further contribution requirement is then set for OUB, that is having accrued at least 52 weekly contributions in the two years preceding unemployment.

<sup>3</sup> The reduced eligibility requirement is set in terms of worked days: the claimant must have worked for at least 78 days in the year before the one s/he applies for it.

The Italian governments responded to the economic crisis of the early 1990s by adopting a number of new measures. Limiting the duration of the structural CIG, they tried to bring it back to its original purpose of social shock absorber in cases of temporary personnel surplus. At the same time, there was an attempt at providing social protection to those workers who had been excluded from the production process, while older workers were encouraged to retire. The purpose of these measures was to reinstate the distinction between temporary personnel surplus and permanent surplus of labour, requiring workers to move to other companies. To this end, a new protection measure was implemented for all the workers excluded from the production process as a consequence of collective dismissal procedures or after a period of structural CIG: the so-called mobility allowance (available only to workers employed by companies eligible for the structural CIG). The issue of leading older workers toward retirement was addressed by implementing the so-called “long mobility”. However, the attempt at rationalization was soon thwarted. Indeed, given the persistence of a negative economic situation, new measures were adopted in the following years which eventually reduced the effects of the newly implemented reform, by granting extensions and exceptions to the duration of the allowances awarded to specific categories of workers.

As far as the active policies are concerned, it is worth noting that no initiatives were implemented at least until the late 1960s, and the measures introduced in the 1980s achieved very poor results in relation to employment growth in the private sector [Gualmini 1998]. The job placement system was highly ineffective too, since it was based on the public monopoly of job placement services and on a rigid procedural system based on the rule of “numerical call”, whereby firms could only specify the number of open positions and the occupational category and professional qualification pertaining to each vacancy, while the public employment office would fill the vacancies with candidates on the basis of their ranking in the employment list, mainly determined by the length of their unemployment spell and by their family condition. However, Italian companies often ignored this mechanism by resorting to direct transfers of workers from one firm to another or, when possible, by recruiting through “nominative call” (i.e. directly offering jobs *ad personam*). The latter, initially allowed only for highly skilled personnel and in any case under strict approval of the public employment

office, was progressively liberalized during the 1980s, until in the early 1990s it was made the standard method of recruitment (via public employment services) in the private sector, getting rid of numerical call.

In the 1980s, the progressive liberalization of the Italian labour market also involved new regulations on employment relationships, which marked a partial departure from the rigid protective model of employment relationships regulation that had characterized the country during the golden age of industrial capitalism and had been based on full-time open-ended work contracts<sup>4</sup>.

Law 230 of 1962 regulated the right to stipulate fixed-term contracts, rigorously listing all the admissible cases. By the end of the 1970s it was permitted to set specific terms in case of seasonal business peaks in the trade and tourist sectors, subject to authorization by the provincial labour offices. In 1983, a law extended this opportunity to all economic sectors, but prior authorization by the public administration was still mandatory. The “seasonal peaks” innovation was important because the administrative authorities now had power over a field which had been previously ruled solely by the labour courts, as provided for by the regulations entered into force in 1962. A few years later, in 1987, the rigidity of the system devised in 1962 was further reduced by granting the possibility of indicating, through collective agreements, additional cases for establishing fixed-term contracts as well as alternative cases to those normally contemplated by law. This was the most important measure introduced during this phase of progressive departure from the rules in force during the golden age, because it allowed for substantial deregulation, although still subject to autonomous decisions by the trade unions.

In 1984, a law also introduced the right to stipulate part-time contracts, i.e. labour relationships having shorter working hours than normal, spread over a given reference period, namely, a day, week, month, or year. Differently from fixed-term contracts, part-time contracts were not bound by specific limitations on their use. In the same period, trainee contracts and the so-called solidarity contracts were also

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<sup>4</sup> Concerning the characterization of this model, see Vesani [2009].

introduced, the former expanding the set of contracts with a training content, the latter as work-sharing devices so as to avoid dismissals or to allow for new hires.

Hence, during the 1980s the Italian governments partially liberalized labour market access rules in order to face up to phenomena such as the growth in unemployment, the new needs for flexibilization brought about by technological progress and industrial restructuring, the development of the service industry and of the industrial districts, as well as increasing female employment. These legislative innovations began to undermine the protective nature of the national labour legislation. The social partners played a crucial role in this process because, through the adoption of exceptions agreed upon during the collective negotiation phase, they allowed for the progressive weakening of the principle of standardization of the employment relationships. In spite of these changes, at the end of the period analyzed in this section, Italy was the OECD country in which it was most difficult for companies to employ workers with fixed-term contracts.

### **3. What has changed? Labour policies in Italy since the mid 1990s**

Starting from the mid 1990s, Italian labour policies have been subject to several reforms, which have only partially transformed the overall framework of the previous regulations. Our analysis draws a distinction among three key dimensions within this process: the *strategic* dimension, the *distributive* dimension, and the *organizational* dimension. The strategic dimension concerns changes in the definition of the priority objectives pursued by employment policies. The distributive dimension refers to changes in the level of protection guaranteed to various categories of workers, as well as to the outcomes of the implemented reforms. Lastly, the organizational dimension regards transformations in the governance of employment policies and relates to the distribution of duties across the various institutional levels of the government as well as to the participation of a wide range of actors, both public and private, in the production and implementation of employment policies. The following sections describe the major



changes that have occurred in Italian labour policies since the mid 1990s by referring to the three key dimensions explained above.

### *3.1 Strategic dimension*

Major changes in the strategies pursued through Italian labour policies can be detected in two areas: the adoption of proactive employment policy measures, and reforms promoting flexibility in the regulation of employment relationships.

Starting from the second half of the 1990s, there has been a gradual reorientation of labour policies toward a more proactive attitude, i.e. a stronger focus on measures aimed at promoting the occupability of workers and unemployed people. Said reorientation is attested by the adoption of conditionality principles in granting unemployment benefits, by the gradual abandonment of policies aimed at promoting labour market exit (complemented by active aging policies), and, at least partially, by the expenditure trend for active policies in comparison to that for passive policies.

