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From economic decline to the current crisis in Italy

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From economic decline to the current crisis in Italy

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The objective of this paper is to show that the current global economic crisis, into which Italy also fell in 2008, represents just the last step of a long declining path for the Italian economy which began in the 1990s, or to be more precise in 1992 and 1993. It is argued that the reasons that explain the long Italian decline, and partly also the deeper recession today, as well as the lack of recovery from the current crisis, can be found in the past reforms of the labour market. In particular, the labour flexibility introduced in the last 15 years had, along with other policies introduced in parallel, cumulative negative consequences on the inequality, on the consumption, on the aggregate demand, on the labour productivity and on the GDP dynamics.

Keywords: labour market; labour policies; income distribution; productivity; wage; crisis

JEL Classifications: J010; J080; E250; O470; J300; H120

1. The political background of the economic decline

At the beginning of the 1990s the Italian economy underwent very important structural and institutional changes. Such changes were pushed by several factors, which include both political and economic ones. Italy experienced a recession of GDP in 1992, which occurred during the same period of troubles and scandals known as 'Tangentopoli', the corruption scandals that dominated most Italian political parties running the country since the Second World War. The recession came immediately after a period of marked financial turbulence (Miniaci and Weber 1999) and in September of 1992, the Italian Lira, was strongly devalued, and was forced out of the European Exchange Rate Mechanism (ERM). A few months after, two important events occurred: most Italian politicians involved in the corruption scandals were condemned in the famous courts of 'Mani pulite' (clean hand) and, from an economic point of view, Italy signed the Maastricht Treaty, which would have resulted in the country joining the Eurozone at the beginning in 2002. These are two important institutional changes, which called for economic changes and new regulations and policies. We will focus on the economic aspects of this change, which can be characterised by the following five stylised facts or empirical evidences.

(1) Firstly, after the recession of 1992, and under the pressure of the newly signed Maastricht Treaty, Italy began a strong de-regulation process, with less

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involvement of the State in the economy. Corruption scandals, recalled above, convinced many people that State-owned and controlled companies would favour corruption. Following this assumption, a minimum-state involvement in the economy was required and processes of liberalisation and privatisation started. Both processes however were carried out in a very unstable way which lacked efficiency, in particular the process of liberalisation. As a result, the partial liberalisation of the market coupled with the privatisation process resulted in the creation of private monopolies (CNEL, 2007).

(2) Inflation was considered a major problem and one of the most important criteria of the Maastricht Treaty to be respected. Moreover, the main contributor to inflation was considered to be the strong power of trade unions and the mechanism of wage collective bargaining. Hence, in July 1993, with a Tripartite agreement (Government-Business Organization-Trade unions), the Government limited the use of this mechanism and introduced a decentralised mechanism for wage bargaining that had a clear objective of wage moderation. At the same time, firms accepted, as an exchange, to increase investment in innovation in order to compensate for the possible increase of profit due to wage moderation. This 'pact of exchange' was never actually respected, and investments in innovation did not fully take place (Tronti, 2005). This had negative consequences on the productivity dynamics, as we will see.

(3) The withdrawal of the State from the economy meant the starting of a strong privatisation process. Many State-owned (or controlled) companies were sold and assets were divided. This process caused a further squeeze of the Italian economy and in particular the reduction of the industrial sector, where large State-owned companies were very active. The withdrawal of the State from the economy was not in fact substituted by private investments and by new private firms. The empty space left in the manufacturing sector has simply never recovered and this meant a further reduction of the Italian industrial share in Europe and globally. Large and important firms disappeared, as testified by a key book in this field written by Gallino (2003).

(4) The convergence towards the Maastricht criteria meant in particular the reduction of public expenditure in order to cut the budget deficit and public debt. This had an immediate consequence of reducing what we can call the indirect wage (or the social wage). Public expenditure in social dimensions and welfare declined, such as education, health, subsidies, etc., which had a negative effect on the purchasing power of workers and the middle class in particular. In the end, one can say that the Tripartite agreement and the Maastricht criteria had conflicting interests and objectives. From one side, the Tripartite agreement would require increasing the welfare state expenditure in order to let trade unions and workers accept the wage moderation: this was stated in the Agreement as part of an exchange between the three parts involved; on the other side, however, the Maastricht criteria required a reduction in public expenditure (Fitoussi, 2005).

(5) The Tripartite agreement was the starting point of a much deeper reform of the labour market which took place between the end of the 1990s and the beginning of the 2000s with the introduction of labour flexibility, the massive creation of atypical forms of work, the surge of temporary work and the privatisation of the job allocation service in the labour market (Tronti and Ceccato 2005). This point will be explored more deeply in the following section.

To sum up, I will argue that there are a number of factors that make the Italian economy weaker. These factors represent both direct and indirect consequences of policies implemented mainly in the 1990s and the beginning of the 2000s, listed in the five points above. In Italy these policies were consequences, from one side, of the neoliberism consensus, which emerged at the global level through the so-called Washington Consensus (WC) approach after the Reagan and Thatcher administrations in the USA and the UK, and, from another side, of the Maastricht treaty signed at the EU level in 1992, which tried to introduce a very market-oriented economic model (Williamson 1990),[1] and ended up producing negative consequences on economic performances and social problems such as (Levrero and Stirati 2005; Rodrik 2004, 2008): such as high income inequality, job precariousness, declining wage share over GDP, low wage and low consumption levels and a strong profit soar; along with low education and training, low competitiveness and low labour productivity, low innovation and low R&D. All of these consequences, coupled with the historical problems of the Italian economy (for example low labour force participation, labour segmentation, regional dualism, bad transition from schools to the job markets, biased politics, inefficient institutions, and bad governance), are the real cause of the Italian decline and the persistency of the current crisis.

Hence, I claim, on the basis of the deteriorating income distribution, and in general on the basis of the Italian economic decline, that there have been negative institutional changes introduced, mainly by law. In fact, the factors listed above are consequences of the bad policies, institutions and changes introduced in the last two decades. These factors weaken the level of aggregate demand, with negative results on the GDP dynamics, and enlarge the 'productivity spread' between Italy and most other EU countries. Therefore, the way out from the decline and towards a recovery after the crisis is to invert the economic policies and the economic model, which was on the basis of those factors listed above and which was pursued over the last 15–20 years. The real cause of the current crisis does not appear to be the sovereign debt issue, therefore the austerity measures implemented in Italy and in the rest of Europe in the last 3–4 years, will not guarantee a recovery from the crisis.

2.   The recent evolution of the Italian Labour Market

In the last 15 years, as mentioned above, the Italian labour market has undergone a profound change from the legislative point of view and also from a structural and social perspective. The origin of this change can be traced back to what has happened in Italy since 1993, i.e. since the country, after the economic recession of 1992 and the signature of the Treaty of Maastricht, made a decision to enter the Economic and Monetary Union (EMU). This meant, first of all, respecting the Maastricht criteria and, first and foremost, the reduction in the inflation rate, which in Italy was particularly problematic. The Agreement of July 1993, mainly wanted by then Premier of the Government, Carlo Azeglio Ciampi (and former Governor of the Bank of Italy), had explicitly aimed at the reduction of the inflationary spiral through wage moderation and other interventions such as income policies, the growth of innovative investments, and the increase of productivity. However, as many economists have shown, most of the expected results of this agreement were largely unreached. On the contrary, the policy of wage moderation and thus disinflation has been successful (Cazes et al. 1999; Rossi and Sestito 2000; Lilla 2005).

Upon completion of this process of change, more labour flexibility was introduced into the Italian labour market through the so-called 'Pacchetto Treu' (Law n. 196 in 1997) and Law n. 30 of 2003 (known as the 'Legge Biagi') that introduced radical innovations in contractual labour forms and in the labour market in general.[2] These reforms were born under the European Employment Strategy in 1997, which led to the more complex Lisbon Strategy in March 2000, which established at the EU level the guidelines and objectives for the reform of the labour market in order to make Europe 'the most competitive and dynamic economy in the world based on knowledge'. This strategy was then repeated and replaced by the 'Europe 2020 Strategy' in 2010. However, in Europe, the trend is to reach a social balance through a model that is commonly called 'flexicurity' which is able to ensure and combine security elements with the labour flexibility that firms require.

In Italy, there is a well-known gap between the dimension of flexibility, now widely introduced, and the dimension of social security, as the current system of unemployment benefits is complex, fragmented and disorganised and not able to cover and protect all the unemployed. Such a situation was not actually solved by the recent reform and the introduction by the Labour Minister, Professor Fornero, of a new social tool called 'Aspi' (a new unemployment benefit) with Law n. 92 of June 2012. Indeed, the latter has not extended the essence of eligibility definition for unemployed people entitled to unemployment benefits, who remain linked to the condition that one must have held a job placement for the previous two years before the year of unemployment. Hence, it is not a universal tool of unemployment benefit. Moreover, this unemployment benefit has a limited length (eight months compared with four years in Denmark or two years on average in the EU-15) and does not cover all independent workers (the so-called CO.CO.CO or CO.CO.PRO)[3] who have terminated a job for a certain project, collaborators, atypical and unstable workers, who indeed constitute a large portion of new jobs, especially among young people. Finally, the Italian system of unemployment benefits is not connected, in general, to active policies, such as programs of integration into the labour market, job search and training programs that would facilitate the entry into the market of the unemployed. In essence, it seems we can say that, in Italy, the implementation of a 'flexicurity model' should lead to improving unemployment benefits, and to increasing the security elements, such as the social protection and employability. To worsen the situation, the current financial and economic crisis has led to a considerable increase in the unemployment rates and to a greater demand for income protection.

