FRIEDRICH EBERT STIFTUNG

STUDY

# Social Cohesion and the State in Times of Austerity

**GIANCARLO DENTE**
February 2014

- The Italian economy is suffering from the effects of the recession. GDP fell by 2.6 per cent in 2012 and estimates show that the fall was likely to continue in 2013. Fiscal consolidation became the most urgent issue in the sovereign debt crisis, which started in July 2011. The pursuit of fiscal consolidation entailed the approval of three austerity packages in a short period, involving mainly tax increases, such as VAT and on property and investments.

- Complex reform processes have been launched to reorganise the public administration and to foster efficiency and quality of public expenditure. The reorganisation of the state is clearly intertwined with the high level of public debt, which represents one of the main constraints on good policymaking and hence is a factor limiting Italy's growth.

- The reform of the labour market has introduced several important regulatory changes to tackle labour market segmentation, improve work-family life reconciliation and increase social protection. Overcoming the consequences of the crisis and of the austerity measures requires that these measures be completed. However, achieving this ambitious goal requires that public spending cuts be carried out in other areas and that the fight against tax evasion be pursued more effectively. More needs to be done to simplify the tax system and to tackle undeclared and irregular work, which involves about 12.2 per cent of the workforce.

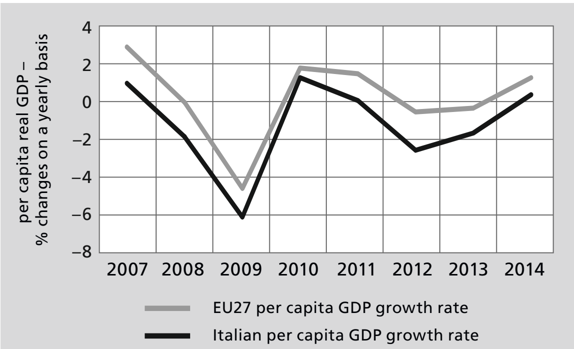
# Content

## 1. Economic Scenario

The Italian economy has performed poorly in recent decades and the recession has further exacerbated the situation. Real GDP per capita started to decline in 2007 and reached its lowest level in 2009 (–6.1 per cent as compared to the previous year) and then increased slightly in 2010 (+1.2 per cent). According to macroeconomic estimates and forecasts aligned to the most recent ones released by Eurostat, the recession that started in the second half of 2011 continued throughout 2012, resulting in a fall in real GDP of 2.6 per cent on an annual basis in 2012. The recent Eurostat forecasts show a negative figure for 2013, when GDP per capita decreased by –1.7 per cent and will start growing slightly in 2014 (+0.3 per cent). Indeed, prospects for the first half of 2013 remain uncertain due to the negative carry-over from 2012, with domestic demand very weak, but they are expected to improve in the second half of the year.

The Italian GDP growth rate has always performed below the average EU27 per capita GDP growth rate in recent years, reaching the widest gap in 2012 (–2.0 per cent), but it will narrow in 2014 (when the difference will be –0.9 per cent).

### Figure 1: Per capita GDP growth rate

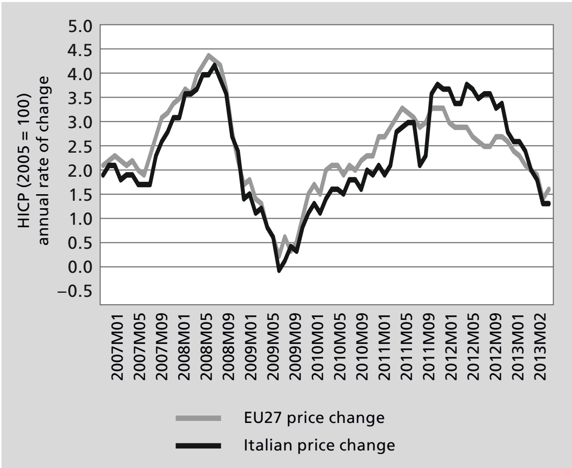



Source: Eurostat.

The main reason for the GDP contraction is the strongly negative internal demand component and, in particular, the low level of private investment and expenditure on durables, which was a consequence of the recent introduction of fiscal consolidation measures and the credit crunch (only partly offset by positive net external demand). Furthermore, private consumption is expected to fall further this year because of rising unemployment and the consequent decrease in household purchasing power.

