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FRAMING ACTIVE LABOUR MARKET POLICY

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# Framing Active Labour Market Policy

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## List of Abbreviations

ALMP – Active Labour Market Policy

ANPAL – National Agency for Active Labour Market Policies (Agenzia Nazionale per le Politiche Attive del Lavoro)

ASDI – Social Unemployment Allowance (Assegno Sociale di Disoccupazione)

ASPI – Social Insurance for Employment (Assicurazione Sociale per l’Impiego)

ATT – Average Treatment Effect

CGIL – Italian General Confederation of Labor (Confederazione Generale Italiana del Lavoro)

CRESCO – Growth Development Competitiveness Employment (Crescita Sviluppo Competitività Occupazione)

COR – European Committee of the Regions

DIS-COLL – Monthly Unemployment Benefits for Coordinated and Collaborative Work

EU – European Union

FILCAMS – Italian Federation of Workers in Commerce, Service, Tourism (Federazione Italiana Lavoratori Commercio Albergo Mensa e Servizi)

FIOM – Federation of Metallurgical Workers (Federazione Impiegati Opereai Metallurgici)

GDP – Gross Domestic Product

ICT – Information and Communications Technology

INAIL – National Institute for Insurance Against Industrial Injuries (Istituto Nazionale Assicurazione Infortuni sul Lavoro)

ISFOL – Institute for the Development of Vocational Training of Workers (Istituto per lo Sviluppo della Formazione Professionale dei Lavoratori)

ISTAT – Italian National Statistics Institute (Istituto Nazionale di Statistica)

ITT – Intention to Treat

LDV – Limited Dependent Variable

NASPI – New Employment Social Insurance (Nuova Assicurazione Sociale per l’Impiego)

NEET – (Young People) Neither in Employment or in Education or Training

PAL – Active Labour Market Policy (Politiche Attive del Lavoro)

PLMP – Passive Labour Market Policy

PT – Province of Trento

SARS-CoV-2 – Severe Acute Respiratory Syndrome Coronavirus 2

SME – Small- and Medium-Sized Enterprises

SUR – Seemingly Unrelated Regressions

YG – Youth Guarantee

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“It has always seemed strange to me [...], the things we admire in men, kindness and generosity, openness, honesty, understanding and feeling, are the concomitants of failure in our system. And those traits we detest, sharpness, greed, acquisitiveness, meanness, egotism and self-interest are the traits of success. And while men admire the quality of the first, they love the produce of the second”.

---

*John Steinbeck, 1945*

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# CHAPTER I

## Active Labour Market Policies: An Introduction

“I am not a client, a customer, nor a service user. I am not a shirker, a scrounger, a beggar, nor a thief. I’m not a National Insurance Number or blip on a screen”.

---

*I, Daniel Blake, 2016*

In 2019, the unemployment rate observed in the European Union was 7.4%, while the number of young individuals not in education, employment, or training (NEET) represented 12.5% of the total population. With more than 2 million occupationally inactive individuals aged 15 to 29 years, Italy ranked first in the EU. The current pandemic is likely to bolster such trends, especially against women and youths, so long as the approach to fight unemployment does not change. Contrary to passive benefits, active labour market programmes are intended to re-train individuals and require their ‘active’ participation to facilitate reinstatement into the labour market. In this thesis, I investigate how active labour market policy does not remain a mere symbolic political message but becomes something that significantly helps individuals, improves situations, and benefits society. Firstly, assistance to the unemployed segment of the population needs to occur according to human capital investment. Building on Becker’s (1964), this thesis shows that training programmes and other measures focused on reskilling and occupational integration are crucial to (re-)introduce individuals to paid work relationships. Secondly, in comparing labour market outcomes, the institutional context needs to be taken into account. The analysis of the law, as well as the understanding of the role played by organisations such as schools, trade unions, and firms cannot be disregarded. Thirdly, in addition to being rational utility maximisers, unemployed individuals are social beings. Thus, the effect of active labour market policy should always be studied in relation to their social identity as well. Quoting Banerjee et al. (2010), results often depend ‘on the details of the intervention and the contexts’. Institutions and laws should contribute to creating

a reasonable, fair, and equal system that supports all categories, especially the most vulnerable ones. Young individuals can be highly and negatively influenced by their peers' expectations and subculture, which may ultimately threaten the effectiveness of outreach strategies of occupational integration. This is particularly true with application to the SARS-Cov-2 pandemic, which led to a further marginalisation of such segments of the population.

In this thesis, each chapter answers a series of different research questions. In general, this thesis aims to understand whether a policy-making approach that uses active labour market policies to fight occupational inactivity works and, if so, under which conditions. In the extant literature we can find both support for and opposition to such an approach. In this thesis, I show that active labour market policies are a successful means for occupationally inactive individuals to change both their economic and social states. Firstly, I demonstrate that a typically 'active' Europeanisation of labour market policies can be effective in fighting unemployment within traditionally assistance- and welfare-based countries like Italy and this is particularly beneficial for NEET individuals. Secondly, I show that institutional path-dependence with respect to ALMP exists and can be identified through an empirical analysis of legal texts. Finally, I identify a new method of addressing unemployed individual's non-participation in ALMP training programmes by developing and testing a theoretical and experimental model based on professional and social identity constraints. In conclusion, this thesis wants to demonstrate how a purely economic or purely legal approach does not allow to incorporate the complexity of unemployment and active labour market practices designed to overcome it. Instead, it tries to understand the economic and social effects of the law reflected in: the promotion of targeted reforms, the evolution of labour market instruments encouraged or disregarded by law makers, and the existence of an identity in the labour market that is first of all social. In the paragraphs below I introduce the concept of active labour market policy; contextualise it with respect to the law and economics discipline; and illustrate the content of each chapter of this thesis. With respect to the chapters, an earlier version of their content has been published in peer-reviewed journals. What is presented here is a rewritten form of the earlier publications.

## **1.1 Active Labour Market Policy and Law & Economics**

The founding fathers of active labour market policy encouraged its implementation as a means to fight occupational inactivity during the interwar period (Bonoli, 2010). Today, active labour market policies are defined as public programmes that provide individuals in the conditions of unemployment and occupational inactivity with training, orientation services, and wage subsidies. These measures

aimed at reskilling usually are accompanied by a generous financial reward for participation and should help individuals reintegrate in a labour market that is progressively more flexible and technological (Acemoglu and Restrepo, 2019). While active labour market programmes have existed since the 1990s, it is only recently that countries such as Italy have implemented measures recommended at the European Union level. Unsurprisingly, there is less research on active labour market policies than there is on the more standard labour law; namely, passive measures such as unemployment benefits, insurance, and social assistance. In this thesis, I contribute to enriching the existing literature on an alternative, and nowadays complementary, approach to fight against unemployment; namely, active labour market policies. These are public measures provided by the government to help individuals out of the labour force to become reinstated in the labour market. They include training programmes, assistance in job search, orientation services, and other similar activities with the aim of increasing people's skills to eventually become employed. The contribution of this thesis lies in the interdisciplinary approach it uses to evaluate the effect and sensibility of certain policies of the type described above.

The labor market is the place where supply and demand of labor meet. According to economic principles, regulation in this market is warranted only if there are market failures (Vandenberghe, 2012) otherwise all assets, including human labor, will naturally flow to who values them the most (Coase, 1960). Therefore, to understand if regulation is warranted, the fundamental question is whether there are market failures. Needless to say, the answer to this question is a resounding yes, since the labor market is by nature plagued with market failures. The most canonical example of such market failures includes employers having too much market power, and therefore being able to extract rents from employees (Vandenberghe, 2012). Moreover, according to economic theory, because market power can reduce supply, the latter can inevitably result in unemployment. An additional market failure is represented by the fact that the labor market is characterized by high transaction cost,<sup>1</sup> and, specifically, high search and information costs (Alchian, 1969; Howitt, 1985). On the one hand, it is costly to match the right demand with the right supply of labour. On the other hand, it is costly for employers to learn about their potential employees in terms of potential productivity and skills and it is, similarly, costly for job candidates or employees to gather information about employers.

Because this thesis focuses on active labour market policies, another market failure that is worth mentioning is the lack of incentives that firms may experience to invest in human capital. Let us, for instance, consider the case of a firm that offers training to one or more of its employees. The training in question can be aimed to develop two possible sets of skills; namely, specific skills and general skills (Becker, 2009). Since specific skills can only be used in the firm that provides the above-mentioned

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<sup>1</sup>For a discussion of transaction costs in general, see Allen (1991).

training, they pose no problem. Conversely, however, general skills can be used elsewhere. Therefore, if the employee decides to move to one of the firm's competitors, the individual would take with her part of the investment that the firm has made. This could potentially result in an under-supply of employees' training. Building on this, a substantial body of law-and-economics literature discusses how restrictive covenants can be used to ameliorate this issue (Rubin, 1981; Lester, 2001). The idea is that firms would have more incentives to invest in the training of their employees if they could prevent the latter from moving to a direct competitor. But this solution is also imperfect, as covenants cannot completely eliminate the mobility of workers without creating issues of other kinds. In fact, workers cannot, and should not, be deprived of their ability to change job. Moreover, covenants that do not permit competition restrict workers movements among firms, which is likely to reduce knowledge spillovers (Gilson, 1999). Consequently, regulations that give incentives to firms for investing in training programmes or directly provide the latter to individuals in search of a job could be welfare enhancing.

More generally, the presence of widespread market failures suggests that there is a case for regulating various aspects of the labor market. However, also regulation is subject to failure. For instance, regulators can be captured by interest groups, and hence craft regulations that are in the best interest of these groups instead of maximizing social welfare at large (Dal Bó, 2006). Moreover, regulators are bound to have imperfect information, and therefore could craft sub-optimal regulations even when driven by the best intentions (Shavell, 1984). Consequently, regulations might be inefficient even when there are market failures. Quantitative studies are therefore key to understand whether the regulations that have been implemented to address market failures are effective, or whether the cure is worse than the disease.

As illustrated by Schwab (2017), law and economics has only recently become interested in labour and the use of empirical methods to explain all issues related to the workplace. Initially, law-and-economics scholars significantly focused on labour law, or the law that regulates unions, rather than on issues of employment law. As a result, only a few pages of the most prominent law-and-economics scholars were dedicated to the workplace (Schwab, 2017). Today, there is 'no sharp line' that divides a labour law-and-economics scholar from a labour economist (Schwab, 2017). In the current era of the law-and-economics discipline, it seems appropriate to study active labour market policies. This is done by carrying out empirical investigations and by analysing problems that are not immediately evident. With this in mind, in this thesis I assess how individuals responded to certain laws of active labour market policies and use the law to enrich the analysis with a deeper understanding of social policy and institutions. For instance, in my Chapter III I find that the implementation

of the European Youth Guarantee policy has been effective in increasing the job opportunities of participants. The law-and-economics discipline encouraged me to investigate further. If participating equals increased chances of employment, then individuals, being they rational, will all take part in such training programmes. My Chapter V finds that what is economically rational for the individuals under investigation may not be satisfying from a welfare maximising perspective. In other words, actions should maximise our well-being and there might be different means to do so. While choosing to participate in a training programme may be valuable for a certain type of individual, it may not be valuable for someone else. As stressed by Schwab (2017) even doing nothing or, as in our case, opt for non participation in a training programme to eventually work, is in itself a decision. This chapter contributes to the idea that employment law should not only deal with problems of bargaining in the labour market, but also refer to social legislation (Deakin, 2011).

Understandably, law and economics is not just about individual decision-making. Thus, after having showed that individuals may not always behave rationally, in Chapter IV I build a theoretical model that invites policy makers to transform social norms where necessary. While remaining unemployed may be individually beneficial, it certainly reduces social welfare for the more extended society, institutions, and states. The intervention of the law, by some non law-and-economics scholars called ‘paternalistic’, may help create positive externalities, or third-party effects (Schwab, 2017). Indeed, while the involvement of the state has been historically punitive from time to time, it also contributes to the mitigation of certain unavoidable risks (Deakin, 2011). Finally, law sometimes has unintended consequences. While certain laws may have been introduced to support employment and job stability at the aggregate level, it can happen that they unintentionally end up favouring some economic agents over the more vulnerable segments of the population. Typical instruments of active labour market policy, including flexibility or conditionality, have contributed to improving the occupational condition of insiders. In Chapter VI, however, I show that they also have played a role in threatening social welfare by challenging the occupational stability of outsiders, such as the youths. The historical analysis conducted in this chapter is in line with the idea of Deakin (2011) that the development of a welfare state is never continuous. Because it is important ‘to let the data speak’ (Schwab, 2017), I let the law speak by exploiting an empirical analysis of the corpora on active labour market policy.

With respect to the literature, scholars found that results on the effectiveness of active labour market policies are mixed and dependent on the specific country of reference (Boeri and Burda, 1996; Altavilla and Caroleo, 2006; Cammeraat et al., 2017); the institutions present therein (Cox, 1998; Rueda, 2006; Dingeldey, 2007); the type of active measure designed; the target of the programme in

question; and their scope (Card et al., 2018). The motivation behind studying active labour market policies in Europe is justified by the rising number of young occupationally inactive individuals in the territory of the European Union (EU); the problem of social integration related to the inactivity of this segment of the population; and the relatively new approach adopted by some state legislative regimes to fight unemployment and selective flexicurity with investment in human capital. My thesis, which is briefly summarised below, investigates some of the aforementioned elements and discusses some significant findings associated with active labour market policy according to a certain ‘view of the Cathedral’ (Calabresi and Melamed, 1972). Because labour law is not a straightforward process, empirical research is needed to understand the economic effects caused by its implementation and evolution (Deakin, 2011).

Chapter II provides a historical overview of active labour market policy in Italy from the 1970s to today. Chapter III studies the effect of the recent active labour market policy adopted by the member states to fight youth inactivity, or the EU Youth Guarantee (120/01 Recommendation), on occupational outcomes such as employment and job stability. Chapter IV and Chapter V develop and test an economic theory that accounts for social expectations in the decision-making process of a potential participant to participate or not in an active measure. Chapter VI uses text analysis applied to labour law so as to illustrate the promotion or discouragement of active labour market programmes and their relationships with economic outcomes such as national employment, unemployment, and inactivity. Chapter VII investigates the role of active labour market policy in the midst of the current SARS-Cov-2 pandemic by challenging the employment hysteresis hypothesis. Particularly, it analyses the behavior of displaced workers towards job training programmes for a similar job, remote working, and self-employment. Finally, Chapter VIII concludes the thesis and presents relevant policy implications.

## **1.2 The Youth Guarantee: An Econometric Evaluation**

As anticipated in the previous paragraph, in Chapter III, I use non-experimental longitudinal data to study the effect of an European active labour market policy aimed at fighting youth inactivity. The essay, in particular, is one of the first econometric evaluations of the most recent European active measure that addresses the international issue of youth inactivity and tries to answer the question of whether a typically European, targeted for youths, and active policy can be successfully implemented in a country like Italy, which is strongly traditional, focused on passive unemployment benefits, and favours assistance for the older segment of the working people. In particular, this research focuses on understanding if *a*) participation of young occupationally inactive individuals in a training programme



implemented at the European level increases the probability of such individuals to become employed and *b*) if such commitment also increases their probability to be offered a stable, or long-term, job. The motivation for these research questions derives from the scarce attention given in the literature to the occupational impact of active labour market programmes in Italy specifically targeted for youths and the relevance of such programmes to overcome the issue of selective flexicurity by granting long-term employment to the vulnerable categories of the population.

With respect to the policy under investigation, the Youth Guarantee was recommended on 22 April 2013 as the result of 33 million inactive individuals registered in 2012 in the territory of the European Union and was adopted in Italy in parallel with the creation of a national institution for active labour market policies, or ANPAL (Law Decree 150/2014). For many state members had not taken action to overcome problems associated with young individuals not in employment, not in education, and not in training (NEET), the financial support and the guidelines offered by the Council of the EU proved fundamental to introduce awareness in the more insecure Southern regions. Recent studies show that job insecurity usually discriminates against the younger population (Berton et al., 2009; Barbieri, 2011) and that hiring incentives normally are used in favour of the older cohort of workers, leaving the vulnerable youth population with atypical and temporary contracts (Jessoula et al., 2010; Cirillo et al., 2017).

To investigate the potential advantage derived from participation with respect to employment and job stability, and compare oranges with oranges, a difference-in-differences strategy is used to compare the average occupational outcomes before and after the implementation of the policy for treated and non-treated individuals. To understand whether participating individuals of the Youth Guarantee were more likely than non-participating individuals to become employed and be offered an open-ended contract, an empirical strategy typical of causal inference is utilised.<sup>2</sup> The result of a difference-in-differences method is a coefficient  $\lambda_{DD}$  that measures the difference between the average outcomes before and after treatment for the participants of the programme minus the difference between the average outcomes before and after treatment for the non participants. By analysing the occupational outcomes of interest for individuals who do participate with individuals, who are very similar but, who do not participate, causal inference can be used to help understand and compare what happens in a world where a policy such as the Youth Guarantee is implemented to what would happen in a world where, hypothetically, the policy was not in place, or the so-called counterfactual world.

This analysis was conducted for the years 2015, 2016, and 2017 on a sample of 16,296 individuals

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<sup>2</sup>Angrist and Pischke (2008).

between 16 and 35 from 104 different countries and residing in Northern Italy. All individuals were registered as unemployed at the Agency of Labour of the Province of Trento (Provincial Law 19/1983). Participants took part in an on-the-job training experience *programma A*, of 324 days on average, at local firms (EU Commission's Decision C(2014) 4969, 11/07/2014) by signing a formal agreement, or *Patto di Servizio*. Data from this particular Italian region were given priority due to the similarity of its local labour market institutions with those of Continental Europe; their reliability in respecting the time and financial constraints required by the EU; and their role as the national expert for designing active measures. In this analysis, entrance into the labour market was considered successful if the individual was offered her first job since participation in the programme.

The findings support the historic argument that training prepares individuals for economic changes (Scoville, 1969) by making candidates more attractive to firms (Katz, 1994; Bonnal et al., 1997; Budria and Pereira, 2008; Meaguer, 2008; Stephan, 2008; Saniter and Siedler, 2014; Brown and Koettl, 2015; Caliendo and Schmiedl, 2016; Card et al., 2018), especially when young (Heckman, 2000). Results show that participants of the Youth Guarantee were, respectively, 7.4 and 4.4 percentage points more likely to become employed and be offered an open-ended contract. The analysis is robust to group-specific trends and indicates that the Youth Guarantee produces larger effects over time, increasing the likelihood of being offered a job by 1.7 percentage points one year after its adoption. While it is easier to become employed for older candidates, Italians, and females, a final robustness check also suggests that results are not driven by the individual talents or characteristics incorporated in the profiling of participants. In a country where coordination lacks between social partners (Kazepov and Ranci, 2016), the EU training programme appears to help individuals not only exit from their state of occupational inactivity, but also increase the quality of their employment (Boone and Van Ours, 2009) by having a long-term impact where 'skills beget skills' (Heckman, 2000). The contribution of this essay is, therefore, twofold. First, it illustrates that participation in an active labour market programme born in the context of the European Union is successful in helping Italian youths who are occupationally inactive be reintegrated in the labour market. Second, it shows that active labour market programmes such as the Youth Guarantee should be trusted to a larger extent by the single member states as a means to offer stable occupation to a segment of the population that is traditionally vulnerable.

Generally, it can be drawn that young individuals will always need training to avoid occupational dissatisfaction. The Youth Guarantee grants autonomy to single regions of the European Union territory with respect to the design and implementation of the policy. In the Province of Trento, the most popular programme not only provided general and abstract education to individuals, but also specialised and

practical skills for the real world of work. In addition to defeating the so-called ‘secession of the successful’ in favour of insiders, the Youth Guarantee truly represents a possibility for a country of Southern Europe like Italy to overcome the often ignored transition problem from school, or non school, to work. In other words, the Europeanisation of active labour market policies may be relevant for the policy makers of the less prepared member states to use an approach that urges for social and human capital investment, rather than one based on passive unemployment benefits. This is particularly relevant with respect to the current SARS-Cov-2 pandemic, which requires flexibility on the part of job candidates and, therefore, adaptation and amelioration of existing skills.

### 1.3 Participation and Social Expectations: An Experiment

Undoubtedly, active labour market programmes often have an impact on behaviours that are not directly related to the labour markets per se (Anderson, 2009; Bertrand and Crépon, 2017; Fallesen et al., 2018). Participation in active measures may be motivated by expectations that are associated with the social and private sphere of an individual rather than with her economic conditions. Chapters IV and V developed and tested an economic theory based on Eichberger (1993) that advances the argument of subcultures influencing the decision of an unemployed subject to participate or not in an active labour market programme. The aim of these chapters is to understand the mechanisms behind the failure of outreach strategies in favour of occupationally inactive individuals such as first-time job seekers. The research questions behind the motivation to write these chapters include the desire to understand *a)* whether unemployed individuals such as first-time job seekers fail to participate due to social expectations that influence their decision and, subsequently, *b)* whether the impact of such expectations varies depending on the size of the social group of reference. Indeed, EUROSTAT statistics show that among the 89 million economically inactive people in Europe in 2017, 78% declared that ‘they did not wish to work’. The analysis shows that a certain number of unemployed subjects may deviate from the more standard social norms (Becker, 1973; Terpstra, 2006; Gunter, 2008; Clinard and Wadsworth, 2011; Bell, 2013; Görlich et al., 2013), including that of participating in training programmes to eventually work, due to their subcultural group of reference.

A model is developed which accounts for the expectations of both the potential participant, the government, and the peers with respect to participation in an active measure that is considered capable of changing not only the individual’s economic and financial condition, but also her social status (Toivonen, 2011; Higuchi, 2012; Gundert and Hohendanner, 2015; Gebel and Giesecke, 2016; Filges and Hansen, 2017). By building up on the theory advanced by Heckman and Smith (2004) on what may

affect the probability to participate, enroll, and commit to a social programme, the model developed in Chapter IV of this thesis aims to contribute to the existing literature by providing an economic theory that investigates what may happen *before* actual participation, or actual non participation. Due to short-termism and informational barriers, individuals may perceive the cost of being socially excluded by their existing unemployed group (Dietrich, 2013) to a larger extent than the benefit of joining the potential group of the working people. This is particularly true when individuals are young and, therefore, more vulnerable to choices regarding work and education (Heckman, 2000; Weller, 2007; Ferguson et al., 2009; Scarpetta et al., 2010). In the model provided in this thesis, the utility of an occupationally inactive individual, such as a first-time job seeker, is influenced by the personal preference of the individual; the preference of a non-dictatorial government that is concerned about international reputation (Brewster, 2018); and the preference of the ethnocentric group of unemployed peers (Sherif and Sherif, 1969). The latter, in the words of British social scientist Willis (1977), see labour as ‘a barrier against unreasonable demands from the world of work’.

To investigate the power of the ‘group mind’ (Eckman, 1951), we extend the model to also account for the number  $n$  of peers that surround the potential participant faced with the choice of participating or not in a training programme. In support of this theory, Chapter V also tests whether social expectations may affect such decision by exploiting an experimental strategy against compliant occupational behaviour. While the majority of occupationally inactive individuals are likely to follow the norms offered by the more extended society (Cacioppo and Hawkey, 2009; Tangney and Triandis, 2013; Sanfey et al., 2014; Mascini, 2016), the experiment conducted on QUALTRICS and carried out on 300 individuals shows that first-time job seekers may avoid participating in training programmes due to the negative expectations of their peers. In particular, the effect of the latter appears to overcome the positive expectations of an authority of the official social culture, like the government. We provided the control group with a baseline scenario, which indicated the government’s intention to reduce unemployment by encouraging occupationally inactive individuals to participate in a training programme. The treatment group was additionally exposed to a scenario that illustrated the expectations of the peers on active labour market policies. The findings illustrate that negative expectations from the peers cause unemployed potential participants in a between- and within-subjects experiment to be, respectively, 42 and 33 percentage points less likely to take part in job training. This is line with the idea of Cohen-Scali (2003) that individuals may face and react differently to socialisation for work, including relationships with family members and friends, and to socialisation by work, including the potential new relationships experienced in the real world of work.

Results from the experiment explained in Chapter V suggest that in a context where social identity is not rigid, peer pressure is dominant over the potential occupational and social gains from participation. As a consequence, it is recommendable to support and encourage flexible teamwork in countries where, due to culture and tradition, institutions require individuals to ‘be primarily motivated by the norms, and the duties imposed by, collectives’ (Triandis, 1995) for the formation of their professional identity, rather than by personal choices. On this subject, an online survey was conducted concerning social preferences from which it could be inferred that 71.3% of the unemployed individuals surveyed would make a decision for themselves only after having consulted with their peers and that, in case of lack of support to participate in a training programme, 9.4% of the individuals would decide not to take part in it. Repeated exposure to a good, or a service like a training programme, can decrease the disutility derived from adaptation to a new preference (Klick and Parisi, 2008). Providing subsidies to the peers of the subculture of reference, in addition to the potential participant, may contribute to transforming a behaviour that is ‘occupationally’ deviant from a social norm for the social and economic benefit of the individual. The contribution of these two essays is, therefore, twofold. First, a model is presented to incorporate social expectations into the individual decision-making process of a potential participant of an active labour market programme. Second, an experiment demonstrates that negative expectations on the part of the individual’s peers can influence her decision not to participate in a training programme.

From these analyses, I identify how, independent of the level of both reputational concern on the part of the government and sensible advice on the part of the parents, young individuals will always be influenced by their peers, especially when they transition from the educational system to the job market and seek out a professional identity. Policy makers should, therefore, become significantly more aware of the sociological role played by subcultural agents with which potential participants of active labour market policies may interact and design training programmes accordingly. This research also identifies some situations where less is more. While majoritarian laws are the norm, these findings suggest that in the context of occupational insecurity individuals appreciate social support to a large extent. Whereas this is particularly true for young first-time job seekers and NEETs, more flexible and personalised regulations may help contain the critical degree of failure of certain outreach strategies. In this regard, attention should be brought not only to their occupational stability but also to their social integrity once they have reached the sphere of the working people. Interestingly, 37.6% of the unemployed individuals surveyed in our analysis declared they would participate in an active labour market policy so as to develop their social identity. In this sense, lawmakers should make sure to provide assistance both *ex ante* and *ex post* individuals’ professional transformation. This has also become evident during the

Covid-19 pandemic, which shed light on the economic power of tighter communities.

## **1.4 Active Labour Market Policy and Employment: Text Analysis and the Law**

It is fundamental to observe how active measures relate to the predominant labour market institutions, especially in a country of small- or medium-sized firms like Italy, where the recourse to active labour market policy to tackle inactivity was not always the norm. In this regard, in Chapter VI, the analysis seeks to understand the correlations between the evolution of a policy-making approach that wants to make unemployed individuals ‘useful and active’ (Zamagni, 2018) by turning participation in training programmes into both a duty and a right and macroeconomic figures associated with employment. For this purpose, while Chapter II analyses how Italian labour law promoted and discouraged the use of active measures from the 1970s to today, in Chapter VI I look at it from the empirical viewpoint. In particular, for each legal text issued between 1997 and 2018, a manual keyword search is used to disclose words and concepts typical of active labour market policy in specific categories; namely, training, flexibility, conditionality, and inter-administrative subsidiarity. Each legislative variable is represented by the moving averages of the cumulative frequency of words associated with a certain category so as to capture the degree of active labour market policy approach, or ‘mood’, observed in Italian labour law over time  $t$ . In addition to investigating the correlation between such variables and national occupational figures such as the employment, unemployment, and NEETs rates, collected by EUROSTAT and ISTAT, due to the country’s historic geographical heterogeneity, I also conducted an analysis at the regional level. In particular, this essay aims to answer the following research questions; namely, *a)* whether the gradual active labour market policy approach implemented in the law corresponded to a gradual betterment of the employment situation in the country and *b)* whether it corresponded to a gradual containment of the NEET epidemic as well.

With respect to the first big wave of reforms, in the 1990s, education was still perceived as an institute preceding work but not necessarily preparing the individual for it (Giannini, 1985). Training centres were created for future managers, regions were granted financial and technical support to promote professional training (law 285/1977; law 845/1978; law 44/1986), and new contracts were introduced, including solidarity and part-time contracts (law 863/1984; law 451/1994). However, it was the set of reforms, or the Treu Package of 1997, which introduced the Italian labour market to atypical and temporary forms of labour contract, as well as to a type of education that was ‘preparatory’ for

the real world of work. In line with this endeavour, the government subsequently issued a White Paper (2001) that focused on the ‘healthy’ promotion of flexibility, while the Biagi law (2003) provided a reinterpretation of apprenticeships to transform the firm into a place of learning, in addition to one of working. In agreement with this set of reforms, the legislative decree 167/2011 defined a classification of apprenticeships distinguishing among training for young individuals, achievement of a professional qualification, and higher education. Nevertheless, it was the wave of reforms of the 2010s that significantly strengthen awareness on active labour market policy in Italian labour law. Progressively, reforms have encouraged the use of open-ended contracts (law 92/2012; law 10/2014) by providing firms with financial incentives, as well as promoted and regulated active measures (legislative decree 150/2015) by creating a national body for active labour market policies (ANPAL) in the image of the renowned structure of the Agency of Labour of Trento (law 19/1983). In parallel, conditionality for participation in active measures was introduced (law 183/2014) as principal requirement to obtain unemployment benefits with the New Employment Social Insurance. Finally, further protection was granted to workers of part-time, short-term, and on-call contracts (legislative decree 81/2015), while the Dignity Decree (2018) implemented a more organised ‘employment contracts code’.

When studying the coefficients of correlation between the variables of active labour market policy and the rates of employment, unemployment, and NEETs in Chapter VI, the findings support the argument that the convergence of Italian labour law towards a more active approach to employment corresponds to an improved labour market. Higher levels of training activities, including training experiences and internships, for instance, are negatively and positively correlated with, respectively, the number of young inactive individuals (-0.754) and the employment rate (0.666). Similarly, an increase in reforms that promote flexibility of contracts is associated with a decrease in the number of NEETs (-0.752). On the other hand, inter-administrative subsidiarity, or the increase in consultations between local and national labour market institutions is, respectively, positively and negatively correlated with part-time jobs (0.704) and youth unemployment (-0.558). Passive measures are not considered sufficiently effective to guarantee occupation anymore. Notwithstanding, *flex-insecurity* appears to persist for certain segments of the population and certain areas of the country. In this regard, stronger correlations were observed for the Northern part of the country, which is historically characterised by more financially prepared and expert institutions and for the older segment of the population, something that likely explains the irrepressible brain drain registered in Italy. Evidently, the contribution of this essay is twofold. First, I provide a thorough analysis of Italian labour law with respect to the historical development of active labour market programmes. Second, I shed light on the relationship between the active labour market policy approach observed in the law and some significant occupational outcomes by using an innovative

technique that can be replicated for other legal systems around the world.

This analysis identifies how despite the quality of active measure not being commensurate to international neighbours yet, Italian labour law should never be allowed to regress with respect to its approach in boosting employment and reducing occupational inactivity. In order to tackle the unsurprising occupational geographical divergence, policy makers are invited to surpass the traditional concept that ‘old is always gold’ and favour the more vulnerable segment of the community, or the youths, to make sure they are offered a suitable and stable occupation, as well as they are socially integrated in the community of workers.

## 1.5 Employment Hysteresis in Times of Pandemic

The SARS-Cov-2 pandemic has had a significant impact on economies worldwide. With an extremely large number of small- and medium-sized enterprises, Italy registered a fall in the total number of firms active at the end of the first quarter of 2020 equal to 30,000 units compared to the first quarter of the previous year. As a consequence, the proportion of occupationally inactive individuals, such as displaced workers, increased. While passive measures such as unemployment benefits and redundancy funds are provided to guarantee the economic survival of the individual (Cerciello et al., 2019; Tafuro et al., 2019), active labour market policies (ALMP) that invest in human capital are useful to prepare the labour force to unexpected changes in the labour market (Laffineur et al., 2017; Dostie and Javdani, 2020).

This is why, in Chapter VII, I try to understand the attitude of individuals employed in firms in crisis with respect to participation in a programme that would allow them to exit from their condition of inactivity. Particularly, I analyse how both the educational background and the professional social capital affect their desirability to partake in a standard or high-commitment training for a job in a different firm, remote working, or self employment. The research question behind this chapter lies in the desire to understand *a)* what the incentive mechanisms towards ALMP for individuals who are under a dual condition of stress (namely, the SARS-Cov-2 pandemic and the risk of job loss) are and *b)* whether such incentives may solve the problem of ‘job fixation’. Such analysis is justified by the hypothesis of employment hysteresis according to which, under adverse conditions in the labour market, individuals may choose to remain unemployed or displaced rather than accept any kind of job rotation or start a career elsewhere (Carree et al., 2009; Oesch and Baumann, 2015). Understanding what factors influence the rate of participation in active labor market programmes on behalf of workers on the verge



of occupational inactivity provides key policy suggestions to institutions like agencies of labor and local employment offices so as to improve their efficiency (Vassiliev et al., 2006).

The analysis focuses on the Province of Rimini, in the Northern Italian region of Emilia-Romagna. In particular, survey data were collected between February the 25th and May the 20th of the year 2020 on 193 individuals employed in firms officially or unofficially in crisis, due to the SARS-Cov-2 pandemic, and registered with the Italian General Confederation of labour (CGIL). To understand whether participation in an active labour market programme of training could be beneficial for individuals to overcome stress in the workplace and enhance the chances to get a new job, I investigated the incentivising role of both human and professional social capitals. Indeed, membership to trade union and presence of displaced colleagues may influence the decision of an employee to participate or not in a training programme with the prospect of finding a new job or keeping the current one. Kelly (2018), for instance, recently found that originally negative feelings towards learning skills such as mathematics in the workplace can become positive when a trade union is involved.

Estimates from a seemingly unrelated regressions (SUR) model show that, for individuals who are positively influenced by their displaced colleagues and their membership to the CGIL trade union there is an increase in the likelihood of participation in standard training for a similar job of, respectively, 29.6 and 24.2 percentage points, significant at 5% level. On the one hand, belonging to an institution such as the CGIL may lead individuals to believe that training is a safe choice because, independent of its outcome, CGIL will always have their back. On the other hand, individuals may perceive the existence of displaced colleagues as a wake-up call and, therefore, may be encouraged to participate in training so as to avoid a similar situation. With respect to remote working, the impact of the professional social capital remains positive. Interestingly, it is also observed that such an option is less desirable for individuals who only hold a compulsory-school degree (-30 percentage points) or a technical-school degree (-17.1 percentage points). This is in line with the employment hysteresis hypothesis, which is more likely to be valid for individuals with more specific skills (Kalaitzidakis, 2002). Conversely, holding a high-school degree increases the likelihood of an employee to opt for self-employment by 17.8%. The lower value of their occupational alternatives combined with the general education they received allows them to develop entrepreneurial skills and opt for self-employment more easily.

In Italy, the first wave of the SARS-Cov-2 pandemic has caused several corporate crises and exposed employees to a severe condition of stress. The contribution of this essay is twofold. First, it sheds light on the mechanisms that drive an employed individual to opt for specialised training programmes distinguishing between the impact of human capital and that of professional social capital. Second,

it shows that, more than the educational background of individuals, it is the social networks in the workplace that increase their motivation to learn and, possibly, change their occupational status. Particularly, the situation of dual stress experienced by individuals employed in firms, officially or unofficially, in crisis tends to be rejected in a stronger and highly valued sense of community. In addition to recurring to passive social protection, employment offices in the future may have to account for such participatory incentives, which could be key to encourage the effectiveness of an active labour market approach.

The next pages will illustrate the motivation, content, and development of the chapters more in depth and discuss the findings that are relevant for current and future lawmakers. As aforementioned, in Chapter II, I illustrate how Italian labour law has progressively converged towards an active labour market policy by using legal history. In Chapter III, I provide an evaluation of the application of the recent EU Youth Guarantee policy in Northern Italy. Chapter IV and Chapter V introduce and test an economic model for participation in active measures that accounts for social expectations and professional identity. Chapter VI analyses the relationship between the Italian labour law's approach to active labour market policy and significant outcomes for national and regional occupation by exploiting text analysis of legal corpora. Finally, Chapter VII contextualises the role of active labour market policy in overcoming the employment hysteresis observed in Italian firms during the SARS-Cov-2 pandemic. Further in-depth analysis is provided in the Appendixes of each chapter. Chapter VIII concludes this thesis by summarising the findings of Chapter II, Chapter III, Chapter IV, Chapter V, Chapter VI, and Chapter VII and by providing some relevant policy implications.

## CHAPTER II

# Active Labour Market Policies in the Evolution of Italian Labour Law (1970s-2010s)<sup>†</sup>

### Summary

Active labour market policies are, by now, an established approach in Europe to tackle issues such as unemployment or inactivity. In Italy, historically, this was not the norm. This chapter analyses the different waves of labour laws that have introduced, promoted, or discouraged the use of active measures since the 1970s. In particular, it looks at how labour market institutions have evolved for the benefit of society. For each legal text promulgated, concepts typical of active labour market policies are illustrated; including training, flexibility, conditionality, and inter-administrative subsidiarity. The challenging circumstances of a globalised and flexible labour market encouraged a progressive transformation of the law from an initial institutional inertia to one more responsive of the interests of subjects.

**Keywords:** Active Labour Market Policies; Conditionality; Flexibility; Institutions; Legal Evolution; Training.

JEL: K31, J24, J48, J62, N3.

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# 1. Introduction

Italy's increasing unemployment rate has led to debating the role of its labour institutions and reforms. In particular, one wonders whether the incapability of the Italian government to defy unemployment lies in its delay in applying measures in favour of employability, rather than employment.<sup>3</sup> A thought shared by many sees the Italian labour law past focus on passive labour market policies as the main obstructing means for a substantial improvement of the quality of jobs offered in the labour market. In other words, historical accidents (Kingston and Caballero, 2007) may have led to a time of what one could call selective institutional inertia. Indeed, measures to fight unemployment were many but substantially focused on the inactivity of the subjects by offering generous monetary benefits, which are passive by definition, rather than providing incentives to make them go back to work or find a better job. On the other hand, Italy has not been renowned for being a designer or exporter of active labour market policies (ALMPs). These are public programmes offered by the job centres or appropriate accredited private agencies that aim to increase the individual's skills through training activities such as apprenticeships, internships, job placement projects, job search assistance, and the like. In a world of flexible production for an economy based on services rather than industries, firms are asked to respond promptly to changes in the market with a demand of products that become increasingly more personalised.<sup>4</sup> The economy of the appropriate goods and services requires an intelligent labour force that is flexible and able to 'adapt to different firms, sectors, and tasks'.<sup>5</sup> And in a country like Italy, made of small or medium firms, the only investment that is worth it carrying out for the advantage of both firms and future workers is that in human capital.<sup>6</sup> This means that workers need to be encouraged to have an occupational path rather than a career in the same firm.<sup>7</sup>

Contrary to passive labour market policies, which consist of mere financial insurance measures against unemployment, active labour market policies have a human capital function. Precisely for this reason, many countries have shifted towards an institutional model of workfare, where individuals need to participate in active measures to be guaranteed any unemployment benefit or monetary insurance provided by passive labour market policies. Because laws tend to be more effective whenever they 'give expression to an already existing practice', having received feedback and information from the social and economic context where their rules apply (Deakin, 2011), legal systems have now put into place mixed strategies to fight unemployment by recurring to both passive and active measures through new rules

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<sup>3</sup>Intended as the set of skills that allow you to find an occupation.

<sup>4</sup>See Mezzanzanica (2010), pp. 57, 58.

<sup>5</sup>Ibid., p. 59.

<sup>6</sup>Ibid., pp. 59, 60.

<sup>7</sup>Ibid., p. 59.

and institutions. Namely, labour law has progressively adapted to the challenging circumstances of this globalised and flexible world in line with the objectives of the state to decrease the portion of people who are out of work. Now, active labour market policies aim precisely to help individuals transition from one firm, sector, or job to the other in a way that they ‘learn to learn’<sup>8</sup> and can be assisted in the direction towards informed decisions.<sup>9</sup> For this purpose to be achieved, it is also necessary to invest in the integration between schools, job market, and professional training.<sup>10</sup> Indeed, as argued by Luhmann (2004), legal evolution does not necessarily lead to the happiness of social life. Thus efforts are required to change existing institutional settings, which are now more inclusive of the interests of subjects (Acemoglu and Robinson, 2005), and they need to be gradual so as for society to absorb their evolution. The success of the Emilia-Romagna region, for instance, is praised and compared to the richer German areas due to the high number of collaborations between firms and educational institutions such as schools and universities.<sup>11</sup> But while for regions like the latter, the principal aim of training activities remains that of bringing the educational system closer to the job market<sup>12</sup>, many are the scholars who pressure policy makers to provide individuals with more life-long regular education.<sup>13</sup> Others, such as Pastore (2018), explain the difficulty of young people to find a job in the ‘very inefficient and disorganised educational system’, for which individuals are not able to accumulate neither work experience nor vocational education. In this regard, one could question whether the typical Italian problem of the 1980s of an exaggerated ‘segmentation’ between education, in any of its forms, and work still persists.<sup>14</sup> The latter, indeed, has probably contributed to making the Italian system of transition from school to work into ‘one of the slowest in the world’.<sup>15</sup>

In particular, this analysis wants to test whether in a country like Italy, where active measures have never been promoted in the labour law at a stable pace from the beginning, it is possible to validate the hypothesis according to which an active labour market policy approach can be effective in increasing awareness on employment issues if absorbed in the law. In other words, the paper wants to indirectly investigate whether the myth of active labour market policies being an awakening tool for policy makers is just a utopian tale or, whether, on the contrary, one can find evidence for a truly significant relationship between occupational success and reforms that focus on training; promote healthy flexibility; accept inter-administrative subsidiarity; and encourage conditionality of participation in training programmes in exchange for financial support (or PLMPs). For this purpose, we use

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<sup>8</sup>Ibid., p. 61.

<sup>9</sup>See Muzi (2010), p. 221.

<sup>10</sup>See and Muzi (2010), p. 220 and Mezzananza (2010), p. 65.

<sup>11</sup>See Mosconi (2018), pp. 49, 50.

<sup>12</sup>See Gualmini (2003), p. 55.

<sup>13</sup>See Tagliaventi and Cutolo (2018), p. 78.

<sup>14</sup>See Giannini (1985), p. 338.

<sup>15</sup>See Pastore (2018).

qualitative evidence to illustrate the gradual institutional change (North, 1990) experienced in Italy from the 1970s to today with respect to the implementation of active labour market policies and the principal occupational outcomes. In particular, we analyse whether it is really the case that Italy has always lagged behind many other European Union countries in terms of measures preoccupied of the training of its unemployed population. After all, it may be the case that the government has invested too little in the human capital of the unemployed while they did in terms of passive labour market policies. Indeed, independent of their generous amount, unemployment benefits can never substitute individual activity. As stressed by Zamagni (2018), non activity is certainly unlikely to provide the individual with the personal satisfaction of ‘feeling useful and active’.<sup>16</sup> Moreover, belonging to the group of unemployed who receive unemployment benefits can easily lead to one’s professional skills to becoming obsolete if they are not used.<sup>17</sup> But while policies still appear inadequate, it is rather interesting to observe how labour laws have evolved throughout time in terms of activity as both a right and a duty of the individual.<sup>18</sup> In other words, unemployed subjects have opted for passive labour market policies in the past not because they were more efficient but because they were dominant, and deviating from them would not have been rational nor socially acceptable (Kingston and Caballero, 2007).

Skarbek (2020) recently pointed out how excluding the use of qualitative data impedes the complete understanding of institutional processes. In verge of this, this study aims to understand whether the progressive convergence of Italian labour law to active labour market policy corresponds to an amelioration of the occupational and educational situation of the country by exploiting qualitative data. Many descriptive reports exist on the Italian legislative system, as well as several policy evaluations show the effect of the implementation of a certain policy on the rising number of unemployed individuals. There is extensive literature, too, on the traditional passive labour market policies that characterised most of the Italian reforms of the past decades. This paper, on the other hand, contributes to the existing institutional literature by shifting the focus to the evolution of active labour market policies per se in Italian labour law and the progressive transformation of the occupational situation of the country. In particular, the motivation behind the paper lies in the relevant and positive role active labour market policies play for both the state who promotes it and the agents who partake in them. As regards the state, or Italy, providing active labour market policies to unemployed, but also regular employees in particular situations<sup>19</sup>, may be costly at first, when training programmes have to be designed and

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<sup>16</sup>See Zamagni (2018), p. 13.

<sup>17</sup>See Caroleo et al. (1997), p. 151.

<sup>18</sup>A right in that it enables the individual to receive the necessary training to upgrade her skills and increase her job opportunities and a duty in that participation in such programmes becomes a requirement in order to be provided with unemployment benefits.

<sup>19</sup>Such as those involved in a corporate crisis.

implemented, but are beneficial overall because they constitute human capital investment. As such they help the state to decrease the economic burden derived from the occupational inactivity of the many subjects beneficiary of unemployment benefits or other forms of financial support by providing them with skills, motivation, and potentially a job. If more people become employed thanks to active labour market policies or the threat of having to participate in them compulsorily if unemployed, this decreases the amount of passive labour market policies the government will need to spend on. Additionally, the level of competitiveness of Italian firms would also benefit from skilled workers at the international level. As regards the potential participants of these measures, the price of such programmes may be perceived from individuals as higher than their real cost if they account for the subcultural group they are part of; the more limited amount of time that can be dedicated to leisure once enrolled in such programmes; or the possibility of having to give up generous unemployment benefits. However, as the exclusive use of passive labour market policies such as unemployment benefits has proved not to be a successful tactic in bringing people back to work, it is rather straightforward to appreciate these alternative active measures. Individuals gain a more extended set of skills or update their obsolete one; exit from their state of social exclusion due to non occupation; and, most importantly, have the possibility to find not only a job, but a high quality<sup>20</sup> job. Thus, they contribute to achieving a positive-sum game for all. Of course, while formal rules may be fast moving due to a centralised process, informal rules may take more time due to the continuous nature of their change (Roland, 2004). However, when measures such as training and conditionality are enforced under penalty of losing unemployment benefits, adaptation on behalf of the subjects become necessarily indisputable. As argued by Deakin (2011), labour reform is not a straightforward process. In the next sections we illustrate how Italian labour law has gradually evolved towards a system of active labour market policy and why.

## 2. The Evolution of Italian Labour Law

In this section, the labour laws introduced in Italy between 1970 and 2018 are analysed with respect to measures, institutions, and norms associated with active labour market policies. Specifically, we define three waves of reforms with respect to the promotion of an active labour market approach. Indeed, as argued by Hodgson and Knudsen (2010), similarly to biological organisms institutions change as well after they learn, fail, and succeed. In Section 2.1 we describe the first attempts to introduce more flexible contracts in the Italian labour market (1970-1999). In Section 2.2 we discuss the focus on education of the second wave of reforms in Italian labour law (2000-2010). Finally, Section 2.3 sheds

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<sup>20</sup>Relatively to their educational background and unemployment history.

light on the labour laws that, eventually, introduced the principle of conditionality of unemployment in the 2010s. Nowadays unemployed subjects in Italy are able and required to participate in training programmes; young individuals can opt for more specialised technical schools; local bodies can raise occupational issues typical of their area; and flexibility is not exclusively a synonym for vulnerability anymore. Understandably, while some changes were implemented more swiftly, none of them were sudden. On the contrary, they were the result of an evolutionary process that took time, trial and error, and adaptation to guidelines coming from supranational institutions such as the European Union too. In other words, none of the reforms should be taken for granted. Particularly, we look at the four main characteristics of an active labour market policy approach and how reforms have progressively encouraged their use; namely, training, conditionality, flexibility, and inter-administrative subsidiarity.

## 2.1 The First Wave of Reforms of the 1990s

Active labour market policies were first implemented in the 1990s as the result of need for creation of occupation. By the 1970s and 1980s, however, there already existed in Italy firm training centres for the training of future managers<sup>21</sup>, but they did not produce significant results. Both the law 285 of 1977, which provided the Italian regions with special funding to promote the professional training of the younger population, and the law 675 of 1977 with guidelines on territorial or firm mobility, intended as active labour market policy, led to disappointing results.<sup>22</sup> Objectives were also not met<sup>23</sup> in 1978 with the law 845, which allowed regions to manage training courses. The reorganisation of tasks according to a subsidiary method, indeed, has been defined by the contemporary scholar Varesi (1985) as an ‘objective shredding of competence’.<sup>24</sup> Similarly, the decree 863 of 1984 introduced new instruments, including the solidarity contracts<sup>25</sup>, the job training contracts<sup>26</sup>, and the part-time contracts. Nevertheless, none of these contracts spread due to either high costs or lack of reduced contributions connected to them.<sup>27</sup> As a result passive labour market policies still dominated the Italian labour market scene, while expenditure in measures such as training still represented the smallest portion of labour market policy in the country in this period (Bonoli, 2010). Most certainly, depending on the wealth and institutional framework of the area of reference, the types of training programmes offered to the population in Italy varied in the target, duration, and design of the training itself. For our purpose, it is emblematic to report

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<sup>21</sup>See Muzi (2010), p. 229.

<sup>22</sup>See Iori (1998-99), pp. 98, 99.

<sup>23</sup>Ibid., p. 99.

<sup>24</sup>See Varesi (1985), p. 315.

<sup>25</sup>These are non-market sector and fixed-term contracts paid by the state, used by public institutions, and offered to unemployed individuals.

<sup>26</sup>These are contracts based on training for the individuals to acquire the necessary skills for certain professions.

<sup>27</sup>See Iori (1998-99), pp. 102, 103.



the observations by the contemporary scholar Giorgioni (1985) on the case of the Emilia-Romagna region, nowadays considered a rather advanced region from the perspective of active labour market policy. In order to provide professional training it was necessary for firms to become real training centres, but in the region a plan that guaranteed paths of transition between school and workplace was still lacking.<sup>28</sup> The author, in particular, claimed that there '[was] not a single public or university school that [took] on the new emerging professions and literacy [problems]'.<sup>29</sup> Moreover, orientation services were underestimated, as well as there was a lack of professional training for adults with 90% of the total funds used just for basic training. For these reasons, the author stressed that there was an 'extremely urgent' research initiative need on higher education and the rise of new professions.<sup>30</sup> If such a productive region experienced difficulty absorbing the new approach based on active measures, one can easily imagine how hard it must have been for the other less prepared and poorer areas of Italy. What lacked in the existing active labour market policies was a 'true' professional training.<sup>footnoteIbid., p. 328.</sup> According to Giannini (1985), too, education was still perceived as something that preceded work but that did not necessarily prepare the individual for it.<sup>31</sup> The following law 44 of 1986 is an example of it as it introduced the subsidies for entrepreneurship to be used with the supervision of a tutor.<sup>32</sup> The exaggerated entitlement requirements to benefit from the policy led to an approval rate smaller than 28%<sup>33</sup> with a geographical divide that privileged the Northern Italian regions over those of the South. However, one could not talk about active labour market policies yet. What demonstrates that a financial incentive alone is not sufficient to encourage start-ups and entrepreneurship but that actual tutoring is also required, was the failure of the 159 firms that were launched between 1987-8, which presented 'significant difficulties' and were in 'critical conditions', and the 16 firms that even received the withdrawal of the measure.<sup>34</sup> The placement reform expected by the law 56 of 1987 did also not lead to substantial results.<sup>35</sup> According to some scholars, the reason for this lied in the incapability of the social partners and the state to let go of their power in response to a relaxation of the legal constraints.<sup>36</sup> In other words, the impact of the ruler's subjects were still 'of secondary importance' (Kingston and Caballero, 2007).

In 1991 firms could still use reduced contributions to transform fixed-term contracts into open-ended contracts.<sup>37</sup> The training vouchers introduced with the law 263 of 1993 were also not useful as there

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<sup>28</sup>See Giorgioni (1985), p. 325.

<sup>29</sup>Ibid., p. 326.

<sup>30</sup>Ibid., p. 327.

<sup>31</sup>Ibid., p. 338.

<sup>32</sup>See Brancati (1997), p. 195.

<sup>33</sup>Ibid., p. 197.

<sup>34</sup>Ibid., p. 199.

<sup>35</sup>See Iori (1998-99), pp. 103, 104.

<sup>36</sup>Ibid., p. 106.

<sup>37</sup>See Brunello and Miniaci (1997), p. 25.

were not enough incentives for the small or micro firms in Italy to invest in continuing education.<sup>38</sup> The fact that solidarity contracts could only be used together with the passive measure of the redundancy fund, or *Cassa Integrazione*<sup>39</sup>, caused the former to be not a proper form of active labour market policy but merely an ‘expensive welfare subsidy’.<sup>40</sup> Spending on active labour market policies, as a proportion of the Italian GDP, was still only 1.36 compared to that for passive labour market policies, equal to 2.51 (Martin and Grubb, 2001). Moreover, flexibility was still perceived as a means leading to just vulnerability. And this, despite the European Union stressing the fundamental role played by part-time contracts in promoting a healthy type of flexibility in the labour market while reducing unemployment.<sup>41</sup> Indeed, as claimed by Giannelli (1997), in 1993 there was still a rather trade unionist perspective that privileged the full-time contract over the part-time contract.<sup>42</sup> While in Germany workers who were hired with a part-time contract, and who voluntarily chose this type of contract, were safeguarded, in Italy it was still considered a ‘marginal and atypical contract’.<sup>43</sup> As a result, the proportion of flexible contracts such as part-time jobs in Italy was 5.4% in 1993 against the 15.1% of Germany.<sup>44</sup> This may also explain why most of the part-time contracts in Italy have become junk jobs due to the lack of proper regulation rather than due to the actual hours worked.<sup>45</sup> That is to say, flexibility was introduced in Italian labour law inefficiently and was destined to be selected out (Hodgson and Knudsen, 2010) even before properly developing. Unemployed individuals were supported in achieving a job placement with both the law 451 of 1994, which promoted socially useful activities, and the law 489 of the same year, which introduced a bonus for those young individuals willing to launch new firms.<sup>46</sup> Even so, unemployment rates in 1995 were equal to 29.9% for those between 15 and 24; to 11.3% for those between 25 and 34; and to 6.5% for those older than 35 (ISTAT, 1995). As a way of solving the issue, the legislative decree 416 of 1995 shifted insurance costs from the hands of the firms into the hands of the public proposer body<sup>47</sup> as concerned internships, which could be finally extended in duration. As it turned out, while the law 45 of 1996 tried to give value to the disadvantaged categories of the population it also underestimated the role of job-training contracts, which, in the end, were only used for tax relief purposes.<sup>48</sup> Put differently, the high-level formal rules of Williamson (2000) did not coincide with the day-to-day interactions interested in simply minimising transaction costs (Kingston

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<sup>38</sup>See Muzi (2010), p. 226.

<sup>39</sup>This subsidy is supplied by the Italian national social welfare institution Inps to those individuals suspended from work.

<sup>40</sup>See Iori (1998-99), p. 107.

<sup>41</sup>See Giannelli (1997), p. 249. The EU text of reference is the Council Directive 97/81/EC of 15 December 1997 with regards to the Framework Agreement on part-time work.

<sup>42</sup>See Giannelli (1997), p. 229.

<sup>43</sup>Ibid., pp. 230, 239.

<sup>44</sup>Ibid., p. 232.

<sup>45</sup>Ibid., p. 250.

<sup>46</sup>See Iori (1998-99), pp. 107, 108.

<sup>47</sup>Ibid., p. 106

<sup>48</sup>See Gualmini (2003), pp. 58-9.

and Caballero, 2007). Finally, the following year saw the implementation of new measures that aimed to uplift the employment situation of the country.

In 1997, a series of reforms under the name of Treu Package were passed to introduce new forms of employment related to temporary agency work; namely, the atypical and temporary contracts. While the number of job-training contracts decreased in this period, more firms made use of apprentices.<sup>49</sup> Additionally, regions like Emilia-Romagna collaborated with the more vulnerable Southern areas of the country to guarantee qualifications to the youths and encourage them to find a job.<sup>50</sup> In correspondence to a shift towards active labour market policy observed in all European countries, inspired by Scandinavia, Italy started to encourage a professional type of education, a healthy definition of flexibility, and an administrative subsidiarity in favour of a national levelling of measures. Not coincidentally, spending on active labour market policies, as a proportion of the country's GDP, increased from 0.45 in 1985-86 to 1.08 in 1995-96 (Dar and Tzannatos, 1999). Subsequently, the law 196 of 1997 on the promotion of employment introduced the temporary contract in its article 1 and defined apprenticeship for a minimum of 18 months and a maximum of 4 years in its article 16. Training started to become a focal point on which to concentrate for ameliorating the condition of the unemployed and the first-time jobs seekers, as well as their job prospects. The expected training was set to an average of 120 hours per year and a certificate would be granted to those who participated in the training activity. The content and design of the latter, in particular, were decided by the Ministry of Labour together with the trade unions, the associations of employers, and the regions (cl.<sup>51</sup> 2). The state committed to engage with individuals for their benefit (Kingston and Caballero, 2007). The reform also defined the professional experiences of the tutors as being determining for the success of the individuals interested in learning new skills for employment opportunities. On this subject, the law in question especially underlined the importance of distinguishing between work activity and training activity. In particular, it gave value to professional training describing it as an instrument to ameliorate the quality of the labour supply; increase the competitive skills of the productive system; and increase employment through professional training activities that make use of flexible modules (art. 17, cl. 1). In this regard, it encouraged the collaboration of regions and provinces with schools, universities, and other institutes of education as well as the use of internships to favour the connection between work and education. The latter, finally, was expected to be 'preparatory' to being hired by the interested firms. Article 18, for instance, defined internships as useful to help the young individuals with future professional decisions.

Interestingly, a first moderate idea of conditionality was also introduced in this period as regards

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<sup>49</sup>Ibid., p. 59.

<sup>50</sup>Ibid., p. 61

<sup>51</sup>cl. is intended as a specific clause or item in the discussed article.

mobility allowance. Article 8 stated, indeed, that for those who rejected being hired by a firm as temporary workers, the Provincial Directorate of Labour would suspend the mobility allowance for a period equal to that expected in the contract offered and for a minimum of one month (cl. 4). Flexibility, on the other hand, was promoted in its Article 13. The Ministry of Labour, together with the Ministry of the Treasury and the Commissions of the Parliament, was to favour part-time contracts especially for the groups of the young unemployed individuals between 18 and 25 in the renowned disadvantaged areas and of the unemployed women with more than two years of labour inactivity. In general, the Treu Package was perceived as a series of reforms that tried to loosen the existing rules and give more power to the market and less to the state<sup>52</sup>, changing any form of path-dependency that could obstruct institutional change (Kingston and Caballero, 2007). As a result, part-time contracts increased from 7.9% in 1998 to 8.7% in 1999<sup>53</sup>, representing 20% of the new entries in the Italian firms. For ten consecutive years following the implementation of the Treu Package, the Italian unemployment rate dropped from 11.2% to 6.1% in 2007.<sup>54</sup> The invitation by the European Union to focus more on ‘employability, entrepreneurship, and qualification’<sup>55</sup> in the Luxembourg guidelines of 1998 probably also encouraged the creation of a national plan. That is to say that, with regards to Williamson’s (2000) theory of institutional levels, a fourth-level institution started to be accounted for; namely, that of the European community. In practice, however, the principle of active labour market policy was not absorbed in the Italian system yet. In this regard, contemporary scholars like Brunello and Miniaci (1997) highlighted the urgency to bind mobility allowances, introduced with the law 223 of 1991, to the ‘effective [job] search activity and acceptance of a job’.<sup>56</sup> In other words, they claimed that the true principle of conditionality had to be put into practice. With regards to their analysis on the Southern region of Campania, Caroleo et al. (1997), too, stressed that the problem of the employability of the unemployed individuals should not have been resolved by exclusively using monetary compensation but also through the creation of means that focused on the quality and the professionalism of the workers.<sup>57</sup> Of course, the difficulty in overcoming the occupational question in terms of quality of work can easily be reflected in the difficulty to overcome the educational question of the country. In 1998 Italy still significantly lagged behind the European average in terms of investment in education and human capital, with public expenditure in education as a proportion of GDP equal to 4.6% against the EU average of 5%.<sup>58</sup> As can be deduced, this first wave of reforms of 1990s can only be considered as a

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<sup>52</sup>See Iori (1998-99), pp. 119, 120.

<sup>53</sup>Of which 73.1% in Northern Italy, 18.43% in the Centre of the country, and 8.47% in the South. See Iori (1998-99), p. 140.

<sup>54</sup>See Istat Serie Storiche, “Mercato del Lavoro”.

<sup>55</sup>See Gualmini (2003), p. 48.

<sup>56</sup>See Brunello and Miniaci (1997), p. 60.

<sup>57</sup>See Caroleo et al. (1997), p. 151

<sup>58</sup>Italian Statistics Department, Ministry of Education, University, and Research.

very preliminary, if not nonexistent, stage of the Italian labour law's convergence to an approach that makes consistent use of active measures to deal with unemployment. The Italian system of training, whether in education<sup>59</sup> or in the job market, was expensive. Attempts to spread initiatives that entailed training failed when not accompanied to appealing financial incentives while contemporaries lamented the urgency to follow the international standards of quality and employability in the labour market. Finally, atypical forms of contract such as temporary or part-time jobs were still not absorbed in the Italian system, especially as regards the younger segment of the population. In 1999, only 14.5% of the population between 15-34 were employed with a part-time contract, against the 22.2% of those between 35-64.<sup>60</sup>

## 2.2 The Second Wave of Reforms of the 2000s

The European Union reinforced its objectives in 2000 focusing on the importance of promoting an active citizenry, an increasing employability, and thus flexibility in training.<sup>61</sup> In line with these recommendations, the Italian law 53 of 2000 guaranteed leaves for continuing education to both employed and unemployed individuals, while the law 388 of the same year financed the training of the social partners through special Joint Interprofessional Funds.<sup>62</sup> The commitment towards the principles promoted by the European Union continued until 2001, when the Italian government issued a White Paper<sup>63</sup> on the importance of flexibility as regarded both entrance in and exit from the labour market. The invitation to an appropriate use of flexibility resulted in atypical forms of jobs finding their way in into the Italian system. Italian institutions were at an advanced stage of learning about how to change their formal rules (Kingston and Caballero, 2007). While by 2000 one could only count 8.2% and 8.4% of, respectively part-time and fixed-term contracts<sup>64</sup>, in 2001 the proportion of atypical contracts increased from 9.5% to 11.3%.<sup>65</sup> In regions such as Calabria, occupational plans were set so as to create 'a labour force that [was] competent, qualified' but especially 'flexible' through the 'innovation and adaptability of the organisation of employment'.<sup>66</sup> Nationally and regionally, objectives were now clearly set as inclusive of an active labour market approach. Nevertheless, those employed full time remained the majority

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<sup>59</sup>With reference to the 2017 costs report by Federconsumatori, the Italian journalist Gabanelli claims that, overall, you would need, respectively, € 27,000 and 45,000 for Bachelor and Master Degrees.

<sup>60</sup>Own calculations from ISTAT (1999).

<sup>61</sup>See Muzi (2010), p. 222. The text of reference can be found in the proceedings of the Lisbon European Council Summit of 23-24 March 2000.

<sup>62</sup>See Muzi (2010), pp. 226, 227. These are promoted by the social partners for the training of their employees and are partly financed by their mandatory contributions to Inps in the case of unemployment.

<sup>63</sup>Ministry of Labour and Social Policies, *Libro Bianco sul Mercato del Lavoro in Italia. Proposte per una Società Attiva e per un Lavoro di Qualità* (Rome, October 2001).

<sup>64</sup>See Gualmini (2003), p. 44.

<sup>65</sup>*Ibid.*, p. 47.

<sup>66</sup>See Cotronei and Timpano (2003), p. 91.

in the country (91.6%) against those employed with a part-time contract (8.4%).<sup>67</sup> Moreover, while the unemployment rate decreased overall, the young population, also the closest one to the educational system, remained the most vulnerable one with an unemployment rate equal to 28.2%.<sup>68</sup> As studied by Raitano and Fana (2019), while deregulation of the Italian labour market in 2001 may have decreased the average job search, new entrants experienced lower protection and wages. To their aid, a couple of years later, the Biagi law of 2003 tried to enrich the Italian legislative system by reinterpreting the contract of apprenticeship. Similarly, internships were used to transform the firm from a place of mere practice to one of learning.<sup>69</sup> In particular, the legislative decree 276 was born ‘to promote the quality and stability of work, also through contracts with educational content and contracts with modulated working time compatible with the needs of the firms and the aspirations of the workers’ (art. 1, cl. 1). The reform was also interested in fighting both the mismatch between skills offered and demanded and the exclusion from the labour market of the more disadvantaged subjects (art. 2), including members of the youth population. In other words, institutions were able to raise their level of efficiency in training and flexibility by accounting for the failures experienced during the first wave of reforms. Rules could finally be consumed by the social actors (Deakin, 2011).

The Biagi law also introduced the so-called ‘record of personal achievement of the citizen’ to track the skills acquired by participants during their training programmes in formal and non-formal ways. A national continuous labour exchange was also established (art. 15) to facilitate the encounter between demand and supply of labour and connect regional systems. In parallel, inter-administrative subsidiarity was achieved through the collaboration of the Ministry of Labour with the experts of the Ministry of Economy, the Italian National Statistics Institute ISTAT, and the Institute for the Development of Vocational Training of Workers ISFOL (art. 17). With respect to the geographical division of tasks, funds were put at the disposal of regions and provinces for the promotion of qualification, retraining, professional training, and other ‘active and workfare policies’ (arts. 7 and 13). The reform defined, in particular, three specific types of apprenticeship (arts. 47-52); namely, one for education and training<sup>70</sup>, one for professional and technical qualification<sup>71</sup>, and one for the acquisition of a degree or tertiary education.<sup>72</sup> Similarly, it defined summer internships for students regularly enrolled in university or

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<sup>67</sup>Ibid., p. 84.

<sup>68</sup>Ibid., p. 85

<sup>69</sup>See Muzi (2010), p. 225.

<sup>70</sup>This apprenticeship is targeted for those older than 15. It offers educational profiles decided by the regions and the independent provinces, with the Ministry of education, the Ministry of labour, the employers and employees organisations. It expects an ‘adequate’ number of hours of training; the registration of the activities of training in the record of personal achievement; and the presence of a tutor in the firm with adequate skills (art. 48).

<sup>71</sup>This apprenticeship is targeted for those between 18 and 29. It allows the individual to acquire basic, cross-sectional, technical, and professional skills. It lasts between 2 and 6 years and should offer at least 120 hours of formation per year (art. 49).

<sup>72</sup>This apprenticeship is also targeted for those between 18 and 29.

school (art. 60). It also established the concept of job sharing (art. 41) and guaranteed that no economic or legal discrimination was to be experienced by those hired with an on-call contract<sup>73</sup> (art. 38). Job placement contracts<sup>74</sup> were also given importance as a labour market instrument able to help the individual adapt her professional expertise to the job context of reference (art. 55). Thus, this was also a time when new forms of employment could be tested. Indeed, as argued by Veblen (1899), the process of adaptation is exactly a process and one of cumulative change.

The Biagi law seemed to pave the way, too, to the principle of conditionality that was already accompanying unemployed individuals in the Scandinavian countries. However, the concept was still associated with the very participation in active labour market policies themselves; the latter being quasi perceived as a prize. Article 7 states, indeed, that any training activity was to be granted ‘only in the presence of an individual plan of job placement or reinstatement into the labour market with adequate educational interventions and the involvement of a tutor with adequate skills and professionalism’ (cl. 1). With respect to the aforementioned concept, the individual was expected to lose her opportunity to take part in any active labour market policy if she ‘[refused] to start an individual project of reintegration in the labour market or a professional educational course or [did] not regularly attend it’ or ‘[did] not accept a job offer’ (cl. 2). Institutions were getting closer to their aim of making participation in professional training compulsory with more and more specific reforms. But a regulation concerning the maintenance of unemployment benefits conditional upon participation in active measures was still lacking as active labour market policies such as training, by then, were perceived as the final objective and not as the instrument to bring back individuals to the labour market. Of course, where countries are richer more financial investments can be dedicated to the increase of competitiveness of the existing jobs by definition, but in countries like Italy, where the question of unemployment cannot be ignored, a larger amount of resources will be directed to the retraining of its individuals<sup>75</sup>, hence the focus on active policies per se.<sup>76</sup> That training was relevant to prepare a flexible workforce was clear also during the following years, although it failed to reach the desired optimal values. In 2005, the share of training in total ALMPs expenditure was still below 45%, while that of ALMPs in total labour market policies expenditure could not reach 35% (Meager, 2009). And because, as reminded by Lucchese and Pianta (2012), ‘along with jobs, competences, [and] skills are lost during recessions’, the situation certainly did not ameliorate in the years following the Italian financial crisis, with still 19.5% of the youth population

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<sup>73</sup>With this type of contract, employees work only conditional upon being called to work.

<sup>74</sup>These contracts are aimed at individuals between 18 and 29, individuals between 29 and 32 who have been unemployed for two years, women in disadvantaged areas, disabled persons, and unemployed individuals older than 50.

<sup>75</sup>See Timpano (2003), pp. 121-3.

<sup>76</sup>According to Brunello and De Paola (2008), training is higher in those Italian provinces where there is a lower employment density.

abandoning their regular studies in 2007 and 2008<sup>77</sup> to find alternative, and probably insufficient, means of education. If the unemployment rate remained more or less stable during this period, this should not be explained by qualified active labour market policies, but rather by the double-dip recession that affected the country and the pursuit of austerity policies. It was only in 2011 that the legislative decree 167 introduced a unique text of reference as regarded the contract of apprenticeship. The latter, in particular, was defined as an open-ended contract aimed at either the training and employment of the young individuals; the achievement of a qualification or a professional degree; or research and high education (art. 1). Here as well, the presence of an individual training plan was considered fundamental for the success of the policy, as well as that of a professional tutor (art. 2). Particularly, formal rules took on the role of informal rules by guaranteeing fairness<sup>78</sup> in content of the educational programmes and their outcomes. Most interestingly, article 6 of the law clearly stressed that there needed to be a correlation between educational standards and professional standards (cl. 3), thus recognised the significance of providing specific competences and skills, in addition to general education, to match the demands of the labour market. In other words, the law provided to the labour market a means to achieve integration between labour demanded and supplied as well as assistance in professional training for the occupationally inactive.

As can be observed, this second wave of reforms certainly presents itself at a more advanced stage compared to the previous decade in terms of active labour market approach in the legislative system of the country. Increasingly more importance is given to local employment issues as well as to training, with investments in the professional figure of the tutor and in the design of adequate apprenticeships. The Italian legislative system appears to become, too, more open-minded with respect to the atypical forms of contract that are already popular in Northern Europe. Nevertheless, while inactivity diminishes in this period, segments of the population such as the youths still seem to be lagging behind as regards participation in the labour market, for them often of precarious nature (Berton et al., 2009). The fact that institutions evolve does not necessarily imply that they guarantee perfect levels of social and economic well-being for everyone. In this phase, however, they worked to get closer to this objective.

## 2.3 The Third Wave of Reforms of the 2010s

As a consequence to the evidence of facilitating the job stability of only one segment of the population, in 2012 the Fornero reforms, or the law 92, were set in favour of the so-called outsiders (Montanari, 2018)

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<sup>77</sup>See ISTAT (2007, 2008).

