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## **Italy's labour market reform: Jobs Act vs. Workers Act**

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### **Abstract**

Since the nineties, the Italian labor market has been invested by a continuous and intense reform program. Analogously to what happened in most of the European countries, such program was aimed at a substantial liberalization. This objective has been pursued introducing 'flexibility' in the labor market following a strictly neoliberal agenda. The main reforms have regarded the reduction of legal constraints easing the possibility of dismissals and introducing flexible job contracts in terms of both remuneration and work organization. In this paper we synthesize the principal element of change which affected the Italian labor market analyzing, in particular, the features of the recently introduced 'Jobs Act'. Moreover, we present a brief empirical evidence depicting the dynamics of employment, productivity and wages in Italy from the nineties onwards. After summarizing the main components of the 'Jobs Act' we propose an alternative plan for the Italian labor market: 'The Workers Act'. The latter – conceptualized on a non neo-liberal theoretical base - aims at creating grounds for restarting growth and competitiveness – in a sustainable way - avoiding any penalization for workers.

## 1. Labor market policies in Italy

Since the beginning of the nineties, all governments alternating in charge – disregarding their center-left or center-right collocation - contributed to a deep transformation of the Italian labor market (Barbieri and Scherer, 2009). Regarding their declared intentions, these transformations were directed at spurring competitiveness as well as at improving labor participation of young people and women – two components traditionally underrepresented in the Italian labor market, in particular compared to the Northern European countries' performances (Tealdi, 2011; European Commission, 2014). However, the very economic reasoning underlying this set of 'reforms' has concerned the build-up of a market founded on a tight neo-liberal conception of labor.

Following a strictly 'neoclassical' representation of the economy - production factors are supposed to be remunerated according to their marginal productivity – an increasing amount of 'flexibility' have been introduced, making workers sufficiently 'mobile and flexible' to allow the matching between earnings and productivity. Thus, aiming at an overall efficiency improvement, a paradigm was gradually substituted by a new one, eliminating most of the former pillars characterizing the Italian labor market: new contract types - easing layoffs - introduced so to substitute the traditional ones characterized, conversely, by workers' reinstatement in case of invalid firings; gradual switching of the wage determination mechanism towards an in-firm bargaining scheme weakening the previous one - organized on nation-wide bases; introduction of a wide set of flexibility instruments on the firm side and, particularly, those connected to work organization – a high degree of flexibility have been introduced allowing firms to vary organization schedules time to time and to ask, with less restrictions, for work at night or during public holidays (Sbilanciamoci!, 2015).

Moreover, a relevant amount of reform interventions regarded – in parallel – the Italian pension system. The latter has been

transformed from a *defined benefit system* – where the amount of retirement benefit was linked to the amount of the last wage perceived – to a *contributory pension systems (pay-as-you-go)* – where the amount of retirement benefit is linked to the (actualized) contributions accumulated during the whole working life.

Furthermore, the retirement age have been gradually – but constantly – postponed as well as connected to the amount of contributions paid<sup>1</sup>. Such pension system's reforms – operating along the above described labor market's transformations – have determined the rise of two different forms of *uncertainty* affecting Italian workers: i) the first one, is related to the uncertainty of work and income continuity; ii) the second one, regards the uncertainty with respect to the age at which retirement is allowed as well as the amount of retirement benefit to be received.

The main laws introducing such reform agenda are listed in what follows:

- (Law 355/1995, 'Riforma Dini') Passage from a *defined benefit* retirement system to the *pay-as-you-go* pension system
- (Law 196/1997, 'Pacchetto Treu') Introduction of new job contracts (i.e the 'project contract') characterized by high flexibility – destined to be adopted in parallel with the open-ended ones – and by the elimination of any law constraint on workers' firing.
- (Law 30/2003, 'Legge Biagi') Introduction of an additional set of flexible job contracts enlarging the amount of workers lacking any protection – and right - concerning layoffs and on-the-job organization (tasks organization in terms of time and procedures).

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<sup>1</sup> At present, the retirement age in Italy has been pushed towards 70 years – within a flexible calculation mechanism summing worker's age and number of years of regular contribution into the pension fund - for both men and women.