The inflation rate was 3.3 per cent in 2012, although a decreasing trend was recorded in the last months of the year. While the inflation rate was equal to 3.5 per cent for most of the year, it declined to 2.6 per cent in December, the last figure being due to the reduction in the price of energy-related products recorded in the last quarter.

### Figure 2: Inflation rate




Source: Eurostat.

In 2012, household and public sector expenditures fell by 2.6 per cent and 0.6 per cent, respectively, on an annual basis; gross fixed investments and private inventories fell by 1.6 per cent and 0.6 per cent, respectively; while net exports increased by 3 per cent. These figures represent the largest drop in private expenditure since the beginning of the crisis, as well as the largest increase in net exports. The overall economy added value fell by 2 per cent in 2012 on an annual basis, and the biggest falls at the sectoral level were recorded in construction (–6.3 per cent), agriculture (–4.4 per cent) and manufacturing (–3.9 per cent), whereas the service sector registered the mildest one (–1.2 per cent).

### Figure 3: Imports

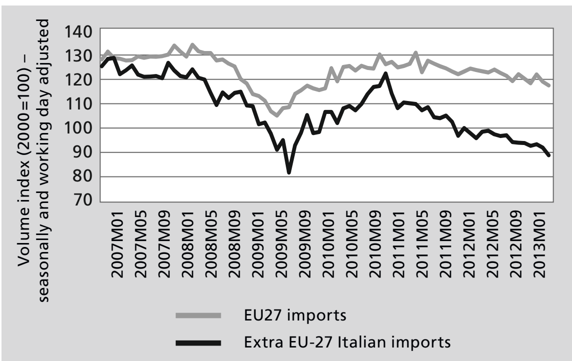
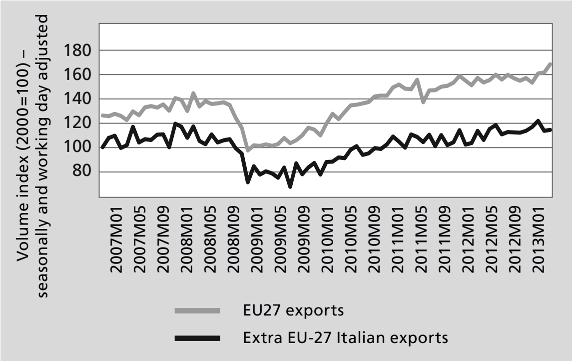


Figure 4: Exports

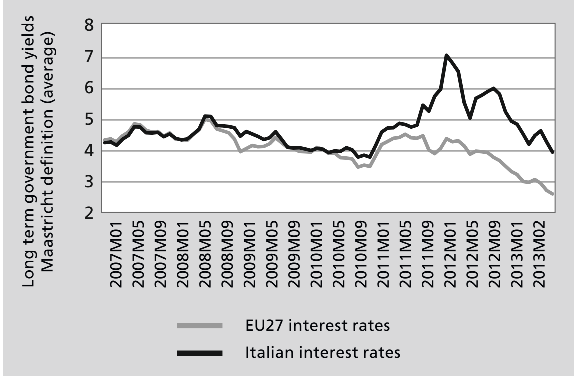



Source: Eurostat.

Fiscal consolidation became the most urgent issue in the sovereign debt crisis, which started in July 2011 with a sharp increase in the interest rate on Italian government bonds (the yields on Italy's 10-year bonds increased by 200 basis points, from around 5 per cent in early July 2011 to around 7 per cent in November 2011). The spread between the 10-year Italian Treasury bond yields and their German counterpart descended below 300 basis points in the aftermath of the austerity measures implemented by the new coalition government. Furthermore, the need to ensure a durable and credible fiscal consolidation and the future sustainability of public finances led the previous government to anticipate the commitment to achieve the medium-term objective of a balanced budgetary position in structural terms from 2014 to 2013.