An example of strategic change concerns the adoption of conditionality policies, i.e. policies aimed at making the receipt of monetary benefits conditional on the unemployed individual complying with certain rules of good behavior. One of the main changes brought about by this new policy is the exclusion from unemployment benefits in case of resignation by the worker – unless this occurs with just cause, such as, for instance, non payment of wages, sexual harassment, mobbing, modifications to one's work duties, and relocation to a place of work far from home. Furthermore, a worker can obtain and preserve his/her unemployment status – and consequently be granted (ordinary) unemployment benefits – only if certain behavioral requirements are met. Since 2000 it is mandatory for the jobseeker to provide a declaration of immediate availability to work (*dichiarazione di immediata disponibilità* - DID), to accept any "suitable" job offer and to adhere to a certain set of commitments ranging from simple meetings at the job centers (*centri per l'impiego* - CPIs) to participating in training or vocational retraining courses.

Although these innovations point to a change in strategy toward the recipients of monetary benefits, it must be noted that over 60% of the CPIs declare that they find it very difficult to implement the new regulations [ISFOL, 2009]. In particular, there are

major territorial differences in the actual implementation of the conditionality principle. As shown in figure 1, the CPIs located in the South of Italy apply the penalties prescribed by the regulations to a lesser extent, whatever the reasons for these territorial differences might be.

Figure 1

A second example of proactive reorientation of the national labour policies can be found in the gradual abandonment of the strategies aimed at promoting labour market exit, complemented by the introduction of active aging policies. For a long time, the policies concerning labour market exit had been pursued through early retirement (often preceded by the granting of CIG support, renewed several time after the expiry of the first period). Since the early 2000s, however, there has been a sharp decrease in the number of beneficiaries of early retirement schemes, which does not seem to be offset by the much slower increase in the number of those receiving mobility allowance, a measure that – especially when of the long mobility type – might acts as a direct functional substitute of the above schemes (figure 2). In addition to this, some measures have been introduced in the last few years to promote the employability of older workers, for example through pilot schemes for the re-employment of individuals over 45 years of age, or, more generally, through the elimination of the ban on cumulating work and pension income.

Figure 2

Lastly, the period between the late 1990s and the early 2000s was marked by a rebalancing of the expenditure for passive and active policies, with greater investments in active policies. The overall labour policy expenditure has not undergone major

changes through time<sup>5</sup>, despite noticeable variations in the national unemployment rate. However the investments in active policies progressively increased starting from the mid 1990s, and in 2001-2003 they actually exceeded the total spending for passive policies (figure 3). Yet, this trend did not last and in 2004 the expenditure for passive policies was greatly incremented, becoming once again higher than that for active policies.

Figure 3

Hence, in the last few years, the expenditure trends have partially reverted to the levels of the past decades for what concerns the ratio between active and passive policies. Employment support measures have once again been relegated to a minor role, even though the expenditure gap in relation to passive policies has not been reduced to the mid-1990s levels. Two main reasons lie behind this new trend reversals.

First of all, the increase in passive policies spending is due, other things being equal, to the longer duration and higher replacement rate of unemployment benefits (see below). Moreover, the expenditure for passive policies has also been affected by the growing number of beneficiaries, due to a higher take-up rate, i.e. the rate of actual recourse to unemployment benefits, which have become more generous [Anastasia, Mancini and Trivellato 2009].

Secondly, the sharp decrease in expenditure for active policies might be better understood if we look at its composition. If we analyze the changes in the two main expenditure items for active labour policies – namely, training and employment incentives –, we can see that training policies spending displays an unsteady trend between 1995 and 2008, fluctuating between 0.17% and 0.27% of the GDP. On the

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<sup>5</sup> Based on the data provided by the OECD, the overall labour policy expenditure in Italy in 2008 amounted to 1.26% of the GDP, versus 1.22% in 1995. On the contrary, in other European countries, said expenditure underwent significant changes between 1995 and 2008. To give some examples, in France it went from 2.70% to 1.98%, in Germany from 3.51% to 1.91%, in the United Kingdom from 1.26% to 0.52%, and in Sweden from 4.62% to 1.45%.

contrary, the expenditure for employment incentives rose sharply starting from 1995, when it was 0.08% of the GDP, reaching more than 0.4%, but it was drastically reduced from 2003 onward and, in the second half of the 2000s, it settled at around 0.15% of the GDP. This trend was mainly affected by the expenditure on incentives for the recruitment of new workers, which dropped rapidly starting from 2003, after having grown considerably between 1996 and 2002. Conversely, the expenditure on incentives for the preservation of employment and the stabilization of jobs remained generally stable at much lower levels (figure 4).

Figure 4

Lastly, a major example of strategic change in Italian labour policies is represented by the important reforms concerning the regulation of employment relationships. Law 196 of 1997 (known as Treu law) regulated for the first time the contracts for the supply and carrying out of temp agency work, which was already widespread in other European countries but had been forbidden in Italy until then by law 1369 of 1960. A further step toward the flexibilization of the Italian labour market was taken with the adoption of legislative decrees 61 of 2000 and 368 of 2001, which implemented the European directives on part-time work and fixed-term work respectively. In particular, the new regulations on fixed-term work broke with the past, since they introduced the possibility of stipulating fixed-term contracts, without having to apply for administrative authorizations or conduct collective negotiations. A key turning point in the process of flexibilization of employment relations was law 30 of 2003 (known as Biagi law), which reviewed and extended the range of labour relationships contemplated in the private sector.

As in many other European countries, in the 1990s and 2000s the reforms concerning labour market regulations aimed at increasing the chances of finding work and at decreasing the unemployment rate, in particular among the younger generations, which in the mid 1990s was above 30% (almost three times the total unemployment rate). These reforms were typically introduced “at the margin”, i.e. for the employment relationships using new contract types, without undermining the protection enjoyed by

those working with open-ended contracts [Davidsson 2011]. In particular, Italy is OECD country which has pursued this strategy most thoroughly, by liberalizing fixed-term contracts more than any other advanced capitalist country, without modifying open-ended contracts [Berton, Richiardi and Sacchi 2012].

In the period analyzed here, some attempts were made at introducing reforms that would affect the employment protection of the core workers, those working with open-ended contracts in larger companies, but they failed. In 2002, a proposal by the center-right government to reform the regulations about dismissal without just cause (article 18 of the Workers' Statute) was met with very strong opposition by the trade unions, above all by the CGIL, and the proposal was withdrawn. The most recent attempt at promoting a reform dates back to 2010, when the centre-right government tried to introduce new regulations concerning the termination of labour contracts, but this attempt was equally unsuccessful. The proposal envisaged the possibility that, when establishing a new labour relationship, the employer and the worker might include a provision in the labour contract which subtracts the settlement of disputes about termination from the ruling of a labour judge, granting instead exclusive decisional power on the matter to an arbitration board, which decides on the basis of a fairness principle and not necessarily according to the law. This provision would have allowed employers to bypass article 18, at least insofar as new labour contracts are concerned, but it was withdrawn by the government when the President of the Republic pointed out that it might be unconstitutional.

