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Dealing with unemployment:
The Italian case

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Outline

- ▶ Unemployment in Italy
- ▶ The Employment of Last Resort (ELR) proposal
- ▶ The numbers of an ELR program

Are you in (un)employment?

The official unemployment measure depends on international standards which harmonize the Labor Force Survey

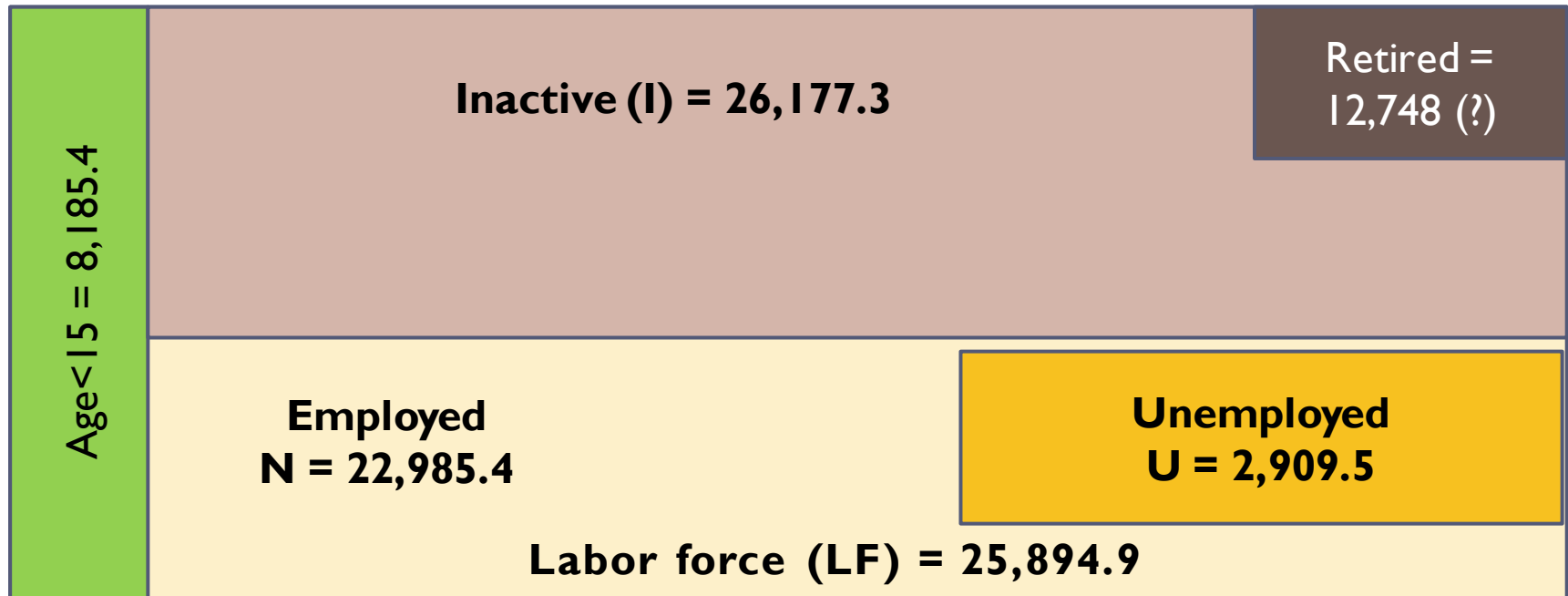
You are employed if (age > 14), in the relevant week:

- ▶ Have worked at least one hour (being paid in some form!)
- ▶ You are employed, but have been ill/on vacation

You are unemployed if ($14 < \text{age} < 75$)

- ▶ You actively searched for a job in the last four weeks, and you are willing to start working in the next two weeks
- ▶ You will start working three months from now, and you are available to anticipate to the next two weeks

Official unemployment measure



POP=60,257.6

POP Age > 14 = 52,072.2

Unemployment rate (U3) = $U/LF = 11.2\%$

All figures refer to 2017Q2

The employment rate

Note that the definition of employment does not have an upper age bound (while I presume that if you are looking for work with age 75+ you are classified as inactive).

