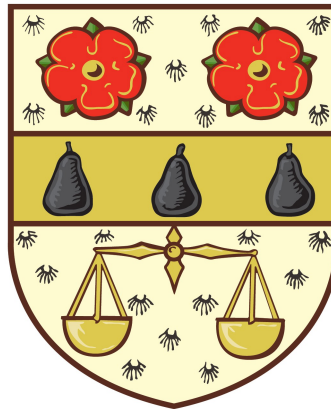


Nuffield College

Working Paper Series in Politics



**Liberalization, dualization, or recalibration?
Labor market reforms under austerity, Italy
and Spain 2010-2012**

Georg Picot

University of Manchester and Nuffield College

Email: georg.picot@manchester.ac.uk

Arianna Tassinari

Institute for Employment Studies

Email: arianna.tassinari@employment-studies.co.uk

Liberalization, dualization, or recalibration?

Labor market reforms under austerity, Italy and Spain 2010-2012¹

Abstract

Various scholars have interpreted welfare state reforms during the Euro crisis in the light of one of three major reform trends: liberalization, dualization, or recalibration. We take two salient cases of labor market reform under austerity to assess the relative merits of these three approaches. Both Spain and Italy were at the center of attention by financial markets and European institutions, but neither of them was fully subjected to a bail-out program and its accompanying reform conditions. This makes them ideal test cases for the policy impact of extreme austerity. Both states have adopted major labor market reforms between 2010 and 2012 in response to these pressures. In spite of the similarities of their political economies we find that the reform contents differed markedly. Spain followed the model of liberalization whereas the Italian government made significant attempts at recalibration. We show that the divergence can be explained by differences in political power as well as by policy learning in the Italian case.

¹ Previous versions of this paper were presented at the Manchester Jean Monet Centre of Excellence Seminar, the 2014 annual conference of the Political Economy Section of the German Association of Political Science, the 2014 annual conference of the Italian Political Science Association (SISP), the colloquium of the Department of Social Policy and Intervention, University of Oxford, and at the conference ‘Reforming Southern European Welfare States under Austerity’ in Lisbon. We thank all participants as well as Bastian Bethäuser, Johan Bo Davidsson, and Timothee Vlandas for their useful comments.

Introduction

What kind of labor market reforms are adopted under extreme austerity in contemporary developed democracies? And what makes the difference if distinct routes are taken? We analyze two salient cases in the recent Euro crisis, Italy and Spain, to shed light on these questions. Since 2008 many countries have introduced major reforms of their labor markets but no scholarly consensus has yet emerged on the direction of these reforms. Numerous recent works have applied theoretical frameworks familiar from the pre-crisis welfare state literature to policy change during the crisis. Most of these contributions make a case for one overarching trend, rather than examining cross-national variation. We aim to assess these diverse perspectives while allowing for different paths in different countries. The three main hypotheses we identify in the literature are liberalization, dualization, and recalibration.

Italy and Spain both adopted significant reforms of labor market policy in 2012, at the height of the so-called sovereign debt crisis. As we will show below, the thrust of both reforms is surprisingly different. The reforms in Spain are a clear example of liberalization, while the main reform in Italy was an attempt at recalibration. Given the many similarities of these two South-European political economies,² this provides an interesting puzzle for analyzing the politics of labor market reforms under extreme austerity. We find that external pressures for reform in both cases were similar and were crucial for bringing about abrupt and far-reaching policy changes. At the same time, differences in political power as well as policy learning account for the different reform contents.

The paper proceeds as follows: the next section situates this study in the context of the literature on labor market policy (LMP) change during the Great Recession. It identifies three strands in the existing literature, from which three competing hypotheses on the content and politics of LMP reforms in the crisis are derived. Subsequently, we explain the research design, before then providing an overview of pre-crisis labor market policy in Italy and Spain and of their labor market performance in the crisis. The following section contains the main comparative analysis and discussion of the labor market reforms implemented from 2010 to 2012, while the final section concludes.

² Molina and Rhodes 2007; Ferrera 2010.

Three alternative views on labor market reforms in the crisis

The focus of this paper is on reforms under austerity. This needs to be distinguished from studies in the aftermath of the 2008 economic crisis that have examined government emergency interventions during the initial crisis phase of 2008-2010. In labor market policy, that phase was characterized by discretionary extensions of pre-existing automatic stabilizers to cushion increases in unemployment and fall in economic output.³ We concentrate instead on structural labor market reforms implemented from 2010 onwards as government financial commitments, especially after the bank bailouts in the previous phase⁴, led to market concerns about the viability of sovereign debt. Fiscal consolidation took center stage in many European countries, leading to the onset of the so-called ‘age of austerity’. As we show below, most studies of this phase are related to one of three theoretical strands that have been applied more generally to welfare state change in recent decades: liberalization, dualization, and recalibration. One of the characteristics of this literature is that most authors so far have postulated single trends across cases.⁵ Although this does seem very likely in such a constrained policy context, we offer a first analysis that shows for a specific policy field and two similar countries how policy responses to austerity can still take different shapes. Although on a different historical scale, our account has therefore similarities with Kathleen Thelen’s recent book. She has shown how common pressures for liberalization in recent decades have been translated into different institutional trajectories across models of welfare capitalism.⁶

Liberalization

A first strand of literature interprets LMP reforms under austerity as instances of liberalization. The notion of liberalization as the characterizing feature of political-economic change in recent decades more generally is famously advanced by Streeck, and defined as a gradual process of expansion of market relations in areas previously reserved

³ Chung and Thewissen 2011; Lallement 2011.

⁴ Blyth 2013.

⁵ Exceptions are Hall 2014 and van Kersbergen et al. 2014.

⁶ Thelen 2014. Moreover, the three types of institutional change she identifies are similar to the ones we discuss, although we developed ours independently. What Thelen calls deregulation is closely related to what we call liberalization; dualization obviously corresponds in her and in our framework, and socially embedded flexibilization is highly similar to recalibration in our framework.

to democratic and collective decision-making.⁷ Others see a general weakening of the position of labor in the decentralization of industrial relations and in the dismantling of employment protection legislation (EPL).⁸

Particularly in relation to the Great Recession, works that follow in this strand of thought argue that the search for a new basis of capital accumulation in response to flailing economic growth and growing deficits results in reforms deliberately designed to weaken the position of labor and erode its protection⁹ – with a similar trend towards liberalization taking place in both Liberal Market Economies and Coordinated Market Economies.

In this perspective, labor market deregulation in peripheral countries of the European Monetary Union (EMU) can be explained as a consequence of EMU drastically limiting the adjustment strategies available to national governments.¹⁰ As monetary policy is set by the European Central Bank (ECB) and fiscal policy is constrained by the Stability and Growth Pact, labor market flexibilization and wage moderation become seen as the main adjustment mechanism available to domestic governments to regain competitiveness. The economic governance tools introduced in the EU since the beginning of the crisis to regulate the debt and deficit of countries in macroeconomic turmoil – such as the “European semester,” the “Six-Pack” of regulations and the Euro Plus Pact – further constrain the labor market reform agenda in countries with structural deficit and debt problems.¹¹

More broadly, Streeck describes this trend as the manifestation of unfolding tensions between democracy and capitalism, in which international constraints imposed by financial markets limit the autonomous space for domestic policy-making, thus leading to a pre-emption of democracy.¹² LMP reforms appear therefore as manifestations of this tension, while the forces shaping them are largely conceived of as external to domestic politics, although right-wing parties may be seen as representatives of the interests of capital within domestic politics.

⁷ Streeck 2011; Streeck 2008.

⁸ Baccaro and Howell 2011.

⁹ Becker and Jäger 2012; Heyes 2013; Heyes et al. 2012.

¹⁰ Armingeon and Baccaro 2012.

¹¹ Bieling 2012.

¹² Streeck 2011.

Dualization

A second literature strand consists of works that emphasize the continuity of LMP in the Great Recession with pre-crisis trends.¹³ Especially in the context of Southern European economies, this consists of on-going dualization of their labor markets, even if the concept of dualization has emerged as an important framework more generally to explain the trajectory of welfare regimes and LMP in the past twenty years.¹⁴ Dualization is defined as the institutionalization of new, or deepening of existing, forms of institutional dualism, and the promotion of the interests of “insiders” over those of “outsiders”. The outsider population includes the unemployed as well as non-standard workers (such as those in fixed-term, part-time, or temporary agency employment), given the association of non-standard employment with higher employment insecurity as well as disadvantages in earnings, career prospects and social protection.¹⁵ As we set out below, both Italy and Spain are characterized by entrenched dualism in their labor market and social protection.