The strategic reorientation of the policies regulating employment relationships seems to be in line with what happened in many advanced countries, particularly in western Europe. Keeping in mind that the deregulation of fixed-term labour contracts seems not to have produced an increase in the employment rate, but rather to have caused open-ended jobs to be replaced with fixed-term positions [Kahn 2010], in Italy its effect on the chances offered to young people and to those entering the labour market for the first time is still debated. Moreover, the empirical evidence on its ability to be a port of entry into the labour market and a springboard to open-ended contracts is inconclusive at best [Berton, Richiardi and Sacchi 2012]. One of the main concerns, also expressed by the Governor of the Bank of Italy in 2010 [Bank of Italy 2010], is that

the diffusion of fixed-term contracts (which, just before the economic crisis started at the end of 2008, concerned around 12% of all Italian workers, both employees and self-employed) might have negative repercussions on labour productivity, above all due to the limited investments made by the employers in the training of the individuals working with these contracts [Bassanini et al. 2007]. This, indeed, seems to be what has happened in Italy [Lotti and Viviano 2008].

### *3.2 Distributive dimension*

The second dimension along which Italian labour policies have evolved regards changes in the level of protection guaranteed to various categories of workers and the effects of said changes on inequalities and workers' life opportunities.

The reforms involving the regulation of employment relationships, described in the previous section, can also be analyzed along this dimension. On the one hand, we can observe a reduction in employment protection of some categories of workers, aimed at increasing employment rate. On the other hand, a very relevant aspect pertaining to the changes in how employment relationships are regulated has to do with the outcomes of the interaction between labour market dynamics and the social protection system, in particular the system of income support policies in case of total or partial unemployment. These policies will be analyzed in the following pages.

From the mid 1990s onward, the institutional structure of the so-called “social shock absorbers”, that is the income maintenance system in case of no or reduced-hour work, has remained unchanged, being still based on insurance schemes and different treatments for different categories<sup>6</sup>. Nevertheless, some major innovations have been introduced. Between 1994 and 2008, the nominal replacement rates of ordinary unemployment benefits (not in the agricultural sector) more than doubled, rising from 25% to 60%, whereas their duration went from 6 to 8 months (12 months in the case of

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<sup>6</sup> For a reconstruction of the attempts at reforming the social shock absorbers, see Jessoula and Vesan [2011].

workers aged 50 or above)<sup>7</sup>. Also unemployment benefits with reduced eligibility requirements have increased both in their duration (from 156 to 180 days) and for what concerns the overall amounts paid (from 30% to 35-40% of the previous income). On the contrary, although still retaining high nominal replacement rates (80%, 64% for mobility allowance starting from the second year), CIG and mobility allowance have been affected by a progressive reduction in their actual amounts, due to the limits imposed since 1980<sup>8</sup>. As a consequence, there is less inequality in the treatments offered to the two categories of workers, those who can benefit from the more generous CIG and mobility schemes and those who have access only to standard unemployment benefits<sup>9</sup>. Nevertheless, the gap between the two categories is still rather wide as regards benefit duration: 6 months for OUB, but up to 48 months in case of structural CIG, which might then be followed by the granting of mobility allowance.

The dualism between the categories of workers who can benefit from discretionary measures (such as CIG and mobility allowance) and those who receive benefits based on their subjective rights (unemployment benefits) has been partially reduced. Yet, it is worth noting that the system of social shock absorbers has not been adjusted to the changes occurred in the labour market, and this causes major inequalities among workers in relation to their actual chances of receiving support in case of unemployment. Most non-standard workers suffer the effects of being formally excluded from the available protection measures, a problem which deeply affects the wage and salary independent contractors in particular. But there is another aspect that has an impact on their situation, i.e. the interaction between the rules that regulate the granting of benefits, which have remained unchanged for 70 years, and the dynamics of the labour market, characterized by fragmented careers and low salaries. This causes a

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<sup>7</sup> The replacement rate is reduced to 40% after the first 8 months and to 30% after the first 10 months.

<sup>8</sup> As an example, in 2010 a worker whose gross salary was 1,800€ per month and who was involved in a CIG procedure at zero working hours would have received a gross amount of 892,96€ per month, with actual gross replacement rate lower than 50%.

<sup>9</sup> Note that, since 1994, the same limits valid for both the CIG and the mobility allowance have been applied to unemployment benefits too.

large portion of Italian employees to fail to reach the eligibility requirements needed to be granted protection in case of unemployment. By reconstructing the contribution histories of Italian workers, Berton, Richiardi and Sacchi [2012] have calculated that 40% of fixed-term workers and 50% of temp agency workers are not eligible to any kind of benefit in case of unemployment, while the figures are even higher for part-time workers. Conversely, only around 10% of individuals working with full-time open-ended contracts are in the same situation. Because of these coverage gaps in the income maintenance system during unemployment, if in Italy all the employees lost their job, more than 3 million of them (out of around 18 million in total) would not be given any kind of support by the social protection system [*ibidem*].

These figures show that the partial reduction in the dualism between the groups of workers who receive income support in case of unemployment actually hides a much more important dualism – that between the abovementioned categories and all those workers who are not covered by the social protection system. It is difficult to underestimate how important it would be, in order to reduce said dualism, to introduce guaranteed minimum income schemes also in Italy (perhaps alongside a tier of non-contributory unemployment benefits), considering that these schemes are in place in almost all European countries. The introduction of a minimum income scheme was attempted in the late 1990s, but the program was soon discontinued [Sacchi and Bastagli 2005].

This was the situation in Italy when the country was hit by the economic crisis of 2008. To fill in the gaps existing in the coverage system, rather than reforming the regulations for accessing unemployment benefit, the center-right government decided to use the discretionary schemes, extending their rules but making sure that no subjective rights would be introduced, in order to keep the spending under control. The most relevant aspect of this strategy consisted in making ample use of the CIG schemes and of the mobility allowance, introducing exceptions to the existing regulations for what concerned their duration, the sector and class size of the companies, and the categories of workers involved. A further, minor intervention was the introduction of specific measures for certain categories of non-standard workers (such as the wage and salary



independent contractors in the private sector), characterized by very limited monetary amounts and subject to exceedingly strict eligibility conditions<sup>10</sup>.