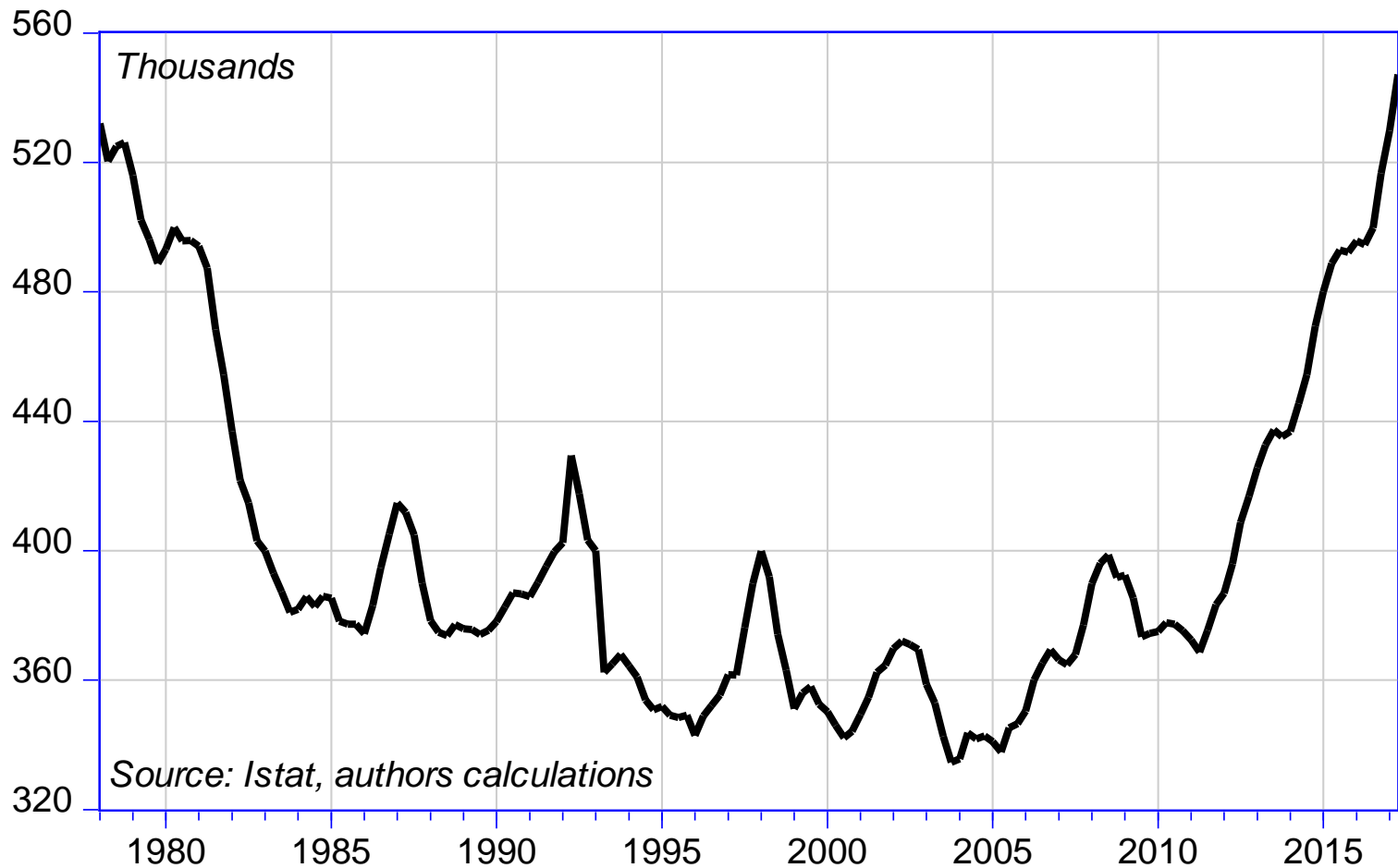
The employment rate should be given by

$$\frac{\textit{Employed}}{\textit{Population in working age}}$$