- (Law 92/2012, 'Legge Fornero') Weakening of the legal constraints – namely the '*Articolo 18*' of the Law 300/1970, '*Lo Statuto dei Lavoratori*' - which were still protecting - from invalid layoffs (see section 4 for an explanation of this point) - workers enrolled with the open-ended contracts.
- (Law 183/2014, 'Jobs Act') The last intervention aimed at eliminating the residual law protections on which workers - enrolled with the 'old' open-ended time contracts - could still rely on (the '*Articolo 18*' has been definitively abolished). A new contract type has been introduced – '*contratto a tutele crescenti*' -, destined to become the standard one - providing total freedom of dismissal balanced only by a minimum economic compensation.

Moreover, tight linkages are identifiable between European fiscal and monetary framework and the Italian (labor market) reform agenda implementation. As it has been widely documented elsewhere, the combination of common currency, structural differences among Eurozone economies, fiscal tightening – namely, the 3% Maastricht rule – as well as the deep financial market integration have had a direct impact on the evolution of European labor markets (Stockhammer, 2013 and 2014).

European labor markets, in fact, were supposed to be free from any constraint - namely, lowering minimum wage levels and weakening legal constraints to layoffs – in line with other markets, in particular the financial one. Such freedom should have eased factor mobility within and between EU countries - exactly as in the case of capitals circulating within the EU's integrated financial market. Nevertheless, the persistence of a relevant heterogeneity among Eurozone economies as well as the absence of any fiscal adjustment mechanism aimed to fix trade imbalances gradually determined the emergence of massive amount of external debt

burdening some Eurozone's areas (Cirillo and Guarascio, 2015). In particular, the Southern European countries – the so-called periphery – have experienced huge current account deficits leading to heavy adjustments on the labor market side. In other words, being absent any possibility of currency devaluation, when wide external deficits occurred the only alternative – for the peripheral countries – has been wage deflation to be pursued through 'structural reforms' (Stockhammer, 2013).

A strong acceleration of the liberalization process in the EU periphery occurs after the 2008 crisis'. After 2008, in fact, the financial crisis mounted in the EU's periphery contributing to spur – in a deeper and almost definitive way – the labor markets' liberalization agenda. This depending was aimed at re-balance the huge *private* external debt accumulated – previously to the crisis - by the periphery's corporate and banking sectors. The latter have been rapidly transformed in *public* debt through banks bail-outs. The consequent rise of public debt – beside the dramatic recession hitting the whole periphery – helped to politically justify the need for 'reforms' supposed to foster competitiveness, recover growth and reduce debts (Sbilanciamoci!, 2015).

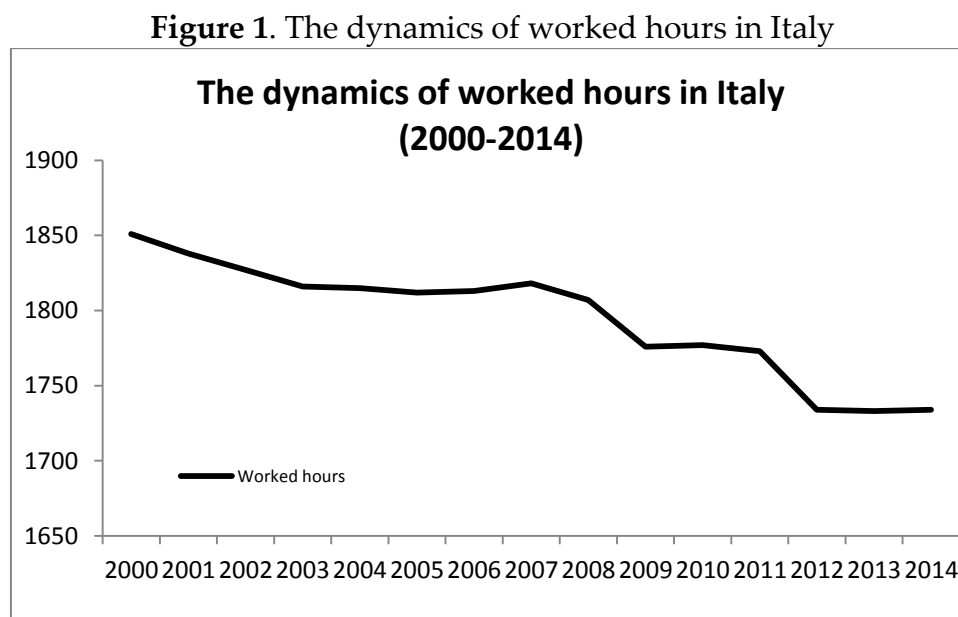
In Italy, the adoption of these post crisis reforms has been leaded, at first, by Mario Monti's government; and, since 2014, by Enrico Letta and Matteo Renzi's center-left governments. This point is briefly analyzed in section 4.