While some authors explain continuity in LMP dualization by institutional legacies and complementarities,¹⁶ most scholars stress instead the role of left parties and trade unions, which are seen as defending the interests of insiders as their core constituency.¹⁷ In the crisis, left parties and unions will seek to prevent any costs being imposed on labor market insiders. Given wide-spread pressures for market-conform adjustments the resulting reforms are consequently likely to hit labor market outsiders.¹⁸ In contrast to the liberalization hypothesis, therefore, this strand of literature argues that in the crisis insiders mobilize their power resources to defend existing arrangements and oppose deregulation or benefit restructuring, thus making path-shifting reforms unlikely. Supranational institutions do not receive any particular attention.

Recalibration

The third strand of literature identifies trends of welfare state recalibration. The term

¹³ Rueda 2012a.

¹⁴ Rueda 2007; Emmenegger et al. 2012.

¹⁵ Saint-Paul 1997; King and Rueda 2008; Barbieri 2009; Kalleberg 2009.

¹⁶ Lallement 2011.

¹⁷ Rueda 2007; Saint-Paul 1997.

¹⁸ Rueda 2012b.

describes a re-adjusting and rationalizing of welfare states in the face of exogenous and endogenous challenges. Regarding dualized labor markets, recalibration would mean that structural imbalances of labor market policy are reduced, for instance by weakening the protection of insiders while extending protection of outsiders.¹⁹

In the crisis-specific literature, some scholars have argued that the exogenous crisis shock opens a window of opportunity to initiate structural reforms, which may address long-standing imbalances in LMP and social protection. Clasen and colleagues identify this response pattern particularly in countries with entrenched labor market dualism.²⁰ Leschke emphasizes in this respect the potential positive impact of EU institutions and the European Employment Strategy, by putting the issue of labor market segmentation on domestic policy agendas and promoting an extension of the flexicurity model across Europe to address existing gaps in protection for labor market outsiders.²¹

In a logic of recalibration, it is thus argued that the exogenous crisis shock, coupled with the pressures of European institutions and with the visibility of the outsider protection gap in dualized systems, trigger policy learning. The crisis and its pressures to reform represent an opportunity to update failing policies and overcome path-dependence. Moreover, the external shock makes governments more susceptible to ideas by outside policy experts, such as from academia.²² The subsequent reform process can either take the form of social pacts in which governments, unions and employers negotiate a “modernizing compromise”,²³ or through unilateral government action breaking institutional inertia.²⁴

Hypotheses

The three theoretical frameworks introduced above have all been invoked to account for LMP change under austerity. In the following, we will focus on four key areas of LMP: regulations of standard and non-standard employment, unemployment benefits, active labor market policies, and regulations of collective bargaining. Not each of the three theoretical frameworks is neatly specified for each of these sub-areas. Their most

¹⁹Ferrera and Hemerijck 2003; Hemerijck 2013; Pierson 2001.

²⁰ Clasen, Clegg and Kvist 2012.

²¹ Leschke 2012.

²² Hall 1993; Hemerijck 2013.

²³ Ferrera and Gualmini 2004.

²⁴ Rhodes 2012.

important predictions regarding policy change and the reform process are as follows.

The liberalization hypothesis predicts a general weakening of workers' rights independently of whether they are in standard or non-standard employment. In particular this view would expect a deregulation of dismissal protection and a decentralization of collective bargaining. In the political process of liberalization pressure from international and supranational organizations as well as from financial markets is expected to play a major part, along with right-wing governments.

The dualization approach hypothesizes that cut-backs and deregulation affect mostly labor market outsiders but spare insiders. In particular, it predicts deregulation of non-standard employment as well as retrenchment of unemployment benefits (especially assistance-based ones) and active labor market policies, which mostly benefit insiders. The reform process would reveal a strong influence of left parties and unions in preventing losses affecting labor market insiders.

If LMP reforms under austerity take the form of recalibration, this would be reflected in a balancing of the protections available to labor market insiders and outsiders. Consequently, dismissal protection of standard employment may be reduced, but this would be linked to a re-regulation of non-standard employment. This perspective would also predict gaps and inequities in unemployment protection to be mended and active labor market policies to be improved. The reform process would include external pressures and policy learning.

Why Italy and Spain?

The choice of Italy and Spain is motivated by substantive and theoretical relevance. Substantively, Spain and Italy are cases of major public interest. At the cusp of the Euro crisis their financial stability was seen at risk, while, in contrast to smaller Greece, Portugal, and Ireland, the size of their economies and banking sectors would have made a full bail-out practically impossible. Hence, in the eyes of many commentators reforms in these two countries were crucial for the survival of EMU. From a theoretical perspective, there are three reasons why Italy and Spain are good cases for studying reform dynamics under austerity. First, both were exposed to intense external and internal reform pressures, but neither of the two was formally bailed out and subjected to direct reform conditions. Therefore, both governments formally retained a degree of autonomy that makes it meaningful to study their choices of action. This makes Spain and Italy ideal test cases for

the kinds of labor market reforms adopted under extreme austerity pressures. To be precise, Spain did in fact enter a financial assistance program from the European Financial Stability Facility in July 2012 for the recapitalization of its banks. However, this was agreed several months after the major Spanish labor market reform we discuss below. Moreover, this ‘semi-bailout’ did not come with specific conditions outside of the financial sector, apart from a confirmed commitment to country-specific reform recommendations in the context of the Stability and Growth Pact covered by our discussion below. Second, the two cases have very similar political-economic models and welfare states.²⁵ Given, in addition, the similarity in pressures in the context of the Euro crisis, there are good reasons to expect analogous reform trends. As, however, we do not find similar reforms in both countries, our case selection enables us, in the logic of a Most Similar Systems Design with different outcomes, to identify the reasons for the differences in reforms. Third and related, the Italian as well as the Spanish labor market are commonly described as clear cases of dualization, which in turn is seen by some as a wide-spread phenomenon in advanced welfare states.²⁶ This makes their reforms relevant for the debate on dualization, currently salient among scholars of comparative political economy.

In this paper, we focus on reforms in the so-called sovereign debt crisis in the peripheral countries of the Euro zone.²⁷ Under the pressure of high interest rates on government bonds, countries started implementing fiscal cuts and structural reforms, as opposed to government actions in the previous phase of the global crisis that were more concerned with cushioning the economic recession. The phase can be roughly identified as starting in 2010 and ending in 2012 when the president of the European Central Bank (ECB) pledged his institution will do “whatever it takes to save the Euro”, thus substantially reducing the pressure on bond markets.²⁸ Within the 2010-2012 period Italy and Spain each adopted a major labor market reform, which we concentrate on. However, we account also for the smaller reforms in this period. Italy has initiated another large labor market reform in 2014. Although this lies outside of our timeframe, we still take it into account when discussing the durability of the policy changes observed in 2010-2012.

The analysis will draw on legislative texts, other primary sources, secondary

²⁵ Ferrera 2010; Molina and Rhodes 2007.

²⁶ Emmenegger et al. 2012.

²⁷ According to Blyth 2013, the term ‘sovereign debt crisis’ is misleading because market fears about government solvency are an indirect consequence of the economic and financial crisis, which originated in the private sector.

²⁸ See e.g. Armingeon and Baccaro 2012; Becker and Jäger 2012; Schmidt 2012.

literature, and expert interviews. Six semi-structured expert interviews, three for each country, were conducted with LMP experts from different professional and academic backgrounds.²⁹

The institutional and economic context

This section outlines the main features of the two cases in terms of LMP and crisis trajectory, to establish the background and context of the reforms. Italy and Spain present many structural similarities. Both are classified as South-European welfare regimes, have dominant corporatist-familialist traits, and can be seen as “Mixed” or “State-Influenced” Market Economies, where the state has a crucial role in enforcing economic coordination given fragmented and conflictual industrial relations.³⁰

The two countries’ LMP structures display significant commonalities as well. The Spanish and Italian systems of employment and unemployment protection are both strongly dualized, leading to a high incidence of non-standard employment – extraordinarily high in Spain and rapidly growing in Italy. This results from labor market reforms that, attempting to reduce unemployment, have created contractual flexibility at the margins by deregulating the use of non-standard contracts whilst leaving EPL for standard (open-ended, full-time) workers relatively untouched.³¹ The diverging EPL levels for insiders and outsiders in the last 15 years are particularly striking in Italy, where only non-standard employment has been significantly liberalized by successive labor market reforms since the mid-1990s. The so-called Treu Law in 1997 started by moderately deregulating fixed-term contracts and temporary agency work. The transposition of an EU directive further liberalized fixed-term contracts in 2001. And in 2003 the so-called Biagi Law introduced a number of other atypical contract types. In particular, it facilitated a particular type of project work that effectively resembles temporary employment.³²

In Spain, temporary contracts have spread earlier, following their deregulation in 1984. Since the 1990s governments have in fact attempted to decrease the wide EPL gap

²⁹ Interviews were conducted with academics from the fields of social policy, industrial relations and economics (from the University of Oviedo, University of Madrid Carlos III, University of Bologna, University of Bari) and with the director of an independent Italian labor market research institute.