<sup>78</sup>See Kingston and Caballero (2007), p. 8.



with the aim of creating an ‘inclusive and dynamic labour market’ by encouraging the use of open-ended contract. Even so, the law guaranteed little protection to the workers: in case of judicial declaration of dismissal unfairness, the reform would allow the reinstatement remedy to be substituted with monetary compensation.<sup>79</sup> In particular, even today employees have only access to a compensation protection in case of disciplinary or economic dismissal (although the Italian Constitutional Court tried to re-balance the equilibrium towards reinstatement with the recent Judgment 59 in April 2021). Changes were also produced in respect to and support of training. As regards the contract of apprenticeship, for instance, which is based on actual professional education and training of different types and usually targeted for the younger individuals, its duration was limited to a minimum of only six months. The reform also aimed to redesign internships so as to protect interns from a ‘distorted use’ of the contract on behalf of the firms.<sup>80</sup> In practice, organisations learn what works and what does not (Hodgson and Knudsen, 2010). 2013, on the other hand, was a year where passive labour market policy became the ultimate protagonist as the universal social insurance was introduced under the name of ASPI, or the social insurance for the occupation targeted for all employees. It is, indeed, the following years that mark a stepping stone for Italy as regards its approach to active labour market policies. The Italian Jobs Act, or the law 10 of 2014, had the objective of increasing the number of open-ended contracts through financial incentives and, therefore, of reducing flex-insecurity in favour of more occupational stability. However, its failure reflected in the increase in the number of open-ended contracts by 50% accompanied by a proportional increase in the number of layoffs by 50%<sup>81</sup>, for which many have called this reform ‘a great deceit’.<sup>82</sup> More flexibility, indeed, does not necessarily mean more security and the Italian example truly illustrates the danger of favouring flex-insecurity, where stable workers remain stable and flexible workers remain flexible. In other words, the habit had changed but the race had remained the same (Ritchie, 1896). As argued by Franzini and Pianta (2016), as individualisation of work expands, the young segment of the population is left with ‘increasingly uncertain and diversified professional trajectories’. On the subject of active measures itself, other scholars, such as Montanari (2018), claimed that no actual reform could be observed in terms of active labour market policy.

Paradoxically, and better later than never, it was only in 2015 that Italy was granted with a national Agency to regulate and monitor active labour market policies; namely, the ANPAL.<sup>83</sup> This reform, as discussed in the 5<sup>th</sup> paragraph of this section, led to a re-centralisation of the management of the labour

<sup>79</sup>Article 18 of law 300/1970, or the Statute of Workers, discusses the safeguard of workers in case of illegitimate layoff. In particular, it ‘orders the employer, entrepreneur or non-entrepreneur, to reinstate the worker in the workplace, regardless of the reason formally adduced and the number of employees employed by the employer’.

<sup>80</sup>In 2011, public expenditure on active measures as a percentage of the Italian GDP was still 0.41, compared to the Dutch 1.11 and the Swedish 1.09. See Crépon and Van den Berg (2016).

<sup>81</sup>See Montanari (2018), p. 192.

<sup>82</sup>See Alberto Piccinini in the Italian newspaper *Il Fatto Quotidiano* (December 2016).

<sup>83</sup>Or the National Agency of Active Labour Market Policies.

market in the hands of the Ministry of Labour (Montanari, 2018), which became a point of reference for the different administrative bodies. Italy finally had its governance institution (Williamson, 2000) for the management and regulation of active labour market policies. The reform also paved the way to a more digitised labour market with the introduction of the worker's electronic file. The necessity for an institution with such defined functions is best explained in the role played by the Agency of Labour of Trento, already focused on active labour market policies since the early 1980s. The Trento provincial law 19 of 1983, in particular, already included a systematic vision of intervention with respect to the labour market 'both in the forward-thinking spirit and the legislative articles system', which made its legislation advanced compared to the national standards.<sup>84</sup> On this subject, as claimed by Garonna and Panizon (1985) with reference to the Agency of Labour of Trento, an Agency of Labour should not bear the burden of committing to welfare assistance and other tasks of social policy when they were born for the 'activation and promotion of development' for this is likely to 'contaminate' its real tasks.<sup>85</sup> Put differently, institutions could proceed in their natural selection (Ritchie, 1891) based on their functions.

This is why having the unemployment benefit take care of itself can actually solve many problems. The legislative decree 22 of 2015 expected the reorganisation of the social security cushions in view of the law 183 of 2014. In particular, it introduced the New Employment Social Insurance (NASPI) as from 1 May 2015 (art. 1) for all the employees except those employed with an open-ended contract in the public administration sector (art. 2). The true innovation of this decree lied in the new principle of 'conditionality' associated with the unemployment benefit that it introduced. From this point forward, unemployed individuals are presumed to take action against their unemployment by participating in active labour market policies that help them increase both their human capital and their chances to become employed. There is no way out from training. Active labour market policy has settled in in the social system. Indeed, article 7 claims that the benefit is offered only conditional on the 'regular participation in the initiatives of job activation and the projects of professional retraining'. The NASPI can also be demanded in advance as an incentive to the launch of a job activity as self-employed (art. 8). For those committed to coordinated and collaborative work (art. 15), the decree introduced, too, the monthly unemployment benefit DIS-COLL. Undoubtedly, conditionality does not necessarily mean lack of unemployment assistance. ASDI was, indeed, established in the decree as an allowance that aimed to work as a support to the income of the beneficiaries of the NASPI in case of absence of job and severe economic condition (art. 16). While in the previous waves of reforms institutions inherited questions, in this third wave they provide answers. Put differently, they combined 'a level of inheritance' with new

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<sup>84</sup>See Strati (1985), p. 378.

<sup>85</sup>See Garonna and Panizon (1985), p. 50.

knowledge (Hodgson and Knudsen, 2010).

The integration between assistance and conditionality is reflected in the fact that the allowance, still used today, is granted for a maximum of six months and is expected, too, to incentivise the ‘active search of jobs’ of the individuals (cl. 4). In this regard, article 16 is also a significant example of the change of direction experienced by the Italian labour law system towards one focused on active labour market policies. According to the article the allowance is, indeed, only granted conditional on the adherence of the individual to a personalised project designed by the job centres (cl. 5). Specific duties include active search of job; availability in participating in initiatives of orientation and training; and acceptance of adequate job offers. Put differently, the participation in initiatives of activation offered is compulsory, on pain of losing the benefit (cl. 5). In parallel, the fund dedicated to active labour market policies was even increased by 32 million euros for the year 2015 (art. 17), also to finance relocation contracts.<sup>86</sup> In this latter case, too, the individual is presumed to comply to a series of legal requirements. In particular, she is willing to undergo the process of defining a personal profile of employability (cl. 2); has the possibility to spend a voucher in the various recognised training institutions; and has the right to be provided with adequate programmed and structured assistance for the search of a new occupation (cl. 4). Most importantly, the individual has the duty to take part actively in the initiatives offered (cl. 4) and to participate in the job search, training, and professional retraining activities. If the individual does not participate in the activities established in her personalised employability plan, she loses her right to the voucher offered. The fast-moving institutions, consisting of the state and the legislators, give to the slow-moving institutions (Roland, 2004), consisting of both actual and potential unemployed individuals, rules able to change their approach to unemployment.

The next legislative decree 81 of 2015 focused on guaranteeing a certain degree of security within the flexibility promoted at the contractual level. In particular, it reorganised the contracts in terms of the tasks expected in the employment relationship. The reform’s aim was to protect those individuals employed with a part-time contract especially with regards to the refusal of an employee to change her amount of working hours, for which the nature of the layoff was deemed as unjustifiable (arts. 6-8). The same protection was granted to those hired with an on-call contract (arts. 13, 17). Most importantly, the decree promoted the protection of those with a short-term contract. A changed labour market, where atypical forms of contract were possible and promoted, required the necessary regulation. This decree focused, too, on the relevance of training for the benefit of these individuals’ career. Collective agreements were supposed to focus on providing short-term workers with adequate training to increase their qualification and professional mobility (art. 26). Similarly, apprenticeships were expected to

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<sup>86</sup>This type of contract is used when employees are moved from one branch to another of a company.

contribute to the integration of the dual system of education and work (art. 41) based on an individual action plan that linked professional training in the firm and education in the training institutions (art. 43). Professional apprenticeships, for instance, were designed in terms of the technical skills and duration of the training based on the individual's profiling and competence acquired in school (art. 44). The decree 81 of 2015 also seemed to commit towards the security of one of the most vulnerable segments of the population; namely, the youths. As regards advanced training apprenticeships, the technical part of the training is not supposed to exceed 60% of the total training provided to the individual (art. 45). With the reform, if the individual training plan was not judged as satisfactory, the inspector of the Ministry of Labour defined a time limit for the employer to fulfill it (art. 47). In other words, centralised institutions became guarantor of the correct implementation of this new active labour market approach and what it entailed at a micro level.

Along the same lines, the legislative decree 150 of 2015 aimed to revolutionise the existing labour market instruments by strengthening active labour market policies. Firstly, the reform established the centralisation of the management of active labour market policies (art. 1) in the hands of the Ministry of Labour through a new ad hoc institution; namely, the National Agency for the Active Labour Market Policies, or ANPAL. A network of relations between ANPAL, INAIL<sup>87</sup>, the Italian Social Security Service, or INPS, the Agencies of Labour, the regions, the independent provinces, and the government was expected to be used to offer training services that guaranteed the professional upgrade of the individual, on the one hand, and the fulfilment of the needs of the employers, on the other hand. Projects that pertained active labour market policies were decided by the Ministry of Labour and supervised by ANPAL, which is active since 1 January 2016 (art. 4). The creation of ANPAL was evidently emblematic of the new approach of the Italian legislative system towards employment issues. Among ANPAL's functions, article 9 included the management of the ASPI allowance and of active labour market policies in general; the definition of the standards of the services provided; the definition of the amount granted in case of redeployment; the coordination of EURES<sup>88</sup> for job mobility in the European Union territory; the definition of the methods of the profiling of employability and the costs associated to it; and the promotion of programmes co-funded by the European Social Fund in agreement with the Agency for territorial cohesion. On this subject, the new institution is expected, too, to manage assistance and reintegration into the labour market of affected individuals in the event of firms crises. In addition, ANPAL is also responsible for the development of the informational system regarding labour market policies; the management of the national register and of the projects for those areas poor in active labour market policies; and, lastly, the definition of the incentives for territorial

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<sup>87</sup>National institute for insurance against industrial injuries

<sup>88</sup>European Employment Services.

mobility as well as the national catalogue for occupational incentives (art. 30). In the most recent wave of reforms, the origin and development of an ad hoc institution such as ANPAL can be deemed as completed with respect to its defined structures, limits, and powers.

More specifically, as regards training itself, ANPAL is responsible for the coordination of all the training programmes targeted for the unemployed and aimed at their professional qualification and retraining, self-employment, and job placement. It does so by cooperating with the large number of institutes of its ALMP network. In order to reinforce the focus on active measures of training, the ISFOL institute<sup>89</sup>, for instance, took the name of National Institute for the Analysis of Public Policies from 1 December 2016 onwards to stress its function of monitoring and evaluating the results of the policies implemented for the professional education of the individuals (art. 10). That is to say, the transformation that this institute underwent is an example of the capability of institutions to evolve according to a, hopefully, better approach; namely, one of active labour market policy. Additionally, to certify the findings, ANPAL cooperates, too, with the Ministry of Education, Universities and Research and the single universities for the exchange of collected data (art. 13). The decree is also particularly efficient in clearly defining the role attributed to the local job centres. Article 18 describes their activities as inclusive of basic orientation, skills analysis and profiling, help in job search, specialised and individualised orientation, self-employment individualised orientation, training activities for the professional qualification and retraining, accompaniment into work, internships, incentives for territorial mobility, incentives for self-employment, services for socially useful activities, and assistance for disabled. While we are facing a return of central power in the hands of the Ministry of Labour, we are, too, facing a more significant arrival of inter-administrative subsidiarity, where each institution is well-aware of its functions and is specialised in them.

What is, however, more relevant in the scenario of European flexicurity, is the reinforcement of the mechanisms of conditionality. The decree contributes to the latter by defining unemployed any individual who declares herself as immediately available to both work, participate in active labour market policies and, therefore, be profiled for employability (art. 19). That being said, the individual will be legally bounded by the terms of her personalised pact of service, or *Patto di Servizio* (art. 20). The latter establishes the supervisor in charge of monitoring the activities stated in the pact; the personal profiling of the individual's employability; the duration and methods to carry out active job search; and the frequency of the contacts with the supervisor of the activities. It also states the adherence of the unemployed individual to participate in the initiatives aimed to firstly, strengthen her competence in active job search, including the preparation of both the CV and the potential job

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<sup>89</sup>Former Institute for the Development of the Professional Training of Workers.

interviews; secondly, take part in the activities of training; and thirdly, accept any job offer received (art. 20). With respect to these last points, article 21 declares that the absence of the individual at the expected convocations without justifiable motive will correspond to a first reduction of the NASPI's, or DIS-COLL's, monthly unemployment benefits of  $\frac{1}{4}$ ; to a reduction of one monthly benefit for a second unjustified absence; to the complete expiration of the benefit in the case of a third absence of the individual. The same rules apply when the individual does not participate in the activities stated in the pact of service. When the individual declines a job offer, the individual loses her unemployment benefit in its entirety. The appointment of the ASDI allowance is also reduced in the same circumstances (cl. 8). In this regard, the legislative decree 150 of 2015 has become an indispensable point of reference for any future coordination of social action (Deakin, 2011). Because, according to the Italian state, the transformation of the legal system of labour law had reached a satisfying degree, the legislative decree of 2018, also called Dignity Decree, only provided Italian labour law with the reorganisation of the existing types of flexible contracts. In particular, its focus seems to move away from the past efforts of making Italian labour law more ALMP-friendly, allowing for a lower demotion of the worker. While it requires all layoffs from fixed-term contracts to have a valid reason, it exclusively attaches the existence of atypical and flexible contracts to financial incentives for firms. Indeed, a financial exemption is expected for the 2019-20 period in favour of those employers who hire young first-time job seekers with an open-ended contract. Nevertheless, the decree lacks that rich and detailed content that was expected to be the peak of attention of Italian labour law towards an active labour market approach. An exaggerated level of power granted to the Ministry of Labour, sometimes, can mean less neutrality with respect to the current political interests.

In spite of the latest legislative product, this third wave of reforms is very close to being an accomplished moment of convergence of Italian labour law towards an active labour market policy. First, training is encouraged at both the formal educational level, with collaborations between firms and schools, and the retraining of the unemployed individuals registered the job centres. Individuals are finally assisted with tailored services and are assured a personalised plan in the name of a national institution of reference; namely, the Italian Agency of active labour market policies ANPAL. Second, conditionality becomes the key and compulsory factor that accompanies those who just lost their job or are looking for one. The inactivity or non participation of individuals in measures that are designed and implemented to increase their skills, orientation in the labour market, and opportunities to become employed becomes a justified reason to suspend or cancel entirely their unemployment benefits. The 2010s represent the decade when, also in the name of standards wanted by the European Union, passive labour market policies are not deemed as a sufficient means to restore individuals and reintegrate them

into the labour market. That being said, Italy is still on the verge of failing its convergence to an active labour market approach as statistics show that problems such as youth inactivity and flex-insecurity still persist. Overall, the Italian system of training, whether in education<sup>90</sup> or in the job market, remains expensive, while the remuneration system selectively uninviting.<sup>91</sup> In this regard, Italian data from the National Institute of Statistics (ISTAT) show that while the occupational situation of Italy ameliorated over the years, the employment rate for the youth and adult populations did not follow the same trend. Conversely, one can observe that while increasingly more individuals between 24 and 64 entered the labour force from the 1970s to today, the opposite was true for those between 15 and 24.<sup>92</sup> In light of this, our wish is for Italian labour law to disentangle the complex consequences that may arise from focusing too much on the flexibility of many and on the security of a few and select more carefully the entities that should survive and those which are destined to extinction.

### 3. Conclusions

In this paper we investigated how and when active measures were introduced, promoted, and discouraged from the 1970s to today. During the first wave of reforms, the problem of employability still remained unsolved. The Treu Package of 1997, for instance, introduced new and atypical forms of contract but the wider principle of active labour market policy was not absorbed in the legislative system of the country yet. The 2000s succeeded in giving space to the local issues of the Italian regions, which tried to commit to their plans also with the financial support of the European Union. Particularly, stronger attention was paid to the role of formation in promoting professional skills. The Biagi Law of 2003, for example, reinterpreted the contract of apprenticeship. However, at that time, the idea of conditionality according to which unemployed individuals receive their unemployment benefits only insofar they participate in training and orientation activities was not properly applied. It was during the third wave of reforms, that of the 2010s, that active labour market policies made their way as the principal means to fight unemployment and boost participation in the labour market. This is particularly true for the year 2015 when the national ANPAL institution was created to regulate active measures and connect various experts of the sector. Measures finally started focusing on the profiling of the individuals; providing tailored services; offering and safeguarding formation; and expecting full

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<sup>90</sup>With reference to the 2017 costs report by Federconsumatori, the Italian journalist Gabanelli claimed that, overall, an individual needs, respectively, € 27,000 and 45,000 for Bachelor and Master Degrees.

<sup>91</sup>In 2016, the median hourly gross salary was equal to € 9.92 for those between 15-29, € 11.46 for those between 30 and 49, and to € 12.48 for those older than 50. See ISTAT (2016).

<sup>92</sup>As can be observed in Tables 10-11 in the Appendix the employment rate for those between 15 and 24 went from 32.9% in 1977 to 18.6% in 2019, while the same rate for those between 25 and 64 went from 33.7% to 64.0% in the same period.

commitment from the unemployed. The more globalised nature of the labour markets also required policy makers to follow the instructions promoted at the European level so that individuals at the edge of society know what to expect from international standards. As a result, the challenging circumstances of a globalised and flexible labour market encouraged a progressive transformation of the law from an initial institutional inertia to one more inclusive of the interests of subjects, with institutions able to encourage professional education, healthy flexibility, and an administrative subsidiarity in favour of a national levelling of measures.

As argued by Cimoli et al. (2015), economic development can only be better in Europe with ‘higher quality skills, more research and development, and greater investment in infrastructure’. Additionally, although ANPAL works at the national level, cases such as the one of the Agency of Labour of Trento in the North of Italy show that it is important to give local bodies, too, the necessary autonomy to tackle employment issues specific of their area. Particularly, it is advisable for policy makers to focus to a larger extent on the more disadvantaged regions of the country, including the South, as well as on the less protected segment of the population, including the youths, often considered outsiders by labour market institutions such as the trade unions and not sufficiently represented in the collective agreements. The latter is in line with the findings by Sarkar (2020), that labour regulation has a positive effect on youth employment. If high quality opportunities, as well as a fair monetary compensation, lack and some individuals will keep being facilitated over others, then the brain drain will remain one of the many things the Italian government should worry about. Further research should be carried out to investigate whether similar findings can be observed when introducing data found in the principal national and regional newspapers.



## CHAPTER III

# “You Reap What You Sow”: Do Active Labour Market Policies Always Increase Job Security?

## Evidence From The Youth Guarantee<sup>§</sup>

### Summary

This chapter uses non-experimental longitudinal data to study the effects of participation in the Youth Guarantee programme aimed at fighting youth inactivity in the European Union territory. Particularly, this analysis questions the value of active labour market policy as a valid instrument to help individuals otherwise isolated from the labour market and, thus, at risk of deterioration of human capital overcome their condition of occupational inactivity. A difference-in-differences model is exploited to investigate whether there exists an advantage for participants of the Youth Guarantee in terms of employment and job stability. Results show that participants are 7.4 and 4.4 percentage points more likely to, respectively, become employed and be offered an open-ended contract. An assessment of profiling is also provided.

**Keywords:** Active Labour Market Policy; Difference-in-Differences; European Union; Flexicurity; NEET; Profiling; Training; Youth Guarantee; Youth Unemployment.

JEL: J00; J08; J78; J88; K00; K31.

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# 1. Introduction

Youth is the best time to be rich, and the best time to be poor.

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*Euripides, 416 b.C.*

Countries within the European Union are diverse as regards institutional and social characteristics and economic aspects, with many of them still not taking action against structural problems such as youth unemployment. Following the 92/2012 Fornero Law and the 183/2014 Jobs Act, for instance, temporary contracts tripled in Italy as they became cheaper for firms. As a result, part-time contracts reached 64% of the total in 2015 and left the majority of the young population with jobs lasting less than 6 months.<sup>93</sup> Not even the facilitated transition from education to work promoted by the German dual training system<sup>94</sup> or the social investment approach in Sweden reversed the trend of the youth inactivity rate, which in the European Union reached 33 million in 2012. For this reason, on 22 April 2013 the Council of the European Union recommended an *ad hoc* strategy, defined as the *Youth Guarantee*, and provided additional funds to member states with extremely high youth unemployment rates.<sup>95</sup> The policy was set in favour of one of the targets of the Europe 2020 strategy; namely, individuals aged between 15 and 24 years not in employment, not in education, and not in training (NEETs). The Council recommended the Youth Guarantee to fight youth inactivity and to provide them with ‘a good quality offer of employment, continued education, an apprenticeship or a traineeship within a period of 4 months of becoming unemployed or leaving formal education’.<sup>96</sup> This study aims to understand the effect of the Youth Guarantee implemented in Northern Italy, specifically in the Province of Trento, at the individual level in terms of increased job opportunities. In particular, it represents one of the first econometric studies to focus on an active labour market policy (ALMP), the Youth Guarantee, that is acknowledged at the international level and that, therefore, affects the entirety of the member states of the European Union (EU) from a regulatory and practical viewpoint. Additionally, it is one of the first studies to provide policy implications that address the issue of NEETs in Europe by analysing occupationally inactive individuals in a normally developed area of Italy.

Except for Scandinavia, the rest of Europe is renowned for its focus on passive measures. Hence, the Youth Guarantee represents one of the milestones reached in legislative history in terms of active labour market policies, which aim to help the unemployed community find a job. They do so by offering

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<sup>93</sup>See Cirillo et al. (2017).

<sup>94</sup>See Albert et al. in Schömann and O’Connell (2002).

<sup>95</sup>For instance, Spain and Italy.

<sup>96</sup>Council of the European Union, 2013.

classroom or on-the-job training, subsidised employment, or job search assistance. Since the 1990s, ALMPs have made incentives available for individuals to stay active for a present reward; namely, to keep their subsidies or to obtain participation monetary awards. They have provided the same incentives to individuals for a future reward too; namely, to upgrade their skills and, therefore, increase their chances to find not only a job, but a good one. This concept has been in place since the 20<sup>th</sup> century. Scoville (1969), for instance, was one of the first scholars to stress that the broader the training individuals experience, the better individuals are situated when confronted with economic or technological changes. In other words, active measures are expected to provide disadvantaged individuals with better occupational or educational opportunities. The Youth Guarantee is particular in that it exclusively targets the younger population. It also represents a change of direction in respect to the more traditionalist assistance systems typical of certain European regions. On the other hand, the issue of NEETs is a problem shared by both Northern and Southern Europe.<sup>97</sup> It explains why the European Union invested substantial amounts of money in a policy that is, firstly, active and, secondly, targeted for the young population. In this paper, in particular, we investigate whether an active policy such as the one recommended by the European Union can succeed in helping governments fight youth inactivity. We do so by looking at the likelihood of participants to become employed after having taken part in the programme. The analysis focuses on Northern Italy and particularly on the Province of Trento for a series of reasons: namely, the accuracy of the data provided by the Agency of Labour and their leading national role in designing active labour market policies; their compliance with the European Union's requirement of timing and funding of the training programmes; and their socioeconomic similarity with other European countries like Austria, one of the pioneers of youth policies, and like Denmark, with which they share the organisational structure of the job centres.

In regard to the literature, the use of passive labour market policies in Italy<sup>98</sup>, has driven the development of extensive theoretical and empirical written work. The tendency to switch resources from passive to active programmes, however, has brought policy-makers to question the effectiveness of training programmes interested in upgrading the skills of the individuals rather than to just grant them monetary subsidies.<sup>99</sup> While empirical studies on youth unemployment remedies are scarce for Italy, a large number of descriptive reports on the most recent labour laws are produced at both regional and

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<sup>97</sup>The financial contribution expected from all the member states of the European Union to fight youth unemployment makes the management and impact of the Youth Guarantee of relevance for both the poorest and the richest countries in the Community.

<sup>98</sup>In 2015, public expenditure on passive and active measures was, respectively, equal to € 21 billion and to € 6.8 billion in Italy.

<sup>99</sup>The latter are not always fruitful for their recipients. In Australia, reducing childcare expenditure through monetary benefits increased the labour supply of the parents only by 0.75 to 1 hour per week. See Guest and Parr (2013).

national levels. The Institute for the Evaluative Research of Public Policies (IRVAPP), for instance, has published accounts and statistics on the Italian *Garanzia Giovani* since its implementation, while Lizzi and Vesan (2017) recently analysed the institutional and political dynamics behind it within the new policy design framework. Our paper, on the other hand, uses a difference-in-differences model and provides one of the first econometric evaluations of the most recent European active labour market policy. In particular, it attempts to answer the question of whether active labour market policies can work in countries like Italy where young individuals are usually the first ones to be fired and the last ones to be hired.<sup>100</sup> The issue of youth inactivity is addressed by investigating the occupational outcome of the individuals in respect to their probability to become employed and their probability to be offered an open-ended and, thus, stable contract. While the issue of youth unemployment is typical of the whole European Union territory, job instability is particularly pronounced in the flexinsecure regions of the South due to their institutional background.<sup>101</sup> The relevance of the study, therefore, is twofold. First, any finding in respect to occupational propensity is of interest to other neighbouring Italian and European regions such as Austria or Denmark that share institutional features with the Province of Trento in terms of social assistance and approach fighting youth inactivity. Second, while it is inappropriate to draw conclusions for Italy as a whole due to its particular historical nature, the paper aims to investigate the possibility to overcome an issue that affects the young population and that is typically Italian; namely, flexinsecurity and, thus, job instability. The reference to the Province of Trento (PT) is also significant in that it is nationally renowned for an expertise in the field of ALMP, which implies any policy recommendations for the PT could be of use for the less prepared Italian regions.

Overall, the study tries to understand whether commitment to such a policy is worth it on both the aspects of employment and job stability. In other words, it questions whether one can really ‘reap’ a job from what one sows; namely, the skills acquired by committing to a training programme. To do so, a difference-in-differences model is exploited to compare participating and non-participating individuals throughout the years. The paper is structured as follows. Section 2 reviews the literature on active labour market policies. Section 3 introduces the institutional background in which the Youth Guarantee is implemented, with particular reference to the Italian labour market. Section 4 presents the empirical strategy used; namely a difference-in-differences strategy. Due to the difficulty of Italian institutions to collect sensible data with respect to the Youth Guarantee, we are not allowed to test its parallel trends assumption in the standard way. A valid alternative is, however, provided in the paper. Section 5 describes the data analysed and provides some statistics. Section 6 discusses the relative results and

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<sup>100</sup>See Andor and Veselý (2018).

<sup>101</sup>See Section 3.

robustness checks, while Section 7 concludes with policy implications. An in-depth analysis on profiling is presented in the Appendix.

## 2. Literature Review

Since the 1990s, scholars have investigated both the macroeconomic and microeconomic consequences of, respectively, investing in active labour market policies and participating in such measures. Findings are mixed, as are the objectives of the single policies. The general hope is for active measures to make individuals more adaptable to the labour market and, thus, develop a degree of commitment towards becoming employed that also makes them more attractive to firms. Scholars have long debated over the impact of ALMPs on the aggregate economy, including their effect on wages, unemployment, and participation in the labour market. According to Katz (1994), ALMPs have a positive influence on economic growth and equity over the medium term, with active re-employment systems having a comparative advantage over simple income maintenance. In support of this theory, Boeri and Burda (1996) argued that active labour market policies decreased structural unemployment and, thus, contributed to the Czech economic miracle. Similarly, Altavilla and Caroleo (2006) highlighted the role played by internal shocks in the Italian economy but believed in the power of active measures to increase labour force participation. On the other hand, while ALMPs might decrease unemployment they are also likely to reduce regular employment. This is especially true when entitlement to unemployment benefits is conditional to participation in such measures. Calmfors et al. (2002) reached this conclusion for Sweden. In relation to the negative effects of ALMPs, the study by Estevao (2003) argues that active labour market policies increase competition in the job market but that they, too, reduce real wages. This has also been found by Bergemann et al. (2008) for Germany. Scholars have disagreed, as well, on what the preferred environment for the implementation of ALMPs should be. In fact, the effectiveness of ALMPs depends as well on the economic condition of the country in which they are implemented. Studies by Calmfors et al. (2002) and Dar and Tzannatos (1999) show that active measures usually lead to higher returns in times of economic stability. Conversely, the analysis by Card et al. (2018) points out how employers are more drawn towards hiring participants of ALMPs in times when the market does not work well.

Mixed results have led governments to question the capability of ALMPs to address issues related to unemployment. Scholars usually agree on the fundamental role played by labour market institutions in developing national active measures. In their study, Kazepov and Ranci (2016) noted that, while there

certainly is no shortage of strong trade unions, the lack of coordination between social partners generally leads to low social investment in Italy. Indeed, where the density of unions is high, outsiders such as the long-term unemployed are unlikely to be supported. This paper is in agreement with previous findings such as Nickell's (1997), which stressed the difficulty of reaching high levels of flexibility in the labour markets of Southern Europe due to high unionisation. Similarly, Svejnar (2002) associated the lower rigidity of the Polish and Hungarian labour markets to lower union density, compared to other Central and East European countries. The same argument has also been brought by Howell et al. (2007) in their cross-country assessment. It seems, indeed, that rather than because of their political ideology, governments decide to support investments in active measures as they seek electoral support. The study by Rueda (2006), for instance, highlighted the importance for social democratic governments to satisfy the interests of insiders rather than of employment itself. This has also been proved by Mechtel and Portfrake (2013) for Germany. It goes without saying that institutions have the power to influence state spending in ALMPs. According to van Vliet and Koster (2011), spending on ALMPs tends to be higher in countries where there are tripartite and coordinated councils, with debates from the members of the government, the trade unions, and the associations of employers. Conversely, underinvestment in ALMPs is often the result of fiscal free riding by countries that share borders, as argued by Franzese and Hays (2006). These are the countries that benefit from trained individuals but that are not interested in investing in their education and skills at the national level. The aforementioned issues suggest the importance of studying the aggregate effectiveness of ALMPs without ignoring the institutional background of the country under investigation.

Institutional constraints, for instance, make life difficult for ALMPs in Eastern Europe and Central Asia (ECA). According to a study by Kuddo (2009), they often cause both bad networking between private providers, firms, and the unemployment centres, and understaffing of the public employment services, with cases of single caseworkers in ECA regions having to deal with 1,200 unemployed subjects. More flexible states, on the other hand, allow for quasi-competitive mechanisms where multiple providers compete to offer the best service, as described by Martin and Grubb (2001) and Lindqvist and Westman (2011) for Australia and Switzerland. States affect the impact of ALMPs also by the level of workfare and the enabling elements they decide to implement, according to Dingeldey (2007). Denmark, for instance, offers universal assistance to citizens; favours the local administration of labour market policies; invests in job rotation schemes and day-care institutions for families; and promotes the co-existence of public services and private agencies. In the words of Cox (1998), it admits a greater role of the state and makes the latter responsible for the enforcement of both rights and duties. Countries like Japan, on the other hand, do not need active policy in excess as they invest in *ex-ante* threat effects with strict

eligibility conditions for benefits and social assistance. According to Martin (2015), the latter explains why individuals are strongly encouraged to find a job. A similar conclusion can be drawn for developing countries such as India and Ethiopia, where the mere existence of such active programmes are sufficient to create placebo effects that motivate individuals. The study by McKenzie (2017) proves that, rather than being threatened, these disadvantaged individuals gain more confidence and, as a consequence, are more likely to commit to find a job. Indeed, ALMPs often have effects on behaviours that are not necessarily related to the labour market. Through active measures and together with labour market institutions, governments are able to solve internal social issues as well. ALMPs help, for instance, fight social exclusion. In accordance with this theory, Anderson (2009) observed how ALMPs succeed in increasing ties between insiders, such as the older and protected workers, and outsiders, such as the temporary and younger job candidates. Sarvimäki and Hämäläinen (2016), on the other hand, found that restructuring ALMPs significantly increases immigrants' earnings in Finland. Additionally, ALMPs can help states overcome crime. A study by Bertrand and Crépon (2017) on Latin America highlights how skills training programmes do not always aim to increase employment but might as well be focused on reducing criminal activities. On this subject, the analysis by Fallesen et al. (2018) emphasises the association between participation in active labour market policies and reduction in men's propensity to commit crime, independent of their unemployment insurance condition. Overall, scholars usually agree on the concept of Caliendo and Schmidl (2016) that ALMPs should also guarantee social support. In effect, those who have been unlucky in the labour market are usually also unskilled in social interactions. ALMPs, then, may help overcome Katz's (1994) 'secession of the successful'.

Interestingly, much of the effectiveness of ALMPs regards the design and the aim of the programmes themselves. According to Bonoli (2010), active measures usually have four objectives: namely, incentive reinforcement, which is widely exploited in Italy; employment assistance, typical of the Scandinavian countries; occupation, usually supported by christian communities; and human capital investment, which is the reason ALMPs were born as industries started expanding in the 1960s. Whether individuals should participate in an active measure and what type of programme they should choose are two issues that are still highly debated by scholars. Most agree with Acemoglu and Autor (2012), according to whom more educated workers should be paid a larger salary anyway due to the surplus they bring into the firm in terms of human capital. There are, on the other hand, scholars like O'Higgins (2001) who believe in ALMPs being effective for the individual's skills only insofar the measures are actually interdependent. The nature of ALMPs varies and individuals cannot always experience the wide range of available programmes. Training, however, appears to be the most effective active measure according to most of the existing studies. In this regard, a study by Meaguer (2008) defined job training as the most

successful measure at the aggregate level. Katz (1994), too, recognised the property of training to reduce the salary gap between high- and low-skilled individuals. Confirmation of the hypothesis came also from Card et al. (2018) who showed the larger gains produced by human capital accumulation compared to other labour market measures. According to Saniter and Siedler (2014), for instance, internships are to be considered ‘door openers’ in Germany for individuals with low orientation in the labour market, as they increase wage returns by 6%. Positive effects for on-the-job training were also presented in the studies by Bonnal et al. (1997), who observed better matching effects for the less educated young workers, and by Escudero (2018). Stephan (2008) reached the same conclusion for East Germany. According to the latter, employment opportunities were higher for participants in firm-internal training programmes. Undoubtedly, and as argued by Brown and Koettl (2015) as well, training programmes are more effective the nearer they are to regular jobs. On the other hand, vocational training can also be beneficial for individuals. This was detected, for instance, by Hujer et al. (2006) for participants in West Germany. The advantage of such measure is that it allows individuals to compensate for a more severe lack of human capital. In the developing countries studied by McKenzie (2017), vocational training is even considered an effective substitute for schooling to build human capital. An analysis by Budría and Pereira (2008) for the Madeira Island also showed that training could compensate for a lack in education. In particular, training programmes that are similar to schooling generally offer positive signaling to employers according to Caliendo and Schmidl (2016).

By contrast, scholars usually agree on the ineffectiveness of other types of ALMPs. On this subject, Fertig et al. (2002) shed light on the negative consequences of spending in public employment programmes. In support of this theory, Kuddo (2009) highlighted the possibility of public employment to cause social stigma in Poland. Caliendo et al. (2011a), too, defined public work in Germany as being harmful in both short and medium terms and ineffective in the long term, as Martin and Grubb (2001) previously demonstrated for the OECD countries. Other programmes fail to bring unemployed individuals back to work. A study by Doerr et al. (2014) stressed the potential locking-in effects of vouchers in Germany, as did Biewen et al. (2014) for other public-sponsored programmes and Caliendo et al. (2011b) years before. Using matching estimators, Ichino et al. (2008) evaluated the effects of temporary work agency jobs. Findings were positive in occupational terms for Italy. However, those who were assigned help jobs in the U.S. had actually lower chances to find a permanent job later on. Similar conclusions were reached by Lechner and Wunsch (2009) for job creation schemes in East Germany. In particular, the programmes failed to increase employment chances for participants in the long term. Training itself can have unexpectedly negative effects. Its impact on unemployment duration was declared insignificant in a study on France by Crépon et al. (2010). Both training and job creation



reduced the chances of finding a job in Sweden according to an analysis by Fredriksson and Johansson (2008). The programmes also increased the locking-in effects of participants. Certainly, all types of programmes have pessimistic effects if misused. In the young population's case, for instance, there are often many individuals who become 'eternal interns'. In Germany and Italy, Cerulli-Harms (2017) found an average treatment effect for internships on employment chances of, respectively, -7.4% and -2.6%. In the same way, there are many individuals who simply accommodate to their unemployment condition, as synthesised by Crépon and van den Berg (2016).

All in all, although being the most expensive ALMPs, training is considered by many to be the best active measure. This is particularly true for the younger population, with generally little work experience behind them. As stressed by Boone and van Ours (2009), training might not succeed in accelerating the transition from unemployment to employment, but it certainly helps individuals increase the quality of their future jobs by making them able to distinguish between a good and a bad occupation. Despite this, there are still many individuals whose cognitive ability acquired during the programmes proves not sufficient to exit from their unemployment condition. This is shown by both Heckman et al. (2006) and Lindqvist and Westman (2011) for, respectively, the U.S. and Sweden. Much of what is achieved through ALMPs depends on what specific target the various programmes focus on. Disadvantaged subjects such as women, who usually have fewer opportunities in the labour market and experience a greater distance from it compared to men, usually benefit more from ALMPs. Higher returns for women, for instance, are presented in the work of both Svejnar (1999), Bergemann and van den Berg (2008), and Card et al. (2018). Women often have to compromise personal decisions such as starting a family too, in order to accept a job offer. Fertility rates, for instance, tend to be negatively influenced by the closure of firms according to a study on Austria by Del Bono et al. (2014). On the other hand, Lechner and Wiehler (2011) observed how ALMPs made women postpone their pregnancies in this country and increased their attachment to the labour force. The study by Caliendo and Künn (2015), too, encourages women to exploit start-up subsidies to coordinate family and work life. Similar arguments are debated when comparing groups of individuals who differ because of age. While sanctions might not be effective for older cohorts in terms of increasing their participation in the labour market, they work well for young individuals according to Stephan (2008). According to Heckman (2000), for instance, training programmes are inefficient for adult men or older displaced workers, while they produce some benefits for the youth. On this subject, the scholar stressed the positive outcomes from the programmes of the *Big Brothers/Big Sisters of America*, the *Philadelphia Futures' Sponsor-A-Scholar*, and the *Quantum Opportunity Program* for disadvantaged minority students. In addition, he referred to the positive results obtained for the participants of the *Ohio's Learning, Earning, and Parenting* programme, the

*Teenage Parent Demonstration*, and the *New Chance Program* for young parents lacking basic skills. As regards the *Jobstart* programme, this also proved beneficial for vulnerable young individuals such as high school dropouts and men who had been recently arrested. Therefore, while ALMPs might not be successful for the older cohort of workers, they seem to be useful for some disadvantaged young categories. In this regard, while Pehkonen (1997) found substantial displacement effects of ALMPs for the young Finnish population, results were non robust. Caliendo et al. (2011b), too, highlighted the heterogeneous effects of ALMPs in Germany. As stressed by O’Higgins (2001), young individuals are seldom considered good substitutes for adult workers, hence the need to study their issue thoroughly.

Overall, the mixed results presented make it difficult to understand whether investing in human capital is always beneficial or whether distinct measures should be provided to distinct categories of workers. As regards those individuals who are not in employment, nor in education, nor in training, Cammeraat et al. (2017) recently studied the Dutch mandatory activation programme *Wet Investeren in Jongeren* and found that the latter had no significant impact on NEETs. The policy neither increased their employment rate nor did it incentivise them to go back to their studies or start a training programme. Using matching on covariates, Cappellini et al. (2018) found, instead, positive effects for NEETs in the Italian region of Tuscany. This paper contributes to the relatively modern literature of policy evaluations in the European Union context, by adding empirical support to the descriptive studies produced in Italy on youth unemployment remedies. In particular, it is one of the first econometric evaluations so far of a programme originated from the Youth Guarantee. The considerable financial investment in the policy; the vulnerable nature of the participants; and the number of firms involved in the entire territory of the European Union justify the need to understand whether it is worth it or not to continue along this ‘active’ path.

Table 1: Summary of Literature and Results

Type of Policy	Impact Observed	Authors
Active re-employment systems	(+) Reduced unemployment & increased labour force participation (-) Reduced regular employment & real wages	Katz (1994), Boeri & Burda (1996), Dar & Tzannatos (1999), Altavilla, & Caroleo (2006), Card et al. (2018) Calmfors et al. (2002), Estevao (2003), Bergemann et al. (2008).
Enabling welfare systems	(+) Increased job search & reduced social stigma	Cox (1998), Martin & Grubb (2001), Dingeldey (2007), Anderson (2009), Lechner & Wiehler (2011), Lindqvist & Westman (2011), van Vliet & Koster (2011), Martin (2015), Caliendo & Künn (2015), Mckenzie (2017).
High unionisation	(-) Difficulty in implementation of active measures	Nickell (1997), Svejnar (2002), Franzese & Hays (2006), Rueda (2006), Howell et al. (2007), Kuddo (2009), Mechtel & Portfrake (2013), Kazepov & Ranci (2016).
Training programmes	(+) Increased wages due to better matching & quality jobs  (-) Locking-in or nonexistent effects	Katz (1994), Bonnal et al. (1997), Heckman (2000), Hujer et al. (2006), Meaguer (2008), Stephan (2008), Budría & Pereira (2008), Boone & van Ours (2009), Saniter & Siedler (2014), Brown & Koettl (2015), Caliendo & Schmidl (2016), Mckenzie (2017), Card et al. (2018), Cappellini et al. (2018). Pehkonen (1997), Heckman et al. (2006), Frederiksson & Johansson (2008), Crépon et al. (2010), Lindqvist & Westmann (2011), Crépon & van den Berg (2016), Cerulli-Harms (2017), Cammeraat et al. (2017).
Public employment or public-sponsored programmes	(-) Ineffectiveness in increasing employment	Martin & Grubb (2001), Fertig et al. (2002), Kuddo (2009), Lechner & Wunsch (2009), Caliendo et al. (2011a), Caliendo et al. (2011b), Doerr et al. (2014), Biewen et al. (2014).

*Notes:* The table shows a summary of the relevant studies on active labour market policies mentioned in the literature review used for this paper. The first column presents the type of policy analysed in the studies of reference, while the second column indicates the impact described in such studies. The latter are reported in the third column.

### 3. Institutional Background

When looking at the institutional background regulating the labour market, one sees that reforms aimed at the creation of a more flexible labour market originated shortly before the 21<sup>st</sup> century. They started, in particular, with the *Pacchetto Treu* of Law 196/1997; a set of reforms aimed at the promotion of part-time work and other atypical forms of contracts such as job-sharing. With respect to formation, Art. 18 stressed the necessity to '[attribute] formative credits for the activities carried out during the internships [to start] an employment relationship'. This type of implementation continued in the 2000s with the introduction of Law 328/2000 on social intervention, in which Art. 3 highlighted the importance of 'active policies of formation, introductions to work and re-employment', and of Decree Law 368/2001, which allowed fixed-term contracts to regular employees. The 30/2003 Biagi Law further extended the use of temporary work agencies with the Legislative Decree 276/2003. Art. 2, in particular, rigorously defined both the employment services associated to these agencies and the parties involved so as to 'ameliorate the ability of occupational integration of those who are unemployed or [first-time job seekers]'.<sup>102</sup> Importantly, the decree also stressed the financial and juridical requisites of the employment agencies, as well as their due objective; namely, to serve as an intermediary and support reinstatement.<sup>103</sup> The latter was supposed to be put into practice through 'active and workfare policies'.<sup>104</sup> Nonetheless, after Italian legislation tried to fight the existing mismatch of skills with more flexible institutions, the security of workers started to stagger.

In 2012, when polarisation between high and low skills was reaching its peak in Europe, the Italian Art. 18 of Law 300/1970, for instance, was amended. The former established that 'the judge [would] order the entrepreneur or non-entrepreneur employer to reintegrate the worker into the workplace, regardless of the formal reason given and regardless of the number of employees employed by the employer'.<sup>105</sup> Undoubtedly, this reduced the protection of workers in the case of layoffs deemed as invalid by the court. The subsequent Jobs Act of 2014 further aggravated the position of such individuals. On the one hand, its Art. 1 established the implementation of a specific National Employment Agency for the encouragement of active labour market policies and the 'promotion of a link between the income support measures for the inactive or unemployed person and the measures dedicated to its integration in the productive fabric'.<sup>106</sup> On the other hand, the Jobs Act cancelled Art. 18 of Law 300/1970 as a whole and replaced the reinstatement right with mere monetary compensation.<sup>107</sup> Also due to the Italian

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<sup>102</sup>See Art. 3 of the Legislative Decree 276/2003.

<sup>103</sup>See Art. 4 of the Legislative Decree 276/2003.

<sup>104</sup>See Art. 13 of the Legislative Decree 276/2003.

<sup>105</sup>See Art. 18 (c. 1) of Law 300/1970.

<sup>106</sup>See Art. 1 (c. 4p) of Law 183/2014.

<sup>107</sup>See Art. 1 (c. 7c) of Law 183/2014.

productive structure characterised by small and micro firms<sup>108</sup>, the result in the recent decade, have been low-paid, low-qualified, and unprotected flexible jobs that made it difficult for active measures to step in and promote permanent employment growth. Indeed, although flexibility is considered capable of enhancing access to the labour market and increasing job creation, the discrimination of its use may have negative consequences on the more vulnerable subjects, including job destruction and little prospect for new job seekers. On this subject, Barbieri (2011) stressed how flexicurity, or better ‘flexinsecurity’, affected mostly, and negatively, the Italian young population. Not only was the increase in non-permanent contracts and, therefore, in reduced employment security not compensated by higher wages, but ‘egoistically privileged generations of rentiers’ outraced the younger individuals and deprived them of welfare entitlement.<sup>109</sup> The work by Berton et al. (2009), for instance, sheds light on how in Italy flexibility necessarily leads to precarity, or job insecurity, with respect to salaries, welfare measures, and permanent jobs available. Scholars Biewen et al. (2013), too, argued in favour of flexible and entry jobs only insofar they lead to better-paid and more stable jobs. The latter is even more emblematic when accounting for the negative impact that initial labour market entry conditions can have on job quality and earnings.<sup>110</sup> As regards further reforms, Art. 1 of the 190/2014 Law introduced the exemption from social security contributions paid by employers for each new open-ended contract offered, while the 2015-17 Budgetary Laws granted additional hiring incentives in support of permanent contracts. Jessoula et al. (2010) observed how the ‘security plus flexibility’ formula is often applied differently to age groups, with individuals younger than 24 years suffering the most from the exploitation of fixed-term jobs.<sup>111</sup> On this subject, there is little Italian young individuals can do for the country remains one of the few that still lacks a proper national representative body for them.<sup>112</sup> As observed by Cirillo et al. (2017), the increase in permanent jobs almost exclusively regarded the older cohort of workers. In parallel, the younger job seekers were left, for the most part, with atypical contracts as the result of a going-flexible policy entirely *à l’italienne*. As former members of the European Commission and supporters of the Youth Guarantee, Andor and Vesely (2018) pointed out how it is the young people who usually are fired in difficult economic times.

The intervention of the European Union, thus, plays an essential role in bringing not only financial support but also awareness on youth unemployment; on the costs that the countries have to bear due to their inactivity; and on the necessity to turn to human capital investment. On 22 April 2013

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<sup>108</sup>See Vasta and Di Martino (2017).

<sup>109</sup>See Barbieri (2011), pp. 19, 31.

<sup>110</sup>See Brunner and Kuhn (2014).

<sup>111</sup>With respect to exploiting vulnerable segments of the population, Korkeamäki and Kyyrä (2012) showed how employers of growing establishments in Finland tend to take advantage of disability retirement so as not to resort to standard dismissals.

<sup>112</sup>See Lenzi et al. (2018) and Acconcia and Graziano (2017).

the European Union's Council recommended a Youth Guarantee as part of the Europe 2020 strategy. According to the 120/01 Recommendation, countries should make sure that 'young people receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within a period of four months of becoming unemployed or leaving formal education'.<sup>113</sup> Even if 'there is also a need for a short-term response to counter the dramatic effects of the economic crisis on the labour market'<sup>114</sup>, the purpose of this Guarantee is to 'contribute to sustainable and inclusive economic growth'.<sup>115</sup> Andor and Veselý (2018), in this regard, defined the Youth Guarantee as a structural reform that aims to reduce the duration of youth unemployment and their non-participation in the labour market. Differently from a regulation, a directive, or a decision, a recommendation by the institutions of the European Union is not binding from a legislative perspective. Thus, it is up to the member states of the European Union to implement the suggestions recommended by the Council in their national jurisdictions. The funds available<sup>116</sup> (see Table 5 below) and the increasing number of inactive young people in the country, made it rather reasonable to the Italian government to follow the European Union's instructions. The creation of an Italian Structure of Mission, expected by the 99/2013 Law and then transformed into the national body ANPAL, or *Agenzia Nazionale per le Politiche Attive del Lavoro* of the 150/2014 Law Decree, revealed the prospect of implementing this European reform in the country 'in accordance with national, regional and local circumstances'.<sup>117</sup> According to the European Commission, most of the member states responded with relevant policy measures.<sup>118</sup> Similarly to Italy, where Regions or independent Provinces take care of the unemployed, Austria, Belgium, and the Netherlands, too, refer to a multi-layered system that involves a series of social partners. Many of the networks built by the public employment services (PES) consist of schools and other training institutions. In Belgium, for instance, students are informed about their opportunities when and if they register with the PES before leaving school, while Danish centres help them transition from compulsory school to any activity that could come next, both in educational and occupational terms. Austrian trade unions, on the other hand, cooperate with the Ministry of Labour for defining training programmes, while in Germany the private sector contributes to improving vocational training together with the Länder and the Government. In the Netherlands, too, networks between young candidates and potential employers are strengthened through elevator pitches in informal meetings. The incidence of the 120/01 Recommendation, with the European Union's institutions that claimed themselves that 'the Youth

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<sup>113</sup>(5), p. 1 of 2013/C 120/01.

<sup>114</sup>(22), p. 3 of 2013/C 120/01.

<sup>115</sup>(1), p. 1 of 2013/C 120/01.

<sup>116</sup>For Italy equal to € 567 million from the Youth European Initiative, € 567 million from the European Social Fund, and an additional 40% of national co-funding, for a total of about € 1,513 billion.

<sup>117</sup>(1), p. 3 of 2013/C 120/01.

<sup>118</sup>The document is available on the website of the European Commission and was drafted in Strasbourg on 4 October 2016.

Guarantee is probably one of the [structural reforms] most rapidly implemented<sup>119</sup> in Europe; the denomination of the latter as a social right within the European Social Model<sup>120</sup>; and the fact that all the member states put it into effect explain the relevance of this study.

Interestingly, while the Italian government adopted a national normative for active policy only in 2014, an administrative body with the same functions already existed in the independent Province of Trento, part of the Trentino-Alto Adige region and granted a special independence statute since the 1940s. The legislative power of this province, which deals, too, with public interventions, social services, and the economy, led to a series of reforms that directly affected its population. The founding Provincial Law 19/1983, for instance, created a provincial structure ahead of its time where administrative, accounting, and management independence are combined with a full range of responsibilities in the field of labour policy in the Province of Trento. Today, it includes a central structure in Trento and 12 additional employment centres spread in the territory. Major objectives of this institution are to personalise active labour market policies and give them precedence over passive measures and to support female<sup>121</sup> and youth employment. In this regard, the Agency promotes internships; meetings in schools and in the employment centres to inform students about the labour market; apprenticeships to understand the business needs; mobility abroad services; and generational rotation and qualifying income to, respectively, favour hiring via open-ended contracts and enable individuals to benefit from an income support, reduce working hours, and bring them back to their studies. Their long-term expertise in the design of active labour market policies is also reflected in their compliance with the Council's requirements in temporal and financial terms. In addition to supporting inactive young subjects from a financial viewpoint during their on-the-job training, they also provide them with an offer of job or training within four months from having registered as such, and not within six or seven months as generally happens for most of the Italian regions. As stressed by the aforementioned members of the European Commission 'a few months of unemployment or inactivity [for the youth] can have the same damaging effects that are usually associated with long-term unemployment in older generations'.<sup>122</sup> Their socioeconomic similarity to countries that are considered the pioneers of youth policies in continental Europe, like Austria, and the organisational structure of its employment centres, reminiscent of the popular Employment Areas of Denmark focused on local employment questions, justify, too, our decision to give precedence to the data provided by the Province of Trento (see Table 2). While one should not expect Italian generalisations<sup>123</sup>, the peculiarity of this area allows us to draw

<sup>119</sup>On the Commission's website, such a statement can be found in "The Youth Guarantee country by country" section.

<sup>120</sup>(4b), p. 12, European Pillar of Social Rights.

<sup>121</sup>This is relevant when considering the argument by Gaddis and Klasen (2013) according to which female labour force participation is more likely to increase due to local conditions and institutions rather than secular trends.

<sup>122</sup>Andor and Veselý (2018), p. 13.

<sup>123</sup>While Central Italy may share features of both South and North, it is never the case that conclusions for Sicily could,

conclusions relevant for its Northern neighbouring regions and other similar European regions. Thus, the contribution of this study should be intended as particularly significant for the portion of the EU territory that includes some of the most renowned countries in the field of ALMPs.

Table 2: Relevant Occupational Statistics for Austria, Denmark, and the Province of Trento

<i>Year</i>	<b>Employment (%)</b>			<b>Unemployment (%)</b>			<b>Activity (%)</b>		
	<b>PT</b>	<b>AT</b>	<b>DK</b>	<b>PT</b>	<b>AT</b>	<b>DK</b>	<b>PT</b>	<b>AT</b>	<b>DK</b>
2018	68.2	73	74.1	4.8	4.8	4.9	71.7	76.8	79.4
2017	67.6	72.2	73.2	5.7	5.5	5.7	71.7	76.4	78.8
2016	66	71.5	72.7	6.8	6.0	6.2	70.9	76.2	79.9
2015	66.1	71.1	72	6.8	5.7	6.2	71	75.5	78.5

*Notes:* The table shows the employment, unemployment, and activity rates for Austria, Denmark, and the Province of Trento in Italy. Data are collected from Eurostat and Istat for the years 2015, 2016, 2017, and 2018. PT refers to the Province of Trento; AT refers to Austria; and DK refers to Denmark.

With reference to the Youth Guarantee, the Province of Trento implemented the policy with the 807/2014 Decision of its Council. In particular, it started to provide NEETs aged between 15 and 29 years with different plans ranging from regular training programmes to experiences in the civil service. The same programmes have been offered and financed in the other Italian regions too (see Table 3 below). Programmes within the Youth Guarantee include internships, or on-the-job training at selected firms, apprenticeships, civil service, support for self-employment, professional formation, national and international mobility (see Table 3 below). According to national statistics, on-the-job training at selected firms is the measure that is most widespread (62.3%)<sup>124</sup> and most successful in offering opportunities in the labour market. Indeed, it helps individuals both transition from school to work and acquire the necessary skills for the job market.<sup>125</sup> Next are the services of accompaniment of the youth in the labour market and those regarding specialised formation. Some competence is also acquired through civil service, which includes activities in a series of sectors such as: services to individuals, environmental protection, cultural heritage, civil protection, and education for peace. Conversely, the *SELFIEemployment* support offered to those willing to start an enterprise is merely financial as is the occupational bonus granted to firms to support youth employment. Services of formation, instead, are generally offered to bring the individuals back to their studies or to provide them with vocational measures. Given the lack of empirical evaluations of the Italian Youth Guarantee so far, no estimates are available in the matter of the aggregate effects of the different programmes

for instance, apply to Lombardy or vice versa.

<sup>124</sup>See Isfol's report for 2016.

<sup>125</sup>Ibid.



offered apart from some descriptive statistics (see Table 4 below). It is, however, possible to make qualitative conjectures in terms of whether the measures are expected to have a short- or long-term impact and whether the latter is likely to be positive or negative. Based on the nature of the measure itself and on how it is perceived by the Italian labour market, civil service, for instance is not likely to provide the youth with relevant training nor is it likely to increase her chances of becoming employed afterwards. On the other hand, specialised formation prepares candidates in a way that they are ready to start a profession and able to work in different specialised firms. The same is not necessarily true for apprenticeships.<sup>126</sup> The measure is not a popular contract in Italy and may even give a negative label to the candidate’s competence in case of disputes with the employer, who is responsible of filling out a final report on the apprentice.

Table 3: Measures Offered Within the Youth Guarantee in Italy by Region

<b>Area</b>	<b>North West</b>	<b>North East</b>	<b>Centre</b>	<b>South &amp; Islands</b>	<b>Total (%)</b>
Internship (%)	50.2	62.7	64.9	76.2	62.3
Specialised Formation (%)	6.5	16.7	2.4	5.3	6.8
Formation for Education (%)	5.4	2.8	6.3	3.0	4.3
Apprenticeship (%)	n.a.	0.3	0.1	0.0	0.1
Accompaniment (%)	28.7	5.4	10.1	2.7	11.2
Civil Service (%)	0.7	1.3	3.1	3.1	2.2
Self-Employment (%)	0.0	1.0	0.4	0.3	0.4
Mobility (%)	0.1	0.0	0.3	0.4	0.2
Bonus (%)	11.6	9.8	12.4	9.0	10.5
<i>Total</i>	100	100	100	100	100

*Notes:* The table shows the available measures in Italy for young people interested in the Youth Guarantee. The national institution for the formation of the workers, Isfol (2016), provides statistics on the use of each measure according to the four macro-regions of the country.

<sup>126</sup>The fact that the former secretary of state for education Ugolini (2013) wrote an article on the national paper *Corriere della Sera* entitled “Why Do Apprenticeships Not Work in Italy?” is emblematic in this regard.

Table 4: Job Placement of Participants in the Youth Guarantee by Region, Gender, Profiling, and Education

Category	Employed at least once*	Employed**
Females	76.6	51.6
Males	74.9	49.8
15-18 years old	71.3	45.7
19-24 years old	76.8	51.3
25-29 years old	75.6	51.3
Middle school diploma	71.7	41.5
High-school diploma	76.8	51.7
Tertiary education	76.9	57.2
Low profiling	84.2	62.4
Medium profiling	80.4	62.2
High profiling	78.7	54.2
Very high profiling	67.7	39.4
North West	79.7	59.5
North East	82.5	60.7
Centre	77.9	53.0
South and Islands	68.4	38.2

*Notes:* The table shows the job placement rates for certain segments of the population and geographical areas of Italy at the end of 2018. \* is the ratio between the number of individuals who were offered a job at least once and the number of individuals who completed the programme. \*\* is the ratio between the number of individuals who work and the number of individuals who completed the programme. The profiling is computed based on the individual's level of education, employment history, presence in Italy, entrepreneurial density in the area of origin. A youth's profiling indicator is low if the individual has a high probability to be reinstated in the labour market and its value falls between 0.000 and 0.250000; medium if it falls between 0.250001 and 0.500000; high if it falls between 0.500001 and 0.750000; and finally, very high if the indicator's value falls between 0.750001 and 1, which indicates that the individual has a low probability to exit from her condition of occupational inactivity.

As regards the services offered by the Province of Trento within the Youth Guarantee policy, the distinction is fourfold: programme A, which is the most popular form of training offered to young people and combines a period of orientation and formation with one of on-the-job training, or internship; programme B, which provides training for specialised professional profiles; programme C, which consists of apprenticeships in various sectors, from general company services to agriculture, and, therefore, is not assessed by the Agency of Labour as those who start an apprenticeship are automatically considered employed; and programme D, or civil service, which does not provide any particularly relevant form of training. In our analysis, we focus on the most popular and complete form of training programme; namely, *programme A*, defined within the EU Commission's Decision C(2014) 4969 of 11/07/2014.<sup>127</sup> Young individuals register on the Italian website of the Youth Guarantee and are

<sup>127</sup>The current programmes available online on the Youth Guarantee website refer to the modified EU Commission's

assigned a first appointment at the job centre of reference within 60 days from registration. The signing of a personalised service pact, or *Patto di Servizio*, with the job centre originates a formal agreement between the unemployed individual and the job centre. The personal project for the individual is chosen in respect to the availability to work of the individual; the measures of job search provided; and the consequences for the individual in the case of breach of agreement. Once collected the necessary information on the personal needs and skills of the individuals, the job centres are able to work as the German one-stop-shop agencies with a wide range of employment and training ‘products’. In particular, they provide individuals with tailored services that are similar to the individual action plans offered by the structures of the Danish Employment Regions. Plans, in particular, should always be motivated by the job centre. As regards NEETs, they are first provided with services of orientation and general formation, which last, respectively, 8 and 26 hours, and aim to introduce NEETs to the labour market. After the general formative period, which includes courses on safety at work, job search methods, IT and other transversal skills, NEETs are sent to selected firms to experience their on-the-job training, which lasts between 8 and 24 weeks. In order for the individuals to be eligible to the programme evaluated in this study they have to be both a NEET, i.e. to be unemployed, not in education, and not in training, and aged between 16 and 29 years.<sup>128</sup>

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Decision C(2017) 8927 of 18/12/2017.

<sup>128</sup>The reason why Italy decided to increase the age limits from 24 years, as recommended by the EU Commission, to 29 years probably originates from the existence of the 181/2000 Law Decree that guaranteed an offer of training, or professional retraining, to people up to the age of 29 years within 4 months from registration as unemployed. Moreover, the amount of European and national funds that Italy received for the programme were sufficient to cover not only the number of potential NEETs predisposed by the European Union 120/01 Recommendation (those under 24 years old, equal to 1,274,000 in Italy), but the annual flow of actual NEETs (those under 29 years old, namely 2,254,000 individuals). Additional information can be found on [www.garanziayoung.gov.it](http://www.garanziayoung.gov.it).

Table 5: Total Spending for the Youth Guarantee in Italy by Region

<b>Region</b>	<b>Amount spent (€)</b>	<b>Realised efficiency* (%)</b>	<b>GDP per capita**</b>	<b>Youth Unemployment (%)</b>
Piedmont	89,787.74	95.6	137,488.2	30.0
Valle d'Aosta	1,428.09	100	4,902.0	21.7
Liguria	18,747.86	100	50,109.1	36.3
Lombardy	91,542.82	99.4	380,331.2	20.8
PA Trento	4,705.32	69.9	20,606.5	15.3
Venetia	58,428.75	100	163,171.3	21.0
Friuli-Venezia Giulia	13,533.74	91.3	38,139.6	23.7
Emilia-Romagna	67,748.52	100	161,705.8	17.8
Tuscany	44,626.02	92.3	117,748.3	22.9
Umbria	17,250.92	99.5	22,338.4	31.1
The Marches	21,592.62	91.7	42,914.4	22.1
Latium	93,011.28	90.8	197,742.7	34.5
The Abruzzi	19,333.51	100	33,596.2	29.7
Molise	3,580.74	66.7	6,342.2	40.3
Sardinia	30,042.57	89.7	34,541.7	35.7
Campania	123,956.79	89.8	106,071.6	53.6
Apulia	87,761.29	99.2	75,333.9	43.6
Basilicata	12,293.66	100	12,358.3	38.7
Calabria	22,751.11	100	33,142.8	52.7
Sicily	107,818.45	99	88,626.8	53.6

*Notes:* The table shows the amount that has been spent for the Youth Guarantee in Italy and the GDP per capita distinguishing between regions. Data have been collected from the National Agency for Active Labour Market Policies, or ANPAL, and refer to the report of 31 December 2018, as well as from the National Institute for Statistics, or Istat, also for 2018. \* indicates the ratio between the amount spent and the amount programmed for the spending. \*\* at current prices. Youth unemployment rates are collected from Istat and refer to individuals aged 15-24 in 2018.

## 4. Empirical Strategy

With the Youth Guarantee regulation in existence, deciding to participate or not to participate may make a difference in the individual's probability to find employment due to the potential benefits of the programme. The focus of the analysis will not regard inactivity per se but, more specifically, occupational outcomes; namely, the likelihood of individuals to find a job and their chances of being offered a stable contract. In particular, entrance into the labour market is considered successful if the individual is offered her first job since participation in the Youth Guarantee programme. To investigate the potential advantages of participation, we use a difference-in-differences model that exploits fixed

effects. The model, in particular, compares the average occupational outcomes  $Y_{ict}$  of treated and untreated groups  $c$  of individuals  $i$  before and after treatment, i.e. over time  $t$ .

$$Y_{ict} = \alpha_{ic} + \lambda_{DD}PARTIC_{ict} + \sum_{g=1}^3 \beta_g COH_{gc} + \sum_{p=2016}^{2017} \gamma_p YEAR_{pt} + \eta_{ict} \quad (1)$$

Our outcomes of interest  $Y_{ct}$  are the individual  $i$ 's of cohort  $c$  probability to find a job and probability to be offered an open-ended contract, independent of her employment status<sup>129</sup>, in time  $t$ . In particular, we aim to investigate both the tendency to exit inactivity, understood as inactivity in the labour market, and the quality of employment offered, understood as job stability. Rationally,  $Y_{ct}$  is either  $Y_{0ct}$  or  $Y_{1ct}$ , depending on the participation status of the group members.  $PARTIC_{ict}$  is the participation status of a member  $i$  of a specified age group  $c$  in a period  $t$ . The dummy is equal to 1 when the individual succeeds in completing her on-the-job training experience, or internship.  $YEAR_{pt}$  are the two year dummies 2016 and 2017, with 2015 as the year of reference, or the time trends that are common to both treated and untreated individuals; while,  $COH_{gc}$  are the three age cohorts, with the individuals who are never eligible considered as the category of reference. We define, in particular, four groups depending on their age of reference, i.e. their age at the first available check date after having applied for the programme. This allows us to have at our disposal a group of people who are always eligible<sup>130</sup> in the time periods considered; a group of people who are always eligible in the time periods considered except for the last period; a group of people who are always non eligible in the time periods considered except for the first period; and, finally, a group of people who are always non eligible in the time periods considered. As regards the error term, the nature of the model, which takes into account different periods of time, encourages us to use clustered standard errors so as to avoid serial correlation. The causal effect of interest is given by  $\lambda_{DD}$ , which measures a double difference; namely, the difference between the average occupational outcomes before and after treatment for the

<sup>129</sup>For mathematical reasons, the probability of being offered an open-ended contract in a given period  $Pr(Y_{OPEN,t} = 1)$  is equal to the sum of the probability of being offered an open-ended contract conditional on the probability of becoming employed in a given period multiplied by the probability of becoming employed in a given period  $Pr(Y_{OPEN,t} = 1 | Y_{EMPLOYED,t} = 1)Pr(Y_{EMPLOYED,t} = 1)$  and of the probability of being offered an open-ended contract conditional on the probability of not becoming employed in a given period multiplied by the probability of not becoming employed in a given period  $Pr(Y_{OPEN,t} = 1 | Y_{EMPLOYED,t} = 0)Pr(Y_{EMPLOYED,t} = 0)$ . As this last expression is null, then the the probability of being offered an open-ended contract in a given period  $Pr(Y_{OPEN,t} = 1)$  is equal to the sum of the probability of being offered an open-ended contract conditional on the probability of becoming employed in a given period multiplied by the probability of becoming employed in a given period  $Pr(Y_{OPEN,t} = 1 | Y_{EMPLOYED,t} = 1)Pr(Y_{EMPLOYED,t} = 1)$ .

<sup>130</sup>Assumed all training programmes have an average duration of minimum a year and based on the individual's birth date, eligibility is, for instance, flagged as equal to 1 in 2015 when at the check date of the year before the individual was observed as being under the age of 30 years old.

participants of the programme (*treat*) minus the difference between the average occupational outcomes before and after treatment for the non participants of the programme (*nontreat*).  $\lambda_{DD}$ , in particular, represents the effect observed for the treated individuals in the post-treatment periods.

$$\hat{\lambda}_{DD} = \bar{Y}_1^{treat} - \bar{Y}_0^{treat} - (\bar{Y}_1^{nontreat} - \bar{Y}_0^{nontreat}) \quad (2)$$

Given the nature of the outcomes studied, it follows that participation per se in the programme may be correlated with unobservables that are correlated with the error term. In particular, the cohort dimension allows to control for unobserved but fixed omitted variables. Individuals from a certain group, for instance, could be more experienced regardless of their participation in the programme. Similarly, candidates of another group could be offered better positions and earn higher salaries independent of their participation in the programme. In respect to this, the estimation assumes that the potentially unobserved group characteristics  $I_{ic}$  do not vary in time and that participation is as good as randomly assigned conditional on some individual- and group-specific qualities  $\alpha_{ic}$ . Most importantly, for the design to hold, individuals from both treatment and control groups should experience parallel trends as regards the occupational outcomes. This means that:

$$E[Y_{ic,1} - Y_{ic,0} | treat_{ic} = 1] = E[Y_{ic,1} - Y_{ic,0} | nontreat_{ic} = 1] \quad (3)$$

Nevertheless, while the difference between treated and non-treated individuals, conditional on being observed in the same year and belonging to the same cohort, removes common trends, the linear model proposed does not discharge estimates from a potential selection bias. The latter is explained by the sampling bias due to self-selection in the programme on behalf of participants. As explained in Section 3, eligible individuals who are occupationally inactive have the same right to participate in any programme of the Youth Guarantee. However, they are required to voluntarily apply for participating in the Youth Guarantee, which requires applying online; setting up a meeting with the job centre of reference; and signing a contract of commitment to the programme with them. Since the effect we estimate recurring to (1) will give us a biased average treatment effect (ATT) due to sampling bias, we also study the intention-to-treat effect (ITT), which preserves the balance obtained from original randomisation independent of the treatment received. Because individuals need to apply in order to

participate in the on-the-job training programme and any other job-placement service implemented within the Youth Guarantee context and offered by the Agency of Trento, one limitation of our analysis is that the estimation of any potential treatment effect includes self-selection. Individuals who are interested in taking part in *programme A* select themselves in the group of the treated. For this reason, we also account for individuals who are registered at the Agency of Labour as unemployed, who only differ by their age, or eligibility, and who therefore do not give origin to a biased sample. In particular, we are interested in understanding whether there exists a benefit for eligible individuals compared to non-eligible individuals in terms of both finding a job and being offered an open-ended contract, such as in (4). In Section 6.2 we also provide an intention-to-treat analysis only for those individuals who are observed close to the eligibility cutoff. Reasonably, the actual effect of the on-the-job training experience promoted by the Agency of Labour of Trento in the context of the Youth Guarantee will be between the estimated treatment and intention-to-treat effects.

$$Y_{ict} = \alpha_{ic} + \omega_{DD}ELIG_{ict} + \sum_{g=1}^3 \beta_g COH_{gc} + \sum_{p=2016}^{2017} \gamma_p YEAR_{pt} + \eta_{ict}, \quad (4)$$

where  $ELIG_{ict}$  is the eligibility status of a member  $i$  of a specified age group  $c$  in a period  $t$  and according to which, the effect for eligible individuals on their probability to become employed and their probability to be offered a permanent position in the post-treatment periods is given by:

$$\hat{\omega}_{DD} = \bar{Y}_1^{elig} - \bar{Y}_0^{elig} - (\bar{Y}_1^{nonelig} - \bar{Y}_0^{nonelig}) \quad (5)$$

The decision to opt for a standard linear probability model to estimate the impact of the Youth Guarantee in the Province of Trento lies in the impracticality of non-linear models such as logistics, probabilistic, or tobit models. Based on Puhani (2012), the estimation from a non-linear model of the impact of a training programme such as the one investigated in this study may not be ideal as two, rather than one, cross differences would be necessary due to the existence of both the expectations of the observed outcomes and the potential outcomes. Estimations from a linear probability model, on the other hand, may suffer from the intrinsic problem of unbounded predicted probabilities with respect to the dichotomous outcomes of interest, namely  $Y_{ict}$ . This means that the fundamental law of probability

may be not satisfied and that there could exist individuals for which the probability to become employed or to be offered an open-ended contract may be nonsensically smaller than 0 and bigger than 1. As argued by Angrist and Pischke (2008), the fact that regression may generate fitted values outside the limited dependent variables (LDV) boundaries ‘bothers some researchers’; ‘point conceded’. However, we agree with the authors that linear models are not necessarily ‘inappropriate’ for LDV analyses. This is because, due the fact that  $D_i$ , or the treatment dummy variable, is independent of potential outcomes,  $E[Y_i|D_i=1]-E[Y_i|D_i=0]=E[Y_{1i}|D_i=1]-E[Y_{0i}|D_i=1]$ , which is equal to  $E[Y_{1i}-Y_{0i}]$ . In other words, while non-linear regression functions, such as Tobit’s, have been defined by Deaton (1997) as ‘an awkward, difficult, and non-robust object’, the technique of ordinary least squared is standardised. According to the authors, ‘the fact that  $Y_i$  is a dummy means only that the average treatment effects are also differences in probabilities’. Even if in our analysis we are not interested in such potential extreme outcomes but in rather the sensible average occupational outcomes, we find it considerate to compare the impact of the policy estimated from both a linear model and a non-linear model. However, non-linear models cannot be interpreted unless the output is transformed into what Angrist and Pischke (2008) call the average changes in the conditional expectation function  $E(Y_i|D_i)$ , or the marginal effects constructed by  $E\{E[Y_i|X_i, D_i=1]-E[Y_i|X_i, D_i=0]\}$ . For this reason, in Section 6.2 we present the marginal effects from a logistic model that models the probability  $p$  for our binary dependent variable  $Y_{ict}$  to be equal to 0 or 1; namely, employed or not, or offered an open-ended contact or not, such as in:

$$Pr(Y_{ict} = 1|X_{ict}) = F\left(\alpha_{ic} + \lambda_{DD}PARTIC_{ict} + \sum_{g=1}^3 \beta_g COH_{gc} + \sum_{p=2016}^{2017} \gamma_p YEAR_{pt}\right), \quad (6)$$

where  $F(z) = \frac{\exp(z)}{1+\exp(z)}$  is the logistic cumulative distribution function.

