

Labour market deregulation and workers' prospects at the beginning of the career: evidence from Italy

Marta Fana (Sciences Po Paris)

Michele Raitano (Sapienza University of Rome)

Abstract.

Since the mid of the 1990s up to the mid of the 2000s several labour market reforms were introduced in Italy (in 1995, 1997, 2001, 2003; see Berton et al. 2012) with the main aim of weakening the Employment Protection Legislation (EPL) for new entrants, mostly by easing the chances to hire employees on a temporary basis and introducing and liberalizing atypical contractual arrangements. In particular, a reform that eased the possibility to hire employees through fixed-term contracts was introduced in December 2001 (Decree 368/2001).

According to the proponents, this set of reforms would have shortened the time of entry in the labour market, thus reducing youth unemployment and improving younger workers' prospects, making labor market equilibria and wages more responsive to demand and supply trends by removing the so-called rigidities, e.g. centralized bargaining, hiring and firing costs, automatic wage indexation mechanisms (OECD 1994, 1997). According to European Commission (2007), labor market flexibility would allow a wage moderation process benefiting productivity and country competitiveness.

Several studies have investigated whether this set of reforms has created a two-tier labour market in Italy or has represented a port of entry for young workers towards standard contracts (Booth et al. 2002, Hagen 2003, Abowd et al. 1999, De Lange et al. 2014, García-Pérez and Muñoz-Bullón 2011, Scherer 2004, Autor and Houseman 2005, Segal and Sullivan 1997). As concerns Italy, the port of entry hypothesis seems to hold when fixed-term contracts embody formal training (Berton et al. 2011, Picchio 2008, Barbieri and Sestito 2008). However, other studies signaled the existence of a possible precariousness trap for a large share of the Italian workforce (e.g. Muehlberger and Pasqua 2009, Corsini and Guerrazzi 2007, Scherer 2004)

However, also due to data availability, these studies usually considered a limited time span and focused only on a single dimension of the working career, most of all on the type of contractual arrangement at the entry into activity or on the frequencies of upgrade towards open-ended arrangement in the short-term.

In this article, exploiting an innovative longitudinal dataset built merging IT-SILC survey data with the administrative longitudinal records provided by the Italian Social Security Institute (INPS), we evaluate in a longer time span the working histories of the cohorts of individuals who entered the labour market since the start of the reforming process. We focus on several individual outcomes during the first six-year of the career: i.e., duration of the searching time, first contractual arrangement, entry wages and – along the six-year period – working weeks, weekly wages and annual earnings.

In particular, we aim at evaluating whether the increase in labour market flexibility realized in 2001 has been associated to a change in workers' economic conditions. To this aim we compare – by means of econometric estimates (both static and dynamic) and controlling for business cycle and several individual's and firm's covariates – the starting working histories of individuals with the same level of education, who entered in the labour market when the reform process that

started in the '90s had already begun, but who differ because the youngest have entered the labour market after the further liberalizing reform introduced at the end of 2001.

We constrain our analysis to those who attained a tertiary degree in the 1998-2005 period. Thus, in order to evaluate a possible influence of the 2001 reform, we distinguish two cohorts of tertiary graduates – those who attained the degree, respectively, in the 1998-2001 period and in the 2002-2005 period – and estimate whether the career pattern in the six-year period after the graduation changed across cohorts.

Focusing on tertiary graduates allows us to distinguish individuals according to the year when they attained their highest degree and stopped to study, i.e. according to an individual feature that we can assume to be exogenous to the reform. Thus, the information on the tertiary graduation year allows us to distinguish those individuals less or more exposed to the reform, i.e. those who became active before or after the end of 2001. Conversely, available data prevent us from distinguishing two cohorts of lower and upper secondary educated according to a characteristic exogenous to the reform.

Anyhow, inquiring the case of tertiary graduates is crucial due to some peculiarities of the Italian labour market. Despite of a slight increase over the last decades, the share of tertiary graduates in Italy is still much lower than the EU-28 average (according to Eurostat data, in 2014 the share of tertiary graduates among those aged 25-39 was 22.9% in Italy and 36.7% in EU-28). Therefore, according to a labour demand-supply argument linked to the diffusion of a skill biased technological change, which suggests that the new technology should foster the demand for high-skilled workers more than its supply (Katz and Autor 1999), we should expect that the relative scarcity of skilled workforce has improved tertiary graduates prospects. On the contrary, as found by Naticchioni et al. (2016), compared to those born in previous years, tertiary graduates born after 1975 have suffered in Italy an earnings penalty at the beginning of the career much more severe than that experienced by those holding a lower education.

Our analysis differs from other studies on similar issues because our empirical strategy is not based on a comparison of outcomes of individuals that started to work through different types of contracts, but, as mentioned, it is based on comparing the outcomes of individuals who belong to two cohorts differently exposed to labour market deregulation. We find that the searching time for the first job reduces for those graduated after 2001 and that these individuals more frequently start to work through atypical and fixed-term arrangements. However, the most original result is that those graduated since 2002 worsen their condition with respect to the previous cohort, as their weekly wages – both at the entry and during the six-year period – significantly drop. Gaps between the two cohorts of tertiary graduates, disadvantaging the youngest cohort, emerge also as concerns yearly working weeks and earnings, but these differences are not statistically significant.

The present coauthored paper has been presented at the AIEL Annual Conference in Trento and it has not been published yet, nor it is part of a broader research project.