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LABOUR AT THE DAWN OF THE NEW CENTURY

Labour in the new economy

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1. Employment in the nineties

The past decade witnessed radical changes in the Italian as in other labour markets. Contract forms were diversified and made more flexible. The sectoral distribution changed, and the employment share of women and of immigrants increased. Workers' educational attainment rose.

At the same time, geographical disparities deepened. The tax burden on payroll employment increased. The average age of workers rose. The needed adaptation of the quality of human capital and investment to the new competitive environment was not achieved.

There were considerable variations in total employment: in 1991 nearly 21.2 million persons were employed, the highest figure ever in Italy.

This came at the culmination of a decade of expansion beginning in 1982 that had increased employment by almost 670,000, or 3.3 per cent. Substantial though it was in absolute terms, the employment gain was quite modest by comparison with the 26 per cent growth of GDP during the same period.

In mid-1991 the trend was abruptly inverted, and a steep decline in the number of persons employed began. Between July 1991 and April 1995 total employment shrank by 1.2 million, or 5.7 per cent. One fourth of the fall came in the second half of 1992. No comparably sharp drop had been recorded since the Second World War.

The brusque contraction of employment was due first of all to the economic crisis of the early nineties, which affected mainly sectors in which employment levels had risen in the years previous.

Large retail chains, thanks to their greater efficiency, began to supplant tiny shops, which had historically provided fall-back employment. There was also a tendency towards downsizing in public corporations, which were obliged to step up productivity and profitability with a view to privatization. There was a sharp slowdown in job creation by business service enterprises.

Public employment diminished by attrition, as a result of a hiring freeze and accelerating retirement.

In manufacturing industry, the severity of the recession was attenuated by the devaluation of the lira in 1992, which permitted the rapid substitution of foreign for domestic demand.

Such a substitution was not feasible in the construction industry, which suffered significant cuts in public works spending, partly because of repression of rampant corruption. The building industry was also progressively weakened by the cessation of population growth.

The crisis was concentrated in the South, where the repercussions of the fall in domestic demand, and public demand in particular, were most severe.

Employment bottomed out in April 1995 at just under 20 million. Since then it has been on an upswing, modest until the end of 1997 and strengthening in the last three years. The number of persons employed rose to 21,130,000 last July, barely under the historic peak of 1991.

This recovery is somewhat surprising given that the increase in economic activity has been disappointing by comparison with other countries and with Italy's own past performance.

The greater responsiveness of employment can be ascribed to the growth of the more labour-intensive sectors and to the progressive introduction of more flexible employment contracts. The latter have enabled firms to adjust staffing levels promptly to production requirements, to lower the cost of labour by reducing the underutilization of manpower, and to broaden opportunities to supply new goods and services.

These gains, significant as they were, did not prevent the gap with Italy's European partners from widening. Employment expansion in Italy was greater than in Germany but less than in France and the United Kingdom and far from the successes of such countries as Denmark or Portugal, to say nothing of the Netherlands, Finland, Spain and Ireland.

The employment rate, i.e. the ratio of persons employed to the population of working age, was 52.3 per cent in Italy in 1999, as against 62 per cent in the European Union and 74 per cent in the United States.

This gap spotlights the Italian economy's limited capacity for growth.

The competitive defects of Italian industry emerged fully in the later nineties.

In the five years from 1995 to 1999, Italian exports grew by 24 per cent while world trade expanded by 39 per cent. Despite the depreciation of the euro this year, Italy has failed to recoup market shares. The elasticity of imports with respect to aggregate demand has increased appreciably. While domestic demand has expanded roughly in line with European-wide trends, the loss of competitiveness has curbed the growth of industrial output, the bulk of which consists of internationally traded goods.

The lesser competitiveness of national products makes Italy less attractive to direct investment by multinational corporations. In 1998 and 1999 direct inward investment came to less than €5 billion, compared with €32 billion in France and €34 billion in Germany, and the flow is dwindling further this year.

The increase in employment has been concentrated in the Centre and North of Italy.

The termination of special social contribution relief raised the cost of labour in the South relative to the rest of the country. Southern employment fell by nearly 600,000, or 9.6 per cent, between the July 1991 peak and the April 1995 trough. Since then the number of persons in work has risen by 230,000, or 4.1 per cent. The package of active labour policy measures instituted in 1998 by Labour Minister Tiziano Treu has made a positive contribution.

