

**ISI**Growth  
a European project challenging the mainstream paradigm

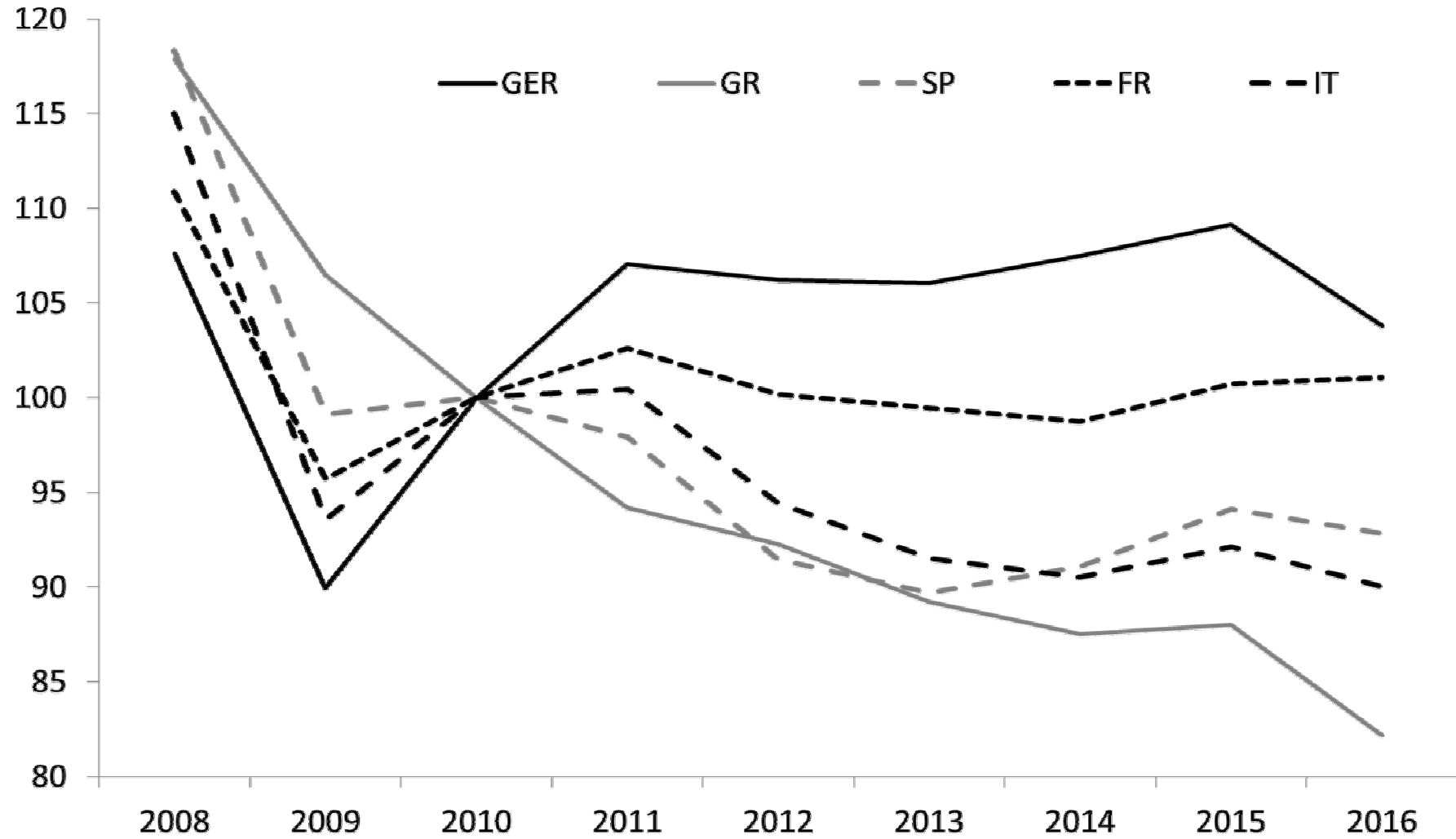
Valeria Cirillo  
and  
Maria Enrica Virgillito



