Labour market reform in Italy: Matteo Renzi up against the wall

By Céline Antonin

While Matteo Renzi had enjoyed a relative “state of grace” since his election in February 2014, the Senate vote in early December on the hotly disputed reform of the labour market (the Jobs Act) has led to a general strike, a first since he took office. Is this the end of Matteo Renzi’s honeymoon with the Italian people? Although his ascension to power had sparked a wave of hope, the initial results have been disappointing. The reforms are going down poorly as Italy experiences its third consecutive year of recession (-0.2% growth forecast in 2014), and the country is facing criticism from the European Commission for its inability to reduce its structural deficit. This reform is inspired by a free market approach and aims to introduce a flexi-security system. The measure that is the particular focus of passion would remove Article 18 of the Labour Code, which allows reinstatement in the case of unfair dismissal.

In the latest *Note de l’OFCE* (no. 48, 16 December 2014), we study the reform of the labour market being undertaken in Italy, which is a major challenge due to the segmentation of the labour market, high youth unemployment and inappropriate costs relative to labour productivity. However legitimate the Jobs Act may be, it seems too partial to have any real impact. In the short term, Italy’s priority should be on investment. The only way the country can re-establish normal access to bank financing and return to growth is through the combination of an expansionary monetary policy, the continued pursuit of a banking union, and an ambitious public investment policy. Once these conditions have been met, then the question of a structural reform of the labour market will arise; this reform must be coupled with reform of the goods market in order to allow Italy to restore productivity and achieve a sustainable improvement in its growth potential.