The pursuit of fiscal consolidation required the approval of three austerity packages over a short period of time. The first two were presented by the previous centre-right government in August and in November 2011. The last and tightest one was approved in December 2011 by the coalition government led by Mario Monti. The main fiscal measures introduced by these packages concerned: (i) the increase of the ordinary VAT rate (from 20 per cent to 21 per cent in August 2011, and from 21 per cent to 23 per cent in October 2012); (ii) the re-introduction of the municipal property tax on principal residences (abolished in 2008), with an increase of the tax rate; (iii) the introduction of a tax on financial household investments (an annual 0.1 per cent of their face value up to a maximum of EUR 1,200 in 2012, 0.15 per cent with no cap from 2013); (iv) a special property tax on luxury cars, boats and aeroplanes; and (v) new measures to fight tax evasion (limits on cash payments and extended surveillance on bank accounts).

Figure 5: Long-term government bond yields

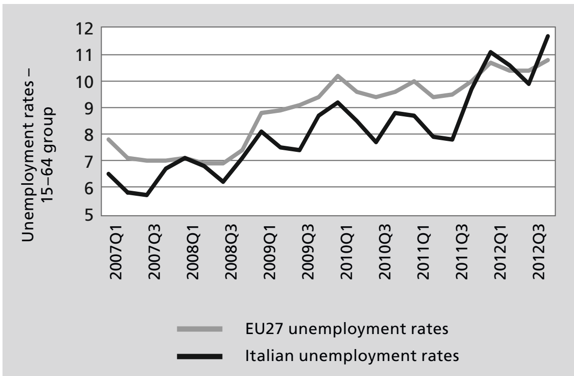



Source: Eurostat.

## 2. Labour Market

The Italian labour market performance has worsened significantly in recent years. Employment measured in full-time equivalent labour units decreased by 1.1 per cent in 2012, a slower reduction than that recorded for GDP, resulting in a productivity fall equal to 1.3 per cent. The employment rate was 56.7 per cent in 2012 (56.9 per cent in 2011) and the unemployment rate reached 10.7 per cent, thus becoming higher than the EU27 average (10.5 per cent in 2012) for the first time since 2001. The latest figures displayed an unemployment rate of 13 per cent in the first quarter of 2013, thus underlining the need to adopt urgent measures to address this serious social and economic challenge.

Figure 6: Unemployment rate



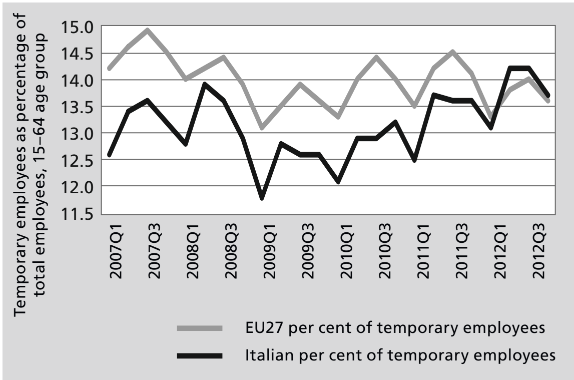

Source: Eurostat.

In the area of youth unemployment, two other issues require prioritisation. The first is early school leaving and participation in tertiary education. Although the share of young people (aged 20–24) with a secondary diploma increased from 69.4 per cent in 2000 to 77.6 per cent in 2012, a 2.6 percentage-point gap in relation to the EU27 average is still observable. The second is the low participation in education and training that, together with the high youth unemployment, means that the percentage of NEETs (people »not in employment, education or training«) is substantial. The share of NEETs in the age class 15–24 (21.1 per cent in 2012) is second only to Bulgaria, and compares to a provisional EU27 average of 13.2 per cent in 2012. Worryingly, the scarce supply of young graduates is accompanied by (and, at least partly, is a consequence of) decreasing returns to university education, which in turn depend on scant demand for skilled labour by firms.

As regards contractual arrangements, the recession entailed a substantial decrease of full-time work (–441.000 units) in 2012 over the previous year, especially among dependent employees and in southern Italy, while part-time work continued to increase markedly (+293.000 units), composed almost exclusively of involuntary part-time. The shares of employees with fixed-term and part-time contracts in total employees were 13.7 per cent and 18.5 per cent, respectively, in the last quarter of 2012 (increasing by 0.1 and 1.6 percentage points, respectively, on an annual basis).