To sum up, the Italian employment security system is therefore still obsolete and inadequate compared with the changes that occurred in the last decade in the contractual forms and in the structural composition in the sense that while the labour market became very flexible, the welfare state remains mostly wedged in the old regime, and therefore able to protect only standard contract workers and unable to provide welfare security and unemployment benefits for flexible workers. It would therefore be necessary to fully adjust the social safety nets and protections in order to avoid the problem that flexible labour relations can result in precarious jobs and become a source of social exclusion and lack of income, with negative effects on consumption and aggregate demand. Moreover, in a period of economic recession such as the current one, extensive social benefits and automatic unemployment subsidies are necessary in order to avoid a recessionary spiral, a weakening of the purchasing power of workers, and a further fall in consumption and in aggregate

demand. On the contrary, the recent austerity policies reduce aggregate demand further, directly and indirectly weakening the purchasing power of workers, when the indirect wages (i.e., the public expenditure on services, health, education, etc.) are cut and when wages in public sector are reduced.

3.   The model: from labour flexibility to economic decline

The labour market reforms recalled above were coupled, in the 1990s, with an uncompleted and unfair liberalisation and privatisation process, which favoured both the increase of rents in the economy and the worsening of income distribution. In fact privatisation was introduced without a full liberalisation of the goods market. Therefore, in the sectors where former public assets operated (such as: telecommunication, energy, infrastructures, public utilities, railways, and so on) mark-up and rents increased and private monopoly firms were created. Those reforms, caused on one side a strong pressure on wages and labour (as we will see in this session), and on the other side a lower productivity performance (as we will see in the next session).

In regards to the first aspect, the labour market reforms, we may say that the July Agreement of 1993 in the end contributed to the stagnation of wage at national level. After that, and under the pressure of the two main laws introduced in the labour market mentioned above, labour flexibility, in particular 'in entrance', increased consistently and temporary work, unstable jobs and all the atypical forms of job surged (Tronti, 2005; Lilla, 2005; Torrini, 2005; Rossi and Sestito 2000). The process was recently completed under the law of June 2012 which introduced some forms of labour flexibility 'in exit'. However, the flexibilisation in the labour market was not coupled with a higher level of public expenditure for the social dimension, employability and for general labour policies (as is often the case in countries that introduced a so-called flexicurity model, such as Denmark or Sweden). In fact quite the opposite, indirect wages also decreased. Income inequality increased and the purchasing power of workers decreased. The wage share over the GDP fell drastically with a consequent negative impact on the level of consumption, which declined drastically as well as the aggregate demand.

An examination of the relevant data for the Italian economy in comparison with its main EU and Eurozone partners such as France and Germany (and sometimes in comparison with OECD and EU member states) confirms the strong correlation between all the relevant variables discussed above. It seems clear that there is a deeper decline in the Italian aggregate demand (AD) caused by a deeper shrinking in the consumption (C) which in turn is caused by the deeper reduction of wage share (WS), the more marked decline of indirect wage (IW), i.e. the public expenditure (G) in particular in social dimensions (SD), the higher increase of inequality (Ineq) and the pressure on labour employment (L) and wage (W) caused by a stronger labour flexibility (LF) and by its correlated creation of unstable jobs (IJ). The decline in the aggregate demand is the main cause for the lower dynamics of GDP and for its deeper decline. In brief and in symbols, the mechanism goes in the following direction:

$$\uparrow \text{LF} \rightarrow \uparrow \text{IJ} \rightarrow \downarrow \text{W} \rightarrow \uparrow \text{Ineq} \rightarrow \downarrow \text{WS}(+ \downarrow \text{IW}) \rightarrow \downarrow \text{C} \rightarrow \downarrow \text{AD} \rightarrow \downarrow \text{GDP} \quad (1)$$

All the data reported below confirm this mechanism, starting with labour flexibility, which is measured as the protection for regular and temporary employment, as

components of the Employment protection legislation index (EPL) from OECD.[4] This indicator shows the level of protection offered by national legislation to workers. In other words, how regulated the employer's freedom to fire and hire workers is. Traditionally, European economies maintain higher levels of EPL in comparison with Anglo-Saxon economies and in comparison with the USA in particular (Nickell 2008; Blanchard 2006; Ljungqvist and Sargent 2008).

In the Italian case, this indicator under the pressure of the flexibilisation of the labour market fell drastically as we can see in Figures 1 and 2.

Although labour flexibility is increasing everywhere, in Europe the policy agenda is moving toward a so-called 'flexicurity', which would promote some type of job security while accounting for the need for flexibility on the part of firms (Rapporto Kok 2004; Boyer 2009; Tridico 2009). The Italian levels are below the Germany and France ones, and as well as below most of the OECD and EU countries, as the average values for both show.

The peculiarity of the Italian story, in comparison with other EU countries, which also experienced an increase in labour flexibility, has to be found in the poor context in which flexibility was introduced. This context was characterised by low investments in innovation and technology, and scarce improvements in the service sector where most of the new flexible employees work. Moreover, as will be argued in more detail in Section 4, reforms in terms of liberalisation were not introduced, competition was lagging behind, and private rents could emerge along with monopolies of former public assets privatised during the 1990s and 2000s. These circumstances made the consequences of flexibility in Italy even worst than in other EU countries, in terms of labour productivity and wage share decline.[5]

Flexibility goes hand in hand with Temporary work, which has increased consistently in Italy in the last 15 years, as Figure 3 shows, above the values of the main EU partners and above the OECD average, in particular after 2003, when Law 30 mentioned above was introduced in the Italian labour market.

In this context, real wages were pressed, because labour flexibility operated mainly in the direction to reduce costs, at least in the case of Italy. Average annual real wages today in Italy are at the same level of the ones of the end of 1990s (see
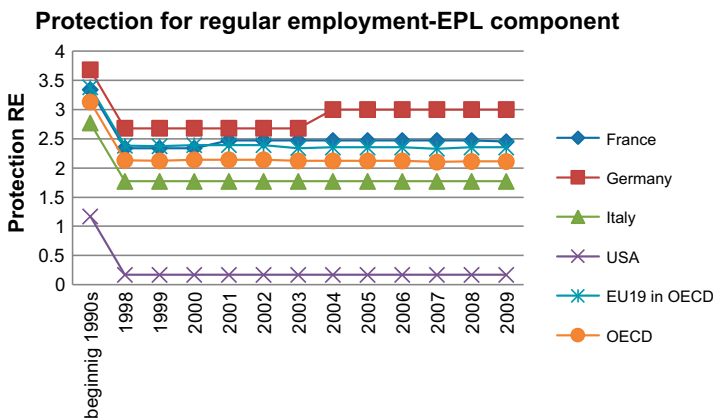

Protection for regular employment-EPL component

Figure 1.   Labour flexibility of regular employees.
Source: own elaboration on OECD (2012).

Protection for temporary employment-EPL component
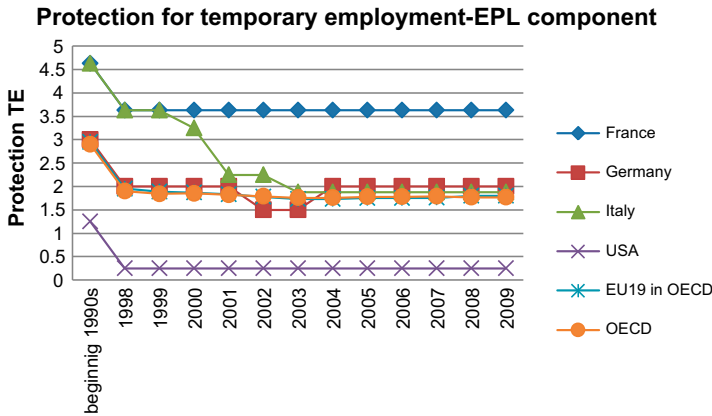
Figure 2.   Labour flexibility of temporary employees.
Source: own elaboration on OECD (2012).

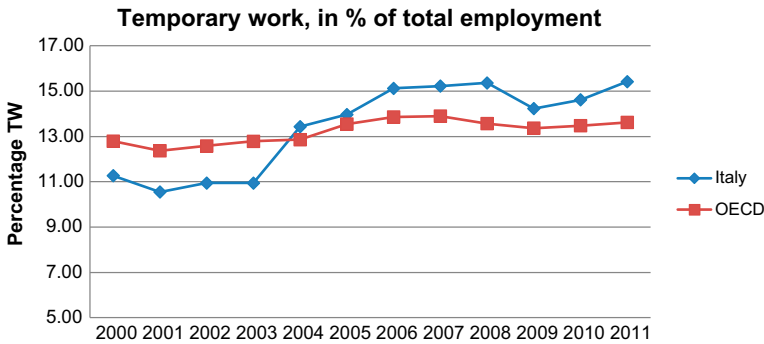**Temporary work, in % of total employment**

Figure 3.   Labour flexibility – temporary work.
Source: own elaboration on OECD (2012).