Finally, pre- and post-treatment observations are available at the individual level. However, the same individuals are not observed before the implementation of the Youth Guarantee in the European Union. For this reason, it is not possible to test the assumption of parallel trends according to the standard rule. First, we provide evidence on the similarity of the individuals in both treated and non-treated groups. Details are provided in the next section. Second, we present graphical evidence of the trend of eligible and non-eligible individuals, as well as participating and non-participating individuals, with respect to their probability to become employed and probability to be offered an open-ended contract



over the three years of our observation period. Third, we exploit the measure of profiling with which participants are assessed so as to demonstrate that it is not this individual characteristic that drives the results in terms of treatment effectiveness, as well as we provide intention-to-treat estimates for individuals who are very close to the eligibility cutoff. This is presented in Section 6.2.

## 5. Data & Descriptive Analysis

We have access to longitudinal individual data on individuals who officially register as unemployed and that are directly collected by the Agency of Labour of the Province Trento. The panel covers three periods. Individuals are observed between 2014 and 2017. The sample analysed includes 48,888 observations for 16,296 individuals of age between 16 and 35 years and from 104 different countries. The data collected by the Agency of Labour cover all applicants and include information on their age, gender, country of origin, employment condition after the policy, and type of contract offered, if any. The same data source includes information that covers only the participants of the Youth Guarantee programme. The information available for participants also includes the number of days they stayed at the firm for their on-the-job training and the profiling indicator, defined as a measure of unemployment risk.<sup>131</sup> This information will be used in the Appendix, which focuses exclusively on participants. On this subject, it is, however, crucial to stress that our data set is made of individuals whose profiling is heterogeneous, as a high percentage of individuals with high or low profiling could bias the estimates on the real effect of the policy. As regards the gender and nationality of the individuals, Table 2 shows that these are well distributed across the sample. In 2015, 48.5% of the individuals are women in the treated group. The proportions remain constant over time. This is also true in respect to the nationalities that are registered at the Agency of Labour. In particular, we observe a larger proportion of Southern Europeans who participate, with 92.9% of them who are treated in 2015. On the other hand, there is an insignificant proportion of Northern Europeans who are treated over time. Similarly, individuals from Eastern Europe are only 8.6% of the total of the participants in 2017. We also find a relevant number of subjects originally from Africa (6.5%), the Arab countries (2.1%), and Latin America (1.6%). As expected, participants, who are averagely 24 years old in 2017, tend to be younger than non participants, who are averagely 32.1 years old in 2017 (see Table 6). Any potential significant difference between treated and non-treated individuals in terms of individual characteristics cancels out in the difference-in-differences strategy. Unfortunately, we do not have access to the employment histories of

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<sup>131</sup>The lower the profiling indicator, the lower the difficulty to reinstate the subject into the labour market and vice versa.

the individuals. However, we rely on the information provided by the Agency of Labour in respect to their official registration as unemployed. On the other hand, the fact that they are all registered at the Agency of Labour as unemployed implies that they can all tend to both employment or unemployment in the future.

The model used allows us to ignore the gender and nationality of the individuals as they are considered individual-specific qualities that do not change over time. In particular, we distinguish four groups of individuals who differ in their age and, thus, in their entitlement to participate in the programme. As the dates of start and end of the programme are not observed for all the individuals in the data set, we use dates that are common to everyone every year. These are the so-called check dates on 10 November 2015, 10 November 2016, and 10 November 2017; from now on 2015, 2016, and 2017. Entitlement to the programme and participation status are defined based on these dates. In particular, individuals are defined within the four groups based on the age they had at the first check date available following the start date of the programme. The participation dummy, on the other hand, is flagged as active when the individual has completed the training. This assures that the dates at which labour outcomes are registered are subsequent to the corresponding treatment. In respect to their entitlement to the programme, individuals are divided according to four groups. As for the first group, these are the individuals who are always eligible in the years taken into account for the analysis. This can be observed in Table 8, which also shows the treatment, employment, and job stability status of the members of each group.

As regards participation, 3% of the members who belong to our GROUP 1 appear to have completed their training by 2015. The proportion increases up to 19.7% and 15.8% for, respectively, 2016 and 2017. With reference to GROUP 2 these are the individuals who are always eligible except for the last year considered in the analysis. In particular, 1.9% of them completed their training by 2015, while the majority completed their training by the second year of the Youth Guarantee (7.4%). In the last available period of training of 2017, 2.4% of the members of this group completed their training. As regards the individuals who are never eligible apart from the first year of the Youth Guarantee, we observe that by 2015, only 1.8% of the members of GROUP 3 completed the programme. The reason we observe an insignificant minority of individuals from GROUP 4 as participants lies in the design of the data set, which exploits the yearly check dates and not the end dates of the training. In 2017 no member of this group is observed as having experienced treatment. Statistics, in general, show that the greatest variation with respect to participation is observed for the same individuals over time, and not across groups, or across time periods (see Table 7 below).

Table 6: Distribution of Predetermined Covariates by Year

COVARIATES	Non Treated	Treated	NT	Treat.	NT	Treat.
	[Mean]	[Mean]	[Mean]	[Mean]	[Mean]	[Mean]
YEAR		2015		2016		2017
Age	29.6	25.7	31.1	24.7	32.1	24.0
(years)	(0.037)	(0.213)	(0.035)	(0.093)	(0.034)	(0.107)
	t=13.526	p-Value=.000	t=59.913	p-Value=.000	t=64.043	p-Value=.000
Gender	0.562	0.485	0.572	0.452	0.571	0.428
(Female = 1)	(0.004)	(0.031)	(0.004)	(0.013)	(0.004)	(0.015)
	t=2.519	p-Value=.011	t=9.167	p-Value=.000	t=9.451	p-Value=.000
Northern	0.002	0.000	0.002	0.000	0.002	0.000
Europe	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
	t=0.697	p-Value=.486	t=1.758	p-Value=.079	t=1.489	p-Value=.136
Southern	0.625	0.929	0.608	0.835	0.616	0.808
Europe	(0.004)	(0.016)	(0.004)	(0.009)	(0.004)	(0.012)
	t=-10.258	p-Value=.000	t=-17.879	p-Value=.000	t=-13.067	p-Value=.000
Eastern	0.251	0.045	0.266	0.079	0.260	0.086
Europe	(0.003)	(0.013)	(0.004)	(0.007)	(0.004)	(0.008)
	t=7.783	p-Value=.000	t=16.418	p-Value=.000	t=13.335	p-Value=.000
Developed	0.003	0.000	0.003	0.000	0.003	0.001
Asia	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)
	t=0.878	p-Value=.380	t=2.216	p-Value=.027	t=1.302	p-Value=.193
Undeveloped	0.010	0.000	0.011	0.002	0.010	0.005
Asia	(0.001)	(0.000)	(0.001)	(0.001)	(0.001)	(0.002)
	t=1.649	p-Value=.099	t=3.354	p-Value=.001	t=1.673	p-Value=.094
U.S.	0.000	0.000	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
	t=0.183	p-Value=.855	t=0.461	p-Value=.645	t=0.391	p-Value=.696
Latin	0.019	0.015	0.020	0.012	0.020	0.016
America	(0.001)	(0.007)	(0.001)	(0.003)	(0.001)	(0.004)
	t=0.522	p-Value=.602	t=2.164	p-Value=.031	t=0.945	p-Value=.343
Arab	0.019	0.004	0.019	0.017	0.019	0.021
Countries	(0.001)	(0.004)	(0.001)	(0.003)	(0.001)	(0.004)
	t=1.861	p-Value=.063	t=0.600	p-Value=.549	t=-0.399	p-Value=.690
Africa	0.071	0.007	0.071	0.055	0.070	0.065
	(0.002)	(0.005)	(0.002)	(0.006)	(0.002)	(0.007)
	t=4.037	p-Value=.000	t=2.425	p-Value=.015	t=0.669	p-Value=.503
Observations	16,028	268	14,729	1,567	15,140	1,156

Notes: The data are provided by the Agency of Trento and refer to the unemployed individuals registered as such in the Province of Trento between 2014 and 2017. In this table, the analysis is done for the predetermined covariates of the individuals; namely, their gender and nationality. The individuals of the sample come from 104 different countries, which are here agglomerated according to a classification of the macro-areas of the world. Standard errors are expressed in parentheses. Two-sample t-test statistics (difference) are also showed in the table.

Table 7: How Participation Varies: Overall, Between, Within

PARTICIPATION	Mean	SD	VAR	SD	VAR	SD	VAR
		Overall	Overall	Between	Between	Within	Within
<i>Panel A: ALL Observations</i>	0.061	0.240 <i>N=48,888</i>	0.058	0.129 <i>n=16,296</i>	0.017	0.202 <i>T=3</i>	0.041
<i>Panel B: GROUP 1 Observations</i>	0.128	0.334 <i>N=21,370</i>	0.112	0.162 <i>n=7,126</i>	0.026	0.292 <i>T=3</i>	0.085
<i>Panel C: GROUP 2 Observations</i>	0.039	0.193 <i>N=3,545</i>	0.037	0.107 <i>n=1,183</i>	0.011	0.161 <i>T=3</i>	0.026
<i>Panel D: GROUP 3 Observations</i>	0.023	0.149 <i>N=3,256</i>	0.022	0.084 <i>n=1,090</i>	0.007	0.123 <i>T=3</i>	0.015
<i>Panel E: GROUP 4 Observations</i>	0.001	0.031 <i>N=19,812</i>	0.001	0.018 <i>n=6,605</i>	0.000	0.025 <i>T=3</i>	0.001

*Notes:* The data are provided by the Agency of Trento and refer to the unemployed individuals registered as such in the Province of Trento between 2014 and 2017. The table shows the variation of the variable participation overall, between individuals, and within time. The table presents estimates overall and for the single groups. Group 1 represents individuals who are always eligible in the time periods considered; group 2 represents individuals who are always eligible in the time periods considered except for the last year; group 3 represents individuals who are never eligible in the time periods considered except for the first year; group 4 represents individuals who are never eligible in the time periods considered.

In respect to the outcomes of interest, the data at our disposal do not allow for inferring educational effects about NEETs. We, instead, investigate whether individuals who participate are more likely to find a job than those who did not take part in the programme. We also investigate whether the contract offered to the individual is stable; namely, if it is more probable for participants to be offered an open-ended contract, independent of becoming employed. In particular, we are interested in observing the first successful occupational outcome for each individual; namely, the first offer of job accepted by them, if any, and the type of contract issued. The majority of those who become employed in the period under investigation, for instance, sign a standard short-term contract (about 44.6%), a standard long-term contract (27.4%), or start a professional apprenticeship (8.7%). Options, however, include a range of other alternative contracts, including contracts of domestic work<sup>132</sup>, permanent collaborations<sup>133</sup>, work-for-hire projects<sup>134</sup>, occasional work, internships, socially useful work or activities financed by the Solidarity Funds<sup>135</sup>, on-call contracts, agency contracts, work bursary and other

<sup>132</sup>Which is expected to be direct and exclusive.

<sup>133</sup>*Co.co.co.s* expect the worker to work independently in the company and without obligations of subordination, but through a permanent and coordinated relationship with the customer, i.e. the employer of the company.

<sup>134</sup>*Co.co.pro.s* were abrogated with the 81/2015 Law Decree but are still active for those contracts registered as such. They, too, expect a service from the worker but the latter is independent and can either be involved for a whole project, a programme, or just part of it.

<sup>135</sup>If unemployed individuals have difficulty reaching for social networks in general, this is even harder for those NEETs who are totally inactive and, thus, probably socially isolated.

work experiences<sup>136</sup>, temporary agency contracts<sup>137</sup>, or supply contracts<sup>138</sup>, self-employment, and independent work in the show business.

As regards the tendency of individuals to become employed, the proportions change among groups but always increase over time. In particular, individuals from GROUP 1 are employed 22.6%, 31.8%, and 41% of the time by, respectively, 2015, 2016, and 2017. On the other hand, they are offered an open-ended contract 8%, 13.9%, and 19.3% of the time by, respectively, 2015, 2016, and 2017. A similar increasing pattern is found for the members of the other groups. Individuals from GROUP 2 are employed 22.9%, 29.2%, and 32.4% of the time by, respectively, 2015, 2016, and 2017. They, too, are offered a stable contract 9%, 12.4%, and 14.4% of the time by, 2015, 2016, and 2017. As regards GROUP 3, its member find an occupation 22.2%, 27.9%, and 33.5% of the time by, respectively, 2015, 2016, and 2017. They start a permanent job 8.7%, 11.6%, and 12.9% of the time by, respectively, 2015, 2016, and 2017. Finally, individuals who are never eligible to the programme are offered a job 19.8%, 25.5%, and 30.1% of the time by, respectively, 2015, 2016, and 2017. On the other hand, they sign an open-ended contract 7.2%, 11.1%, and 12.9% of the time throughout the years of 2015, 2016, and 2017.

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<sup>136</sup>Educational tool that uses work experience to facilitate the entry of socially weak categories, as are some not-in-employment, not-in-education, not-in-training individuals, into the labour market.

<sup>137</sup>The agent promotes the conclusion of the contract between the interested third party and the worker, but leaves them with the responsibility of concluding and perfecting it, without taking any risk.

<sup>138</sup>Created with the 30/2003 Biagi Law to substitute the 196/1997 Law on the temporary, or *ad interim*, agency contract.

Table 8: Descriptive Statistics for Individuals Registered at the Agency of Labour of Trento in 2014-17

VARIABLES OBSERVED	2015	2016	2017		2015	2016	2017
GROUP 1	MEAN			GROUP 3	MEAN		
Entitlement	1.000 (0.000)	1.000 (0.000)	1.000 (0.000)		1.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Participation	0.030 (0.169)	0.197 (0.398)	0.158 (0.365)		0.018 (0.131)	0.051 (0.219)	0.000 (0.000)
Employed	0.226 (0.418)	0.318 (0.466)	0.410 (0.492)		0.222 (0.416)	0.279 (0.449)	0.335 (0.472)
Open-Ended	0.080 (0.271)	0.139 (0.346)	0.193 (0.395)		0.087 (0.281)	0.116 (0.321)	0.129 (0.335)
<i>Observations</i>	<i>7,126</i>	<i>7,122</i>	<i>7,122</i>		<i>1,086</i>	<i>1,085</i>	<i>1,085</i>
GROUP 2	MEAN			GROUP 4	MEAN		
Entitlement	1.000 (0.000)	1.000 (0.000)	0.000 (0.000)		0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Participation	0.019 (0.135)	0.074 (0.261)	0.024 (0.152)		0.002 (0.041)	0.001 (0.033)	0.000 (0.012)
Employed	0.229 (0.421)	0.292 (0.455)	0.324 (0.468)		0.198 (0.398)	0.255 (0.436)	0.301 (0.459)
Open-Ended	0.090 (0.286)	0.124 (0.330)	0.144 (0.351)		0.072 (0.259)	0.111 (0.315)	0.129 (0.335)
<i>Observations</i>	<i>1,181</i>	<i>1,182</i>	<i>1,182</i>		<i>6,602</i>	<i>6,605</i>	<i>6,605</i>

*Notes:* The data are provided by the Agency of Trento and refer to the unemployed individuals registered as such in the Province of Trento between 2014 and 2017. For all unemployed individuals in the sample, we observe their gender and nationality, which are the subject-specific qualities of the individuals. In this table, we provide some statistics on the eligibility, participation status, and occupational outcomes of four defined cohorts of individuals. Group 1 represents individuals who are always eligible in the time periods considered; group 2 represents individuals who are always eligible in the time periods considered except for the last year; group 3 represents individuals who are never eligible in the time periods considered except for the first year; group 4 represents individuals who are never eligible in the time periods considered. Standard errors are expressed in parentheses.

With respect to the assumption of existing parallel trends, and as mentioned in the previous section, the data used for this analysis do not allow for a standard test of the former. Pre- and post-treatment observations are, indeed, available only at the individual level. This means that the same individuals are not observed for a significantly long period of time before the official implementation of the Youth Guarantee in the European Union, which varies across countries, regions, job centres, and individuals. In addition to showing that the sample under observation is rather homogeneous in the proportion of males and females, as well as in the proportion of individuals from the different areas of Europe, Asia, Africa, Latin America, the U.S., and the Arab countries, we provide a graphical analysis of the trend towards employment and permanent occupation, or open-ended contracts, of both eligible and

non-eligible individuals over 2015, 2016, and 2017. Figure 1a, in particular, shows that unemployed individuals registered at the Agency of Labour of Trento are not only similarly spread according to gender and nationality in our sample, but that their trend towards the likelihood of becoming employed follows the same upward direction over the years. The likelihood of becoming employed increases over the years for both eligible and non-eligible individuals. A similar pattern is found for eligible and non-eligible individuals as regards their trend towards permanent occupation. As can be observed in Figure 1b, both types of individuals present an increasing tendency to be offered an open-ended contract from 2015 to 2017. Parallel trends in the probability to become employed and in the probability to be offered a permanent job are confirmed when we compare treated and non-treated individuals (see Figures 2a and 2b). A visual inspection shows that the difference between the treated group and the control group stays constant over time.

Figure 1: Trend Towards Employment and Permanent Occupation by Eligibility, 2015-17

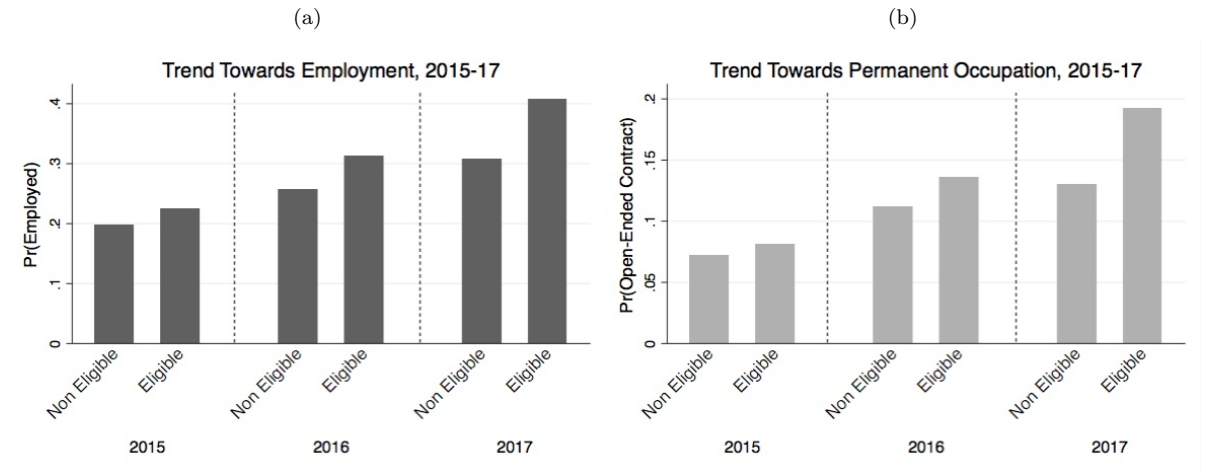
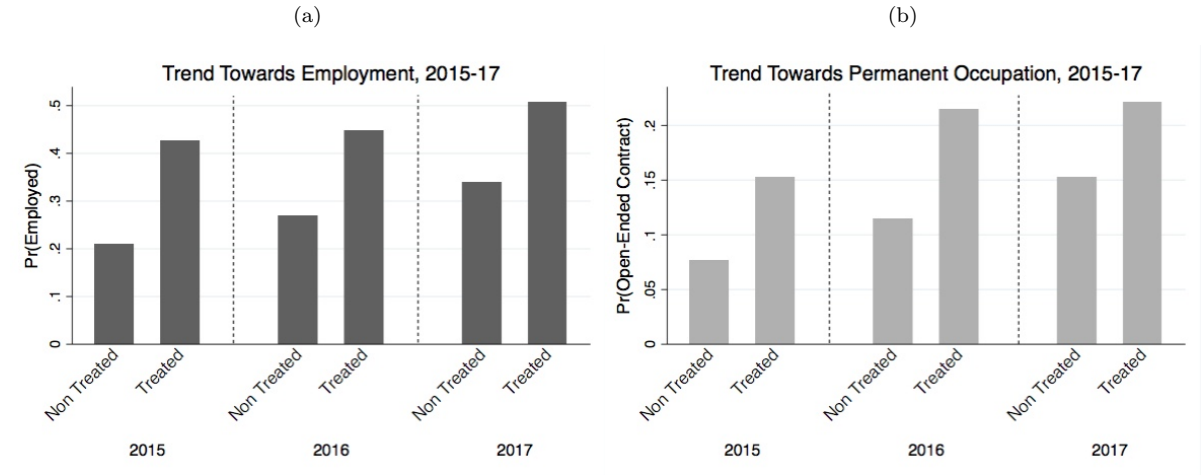


Figure 2: Trend Towards Employment and Permanent Occupation by Participation, 2015-17



## 6. Results

### 6.1 Treatment & Eligibility Effects

In relation to participation in the Youth Guarantee, findings from a linear probability model analysed on STATA suggest the latter is actually beneficial for individuals. Table 9 shows that participation in the on-the-job training experience leads to an increase in job opportunities for the individuals. Accounting for different groups of eligibility and for year effects, the first column shows that participants are 7.4 percentage points more likely to be offered a job compared to non participants. Similarly, the second column of Table 9 shows that participation in this EU active labour market policy leads to a higher probability to start a permanent employment relationship. Participants are indeed 4.4 percentage points more likely to be offered an open-ended contract, independent of becoming employed. Both estimates are significant at 1% level and robust to variations in the identification of the model (see Section 6.2). In particular, results from a logistic, or non-linear, model illustrate that the marginal effects are significantly positive for participants. The fact that linear and non-linear marginal effects present a larger gap and may fail to be ‘indistinguishable’, due to predictions being close to 0 (or 1) seems, according to Angrist and Pischke (2008), ‘unlikely to be of substantive importance’. When we model the likelihood of an individual to become employed and to be offered an open-ended contract, we find a discrete change or relative advantage for treated units of, respectively, 5.5 and percentage points, significant at 1% level (see Table 10). Because of the potential issue of self-selection due to participants of the Youth Guarantee applying for taking part in the on-the-job training experience, we also provide



estimates for the comparative advantage of eligible individuals over non-eligible individuals. In the ‘once randomised, always analysed’ context, Table 11 shows that the group of eligible individuals is more likely to become employed and be offered an open-ended contract by, respectively, 3.8 and 2.7 percentage points, significant at 1% level. Results from a robustness check described in Section 6.2 show that when restricting the sample under investigation to individuals who are close to the eligibility cutoff, intention-to-treat estimates are comparable to those estimated for treatment (see Table 12). Findings, in particular, are in line with the study by Cappellini et al. (2018) on the implementation of the Youth Guarantee in Tuscany. Results by Cammeraat et al. (2017) on Dutch NEETs could also take a positive turn once studied the impact of a European rather than national policy.

With respect to the impact of the policy in the Province of Trento and in Tuscany, its magnitude differs in the two Italian areas. The smaller impact found in the Province of Trento may be due to several reasons. The type of participants themselves matter and might contribute to influencing estimates. Statistics produced for the year 2016 by the Tuscan institute of research IRPET indicate that 60% of the participating individuals were assigned a low profiling indicator; namely, a low difficulty to be reinstated in the labour market. Conversely, less than 5% of the participants were assigned a high profiling indicator. The same report also defines the average participant in Tuscany as a 20-24 year old Italian recent graduate.<sup>139</sup> Additionally, on this occasion, we evaluated one single programme; namely, that of on-the-job training. Cappellini et al. (2018), on the other hand, do not specify the focus of their analysis in terms of programme evaluated.<sup>140</sup> Indeed, they take into account any individual who registers for the Youth Guarantee independent of the programme, from internship or vocational training to civil or community service. The three aforementioned reasons contribute to justifying the slightly smaller magnitude of our estimates compared to this region of Central Italy. On the other hand, they are comparable as their analysis is likely to focus on an active labour market policy of the same type. Indeed, we know from official Italian statistics that internships are the most popular programme in both Italy (62.3%) and Tuscany.<sup>141</sup> We also know that Tuscany offers internships that are similar to the ones in the Province of Trento in that they follow the guidelines put in place by the European Union. Therefore, we can suppose that, even if not specified, what they evaluate for the most part in their analysis are on-the-job training experiences. Except for the slightly different magnitude of the estimates, our study contributes to confirming the positive impact of training on the young Italian population. Results are also in line with Heckman’s (2000) argument of ALMPs being fruitful for young categories of individuals, such as adolescent high school dropouts and young parents.

<sup>139</sup>For more information see “Piano di Attuazione Regionale Toscana N. 992”, pp. 12-13.

<sup>140</sup>The Youth Guarantee offers a wide range of active measures.

<sup>141</sup>Isfol, Rapporto Sulla “Garanzia Giovani in Italia” (2016) for Italy and “Piano di Attuazione Regionale Toscana N. 992”, pp. 12-13 for Tuscany.

Table 9: Difference-in-Differences Estimate of the Effect of Participation in the Youth Guarantee on Pr(Employed) and Pr(Open-Ended Contract)

DEPENDENT VARIABLE	Pr(EMPLOYED)	Pr(OPEN-ENDED CONTRACT)
<i>PARTIC</i>	0.074*** (0.009)	0.044*** (0.006)
<i>GROUP1</i>	0.110*** (0.009)	0.066*** (0.005)
<i>GROUP2</i>	-0.033 (0.055)	-0.020 (0.033)
<i>GROUP3</i>	0.122** (0.056)	0.007 (0.020)
<i>YEAR2</i>	0.067*** (0.003)	0.043*** (0.002)
<i>YEAR3</i>	0.134*** (0.004)	0.078*** (0.003)
<i>CONS</i>	0.159*** (0.007)	0.049*** (0.004)
<i>Observations</i>	48,888	48,888
<i>Individuals</i>	16,296	16,296

*Notes:* The data are provided by the Agency of Trento and refer to the unemployed individuals registered as such in the Province of Trento between 2014 and 2017. The analysis reported in the table looks at the probability of the individuals to become employed and to be offered an open-ended contract based on their participation, depending on their group of membership. Group 1 represents individuals who are always eligible in the time periods considered; group 2 represents individuals who are always eligible in the time periods considered except for the last year; group 3 represents individuals who are never eligible in the time periods considered except for the first year; group 4 represents individuals who are never eligible in the time periods considered. The year of reference is 2015 and the group of comparison is group 4.

Errors are clustered at individual level and expressed in parentheses. Significance at 1, 5, 10% levels correspond, respectively, to \*\*\*, \*\*, and \*.

Table 10: Marginal Effects on Pr(Employed) and Pr(Open-Ended Contract) from a Linear and Non-Linear Model

MARGINAL EFFECTS	PR(EMPLOYED)	PR(OPEN-ENDED CONTRACT)
From a Linear Model	0.074*** (0.009)	0.044*** (0.016)
From a Non-Linear Model	0.055*** (0.006)	0.076*** (0.012)

*Notes:* The data are provided by the Agency of Trento and refer to the unemployed individuals registered as such in the Province of Trento between 2014 and 2017. The table shows the marginal effects from both linear and non-linear (logistic) models. Estimating margins using a logistic model implies losing some observations due to the fact that the coefficient of the individual's fixed effect perfectly predicts her occupational outcome, contrarily to what happens in a linear estimation, where the fixed effect's coefficient is equal to zero. While the linear model keeps all the 48,888 original observations for both Pr(Employed) and Pr(Open-Ended Contract), in the logistic model the observations become 15,222 for Pr(Employed) and 7,257 for Pr(Open-Ended Contract). Significance at 1, 5, 10% levels correspond, respectively, to \*\*\*, \*\*, and \*.

As regards the significantly positive effect for participants, it seems that the theory of internships as immediate door openers holds for the Province of Trento. While job creation schemes and other measures appear not to be particularly fruitful, on-the-job training has been shown to be a successful ALMP in several studies for specific categories of individuals.<sup>142</sup> In respect to young individuals, training is a remedy that is likely to increase their job opportunities as it is precisely designed with the scope of upgrading their skills. Supposedly, participants are also sufficiently prepared to signal that their skills are good or that they have really improved during the internship. This allows them to have greater chances to become employed compared to the non participants, who did not have any contact with the employer in the same circumstances. According to Heckman (2000), the advantage of providing training in firms lies in the possibility for the employers to invest in those individuals with some potential from a perspective of skills. The success of the Center for Employment and Training in California, for instance, is to be attributed to the fact that many courses were taught by experts from the industry themselves and that a large number of employers were present in the advisory board. The programme in selected firms promoted by the Youth Guarantee seems to follow a similar pattern. Additionally, the combination of specialised training with services of general formation proves effective in making NEETs more flexible to the requests of the firms present in their territory. This is in line with the findings of Piva et al. (2005), which underline the importance of promoting general knowledge so as to prepare individuals to the organisational changes in the structure of Italian manufacturing firms. On this subject, the presence of a large number of firms involved in the Youth Guarantee allows for

<sup>142</sup>See Katz (1994); Bonnal et al. (1997); Meaguer (2008); Stephan (2008); Saniter and Siedler (2014); Card et al. (2018); Escudero (2018); and others.

competition in terms of both type of training offered, future job opportunity, and professional mobility. This, according to Heckman (2000) would only bring further success.

On the other hand, the recommendation of the European Union itself could also have contributed to increasing the expectations of both the participants, the employers, and the job centres. The European Union states, indeed, that despite there being ‘a need for a short-term response, the establishment of such schemes is of long-term significance’.<sup>143</sup> Member states, for once, could have taken this youth policy seriously. As regards job stability, more specifically, findings seem to highlight the ability of the Youth Guarantee to overcome flexinsecurity in countries like Italy. As stressed in Section 3, the discrimination of the use of flexibility can negatively impact the more disadvantaged subjects. In the Italian case, for instance, its misuse often leads to flex-‘insecurity’.<sup>144</sup> Andor and Veselý (2018) themselves acknowledged that in some areas of the European Union, young people are likely to be faced with a cascade of insecurity in terms of job offers. This would signify that a programme such as the Youth Guarantee could only help individuals initially. Findings, instead, show that at least some of the participants will not have to worry so soon in terms of looking for other job vacancies as their likelihood to be offered an open-ended and, thus, a more stable contract increases too. This aspect is particularly relevant with respect to the sustainable integration<sup>145</sup> of these inactive individuals into the labour market. Had there been no Youth Guarantee, the majority of these young individuals who are distant from the labour market would probably still use their time to remain inactive. Findings support the idea by Heckman (2000) that early investments encourage later investments; namely, that efficiency is enhanced when human capital is invested in the young.<sup>146</sup> In this regard, it is also possible to hypothesise that the policy could have a long-term effect as ‘skills beget skills’ and due to their age, NEETs have a longer horizon at disposal ‘over which to recoup the fruits of their investments’.<sup>147</sup>

In respect to the outcomes of interest, due to lack of data, in this paper we focused on employment as a valid alternative to inactivity, while we disregarded other activities such as going back to school or enrolling in a university programme. Thus, there could be a certain proportion of individuals whose inactivity observed in occupational terms corresponds instead to educational activity. According to national statistics (Istat), in 2014, among the individuals aged between 18 and 24 years who left school prematurely, only 8.5% were observed in the province of Trento. In the over-15 cohort of 2015, 14% had either no educational title or had only finished elementary school, 30% got a middle-school school-leaving qualification, 14.4% obtained a professional diploma, 27.7% a high-school diploma, but only 13.7%

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<sup>143</sup>(22), p. 3 of 2013/C 120/01.

<sup>144</sup>See Berton et al. (2009).

<sup>145</sup>See Andor and Veselý (2018).

<sup>146</sup>See Heckman (2000), pp. 7, 42.

<sup>147</sup>Ibid., p. 42.

obtained a university degree. The trend persists in 2016 and 2017 and, indeed, suggests that some of the individuals might have enrolled in a university course soon after. In parallel, in 2017, 69.5% of the individuals aged between 25 and 44 years without a degree, were little satisfied with their current job, so that they may have decided to apply for a university course later on. Nevertheless, the intention of the Youth Guarantee is to fight a type of inactivity that is mainly related to the labour market. As former members of the European Commission, Andor and Veselý (2018) highlighted that the Youth Guarantee is about creating a set of interventions that aim to ‘increase young people’s aptitude for work, strengthen employers’ demand for their labour as well as [improve] the process of matching young people with available opportunities’.<sup>148</sup> Hence, the main focus of this European policy is to help young people find quality job opportunities rather than incentivise them to go back to their studies. The inactivity, therefore, is likely to be defined in terms of non participation in the labour market. This is also supported by the fact that the leaders of the European Union first debated over the question with labour ministers, rather than ministers of education, consulted at a later stage, and that the Youth Guarantee itself was born to overcome the human capital loss originated from the most recent economic crisis.<sup>149</sup> In the same study, Andor and Veselý (2018) also stressed that what should be expected from this Youth Guarantee is a European benefit that is fundamentally economic, in addition to being social. In this respect, we also studied the characteristic of employability, reflected in the offer of open-ended contracts and, thus, the job quality that NEETs face in the labour market. The latter, in particular, supports the more urgent necessity of a sustainable integration in the labour markets required by the European Union.

As regards the magnitude of the impact of the Youth Guarantee in occupational terms, there may be individuals who started working informally in the market and that, therefore, are not present in the official statistics. Activities such as babysitting, cooking, producing hand-made products at home, or agricultural activities are often not declared, as well as services provided in the restaurants. In 2015, the black market’s value amounted to 12.6% of the Italian GDP. Among the predominant activities, 37.3% of the added value was due to irregular work.<sup>150</sup> In the province of Trento alone, 23.2% of the employees aged between 15 and 29 years are supposed to have worked in restaurants and hotels. Although this is an issue observed in most policy evaluations, this suggests that there may be more individuals whose labour is not officially declared by their employers and, therefore, not observed.

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<sup>148</sup>See Andor and Veselý (2018), p. 5.

<sup>149</sup>Ibid., pp. 7-8.

<sup>150</sup>Istat report “L’Economia Non Osservata Nei Conti Nazionali” (11 October 2017).

Table 11: Difference-in-Differences Estimate of the Effect of Eligibility in the Youth Guarantee on Pr(Employed) and Pr(Open-Ended Contract)

DEPENDENT VARIABLE	PR(EMPLOYED)	PR(OPEN-ENDED CONTRACT)
<i>ELIG</i>	0.038*** (0.008)	0.027*** (0.006)
<i>GROUP1</i>	0.110*** (0.003)	0.066*** (0.002)
<i>GROUP2</i>	-0.030 (0.049)	-0.018 (0.029)
<i>GROUP3</i>	0.119** (0.058)	0.004 (0.013)
<i>YEAR2</i>	0.075*** (0.003)	0.049*** (0.002)
<i>YEAR3</i>	0.144*** (0.004)	0.084*** (0.003)
<i>CONS</i>	0.138*** (0.008)	0.034*** (0.005)
<i>Observations</i>	48,888	48,888
<i>Individuals</i>	16,296	16,296

*Notes:* The data are provided by the Agency of Trento and refer to the unemployed individuals registered as such in the Province of Trento between 2014 and 2017. The analysis reported in the table looks at the probability of the individuals to become employed and to be offered an open-ended contract based on their eligibility status. Group 1 represents individuals who are always eligible in the time periods considered; group 2 represents individuals who are always eligible in the time periods considered except for the last year; group 3 represents individuals who are never eligible in the time periods considered except for the first year; group 4 represents individuals who are never eligible in the time periods considered. The year of reference is 2015 and the group of comparison is group 4. Errors are clustered at individual level and expressed in parentheses. Significance at 1, 5, 10% levels correspond, respectively, to \*\*\*, \*\*, and \*.

## 6.2 Robustness Checks

In this section we discuss the internal validity of the identification strategy used in the previous section. First, we produce difference-in-differences estimates manually in order to see whether results coincide. Second, we study the intention-to-treat effect for individuals who are near the eligibility cutoff and, therefore, very similar. Third, we prove that findings are robust to group-specific trends that would be there in spite of the programme. Fourth, we study potential time-varying effects. Finally, we also present an identification strategy that accounts for the measure of risk of remaining a NEET as regards the participants of the Youth Guarantee. If the parallel trends assumption holds, the indicator of profiling should not have any significant impact on the labour outcomes studied when interacted with participation.

As regards the impact of the policy on the labour outcomes of the individuals registered at the Agency of Labour, we estimate the following demeaned regression.

$$\bar{Y}_{ic} = \alpha_i + \lambda \overline{PARTIC}_{ic} + \sum_{g=1}^3 \beta_g \overline{COH}_{gc} + \sum_{p=2016}^{2017} \gamma_p \overline{YEAR}_p + \bar{K}'_{ic} \beta + \bar{\eta}_{ic}, \quad (7)$$

where

$$\bar{K}'_{ic} = \theta_f \overline{FEMALE}_{ic} + \sum_{r=1}^8 \theta_r \overline{REG}_{r,ic} \quad (8)$$

$$Y_{ict} - \bar{Y}_{ic} = \lambda (PARTIC_{ict} - \overline{PARTIC}_{ic}) + \sum_{p=2016}^{2017} \gamma_p (YEAR_{pt} - \overline{YEAR}_p) + (\bar{K}'_{ic} - K'_{ic})\beta + (\eta_{ict} - \bar{\eta}_{ic}) \quad (9)$$

In this identification  $FEMALE_{ic}$  indicates a dummy that is equal to 1 when the candidate is a woman.  $REG_{r,ic}$  are dummy variables for the macro-region of origin of the individuals in the different cohorts, with the U.S. being the reference category, while  $\theta_{r,s}$  accounts for differences between males and females in their macro-regions of origin, where labour market conditions are expected to differ. Results show that after having computed the individual averages in the different cohorts, exploiting the deviations from the means guarantees that the unobserved individual effects are removed, or *absorbed*.<sup>151</sup> Manual estimates suggest, as they should, the same results as if we were treating the group effects as parameters such as in equation (1). Over time, individuals who participate are 7.4 and 4.4 percentage points more likely to, respectively, become employed and be offered an open-ended contract.

As a robustness check that aims to exploit the balance obtained from original randomisation, we study the intention-to-treat effect for individuals who are near the eligibility cutoff; namely, individuals who are between 28 and 31 years old. The estimation is carried out in order to only include extremely similar individuals. Results from (10), restricted to the aforementioned sample, show that a comparative advantage can also be observed for eligible individuals who are 28 and 29 years old compared to non-eligible individuals who are 30 and 31 years old. Eligibles are, indeed, 8.4 and 4.2 percentage

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<sup>151</sup>See Angrist and Pischke (2009).

points more likely to, respectively, become employed and be offered an open-ended contract. Results are significant at the 1% level as shown in Table 12.

$$Y_{ict} = \alpha_{ic} + \omega_{DD}ELIG_{ict} + \sum_{g=1}^3 \beta_g COH_{gc} + \sum_{p=2016}^{2017} \gamma_p YEAR_{pt} + \eta_{ict}, \quad (10)$$

As previously mentioned, there may exist some trends that would characterise certain cohorts despite the existence of a certain policy. For this reason, we also estimate the equation that follows, which accounts for group-specific trends. In

$$Y_{ict} = \alpha_{ic} + \lambda_{DD}PARTIC_{ict} + \sum_{g=1}^3 \beta_g COH_{gc} + \sum_{p=2016}^{2017} \gamma_p YEAR_{pt} + \\ + \sum_{g=1}^3 \sum_{p=2016}^{2017} \omega_{gp} COH_{gc} \times YEAR_{pt} + \eta_{ict}, \quad (11)$$

$COH_{gc} \times YEAR_{pt}$  represents the group-specific trends, or the variations from the common trend that would be present in absence of treatment. Table 13, in particular, shows that the effect of treatment is not particularly sensitive to the alternative model that includes group-specific trends. This is true for both outcomes of interest; namely, becoming employed and being offered an open-ended contract. Including group-specific trends keeps the treatment coefficients significant, with a slight variation in their magnitude. Individuals who take part in the internship offered in the Youth Guarantee policy are 9.2 and 4.7 percentage points more likely to, respectively, become employed and be offered a permanent position once group-specific trends are accounted for.

We also find that there are some particularly relevant time-varying effects. Indeed, when we introduce the lag  $PARTIC_{ic,t-1}$  of the original treatment dummy in the model, findings on  $\lambda_{lag}$  suggest that the Youth Guarantee produces larger effects over time as regards the likelihood of the individuals to become employed.



$$Y_{ict} = \alpha_{ic} + \lambda_{DD}PARTIC_{ict} + \lambda_{lag}PARTIC_{ic,t-1} + \sum_{g=1}^3 \beta_g COH_{gc} + \sum_{p=2016}^{2017} \gamma_p YEAR_{pt} + \eta_{ict} \quad (12)$$

Table 14 shows, indeed, that the policy guarantees an additional 1.7 percentage points benefit one year after its adoption in terms of starting a job. On the other hand, the initial effect of the programme dissipates over time by 3.7 percentage points as regards the chances of the individuals to be offered an open-ended contract. In other words, one year after the implementation of the training programme, individuals are 3.7 percentage points less likely to be offered an open-ended contract. This is in line with the idea that the best jobs and, thus, the offers of permanent contracts are exhausted faster. In an atmosphere of fierce occupational competition among job seekers, the institutional context of the Italian labour market is not able to offer a wide number of open-ended contracts to young potentially new workers. As explained in Section 3, financial incentives for firms have usually been used to transform the contracts of individuals already employed by their firm; namely, insiders or workers of the older cohorts. As a consequence, young individuals who settle for atypical contracts, including part-time or fixed-term jobs, right after having participated in and completed the training programme with difficulty will be able to fill in the scarce open-ended positions, as these will already have been offered to their more skilled or advantageous colleagues. In particular, when analysing specific individuals who were not offered an open-ended contract, we see that while there no significant difference was observed between female (45.1%) and male (54.9%) candidates, a comparative disadvantage was observed for individuals whose nationality was registered as Southern European. As regards participation in and eligibility to the training programme, 79.7% and 66.1% of, respectively, participating and eligible European subjects from the South were not offered an open-ended contract.

As regards the alternative test for parallel trends, we account for the individuals' profiling. This is an indicator that is computed statistically and is based on individual characteristics such as the individual's presence in Italy, her level of education, or her previous work experience (see Appendix). The indicator ranges from 0 to 1. Lower values of the profiling indicator express a higher probability for the individual to be reinstated in the labour market. Vice versa, higher values of the profiling indicator signal that the individual is likely to remain a NEET. In particular, a youth's profiling indicator is low if its value falls between 0.000 and 0.250000; medium if the latter falls between 0.250001 and 0.500000; high if its value falls between 0.500001 and 0.750000; and finally, very high if the value of the indicator falls between 0.750001 and 1. A series of interactions  $PARTIC_{ict} \times LOW_{ict}$ ,  $PARTIC_{ict} \times MEDIUM_{ict}$ , and

$PARTIC_{ict} \times VHIGH_{ict}$  are created for the four different types of profiling. The high profiling dummy is used as the base category. Given that profiling accounts for personal characteristics and talents, the indicator is likely to explain part of the variation in the occupational prospects of the individuals (see Appendix). Nevertheless, its effect should not be significantly different from 0 when combined with participation in the programme itself. Given that only participants are assessed with a profiling, we randomly assign a type of profiling to each individual every year so as not to produce over- or under-estimations.

$$\begin{aligned}
Y_{ict} = & \alpha_{ic} + \lambda_{DD}PARTIC_{ict} + \lambda_{low}PARTIC_{ict} \times LOW_{ict} + \lambda_{medium}PARTIC_{ict} \times MEDIUM_{ict} + \\
& + \lambda_{high}PARTIC_{ict} \times VHIGH_{ict} + \sum_{m=1}^3 \theta_{m,s}PROF_{m,ict} + \sum_{g=1}^3 \beta_g COH_{gc} + \sum_{p=2016}^{2017} \gamma_p YEAR_{pt} + \eta_{ict}
\end{aligned} \tag{13}$$

Results in Table 15 confirm, as they should, that participation increases the likelihood of NEETs to become employed and to be offered an open-ended contract by, respectively, 6.6 and 3.8 percentage points. On the other hand, the impact of their profiling  $PROF_i$  is irrelevant when combined with treatment. This contributes to supporting the assumption of parallel trends for it suggests that the Youth Guarantee works independent of the type of individuals who join the programme and that results are not driven by a certain type of individual. The negligible difference with the main identification strategy (1), which does not include the interaction terms of profiling, indicates that profiling is unlikely to significantly influence the probability of individuals to become employed or to be offered an open-ended contract when participants and non participants are compared. Further evidence of the effectiveness of the policy, independent of the profiling assessed for each individual, can be found in the Appendix. As explained in the Appendix, individuals who have a high profiling, or a high probability to remain occupationally inactive based on their educational and employment histories, may experience social stigma and emotional unrest at the idea of ‘needing’ training to a larger extent compared to the other job seekers in order to find a job. When faced with a job interview, the quality of skills acquired in school or at University, as well as the existing job experience, are likely to play a role in being offered employment. Nevertheless, from a causal point of view, findings in Table 15 show that, when participating and non-participating individuals are compared in their likelihood to become employed and to be offered an open-ended contract, profiling does not have an economically significant effect

contrary to participation.

Table 12: Intention-to-Treat Effect on Pr(Employed) and Pr(Open-Ended Contract) for Individuals Near the Eligibility Cutoff

DEPENDENT VARIABLE	PR(EMPLOYED)	PR(OPEN-ENDED CONTRACT)
<i>ELIG</i>	0.084*** (0.021)	0.042*** (0.012)
<i>GROUP1</i>	0.103*** (0.009)	0.055*** (0.006)
<i>GROUP2</i>	-0.024 (0.039)	-0.014 (0.022)
<i>GROUP3</i>	0.262 (0.218)	0.001 (0.013)
<i>YEAR2</i>	0.072*** (0.008)	0.041*** (0.006)
<i>YEAR3</i>	0.132*** (0.010)	0.069*** (0.007)
<i>CONS</i>	0.055 (0.040)	0.015 (0.021)
<i>Observations</i>	11,712	11,712
<i>Individuals</i>	6,418	6,418

*Notes:* The data are provided by the Agency of Trento and refer to the unemployed individuals registered as such in the Province of Trento between 2014 and 2017. The analysis reported in the table looks at the probability of the individuals to become employed and to be offered an open-ended contract based to their eligibility status, depending on their group of membership. The analysis is done for individuals observed near the cutoff; namely, individuals between 28 and 31.

Group 1 represents individuals who are always eligible in the time periods considered; group 2 represents individuals who are always eligible in the time periods considered except for the last year; group 3 represents individuals who are never eligible in the time periods considered except for the first year; group 4 represents individuals who are never eligible in the time periods considered. The year of reference is 2015 and the group of comparison is group 4. Errors are clustered at individual level and expressed in parentheses. Significance at 1, 5, 10% levels correspond, respectively, to

\*\*\*, \*\*, and \*.

Table 13: Difference-in-Differences Estimate of the Effect of Participation in the Youth Guarantee on Pr(Employed) and Pr(Open-Ended Contract) with Group-Specific Trends

DEPENDENT VARIABLE	Pr(EMPLOYED)	Pr(OPEN-ENDED CONTRACT)
<i>PARTIC</i>	0.092*** (0.007)	0.047*** (0.005)
<i>GROUP1</i>	0.026*** (0.008)	0.007 (0.005)
<i>GROUP2</i>	0.031** (0.014)	0.018* (0.010)
<i>GROUP3</i>	0.024* (0.014)	0.014 (0.010)
<i>YEAR2</i>	0.020*** (0.008)	0.039*** (0.004)
<i>YEAR3</i>	0.103*** (0.005)	0.056*** (0.004)
<i>GROUP1</i> × <i>YEAR2</i>	0.020*** (0.008)	0.012** (0.005)
<i>GROUP1</i> × <i>YEAR3</i>	0.069*** (0.008)	0.051*** (0.005)
<i>GROUP2</i> × <i>YEAR2</i>	0.000 (0.014)	-0.007 (0.010)
<i>GROUP2</i> × <i>YEAR3</i>	-0.009 (0.014)	-0.003 (0.010)
<i>GROUP3</i> × <i>YEAR2</i>	-0.003 (0.015)	-0.011 (0.010)
<i>GROUP3</i> × <i>YEAR3</i>	0.017 (0.015)	-0.013 (0.010)
<i>CONS</i>	0.197*** (0.005)	0.071*** (0.004)
<i>Observations</i>	48,888	48,888
<i>Individuals</i>	16,296	16,296

*Notes:* The data are provided by the Agency of Trento and refer to the unemployed individuals registered as such in the Province of Trento between 2014 and 2017. The analysis reported in the table looks at the probability of the individuals to become employed and to be offered an open-ended contract based to their treatment status, depending on their group of membership. It also takes into account group-specific trends. Group 1 represents individuals who are always eligible in the time periods considered; group 2 represents individuals who are always eligible in the time periods considered except for the last year; group 3 represents individuals who are never eligible in the time periods considered except for the first year; group 4 represents individuals who are never eligible in the time periods considered. The year of reference is 2015 and the group of comparison is group 4. Errors are clustered at individual level and expressed in parentheses.

Significance at 1, 5, 10% levels correspond, respectively, to \*\*\*, \*\*, and \*.

Table 14: Time-Varying Effects of Participation in the Youth Guarantee on Pr(Employed) and Pr(Open-Ended Contract)

DEPENDENT VARIABLE	PR(EMPLOYED)	PR(OPEN-ENDED CONTRACT)
<i>PARTIC</i>	0.082*** (0.010)	0.027*** (0.007)
<i>PARTIC<sub>t-1</sub></i>	0.017* (0.010)	-0.037** (0.007)
<i>GROUP1</i>	0.107*** (0.006)	0.072*** (0.011)
<i>GROUP2</i>	-0.037 (0.056)	-0.014 (0.030)
<i>GROUP3</i>	0.122** (0.056)	0.007 (0.020)
<i>YEAR2</i>	0.067*** (0.003)	0.044*** (0.002)
<i>YEAR3</i>	0.135*** (0.004)	0.076*** (0.003)
<i>CONS</i>	0.159*** (0.007)	0.050*** (0.006)
<i>Observations</i>	48,888	48,888
<i>Individuals</i>	16,296	16,296

*Notes:* The data are provided by the Agency of Trento and refer to the unemployed individuals registered as such in the Province of Trento between 2014 and 2017. The analysis reported in the table looks at the time-varying effects of treatment by adding the lag of the treatment dummy. It does so by considering 4 defined groups. Group 1 represents individuals who are always eligible in the time periods considered; group 2 represents individuals who are always eligible in the time periods considered except for the last year; group 3 represents individuals who are never eligible in the time periods considered except for the first year; group 4 represents individuals who are never eligible in the time periods considered. The year of reference is 2015 and the group of comparison is group 4. Errors are clustered at individual level and expressed in parentheses. Significance at 1, 5, 10% levels correspond, respectively, to \*\*\*, \*\*, and \*.

Table 15: Effects of Participation and Profiling in the Youth Guarantee on Pr(Employed) and Pr(Open-Ended Contract)

DEPENDENT VARIABLE	PR(EMPLOYED)	PR(OPEN-ENDED CONTRACT)
<i>PARTIC</i>	0.066*** (0.018)	0.038** (0.012)
<i>PARTIC</i> × <i>LOW</i>	-0.001 (0.025)	0.008 (0.017)
<i>PARTIC</i> × <i>MEDIUM</i>	-0.003 (0.025)	-0.009 (0.017)
<i>PARTIC</i> × <i>VHIGH</i>	0.037 (0.025)	0.029 (0.018)
<i>LOW</i>	0.005 (0.005)	0.004 (0.003)
<i>MEDIUM</i>	-0.000 (0.005)	0.003 (0.004)
<i>VHIGH</i>	0.006 (0.005)	0.004 (0.003)
<i>GROUP1</i>	0.114*** (0.012)	0.068*** (0.008)
<i>GROUP2</i>	-0.034 (0.056)	0-0.021 (0.034)
<i>GROUP3</i>	0.122** (0.056)	0.007 (0.020)
<i>YEAR2</i>	0.067*** (0.003)	0.043*** (0.002)
<i>YEAR3</i>	0.134*** (0.004)	0.078*** (0.003)
<i>CONS</i>	0.154*** (0.009)	0.045*** (0.005)
<i>Observations</i>	48,888	48,888
<i>Individuals</i>	16,296	16,296

*Notes:* The data are provided by the Agency of Trento and refer to the unemployed individuals registered as such in the Province of Trento between 2014 and 2017. The analysis reported in the table looks at the potential impact of the individual characteristic of profiling on the labour outcomes studied. The profiling is computed statistically based on individual characteristics such as the individual's presence in Italy, her level of education, or her previous work experience. The indicator ranges from 0 to 1. Lower values of the profiling indicate a higher probability for the individual to exit from her NEET condition. A youth's profiling indicator is *LOW* if it falls between 0.000 and 0.250000; *MEDIUM* if it falls between 0.250001 and 0.500000; *HIGH* if it falls between 0.500001 and 0.750000; and finally, *VHIGH* if the indicator falls between 0.750001 and 1. Profiling is randomly assigned to individuals every year so as not to bias estimates. A series of interactions are created for the four different types of profiling and participation. High profiling is used as the base category. Errors are clustered at individual level and expressed in parentheses. Significance at 1, 5, 10% levels correspond, respectively, to \*\*\*, \*\*, and \*.

## 7. Conclusions

Young generations of this era are often subject to the instability of short-term jobs and have to search for new ones as soon as their contract ends. As labour markets change, training is needed to guarantee effective transitions from unemployment to employment and from part-time to permanent employment. When individuals lose their marketable skills by becoming inactive, it becomes increasingly difficult for a labour market transition to be successful. The Youth Guarantee was recommended by the European Union precisely to help vulnerable individuals such as NEETs escape from their condition of complete inactivity. This paper, in particular, investigated the impact of the widespread *programme A* of the Youth Guarantee in Northern Italy. The analysis questioned whether participation in the programme increased not only the probability to become employed, but also the individual's chance to start a stable work relationship. Exploiting a difference-in-differences model, results show that on-the-job training preceded by profiling assessment succeeds in making individuals occupationally active. Participants are, respectively, 7.4 and 4.4 percentage points more likely to become employed and be offered an open-ended contract. The analysis, therefore, suggests that an active labour market policy such as the internship promoted within the framework of the Youth Guarantee can actually help individuals overcome their condition of exclusion from the labour market not only by providing them with a job, but also by succeeding in the promotion of quality employment through permanent contracts. In other words, the policy appears to be effective in terms of integration of individuals otherwise isolated from the labour market and, thus, at risk of deterioration of human capital.

Reasons for explaining these positive results may find support, firstly, in the nature of the active labour market policy studied<sup>152</sup>, which is specifically designed to upgrade the skills of the individuals involved; secondly, in local authorities having at their disposal specific guidelines from the European Union that may have helped them grasp the final objective of the policy; thirdly, in the quality of the training offered at the selected firms; and, fourthly, in the target of the policy itself. The positive results by Cappellini et al. (2018) for the youth population in Central Italy also support the effectiveness of such a programme. Despite the fact that training is, with certainty, the more expensive measure within active labour market policies, it also appears to produce significant benefits for the development of the younger population. The programme evaluated, for instance, represents a good compromise between theory and practice. On the one hand, the period of formation and orientation that is common to all candidates introduces, or reintroduces, the individuals to the reality of the labour market. On the other hand, the training at the selected firms encourages individuals to interact with experts; acquire new

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<sup>152</sup>Namely, training.

skills; and put them into practice. It also helps them to better direct their future work preferences.

On this subject, the implementation of similar programmes could potentially lead to a structural change in the way individuals transition from educational environments to permanent workplaces. In particular, the latter could promote an approach that is similar to the dual educational system typical of Continental Europe. Active labour market policies may not always be effective for the older population. However, they appear to be successful when they focus on the potential stock of competencies of the individuals and when they have a specific target such as NEETs. The latter aspect is relevant in that it contributes to reinforcing the theory according to which the more individuals are distant from the reality of the labour market the greater the impact of ALMPs on them. Spending on active measures that focus on the training and job placement of the younger segment of the population, as well as efficiency in the use of the available funds, still varies across regions (see Table 5 in Section 3). Similarly, Italy has converged to an active labour market approach in the law that aims to obstruct the ‘secession of the successful’ only recently. Both facts imply that results from the Youth Guarantee can still be ameliorated by local institutions, including the Agency of Labour of Trento. However, the positive findings for the on-the-job training analysed in this study are likely to encourage inactive individuals to ask for assistance in the job centres of reference for finding employment. Similarly, the Province of Trento is likely to keep spending in training programmes able to upgrade the skills of occupationally inactive participants so as for the figures on youth unemployment to progressively resemble that observed in Austria or similar neighbouring countries. The success in guaranteeing not only a job but a permanent occupation to participants will presumably incentivise local, national, and international lawmakers to submit proposals for increasing the size and frequency of financial incentives for public and private firms, such as an employment bonuses, to hire individuals treated in the Youth Guarantee. All in all, the Youth Guarantee in the Province of Trento should continue to be designed as an opportunity for occupationally inactive individuals to be provided with an advantageous means to both employment and permanent occupation.

Unfortunately, owing to the lack of data we could not assess whether participation in the programme also induced an increase in participation in some other kind of educational programme. Official statistics for the Province of Trento, however, show that only a very small proportion of individuals left school once enrolled in an educational cycle. Hence, it is probable that no major effects of the programme are concentrated there. Keeping track of the NEET individuals both from an occupational and educational perspective could still be useful. A simple questionnaire would help distinguish whether the occupational inactivity of some of the individuals who did not become employed also corresponds to an educational



inactivity. Notwithstanding, and as stressed by renowned members of the European Union Commission in respect to the Youth Guarantee, most of the efforts should be made to aid individuals in finding opportunities in the labour market.<sup>153</sup> On this subject, when the effect of participation in the training programme offered within the Youth Guarantee context is positive, this can be an indication for individuals who are not interested in pursuing their studies, such as dropouts, of the possibility to acquire specialised skills and apply them in the real world of work. As argued by Heckman (2000), learning often occurs in settings outside the standard institutions of education. With their rewarding results, the Province of Trento and other Italian regions such as Tuscany, where the Youth Guarantee is successful, can finally overcome the traditional Italian conception of theoretical education being always more fruitful than practical knowledge. With the Youth Guarantee, training programmes can become the ultimate European door openers for the new generations of occupationally inactive individuals.

Due to their similar approach to both social assistance and youth inactivity, findings related to the likelihood of individuals to find a job in this area of Northern Italy may be of relevance for other European regions.<sup>154</sup> On the other hand, while the historical and social nature of the country makes it difficult to draw conclusions for Italy as a whole, the paper sheds light on the new opportunities created for the young population in terms of job stability. It demonstrates that even in a country where ‘old is gold’ prospects for the young people can actually change and that there can be more than a mere acceptance of flexinsecurity. The relevance of the study is, therefore, twofold in terms of geographical areas exposed to the issue. With respect to job instability, the training programme provided by the Youth Guarantee represents one step forward with respect to the issue of selective flexicurity, in that it increases the chances of young people to be offered an open-ended and, thus, a more stable contract. In this regard, the paper highlights the necessity for international policy makers to guide countries like Italy in the development of a healthy combination of flexibility and security in the labour market. Experts at the European Union institutions, in particular, should monitor thoroughly the distribution of contracts in the Italian labour market in terms of both the types of contract offered and the recipients of the contracts so as to avoid an unwanted retrogression. As mentioned in Section 3, the Italian labour market has generally been in favour of insiders such as the older cohorts of employees and of passive labour market policies such as monetary benefits. This study, however, shows how the recent Europeanisation of labour market policies succeeded in creating a valid point of departure for the Italian labour market in terms of giving value to young workers. Findings, in particular, emphasise the capability of Northern Italy to implement on-the-job training experiences under the guidance of the European Union in terms of both employment and employability.

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<sup>153</sup>See Andor and Veselý (2018).

<sup>154</sup>For instance, Austria.

As regards policy recommendations, this analysis underlines the benefits brought to NEETs by the successful cooperation between an international organisation such as the European Union and a local organisation such as the Agency of Labour of Trento. The effect of a youth policy theoretically designed at the supranational EU level is magnified when implemented in practice by local institutions such as the Region of Trentino-Alto Adige in Italy. This is why it would be advisable for the future to give greater weight to the opinions of the European Committee of the Regions (CoR) that is consulted by the Commission, Council, and Parliament in the field of employment. In respect to this, it would be interesting to further explore the role of the local unions of workers and associations of employers so as to understand if the latter are willing to cooperate with the government and adapt to the new and European ‘active’ approach to unemployment. A recent report by the European Commission Expert Group (2016) found an exaggerated number of city commitments to invest in technological innovation for improving both domestic and international markets, as well as facilitate reskilling. ‘Experience-sharing mechanisms’ across regions, as well as subsidiarity among institutions, are fundamental to achieve a European Union model of youth employment services that are implemented at the local level. The increase in consultations between Ministries, the National Agency for Active Labour Market Policies, and the local Agencies of Labour registered in Italian labour law shows that increasing attention is given to the vulnerable segments of the population, including not only females, but also young inactive subjects (see Section 3).

Overall, the findings suggest that the European Union should keep investing in training and further promote it when individuals are willing to learn new skills and invest in them.<sup>155</sup> They also invite policy makers to focus on outreach strategies for all those NEETs who did not apply to the Youth Guarantee in order to increase the overall impact of the policy. In this regard, it would be useful to investigate whether individuals avoid participation in response to certain social expectations. Due to their malleability in practical skills, the Youth Guarantee certainly has the potential to provide young individuals with higher economic prospects. However, it also offers them a social context that is recognised at the European level and in which to develop a professional and social identity. In particular, policy makers should design and implement training programmes like the ones promoted by the Youth Guarantee so as to include the largest number of participants. Studies by Albert et al. (2013) and Sanfey et al. (2014) show, respectively, young individuals are more sensitive to the effect of social stimuli in risky contexts and social sanctions are sometimes more effective in influencing individual behaviour than monetary sanctions. Thus, many occupationally inactive individuals may fail to participate in training programmes due to the effect of their subculture of reference and the threat of

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<sup>155</sup>With reference to Heckman (2000), it is recommended to invest in the highly skilled, tax them, and provide older and unskilled workers with alternative measures of welfare, such as wage subsidies, so as to avoid ineffective training.

social exclusion that may derive from participation. When providing incentives for participation, policy makers should also account for the the social implications behind participation in active measures. In addition to financing programmes of awareness on the Youth Guarantee in schools, Universities, and other centres of education to inform non participants about the content and effectiveness of training, policy makers should also offer incentives that reach both potential participants and their occupationally inactive peers. Understandably, unemployed youths do not only seek a job or financial stability in their transition from school to work or from unemployment to employment, but they reasonably seek social inclusion too. The Youth Guarantee may appease both urgencies.

## Appendix

### Profiling & the Youth Guarantee

On the occasion of signing the service pact with the job centre of reference, individuals are ‘profiled’ according to their degree of risk of remaining inactive. The indicator of profiling is computed statistically for each youth and is considered itself an active labour market policy (ALMP). The profiling is based on a series of individual characteristics such as the individual’s presence in Italy; her level of education; her situation of employment one year before the start of the Youth Guarantee; and other local features including entrepreneurial density and variation in the unemployment rate of the area of origin. The indicator ranges from 0 to 1. Lower and higher values of the profiling indicator signal, respectively, a higher and lower probability for the individual to be reintegrated in the labour market. A youth’s profiling indicator is low if its value falls between 0.000 and 0.250000; medium if it falls between 0.250001 and 0.500000; high if it falls between 0.500001 and 0.750000; and finally, very high if the indicator’s value falls between 0.750001 and 1.

While participation in ALMPs may or may not have beneficial effects for participants, the threat caused by their mere existence may have an impact on the occupational prospects of the individuals involved. The study by Black et al. (2003), for instance, examined the consequences of profiling on unemployment insurance claimants. In particular, they found that the former reduced both the number of weeks of benefit receipt and the amount received. At the same time, the activity led to a significant increase in earnings for the treated individuals in the year after their claim for unemployment benefits, suggesting an anticipated entry in the labour market. Similar results were observed by Bergemann et al. (2008; 2011) for Germany and by Blasco and Rosholm (2011) for Denmark. Scholars agree on the fact that systems that guarantee active labour market policies usually increase the effort in job search so as to avoid actual participation in ALMPs. On this subject, there might be valid reasons for individuals to be significantly influenced by the presence of ALMPs in their labour market. Heckman and Rubinstein (2001), for instance, associated this threat effect to the fear of having to renounce alternative activities or of being stigmatised. As a result, individuals may accept non-quality jobs rather than attend active measures that demand a long-term commitment. The fear of producing a negative signal to external subjects such as potential employers has been widely discussed in the literature. Spencer (1973), before all, defined the job market as a market where signaling is paramount, due to the lack of information on job candidates. On the one hand, the employer lacks the necessary knowledge about the real skills

of the job candidates. On the other hand, the individuals have to select the information they aim to signal at a certain cost. This is particularly true for the more disadvantaged subjects who compete with better educated and, sometimes, more productive individuals. As observed by Connelly and Certo (2011), inferior signalers may take the risk of producing false signals, or cheat, for they are aware of their chances being lower anyway. In this regard, Hopkins (2012) shed light on the stronger signals sent by high-quality workers to firms. This would explain the different degree of difficulty for low- and high-profiled individuals to get a job in the first place.

A comparison between individuals who are and who are not profiled would be more useful in order to identify the potential *ex-ante* effect of profiling in the Youth Guarantee. On this occasion, however, we will present an analysis that focuses exclusively on the participants of the Youth Guarantee. This allows us to exploit the information relevant for the individuals on their profiling and the duration of their training in the selected firms. In particular, we aim to investigate how the different types of profiling indicators with which NEETs are assessed influence their job opportunities. For the purpose of this analysis, we retain only those individuals who participate in the programme of the Youth Guarantee and, thus, who are profiled before starting their on-the-job training experience. The Youth Guarantee expects participants not to be engaged in employment, education, or training, and to be younger than 30 years old. In order not to produce biased estimates, associated to the duration of training, individuals who are still participating and who have 2100 as their year end date are dropped. As regards the most relevant controls, we account for the nationality of the participating individuals, their age, and their gender. A dummy  $IT_i$  for whether the individual observed is Italian or not is included in the model. Indeed, in contrast to Northern countries like Denmark or the Netherlands, job vacancies in the Italian labour market are likely to require candidates to have a perfect knowledge of the Italian language. To verify this, it is sufficient to check some of the job offers promoted online by Italian firms or the number of blogs that provide suggestions for foreigners on what actions to take in order to find a job in Italy. With regard to the average age of the labour force in Italy, the fact that there is a tendency on the part of individuals to live with their parents long after reaching their majority, developed a labour market where firms are used to older candidates. Recent statistics by Eurostat show that the average age at which Italians left their family nest in 2017 was about 30.1 years old, in comparison with Germans and Swedes who moved out at, respectively, 23.7 and 21. This justifies the need to consider the individuals'  $AGE_i$  as well. Because of the traditional history of female discrimination in the Italian labour market, we also account for a dummy  $FEMALE_i$ . On this subject, the use of illegal undated letters of resignation that employers obliged female employees to sign, so as to prevent the costs of maternity leave, only stopped recently, with the 2014-15 Jobs Act.

In this analysis, we are particularly interested in investigating whether the profiling of an individual can actually influence employers when opting for a candidate rather than for another one. Additionally, we are curious about understanding whether attending the programme for a longer duration can work as a remedial to the potential ‘stigma’ brought by the initial assessment of the individual. The longer a disadvantaged youth attends the programme, the more likely it could be for her to acquire and develop any lacking skill or, vice versa, to fall victim to potential locking-in effects. Using standard OLS, we first look at the association of the different types of profiling  $PROF_i$  with the two labour outcomes of interest  $Y_i$ ; namely, the likelihood of the participants to become employed and to be offered an open-ended contract. In particular, we include the  $LOW_i$ ,  $MEDIUM_i$ , and  $VHIGH_i$  dummies for having, respectively, a low, medium, and very high profiling and use the dummy of high profiling as the base category. We then incorporate  $DUR_i$  in the model, or the duration of the internship measured in intervals of 100 days, to see whether there exists any compensation for having a particularly risky profile. A stronger commitment in the programme, or simply more time, may help the more vulnerable individuals overcome their occupational prospects. A distinction is made between short, medium, and long terms since the implementation of the Youth Guarantee, intended as the years 2015, 2016, and 2017.

$$Y_i = \alpha + \beta AGE_i + \theta_f FEMALE_i + \delta IT_i + \sum_{m=1}^3 \theta_p PROF_{m,i} + \omega DUR_i + \epsilon_i \quad (14)$$

The descriptive statistics of Table 16 show that individuals are on average about 24.2 years old, with male participants being slightly younger. As regards the nationality of participating individuals, Italians make up the majority of the sample analysed. NEETs participate in the on-the-job training for 324 days averagely, with a variation of less than 2 months. In respect to the profiling, we observe that 21.8% of the individuals are assessed with a low profiling; 29.3% with a medium profiling; 32.7% with a high profiling; and 16.3% with a very high profiling. In particular, individuals who are at a low risk of staying unemployed are 25.1 years old on average, while NEETs with a high profiling are usually 23.1 years old. Conversely, there is no particular pattern when trying to understand the relationship between the type of profiling assessed and the gender of the individual. Indeed, women are the minority in both low- and very high-profiling categories with a proportion of, respectively, 44.1% and 40.1%. On the contrary, Italians are the predominant nationality in all the categories. Indeed, they make up 90% of the low-risk group and 79.9% of the high-risk group. As regards participation in the on-the-job training, individuals usually attend the programme for about 11 months, with low and medium profiles

participating slightly longer. In terms of the relationship between the occupational prospects of the NEETs and their profiling, there is a moderate contrast between low and high profiles. Table 17, in particular, shows that employed NEETs are assessed with a low profiling 54.4% of the time and with a very high profiling 31% of the time. The gap is also present to a modest degree when looking at the type of individuals who are offered an open-ended contract, independent of becoming employed. While we only find 12.1% of the NEETs with a very high profiling ending up with an open-ended contract, the proportion increases up to 26.1% for those assessed with a low profiling.