## **2. Basic data on employment, productivity and wages: Italy before and after the crisis**

The trend of employment observed for the early nineties till the 2008's crisis depicts the failure of a reform agenda aimed at improving employment levels as well as at fostering employability of young people. The data provided in the Workers Act show that, despite the huge set of reforms investing the Italian labor market, the rise of employment has been – in the period between 1990 and

2014 – of no more than a 5% (Sbilaciamoci!, 2015). In this section we provide a sketch of the Italian labor market dynamics analyzing descriptively the evolution of employment, wages and labor productivity.

Figure 1 reports the dynamics of worked hours in Italy in the period comprehended between 2000 and 2014.



Source: OECD Statistics (available at: <http://stats.oecd.org/>)

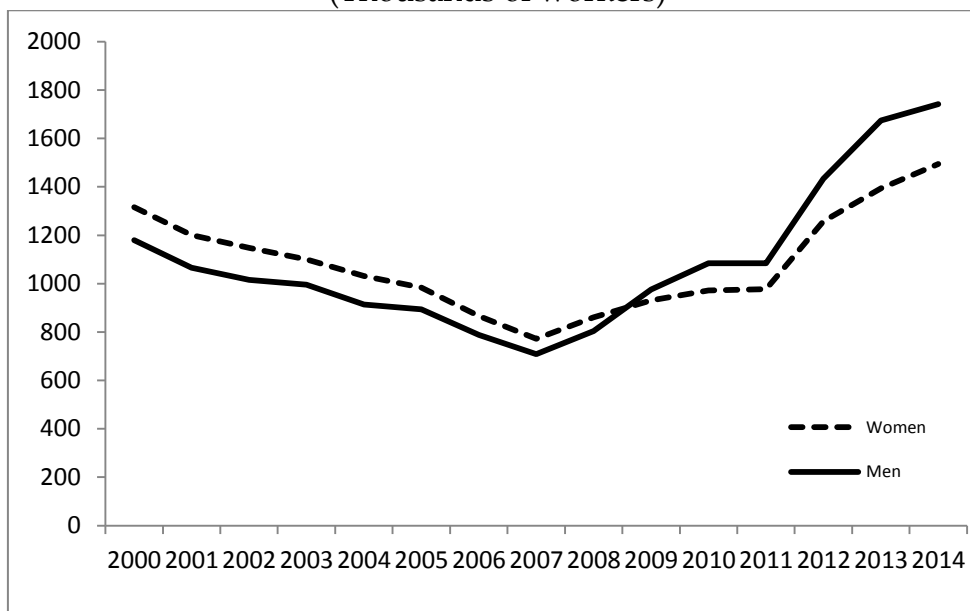
Note: total amount of worked hours, thousands.

The dynamics shown in Figure 1 highlight a general trend of reduction in the amount of time devoted to work. The figure is more significant if one thinks that the considered period – 2000-2014 – is the one during which the neo-liberal reform agenda was expected to yield its benefits. Moreover, the dramatic impact of the crisis on employment dynamics – with the line shirking twice, once around 2008 and then around 2012 – is clearly depicted by the data. Figure 2 shows the dynamics of unemployment accounting for the gender dimension. Apparently, a partial reduction of disparities between men and women unemployment dynamics is detected, even if the latter continues to show a relatively higher unemployment trend. Interestingly enough, the female component of the labor force seems to react better than the male one after the

2008 crisis. The latter evidence could be connected to the resilience of those occupations – associated to those goods and services characterized by a relative rigidity of demand when a negative shock occurs – still required during the crisis<sup>2</sup> (Cirillo and Guarascio, 2015).