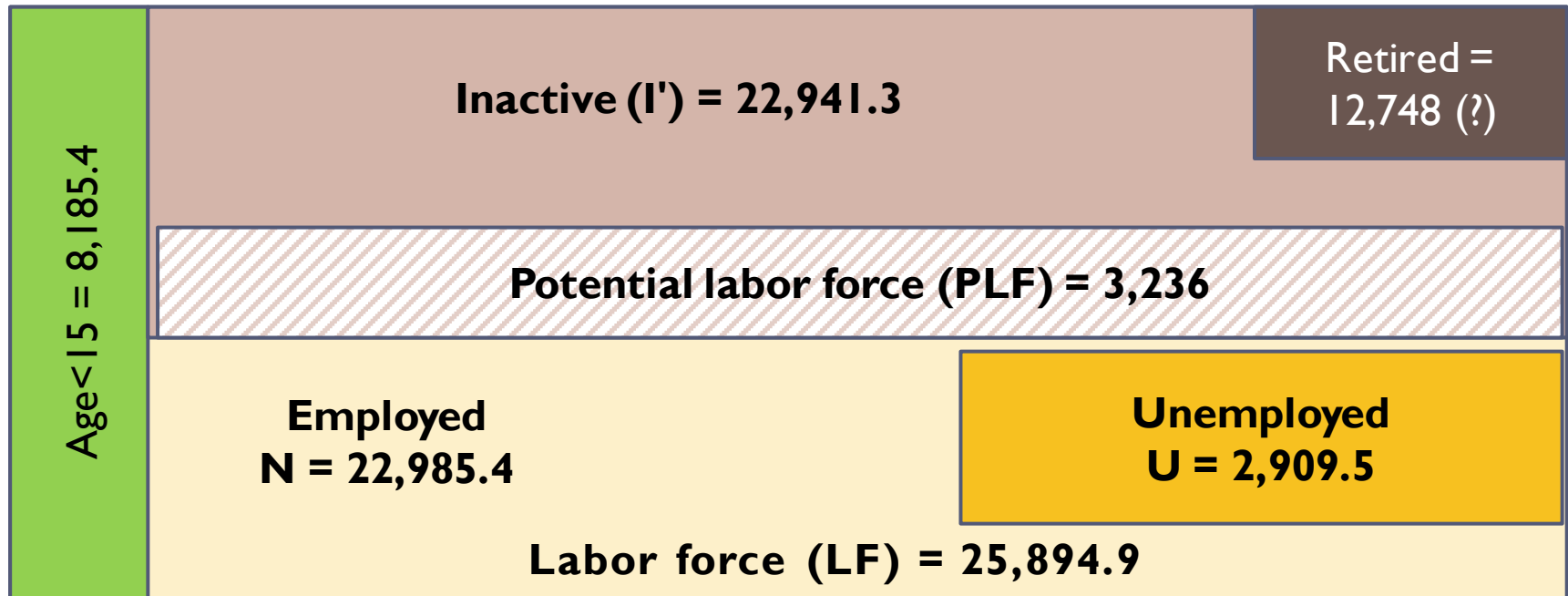
But a growing number of people of age 65+ are employed...

Longevity, or coping with the crisis?