³⁰ Ferrera 2010; Guillén and Leon 2011; Molina and Rhodes 2007; Schmidt 2010.

³¹ Boeri 2011.

³² Berton et al. 2012; Garibaldi and Taddei 2013.

between open-ended and temporary contracts.³³ Interventions to this effect have been implemented in 1994, 1997, 2001-2002 and 2006, and have tried to countervail contractual dualism by marginally reducing severance pay for permanent contracts, by creating new open-ended contractual forms with reduced levels of protection (so-called Permanent Employment Promotion Contracts), and by establishing financial incentives for employers who transfer temporary workers into permanent contracts.³⁴ The impact of these reforms in reducing temporality in the Spanish labor market has however been negligible and labor market dualism remains marked, as testified by a high share of temporary contracts and by widespread lay-offs of temporary workers during the crisis. Hence, the historical trajectory of the Italian and Spanish labor markets differs, but the dualized state in which they entered the crisis was similar. Labor market policy has been a hotly contested topic at the center of political debate for at least two decades in both countries.

The diagnosis of dualization can be extended in both countries to their unemployment benefit systems, characterized by a high degree of fragmentation with considerable protection gaps for the long-term unemployed, non-standard employees, and new labor market entrants. Yet the existence of regional social assistance in Spain implies better social protection for people marginalized from the labor market whereas in Italy such schemes are mostly lacking. Therefore, social protection gaps for outsiders are more pronounced in Italy than Spain.³⁵

The Spanish system of industrial relations was, up to the recent reforms, characterized by an intermediate degree of centralization in which about 90% of workers are covered by agreements at the sectoral or regional level, despite low levels of union density (18.9% in 2010),³⁶ whilst only 10% are covered by company level agreements.³⁷ Similarly, Italy was historically characterized by a high degree of centralization in collective bargaining as the sectoral level is by far dominant, covering around 80% of workers.³⁸ Levels of union density are however higher than in Spain, at around 36%.³⁹

When the economic crisis hit Spain, unemployment shot up from 8.9% in 2006 to 24.6% in 2012, even though the contraction of GDP was not so large compared to other

³³ Dubin and Hopkin 2014.

³⁴ Bentolila et al. 2012; Marx and Picot 2014.

³⁵ Gallie and Paugam 2000; Picot 2012; Ferrera 2005.

³⁶ ETUI 2014.

³⁷ OECD 2010.

³⁸ Visser 2011.

³⁹ EIRO 2013.

European states.⁴⁰ The impact was especially strong on outsiders, such as temporary workers whose contracts were not renewed. The importance of the construction sector and real estate bubble contributed to this particularly negative employment performance.⁴¹ The unemployment increase led to a sharp rise in public expenditure on unemployment benefits, due also to the decision in September 2009 by the Socialist government to introduce a new temporary unemployment assistance scheme of €420 for the long-term unemployed who had exhausted their ordinary benefits entitlement.⁴²

Unemployment growth in Italy was less steep, from 6.8% in 2006 to 10.7% in 2012, in spite of a similar GDP decline.⁴³ The crisis' employment impact was cushioned by the use of short-time work (STW) schemes, which subsidize the pay of temporarily redundant workers in the industrial sector. Their duration was extended virtually indefinitely by the center-right Berlusconi government, and discretionary extensions relaxed their eligibility rules. As in Spain, this led to a sharp increase in expenditure on passive LMPs.⁴⁴ Also similarly to Spain, higher job losses and insecurity were concentrated among atypical workers.⁴⁵

Despite some differences in their employment performance, in both countries the crisis brought into sharp focus the disproportionate vulnerability of the outsider segment of the workforce and the problem of employment insecurity. Both countries were also affected from 2010 onwards by the threat of the sovereign debt crisis, driven by rising public deficits and international markets' scepticism regarding governments' capacity to service their public debt.

⁴⁰ Eurostat 2013.

⁴¹ Bentolila et al. 2012; Royo 2009.

⁴² EIRO 2009.

⁴³ Eurostat 2013.

⁴⁴ Hijzen and Venn 2011; Sacchi et al. 2011.

⁴⁵ Labor Force Survey data on Italy's unemployment performance in the crisis may underestimate the severity of the unemployment problem because of a considerable share of discouraged unemployed (see Altieri et al. 2011). Furthermore, the severe impact of the crisis on outsiders is not evident from the trends in temporary employment share due to a substitution of open-ended contracts by fixed-term ones.

Labor market reforms under austerity

Spain: reform content and process

Despite the severity of Spain's unemployment increase in the crisis, the Socialist (PSOE) government, under José Zapatero, initially considered labor market reforms unnecessary.⁴⁶ However, as unemployment and public deficit worsened, the European Union increasingly applied pressure on the Spanish government to adopt structural measures so as to address the worsening economic situation and the decline in financial markets' confidence in the performance of the Spanish economy. The Eurogroup meeting of May 2010 concluded demanding that the Spanish government implement strong austerity measures. Within the same month this led to the approval of a series of budget cuts, followed in June 2010 by a labor market reform, the Real Decreto Ley 10/2010. The reform was unilaterally passed by the government after negotiations with unions failed, and was strongly criticized by unions that called for a general strike in response.⁴⁷ The decree was ratified by parliament in September 2010 (Act 35/2010).

The stated objective of this first reform was to halt employment decline and address labor market segmentation, by modifying EPL to encourage the use of open-ended contracts over temporary ones. Acceptable reasons for economic-motivated dismissals of permanent employees were broadened and redundancy pay for dismissals with 'objective reasons' reduced from 45 to 20 days of wages per seniority year. For dismissals judged by courts as unfair, the reform widened the conditions under which employers can choose the payment of monetary compensation (amounting to 45 days wages for each seniority year and up to a maximum of 42 months' pay, plus back pay since dismissal date) instead of reinstatement of the worker.

Required advance notices for economic dismissals were shortened and the use of special "employment-promotion" open-ended contracts with lower severance pay, easier dismissal proceedings (so-called "express dismissals") and lower compensation in case of unfair dismissals was facilitated. Meanwhile, EPL for temporary contracts was somewhat tightened by making their use marginally more restrictive and increasing severance pay in case of non-renewal from 8 to 12 days of wages per seniority year. A limit of 3 years for

⁴⁶ Dubin 2012; Molina and Godino 2013.

⁴⁷ Hamann 2013.

the duration of some temporary contracts was also imposed.⁴⁸

Social dialogue between the government and the unions was briefly restored after the June 2010 reforms. This led to the approval of RD Ley 3/2011 in February 2011, the only labor market intervention approved in the crisis period that was based on an agreement between the government, the two main unions (UGT and CCOO) and the main employer federation (CEOE). In an attempt to strengthen activation requirements and favor the labor market re-integration of unemployment benefit recipients, the law stipulated the requirement for unemployment benefit claimants to sign a “Personal Employment Agreement” that commits them to follow a personal itinerary of job search, counselling and training planned and developed by the public employment services. These requirements, however, did not differ in substance from the so-called “commitment to activity” already established in 2002.⁴⁹ Therefore, the reform constitutes only a marginal change towards activation.

Negotiations between the government and the social partners broke down again over the subsequent reform of collective bargaining, which had been requested of Spain by the European Council recommendations on Spain’s National Reform Programme of 2011.⁵⁰ The government thus intervened unilaterally once more in July 2011 with the RD Ley 7/2011. This represented the first far-reaching intervention in the area of collective bargaining, as the reform established the precedence of firm-level collective agreements over industry-wide agreements, unless explicitly overruled by the latter. The measure substantially altered the hierarchy of collective bargaining in the Spanish system, where the primacy of sectoral level collective agreements was deeply established in practice.⁵¹

Despite opposition from the social partners, both these reforms were considered too marginal in reach and had no immediate impact on deteriorating unemployment.⁵² As a consequence, and in reaction to further pressures by the European institutions, the new conservative (PP) government, elected in November 2011 with Mariano Rajoy as prime minister, announced further labor market reforms. The employer federation (CEOE) and the main unions (CCOO and UGT) were offered the possibility of agreeing on the content

⁴⁸ This reform also changed the severance pay system more fundamentally, by introducing a system of individually capitalized mobility funds, akin to the one introduced in Austria in 2002, with the aim of further reducing the immediate dismissal costs of firms (see Wolf and Mora-Sanguinetti 2011).

⁴⁹ EIRO 2012.

⁵⁰ European Council 2011.

⁵¹ Navarro Nieto 2012.

