

DOES RISING UNEMPLOYMENT LEAD TO POLICIES OF LABOUR FLEXIBILITY? THE ITALIAN CASE (1990 – 2013)

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This paper deals with the relation between labour market deregulation and the path of employment in Italy. A preliminary reconstruction of the theoretical debate is provided, based on the different views advocated by Neoclassical and post-Keynesian scholars. The second part of this paper focuses on empirical evidence, concluding that the increase in labour flexibility negatively affected the employment rate in the 2000s. Moreover, it is argued that as unemployment increases, workers' bargaining power decreases not only in the labour market but also in the political arena, allowing the Government to implement further policies of labour flexibility. The evidence confirms this conjecture.

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1 - Introduction

Policies of labour market deregulation (also called 'labour flexibility') were introduced in Italy starting from the so-called Pacchetto Treu (Law 24 June 1997). These interventions were accentuated by the so-called Legge Biagi (Law 30/2003), the "Riforma Fornero" (Law 27 June 2012) and lastly by the Jobs Act, in 2014. Those reforms significantly reduced the costs of firing on the part of firms, and were presented to the Italian public as part of a wider political programme of 'modernization'. The word 'reform' (which actually means structural reforms and hence labour flexibility), in the Italian political debate, became synonymous with progress which would benefit the entire society, quite independently of its content.

The aim of this article is *i)* to reconstruct the theoretical debate about the impact of labour 'flexibility' policies on employment; *ii)* to provide empirical evidence of the outcome of such policies in Italy. Based on the Marxian theory of the industrial reserve army, and on Kalecki's contribution, a section will be devoted to empirically verifying the idea that policies of labour flexibility are made possible when workers' political power declines, which depends on the decline of their bargaining power in the labour market and, hence, on the reduction of employment.

Italy is a significant case-study for two main reasons. First, policies of labour flexibility were implemented somewhat later than in the main OCSE countries (above all the Anglo-Saxon nations) but compared to those countries, they have been implemented with greater intensity (Tridico, 2014). Second, the beginning of this process of 'modernization' coincides with the beginning of the long recession that the Italian economy experienced starting from the 1990s (cf. Perri and Lampa, 2014), and some scholars have imputed the Italian decline also to the acceleration of policies of labour flexibility (cf. Tridico, 2013).

As regards the academic debate, it has been dominated by the conviction that labour market deregulation is an essential policy instrument in order to increase employment in a context in which firms are facing a more and more volatile demand. It is only in more recent years that the idea has taken hold that measures of labour market deregulation can have a negative effect on employment trends and act as a brake on economic growth. In

other words, it was a widespread view that the Italian economy could benefit from globalization only on the condition that 'reforms' were made: above all the reform of the labour market.

The exposition is organised as follows. Section 2 provides a critical reconstruction of the debate, with special reference to the contrast between the neoclassical approach and that of post-Keynesian theory. We will mainly focus on the Post-Keynesian criticisms of the mainstream view, and we will propose further arguments opposing the idea that labour deregulation increases employment in this theoretical framework. Moreover, from the Marxist literature we draw the idea that variations of relative bargaining power between Capital and Labour in the labour market are, so to say, transferred into the political arena (cf. Kalecki, 1943; Korpi, 1989). As a result, we will argue that labour flexibility increases when unemployment increases, due to the reduction of workers' bargaining power in the political sphere. In section 3 the empirical evidence is examined, correlating the employment protection index most widely used in the literature (*employment protection legislation* - EPL) with employment trends in Italy. The period covered is from 1990 to 2013. This period was chosen both because 2013 is the last year for which OCSE has released the EPL indices, and above all because in the subsequent period the so-called *Jobs Act* came into force, the analysis of which would require a specific study. Close attention is also paid to the correlation of the reverse relationship, empirically verifying whether the rise in the unemployment rate is accompanied by an accentuation of labour market deregulation measures, based on the supposition that a rise in the unemployment rate also reduces workers' bargaining power in the political sphere. Section 4 offers some concluding remarks.

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** Istat, National Institute for Statistics - Apulian Territorial Office. Email: lucia-mongelli@libero.it. In this paper we will use "deregulation", "flexibility" and "precariousness" as synonyms. This choice is legitimated by our rejection of the distinction between 'good' and 'bad' labour flexibility, which is the main argument used in order to maintain that precariousness is the bad form of labour flexibility, which, in principle, is assumed as a 'good' instrument for regulating industrial relations. A detailed discussion on this topic is outside the scope of this paper.