The Italian youth unemployment figures seems to be the more impressive ones. The number of youth passed from the 27.50 in the year 2000 to the 23% in the 2008 showing a slight reduction. Nevertheless, in 2015 they reached their historical peak reaching the 44,20%<sup>3</sup>.

**Figure 2.** The dynamics of unemployment by gender in Italy  
(Thousands of workers)



Source: OECD Statistics (available at: <http://stats.oecd.org/>)

Note: total amount of unemployed persons, thousands.

In this light, a similar figure characterizes the dynamics of NEET in Italy. The latter acronym is referred to a young person who is ‘not in education, employment, or training’. Figure 3 reports the dynamics of Italian NEET for the period 2005-2013.

<sup>2</sup> Among those professions are collocated all those low-wage occupations in the care and health assistance sector. More in general, many low-paid services turned out to be resilient during the crisis (Cirillo and Guarascio, 2015).

<sup>3</sup> Source: OECD Statistics (available at: <http://stats.oecd.org/>)

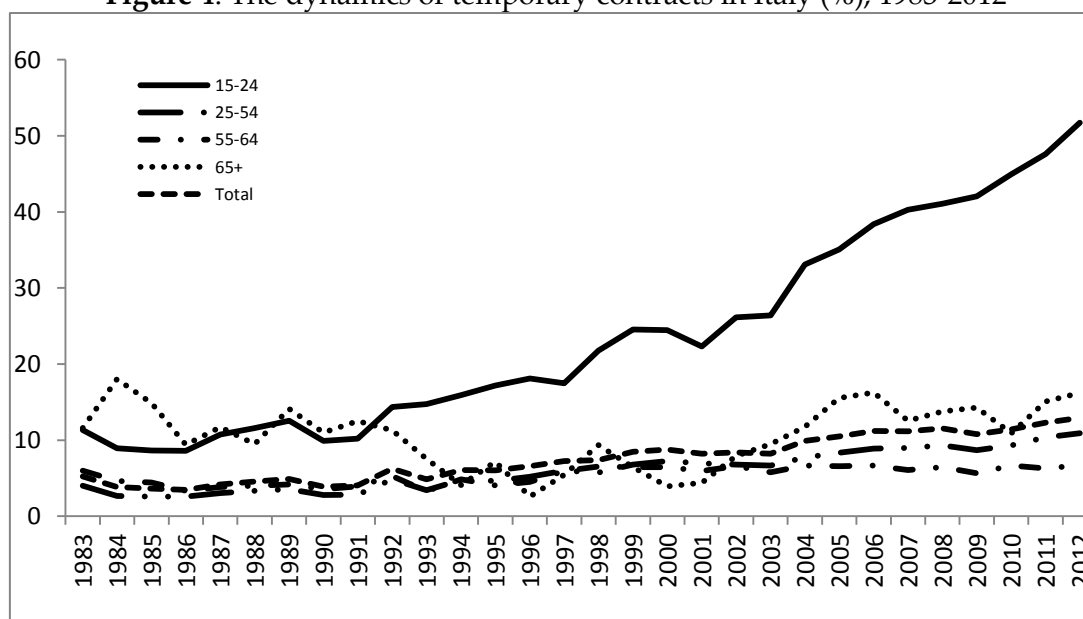
**Figure 3.** The dynamics of NEET in Italy (%), 2005-2013



Source: Istat (available at: <http://dati.istat.it/>)

As the dynamics depicted in figure 3 shows, after a reduction observable during the first years of observation (2005-2006), the trend of the NEET component is constantly increasing.