Figure 4), as the Bank of Italy several times reported (Draghi, 2007; Banca d'Italia, 2012). Even in Germany, despite the so-called 'internal devaluation', which allowed for a wage moderation in the 2000s as a consequence of an agreement between Trade Unions, Industrial Organisations and Government, and despite a higher initial level, the wage increased more than in Italy (3.5% against 1.4%), and in France even more (12.2%), while in the rest of the OECD's old members states (i.e. Australia, Austria, Belgium, Canada, Denmark, Finland, Greece, Ireland, the USA, the UK), the increase was around 9% since 2000.[6]

As a consequence of such a pressure on Labour, the wage share declined, and this decline was more marked in Italy, where labour flexibility and wage stagnation were more incisive, in comparison with Germany and France and many other EU countries (see also Levrero and Stirati 2005).

The issue of the declining wage share in advanced economies was already raised by several heterodox contributors such as Barba and Pivetti (2009), Stockhammer (2013), Fitoussi and Saraceno (2010), Fitoussi and Stiglitz (2009), Brancaccio and Fontana, (2011), who identify structural problems in the economic systems of

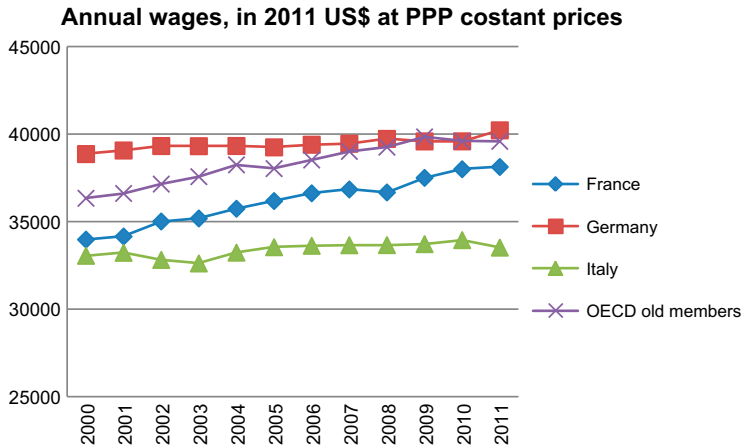**Annual wages, in 2011 US$ at PPP costant prices**

Figure 4.   Italian stagnant wages (real wage).
Source: own elaboration on OECD (2012).

advanced economies. These structural problems are the deep causes of the recession and of the global disorder. They refer to the income distribution bias and to the inequality that weakened consumption and the effective demand in the economies. The decline of the wage is in correlation with the process of financialisation that took place some 30 years ago in the USA and in Europe, in the sense that, in the last three decades, while wage share declined, credit consumption increased (Tridico, 2012). The argument, which may explain this correlation, is that the aggregate demand, which was not sustained by appropriate wages, and by productive investments, used the channels of financialisation and credit to sustain consumption. However, in the end this consumption resulted in being unstable and not able to guarantee long-term support to the aggregate demand, in particular after the burst of the bubble in 2007 and the financial crash, which squeezed the credit for both investments and consumption.

Figure 5 includes agriculture, housing costs for families and some limited forms of independent work. It is therefore an inclusive measure for wage share. Despite
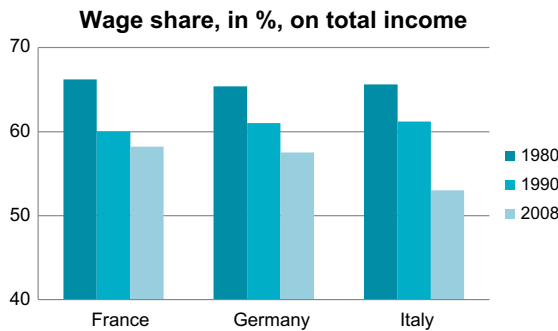
Wage share, in %, on total income

Figure 5.   The declining wage shares.
Source: OECD (2008 – Employment outlook), ILO (2013), Global Wage Report 2012/2013, ILO Geneve.

that, data are clearly showing a decreasing trend, and the figure for Italy is even more dramatic. When we include only dependent work remunerations, the results are even worse.

Figure 6 shows data for income from dependent work and from capital. A clear drop in the wages occurred during the 1990s, the time of the main labour market reforms (1993 and 1997), from 53% to 46%. During the 2000s wages were more or less stable. During the same period, and until the middle of the 2000s, i.e. before the current crisis, profits increased much more, and hence income distribution worsened. Profits, coherently with our assumptions concerning the impact of the 1993 agreement and of the introduction of labour flexibility, which compressed wages, increased in particular in the second half of the 1990s from 37% to above 40%, and after remained more or less stable.

In addition, the aggregate demand was also weakened by the decrease of the public expenditure in the economy, in Italy more than in other European countries. Whereas in Germany and in France, the two biggest Eurozone economies, public expenditure increased over the last 20 years, in Italy public expenditure decreased, as Figure 7 below shows.[7]

Such a decrease affected, in particular, the social expenditure. Moreover, its level was already lower than EU partners such as France and Germany (not to mention Scandinavian countries, which have traditionally higher levels of welfare), where social expenditure is around 55% (on total government expenditure) or around 25% of GDP, while in Italy the corresponding figures are approximately 50% and 23%.[8] Such a reduction meant a decrease in the indirect wages, and a further weakening of the purchasing power of workers and middle class who live mainly off direct and indirect wages (see Figure 8).

Besides that, active and passive labour policies, i.e., job search programs and subsidies to the unemployed, are notably lower in Italy than in other European countries (see Figure 9). Such a situation affects negatively both the employment rates (because the unemployed are not adequately supported in finding a job and in
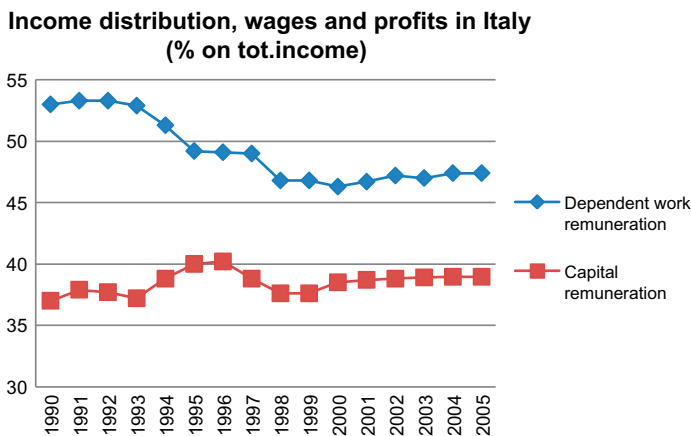
Figure 6.   Labour and Capital in Italy 1990–2005.
Note: The sum of the factors of production labour and capital will give 100 considering also indirect taxes (between 10–15%) and capital gains from abroad (around +/-2%). The 'capital remuneration' is here the net operating surplus and indicates the percentage remunerating the capital.
Source: Istat, (2010).

Public Expenditure, % of GDP
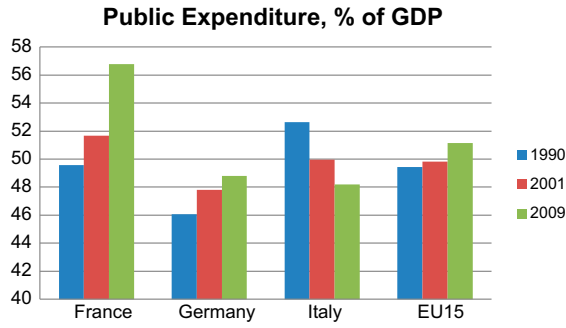
Figure 7.   Indirect wage, total public expenditure.
Source: International Monetary Fund, World Economic Outlook Database, October 2012.

Social Expenditure as % of GDP and % of Gov expenditure, 2009
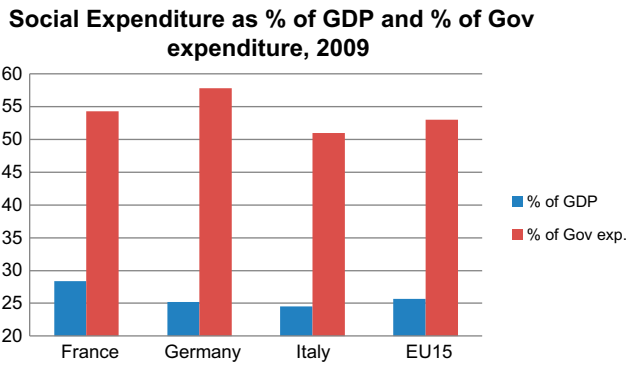
Figure 8.   Indirect wage, social expenditure.
Source: own elaboration on OECD (2012).