If the penetration of atypical employment is not so high in overall terms, its diffusion is great among younger workers (44.4 per cent in 2009). Hence, the increasing dualism of the labour market runs the risk of translating rapidly into intergenerational inequalities. The duality of the Italian labour market has been recognised as one of the main bottlenecks to be addressed. In the past fifteen years labour market reforms have occurred »at the margin«, deregulating the utilisation of fixed-term and atypical contracts, without changing the level of employment protection granted to permanent employees. While, in principle, this process could favour the job insertion of younger workers and accelerate the transition from school to work (the so-called »stepping stone« effect of temporary contracts), in many cases it has in fact had the opposite effect, causing entrapment in precarious employment and unstable careers.

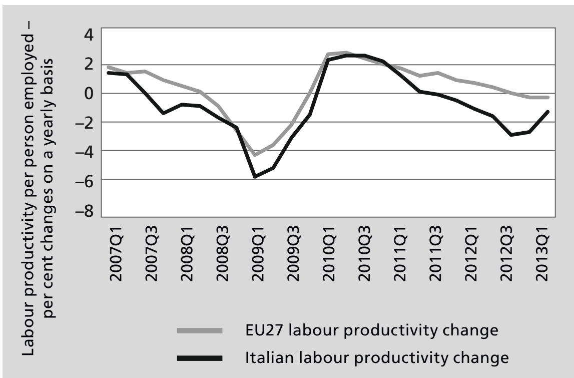
## Figure 7: Temporary employees




Source: Eurostat.

Another substantial and widening gap with the EU27 average is observed in real labour productivity per person employed, as shown by Figure 8, signalling the existence of relevant and persistent obstacles to economic growth. The main driver of future growth and employment remains the Italian sectoral (and territorial) composition of output and employment. The prevalence of small and medium-sized enterprises operating in traditional and labour intensive sectors is still the main feature of the Italian industrial structure. Indeed, the industrial districts economy, which used to represent the strength of the Italian manufacturing system – especially in the production of high-quality traditional goods – is now facing the challenge of low cost producers and emerging markets.

## Figure 8: Labour productivity per person employed



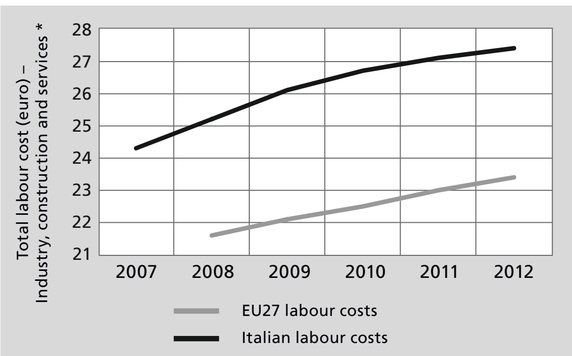

Source: Eurostat.

Small size, once considered a comparative advantage, is thus progressively being regarded as a constraint on productivity enhancement and economic growth. Empirical findings support the idea that labour productivity grows with dimension, and that the same holds for profitability. There is also evidence that smaller enterprises in traditional sectors require low-skilled workers and pay lower wages, thus reducing the returns to education, and are characterised by lower levels of R&D, ICT and human capital investments. Indeed, the limited technological improvements of recent years and the change in the composition of capital in favour of »traditional« equipment had a negative impact on labour productivity and this is obviously explained by the firms' behaviour in keeping with the Italian production structure.

However, the worsening of labour productivity recorded in the past ten years is also linked to labour market dynamics. Even though the collective bargaining system was reformed by introducing the last two-tier mechanism, the consequent wage setting did not succeed in enhancing productivity. Labour law reforms have introduced »external« labour flexibility, while restraining the use of »internal« flexibility within firms, thus reducing the cost of labour relative to capital (at the margin), incentivising firms' persistence in traditional labour-intensive sectors and disincentivising R&D and the accumulation of innovation capital. As a result, the effects on labour productivity and total factor productivity have been negative.

Another weakness of the Italian labour market is the high labour cost levels in all sectors (except public administration, defence and compulsory social security), which have always been significantly higher than the EU27 average, as shown by Figure 9.