### *3.3 Organizational dimension*

The third dimension of change regards the governance of employment policies in Italy. The most relevant example is the reform of the employment services system, which modified the previous system based on the public monopoly of job placement. With law 196 of 1997, the market of job services was opened to private agencies for the supply of labour, while, in the same year, with legislative decree 469 the functions pertaining to employment services and active labour policies were devolved to the regions and provinces. Networks of job centers (CPIs) were created at the local level to replace the previous ministerial employment offices, on the basis of a new mission aimed at providing specific assistance services to jobseekers as well as employers. The decentralization of functions was fully achieved in 2001 with the reform of Title V of the Italian Constitution, which attributes the matter of active labour policies and employment services to the competing legislative competence, while law 30 of 2003 gave more power of intervention to the private operators.

The conversion of the public monopoly on job services has so far taken place along differentiated paths, which have not led to the establishment of a new national system of employment services but have rather created a myriad of local systems.

As far as the institutional setup of the new system is concerned, two relevant aspects should be underlined: the low-profile role played by the central administration (mainly limited to monitoring activities) and the emergence, at the local level, of several organizational models, based on different specific features of the public entities and different types of relationships with the private operators [Ministry of Labour 2003; Di Domenico 2003]. Moreover, there still seems to be little collaboration between the CPIs and the territorial Social Security Administration offices, which are in charge of paying

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<sup>10</sup> See Sacchi, Pancaldi and Arisi [2011] and Berton, Richiardi and Sacchi [2012] for details.

out the unemployment benefits. For instance, almost a third of the Italian CPIs state that they do not communicate the revocation of an individual's unemployed status to the Social Security Administration offices [ISFOL 2009]. Some experimental initiatives to promote coordination have been implemented, but Italy is still far from having a system of integrated centers, based on the one-stop shop model available in some other European countries (among which, for example, Germany, the United Kingdom, the Netherlands, and Spain).

As for the functioning of the system, the CPIs have taken on new functions and duties regarding assistance to the unemployed and services to the employers. In this case too, however, the general features of the system appear to be non-homogeneous and display marked territorial differences. In the North of Italy most of the CPIs (around 85%) initiate personalized training programs, whereas in the South of Italy this is true only in half of the cases [*ibidem*].

Hence, the system is characterized by lower institutional performance in implementing the new services exactly in the areas of Italy where employment problems are more widespread and deeply felt. The more limited ability of the CPIs located in the South of the country to provide the services required of them does not seem to be ascribable to their being short staffed, a problem which, conversely, seems to affect many CPIs in the North [*ibidem*]. Instead, the delays in implementing the services in several parts of the South seem to be linked to lacking infrastructures, to the permanence of obsolete administrative practices, and to the fact that the new duties of the CPIs are essentially designed for dynamic economic and labour market contexts [Pirrone and Sestito 2006].

#### **4. Interpreting labour policy change: dynamics and impacts**

In the last twenty years, employment policies in Italy have undergone major changes, which we have analyzed along three dimensions related to their nature: policy objectives (strategic change), levels and outcomes of the protection granted to different

categories of workers (distributive change), and organizational governance and setup of the policy system (organizational change).

In this section, we try a first stab at providing an explanation of the dynamics, rather than the nature, of such changes, namely whether change in a given policy subfield has taken place through a continuous process of adaptation of the existing policies to new challenges, or through discontinuity and measures that break with the past, leading to the introduction of new policy solutions. According to the definitions proposed by Capano [2009], the first type of change is called *evolutionary*, whereas the second is *revolutionary*<sup>11</sup>. To provide examples of this difference, which will be further explained below, increasing the amount of unemployment benefits is an evolutionary change, whereas the introduction of the principle of conditionality (meaning that the benefit is conditional on the worker's willingness to be trained or accept job offers) falls within the category of revolutionary change.

We argue that in order to explain the dynamics of change we must look at the sequential interaction between the characteristics of the political context and the characteristics of the institution undergoing modifications<sup>12</sup>. The first property regards the opportunities of vetoing new regulations, provided by the political context to the actors that oppose the change; the second property is related to the structural opportunities provided by the institution undergoing change to the same actors in order

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<sup>11</sup> “The dynamics of policy development may be intrinsically evolutionary or revolutionary. By “evolutionary” we mean that they involve a process of continuous adaptation. This process of adaptation, which is of an incremental, gradual nature, may be slow but may also at times be rapid [...]. [E]volutionary changes can be so fast that they may seem to be revolutionary, but in reality they represent a certain continuity with the past rather than any true novelty. Policy developments may also be revolutionary, that is, characterized by radical, discontinuous, unpredictable breaks from the past [...]. In such cases, changes really are innovative departures from previous directions, and as such constitute original new solutions to policy problems’ [Capano 2009, 12].

<sup>12</sup> In the following paragraphs, we reinterpret the ideas expressed by Hacker [2004] and Mahoney and Thelen [2009], adapting them to our purposes. It should be emphasized that this contribution does not directly investigate and seek to explain the reasons *why* change occurs, i.e. its causes, but rather its dynamics, i.e. *how* a change that has been initiated actually occurs.

to pursue strategies aimed at making up, in implementation, for the defeats suffered in the policy decision stage. In other words, the first property regards the barriers to change imposed by the political context, whereas the second concerns the opportunities to neutralize or reduce the scope of certain decisions by exercising discretion in their interpretation and implementation.

Among the two, the dominant explanatory factor of the dynamics of change in Italian labour policies lies in the veto opportunities supplied by the political context. This means that, as a general rule, when the veto opportunities provided to the actors that oppose the change are limited, we can expect the change to be of the revolutionary type, whereas, when the opportunities are higher, we can expect the change to be of the evolutionary type. Nevertheless, the actual dynamics of change also depends on the opportunities given – or denied – to those who oppose the change to take advantage of the characteristics of the institution being reformed. Indeed, if there are good chances of opposing the change (that is, high veto opportunities), this will usually follow an evolutionary dynamics *unless* the room for discretion in implementing the rules is so considerable that the actors who promote the reforms are allowed to introduce revolutionary changes with the relative acquiescence of those opposing them. The opponents might in fact deem it more profitable to keep the level of conflict low and intervene at a later stage, i.e. the implementation phase, in order to eliminate the least desirable aspects of the reform, rather than be forced to confront its promoters within the much more visible context of decision making. Similarly, if the veto opportunities are low, the change will usually be of the revolutionary type, *unless* when the room for discretion in implementing the rules is so limited that the actors who oppose the reforms are compelled to be extremely bold, since they know that it will be difficult to reduce the impact of the decisions during the implementation phase. In the latter case, the actors who promote a reform might try to reach a compromise with the opponents, thus leading to a change of the evolutionary type. Figure 5 illustrate the four possible causal sequences.