Active and passive policies, % of GDP, 2008
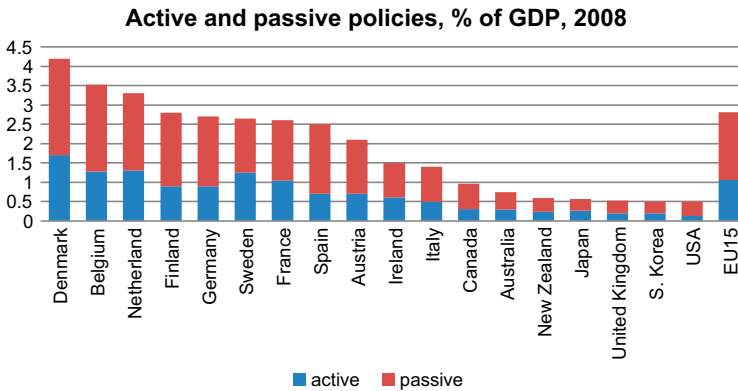
Figure 9.   Labour Policies and unemployment subsidies.
Source: own elaboration on OECD (2012).

matching the labour supply) and especially the consumption level, since people without an income cannot consume, and stabiliser mechanisms, in particular in times of recession time, cannot operate.

All of these data have a direct consequence on the worsening of the income distribution, which in Italy has taken a very bad path in the past 20 years (Lilla 2005). The income Gini coefficient has, in fact, increased tremendously in Italy from around 29% in 1990 to more than 35% in 2009, being dangerously higher than Germany, France and many other EU and OECD countries (see Figure 10).

The correlation between inequality and flexibility is clear. In the last two decades inequality has increased along with labour flexibility as Figure 11 shows. See also the trend of EPL data for all countries in the last two decades in the Appendix (Table A1). In particular, Italy is collocated among the countries with higher inequality and lower EPL (higher labour flexibility), along with Anglo-Saxon, Baltic and Mediterranean countries, which we can define as liberal competitive market economies or hybrid market economies (in the case of the Mediterranean countries). In contrast, Continental and Scandinavian countries, which represent more of a European Social model (Tridico 2012; Amoroso and Jesperse 2012) have lower levels of inequality and higher levels of EPL (lower labour flexibility). The two poles here are Germany and the UK, and Italy appears clearly in the UK quadrant.

In such a situation, inevitably, consumption levels fell sharply. Today, the level of Italian consumption is similar to its own level from more than 30 years ago, in 1979. In fact, the consumption share of GDP (per capita) decreased continuously from 1990, in parallel with the flexibilisation of the labour market, the decline in the wage share, the decline of the direct and indirect wages and the increase of inequality (see Figure 12). It is today one of the lower among the EU15 (around 70%) and far below that of France and Germany.

A further weakening of the aggregate demand occurred in Italy with the reduction of the investment level (Investment share of GDP per capita), which fell below, in the last 10 years, that of France and Germany (see Figure 13). Today, in recession time, with scarce and exogenous investments, credit restrictions and rationing policies implemented by banks, after the financial crisis of 2007–2009, the situation worsened further despite lower interest rates. However, firms have, first of all, negative expectations about the demand and this is the main reason why they do not invest. Hence, without new investments, innovation will continue to be lacking, productivity will continue not to grow, and aggregate demand will be further depressed.

Gini coefficient (after taxes and transfers)
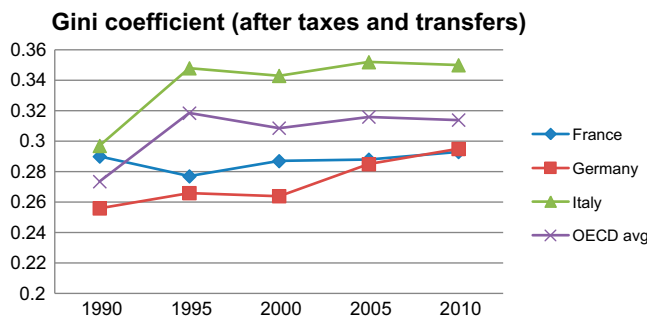
Figure 10.   Income inequality.
Note: figures measure income after taxes and transfers.
Source: own elaboration on OECD (2012).
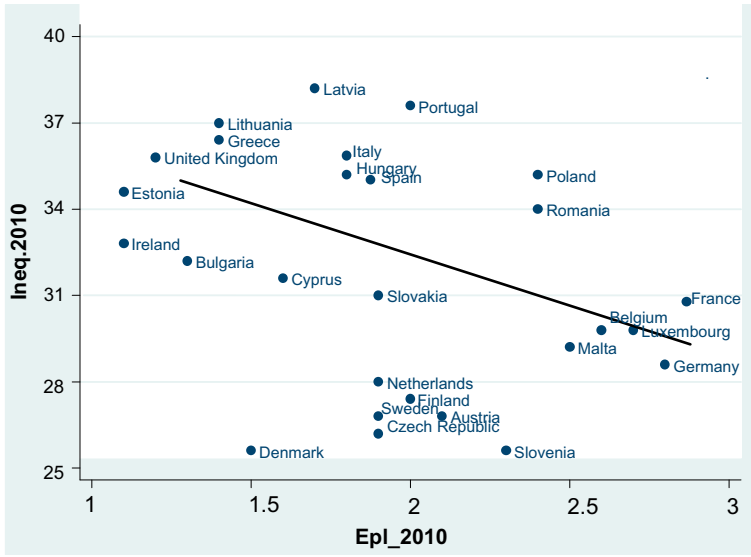
Figure 11. Correlation scatter Inequality and EPL.
Note: Epl is the Employment Protection Legislation index. Ineq is the Gini coefficient.
Source: own elaboration on OECD data.
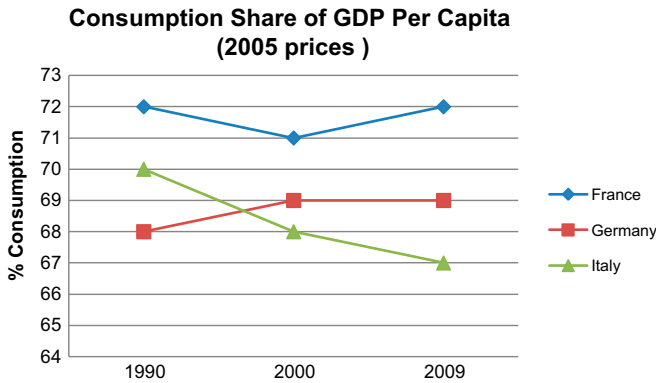
Figure 12. The decline in the consumption share.
Source: Penn World Table 7.1.

If we go more in to the details of the national accounts, the data (source OECD) reveal something very interesting. Italy more than France and, in particular, more than Germany lost one decade (2000–2010) in terms of development and was stagnating in the previous one (see Table 1). Data from Italy concerning the growth dynamics of the main components of the GDP, are systematically below the ones of its main partners. In particular, the contribution to growth of Consumption (C) – a crucial element of the aggregate demand – was only 0.3% in the last decade, the lowest not only among the three countries but among OECD countries, and one of the lowest performances since the Second World War. A similar story concerns the

**Investment Share of GDP Per Capita
(2005 prices , in %)**

Figure 13.   The decline in the investment level.
Source: Penn World Table 7.1.

Table 1.   National accounts: contribution to growth.

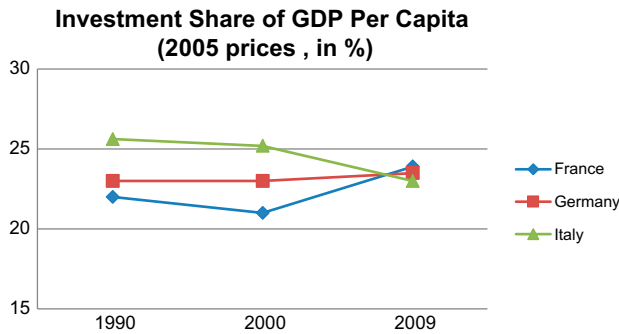|		1990–95	1996–2000	2001–2011	Average 1990–2011	Cumulative growth 1990–2011
Italy	C	0.6	1.5	0.3	0.8	2.4
Italy	I	0.0	0.7	0.0	0.2	0.6
Italy	G	0.0	0.2	0.2	0.1	0.4
Italy	Export	1.4	1.0	0.4	0.9	2.8
Italy	Imports	–0.8	–1.4	–0.5	–0.9	–2.6
France	C	0.7	1.4	0.9	1.0	3.0
France	I	0.0	0.8	0.2	0.3	1.0
France	G	0.5	0.3	0.4	0.4	1.1
France	Exports	1.2	2.1	0.5	1.2	3.7
France	Imports	–0.8	–2.0	–0.7	–1.2	–3.5
Germany	C	1.5	0.9	0.3	0.9	2.7
Germany	I	0.7	0.5	0.0	0.4	1.2
Germany	G	0.5	0.3	0.2	0.3	1.0
Germany	Exports	1.2	2.4	2.3	2.0	5.9
Germany	Imports	–1.3	–2.2	–1.6	–1.7	–5.1

Source: own elaboration on OECD data.

Investment (I) contribution to growth and the Public expenditure (G) contribution to growth. The poor growth dynamics of the main components of the GDP confirm our hypothesis, which assumes that the fall in the demand is a consequence of a fall in Consumption and in Investment. The biggest role among the GDP components, in terms of contribution to growth is played by Exports (E) whose cumulative contribution during the whole period 1990–2011 was higher than other components, but still inferior to that of France and Germany. This result is not surprising in our approach and it is consistent with the idea that internal demand is declining. The economic policy in the last 15–20 years was not supporting internal demand, and international competitiveness was achieved only by devaluing labour costs through labour flexibility and pressure on wages, which were stagnating. In the end however, exports were no longer enough to carry out aggregate demand and support positive GDP dynamics. Labour productivity was also not increasing because capital intensive investment were lacking. It is worth comparing these data with data from a supply

side perspective concerning the contribution to growth of labour productivity and of total factor productivity (see Table A2 in the Appendix).