Figure 9: Total labour cost

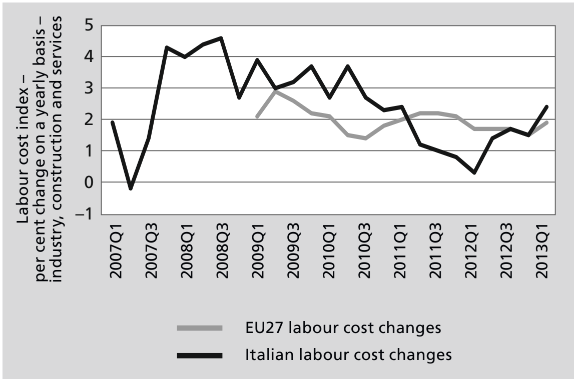



* Except public administration, defence, compulsory social security.

Source: Eurostat.

The same trend can be observed with reference to the labour cost index, whose corresponding changes over the previous year started to decline in second quarter of 2011 and continued until the end of 2012. The index displayed a 2.4 per cent increase in the first quarter of 2013, when the EU27 figure was 1.9 per cent.

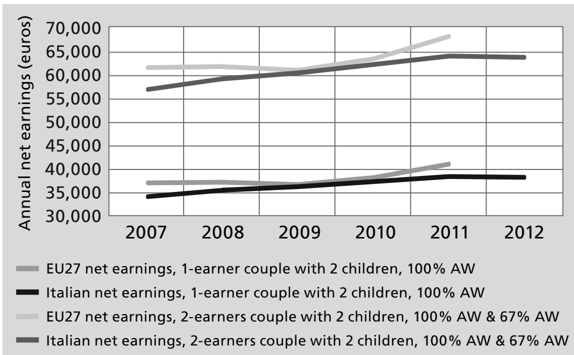
Figure 10: Labour cost index




Source: Eurostat.

As regards the negative effects of the crisis on the capacity of households to cope with it, Figure 11 shows that Italian annual net earnings have constantly been below the EU average.

Figure 11: Annual net earnings




Note: AW means average wage.

Source: Eurostat.

According to ISTAT Households Budget Survey data on poverty estimates for households residing in Italy, in 2011 the relative poverty incidence was 11.1 per cent, whereas absolute poverty was 5.2 per cent. The relative poverty threshold for a two-member household amounted to EUR 1.011. Relative poverty grew in households without employed or retired members (from 40.2 per cent to

50.7 per cent) or in which all the members are retired, from 8.3 per cent to 9.6 per cent (the situation of the latter worsened also in absolute terms, from 4–5 per cent to 5.5 per cent). Absolute poverty increased in households with a retired person (from 4.7 per cent to 5.4 per cent), especially if, without an employed member, at least one member is looking for a job (from 8.5 per cent to 16.5 per cent). Absolute poverty increased in households headed by a person with low professional profile and/or education level: headed by workers (from 6.4 per cent to 7.5 per cent), with low (from 8.3 per cent to 9.4 per cent) or medium education level (from 5.1 per cent to 6.2 per cent). Poverty also increased among couples with a child and the main geographical region affected by such change was the south and the islands.

Italy is one of the few European countries (together with Bulgaria and Greece) in which there is no universal minimum income scheme at national level. Currently, only some regions or municipalities are providing – on an experimental basis – minimum income schemes. In the perspective of the Europe 2020 poverty reduction goal, and consistently with the public finance constraints, the introduction of a last-resort benefit for those at-risk-of-poverty (including the working poor) who cannot apply for other income support schemes should be seriously taken into consideration as a policy priority.

## 3. Policy Response

This was the economic context which pushed the government to plan and adopt some reform packages and policy measures for the near future, following also the European Commission’s inputs and recommendations. Close attention has been paid to fiscal consolidation measures able to ensure compliance with European budgetary requirements. Complex reform processes have been launched to modernise the public administration and to reduce frictions in both input and output markets. Clear examples are the reform of the labour market and the liberalisation of various strategic sectors, aimed at promoting competiveness and a favourable business environment. Sharp discontinuities have been introduced in the use of the European Structural Funds, whose implementation, after years of delay, was recently enhanced thanks to the Cohesion Action Plan adopted in December 2011 to speed up their use by reprogramming financial allocations and operational measures.

