

# COMMON TRENDS IN THE REGULATION OF LOCAL LABOUR MARKET

## AN INTRODUCTION

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### *Introduction*

The monographic part of this number of *Cambio* focuses on two research issues that in recent years have become topical for social sciences<sup>1</sup>. The first concerns the changes that are emerging in the labour market and especially in labour market policies and the second is related to the growing importance of local regulation, two issues that are strongly linked. Since the mid-1990s, social scientists have devoted increasing attention to these two topics for many reasons. On the one hand, many scholars have developed comparative analysis focused on the diverse combinations between active and passive labour market policies and on how these influence the dynamics of the labour market, emphasising that there is a positive relation between the levels of employment and of social inclusion. For this, during the last twenty years, policy ideas that pushed towards policies for high level of employment became mainstream: in many countries, these cognitive maps supported the implementation of labour market policies oriented to produce employment independently from its quality according to the logic of economic growth little attention to social inclusion. In this framework, labour market policies gained importance in the academic and political debate at national and international level. With the 2008 economic crisis, the attention to labour market policies increased, and especially on those policy tools aimed at bringing the unemployed and the inactive into the labour market. Against the backdrop of very high unemployment rates, the EU has made the need to improve the so called ‘activation strategy’ one of its key priorities and has put the promotion of employment at the top of the political agenda. On the other hand, the rise of importance of the topic of regional regulation is related to the attempt to understand the local foundation of economic competitiveness and to identify the causes of disparities and persisting inequalities in labour market performance across regions. This has been reinforced by the fast-growing process of

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<sup>1</sup> Some of the articles of this monographic part have been presented and discussed at two sessions that focused on the regulation of socio-economic development at territorial level: the annual meeting of “Incontri di Artimino sullo Sviluppo Locale - XXV edizione - Lo sviluppo locale in transizione” and at the Espanet Conference “IX edizione “Modelli di welfare e modelli di capitalismo”

political devolution in many EU countries, which has increased the importance of local-level regulation for many issues related to labour market policies. In this context, economists, geographers, sociologists and political scientists have identified many factors that help explain differences in labour markets such as physical infrastructure, a skilled workforce, geographical location, the existence of large-scale leader firms and a well-functioning network for the exchange of knowledge between universities and firms. But along with these institutional characteristics, many researches stressed the importance of the specific architecture of local labour market policies and of local strategies of labour market regulation.

For these reasons, the two topics here developed - labour market policies and the role of the territorial level of regulation - are strongly connected and the Italian case is interesting from this point of view. Focusing on the Italian case, the articles of this monographic part investigate the importance of labour market policies and their territorial dimension, and offer useful insights to answer a series of interesting questions, such as are historical weaknesses of the Italian labour market still there? Is the territorial dimension important? Which are the reasons of strengths and weaknesses of local labour market policies? Is it possible to identify good practices in very weak Italian regions?

#### *Are historical weaknesses of the Italian labour market still there?*

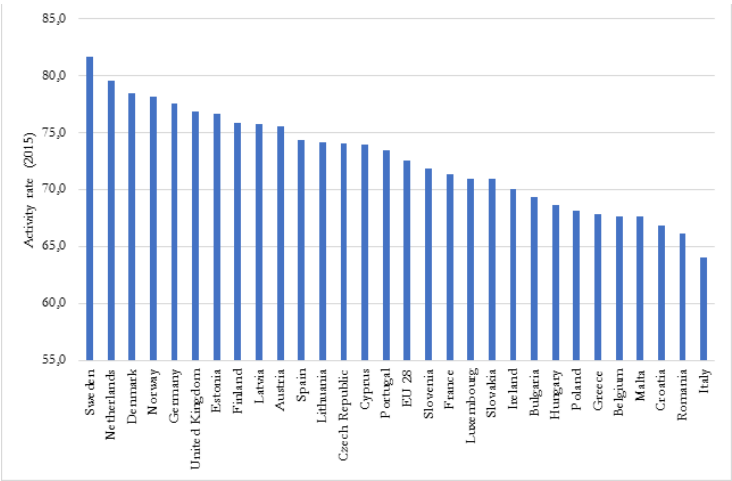
The persistence of historical weaknesses of the Italian labour market clearly emerge when we compare the main features of the Italian labour market with other European countries, and in particular with two models that are often identified as ideal-typical of two very different paths of regulation of activation in the labour market, namely Denmark and the United Kingdom.