As a result of this, the GDP dynamics in Italy over the last 15 years have been stagnating, and when the recession hit Italy in 2009 it was deeper and, consequently, the recovery will be more difficult in the given situation. In fact, it does not appear that policies implemented during the recession, in the last 3–4 years, were able to change the above-mentioned dynamics. Quite the opposite: the labour market was further liberalised with a new law introduced by the Ministry of Labour in June 2012, as mentioned above (Law n. 92/2012). The austerity measures introduced by the Monti Government and before by the Berlusconi Government decreased the public expenditure were aimed exclusively at balancing the budget, with the obvious consequence of reducing further the national expenditure without any remarkable results in terms of growth, recovery and not even in terms of Debt/GDP reduction. In fact the measures targeting the reduction of Debt were basically reducing the national revenues and the GDP, thus worsening further the ratio Debt/GDP.

The Italian decline appears clearly in the graph below: in almost 15 years Italy lost, in comparison with the EU, 20 percentage points of GDP (see Figure 14). Italy used to be a richer country, with an average GDP above the EU15 (the richest club), and today it is far below this average level. Its GDP equals the average GDP of the EU with 27 countries. The comparison with Germany highlights the two different paths since 2002: while Germany is working its way upwards, Italy continues to decline. Furthermore, while the EU15 including France are still keeping their relative wealth, Italy has already lost it. This decline appears even more dramatic when one looks at the great jump ahead that Italy experienced in economic development during the so-called 'economic miracle' (see Table A3 in Appendix).

In brief and in symbols, all this can be expressed simply in the following textbook equation:

$$AD\,(C+I+G) \downarrow \rightarrow GDP \downarrow \tag{2}$$

It is not trivial to state that the lack of expansion of aggregate demand causes a further decline in the productivity, following the well-known Sylos Labini model that we will explore further in the next session.
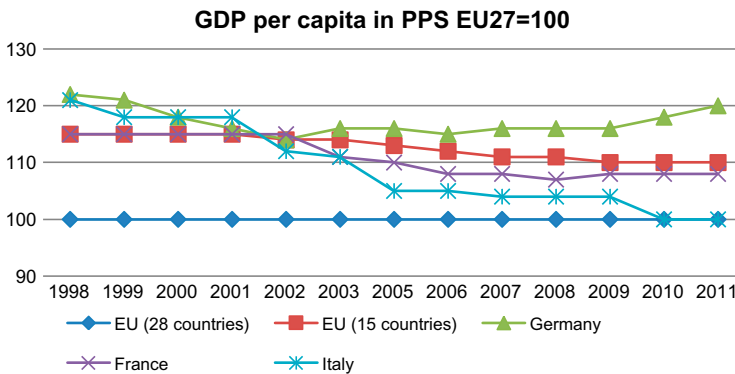

Figure 14.   The Italian decline.
Source: Eurostat (2012).

When we test a simple model comprising the relevant variables whose data were listed above, we obtain the expected results (see Table 2). The model that was tested, among the 27 Member States of the European Union, considers a so-called Performance Index (PI) as a dependent variable,[9] which is nothing more than an algebraic sum of GDP growth (g) in 2007–2012, employment change (n) for the same period and unemployment rates (u) (see the data in Appendix Table A4). The independent variables are inequality, (Gini coefficient), temporary work (share over the total employment) and the EPL. Both the OLS model with 27 observations (which include average values of the relevant variables for the period 2007–2012), and the GLS model of a Panel (with 162 observations), build with the series of each year from 2007 to 2011 (which are the most relevant years of crisis in Europe) gave very interesting and consistent results that confirm our model.[10]

$$PI(g + n - u) = a + b1EPL - b2TW - b3Ineq + e$$

In particular, the two models show that countries that have the better performance (the higher PI) are the countries that have less flexible labour market and better income distribution. The OLS model indicates that a higher PI is caused by a higher EPL index (lower labour flexibility), a lower level of temporary work and a lower lever of inequality (Gini coefficient). This model is confirmed by the more robust and significant GLS model (Table A5 in the Appendix). All the variables are very significant (within 5% levels in the GLS model and within 10% in the OLS model) as one can see from the *p*-values. The signs and the magnitude in both regressions go in the same directions. Moreover, in the panel a random effect regression with dummy variables for each year was used, and the Hausman test proved the reliability of this effect.

4.   From lack of competition to productivity decline

Besides the issues explained above, the other problem that emerges in Italy is the presence of strong rigidity, and a lack of competition and protection in the goods market. This seems to be the main cause of the low productivity dynamics that characterised the Italian economy for more than a decade, as firms prefer a labour-intensive investment strategy rather than a strategy of technological innovation and

Table 2.   Regression table, cross-country.

OLS Model Dep Var. : PI (2007-12)		
Variable	Coeff. (stand errors)	P-values
EPL_2008	8. 147022 (1.95968)	*
Temporary work 2008	–0.1638903 (0.1295744)	**
Inequality 2008	–0.696365 (0.2433367)	***
Constant	–04.865248 (9.95968)	
R-squared = 0. 6413		
Adj R-squared =0. 5945		
Prob > F = 0.0000		
Number of obs = 27		

Note: Significance level: *within 1%; **within 5%; ***within 10%.
In the appendix (Table A5) we report also data of a GLS panel model, with 162 observations.
Source: own elaboration.

investments expansions, in contradiction with what it was agreed with the July 1993 agreement (Fadda 2009; Nardozzi 2004). Labour intensive investment strategies are preferred by firms because real wages are relatively cheaper (due to the downward pressure of labour flexibility), and because the lack of competition in the goods market allows for rent-seeking and firm protections.

An interpretation of this is offered by the Sylos Labini model and from several contributions that follow his approach (Sylos Labini 1993, 1999; Tarantelli 1995; Blanchard and Giavazzi 2003; Tronti 2005) and in some ways refer to classical or Keynesian schemes. This approach explains that the lack of competition in the goods market is the main cause for the low dynamics of labour productivity. Basically, what happens is that a highly flexible labour market, which reduces labour costs through wage pressure, accompanied by a protected goods market and scarcely as competitive as the Italian one, encourages firms not to innovate and not to invest, but to still enjoy competitive advantages and increasing profits through wage moderation (Torrini 2005). Contrary to what had been established with the agreement of July 1993 where, through a 'political exchange', trade-unions accepted wage moderation in exchange for an incomes policy (i.e., more welfare) and for a strong strategy of productive investments in advanced sectors. This exchange did not take place and productive investments have not grown as Figure 15 shows (Tronti 2005).

In contrast, wage moderation and a lack of competition in the goods market has led to the growth of rents, dominant positions and profits for firms, which were able to maintain, through the pressure on labour, at least temporarily, international competitive positions (Fadda 2012).

However, de-industrialisation is not a determining phenomenon in advanced economies, as the case of Germany shows clearly. In Germany (and other EU partners), the share of the industrial sector grew in the last decade, from 25% to 26% while in Italy it declined from 24% to 19% which corresponds to a fall of around 15% in the value added of the whole industrial sector as Figure 16 shows.

At industrial level, the withdrawal of the State from economic activities and the privatisation process did not bring more industrial investments. This process simply caused a further squeeze of the Italian economy and, in particular, the reduction of the industrial sector. The empty space left in manufacturing has simply never recovered. This meant a further reduction of the Italian industrial share in Europe and in the world and the disappearance of large and important firms (Gallino 2003).
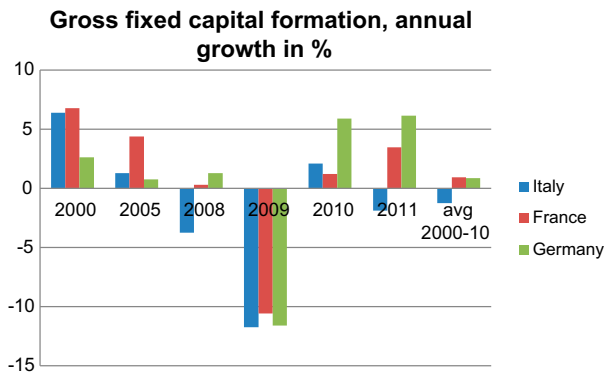

Figure 15.   The decline in investment changes.
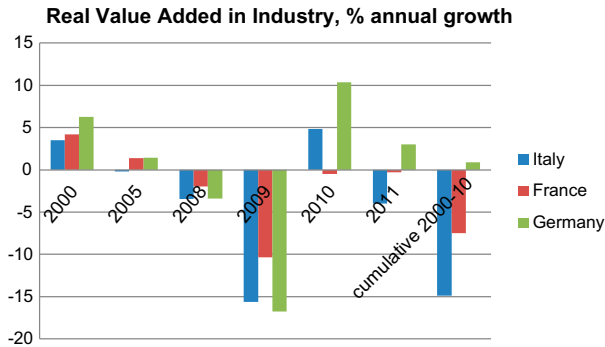Source: own elaboration on OECD (2012).