As regards our identification strategy, the OLS estimates of Table 19 show that an increase in age corresponds to an increase in the probability for participants to exit from their unemployment condition in both short and medium terms. For Italian participants, there is an additional comparative advantage in the medium term of about 4.3 percentage points, significant at 10% level. The training programme appears to be more beneficial for female participants too, compared to their male colleagues.<sup>156</sup> At least in the short term, women are 3.6 percentage points more likely to become employed. However, no such advantage is observed in the following periods. This is not particularly surprising given that the phenomenon of undated letters of resignation preventing maternity leave stopped with the 2014-15 Jobs Act. While the latter might help explain the positive change in job opportunities observed for women in 2015, it did not guarantee its stability over time. Similarly, the fact that older and Italian job candidates are slightly favoured confirms the hypothesis of the existing literature of a labour market in Italy that is used to older employees and that prefers compatriot individuals. In regard to our main covariate of interest, we are interested in understanding how much of the variation observed in the labour outcomes is explained by being assessed with a certain type of profiling. Table 19 shows that being assessed with a low profiling corresponds to a positive change in the probability to be offered a job of, respectively, 24.9, 15.3, and 13.3 percentage points in the short, medium, and long terms. Compared to high profiles, a similar pattern is also found for individuals assigned with a medium profiling. Having a very high profiling, on the other hand, contributes to explaining a negative variation in the probability to become employed by 6.7 percentage points in the long term. Estimates are similar as regards job stability. Table 20 shows that being assessed with a low or medium profiling indicator contributes to a positive variation in the probability of participants to be offered an open-ended contract. In the long term, for instance, the change is equal to, respectively, 13.8 and 7.3 percentage points. Results seem to suggest a greater difficulty for high profiles to produce positive signals to the potential employers in the labour market.

In this regard, we also take into account the possibility for participants to experience locking-in

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<sup>156</sup>This is line with the studies of Svejnar (2002), Bergemann and van den Berg (2008), and Card et al. (2018).

effects during their internship at the selected firms. Table 19 shows that attending the programme at the firm for 100 additional days corresponds to a reduction in the probability to become employed of 3.8 and 3.3 percentage points in, respectively, the medium and long terms. The latter supports the theory by Cerulli-Harms (2017) on the risks of becoming ‘eternal interns’. Results do not differ as regards the probability of the participants to be offered an open-ended contract. Indeed, a longer participation in the programme does not appear to be remedial for the candidates. The assignment of a low or medium profiling, on the other hand, contributes to explaining part of the positive variation in this labour outcome. However, and as anticipated by the weak correlation coefficients in Table 18, findings are not powerful in terms of the extent to which profiling explains the labour outcomes of the individuals.<sup>157</sup> The latter is in line with the alternative parallel trends assumption provided in Section 6.2 according to which results are not driven by specific profiling types but solely by participation. Nevertheless, individuals who are profiled with a certain type of profiling may experience an emotional shock that increases awareness on their condition. This would then lead them to accept any job offer they receive in line with the idea that the latter is the best they can get anyway. One may consider whether individuals fear social stigma with respect to participation in active labour market policies or social pressure on the part of their families and peers. Further research should investigate the nature of the question.

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<sup>157</sup> $R^2$  goes from 9.3% in the short term to 2.3% in the long term as regards the probability to become employed and from 5.1% to 1.8% as regards the probability to be offered an open-ended contract.



Table 16: Descriptive Statistics For Individuals Registered at Agency of Labour of Trento, 2014-17

<b>Variables Observed for Participants</b>	<b>Mean</b>	<b>SD</b>
<i>Predetermined Covariates</i>		
Age (years)	24.17	3.908
Gender (Female = 1)	0.445	0.497
Italian	0.834	0.373
<i>Determined in Youth Guarantee</i>		
Low Profiling	0.218	0.413
Medium Profiling	0.293	0.455
High Profiling	0.327	0.469
Very High Profiling	0.163	0.369
Duration of Training (100 days)	3.236	0.485
<i>Outcomes of Interest</i>		
Employed	0.396	0.489
Open-Ended Contract	0.168	0.374
<i>Observations:</i>	<i>9,120</i>	
<i>Individuals:</i>	<i>3,040</i>	

*Notes:* In this table, we provide descriptive statistics for the main variables observed in the data provided by the Agency of Labour of Trento for individuals who registered for participation in the Youth Guarantee between 2014-17. For all unemployed individuals in the sample, we observe their gender and nationality, which are the subject-specific qualities of the individuals. For participants we also observe a profiling indicator that is computed statistically based on individual characteristics such as the individual's presence in Italy, her level of education, or her previous work experience. The indicator ranges from 0 to 1. This measure corresponds to the risk of the individual to remain unemployed and uneducated. A youth's profiling indicator is low if it falls between 0.000 and 0.250000; medium if it falls between 0.250001 and 0.500000; high if it falls between 0.500001 and 0.750000; and finally, very high if the indicator falls between 0.750001 and 1. We also observe for how long individuals attend the on-the-job training programme measured in intervals of 100 days.

Table 17: Descriptive Statistics For Individuals Registered at Agency of Labour of Trento by Profiling, 2014-17

<b>Variables Observed   Types of Profiling</b>	Mean if <i>low</i>	SD	Mean if <i>medium</i>	SD	Mean if <i>high</i>	SD	Mean if <i>very high</i>	SD
Age (years)	25.06	3.435	22.09	3.573	23.07	3.423	23.07	3.423
Gender (Female = 1)	0.441	0.497	0.474	0.499	0.445	0.497	0.401	0.490
Italian	0.900	0.300	0.949	0.219	0.799	0.401	0.605	0.489
Duration Training /100d	3.239	0.465	3.245	0.485	3.191	0.520	3.306	0.429
Employed	0.544	0.498	0.418	0.493	0.321	0.467	0.310	0.463
Open-Ended Contract	0.261	0.439	0.179	0.384	0.121	0.326	0.121	0.326
<i>Observations:</i>	<i>1,986</i>		<i>2,673</i>		<i>2,979</i>		<i>1,482</i>	
<i>Individuals:</i>	<i>662</i>		<i>891</i>		<i>993</i>		<i>494</i>	

*Notes:* In this table, we provide descriptive statistics for the main variables observed in the data provided by the Agency of Labour of Trento for individuals who registered for participation in the Youth Guarantee between 2014-17. For all unemployed individuals in the sample, we observe their gender and nationality, which are the subject-specific qualities of the individuals. For participants we also observe a profiling indicator that is computed statistically based on individual characteristics such as the individual's presence in Italy, her level of education, or her previous work experience. A youth's profiling indicator is low if it falls between 0.000 and 0.250000; medium if it falls between 0.250001 and 0.500000; high if it falls between 0.500001 and 0.750000; and finally, very high if the indicator falls between 0.750001 and 1. In this table, descriptive statistics are computed conditional on the type of profiling with which the individuals have been assessed at the Agency, distinguishing between low, medium, high, and very high profiling.

Table 18: Correlation Matrix for Labour Outcomes and Profiling

Outcome of Interest		Pr(EMPLOYED)		Pr(OPEN-ENDED)
Age (years)	+	0.184	+	0.109
Gender (Female = 1)	+	0.027	+	0.023
Italian	+	0.056	+	0.049
Duration Training /100d	-	0.017	-	0.016
Low Profiling	+	0.160	+	0.130
Medium Profiling	+	0.028	+	0.019
Very High Profiling	-	0.078	-	0.124

*Notes:* The data are provided by the Agency of Trento and refer to the unemployed individuals registered as such in the Province of Trento between 2014 and 2017. A correlation matrix is presented so as to understand the relationship between the labour outcomes of interest and the covariates, including the type of profiling with which the participants are assessed. A youth's profiling indicator is low if it falls between 0.000 and 0.250000; medium if it falls between 0.250001 and 0.500000; high if it falls between 0.500001 and 0.750000; and finally, very high if the indicator falls between 0.750001 and 1.

Table 19: OLS: Explaining the Probability to Become Employed Through Profiling

$Y = \text{Pr}(\text{Employed})$	SHORT TERM	MEDIUM TERM	LONG TERM	VIF
<i>AGE</i>	0.015*** (0.002)	0.011*** (0.003)	0.001 (0.003)	1.35 (0.74)
<i>FEMALE</i>	0.036** (0.015)	0.011 (0.018)	-0.005 (0.018)	1.03 (0.97)
<i>IT</i>	0.021 (0.022)	0.043* (0.025)	0.031 (0.026)	1.13 (0.88)
<i>DUR</i>	0.009 (0.016)	-0.038** (0.018)	-0.033* (0.019)	1.01 (0.99)
<i>LOW</i>	0.249*** (0.024)	0.153*** (0.028)	0.133*** (0.028)	1.70 (0.59)
<i>MEDIUM</i>	0.021*** (0.021)	0.060** (0.024)	0.072** (0.025)	1.56 (0.64)
<i>VHIGH</i>	0.026 (0.023)	0.010 (0.027)	-0.067** (0.028)	1.31 (0.76)
<i>CONS</i>	-0.022** (0.072)	0.017** (0.085)	0.538*** (0.089)	
<b>R-squared</b>	<b>9.3%</b>	<b>3.5%</b>	<b>2.3%</b>	
<i>Observations</i>	<i>3,040</i>	<i>3,040</i>	<i>3,040</i>	

*Notes:* The data are provided by the Agency of Trento and refer to the unemployed individuals registered as such in the Province of Trento between 2014 and 2017. Estimates are obtained from an ordinary-least-squares regression on 3,040 individuals. In this table, we show the extent to which covariates explain the probability of participants to become employed. The duration of the training is also taken into account in intervals of 100 days, given that the majority of participants attend the programme for more than four months. The identification also accounts for the different types of profiling of the individuals, with high profiling as the base category. A youth's profiling indicator is low if it falls between 0.000 and 0.250000; medium if it falls between 0.250001 and 0.500000; high if it falls between 0.500001 and 0.750000; and finally, very high if the indicator falls between 0.750001 and 1. The variation inflation factor is also estimated, with  $1/VIF$  in parentheses. Significance at 1, 5, 10% levels correspond, respectively, to \*\*\*, \*\*, and \*.

Standard errors are expressed in parentheses.

Table 20: OLS: Explaining the Probability to Be Offered an Open-Ended Contract Through Profiling

$Y = \text{Pr}(\text{Open-Ended})$	SHORT TERM	MEDIUM TERM	LONG TERM	VIF
<i>AGE</i>	0.002 (0.001)	0.002 (0.002)	-0.003 (0.002)	1.35 (0.74)
<i>FEMALE</i>	0.035*** (0.010)	0.007 (0.014)	0.001 (0.016)	1.03 (0.97)
<i>IT</i>	-0.016 (0.014)	0.035* (0.019)	0.044** (0.022)	1.13 (0.88)
<i>DUR</i>	-0.006 (0.010)	-0.011 (0.014)	-0.024 (0.016)	1.01 (0.99)
<i>LOW</i>	0.145*** (0.016)	0.128*** (0.021)	0.138*** (0.025)	1.70 (0.59)
<i>MEDIUM</i>	0.029** (0.013)	0.061*** (0.018)	0.073*** (0.021)	1.56 (0.64)
<i>VHIGH</i>	-0.009 (0.015)	0.026 (0.021)	0.001 (0.024)	1.31 (0.76)
<i>CONS</i>	0.028 (0.047)	0.068 (0.066)	0.305*** (0.078)	
<b>R-squared</b>	<b>5.1%</b>	<b>2.3%</b>	<b>1.8%</b>	
<i>Observations</i>	<i>3,040</i>	<i>3,040</i>	<i>3,040</i>	

*Notes:* The data are provided by the Agency of Trento and refer to the unemployed individuals registered as such in the Province of Trento between 2014 and 2017. Estimates are obtained from an ordinary-least-squares regression on 3,040 individuals. In this table, we show the extent to which covariates explain the probability of participants to be offered an open-ended contract, independent of becoming employed. The duration of the training is also taken into account in intervals of 100 days, given that the majority of participants attend the programme for more than four months. The identification also accounts for the different types of profiling of the individuals, with high profiling as the base category.

A youth's profiling indicator is low if it falls between 0.000 and 0.250000; medium if it falls between 0.250001 and 0.500000; high if it falls between 0.500001 and 0.750000; and finally, very high if the indicator falls between 0.750001 and 1. The variation inflation factor is also estimated, with  $1/VIF$  in parentheses. Significance at 1, 5, 10% levels correspond, respectively, to \*\*\*, \*\*, and \*. Standard errors are expressed in parentheses.

# CHAPTER IV

## A Subcultural Theory for Non Participation in Active Labour Market Policies<sup>†</sup>

### Summary

Training programmes that are part of national and international active labour market policy aim to help people become employed by offering additional skills or orientation services. However, an increasing number of people outside the labour market avoid participating in them. This is particularly true for young inactive individuals who are often associated with problems of vulnerability with regards to their choices in school and in the labour market. This chapter advances the argument that certain segments of the inactive population fail to commit to certain standard social norms, such as participating in public programmes to eventually work, due to the effect of their subculture's expectations on them. For this purpose, a model is presented that accounts for the expectations of both the peers and the government with respect to the individual's participation in programmes of active labour market policy. The theoretical framework on individual decision making is implemented in accordance with the idea that subcultures matter in specific occupational circumstances, even more so when the social group of reference is small.

**Keywords:** Active Labour Market Policies; Occupational Inactivity; Psychological Game Theory; Social Expectations; Subcultures.

JEL: J10; J15; J62; H00; H10; K00; K31; C70.

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# 1. Introduction

The difficult thing to explain about how middle class kids get middle class jobs is why others let them. The difficult thing to explain about how working class kids get working class jobs is why they let themselves.

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*Paul Willis, 1977*

With machines replacing basic tasks, it has become increasingly valuable to have advanced skills to offer to potential employers and increasingly relevant to take action against occupational inactivity. A recent study by Acemoglu and Restrepo (2019) shows that one additional robot per 1,000 workers can lead to a drop in the employment rate by 0.18-0.34 percentage points in the U.S. According to EUROSTAT, in 2017 there were 89 million economically inactive people between 15-64 in the territory of the European Union (EU). Of this sample, the vast majority (78%) declared that ‘they did not wish to work’. Unsurprisingly, Italy registered the highest number of individuals outside the labour market; namely, 35.1%. However, except for the renowned Scandinavian countries, the inactivity problem remains significant even for the wealthier European countries. OECD statistics show that in the last quarter of 2019, Belgium, Luxembourg, and France registered an inactivity rate of, respectively, 30.5%, 27.5%, and 28.4%. On the other hand, the issue is not purely European nor does it affect only the older citizens. Gebel and Giesecke (2016), for instance, found that while deregulating employment protection laws helped decreasing insecurity among the youth population, it failed to reduce the copious unemployment risks associated with it. In fact, occupational inactivity is evidently a social issue in addition to an economic one. A study by Toivonen (2011), for instance, sheds light on the arising problem of moral panic among the youth Japanese population segment who are NEET (not in employment, not in education, and not in training) and on how the latter has progressively become a distinctive social category with problems of its own.

On this subject, active labour market policies come to the rescue in that they are programmes provided by the government, which aim to help inactive individuals become employed by providing them with training and orientation services as well as assistance in job search. Their existence is certainly not irrelevant to the participation choices of those who are occupationally inactive, including the NEETs. Rosholm and Svarer (2008), for instance, found that the mere fact of having an active labour market policy regime in place influences the job search rate of the unemployed group. Similarly, Filges and Hansen (2017) recently stated that whether active labour market programmes are perceived

or not as a threat by occupationally inactive individuals very much depends on how public authorities approach the implementation of such measures. Active labour market policies are indeed a means for individuals to change their social status in addition to their economic and financial condition; hence the attention that should be put on their implementation.

With regards to our paper, extensive empirical research exists on the microeconomic effect of participation in active labour market policies with respect to the segment of the population targeted, the type of programme designed, and the country in which the latter was implemented. Very few studies, however, seem to be interested in understanding why, despite the clear advantages brought by ALMPs, such a large number of outreach strategies continue to fail. While there may be different objective reasons behind inactivity as well as behind lack of motivation to work, Heckman and Smith (2004) stressed that participation in social programmes can easily and strongly be affected by personal choices, too. When an unemployed individual weighs the costs and benefits of taking part in a training programme, he is also likely to account for the social role that he embodies in his subculture or group of reference. Due to short-termism and informational barriers, an individual could, for instance, perceive the potential cost of being socially excluded from his peers to a larger extent than the potential benefit of being socially integrated in the group of the working people. As stated by Gundert and Hohendanner (2015), the current literature about ALMPs consists of economic evaluations on the effectiveness of such programmes but ignores almost completely the social integrative power that active labour market programmes should provide as well as the social insecurity that surrounds individuals in their choice to take part in them. Whilst there are numerous sociological accounts that have collected and analysed qualitative data through interviews, from the levels of support perceived by welfare officials at the local unemployment agencies to those lacking in the new workplace, as well as reports on the economic aspect of participation in ALMPs, we contribute to the existing literature by providing an economic theory that investigates what may happen *before* potential participation.

Whereas Heckman and Smith (2004) study the different probabilities of participation, acceptance, and formal enrollment from a descriptive perspective, we try to demonstrate that ‘you can lead a horse to water, but you can’t make it drink it’ by providing a model that advances a sociological argument for an economic problem; namely, occupational inactivity. Put simply, many individuals may decide not to commit to active labour market policies such as training programmes due to the expectations faced by other existing social agents. With reference to the current debate about NEETs and their social vulnerability, we develop a theory that looks at the decision-making process of a potential participant that accounts for both his own preference and the preference of their peers and

the government. Understanding the policy evaluation perspective of whether participation in active labour market programmes increases the probability for the unemployed individual to get a job is fundamental. Nevertheless, the large number of eligible individuals who fail to participate in training measures make it reasonable for the scientific community to understand ALMPs from a more critical perspective as well; namely, the motivation behind participation, or better non participation.

On this basis, we agree with the argument by Anderson (2009) that the implementation of active labour market policies should account, too, for how individuals behave in their private lives. Against this background, in this paper we provide a theoretical model to explain the lack of willingness to commit to a training programme that could instead help individuals exit from their state of occupational inactivity. Section 2 refers to the most relevant existing studies that tackle the question. In Section 3 we discuss the assumptions and structure of a model that accounts for the social expectations faced by potential participants in their decision-making process. Section 4 provides some predictions of the theoretical model in question, while Section 5 examines the main findings. Conclusions as well as policy suggestions are provided in Section 6.

## 2. Literature Review

The need for an economic theory that addresses participation in active labour market programmes by taking into consideration social expectations is necessarily explained by the underestimation of deviant behaviours in occupational circumstances. The general tendency of complying with the most popular norms imposed by traditional customs and the law is undoubtedly dominant. As studied by Tangney and Triandis (2013), individuals tend to grow a feeling of guilt and shame when they do not meet the expectations of others. At the same time, however, there are individuals who may deviate from social norms that are considered generally right, such as those of working; of contributing to the economic wealth of one's country; and of creating a professional identity for oneself. This is particularly true for individuals who tend to be significantly more influenced by their subcultures, such as the youth population, often associated with vulnerability as regards their choices on education and work. As mentioned in the study by Scarpetta et al. (2010), the problem of youth inactivity in the labour market started with the world financial and economic crisis. In some countries, by 2010 one could count one unemployed youth out of four and the proportion remained high in the following years due to the 'weak labour market' recovery of that period. Similarly, a maximum of 40% school-leavers were observed to be at risk of future job integration. Already ten years ago, these authors stressed that 'young job



seekers should be required to search actively for jobs', especially if low skilled. Nonetheless, Dietrich (2013) described how, in the past, public programmes have often ignored the problem of social exclusion and marginalisation some youths may experience. Additionally, and as stressed by Weller (2007), even if they have been employed before, first jobs can fail to meet the expectations of young individuals with the result of they disregarding employment as a means to form their personal identity. This is particularly true for those subjects who do not dispose of an occupationally useful social capital. In this regard, the author emphasised how young people often have to cope with a job market that may reject traits of the subculture they are part of. As a consequence, this can necessarily move them further away from job seeking activities, including participating in active labour market policies.

With regards to predicted deviant behaviours, Bell (2013) stressed how easily individuals tend to share life choices and preferences in the existing youth subcultures. A study by Gunter (2008) shows that young black Caribbean males adapt to certain non-recommendable codes of their neighbourhood in order to shape an identity. In line with this subject, the necessity to conform to a particular community's standards can incentivise certain young people to behave 'badly'. With respect to the job market, the analysis by Görlich et al. (2013) suggests that youths tend to commit less strongly to a job for they are keen to seek different opportunities before they settle. Not surprisingly, the authors highlighted that the condition of unemployment is typical of youths who belong to groups characterised by social problems too. When analysing the behaviour of socially-excluded boys in very isolated neighbourhoods of the Netherlands, Terpstra (2006) shed light on the tendency to adapt to their disadvantaged condition. These young people seemed to be significantly influenced by the role of prestige present in their group of peers as well as by their relationships with the so-called dominant institutions. In particular, the social value of masculinity was promoted by 'tough behaviour rather than by attending school'. Because people tend 'to feel pressured to behave in a certain way according to their role in the group'<sup>158</sup>, as studied by Clinard and Wadsworth (2011), these social behaviours can be transmitted onto other environments, including the job market. Clearly, there may exist individuals who deviate from the more extended social norms without necessarily undergoing labelling, including the secret deviants of Becker (1973). However, whether individuals conform to, or rather deviate from, social norms formally or informally, a large number of individuals tend to deem their behaviour as justifiable. For the purpose of our analysis, we will make use of the normative definition of deviation by Clinard and Wadsworth (2011), or the deviation from a norm that is usually well-respected by the majority of the individuals in a society and that is, therefore, sanctionable due to social disapproval.<sup>159</sup>

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<sup>158</sup>Ibid., pp. 10, 11.

<sup>159</sup>See *Sociology of Deviant Behaviour* (2011), pp. 5-7.

With reference to our paper, it is reasonable to think that if resources for better life chances lack<sup>160</sup>, individuals will with less difficulty be influenced by their surroundings as well as become economically inactive afterwards.<sup>161</sup> The latter would explain why so many unemployed young people spend their time ‘hanging around’<sup>162</sup> rather than committing to find a job. The recent study by Lobo (2018) confirms such argument by reporting the case of the unemployed community in Austrian Marienthal, where resignation from work was associated with no effort to ameliorate the existing situation as well as exaggerated apathy and passivity, without intention to ‘salvage collapse’. The situation did not differ in the Australian community of Perth, where at the cost of remaining occupationally inactive, the drop in self-esteem had been found to cause individuals to deny their condition of unemployment and ‘kill time by watching television’. Agreeably, the norms and expectations on behaviour by the group members may vary from group to group.<sup>163</sup> Thus, while committing to a training programme may be considered the norm by the population of the working people with respect to the occupationally inactive people, this is not necessarily the case for the inactive individual’s subculture of reference. The latter may, instead, consider more acceptable to dedicate one’s time to the group’s social activities.

The historic account by Willis (1977) is significantly pertinent in this regard. Although labour power should be considered the main means to grow an ‘active connection with the world’<sup>164</sup>, there exist some forms of oppositional subcultures that, since youthhood, tend to oppose authority<sup>165</sup>, or the standard social norms more in general, in ‘countless small ways’.<sup>166</sup> For these individuals the importance of the group<sup>167</sup> surpasses the need to create a self-identity that is detached from the group itself. And this is necessarily true also as regards the world of work. On this subject, British social scientist Willis (1977) highlighted how belonging to such a group allows you to receive the ‘real insider knowledge’ on the labour market<sup>168</sup>, or to defeat the dominant institution’s<sup>169</sup> scope; namely, to work, or rather to ‘make you work’.<sup>170</sup> We are not suggesting that young inactive people are hypocritical risk takers. On the other hand, it can be argued that in the particular circumstance of occupational inactivity, deviation from the social norm of committing to a public programme in order to become employed and, ultimately, contribute to the more extended society’s well-being, may appear more socially rewarding<sup>171</sup>

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<sup>160</sup>According to Hendry et al. (1998), ‘resources of life chances are the preconditions for the free choice of lifestyles’.

<sup>161</sup>See Hendry et al. (1998).

<sup>162</sup>Ibid.

<sup>163</sup>See *Sociology of Deviant Behaviour* (2011), p. 14.

<sup>164</sup>See *Learning to Labour: How Working Class Kids Get Working Class Jobs* (1977), p. 2.

<sup>165</sup>Ibid., p. 11.

<sup>166</sup>Ibid., p. 12.

<sup>167</sup>Ibid., p. 23.

<sup>168</sup>Ibid., p. 26.

<sup>169</sup>In this case, the school.

<sup>170</sup>Ibid., p. 26.

<sup>171</sup>See *Sociology of Deviant Behaviour* (2011), p. 29.

to the young and vulnerable individuals than working per se.<sup>172</sup> Because one the purposes of subcultures is to defeat the ‘ideological definition’ of standard values, human labour power eventually ends up being perceived ‘as a barrier against unreasonable demands from the world of work rather than as a special and privileged connection with it’.<sup>173</sup>

### 3. Model

#### 3.1 Assumptions

When the individual needs to decide whether to take part in programme of active labour market policy, he is also faced with a choice between the strategy that is expected from him by his peers, who are part of the subcultural group he is part of, and the strategy that is expected from him by the government, which is considered the official authority of the more extended society. The individual will therefore build up a psychological hierarchy of beliefs concerning his actions and will always compare his decisions to the ones that the other two social agents, or players, expect him to make. The analysis refers to a set of strategies where there is incomplete information in respect to the expected payoffs of the other players. This is based on Eichberger’s (1993) explanation of there being an ‘artificial player’ represented by nature, which exogenously decides the types, or kinds,  $k$  of players, and hence the potential states, involved. The latter, in particular, can be associated with Bayesian decision theory, according to which an individual follows a certain decision strategy  $d$  of  $D$  that is influenced by the signals  $s$  of  $S$  he receives in respect to the possible states of the world  $w$  of  $W$ . Thus, the final action of the individual is updated as regards the information received.

The individual’s expected utility is therefore affected by the conditional distribution of probabilities  $c'(w|s)$  such as in:

$$\sum_{w \in W} U(d, w) \cdot c'(w|s) \quad (15)$$

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<sup>172</sup>In *Learning to Labour: How Working Class Kids Get Working Class Jobs* (1977), p. 154, one can read: ‘It appears to them as if there is a viable possibility of surviving without wages - or in some cases without any kind of official and visible means of support at all. This opens up the possibility, therefore, of certain accurate insights about the nature of their future being carried forward not as an affirmation of a certain kind of work but as a *refuser* of all work’. Resistance towards the official culture has also been observed within an organisation itself by Jermier et al. (1991), who analysed the reactions of different organisational subcultures in a police organisation with respect to the official organisational culture.

<sup>173</sup>Ibid., p. 132.

When deciding whether to participate or not in an active labour market programme, the individual needs to understand how participation is perceived in terms of social commitment and what this entails for the development of a social identity in relation to his existing social position. Logically speaking, the individual's utility function will depend not only on his existing social position but most importantly on the social position he could potentially achieve. Indeed, moving from one social position to another needs to be profitable in terms of expected payoff. This is particularly true when the individual is only concerned with his intentions and the intentions of others and there are no forms of dictatorship or similar certain threats that could influence his decision to an extreme degree. In this study, we assume there exists a type of government that does not enforce individuals to take part in active labour market policies in order to keep their entitlement to unemployment benefits. More in line with the current state of the law in the EU territory, the idea of a non-dictatorial government can be assumed for first-time job seekers.<sup>174</sup> On the other hand, the government is ideally concerned with what Brewster (2018) called reputational effects in respect to other governments, which are likely to rely on its cooperativeness. This surely is true when the country's government is part of a union of states as is the European Union. On the other hand, the individual is also responsible towards his social group of reference. In particular, there is a concern on the part of the individual to experience social exclusion in case he does not satisfy the expectations of his peers.

If nature decides the possible type combinations, we can assume that the decision-maker individual  $I$ , which is of one specific type  $k$ , will follow a defined strategy  $d_I$  based on the information received in respect to the strategies  $d_A$  of the other agents  $A$ . The latter, in particular, are of two types; namely, the type of agent  $a_1$  represented by the peers and the type of agent  $a_2$  represented by government. The two types of agents define the different payoffs of the agents. According to Eichberger (1993) the individual's payoff will be explained by:

$$payoff_I(d_I(k), d_A(a_1), k, a_1) \quad \cdot \quad U_I(a_1|k) \quad + \quad payoff_I(d_I(k), d_A(a_2), k, a_2) \quad \cdot \quad U_I(a_2|k) \quad (16)$$

Imagine the subject has the option to choose whether to take part or not in an active labour market programme. It is assumed that it is the optimal strategy for the peers, or the agent of type  $a_1$ , to oppose the individual's choice to participate and hence leave the group, while it is the optimal strategy for the government, or the agent of type  $a_2$ , to support this decision. The latter is due to the costs

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<sup>174</sup>For these individuals, participation in ALMPs is only recommended.

associated to both having potential inactive workforce and the negative international reputation the government is likely to experience as a consequence.<sup>175</sup> The model provided by Eichberger (1993) is actually adequate to describe the aforementioned situation. In his example, the relationship between a monopolist and an entrant is threatened by the possibility for the former to fight the entrant's entry in the market, which would reduce its initial profit in any case. In a setting where participation in ALMPs is at stake, the payoffs of both the potential participant and the two agents are also likely to be affected by their strategies.

Table 21: Payoffs for Potential Participant and Peers (Agent of type 1)

<b>Potential Participant</b>	<b>Peers (Agent of type 1)</b>	
	Support	Oppose
Participate	(1,1)	(-1, $a_1$ )
Not participate	(0,3)	(0,3)

*Notes:* The table is based on Eichberger (1993). It assumes it is advantageous for the group of peers to oppose the individuals' decision to take part in an ALMP programme. This is based on the fact that losing a member of the group puts at risk its survival and represents a threat itself to the power of the group mind. The group of peers is considered the agent of type 1 decided by the artificial player; namely, nature.

Table 22: Payoffs for Potential Participant and Government (Agent of type 2)

<b>Potential Participant</b>	<b>Government (Agent of type 2)</b>	
	Support	Oppose
Participate	(1,1)	(-1, $a_2$ )
Not participate	(0,3)	(0,3)

*Notes:* The table is based on Eichberger (1993). It assumes it is advantageous for the government to support the individual's decision to take part in an ALMP programme. This is based on the fact that having the individual's probability to leave the group of the unemployed and join the one of the working people is beneficial for the government both in financial and reputational terms. The government is considered the agent of type 2 decided by the artificial player; namely, nature.

Supposed that  $a_1$  is positive and  $a_2$  is negative, it follows that the dominant strategy for the individuals' peers and for the government will be to, respectively, oppose and support the individual's decision to take part in an active labour market programme. Based on Eichberger (1993) it can also be assumed that the group of peers and the government will oppose his entry in such a programme with

<sup>175</sup>This is particularly true if the state is part of a union of states where there is shared responsibility.

probabilities equal to, respectively,  $\eta$  and  $1-\eta$ .<sup>176</sup>

The possibility of opposition on behalf of the two agents is explained as follows. On the one hand, the group of peers experiences the cost of losing a member. This would mean for the individual to experience the threat of social exclusion from his social group of reference. On the other hand, the government may pay for the training of an individual who will not become employed anyway due, for instance, to his irrecoverable lack of skills. This would represent a sunk cost for the public expenditure, which explains the negative payoff for the government in the case in which the individual participates in a public programme despite the government's opposition.<sup>177</sup> The threat for the individual who participates despite the intended<sup>178</sup> opposition of the government may lower his chances to participate in any publicly funded programme in the future.<sup>179</sup> According to equation (16) based on Eichberger (1993), the payoff of the individual in this scenario  $w$  will be equal to  $1-2\eta$ .

It follows that, with regards to the active labour market programme in question, the individual's decision will be to:

$$d_I = \begin{cases} \text{participate,} & \text{if } \eta \leq 0.5 \\ \text{not participate,} & \text{if } \eta \geq 0.5 \end{cases} \quad (17)$$

### 3.2 Model

With respect to the former considerations, we develop a model that includes two risk-averse players, who are members of the same social group, and a defined range of possible strategies.  $v_1$  and  $v_2$  represent the true preferences of, respectively, player 1 and player 2 as regards participation in a training programme or in another measure of active labour market policy.  $v_3$  represents the preference of a player who is outside the peer group of reference; namely, the government. Each player positively values his own preference, with  $v_i \geq 0$ .  $v_i$  exists between  $[0, 1]$ . Three scenarios are provided as follows. In these

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<sup>176</sup>The probabilities add up to one because it is assumed that it can never be the case that government and peers have identical preferences regarding the individual's participation in an active labour market programme. The events of the government opposing participation and the peers opposing participation are mutually exclusive. In particular, it is assumed that the peers will oppose the individual's participation and that the government will support it and, thus, it cannot happen that both agents oppose the individual's participation at the same time. In particular, with probability  $\eta$  the peers and the government will, respectively, oppose and support the individual's participation and with probability  $1-\eta$  the government and the peers will, respectively, oppose and support the individual's participation in such a programme. In other words, the agents' preferences are asymmetrical.

<sup>177</sup>This is in line with the idea that the government would never oppose the participation of someone unless the latter would be damaging for the individual or the government.

<sup>178</sup>In the model, the individual is not subject to any dictatorship.

<sup>179</sup>The government may label the subject as a free rider.

scenarios, the utility functions related to  $v_1$  and  $v_2$  can be exchanged. The utility functions are given by:

$$U_1 = v_1^2 - \underbrace{\alpha_1 \left( \frac{|v_1^2 - v_2^2|}{2} \right)}_{DIST_{v, 1}} - \underbrace{\beta_1 \gamma_1 (|v_1^2 - v_3^2|)}_{DIST_{g, 1}} \quad (18)$$

$$U_2 = v_2^2 - \underbrace{\alpha_2 \left( \frac{|v_1^2 - v_2^2|}{2} \right)}_{DIST_{v, 2}} - \underbrace{\beta_2 \gamma_2 (|v_2^2 - v_3^2|)}_{DIST_{g, 2}}, \quad (19)$$

depending on the conditions of predominance of preference:

$$v_1 > v_2 > v_3 \quad (20)$$

$$v_1 > v_3 > v_2 \quad (21)$$

$$v_3 > v_1 > v_2 \quad (22)$$

Where  $DIST_{v, 1}$ , or  $DIST_{v, 2}$ , represent the distance between the preference of the individual herself and the preference of her peers, who are expected to support the decision of the individual to remain in the group of reference and therefore to not participate. On the other hand,  $DIST_{g, 1}$ , or  $DIST_{g, 2}$ , represent the distance between the preference of the individual herself and the preference of the government, which encourages the participation of unemployed individuals in active labour market programmes.  $\gamma$  is a coefficient that accounts for the possible misperception of the individual in regards to what is really expected from the government, with which the individual does not have a direct relationship. This coefficient can otherwise be interpreted as a punishment against the individual who does not respect the more extended and common social norm supported by the government.

In particular, it supports the argument advanced by Jussim (1991) on the weak version of social constructivism according to which the ‘people’s errors, prejudices, and misbegotten beliefs’ contribute to the creation of social reality.  $\gamma$ ,  $\alpha$ , and  $\beta$  represent standard positive coefficients in  $[0, 1]$ .

## 4. Predictions

With regards to the individual utilities that have been developed, we observe two potential equilibria and thus provide two potential interpretations of the model. First, we consider the general case in which the expectations of both the government and the peers play a role in the decision of the subject to take part or not in a measure of active labour market policy. Second, we extend the model by taking into account the existence of more or less numerous groups to understand whether the number  $n$  of individuals in a social group can significantly affect an individual’s decision.

The first-order conditions for  $v_1$  and  $v_2$  that justify the potential equilibrium of the general model with condition *a*) are, respectively, equal to:

$$\frac{\partial U_1}{\partial v_1} = 2v_1 - \alpha_1 v_1 - 2\beta_1 \gamma_1 v_1 = 0 \quad (23)$$

or,

$$\frac{\partial U_1}{\partial v_1} = v_1 \underbrace{\left(1 - \frac{\alpha_1}{2} - \beta_1 \gamma_1\right)}_{f_1} = 0 \quad (24)$$

$$\frac{\partial U_2}{\partial v_2} = 2v_2 + \alpha_2 v_2 - 2\beta_2 \gamma_2 v_2 = 0 \quad (25)$$

or,

$$\frac{\partial U_2}{\partial v_2} = v_2 \underbrace{\left(1 + \frac{\alpha_2}{2} - \beta_2 \gamma_2\right)}_{f_2} = 0 \quad (26)$$

It follows that the utility  $U_1$  of the individual  $I_1$ , for instance, is maximised when  $v_1$  is equal to zero. With respect to the study of the second-order condition, we consider that if:

$$\frac{\partial^2 U_1}{\partial^2 v_1} = 1 - \frac{\alpha_1}{2} - \beta_1 \gamma_1 \leq 0, \quad (27)$$



Then:

$$v_1 = \begin{cases} \text{point of maximum,} & \text{if } (\alpha_1 - 2) > -2\beta_1\gamma_1 \\ \text{point of minimum,} & \text{if } (\alpha_1 - 2) < -2\beta_1\gamma_1 \end{cases} \quad (28)$$

Given that  $\gamma$ ,  $\alpha$ , and  $\beta$  are standard positive coefficients in  $[0, 1]$  and that  $\alpha > \beta$ , it follows that  $v_1 = 0$  is a point of minimum for what concerns the utility function of  $I_1$ , with  $U_1$  convex. Accordingly, the more an individual valorises his true preference  $v$  with respect to participating in an active labour market policy, the more his utility increases.

The development of an extension of the model that also considers the number of individuals in a specific social group is a choice supported by Eskola (1988). According to her study, individuals who are part of a society are influenced not only by their emotions when making a decision but also by the number of peers in their community. On this subject, we suppose that  $v_1 > v_2$  are the preferences in respect to participation in an ALMP of, respectively,  $I_1$  and  $I_2$ , or a high-preference subject and a low-preference subject of the same group of peers. It follows that:

$$v_1(1 - \frac{\alpha_1}{n} \pm \beta_1\gamma_1) = 0 \quad (29)$$

$$v_2(1 + \frac{\alpha_2}{n} \pm \beta_2\gamma_2) = 0 \quad (30)$$

In this model, the unemployed individual who is part of a highly numbered social group, and therefore is likely to experience several social interactions, is less affected by their preferences. Additionally, the analysis also investigates how the deviation  $\gamma_i$  of the individual's preference from the true preference of the government can be more or less influential in relation to the expectations of the peers on the decision of the individual to take part or not in the programme. In particular, we suppose that there are different groups of peers that could influence the individual. In this example, the peers themselves can have a certain misperception about the expectations of the government on the question. For individual  $I_i$ , for instance:

$$v_i(1 \pm \frac{\gamma_1 \alpha_1}{n_1} \pm \frac{\gamma_2 \alpha_2}{n_2} \pm \frac{\gamma_3 \alpha_3}{n_3} \pm \dots \pm \frac{\gamma_m \alpha_m}{n_m}) = 0 \quad (31)$$

It can be assumed that if the interaction of the distance between the preference of the subject from the preference of the subject's peers and the misperception of the peers themselves in respect to what is expected from the government  $\gamma_i \alpha_i$  is the same for any group of peers considered, then what actually carries weight is the magnitude  $n_i$  of the group in question. This specification, too, contributes to asserting that the individual seems to be more influenced in less numbered groups.

As an extension, we also account for the potential costs that derive from making a certain decision. In particular, the marginal benefit associated to one specific decision in terms of participation, and thus of potential agreement with the group mind or the government, should necessarily be equivalent to the marginal cost of it. For a player  $I_i$ , if:

$$\frac{\partial U_i}{\partial v_i} = MC_i, \quad (32)$$

It follows that:

$$v_i(1 \pm \frac{\alpha_i}{2} \pm \beta_i \gamma_i) = MC_i, \quad (33)$$

This implies that an individual  $I_i$  will take into account a rate of adjustment  $\gamma_i$  to his preference when deciding whether it is worth it or not to partake in a training programme or a similar form of active labour market policy. Assumed that the individual gives any positive value to his preference  $v_i$ , it can be observed that  $MC_i$  increases proportionally to both the distance between the preference of the individual and the preference of his peers and the distance between the preference of the individual and the preference expressed by the government. As a consequence, the cost of adjustment to the true preference of the subject will increase the more distant her preference is from the preference expressed by other agents. This is line with the study by Jussim (1991) on social constructivism and the possibility of misperceptions to affect individual behaviour.

## 5. Discussion

Predictions from the model seem to support the argument according to which some segments of the occupationally inactive population decide not to participate in active measures due to social expectations. The majority of the individuals may opt for compliance with the standard norms of working or of actively seeking to compensate for lack of work through participation in training programmes. Scarpetta et al. (2010) highlighted how important it is to search actively for a job especially for young job seekers. There exist, however, a number of people in this vulnerable segment who deviate from the more popular social norms. These are the people who usually value the subculture they are part of to a higher degree than their own professional identity. Unemployed individuals in this category are those who, according to Görlich et al. (2013), usually belong to groups characterised by social problems as well.

In our model, the two social agents that surround the potential participant have opposing views as regards active labour market policies. While the government encourages participation to reduce the unemployment rate and increase international reputation, the peers of the individual have an ethnocentric attitude and, therefore, oppose any means that could bring one of their members closer to an external group, including that of the working people. When the individual is faced with the decision to participate or not in an active labour market programme he is, too, faced with the decision to choose between the strategy that best suits the expectations of his peers and the strategy that best suits those of the government. In other words, the individual accounts for the consequences of his potential participation in terms of social commitment towards his group as well as in terms of development of a social identity within a new group; namely, that of the people who work.

It is assumed that the theory of Sherif and Sherif (1969) is supported in our model with respect to the attitude of the subculture of reference of the potential participant; namely, positive towards their own group but negative towards the standard dominant institutions of the government and the employed group. Predictions also show that the individual seems to be more influenced by his peers in less numbered groups. This can also be deduced from the individual's tendency to take into account his rate of adjustment to the peers' preferences when deciding whether it is worth it or not to participate in an active labour market programme. Particularly, the individual who has an existing role in his subcultural group is likely to deviate from the standard social norms due to his higher probability of experiencing exclusion from the group of individuals that make up the sub-community of reference of the individual. As told by Terpstra (2006), in some disadvantaged groups youths may tend to praise

deviators due to the dominating social manners of the peers. In this regard, our model acknowledges the possibility highlighted in Willis' (1977) account for the principles of individuals who are more vulnerable and attached to their social groups of reference to triumph over standard values like human labour power.

## 6. Conclusions

The paper shows that social expectations might play a role in shaping the decision of an individual who is inactive from an occupational point of view. In particular, it is assumed that the government's and the peers' expectations are opposed with regards to the potential participation of the inactive individual in a training programme that could increase his skills and, therefore, help him find a job. On this subject, the potential participant is considered to be an individual who belongs to the youth population segment and that is, understandably, influenced by the subculture he is part of. In line with the ethnocentric theory, it can be hypothesised that certain individuals who are still inactive in the labour market may deviate from the more popular social norm of participating and committing to an active labour market policy such as a training programme due to the necessity to conform to their peers' preferences. According to the model's predictions, the individual will participate less likely to an active measure if a smaller number of his peers are against it for it is less costly for him to adjust to such preferences. On the other hand, the relationship with the government, which is an external and abstract subject among the social agents surrounding the individual, has less influential power on the decision-making process of the individual when the government is non dictatorial.

What can be inferred from our model is that certain young inactive subjects are likely to value immediate or short-term feedback from their peers more than the potential higher long-term reward that they could get from active measures and employment were they to listen to the government. In particular, they may be more concerned about short-termism and, therefore, the benefits that can be achieved immediately, rather than after months of attending a training programme. It is thus advisable for policy makers to offer flexible programmes in terms of length and attendance of the training or formation measure. This is in line with the argument by Görlich et al. (2013) that participation should be voluntary. Additionally, given the significantly negative impact that the other inactive peers of the individual's subculture may have in this decision, it is recommendable to offer financial incentives to both the potential participant and the peers in order to transform the social norm they are following. Instruments may be introduced to make such individuals understand that 'the possibility of surviving

without wages'<sup>180</sup> is not an option as well as that their future is not about the '[refusal] of all work'<sup>181</sup> but its affirmation.

Further research should be carried out so as to better understand what types of legal enforcement measures could be implemented in circumstances where conditionality of unemployment benefits does not apply, such as in the case of first-time job seekers. Furthermore, sociological analyses may be needed to learn more about the role played by culture in the different countries. While social links may be occupationally relevant in some areas of the world, individualism may be more popular in others leading individuals to care about the expectations of the existing social agents to a lesser extent.

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<sup>180</sup>See *Learning to Labour: How Working Class Kids Get Working Class Jobs* (1977), p. 154.

<sup>181</sup>*Ibid.*

# CHAPTER V

## Why Do Unemployed People Avoid Participation in Training? An Experiment for Policy Making<sup>†</sup>

### Summary

Despite active labour market policies being implemented to increase the skills and job opportunities of the unemployed, the number of people who do not participate in training and other formation services remains high. By providing a model that studies the belief-dependent decision-making process of a potential participant, we hypothesise there is a behavioural motive behind it. An experiment is carried out, so as to account for both the individual's preference and the social expectations of agents such as the government and her peers with respect to active occupational measures. Findings show that young unemployed individuals are significantly influenced by their peers when deciding whether or not to participate in a training programme. Particularly, negative expectations from the peers cause unemployed potential participants in a between- and within-subjects experiment to be, respectively, 33 and 42 percentage points less likely to take part in job training.

**Keywords:** Active Labour Market Policies; Decision Making; Experimental Economics; Social Expectations; Public Policy; Unemployment.

JEL: A14; C9; D91; H10; K00; K31.

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# 1. Introduction

An enormous crowd of demonstrators was marching down one of Rome's main thoroughfares, protesting against unemployment. An entrepreneur, happening by, addressed a nearby demonstrator: "You! You are looking for work? Come with me!" The man replied, visibly annoyed: "The hell! There's a hundred thousand of us here, why pick on me?"

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*Story retailed in Rome,  
early 1970s*

In times of unstable labour markets, it is increasingly relevant to have advanced skills and be able to acquire them. Active labour market policies are public programmes that aim to help individuals to be reintegrated in the labour market by focusing on the promotion of skills from both social and professional perspectives. They include training, job search sessions, services of formation and orientation in the labour market, public work, and wage subsidies. Particularly, active labour market policies do not only increase the job opportunities of participants but they support, too, the development of a social identity that is also professional. Several studies have been carried out to investigate the micro-economic effects of participating in such programmes and have provided mixed results depending on the target of the policy, the type of active measure, and its duration. As regards the European Union (EU) territory, a series of guidelines has also been presented by the European institutions. It is, thus, difficult to understand why such a large number of unemployed and inactive subjects still decide not to partake in national or international active labour market policies.

Understandably, the non-participation of some individuals may be explained by their lack of trust in their government; the risk of sharing private information and making it easily available to the public offices; or the preference towards short-term solutions rather than long-term efforts. In this paper, we present a new and behavioural hypothesis that may help us understand why so many outreach strategies fail to reach those who could benefit from active labour market policies (ALMPs). Individuals are often influenced by the expectations of agents in their community when making a personal decision. The latter is supported by the vast number of studies on social expectations according to which behaviour is affected by interactions outside the standard institutions (Heckman, 2000); perceptions may influence social reality (Jussim, 1991); and social isolation is damaging to the survival of the social species (Cacioppo and Hawkey, 2009). In line with these theories, we hypothesise that the reason why some

potential participants fail to take part in ALMPs lies precisely in the effect of social expectations. In particular, we provide a model that accounts for the belief-dependent decision-making process of an unemployed individual who is part of an ethnocentric group and who seeks a social identity in the labour market. In this respect, active labour market policies are considered as the key instrument for the group of the unemployed not only to acquire marketable skills but also to transform their social identity. On this subject, because labour law becomes especially relevant when it also accounts for social legislation (Deakin, 2011), any finding that might emerge from this analysis, will be of use for future policy-making decision.

Reasonably, we assume that the unemployed individual is risk-averse and has understandable motives to both participate and not participate in an active labour market policy. We also assume that there is a degree of social pressure, on the one side, on behalf of the peers that could discourage the individual's participation in a government programme and, on the other side, on behalf of the government, which instead supports it. The government wants individuals to participate in such measures in case they are inactive in the labour market; to find a job so as to avoid having to support them financially in the future, and to comply with international standards and reputation. Not working, on the other hand, can be psychologically challenging for the inactive individual when one accounts for both the social responsibility that emerges because of the costs borne by the government and the risk of losing her social identity in the community. As argued by Cacioppo and Hawkey (2009), social species like humans need to belong to organizations such as families, institutions, or cultures as these help them survive and reproduce. In respect to the labour market, it is common knowledge to think that an individual in her working age is expected to engage in activities associated with the labour market. This is particularly true where there is a polarization of wages. If an individual does not work, individuals from a different social group are likely to perceive her behaviour as unfair from a perspective of social contribution. The pressure to work put on the individual should then encourage her to commit to some active labour market programme. This is also supported by the theory of Sanfey et al. (2014), according to which social sanctions are actually worse than monetary sanctions. On the other hand, individuals that are members of the same group as the individual may prefer her to remain part of their non-working group. In the setting designed for this study, a family can be considered interchangeable as regards the expectations for the individual to participate or not in an active measure. Depending on its socioeconomic level, the family could either take the stand of non-participation promoted by the individual's peers or that of the government people who believe participation is fruitful in terms of acquirable skills and social reputation.



In particular, the paper focuses on the decision of the individual to participate or not in an active labour market programme once having accounted for social expectations. This is in consonance with the idea of psychologists such as Triandis (1995) about individuals responding primarily to the norms and duties ‘imposed’ by the collectives to which they belong. Furthermore, the reason for referring to ALMPs lies in active measures being a key instrument to obtain, on the one hand, a professional identity through a job; and, on the other hand, a social identity through the new social group of the working people. Additionally, their use in the paper supports the argument of social incentives being increasingly relevant to produce behavioural changes (Sanfey et al., 2014). In line with the argument by Klick and Parisi (2008), the explicit participation in an active labour market programme of a member who belongs to a group of unemployed and inactive persons and the costs that derive from it, contribute to signal preference adaptation rather than preference falsification.<sup>182</sup> Because individuals may value social expectations more than the economic value of a future job, in line with Schwab (2017), we believe that ‘even doing nothing’, or not participating in any training programme to increase one’s job opportunities, is in itself a decision worth investigating further. In this regard, we try to understand how social expectations influence an individual’s decision to take part or not in a public programme that could help her integrate into a social group active in the labour market. The paper contributes to the literature by providing a theoretical model for labour law and economics that reflects the studies on psychological sociology by Sherif and Sherif (1969) on ethnocentrism<sup>183</sup> applied in a context where a labour market exists. The model can be exploited in other fields of the social sciences where social perceptions are likely to affect behavioural choices. Particularly, we conduct two experiments; namely, a within- and a between-subjects design to test our hypothesis. Findings confirm the hypothesis that peer influence can significantly and negatively affect the decision of a potential participant to partake in a training programme. Section 2 reviews the existing literature, while Section 3 presents the model implemented. Section 4 introduces the experimental design used to test the main hypotheses and Section 5 discusses the results. Section 6 concludes.

## 2. Literature Review

Several studies approach the question of social identity; including economic, behavioural, and psychological projects. A series of examples of the existing literature is provided in this section to stress the relevance

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<sup>182</sup>The participation of the individual implies the acceptance of the potential costs derived from being excluded from the social group of reference; namely, that of the unemployed. The fact that the individual is willing to pay the price to adapt her preference suggests that the individual is not falsifying the former.

<sup>183</sup>According to the authors, a group’s attitude is positive towards its members but negative towards members of other groups.

of social expectations in individual decision making. Particular value is given to the concept of social identity.

Berg et al. (1995) were one of the first ones to claim that when rewards and punishments are present in trust games, reciprocity takes place. As a consequence, any decision made by an individual is likely to have consequences on how she is perceived by her social group of reference. Respect and responsibility towards others are, for instance, the most significant social expectations according to a study by Lynass et al. (2011). On this subject, Sanfey et al. (2014) stressed how social incentives are stronger than monetary ones as regards behavioural changes. This means that the motivations of an individual to do or not to do something are belief-dependent; namely, based on the expectations of others being satisfied or unsatisfied with her decision. That is to say, there exist beliefs about the beliefs of others that an individual is inclined to consider when making a decision. In the words of Jussim (1991), perceptions may reflect and sometimes create social reality. Culture certainly is a major part of the process. The study by Vitell et al. (1993), for instance, underlines how in collectivist societies such as Japan individuals cannot distance themselves from the social groups they belong to and thus are predictably influenced by the norms that these groups promote. When a group protects the interest of its members, it expects the members to be loyal to the group's norms. Cloutier et al. (2011) prove there are even specific brain regions that respond to violations of social expectations. Thus, either directly or indirectly, individuals are aware of the social consequences of their decisions.

The reason why individuals attribute value to what society expects lies in their need to be socially accepted. According to Weckroth (1988), it is a social interaction that allows the individual to acquire a personality. This is especially true in conditions of uncertainty when the individual 'I' tends to make her final decision based on society, or the 'we'. For instance, the decision of an employee to raise concerns about the safety of the workplace environment could lead to his layoff, but also to the amelioration of the working conditions for everybody (Schwab, 2017). About this, Eskola (1988) underlined that this sense of social responsibility explains why mutual promises between a group of friends are respected in the name of a common ethic. Support for their arguments is found in the evidence brought by scholars on the impact of relatives and peers on individual choices. In her analysis of the role of family involvement in the decision-making process of patients, Ho (2008) stated that it is not always beneficial for professionals to pressure patients to make decisions alone. According to the scholar, our self is mostly defined by responsibilities towards our intimates and not in our isolation. In particular, individuals tend to develop a sense of social awareness since adolescence. As studied by Eccles et al. (1993), in this phase, the individual grows interested in ability grouping. This is explained by the fact that the individual

becomes aware of the public evaluation of her behaviours on behalf of the peers, which represent a form of ‘social anchor’. On this occasion, and as observed by Sanfey et al. (2014), sanctions such as social disapproval or public embarrassment can significantly impact individual behaviour. This is in line with the idea that if there exists a relationship of confidence between an employer and his employee (Deakin, 2011), the same relationship of confidence exists between an unemployed individual and his unemployed peer, who share the same ‘asset-specific knowledge and skills’.

Undoubtedly, individual actions depend on the styles of life that society offers to its members. The study by McIntosh et al. (2007), for instance, underlines the importance of political discussion promoted by parents to influence the civic development of their children. Positive role models are fundamental for transitioning from unemployment to employment (van Ham and Manley, 2010). Entrepreneurial identity, for instance, is very much influenced by an individual’s family and group of peers (Patuelli et al., 2020; Falck et al., 2012). As stressed by Heckman (2000), it is indeed in informal settings outside the standard educational institutions that much of the learning occurs. According to Israel et al. (2001), the components of the community social capital affect the educational progress of individuals in a conspicuous way. Similarly, the ability of individuals to develop capabilities, such as entrepreneurship, does not necessarily depend on specific programmes, but rather on the innovative environment fostered around them (Sobel and King, 2008; Moog and Backes-Gellner, 2009). Findings by Nanda and Sorsen (2010) also support the theory of knowledge spillovers among employees. As argued by Axelrod (1997), ‘the more similar an actor is to a neighbour, the more likely that actor will adopt one of the neighbour’s traits’. The same is valid for peers who converge for ‘beliefs, attitudes, and behaviour’. The argument by Le Bon (1895), according to which ‘ideas, sentiments, emotions, and beliefs possess in crowds a contagious power as intense as that of microbes’ is certainly exaggerated. However, when supportive environments lack, decisions are not always expected to be rational. On this subject, Albert et al. (2013) referred to the sensitivity of adolescents to the reward-sensitising effects of social stimuli in particularly risky situations. Breaking the rules during adolescence, for instance, contributes to the shaping of entrepreneurial competencies such as leading (Obschonka, 2016). Similarly, the more a person is confident the more she values friendships (Pirinsky, 2013) and, therefore, the values shared within them.

Eskola’s (1988) reasoning asserts that when there is scarcity panic is more likely to occur in the group as competition rules are followed instead of the common plan. In our case, the peers of the individual may want to participate in the active labour market programme that provides job orientation and reintegration in the labour market themselves. Nevertheless, they are conscious of the fact that while

they may have a low possibility to find a job through these services, another smarter member of the group may instead have some chance. This would mean putting at risk the cohesion and mind of the group. Having acknowledged the role of social expectations, what is particularly interesting is the distinction made by Cohen-Scali (2003) on the types of socialisation that the individual may encounter. The author, in particular, defined socialisation for work as the process that occurs to adolescents when they experience social awareness in both family and school environments. On the other hand, socialisation by work usually happens when the individual faces the real world of work. This stage is crucial for the individual for it represents a transformation of the environment and the relationships she is accustomed to. Once the individual reaches this state, she can either become involved in it or withdraw the idea of a social identity that is associated with having a professional life.<sup>184</sup> On this subject, an individual will decide whether or not to join a training programme if the perceived reward, measured in terms of skills acquired and a professional identity, will surpass a certain value, measured in terms of social identity. What she might ignore, however, is that weak ties outside of her group of peers, are equally indispensable to the individual's opportunities (Granovetter, 1973). Indeed, if coworkers are more likely to ask for parental leave when one of them does, as they learn about the employer's reaction (Dahl et al., 2014), the mechanism of information transmission completely lacks in an ethnocentric group of unemployed individuals with respect to the real labour market opportunities.

Our paper contributes to the existing literature by providing a model that reflects the discussed possibility for the individual to achieve a different social identity by taking part in an active labour market policy. Individuals may or may not decide to remain employed once they are offered a job. We, however, aim to understand the ex-ante circumstance where the individual has the possibility to decide to participate or not in a programme that could help her become employed and succeed from a social perspective as well. As argued by Schwab (2017), individuals may choose between job 1 and job 2. However, they may also choose between job and no job at all. Similarly, to get a job they may choose to participate in a training programme or not. Indeed, 'even doing nothing [] is itself a decision' (Schwab, 2017). In line with this argument, we investigate the hypothesis of social expectations playing a role in this decision in line with the argument that people respond to economic incentives as well as to social values (Tabellini, 2008). In the following sections, we present the empirical strategy used and discuss the model's results and implications.

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<sup>184</sup>As argued by Heckman (2000), training programmes are indeed likely to have an impact on behaviours that go beyond work.

### 3. Model

To explain the role played by social expectations in respect to the individual's decision to participate or not in an active labour market policy, we implement a model that accounts for individual utility with psychological constraints. In particular, we account for the preference of the individual; the preference of her peers; and that of the government. As regards the individual's family, Bradley and Corwyn (2002) highlighted that the latter could be both low or high socioeconomic conditions. While in this paper, we are interested in the effect of external agents such as the government or the peers on the likelihood of the individual to join or not an active public measure, we also investigate whether factors linked to the family can significantly change the course of the potential participant's decision. Because income level and household size are, for instance, likely to influence a young individual's decision to participate or not in an active labour market policy, we also account for family background in our analysis.

On the other hand, we assume that the individual is surrounded by peers who are also unemployed and who do not participate in any active labour market programme. We also assume the subjects of this social group just left the educational system; have never been employed before; and would be considered first-time job seekers were they to find a job. Only the increase in skills and in the chance of becoming employed motivate these individuals to attend ALMPs, whose participation is merely voluntary. These inactive peers are prone to support the decision of the individual to remain in their group of reference and therefore to not participate as they are reluctant to any programme that could distance her from them. Peer pressure, in particular, can be perceived as a monetary loss for the potential participant in terms of exclusion from activities for which the individual has a positive willingness to pay. Additionally, we assume that the existing government is a non-dictatorial government that expects non-working individuals to take action against their inactivity and thus participate in a public programme of active labour market policy to help them find a job. The government's support can be valued as the prospect of a subsidy for participation and the resulting prospect of an increase in human capital. In particular, we assume that norms have the potential to be internalised by individuals when they account for the attitude of others in their behaviour. In our example, in particular, the individual's utility is considered in respect to her propensity to participate in an active labour market programme once having taken into consideration the expectations for her to participate on the part of her peers and the government. The latter supports the idea brought by Klick and Parisi (2008) that the individual may adopt her original preference.

With respect to the former considerations, we define the utility function for a risk-averse individual who is unemployed and member of a defined social group. Through the utility function, one is able,

too, to define the individual's potential strategies when faced with the decision to participate or not in an active labour market policy such as training. In particular, we account for  $T$  the total time, or effort, that the individual has at her disposal to be spent on either consumption of training or leisure in activities other than training. Supposed that  $\phi$  represents leisure,  $g$  the level of training that the government provides and deems as optimal for the individual, and  $h$  the level of training measured as the proportion of dis-training from total training due to the peers' influence on training, the individual's utility function follows as:

$$U(\phi, g, h) = (1 - \gamma) \ln c + \gamma(\alpha \ln g + \beta \ln h) \quad (34)$$

*s.t.*

$$\phi + P_g g + P_h g h \leq T \quad (35)$$

$$\phi \geq \phi_m \quad (36)$$

Where  $\gamma$ ,  $\alpha$ , and  $\beta$  are standard positive coefficients in  $[0, 1]$  that indicate the substitution effects among  $\phi$ ,  $g$ , and  $h$ .  $\gamma$  represents the extent to which an individual cares and accounts for others' opinion relative to their own preference. This means that when  $\gamma$  is small, the individual tends to increase her level of leisure  $\phi$ . The model, in particular, aims to capture any social pattern typical of individualism, maximum when  $g$  is zero<sup>185</sup> and defined by Triandis (1995) for individuals 'who view themselves as independent of collectives', in a particular occupational context.  $\alpha$  and  $\beta$ , on the other hand, can be understood as the individual's beliefs that account for the social expectations of the principal agents in question; namely, the government and the peers of the individual. This is particularly emblematic for countries where individuals highly value the social groups they are part of.  $P_g$  is the relative price of the individual's effort, or cost, in having the training, while  $P_h$  is the relative price of the individual's effort, or cost, in adjusting herself to match the preferences of the peer group with respect to training. If the individual's true preference is very distant from the true preferences of the other agents, then the individual is likely to experience a larger cost in terms of adjustment to her true preference. In particular,  $P_h$  is assumed to decrease if the number of the peers in the group is lower. It can be

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<sup>185</sup>Conversely, when  $g$  is equal to 1 the individual only cares about what society expects and not about her own preference.

deduced that when the number of peers  $n$  increases, the influence of the expectations of the peer group is expected to decrease, too. This is line with the argument by Ekman (1951) according to which it becomes difficult in large groups to agree for one solution, as responsibilities are more spread among the members. When groups are smaller, on the other hand, the general thought is to respect the common notions promoted by the members, or the so-called ‘group mind’. The constraint *s.t.* is explained by the limited nature of the individual’s time  $T$  or psychological constraint to be dedicated to either training or other activities.  $\phi_m$  represents the minimum consumption of time the individual spends in leisure, understood as any activity other than training.

From the first-order conditions, we derive the optimal level of training and adjustment as equal to:

$$g^* = \frac{\gamma\alpha}{P_g + P_h h^*} \quad (37)$$

$$h^* = \frac{\gamma\beta}{P_h g^*} \quad (38)$$

or,

$$h^* = \frac{\beta P_g}{(1 - \beta) P_h} \quad (39)$$

Where  $P_g$  represents the psychological price or effort for training and  $P_h$  represents the price due to a reduction of the original expected amount of training due to an adjustment to the individual’s peers’ preference.  $g^*$  and  $h^*$  indicate the optimal levels of, respectively, training and dis-training, or the optimal reduction of the original expected training. Reasonably, when  $h^*$  increases, the final level of training  $g^*$  that the individual will commit to decreases. The latter highlights the significance of the peers’ influence on the potential participant’s decision. In particular, supposed the individual would have originally received 1 unit of training, we can deduce that she will eventually receive  $g^*(1 - h^*)$  units of training once having accounted for social expectations.

### 3.1 Predictions

Before carrying out the experiment, an online survey addressed to unemployed individuals was created to understand what influences them when making a choice on their job prospects. With respect to the training programme, despite being unemployed, 76.7% of the 87 participants claimed they were not aware of the Youth Guarantee programme implemented by the European Union for training occupationally inactive youths. In addition, 35.1% of the individuals surveyed claimed that they did not apply to any other programme aimed at helping unemployed find a job. Unsurprisingly, 71.3% of them replied that, before making an important decision, they usually account for the opinion of their friends. In particular, when asked whether they would participate in case their friends were contrary to it, 40.7% would be uncertain, and 9.4% would rather not participate. Indeed, what appears to significantly encourage individuals to participate in an active measure, such as a training programme is their urgency to develop a social identity (37.6%). These results discussed more in-depth in Appendix B, seem to indicate that participation in an active labour market policy is considered worth it by potential participants not only in terms of becoming employed, but also in terms of being included in an alternative, and possibly better, social group.

In line with the theoretical model developed in Section 3, we test a series of hypotheses on the possibility of social expectations to influence individuals when deciding whether or not to participate in an active labour market policy. Based on the sociological findings of the existing literature, according to which individuals are influenced by what others think or do, we want to investigate whether this behavioural truth holds in occupational circumstances, too. In particular, we want to test whether individuals tend to give value to social expectations also in a situation where they are unemployed and face the decision of potential participation in an active labour market policy. As stated in the previous section, the latter represents a point of departure from the existing social group of reference of the unemployed to a potential new social group of reference; namely, that of the working people.

**Proposition I** The negative expectation of the peers affects negatively the decision of the potential participant to participate. In particular,  $\frac{\partial g^*}{\partial \beta} < 0$  due to  $\frac{\partial g^*}{\partial h^*} < 0$  and  $\frac{\partial h^*}{\partial \beta} > 0$ .

In our theoretical model, it is assumed optimal for the peers to oppose the decision of their group member to take part in any programme that could distance her from the group, including active labour market policies. Given this assumption, we aim to understand whether providing such information to the individual under the form of expectation has a negative effect on the potential participant. In other



words, we want to investigate whether the peers' expectation encourages the potential participant not to participate in an active labour market policy such as a training programme.

**Proposition II** The positive expectation of the government affects positively the decision of the potential participant to participate. The proposition aims to understand whether results in the experiment confirm that  $\frac{\partial g^*}{\partial \alpha} > 0$ .

In our model, we assumed that it is the optimal strategy for the agent represented by the government to support the decision of unemployed individuals to participate in any active labour market programme. The latter is, indeed, likely to increase the chances of the individual to become employed and, therefore, to contribute to the country's employment rate. By resorting to a practical experiment, we want to investigate whether the positive expectation of the government incentivised the individual to take part in an active labour market policy. The individual can indeed perceive the deviation from the government's expectation as a punishment for not respecting the social norm promoted in the more extended community by the state.

Assumed the individual is faced with the decision to participate or not in an active labour market policy, we are concerned about understanding whether providing her with complete information on the existing social expectations influences her decision. In particular, we are interested in investigating whether the direction and magnitude of the expectation of the peers and the government differ and to what extent. On this subject, it is assumed that the individual gives more value to the expectations of the peers than to those of the government. The reason for the latter lies in the assumed individual's risk aversion. In general, the individual is indeed likely to be able to trust the government's expectations on ALMPs. Let us suppose that a representative of the government makes a public statement on ALMPs being a good instrument to acquire marketable skills; increase individual job opportunities; and decrease unemployment at the aggregate level. As the statement is made publicly available, the reputation of the government with respect to its citizens and other states interested in the country's macroeconomic figures guarantees the transparency of the government's expectations. The reliance on the preferences of the peers, on the other hand, may be unstable due to the fact that the preferences of the single individuals and the behaviours of the latter cannot be controlled. In other words, the expectations on the part of the individual's group of peers may experience more variance in comparison with those of the government. This explains why it is relevant for the potential participant to take into account the expectations of her peers to a greater extent.

Furthermore, this decision conforms to the argument by Vitell et al. (1993) on the social consequence that derives from not respecting one group's ideology. The individual, in particular, necessarily takes into account the higher probability to experience social exclusion on behalf of the individuals whom she spends more time with and who belong to the same social group as she. The threat of social exclusion is also in line with the concept of ethnocentrism described by Sherif and Sherif (1969) and reported by Eskola (1988). According to this philosophical mindset, the attitude of the members of a group are positive towards their own group - for instance, the group of the unemployed individuals -, but negative towards other groups - for instance, the government and the people who work. In conclusion, we provide a test of asymmetry that investigates whether the disutility that may derive from not satisfying the peers' expectations matters more than the disutility that may derive from not satisfying the government's expectations.

Finally, the potential participant is expected to be influenced not only by social expectations per se but also by the number  $n$  of individuals involved. On the other hand, the individual will decrease her level of dis-training, or reduction in the amount of training, when accounting for a more numbered group of peers. Indeed, let us assume  $P_h$  is a positive function of  $n$ . When  $n$  increases,  $P_h$ , or the psychological effort to adjust to the peers' expectations, increases, too. This is explained by the fact that the guessing price increases for the individual as it becomes increasingly harder for her to both deduce and match the necessary information regarding each member's preference. As a result, the individual spends less effort in  $h$  and in  $g$  due to the income effect. As  $h$  is negatively related to  $g$ ,  $g^*$  increases. This implies that when the group of peers is large, the effect of their expectation regarding training is expected to be smaller in magnitude. Consequently, the individual is likely to spend more effort on training and, therefore, care more about the government's expectation on the optimal level  $g^*$  of training. For this reason, in our experiment, we limit the definition of peers to the peers present in the potential participant's town, or her main geographical reference. In the following section, the potential model's results are presented and discussed using an online experiment.

## 4. Data & Experimental Design

The experiment is carried out using Qualtrics, which is a web-based survey tool used to collect and evaluate data, and recurring to the platform of Prolific, which allows recruiting a large number of trusted participants to take part in an experimental study. To test the propositions described in Section 3.3, we provide the control group with a baseline scenario, which indicates the government's intention to reduce unemployment by encouraging occupationally inactive individuals to participate, and a treatment group

with a scenario that also includes the expectations of the peers on active labour market policies. The aforementioned scenario is also provided to the control group in order to provide treatment effect estimates from both a within- and a between-design experiment.

In line with our assumptions, we conducted the experiment on 300 individuals who were both unemployed and part of the youth category, or individuals between 18 and 26 and therefore likely to be first-time job seekers. Exploiting the Qualtrics platform, individuals were asked to answer whether they were interested or not in participating in job training offered by their government. Below, we illustrate the control and treatment scenarios that we provided to our participants, hired via Prolific, as well as the results from an econometric analysis that is interested in the treatment effect caused by the expectations of the peers on training participation. Because all participants have English as their first language, we are assured individuals comprehended the inquiry presented in the experiment. Both control and treatment groups were informed about what active labour market policies are and what potential participation in them entails.