Figure 5

The different dynamics of change, illustrated in section 3 of this paper according to their nature, can thus be interpreted in light of the analytical framework explained above.

The strategic change which involves the regulation of labour relationships displays a dynamic of the evolutionary type, whose explanation might be applied also to trends in active policies. As shown by the failed attempts at modifying, both directly and indirectly, the employment protection regime for individuals working in companies with more than 15 employees (in brief, article 18 of the Workers' Statute), it has so far been impossible to introduce a radical liberalization of the regulation of employment relationships to provide the unemployed with better employment chances<sup>13</sup>. Such a change, that would clearly fit the bill for the revolutionary type, has been prevented so far due to very strong vetoes originating in the political context. Those who oppose such a reform are fully aware of the fact that it would be quite difficult to neutralize or significantly reduce its effects in the implementation stage<sup>14</sup>. Faced with the problem pressure caused in the mid 1990s by very high rates of youth unemployment, the public decision-makers thus reacted by introducing two parallel instruments: labour market reforms at the margin (the abovementioned Treu law of 1997 and Biagi law of 2003), and incentives to the recruitment of new workers, both of which are evolutionary changes that make it easier to overcome the existing vetoes.

The 1997 reform was launched on the basis of a 1993 Agreement among the government, the trade unions, and the employers associations and of the 1996

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<sup>13</sup> The economic literature, both theoretical and empirical, shows that the employment protection legislation affects the composition of unemployment, by protecting those who already have a work contract from competition by those who are seeking new employment [Lindbeck and Snower 2002, OECD 2004].

<sup>14</sup> It is worth noting that we are not implying that there is no discretionality in implementing labour relationships regulations, for example by labour judges, and moreover the procedures required by law are often in practice disregarded by the economic operators. We are simply stating that once a deregulation of open-ended employment relationships is in place, its degree of compulsoriness is very high and its effects cannot be overturned through interpretation.

Employment Pact (*Patto per il Lavoro*), whereas the 2003 reform stemmed from the 2002 Pact for Italy (*Patto per l'Italia*), signed by the government and the social partners (but not by the CGIL). Labour policy instruments utterly innovative within the Italian context of the time were introduced (temp agency work in 1997, and several new contracts in 2003), but still within a dynamics of change of the evolutionary type:, that is, reforms at the margin.

The evolution of active labour policies can be interpreted in relation to what has just been described. As explained in section 3, the growing expenditure for active labour policies in the 1997-2003 period can be entirely ascribed to incentives for the recruitment of new workers. In our interpretation, these incentives fall within an evolutionary response to the challenge of youth unemployment, since a revolutionary approach proved impossible for the abovementioned reasons. Hence, initially, this distributive instrument was regarded as a functional equivalent of the regulatory instrument (liberalization at the margin of the labour market) and the two instruments were used together as measures to trim down labour costs. In 2003, once reforms at the margin of the employment relationships had been largely achieved, the functional need for the distributive instrument – which had in the meantime become very costly – was reduced and it was eventually abandoned, with the said effects on the spending for active policies from then on. The causal sequence guiding the labour market reforms and the evolution of active policies is indicated by the Roman numeral I in Figure 5.

The changes that have occurred in the last twenty years for what concerns the social shock absorbers can also be interpreted as evolutionary. They have not undermined the general framework of the system, but they have simply adapted the previous regulations by modifying the replacement rates or the duration of the benefits, or else by extending, often through temporary exception procedures, access to mobility allowance or short time work schemes to previously excluded groups of workers (although in the Conclusions we argue that it is difficult, at present, to predict the outcomes of emergency procedures concerning the social shock absorbers). The impossibility of bringing about a revolutionary change is due to the opposition on the part of the governments and the social partners toward the adoption of a fairer social protection system, capable of dealing with the new risks of the post-industrial labour

market. This is because, besides implying higher costs, a revolutionary change would lead to the granting of subjective rights, rather than be limited to discretionary provisions. Moreover, such a change would reduce, on the one hand, the power of intermediation of some social actors, notably the trade unions, and, on the other hand, the possibility of using discretionary measures to face problems linked to the risk of unemployment, while also keeping the spending under control. Hence, the causal sequence of the reforms falls once again under I in figure 5.

As far as the reforms of employment services are concerned, instead, the dynamics of labour policy change has been characterized by clear discontinuity with the past, and it has taken on revolutionary features. In this case, the veto opportunities had been reduced by a series of facilitating factors occurring in the years preceding the overhaul of the system, occurred between 1997 and 2003. The progressive abandonment of the hiring by the “numerical call” system had made the prospect of an overall reform more acceptable to the trade unions and the job placement workers, numerically speaking the largest component of the staff within the Ministry of Labour [Musso 2004]. Furthermore, the opportunity of redefining the duties concerning the planning and management of active labour policies and employment services, by transferring most of the costs to the regional administrations and by using the resources of the European Social Fund, provided a viable solution to the inadequacy of the old employment service system. Also, in that period, the public monopoly of the employment services was the subject of a pending lawsuit at the European Court of Justice, which would soon declare the ban on private intermediation illegitimate (a ban which had been sanctioned by law in Italy since 1949). Besides these characteristics of the political context, another element, which will clearly emerge from our discussion on the impact of the reforms, must be considered: right from the start, the implementation of the reform seemed to allow for ample discretion, since it dealt with organizing and providing services that had just been introduced. Therefore, the reform of the employment services falls into causal sequence IV in figure 5.

Both active aging and conditionality policies also display dynamics that indicate revolutionary change.

Despite being low-discretionary regulations, the changes introduced by active aging policies are characterized by a revolutionary dynamics, vis-à-vis the labour market exit strategies pursued during the 1980s. This is because their process of change has not been met with strong vetoes, also thanks to the presence of a functional replacement, i.e. the so-called long mobility (which, however, does not offset the decrease in early retirements). The most appropriate sequence to describe this type of change is IIIa in figure 5.