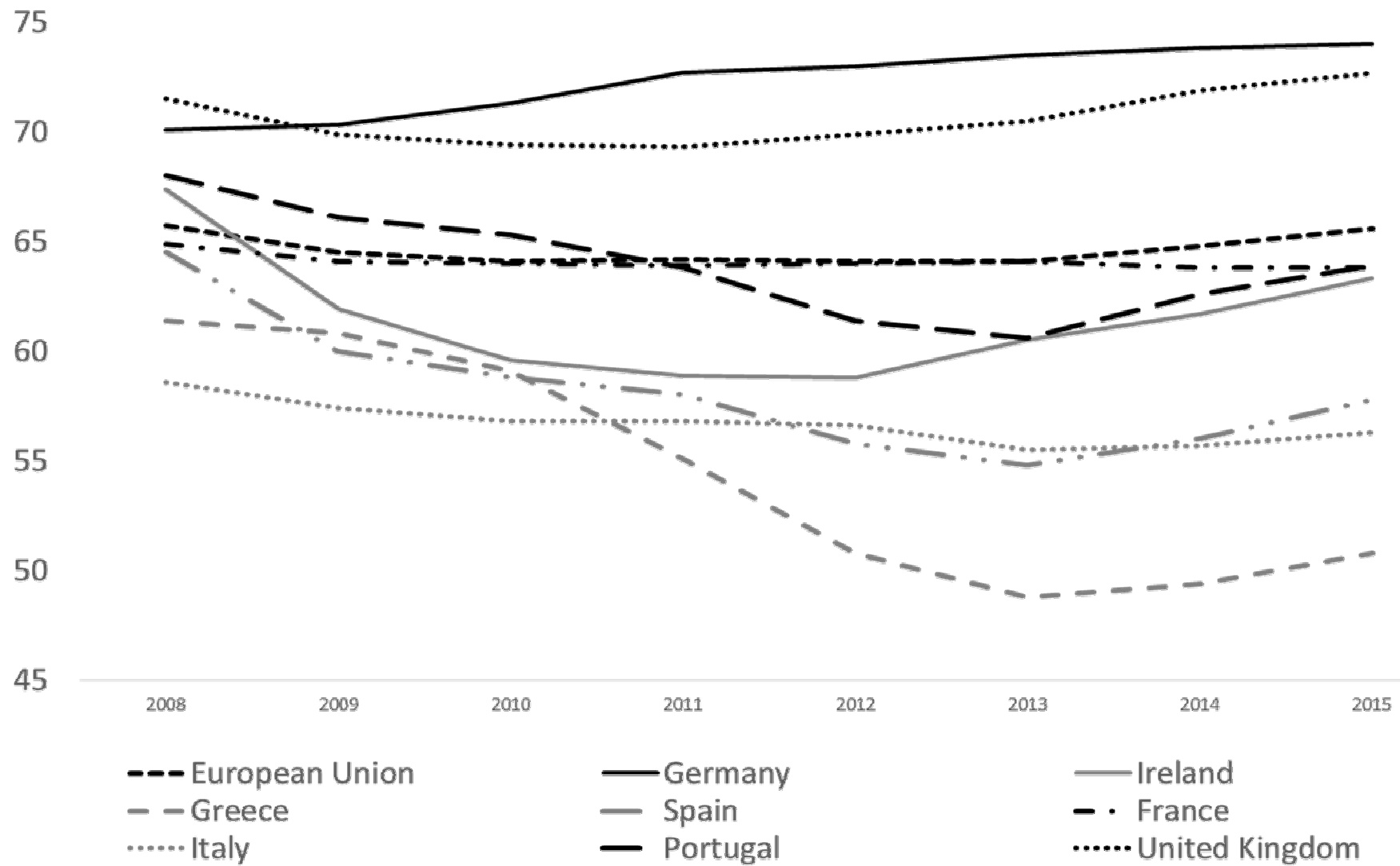
# Austerity and polarization in Europe

- ✓ austerity measures implemented in the Eurozone after the 2008 economic crisis have accelerated the on-going process of polarization across European regions;
- ✓ the expected convergence has been limited and the impact of current crisis has led to a growing polarization in terms of **employment, competitiveness and industrial specialization**;

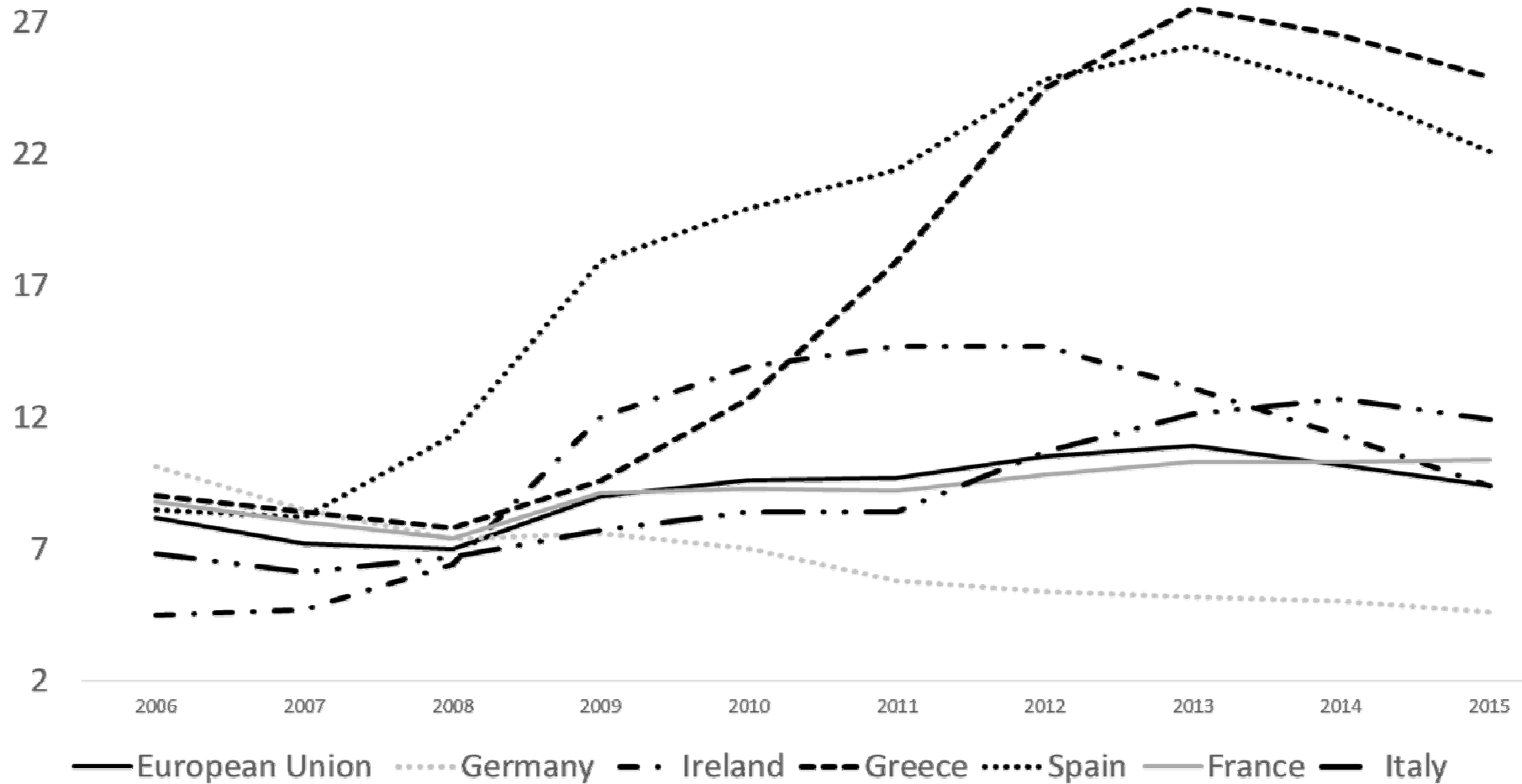
Industrial production index 2008-2016  
(GER, FR, IT, SP & GR. 2010=100)