⁵² Bentolila et al. 2012; Dolado 2012.

of proposals, but when agreement failed, the government pressed ahead unilaterally with a new reform in February 2012, RD Ley 3/2012. The far-reaching character of the 2012 reform represents, to the eyes of many commentators, a clear break with pre-crisis reform trends as it seriously challenges the previous Spanish labor market institutions.⁵³

The RD Ley 3/2012 intervened more radically than the previous reform on EPL, modifying legislation for both individual and collective dismissals. It abolished the “express dismissal” procedures, expanded by the previous reform, and instead reduced severance pay in case of unfair dismissal for *all* workers on permanent contracts from 45 to 33 days per seniority year, with a limit of 24 months’ pay. This intervention represents for Spain an unprecedented reduction in the level of EPL for employees on permanent contracts and decreases considerably the firing cost gap between permanent and temporary employees, often identified as one of the main sources of dualism in the Spanish labor market.⁵⁴ The clauses for justified economic dismissals were further simplified, the requirement for administrative approval of collective dismissals eliminated, and the timeframe for consultation on dismissals between employers and worker representatives reduced, thus considerably easing dismissal processes and reducing unions’ room to negotiate the conditions for dismissed employees.

The 2012 reform also intervened on flexibility in entry. It repealed “employment-promotion” contracts and created instead a new open-ended contract with a one-year trial period with unrestricted dismissal possibilities and no severance pay. This new contract is supposed to favor labor market entry of disadvantaged workers, but leaves them unprotected during their first year.

Moreover, the 2012 reform further decentralized collective bargaining by establishing the absolute priority of firm-level agreements over industry-wide agreements. It even allowed employers to unilaterally change contractual conditions at firm-level, including wages, for productivity or competitiveness reasons, which constitutes a considerable shift in power and control over working conditions towards employers.⁵⁵ The principle of “*ultraactividad*,” a cornerstone of the Spanish industrial relations system that sanctions the automatic extension of an expired collective agreement until the concerted approval of the new one, was also abolished, to force social partners to speed up

⁵³ Meardi 2012; Molina and Godino 2013.

⁵⁴ See, for example, Wolf and Mora-Sanguinetti 2011.

⁵⁵ Dubin and Hopkin 2013.

negotiations and potentially accept worse contractual conditions.⁵⁶

Changes to the unemployment benefit system did not feature prominently in any of the reforms implemented between 2010 and 2012 and took place through discretionary measures. The temporary PRODI benefit (*Programa Temporal de Proteccion por Desempleo e Insercion*), introduced in 2009, was extended twice in 2010, but in December 2010 the government decided not to renew it any longer. It was replaced, through the RD Ley 3/2011 of February 2011 (see above), by a temporary active labor market program of professional requalification for those unemployed who had exhausted entitlement to ordinary benefits, focused on compulsory participation in job search counselling and training activities, and complemented by an income transfer of €400 per month for a maximum duration of six months.⁵⁷

Spain: analysis

In the area of EPL, the reforms under austerity at first displayed some continuity with reforms of the 1990s and 2000s, with the objective to reduce the temporality rate of the Spanish labor market and create incentives for establishment of permanent contracts by reducing EPL dualism. However, the 2012 reform is unprecedented by concentrating on the deregulation of protection of permanent contracts. This can contribute to reducing labor market dualism. However, it was not accompanied by any measures supporting marginalized workers or restricting the conditions of use of temporary contracts. Therefore, the reform constitutes strong labor market deregulation by itself, not matched by a corresponding recalibration of protections.

The decentralization of collective bargaining was equally drastic and may represent the starting point of a systemic change in Spanish industrial relations. It shifts the balance of power towards employers, sanctioning the priority of flexibility and adaptability to firms' productivity needs, and is likely to bring about considerable wage moderation and further decline in the power of Spanish unions.⁵⁸ By increasing employers' power to unilaterally change working conditions and wage levels in derogation from collective agreements, the reform encourages adjustment through internal in addition to

⁵⁶ Clauwaert and Schömann 2013.

⁵⁷ Mato 2011.

⁵⁸ ILO 2012.

external flexibility.

The unprecedented deregulation of EPL and decentralization of collective bargaining clearly correspond to the liberalization hypothesis and contradict the continuity predicted by the dualization hypothesis. Indeed, the 2010-2012 reforms substantially weaken organized labor and the protection of insiders. The contrast to the recalibration hypothesis is less obvious. Indeed, this thesis is supported by Clasen and colleagues who regard the increase of severance pay for temporary contracts and in the limitations introduced on their successive renewals as a movement towards distributive recalibration.⁵⁹ Our analysis does not corroborate this interpretation. The protection increases for temporary contracts were included only in the more cautious first reform by the PSOE government. The PP reform of 2012 is more radical and the reduction in employment protection is not compensated through an improvement of unemployment compensation, which would be important in a recalibration perspective. The expansion of unemployment assistance was only temporary as well as limited in coverage and generosity. In addition, we have seen that in 2011 ALMPs were extended, but only marginally so. Hence, recalibration may hold for the reforms adopted by PSOE but it does not apply to the more substantial PP reform.

Concerning the political process, the reforms were clearly pushed by EU institutions and international markets in the context of the unfolding debt crisis. Requests for labor market reforms in the direction of collective bargaining decentralization and de-segmentation through reduction of protections for permanent workers were indeed presented to the Spanish government on numerous occasions by the ECB, other members of the Eurogroup, and as part of the European Council's country-specific recommendations between 2010 and 2011.⁶⁰ The measures implemented by Spain between 2010 and 2012 largely conformed to the recommendations by ECB and Commission, which advocated the pursuit of greater labor market flexibility and lower labor costs.⁶¹ The urgency of these interventions was compounded by the pressures from international markets amidst growing fears of a government default. External political and economic

⁵⁹ Clasen et al 2012.

⁶⁰ European Commission 2010.

⁶¹ Evidence from documentary sources and reconstructions of negotiations between domestic governments and the European institutions in the period under consideration suggest that de-regulatory structural LMP reforms were demanded of Italy and Spain in exchange for the purchase of their government bonds by the ECB on the secondary market, which was necessary to alleviate the public debt crisis. See, for example: El Pais 2011; Sacchi 2013a.

constraints acted therefore as a key driver of domestic reform efforts and gave the impetus for the fast implementation of measures, which would not have been possible in the absence of such pressures. One Spanish interviewee described the process as “the politics of haste”.

The power of unions to oppose or substantively influence the reforms, either through social pacts or general strikes, was very limited, as negotiations failed on numerous occasions and both the PSOE and PP governments went ahead unilaterally. This is particularly true for the 2012 reform, which was formulated with virtually no consultation of the unions and easily pushed through parliament thanks to the large conservative majority. The severity of the Spanish economic situation, as bond interest rates and external pressures rose, enabled the government to push forward without waiting for a lengthy process of unions, employers and government finding an agreement. Therefore not only policy content, but also the political process conforms to the expectations of the liberalization hypothesis.

Italy: reform content and process

Following the initial crisis management phase, which relied on the expansion of pre-existing policies to deal with the negative employment impact,⁶² Italy’s situation changed dramatically in 2011. The rise of interest on government bonds, combined with long-standing high public debt, low productivity, and meagre growth intensified pressures for structural interventions. In August 2011, as Italy’s position on the international markets worsened, reforms of labor market regulations were demanded, along with spending cuts and other structural reforms, in a letter sent to the Italian government by ECB incumbent and elected presidents Trichet and Draghi. They called for reforming the collective bargaining system, “to allow firm-level agreements to tailor wages and working conditions to firms’ specific needs”, and for “reviewing the rules regulating hiring and dismissal of employees, to be adopted in conjunction with the establishment of an unemployment insurance system and a set of active labor market policies capable of easing the reallocation of resources towards the more competitive firms and sectors”.⁶³

Whilst this was seen at the time as an intrusion in Italy’s domestic political

⁶² Sacchi et al 2011.

⁶³ Trichet and Draghi 2011.

authority, it has been argued that the demands by the ECB were used by domestic policy makers as an expedient to implement reforms in areas which had previously been object of vehement opposition, especially by unions.⁶⁴ Indeed, to address the ECB requests, the Berlusconi government approved within the same month an emergency austerity budget (Decree-Law 148/2011) that included in its Article 8 a fairly far-reaching reform of collective bargaining regulations, which explicitly allowed company agreements (“proximity agreements”) to diverge not only from sectoral agreements, but also from legislation on dismissals and from employment law (including the 1970 Workers’ Statute).⁶⁵ This constituted a considerable decentralization of collective bargaining and undermined the organizational power of unions by allowing plant-level representatives to sign agreements deviating from the directives by their organization. Still, the measure was less radical than the Rajoy reform in Spain because the general priority of national sectoral level agreements over local ones was retained, and no power granted to employers to unilaterally change work conditions without the agreement of local union representatives.