Figure 1. Italy. Employed at age > 64



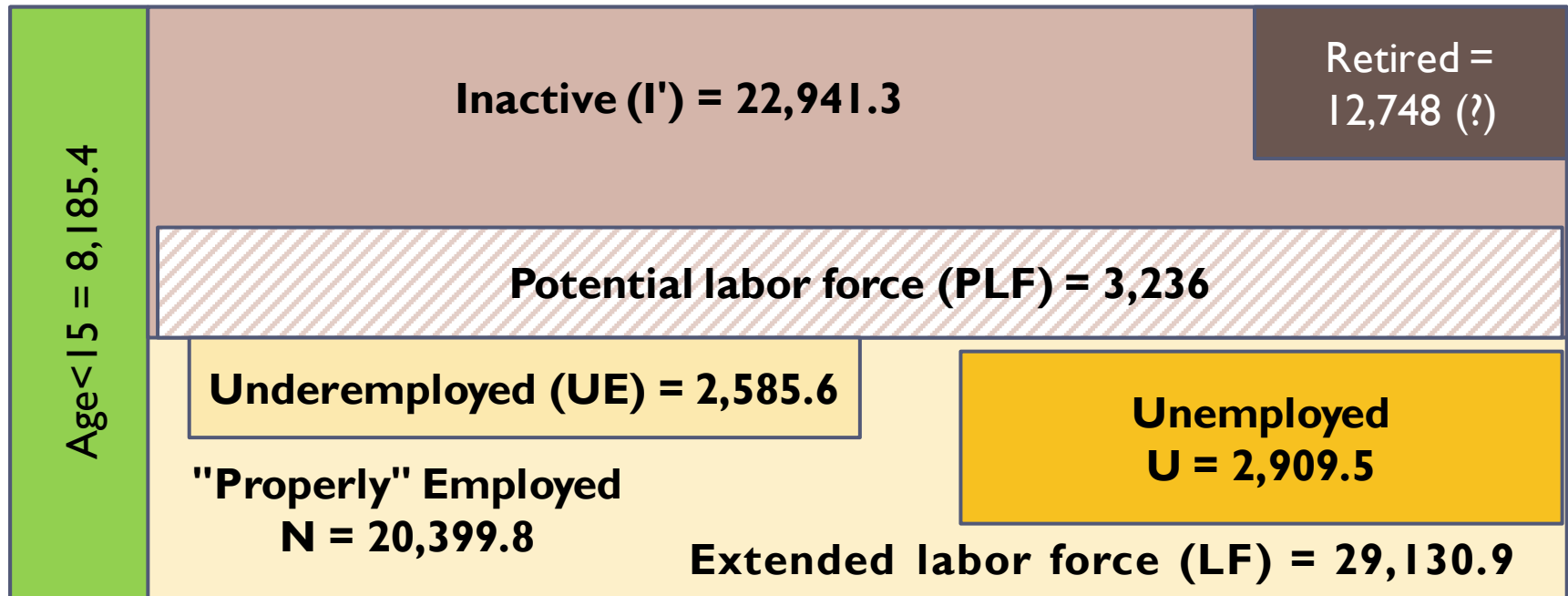
Extending the unemployment measure



Potential labor force:

- Willing to work, but not looking
- Looking for a job, but not available in the next two weeks

Extending the unemployment measure



Underemployed

- Working part-time for economic reasons, willing to work more hours in the next two weeks