## Employment rates in European countries (2008-2015)



## Unemployment rates on total active population (2006-2015)



# The *ISIGrowth* research project aims to:

- ✓ Challenge the **mainstream economic paradigm** providing policy advices rooted on theoretical and empirical analysis on occupational, industrial and financial dynamics;
- ✓ Beyond mainstream approach:
  - heterogeneity of agents, preferences;
  - multiple interactions;
  - disequilibrium;
  - path dependency;
- ✓ Complex and evolutionary view of the economy as a fundamental domain for policy intervention and institutional engineering;
- ✓ Diagnostics + Theory + Empirics

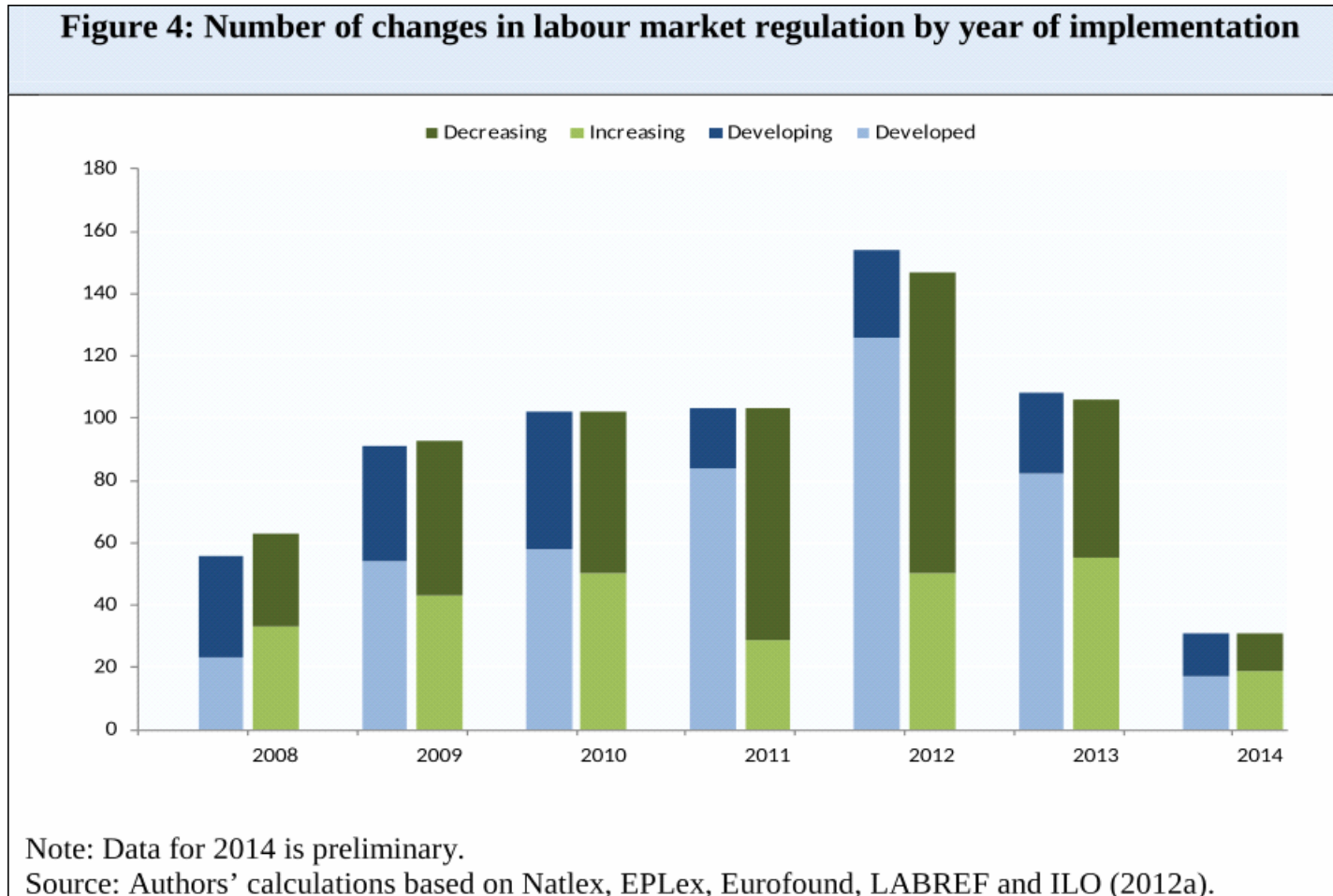
### **Major advances have been made on the theory side:**