The Danish case is characterized by what has been defined as the *golden triangle of flexicurity*, i.e. a high degree of external flexibility, a massive intervention in active labour market policies and high unemployment benefits, all this in a broader context of a universalist welfare state that offers a wide range of public services. Thanks to the flexicurity approach, in this country there was the shift from *job security*, namely the security to keep the same job in the same firm for a long time, to the *employment security*, the security of being employed independently from a high turnover from job to job. The other model is that of the UK, characterized by the so-called *make-work-pay*, namely the support to a system in which working is much more convenient than subsidies, within a framework of services offered by the market which makes it essential to have the financial resources to purchase care services, etc. In this case, there is a very low public investment in labour market policies.

Interesting aspects emerge if we compare the performance of these models with that of the Italian case. First of all, the level of participation in the labour market is very different: the activity rate - which measures the rate of those who are employed or seeking employment on the total population in working age - shows that Italy scores the lowest rate of all the countries considered in the figure (Fig. 1). On the contrary, the two models of the UK and Denmark, although very different as activation model, have

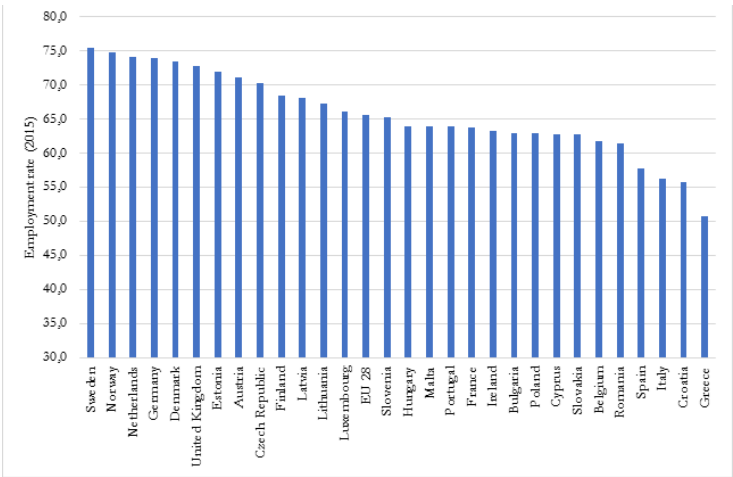
a very high participation in the labour market. Moreover, this diversity of participation matches with a different capacity to create jobs: the employment rate is very high in the UK and in Denmark and very low in Italy. In 2015 only Greece and Croatia have a lower employment rate than Italy (Fig. 2).

Fig. 1 - Activity rate in European countries (2015)



Source: processed data on Eurostat database

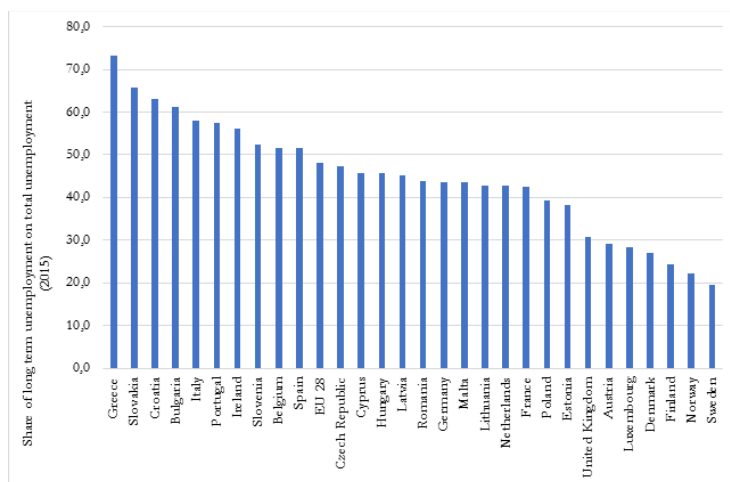
Fig. 2 - Employment rate in European countries (2015)



Source: processed data on Eurostat database

The difficulties of the Italian model emerge also looking at the kind of unemployment that is more 'resistant' to activation policies, namely the long-term unemployment. In the UK and Denmark Long term unemployment represents a small part of total unemployment, while the Italian case is characterized by a high rate of unemployed people who have been searching a job for more than one year.