With respect to economic incentives, one of the challenges of this experiment is that offering a monetary incentive is not deemed as a potentially valid choice. Unlike some experiments such as cognitive test, in this experiment there is no fair judgment to subjects' performance; namely, participation in government job training is not necessarily a good choice or a bad choice. Job training can either be effective or not for finding a job. On the one hand, the participant's time is spent on learning new skills. On the other hand, if she decides not to participate, her time can be allocated to either alternative and more effective activities, such as interview practising and even networking between friends for collecting useful information, or to leisure. That means that offering a financial incentive to subjects for either choosing to participate or choosing not to participate may create biased results. Instead, in our experiment, we try to collect the truest answers from participants by showing them a message that entails honesty. Particularly, in addition to paying them a reward of £11.23 per hour, we ask them to answer the questions as if they were asked these questions in reality and include a visual aid that includes the word "honesty" in it. This is justified by the large number of psychological studies that show how this cost-effective and direct means of incentivising honest choices leads the subjects to internationalise the personal norm of honesty and substantially increases the rate of truth-telling (Rosenbaum et al., 2014). In addition, we provide an introductory text and picture representing a typical UK town in order to help individuals enter the mindset proposed by the experiment.

For the purpose of the analysis, this is the text that was provided to participants, in addition to a picture of government job training, to investigate the potential effect derived from transparent

communication to participants of the control group 0.0 with respect to the intentions of the government. The latter, based on the assumptions explained in Section 3 is supposed to support the participation of a potential participant in a training programme in line with the argument that participating in such active measure permits an increase or update in the skills of the individual and, therefore, in her chances to find a job.

**0.0** Active labour market policies are government programmes that help unemployed individuals find a job by upgrading their skills for free. Participating means committing to attend all sessions organised by the job centres in your county for 12 weeks. 90% of the government’s representatives are in favour of participation in training programmes. Many participants could get a job after completing the programme. Would you participate?

Participants had the possibility to choose between two answers; namely, “Yes, I’d attend government job training” and “No, I’d rather spend time in more valuable activities”. On the other hand, the treatment group 1.0 was provided with a text informing them about the expectations of the peers with respect to their potential participation in a training programme provided by the government (see below). A comparison between the results of 0.0 and 1.0 allows us to study the effect from a between perspective.

**1.0** Active labour market policies are government programmes that help unemployed individuals find a job by upgrading their skills for free. Participating means committing to attend all sessions organised by the job centres in your county for 12 weeks. 90% of the government’s representatives are in favour of participation in training programmes. Many participants could get a job after completing the programme. According to some of your peers in your county, the programme is not as good as the government suggests: the training is rather old fashioned and is not going to meet the specific needs of your county. It is also time consuming such that you cannot spend your time on any other activity potentially more effective to find a job. Overall, it seems like more than half of your friends are contrary to participation in active labour market policies. Would you participate?

While the above between-subjects design offers a major estimation to the study, the shortcoming highlighted by the literature lies in the possibility of subjects in the control group and in the treatment group to be significantly different, such that results on participation are actually driven by these differences. In order to tackle such an issue, we provide two solutions to address the above concern.

First, we ask and account for the background information of subjects after the experiment, or treatment, so as for these factors to be controlled for in our regression. As can be inferred from Table 23, statistics show that there are no significant differences among subjects in the two groups, 0.0 and 1.0.

Table 23: Descriptive Statistics

<b>Variables</b>	Total (n=300)	Control (n=149)	Treatment (n=151)	Difference
<i>MALE</i>	.420 (.020)	.402 (.040)	.437 (.041)	-.034 (.057)
<i>NATIONALITY</i>	.840 (.021)	.825 (.031)	.860 (.028)	-.035 (.042)
<i>LIVINGWITHPARENTS</i>	.620 (.028)	.604 (.040)	.635 (.039)	-.031 (.056)
<i>PARENTEFFECT</i>	.373 (.028)	.375 (.040)	.370 (.039)	.004 (.056)
<i>LARGEFAMILY</i>	.366 (.027)	.322 (.038)	.410 (.040)	-.088 (.055)

*Notes:* The table shows that there are no significant differences between individuals in the control group 0.0 and individuals in the treatment group 1.0. *MALE* refers to a dummy equal to 1 when the individual is male; *NATIONALITY* refers to a dummy that is equal to 1 when the individual has a UK nationality; *LIVINGWITHPARENTS* refers to a dummy equal to 1 when the individual declares she is living with her parents; *PARENTEFFECT* refers to a dummy equal to 1 when the individual declares that her parents influence her decisions about work; and *LARGEFAMILY* refers to a dummy equal to 1 when the members of the individual's family are equal to 5 or more. Standard errors in parentheses.

In addition to the controls in Table 23, in the regression below, we also control for the fixed effects of age (as a category), regions, and the socioeconomic status. We run the following regression:

$$P_1 = \beta_1 treatment_i + \sum_{c=1}^5 \beta_{c+1} \theta_{ci} + \phi_f + \epsilon, \quad (40)$$

where  $P_i$  a binary variable equal to one if subject  $i$  decides to participate in the government job training, equal to zero otherwise;  $treatment_i$  is a dummy equal to one if subject  $i$  is in the treatment group, equal to zero otherwise;  $\theta_c$  is the control  $c$  for subject  $i$  (listed in Table 23);  $\phi_f$  are the fixed effects  $f$  such as age, region and socioeconomic status; and  $\epsilon$  is the error term.

In addition, to better control for omitted variables, we run a follow-up experiment in the control group samples using a within-subjects design, which allows us to control for individual fixed effects.

After having answered the original baseline question (or the first stage), individuals of control group 0.0 were provided with the same information regarding the expectations of their peers on active labour market policies, creating the second stage control group 2.0. Therefore, we were able to compare whether the answer given with respect to job training participation in the first stage changed in the second stage. We run the following regression to estimate the within-subjects treatment effect:

$$P_1 = \beta_1 Second_i + \alpha_i + \epsilon, \quad (41)$$

where  $P_1$  is a binary variable equal to one if subject  $i$  decides to participate in the government job training, equal to zero otherwise;  $Second_i$  is equal to one if subject  $i$  is in the second stage, equal to zero otherwise;  $\alpha_f$  are the individual fixed effects that allow us to eliminate the impact given by individual factors such as personality, intelligence, or personal experience, which can be controlled for with difficulty in a between-subjects design. In this design, we compare the same individuals before and after receiving the treatment.

## 5. Results

By collecting responses from Qualtrics, we find that individuals do take into account social expectations when making the decision to participate or not in a potential training programme. In Tables 24 and 25 we illustrate the results of the treatment effect observed both for a between and a within experiment. In Appendix C, we also present descriptive evidence of a similar pattern for a sample that includes both employed and unemployed individuals, as well as young and older segments of the population.

Table 24 shows the regression estimation from the between-subjects design that compares the control group in 0.0 with the treatment group in 1.0. Column (1) shows the result without accounting for controls or fixed effect. Particularly, it shows that the probability for an unemployed individual, who is treated with peer influence, to participate in a job training programme is 37 percentage points lower than the probability to participate in the same programme for those who are in the control group. Column (2) accounts for the gender and the nationality of the subjects. In particular, it shows that male candidates are less likely to participate in the programme. As a robustness check, columns (3) and (4) control for additional factors and fixed effects such as having a low, middle, or high socioeconomic;

belonging to a large family; and living with the parents. This estimation proves that the treatment effect remains still significant at the 1% level. Findings also show that, in a context of decision making for occupational matters, the parental effect dissolves meaning that even for individuals who account for parental advice for work, negative expectations from the peers are predominant.

Table 25 shows the regression estimation from a within-subjects design that compares the first stage 0.0 and second stage 2.0 of the same pool of individuals. Columns (1) and (2) show the results, respectively, without and with individual fixed effects. Both estimates show that the likelihood for individuals in the second stage of the original control group to participate in the job training programme is 42 percentage points lower than the likelihood to participate in such a programme for the same individuals in the first stage when information about peers was not provided. The result is significant at the 1% level. The results from both between- and within-subjects designs show robust evidence that, among the younger segment of the unemployed population, negative peer expectations can be a driving force for discouraging individuals from participating in job training programmes promoted by the government. In the Appendix we provide a further analysis on a population of both employed and unemployed people worldwide in which we investigated how the distribution of potential participants changes in each treatment. Particularly, we presented individuals with different scenarios compared to the ones used for the final experiment<sup>186</sup>, including no social expectations, exclusively negative expectations from the peers, exclusively positive expectations from the government, and both. Descriptive statistics show that, depending on the type of information provided to individuals, the shares of potential participants in a training programme changes. While we were able to look at the statistics according to the receipt of information on expectations from the government and the peers singularly, we observed that expectations from the peers are dominant also in this minor study.

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<sup>186</sup>Individuals were presented with information about what active labour market policies are and what participating in them entails. They were provided with information regarding the expectations from the peers, the governments, and both. They were also provided with no information with respect to expectations from the peers or the government. Finally, they were asked whether they would have potentially participated in a training programme and recorded their answer through a dummy variable; namely, “I agree” (I would participate) vs. “I do not agree” (I would not participate). For more information, please see Appendix C.

Table 24: Estimation Results from a Between-Subjects Design

	(1)	(2)	(3)	(4)
<b>Variables</b>	<i>PARTIC</i>	<i>PARTIC</i>	<i>PARTIC</i>	<i>PARTIC</i>
<i>TREATMENT</i>	-.370*** (.050)	-.340*** (.050)	-.340*** (.050)	-.330*** (.050)
<i>MALE</i>		-.130*** (.060)	-.130*** (.060)	-.130*** (.060)
<i>NATIONALITY</i>		-.000 (.080)	-.000 (.080)	-.040 (.080)
<i>PARENTEFFECT</i>				-.060 (.060)
<i>LARGEFAMILY</i>				-.110* (.060)
<i>LIVINGWITHPARENTS</i>				-.770 (.068)

*Notes:* The table shows estimates from a between-subjects experimental design that compares control group 0.0 with treatment group 1.0. *PARTIC* represents the outcome dummy equal to 1 when the individual participates in a job training programme. Standard errors are in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 25: Estimation Results from a Within-Subjects Design

	(1)	(2)
<b>Variables</b>	<i>PARTIC</i>	<i>PARTIC</i>
<i>SECONDSTAGE</i>	-.420*** (.050)	-.420*** (.040)
<i>Observations</i>	298	298
<i>R-squared</i>	.173	.743
Individual FE	N	Y

*Notes:* The table shows estimates from a within-subjects experimental design that compares the first stage of control group 0.0 with the second stage of the control group, or treatment group 2.0. *PARTIC* represents the outcome dummy equal to 1 when the individual participates in a job training programme. Standard errors are in parentheses.\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Given the results obtained from this model, we hypothesise that individuals seek a social identity and that identity is not rigid, with social norms even less so. In the setting we provided, the individual is used to recognise her non-working peers as the social group of reference. This suggests that the individual is used to deal with a certain type of social knowledge with respect to what is considered socially acceptable. The condition of risk aversion and uncertainty in which the individual is placed means that it increasingly matters for the individual to account for the preferences and beliefs of her



peers. This is particularly true given that, in origin, her peers are the only social reality through which the individual can acquire a social identity based on interactions outside the family. As a group of inactive, unemployed individuals, her peers are likely to either not be sufficiently informed about the occupational opportunities that exist or not willing to share that information with the individual so as not to lose a member of the group.

Assumed that ALMPs like training programmes increase the unemployed individual's skills and opportunities to find a job, results show that individuals are negatively influenced by their peers when making the decision to participate or not. In particular, the expectations of the peers, especially the closest ones, lead to fewer individuals willing to take part in public training programmes. In other words, the preference of the peers is more contagious than the one of the government, even more so when the unemployed individual is provided with the preferences of the peers from her closest group of reference. One reason why the impact of the expectations from the peers, when circumscribed to a known group of reference such as their country, is stronger than that from the government may be due to short-termism. As stressed by Schwab (2017) individuals have difficulty assessing the implications of events that take place far in the future. While the potential gains from participation are only available in the long run, peer pressure is immediate. Results, therefore, seem to advance the idea according to which the 'activation' of the unemployed individuals can only occur if attention is focused on their peers as well. Because the norms promoted by a group are often perceived as more important than the rules that prevail in society, an individual surrounded by unemployed individuals will need an incentive to join the group of the working people to understand its economic and social benefits. Otherwise, what could happen is that the bargaining power, defined from Schwab (2017) 'as the relative gain from trade that goes to a particular party', may be perceived as higher in the absence of a job contract rather than in the presence of it.

In addition to offer financial incentives conditional on participation, policymakers could, on the one hand, advertise a message on the potential social stigma that individuals are likely to experience from remaining in occupationally inactive social groups; and on the other hand, promote awareness on the increase in social value that derives from participation in public measures. As sanctions are likely to drive vulnerable individuals who distrust the government even further away, policymakers are encouraged to make use of sensitisation campaigns of a positive type. The need for a behavioural 'push' is even greater for what concerns the younger population as they tend to be influenced by their peers in a superior way. With reference to our findings, professionals such as teachers and mentors should be prepared to encourage a type of social aggregation that is healthy for the individuals. The teaching of

civic responsibility should be enforced in schools. Additionally, it would be advisable for instructors in both schools and ALMPs to promote flexible teamwork so that individuals learn to develop individual thinking, independent of the group to which they are assigned. This would possibly produce positive feedback in adulthood when individuals face inactivity or unemployment. The policy implication is particularly relevant for countries that are typically collectivist and that encourage individuals to ‘see themselves as parts of one or more collectives [and] be primarily motivated by the norms of, and duties imposed by, those collectives’, such as the Southern European regions.

The implementation of public programmes that promote a healthy type of inclusion in society through the labour market requires an encouragement that is twofold. First, individuals should be incentivised to participate in an active labour market programme. This should be done by granting financial and social benefits to the individuals; by fostering campaigns that promote precise social messages; or by resorting to both. When the transformation of social norms is at stake, what could be perceived as the oversubsidising of incentives is in reality properly subsidising once certain payoffs that were initially ignored are identified; namely those of the peers of the potential participant. The costs born by the state in the first stage, when resources are employed to show both the potential participant and her peers the potential benefits that await them, can be recovered once the social norm is transformed. This is justified by the theory of social psychologists according to which individuals tend to conform to what others do. Second, individuals should learn to appreciate the potential new social identity they could acquire through the labour market. They should experience a positive stimulus to remain and recognise themselves in the group of working people. Repeated exposure to a good, or a service like active labour market policies, according to Klick and Parisi (2008), could decrease the disutility that may derive from adapting to a new preference. On this subject, Feld and Zölitz (2017) found that, rather than by effort, peer effects are mainly conveyed by ‘changes in group interaction’. As argued by Schwab (2017) jobs are not the ‘ultimate goal of the good society’, but they are a means to improve social welfare. In this regard, laws may mandate higher efficiency levels as regards the workplace (Schwab, 2017). Individuals should, therefore, be brought more often into contact with opportunities similar to ALMPs that contribute to their social development. In relation to the concept of a new social identity, the study advises policymakers to reconsider the role of occupational psychologists in firms, who should occupy a central position as intervening agents in this second phase. Progressively, governments can recover those who want to be recovered through the use of the law that accounts for peer effects.

## 6. Conclusions

In this paper, we analysed the role of social expectations with respect to how they can influence an individual's decision to participate or not in a public programme of active labour market policy. In the model implemented, the unemployed individual internalises the social behaviours of the surrounding environment and chooses to participate in a public programme having accounted for the preferences of both her group of peers and the government. Results from an experiment show that young unemployed individuals are negatively influenced by their peers when faced with the decision to participate or not in a training programme. Recurring to both a between- and within-subjects design, we observe that individuals are, respectively, 33 and 42 percentage points less likely to take part in a programme promoted by the government. Understandably, this also suggests that there could be an informational effect, according to which information from different sources, be it the peers or the government, might have a different impact on the decision-making process of the potential participant. Further research should, therefore, investigate whether a more or less reliable source of information changes results. This is in line with the marketing literature about the relevance of nowadays "influencers". If applied correctly, we could be able to seduce young unemployed individuals to take part in job training programmes for their benefit even independent of the supply of financial incentives. Similarly, further research could look at the effect of such information on *de facto* employment, also with respect to different types of expectations by different types of agents.

Undoubtedly, results may be of greater relevance in areas where, due to culture, social links and favours are renowned for being central to the development of social and professional identity. Further research should be performed to better understand how culture, intended as customs and traditions but also as a country's institutional framework, shapes the extent to which social expectations matter in individual decision-making processes. Additional analyses should also be carried out with respect to the levels of marginal social revenue that derive from participation in active labour market programmes for different age groups. In support of Heckman's (2000) argument, the promotion of training should occur only insofar as it affects individuals who have a sufficiently broad horizon to put into practice the professional and social abilities they acquired. The model presented in this paper could be extended to other issues related to individual decision-making in a setting of incomplete information. Additionally, it seems particularly relevant for analyses on the youth population, which is more inclined to be affected by social reputation. On the one hand, as reminded by Guiso et al. (2006) 'importing cultural elements will make economic discourse richer, better able to capture the nuances of the real world, and ultimately more useful'. On the other hand, the fact that labour law is also interested in issues of fairness to

encourage positive employment effects indicates the relevance of social legislation for regulating the risks brought by capitalism into the labour market (Deakin, 2011).

# Appendix

## Appendix A

### EXPERIMENT ON QUALTRICS

The consent form and ID registration are common to all participants, while blocks are randomly assigned to each participant.

START OF EXPERIMENT

START OF BLOCK : CONSENT FORM

In the following survey, you are asked to answer the questions with honesty as if you were asked these questions in reality. Your honesty can help us improve social welfare. By choosing "I agree", you agree to the conditions mentioned above.

• I agree and will answer with honesty • I do not agree

END OF BLOCK : CONSENT FORM

START OF BLOCK : DOES NOT CONSENT

Since you do not wish to take part in this study, please return your submission on Prolific by selecting the "Stop without completing" button.

END OF BLOCK : DOES NOT CONSENT

START OF BLOCK : PROLIFIC ID REGISTRATION

Please enter your Prolific ID here:

END OF BLOCK : PROLIFIC ID REGISTRATION

This is your hometown, a peaceful and warm village. Unfortunately, like many other young people, you are currently unemployed. You start considering what to do in order to find a job. However, there are different ways in which one can find a job.

START OF BLOCK : BLOCK 0

Active labour market policies are government programmes that help unemployed individuals find a job by upgrading their skills for free. Participating means committing to attend all sessions organised

by the job centres in your county for 12 weeks. 90% of the government's representatives are in favour of participation in training programmes. Many participants could get a job after completing the programme. Would you participate?

- Yes, I'd attend government job training
- No, I'd rather spend time in more valuable activities

PAGE BREAK

According to some of your peers in your county, the programme is not as good as the government suggests: the training is rather old fashioned and is not going to meet the specific needs of your county. It is also time consuming such that you cannot spend your time on any other activity potentially more effective to find a job. Overall, it seems like more than half of your friends are contrary to participation in active labour market policies. Would you participate?

- Yes, I'd attend government job training
- No, I'd rather spend time in more valuable activities

END OF BLOCK : BLOCK 0

START OF BLOCK : BLOCK 1

Active labour market policies are government programmes that help unemployed individuals find a job by upgrading their skills for free. Participating means committing to attend all sessions organised by the job centres in your county for 12 weeks. 90% of the government's representatives are in favour of participation in training programmes. Many participants could get a job after completing the programme. According to some of your peers in your county, the programme is not as good as the government suggests: the training is rather old fashioned and is not going to meet the specific needs of your county. It is also time consuming such that you cannot spend your time on any other activity potentially more effective to find a job. Overall, it seems like more than half of your friends are contrary to participation in active labour market policies. Would you participate?

- Yes, I'd attend government job training
- No, I'd rather spend time in more valuable activities

END OF BLOCK : BLOCK 1

START OF QUESTIONNAIRE

a) Please select your gender: · Female · Male

b) Please select your age: • 18 • 19 • 20 • 21 • 22 • 23 • 24 • 25 • 26

c) Please select your nationality: • UK • Non UK

d) Please select your area of residence: • North East, England (Tees Valley, Durham, Northumberland and Tyne and Wear) • North West, England (Cumbria, Greater Manchester, Lancashire, Merseyside) • Yorkshire and the Humber, England (East Riding, North Lincolnshire and Yorkshire) • South West, England (Gloucestershire, Wiltshire and Bristol/Bath area, Dorset and Somerset, Cornwall and Isles of Scilly, Devon) • South East, England (Berkshire, Buckinghamshire, and Oxfordshire, Surrey, Sussex, Kent, Hampshire and Isle of Wight) • East Midlands, England (Derbyshire and Nottinghamshire, Leicestershire, Rutland and Northamptonshire, Lincolnshire) • East of England (East Anglia, Bedfordshire and Hertfordshire, Essex) • West Midlands, England (Herefordshire, Worcestershire and Warwickshire, Shropshire and Staffordshire, West Midlands) • London, England • Scotland • Wales • Northern Ireland

e) Do you live with your parents? • Yes • No

f) Do your parents influence your decisions about work? • Yes • No

g) Do you come from a large family? Select “Yes” if, including your parents, your siblings, and yourself you are 5 or more than 5. • Yes • No

d) From a scale 1 to 3 (1= low, 2=middle, 3= high) how would you define your socioeconomic status? • 1 • 2 • 3

END OF QUESTIONNAIRE

END OF EXPERIMENT

## Appendix B

### SURVEY

A survey was created for individuals between 18 and 35 years old and administered online so as to reach anyone that would want to take part in it, independent of the country of residence. This survey was administered to different individuals compared to those who partook in our experiments. The aim of the survey was to understand what influences employed and unemployed individuals when making a choice on their job prospects. Individuals are, indeed, likely to account for the opinion of the government on public matters such as unemployment. Additionally, they may consider the relationship with their

peers and family to play a fundamental role in personal decisions. When their social identity is at stake, however, they may act independent of the expectations of their social groups of reference.

The sample consists of the 87 individuals who filled in the anonymous survey online. It is proportioned as regards gender, with 44.8% male participants and 55.2% female participants. Most of the individuals have a nationality from the European Union (about 87.4%); are Christian (59.8%); and are aged between 18 and 25 (78.2%). Individuals also provide us with relevant information on their family. The majority of the individuals are part of a family of three (43.7%) and of four (26.4%), besides them. On the other hand, 18.4% do not have any siblings. As regards education, 46% of the individuals answered that at least one of their parents holds a master degree; 13.8% a bachelor degree; and 37.9% a high-school degree. The education of the individuals follows a similar pattern in that 49.4% of them obtained a master degree; 25.3% a bachelor degree; and 25.3% a high-school degree. The majority of the individuals surveyed are studying (79.3%), while 12.6% are admittedly looking for a job. For 22.6% of the people, it has been less than three months since they graduated and that they are looking for a job.

A part of the survey is also dedicated to the social networks of the individuals. Interestingly, the proportion between people who define themselves as extrovert and introvert is rather stable with 46% and 54% of the individuals who refer to themselves as extrovert and introvert. Additionally, only a very small proportion of individuals declare having just one close friend (4.6%). The majority of the individuals of the survey either have 4 (19.5%), 5 (19.5%), or more than 5 (24.1%) close friends. Due to young individuals being increasingly busy in this era, 47.1% of them meet with their friends averagely once a week; 19.5% twice a week; and 16.1% three times a week. According to the survey, they spend about 2 hours per day with their friends (31%) and when they do it is usually to have lunch or dinner together (47.1%). Only 11.5% of the individuals meet to study together. In terms of professional usefulness, the sample is divided between individuals who declare they receive good suggestions for jobs from their friends (49.4%) and individuals who instead admit they do not talk about jobs when they meet with them (41.4%). On this subject, we could deduce that the suggestions on labour given to the individual by peers who either have no job or no adequate education may be objectively mediocre.

What is certain, on the other hand, is that almost all of them acknowledge that friends do play a role when faced with a personal decision. About 71.3% of the individuals first hear out the opinion of their friends before deciding for themselves. In particular, 55.4% say their opinion is quite important, while 30.1% define the opinion of their friends as important. Nevertheless, 25.3% of the individuals state that none of their friends have a job, while the majority declare that only 1/4 of their friends have one. As regards the type of contract offered to the peers of the individuals surveyed, 55.7% and



35% of them are, respectively, short-term and part-time contracts. For what concerns their personal occupational prospects, 76.7% are not aware of the Youth Guarantee programme implemented by the European Union and targeted for individuals who are neither in employment nor in education nor in training. 35.1% of the individuals surveyed did not apply to any other national or international programme that could help them find a job. When asked why they did not apply for any programme, most of the individuals attribute the cause to a lack of information (37.3%). 12%, on the other hand, do not believe that the training offered in their country is good enough. In this regard, it might be useful to stress that 58.6% of the individuals who filled in the survey live in Southern Europe, where passive labour market policies dominate and youth programmes are not very much encouraged.

Additionally, the survey investigated the intentions of the individuals in a setting where they were supposed to be looking for a job. On this subject, it is interesting to observe that individuals appear not to perceive participation in an active labour market policy as shameful. This departs from the common knowledge that associates participation in a public programme with negative signalling effects to potential employers and with social stigma in society. Individuals could indeed decide to avoid participation in order not to make others believe that they need such type of support. Surprisingly, however, when asked whether they would participate in an active measure conditional upon having the experience registered on their CV, 83.7% replied they would still participate. It follows that individuals do not necessarily perceive the decision to participate in an active labour market programme as damaging in respect to their reputation. On the other hand, when asked whether they would participate in case their friends were contrary to it, results show that while 50% of the individuals would still participate, the other 40.7% would be uncertain, and the remaining 9.4% would rather not participate. This supports the argument of social expectations being relevant for individual decisions.

Finally, we also asked individuals to imagine confronting themselves with a scenario where the government expects them to participate in an active labour market policy so as to increase their chances to find a job; increase labour participation; and ameliorate the reputation of the government with respect to those countries whose unemployment rates are lower. For this scenario, which is plausible for anyone living in a European Union country or in another federation of states, results show that only a few individuals would participate so as not to be considered a social burden to the state (10.6%). Understandably, the concept of social responsibility towards a group like the one of the working people, which is external to the existing social group of reference, can be developed with difficulty in a context where peers tend to be unemployed. This supports the necessity to develop platforms that encourage independent thinking and discussion of civic responsibility on behalf of both families and schools. On

the other hand, what appears to significantly encourage individuals to participate in an active labour market programme is their desire to develop a social identity (37.6%). It seems clear to the individuals of the survey that participation in an active labour market policy is key to success not only in terms of finding a job but also in moving closer to another, and possibly better, social group; namely, that of the working people.

## QUESTIONS

Individuals answered the following questions:

- 1) Select your gender: a) Female b) Male c) Prefer not to say
- 2) Select your nationality: a) EU (and Switzerland) b) Non-EU (U.S., Canada, Australia) c) Non-EU (other)
- 3) Select your religion: a) Christian b) Muslim c) Other religion d) No religion
- 4) Select your age: a) Between 18 and 25 b) Between 26 and 30 c) Between 31 and 35 d) Older than 35
- 5) Select the number of family members, besides you: a) 1: mother or father b) 2: mother, father c) 3: mother, father, and one sibling d) 4: mother, father, and two siblings e) 5: mother, father, and three siblings
- 6) Would you say you are more introvert or extrovert? a) Introvert b) Extrovert
- 7) How many close friends do you have? a) 1 b) 2 c) 3 d) 4 e) 5 f) More than 5 g) More than 10 h) More than 15
- 8) How often do you see them during the week on average? a) Once a week b) Twice a week c) 3 days a week d) 4 days a week e) 5 days a week f) 6 days a week g) Every day (7 days a week)
- 9) How many hours per day do you see your friends on average? a) 0 b) 1 c) 2 d) 3 e) 4 f) 5 or more
- 10) How do you usually spend your time together? a) When you meet your friends you usually study b) When you meet your friends you usually go out for lunch or dinner c) When you meet your friends you usually hang out at someone's place
- 11) Is hanging out with your friends useful in terms of increasing your chances to find a job? a) Yes, they give you good advice b) Yes, you give them good advice c) No, when we see each other we usually do not talk about jobs
- 12) Do you feel your friends play a role when you have to make a decision? a) No b) Yes
- 13) If yes, how important is their opinion for you? a) Not important b) Quite important c) Important d) Very important

- 14) How many of your close friends have a job right now? a) None b) 25% c) 50% d) 75% e) All of them have a job
- 15) If your friends have a job, is it a short-term or a long-term job? a) Short-term b) Long-term c) None of them has a job
- 16) If your friends have a job, is it a part-time job? a) Yes b) No c) None of them has a job
- 17) Select the education title you achieved: a) High-school or technical-school diploma b) Bachelor at university c) Master at university d) Doctorate
- 18) Select the highest education title of your parents (mother, father, or both): a) High-school or technical-school diploma b) Bachelor at university c) Master at university d) Doctorate
- 19) In this period of your life you are: a) Studying b) Looking for a job c) Not studying and not looking for a job
- 20) If you are looking for a job: a) It has been less than 3 months since you graduated or obtained a professional certificate b) It has been less than 6 months since you graduated or obtained a professional certificate c) It has been less than 1 year since you graduated or obtained a professional certificate d) It has been less than 2 years since you graduated or obtained a professional certificate e) You are not looking for a job because you are in the middle of your studies f) You are not looking for a job even if you are not studying and not working
- 21) The Youth Guarantee is a EU programme that organizes internships, job search sessions, and other formation services to help you find a job if you are currently not studying and not working. Did you know about the “Youth Guarantee” programme? a) Yes b) No
- 22) If yes, why did you not apply?: a) You are still studying so you are not eligible to participate b) You are older than 30 so you are not eligible to participate c) None of your friends applied d) You did not know about the “Youth Guarantee” (but you live in the EU) e) You did not know about the “Youth Guarantee” (but you live outside the EU)
- 23) Did you apply to other programmes that could help you find a job? a) Yes b) No, you are not interested even if you are currently not studying nor working c) No, you are still studying so you are not looking for a job
- 24) If you did not apply to any of the available public programmes for the unemployed, why do you think that is? a) You are not enough informed b) You do not believe that the training offered in your country is good enough c) You have privacy issues and do not want your name to be in any public record d) You do not trust your government e) None of your unemployed friends applied f) You prefer to find a solution with your friends g) You prefer to find a solution with your family h) You are still studying i) You applied for a programme

25) In what country are you currently living? a) A country in Southern Europe (e.g. Italy, Spain, Portugal) b) A country in Continental Europe (e.g. Austria, Germany, Switzerland) c) A country in Eastern Europe (e.g. Poland, Hungary) d) A country in Northern Europe (e.g. The Netherlands, Sweden, Denmark) e) U.S. or Canada f) Africa g) Asia h) Australia

26) Is the country where you are currently living your country of origin? a) Yes b) No

27) Imagine that whatever the training public programme you take part in, the latter will necessarily show up on your CV when you apply for the job you have in mind. Would you still participate? a) Yes b) No

28) If your friends were absolutely contrary to your participation in the programme would you still participate? a) Yes, their opinion is irrelevant b) You don't know c) No, you would like to have their support

29) If your family were absolutely contrary to your participation in the programme would you still participate? a) Yes, their opinion is irrelevant b) You don't know c) No, you would like to have their support

30) The government in your country is in crisis. Other governments think your government is not doing well enough as regards supporting employment. They also think that due to the high rate of unemployment in your country, they have to contribute more to cover the expenses of your government. Your government therefore would like that anyone who is unemployed participates in a training programme so as to increase the probability of decreasing unemployment. What would you do? a) You would still not participate, as you do not care about the image of your government b) You would participate only if your family agrees c) You would participate only if your friends support you in this decision d) You would participate in any case because you do not want to consider yourself a social burden e) You would participate independent of your family, friends, or international relations (i.e. the image of your government) f) You would participate, as participating would mean increasing your chances to develop a social identity

31) If you had to say what matters the most when making such a decision for your future what would it be? a) Your family b) Your friends c) Your government d) Your image in society e) Nobody/nothing

## Appendix C

In this Appendix we provide evidence from an additional experiment conducted on Qualtrics, using individuals hired through Prolific, that investigates the change in shares of potential and non-potential

participants in a training programme. While the main experiment is interested in finding a treatment effect, in this section we simply provide descriptive statistics that show how presenting to individuals, both employed and unemployed, hypothetical scenarios of participation in a training programme is likely to influence their actual decision in taking part in such measures. The total number of individuals involved in this third study is equal to 153. The number of individuals in each of the five groups considered varies between 30 and 31 people. Individuals who take part in the experiment come from all parts of the world. In particular, according to Prolific’s demographics, the majority of the individuals who take part in online experiments live in either the UK (47.9%) or the US (28.7%), followed by Canada, Portugal, Poland, Italy, Australia, Spain, and Germany. 74.1% of Prolific’s participants are of White ethnicity. Individuals who take part in our experiment are between 18 and 50 years old, although we expect the segment of individuals between 20 and 30 to be predominant according to Prolific’s public demographics. Individuals who participate in our experiment can be both employed and unemployed. When they are employed they can be employed with both a full-time or part-time contract. As regards the distribution of female and male participants, the participant pool demographics of the hiring platform we make use of guarantees that they are proportionally distributed with 57.5% women and 42.5% men. Individuals are paid £6.00 per hour.

The propositions tested during this experiment were somehow different from the ones in the main experiment. In particular, this analysis is also interested in understanding the effect of government’s expectations per se as well as it compares a setting where the number of peers varies. Listed below, the reader can find the main hypotheses tested as well as the results.

PROPOSITION I When faced with the decision to participate or not in an active labour market policy, individuals are influenced by the social expectations of the peers and the government. This means that the potential participant in question will commit to the training wanted by the government and to the peers’ preference on this activity over other activities differently compared to a setting that does not account for these agents’ expectations. In other words, the individual in question cares about society.

PROPOSITION II The negative expectation of the peers affects negatively the decision of the potential participant to participate.

PROPOSITION III The positive expectation of the government affects positively the decision of the potential participant to participate.

PROPOSITION IV The extent to which the expectations of the peers and the government affect

the decision of the potential participant to participate is different. In other words, there is a trade-off between the individual's effort towards the training expected by the government and towards the adjustment concerning the peers' preference in respect to training. There is expected to be a higher psychological effort to comply to the peers' expectations towards training relative to those of the government.

PROPOSITION V When faced with the decision to participate or not in an active labour market policy, individuals are influenced by the social expectations to a higher extent when the social group in question is smaller. If the number of group members decrease, then the original trade-off between effort in training and effort in adjusting to the peers' preference will increase.

Table 26: Likelihood of Participation in Active Labour Market Programme by Treatment Group

<b>Group of Reference</b>	Share of Participants	Share of Non Participants	<i>Observations by Group</i>
Scenario 0	93.3	6.7	30
Scenario 1	90.3	9.7	31
Scenario 2	96.7	3.3	30
Scenario 3	90.3	9.7	31
Scenario 4	77.4	22.6	31
Total	100	100	153

*Notes:* The table describes the proportion of individuals who claimed they would participate or would not participate in a training programme. In particular, we distinguish between five different groups of individuals who take part in the online experiment and associated to a baseline scenario and four treatment scenarios. The number of individuals for each group varies between 30 and 31, for a total of 153 individuals. Individuals are between 18 and 50 years old and selected among the existing seven continents.

FINDING I When faced with the decision to participate or not in an active labour market programme, individuals are influenced by the social expectations of peers and government.

Individuals from the control group, or baseline scenario, participate 93.3% of the time. Only 6.7% would not participate independent of social expectations. Results are different when social expectations are accounted for.

FINDING II The negative expectation of the peers affects negatively the decision of the potential participant to participate.

A smaller proportion of individuals would participate in an active labour market policy compared to a setting where no social expectations are accounted for. Individuals from the first treatment group,

or scenario 1, would participate only 90.3% of the time. 9.7% of the individuals would rather not take part in any active labour market programme once having accounted for the preference of the peers. In other words, a negative variation of 3% is observed for this group of individuals with respect to the baseline scenario.

FINDING III The positive expectation of the government affects positively the potential participant to participate.

A higher proportion of individuals would participate in an active labour market policy compared to a setting where no social expectations are accounted for. Individuals from the second treatment group, or scenario 2, would participate 96.7% of the time. Only 3.3% of the individuals would rather not take part in any active labour market programme once having accounted for the preference of the government. In other words, a positive variation of 3.4% is observed for this group of individuals with respect to the baseline scenario.

FINDING IV The expectations of the peers and the government affect the decision of the potential participant to participate or not in an active labour market policy to a different extent. In a setting that accounts for the social expectations of both the peers and the government, the expectations of the peers shape the decision of the potential participant to a higher degree.

The finding holds both in terms of sign and magnitude. First, one can observe that the expectations of the peers and of the government influence the decision of the potential participant to participate or not according to a, respectively, negative and positive direction. Second, one can observe that individuals would decrease their participation in an active labour market programme more substantially when told that the peers are not in favour of it. In particular,  $9.7\% > 3.3\%$ . On the other hand, it is not necessarily true that the absolute variation observed in terms of the decision of the treated individuals compared to those in the baseline scenario is greater for those in scenario 1 (equal to 3%) compared to those in scenario 2 (equal to 3.4%). The reason why variations are not significantly large overall may be attributed to the nationality of the individuals who take part in our experiment. In particular, individuals from countries where social affiliations matter substantially both from occupational and non-occupational perspectives only constitute a small proportion of Prolific's participant demographics. Compared to the UK and the US, individuals from Portugal are only 2.7%, from Italy 1.8%, from Spain 1.5%, and from Mexico 1.1%. This is likely to explain the small magnitude of the estimates observed. What is, however, evident is that the pattern present in scenario 3, where the expectations of both the government and the peers are accounted for, is actually the same as the one present in scenario 1, where only the expectations of

the peers are accounted for. In other words, the variation associated to the expectations of the peers is predominant in a context where both agents are considered.

**FINDING V** When faced with the decision to participate or not in an active labour market policy, individuals are more influenced by the peers when the number of group members decreases.

Treated individuals were put in front of the decision to participate or not in an active labour market policy in a setting where the peers in question were referred as the ones known by the individual in her own country. In particular, we aim to observe the effect of delimiting the concept of peers from peers known by the potential participant in general and spread around the world, with peers known by the potential participant in her country. Results show that, compared to the baseline scenario, the variation observed in the likelihood to participate in an active labour market programme is negative and equal to 15.9%. In this setting, individuals tend to participate only 77.4% of the time, while 22.6% decide not to. With respect to Proposition V, one can observe that the variation in the probability to participate typical of a setting where the number of peers is circumscribed to the country of the individual is larger (15.9%) compared to the variation typical of a setting where the individual only accounts for peers in general (3%). With reference to Proposition IV, one can say, too, that the magnitude of the variation in expected participation between individuals in the treatment group where the agent is the group of peers and individuals in the treatment group where the agent is the government is actually larger in absolute terms ( $15.9\% > 3.4\%$ ).

## **ONLINE EXPERIMENT ON QUALTRICS**

The consent form and ID registration are common to all participants, while blocks, or scenarios, are randomly assigned to each participant.

### **START OF EXPERIMENT**

#### **START OF BLOCK: CONSENT FORM**

By taking part in this survey you agree to answer with honesty to the question asked. Any response will be recorded in an anonymous way. As a Prolific participant, you will be rewarded when you consent to participate in this survey and complete it before the session expires (one week). Completing the survey means answering with honesty to the question asked. By choosing “I agree”, you agree to the conditions mentioned above.

- I agree • I do not agree



END OF BLOCK : CONSENT FORM

START OF BLOCK : DOES NOT CONSENT

Since you do not wish to take part in this study, please return your submission on Prolific by selecting the “Stop without completing” button.

END OF BLOCK : DOES NOT CONSENT

START OF BLOCK : PROLIFIC ID REGISTRATION

Please enter your Prolific ID here:

END OF BLOCK : PROLIFIC ID REGISTRATION

START OF BLOCK : BLOCK 0

Active labour market policies are public programmes that aim to help the unemployed individuals find a job by focusing on the upgrade of individuals’ skills. Imagine that you are unemployed. You have never worked before. Your friends are also unemployed and they also have never worked before. The government offers you the possibility to participate in an active labour market policy of training for free. Participating means committing to the programme by attending the sessions that are organised by the job centres in your town or region for a defined number of weeks. Would you participate?

• I agree • I do not agree

END OF BLOCK : BLOCK 0

START OF BLOCK : BLOCK 1

Active labour market policies are public programmes that aim to help the unemployed individuals find a job by focusing on the upgrade of individuals’ skills. Imagine that you are unemployed. You have never worked before. Your friends are also unemployed and they also have never worked before. The government offers you the possibility to participate in an active labour market policy of training for free. Participating means committing to the programme by attending the sessions that are organised by the job centres in your town or region for a defined number of weeks. 90% of your peers are contrary to participation in active labour market policies. Would you participate?

• I agree • I do not agree

END OF BLOCK : BLOCK 1

START OF BLOCK : BLOCK 2

Active labour market policies are public programmes that aim to help the unemployed individuals find a job by focusing on the upgrade of individuals' skills. Imagine that you are unemployed. You have never worked before. Your friends are also unemployed and they also have never worked before. The government offers you the possibility to participate in an active labour market policy of training for free. Participating means committing to the programme by attending the sessions that are organised by the job centres in your town or region for a defined number of weeks. 90% of the government's representatives are in favour to participation in active labour market policies. Would you participate?

• I agree • I do not agree

END OF BLOCK : BLOCK 2

START OF BLOCK : BLOCK 3

Active labour market policies are public programmes that aim to help the unemployed individuals find a job by focusing on the upgrade of individuals' skills. Imagine that you are unemployed. You have never worked before. Your friends are also unemployed and they also have never worked before. The government offers you the possibility to participate in an active labour market policy of training for free. Participating means committing to the programme by attending the sessions that are organised by the job centres in your town or region for a defined number of weeks. 90% of your peers are contrary to participation in active labour market policies. 90% of the government's representatives are in favour to participation in active labour market policies. Would you participate?

• I agree • I do not agree

END OF BLOCK : BLOCK 3

START OF BLOCK : BLOCK 4

Active labour market policies are public programmes that aim to help the unemployed individuals find a job by focusing on the upgrade of individuals' skills. Imagine that you are unemployed. You have never worked before. Your friends are also unemployed and they also have never worked before. The government offers you the possibility to participate in an active labour market policy of training for free. Participating means committing to the programme by attending the sessions that are organised by the job centres in your town or region for a defined number of weeks. 90% of the peers of your country are contrary to participation in active labour market policies. Would you participate?

• I agree • I do not agree

END OF BLOCK : BLOCK 4

END OF EXPERIMENT

# CHAPTER VI

## The Changing Configuration of Employment in Italy. The Effectiveness of Active Labour Market Policy (1990s-2010s)<sup>†</sup>

### Summary

In line with the most developed European countries, Italy has progressively converged towards an active labour market approach to fight unemployment and create a more flexible workforce. Reforms on training, flexibility, and conditionality have been introduced since the 1990s when the labour market started becoming more globalised, unstable, and technological. In this article we study the effectiveness of the active labour market approach that emerged in law and in institutions with reference to the professional condition of individuals between 1997 and 2018 at different levels of aggregation. Using text analysis, we correlate the use and density of corpora in the law that refer to active labour market policy with major occupational outcomes such as employment, unemployment, and inactivity rates at both national and regional levels. The interdisciplinary method used indicates the central role of path and context dependence in explaining the differential response observed in the North, Centre, and South of Italy, particularly for what concerns the relationship between employment and education.

**Keywords:** Active Labour Market Policy; Flexicurity; Unemployment; Path Dependence; Text Analysis; Training.

JEL: H52; I2; I25; K00; K3; K31; L38; P46.

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# 1. Introduction

Unemployed individuals need more than just unemployment benefits to overcome their condition of occupational inactivity (Plougmann and Madsen, 2002). Active labour market policies (ALMP) are a set of measures implemented by the government to overcome unemployment using an approach based on investment in human capital. Examples of such measures include orientation services, training programmes, or job search assistance. Differently from passive labour market policies (e.g. unemployment benefits), active measures require co-responsibility on the part of the occupationally inactive individuals for their reintegration into the labour market. Compared to Scandinavian countries, the pioneers of such an approach, Italy has converged only recently towards a system of active labour market policy. After the 1997 Treu Package introduced new forms of temporary and atypical contracts, the government's 2001 White Paper promoted flexibility as a means to exit from but also enter into the labour market. Soon after that, the Biagi Law of 2003 reinterpreted both apprenticeships and internships to promote the quality and stability of work, while the Jobs Act of 2014 encouraged a more consistent use of open-ended contracts in the Italian firms. However, it was in 2015 that Italy experienced a major institutional change in the organisation of labour. While the legislative decree 22 of 2015 made conditionality compulsory with the New Employment Social Insurance (NASPI), the legislative decree 150 finally created a National Agency for Active Labour Market Policies (ANAPAL) to design, implement, and supervise active measures in the country. In this article, we analyse Italian labour law between 1997 and 2018 to empirically determine when this transformation in policy approach took place and illustrate the parallel change observed in employment in the same period. Particularly, we use text analysis to identify the introduction and promotion of key ALMP concepts, such as *a)* conditionality, *b)* training, *c)* flexibility, and *d)* inter-administrative subsidiarity. The content of the law is then studied in correlation with occupational and educational outcomes, including the national and macro-regional employment, unemployment, and inactivity rates. The aim of the analysis is to show, firstly, that it is possible to analyse legal texts empirically so as to better understand changes in policy processes; and secondly, that there exists a parallel relationship between the absorption of an active labour market policy approach reflected in the law, and consequently in the labour market institutions, as well as the employment situation in the country.

History is relevant in the shaping of existing institutions and sometimes 'the initial conditions [can] become enduring constraints' (David, 1994). In order to adapt to the new challenges of the labour market, it is conceivable to think that Italian labour law had to evolve so as to attribute new functions to institutions and subjects themselves. It is indeed only after some institutional effort

that formal rules, such as co-responsability in employment, become part of the ‘common knowledge-like expectations’ (David, 1994). Precisely as argued by Nagy (1994), when the character and role of existing institutions change, so does the mentality of those they represent. With reference to North (2005), one can argue that there is an ‘intimate interrelationship of beliefs and institutions’.<sup>187</sup> The process of change is not automatically absorbed in individuals such as the imperfectly informed job seekers and the entrepreneurs. Thus, it is crucial to circumscribe the economic uncertainty that characterises their system of beliefs and consequent actions within a set of institutions of reference. These are established by the law to create a so-called ‘pattern matching’ on which individuals can rely to incorporate concepts such as the conditionality feature of unemployment benefits, into their system of beliefs. Using the words of North (2005), ‘the fundamental building blocks of a culture begin with the language [whose] vocabulary reflect the cumulative experience of a society’. The use of text analysis is emblematic in this regard in that it helps us to identify the institutional, and consequently cultural, context in which economic change takes place.

Italy has a tradition of passive welfarism when it comes to addressing issues related to the labour market. The way in which it is possible to make occupationally inactive people productive is to make them co-responsible of their professional future. By requiring active participation in job training programmes, on the one hand, and efficient intermediation between labour market and educational institutions, on the other, an approach based on active labour market policy contributes to creating change. With regards to this, looking at the law becomes crucial, for it allows the identification of the roots of a structural change in the legal and institutional framework that ‘embod[ies] the intentionality of our conscious minds’ (North, 2005). In the Italian case, the change in the belief system of the subjects occurred with the progressive introduction of occupational reforms based on active labour market policy that finally enhanced the skills of the unemployed people. The convergence of Italian labour law towards an active approach against unemployment, however, can be considered successful only if it promotes the establishment of stable institutions that guarantee order; namely, a system of norms that individuals obey to. According to North (2005) this is the necessary condition for long-run economic growth. In our case, if institutions and policy makers adopt an active labour market policy approach, the latter permits to the ‘non-educated workers to [] become educated’ (Dias and Tebaldi, 2012), leading to a structural change in the nature of the labour force and, therefore, in the country’s economic growth. Indeed, an active labour market approach that enhances human capital is also beneficial at the macroeconomic level. On the one hand, when social and economics policies are well-designed, skills and organisational skills can be developed so as to create competitive industries (Khan, 2019). On the other

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<sup>187</sup>p. 50.

hand, because the amount of goods and services that we consume depends profoundly on our income (Keynes, 1937), if individuals are trained so as to transition from a condition of unemployment to a condition of employment, or from a condition of unstable and low-quality employment to a condition of stable and high-quality employment, it necessarily follows that they will consume more, benefiting the economy.

Italy is mainly made of micro-, small-, or medium-sized (SME) firms that often have not enough funding to invest in human capital on their own and rely strongly on the active labour market policies offered by the government for professional training. On this subject, using ALMP has positive repercussions also with respect to the costs experienced by firms. On the one hand, an active labour market approach contributes to helping unemployed individuals avoid social exclusion by providing them with the purpose of learning. Training, in particular, creates positive effects on employment most of the time (Sahnoun and Abdennadher, 2018). On the other hand, the use of flexibility, together with adequate training, allows employed individuals to move more easily from one task to another or from one job to another (Ciucciiovino, 2018). Reinhard et al. (2002) observed that when active labour market policies improve the marginal rate of job matching, then more vacancies lower the rate of job seekers. Particularly, if training increases in any way the productivity of individuals, even if this is just meant for a low-skilled job, firms are willing to open more vacancies, and employment increases as a consequence. Similarly, and as studied by Lechner et al. (2013), because participating in training programmes leads to an increase in the individual's skills, the skill mismatch present in the labour market necessarily drops. As a result, job match quality improves while the training costs for hiring new job candidates decrease. The more complex an economy is, the higher the transaction costs for everybody (North, 1992). Thus, having the right institutions also means reducing these costs by making mechanisms such as the transition from unemployment to employment more efficient. Information, for instance, is costly. An active labour market approach that guarantees investment in human capital on the one hand and flexibility on the other hand reduces these transaction costs. When an employer is hiring someone, he is necessarily paying for both the quantity and quality of her work (North, 1992). The costs of hiring are unforeseeable until the person starts to work. Supposed an individual is well-trained, the employer will be satisfied with his decision and the costs for the firm will be low due to the skill matching brought by the new worker. However, in the opposite case, thanks to flexibility the employer will be able to move the individual to a lower task or to a different location.

This is why it is relevant to consider the different aspects of active labour market policy. Clearly, Italy did not experience a turn of its employment organisation and economic situation overnight. As

illustrated by Battilani and Fauri (2019), after the 1973 oil crisis, the government meant to relaunch the industry by investing in national firms, extending the welfare state, and increasing occupation. This was only possible due to yet another feature of active labour market policy; namely, inter-administrative subsidiarity. Local governments started to become more and more relevant as regards managing the available funds for active social policy. As a result, in 1984 public transfer to support the Italian industry was equal to 8.9% of the GDP (Battilani and Fauri, 2019). While the chemical, steel, and electronic industries only survived thanks to the support of the European Union, in the 1980s the mechanical engineering sector and the ‘Made in Italy’ industry developed thanks to an increase in local productive sectors and the rise of small- and medium-sized firms (Battilani and Fauri, 2019). As interestingly illustrated by the two economic historians, at the beginning of the following decade, the public firms in non-financial sectors were many; including entertainment, public services, transport, mechanical and electromechanical engineering, energy, chemistry, glass, steel, mining, and plant engineering. However, progressively more and more sectors were privatised and by the 2010s, Italian capitalism was still based on family-run firms (Battilani and Fauri, 2019). As for nowadays, while many jobs have been lost in the industrial sector, many have been created by linking relevant manufacturing industries to the tertiary sector thanks to the successful ‘Made in Italy’ textile products, wines, and food products.

While in 2015, manufacturing still represented 26.6% of the Italian employed population, services surpassed them with 69.6%<sup>188</sup>, suggesting that using active measures to re-skill individuals is crucial to ensure a labour force that actively responds to the needs of the existing economic sectors. The current state of provision of active measures such as training programmes is remarkable in Italy in that it follows the European guidelines and tackles issues such as youth occupationally inactivity that have been ignored for a long time. In this regard, the implementation of the Youth Guarantee initiative, designed by the European Union and put into place in each Italian region since 2013, has allowed young inactive individuals to attend general training services, as well as on-the-job training in selected firms in all economic sectors. Nevertheless, projects of collaboration between schools, Agencies of Labour, and firms remain scarce and do not allow for *ad hoc* sectoral training. In Piedmont, in 2016, the most popular internship organised by job centres within the Youth Guarantee initiative was still one specified for the sector of commerce (14.5%). After concluding the training period, 61.5% found a job.<sup>189</sup> Similar results were obtained in the region of Emilia-Romagna. In the Province of Trento, on the other hand, vouchers were offered to unemployed individuals to ‘buy’ job orientation services. In the 2016 experiment, 30% of the participants were previously employed in the commerce sector, 10% in manufacturing, and 40%

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<sup>188</sup>Statistics from ISTAT (“Lavoro”).

<sup>189</sup>See annual report number 6 by ANPAL, March 2019.



in the services. After six months, the effect of such a policy was equal to 58.7 percentage points.<sup>190</sup> In Umbria, instead, the 2017 CRE.S.C.O initiative encouraged the active collaboration between job centres and firms to decrease situations of skills mismatch. Once again, most of the beneficiary firms were registered in the manufacturing sector (19.4%). In addition to personal services and the hotel and catering industry, significant concessions for innovative investments in Apulia were dedicated to sustainable manufacture. As can be deduced, while legislation for employment matters is national, their application diverges by region. This is why it is important to discuss institutional changes observed heterogeneously across Italian regions over time.

As illustrated by Odoardi and Muratore (2019), many are the factors that explain the evident divergence between Northern and Southern regions in Italy. Most importantly, the businesses of the North have benefited from their industrial location and proximity to other European countries since 1861, when Italy was unified. Their analysis on the contribution of ICT to regional economic growth similarly shows that, while innovation in firms plays a positive role in the Central and Northern regions, it is considered useless in the South. The institutional inefficiency may contribute to explaining such divergence in results. In 1997, Cooke et al. (1997) claimed that ‘regional policies to aid financing for innovation should mainly be directed to making better relations possible between the parties by minimising uncertainty’. As can be deduced, the lack of social capital and cooperation makes it difficult for firms to obtain access to credit, as well as it obstructs the development of the necessary infrastructures dedicated to innovation (Cooke et al., 1997). Finally, if a culture of cooperation, learning culture, coordination, cooperation at work, social valorisation, and the like are missing, the institutionalisation of a productive culture cannot succeed (Leonardi, 1995; Cooke et al., 1997). This is why, in addition to understanding the role of national legislation, it is important to shed light on context-specific intervention that may encourage institutional change at the local level (Rodriguez-Pose, 2013). In particular, there is only so much that the national legislation can do. As justly stressed by Iammarino (2005) with reference to evolutionary theory, change can occur insofar as there is absorption, diffusion, and generation of knowledge. If there is inflexibility on the part of local institutions, a structural change towards unemployment will be difficult to achieve. Historically, according to Iammarino (2005), this is explained by the ‘accumulation of what small surpluses there were being in the hands of anti-developmental governance, i.e. from Southern barons in the 18<sup>th</sup> century to the more recent Mafia’. Institutional performance is necessarily influenced by political performance (Putnam et al., 1983; Leonardi, 1995). Thus, regional governments influence the convergence towards an active labour market approach. In line with this, in addition to a national analysis, we also provide a regional

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<sup>190</sup>See annual report number 6 by ANPAL, March 2019.

investigation.

In particular, in this article, we make use of the legal texts issued in the 1990s, 2000s, and 2010s to identify the concepts typical of active labour market policy and study them in view of economic outcomes such as national employment, unemployment, and inactivity rates. To do so, we refer to the statistics provided by EUROSTAT and ISTAT. For each legal text analysed we exploit non-algorithmic text analysis to study the extent to which concepts associated with active labour market policies are promoted; namely, training, flexibility, conditionality, and inter-administrative subsidiarity. At a later stage, we look at the type of correlation that exists between the evolution of Italian labour law towards an active labour market policy approach and occupational outcomes such as the increase in employment or the decrease in unemployment and inactivity. Because the analysis is based on binate correlation coefficients, it is not the intention of the article to provide causal answers to changes observed in Italian employment trends, but rather to understand how the labour market outcomes changed in parallel with the transformation of the law. In the following Section 2, we shed light on the methodology used to investigate whether the gradual, and still ongoing, process of convergence of the country's legislative system towards an active labour market approach always corresponds to success in occupational and educational terms. Finally, Section 3 discusses the principal findings, while Section 4 concludes.

## 2. Methodology

In this section we will analyse in greater depth the relationship between labour laws that aim to promote an active labour market policy approach to tackle the issues of unemployment and inactivity, and the actual occupational outcomes in Italy. For the first scope, our corpus of texts is represented by the laws and legislative decrees issued in the period of investigation. Within these texts, our units of analysis are the words whose content is representative of an active labour market approach.

In addition to being variously used by professional translators (Gallego-Hernández, 2015), corpora have started to be a fundamental source of learning for social scientists too. Particularly, words can now be used to reflect a series of real-world behaviours (Tausczik and Pennebaker, 2010; Bernard and Ryan, 1998), specific mechanisms (Roberts, 2000), or institutional attention (Stemler, 2001). Tausczik and Pennebaker (2010), for example, stressed how judges themselves tend to grow a feeling of depression ‘when reading depressing stories’.<sup>191</sup> Holbrook and Krosnick (2010), for instance, showed that results from self-reports and the item count technique were actually very similar. Parunak (1979) was one of the

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<sup>191</sup>p. 26.

first scholars to provide an additional data-analytic technique for word frequency distributions. Because language’s main function is to communicate (Tausczik and Pennebaker, 2010), it seems reasonable to make use of it when studying the law. Understandably, because the word count is indicative of whom or what ‘is dominating the conversation’ (Tausczik and Pennebaker, 2010: p. 32), it is sensible to collect the frequency of words, or ‘occurrences of content categories’ (Roberts, 2000: p. 260), that appear in the law and classify them accordingly. Finally, different normative corpora associated to different concepts or content (Stemler, 2001) can be compared with each other (Rayson and Garside, 2000). As argued by Stemler, content analysis has the advantage of systematically compressing ‘many words of text into fewer content categories’.<sup>192</sup> But most importantly, in spite of the fact that ‘law exists solely in and through language’, only a few studies present put forward an empirical analysis of legal texts (Vogel et al., 2018: p. 1340; Klerman, 2018). An example is given by Hamann (2019) who recently studied and digitised German court documents to see how their composition evolved over time and by Hitchcock and Turkel (2016), who used text mining on 197,000 London’s trials to identify patters in criminal law. With respect to economic questions, Baker et al. (2016) used newspaper coverage frequency based on 12,000 articles to develop a new index of economic policy uncertainty, while Ash and MacLeod (2017) analysed texts by state supreme court judges to investigate work performance changes in the US between 1947 and 1994. Recently, Ash and Gennaro (2021) used computational linguistics techniques to investigate how words of emotion affect political speeches, concluding that such a measurement approach could be used to study influence on voters. Further usage of text analysis for political and economic investigations is attributed to Rheault et al. (2016), who found that changes in the language used in the British Parliament was significantly affected by the state of the national economy. On this subject, using published opinions from the US Circuit Courts, Ash et al. (2019) found that ideas, reflected in the use of certain words and language, have consequences in judiciary behavior, including more conservative verdicts in economics cases. In this article, we exploit corpora in the legal texts to contribute to the related literature and shed light on the Italian legal interpretation of active labour market policy in favour of employment and education.

In the following paragraphs we disclose what our context units, or the ‘chunk of text that reflects a theme’ are (Bernard and Ryan, 1998: p. 612). We then collect aggregate data on employment, unemployment, inactivity, and education from the EUROSTAT and ISTAT statistics from 1997, when the first official reforms on training and active measures were implemented<sup>193</sup>, to 2018. The aim of this analysis is firstly, to identify when an active labour market approach started to take place in Italian

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<sup>192</sup>p. 6.

<sup>193</sup>The 1990s were, indeed, the decade in which active labour market policies started to be used and introduced in the European legal framework.

labour law through an empirical analysis of the legal texts; and secondly, to understand how labour market outcomes changed in parallel with the transformation of the law. While this methodology is innovative in that it allows for an empirical analysis of the law, it is not the aim of this analysis to provide results of causal inference with respect to economic outcomes. The latter are only partly, and indirectly, explained by the institutional change provoked by the evolution of the law. Other economic factors contribute to explaining trends related to employment, unemployment, and inactivity. For this reason, in Section 3 we provide descriptive statistics with respect to industrial changes observed in the Italian economy over time and across regions.

As regards employment we observe information on the Italian employment rate  $EMPL_t$ ; the youth employment rate  $Y\_EMPL_t$  for individuals between 15 and 24; the adult employment rate  $A\_EMPL_t$  for individuals between 25 and 64<sup>194</sup>; the employment rate in the Centre of Italy  $CENTRE\_EMPL_t$ ; the employment rate in the South of Italy  $SOUTH\_EMPL_t$ ; the employment rate in the North East of Italy  $NORTHE\_EMPL_t$ ; the employment rate in the North West of Italy  $NORTHW\_EMPL_t$ ; and the employment rate in the Norther Italy  $NORTH\_EMPL_t$ . We also observe the female employment rate  $WORK\_FEMALE_t$  and the rate of part-time workers  $PARTTIME_t$ . As regards education we observe the number of individuals who graduated from high school  $GRAD_t$ . We also observe the number of  $NEETS_t$ , or those individuals between 15 and 34 who are neither in employment, nor in education, nor in training. With respect to unemployment, we account for the Italian unemployment rate  $UNEMPL_t$ ; the youth unemployment rate  $Y\_UNEMPL_t$  for individuals between 15 and 24; the adult unemployment rate  $A\_UNEMPL_t$  for individuals between 25 and 74<sup>195</sup>; the unemployment rate in the Centre of Italy  $CENTRE\_UNEMPL_t$ ; the unemployment rate in the South of Italy  $SOUTH\_UNEMPL_t$ ; the unemployment rate in the North East of Italy  $NORTHE\_UNEMPL_t$ ; the unemployment rate in the North West of Italy  $NORTHW\_UNEMPL_t$ ; and the unemployment rate in the Norther Italy  $NORTH\_UNEMPL_t$ . Finally, we observe the Italian  $GDP_t$ .

With respect to our analysis of Italian labour law, through a manual keyword search for the relevant corpus of legal texts issued between 1997 and 2018, we then identify and group a series of representative words in four specific categories; namely, training, conditionality, flexibility, and subsidiarity in the administration of occupational issues. These are listed in Table 27 below. The ascent of training, flexibility, conditionality, and subsidiarity in the law help us understand the process that gave rise to an active labour market policy approach in favour of occupation. Once we have collected information provided by these observations under the form of density of words in the legal text analysed, we study

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<sup>194</sup>For the years 2017 and 2018, this rate is computed for individuals between 20 and 64.

<sup>195</sup>For the years 2017 and 2018, this rate is computed for individuals between 15 and 64.

their relationship with the national and regional employment situation. In particular, to each category of words, or concepts related to active labour market policy according to the immediate literature on active labour market policy and the European Union reports on the latter approach, corresponds a variable whose correlation is studied in respect to the occupational variables collected over time.  $TRAIN_t$ ,  $COND_t$ ,  $FLEX_t$ , and  $SUBS_t$  represent the moving averages of the cumulative frequency of words associated with the categories typical of an active labour market policy approach and identified in the legal texts for each year in  $t$ , or the time period between 1997 and 2018. This means that for each year, independent of the fact that a new reform was introduced or not, the active labour market policy ‘mood’ observed in the law until then is taken into account. For instance, the value of  $SUBS_t$  for the year 2000 will be represented by the average of words associated with inter-administrative subsidiarity observed in the Italian reforms of 2000 and of the years before 2000. In particular, we do not claim that words have a magical power on unemployed individuals or the government, but rather we use the expressions that refer to active labour market policies to observe the active labour market policy ‘mood’ registered in the law, or the ability of the latter to absorb such concepts and relate them to the real labour market.

Table 27: Relevant Words of Active Labour Market Policy

Category	TRAINING	CONDITIONALITY
W	apprentice/ship/s,	active/activation [search],
O	internship/s, stage/s	participate/participation,
R	job placement, training,	quality, stability/stable,
D	credits, qualification,	initiative, profiling <sup>++</sup> ,
S	study/ies, education/al,	revoke/reduce/suspend/ed [benefit] <sup>#</sup> ,
	tutor, school/s, alternance <sup>+</sup>	lose/lost right to, refuse/s,
		justified motive
	FLEXIBILITY	SUBSIDIARITY
W		
O	flexible/ility,	heard, prior opinion/agreement,
R	part-time, short-term [contract],	in consultation with
D	modulate/reduce/d [working hours, <sup>##</sup>	
S	modules]	

*Notes:* The table illustrates the concepts identified in the legal texts on reforms of the labour law with an approach that looks at active labour market policies. A series of words, or concepts, are grouped in each category. <sup>+</sup> Alternance is intended as alternative school work, or transition from school to work. <sup>++</sup> Profiling is intended as the formative profile that is designed for each individual participating in an active labour market policy. <sup>#</sup>Or reduction, or suspension. <sup>##</sup>

Or reduction.

In particular, we study the relationship between the categories identified in the legal texts in support of training, conditionality, flexibility, and subsidiarity and the occupational variables of interest. Because we use aggregate and not individual data, as well as the number of legal texts is not indefinite but rather limited, we avoid recurring to causal inference for it would be highly misleading, especially given that we do not dispose of valuable controls. Additionally, it is not our purpose to claim that active labour market policies create jobs or that more active measures decrease the level of unemployment observed in the country. On the contrary, we claim that there might exist a relationship between the increase of awareness in policy makers with respect to the usefulness of active labour market policies, whose main characteristics we identify in the legal texts, and the occupational and educational situation observed in Italy. On this subject, we aim to find what is the percent of variation shared between two variables of interest, such as the national employment rate and the density of expressions on training found in the law. For this purpose, we compute a series of correlation coefficients as in:

$$corr_{TRAINEMPL} = \frac{\sum_t [(TRAIN_t - \overline{TRAIN})(EMPL_t - \overline{EMPL})]}{\sqrt{\sum_t (TRAIN_t - \overline{TRAIN})^2 \sum_t (EMPL_t - \overline{EMPL})^2}}, \quad (42)$$

with

$$\overline{TRAIN} = \frac{1}{n} \sum TRAIN_t; \quad \overline{EMPL} = \frac{1}{n} \sum EMPL_t \quad (43)$$

Where  $TRAIN_t$  represents is the moving average of the cumulative frequency of words associated with training and identified in the legal texts of a certain year and  $EMPL_t$  the Italian employment rate for each year. The latter helps us understand what proportion of change in employment is correlated with training that partly explains the rise of an active labour market policy approach in Italian labour law in favour of occupation.

$$corr_{CONDEMP} = \frac{\sum_t [(COND_t - \overline{COND})(EMPL_t - \overline{EMPL})]}{\sqrt{\sum_t (COND_t - \overline{COND})^2 \sum_t (EMPL_t - \overline{EMPL})^2}}, \quad (44)$$

with

$$\overline{COND} = \frac{1}{n} \sum COND_t; \quad \overline{EMPL} = \frac{1}{n} \sum EMPL_t \quad (45)$$

Where  $COND_t$  is the moving average of the cumulative frequency of words associated with the concepts of conditionality, employability, and active labour market policies identified in the legal texts for each year.

$$corr_{FLEXEMPL} = \frac{\sum_t [(FLEX_t - \overline{FLEX})(EMPL_t - \overline{EMPL})]}{\sqrt{\sum_t (FLEX_t - \overline{FLEX})^2 \sum_t (EMPL_t - \overline{EMPL})^2}}, \quad (46)$$

with

$$\overline{FLEX} = \frac{1}{n} \sum FLEX_t; \quad \overline{EMPL} = \frac{1}{n} \sum EMPL_t \quad (47)$$

Where  $FLEX_t$  is the moving average of the cumulative frequency of words associated with flexibility identified in the legal texts for each year. Particularly, flexibility contributes to unfold the occurrence of an active labour market policy in Italian labour law that promotes employment step by step.

$$corr_{SUBSEMP} = \frac{\sum_t [(SUBS_t - \overline{SUBS})(EMPL_t - \overline{EMPL})]}{\sqrt{\sum_t (SUBS_t - \overline{SUBS})^2 \sum_t (EMPL_t - \overline{EMPL})^2}}, \quad (48)$$

with

$$\overline{SUBS} = \frac{1}{n} \sum SUBS_t; \quad \overline{EMPL} = \frac{1}{n} \sum EMPL_t \quad (49)$$

Where  $SUBS_t$  is the moving average of the cumulative frequency of words associated with the concept of subsidiarity identified in the legal texts for each year. The main assumptions to be able to produce correlation coefficients are verified. First, the pair of variables studied for each correlation are

measured at the continuous level. Second, there is a linear relationship between each pair of variables. For this purposes, a series of scatter plots are provided in the Appendix (see Figures 1-4). Third, the variables used for the investigation are normally distributed. The Shapiro-Wilk test for normal data shows significantly large values of the  $W$  statistic (see Table 34 in the Appendix).

The computation is done for each of the variables on employment, unemployment, inactivity, and education listed at the beginning of this section. Our interest lies in understanding whether there is any positive relationship between the promotion of laws that discuss active labour market policies and their implications and occupational outcomes such as the national employment rate or educational outcomes such as the number of graduates in Italy. Likewise, we are interested in investigating any potential relationship between the aforementioned laws and the rates of inactivity and unemployment. Finally, we also aim to understand whether similar relationships can be found in reference to reforms that include an extension of the administrative power of the local bodies. Due to the type of data used, a potential problem of omitted variable bias may exist. Because we study aggregate observations, we do not account for any effect that may be due to individual characteristics or external events. On the other hand, we do provide separate coefficients for different gender and age groups. The fact that we precisely use the reforms that have been introduced in Italy over time contributes, too, to accounting for objective and temporal circumstances that affect the country as a whole, and not just local questions. In the next section we present some relevant statistics and the findings related to it.

### 3. Results & Discussion

In this section we discuss some of the statistics on the density of words present in each relevant legal text on labour laws from the 1990s to today. First, we present the number of words on the concepts of training, conditionality and active labour market policies, flexibility, and subsidiarity identified in Italian labour law (Table 28). In particular, for the empirical analysis, we will make use of the moving averages of the cumulative frequency of the relevant words observed over time (Table 35 in the Appendix). Second, we present the type of correlation between the active labour market policy corpora listed in the legal texts every year and the occupational variables of reference, such as the Italian employment rate or inactivity rate (Table 36). Descriptive statistics regarding the variables studied are provided in Table 33 of the Appendix. Particularly, we distinguish between two levels of aggregation. This is in line with the analysis by Cardinale and Scazzieri (2020), according to which the relationship between social and material interdependencies changes based on the levels of aggregation. Such distinction leads, indeed,



to the establishment and acknowledgment of precise objectives and constraints for policy makers. While in Section 3.1 we present the national findings with respect to the effectiveness of active labour market policy in the law, in Section 3.2 we present the findings and occupational issues according to macro region.