- The links between ‘Schumpeterian’ innovation processes and the “Keynesian” demand-generation mechanisms;
- The relations between finance and real dynamics (“Minsky meeting Keynes meeting Schumpeter...”);
- The impact of labour market organization upon aggregate dynamic patterns, and the related debunking of the magic of ‘structural reforms’.

### **Major advances have been made on the policy side:**

- The crucial role of publicly sponsored “mission oriented” programs both as engines of innovation and drivers of macro growth;
- The importance of (expansionary) fiscal policies, and, conversely, the self-defeating impact of austerity ones;
- The design and impact of ‘green’ policies.

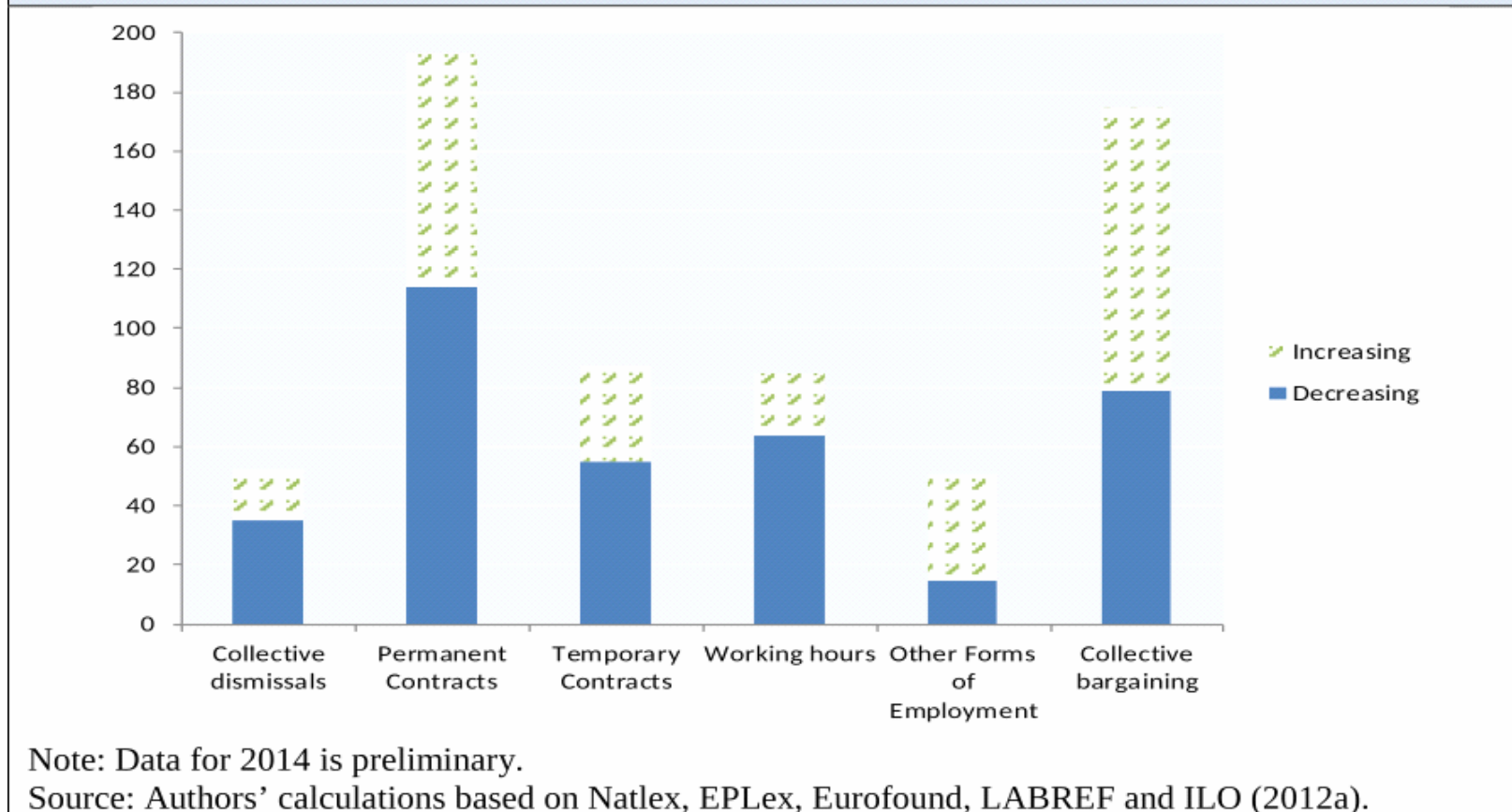
# The implementation of labour market structural reforms:



Source: Adascalitei et al. 2015



**Figure 5: Number of changes in labour market regulation by policy area, 2008-2014**



Source: Adascalitei et al. 2015

# Empirics on labour market

## Focusing on Italy...

Fana M, D. Guarascio and V. Cirillo (2015) “Labour market reforms in Italy: evaluating the effects of the Jobs Act”,  
<http://www.isigrowth.eu/2015/12/08/labour-market-reforms-in-italy-evaluating-the-effects-ofthe-jobs-act/>

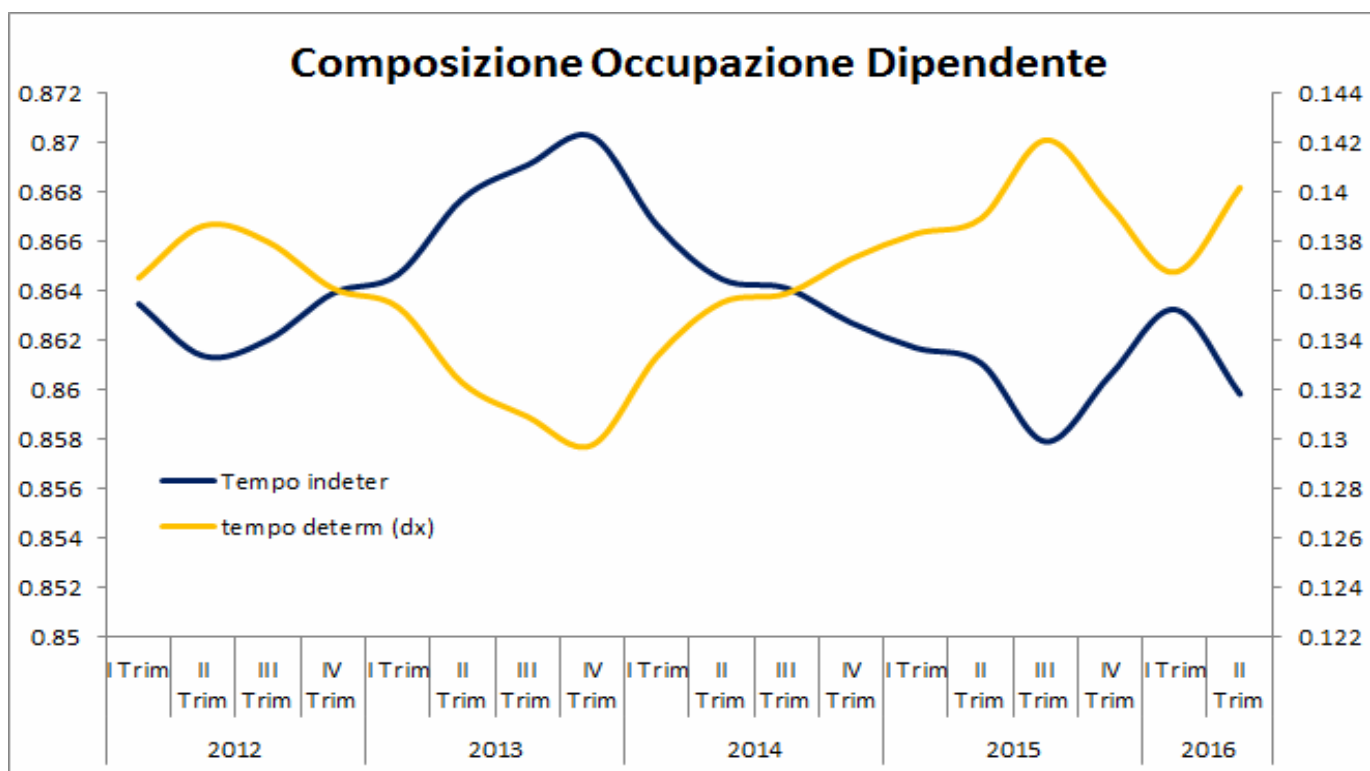
- ✓ Analysis of the law 183 of 2014, named the “Jobs Act”;
- ✓ The Jobs Act has introduced a new contract type - ‘contratto a tutele crescenti’ - implying a substantial downsize of obligation for workers’ reinstatement in case of firms invalidly firing them.