Figure 16.   The industrial decline.
Source: own elaboration on OECD data.

Obviously this issue has to be analysed in the context of globalisation and of the division of labour that occurred in the last two decades. Hence, the uncompleted liberalisation and privatisation processes left Italy with a smaller industrial share, and with many protected areas, not subject to competition. Examples include the retail sector, protected by regulations and legal technicalities in the wholesale distribution, dominated by a few large monopolies; the agricultural sector subsidised through the EU Common Agricultural Policy; the energy sector, which is dominated by a few large private companies that enjoyed the benefits of being state owned for a long period of time, and then recently being privatised but not fully liberalised, so still enjoying subsidies, support and protection; and a few large private companies operating in strategic sectors, such as transport and communications, which are less exposed to international competition, and subsidised often in an opaque way through lobbying pressures. In addition, R&D at national level did not increase substantially, and the gap in comparison with EU and other partners is increasing consistently (see Figure 17).

Clearly, all this is at the expense of productivity gains, which are strangled by a lack of expansion of aggregate demand, a price increase in the cost of labour per unit of output, and a lack of investment, especially in technologically advanced sectors. This result is also supported theoretically, if we assume that the productivity depends on the combination of the so-called Smith's effect (expansion of demand,
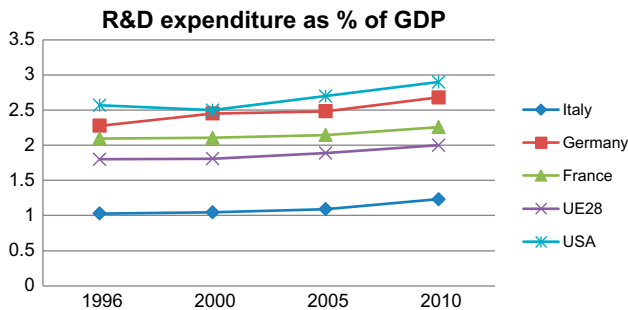

Figure 17.   The gap in R&D.
Source: OECD (2012) and Eurostat (2012).

with reorganisation and division of labour) and Ricardo effect (investments that replace labour with capital-specific technological change). Through this approach, we can observe a negative relationship between productivity and labour flexibility, as Kleinknecht and colleagues empirically demonstrated in several contributions (Kleinknecht et al. 2005, 2006, 2013). The following equation, taken from Sylos Labini (1999), presents the determinants of labour productivity according to this approach:

$$\Delta \pi = a + b\Delta Y + c(CLUP - P) + d(W - P_{MA}) + e\Delta I \tag{3}$$

The change in labour productivity ($\Delta \pi$) depends positively on changes in the product (ΔY), the change in investment (ΔI) and the differences of the variables in parentheses, where P is the price index, P_{MA} the prices of machines and *CLUP* is the unit labour costs, that is, the cost of labour per unit of output, i.e. the ratio between the labour cost and the labour productivity. If the *CLUP* grows faster than the consumer price index, companies, having a lower margin of profit, will be forced to save labour, and will perform capital intensive investments, or will reorganise the workforce within the company. Thus, if wages rise more than the price of machinery firms will prefer to increase investment labour saving and introduce capital intensive strategies in order to save costs. Hence productivity will increase because capital intensive strategies will bring about new technologies and new innovations, as Kaldor (1957) argued. In the future, new waves of technologies and investments in innovation would also boost employment. This implies that if wages do not grow properly with respect to the price of machinery, and investments are not properly stimulated, entrepreneurs will essentially look for advantageous positions, and the competition will rely primarily on wage moderation. This picture is a good example of what happened in Italy since 1993 (Tronti 2005; Sylos Labini 2003; Tridico 2009; Lucidi 2006), in which, beside a modest employment growth and strong wage moderation, there was a negative trend and stagnant productivity (see Figure 18). In fact, by definition we have:

$$\text{GDP} = \text{Y} = \text{L}\pi \text{(L = labour employment and } \pi = \text{average productivity)} \rightarrow \Delta y$$
$$= \Delta l + \Delta \pi \tag{4}$$

Now, if L (employment) increases, and the GDP does not grow, the reason for the stagnation of GDP has to be found in the poor productivity performance π.
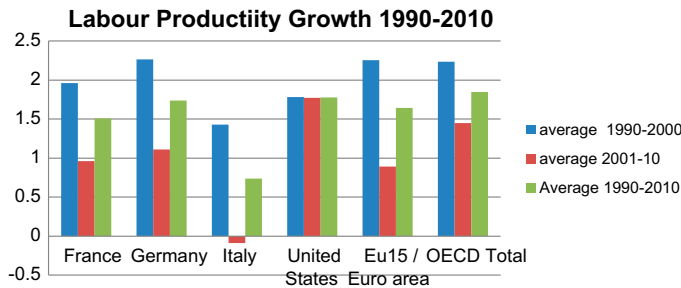

Figure 18. Labour Productivity.
Source: own elaboration on OECD data. Note: Figure A1 in the Appendix specifies data for the whole period.

However, it could also be the opposite: that because GDP does not grow, productivity is stagnant. In both cases there is a problem of negative interaction between GDP and productivity, related to Smith's effect and to its negative relation with flexibility.

To conclude, if we return to equation (2), we can add to it another component, the productivity, and we will easily observe that following the Sylos Labini approach, the contraction of the aggregate demand not only reduces the GDP but does not allow for productivity gains with further negative effects on the GDP, as follows:

$$AD\,(C{+}I{+}G) \downarrow \rightarrow GDP \downarrow \rightarrow productivity \downarrow \rightarrow GDP \downarrow \qquad (5)$$

Therefore, the pressure on wages and the labour flexibility ended up being detrimental twice for the GDP growth: (1) via the reduction of the aggregate demand as we saw in the previous session and (2) via the negative effect on the productivity growth.

5. Discussion

As we saw during the last decade in almost all the OECD countries, including Italy, labour flexibility – calculated through the reduction of some indices of rigidity of the labour market – increased. One can also observe modest increases in employment rates. These increases in labour flexibility were coupled very often with a reduction in labour costs and therefore also with wage flexibility. As a result, the new jobs created are characterised by dissatisfaction and low working efficiency caused precisely by the pressure on the wages, the low incentives that low-paid workers receive, the instability felt by the worker in the job place, and by the poor social security contributions. This can be interpreted through the efficiency wage approach, where unstable and low paid jobs push workers to put little effort into their work. Moreover, this does not guarantee that firms and workers invest in training and education in order to improve the quality of human capital, with lower results in terms of productivity, *ceteris pairibus*, by the economic system (Salop 1979; Shapiro and Stiglitz 1984).

More specifically, in Italy, until 2007–2008, i.e. before the crisis, there was an increase of employment in the tertiary sector, which was fragmented and disorganised, poorly motivated and low paid (see Figure 19). The result was the lower
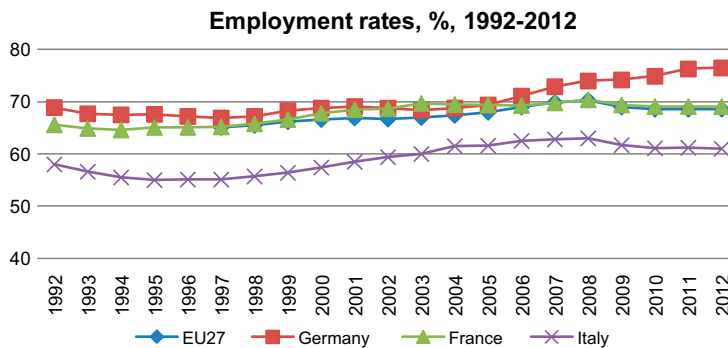

Employment rates, %, 1992-2012

Figure 19.   Employment trends.
Source: Eurostat.

productivity of the Italian economy. In the end, the only factor partially positive is the modest increase of employment, which was negatively offset by the negative labour productivity and by the reduction of the wage share in the GDP. This brought about the reduction of the purchasing power of workers and the lack of a positive dynamic in the aggregate demand and therefore in the GDP.

The lack of sustained economic growth and the current economic crisis resulted in lower levels of employment, which contributed to the increase in the unemployment. Until the beginning of the crisis in 2007–2008, most new jobs recorded in Italy, which reached a historically low unemployment rate in 2006 of about 6.5%, were low paid jobs, with real wages lower than those needed to maintain a purchasing power adequate to price levels. Semi-employment contributed to the increase of employment. Since capital intensive investments were lacking, industrial production was stagnant or declining, the advanced technological sector was almost non-existent and therefore the Italian economy lost competitiveness in comparison with the EU partners.

These low wages, often accompanied by insecurity, poor incentives and few awards for employees, decreased the efforts and thus the efficiency of workers in the job places. The lower real wages, and thus the minimisation of costs, and the rational behaviour on the part of the individual employer, did not lead to an increase in the productivity of the system or to increased production. It led to an increase in profits, which often were not converted into new investments, but on the contrary, increased dominant positions of some rent-seeking firms, and the increased portfolio movements of speculators and investors. This allowed for accumulation of extra profits by firms, and worsened income distribution. However, the economic system has not had beneficial effects, and accordingly has not realised efficient situations in terms of productivity and economic growth.