**Figure 4.** The dynamics of temporary contracts in Italy (%), 1983-2012



Source: OECD Statistics (available at: <http://stats.oecd.org/>)



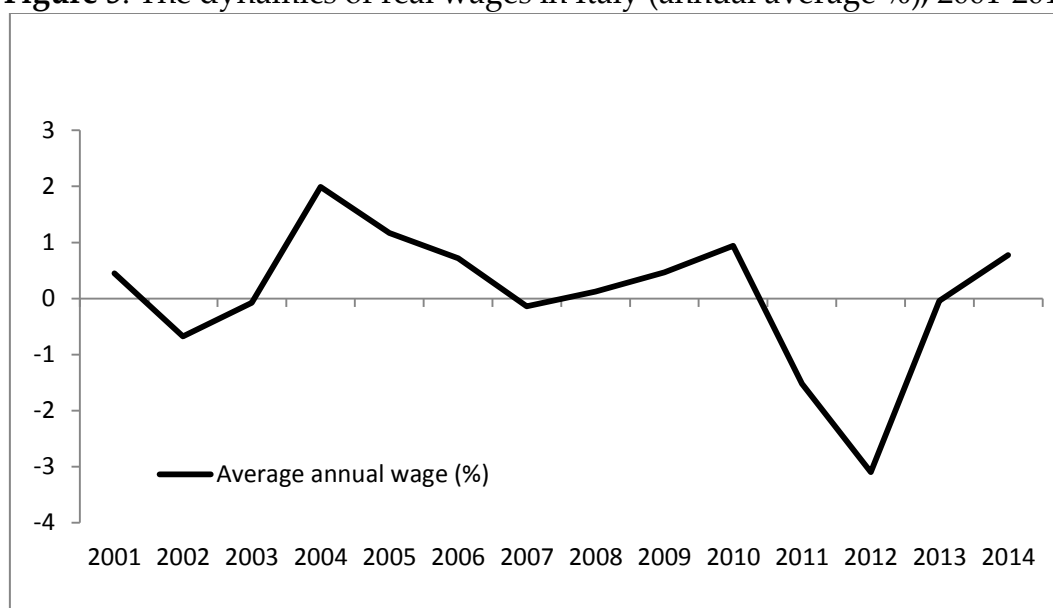
Another major change which followed the Italian labor market reform regarded the relative increase in the amount of temporary contracts in comparison to the open-ended ones. Figure 4 depicts the evolution of temporary contracts in Italy - distinguished by age class - over the period 1983-2012.

As the data highlight, the share of temporary contracts had a sharp increase since the early nineties (Tealdi, 2011). Such increase has been more remarkable for early stage workers (age 15-24) but a general upward trend is also detected.

The next figure reports the evolution of the real wage in Italy in the period 2000-2014. As figure 5 clearly shows wages' dynamics in Italy has been weak with the exception of the period comprehended between 2003-2006 - a period during which a good growth path was observed in the country. In particular, a significant shrink is identifiable from 2004 until 2007; then a slight recover occurs but rapidly overwhelmed by the tremendous collapse which started with the 2008 crisis' explosion.

The final figure regards productivity, the very objective of the reforms introducing flexibility into the Italian labor market.

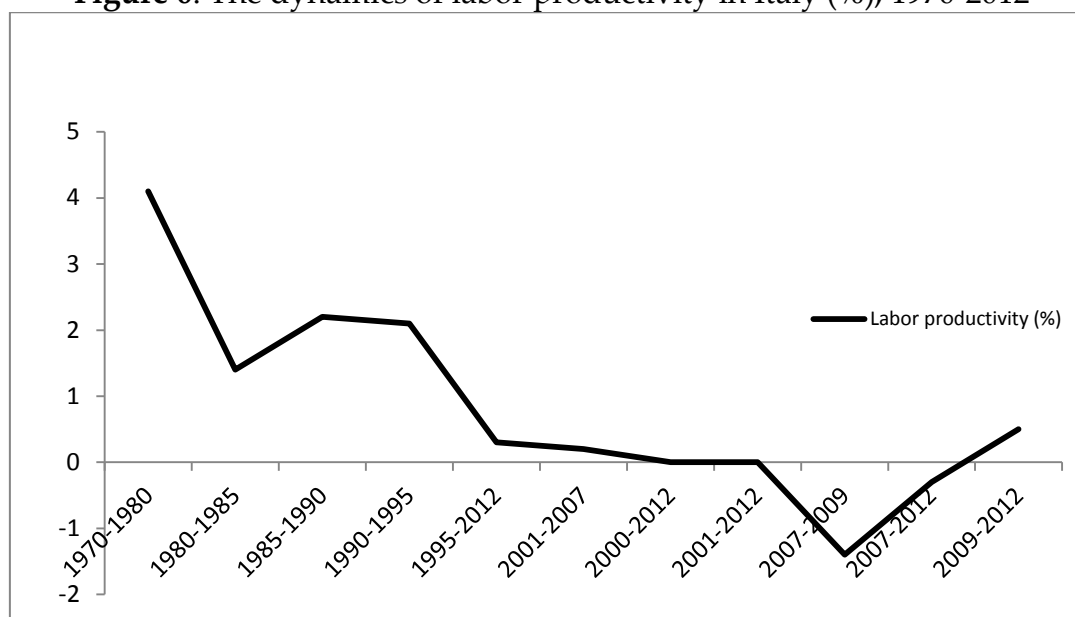
**Figure 5.** The dynamics of real wages in Italy (annual average %), 2001-2014