The reform implemented by the Berlusconi government focused solely on collective bargaining. Yet, in a letter to the European Commission and European Council in October 2011 Berlusconi committed to implementing a comprehensive labor market reform by May 2012, with the aim of “promoting greater readiness to take on employees and the efficiency requirements of business by means of, among other things, new rules governing dismissals for economic reasons in permanent employment contracts”.⁶⁶ This commitment corresponded directly to the Council recommendation of 12 July 2011 on the Italian National Reform Programme 2011.⁶⁷ As Italy’s position on international markets worsened, the Berlusconi government resigned in November 2011 in an attempt to restore confidence in Italy’s capacity to tackle its sovereign debt. This led to the appointment of a technocratic government led by Mario Monti, supported by a parliamentary majority including the main center-left and center-right parties.

The Monti government proceeded to adopt in June 2012 a comprehensive labor market reform, the so-called “Fornero Reform” (Law 92/2012), named after the labor and

⁶⁴ Sacchi 2013a.

⁶⁵ Whilst changes to the framework of collective bargaining to allow for greater flexibility in wage-setting at firm-level had already been introduced through an agreement between the social partners in 2009, the measures introduced by Article 8 were particularly far-reaching because in principle they allowed local agreements to deviate from the provisions of Article 18 on dismissals (Meardi 2012) – thus paving the way for the changes introduced by the “Fornero Reform” in 2012.

⁶⁶ Financial Times 2011.

⁶⁷ European Council 2011.

welfare minister Elsa Fornero. This was hailed at the time as one of the flagship policies of the technical government, supposed to bring about far-reaching changes in the institutional architecture of Italian labor market policy, which many reforms had failed to radically revise throughout the 1990s and 2000s. In line with the recommendations of the European Council and with commitments under reinforced EMU governance, the reform aimed at reducing labor market segmentation whilst promoting employment creation by intervening on some of the identified “rigidities” of Italian EPL.

The contents of the reforms were initially negotiated with the main unions (CGIL, CISL and UIL) and the main employer federation (Confindustria), but the unions could not agree on a common position regarding the government proposal to lower dismissal regulations for workers on open-ended contracts. After months of back-and-forth, prime minister Monti eventually decided to proceed without union consent, declaring that “no one has the power to veto” the reform.⁶⁸ After numerous amendments during the parliamentary process parliament finally passed the reform under a vote of confidence in June 2012.

In the area of EPL for open-ended contracts, the 2012 reform partly succeeded where a previous attempt in the early 2000s had failed, by modifying Article 18 of the 1970 Workers’ Statute, which regulates individual unjustified dismissal for firms with more than 15 employees, often identified as a key source of Italian labor market rigidity. Before the reform, if a judge ruled that a dismissal was unfair or unjustified, the worker was allowed to choose between monetary compensation amounting to 15 monthly salaries, or full reinstatement in their previous position, retaining seniority and receiving all monthly salaries and social security contributions for the period between dismissal and reinstatement. Particularly the latter point created uncertainties for employers about the potential costs of dismissals, and constituted a source of institutional dualism as Article 18 does not apply to workers in small firms or to workers in most atypical contracts. After possibility of reinstatement is reduced markedly to cases of discriminatory dismissal and those for which the supposed economic or disciplinary reason is found to be “manifestly non-existent”.⁶⁹ The amount of monetary compensation for these cases was set to a maximum of 24 monthly retributions, while the payment of missed wages in case of

⁶⁸ La Repubblica 2012. "Lavoro, Sindacati Divisi. Monti: 'Su Art.18 Non Si Tratta Più.'" *La Repubblica*, 20/03/2012.

⁶⁹ Tiraboschi 2012.

reinstatement was capped at 12 months.

Regarding EPL for temporary contracts, Law 92/2012 explicitly aimed to reduce the incidence of precarious temporary work and eradicate instances of “bad flexibility”.⁷⁰ To this effect, the repeatability of fixed-term contracts was discouraged by extending the “cooling-off” period between two consecutive ones, and the rate of contributions paid by employers to the unemployment insurance funds for workers on some fixed-term contracts was increased. The reform also introduced new tests in order to combat “pseudo self-employment”. Furthermore, an attempt was made to limit abuse of the apprenticeship contract by employers, which enjoys a series of fiscal benefits, by establishing that new apprenticeship contracts could only be stipulated if at least 30% of those previously initiated had been converted to regular employment contracts. While the reform re-regulated and disincentivized temporary contracts, it nonetheless eliminated the necessity to provide a reason for establishing a first fixed-term contract of up to one year of duration.

Notable changes were furthermore introduced in the unemployment protection system. Ordinary unemployment insurance was replaced by a new instrument, the ASPI (Social Insurance for Employment). The benefit level of ASPI is marginally higher than the previous ordinary benefit, and the law envisages a path of gradual increases in its duration, to reach a maximum of 12 months in 2016 against the maximum eight months’ duration of the previous ordinary benefit. Apprentices are fully enrolled in the new scheme; otherwise, eligibility requirements and coverage remained virtually unchanged.

Another new instrument, the “Mini-ASPI,” was created to cater to workers with reduced contribution records. By replacing the previous “reduced requirements benefit”, the “Mini-ASPI” eliminates the two-year minimum qualifying period requirement for benefit eligibility, significantly enlarging the pool of potential beneficiaries to recent labor market entrants. Sacchi estimates that this reduces the number of uncovered workers in case of job loss by almost two thirds, helping in particular temporary agency workers and fixed-term workers.⁷¹ The benefit level is the same as the ordinary ASPI, but the duration of the Mini-ASPI is much shorter.

Finally, despite the government’s intentions to eliminate it, the extraordinary STW scheme was maintained for firms already covered, and new STW funds, co-managed by

⁷⁰ Dell’Aringa 2012.

⁷¹ Sacchi 2013b.

social partners and regional authorities, were made mandatory in all sectors for firms employing more than 15 workers. This intervention extended the coverage of STW schemes to more sectors of the economy, with a potentially equalizing impact on the number of beneficiaries. However, institutional dualism between workers employed in large as opposed to small firms persists.

Regarding ALMPs, the Fornero reform intervened only marginally. It re-established and clarified the principle, already present in Italian legislation, by which eligibility of unemployment benefits terminates in case a recipient refuses without good reason an adequate job offer or to participate in an ALMP measure. The overall re-design of ALMP and Public Employment Services, historically underdeveloped in Italy, was delegated to later interventions, which did not take place as the Monti government came to a premature end after the center-right withdrew its support in December 2012.

Italy: analysis

Law 92/2012 constituted a significant change for Italian LMP because, in contrast to previous reforms, it no longer deregulated at the margins but explicitly tried to re-balance protections between permanent and fixed-term contracts. The paradigm of the reform with respect to employment protection was therefore fundamentally different, at least in principle, from its direct antecedents and corresponds to the recalibration hypothesis. The changes to Article 18 in particular are notable in the Italian context and constitute an unprecedented reduction of protection for labor market insiders. Relevant are also the attempts to limit inappropriate use of temporary contracts and to dis-incentivize them. However, the extent of liberalization of EPL for insiders is not as far-reaching as in Spain, and the attempts at recalibration in the regulation of temporary contracts remain moderate.

The reform of collective bargaining in DL 148/2011, which considerably decentralized collective bargaining and increased firms' internal flexibility whilst undermining the power of unions, is more in line with the liberalization than the recalibration hypothesis as they were not compensated by broadening coverage or alternative measures of social protection. Yet, the reform of collective bargaining is not as far-reaching as in Spain. Politically, it is relevant that it was adopted by the center-right Berlusconi government.

The changes to unemployment protection are also considerable, given that this had been identified as a policy area in need of intervention by numerous previous

governments, but with only incremental steps taken. The extension of unemployment insurance to some components of the outsider workforce can be considered an instance of distributive recalibration. Of course, this does not imply that pre-existing institutional dualisms have been overcome. Indeed, the architecture of the new ASPI system only constitutes a change in policy instruments and does not alter the underlying principles of the unemployment benefit system. Both ASPI and Mini-ASPI are still founded on a fairly strict insurance principle, with eligibility tied to contributions and clear differences in benefit duration between the two tiers. The reforms therefore do not completely remove the pre-existing segmentation of benefits and fail to introduce a minimum income scheme for those ineligible for insurance-based benefits. Moreover, the reform did not expand or re-design the very limited ALMPs, although this was intended by the Monti government as a next step. For these reasons, the reform should be considered as only gradual recalibration in the field of unemployment benefits and ALMPs.

Institutional dualisms still persist therefore after the 2012 reform. However, the intention to rebalance protection levels between standard and non-standard workers was explicit and clearly visible. Whilst limited in their magnitude, these changes constitute an important contrast to previous dynamics of dualization.