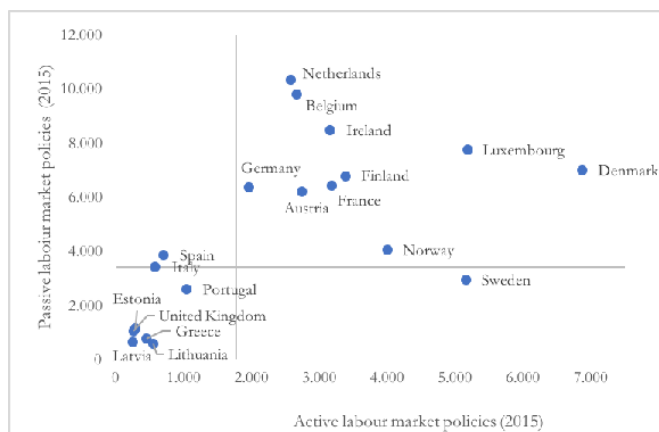
*Fig. 3 - Percentage of long term unemployment on total unemployment (2015)*



*Source: processed data on Eurostat database*

It is important to underline that labour market performance is related to a wide range of factors and not only to employment policies, such as industrial and innovation policies, the kind of productive specialization, the kind of corporate governance, the competitive strategies adopted by firms, etc. But there is no doubt that labour market policies play some role. And EU countries invest in very different ways on these policies. Figure 4 shows the diverse type of investment in labour policies between the Anglo-Saxon model and that of Northern Europe, related to two above mentioned different models of labour market regulation. Focusing on the spending per unemployed person - a measure that is not linked to the level of unemployment - it emerges that on the one hand Denmark has a high public investment in labour policies, both active and passive, while on the other the UK invests much less both as active and passive policies. This investment reflects the diversities of the two models: on the one hand, a public based on investment in labour policies, and on the other hand the make-work-pay strategy. Italy is located in an intermediate position, closer to the case of the United Kingdom especially for active labour market policies.

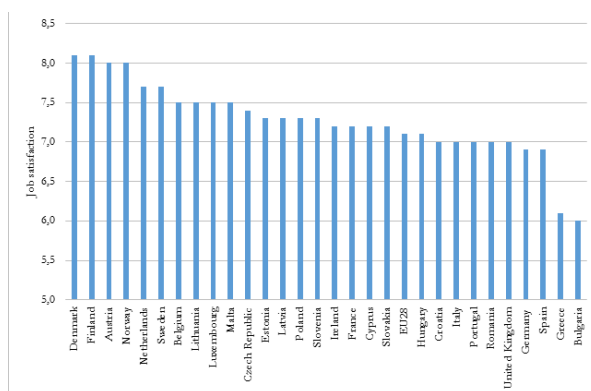
Fig. 4 - Active and passive labour market policies - PPS per person wanting to work (2015)



Source: processed data on Eurostat database

It is interesting to note that the UK and Denmark have a very similar performance in terms of employment and activity rates but if we focus on quality of work their situation is very different. Taking into account one of the large group of indicators of employment quality - job satisfaction - it is possible to underline that Denmark has a very high level of satisfaction on the job while the UK is characterized by a low level of job satisfaction (Fig. 5). In other words, the two models share a good performance in quantitative terms but very different outcomes in qualitative terms. Naturally job satisfaction is related to many variables and not only to labour market policies; but the quality of activation, the matching between demand and supply and the set-up of efficient policies for training surely influence the level of job satisfaction. The results for the Italian case are quite critical in term of job satisfaction.