In the implementation of active aging policies, the role played by discretion has not been sufficient to subvert the dynamics activated by the veto opportunities (which were limited, in this case). Conversely, it is very interesting to analyze the change leading to the introduction and diffusion of conditionality policies in Italy. Ample discretion in both the interpretation and the implementation of the reform has made it possible to follow a revolutionary dynamics, despite the unfavourable conditions created by the political context. In this case, the relevant sequence in figure 5 is IIb. Strict and systematic checks on a worker's unemployment status and active job search would be met with strong opposition, since benefits and advantages related to being unemployed might easily be revoked. However, the "repressive" features linked to the application of sanctions against the recipients who do not meet obligations set by the jobcenters has been watered down by the lax interpretation of the conditionality regulations [Pirrone and Sestito 2006]. This has made it possible to overcome the existing vetoes and to attain a revolutionary dynamics.

After having investigated the dynamics of the processes of change affecting Italian labour policies from the mid 1990s onwards, it might be interesting to provide an assessment of their impact on the pre-existing institutional configuration. In some cases, the changes have had a major impact, radically and permanently modifying the policy in question; in some other situations, there has been a rather minor impact, with limited consequences in terms of policy design and functioning. Table 1 displays, for mere illustrative purposes, what will be said below about the institutional impact of the various changes occurred in Italian labour policies.

Table 5



Despite their evolutionary nature, the reforms at the margins of the labour market have certainly had a profound impact. Since the early 1990s, Italy has gone from being the advanced capitalist country with the strictest rules on fixed-term contracts to having medium-low regulation. At the same time, it has witnessed the strongest reduction in the rate of employment protection for fixed-term workers. The share of employees with fixed-term contracts has almost tripled in less than twenty years, reaching figures in line with the European average. In 1990 fixed-term workers were 5.2%, equal to half the percentage in Europe (EU-15 average), France, or Germany (10.5% in all three cases). But, by 2008, they had grown to 13.3%, compared to an increase, in the same period, to 14.2% in France, 14.7% in Germany, and 14.4% in the EU (EU-15 average). The share of fixed-term workers in the 15-24 age bracket increased fourfold, going from 11.2% in 1990 to 43.3% in 2008 (from 27.6% to 41.4% in EU-15, from 38% to 51.5% in France, and from 34.1% to 56.6% in Germany)<sup>15</sup>.

While the Italian labour market has undergone significant changes, the system of social shock absorbers was subject to very limited modifications, at least until the economic crisis started in 2008. The only effect was a reduction in the dualism existing within the category of employees benefiting from income maintenance schemes, in the form of either short-time work schemes or unemployment benefits. The fact remains that, in case of unemployment, around 20% of employees and independent contractors are excluded from any form of protection by the Italian welfare system. An interpretation of the instruments adopted from 2009 onward to respond to the economic crisis, the so-called “emergency” social shock absorbers, appears to be more complex and it will be dealt with in the Conclusions.

The changes that have occurred in active labour policies almost entirely concern an increase in expenditure to promote the recruitment of new workers in the 1997-2003 period and the elimination of said item of expenditure in the following years. Therefore,

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<sup>15</sup> Source: OECD, Labour Force Statistics.

the institutional impact of these changes has been fairly limited, due to their transitory nature.

As far as employment services are concerned, the changes implemented have had a non-homogeneous impact, with great territorial differences, especially between the North and the South of the country. Indeed, more so than other aspects of the labour policies investigated here, the changes in the organization of the employment services have been subject to implementation deficits. These deficits are ascribable to different socio-economic conditions and to insufficient human capital and technological resources. The above remarks on the impact of the employment services reform can be extended to the actual application of the conditionality principle, which is also highly differentiated across the national territory. Wide discretionary margins in the actual management of employment services have strongly contributed to the fact that the new regulations have not been applied coherently and systematically all over the country. Lastly, the central government has generally failed to comply with its duties concerning the coordination, monitoring, and assessment of the implemented measures [Pirrone 2008].

Finally, active aging policies have had a major impact, at least from the institutional point of view. Early retirement schemes, which for several years played a crucial role in the management of company crises, have been abolished, but the so-called long mobility does not seem to have replaced them in full. However, it is important to acknowledge that until now the instruments aimed at prolonging an individual's working life have not been used extensively. Hence, their impact has been relevant in eliminating the existing obstacles to active aging but it has not (yet) contributed to its promotion.

## **5. Conclusions**

This paper has illustrated the key changes that have occurred in Italian labour policies over the last twenty years. The most relevant institutional impact was produced by the reforms affecting the margins of the Italian employment relationships, which

made the Italian labour market more flexible. While the empirical evidence regarding the impact of the reforms on the creation of greater employment opportunities is not univocal, it is undeniable that these innovations were not complemented by other reforms aimed at increasing employability and security of non-standard workers.

On the issue of employability, in comparison to being unemployed, being employed with fixed-term contracts actually offers greater chances of finding open-ended jobs, but only when the transition occurs within the same firm [Berton, Devicienti and Pacelli 2012]. In other words, when fixed-term workers seek employment outside their company, they do not have greater chances than the unemployed of finding an open-ended job, presumably because they have not acquired skills that can be spent elsewhere. In any case, the most likely outcome for these workers is that of entering into a new fixed-term labour contract [*ibidem*].

Within this context, a crucial role is played by the training opportunities offered to workers, with rising concerns about the medium-term consequences on the Italian economic system of reduced investments in human capital, which affect a wider and wider portion of workers. On the same matter of workers' employability, moreover, we have more than once underlined that the implementation of the employment services reform was not homogeneous across Italy and, in particular in the south, its impact was very limited.

On the issue of social security, despite the massive changes in the regulation of employment relationships pertaining to non-standard workers, the system of social shock absorbers did not undergo a corresponding structural change. Within a protection system based on social insurance, the interaction between the profound changes occurred in the labour market and the stratification of regulations focusing on full-time open-ended contracts, has brought about major disadvantages for certain categories of non-standard workers, affected by lower employment continuity – hence, lower labour income – as well as lower social protection, or even no protection at all: a situation that may well be dubbed one of pervasive “flex-insecurity”.

These are the main structural issues of Italian labour policies before the economic crisis of 2008. If not addressed through public policies, they will inevitably

produce dysfunctional consequences on the whole policy sector, above all on the wellbeing and security of Italian workers.

In responding to the crisis, the main focus has been on plugging the largest gaps in the existing labour policy system, though without addressing its main structural issues. The interventions have been aimed at managing the emergency, while avoiding the creation of new subjective rights and keeping the adopted instruments under the public authorities' discretionary control, in order to limit spending.