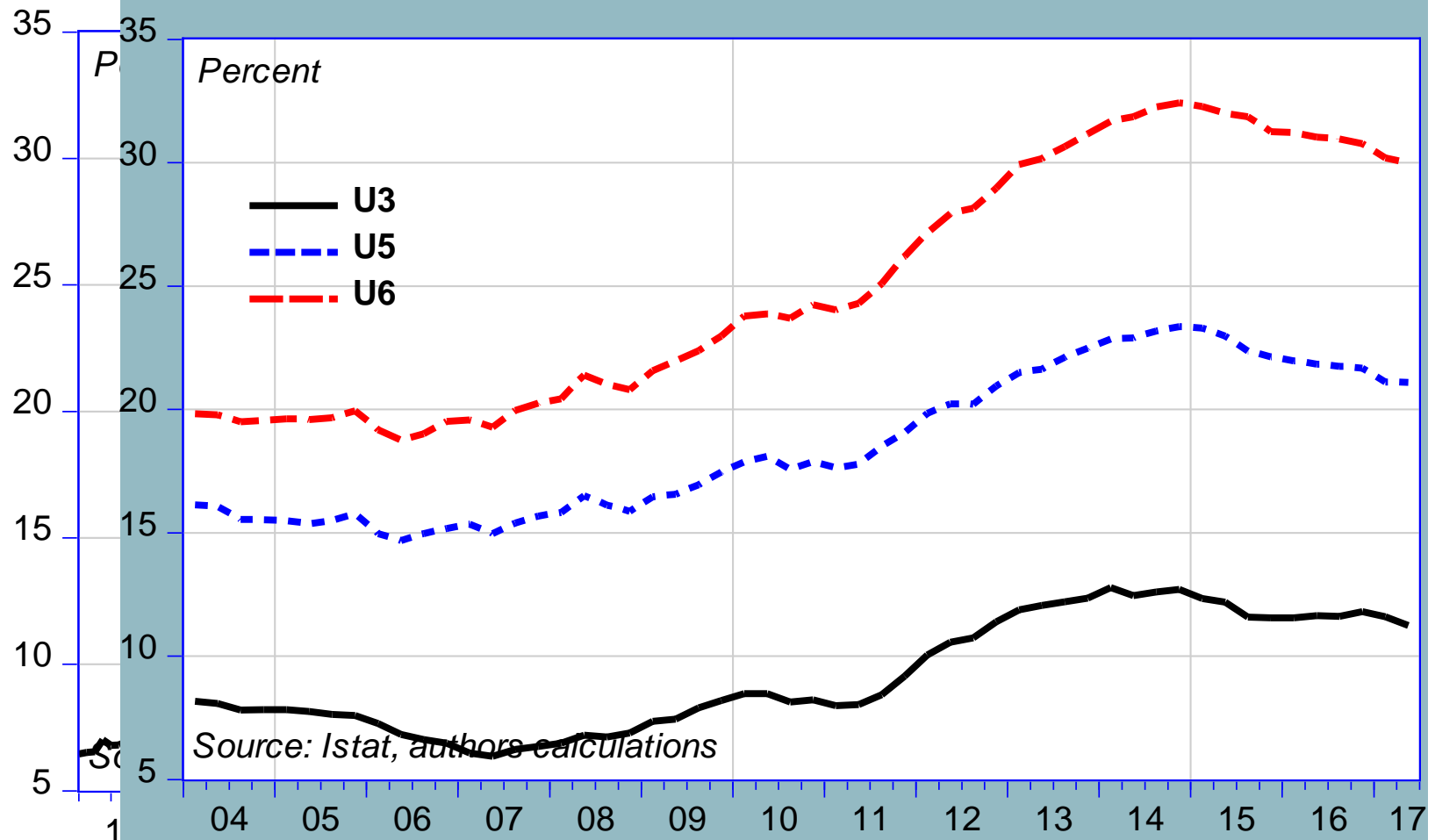
Alternative measures of unemployment

- ▶ U-1: Persons unemployed 15 weeks or longer, as a percent of the civilian labor force
- ▶ U-2: Job losers and persons who completed temporary jobs, as a percent of the civilian labor force
- ▶ U-3: Total unemployed, as a percent of the civilian labor force (official unemployment rate)
- ▶ U-4: Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers
- ▶ U-5: Total unemployed, plus discouraged workers, plus all other marginally attached workers, as a percent of the civilian labor force plus all marginally attached workers
- ▶ U-6: Total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers

From BLS, Technical notes, International Comparisons of Annual Labor Force Statistics, 1970-2012