In 2014 the government led by Matteo Renzi, supported by a parliamentary majority comprising the center-left and some small center-right parties, has initiated another comprehensive labor market reform. A decree law partly undid some of the re-regulation of temporary employment introduced by the Fornero reform. Yet the decree appears to have been part of a political exchange between left and right forces sustaining government, and a more substantial reform bill, the so-called Jobs Act, has since passed one house of parliament. This bill pursues in fact a direction similar to the Fornero reform. It aims to extend unemployment insurance and unemployment assistance, to improve public employment services, and to further reduce dismissal protection for workers in open-ended contracts. At the time of writing (mid-November 2014), the reform still has to pass the other house of parliament. Moreover, the bill leaves wide scope for implementation. Still, its contents and the motivations stated by the government are in line with the idea of recalibration, even if the further deregulation of dismissal protection for standard workers is highly controversial.

As in the Spanish case, the politics of the Italian labor market reforms 2010-2012 were strongly influenced by the severe economic situation, providing an impetus for policy change. Both the 2011 intervention on collective bargaining regulations and the

2012 Fornero reform were adopted in direct response to and in consonance with requests by EU institutions, which had been advanced through both formal (e.g. the European Council recommendations on Italy's National Reform Program) and informal channels (e.g. August 2011 Draghi and Trichet letter) from summer 2011 onwards.

The technocratic Monti government had replaced the Berlusconi government with the stated mission of restoring international markets' confidence in Italy's capacity to solve its structural macro-economic and public debt problems. The need to demonstrate to EU institutions and international markets quick progress and commitment to structural, productivity-enhancing reforms was thus used to speed up parliamentary approval and legitimize the government's hierarchical approach to negotiations with social partners. "European and international institutions supported the government's efforts towards reforms", as Fornero wrote in retrospect.⁷² In itself the impact of external pressures can be in line with both the liberalization and the recalibration hypothesis and is not sufficient to explain the differences between the Italian and the Spanish reforms. Instead, two factors can explain why Italy chose a different path. First, reconstructions of the reform negotiations suggest that the Italian unions – especially the CGIL – were still able to affect the legislative process, especially through their links with the center-left Democratic Party (PD), which was crucial for Monti's parliamentary majority.⁷³ As the measures of the technocratic government were successful in bringing down bond interests but also as its fiscal cuts started to be felt in society, its legitimacy started to wane and social actors such as the unions regained influence.⁷⁴ The CGIL strongly opposed the deregulation of dismissal protection and, jointly with the PD, managed to prevent more decisive deregulation.

Taken by itself, union opposition against weaker dismissal protection for insiders would be expected to favor continuing dualization, the only remaining option for flexibilization being at the margins of the labor market. However, in the situation of 2010-2012 this was prevented by the external reform pressures and by an "anti-dualist" consensus among policy experts. Indeed, as a second factor, among policy experts there was widespread consensus (differing only in detail) about the kind of policy changes that Italy needed, especially in the fields of unemployment benefits and employment

⁷² Fornero 2013.

⁷³ See, e.g., Sacchi 2013a; Sacchi 2013b.

⁷⁴ Culpepper 2014.

regulation.⁷⁵ Moreover, this consensus was to some extent shared at the supranational level, for instance when the recommendations by the European Council explicitly included a restructuring of unemployment benefits.⁷⁶ The external shock and the technocratic government, with its more hierarchical approach and a professor of economics as labor minister (Fornero), provided an opportunity for policy learning, i.e. for the ideas in the policy community to affect policy change. Therefore, this part of the reform process again corresponds to the recalibration hypothesis.

So, two factors came together in bringing about labor market recalibration under austerity in Italy. Union and left-party influence blocked the possibility of full-scale deregulation and expert-induced policy learning prevented further dualization. The combination of left-wing influence and policy ideas is evidenced also by the following retrospective quote from Fornero: “[sweeping deregulation] would not have been viable politically, given the opposition by at least one of the trade unions (CGIL, the most representative one) and by the party closest to it (the Democratic Party). In any case it would not have been the choice of this Minister, convinced as I am that encouraging a reduction of labor costs [...] would have resulted mainly [...] in an increase in casual and precarious jobs.”⁷⁷

Comparing the two cases

Contrary to much of the literature that highlights one particular reform direction under austerity, we find that domestic politics can lead to different paths. The analysis has shown that between 2010-2012 both countries adopted far-reaching labor market reforms, in discontinuity with their pre-crisis reform trends. The similarity of the two political economies as well as the analogous external pressures gave reason to expect similar reform contents. However, this was not the case. The major reform in Spain (under Rajoy) was a clear case of liberalization whereas the major reform in Italy (under Monti) constituted a recalibration of labor market policy.

Strong pressures for LMP reform in both countries came from international markets and EU institutions. European institutions communicated demands to both

⁷⁵ See e.g. Boeri and Garibaldi 2008; Ichino 2009.

⁷⁶ European Council 2011.

⁷⁷ Fornero 2013.

countries through formal and informal channels and through various forms of “soft conditionality”. The external pressures help to explain the unexpected magnitude of the reforms and basic elements of their direction. The sense of emergency in demonstrating progress in structural reforms to international markets and the EU allowed for an unusual degree of government unilateralism. Consequently, some characteristics of the reform process appear indeed similar in both countries, as the reforms were implemented quickly, without recurring to social pacts and with limited social partner consultation.

Beyond these common tendencies, there were significant differences in the content of reforms. The major reform in Spain conforms to the model of liberalization, while the major reform in Italy is in line with recalibration. As the exogenous pressures facing the two countries were largely similar, this suggests that domestic political dynamics were important. Two factors stand out. First, even if some scholars have recently cautioned against a simplified use of “left power” arguments,⁷⁸ in this comparison the relative influence of left- versus right-wing political forces mattered. In Spain a conservative government with a clear majority was able to exploit the crisis and the external pressures to push through deregulatory reforms in line with its political program. Moreover, the Spanish unions are weaker in terms of membership density than Italian unions and had no politically strong partner in parliament. By contrast, the Italian government had to rely on the support of the major center-left party, which in turn strengthened the influence of unions. This made radical liberalization as in Spain impossible.

Second, policy learning kept the Italian reforms from drifting down the road of dualization. By itself the union veto against more drastic deregulation of dismissal protection may have facilitated further dualization. However, in the policy community there was a clear awareness of the problems of Italy’s dualized labor market as well as a widespread agreement on the kind of desirable policy measures to take. A technocratic government in power and the spread of this policy consensus also to supranational institutions, made it possible for these ideas to inform the labor market reforms under austerity in Italy.

Conclusion and implications

Previous works on social reforms under austerity have seen a trend towards either

⁷⁸ Häusermann et al. 2013.

liberalization, dualization, or recalibration. The main contribution of our paper is to highlight that different trajectories are possible even within very similar economic and institutional contexts. We have analyzed two salient cases of structural labor market reform in the Euro crisis: Italy and Spain. In spite of the similarities between their two political economies, the Spanish case conformed to the liberalization thesis, while reforms in Italy were in line with the predictions of recalibration. We have shown that this divergence can be explained by the balance of political power – the conservative government in Spain and the influence of the unions and the main center-left party in Italy – as well as policy learning, which facilitated recalibration in the Italian case. While external pressures were responsible for the radical extent of reforms, domestic politics explains the different directions they took.

The main implication of our paper is that the austerity that is imposed across Europe does not pre-determine the institutional design of policies. The pressure from international markets and international institutions certainly favors liberalization, broadly speaking. But this liberalization is not necessarily implemented rigorously across the board, as by and large happened in Spain. Where the parties supporting government are not ideologically inclined towards broad-brush liberalization and where imbalances in social protection are widely recognized, as in Italy, a recalibration is possible that aims at improving protection for non-standard workers and the unemployed. Similar to Thelen's analysis of broader institutional change over the last decades, we find that in the narrower context of the crisis a general pressure for deregulation can still lead to varying reform trajectories across countries depending on political power.⁷⁹

What do our findings imply for dualization in Italy and Spain and how durable are the changes towards recalibration and liberalization respectively? The Italian reforms under austerity clearly went in the direction of recalibration, but they were not incisive enough to fundamentally overcome dualization. The EPL gap between standard and non-standard workers has narrowed, but it remains. Similarly, the new unemployment benefit system is more balanced, but still lacks a minimum income scheme and remains clearly stratified. Also ALMPs are still underdeveloped. Interestingly, currently (2014) a political government, led by the center-left under Matteo Renzi, is in the process of adopting a reform that aims again at recalibration and, in particular, at improving unemployment benefits and the public employment service. Final adoption and especially implementation

⁷⁹ Thelen 2014.

are still uncertain. Still, it seems that not only a technocratic process of policy learning but also political calculations aimed at centrist voters can support recalibrative reform efforts in Italy.

The liberalizing reforms in Spain may have a more lasting impact. No major reforms have since been adopted and developments in industrial relations as well as the Rajoy government's LMP strategy have remained consistent with the trajectory of liberalization. Also in the Spanish case this trend does of course not mean that dualization of institutions and labor market has been erased. The tendency towards liberalization may change if the Socialist Party regains power in the next general election. But in industrial relations the power balance has shifted in favor of employers and since 2010 there has been no effective trilateral social dialogue.⁸⁰ These conditions may sustain the move towards liberalization.