Fig 5. - Job satisfaction (2013)



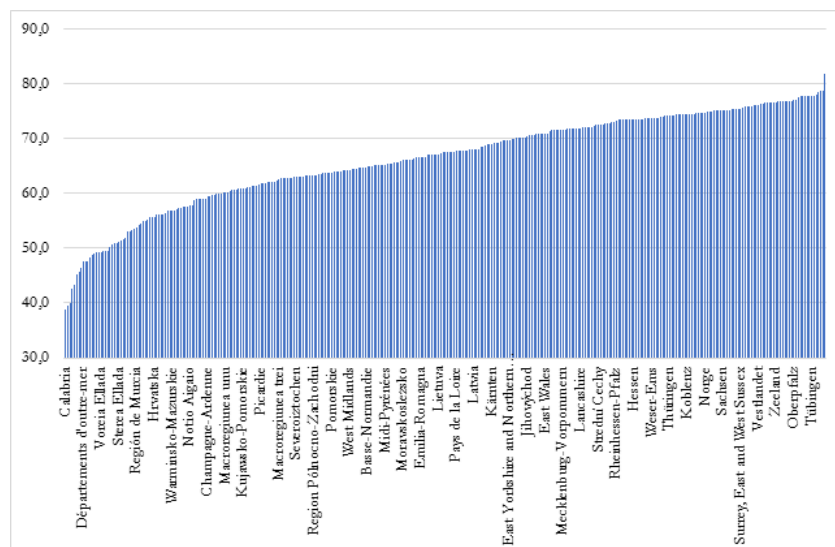
Source: processed data on Eurofound database

Thus, the Italian model is similar to the UK in term of labour market performance in qualitative terms, but it experiences notable difficulties also in quantitative terms. Low employment rate, low participation rate, high levels of long term unemployment and a low level of job satisfaction confirm that the traditional weaknesses of the Italian labour market are still there. Some of these weaknesses are related to the specificity of labour market policies and this confirms that the focus on this topic by all the articles in this monographic part of *Cambio* is very useful to better understand the recent trajectories in labour market performance in Italy.

### *The local dimension of labour regulation*

As it is well known, in Italy the above mentioned weaknesses have a strong territorial dimension: in 2015 the employment rate in Lombardy is 65.1 while in Calabria is 38.6. But the territorial dimension of labour market performance is not an Italian specificity. Focusing on the employment rate, we note that this varies greatly from region to region within a range that goes from 81.8 of the Åland islands to 38.9% of Calabria, more than 40 percentage points of difference (fig. 6). This variety shows the importance of the local dimension of labour market dynamics: many EU countries continue to be characterized by relevant subnational differences in term of economic and labour regulation.

Fig. 6. - *Employment rate in European regions (2015)*



Source: processed data on Eurostat database

In the first article of this monographic part, Andrea Bellini analyzing the case of Lower Silesia shows that the regional dimension of development is relevant also in countries that are historically characterized by a very high level of centralization, such as Poland. In this case, even if with uncertain results, regional and local trilateral negotiation among actors plays an important role, and new actors are also entering in the political agenda. At the same time, there is a regional political debate among stakeholders that play an important role in influencing the policy principle that are influencing labour market reforms, such as flexicurity or activation. Thus, even in country in which there is a very high level of centralization, there is a process of decentralization that offers some scope for regional actors.

At the same time, Italy is a paradigmatic case for the analysis of subnational disparities. As the article by Silvia Lucciarini shows clearly, in Italy it is possible to identify regional varieties of capitalism, and these varieties are characterized by different models of labour market policies, among other differences. The mix of active and passive policies and even their performance varies widely from region to region: there are cases in which the policies follow a logic of care “and compensation” oriented to a short term logic and regions that are characterized by more strategic and long term policy intervention. At the same time, there are regions characterized by a high capacity to make policies integrated with each other, and regions which are not, however, able to follow this strategy. The different strategies combined with a different efficiency of regional institutions mean that there are very different mix of cohesion and competitiveness in the various regions. Taking into account - as Lucciarini does - the performance at regional level it emerges a clear cleavage between Central and Northern regions on the one hand and Southern regions on the other.