The current crisis has only worsened the situation of the labour market and it is the final outcome of an economic decline that originated much earlier, at least 15 years ago, as we originally claimed (see also Figure A2 in the Appendix, where one can easily see the Italian crisis as a Great Depression, the worst among the EU countries).

These sources are mainly marked by the attempt to introduce, in the early 1990s, a new economic and social model, which changes industrial relations, reduces virtuous and automatic mechanisms of income distribution, compresses wages, and encourages firms to save income and to accumulate extra profits and rents rather than to invest in innovation. Furthermore, the State assumes, eventually, the burden of paying the cost of flexibility, as it has to guarantee to firms the freedom to fire and hire as they wish in a labour flexibility regime. This includes, in particular, the costs for unemployment benefits during the transition from one job to another and the costs for extra job search actions (supported by the public employment centres overloaded with work). This of course will result in an additional burden on the state budget. With the current recession, the first jobs to be cut and lost were the flexible ones, that is, those that arrived at maturity of the contract or whose projects were not renewed, with damage to both employment (with an unemployment rate that has returned to the levels of the early 1990s, that is around 10% and layoffs that will reach a total of 1 billion working hours lost at the end of 2012), and to income, with consumption levels down to those of 30 years ago (see Figures 20 and 21).

In conclusion, the country seems plagued today by a triple negative combination: (1) low productivity; (2) low employment; and (3) low dynamics of the GDP. That

Unemployment rates, 1996-2012
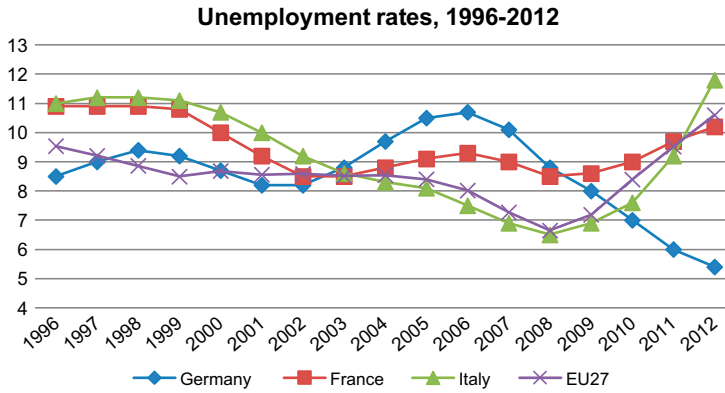
Figure 20.   Unemployment trends.
Source: Eurostat.

% Gdp growth during the crisis, and cumulative 2007-13
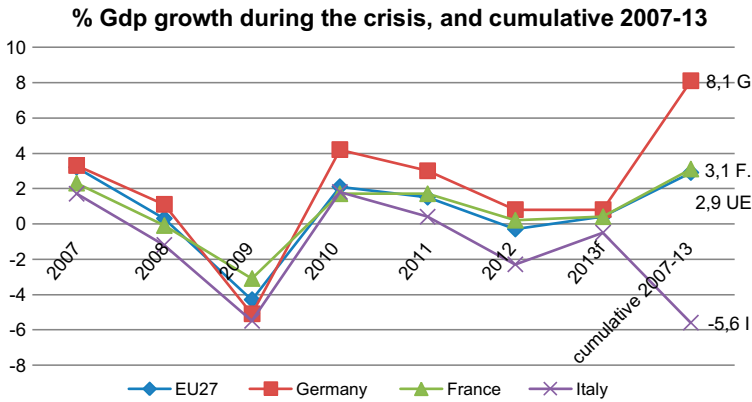
Figure 21.   GDP performance during the crisis.
Source: Eurostat. Forecast for 2013.

labour flexibility is not the right way to increase productivity and income has been announced several times by many Keynesian economists and beyond. However, the initial modest increase in employment was far more than offset by the low dynamics of labour productivity and by the stagnation of GDP even before the current crisis. Today there is a greater consensus among labour economists, in particular that in the past 15 years labour policies and development policies were mostly neglected, not integrated and not targeting the same objectives, and this has led to an increase in rents from firms that have mainly exploited the low labour costs to remain competitive, rather than make investments and create innovation in order to increase labour productivity, which could then result in a more consistent GDP growth (Fadda 2005). Firms, with the current crisis, lost even the benefit of cheap labour cost since they are still burdened by a relatively high taxation, and a continued decline in sales. Thus, in the current situation the economic system deals with low net wages (the lowest in the EU15) and lack of innovation and technology investments: the worst

combinations according to one of the most important Italian economists (who passed away few years ago), Sylos Labini, whose Keynesian approach would be very useful to Italy today.

6. Conclusion

I have argued, in this paper, that the current crisis is the final step of a much longer decline that started after the recession of 1992–1993. The decline is a consequence of institutional changes, policies and institutions implemented between the beginning of 1990s and the beginning of 2000s and which involved mainly labour market reforms (i.e., the 1993 July agreement and the introduction of labour flexibility) coupled with a partial privatisation process, and an uncompleted and inefficient liberalisation process. These policies and changes, which were mainly created in order to follow the Washington Consensus, intended to implement in Italy a very market-oriented economic model and to meet the Maastricht criteria, caused from one side income inequality, lower consumption, industrial decline and weaker aggregate demand. From another side they brought about lower productivity dynamics, since Italian firms implemented mainly labour intensive investments, trying to get advantages from cheaper (and flexible) labour and to reduce costs, without innovative investments. In the end, these two forces brought about economic decline and lower GDP dynamics, with a loss for the Italian GDP of more than 20% in comparison with the average of the EU. Moreover, they caused a deeper recession and slower recovery in the current crisis in comparison with the main European economies.

An econometric exercise, for the period of the crisis (2007–2012) confirm the expected results: among the 27 EU Member States, performance in terms of GDP growth and labour market, are negatively affected by variables such as inequality index, labour flexibility (EPL) and temporary work, which are clearly consequences of labour policies and income distribution institutions.

Acknowledgements

Notes

1. Chronologically speaking, the WC (Washington Consensus) was proceeded by Reagan and Thatcher administrations (in the USA and in the UK) who managed to shape policies and to create a consensus around a new mainstream approach, during the 1980s, dominated by 'laissez-faire', i.e. liberalisation, deregulation and privatisation of markets. The Washington Consensus was a programme that, according to Williamson himself was badly used (Williamson 2005, 195–206).
2. Tiziano Treu was the Ministry of Labour in the left-wing Government lead by Prodi who proposed in 1997 the Law 196/1997. Marco Biagi was a Consultant of the Ministry of Labour in the right-wing Berlusconi Government (2001–2005) who inspired Law 30/2003. Biagi was killed by the Red Brigade in March 2002.
3. CO.CO.CO and CO.CO.PRO, formally, are types of independent contract jobs, linked to a specific project, without constraints for the workers in terms of hours or job location. However, these two forms of contract were (and still are) badly misused by employee, so

that workers are, *de facto*, dependent workers, without the advantages of dependent worker contracts (such as holiday, sick-leave, social contributions, and so on).

4. The EPL index is a composite index that ranks between 0 and 6 (with higher scores representing stricter regulation, i.e. rigidities, and lower scores higher labour flexibility) calculated along 18 basic items of employment regulation, which can be classified in three main areas: regular employment; temporary employment and collective dismissal, the first two being the most important as far as individual workers are concerned. For more details see OECD (1999, 2004).

5. The Italian industrial system has shown relatively better performance during the 1990s and the 2000s as far as the industrial districts of the so-called Third Italy (in the northeast of the country) are concerned. This is mostly due to the less intensive use, made in the SMEs, of the north-east industrial districts, of temporary work and labour flexibility. And this is, to some extent, a confirmation of the fact that labour productivity does not increase with labour flexibility. On the contrary, in the Italian districts, the firm model is based on trust, social capital and other intangible assets that are acquired through long-term employment relations.

6. It would have been better, to have a more reliable picture of wage differentials than Figure 4, to compare levels of wages for each sector of the economy and disaggregate industrial composition across countries. However, among OECD countries, and in particular for France, Germany and Italy, industrial composition is quite similar, so average wages can be considered good proxies.

7. Despite the problems that can arise when comparing internationally national public expenditures, Figure 7 aims to show merely the direction of change in public expenditure.

8. Public social expenditure is the sum of 'social benefits in-kind' and 'social transfers in cash' as defined by OECD (Adema and Ladaique 2009). It includes benefits in the following social areas: Pensions, Old age, Survivors, Incapacity-related benefits, Health, Family, Active labour market programmes, Unemployment, Housing, and Other social policy areas.

9. The reason why a composite index was preferred as a dependent variable (the PI) rather than the GDP or the unemployment rate, is because the Performance Index takes into consideration both employment and GDP aspects. Using such an index would allow for a better consideration of the performance of countries during the crisis, and it avoids biases and distortions such as the fact that countries could have experienced low recession but very bad unemployment or employment reduction.

10. Similar work was done, for a panel, and for the 27 EU members together during the period 2007–2011 by Tridico (2013). That model included also control variables and produced similar results. This exercise was also repeated here and is reported in the appendix to this paper (Table A5).

