

ECONOMIC SCENE

# Reforming the Italy's extreme labor restrictions in Italy is no slice of tiramisu.

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ANYONE who believes that the European Union or globalization will lead to the harmonization of national laws and the end of sovereignty should take a close look at labor law reform in Italy.

Italy has about the toughest restrictions in Europe on firing workers, according to the Organization for Economic Cooperation and Development. Article 18 of the Labor Code, passed in 1970, mandates that after a short probationary period, an employee fired from a company with 15 or more employees can bring a lawsuit challenging the dismissal. If the suit is successful, as is often the case, the employer is forced to rehire the worker and pay back wages and social insurance contributions, as well as a large fine.

When given a hypothetical choice of a labor market where it is hard to find a job but hard to be laid off or one where it is easy to find a job but easy to be laid off, 71 percent of Italians preferred the former in a poll of 1,000 individuals conducted in April by Tito Boeri, an economist at Bocconi University in Milan, for the Debenedetti Foundation.

So Italians value job security -- and have lots of it.

The problem is that the law is administered unevenly across regions, and serious offenses are often not considered just grounds for dismissal. A bank employee involved in money laundering, for example, was recently held unjustly dismissed and ordered reinstated by a judge.

Firing protections also affect worker performance. Examining data on 858 newly hired bank employees, Andrea Ichino, an economist at the European University in Florence, found that the absenteeism rate more than doubled after workers had completed the three-month probationary period. With little fear of dismissal, some employees provide less than peak effort when they do show up for work.

Even worse, the uncertainty and expenses associated with dismissals have a chilling effect on hiring. A study led by Stefano Scarpetta of the O.E.C.D. released last week found that the average American company that survives two years increases its employment 160 percent, while the average Italian one that survives as long grows only 20 percent. Although many factors are undoubtedly at work, stiff firing restrictions probably account for some of Italy's lower job growth.

"The cost of the job security of the father," Professor Ichino argues, "is the insecurity of the son." Italy's jobless rate hovered around 10 percent in the last decade. Because its safety net has as many holes as Swiss cheese, high unemployment contributes to the remarkable fact that more than half of people in their 20's -- and nearly a quarter of men age 30 to 39 -- live with their parents. "The family is the main institution that provides unemployment insurance benefits," Professor Ichino said.

In November, the government proposed modest reforms to relax firing restrictions. For a trial period of three years, the law would have exempted small companies that grew beyond the 15-employee threshold from the stringent restrictions. It would also have exempted temporary employees and underground employees who are added to the books from the count of employees.

These modest reforms have run into strong resistance. Marco Biagi, a socialist lawyer who advised the labor ministry of the center-right government on the proposal, was assassinated in March. Massimo D'Antona, who advised the previous government on similar reforms, was assassinated three years earlier, apparently with the same gun. In April, unions staged the largest general strike in 20 years, derailing the reforms for now.

Many economists and labor lawyers who advise the Italian government on firing restrictions have been asked, for their protection, to notify the police of their movements, and several professors have discreetly removed their names from their doors.

Even worse than the physical threat, Professor Ichino said, is the attitude of labor unions and left-wing politicians toward reform-minded scholars, especially those on the left. In a speech to workers at Fiat last week, for example, Fausto Bertinotti, leader of the Refounded Communist Party, said of left-leaning academics involved in labor law reform: "Someone should stop them." Because many economists and lawyers involved in labor market reform come from a pro-labor tradition and believe that their modest proposals will help the unemployed, the take-no-prisoners attitude of labor unions and left-wing politicians has caused disillusionment among many intellectuals.

Professor Boeri sees a way out. His poll found that 59 percent of Italians would favor reforms to relax firing restrictions if they were combined with an expansion of unemployment benefits and job search assistance.

The government is negotiating for a compromise along these lines with the second- and third-largest labor unions, but the fate of the reform is unclear. The largest union, which is not participating in the negotiations, opposes changes to Article 18 and has threatened to sue the government if it makes changes. To many Italians, firing restrictions have come to represent a symbol of commitment to labor, rather than a specific policy that may stand in the way of a reasonable compromise that would help the unemployed and enhance flexibility.

Across Europe, Professor Boeri has found a trade-off of firing restrictions and unemployment insurance coverage: countries with weaker protections tend to provide unemployment benefits to a higher proportion of job seekers.

If it proves to be difficult for Italy to make a small step toward this trade-off, one that preserves firing protections for most incumbent workers and improves unemployment benefits and flexibility, it will probably require a severe crisis to provoke the major concessions that would bring Italy's rigid labor market closer to that in the rest of Europe.

Rome was not built in a day, and it is unlikely that extreme employment protections will be dismantled any time soon.