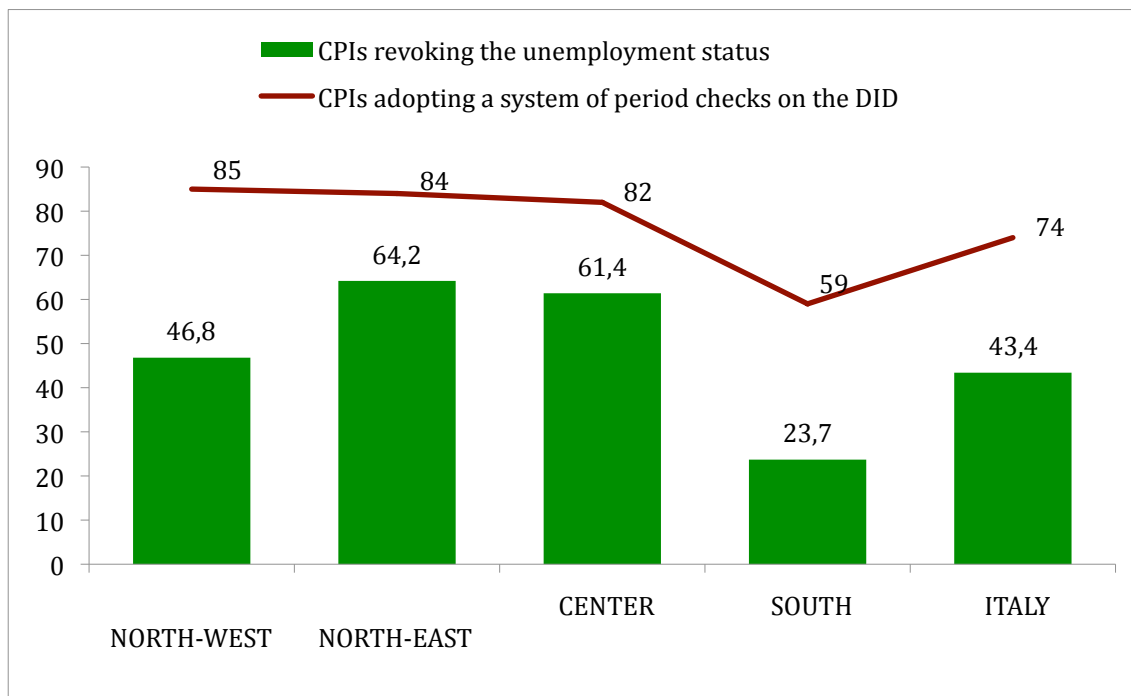
This is why it is difficult to place the main instrument adopted to respond to the economic and employment crisis, i.e. the emergency social shock absorbers, into one of the categories presented in figure 5. On the one hand, they are rather traditional, insofar as they innovate only some marginal aspects of the existing regulations (by providing for exceptions to the latter). On the other hand, they bear the seed of momentous change, because they can be applied in principle to all categories of employees, regardless of their sector and type of contract. Yet, the way in which they were introduced – through emergency and discretionary actions and without granting the certainty of support when needed – makes it extremely hard to predict the degree of change they will produce.

The economic downturn has also brought to light the important contribution given by intermediate bodies – such as bipartite agencies bringing together trade unions and employers associations from a given professional category – in shaping recent developments in Italian labour policies. This is particularly relevant for what concerns (supplementary) income maintenance provisions and training schemes offered to workers, precisely the two aspects which we have indicated as the most critical in the future. The setting up of these agencies can also bear the seed of momentous change for the national labour policies, but it lacks the grounds provided by a fair and comprehensive social protection system. The prerequisite for negotiation agreements should be a universalistic floor of social and training rights available to all workers, in particular during job-to-job transitions, aimed at ensuring social protection and at increasing their employability. If such a universalistic floor does not exist, the direction recently taken by labour policies in Italy runs the risk of bringing about new and long-lasting dualisms and inequalities in the years to come.

Table 1 Dynamics and impact of changes in Italian employment policies, ca. 1995-2010

		IMPACT OF CHANGE	
		LIMITED	SIGNIFICANT
<b>DYNAMICS OF CHANGE</b>	EVOLUTIONARY	<div style="border: 1px solid black; padding: 2px; margin-bottom: 10px;">Social shock absorbers</div> <div style="border: 1px solid black; padding: 2px;">ALMP</div>	<div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 0 auto;">Regulation of employment relationships</div>
	RIVOLUTIONARY		<div style="border: 1px solid black; padding: 2px; margin-bottom: 10px; text-align: center;">Conditionality policies</div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 10px; text-align: center;">Employment services</div> <div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 0 auto;">Active ageing policies</div>

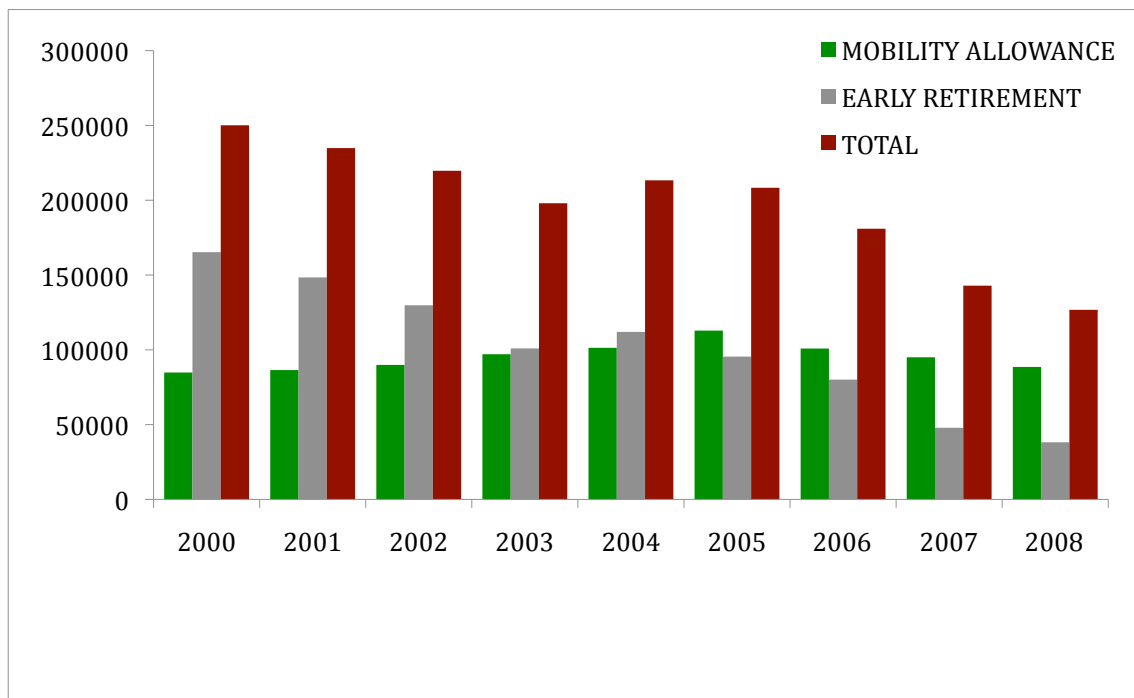
Figure 1. Implementation of conditionality – % values