But focusing on the subregional level it is possible to appreciate that not all the policies set up in weak regions are ‘bad practices’. This is clearly shown by the article by Alberto Gherardini and Angela Lobascio, who studied the impact of two policy instruments implemented by two Italian regions, Sardinia and Puglia, aimed at financing post-graduate training programs and at supporting the integration of young people trained in the regional economic system. As Gherardini and Lobascio show, such policies are characterized by some differences: the Sardinia Region - the program Master and Back - has encouraged the inclusion of people who have undertaken advanced training within the regional labour market, while the Apulia Region - the program Back to the future - has developed an incentive for young people to take advanced training courses accompanied by the support to their empowerment and by the promotion of their entrepreneurship. Two programs that invested in an effective way in the capabilities of young people and that have been positively evaluated by all the participants, but that have some elements of weaknesses, especially related to the lack of coordination with other relevant policy initiatives.

Similar results emerge from the case studies of the article by Avola, Azzolina and Cuttu, who studied the Youth Guarantee implementation in four provinces of Sicily: Palermo, Catania, Ragusa and Enna. As the authors emphasize, in a weak region as Sicily the program Youth Guarantee was the first real opportunity for Sicilian employment centers to be protagonists of active policies. The managers of employment centers perceived this program as a real opportunity to shift from a strictly bureaucratic function

to a more proactive role, and this led to a strong personal investment and to a process of institutional renewal well aware of the need to invest in a new reputation. The result of this program was to trigger the capacity building of local actors, favouring also a good performance of this policy line.

Finally, the article of Cefalo, Giannelli and Sergi shows the trajectory of the labour market in one Italian region characterized by many industrial districts – the Marche – that were dramatically affected by the consequences of the 2008 financial crisis. Despite these difficulties, the authors find a notable resilience of youth in this area. In this context, the program Garanzia Giovani had a differentiated impact: on the one hand, it strongly reinforced the employability of the less vulnerable while on the other it had a less positive impact on those with less competences, personal networks and personal initiative. Thus, a program that has been able to include the less excluded from the labour market, but less efficient in term of inclusion of vulnerable groups.

Five articles, similar topics, similar results. In particular, all the articles share five general concluding remarks.

First, the traditional problems of the Italian labour market are still there. They depend on many different institutional weaknesses, but among them it seems that the architecture of labour market policies plays a relevant role. However, in this critical context, it is possible to identify good practices at local level and this confirms the importance of the territorial dimension of labour market regulation.

Second, all the articles confirm the existence of a process of policy decentralization that is still intense for labour market policies. This process has increased the room for maneuver of local actors, who can use this enlarged political space in a virtuous way or not. At the same time, despite this decentralization, the role of the central state is not automatically declining. In all European countries, the relationship between the central and peripheral level of the state remains very important. Thus, the importance of what has been defined as “multilevel governance” is rising; consequently, for a better understanding of the dynamics of local labour markets it is necessary to study the direct and indirect relationship between local and supra-local actors, institutions and processes.

Third, a very important element for the functioning of labour market policies is related to the existence of coordination mechanisms aimed at facilitating the integration of different policies and measures to produce local goods for growth and social cohesion. The absence of this kind of mechanism weakens the impact of labour market policies.

Fourth, good active labour market policies are not sufficient to promote employment growth. The performance in term of employment growth and of quality of employment is related to a wide set of measures and policy tools aimed at triggering local competitiveness, such as local industrial policies, local policies for innovation, the set up of local collective competition goods, etc., and without employment growth the impact of active labour market policies is limited.

Fifth, despite the growing literature on the end of the role of the state, there is still a strong role played by the local government, both in term of policies planning and implementation and in term of policy coordination. But it is a role that is changing:



during the '80s and the '90s the local government had sufficient resources for acting alone, nowadays the role of local government becomes primarily related to open the local political arena and to mobilize resources and promote participation in the planning and implementation of local policies.

The articles gathered in this issue of *Cambio* show the potential of future paths of research that focus on these five important aspects: they can help to shed light on the main reasons behind the different trajectories of European regions in term of growth and cohesion and to identify policy options that support the emerging of socially sustainable models of regional capitalism.