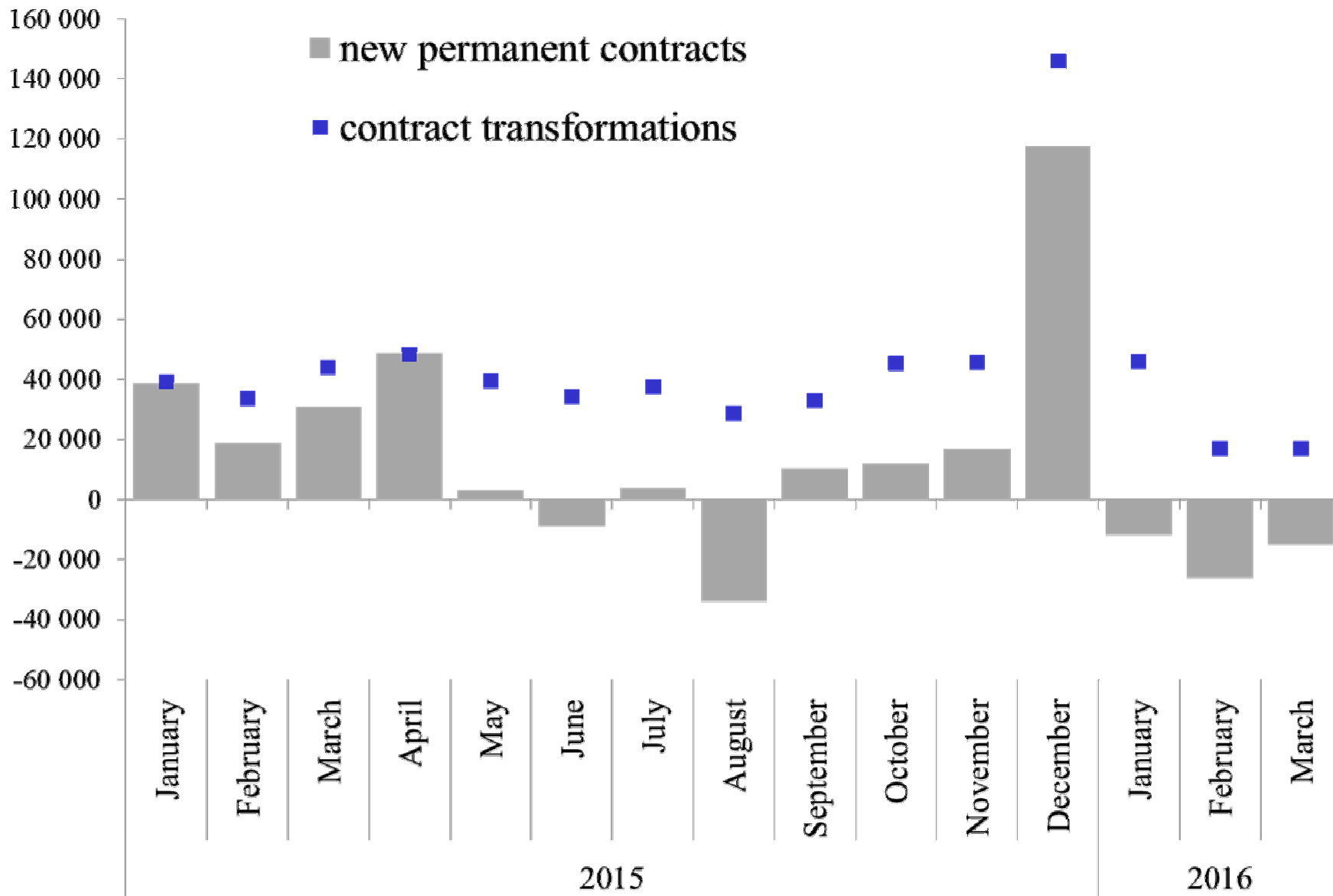
Taking advantage of different data sources (administrative and labour force data), the investigation provides the following results:

- 1. Increase of new permanent positions in correspondence of the full decontribution period;**
- 2. Increase in the share of temporary contracts over the open-ended ones;**
- 3. Raise of part-time contracts within the new permanent positions;**
- 4. Major concentration of employment growth in low-tech services.**

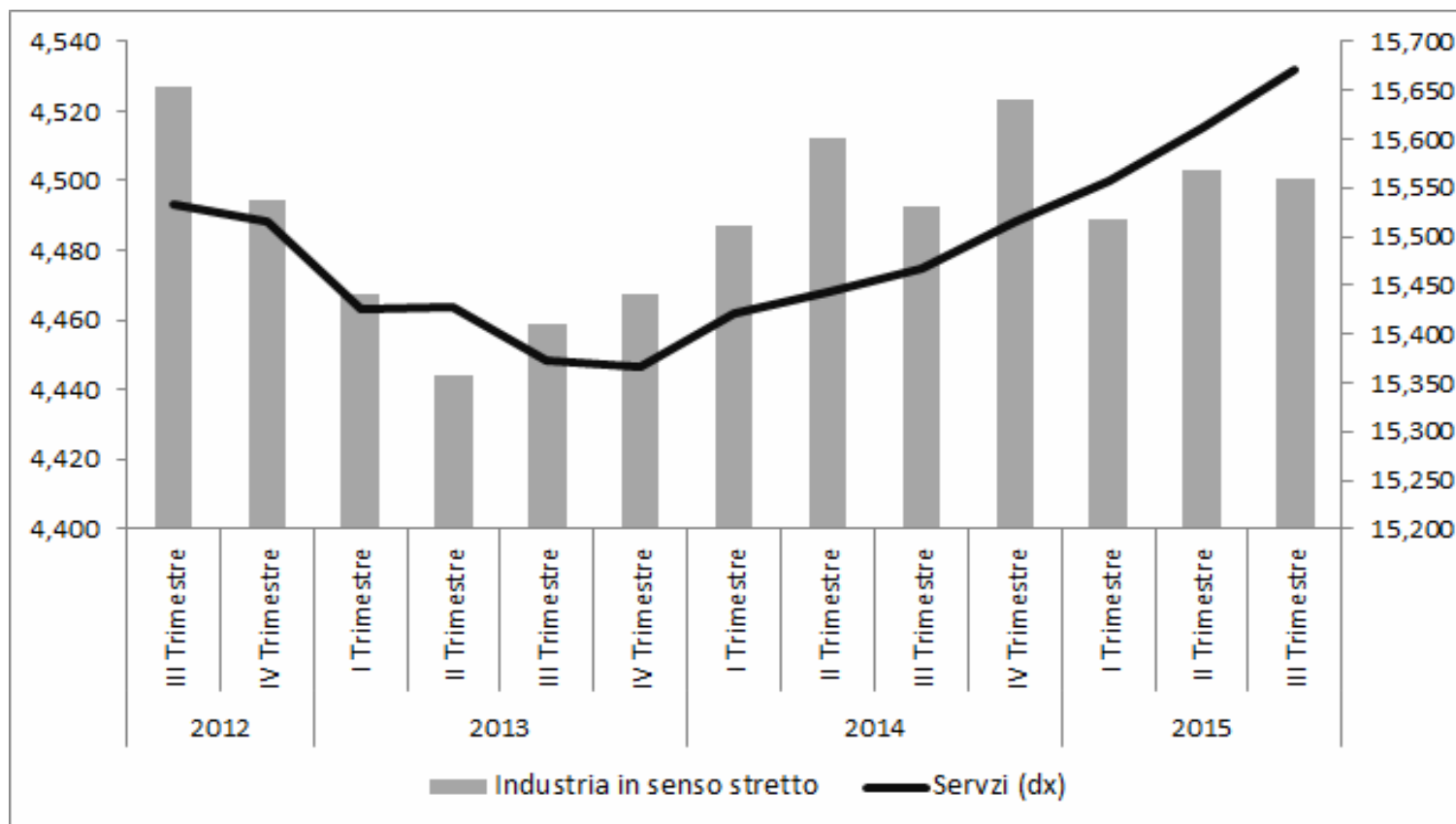
**1. An increase in the share of temporary contracts over the open-ended ones is observed;**