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Appendix

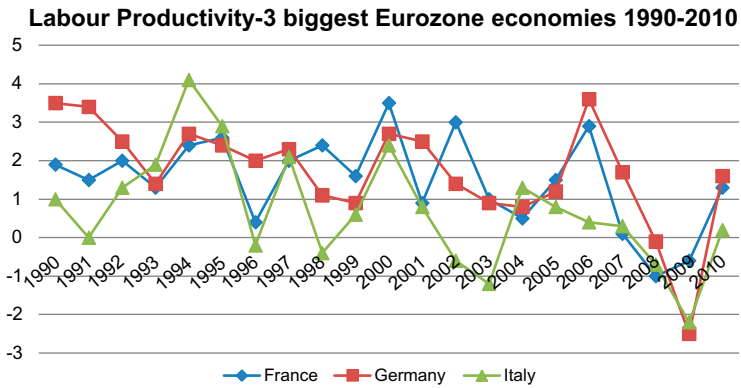**Labour Productivity-3 biggest Eurozone economies 1990-2010**

Figure A1. Labour productivity 1990-2010.
Source: own elaboration on OECD data.

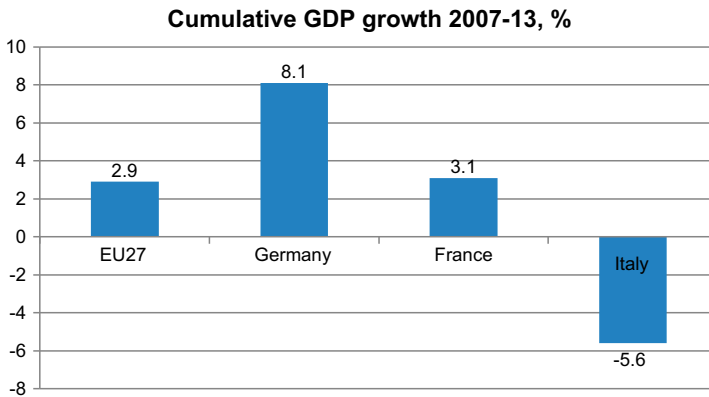**Cumulative GDP growth 2007-13, %**

Figure A2. Italy Great depression.
Source: Eurostat. Forecast for 2013.

Table A1.   Employment protection legislation, OECD, 1980–2010.

OECD Countries	Overall EPL, including regular employment, temporary employment and collective dismissal restrictiveness		
	Late 1980s	Late 1990	Late 2000s
Australia	0.9	1.2	1.2
Austria	2.2	2.2	1.9
Belgium	3.2	2.2	2.2
Canada	0.8	0.8	0.8
Czech Rep	..	1.9	1.9
Denmark	2.3	1.4	1.4
Finland	2.3	2.1	2
France	2.7	3	3
Germania	3.2	2.5	2.7
Greece	3.6	3.5	2.8
Hungary	..	1.3	1.5
Ireland	0.9	0.9	1.1
Italy	3.6	2.7	1.9
Japan	2.1	2	1.8
S. Korea	..	2	2
Mexico	..	3.1	3.1
Netherland	2.7	2.1	2.1
New Zealand	..	0.9	1.5
Norway	2.9	2.7	2.6
Poland	..	1.5	1.7
Portugal	4.1	3.7	3.5
Slovak	..	2.4	1.9
Spain	3.8	2.9	2
Sweden	3.5	2.2	2.2
Switzerland	1.1	1.1	1.1
Turkey	..	3.8	3.7
United Kingdom	0.6	0.6	0.7
United States	0.2	0.2	0.2
Average	**2.335**	**2.032**	**1.90**

Source: OECD.

Table A2.   Contribution to growth – labour productivity and total factor productivity.

		1990–95	1996–2000	2001–11	Average 1990–2011	Cumulative growth 1990–2011
Italy	GDPg	1.4	1.9	0.4	1.2	3.7
Italy	TFPg	1.2	0.3	−1	0.2	0.5
Italy	LPg	1.9	0.9	0.1	1.0	2.9
France	GDPg	1.5	2.7	1.2	1.8	5.4
France	TFPg	1.2	1.3	−1.5	0.3	1.0
France	LPg	2.0	2.0	1.0	1.6	4.9
Germany	GDPg	2.6	1.9	1.2	1.9	5.6
Germany	TFPg	1.3	1.1	−0.6	0.6	1.8
Germany	LPg	2.7	1.8	1.2	1.9	5.6

Source: own elaboratin on OECD data.
Note: GDPg= GDP growth; TFPg: Total Factor Productivity growth; LPg: Labour productivity growth.

Table A3.   Economic development 1950-1989.

| Countries | GDP– in $ | | GDP 1950=100 |
	1950	1989	1990
Czechoslovakia	3501	8768	250
USSR	2841	7098	250
Poland	2447	5684	232
Hungary	2480	6903	278
Average Socialist countries (4)	2819	7013	239
Austria	3706	16369	442
Belgium	5462	16744	307
Denmark	6943	18261	263
Finland	4253	16946	398
France	5271	17730	336
Ireland	3453	10880	315
Italy	**3502**	**15969**	**456**
Netherland	5996	16695	278
Sweden	6739	17593	261
United Kingdom	6939	16414	237
EU (13)	4688	15519	337

Source: own elaboration on Penn World Table 7.1.

Table A4. GDP and Labour market performance during the crisis.

	(g) Gdg growth 2007–2012	(u) Unemployment rate average 2007–2012	(n) Employ-ment change	g+n	Performance index g+n+u	Temporary work average 2007–12	Inequality average 2007–12 (Gini)
Austria	1.3	−3.9	0.3	1.6	−2.3	9.9	25.3
Belgium	1.12	−6.7	0	1.12	−5.58	8.0	27.8
Bulgaria	1.9	−11.9	−2	−0.1	−12	5.4	31.2
Cyprus	1.64	−7.8	−1.3	0.34	−7.46	14.1	28.8
Czech Repub.	1.72	−6.6	−1.1	0.62	−5.98	7.8	25.3
Denmark	−0.5	−7.1	−3.7	−4.2	−11.3	8.9	23.7
Estonia	0.4	−12.8	−8.4	−8	−20.8	3.2	33.1
Finland	0.96	−7.8	−2.2	−1.24	−9.04	15.6	25.9
France	0.52	−9.9	−0.5	0.02	−9.88	14	28
Germany	1.18	−5.8	1.7	2.88	−2.92	13.7	26.8
Greece	−1.9	−17.6	−1.8	−3.7	−21.3	12.7	34.3
Hungary	−0.62	−9.9	−1.9	−2.52	−12.42	9.1	33.3
Ireland	−0.82	−14.2	−9.2	−10.02	−24.22	9.3	31.9
Italy	0.52	−8.3	−1.8	−1.28	−9.58	15.6	34.5
Latvia	−1.44	−16.1	−9	−10.44	−26.54	5.5	39.2
Lithuania	1.08	−15.5	−7.1	−6.02	−21.52	3.1	35.0
Luxembourg	1.28	−4.8	1	2.28	−2.52	8.2	27.8
Malta	2.16	−6.6	1.5	3.66	−2.94	5.6	27.3
Netherlands	1.14	−4.5	−1.3	−0.16	−4.66	18.4	26.4
Poland	4.28	−9.4	2.3	6.58	−2.82	27.1	33.3
Portugal	0.12	−12.5	−2.2	−2.08	−14.58	22.0	38
Romania	1.36	−7.5	0	1.36	−6.14	1.0	33
Slovakia	3.72	−13.5	−1.9	1.82	−11.68	4.7	28.1
Slovenia	1	−8	−1.6	−0.6	−8.6	17.4	23.7
Spain	0.26	−22.6	−7	−6.74	−29.34	25.9	32
Sweden	1.42	−7.2	−1.5	−0.08	−7.28	16.1	24.0
United Kingdom	0.1	−8.3	−2	−1.9	−10.2	5.6	34

Note: the unemployment level (u) is reported with the sign minus (−) in order to allow for a consistent algebraic sum of the Performance Index (PI).
Source: Eurostat.

Table A5.   Regression table, panel data.

GLS Model. Random effects Dep Var. : PI		
Variable	Coeff. (stand errors)	P-values
EPL	1.615307 (0.7324882)	*
Temporary work	−.1578564 (0.0694321)	**
Inequality	−.2716993 (0.107862)	*
Constant	4.225772 (3.638554)	
Year 2006	−.5277289 (0.9971861)	
Year 2008	−3.037997 (0.9973313)	*
Year 2009	−10.86284 (0.9978834)	*
Year 2010	−4.382909 (0.9970402)	*
Year 2011	−6.065116 (0.9974051)	*
Year 2007 dropped because of collinearity		
R-sq: within = 0.5610		
between= 0.2293		
overall = 0.4880		
Wald chi2(8) =170.93; Prob > chi2=0.0000		
Number of obs = 162. Number of groups = 27		
Panel 2006, 2007, 2008, 2009, 2010, 2011		
Hausman Test (RE vs FE):		
Ho: difference in coefficients not systematic		
chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B)		
= 20.75		
Prob>chi2 = 0.0001		
H (alternative) accepted		

Significance level: *within 1%; **within 5%.
Source: own elaboration.