Source: Isfol [2009]

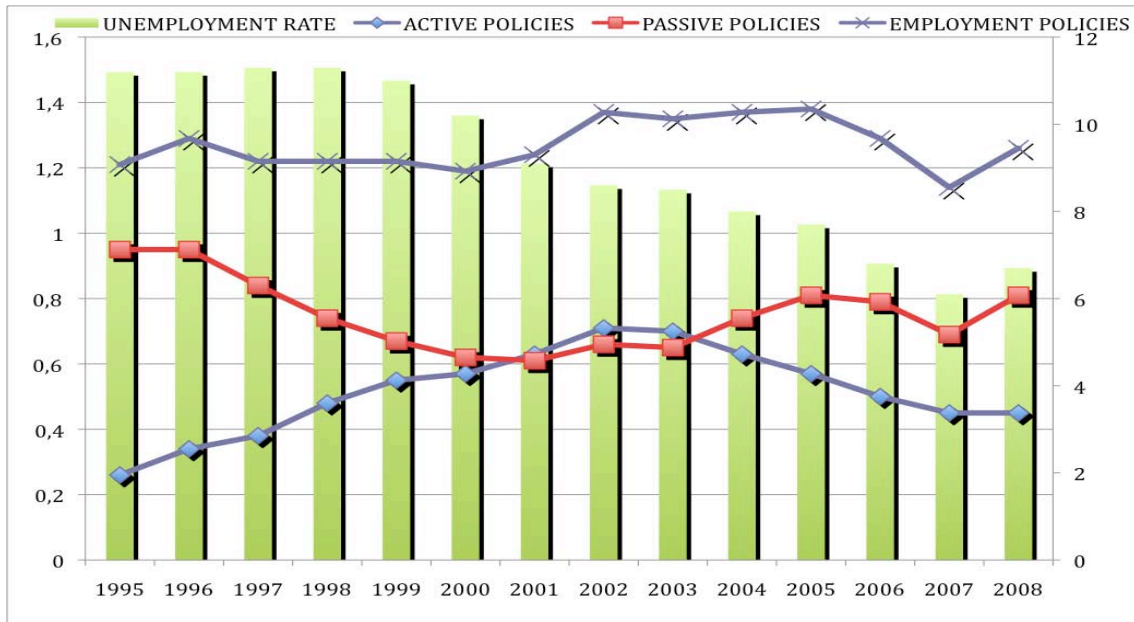
Notes: the data are based on what stated by staff members of the public employment offices (CPIs); DID means declaration of immediate availability to work

Figure 2. Beneficiaries of mobility allowance and early retirement, 2000-2008



Source: own elaboration on data from the Ministry of Labour's monitoring reports, various years

Figure 3. Employment policies expenditure trend (as % of GDP, left axis) and unemployment rate (right axis)

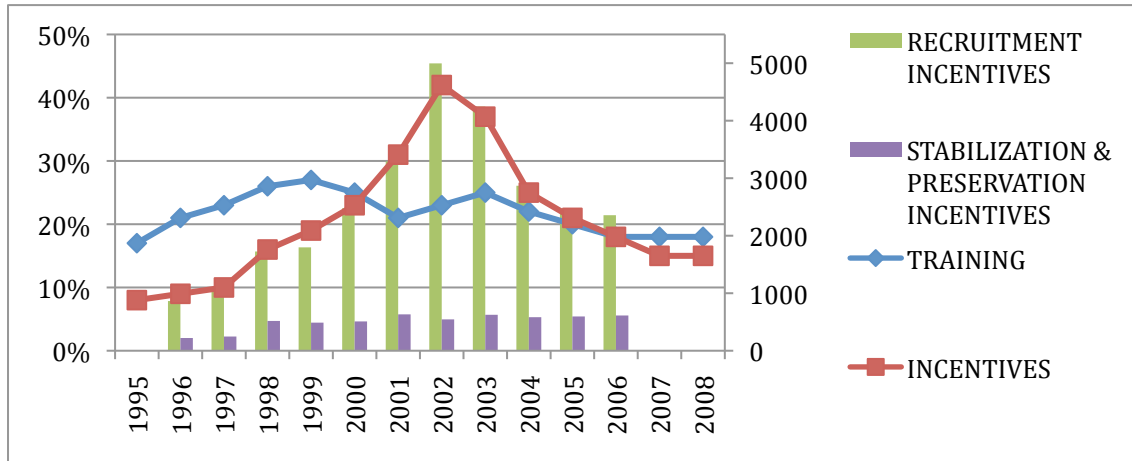


Note: data on expenditure for public employment services are available in Italy only since 2004

Source: OECD Labour Force Statistics



Figure 4 Active policies composition and incidence of various incentives



Note: expenditure on training and incentives (1995-2008) as percentage of the GDP (left axis); expenditure on recruitment incentives and incentives for the stabilization of jobs and preservation of employment (1996-2006) in millions of Euros (right axis).

Source: for training and incentives, OECD, Labour Force Statistics; for recruitment, stabilization, and preservation, Ministry of Labour, Monitoring Reports, various years

Figure 5 Causal sequences in the dynamics of change of Italian employment policies

		<b>Veto opportunities</b>		<b>Discretionality in implementation</b>		<b>Dynamics of the reform</b>	<b>Sequence</b>	<b>Example</b>	
Attempt at change	→	High	↗	Low	→	Evolutionary	I	Employment relationships and ALMP  Social shock absorbers	
			↘	High	→	Both possible	II	a: evolutionary b: revolutionary	– Conditionality
	→	Low	↗	Low	→	Both possible	III	a: revolutionary b: evolutionary	Active aging –
			↘	High	→	Revolutionary	IV		Employment services

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