Meanwhile, employment in the central and northern regions has increased by 900,000, or 6.3 per cent, to surpass the 1991 peak by nearly 300,000.

The differential in employment rates between the two parts of the country has widened. In the first half of 2000 the gap was 18 percentage points (59.6 per cent in the Centre and North as against 41.7 per cent in the South), compared with 15 points in 1995.

2. The underground economy and irregular work

Irregular economic activity is found even in countries with efficient fiscal and administrative systems and where parties are free to adopt the contractual forms and terms they wish. Such activity is performed in conditions that do not fully comply with social security and workplace safety legislation.

The underground economy in Italy is larger than normal. The situation worsened in the nineties: between 1992 and 1998, the most recent year for which data are available, irregular labour units increased by 10.4 per cent, compared with a decline of 4.3 per cent in regular units. Over the same period the share of irregular employment rose from 13.4 to 15.1 per cent of the total.

Irregular employment increased to some degree in all the main sectors of the economy.

The efforts of government and public authorities to identify and repress illegality in this field have met with limited success; there is little social condemnation of such behaviour.

The spread of the underground economy has been fueled by the mounting tax burden and the rigidity of the rules that govern employment and enterprise.

Irregular activity erodes the tax base and aggravates inequities. Partly because it employs poorly qualified workers, the underground economy tends to produce low-quality products with limited market prospects. The lack of protection afforded worker's rights inhibits investment in human capital.

When underground activity makes up a substantial part of the economy, the operation of the markets is distorted and development potential curtailed.

The strong, highly profitable firms of the Centre and North can more easily bear the burden of high taxes and labour regulations. Workers there are not compelled to forgo their rights in exchange for jobs.

The economy of the South is more vulnerable to the spread of irregular work.

In some sectors the share of under-reported labour (the grey area) is several times higher in the South than in the Centre and North. The differences are explained by the lack of infrastructure and special obstacles to economic enterprise. The result is higher costs and greater business risk. This perpetuates a vicious circle that keeps regional productivity low and impedes the formation of high-tech enterprises. Opportunities for regular employment are reduced and the incentive to accept irregular positions is strengthened.

Under appropriate conditions, the irregular and sometimes discontinuous activity of tiny individual and family enterprises can be transformed into fully regular business activity.

3. A better range of employment contracts

In 1995 workers on non-traditional contracts accounted for 11.2 per cent of total payroll employment; by July 2000 the share had risen to 16 per cent. Of the 1,140,000 additional jobs created between April 1995 and July of this year, 63 per cent were fixed-term or part-time positions.

The spread of these new forms of contract responds to the needs of production. It has been assisted by legislative measures designed to make employment relations more flexible and by active policies to improve employment opportunities for the weakest strata.

The new contracts widen the range of possibilities offered to firms and workers. Fixed-term contracts are spreading above all in industry, where they are often used as a device for hiring young workers. An Istat survey of October 1999, referring to 1995 and 1997, found that 50 per cent of successful first-time labour market entrants

obtained open-ended jobs and 30 per cent fixed-term employment, the remaining 20 per cent taking up self-employment.

Part-time contracts are widely used in the service sector. They also answer the needs of workers and are commonest among women.

In 1999 the proportion of workers on fixed-term contracts in the South was 14 per cent, compared with the national average of 9.5 per cent. More than half of all workers on fixed-term contracts said they accepted a fixed-term position because there were no permanent job openings.

In the private sector finding a job on favourable conditions in terms of stability of employment and scope for promotion on the basis of skill and experience is tending to become less and less possible.

A segmentation of the labour market is taking shape.

According to Istat, 38 per cent of those who had entered the world of work with a fixed-term contract were still fixed-term employees three years later, 21 per cent had found permanent jobs, 4 per cent had become self-employed, and 37 per cent had joined the ranks of the unemployed or had dropped out of the labour market.

The prospects of those hired on open-ended contracts are much more favourable: after three years only 10.9 per cent of them had ceased enjoying that status and had fallen back on precarious employment, become unemployed or inactive.

The probability of marginalization is higher for workers in the South, for women and for those with a lower level of formal education when entering the labour market.

Precariousness reduces the opportunity to make up for the initial disadvantages with experience acquired on the job. The marginalization of large portions of the labour force lowers the economy's growth potential, depresses human capital formation.