Source: OECD Statistics (available at: <http://stats.oecd.org/>)

Note: variation of the real average annual wage. 2014 constant prices.

**Figure 6.** The dynamics of labor productivity in Italy (%), 1970-2012



Source: OECD Statistics (available at: <http://stats.oecd.org/>)

Note: labor productivity growth in the total economy.

Finally, figure 6 shows the downward trend in productivity in Italy during the period 1980-2012, which has been widely documented in many previous studies (Saltari and Travaglini, 2008). What should be emphasized, however, is the ineffectiveness – in terms of productivity enhancement – of the number of reforms implemented in Italy on the *cost competitiveness* side – namely, the whole set of labor market reforms listed in section 1.

The figures presented in this section highlight the sharp contrast between the aims of last twenty years' labor market reforms and the evidence provided by the data.

### **3. The macroeconomic implications**

The implementation of labor market policies – and, in particular, the introduction of flexibility in the labor market – has some relevant macroeconomic implications (Gordon and Becker, 2008; Saltari and Travaglini, 2008).

In particular, the uncertainty associated to job (and related earnings) continuity could impact negatively on workers' propensity to consume, affecting aggregate demand. This channel – negatively impacting on demand – is more likely to operate in absence of a strong unemployment protection system. In the Italian case, in fact, labor market flexibility has been massively implemented (see section 1) without introducing - in parallel - an adequate unemployment 'safety net' to prevent job losses' negative effects. This kind of measures could prevent income's reduction due to job losses, reducing the negative impact on macroeconomic activity.

Moreover, the introduction of contracts characterized by a greater ease to layoff induced – on the firm side – another relevant change associated to the macroeconomic dimension. On one side, such transformation of the labor market pushed firms toward a more frequent change in workers composition. This element reduced the propensity to invest on employees - through on-the-job education and training, for example – due to the reduction of the employment average length. On the other side, the introduction of these contracts have induced firms to adopt *cost competitiveness* strategies – based on low wages - rather than *technological competitiveness* ones – based on technology and skills (Pianta, 2001). Both these firm-level implications impacted on the overall macroeconomic activity. In the first case, a lower propensity to invest on employees reduced productivity through the skill channel. In the second case, the push towards cost competitiveness strategies favored a 'perverse' structural change of the Italian economy widening the technology gap with respect to the Europe's core<sup>4</sup> (Pianta et al., 2014).

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<sup>4</sup> A detailed analysis of the divergence – in terms of structural change – among European economies is provided in Stoellinger et al., (2013), Landesmann, (2013) and Cirillo and Guarascio (2015).

#### **4. The last step of the Italian labor market reform: The Jobs Act**

As already argued, the 2008's crisis accelerated the process of labor market's reform initiated in the nineties. All the governments being in charge in Italy after 2011, in fact, have had as a primary objective a further liberalization of the labor market. These policy measures have been put forth despite the evidences - as the ones shown in section 2 highlighting the weak pre-crisis Italian performances in terms of productivity, wages and unemployment - were already suggesting a negative correlation between such agenda and its very aims.

