

Falling through the cracks: collective bargaining, youth employment and school enrolment in Italy 1960s-1980s

Andrea Ramazzotti *

This paper studies the influence of collective bargaining on youth employment and technical education in Italy between the 1960s and the 1980s, shedding light on the origins of Italy's structural labour market imbalances and providing a historical example for the unintended consequences of wage-setting institutions. High youth unemployment has been a fixed character of the Italian economy for the past four decades. This has been accompanied by inadequate attainment of upper-secondary education and beyond: only 63% of individuals between 25 and 64 years hold at least a secondary school diploma, against the EU average of 83%. This has been attributed—among other causes—to a low prevalence of technical and vocational training, which would be a relevant educational path for marginal students given the weight of industrial employment in the Italian economy. Consequently, mismatching due to undereducation is estimated to affect 22.7% of skilled blue-collar workers vis-à-vis 5.7% in comparable European countries, and 17% of all employees.

The consensus view maintains that Italy's youth employment crisis originated in the 1970s: In 1965, first-time jobseekers under 21 years old amounted to 20% of all individuals registered at employment centres; by 1980, this share was over 45%, and the unemployment rate for teenagers was ten times higher than for prime age workers (between 24 and 60 years). The growth in youth unemployment was accompanied by a deceleration in educational attainments: the gross enrolment rate in upper secondary school doubled both in the 1950s and in the 1960s, but it grew by a meagre one fourth in the 1970s, despite reaching only 52% in 1980. The deceleration was partly caused by a compression of technical education for manufacturing jobs, which had pulled enrolment in previous decades.

Research into the possible causes of these imbalances has considered both supply-side explanations (availability and quality of schooling) and demand-side factors (prevalence of small firms, limited innovation capacity). However, the predominant literature highlights the role of labour market institutions, especially the high degree of concentration in collective bargaining, which is considered a cause for low returns to education and high youth unemployment. These features emerged during the 1970s: throughout the 1950s and most of the 1960s, a weak labour market and meagre political support had forced labour unions to accept wage moderation and limit employment protection, facilitating the inclusion of young workers in the expanding industrial sector. Between the end of 1968 and the autumn of 1969, however, a wave of industrial conflict allowed unions to push for stronger wage claims and an increase in labour regulation. These attempts were generalised through industry-level collective agreements, causing minimum wage rates to rise significantly across sectors through the 1970s.

The paper tests the hypothesis that such a generalized increase in minimum wages had disemployment effects for the youth and that, by increasing the opportunity cost of staying in school, discouraged the attainment of secondary education, especially for vocational training. To test

*PhD student, London School of Economics and Political Science. Email: a.ramazzotti@lse.ac.uk .

these hypotheses, I present new estimates of contractual minimum wages, youth unemployment and school enrolment for Italy's 92 provinces between 1962 and 1982. The data have been digitized and harmonized from multiple printed sources, and they provide the first resource to perform intertemporal comparisons through this period at a disaggregated geographical level.

Data on contractual wages for nineteen industries are weighted by province-level employment shares to estimate the average minimum wage applied in each province within the manufacturing sector. A measure of local 'bite' is computed as the ratio between the average local minimum wage and the mean wage of manufacturing workers in each province, which is obtained from safety insurance statistics. A Bartik instrument approach using census data is implemented to filter the local employment reaction out of national industry trends. Due to the absence of comparable longitudinal labour force estimates at the province level, I reconstruct series of registrations at local job centres, distinguishing between prime age workers and those under 21, decomposing the latter between first-time jobseekers and previously employed. These series allow to measure relative youth unemployment (to filter out the general rise in unemployment levels) and the incidence of jobseekers on the age group. Gross enrolment rates in secondary school, by type, are estimated from education statistics and a reconstruction of age cohorts at the province level from census data.

To identify the effect of the minimum wage bite on youth unemployment and enrolment in secondary school, I exploit spatial variation in the intensity of contractual wage growth. The first source of variation is a legislative change, announced in 1968 and rolled out by 1972, which equalized contractual minimum wages across all provinces, within each sector, thus ending a tradition of local wage indexation to the cost of living. Consequently, provinces starting from lower cost of living experienced a sharper increase in the minimum wage bite. The second source of variation is the 1975 reform of the wage indexation to inflation which caused minimum wages across sectors to increase faster than average blue-collar wages until 1984.

A flexible difference-in-difference estimation with continuous treatment finds that gross enrolment rates in technical education were not affected by local average minimum wage bites before 1968, but the relationship turned negative and statistically significant since the announcement of the equalization of minimum wages across provinces, stabilizing at negative levels after 1972. The same research design finds no significant association between minimum wage bite and youths registered at local employment centres before 1975, but the relationship turns negative and statistically significant after the implementation of the wage indexation reform, which can be interpreted as a sign of discouragement effect. Together, these results suggest that the early hike in minimum wages reduced incentives to acquire general training for manufacturing jobs, while the later increases had negative effects on youths' participation to the formal labour market. Hence, wage regulations might have structurally reduced investment in relevant skills, locking young workers out of traditional opportunities for industrial employment. Further research will explore the effect on other types of education, on firm-funded apprenticeships, and on alternative measures of employment and participation rates.