	% of Permanent	% of Temporary	% Total
Full time	58%	64%	62%
Part Time	42%	36%	38%
Total	100%	100%	100%





## Number of employees by macrosector



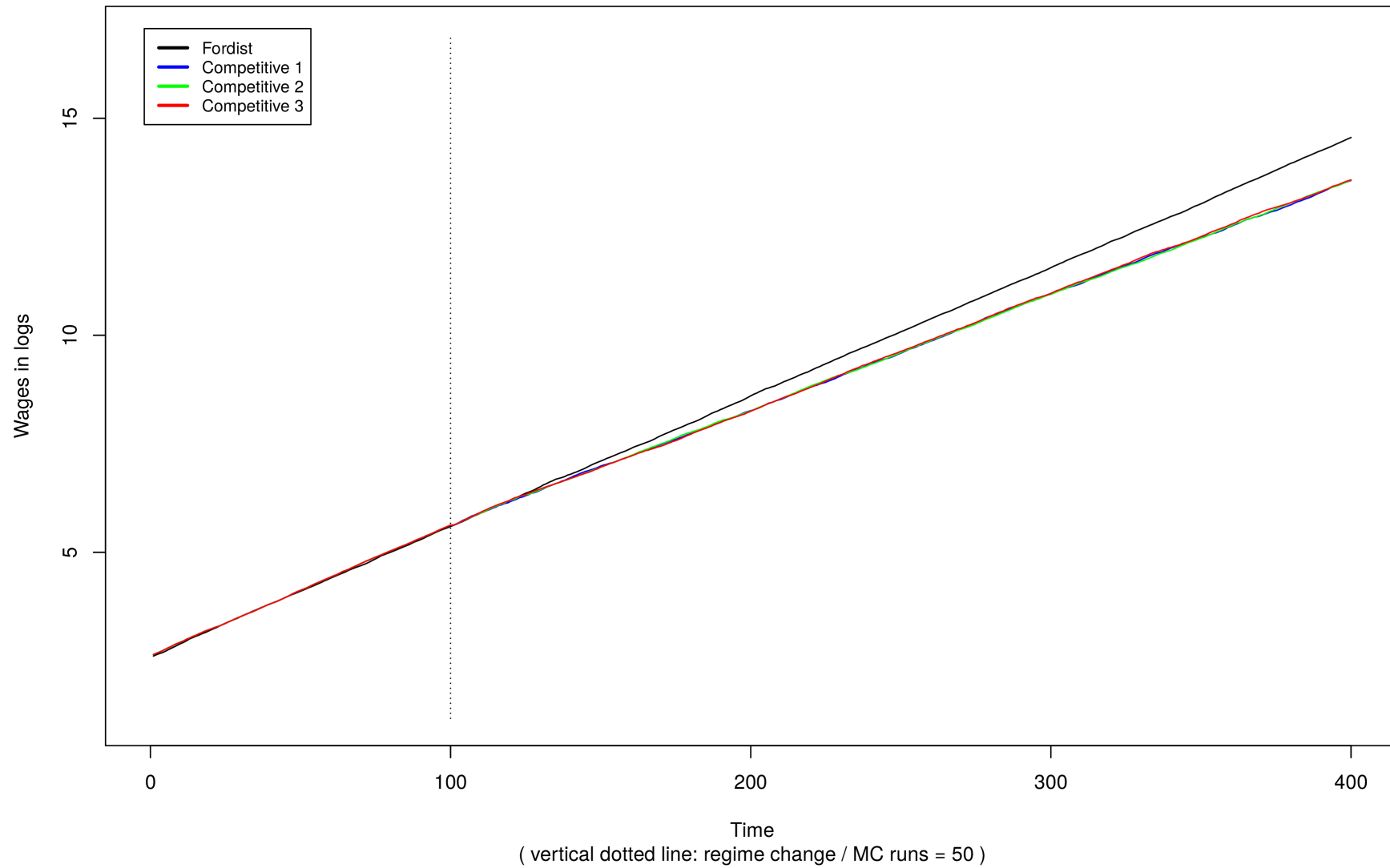
## Model outputs

“The effects of structural reforms upon unemployment and income inequality: an ABM” (available at <http://www.isigrowth.eu/research-results/>)