However, Mario Monti's government introduced a new and relevant amount of flexibility identifying the latter as a key instrument to fill the competitiveness gap with the core EU countries - and, particularly, with Germany - and to restart growth. In this sense, with the law 92/2012 (named 'Legge Fornero') a first set of amending to the layoffs' discipline have been introduced<sup>5</sup>. The first aim of the law 92/2012 was to completely eliminate the obligation - for firms - to reinstate workers in case of absence (identified by the court) of the so-called 'justified cause' or 'justified reason'<sup>6</sup>. Nevertheless, with the law 92/2012 only a weakening of the existing discipline have been introduced maintaining - for a considerable set of cases - the obligation of recourse to the courts - in case of disputes over a dismissal - as well as the possibility of workers' reinstatement.

Matteo Renzi's center-left government, however, achieved the goal that since the late 90s represented the crucial (as well as hard to achieve) right wing's political task. With the Law 183/2014 - the 'Jobs Act' - the reform process began two years before with the law

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<sup>5</sup> Overall, the Law 92/2012 introduced a wide set of modifications in various areas of labor market legislation as layoffs, unemployment subsidies discipline and apprenticeship contracts.

<sup>6</sup> The Italian law is quite complex concerning the layoffs' discipline. In particular, with the expressions 'justified cause' and 'justified reason' are intended those cases - defined by the law - according to which a firm is allowed to fire an employee.

92/2012 was brought to its full completion. Two key components of the Jobs Act deserve to be underlined.

For first, the law introduced a new form of contracts - substituting the old open-ended one - destined to become the dominant form in the Italian market. The new contract – called *'contratto a tutele crescenti'* - does not provide any form of obligation of workers' reinstatement in case of firms invalidly firing them. Conversely, firms are obliged to reimburse workers – in case of invalid layoff – with an amount equal to two wages per each year of work tenure. In this way, workers are deprived of the protection represented – until the Jobs Act introduction - by the possibility of court's referral and, more relevantly, of obtaining the reinstatement. This element constitute a strong reshape of the balance between workers and firms in the bargaining process.

Secondly, the Jobs Act gives firms the faculty to monitor employees through many kind of electronic devices. The latter intervention – strongly criticized for the risk of damaging privacy as well as workers' individual freedoms – was aimed at *'improving workers' productivity'*.

Despite the weak performance of the Italian labor market – as well as the increase in inequalities observed in Italy since the nineties (Franzini and Pianta, 2015) – the Jobs Act completed the transformation towards a strictly *'neoliberal'* scheme of capital-labor relationships. In the next section, an alternative proposal – the *'Workers Act'* – is presented. The latter aims to reach the goal of a sustainable and equal growth to be achieved without any penalization of workers within the labor market.

## **5. An alternative proposal for the Italian labor market: The Workers Act**

Over the last thirty years, neoliberalism aimed to re-establish the domain of capital on work favouring a shift of income from wages to profits. The increase in the capital share has been remarkable in

most OECD countries (Schlenker and Schmid, 2013; Arpaia et al., 2009; Checchi and Garcia-Penalosa, 2010; ILO, 2013, van der Hoeven, 2014; Stockhammer; 2013). A deterioration of work conditions have been experienced over the last years, temporary contracts increased, unemployment reached 12,7% (Istat, 2014) together with informal employment and youth unemployment (43%). In this context, the recent Italian labour market reform –Jobs Act- accelerated the on-going process of liberalization and flexibilization of labour rooted in the '80. After reviewing the main transformation occurred in the labour market both in terms of quality and quantity of jobs, we analyse the content of the so-called 'Jobs Act' focusing on its impact on employment. Therefore, a new proposal of labour market reform is presented on the basis of the 'Workers Act' proposed by the Sbilanciamoci! working group (Sbilanciamoci!, 2015).

### **Some proposals in detail**

#### ***250,000 new public jobs yearly***

The Government should launch a *National Employment Plan*, with new jobs in some of the key public sectors: education, quality health care, services to persons, sustainable transportation, hydrogeological instability, artistic heritage and cultural infrastructures, research and innovation. With an yearly investment of 5 billions €, 250,000 additional jobs could be created every year.