This drift is particularly pernicious today, when the rapid spread of the new technologies is creating an authentic knowledge economy.

In Spain, employment became much more sensitive to the ups and downs of the business cycle following the introduction of fixed-term labour contracts in 1984. Since the start of the nineties, one third of all workers have been hired on fixed-term contracts.

The consideration that extensive resort to this type of contract can be an obstacle to on-the-job training and cause excessive turnover has prompted a modification of the regulatory framework. Tax incentives have been introduced for new open-ended contracts and the termination of such contracts has been made less onerous, while greater restrictions have been placed on the use of fixed-term contracts.

The possibility of making the rules on employment more consistent with the need to offer workers and employers a better range of contractual solutions has to be examined in Italy as well.

A more harmonious regulation of employment will reduce labour-market segmentation, thus leading to a greater stability and higher quality of employment.

4. More highly skilled employment

The growth in employment in Italy in the last few years has been restricted to relatively skilled workers; the number of traditional jobs with a prevalently manual content has declined.

Between 1995 and 1999 the number of managers and persons working in the professions with a high degree of specialization rose by 14.7 per cent; that of persons with jobs related to natural sciences or administration rose by 11.8 per cent; the number of artisans, production workers and farm workers fell by 8.4 per cent.

The main factor in the shift in the composition of the demand for labour was the introduction of new technologies in many production processes.

The rapidity of the shift necessitated measures impinging directly on employed workers, with dismissals. Turnover alone was not sufficient. The proportion of the unemployed consisting of persons who had lost their jobs increased. Most of the job losses involved unskilled occupations. Income support programmes were activated to alleviate the social distress; the measures for retraining and re-employment proved inadequate.

The share of the population aged 25 to 64 with at least a high school diploma rose from 28 per cent in 1991 to 41 per cent in 1999. However, the number of jobs with a high knowledge content grew less fast than the number of persons with high qualifications.

The level of educational attainment remains lower in Italy than in the other industrial countries. In 1998 the proportion of the 25-64 age-group holding at least a high school diploma was 61 per cent in the OECD countries as a group, 84 per cent in Germany, 86 per cent in the United States and 80 per cent in Japan.

The gap that is opening in Italy between the demand for labour and the supply of more highly qualified job-seekers threatens to further reduce the return on investment in schooling, which is already low by international standards.

The root of the problem lies in the insufficient rate of innovation in the Italian economy. In order to raise the level of collective well-being, there must be an expansion of high-tech sectors, which permit the adequate remuneration of professional skills and thus foster their accumulation.

The spread of the New Economy brings rewards for countries with higher human capital endowment and has differential effects on earnings and employment according to the institutional context.

In economies where wage flexibility is limited, as in many continental European countries, an increase in jobs with a higher knowledge content is accompanied by a reduction in those open to the weaker components of the labour force.

By contrast, in economies with a high degree of regulatory flexibility, such as the United States and the United Kingdom, the spread of new technologies has created job opportunities for all; it has nonetheless been accompanied by growing inequality in the distribution of income. There has been an increase in the number of the working poor, persons with a regular job that nonetheless fails to provide a decent standard of living.

This is something that can be corrected and that does not diminish the achievements of these economies in terms of GDP and employment growth.

Italy, and Europe in general, can preserve the positive features of their welfare and social security systems, while looking to America to borrow the new production methods that can expand the number of jobs and raise their knowledge content.

In the last decade the US economy enjoyed its longest expansion since the Second World War. Between 1991 and 1999 GDP grew by 33 per cent and employment by 13.4 per cent. The growth in employment consisted primarily of workers with a high degree of specialization, whose number increased by 13.2 million in ten years. The expansion of industrial production permitted the creation of 800,000 new manual jobs in industry and transportation.

The spread of automation reduced the number of repetitive, standardized tasks; globalization transferred less skilled phases of production from the United States to other countries; a rising level of educational attainment provided the economy with the skills required.

The positions held by teachers, members of the professions and specialists in physics and medicine increased in number. In a decade there was a twofold increase in the number of persons doing skilled work in connection with information technology and its industrial applications, such as electronic engineers, systems analysts and EDP technicians. The number of managerial positions increased substantially in both the public and the private sector.