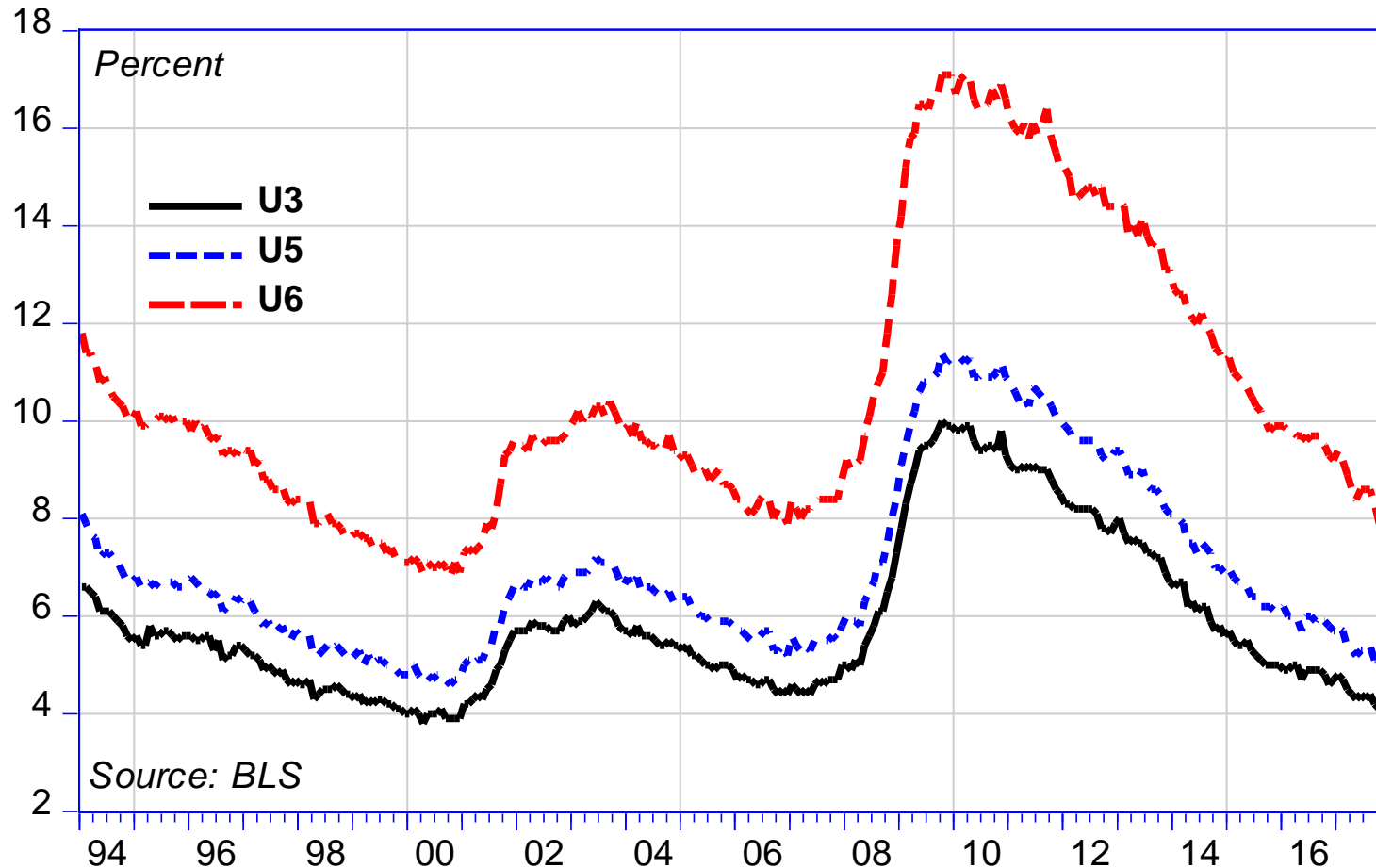
Alternative measures of unemployment

Figure 2. Italy. Unemployment rates



Unemployment in the U.S.

Figure 3. United States. Unemployment rates



Unemployment and inflation

The mainstream "new consensus" (or New Keynesian) model usually incorporates a Taylor rule for monetary policy, which suggests that the Central Bank should react to the output gap, or to deviations from the NAIRU.

But what is the appropriate unemployment measure for the NAIRU?

However, our first exploratory econometric analysis have failed to find a robust relation between wage inflation and either U3 or U6

Jobs and earnings

| Italy. Changes in employment, and average gross monthly earnings | | | |
|--|----------------|----------------|----------------|
| | 2015 | 2016 | 2017 |
| <i>Permanent contracts</i> | | | |
| New jobs | 1,109,661 | 766,617 | 731,681 |
| Net increase | 438,401 | 55,965 | 27,218 |
| <i>Temporary contracts</i> | | | |
| New jobs | 2,124,128 | 2,209,606 | 2,781,456 |
| Net increase | 266,529 | 511,765 | 719,666 |
| <i>Average pre-tax notional wage</i> | | | |
| Permanent | 1,890 | 2,006 | 2,053 |
| Temporary | 1,893 | 1,888 | 1,840 |

Source: INPS (first 7 months of each year)

The ELR proposal

The Employment of Last Resort proposal suggests that the government provides a job to anyone interested and able to work.