1. more “flexibility” in the labour market yield higher volatility of growth, higher unemployment, and in some circumstances, lower rates of long term growth;
2. a larger fraction of unemployed workers (who get reduced or no unemployment benefits) simply increases the level of personal income inequality;
3. Robust evidence on how the degrees of job protection and the wage setting policies directly affects functional income distribution;

# The effects of labour market structural reforms upon wage growth: model results

Real Wages Average ( all regimes )



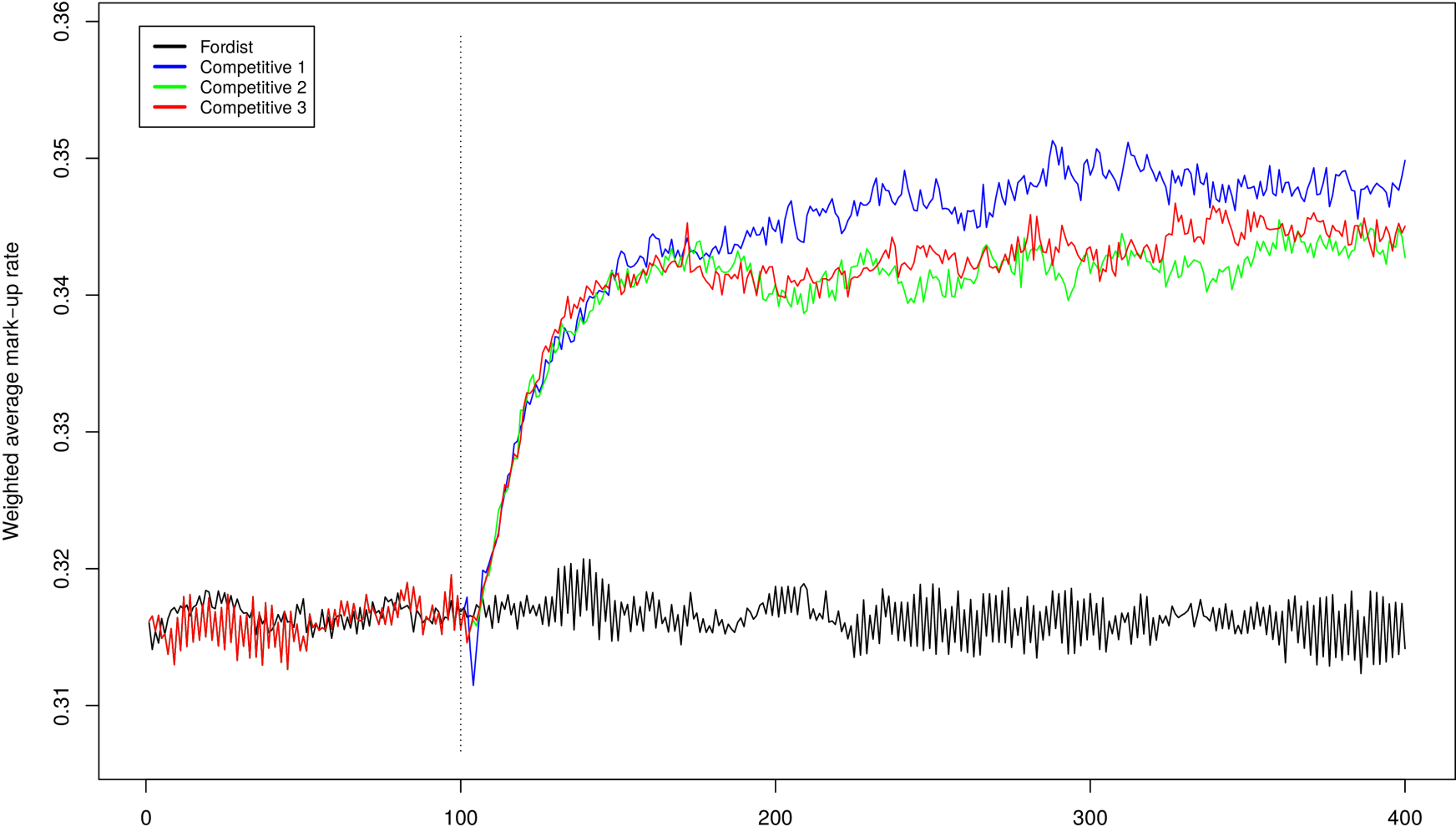
# The effects of labour market structural reforms upon unemployment: model results





# The effects of labour market structural reforms upon inequality: model results

Mark-up Average ( all regimes )



( vertical dotted line: regime change / Mark-up in sector 2 only / MC runs = 50 )

Are structural labour market reforms a panacea for unemployment, growth and income redistribution?

✓ According to the results provided by our model, definitely not, maybe well the opposite;

✓ Whenever the institutional structure of labour markets tends to exacerbate the asymmetry in the bargaining power between workers and firms, in favour of the latter, whenever productivity gains are not shared with workers but are retained by capitalists, or unemployment benefits are reduced or eliminated, also the macroeconomic conditions tend to get worse in terms of unemployment rates and the long-run growth of income and productivity;

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