Our paper shows that full-blown liberalization is not the only possible policy path in an era of austerity and that more 'virtuous', recalibrative reforms are possible. Nevertheless, it needs to be remembered that the positive effects of such reforms on the labor market are bound to be limited as long as macroeconomic policies of austerity choke off economic demand.

⁸⁰ Molina and Miguelez 2013.

References

- Altieri, G., Birindelli, L., Dota, F., Ferrucci, G. 2011. “Un mercato del lavoro sempre più atipico: scenario della crisi”. IRES.
- Armingeon, Klaus, and Lucio Baccaro. 2012. “The sorrows of young Euro: Policy responses to the sovereign debt crisis”. In Nancy Bermeo and Jonas Pontusson, eds., *Coping with Crisis: Government Reactions to the Great Recession*: 162-198. New York : Russell Sage Foundation.
- Baccaro, Lucio, and Chris Howell. 2011. “A Common Neoliberal Trajectory The Transformation of Industrial Relations in Advanced Capitalism”. *Politics & Society* 39 (4):521-563.
- Barbieri, Paolo, and Stefani Scherer. 2009. “Labour market flexibilization and its consequences in Italy.” *European Sociological Review* 25 (6):677-692.
- Becker, Joachim, and Johannes Jäger. 2012. “Integration in crisis: A regulationist perspective on the interaction of European varieties of capitalism.” *Competition & Change* 16 (3):169-187.
- Bentolila, Samuel, Pierre Cahuc, Juan J Dolado, and Thomas Le Barbanchon. 2012. “Two-Tier Labour Markets in the Great Recession: France Versus Spain.” *The Economic Journal* 122 (562):155-187.
- Bentolila, Samuel, Juan J Dolado, and Juan F Jimeno. 2008. “Two-tier employment protection reforms: The Spanish experience”. *CESifo DICE Report* 4 (2008):49-56.
- . 2012. “Reforming an insider-outsider labor market: the Spanish experience.” *IZA Journal of European Labor Studies* 1 (1):1-29.
- Bermeo, Nancy, and Jonas Pontusson. 2012. *Coping with Crisis*. New York : Russell Sage Foundation.
- Berton, Fabio, Matteo Richiardi, and Stefano Sacchi. 2012. *The political economy of work security and flexibility: Italy in comparative perspective*: Policy Press.
- Bieling, Hans-Jürgen. 2012. “EU facing the crisis: social and employment policies in times of tight budgets.” *Transfer: European Review of Labour and Research* 18 (3):255-271.
- Blyth, Mark. 2013. *Austerity: The History of a Dangerous Idea*. Oxford: Oxford University Press.
- Boeri, Tito. 2011. “Institutional reforms and dualism in European labor markets.” *Handbook of labor economics* 4:1173-1236.
- Boeri, Tito, and Pietro Garibaldi. 2008. *Un nuovo contratto per tutti*: Chiarelettere Milano.
- Chung, Heejung, and Stefan Thewissen. 2011. “Falling Back on Old Habits? A Comparison of the Social and Unemployment Crisis Reactive Policy Strategies in Germany, the UK and Sweden.” *Social Policy & Administration* 45 (4):354-370.
- Clasen, Jochen, Daniel Clegg, and Jon Kvist. 2012. *European labour market policies in (the) crisis*: European Trade Union Institute (ETUI).
- Clauwaert, Stefan, and Isabelle Schömann. 2013. “The crisis and national labour law reforms: a mapping exercise.” *Transfer: European Review of Labour and Research* 19 (1):121-124.

- Culpepper, P. D., 2014, "The Political Economy of Unmediated Democracy: Italian Austerity under Mario Monti." *West European Politics* 37, 1264-1281.
- Dell'Aringa, C. 2012. "La riforma del lavoro: aspetti economici." [The labour market reform: economic aspects]. In *La nuova riforma del lavoro: Commentario alla legge*, edited by M. Magnani, Tiraboschi, M. Milano: Giuffr  Editore.
- Dolado, Juan Jose. 2012. The Pros and Cons of the Latest Labour Market Reform in Spain. *Spanish Labour Law and Employment Relations Journal* 1 (1-2):22-30.
- Dubin, Kenneth A., and Jonathan Hopkin. 2014. "A Crucial Case for Flexicurity: The Politics of Welfare and Employment in Spain." In Daniel Clegg and Paolo Graziano, eds., *The Politics of Flexicurity in Europe: Labour Market Reform in Hostile Climes and Tough Times*. Basingstoke: Palgrave Macmillan.
- Dubin, Kenneth A. 2012. "Coalitions Against Change. The (Real) Politics of Labor Market Reform in Spain." *Spanish Labour Law and Employment Relations Journal* 1 (1-2):47-63.
- EIRO. 2009. *Green light for new unemployment protection measure* [accessed 27/06 2013]. At <http://www.eurofound.europa.eu/eiro/2009/09/articles/es0909029i.htm>.
- . 2011. *Government endorses new measures to encourage growth and reduce deficit*, [accessed 27/06 2013]. At <http://www.eurofound.europa.eu/eiro/2010/12/articles/es1012021i.htm>.
- . 2013. *Spain: Social partners' involvement in unemployment benefit regime* [accessed 27/06 2013]. At <http://www.eurofound.europa.eu/eiro/studies/tn1206018s/es1206011q.htm>.
- . 2013. *Italy: Industrial Relations Profile*, [accessed 12/06 2014]. At http://www.eurofound.europa.eu/eiro/country/italy_3.htm.
- El Pais. 2011. "ECB asked Spain for wage cuts in return for bond purchases", English Edition, 7/12/2011 [accessed 02/08/2013]. At: http://elpais.com/elpais/2011/12/07/inenglish/1323238849_850210.html
- Emmenegger, Patrick, Silja H usermann, Bruno Palier and Martin Seeleib-Kaiser. 2012. *The age of dualization: the changing face of inequality in deindustrializing societies*. Oxford: Oxford University Press.
- ETUI. 2014. 'National Industrial Relations: Spain'. At <http://www.worker-participation.eu/National-Industrial-Relations/Countries/Spain/Trade-Unions> [accessed 04.11.2014)].
- European Commission. 2010. "Annual Growth Survey: Advancing the EU's Comprehensive Response to the Crisis". *Annex 3, Draft joint Employment Report, COM (2011)11*,
- European Council. 2013. *Council Recommendation of 12 July 2011 on the National Reform Programme 2011 of Italy and delivering a Council opinion on the updated Stability Programme of Italy, 2011-2014 (2011/C 21 5/02)* 2011 [accessed 20/08/2013]. At <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2011:215:0004:0007:EN:PDF>.
- . 2013. *Council Recommendation of 12 July 2011 on the National Reform Programme 2011 of Spain and delivering a Council opinion on the updated Stability Programme of Spain, 2011-2014* 2011 [accessed 02/08/2013]. At

- <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2011:215:0004:0007:EN:PDF>.
- . 2013. *Council Recommendation of 6 July 2012 on the National Reform Programme 2012 of Italy and delivering a Council opinion on the Stability Programme of Italy, 2012-2015* 2012 [accessed 02/08/2013]. At <http://register.consilium.europa.eu/pdf/en/12/st11/st11259.en12.pdf>.
- Eurostat. 2013. *EU-LFS* 2013 [accessed 02/08/2013]. At http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database.
- Ferrera, Maurizio and Hemerijck, Anton. 2003. "Recalibrating Europe's welfare regimes." In J. Zeitlin and D. Trubek, eds., *Governing Work and Welfare in a New Economy*. Oxford: Oxford University Press.
- Ferrera, Maurizio. 2010. "The South European Countries." In F. G. Castles, J. Lewis, H. Obinger and C. Pierson, eds., *The Oxford Handbook of the Welfare State*. Oxford: Oxford University Press.
- Ferrera, Maurizio, and Elisabetta Gualmini. 2004. *Rescued by Europe?: Social and labour market reforms in Italy from Maastricht to Berlusconi*. Amsterdam : Amsterdam University Press.
- Financial Times. 2011. <http://blogs.ft.com/brusselsblog/files/2011/11/BerlusconiLetter.pdf> [accessed 15/04/2014].
- Fornero, Elsa. 2013. "Reforming labor markets: reflections of an economist who (unexpectedly) became the Italian Minister of Labor." *IZA Journal of European Labor Studies* 2 (1):1-18.
- Gallie, Duncan, and Serge Paugam. 2000. *Welfare regimes and the experience of unemployment in Europe*. Oxford: Oxford University Press.
- Garibaldi, Pietro, and Filippo Taddei. 2013. "Italy: A Dual Labour Market in Transition. Country case study on labour market segmentation." In *ILO Employment Working Paper 144*.
- Guillén, Ana Marta, and Margarita Leon. 2011. *The Spanish welfare state in European context*. Ashgate Publishing, Ltd.
- Hall, Peter. 1993. "Policy paradigms, social learning, and the state: the case of economic policymaking in Britain." *Comparative politics*: 275-296.
- . ———. 2014. "Varieties of Capitalism and the Euro Crisis." *West European Politics* 37(6): 1223-1243
- Hamann, Kerstin. 2013. "The relationship between unions and Zapatero's government: from social pacts to general strike". In B. N. Field, Botti, A., eds., *Politics and Society in Contemporary Spain: From Zapatero to Rajoy*. London: Palgrave Macmillan.
- Häusermann, Silja, Georg Picot, and Dominik Geering. 2013. "Rethinking Party Politics and the Welfare State: Recent Advances in the Literature." *British Journal of Political Science* 43 (01):221-240.
- Hemerijck, Anton. 2013. *Changing welfare states*. Oxford: Oxford University Press.
- Heyes, Jason. 2013. "Flexicurity in crisis: European labour market policies in a time of austerity." *European Journal of Industrial Relations* 19 (1):71-86.
- Heyes, Jason, Paul Lewis, and Ian Clark. 2012. "Varieties of capitalism, neoliberalism and