- ▶ Jobs should be provided locally, among positions defined in coordination with local governments and the non-profit sector
- ▶ Jobs should be paid a base wage, high enough for a "decent" living, but low enough to make regular employment in the private sector more attractive

How much is "decent"?

From Istat calculator of the (absolute) poverty line:

<https://www.istat.it/iframes/poverta/>

The poverty line for a family of 2 with one child aged 4-10 goes from 998 €/month (in a small town in the South) to 1,372 €/month (in a large city in the North).

A net salary of 700€/month for each adult component would therefore be barely sufficient to lift a family of the North out of poverty.

The minimum hourly wage

In 2017, the lowest official hourly wage (clothing industry) is at 6.60 €/hour

A base hourly wage at 6 €/hour would therefore be below the minimum in the private sector. Assuming 8 hours of work/day for 22 days/month, such a wage implies a monthly labor income of 1,056 euro (roughly a PhD student scholarship...!)

ELR schemes

| | N (Mn) | Annual Wage | Wage bill (Bn) | Soc. contr. (Bn) | Total cost (Bn) |
|-----------------|--------|-------------|----------------|------------------|-----------------|
| Unemployed (U3) | 2,909 | 12,672€ | 38.8 | 13.3 | 50.1 |
| Unemployed (U5) | 6,145 | 12,672€ | 77.8 | 28.1 | 106.0 |

The amount of (virtual) social contributions paid is computed from the ex-post contributions/wages ratio, at 36.1%

The total cost of the program will be increased by the amount of intermediate goods and capital needed, which will depend on the specific jobs

The impact on the budget

An ELR scheme would increase the income of those at the bottom of the income distribution, and therefore with the highest marginal propensity to consume.

The size of the multiplier of such fiscal policy should therefore be larger than for an "average" fiscal expansion.

The final impact of the ELR program on government budget will depend on how it will be financed (which is outside the scope of this talk!)

Underemployment

How many in precarious employment would be interested in the ELR as an alternative?

Italy. Hours worked in 2016

| | N | % |
|---------------------------|----------|--------|
| Not at work | 1,678.2 | 7.4% |
| Between 1 – 10 hours/week | 606.8 | 2.7% |
| Btw 11-25 hours/week | 3,469.0 | 15.2% |
| Btw 26-40 hours/week | 5,359.0 | 23.5% |
| 40 hours/week | 7,605.0 | 33.4% |
| More than 40 hours | 3,824.1 | 16.8% |
| Total | 22,757.8 | 100.0% |

Guess-estimating

According to INPS data, the average theoretical gross wage in temporary contracts is 1,844 euro.

For example, those working 10 hours/week would get $\frac{1}{4}$ of the theoretical gross wage, or 461 euro/month

It follows that all working at this theoretical wage for less than 22 hours/week would be better off with an ELR full-time job

A very conservative estimate, using numbers from the previous table, would be at around 2 million workers

ELR schemes, extended

| | N (Mn) | Annual Wage | Wage bill (Bn) | Soc. contr. (Bn) | Total cost (Bn) |
|-----------------|---------------|--------------------|-----------------------|-------------------------|------------------------|
| Unemployed (U3) | 2,909 | 12,672€ | 38.8 | 13.3 | 50.1 |
| Unemployed (U5) | 6,145 | 12,672€ | 77.8 | 28.1 | 106.0 |
| Unemployed (U6) | 8,145 | 12,672€ | 103.2 | 37.3 | 140.5 |

Extending the ELR program to those in temporary, underpaid employment, would raise the total cost of the program to 140.5 billion euro, or 8.4 percent of 2016 GDP.