#### ***A policy for new economic initiatives and quality jobs***

Public and private investments for quality development could be financed through: the available EU funds; the liquidity of the ECB's *Quantitative Easing*; the *Cassa Depositi e Prestiti* – the joint-stock company under public control managing a major share of the savings of Italians and whose mission is the support to Italy's growth; pension and investment funds; public and fiscal incentives for companies. The initiatives should outline a new industrial

policy, with emphasis on three priority areas: a) environmental sustainability, renewable energy sources, energy efficiency and bio-buildings; b) information and communication technologies; c) health, welfare and care, in which the public sector should re-gain a central role.

Targeted investments could also support the many-fold activities of the Italian alternative economy networks.

### ***Cut working hours and re-distribute employment***

If there is not enough work for everybody, the existing one should be re-distributed. But how can we cope with the consequences on salaries and on the companies' costs? Suggestions include: less taxes and social security for shorter working hours, with a total exemption, for both employee and employer, up to a first time-span and proportional taxation and social security costs for longer working hours, keeping the current amounts paid for those employed for 40 hours weekly.

### ***150,000 boys and girls in the National Civil Service***

The third sector reform bill of law being discussed in the Italian Parliament foresees the transformation of the existing National Civil Service, opening it to all young people. The Government plans to start in 2017 with 100,000 youth involved. Between 2007 and 2011, 156,000 placements have been offered, with 432,000 applications. The 2016 and 2017 budget proposed by the Government is 113 million €, but in order to cover the costs for 50,000 placements at least 300 million € would be needed. To involve 150,000 young people a year in the National Civil Service for socially useful projects, *Sbilanciamoci!* proposes an yearly allocation 840 million €.

### ***No lay-offs***

The right to work with dignity, in fair and humane conditions cannot be sacrificed to arbitrary lay-off rights, which is what the *Jobs Act* has done by giving employers overwhelming powers. Changes made to article 18 of the *Workers' Charter* should be cancelled, so as to protect workers from illegitimate lay-offs.

### ***Safeguarding national collective contracts***

The decree D.L.138/2011 has introduced the possibility of single-company and territorial contracts, with a worsening of the conditions for workers compared to those in national collective contracts and in national labour legislation. This possibility should be abolished, thus strengthening national collective contracting procedures.

### ***For a decrease in contract kinds***

A significant reduction of the current kinds of contracts should be pursued. Only the following ones should be legally recognized: a) *open-ended contracts*, with article 18 of the *Workers' Charter* back into force, also for companies with less than 15 employees; b) *fixed-term contracts*, with only one renewal allowed and the re-introduction of compulsory justifications; c) *vocational training contracts*, with the condition of the hiring of at least 50% of the already hosted trainees; d) *part-time contracts*; e) a limited *range of self-employment contracts*, with basic (pregnancy, sickness, accident) safeguards. Voucher-based employment schemes should be brought back to their original functions.

### ***Self-employed and so-called VAT workers***

Two kinds of safeguards should be introduced for self-employed and so-called VAT workers. The first to protect these categories of workers from customers abusing from their dominant market position and delaying payments. The second should provide also these autonomous workers with the social protection recognized for employees in cases of pregnancy, sickness, accident, unemployment



and for training and professional updating too. A reform for a more advantageous fiscal regime for these two categories of workers would also be needed.

### *A pension for all*

A fairer overall national pension legislation should comprise two elements: A. the payment of a minimum income to all those who, for short or long periods of time, cannot find a job, with training services and social security and pension contributions covered by the State. B. a universal pension for all the elderly, irrespective to whether or not they have paid social security contributions during their lifetime, similar to what is known in Italy as *social cheque*, ranging between 460 and 640 € monthly. Any pension to which persons are entitled would be additional to this universal one.

### *A minimum income for all*

The changes which the labour market has gone through make it necessary to ensure a minimum and unconditional income to all citizens. The subsidy should be universal, i.e. all actual and potential workers, but also unconditional, as it is justified by the status of actual or potential worker. The minimum income would thus become a solidarity element in the social protection system, a recognition of the citizenship right and it would reduce inequalities.

### *Life and work times*

*Sbilanciamoci!* proposes a generalized monthly maternity subsidy, amounting to 150% of the *social cheque*, for all mothers, irrespective of their working or unemployed status. The support should last for five months, include pension and social security contributions and be covered through the general fiscal income.

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