### 3.1 National Findings

With respect to the corpus of legal texts, we can observe that the years 2003 and 2015 are the most relevant with respect to the density of words that promote training and educational measures, followed by 2001 and 2011. Looking at the descriptive statistics (Table 36 in the Appendix), we can see that the variation in the presence of words associated with training significantly varies, with a standard deviation of 16.823. With respect to conditionality and active labour market policy, including notions related to employability such as participation and profiling, we can notice that these, too, are most popular in the years 2003 and 2015, followed by 2012. In particular, the analysis of the three waves of reforms in Italian labour law shows that there exist both texts with zero references to conditionality for unemployment benefits and texts with a large number of them, for a maximum moving average in the cumulative frequency of words identified equal to 53.7 (Table 36). With reference to flexibility<sup>196</sup>, 2001 and 2015 are the years in which concepts such as the transformation of contracts and working hours are the most prominent, followed by 2003 and 2007. Overall, the density of flexibility references experiences some variation, especially as regards the 2001 White Paper (Table 36). Finally, 2012, 2003, and 2007 are the years in which concepts associated with subsidiarity on employment matters appear to be significantly promoted. On the contrary, the years 2011, 2014 and 2018 do not seem to be prolific as regards the promotion of an approach that accounts for inter-administrative consultations. In general, the references to subsidiarity remain more or less constant over the years, with no exaggerated contrast, with a standard deviation of the moving average equal to 3.552 (see Table 36 in the Appendix).

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<sup>196</sup>Intended as numerical, temporal or functional flexibility.

Table 28: Active Labour Market Policies in Italian Labour Laws

<b>Legal Text</b>	<b>Concepts</b>	$TRAIN_t$	$COND_t$	$FLEX_t$	$SUBS_t$	<i>Year</i>
Law 196/1997		90	6	27	14	1997
White Paper 2001		167	149	117	2	2001
D.Lgs. 276/2003		221	12	54	27	2003
Law 247/2007		35	17	29	24	2007
D.Lgs. 167/2011		114	6	4	6	2011
Law 92/2012		87	57	25	32	2012
Law 183/2014		9	14	4	7	2014
D.Lgs. 22/2015		4	52	2	4	—
D.Lgs. 81/2015		220	1	91	11	2015
D.Lgs. 150/2015		90	119	4	17	—
Law Decree 87/2018		1	0	2	1	2018

*Notes:* The table illustrates the frequency of words associated with concepts of active labour market policy according to each relevant law passed between the 1990s and 2018. D.Lgs. is intended as legislative decree.  $TRAIN_t$  is intended as the words associated with training;  $COND_t$  as the words associated with conditionality and active labour market policy;  $FLEX_t$  as the words associated with flexibility; and  $SUBS_t$  as the words associated with subsidiarity.

As hypothesised, the density of words that encourage training, employability, and flexibility are usually positively correlated to occupational outcomes such as the Italian employment rate as well as the number of temporary employees. Conversely, the same density of words is, on general, negatively correlated to occupational outcomes such as the Italian unemployment and inactivity rate as well as the number of NEETs. In particular, below we illustrate the nature of the relationship between the promotion of concepts of active labour market policy and occupational and educational variables in terms of sign and strength of the relationship; namely, whether the correlation is absent, perfect, weak, moderate, or strong. In particular, we define a relationship as weak if the value of the correlation coefficient lies between 0 and 0.3; moderate if it lies between 0.3 and 0.7; and strong if it lies between 0.7 and 1. Additionally, we also provide an analysis of the existing correlation between active labour market policy promotion and occupational and educational outcomes in relationship with the different Italian macro-areas; namely, the Centre of Italy, the South of Italy, the North East of Italy, and the North West of Italy. In the Appendix (Tables 37 and 38), the actual Pearson's coefficients of correlation are given both at national and regional levels.

Table 29: Existing Correlation Between Active Labour Market Policy and Employment

Type of Correlation	$TRAIN_t$	$COND_t$	$FLEX_t$	$SUBS_t$
$EMPL_t$	++	- - -	++	- -
$Y\_EMPL_t$	-	-	-	- - -
$A\_EMPL_t$	+++	+++	+++	+
$PARTTIME_t$	-	+	-	+++
$WORK\_FEMALE_t$	-	+	-	++
$UNEMPL_t$	- - -	- -	- - -	-
$Y\_UNEMPL_t$	- -	-	- -	++
$A\_UNEMPL_t$	- -	-	- -	++
$NEETS_t$	- - -	- -	- - -	++
$GRAD_t$	++	+	++	-
$GDP_t$	++	++	++	++

*Notes:* The table illustrates the type of correlation existing between the concepts associated with active labour market policy and identified in the legal texts of reference and occupational and educational outcomes such as the national employment or unemployment rates between 1997 and 2018.  $TRAIN_t$  is intended as the words associated with training;  $COND_t$  as the words associated with conditionality and active labour market policy;  $FLEX_t$  as the words associated with flexibility; and  $SUBS_t$  as the words associated with subsidiarity. As regards the occupational and educational outcomes we indicate  $EMPL_t$  as the employment rate;  $Y\_EMPL_t$  as the youth employment rate for individuals between 15 and 24;  $A\_EMPL_t$  the adult employment rate for individuals between 25 and 64, or 20 and 64 for the years 2017 and 2018;  $WORK\_FEMALE_t$  as the total number of hours worked by female workers per week;  $PARTTIME_t$  as the rate of part-time workers;  $GRAD_t$  as the number of individuals graduated from high school;  $NEETS_t$  as the number of those who are neither in employment, nor in education, nor in training;  $UNEMPL_t$  as the Italian unemployment rate;  $Y\_UNEMPL_t$  as the youth unemployment rate for individuals between 15 and 24; and  $A\_UNEMPL_t$  as the adult unemployment rate for individuals between 25 and 74, or 15 and 64 for the years 2017 and 2018; and  $GDP_t$  as the Italian Gross Domestic Product. Due to the availability of the data, the correlations for  $NEETS_t$  are studied for the period after 2003.

With regards to the key words, or concepts, associated with training, such as training, education, apprenticeship, we observe that these are positively correlated with the Italian employment rate  $EMPL_t$  ( $c=0.666$ ). However, this is not true for both the youth and adult populations. A weak yet negative correlation coefficient is observed in Table 29 (and Table 37 of the Appendix) as regards the youth employment rate  $Y\_EMPL_t$  for individuals between 15 and 24 while a strong positive correlation coefficient is observed for the adult employment rate  $A\_EMPL_t$  for individuals between 25 and 64 ( $c=0.817$ ).<sup>197</sup> Conversely, the presence in reforms of concepts that promote training are in a relationship of negative correlation with the rate of employment  $WORK\_FEMALE_t$  by female workers. On the one hand, female employment has increased in the country on a continuous basis. The female employment rate was equal to 38.6% in 1990, 42.5% in 2000, 46.1% in 2010, and 49% in 2020.<sup>198</sup> On the other hand, the Italian gender employment gap remains one of the highest in the European Union territory,

<sup>197</sup>Or 20 and 64 for the years 2017 and 2018.

<sup>198</sup>See Table 41 in the Appendix and ISTAT statistics on female employment ‘Serie Storiche’ (1990-2020).

equal to 19.6 percentage points in 2019.<sup>199</sup> Thus, while it is remarkable that female employment grew somewhat, it is equally remarkable that it grew so little. The rise of active labour market policies to overcome such gap is emblematic in this regard. Nonetheless, they often are associated with the provision of social safety nets and services of child care, rather than training per se.<sup>200</sup> Additionally, one can observe a weak yet negative relationship between reforms that encourage training and the rate of part-time workers  $PARTTIME_t$ . The latter demonstrates that the Italian labour market is still not able to promote a healthy type of temporary contract, where the quality of work possibly matters more than the quantity of hours worked being the contract supported by adequate training. For what concerns unemployment, the expected negative correlation with training is confirmed. An increase in the density of words promoting training in Italian labour law is associated with a strong decrease in the national rate of unemployment  $UNEMPL_t$  ( $c=-0.771$ ). This holds both for the young and adult populations with respect to  $Y\_UNEMPL_t$  ( $c=-0.479$ ) and  $A\_UNEMPL_t$  ( $c=-0.644$ ). With respect to inactivity, an increase in the density of concepts on training in the Italian legal texts is negatively associated with the number of NEETs, or those young individuals who do not work, do not participate in training, or do not attend school with a strong negative coefficient equal to -0.754. Another positive educational outcome is represented by the positive correlation between  $TRAIN_t$  and  $GRAD_t$ , or the number of individuals who graduated from high school in the country. Finally, in terms of macroeconomic figures,  $TRAIN_t$  is positively correlated, too, with the Italian GDP ( $c=0.539$ ). Overall, the findings show a legal approach law which promotes training is associated with a decrease in unemployment and inactivity and an increase in employment present only for the adult population see Tables 37, 39, and 40 in the Appendix).

Some of these relationships are also found regarding legal texts which refer to conditionality; namely, the scenario according to which individuals who are unemployed are to be granted their unemployment benefits only insofar they participate in the active measures prescribed in the pact of service (see Section 2). For  $COND_t$  we intend all those terms specific of active labour market policies, such as conditionality, suspension of benefits, employability, quality of the job offers received by the unemployed, and so far. In particular, we observe that an increase in the diffusion of concepts linked to conditionality approach present in the reforms promulgated is strongly correlated with the Italian adult employment rate ( $c=0.817$ ) but not with that of the younger segment of the population ( $c=-0.208$ ) (Table 29). A positive relationship is also observed with respect to the female employment rate  $WORK\_FEMALE_t$  ( $c=0.279$ ). With regards to unemployment, more conditionality in the law is correlated with less unemployment ( $c=0.412$ ) for both the adult and youth populations. The analysis

<sup>199</sup> See EUROSTAT statistics for female employment.

<sup>200</sup> See regional report by Isfol “Mercato del lavoro e politiche di genere” (2012).

also seems to suggest that a stricter system of unemployment assistance that is based on the unemployed individuals' participation helps overcome the issue of youth inactivity. Indeed, the number of words on conditionality is negatively associated with the number of  $NEETS_t$  ( $c=-0.428$ ). As regards education per se, we register, respectively, a positive correlation between legal texts that promote a conditionality approach and the number of individuals who graduate from high school. Finally, a strong positive correlation (see Table 37 in the Appendix) is observed as regards the national GDP ( $c=0.387$ ).

With respect to flexibility, or  $FLEX_t$ , Table 29 shows that most of the aforementioned trends are confirmed here as well. However, some exceptions are observed. In particular, an increase in the promotion of flexibility, including the transformation of the contracts and of the working hours, is positively associated with occupational outcomes such as the national employment rate ( $c=0.684$ ) and the adult employment rate ( $c=0.811$ ). Nevertheless, more flexibility is not beneficial for individuals between 15 and 24, or the youth employment rate  $Y\_EMPL_t$ . Although correlation does not equal causation, this result supports the idea according to which the centuries-old Italian labour market attitude based on passive labour market policies and contracts rigidity is indeed a safeguard for insiders such as the older employees, protected by the Italian trade unions. For this reason, an approach of active labour market policy that includes flexibility of both the number of hours worked, the type of contract itself, and the job position, per se, can only target the more vulnerable segments of the population; namely, the freshly graduated from university and other young individuals. A study by Schimke (2014) shows how employment growth usually attenuates as the worker's age increases. As can be observed in Tables 39 and 40 in the Appendix, however, employment in Italy has increased, but only for a privileged segment of the population. While the segmentation of employment can be explained by historical economic trends, it is perhaps useful to mention that, for the most vulnerable part of the working population, flexibility is often associated with insecurity in the Italian labour market. According to national statistics and recent analyses, precarity seems to characterise certain types of employment, including the atypical contracts with which first-time job seekers are often introduced into the labour market. On this subject, the work by Berton et al. (2009) is crucial to understand why cautious conclusions should be drawn from flexible measures. Particularly, the authors attribute the rise of bad flexibility, and consequently bad jobs due to precarity, to the failure of three pillars; namely, job stability, adequate salaries, and a well-functioning welfare. Analysing the coexistence between the permanent employment from which standard workers benefit from and those employed with temporary contracts, Berton et al. (2011) showed that temporary contracts function as a port-of-entry into a permanent employment only with the same employer, but not across firms. In a similar manner, Murgia (2015) investigated the 'the multiple sides of precariousness experienced by young high-qualified

workers' in Italy, emphasizing the frustration of the many graduates employed as temporary workers in call centres or freelance projects. In parallel, four out of ten firms declare a fall in productivity due to a lack of employees with adequate ICT competence, while the skills mismatch still surpasses 38.2%. In sum, a transformation of the Italian labour market that progressively resembles that of the Scandinavian countries is not yet possible for employment comes before employability and where there is flexibility this appears to be selective in favour of the older cohorts (see Section 2.3). In this regard, while flexible positions such as temporary contracts are likely to be filled in by first-time job seekers, the approach for flexibility in Italian labour law is not yet effective as regards the promotion of part-time positions ( $c=-0.062$ ). Most importantly, however, the moving averages of the cumulative frequency of words related to flexibility and transformation of contracts are, respectively, negatively and positively correlated with both the adult and youth unemployment rates ( $c=-0.460$ ;  $c=-0.584$ ). As regards inactivity and education, more flexibility is associated with more individuals who graduate from high school and less NEETs ( $c=-0.752$ ). Finally, a positive correlation is registered between  $FLEX_t$  and the Italian  $GDP_t$ .

On the subject of subsidiarity, we observe remarkable findings. In our analysis, subsidiarity is intended as the consultation between Ministries of different fields on the same question; as well as the consultation with labour market institutions such as the Italian trade unions or the associations of employers; as well as the consultation and partial autonomy of local bodies such as the provinces and the regions. In particular, we find that  $SUBS_t$  is positively associated with adult employment ( $c=0.333$ ). On the other hand, an increase in subsidiarity is strongly associated with a decrease in the youth employment rate ( $c=-0.838$ ). This can be explained by the lack of institutional representation of the youth population among the Italian labour market institutions along with a traditional lack of support among the existing trade unions. The latter have always supported insiders such as the older cohort of workers together with their needs (see Section 2). This may also explain why an increase in subsidiarity is associated with an increase in a type of contract that is not particularly appreciated by insiders; namely, part-time jobs ( $c=0.704$ ) and the reduction of security in the labour market guaranteed for the younger segment of the population. Consultations, on the other hand, are associated with an increase in female labour participation. The reason why an increase in the female employment rate  $WORK\_FEMALE_t$  is observed ( $c=0.339$ ) may be due to the importance given at international level to women. An increase in consultations among Ministries, local bodies, and labour market institutions may explain their interest in making the Italian labour market more gender equal and, therefore, guarantee an increasing number of jobs that suit the needs of women as well as of firms. Granting more independence to local bodies is also likely to increase the attention focused on the understanding employment issues

at the local level. Unfortunately, while more subsidiarity may help increase occupation for the Italian adult population, we observe a positive relationship between  $SUBS_t$  and  $UNEMPL_t$  ( $c=0.220$ ); between  $SUBS_t$  and  $Y\_UNEMPL_t$  ( $c=-0.558$ ); and  $SUBS_t$  and  $A\_UNEMPL_t$  ( $c=-0.338$ ). This may indicate a lack of concern by local bodies and ministries for the elimination of unemployment. In addition, an increase in the subsidiarity reported in the legal texts analysed is also positively associated with the inactive youth population, or the number of NEETs. This supports the argument according to which a central institution, such as the European Union Commission at the international level, or the Ministry of Labour, at the national level, is necessary to fight youth inactivity. One agency alone cannot solve this issue. Concerning education, an increase in subsidiarity is associated with a decrease in the number of individuals who graduate from high school. The correlation is very weak ( $c=-0.178$ ) and possibly indicates that while issues that are internationally recognised such as those regarding gender discrimination in the labour market and adult occupation are tackled thoroughly by the Ministries, less importance is granted to national, or better local, education. There might be regions, particularly in the Southern area of the country, which are unlikely to be able to tackle the consistent dropout rate<sup>201</sup> without the public support of the state.

Overall, the analysis on correlation, shows that legal texts that make use of concepts that promote training and training measures are positively correlated with employment. By reason, their presence in the labour reforms are associated with a decrease in both unemployment and inactivity. These findings hold both for the youth and adult populations. A similar pattern is observed regarding the use of words and concepts associated with conditionality, or the suspension of unemployment benefits in case of non participation in active labour market policies. Reforms that promote an ALMP approach are, respectively, positively and negatively associated with the Italian employment and unemployment rates. In particular, to an increase in the encouragement of conditionality corresponds a reduction by the same percent in the number of inactive young NEETs. Flexibility and subsidiarity, on the other hand, present some peculiarities as regards the distinction between the youth and adult populations. A similar pattern is found for legal texts that promote flexibility and subsidiarity as regards employment and unemployment, in general. More flexibility is associated with less available jobs for the older cohort of employees and, therefore, an increase in the adult unemployment rate. Conversely, an increase in the promotion of consultations with labour market institutions, such as trade unions, is associated with a decrease in the youth employment rate as well as in the attention to keep the dropout rate from school low.

Using text analysis is useful to understand changes in the law from an empirical viewpoint. The

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<sup>201</sup>The dropout rate was equal to 18% in 2018. See Pastore (2018).

aim of this article is firstly, to show that it is possible to investigate the emergence of an active labour market approach in Italian labour law numerically; namely, by attributing precise values to concepts. Secondly, that such transformation of legal texts is advantageous to look at how labour market outcomes have evolved in parallel with the convergence of the law towards a more European and active approach to employment. This article does not intend to provide causal answers to the rise or decrease that affected the Italian employment, unemployment, and inactivity rates over time. Economic historians of relevance, including Zamagni (1993, 2018), Fenoaltea (2006, 2011), and Felice (2013, 2015, 2019) have long tried to provide answers about what phenomena had the most significant impact on the economic and occupational structure of Italy and why. While it is not the aim of this article to attribute causality to the law for shaping the Italian employment structure, we find it convenient to illustrate the major changes observed in the Italian economy. Firstly, it is possible to convey that industrial districts have agglomerated in all the Italian territory. Local firms in the Northern region of Lombardy went from 922,141 in 2008 to 872,080 in 2018; in the Southern region of Campania the number went from 384,673 to 371,988 in the same period (Table 30); and so on. Understandably, the higher level of competitiveness of Northern industrial districts may be explained by the benefits of proximity. As originally shown by Malmberg and Maskell (1997), neighbouring firms can use interactive learning to accelerate knowledge transfer in favour of regional specialisation and competitiveness. Secondly, it can be noted that, over time, certain industrial sectors have grown at the expense of others. The number of firms specialised in extraction of minerals, tobacco, clothing and footwear, and wood decreased significantly between 1951 and 2011, while manufacturing activities, plastic production, and the mechanic industry rose in the same period. Most importantly, it is the services that grew enormously. The local units dedicated to trade and the hotel industry went from 723,035 in 1951 to 1,319,771 in 2011. Those engaged in transport and communication went from 76,614 in 1951 to 184,644 in 2011, while credit and insurance companies grew from 128,391 to 855,018 in the same period (see Table 31).<sup>202</sup> Finally, one can observe that firms have progressively committed more to innovation. As a percentage of the Italian GDP, expenditure on research and development on behalf of firms went from 0.68 in 2012 to 0.91 in 2019 (see Table 32), indicating that increasing interest has been given to on-the-job training as well.<sup>203</sup> Given that regional knowledge impacts productivity growth (Quatraro, 2010) and that the impact of employment growth in tradable sectors has been shown to be insignificant (De Blasio and Menon, 2011), whether local firms invest or not in innovation is crucial for the economic, and occupational, success of a region. As rightly stressed by Missiaia (2015), the historical indispensability of the home market to economic growth may

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<sup>202</sup>See ISTAT Serie Storiche, ‘Unità locali e addetti delle imprese per settore di attività economica ai censimenti 1951-2011’.

<sup>203</sup>See ISTAT ‘Ricerca e Sviluppo’.



contribute to explaining the divergent regional development observed in Italy. On this subject, investing in active labour market policy can make a significant difference.

Table 32: Expenditure on research and development (% on the GDP), 2012-2019

<b>R&amp;D Expenditure</b>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
<i>Total Economy</i>	1,26	1,3	1,34	1,34	1,37	1,37	1,42	1,45
<i>Firms</i>	0,68	0,71	0,76	0,78	0,83	0,85	0,9	0,91

*Notes:* The table shows the expenditure on research and development for the period 2012-2019. Data are from ISTAT's

'Ricerca e Sviluppo' section.

### 3.2 Macro-Regional Findings

In this section, we will highlight the discrepancy present in the different Italian macro-regions as regards the two most relevant occupational outcomes; namely, occupational activity and unemployment. The same regulatory framework, indeed, can sometimes lead to very different results due to structural problems embedded in the social and economic history of a certain territory. With respect to path dependence, its application to the law, as argued by Hathaway (2001), can provide new important insights on its future evolution. Similarly, it allows for a larger understanding of regional economic adaptation (Martin, 2010) also due to geographical explanations (Martin and Sunley, 2006). In this section, we refer to the macro-regions that make up the country of Italy. When we refer to Central Italy, we refer to the regions of Tuscany, Latium, Marche, and Umbria. North-Eastern Italy includes Emilia-Romagna, Friuli-Venezia Giulia, Trentino Alto-Adige, and Venetia. North-Western Italy includes Liguria, Lombardy, Piedmont, and Aosta Valley. We refer to the South of Italy as the group of regions represented by Abruzzi, Basilicata, Calabria, Campania, Molise, Apulia, and the islands of Sicily and Sardinia.

As regards employment, we define  $CENTRE\_EMPL_t$  as the employment rate in the Centre of Italy;  $SOUTH\_EMPL_t$  as the employment rate in the South of Italy;  $NORTHE\_EMPL_t$  as the employment rate in the North East of Italy;  $NORTHW\_EMPL_t$  as the employment rate in the North West of Italy; and  $NORTH\_EMPL_t$  as the employment rate in Northern Italy. As regards unemployment, we define  $CENTRE\_UNEMPL_t$  as the unemployment rate in the Centre of Italy;  $SOUTH\_UNEMPL_t$  as

Table 30: Number of local firms per Italian region (2008-2018)

Number of firms	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<i>Piedmont</i>	372767	396558	378074	373615	329575	321598	319198	316258	342749	348898	347323
<i>Aosta Valley</i>	13214	16222	14037	13907	11823	11502	11392	11223	11783	11921	11879
<i>Liguria</i>	148352	177602	146795	145986	126155	123662	122029	120647	130341	132447	132101
<i>Lombardy</i>	922141	991495	889391	924208	799585	787851	788798	786798	854144	870099	872080
<i>Trentino Alto Adige</i>	93672	93747	96514	98061	82697	82388	83101	83418	89668	91213	91778
<i>Bolzano</i>	48367	48225	50243	53154	42918	42931	43383	43628	46395	47255	47505
<i>Trento</i>	45305	45522	46271	44907	39779	39457	39718	39790	43273	43958	44273
<i>Venetia</i>	443603	446632	442275	453173	393410	386814	385734	384164	414829	421418	420283
<i>Friuli- Venezia Giulia</i>	96116	104567	98970	96079	84532	83149	82456	81566	88474	89758	89738
<i>Emilia-Romagna</i>	423189	445652	431135	411484	371679	366455	363782	360034	383807	390290	390527
<i>Tuscany</i>	376637	379222	367103	366991	324227	318071	316295	314456	337495	344268	344164
<i>Umbria</i>	78338	76321	77520	76924	67571	66544	65723	65261	69400	70411	70596
<i>Marche</i>	145625	143887	149251	144666	128676	126954	125298	124092	131508	134357	134700
<i>Lazio</i>	456999	486962	470701	494292	420853	420934	418332	417132	450567	462443	467858
<i>Abruzzi</i>	110182	104201	105121	109318	99351	98626	96960	95791	102782	104879	104494
<i>Molise</i>	23745	24296	24479	23773	21050	20865	20519	20360	21699	22136	22227
<i>Campania</i>	384673	368533	390425	375148	335760	334422	330012	330569	358861	371229	371988
<i>Apulia</i>	285917	296317	280283	283218	250749	248866	246356	245374	262139	268526	270989
<i>Basilicata</i>	38844	46329	40165	38999	34690	34581	34063	34215	36678	37511	37732
<i>Calabria</i>	126357	121629	127778	119315	107908	107486	104530	104153	112569	115564	114941
<i>Sicily</i>	313879	333859	313299	299748	267701	265351	260739	259346	278722	285022	287041
<i>Sardinia</i>	124611	160285	124569	122728	105347	103982	101525	100816	108682	110403	111823

Notes: The table shows the number of local firms registered in each Italian region between 2008 and 2018. Data are from ISTAT's 'Imprese' section.

Table 31: Number of local firms by sector (1951-2011)

Sector of reference	1951	1961	1971	1981	1991	2001	2011
<i>Mining</i>	8.294	7.292	6.112	6.830	6.676	5.430	3.390
<i>Food and beverage industry</i>	77.876	56.792	49.272	53.246	116.201	73.990	65.479
<i>Tobacco industry</i>	800	800	431	183	256	169	8
<i>Leather and hide industry</i>	6.600	5.906	6.680	11.480	11.818	10.231	7.628
<i>Textile industry</i>	38.683	44.456	49.280	60.061	46.161	26.351	41.800
<i>Clothing and footwear industry</i>	218.602	181.187	133.431	118.165	100.054	72.250	25.137
<i>Furniture and wood industry</i>	113.697	106.141	99.669	112.439	100.151	84.801	55.039
<i>Graphics and paper industry</i>	2.127	2.870	3.491	4.645	5.114	5.175	4.852
<i>Publishing and printing industry</i>	7.411	10.033	13.603	23.635	29.305	32.281	24.832
<i>Photo-phono-cinematographic industry</i>	5.679	8.251	9.587	12.758	16.078	19.683	19.496
<i>Metallurgic industry</i>	1.005	1.741	3.552	5.749	6.267	5.206	5.214
<i>Mechanic industry</i>	128.814	156.111	214.676	319.961	361.140	351.196	265.302
<i>Nonmetallic minerals industry</i>	18.021	20.023	23.985	27.435	32.125	31.177	25.983
<i>Petrochemical industry</i>	6.837	6.635	6.567	8.706	9.071	9.259	7.467
<i>Rubber industry</i>	1.749	3.045	5.629	7.179	2.175	2.048	1.806
<i>Plastic and manufacturing industry</i>	3.974	5.769	9.906	19.135	26.696	25.998	51.750
<i>Construction and plant installation industry</i>	43.399	67.449	158.553	329.265	389.663	529.757	611.186
<i>Electric energy, gas, and water</i>	7.858	8.758	9.029	8.672	6.049	5.689	11.095
<i>Trade and hotels</i>	723.035	1.078.181	1.208.306	1.347.010	1.258.069	1.245.759	1.319.771
<i>Transport and communication</i>	76.614	96.168	117.855	160.922	156.573	188.932	184.644
<i>Credit and insurance</i>	12.001	16.541	29.250	47.246	78.540	117.035	132.514
<i>Other services</i>	128.391	150.890	230.238	359.540	403.507	724.328	855.018

Notes: The table shows the number of local firms registered in Italy between 1951 and 2011 by sector of reference. Data are from ISTAT's 'Serie Storiche' section.

the unemployment rate in the South of Italy;  $NORTHE\_UNEMPL_t$  as the unemployment rate in the North East of Italy;  $NORTHW\_UNEMPL_t$  as the unemployment rate in the North West of Italy; and  $NORTH\_UNEMPL_t$  as the unemployment rate in Northern Italy.

Table 33: Existing Correlation Between Active Labour Market Policy and Employment per Italian Macro-Region

Type of Correlation	$TRAIN_t$	$COND_t$	$FLEX_t$	$SUBS_t$
$CENTRE\_EMPL_t$	++	+++	++	++
$SOUTH\_EMPL_t$	++	+	++	- - -
$NORTHE\_EMPL_t$	++	++	++	- -
$NORTHW\_EMPL_t$	+++	++	+++	-
$NORTH\_EMPL_t$	++	++	+++	-
$CENTRE\_UNEMPL_t$	- -	- -	++	-
$SOUTH\_UNEMPL_t$	- - -	- - -	+	-
$NORTHE\_UNEMPL_t$	- -	-	- -	++
$NORTHW\_UNEMPL_t$	- -	- -	- -	++
$NORTH\_UNEMPL_t$	- -	-	- -	++

*Notes:* The table illustrates the type of correlation existing between the concepts associated with active labour market policy and identified in the legal texts of reference and occupational and educational outcomes such as the employment or unemployment rates in each of the Italian macro-regions.  $TRAIN_t$  is intended as the words associated with training;  $COND_t$  as the words associated with conditionality and active labour market policy;  $FLEX_t$  as the words associated with flexibility; and  $SUBS_t$  as the words associated with subsidiarity. On the other hand, As regards the occupational and educational outcomes we indicate  $CENTRE\_EMPL_t$  as the employment rate in the Centre of Italy;  $SOUTH\_EMPL_t$  as the employment rate in the South of Italy;  $NORTHE\_EMPL_t$  as the employment rate in the North East of Italy;  $NORTHW\_EMPL_t$  as the employment rate in the North West of Italy;  $NORTH\_EMPL_t$  as the employment rate in Northern Italy;  $CENTRE\_UNEMPL_t$  as the unemployment rate in the Centre of Italy;  $SOUTH\_UNEMPL_t$  as the unemployment rate in the South of Italy;  $NORTHE\_UNEMPL_t$  as the unemployment rate in the North East of Italy;  $NORTHW\_UNEMPL_t$  as the unemployment rate in the North West of Italy; and  $NORTH\_UNEMPL_t$  as the unemployment rate in Northern Italy.

As can be observed in Table 33, the promotion of characteristics typical of the active labour market policy approach might differ in their correlation to occupational outcomes both in the direction and strength of the relationship. As stated by Altavilla and Caroleo (2006), effects of active labour market policies can be different across Italy. With respect to training, for instance, Table 33 shows that an increase in the presence of words linked to training in the legal texts is associated with an increase in the employment rate in all Italian regions. Similarly, the characteristic is negatively associated to the unemployment rate both in the North, Centre, and South of Italy. In particular, an increase in references to training measures, internships, education, and training,  $TRAIN_t$ , in the law has a stronger positive correlation (see Table 38 in Appendix) with the employment rates of the North East ( $c=0.623$ ), the North West of Italy ( $c=0.730$ ), and the North of Italy ( $c=0.693$ ). As regards references to conditionality,

or  $COND_t$ , the latter is negatively correlated to the unemployment rates of all macro-regions of Italy and positively correlated to the employment rates in the North and Centre of Italy (see Table 38 in the Appendix). However, the employment correlation is weak as regards the employment rate of Southern Italy ( $c=0.107$ ). This can be explained by the different approach to the conditions expected by active labour market policies in this region. In other words, the threat of suspension of unemployment benefits in case of non participation in active measures may discourage individuals to actually participate in them in the South. Individuals may prefer to renounce unemployment benefits and rely on informal networks for finding an unofficial job. On the other hand, participation in active labour market policies and the condition of unemployment itself may produce negative signals to potential employers in the Southern Italian regions with the result that individuals do not receive proper job offers that allow them to exit their unemployment condition.

As regards  $FLEX_t$ , we observe that an increase in the use of notions linked to flexibility and, thus, transformation of contracts is associated with an increase in the employment rates of both the Southern and the Northern regions of Italy.<sup>204</sup> On the other hand, an increase in the promotion of flexibility in the legal texts appears to be positively associated with the unemployment rate of Central Italy<sup>205</sup> ( $c=0.403$ ). The reason why the encouragement of part-time contracts, of temporary job positions, and of reduced working hours is not associated with a decrease in unemployment may lie in the strong presence of trade unions in the Centre of Italy and, in particular, in Tuscany. According to the Italian trade unions appeal indicator (IAS), Tuscany holds the record for number of individuals registered and volunteering in the trade unions. The latter is emblematic when we think that Italian trade unions are renowned to protect insiders' interests, such as those of the older cohort of workers, probably not keen to take on part-time jobs or to have their number of hours worked reduced. Similarly, more flexibility does not seem to be correlated with the unemployment rate of the Southern area of the country. In other words, employment is better than employability<sup>206</sup> and transferring from one job to another is not a particularly enhanced tactic. The predominance of the concept of job fixity may be explained by a specific social structure in this area of the country that perceives the guarantee of permanent employment as a higher form of employment compared to the possibility of being employed for different tasks and in different firms. Cracolici et al. (2007), for instance, found that provinces with high unemployment levels '[demonstrate] the presence of unemployment persistence in space and time regimes'.<sup>207</sup> With regards to unionism, as early as 1999, Faini observed that the presence of unskilled unions in a territory contributes to increasing the wage of unskilled workers, depressing growth everywhere but most significantly in the

<sup>204</sup>  $c=0.748$  in the North-Western part of the country.

<sup>205</sup> Central Italy includes the following regions: Lazio, the Marche, Tuscany, and Umbria.

<sup>206</sup> Which is particularly 'attractive' for employers in a supply-driven labour market (Thijssen et al., 2008).

<sup>207</sup> p. 649.

poorer regions. In this respect, contrary to the South, the so-called Northern industrial triangle benefits from its historical pioneering of the business culture, the working class, and, as a consequence, trade unionism. Indeed, the first and most important confederations were born at the end of the 19<sup>th</sup> century in Turin (Confindustria), Milan (CGdL), and Genoa (PSI), while at the end of the following century, this area of Italy was also the first one to absorb the Japanese Just-in-Time principle, changing the ways in which firms produced and workers worked. Trade unions in Northern Italy have always been exposed to a type of labour market transformation that required significant intervention on their behalf in terms of labour market protection, as well as collaboration with the state, on the one hand, and firms, on the other. This may also contribute to explaining the results related to administrative subsidiarity shown below.

In reference to subsidiarity among Ministries, local bodies, and labour market institutions we observe that, in general, to an increase in consultations, or  $SUBS_t$ , corresponds to an increase in employment in Central Italy ( $c=0.456$ ), renowned for having strong provincial institutions and abundant funding for training and integration into the labour market available to specific target groups (see Table 38 in the Appendix). On the other hand, inter-administrative subsidiarity of institutions at the national level seems to be positively correlated with the unemployment rates of the Northern regions of Italy ( $c=0.564$  for the Western provinces). This could be explained by the shift of relevant funds and economic initiatives from the Northern to the Southern macro-regions of the country. As the centralisation of active labour market policies in the hands of the Ministry of Labour and the ANPAL may be more easily absorbed by the North of Italy, an increase in the frequency of consultations as well as in their efficiency at the local level may be more fruitful for the other, poorer, regions to fight unemployment. On this subject, it would be beneficial for central and local institutions, defined according to their path dependence, to act in favour of complementarity; namely, to create a system where they ‘fit together’ (Schmidt and Spindler, 2003).

While all Italian regions had to incorporate an approach to an active labour market policy when managing occupational issues, legal texts issued at the regional level may show a slight difference in expressing this convergence. Let us, for instance, consider three Italian regions of similar size, one for each macro-region; namely, the Northern region of Emilia-Romagna, the Central region of Tuscany, and the Southern region of Campania. In 2005, the law 17 of Emilia-Romagna illustrated a series of norms for the promotion of employment and the quality and safety of work. In this regard, article 2 stressed that the aim of the regional occupational policy was to increase social integration, overcome gender discrimination in the labour market, invest in professional training, and encourage the acquisition of

stable working conditions. But most importantly, it clearly stated that to achieve these objectives, the region would integrate labour policy with measures of education and professional training as well as with active labour market policies. In this regard, article 8 of the regional law described active labour market policies as a means to support the economic and productive transformation of the country, promote professional mobility, and help individuals go back to work through training vouchers, orientation services, financial incentives, and internships. The interest for protecting vulnerable categories and investing in their human capital became even more evident in the 2010s. In 2015, the law 13 approved the Statute of the regional Agency for labour, which was granted technical, financial, and administrative autonomy. In parallel, the regional law 14 illustrated its scope to promote the occupational integration of people ‘in conditions of frailty and vulnerability’ (art. 1) with specific interventions of professional orientation and training (art. 18). In line with this, it should not surprise that the region was able to overcome some of the occupational difficulties posed by the new technologies of the 21<sup>st</sup> century also by virtue of the compelling presence of a third sector capable of creating work, and not just redistributing the extant one (Zamagni, 2018). Most importantly, the 2014 “Pact of labour” viewed the collaboration between trade unions and associations of employers for the benefit of a new type of social cohesion based on solid work relations. Councilors Bianchi and Costa described it as ‘an integrated set of actions in the fields of education and training, work and business creation, social innovation’.<sup>208</sup> Specifically, the Pact aimed to create a supportive, inclusive, and dynamic economy by introducing public measures of training and educational development and by encouraging “good occupation” and healthy labour market flexibility also for the vulnerable categories of the population; namely, women and youths. The institutional reorganisation carried out by the region of Emilia-Romagna reflects the willingness of its local institutions to completely absorb an active labour market approach that is typical of countries such as Germany that favour investment in human capital over mere financial support against unemployment. Finally, in 2019 the regional law 1 clarified the organisation of internships with respect to the subsidies for participation and the personal training plans ‘aimed at the social inclusion [and] autonomy’ of the people (art. 11). Particularly, it is the Agency for labour that is responsible for monitoring the design, implementation, and outcome of such training projects.

With respect to Tuscany, in 2002 the regional law 32 highlighted the intent of the region to provide professional training for both adolescents, young people, and adults ‘so as to guarantee the development of the personal and social identity’ of its citizens (art. 5). Article 13 also illustrated the more technical training courses available for unemployed and employed subjects ‘to incentivise the adaptability of the firms to the processes of innovation in response to the demand of qualified human capital’. In

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<sup>208</sup>Part of interview illustrated in the Report by the Regione Emilia-Romagna, 10 April 2018.

other words, the region was interested in preparing a labour force more in line with the needs of its productive system (art. 14). A year later, a regulation was issued on the importance of integrating different institutions; namely, those responsible for formal education and professional training (art. 7). Similarly, it established different types of apprenticeships (art. 51) with the collaboration of the regional Council for the definition of the quality of the firm, the training, and the supervision. Article 118 also listed the different services for employment, including the matching between labour offered and demanded and the services for employability. The evident interest for human capital investment is certainly also explained by the region's social history. As early as 1938 the literacy rate was equal to 45.5 in Tuscany, compared to 42.2 in Emilia-Romagna and 40.5 in Campania (Felice, 2007). In 1952 the municipal and provincial expenditure for education in Tuscany was one of the highest in the country with an index equal to 1,26<sup>209</sup> (Felice, 2007).

With respect to Campania, the regional law 16 of 2012 was issued to promote young professionals with a special fund of €150,000 (art. 5), while the law 20 established a new discipline for the contract of apprenticeship to promote training both inside and outside the firm. Particularly, with this law, the region would assure essential levels of training, working time, requirements for teachers (art. 43), and evaluation of skills. For this purpose, the region even created a special Observatory for apprenticeships (art. 49). Similarly to Tuscany, also the Southern region of Campania illustrated its aim of extending the offer of technical training for both unemployed and employed subjects in the areas of energy, sustainable mobility, technologies for the 'Made in Italy', technologies for life, cultural activities, and information (art. 7). One year later, the regional law 11 described the functions of the region in terms of training in article 6. Particularly, the region aimed to promote and finance specific training programmes in the schools, initiatives to upgrade the knowledge of workers on safety, activities to increase the skills of workers as well as finance investment projects for the health and safety of workers in small, medium, and micro-firms, information desks, and ethical codes of behaviour. What emerges from the analysis of the laws issued at the regional level and within the limits of the correct application of the national legislation is an interpretation of work and occupational activity that is substantially different. Each of the three regions of Emilia-Romagna, Tuscany, and Campania were and are interested in promoting active labour market policies to regulate flexible forms of employment, demand participation in training activities for those out of work, and integrate the educational and professional systems. However, there is an evident regional divergence in terms of concurrence towards active measures to fight unemployment and encourage occupation.

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<sup>209</sup>The index was calculated according to € 2001. The corresponding values for Emilia-Romagna and Campania were equal to, respectively, 1,12 and 0,87.



Particularly, in addition to the specific regional legislation, the different density and types of laws issued to tackle occupational problems in the three regions is *per se* indicative of the contrasting levels of convergence towards active labour market policy. Northern regions like Emilia-Romagna are able to overcome the simpler definition of unemployment by providing *ad hoc* measures for specific categories of workers or vulnerable subjects. Conversely, in Southern regions there appears to be a threshold after which the objective and path-dependent structure of employment does not allow active labour market programmes to be developed to maximum potential. What might contribute to explaining the remarkable different outcomes observed in the correlation analysis for the macro-areas of the country is in all probability the different amount of funding available to implement such policies as well as the different types and powers of the existing labour market institutions in their territory. And, understandably, this is explained by the Italian economic history.<sup>210</sup> As explained by Acemoglu (2012), institutions play a relevant role in contributing to the economic growth of a country.

On this subject, many scholars agree on Italy being a case of failed federalization (Baldini and Baldi, 2014; Keating and Wilson, 2010). In the 19<sup>th</sup> century, the proactive attitude of the Lombard elites allowed entrepreneurs to collaborate with scientific professionals to the social and economic benefit of the entire region (Focacci, 2019). In this period, industrialisation ‘only superficially interested the South’ (Daniele and Malanima, 2014). In parallel with increasing economic inequality, institutional divergence appeared more significant across Italian regions. In the 1980s, when regional government was already in establishment for a decade, the majority of voters in the Southern regions deemed their administration as ‘definitely inefficient’ (Putnam, 1993). “Passive industrialists” in some of the Southern regions were more interested in their *status quo* rather than in education or modernisation (Felice, 2013), creating the typical path-dependency obstacles visible today. Institutional change is difficult to put into place, especially when it comes to administrating the economic and social consequences of unemployment. Civic engagement is crucial for the successful absorption of an active labour market approach, requiring collaboration on behalf of both job candidates and offices related to it, including job centres, agencies of labour, and firms. In the South, the low level of civic capital is the result of inequality and extractive institutions (Felice, 2010; Felice, 2013) that make institutional change difficult by definition.

The industrialisation policy put in practice with the Cassa del Mezzogiorno (Casmez), established by De Gasperi in 1950, led to an increase in the GDP per capita from 69 to 84 between 1951 and 1971 (Felice, 2012). The original intentions for putting into place such institution were well-thought-of: industrial initiatives in Southern Italy were to expand thanks to the direct intervention of the government.

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<sup>210</sup>According to a study by Bianchi (1990), innovation in Tuscany proved to have very minor improving effects on small and medium enterprises at the end of the 20<sup>th</sup> century.

Nevertheless, the shower funds provided were exclusively based on passive welfarism. The combination of extensive financing from state intervention and ‘growth in the power of criminal organizations’, due to the lack of operative accounting, monitoring, and administrative (Milio, 2007) services, contributed to the difficulty of the South to experience a real transformation (Leonardi, 1995). This is emblematic when one accounts for the fact that public administration performance contributes to influencing regional economic performance (Murias et al., 2010; Di Liberto and Sideri, 2015). It was after the signing of the Single European Act in 1986 that the Casmezz introduced investments in human and social capital, including measures of ALMP, to accompany the economic restructuring of the territory. Nonetheless, the equilibrium strategy observed in the Southern society seems to have remained the historical one of ‘never cooperate’ (Putnam, 1993), which makes it hard for individuals to adapt to changes in the way in which employment is tackled. Individuals respond to existing rules. The lack of proper horizontal political relations make it difficult, on the one hand, for a change to occur in institutions, and other hand, to encourage individuals for collective action. This is also shown by Del Monte and Papagni (2006) in their regional study on the determinants of corruption in Italy, as well as by Di Martino et al. (2020). They show that the North-South divide is significantly linked to institutional differences; namely, the fact that, contrary to the open-access order of the North, the South has kept a limited-access order, meaning that the economic and political opportunities privilege some groups over others. This is unfortunate as, when power to regional government is granted, local collaboration is proved to be fruitful for the development of innovative features (Governa and Salone, 2007), including training programmes to reskill the workforce.

As argued by David (2007), economists should not surrender to an idea of static welfare analysis but learn to think in time for the benefit of future policies. An approach that is EU recommended and encourages economic growth by using active measures for both supply and demand of labour can only benefit the more economically disadvantaged territories of Italy, especially given the institutions’ ‘lack of agreement on the fundamental rules’ (Bull and Pasquino, 2007). Where the regional government fails to implement new policies to the benefit of the working population, it is the duty of the central government to intervene so as to achieve an inclusive transformation of the regions. This is particularly true when it comes to offering efficient public services (Iuzzolino et al., 2011), including active labour market policies. ‘Building social capital will not be easy, but it is the key to making democracy work’ (Putnam, 1993). Democracy, in turn, is what reduces the inequalities created by the market (Zamagni, 2020), counting those related to occupational inactivity. After all, institutional divergences are not exclusively related to innovation capacity (Evangelista et al., 2002; D’Agostino and Scarlato, 2015) and economic growth, but also to the more important aspect of social and human well-being (Ferrara and

## 4. Conclusions

Based on the study of the Italian legal texts issued between 1997 and 2018, in this article we defined a series of categories of interest associated with the active labour market approach; namely, training, flexibility, and conditionality. We also accounted for inter-administrative subsidiarity. For each reform, we analysed the extent to which these concepts were promoted in the law and their correlation to occupational and educational outcomes such as the employment and unemployment rates of both youth and adult populations, the proportion of inactive NEETs, and the rate of part-time contracts. We also distinguished between macro-regions of Italy, due to the country's renowned heterogeneity. Findings show that the increasing interest of Italian labour law to follow the European trend of active labour market policy corresponds, in general, to an increase in employment and a decrease in both unemployment and inactivity. Particularly, we find that there is a positive correlation between the corpora associated with training in the legal texts and the Italian employment rate, with  $c=0.666$ . Similarly, there is a negative correlation with national rate of adult and youth unemployment, with  $c=-0.771$ . A higher density of reforms focused on training are also negatively correlated with the number of NEETs ( $c=-0.754$ ). With respect to conditionality, we find that an increase in the diffusion of concepts linked to conditionality in Italian labour law strongly and positively correlates with the Italian adult employment rate ( $c=0.817$ ). Most importantly, the corpora on conditionality in the law is negatively associated with the number of  $NEETS_t$ , with  $c=-0.428$ . On the subject of flexibility, a high density of words associated with the transformation of the contracts and of the working hours, for instance, is positively correlated the national employment rate ( $c=0.684$ ), as well as the number of individuals who graduate from high school. Remarkable findings are also found for subsidiarity. Our analysis shows that an increase over time in the density of words that refer to consultations among institutions positively correlates with adult employment, part-time jobs ( $c=0.704$ ), and the female employment rate.

When looking more closely at the effectiveness of an active labour market policy approach, results seem to differ at the macro-regional level. Stronger positive correlations are observed for the Northern Italian regions, where the presence of efficient and financially prepared institutions may favour the incorporation of new forms of employment measures. Similarly, the presence of less powerful trade unions in this area is likely to leave more space for both the transformation of the labour market

and the adaptation and security of its workers. The flexible ‘mood’ registered in Italian labour law with respect to the labour market is, indeed, correlated with a decrease in unemployment in the Northern regions of the country. On the other hand, the type of consultations implemented at the local level may not be strong enough to fight unemployment in the South, where institutions may not be sufficiently independent from both administrative and financial viewpoints. With respect to training, for instance, findings illustrate that an increase in references to training measures, internships, education, and training in the law is positively correlated with the employment rate of the North of Italy, equal to  $c=0.623$ ,  $0.730$ , and  $0.693$  for the East, West, and North than the rest of the country. Similarly, a higher density of references for conditionality positively correlate with the employment rate of Southern Italy only weakly ( $c=0.107$ ). With regards to flexibility, an increase in density of references that incorporate the concept of transformation of work positively correlates with the unemployment rate in Central Italy, with  $c=0.403$ . The divergence further emerges when looking at the regulatory framework of three representative regions of Italy; namely, Emilia-Romagna, Tuscany, and Campania. In addition to the different availability of financial sources to efficiently implement active labour market programmes, path dependence may also contribute to explaining the discrepancy in the occupational and educational results observed in these regions. Particularly, the different density of norms to develop an active labour market approach at the regional level is *per se* indicative of the reception of concepts such as flexibility, conditionality, or training in their respective labour markets.

With respect to the youth population, findings suggest that the active labour market approach present in the reforms is still not inclusive of their occupational issues. While the increasing active labour market policy ‘mood’ registered in Italian labour law is correlated with less youth unemployment and inactivity, we do not observe any parallel increase in the creation of work for them. If regions are called to pick prevailing selection criteria (Vergne and Durand, 2011) for employment, implementing an active labour market policy will need to be inclusive, too, of the more vulnerable categories of their society. Further research should investigate whether results change when regional, provincial, and municipal regulations are included in the analysis. In particular, this type of analysis could be extended with respect to the Italian case and its different levels of aggregation within the country as well as to the European Union case. On this subject, it would be relevant to conduct a comparative analysis with various member states, both at the country level and at the regional level. A salient case study would be represented by Germany, whose historical divide between the West and the East is likely to explain differences in the approach taken to overcome occupational inactivity and other similar professional matters. In other words, the relevance of this type of research is two-fold; namely, it would contribute to explaining the dualism present both nationally within countries and internationally across countries.

In line with this, it is important to note that the effectiveness of active labour market programmes, as well as that of other policy measures, should be analysed by necessarily addressing the existing and different levels of aggregation. As shown in the analysis, the role of macro-regions and regions is emblematic in the development of successful policies and occupational outcomes. It, therefore, emerges, a relationship between the context-dependent nature of policy measures and the more general theory of path dependence that should not be disregarded by the literature. In this regard, addressing different levels of aggregation facilitates the identification of the relationship between context dependence and path dependence precisely relevant to policy effectiveness evaluation.

## Appendix

Table 34: Shapiro-Wilk Test for Normal Data

Shapiro-Wilk Test	W Statistic
$TRAIN_t$	0.958
$COND_t$	0.851
$FLEX_t$	0.924
$SUBS_t$	0.870
$EMPL_t$	0.975
$Y\_EMPL_t$	0.892
$A\_EMPL_t$	0.910
$CENTRE\_EMPL_t$	0.877
$SOUTH\_EMPL_t$	0.942
$NORTHE\_EMPL_t$	0.941
$NORTHW\_EMPL_t$	0.953
$NORTH\_EMPL_t$	0.952
$PARTTIME_t$	0.885
$WORK\_FEMALE_t$	0.620
$UNEMPL_t$	0.942
$Y\_UNEMPL_t$	0.917
$A\_UNEMPL_t$	0.947
$CENTRE\_UNEMPL_t$	0.943
$SOUTH\_UNEMPL_t$	0.899
$NORTHE\_UNEMPL_t$	0.951
$NORTHW\_UNEMPL_t$	0.933
$NORTH\_UNEMPL_t$	0.932
$NEETS_t$	0.939
$GRAD_t$	0.885
$GDP_t$	0.969

*Notes:* The table is used to test normality using the Shapiro-Wilk test for normal data. In the table, for each variable used in the analysis we provide the corresponding  $W$  statistic. As regards the variables  $TRAIN_t$  is intended as the words associated with training;  $COND_t$  as the words associated with conditionality and active labour market policy;  $FLEX_t$  as the words associated with flexibility; and  $SUBS_t$  as the words associated with subsidiarity. On the other hand, As regards the occupational and educational outcomes we indicate  $EMPL_t$  as the employment rate;  $Y\_EMPL_t$  as the youth employment rate for individuals between 15 and 24;  $A\_EMPL_t$  the adult employment rate for individuals between 25 and 64, or 20 and 64 for the years 2017 and 2018;  $WORK\_FEMALE_t$  as the total number of hours worked by female workers per week;  $PARTTIME_t$  as the rate of part-time workers;  $GRAD_t$  as the number of individuals graduated from high school;  $NEETS_t$  as the number of those who are neither in employment, nor in education, nor in training;  $UNEMPL_t$  as the Italian unemployment rate;  $Y\_UNEMPL_t$  as the youth unemployment rate for individuals between 15 and 24; and  $A\_UNEMPL_t$  as the adult unemployment rate for individuals between 25 and 74, or 15 and 64 for the years 2017 and 2018; and  $GDP_t$  as the Italian Gross Domestic Product.

Table 35: Moving Averages for Frequency of ALMP Words in the Law

<i>Year</i>	<i>TRAIN<sub>t</sub></i>	<i>COND<sub>t</sub></i>	<i>FLEX<sub>t</sub></i>	<i>SUBS<sub>t</sub></i>
	MOVING AVERAGE	MOVING AVERAGE	MOVING AVERAGE	MOVING AVERAGE
1997	90	6	27	14
1998	90	6	27	14
1999	90	6	27	14
2000	90	6	27	14
2001	105.4	34.6	45	11.6
2002	115.7	53.7	57	10
2003	130.7	47.7	56.6	7.9
2004	129.5	43.3	56.3	10.4
2005	139.7	39.8	56	15.7
2006	147.8	37	55.8	16.8
2007	137.5	35.2	53.4	17.7
2008	129	33.7	51.3	18.3
2009	121.8	32.4	49.6	18.7
2010	115.6	31.3	48.1	19.1
2011	115.5	29.6	45.2	19.4
2012	113.7	31.3	43.9	18.6
2013	112.1	32.8	42.8	19.4
2014	106.4	31.8	40.7	20.1
2015	106.3	32.8	40.2	18.4
2016	106.3	33.8	39.8	18.9
2017	106.3	34.7	39.4	18.6
2018	101.4	33.1	37.7	17.8

*Notes:* The table illustrates the moving averages of the cumulative frequency of the words associated with concepts of active labour market policy according for each year from 1997 to today. The value of  $TRAIN_t$  for the year  $t$  will be represented by the average of words linked to training observed in the legal text or texts of that year  $t$  and of the years before. This allows to take into account how the active labour market ‘mood’ has developed over time in Italian labour law.  $TRAIN_t$  is intended as training;  $COND_t$  as conditionality and active labour market policy;  $FLEX_t$  as flexibility; and  $SUBS_t$  as subsidarity.

Table 36: Descriptive Statistics for Concepts of Active Labour Market Policy and Employment & Education

<b>Descriptive Statistics</b>	Mean	Std. Dev.	Min.	Max.	<i>Observations</i>
$TRAIN_t$	113.664	16.823	90	147.8	22
$COND_t$	30.573	13.145	6	53.7	22
$FLEX_t$	43.945	10.272	27	57	22
$SUBS_t$	16.063	3.552	7.9	20.1	22
$EMPL_t$	44.482	1.013	42.8	45.8	22
$Y\_EMPL_t$	23.405	5.683	15.6	31	22
$A\_EMPL_t$	62.623	1.647	58.8	64.9	22
$CENTRE\_EMPL_t$	60.432	2.365	54.8	63.9	22
$SOUTH\_EMPL_t$	35.841	1.668	32.8	38.4	22
$NORTHE\_EMPL_t$	51.059	0.982	49.5	52.6	22
$NORTHW\_EMPL_t$	49.472	0.964	47.7	50.9	22
$NORTH\_EMPL_t$	50.132	0.954	48.5	51.6	22
$PARTTIME_t$	14.532	2.604	11	18.5	22
$WORK\_FEMALE_t$	36.027	5.351	30.8	49.5	22
$UNEMPL_t$	9.545	1.973	6.1	12.7	22
$Y\_UNEMPL_t$	28.995	6.819	20.4	42.7	22
$A\_UNEMPL_t$	8.064	2.042	4.9	11.9	22
$CENTRE\_UNEMPL_t$	8.222	1.794	5.3	11.4	22
$SOUTH\_UNEMPL_t$	16.577	3.312	11	20.7	22
$NORTHE\_UNEMPL_t$	5.636	1.482	3.1	8.5	22
$NORTHW\_UNEMPL_t$	6.341	1.499	3.8	9.3	22
$NORTH\_UNEMPL_t$	5.768	1.624	3.8	8.6	22
$NEETS_t$	3135.2	251.774	2779	3527	15
$GRAD_t$	71.871	5.943	59.9	77.8	22
$GDP_t$	1783.864	418.691	1141.76	2390.73	22

*Notes:* The table presents the descriptive statistics of the variables used for the study of the correlation coefficients. Std. Dev. equals standard deviation; Min. equals minimum value; and Max. equals maximum value.  $TRAIN_t$  is intended as the words associated with training;  $COND_t$  as the words associated with conditionality and active labour market policy;  $FLEX_t$  as the words associated with flexibility; and  $SUBS_t$  as the words associated with subsidiarity. On the other hand,

As regards the occupational and educational outcomes we indicate  $EMPL_t$  as the employment rate;  $Y\_EMPL_t$  as the youth employment rate for individuals between 15 and 24;  $A\_EMPL_t$  the adult employment rate for individuals between 25 and 64, or 20 and 64 for the years 2017 and 2018;  $WORK\_FEMALE_t$  as the total number of hours worked by female workers per week;  $PARTTIME_t$  as the rate of part-time workers;  $GRAD_t$  as the number of individuals graduated from high school;  $NEETS_t$  as the number of those who are neither in employment, nor in education, nor in training;  $UNEMPL_t$  as the Italian unemployment rate;  $Y\_UNEMPL_t$  as the youth unemployment rate for individuals between 15 and 24; and  $A\_UNEMPL_t$  as the adult unemployment rate for individuals between 25 and 74, or 15 and 64 for the years 2017 and 2018; and  $GDP_t$  as the Italian Gross Domestic Product.



Table 37: Correlation Coefficients Between Active Labour Market Policy and Employment

<b>Correlation Coefficients</b>	$TRAIN_t$	$COND_t$	$FLEX_t$	$SUBS_t$
$EMPL_t$	0.666	-0.723	0.684	-0.487
$Y\_EMPL_t$	-0.033	-0.219	-0.011	-0.838
$A\_EMPL_t$	0.817	0.739	0.811	0.333
$PARTTIME_t$	-0.103	0.253	-0.062	0.704
$WORK\_FEMALE_t$	-0.051	0.279	-0.017	0.339
$UNEMPL_t$	-0.771	-0.412	-0.720	0.220
$Y\_UNEMPL_t$	-0.479	-0.165	-0.460	0.558
$A\_UNEMPL_t$	-0.644	-0.208	-0.584	0.338
$NEETS_t$	-0.754	-0.428	-0.752	0.443
$GRAD_t$	0.486	0.168	0.452	-0.178
$GDP_t$	0.539	0.387	0.452	0.682

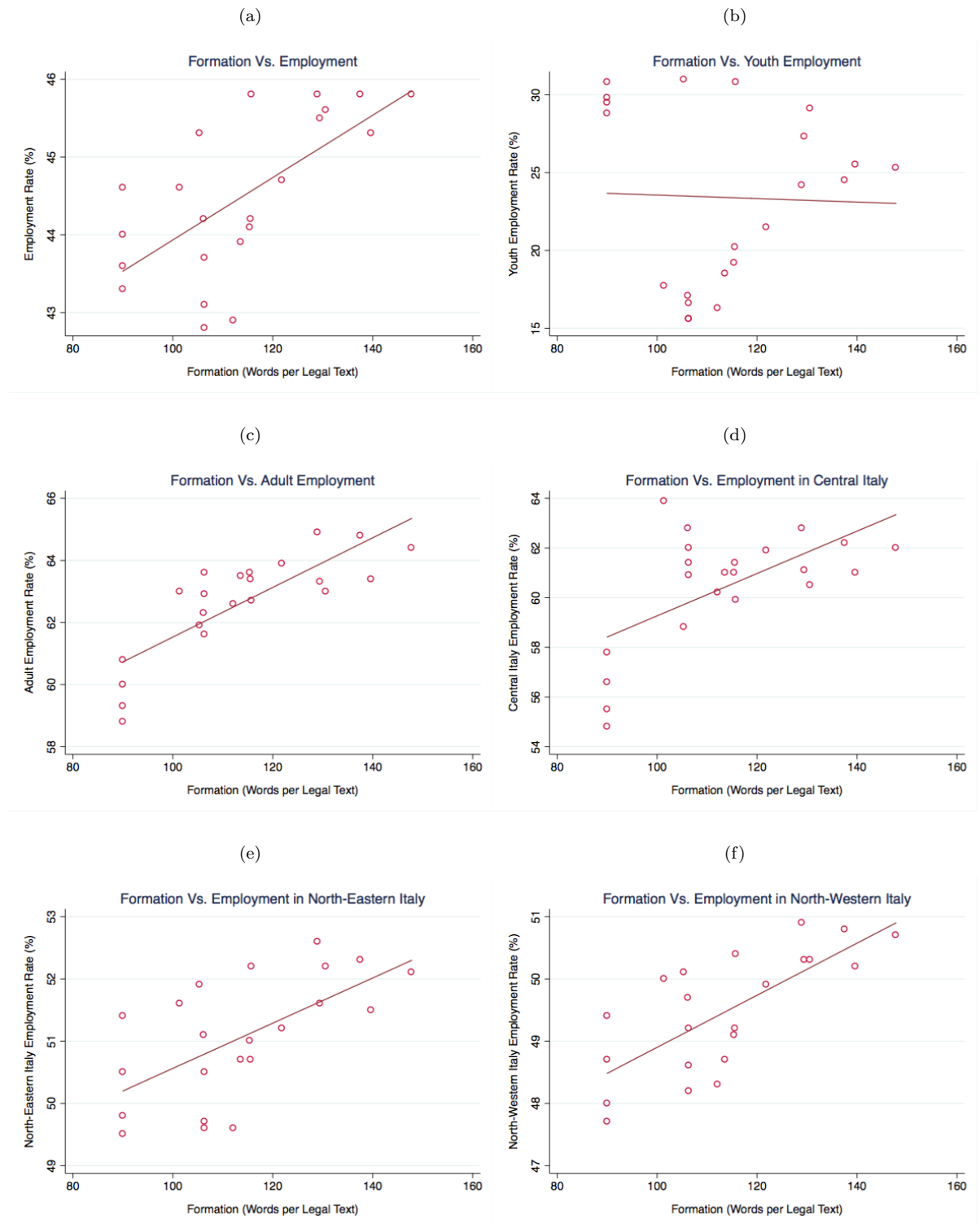
*Notes:* The table illustrates Pearson's correlation coefficients between the concepts associated with active labour market policy and identified in the legal texts of reference and occupational and educational outcomes such as the national employment or unemployment rates.  $TRAIN_t$  is intended as the words associated with training;  $COND_t$  as the words associated with conditionality and active labour market policy;  $FLEX_t$  as the words associated with flexibility; and  $SUBS_t$  as the words associated with subsidiarity. On the other hand, As regards the occupational and educational outcomes we indicate  $EMPL_t$  as the employment rate;  $Y\_EMPL_t$  as the youth employment rate for individuals between 15 and 24;  $A\_EMPL_t$  the adult employment rate for individuals between 25 and 64, or 20 and 64 for the years 2017 and 2018;  $WORK\_FEMALE_t$  as the total number of hours worked by female workers per week;  $PARTTIME_t$  as the number of temporary workers;  $GRAD_t$  as the number of individuals graduated from high school;  $NEETS_t$  as the number of those who are neither in employment, nor in education, nor in training;  $UNEMPL_t$  as the Italian unemployment rate;  $Y\_UNEMPL_t$  as the youth unemployment rate for individuals between 15 and 24; and  $A\_UNEMPL_t$  as the adult unemployment rate for individuals between 25 and 74, or 15 and 64 for the years 2017 and 2018; and  $GDP_t$  as the Italian Gross Domestic Product. Due to the availability of the data, the correlations for  $TNEETS_t$  are studied for the period after 2003.

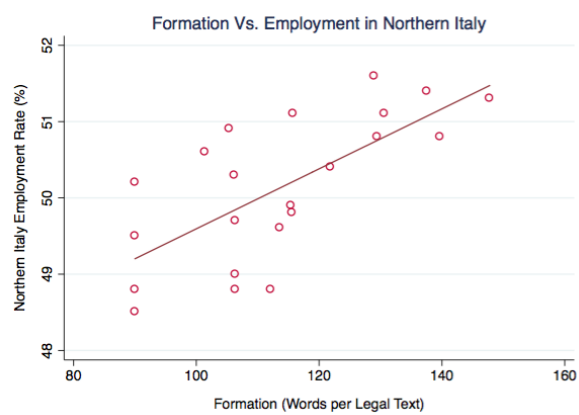
Table 38: Correlation Coefficients Between Active Labour Market Policy and Employment per Italian Macro-Region

<b>Correlation Coefficients</b>	$TRAIN_t$	$COND_t$	$FLEX_t$	$SUBS_t$
$CENTRE\_EMPL_t$	0.606	0.718	0.623	0.456
$SOUTH\_EMPL_t$	0.321	0.107	0.341	-0.785
$NORTHE\_EMPL_t$	0.623	0.530	0.655	-0.367
$NORTHW\_EMPL_t$	0.730	0.639	0.748	-0.260
$NORTH\_EMPL_t$	0.693	0.588	0.712	-0.318
$CENTRE\_UNEMPL_t$	-0.684	-0.665	0.403	-0.257
$SOUTH\_UNEMPL_t$	-0.802	-0.726	0.217	-0.038
$NORTHE\_UNEMPL_t$	-0.526	-0.234	-0.509	0.564
$NORTHW\_UNEMPL_t$	-0.615	-0.325	-0.593	0.526
$NORTH\_UNEMPL_t$	-0.583	-0.293	-0.563	0.546

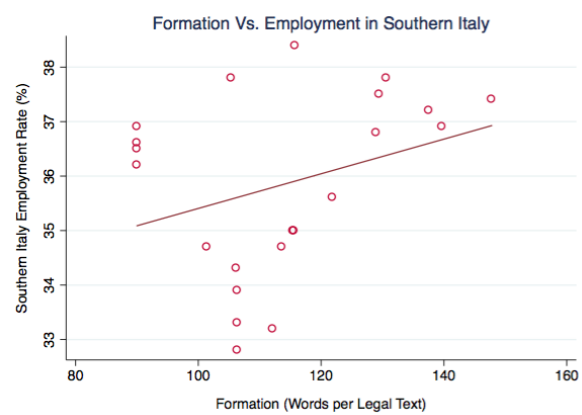
*Notes:* The table illustrates Pearson's correlation coefficients between the concepts associated with active labour market policy and identified in the legal texts of reference and occupational and educational outcomes such as the employment or unemployment rates in each of the Italian macro-regions.  $TRAIN_t$  is intended as the words associated with training;  $COND_t$  as the words associated with conditionality and active labour market policy;  $FLEX_t$  as the words associated with flexibility; and  $SUBS_t$  as the words associated with subsidiarity. On the other hand, As regards the occupational and educational outcomes we indicate  $CENTRE\_EMPL_t$  as the employment rate in the Centre of Italy;  $SOUTH\_EMPL_t$  as the employment rate in the South of Italy;  $NORTHE\_EMPL_t$  as the employment rate in the North East of Italy;  $NORTHW\_EMPL_t$  as the employment rate in the North West of Italy;  $NORTH\_EMPL_t$  as the employment rate in Northern Italy;  $CENTRE\_UNEMPL_t$  as the unemployment rate in the Centre of Italy;  $SOUTH\_UNEMPL_t$  as the unemployment rate in the South of Italy;  $NORTHE\_UNEMPL_t$  as the unemployment rate in the North East of Italy;  $NORTHW\_UNEMPL_t$  as the unemployment rate in the North West of Italy; and  $NORTH\_UNEMPL_t$  as the unemployment rate in Northern Italy.