- the economic crisis of 2008-?” *Industrial Relations Journal* 43 (3):222-241.
- Hijzen, Alexander, and Danielle Venn. 2011. “The role of short-time work schemes during the 2008-09 recession.” Paris: OECD Publishing.
- Ichino, P. 2009. *Disegno di Legge n. 1481, XVI Legislatura: Disposizioni per il superamento del dualismo del mercato del lavoro, la promozione del lavoro stabile in strutture produttive flessibili e la garanzia di pari opportunità nel lavoro per le nuove generazioni.* [accessed 12.06.2014 2014]. At <http://www.pietroichino.it/wp-content/uploads/2009/09/ddl-1481.pdf>
- ILO. 2012. “Employment protection and industrial relations: Recent trends and labour market impacts.” In *ILO World of Work Report 2012: Better Jobs for a Better Economy*. Geneva: ILO.
- Kalleberg, Arne L. 2009. “Precarious Work, Insecure Workers: Employment Relations in Transition.” *American Sociological Review* 74 (1):1-22.
- King, Desmond, and David Rueda. 2008. “Cheap labor: the new politics of bread and roses in industrial democracies”. *Perspectives on Politics* 6 (02):279-297.
- La Repubblica. 2012. “Lavoro, sindacati divisi. Monti: 'Su art.18 non si tratta più.’”. *La Repubblica*, 20/03/2012.
- Lallement, Michel. 2011. “Europe and the economic crisis: forms of labour market adjustment and varieties of capitalism.” *Work, Employment & Society* 25 (4):627-641.
- Leschke, Janine. 2012. “Has the economic crisis contributed to more segmentation in labour market and welfare outcomes?” *ETUI Working Papers*.
- Marx, P. and G. Picot, 2014, Labour Market Policies and Party Preferences of Fixed-term Workers, in: S. Kumlin and I. Stadelmann-Steffen, eds., *How Welfare States Shape the Democratic Public: Policy Feedback, Participation, Voting, and Attitudes* (Edward Elgar, Cheltenham) 113-131.
- Mato, F Javier. 2011. “Spain: fragmented unemployment protection in a segmented labour market.” *Regulating the Risk of Unemployment: National Adaptations to Post-Industrial Labour Markets in Europe*:164.
- Meardi, Guglielmo. 2012. “Employment relations under external pressure: Italian and Spanish reforms in 2010-12.” Paper read at International Labour Process Conference, Stockholm.
- Molina, Oscar, and Alejandro Godino. 2013. “Economic Reforms and the Labor Market: Zapatero's Endless Period in the Wilderness.” In *Politics and Society in Contemporary Spain: From Zapatero to Rajoy*, edited by B. N. Field, Botti, A. London: Palgrave Macmillan.
- Molina, Oscar, and Fausto Miguelez. 2013. “From negotiation to imposition: Social dialogue in austerity times in Spain.” *ILO Working Paper n. 51*. Geneva: ILO.
- Molina, Oscar, and Martin Rhodes. 2007. “The political economy of adjustment in mixed market economies: a study of Spain and Italy.” In Oscar Molina and Martin Rhodes, eds, *Beyond Varieties of Capitalism: Conflict, Contradictions and Complementarities in the European Economy*:223-252.
- Navarro Nieto, Federico R. 2012. “Spagna: la riforma del quadro giuridico della contrattazione collettiva.” *Diritto delle relazioni industriali: rivista della*

- Associazione lavoro e ricerche* 22 (3):928-945.
- OECD. 2010. *OECD Economic surveys: Spain. Reforming the labour market*. Paris: OECD
- Picot, Georg. 2012. *Politics of Segmentation: Party Competition and Social Protection in Europe*. London and New York: Routledge.
- Pierson, Paul. 2001. *The new politics of the welfare state*. Oxford: Oxford University Press.
- Rhodes, Martin. 2012. "Coordination, Cooperation and Conflict in Labor Market Reform: Spain and Italy in the Crisis." Paper read at Politics and Society Seminar Series, Collegio Carlo Alberto, Turin.
- Royo, Sebastian. 2009. "After the fiesta: the Spanish economy meets the global financial crisis." *South European Society and Politics* 14 (1):19-34.
- Rueda, David. 2007. *Social Democracy Inside Out: Partisanship and Labor Market Policy in Advanced Industrialized Democracies*. Oxford : Oxford University Press.
- , 2012a. "West European Welfare States in Times of Crisis." In Nancy Bermeo, Jonas Pontusson, eds., *Coping With Crisis: Government Reactions to the Great Recession*. New York: Russell Sage Foundation.
- . 2012b. Dualization and crisis. *Swiss Political Science Review* 18 (4):523-530.
- Sacchi, Stefano. 2013a. "Italy's labour policy and policymaking in the crisis: from distributive coalitions to the shadow of hierarchy". In M. Magara, S. Sacchi, eds., *The Politics of Structural Reforms. Social and Industrial Policy Change in Italy and Japan*. Cheltenham: Edward Elgar.
- . 2013b. "Policy without politics? Technocratic aspirations, international push and domestic politics in Italy's labor market reform." Paper read at 20th International Conference of Europeanists-Crisis & Contingency: States of (In) Stability.
- Sacchi, Stefano, Federico Pancaldi, and Claudia Arisi. 2011. "The Economic Crisis as a Trigger of Convergence? Short-time Work in Italy, Germany and Austria." *Social Policy & Administration* 45 (4):465-487.
- Saint-Paul, Gilles. 1997. "The rise and persistence of rigidities." *The American Economic Review*:290-294.
- Schmidt, Vivien A. 2012. "What happened to the state influenced market economies (SMEs)? France, Italy and Spain confront the crisis as the good, the bad, and the ugly." In W. W. Grant, eds., *The Consequences of the Global Financial Crisis: The Rhetoric of Reform and Regulation*. Oxford: Oxford University Press.
- Sinopoli, Francesco. 2012. "Politiche neoliberali, diritto del lavoro e alternative di politica industriale." *Quaderni di Rassegna Sindacale* 2/2012.
- Streeck, Wolfgang. 2008. *Re-Forming Capitalism: Institutional Change in the German Political Economy: Institutional Change in the German Political Economy*: Oxford University Press.
- . 2011. The crises of democratic capitalism. *New Left Review* (71):5-29.
- Thelen, Kathleen. 2014. *Varieties of Liberalization and the New Politics of Social Solidarity*. Cambridge: Cambridge University Press.
- Tiraboschi, Michele. 2012. "Italian Labour Law after the so-called Monti-Fornero Reform (Law No. 92/2012)." *E-Journal of International and Comparative Labour Studies*

1 (3-4).

- Trichet, Jean-Claude., Draghi, Mario. 2011. *Un'azione pressante per ristabilire la fiducia degli investitori*, 29/09/2011 [accessed 03/08/2013 2013]. At http://www.corriere.it/economia/11_settembre_29/trichet_draghi_inglese_304a5fle-ea59-11e0-ae06-4da866778017.shtml
- van Kersbergen, Kees, Vis, Barbara, Hemerijck, Anton. 2014. "The Great Recession and Welfare State Reform: Is Retrenchment Really the Only Game Left in Town?" *Social Policy and Administration* (pre-published online).
- Visser, Jelle. 2011. "ICTWSS: Database on institutional characteristics of trade unions, wage setting, state intervention and social pacts in 34 countries between 1960 and 2007." Institute for Advanced Labour Studies, AIAS. University of Amsterdam, Amsterdam.
- Wolfl, Anita, and Juan Mora-Sanguinetti. 2011. "Reforming the labour market in Spain." In *OECD Economics Department Working Paper No. 845*. Paris: OECD Publishing.