Although there was vigorous growth in the employment of persons with higher educational qualifications, at least two thirds of the new jobs created did not require a university degree. In ten years the number of nurses and paramedical technicians nearly doubled.

The widespread and growing availability of “good jobs” reflects not only the expansion of output but also the qualitative transformation of the manner of producing. The increase in skills was driven by the services sector but it also involved manufacturing industry.

Similar developments have occurred in Italy and many other OECD countries, but they have been much less intense. In this respect the differences between the

United States and the other industrial countries are pronounced, especially in services and above all the advanced services.

University-educated workers account for 43 per cent of total employment in the services sector in the United States, compared with 19 per cent in Italy. In the most innovative services they account for 70 per cent of the total in the United States and 32 per cent in Italy.

University graduates account for 21 per cent of total farm and industrial employment in the United States, 7 per cent in the OECD countries and 4 in Italy.

In North America the extensive use made of highly qualified workers is strictly bound up with the spread of new technologies.

Human resources with adequate professional qualifications are needed to invent new products and production processes, and at the same time they facilitate the adoption of innovative methods of production in every sector of the economy. Generalized gains in productivity make it possible to sustain the rise in output, employment and earnings.

The Italian economy's losses of market share are attributable to specialization in traditional products that are exposed to the competition of the emerging economies and for which demand grows slowly.

With the globalization of markets, growth prospects depend on raising product quality. In Europe the share of high-tech exports is 16 per cent; in Japan and the United States it is around 30 per cent; in Italy it is less than 10 per cent.

Convergence towards the industrial structure of the more advanced countries will make it possible to offer new generations of workers better jobs and higher pay.

Progress in this direction is not guaranteed; it must be pursued through appropriate economic policy choices.

5. The emerging challenges

We are faced with a new set of challenges; successfully addressing them will require a new labour statute.

Information technology provides the opportunity to reorganize production.

Firms will have to incorporate into the Italian economy the new technologies and organizational arrangements that have been successfully tested elsewhere. The relatively small size of the majority of Italian firms should not constitute a barrier to this transformation.

An appropriate measure of flexibility in labour relations can benefit Italy's development and productive conversion. Closer linkage of salaries to productivity and profitability are the *sine qua non* for boosting entrepreneurship.

Collective bargaining must pay greater attention to the peculiarities of individual firms or groups of firms in order to encourage their development and their ability to generate income and employment. The introduction of new technologies must be facilitated. The reform of the social security system will have to be adapted to the new economic and demographic circumstances.

A new labour statute must aim for long-term strategic cooperation between labour and management.

Far-reaching economic policy action is required to remove the structural problems that prevent the country making full use of its resources.

The certain, significant lowering of the tax burden begun with the Finance Law will help, but it must be accompanied by a curbing of current public spending. In the South, particularly, the infrastructure gap must be narrowed by making full use of European funds and involving private capital. Government, both central and local, must become more efficient.

The emersion of under-reported “grey” labour, its evolution into fully regular activity offering secure prospects to young people, is a valuable objective per se; it is indispensable to the creation of a social environment propitious to economic development.

The fundamental factor in any economic advance is man with his ability to create, design and produce.

The prime duty of schools, firms and vocational training centres is to train new classes of workers to meet the needs of a rapidly changing economic system.

The experience of the more advanced countries shows the very close link between technological innovation, the availability of qualified workers, organizational adjustment and the proper functioning of the markets.

Society is changing fast: the demand for labour is shifting quickly towards the personal services sector, towards goods with a higher technological input, and also towards public goods, such as environmental quality, that satisfy new needs.

A more highly qualified labour force is at once the condition for reorganizing the productive system and an effect of such reorganization. The level of education will improve and the system will capitalize on workers' creative contribution. Possible labour abuses deriving from the overzealous pursuit of efficiency at all costs will have to be opposed.

The commitment to expanding employment must be flanked by efforts to enhance its quality. The creative side of labour has to be developed, its ability to satisfy social needs and promote individual self-fulfilment. Obsessive materialistic visions must be countered by re-emphasizing quality and the human dimension in every activity.

Labour can be seen as a sort of contribution to the work of Creation.

Providing work for all is a constitutional and a moral duty. The economic system must be able to offer good new jobs in the framework of sustainable growth. This is the best way to discharge our responsibilities to the generations of today and of tomorrow.