Figure 3: Scatter Plots Training Vs. Occupation & Education

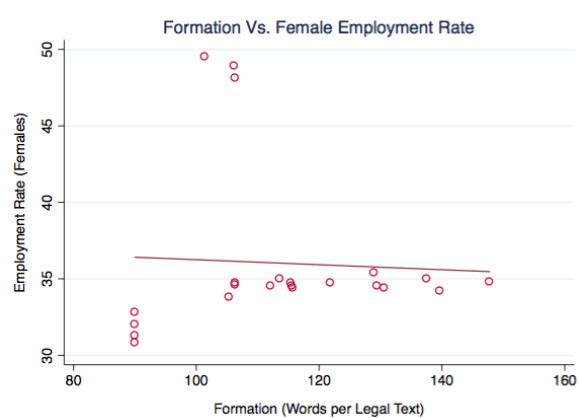




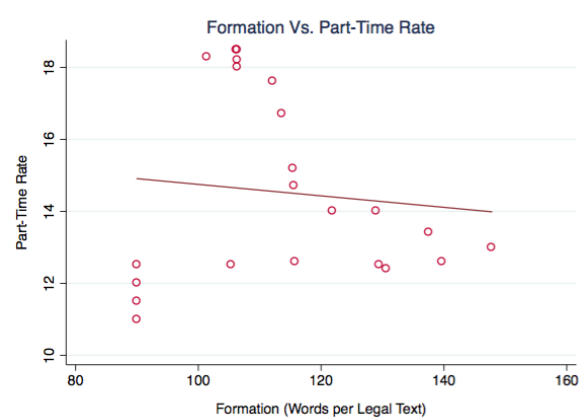
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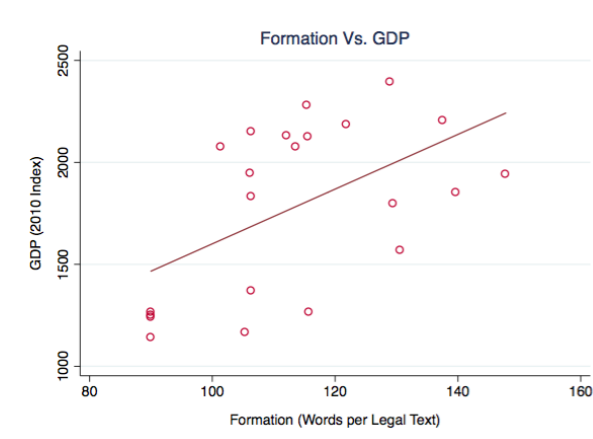
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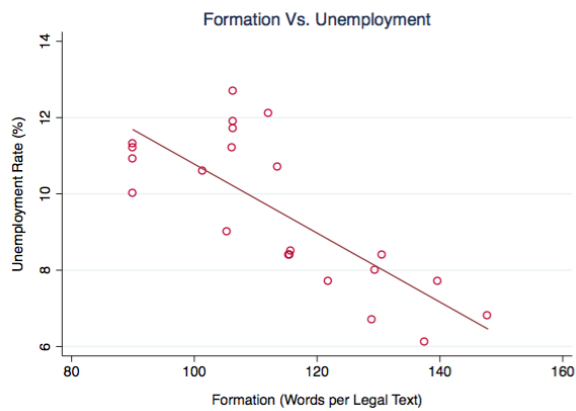
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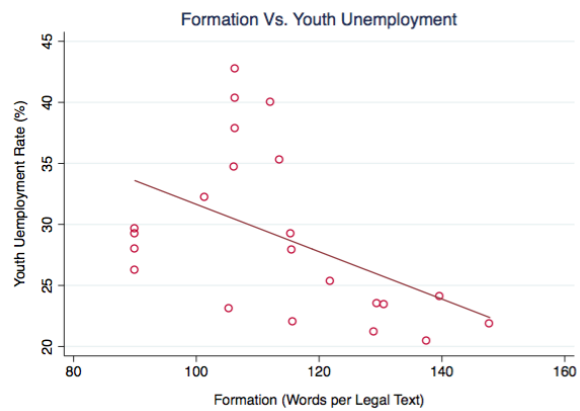
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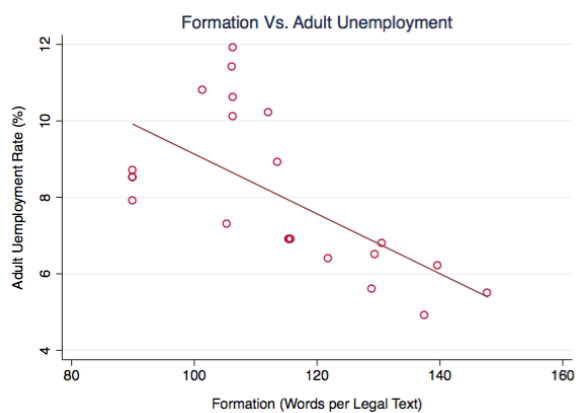
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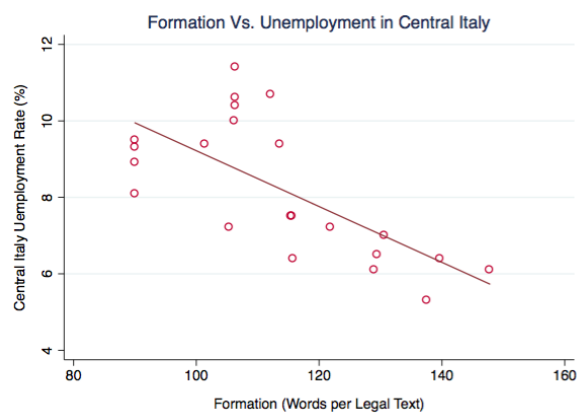
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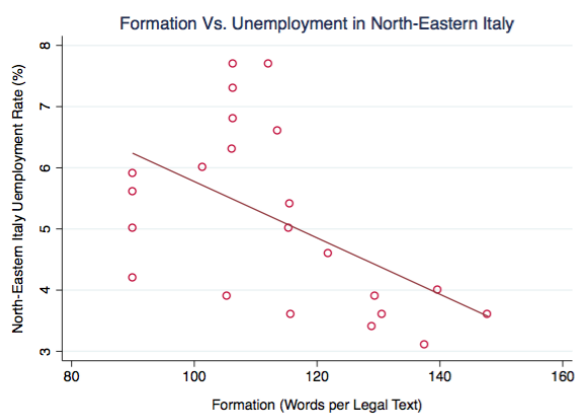
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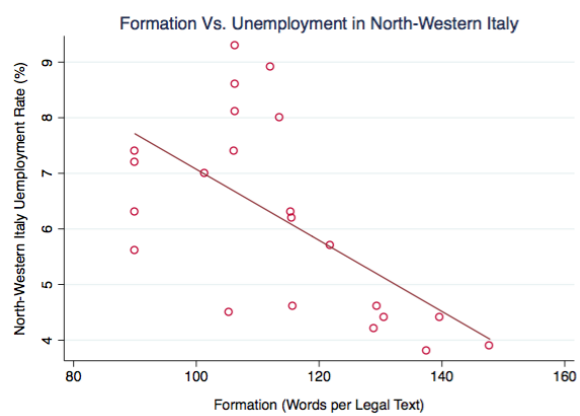
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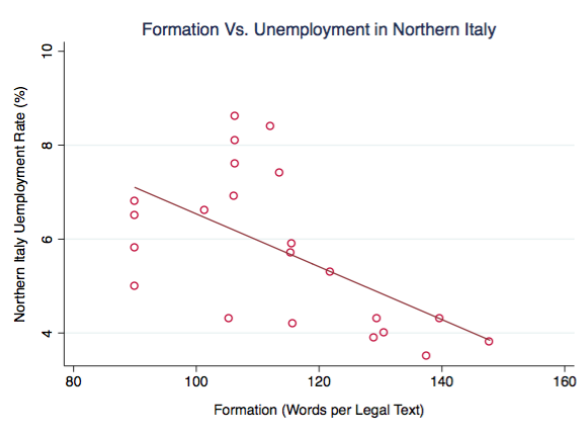
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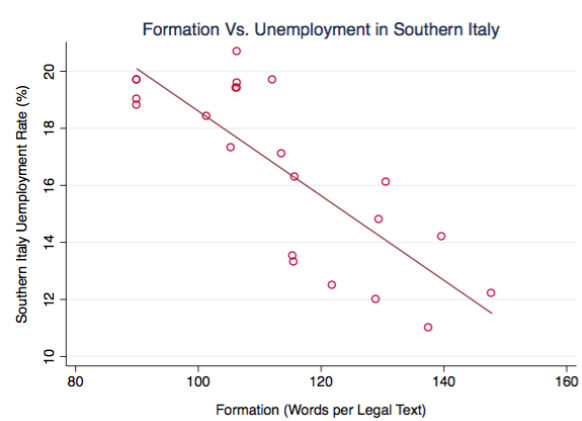
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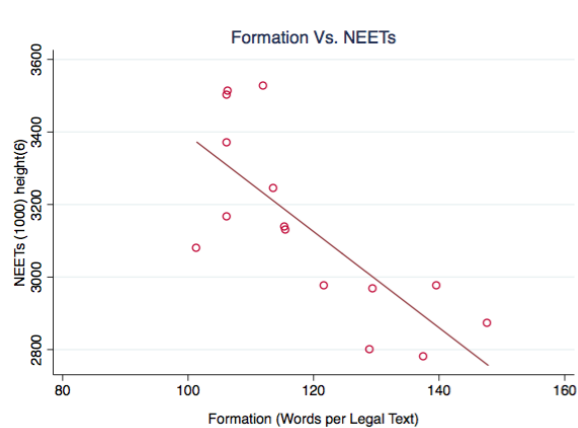
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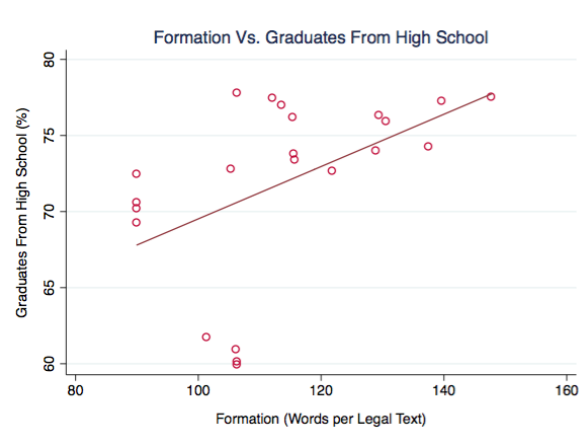
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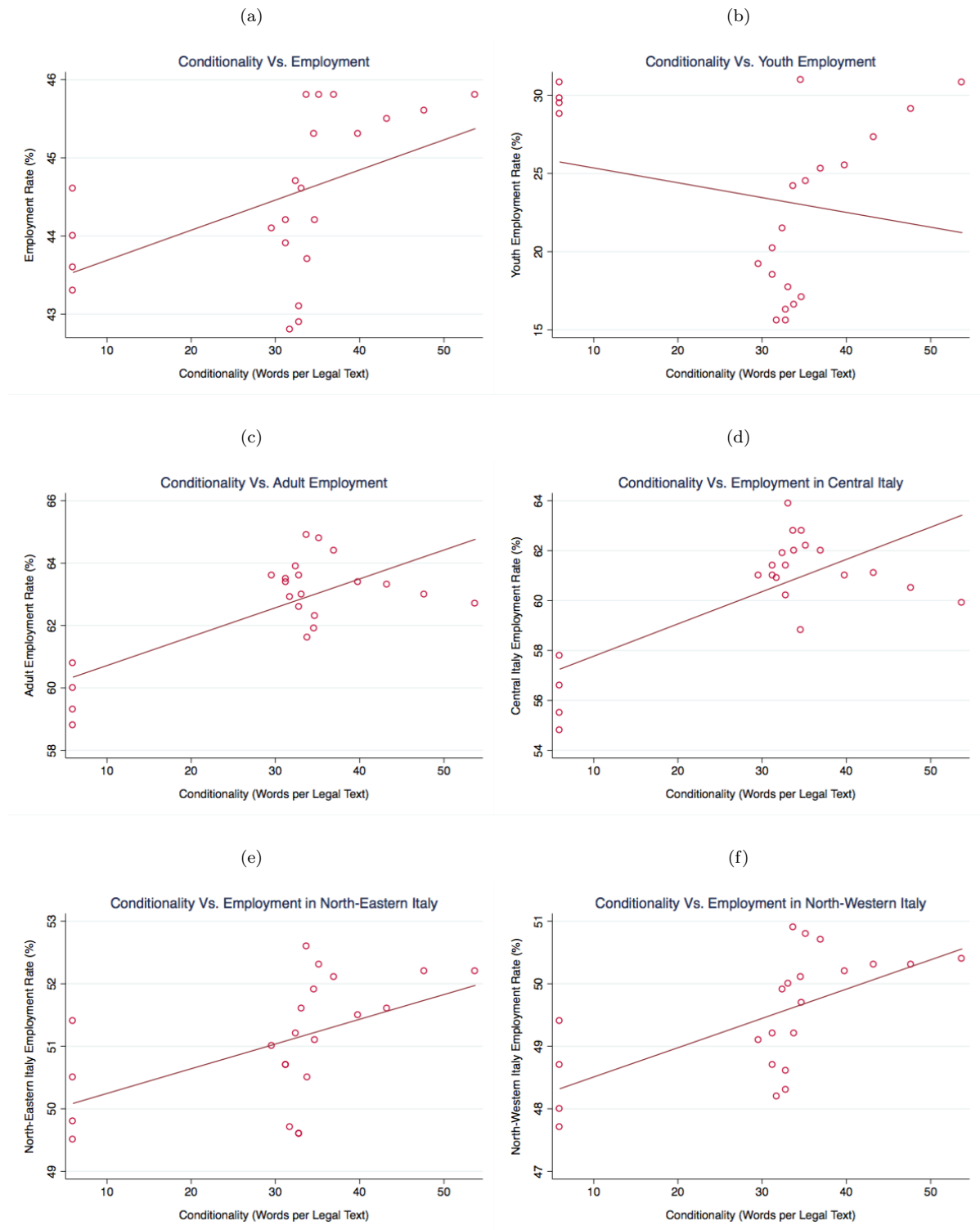


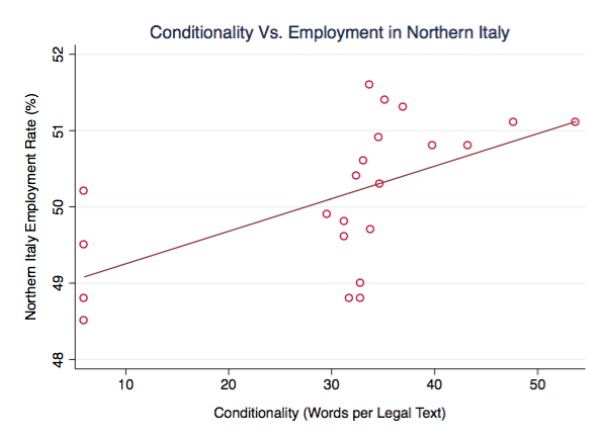
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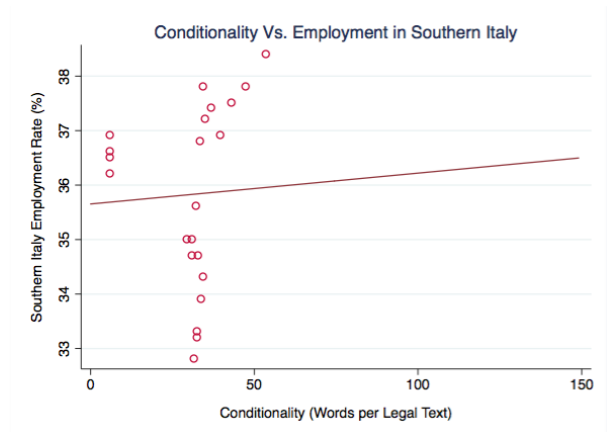
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Figure 4: Scatter Plots Conditionality Vs. Occupation & Education

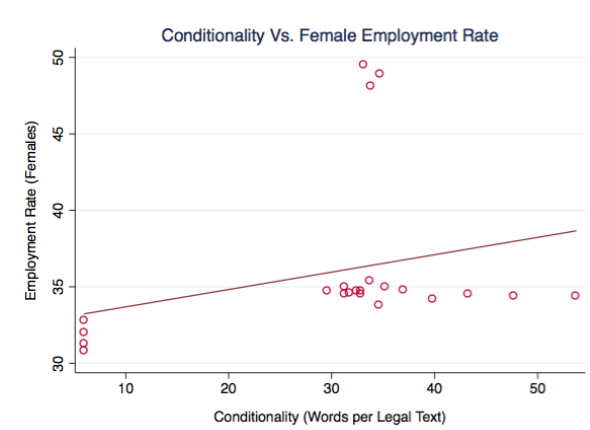




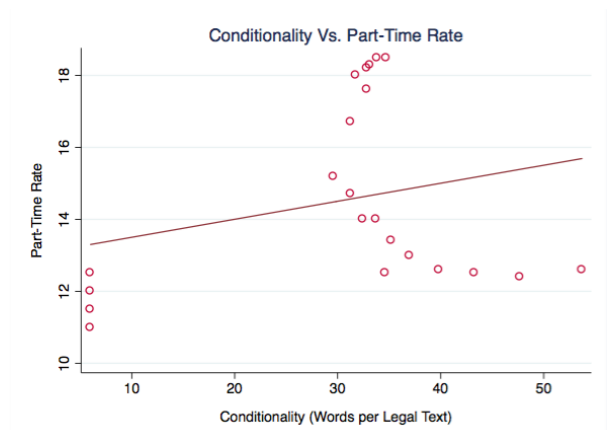
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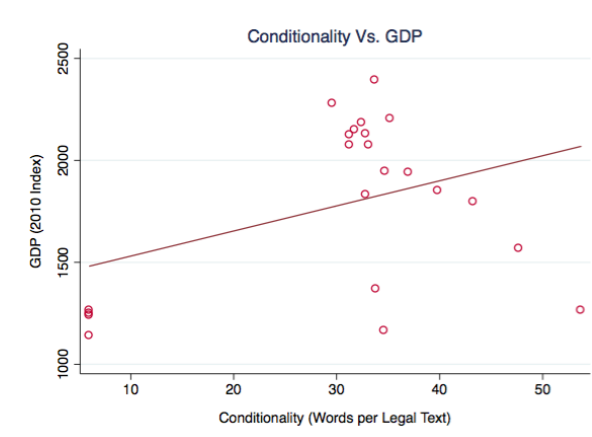
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(i)

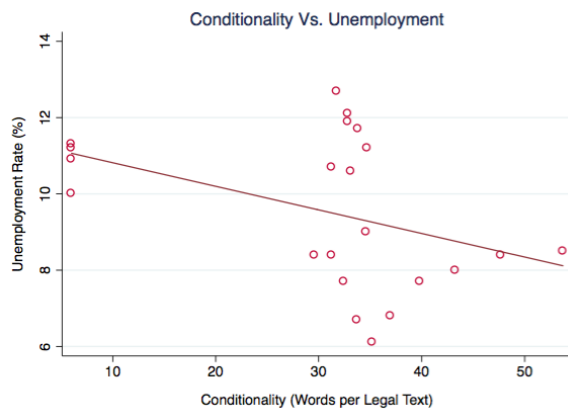


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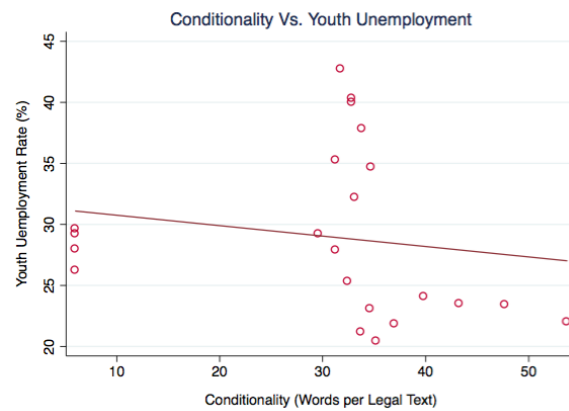


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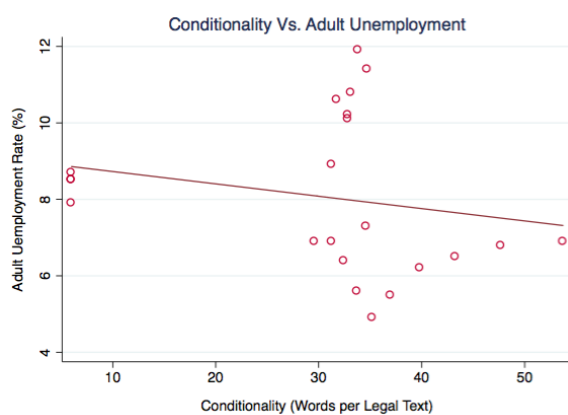




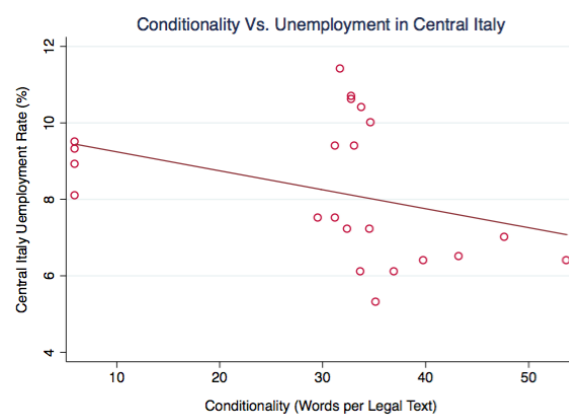
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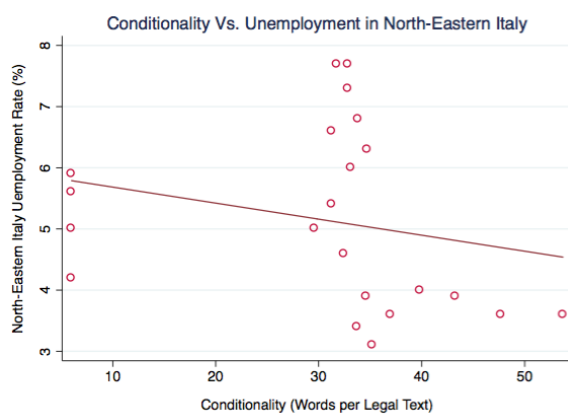
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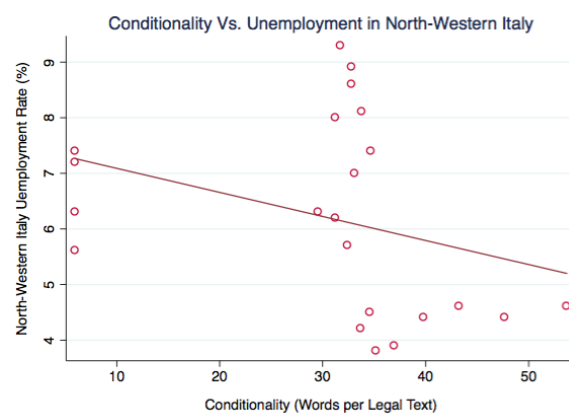
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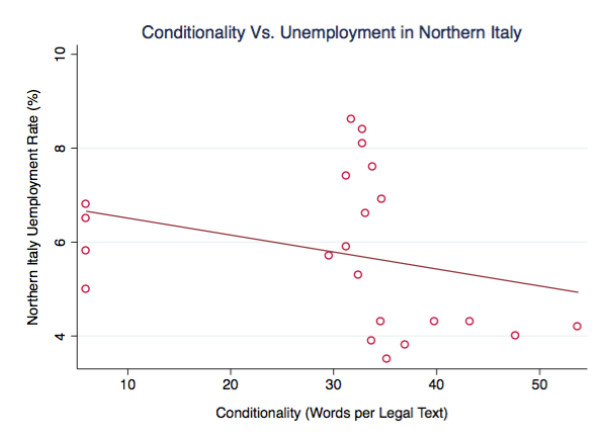
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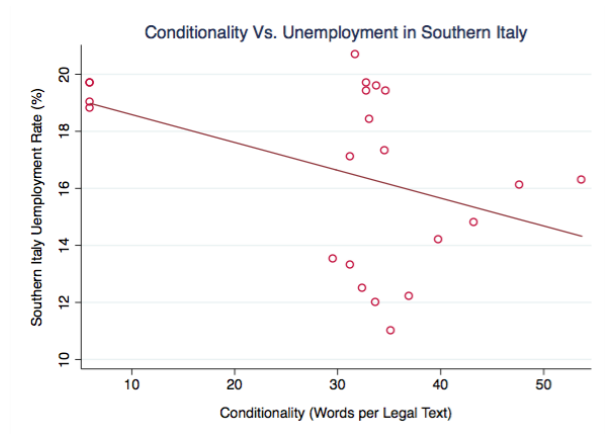
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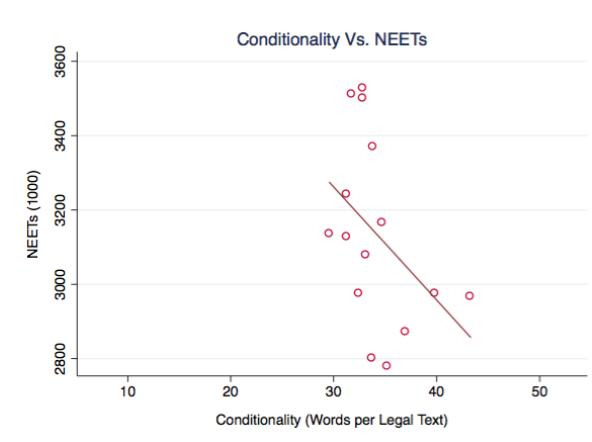
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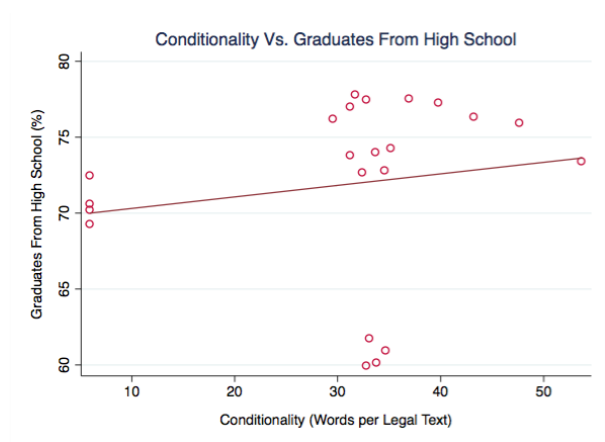
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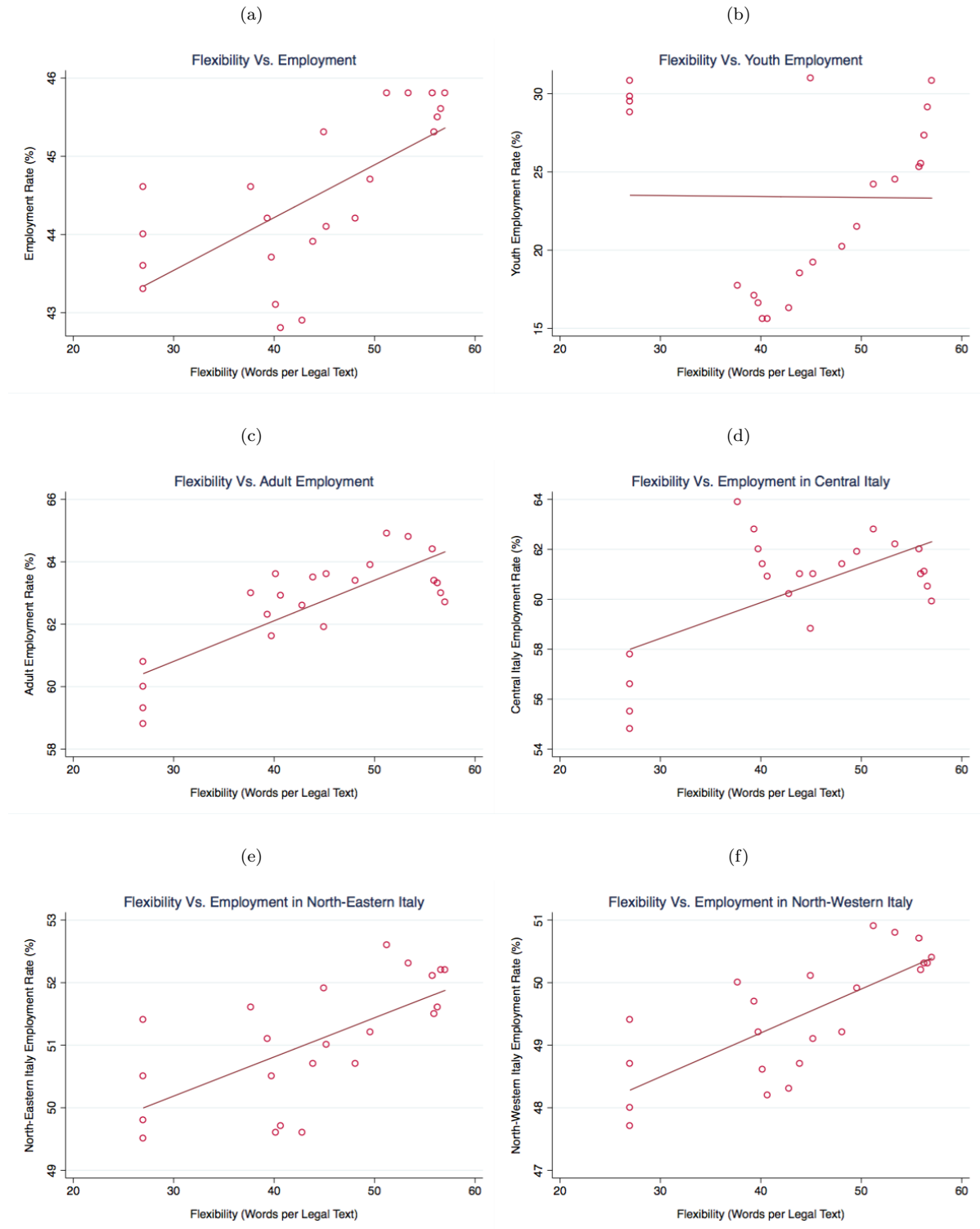


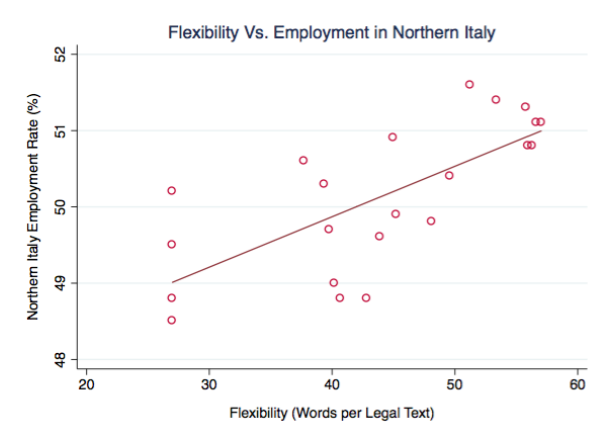
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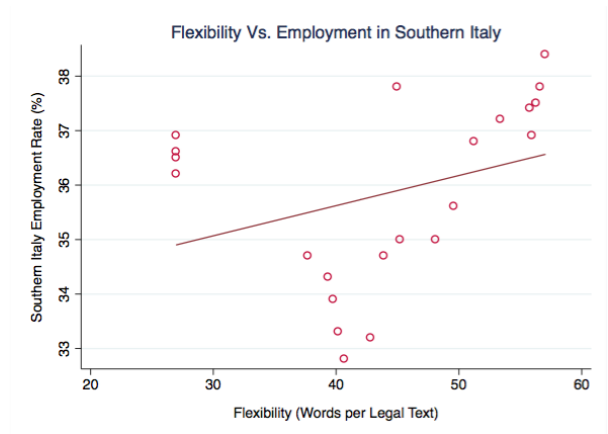
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Figure 5: Scatter Plots Flexibility Vs. Occupation & Education

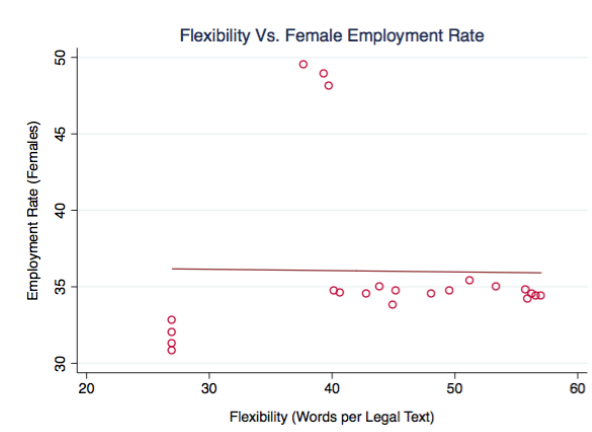




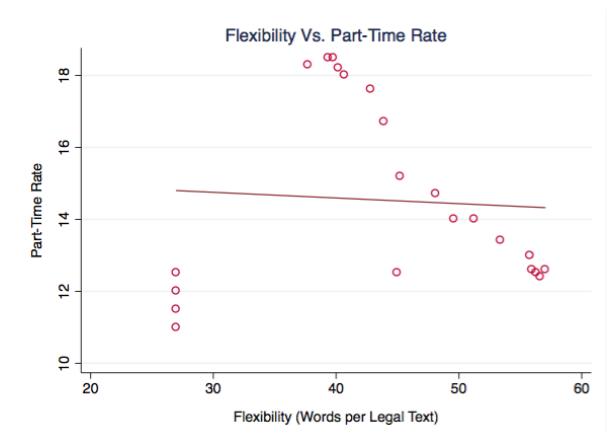
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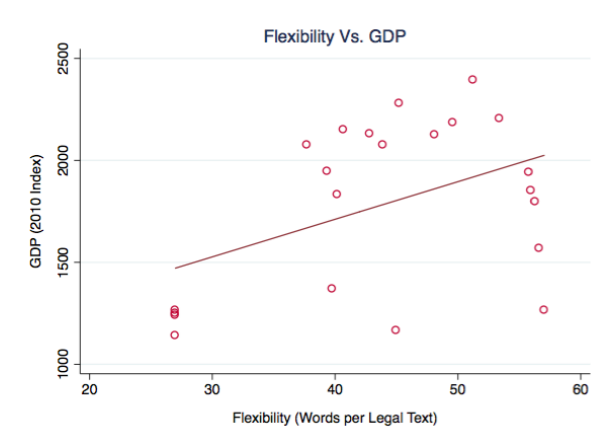
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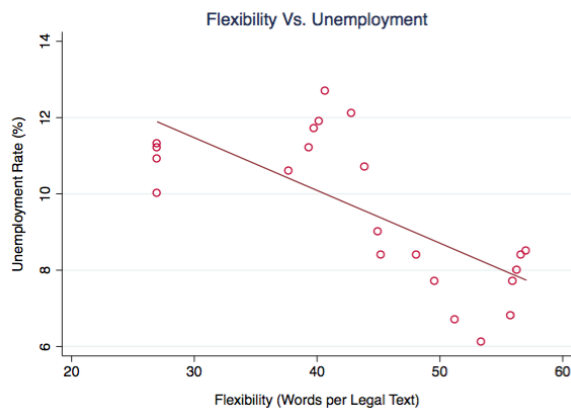
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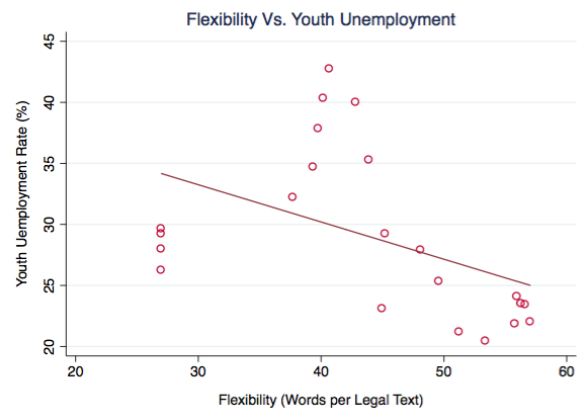
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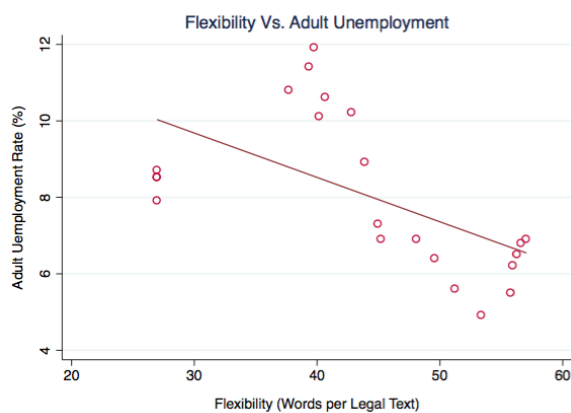
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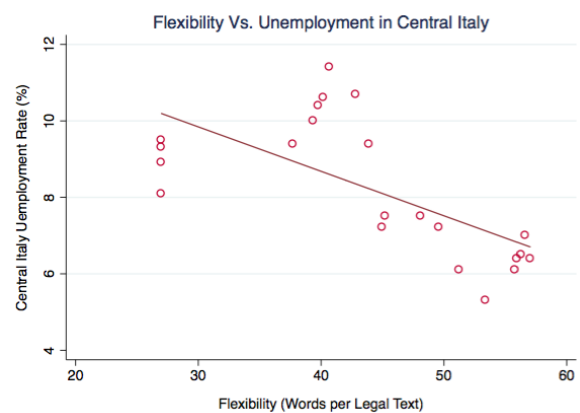
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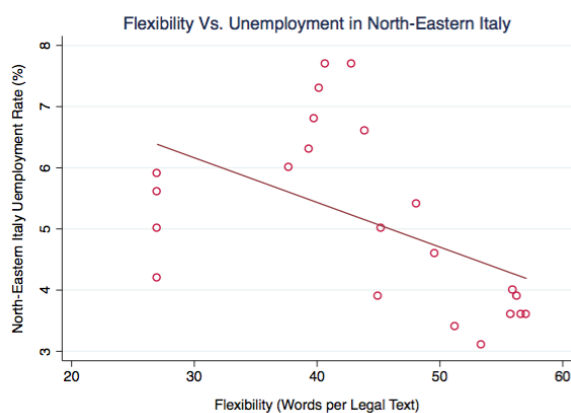
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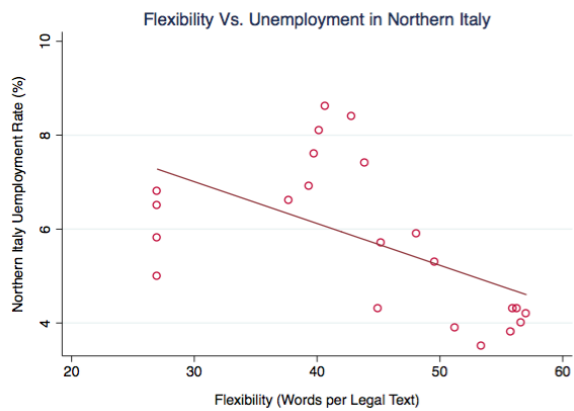
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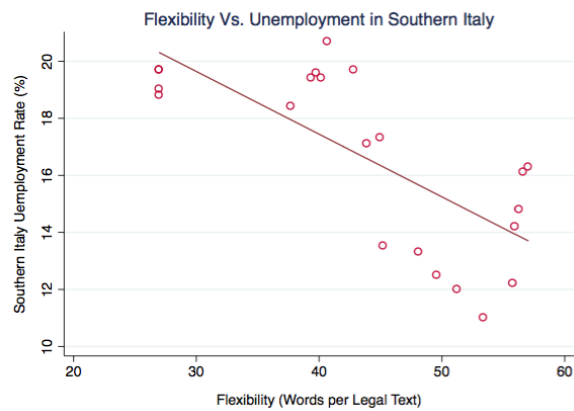
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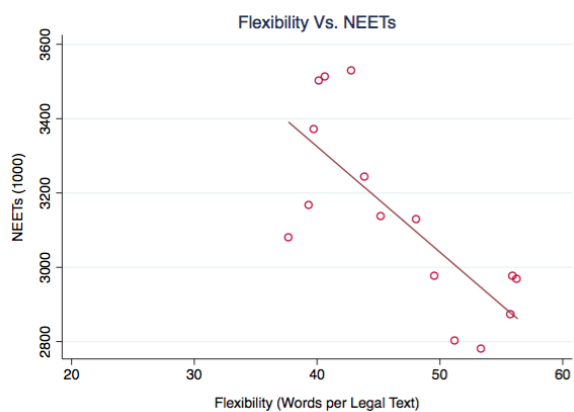
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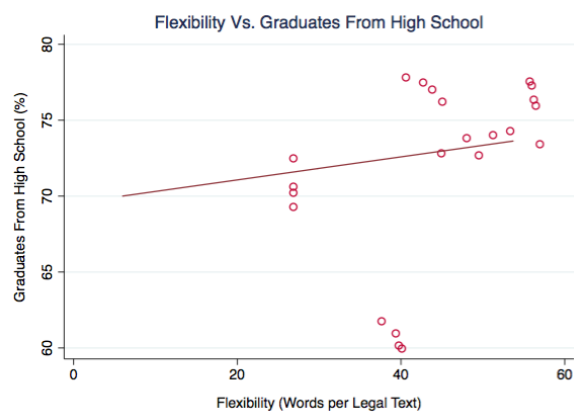
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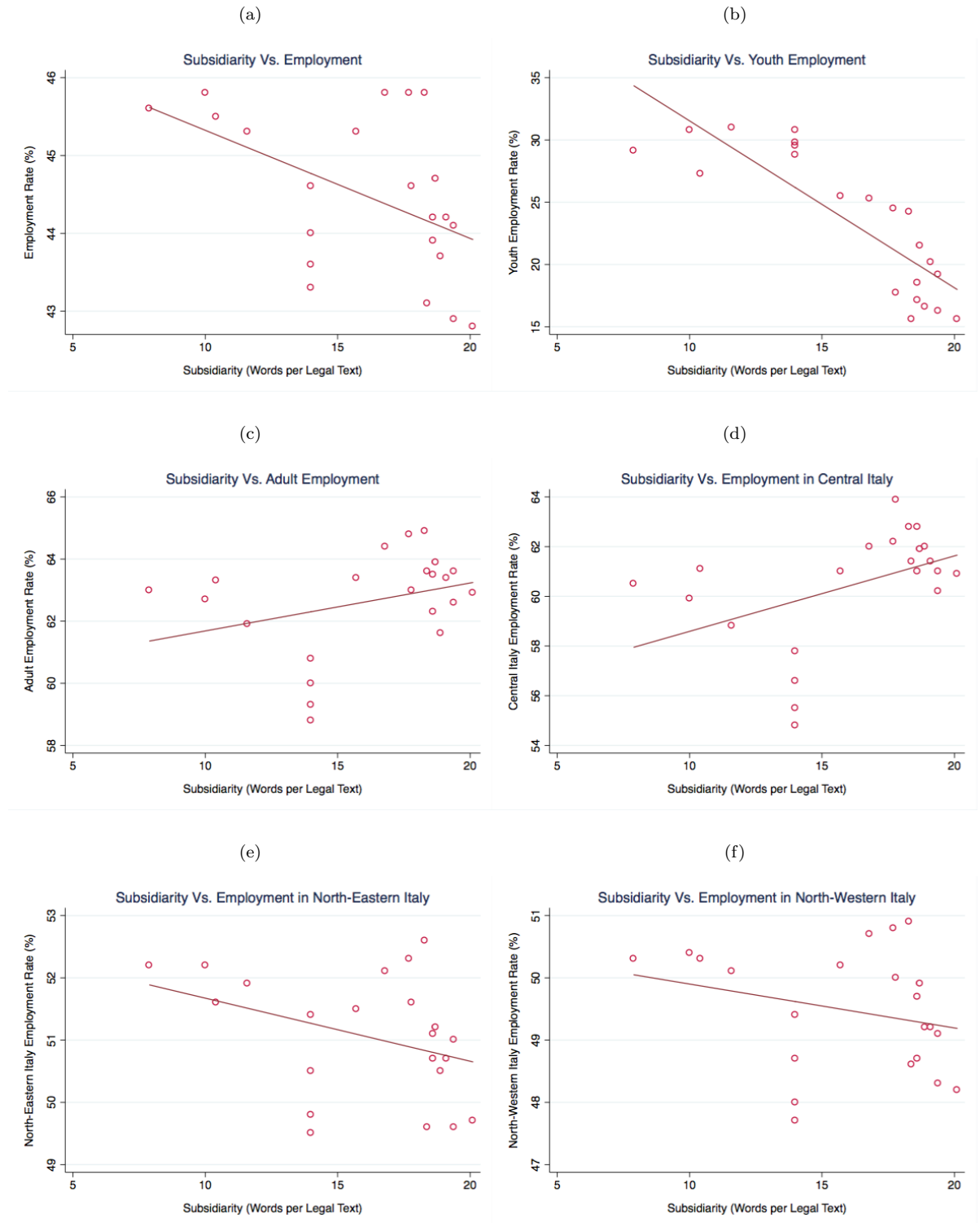


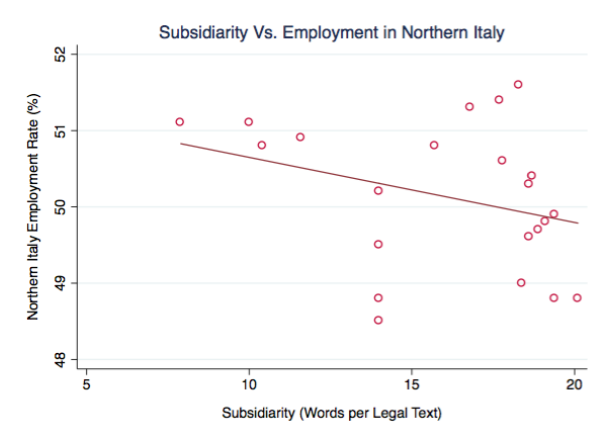
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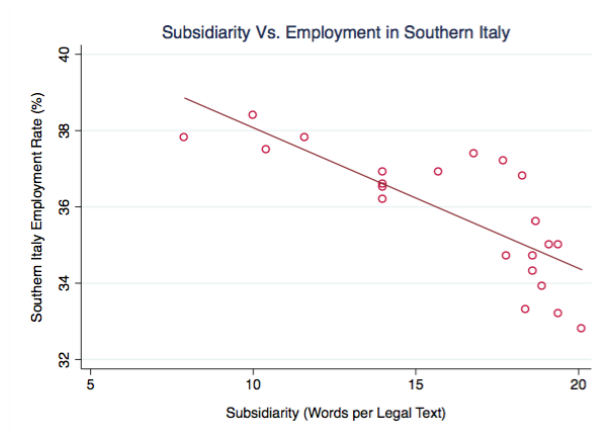
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Figure 6: Scatter Plots Subsidiarity Vs. Occupation & Education

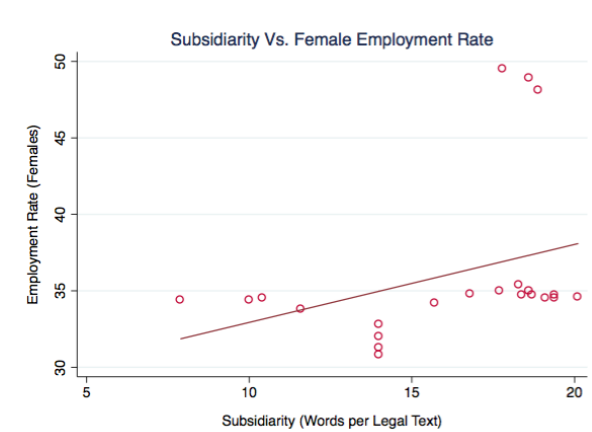




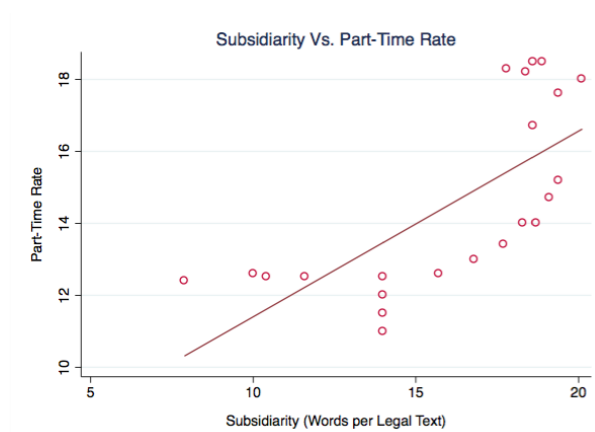
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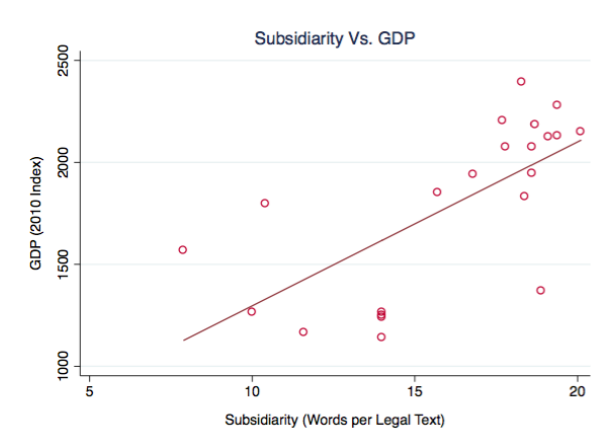
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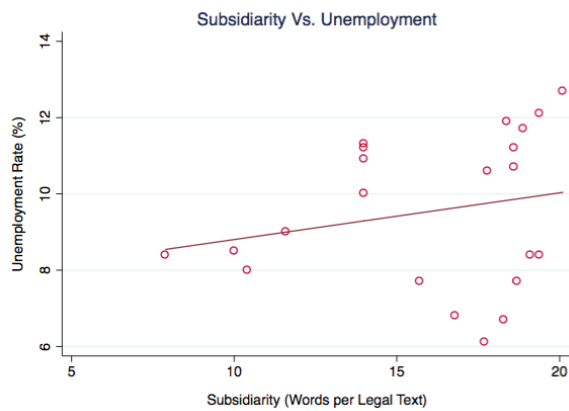


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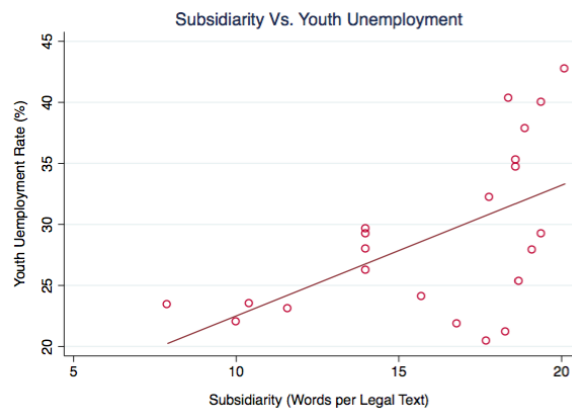


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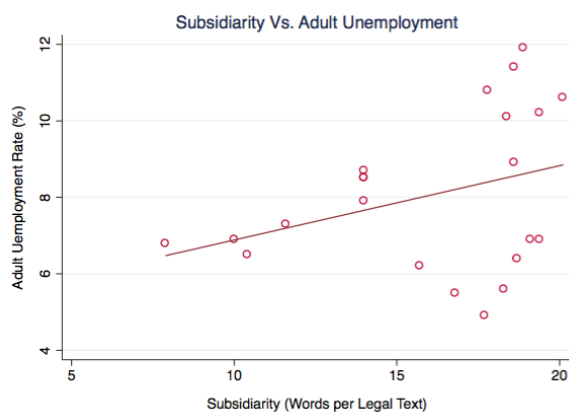




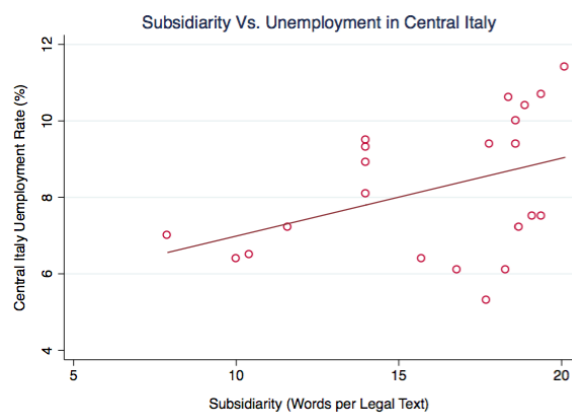
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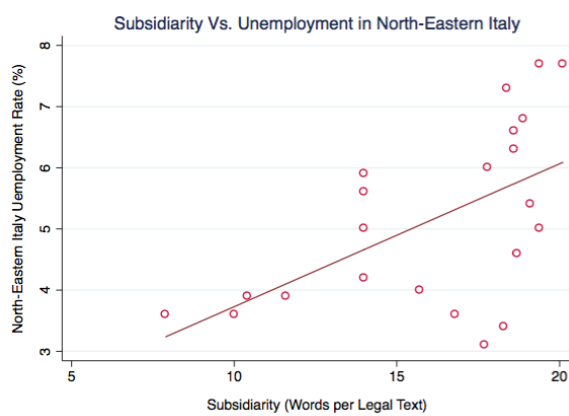
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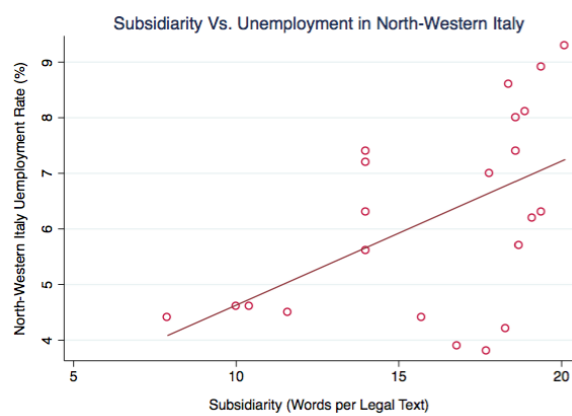
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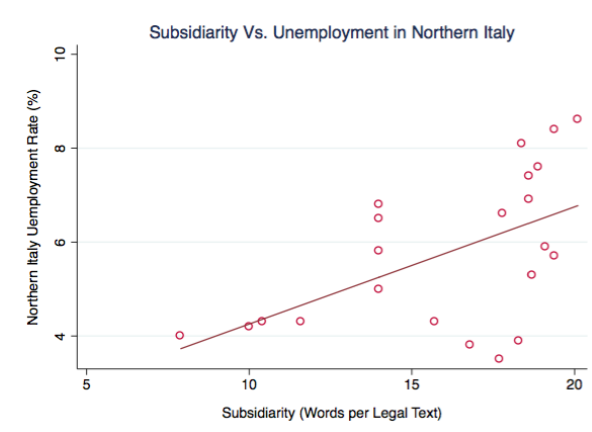
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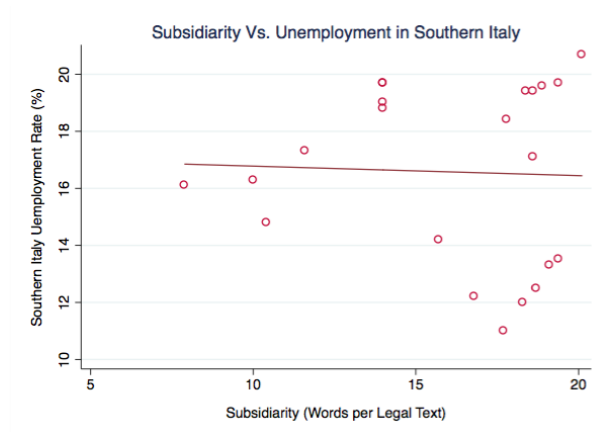
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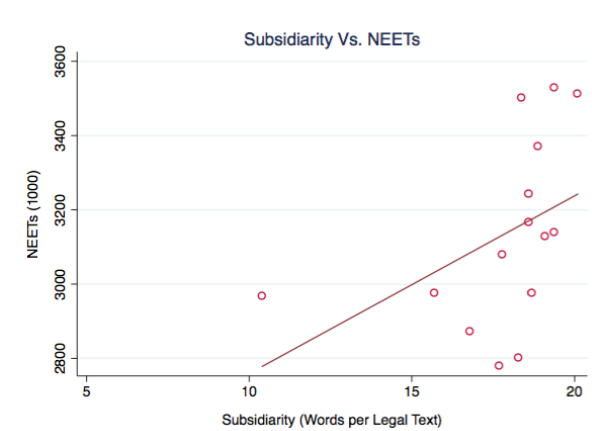
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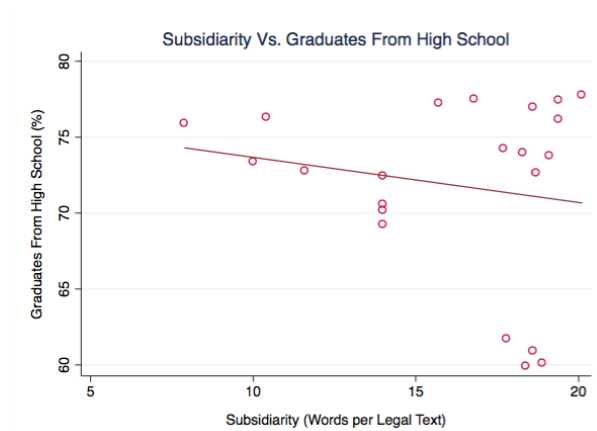
(r)



(s)



(t)



(u)

Table 39: Employment Rates (1977-2015) for Italy According to Age Range

YEAR	Individuals 15-24 (years)	Individuals 25-64 (years)
1977	32.9	33.7
1978	31.7	34.3
1979	32.1	34.8
1980	31.4	35.9
1981	30.5	36.4
1982	29.8	36.7
1983	27.8	37.2
1984	27.5	37.9
1985	28.0	38.1
1986	27.9	38.6
1987	29.0	39.4
1988	28.1	40.0
1989	27.4	40.6
1990	26.6	41.3
1991	25.3	41.7
1992	24.5	42.1
1993	24.0	41.7
1994	24.6	41.5
1995	24.5	41.7
1996	24.1	42.4
1997	24.0	42.7
1998	24.6	42.6
1999	25.4	44.6
2000	26.6	45.8
2001	26.7	47.5
2002	25.9	48.6
2003	24.7	49.0
2004	23.1	49.5
2005	20.8	49.8
2006	20.0	51.0
2007	19.5	51.4
2008	19.2	52.2
2009	16.9	51.5
2010	16.3	51.3
2011	15.5	51.9
2012	15.0	52.7
2013	13.7	52.2
2014	12.8	52.7
2015	12.4	53.2

*Notes:* The table illustrates the employment rate of individuals between 15-24 and 25-64 from 1977 to 2015 in Italy.  
The data are recorded in the *Serie Storiche* section of the ISTAT statistics.

Table 40: Employment Rates (2016-2019) for Italy According to Age Range

YEAR	Individuals 15-24 (years)	Individuals 20-64 (years)
2016	16.6	61.6
2017	17.1	62.3
2018	17.7	63.0
2019	18.6	64.0

*Notes:* The table illustrates the employment rate of individuals between 15-24 and 25-64 from 2016 to today in Italy.  
The data are recorded in the ISTAT statistics.

Table 41: Female Employment in Italy (by education), 2010-2020

Female employment (by education)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<i>No education, elementary school</i>	15,1	15,4	15,5	15,6	16,2	15,4	15,9	17,0	17,2	17,1	15,4
<i>Middle school</i>	33,1	33,0	33,7	32,9	32,2	32,3	32,6	32,4	32,5	32,5	31,2
<i>High school, technical institute</i>	56,9	56,5	55,7	54,2	54,2	54,7	54,7	55,0	55,7	54,1	
<i>University</i>	71,7	72,4	72,5	71,8	71,2	71,7	73,3	74,8	75,3	75,7	74,4
<i>Total</i>	46,1	46,5	47,1	46,5	46,8	47,2	48,1	48,9	49,5	50,1	49,0

*Notes:* The table shows the expenditure on research and development for the period 2012-2019. Data are from ISTAT's 'Ricerca e Sviluppo' section.

# CHAPTER VII

## Job Training, Remote Working, and Self-Employment: Displaced Workers Beyond Employment Hysteresis<sup>†</sup>

### Summary

The recent SARS-Cov-2 pandemic has contributed to several corporate crises. As a result, many Small- and Medium-Sized Enterprises (SMEs) in Italy have filed for bankruptcy in the first quarter of 2020. In addition to a gigantic macroeconomic effect, the lockdown has impacted individuals to a large extent. In this article, we investigate the behavioural response of employees who are under a dual condition of stress; namely, the pandemic and the risk of job loss. The hypothesis of employment hysteresis is challenged by looking at the tendency of individuals who are employed in firms facing a crisis, or in difficulty, to participate in training measures for: a similar job, remote working, and self-employment. Findings from a seemingly unrelated regressions (SUR) model show a significant increase in the likelihood to participate in standard or high-commitment training measures for similar jobs and remote working for employees who: *i*) positively value their professional social capital, i.e. their membership in a trade union (+24.4 and +25.2 percentage points, respectively); *ii*) have some displaced colleagues (+29.6 and +40.7 percentage points, respectively). Finally, we find that employees with a lower educational background are less likely to consider the possibility of switching between occupations.

**Keywords:** Corporate Crisis; Displaced Workers; Employment Hysteresis; Job Training; Self-Employment; SARS-Cov-2; Remote Working.

JEL: J24, J51, J62, L26, M14, M53.

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<sup>†</sup>The chapter is co-authored with Enrico Santarelli, Department of Economics, University of Bologna. The authors thank the Italian General Confederation of Labor (CGIL) based in Emilia-Romagna, particularly Davide Dazzi, for the kind collaboration; the participants of the 16<sup>th</sup> SIDE Conference; the participants at the internal seminar organised by the Erasmus University Rotterdam Institute of Law & Economics; and the participants at the internal seminar organised by the Utrecht School of Economics.

# 1. Introduction

The recent pandemic, and the containment measures adopted by governments, have already had an incredibly large economic impact. With 71 micro-, small-, and medium-sized enterprises (SMEs) per 1,000 inhabitants in the non-financial business sectors<sup>211</sup>, the Italian economy displays the most fragmented industrial structure among the G7 countries (Cisi et al., 2018). Given its structural fragility, the lockdown has brought about a huge number of corporate crises in the country, with the total number of firms active at the end of the first quarter of 2020 falling by 30,000 units compared to the first quarter of the previous year.<sup>212</sup> With respect to the previous quarter, in the period February–April 2020, both the number of employed and unemployed persons considerably decreased (by -226 thousand (-1.0%) and -497 thousand (-20.4%), respectively), while a growth among inactive people aged 15-64 years was registered (+5.2%, or +686 thousand).<sup>213</sup>

Noteworthy, a fraction of the individuals who kept their occupation are employed in firms currently facing a crisis and are therefore either receiving a redundancy fund or a similar form of financial support. While passive labor market measures help individuals survive economically, active measures such as job training services contribute to their professional development. A large number of the unemployed, however, is often reluctant to participate in training programs that could increase their skills and job prospects. Sub-cultural effects from unemployed peers (Focacci and Lam, 2020) and high unemployment benefits that decrease the job search rate (Uusitalo and Verho, 2010; Wanberg et al., 2020) contribute to influencing such decision. Among the numerous studies dealing with the impact of unemployment benefits on the individuals' probability of re-employment, only a few have also focused on the behavioral response to training programs of workers who are displaced or face job loss.

To fill this gap in the extant literature, we provide an analysis on the desirability of three distinct training programs for a group of workers affected by a dual condition of stress; stress caused by the SARS-Cov-2 pandemic and stress caused by the risk of job loss. In particular, it is our aim to understand whether and why they are motivated to participate in training programs that could help them learn new skills for: a similar job, remote working, or self-employment. For instance, less educated individuals may see the opportunity to get involved in job training programs as a means to compensate for their weak educational background. Similarly, individuals at high-ranked positions may disregard participation in training programs because of their unwillingness to accept job changes, even more so when the

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<sup>211</sup>European Commission, 2018.

<sup>212</sup>For more information please refer to: <https://www.ilsole24ore.com/art/coronavirus-gia-chiuse-primo-trimestre-9mila-aziende-piu-2019-ADmwYGM>.

<sup>213</sup>Istat Statistics, 3 June 2020. For more information please refer to: <https://www.istat.it/en/archivio/243676>.

potential new job would represent a demotion. Our analysis is also justified by the argument that when adverse conditions prevail in the labor market, individuals may choose to remain unemployed or displaced rather than accept any kind of job rotation or start a career elsewhere (Carree et al., 2009; Oesch and Baumann, 2015). This phenomenon of ‘employment hysteresis’<sup>214</sup> is driven by various occurrences, which we will explore in this paper. Firstly, we analyze those factors that might induce individuals to be more open to switch between occupations and to take part in training programs. Secondly, we look at how and to what extent those same factors influence the intention of individuals to opt for self-employment as well as for jobs that entail remote working. On the one side, the idea of entrepreneurship as an occupational choice is relevant in a pandemic context that has disrupted the occupational status of many individuals (Vosko, 2010). On the other side, during the pandemic remote working has become the norm for many professions globally. The positive results observed by Bloom et al. (2015) with respect to increased performance and job satisfaction with remote working are an additional reason to investigate the willingness of individuals to accept this kind of jobs. Understanding what factors influence the rate of participation in active labor market programs on behalf of workers on the verge of occupational inactivity provides key policy suggestions to institutions like agencies of labor and local employment offices so as to improve their efficiency (Vassiliev et al., 2006).

We focus on the Province of Rimini, in the Emilia-Romagna region of Italy. The analysis is carried out using survey data from 193 individuals who are currently employed at firms for the most part in a state of corporate crisis. The paper is organized as follows. Section 2 reviews the extant literature with reference to the impact of supporting measures for unemployment or atypical forms of employment in case of corporate crisis. Section 3 explains the empirical strategy used for the analysis, while Section 4 illustrates the data used and the descriptive statistics of interest. The main findings are presented and discussed in Section 5. Section 6 concludes with some policy implications.

## 2. Literature Review

A corporate crisis has negative consequences for a large number of agents, including both the employees and the firm itself. Brown and Matsa (2016), for instance, found that firms who have experienced a corporate crisis have difficulty in attracting high-quality job applicants. CEOs, too, were found to experience a median loss of 7.2 million dollars for corporate bankruptcy (Esen Eckbo et al., 2016), indicating the negative consequences that a corporate crisis can have, irrespective of the role held in

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<sup>214</sup>For professionals such as pilots, identity with the company can be so strong that, while some manage to retrain for new careers, others are unwilling to make a move when they face job loss (Fraher and Gabriel, 2014)



the firm. On the other hand, perceiving an unemployment benefit, a redundancy fund subsidy, or other similar forms of financial support can have negative implications for the employees in question. In this connection, active labor market programs (ALMPs) aimed to increase the employment opportunities for individuals already unemployed or exposed to high risk of becoming unemployed, to improve matching between vacancies and the unemployed, and to enhance the creation of new ventures by the job seekers are becoming increasingly popular (Laffineur et al., 2017), although they are often criticized for their underlying assumption that ‘any work is better than no work’ (Egdell and Beck, 2020) or their ability to worsen precarity due to they ‘altering the institutional constitution of the labour market’ (Greer, 2016).

With respect to job search, according to an analysis by Baker and Fradkin (2017), an increase in potential benefit duration of unemployment insurance is likely to lead to a, even if minor, significant decrease in aggregate job search in the US. A similar finding was illustrated by Guglielminetti et al. (2015). According to their study when the unemployment spell gets longer, individuals tend to accept lower-paid jobs as well as jobs farther away from their original workplace for Austria. Similarly, Uusitalo and Verho (2010) found for Finland that a higher unemployment insurance allowance corresponded to a decrease in the rate of re-employment equal to 20%. In line with this, it has also been observed that unemployed people tend to overestimate the rapidity with which they will find a job to a large extent (Spinnewijn, 2015). While ‘unemployment traps’ may be rare in Nordic countries like Finland (Saarela, 2006), the finding by Wanberg et al. (2020) that receiving unemployment insurance tends to make individuals feel distant from the concept of work and labor market applies to Italy to a large extent. This is line with the idea that financial support is not sufficient for overcoming occupational inactivity, or even fight unemployment per se (Cerciello et al., 2019; Tafuro et al., 2019). Investment in human capital is also required. Graham et al. (2019) found that when a firm files for bankruptcy the employee’s annual earnings fall by 10%. The effect is apparently even stronger for smaller firms. But a loss of earnings is not the only problem here. In line with the hypothesis that education may matter in deciding whether or not to participate in a training program and consistent with transaction cost theory (Williamson, 1981), Graham et al. (2019) stressed that when an employee’s set of skills, or human capital, is specific to the industry in which she works, the earnings loss is evidently more prominent.

As argued by Dostie and Javdani (2020) job training represents one of the most relevant tools for the formation of skills and the accumulation of human capital. For Canada, they found that certain minorities in firms, such as immigrants, are disadvantaged in terms of receiving training irrespective

of their educational levels. In both economic or firm crises, employees need to professionally readjust. When analysing the first oil crisis, Hiroyuki Chuma (2002) observed that outplacement as well as the reduction of job offers to recent graduates were methods used in this period, underlining that an educational background such as a University degree is not always a factor of success for employment. With respect to the idea of earnings loss caused by displacement, Carrington and Fallick (2017) similarly observed that human capital theory is not always consistent. This is in line with the idea that while the knowledge of firm-specific skills may be an obstacle for displaced workers, education is not the only factor to play a role in their professional life. Chadi and Hetschko (2020) found that while life satisfaction increases for the so-called job switchers, a negative effect is observed for workers who experience involuntary mobility. This was also shown by Visser (2019) for the employment shifts observed during the Great Recession. This may explain why Kolvereid (1996) observed that the most popular reason for choosing to become self-employed was the perceived sense of authority and independence in decision making. Similarly, individuals may or may not participate in a job training program for a variety of reasons. The analysis by Nollen and Gaertner (1991), for example, showed that while individuals in factories achieve better results due to training, what appears to influence performance ratings in firms is often the positive attitude towards work of employees. In other words, while educational background certainly influences the perception of job fixity or availability to change, other factors may contribute to the latter.

Particularly, the professional social capital that comes from both colleagues, or peers in the firm, and the trade union of reference may influence the decision of an employee to participate or not in a training program with the prospect of finding a new job or keeping the current one. This supports the argument that social capital affects socioeconomic well-being (Calcagnini and Perugini, 2019). In addition to showing that within the firm, loyalty is among the most relevant qualities for members registered with a union, Panos and Theodossiou (2013) found that ‘unionized workers are more receptive to arrangements involving reciprocal loyalty’ due to personal values (Kirmanoglu and Baslevent, 2012) and the fact that they internalize the norms typical of union behavior. This is in line with the hypothesis that union membership may function as an incentive to take part in training programs for increasing occupational success. With respect to this, the studies by both Heyes and Stuart (1998) and Boheim and Booth (2004) found a positive correlation between workplace union recognition or union involvement and training activities. Conversely, the analysis by Arulampalam and Booth (1998) highlighted that short- or part-time workers not covered by a union collective agreement participated in work-related training with lower probability. The recent findings from an analysis by Kelly (2018) showed that even originally negative feelings towards learning skills such as mathematics in the workplace can become

positive when a trade union is involved. This is mainly due to the collectivist principle in favor of social networks that increases individual motivation to learn. Wotschack (2019) found the same finding for low- skilled workers, observing a positive effect of employee representation on training participation, especially in the manufacturing sector. Waddoups (2014) showed ‘that union members are more likely to receive employer-sponsored training’. A positive relationship between union membership and training participation was found by Green (1993) for small establishments. With respect to the decision to engage in entrepreneurship, membership in any association was observed, too, to be a positive determinant for entry in self-employment (Roman et al., 2013). According to Nicolau and Shane (2010), the willingness of an individual to become self-employed is heritable. Particularly, there can exist genetic effects on entrepreneurship that also influence work values and vocational interests, ultimately leading to occupational change (Nicolau and Shane, 2010). In this regard, the pandemic, too, is likely to have changed the perception of work and self-employment for many individuals by forcing them to work from home. In particular, the current world health and economics crisis may have created ‘new ways and forms of pursuing entrepreneurial opportunities’ (Nambisan, 2017); for instance, through adequate training or the acknowledgment of the role played by social entrepreneurial venture (Austin et al., 2006), kinship (Verver and Koning, 2018), or the combinations of both human and social capital (Linder et al., 2019).<sup>215</sup> This is in line with the analysis by Amoros et al. (2019) according to which state fragility increases the probability of engagement in necessity-driven entrepreneurship.

In general, Verwijmeren and Derwall (2009) proved that it is increasingly important for an employee to be protected by its firm. In particular, they observed that when firms have strong employee relations, the chance of bankruptcy is reduced. However, this type of protection is also insufficient for safeguarding workers against unemployment or other types of job instability. Understandably, individuals do not learn skills at the same pace and because training employees is expensive, firms usually seek skilled individuals able to learn firm-specific human capital (Kalaitzidakis, 2002). This is why it is fundamental for individuals to acquire skills during a corporate crisis or in view of a near and necessary job search. Participation in training programs allows individuals, even if they have an occupation, to acquire new skills, ameliorate existing ones, and prepares them for the prospect of job search necessity. In this regard, the analysis by Haelermans and Borghans (2012) illustrates the positive effect of on-the-job training on the average wage of workers. Per course, the increase experienced was equal to 2.6%. Active labour market programs, including training, are even more relevant in a situation such as the current one, when employees are distressed not only due to the number of economic, social, and psychological implications caused by the SARS-Cov-2 pandemic, but also due to the risk of potential job loss. The reason why we

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<sup>215</sup>As stressed by Hu et al. (2019) social entrepreneurship is becoming increasingly relevant in both theory and practice.

focus on training is that it represents ‘the cornerstone of active labor market policy’ (Crepon and van den Berg, 2016). Vooren et al. (2019) for instance, found that while public employment programs or subsidized work usually entail negative short-term effects, programs such as a job-search assistance or training have a positive impact in both short and long terms. Understandably, the implementation of the right active labor market program at the right moment is crucial in a context of pandemic-based economic crisis; and not just for displaced workers and firms in crisis, but also for employees who face a risk of probable job loss. On this subject, the analysis by Card et al. (2018) illustrates how active labor market program show positive effects in periods of recession. Additionally, larger impacts on job search success are observed for programs that focus on human capital accumulation Card et al. (2018), including qualification measures (Lechner and Wiehler, 2013).

Because the timing of active measures matters (Lechner and Wiehler, 2013), we believe it is relevant to understand how employees react to them in a situation of stress of dual nature; namely, the SARS-Cov-2 pandemic and the risk of potential job loss. This is line with the idea that social protection is essential for guaranteeing individual well-being (Frenda et al., 2021) and that employment offices may improve their efficiency in lowering occupational inactivity (Vassiliev et al., 2006) by actually taking participatory incentives to active labor market programs into consideration. In the next sections we illustrate the data and empirical methods used to conduct our analysis.

### 3. Empirical Strategy

We use the seemingly unrelated regressions (SUR) model proposed by Zellner (1962). Particularly, we study the impact and direction of educational attainments (human capital) and of attitudes towards colleagues and the trade union itself (professional social capital) on the individual’s decision to participate in a training program in view of a similar or different job or of a transition from paid employment to self-employment.

To do so, we exploit a linear regression model that includes four  $f$  regression equations, one for each of our outcomes of interest. Because the error terms related to one individual may be correlated across the four equations, the four linear regressions that could be estimated separately are ‘seemingly related’ (Davidson and MacKinnon, 1993). Using the Maximum Likelihood (ML) estimation technique (Drton and Richardson, 2004) we estimate the effect of human capital and professional social capital on  $TRAIN_i$  and  $EXTRATRIN_i$ , or participation in regular and high-commitment training for a similar

job in another firm, and the effect on participation in training for telematic skills to be acquired in view of  $REMOTWORKING_i$  and self-employment ( $SELFEMPL_i$ ) as in:

$$Y_{ip} = x_{ip}^T \beta_i + \epsilon_{ip}, \quad i = 1, \dots, 4, \quad (50)$$

where  $i$  represents the number of regression equations in the model, equal to 4;  $p$  represents the time period (from 1 to  $P$ , with  $P$  tending to  $\infty$ ); and  $\epsilon_{ip}$  indicates that errors are correlated across equations for a single individual but uncorrelated across individuals.<sup>216</sup>

Each equation has its dependent variable  $y_{ip}$  and a vector  $X_i$  of regressors. Thus, our main equation can be written in vector form as follows:

$$\begin{pmatrix} Y_1 \\ Y_2 \\ Y_3 \\ Y_4 \end{pmatrix} = \begin{pmatrix} X_1 & 0 & \dots & 0 \\ 0 & X_2 & \dots & 0 \\ 0 & \dots & X_3 & 0 \\ 0 & 0 & \dots & X_4 \end{pmatrix} \begin{pmatrix} \beta_1 \\ \beta_2 \\ \beta_3 \\ \beta_4 \end{pmatrix} + \begin{pmatrix} \epsilon_1 \\ \epsilon_2 \\ \epsilon_3 \\ \epsilon_4 \end{pmatrix}$$

or,

$$Y_i = X_i \beta_i + \epsilon_i, \quad i = 1, \dots, 4, \quad (51)$$

where  $Y_i$  is equal to  $Y_1, \dots, Y_4$  corresponding to our outcomes of interest; namely, standard and high-commitment training for a similar job in a different firm, remote working, and self-employment.  $X_i$ , on the other hand, includes both the individual and firm controls  $K_i$  and the main regressors of interest; namely, the existence of displaced colleagues, or  $PEERS_i$ , the employees' membership to the in the Italian General Confederation of Labor (CGIL) trade union, or  $TRADEUN_i$ , and their higher educational attainment, or  $EDUC_i$ .

Particularly,  $K$  is always equal to:

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<sup>216</sup>In particular,  $E(\epsilon_{ip}\epsilon_{ip'}) = \sigma_{pp'}$ , with  $\sigma_{pp'} \neq 0$  and  $p \neq p'$ .

$$\begin{aligned}
K_i = & \beta AGE_i + \theta_f FEMALE_i + \sum_{n=1}^6 \theta_c COUNTRY_{n,i} + \sum_{l=1}^6 \theta_r ROLE_{l,i} + \\
& + \sum_{o=1}^{10} \theta_l LEGAL_{o,i} + \sum_{p=1}^5 \theta_s SUBSIDY_{p,i} + \sum_{s=1}^3 \theta_s SIZE_{s,i} + \sum_{n=c}^9 \xi_c CATEG_i + \\
& + \omega PRIVATE_i + \sum_{p=1}^7 \iota_p PARTIC_{p,i} + \sum_{n=1}^8 \kappa_n NONPARTIC_{n,i}, \quad (52)
\end{aligned}$$

Finally, because we are interested in the openness to change of the employees – which, according to the five-factor model of personality (Digman, 1997) is a trait commonly associated with entrepreneurial behavior (Carbonara et al., 2018) - based on a Likert scale we also define the following outcome of interest.

*CHANGE* represents the *openness to change* of an employee. The variable is equal to 0 if the employee is not willing to participate in any training, variations of training, self-employment, or remote working; to 1, ..., 3 if she is willing to participate or accept at least 1, ..., 3 of the outcomes; and to 4 if the individual is willing to accept any of the alternatives we propose, from training for a new job to self-employment.

Below we illustrate the dependent and independent variables used for our analysis.

### 3.1 Variables

#### 3.1.1 Dependent Variables

Participation in training represents a means to achieve an alternative to the current state of the displaced, or non-displaced, worker; namely, a means to achieve a similar job but somewhere else, or a different job in the same firm or somewhere else. With respect to our main outcomes of interest we distinguish between different types of training.

*TRAIN* is a dummy equal to 1 if the employee agrees to participate in a *training program* that invests in skills and requires commitment on her behalf.

*EXTRATRRAIN* is a dummy equal to 1 if the employee agrees to participate in a *high-commitment training* to learn advanced skills in view of a similar job in a different firm.

Other valid alternatives are training to gain telematic skills for a job that requires remote working or self-employment, for which entrepreneurial skills would be necessary. For this reason, we also investigate the two following outcomes of interest.

$REMOTWORKING_i$  is a dummy equal to 1 if the individual is willing to take part in a training with the aim of carrying out a job based on *remote working*.

$SELFEMPL_i$  is a dummy equal to 1 if the individual is willing to opt for *self-employment*.

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Below we specify our independent variables.

### 3.1.2 Independent Variables

With respect to our independent variables we distinguish between control variables, or individual fixed effects, and main regressors of interest.

The control variables that we take into account in our analysis are the following.

$AGE_i$  represents the *age* of the employee at the time of the survey expressed in years.

$FEMALE_i$  is a dummy that represents the *gender* of the employee equal to 1 when the employee is female.

$COUNTRY_i$  represents the *country of origin* of the individual.  $COUNTRY1-COUNTRY7$  are dummies for Albania, Cameroon, Greece, Italy, Sweden, Ukraine, and Uganda.

$ROLE_i$  indicates the *role* of the individual in the firm.  $ROLE1-ROLE7$  are dummies that describe the type of profession for which the individual is employed; namely, skilled worker/artisan, plant

operator, executive profession, intellectual/scientific profession, non-qualified profession (e.g. trade), qualified profession in the commercial or service activities, and technical role.

$LEGAL_i$  represents the *legal form* of the firm where the employee works.  $LEGAL1-LEGAL11$  are dummies for individual company, partnership, general partnership, limited partnership, limited liability company, shareholder company, partnership limited by shares, cooperative, local government, public body, and economic public body.

$SIZE_i$  distinguishes firms based on their *size*; namely, micro (< 10 employees) , small (< 50 employees), medium (< 250 employees), or large (> 250 employees).

$PRIVATE_i$  is a dummy equal to 1 if the firm is *private* and equal to 0 if the firm where the employee works is public.

$CATEG_i$  the *trade federation* to which the firm belongs.  $CATEG1-CATEG10$  refer to the following federations of the CGIL trade union: FILCAMS (commerce, service, tourism), FILCTEM (chemistry, textile, energy, manufacture), FILLEA (wood), FILT (transport), FIOM (metallurgy), FISAC (insurance, credit), FLAI (agro-industry), FLC (education), FP (public function), and SLC (communication).

$SUBSIDY_i$  indicates the *type of subsidy* that the employee is receiving, such as from a redundancy or layoff fund.  $SUBSIDY1-SUBSIDY6$  refer to other, redundancy fund (CIGO), extraordinary redundancy fund (CIGS), layoff fund (CIG in deroga), and ‘not available’.

$PARTIC_i$  represents the most relevant *reason to participate* in a training program. In particular,  $PARTIC1-PARTIC8$  indicate the reasons why individuals may be more willing to participate in a training program; namely, the encouragement of the trade union, the encouragement of the firm, the possibility to gain new skills, the possibility to find a job different from the current one, the possibility to find a job similar to the current one the possibility of a salary higher than the redundancy fund or any other subsidy, the presence of a professional tutor in the program, or the presence of a generous subsidy for participation.

$NONPARTIC_i$  represents the most relevant *reason not to participate* in a training program.  $NONPARTIC1-NONPARTIC9$  indicate the reasons why individuals may be less willing to participate in a training program; namely, the fear of not acquiring any new skill, the fear of finding a job different from the current one, the fear of finding a job similar to the current one, the absence of colleagues in the program, the absence of encouragement from the trade union, the absence of encouragement from the firm, the absence of a generous subsidy for participation, the obligation of attendance, or the possibility to find a job with a salary lower than the subsidy for displacement or unemployment.

The main regressors of interest refer to the educational background and professional social capital of the employee and are the following.



$EDUC_i$  represents the *higher educational attainment* of the employee.  $EDUC1$ - $EDUC4$  are dummies equal to 1 if the education of the individual corresponds to compulsory school, technical school (or Istituto Tecnico), high school (or Liceo), and University.  $PEERS_i$  is a dummy equal to 1 if the employee admits that having displaced *colleagues*, or being a displaced worker, is an incentive to take part in a training program.  $TRADEUN_i$  is a dummy equal to 1 if the employee admits that being a member of her *trade union* is an incentive to take part in a training program.

In the next sections we provide descriptive statistics for the data used, as well as we illustrate our main findings from a causal analysis.

## 4. Descriptive Statistics

We collect data from 193 individuals employed in firms based in the Province of Rimini, in the region of Emilia-Romagna, and registered with the Italian General Confederation of labor (CGIL), the most ancient trade union in the country.<sup>217</sup> In particular, data were collected between February the 25th and May the 20th of the year 2020, when individuals took part in an online survey on GOOGLE through a collaboration with CGIL itself. Overall, data are proportionally distributed among female and male employees, younger and older individuals, less or more educated employees, and low-ranked and high-ranked positions within firms (Table 41). A certain degree of variety is also observed in terms of the trade federations to which the firms belong and the legal nature of the firms.

Particularly, we observe that 47% of our interviewees are female employees, that individuals are 47.8 years old on average, and that they mostly come from Italy (93.8%). We also note that a good proportion of individuals who perform an executive activity (25.9%), followed by skilled workers (13.5%) and qualified professionals (16.6%). Among the displaced workers, 12.9% is receiving a redundancy fund.

With respect to the type of firm where individuals work, 67.9% work in a private company, of which 31.6% entered an official state of crisis, most of the time due to the SARS-Cov-2 pandemic (92.2%). Because filing for bankruptcy usually requires a large amount of time and because the SARS-Cov-2 pandemic created an unforeseeable condition of impasse, it is very likely that a larger amount of firms

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<sup>217</sup>Through a collaboration with CGIL a potential number of about 6,507 individuals represented by the said trade union could be reached. Because two individuals compiled the survey despite being unemployed, we dropped the observations associated to them.

Table 42: Descriptive Statistics for Individual and Firm Controls

VARIABLE	Mean	SE	VARIABLE	Mean	SE	VARIABLE	Mean	SE
<i>FEMALE</i>	0.47	0.50	<i>SIZE1</i>	0.41	0.49	<i>LEGAL8</i>	0.15	0.36
<i>AGE</i>	47.8	9.33	<i>SIZE2</i>	0.37	0.48	<i>LEGAL9</i>	0.02	0.12
<i>COUNTRY1</i>	0.03	0.17	<i>SIZE3</i>	0.07	0.25	<i>LEGAL10</i>	0.03	0.16
<i>COUNTRY2</i>	0.01	0.07	<i>SIZE4</i>	0.16	0.36	<i>LEGAL11</i>	0.01	0.07
<i>COUNTRY3</i>	0.01	0.07	<i>PRIVATE</i>	0.68	0.47	<i>PARTIC1</i>	0.02	0.14
<i>COUNTRY4</i>	0.94	0.24	<i>CATEG1</i>	0.30	0.46	<i>PARTIC2</i>	0.05	0.21
<i>COUNTRY5</i>	0.01	0.07	<i>CATEG2</i>	0.06	0.23	<i>PARTIC3</i>	0.62	0.49
<i>COUNTRY6</i>	0.01	0.10	<i>CATEG3</i>	0.06	0.23	<i>PARTIC4</i>	0.11	0.32
<i>COUNTRY7</i>	0.01	0.07	<i>CATEG4</i>	0.06	0.23	<i>PARTIC5</i>	0.07	0.25
<i>ROLE1</i>	0.19	0.39	<i>CATEG5</i>	0.20	0.40	<i>PARTIC6</i>	0.06	0.24
<i>ROLE2</i>	0.09	0.28	<i>CATEG6</i>	0.02	0.14	<i>PARTIC7</i>	0.02	0.14
<i>ROLE3</i>	0.26	0.44	<i>CATEG7</i>	0.01	0.10	<i>PARTIC8</i>	0.05	0.22
<i>ROLE4</i>	0.13	0.34	<i>CATEG8</i>	0.09	0.29	<i>NONPARTIC1</i>	0.28	0.45
<i>ROLE5</i>	0.04	0.20	<i>CATEG9</i>	0.18	0.39	<i>NONPARTIC2</i>	0.08	0.27
<i>ROLE6</i>	0.17	0.37	<i>CATEG10</i>	0.02	0.14	<i>NONPARTIC3</i>	0.11	0.31
<i>ROLE7</i>	0.12	0.33	<i>LEGAL1</i>	0.01	0.07	<i>NONPARTIC4</i>	0.04	0.20
<i>SUBSIDY1</i>	0.09	0.29	<i>LEGAL2</i>	0.12	0.32	<i>NONPARTIC5</i>	0.02	0.14
<i>SUBSIDY2</i>	0.13	0.34	<i>LEGAL3</i>	0.16	0.37	<i>NONPARTIC6</i>	0.10	0.30
<i>SUBSIDY3</i>	0.05	0.22	<i>LEGAL4</i>	0.03	0.16	<i>NONPARTIC7</i>	0.07	0.26
<i>SUBSIDY4</i>	0.13	0.34	<i>LEGAL5</i>	0.01	0.10	<i>NONPARTIC8</i>	0.13	0.34
<i>SUBSIDY5</i>	0.55	0.50	<i>LEGAL6</i>	0.12	0.32	<i>NONPARTIC9</i>	0.16	0.37
<i>SUBSIDY6</i>	0.04	0.19	<i>LEGAL7</i>	0.36	0.48			

*Notes:* The table shows descriptive statistics for the individual and firm controls relative to employees registered at the CGIL trade union and working in firms located in the Province of Rimini, in the Italian Region of Emilia-Romagna. Observations are equal to 193, except for two individuals who did not declare their age. *COUNTRY1-COUNTRY7* refer to dummies for country of origin. *SUBSIDY1-SUBSIDY6* refer to the type of subsidy received. *ROLE1-ROLE7* indicate the type of profession for which the individual is employed. *CRISIS* indicates whether the firm is or is not in crisis, while *COVID19* is equal to 1 if the firm entered a state of corporate crisis during the SARS-Cov-2 pandemic. *CATEG1-CATEG10* refers to the industrial federation to which the firm belongs. *PARTIC1-PARTIC8* indicate the reasons why individuals may be more willing to participate to a training program. *NONPARTIC1-NONPARTIC9* indicate the reasons why individuals may be less willing to participate to a training program. *ROLE1-ROLE7* are dummies that describe the type of profession for which the individual is employed; namely, skilled worker/artisan, plant operator, executive profession, intellectual/scientific profession, non-qualified profession (e.g. trade), qualified profession in the commercial or service activities, and technical role. *LEGAL<sub>i</sub>* represents the legal form of the firm. *LEGAL1-LEGAL11* are dummies for individual company, partnership, general partnership, limited partnership, limited liability company, shareholder company, partnership limited by shares, cooperative, local government, public body, and economic public body. *SIZE<sub>i</sub>* distinguishes firms based on their size and *PRIVATE<sub>i</sub>* is a dummy equal to 1 if the firm is private.

compared to what has been notified in the survey is currently in a state of crisis. Most interestingly, we observe a variety of industrial categories among firms. 30.1% of the sample is made of individuals employed at firms registered with FILCAMS-CGIL, or the trade union category that represents workers in the commerce, service, and tourism sectors. 20.2% of the sample, on the other hand, is made of individuals employed at firms registered with FIOM, which represents workers in the metallurgic sector. 18.1% of the individuals work in a firm represented by FP, which is the trade union category for workers who have a public function. Individuals mostly work in big- (40.9%) or medium-sized (36.7%) firms. With regard to the legal nature of the firm, most of the workers are employed in a joint-stock company (36.3%) or a cooperative society (16%).

Overall, the sample is representative of the individuals registered with the CGIL trade union. A report by CGIL dated to 2018 illustrates that among its 763,654 members, 54% are women and only 11.6% of the total are foreigners. With respect to the trade federations, the report also confirms the predominance of FILCAMS-CGIL (commerce, service, tourism) and FIOM-CGIL (metallurgy) as the most significant trade federations.

We also observe the reasons that make participation in a training program more or less attractive. First, we find that the most frequent reason for joining a training program is to gain more skills (62.2%), followed by the possibility to find a different job (11.4%). Second, we find that the most frequent reason for not joining a training program is the fear of not acquiring any new skill (28.5%), followed by the possibility to be offered a job with a salary lower than the redundancy fund, or any other subsidy (16.1%), and by the compulsory attendance of the training program (13.5%).

Concerning the main regressors of interest, we observe that 12.4%, 36.3%, 14%, and 37.3% of the individuals have a degree from, respectively, compulsory school, technical school, high school, and University (Table 42). We also note that membership in the CGIL trade union represents an incentive to participate in a training program for 79.3% of the employees. Similarly, having colleagues who are currently displaced workers represents an incentive to participate in a training program for 86% of the employees. This is line with the hypothesis that, in addition to the educational background of an individual, an employee may be affected by both her colleagues and the trade union when making the decision to take part or not in a training program.

As regards the outcomes of interest, we note that 46% of the employees would take part in a training program, while 54% would be prepared to participate in a higher-commitment training (Table

Table 43: Descriptive Statistics for Main Regressors of Interest

VARIABLE	Mean	SE
<i>EDUC1 = Compulsory School</i>	0.12	0.33
<i>EDUC2 = Technical School (ITC)</i>	0.36	0.48
<i>EDUC3 = High School (Liceo)</i>	0.14	0.35
<i>EDUC4 = University</i>	0.37	0.48
<i>PEERS</i>	0.86	0.35
<i>TRADEUN</i>	0.79	0.41

*Notes:* The table shows descriptive statistics for the main regressors of interest used in a seemingly unrelated regressions model for individuals registered at the CGIL trade union and working in firms located in the Province of Rimini, in the Italian Region of Emilia-Romagna. *EDUC1-EDUC4* indicate the educational degree of the employee. *TRADEUN* is a dummy equal to 1 if the individual admits that belonging to the CGIL trade union makes her more willing to participate in a training program. *PEERS* is a dummy equal to 1 if the individual admits that having displaced colleagues makes her more willing to participate in a training program.

43). Finally, we observe that 66% of the employees would be willing to start a job entailing remote working and that only 24% would opt for self-employment.

We then look at how the various options –namely, to participate either in a training program or in a high-commitment training program, enter into remote working or into self-employment– change according to the educational and socio-professional background of the individual (Table 43). Findings show that only 13.6% of individuals with a compulsory-school degree would participate in training compared to 39.8% of individuals that graduated from University. A similar pattern is found for high-commitment training. In this case, while the proportion of employees with a compulsory-school and a high-school would participate, respectively, 10.6% and 15.4% of the time, individuals who have a technical-school or University degree would participate, respectively, 37.5% and 36.5% of the time. Evidently, those who have a tertiary educational background, as well as those who have a secondary but technical educational background, are more interested in participating in training programs. Individuals with a technical degree may be willing to participate to acquire non-technical skills, while the opposite could be true for individuals who graduated from University.

We also observe that remote working represents a valid possibility for individuals with a technical-school (33.6%) or University degree (43%), but not for individuals with a compulsory-school degree (7.8%), probably because their job cannot be done ‘from home’. Self-employment, on the other hand, is a possibility mostly considered by individuals with a University degree (37%). Self-selection of University graduates into entrepreneurship has positive implications, since education has been shown to have an important role in increasing the likelihood of survival of new firms and in improving post-entry economic performance (Santarelli and Vivarelli, 2007).

Finally, in regards to the professional social capital, we note that the individuals who are positively encouraged to participate in a training program from belonging to their trade union or from being surrounded by colleagues who have been displaced, are also those who are mostly willing to participate in training, opt for remote working, or signal their intention to enter into self-employment. Among those who admitted that being a member of the CGIL trade union represented a positive incentive to participate in a training program, 90.9% answered they would participate in a training program and even in a high-commitment program (91.4%). A similar pattern is observed for those who conceived having displaced as a positive incentive to participate in a training program. These individuals were likely to participate in training and high-commitment training 96.6% and 93.3% of the time, respectively. These results are in line with our findings from a causal analysis illustrated in the next section.

Table 44: Descriptive Statistics for Outcomes of Interest

VARIABLE	Mean	SE	<i>if</i>	<i>EDUC1</i> = 1	<i>EDUC2</i> = 1	<i>EDUC3</i> = 1	<i>EDUC4</i> = 1	<i>PEERS</i> = 1	<i>TRADEUN</i> = 1
<i>TRAIN</i>	0.46	0.50		13.6	29.6	17.1	39.8	96.6	90.9
<i>EXTRATRAIN</i>	0.54	0.50		10.6	37.5	15.4	36.5	93.3	91.4
<i>REMOTEWORING</i>	0.66	0.47		7.8	33.6	15.6	43	95.3	89.8
<i>SELFEMPL</i>	0.24	0.43		15.2	23.9	23.9	37	93.5	84.8

*Notes:* The table shows descriptive statistics for the outcomes of interest relative to the individuals registered at the CGIL trade union and working in firms located in the Province of Rimini, in the Italian Region of Emilia-Romagna. Observations are equal to 193 for all variables. *TRAIN* indicates participation in a training program; *EXTRATRAIN* indicates participation in a high-commitment training program; *REMOTEWORING* indicates willingness to start a job that entails remote working; and finally, *SELFEMPL* indicates willingness to become self-employed.

## 5. Results & Discussion

Results from a seemingly unrelated regressions (SUR) model with respect to the willingness of displaced workers and regular employees to participate in a training program for a similar or different job as well as to enter into self-employment are illustrated below. In particular, we present Maximum Likelihood estimates on the desirability of the different training programs for a group of workers affected by a dual condition of stress due to the SARS-Cov-2 pandemic and the risk of job loss.

### 5.1 Training for a Similar Job

As shown in Table 44 we observe that for individuals who are positively influenced by their displaced colleagues and their membership to the CGIL trade union there is an increase in the likelihood of participation in standard training for a similar job of, respectively, 29.6 and 24.2 percentage points, significant at 5% level. When including controls, we note that for individuals with a compulsory-school degree there is a similar decrease of 32.6 percentage points, compared to employees with a University degree. Table 44 also shows the probability of employees to participate or not in a high-commitment training that offers individuals additional skills. Here too, we observe that the professional social capital is significantly relevant. For employees who positively value their membership to the trade union we note an increase in the probability of participating in *EXTRATRRAIN* equal to 33.8 percentage points, significant at 1%.

These results could be explained by the fact that individuals are influenced by their peers also in the corporate context, so that they are more likely to take a certain action if other colleagues have already done so or will do so (Fangyun Tan and Natissine, 2019). Additionally, individuals may perceive the existence of many displaced colleagues as a wake-up call. In particular, they acknowledge the unfortunate condition of their colleagues, who are supported by a redundancy fund or unemployment benefit, and desire to act for that not to happen to themselves. Participating in a training program could therefore contribute to decreasing the risk of remaining or becoming displaced as well. With respect to the positive impact of trade union membership findings may be the result of the protective and empowering effect that such an institution has on its registered members. Belonging to an institution such as the CGIL, which by definition represents them, may lead individuals to believe that training is a safe choice because, independent of its outcome, CGIL will always ‘have their back’. Moreover, belonging to a trade union may also have another effect on its members; namely, that it expects its members to take actions of which the trade union and the community would be proud of, including

learning new skills to either keep a job or find a new one. This is in line with Kelly (2018). With respect to the instability caused by the current pandemic, these results are also in accordance with the findings by Bryson et al. (2013), who argued that belonging to a unionized workplace significantly decreases job-related anxiety in the case of organizational change.

## 5.2 Training for Remote Working

With regards to the participation in a training program that would help acquire telematic skills for a job possibly requiring remote working, we observe a decrease in the likelihood of choosing training for *REMOTWORKING* for individuals with a compulsory-school and technical-school equal to 30 and 17.1 percentage points, significant at 1% and 5% level, compared to their colleagues who graduated from University (Table 44). This result is not surprising as certain individuals may be used to doing a type of job that is necessarily ‘physical’ and therefore struggle to picture themselves either doing their tasks from home or changing their profession completely. This is in line with the employment hysteresis hypothesis, which is more likely to be valid for individuals with more specific skills (Kalaitzidakis, 2002). On the contrary, individuals with tertiary education may be able to a larger extent to change not only firm, but also job and tasks as their education allows for a more flexible professional life. This is also in line with the finding by Hausermann et al. (2015) that highly-skilled workers are more sensitive to labour market risk and, therefore, more open to such alternatives to overcome it.

Most interestingly, acknowledgement of the positive influence on training participation that membership in the CGIL trade union has, as well as acknowledgement of the positive influence on training participation associated to colleagues being displaced, increases the likelihood to participate in training for remote working by, respectively, 25.2 and 40.7 percentage points, significant at 5% and 1% level (Table 44). Belonging to an organization such as CGIL may give individuals the necessary encouragement to participate in activities even distant from their original mindset, including remote working. This is line with the idea that a trade union may function as a shield, which makes going from a perfectly regular job to remote working a valid possibility.

## 5.3 Self-Employment

In line with Roman et al. (2013), we find a positive effect from acknowledging displaced colleagues, with an increase of 42.4 percentage points, significant at 1% level, on the the likelihood to opt for



Table 45: Seemingly Unrelated Regressions Analysis for Participation in Training

Y	TRAIN	EXTRATRAN	REMOTEWORKING	SELFEMPL
TRADEUN	0.242** (0.093)	0.112 (0.091)	0.202** (0.088)	0.164* (0.86)
PEERS	0.296** (0.107)	0.338*** (0.094)	0.252** (0.082)	0.052 (0.083)
EDUC1	0.063 (0.112)	0.162 (0.108)	0.407*** (0.095)	0.137 (0.095)
EDUC2	-0.326** (0.134)	0.006 (0.113)	-0.212** (0.126)	0.064 (0.100)
EDUC3	-0.132* (0.078)	-0.271** (0.087)	-0.171** (0.069)	-0.125 (0.070)
CONS	0.089 (0.105)	0.015 (0.106)	0.008 (0.093)	-0.085 (0.097)
	-0.099 (0.037)	-0.036 (0.113)	0.075 (0.213)	0.044 (0.077)
	0.105 (0.105)	1.400** (0.106)	1.031 (0.661)	0.999 (0.649)
Controls	No 13.2	No 11.7	No 24.6	No 5.7
R <sup>2</sup>	Yes 48.4	Yes 51.6	Yes 49.2	Yes 39.5
Observations	193	193	193	193

Notes: The table shows the results from a seemingly unrelated regressions (SUR) analysis where the outcome variables are *TRAIN*, a dummy variable equal to 1 if the worker is willing to participate in a training program with the prospect of new skills; *EXTRATRAN*, a dummy variable equal to 1 if the worker is willing to participate in a high-commitment training program with the prospect of new skills; *REMOTEWORKING*, a dummy variable equal to 1 if the displaced worker is willing to participate in a training program with the prospect of a new job that requires remote working; and *SELFEMPL*, a dummy variable equal to 1 if the displaced worker is willing to participate in a training program with the prospect of becoming self-employed. Data refer to workers in the Province of Rimini, in the Italian region of Emilia-Romagna registered at the CGIL trade union. Standard errors are in parentheses. Observations are equal to 193. When adding controls these are equal to 191 due to two participants not declaring their age.

Significance at 1, 5, 10% levels correspond, respectively, to \*\*\*, \*\*, and \*.

self-employment derived. Interestingly, we also find a much larger increase of such an effect for individuals holding a high-school degree, or *Liceo*, (17.8%), than for those with a University degree (Table 44).

This could be explained by the fact that individuals with a University degree are aware of their educational background and skills and, therefore, know that they will be offered a job contract in some way. On the other hand, individuals with a compulsory-school degree know they have not enough competencies to become entrepreneurs. The same could be said about employees with a technical-degree. While they have a number of valuable skills, these remain purely technical. Conversely, individuals with a high-school degree cannot be completely certain that they will in fact be offered a job or that they will be able to keep their current one and, thus, may opt for self-employment due to the lower value of their occupational alternatives (Poschke, 2013) and the risk of ‘atypical’ work (Jansen, 2019). At the same time, the general education they received allows them to develop entrepreneurial skills more easily than colleagues with a technical background. In this regard, Carbonara et al. (2020) found that individuals who have high entrepreneurial skills, proxied also by education, have a tendency to experience an occupational transition to habitual entrepreneurship. What is certain, however, is that the constraint experienced by employees in firms is not only financial in terms of the wage received, but also educational. Because it is easier for entrepreneurs to control their human capital assets (Douhan and van Praag, 2009), many individuals may opt for self-employment to put their skills at better use.

## 5.4 Robustness Checks

As a robustness check we estimate a Tobit model, taking we take into account the openness of the employee to change overall, or the degree to which she is willing to take part in training for different types of jobs, remote working or self-employment. The influence of the educational background and the professional social capital is estimated on the (left-) censored outcome of interest *CHANGE*, which represents the *openness to change* of an employee. The variable *CHANGE* is equal to 0 if the employee is not willing to participate in any training, variations of training, self-employment, or remote working; to 1, ..., 4 if she is willing to participate or accept at least 1, ..., 3 of the outcomes; and to 4 if the individual is willing to accept any of the alternatives we propose, from training for a new job to self-employment. The following equation is estimated using a Tobit model:

$$CHANGE_i = \alpha + \sum_{r=1}^3 \theta_s EDUC_{r,i} + \chi TRADEUN_i + \psi PEERS_i + K_i \beta + \epsilon_i, \quad (53)$$

with

$$\begin{aligned} K_i = & \beta AGE_i + \theta_f FEMALE_i + \sum_{n=1}^6 \theta_c COUNTRY_{n,i} + \sum_{l=1}^6 \theta_r ROLE_{l,i} + \\ & + \sum_{o=1}^{10} \theta_l LEGAL_{o,i} + \sum_{p=1}^5 \theta_s SUBSIDY_{p,i} + \sum_{s=1}^3 \theta_s SIZE_{s,i} + \sum_{n=c}^9 \xi_c CATEG_i + \\ & + \omega PRIVATE_i + \sum_{p=1}^7 \iota_p PARTIC_{p,i} + \sum_{n=1}^8 \kappa_n NONPARTIC_{n,i}, \quad (54) \end{aligned}$$

When we look at the extent to which individuals are open to *CHANGE*, we are interested in understanding the general desirability of the different training programs for a group of workers affected by risk of job loss. In particular, we observe that the professional social effect is still present (Table 45). Results show that for individuals who claim that being part of their trade union is an incentive to participate in a training program, *CHANGE* is expected to increase by 1.397, significant at 1%. This in contrast with the negative effect in labor turnover rates found by Elias (1994) for union members. Similarly, for those individuals who claim that having displaced colleagues is an additional reason to participate in training, *CHANGE* is expected to increase by 1.644, significant at 1%. Results remain significant once we include controls.

Table 46: Tobit Analysis for Willingness to Change

DEPENDENT VARIABLE	CHANGE	CHANGE
<i>TRADEUN</i>	1.397*** (0.398)	0.663* (0.354)
<i>PEERS</i>	1.644*** (0.470)	1.896*** (0.408)
<i>EDUC1</i>	-0.359 (0.468)	-1.555** (0.532)
<i>EDUC2</i>	-0.662** (0.323)	-0.845** (0.335)
<i>EDUC3</i>	0.553 (0.433)	-0.058 (0.390)
<i>CONS</i>	-0.558 (0.474)	3.954 (2.544)
<i>Controls</i>	No	Yes
<i>PseudoR<sup>2</sup></i>	6.7	25.8
<i>Observations</i>	193	191

*Notes:* The table shows the results from a tobit analysis where the outcome variable is *CHANGE*, an ordinal variable equal to 0 if the individual is not willing to participate in training, training for a lower-paid job, high-commitment training, self-employment, remote working; 1 if she is willing to opt for at least one of these alternatives; 2 if she is willing to opt for at least two of these alternatives; 3 if she is willing to opt for at least three of these alternatives; 4 if she is willing to opt for all of these alternatives. Data refer to displaced workers in the Province of Rimini, in the Italian region of Emilia-Romagna registered at the CGIL trade union. Standard errors are in parentheses. Observations are equal to 193. When adding controls these are equal to 191 due to two participants not declaring their age. Significance at 1, 5, 10% levels correspond, respectively, to \*\*\*, \*\*, and \*.

## 6. Conclusions

In Italy, the first wave of the SARS-Cov-2 pandemic has caused several corporate crises and exposed employees to a severe condition of stress. In this article we explored the behavioral response of employees with respect to active labour market policies that might prove helpful to reduce stress in the workplace and enhance the chances to get a new job. Because investment in human capital represents a valid means to exit a condition of occupational pressure, we examined how individuals respond to the possibility of undertaking training in view of a possible job search urgency. In particular, we challenged the employment hysteresis hypothesis of employees' preference for not changing their occupational status by looking at how human capital as well as professional social capital influence their decision to attend training programs for a similar job, remote working, and self-employment.

For this purpose, we conducted online interviews with a sample of employees registered with the CGIL trade union in the Province of Rimini, in the Emilia-Romagna region, and studied the impact of the current pandemic and the risk of job loss on their employment choices. Findings from estimation of a seemingly unrelated regressions (SUR) model show that being an employee who positively values membership in her trade union increases the probability to participate in training for a similar job or remote working by 24.2 and 25.2 percentage points, respectively. In other words, the situation of dual stress experienced by employees tends to be rejected in a stronger sense of community. The effect is even stronger for employees prone to professional social capital, namely those who acknowledge the presence of displaced colleagues as an incentive to participate in training. For these individuals there is an increase equal to, respectively, 29.6 and 40.7 percentage points. In addition to the effect from professional social capital, we also observe an effect from educational achievements represented by the fact that employees with a lower educational background are less likely to opt for remote working (with a decrease of 30 percentage points). In turn, the option of self-employment does not appear to be significantly influenced by either human capital or professional social capital. Results are confirmed when we conduct the same analysis on the general desirability to change of the employees, indicating that while higher educational background plays a relevant role, the sense of community and identity in the firm is a significantly stronger incentive to accept a change of occupational condition.

Our study has four main limitations. First, the number of respondents is rather small. Second, the Province of Rimini, given its industrial structure and labour market characteristics might not be representative of the whole country. Third, although the study employs self-reported data collected using an online survey, one cannot exclude that interviewees could have over-reported their level of

confidence on ALMPs. Fourth, since the interviews were conducted in the early phase of the pandemic, one cannot exclude that perception about desirability of ALMPs has changed over time. Thus, it would be important that results are replicated in relation to a larger sample of workers, possibly living in different areas of the country, and by conducting direct interviews with the participants.

## CHAPTER VIII

# Let Active Labour Market Policies Do Their Job

In the existing literature we can find both support for and opposition to a policy-making approach that recurs to active labour market policies to fight unemployment and occupational inactivity. Depending on the type of programme implemented, the target of the measure, the financial resources and expertise of a country, and the cultural institutions present therein, results can be very different. This thesis tried to shed light on the potential causes of occupational inactivity by looking at the evolution of the active labour market approach in Italy and its implications for the overall population, as well as for the more vulnerable segments of it. It did so by recurring to both conventional and unconventional methods typical of the law-and-economics discipline, including econometric methods, experimental techniques, and legal and historical text analysis.

After illustrating the evolution of Italian labour law towards an active labour market approach in Chapter II, Chapter III analysed the effect of the implementation of the European Union (EU) Youth Guarantee aimed at overcoming youth unemployment and inactivity in the labour market (Rec. 120/01, 22/04/2013). The results observed for the Northern Italian area of Trento showed that the popular training programme *programma A*, which combines general formation experience with practical on-the-job training at local firms (C(2014) 4969, 11/07/2014), was successful for participants. In particular, it provided them with a significant and positive occupational advantage compared to similar non-eligible individuals. Among the 16,296 unemployed individuals registered at the Agency of Labour, those who participated in the programme were 7.4 and 4.4 percentage points more likely to both become employed and be offered an open-ended, and thus stable, contract, and this independent of their initial

profiling. The chapter's aim was to highlight the possibility for Italy to overcome a tradition of selective *flex-insecurity* in favour of a more sensible integration of the youths into the labour market.

Chapter IV and Chapter V, on the other hand, investigated non participation in training programmes. Particularly, they advanced the argument that the failure of certain outreach strategies to include other occupationally inactive individuals in training measures such as the Youth Guarantee itself may lay in the influence of social expectations on such individuals. The role of subcultures and the importance of peers in the life of certain disadvantaged individuals are likely to make people avoid joining the workforce or quit it instead. For instance, individuals could give up participation in training programmes that could bring them closer to another social group; namely, that of the working people. In addition to providing a theoretical model in Chapter VI, the experiment designed for 300 individuals and illustrated in Chapter V showed that negative expectations from the peers cause unemployed potential participants in a between- and within-subjects experiment to be, respectively, 42 and 33 percentage points less likely to take part in job training. These results aim to invite policy makers to tackle the issue of sociological integration, in addition to that of economic insecurity, when designing occupational reforms and training programmes.

Chapter VI analysed the correlation between the rise of active labour market programmes in Italian labour law and occupational outcomes such as the national employment and unemployment rates and the number of NEETs (young individuals not in employment, not in education, and not in training). Findings seem to confirm that, over time, the Europeanisation of reforms along with a more active approach to issues typical of the Italian labour market led the country to support the transition from school to work of the younger individuals; offer a wider range of training programmes depending on individual needs; and reduce occupational inactivity. Higher levels of training and measures focused on human capital, for instance, were negatively correlated to the number of inactive NEETs in the country (-0.754) and positively correlated to the employment rate (0.666). Correlation coefficients, however, indicate that more intervention is needed to narrow the gap between the North and the South of Italy, as well as the range of opportunities between the older and younger segments of the population. This is also illustrated in Chapter II.

Finally, Chapter VII investigated the role of active labour market policy in challenging the hypothesis of employment hysteresis during the SARS-Cov-2 pandemic. In particular, it studied the desirability of three different training programmes for individuals under a dual condition of stress; namely, the pandemic and the risk of job loss. Focused on the behaviour of 193 workers employed in firms located in the Province of Rimini, in the Norther Italian region of Emilia-Romagna, the analysis showed that



both the educational background and the professional community affect employees' decision to take part in training programmes. Findings from estimation of a seemingly unrelated regressions (SUR) model suggest that being an employee who positively values membership in her trade union and firm identity through colleagues increases the probability to participate in training for a similar job or remote working by 24.2 and 25.2 percentage points, respectively. In turn, the option of self-employment does not appear to be significantly influenced by either human capital or professional social capital. While higher educational background plays a relevant role, this chapter shows that the sense of community and identity in the firm is a significantly stronger incentive to accept a change of occupational condition.

Several policy implications can be drawn from this thesis. First, the more globalised and flexible nature of the labour markets requires countries like Italy to abandon their assistance-based approach against unemployment in favour of human capital investment. Indeed, programmes such as the EU Youth Guarantee (YG) contribute to helping NEETs exit from their condition of complete inactivity. Despite training measures being the most expensive type of active labour market policy, initiatives similar to the YG that combine theory (general training and orientation) and practice (on-the-job training in firms) should continue to be used to guarantee employability, in addition to employment, to the youths. Experts at the European Union institutions should collaborate more significantly with bodies such as the European Committee of the Regions so as to encourage experience-sharing mechanisms from areas, like the Province of Trento for Italy, where the active approach to unemployment has proven to work. Second, because the regional disparity in terms of promotion of active measures is still prominent in Italy, it is recommended for the Ministry of Labour to collaborate with local institutions, including Agencies of Labour and trade unions to tackle employment issues specific to their area. In this respect, while national legislation is progressively converging towards an active labour market approach, further investment should address the questions of professional education, healthy flexibility, and administrative subsidiarity in the South of Italy. On this subject, text analysis is a valid instrument to distinguish between institutional path- and context-dependence at different levels of aggregation.

Third, while investment in ALMP remains crucial to overcome the marginalisation of the more vulnerable areas or segments of the population, policy makers should also focus on why so many outreach strategies fail to attract the targeted individuals. In this regard, this thesis suggests that greater attention should be granted to the social aspect of individuals' life. Indeed, in addition to a job or financial stability, unemployed individuals also seek social inclusion. Some of them may deviate from

the more popular social norm of participating and committing to an active labour market programme (to eventually work) because they need to conform to their sub-cultural group of reference. For instance, policy makers need to account for the peers' short-term feedback that young unemployed people favour over the long-term reward they would get from complying to the government's recommendation of attending training programmes. In addition for training programmes to be flexible in terms of length and attendance so as to increase compliance, my findings call for a stronger role of social legislation in managing active labour market policies. This is particularly true for countries where, due to culture, social links are central to the development of a professional identity. Fourth, professional social capital should not be underestimated when designing active labour market programmes in times of economic and health crisis. Employment hysteresis, or the desire not to change occupation, is particularly strong in countries like Italy, where the economy is mainly based on small- and medium-sized firms. Collecting data in firms at the verge of collapse due to the SARS-Cov-2 pandemic, results suggest that the acknowledgement by employees of displaced colleagues and trade union membership is bigger an incentive to take part in training compared to their educational background. This is true for participation in both standard and high-commitment training for a job in a different firm or remote working. Thus, policy makers are recommended to account for the strong incentive mechanism represented by the sense of community and identity in a firm when encouraging a change of occupational status.

In conclusion, this thesis focused on active labour market policies as a means for occupationally individuals to change both their economic and social states. In particular, it is shown that some training programmes, such as the Youth Guarantee, work when implemented according to the European Union guidelines and when based on both theoretical and practical training experience. This suggests that a typically 'active' Europeanisation of labour market policies can be effective in fighting unemployment within traditionally assistance- and welfare-based countries like Italy. Besides inviting policy makers to continue investing in active labour market policies focused on human capital investment, this thesis also identifies a new method of addressing unemployed individual's non-participation in ALMP training programmes by developing and testing a theoretical model based on professional and social identity constraints. In particular, it elucidates the importance of accounting for the sociological matters that affect potential participants when designing training programmes. This is particularly true with regards to extreme situations of employment hysteresis such as the ones registered in Italian firms during the current SARS-Cov-2 pandemic. Finally, it is shown that institutional path-dependence with respect to ALMP exists and can be identified through an empirical analysis of legal texts. A historical analysis of the legal texts in support of active labour market policy further suggests that an active labour

market policy approach can significantly help to overcome flex-insecurity in Italy, as well as the NEET emergency.

With this thesis, I tried to shed new light on the economic, institutional, and social implications of an active labour market policy approach by showing that measures to fight occupational inactivity can be effective only insofar as we consider their framing; namely, their target, their institutional framework, and their societal role. Contrary to passive measures, such as unemployment benefits and basic income, active labour market programmes require active participation on behalf of those in need of occupational assistance. The Covid-19 pandemic has shown, on the one hand, that human relations are crucial to individual well-being; and on the other hand, that employability is far more relevant than employment per se. From this thesis, it can be drawn that an active labour market policy approach is able to guarantee both. First, once social legislation is accounted for, participation in active labour market programmes is able to transform marginalised and isolated forms of social identity into more integrated and economically sound professional identities. Second, by being based on human capital investment, active labour market programmes provide individuals with marketable and flexible skills that make it possible to overcome the employment hysteresis hypothesis according to which the professional life of an individual starts and ends in the same firm or industry and is limited to the same set of tasks.

The only way in which individuals who are unemployed can benefit from their country's welfare system is if such system becomes generative and, thus, requires their direct involvement. Policy makers and legislators who promote an active labour market policy approach contribute to transforming occupationally inactive individuals from mere passive consumers of assistance benefits to co-producers of their professional life, social well-being, and future.

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# Riassunto

Nel 2019, il tasso di disoccupazione osservato nell'Unione Europea è stato del 7.4%, mentre il numero di giovani che non sono impegnati in istruzione, occupazione o formazione (NEET) rappresentava il 12.5% della popolazione totale. Con oltre 2 milioni di persone inattive sul lavoro di età compresa tra 15 e 29 anni, l'Italia è al primo posto nell'UE. È probabile che l'attuale pandemia rafforzi tali tendenze, soprattutto nei confronti di donne e giovani, fintanto che l'approccio alla lotta alla disoccupazione non cambia. Lo scopo di questa tesi è di contribuire alla letteratura esistente facendo luce sulle implicazioni dell'utilizzo di misure di politica attiva del mercato del lavoro (PAL) per superare l'instabilità professionale.

Contrariamente alle misure passive di sostegno economico, le politiche attive del mercato del lavoro hanno lo scopo di riqualificare le persone e richiedono la loro partecipazione 'attiva' per facilitare il reinserimento nel mercato del lavoro. In questa tesi, indago su come le PAL non rimangano un mero messaggio politico, ma diventino qualcosa che aiuta in modo significativo gli individui e avvantaggia la società. In particolare, la tesi cerca di aumentare la comprensione degli effetti economici e sociali del diritto riflessi ne: *i*) la promozione di riforme mirate, *ii*) l'evoluzione degli strumenti del mercato del lavoro promossi o ignorati dai legislatori, e *iii*) l'esistenza di un'identità nel mercato del lavoro che ha una dinamica sociale.

Attraverso un esame della situazione in Italia, diventa chiaro che un approccio esclusivamente economico o puramente legale non fornisce una visione completa della complessità della disoccupazione e delle pratiche attive del mercato del lavoro volte a superarla (Capitolo 1). Dopo aver dimostrato ciò, mostro che la convergenza del diritto del lavoro italiano verso un approccio di PAL per combattere l'inattività professionale è solo uno sviluppo recente (Capitolo 2). Nel Capitolo 3, studio l'effetto della partecipazione a una politica attiva del mercato del lavoro europea volta a combattere l'inattività giovanile; vale a dire, la recente Garanzia Giovani. Questo saggio econometrico si chiede se una politica tipicamente europea, attiva, e mirata ai giovani possa essere attuata con successo in un paese come l'Italia, tradizionalmente incentrato su misure passive e assistenza per il segmento più anziano della forza lavoro. Le mie indagini sul Nord Italia mostrano che la flessinsicurezza a spese dei giovani può essere parzialmente superata, in quanto è più probabile che ai partecipanti della Garanzia Giovani venga offerto un impiego a lungo termine. Per evidenziare il ruolo del contesto istituzionale rispetto ai



risultati del mercato del lavoro, nel Capitolo 4, utilizzo l'analisi del testo per illustrare come l'emergere progressivo di un approccio PAL nella legge corrisponda, nel tempo, al crescente successo dei responsabili politici nella lotta alla disoccupazione e l'emergenza NEET.<sup>218</sup> Nel Capitolo 5, sviluppo un modello teorico che indaga sul motivo per il quale così tante strategie di sensibilizzazione non riescono ad attirare i disoccupati a partecipare ai programmi PAL, tenendo conto delle dinamiche sociali vissute dai disoccupati. Il Capitolo 6 sfrutta i metodi sperimentali per testare e dimostrare che gli individui professionalmente inattivi possono deviare dalle norme sociali standard, come il lavoro, e quindi possono evitare di partecipare alla formazione professionale e persino al lavoro, a causa della pressione negativa da parte di pari del loro gruppo sub-culturale di riferimento. Infine, nel Capitolo 7, fornisco un'analisi econometrica sul ruolo svolto dai sindacati durante la pandemia di SARS-CoV-2 nell'influenzare la desiderabilità dei lavoratori in imprese in crisi di partecipare a misure di formazione sul posto di lavoro progettate per superare la fissità del lavoro. Il Capitolo 8 conclude con alcune implicazioni di policy.

In sintesi, in questa tesi dimostro che un'europeizzazione tipicamente 'attiva' delle politiche del lavoro può essere efficace nel combattere la disoccupazione all'interno di paesi tradizionalmente basati sull'assistenza e sul welfare come l'Italia e che questo è particolarmente vantaggioso per individui NEET. In secondo luogo, mostro che la dipendenza dal percorso istituzionale rispetto all'approccio PAL esiste e può essere identificata attraverso un'analisi empirica dei testi giuridici. Infine, identifico un nuovo metodo per affrontare la non partecipazione dei disoccupati ai programmi di formazione PAL sviluppando e testando un modello teorico e sperimentale basato su vincoli di identità sociale e professionale.

In conclusione, questa tesi getta nuova luce sulle implicazioni economiche, istituzionali e sociali di un approccio attivo alla politica del mercato del lavoro, dimostrando che le misure per combattere l'inattività professionale possono essere efficaci nella misura in cui consideriamo la loro struttura; vale a dire, il loro obiettivo, il loro quadro istituzionale e il loro ruolo sociale.

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<sup>218</sup>NEET: persone non impegnate nello studio, né nel lavoro né nella formazione.

# Zusammenfassung

Im Jahr 2019 betrug die Rate von Arbeitslosen in Europa 7,4% und der Anteil von Jugendlichen ohne Ausbildung, Arbeit oder Training (*Not in Education, Employment or Training – NEET*) an der Gesamtbevölkerung 12,5%. Mit mehr als 2 Millionen beruflich inaktiven Menschen im Alter von 15 bis 29 Jahren, nahm Italien diesbezüglich in der EU den ersten Platz ein. Die derzeit wütende Corona-Epidemie wird diesen Trend, insbesondere in Bezug auf Frauen und Jugendliche, voraussichtlich noch weiter verstärken, wenn die Strategien für die Bekämpfung der Arbeitslosigkeit sich nicht radikal ändern. Das Ziel dieser Dissertation ist es, einen Beitrag zur einschlägigen wissenschaftlichen Literatur zu diesem Thema zu leisten, indem die Bedeutung der unterstützenden Maßnahmen einer aktiven Arbeitsmarktpolitik (*active labour market policy – ALMP*) zur Überwindung der instabilen Beschäftigungssituation näher beleuchtet wird.

Im Gegensatz zu Gewährung passiver Leistungen für Arbeitslose, ist es das Ziel von ALMPs, betroffene Personen durch Umschulungen und die Motivierung zu einer ‘aktiven’ Mitarbeit, zu einem Wiedereintritt in den Arbeitsmarkt zu verhelfen. In der vorliegenden Dissertation, beschäftige ich mich mit der Frage, welche Voraussetzungen erfüllt sein müssen, dass ALMPs nicht zu einer rein symbolischen politischen Botschaft verkommen, sondern etwas verkörpern, das sowohl eine signifikante Hilfe für den einzelnen Menschen bietet als auch dem Wohl der gesamten Gesellschaft dient. Im Speziellen wird in dieser Dissertation versucht, das Verständnis für die ökonomischen und gesellschaftlichen Auswirkungen von Gesetzen zu fördern, die folgende Ziele umfassen: *i)* die Förderung zielgerichteter Reformen; *ii)* die unvoreingenommene Weiterentwicklung von Arbeitsmarktinstrumenten die vom Gesetzgeber bisher bevorzugt oder abgelehnt wurden; und *iii)* das Vorhandensein einer dem Arbeitsmarkt innewohnenden Identität mit gesellschaftlicher Dynamik.

Durch die Betrachtung der Situation in Italien wird klar, dass ein ausschließlich ökonomischer oder rein legaler Zugang dem Gesamtbild der Komplexität des Problems der Arbeitslosigkeit und den aktiven Arbeitsmarktmassnahmen zu deren Bewältigung nicht gerecht wird (Kapitel 1). Nachdem diese Frage geklärt war, zeige ich, dass eine Annäherung des Italienischen Arbeitsrechts an eine ALMP Strategie zur Bekämpfung des Mangels an Beschäftigung erst in jüngster Zeit erfolgt ist (Kapitel 2). Im Kapitel 3 präsentiere ich meine Studien über die Wirkung der Teilnahme an einer Europäischen aktiven Arbeitsmarktpolitik mit dem Ziel, die Untätigkeit von Jugendlichen zu bekämpfen, und zwar auf Basis

des jüngst entwickelten Konzepts der *Youth Guarantee*. Meine ökonometrische Studie widmet sich der Frage, ob eine typische Europäische, aktive und auf die Jugend abzielende Arbeitsmarktpolitik auch in Italien angewendet werden kann, einem Land, das traditionell auf passive Maßnahmen und die Unterstützung des älteren Segments der Bevölkerung fokussiert ist. Meine Untersuchungen in Norditalien zeigen, dass *Flex-Insecurity* auf Kosten der Jugendlichen zum Teil dadurch überwunden werden kann, dass für Teilnehmer am Youth Guarantee Programm größere Aussichten bestehen, einen langfristigen Arbeitsvertrag angeboten zu bekommen. Um die Rolle des institutionellen Umfelds beim Vergleich des Erfolgs verschiedener Arbeitsmarktstrategien zu beleuchten, verwende ich im Kapitel 4 Textanalysen. Auf diese Weise kann ich zeigen, wie die zunehmende Anwendung von ALMPs in die Gesetzgebung mit der Zeit zu einem steigenden Erfolg von politischen Entscheidungsträgern bei der Bekämpfung von Arbeitslosigkeit und dem NEET Notstand führt. In Kapitel 5 entwickle ich ein theoretisches Modell zur Klärung der Frage, warum so viele *Outreach* Strategien daran scheitern, beschäftigungslose Personen zu motivieren, an ALMP Programmen unter Berücksichtigung der sozialen Dynamik, die Arbeitslose erfahren, teilzunehmen.

In Kapitel 6 werden experimentelle Methoden verwendet, um zu untersuchen und schließlich zu zeigen, dass inaktive, beschäftigungslose Menschen in ihrem Verhalten häufig von gesellschaftlichen Standards, wie eben dem Arbeiten, abweichen und daher dazu tendieren, nicht an Job-Trainings teilnehmen oder sogar wirklich zu arbeiten. Dieses Verhalten ist oft durch einen negativen Druck durch Gleichrangige (*Peers*) aus ihrer subkulturellen Bezugsgruppe bedingt. In Kapitel 7 stelle ich eine ökonometrische Analyse vor, die zeigt, welche Rolle die Gewerkschaften während der Corona Pandemie bei der Realisierung des Wunsches von entlassenen Arbeitern nach Teilnahme an Job Trainings zur Bewältigung der wirtschaftlichen Nachwirkungen spielten. In Kapitel 8 demonstriere ich schließlich erstens, dass ein ‘aktives’, typisch Europäisches System der Arbeitsmarktpolitik auch dann erfolgreich zur Bekämpfung der Arbeitslosigkeit angewendet werden kann, wenn es sich dabei um Länder handelt, die sich traditionell auf passive Hilfs- und Wohlfahrtsprogramme stützen, wie Italien. Außerdem zeige ich, dass sich diese Strategie als besonders segensreich für die Gruppe von NEET<sup>219</sup> Personen erwiesen. Zweitens stelle ich klar, dass in Bezug auf ALMPs auch ein institutioneller Zugang existiert, der durch die empirische Analyse von Gesetzestexten identifiziert werden kann. Drittens, präsentiere ich einen neuen Weg, wie Arbeitslose, die nicht an ALMP Trainingsprogrammen teilnehmen, angesprochen werden können. Dabei stütze ich mich auf die Entwicklung und Anwendung einer Theorie, die auf die Einschränkungen beruflicher Tätigkeit und gesellschaftlicher Identität arbeitsloser Menschen fokussiert ist.

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<sup>219</sup>NEET: Jugendlicher und junger Erwachsener, die keine Schule besuchen, keiner Arbeit nachgehen und sich nicht in beruflicher Ausbildung befinden.

Zusammenfassend beleuchtet diese Dissertation die ökonomischen, institutionellen und sozialen Bedeutungen einer aktiven Arbeitsmarktpolitik. Es wird gezeigt, dass Maßnahmen zur Bekämpfung von beruflicher Inaktivität dann wirksam sein können, wenn das *Framing* einer aktiven Arbeitsmarktpolitik berücksichtigt wird, nämlich: ihre Zielgruppe, die jeweiligen institutionellen Rahmenbedingungen und ihre gesellschaftliche Relevanz.

# Summary

Contrary to passive benefits, ALMPs are intended to reskill individuals and require their ‘active’ participation to facilitate reinstatement into the labour market. In this thesis, I investigate how ALMPs do not remain a mere symbolic political message but become something which significantly helps individuals and benefits society. In particular, the thesis tries to raise the understanding of the economic and social effects of the law reflected in: *i)* the promotion of targeted reforms, *ii)* the evolution of labour market instruments embraced or disregarded by lawmakers, and *iii)* the existence of an identity in the labour market which has a social dynamic.

After having demonstrated that an exclusively economic or purely legal approach does not provide a full view of the complexity of unemployment (Chapter 1), I show that the convergence of Italian labour law towards an ALMP approach to fight occupational inactivity is only a recent development (Chapter 2). In Chapter 3, I study the effect of participating in a European active labour market policy aimed at fighting youth inactivity; namely, the recent Youth Guarantee. This econometric essay questions whether a policy that is typically European, active, and targeted for the youth, can be successfully implemented in a country like Italy, which is traditionally focused on passive measures and assistance for the older segment of the workforce. To highlight the role of the institutional context in comparing labour market outcomes, in Chapter 4, I use text analysis to illustrate how the progressive emergence of an ALMP approach in the law corresponds, over time, to the rising success of policymakers in fighting unemployment and preventing the NEET<sup>220</sup> emergency. In Chapters 5 and 6, I exploit experimental methods to test and demonstrate that occupationally inactive individuals may deviate from standard social norms, such as working, and therefore may avoid participating in job training, due to negative peer pressure from their sub-cultural group of reference. Finally, in Chapter 7, I provide an econometric analysis on the role played by trade unions during the SARS-CoV-2 pandemic in influencing displaced workers’ desirability to participate in on-the-job training measures designed to overcome employment hysteresis. Chapter 8 concludes with some policy implications.

In summary, in this thesis I demonstrate that a typically ‘active’ Europeanisation of labour market policies can be effective in fighting unemployment within traditionally assistance- and welfare-based countries like Italy and this is particularly beneficial for NEET individuals. Secondly, I show that

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<sup>220</sup>NEET: not in employment, not in education, and not in training.

institutional path-dependence with respect to ALMP exists and can be identified through an empirical analysis of legal texts. Finally, I identify a new method of addressing unemployed individual's non-participation in ALMP training programmes by developing and testing a theoretical and experimental model based on professional and social identity constraints.

In conclusion, this thesis sheds new light on the economic, institutional, and social implications of an active labour market policy approach by showing that measures to fight occupational inactivity can be effective insofar as we consider their framing; namely, their target, their institutional framework, and their societal role.

# Samenvatting

In tegenstelling tot passieve voordelen, beoogt een actief arbeidsmarktbeleid [active labour market policies (ALMP)] de omscholing van personen en vereist hun ‘actieve’ deelname om herintreding op de arbeidsmarkt te faciliteren. In deze thesis onderzoek ik hoe ALMP niet slechts een symbolische politieke boodschap blijft, maar iets wordt dat personen substantieel helpt en de maatschappij voordeel oplevert. De thesis probeert met name om begrip te doen ontstaan voor de economische en sociale gevolgen van de wet weerspiegeld in: *i)* de bevordering van gerichte hervormingen, *ii)* de ontwikkeling van arbeidsmarktinstrumenten geaccepteerd of genegeerd door de wetgever en *iii)* de aanwezigheid op de arbeidsmarkt van een identiteit met een sociale dynamiek.

Nadat ik heb laten zien dat een exclusief economische of uitsluitend juridische benadering geen volledig inzicht geeft in de complexiteit van werkloosheid (Hoofdstuk 1), laat ik zien dat de convergentie van Italiaans arbeidsrecht naar een ALMP-benadering ter bestrijding van langdurige werkloosheid slechts een recente ontwikkeling is (Hoofdstuk 2). In Hoofdstuk 3 bestudeer ik het effect van deelname aan een Europees actief arbeidsmarktbeleid gericht op de bestrijding van jeugdwerkloosheid: namelijk de recente Jongerengarantie [Youth Guarantee]. Dit econometrisch essay onderzoekt of een typisch Europees beleid, actief en gericht op jongeren, succesvol kan worden ingevoerd in een land als Italië, dat traditioneel gericht is op passieve maatregelen en bijstandsvoorzieningen voor het oudere deel van de beroepsbevolking.

Om de rol van de institutionele context te benadrukken door arbeidsmarkresultaten te vergelijken, gebruik ik in Hoofdstuk 4 een tekstanalyse om te verduidelijken hoe de progressieve verschijning van een ALMP-benadering in de wet correspondeert, na verloop van tijd, met het stijgende succes van beleidsmakers bij de bestrijding van werkloosheid en het voorkomen van de NEET -noodsituatie. In Hoofdstuk 5 en 6 maak ik gebruik van experimentele methodes om te testen en aan te tonen dat werkloze personen kunnen afwijken van standaard sociale normen, zoals werken, en daarom deelname aan jobtraining vermijden vanwege negatieve groepsdruk van hun subculturele referentiegroep. Tot slot geef ik in Hoofdstuk 7 een econometrische analyse van de rol die vakbonden hebben gespeeld tijdens de SARS-CoV-2 pandemie door de wenselijkheid te beïnvloeden, dat ontslagen werknemers deelnemen aan een leerwerktraject ter overwinning van de werkgelegenheidshysterese. Hoofdstuk 8 eindigt met enkele beleidssuggesties.

Samenvattend demonstreer ik in deze thesis dat een typisch ‘actieve’ Europeanisering van arbeidsmarktbeleid effectief kan zijn bij de bestrijding van werkloosheid in landen als Italië, traditioneel gebaseerd op bijstands- en sociale voorzieningen, en dat dit vooral gunstig is voor NEET<sup>221</sup>-personen. Vervolgens laat ik zien dat institutionele pad-afhankelijkheid met betrekking tot ALMP bestaat en kan worden herkend via een empirische analyse van wetteksten. Tot slot stel ik een nieuwe methode vast voor het aanpakken van niet-deelname door werkloze personen aan ALMP-trainingsprogramma’s door het ontwikkelen en testen van een theoretisch en experimenteel model, gebaseerd op professionele en sociale identiteitsrestricties.

Concluderend werpt deze thesis een nieuw licht op de economische, institutionele en sociale implicaties van een actieve arbeidsmarktbeleidsbenadering door aan te tonen dat maatregelen ter bestrijding van langdurige werkloosheid effectief kunnen zijn voor zover wij rekening houden met hun structuur: namelijk hun doelen, hun institutioneel kader en hun maatschappelijke rol.

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<sup>221</sup>NEET: geen arbeidscontract, niet in opleiding, niet in training [not in employment, not in education, and not in training].





## Curriculum vitae

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Short bio	
<p>PhD candidate in Law &amp; Economics at the Department of Economics of the University of Bologna, with a thesis on active labour market policy. Ms Focacci carried out research abroad at the Erasmus University Rotterdam, the University of Hamburg, and the ETH Zurich. She obtained her degree in Economics and Finance from the University of Bologna and in Economic History from the University of Oxford. She also worked as a research assistant for the project "Beyond the Technological Revolution" led by Carlota Perez (UCL). She presented her work at the Universities of Tel Aviv, Dublin, Rotterdam, Hamburg, Bologna, Forlì, Milan, Oxford, Krakow, Sofia, and Warsaw. Currently, she is interested in issues related to labour law and economics, especially with respect to technological change. Ms Focacci has published in peer-reviewed journals like <i>Technology in Society</i>, <i>European Journal of Law and Economics</i>, <i>Local Economy</i>, <i>Social Policy and Administration</i>, <i>Journal of European Economic History</i>, and <i>PLoS ONE</i>.</p>	
Education	
PhD in Economics (Law and Economics), University of Bologna, Erasmus University Rotterdam, Universität Hamburg.	2017-2021
<i>Collaborations:</i> Centre for Law and Economics, ETH Zürich.	2020-
MSc in Economic and Social History, University of Oxford	2017
BSc in Economics and Finance, University of Bologna (Erasmus+ at Regent's University London), <i>110/110 cum laude</i> .	2016
Work experience	
Teaching Assistant for BSc in Economics and Finance and MSc in Law and Economics, University of Bologna	2017-
Research Assistant "Beyond the Technological Revolution", Institute for Innovation and Public Purpose, UCL.	2017
Intern at Private Equity Fund Orlando Management AG, Munich, Germany.	2015
Intern at Tiroler Sparkasse Bank, Innsbruck, Austria.	2012
Prizes and awards	
Marco Polo Scholarship (Rep. 164/2019 Prot. 1058, 01/10/2019), University of Bologna.	2019
St Antony's College Star Grant, University of Oxford.	2017
Certificate of Merit from the Dean of the University of Bologna for outstanding BSc students, University of Bologna.	2016
Publications	
<u>In scientific journals</u>	
<u>Articles</u>	
Technological Unemployment, Robotisation, and Green Deal: A Story of	2021

Unstable Spillovers in China and South Korea (2008-2018). <i>Technology in Society</i> (2021), 64.	
Regional Entrepreneurial Ecosystems: Technological Transformation, Digitalisation and the Longer Term. The Automotive and ICT Sectors in the UK and Bulgaria, <i>Local Economy</i> (2021), 31(1), 56-74.	2021
“You Reap What You Sow”: Do Active Labour Market Policies Always Increase Job Security? Evidence from the Youth Guarantee. <i>European Journal in Law and Economics</i> (2020) 49, 373–429.	2020
Why Do Unemployed People Avoid Participation in Training? An Experiment for Policy Making. <i>Social Policy and Administration</i> (2020) 54(7), 1231-1245 [with Lam, PH].	2020
Unpredictable Spillovers Among Water Uses? An Analysis of Agricultural, Industrial, and House- hold Uses of Water in the Balkans, <i>PLoS ONE</i> (2020) 15(7), [with Quintavalla, A].	2020
Can Elites Make a Difference? The Building up of Prerequisites for Modernisation in Lombardy and Venetia (1814-66). <i>Journal of European Economic History</i> (2019) 48(3), 9-43.	2019
<u>Reviews</u>	
Review of 'The Great Leveler: Violence and the History of Inequality from the Stone Age to the Twenty-First Century', <i>Pandora Rivista</i> (March 2020) [with Maccelli, F].	2020
Review of 'Measuring Wellbeing: A History of Italian Living Standards', <i>Economic History Society</i> (July 2017) [with Incerpi, A, Molteni, M, Pala, GM, and Ramazzotti, A].	2017
<u>In the newspaper</u>	
“Human capital, the lacking investment in Italy”, <i>lavoce.info</i> (September 2020).	2020
“Corporate crisis and employment in the time of SARS-CoV-2”, <i>Sbilanciamoci!</i> (June 2020) [with Santarelli, E].	2020
“Visiting the Capuchins Centre of Pisa. Why money isn’t everything for the unemployed”, <i>Toscana Oggi</i> (Aug. 2019).	2019
<b>Others</b>	
<u>Writer</u>	
<i>The night is as if I could see</i> (ed. Europa Edizioni, Roma).	2021
<i>L'apostrofo nel bicchiere</i> (ed. Il Seme Bianco, Roma).	2019
Photographer: Winner <i>Quotidiano Nazionale</i> competition, chaired by Nino Migliori, Modena.	2018, 2017

## EDLE PhD Portfolio

Name PhD student	:	Chiara Natalie Focacci
PhD-period	:	2017-2021
Promoters	:	Prof. Enrico Santarelli (University of Bologna), Prof. Michael Faure (Erasmus University Rotterdam).
Co-promoter	:	Dr. Francesca Fauri (University of Bologna), Dr. Ann-Sophie Vandenberghe (Erasmus University Rotterdam).

## PhD training

<i><b>Bologna courses</b></i>	<i><b>year</b></i>
Experimental Economics	2017
International Law	2017
Economics of Crime	2017
Economic Analysis of Law	2017
Game Theory	2017
Property Law and Economics	2017
Statistics	2017
<i><b>Specific courses</b></i>	<i><b>year</b></i>
Seminar 'How to write a PhD'	2018
Academic Writing Skills for PhD students (Rotterdam)	2018
"Experimental Law & Economics" by Christoph Engel, Erasmus University Rotterdam.	2018
"The Economic Internationalisation of the Law" Summer School, Universität Hamburg.	2018
Lecture Series on the Law & Economics of Innovation, ETH Centre for Law & Economics.	2019
"Academic Integrity & Ethics", Erasmus University Rotterdam.	2019
"Advanced Empirical Methods" by Jonathan Klick, Erasmus University Rotterdam.	2019
<i><b>Seminars and workshops</b></i>	<i><b>year</b></i>
Bologna November seminar (attendance)	2017
BACT seminar series (attendance)	2018, 2019
EGSL lunch seminars (attendance)	2018, 2019
Joint Seminar 'The Future of Law and Economics' (attendance)	2019
Rotterdam Fall seminar series (peer feedback)	2018
Rotterdam Winter seminar series (peer feedback)	2019
11th "Future of Law & Economics", Erasmus University	2019

Rotterdam.	
“Experiments at the Crossroads of Law and Economics”, Erasmus University Rotterdam.	2019
“On the Crossroads of Law and Economics”, Erasmus University Rotterdam.	2020
13th “Future of Law & Economics”, Erasmus University Rotterdam.	2021
<b><i>Presentations</i></b>	<b><i>year</i></b>
Bologna March seminar	2018
Hamburg June seminar	2018
Rotterdam Fall seminar series	2018
Rotterdam Winter seminar series	2019
Bologna November seminar	2019
Joint Seminar ‘The Future of Law and Economics’	2020
<b><i>Attendance (international) conferences</i></b>	<b><i>year</i></b>
<u>Attended and presented</u>	
The European Union and Migration, Dept. of Political Sciences, University of Forli.	2017
6th Polish Law & Economics Conference, SGH Warsaw School of Economics.	2018
35th EALE Conference, University of Milano-Bicocca.	2018
6th Academic International Conference on Law, Economics & Politics, University of Oxford.	2018
IAREP/SABE 2019, University College Dublin.	2019
4th Biennial EURHO Conference, EHESS Paris.	2019
36th EALE Conference, Buchmann Faculty of Law, Tel Aviv.	2019
“Shifting from Welfare to Social Investment States” Conference, Erasmus University Rotterdam.	2019
16th SIDE Conference, University of Milan.	2020
Economics Seminar Series, Utrecht School of Economics.	2020
2nd Forum for Institutional Thought, Krakow.	2020
11th Spanish Law & Economics Conference (AEDE), Barcelona.	2021
18th History of Political Economy Conference (STOREP).	2021
German Law & Economics (GLEA) Conference 2021, Berlin.	2021
European Union "Beyond 4.0" Conference, Sofia.	2021
<u>Attended</u>	
13th SIDE Conference, LUMSA University of Rome	2017
3rd Annual ASE Meeting, Bocconi.	2018
4th Annual ASE Meeting, University of Modena-Reggio Emilia.	2019
“Income and/or Salary” Open Lab Research Agenda Fondazione Feltrinelli.	2020
<b><i>Teaching</i></b>	<b><i>year</i></b>
Economic History (Prof. Fauri), BSc in Economics, Markets, and Institutions, University of Bologna.	2017
Economics of Contracts and Incentives Analysis (Prof. Parisi), MSc in Law and Economics, University of Bologna.	2019

Economic Analysis of Law (Prof. Parisi), BSc in Economics and Finance, University of Bologna.	2019
Business History (Prof. Zan), MSc GIOCA, University of Bologna.	2019
Economic Analysis (Prof. Scazzieri), BSc in Economics and Finance, University of Bologna.	2020
Economic Analysis (Prof. Scazzieri), BSc in Economics and Finance, University of Bologna.	2021
Economic Analysis (Prof. Scazzieri), BSc in Economics and Finance, University of Bologna.	2022
<b><i>Others</i></b>	<b><i>year</i></b>
Invited Lecture on: “Robots, Unemployment, and Green Deal: What can We Learn from Technological Revolutions?”, Dept. of Law & Technology, Universidad de Buenos Aires.	2021