The government has underlined the need to design policies coherent with recent actions devoted to controlling public finances, such as further spending reviews, fighting tax evasion and avoidance and sale of public assets. At the same time, the implementation of growth- and employment-oriented reform processes (civil justice, market liberalisation, digital agenda and a new legal framework for start-ups) is essential to generate sustainable and positive economic and social effects.

The 2013 Italian National Reform Programme illustrated the measures taken by the government to respond to the 2012 Country Specific Recommendations (CSRs). Two measures were adopted to pursue budget consolidation and reduce the public debt: first, several tax increases, such as VAT rates contained in the 2012 and 2013 Budget Laws; the re-introduction of the municipal property tax on main residences (Law no. 214/2011), coupled with an increase of the tax rate; the introduction by the same law of taxes on household financial investments and on luxury cars, boats and aeroplanes; the introduction by the 2013 Budget Law of a so-called »Tobin tax« on financial transactions involving securities. Second, the creation of a plan for the divestment of public real estate assets (Law n. 137/2012) and the sale in 2012 of state shares in important companies (FINTECNA, SACE and SIMEST) worth 7.9 billion euros.

The need to re-organise the public administration and foster efficiency and quality of public expenditure was addressed by further enhancing the ongoing Spending Review (Law n. 137/2012 and 2013 Budget Law). In particular, a sharp reduction of current public expenditure worth 4 and 6.3 billion euros in 2012 and 2013, respectively, was implemented (involving more than 11 billion euros in planned savings from 2015 onwards), together with other measures planning a reduction in public expenditure in the health, education and public employment sectors. As for the health-care system, the Budget Law 2013 introduced cuts of 600 million euros in 2013 and 1 billion euros in 2014 for the Health Fund *(Fondo per la salute)* and this will represent a further constraint on the provision of adequate health care services.

As regards state sector personnel, the number of employees of the state has slightly decreased over recent years: in 2011 the change was –1.3 per cent in relation to the previous year, amounting to roughly 3.4 million people working mainly in the health and education sectors.

Despite the wage freeze in the public sector, some proposals were made with the objective of reducing the costs of public administration. A Law Decree (95/2012) aimed at reducing the number of provinces but it was not adopted into law within 60 days from enactment and hence foundered. Nevertheless, the regional Parliament of Sicily approved draft law 278/2013 in March 2013 on »*Transitory rules for the institution of consortia of Municipalities*«, which provides for the suppression of the nine Sicilian provinces and the establishment of commissioners who will lead the transition. The law has transitory validity and will need to be transposed into a definitive one by the end of the year. The new law defines new intermediate local authorities named »consortia of municipalities«, whose leaders will not be elected by the citizens but by the mayors of the constituent municipalities.

The reorganisation of the state is clearly intertwined with the high level of public debt, which represents one of the main constraints on the design of optimal policy and hence a factor limiting Italy's potential growth. The long-term sustainability of public finances is of the upmost importance as it represents a necessary framework condition to be respected in the design of future policy initiatives. According to ISTAT estimates, the general government net borrowing for 2012 was 3.0 per cent of GDP (as compared with 3.8 per cent in 2011), in line with the agreement with the European Union to bring the deficit below 3 per cent but 0.4 percentage points higher than forecast by the government in September 2012. According to Bank of Italy estimates and forecasts released in January 2013, in 2012 the public net debt reached 127 per cent of GDP (it was 120.8 per cent in 2011), while the Italian economy is projected to continue contracting in the short term in 2013.

The pension reforms adopted in recent decades, which anchored the transition to a defined contribution system, and the increase of the retirement age[1] reduced the overall amount of GDP allocated to social security pensions (from 15.3 per cent in 2010 to 14.8 per cent in 2021–2026) and significantly contributed to the planned achievement of a balanced budget in structural terms in 2013 and a higher than 4 per cent surplus from 2015 onwards. If the achievement of the economic and financial sustainability of the pension system seems to be secured, significant growth in the participation rates of older workers needs to be encouraged. The low employment rate of this group is explained mainly by the life-cycle decision not to participate in the labour market (this phenomenon involves mainly women) and by access to early retirement schemes.

Specific measures were introduced recently to tackle youth unemployment and labour market segmentation, although an assessment of their effects on labour market performance is still preliminary and fairly fragmented.

The reform of the labour market (Law no. 92/2012) introduced several important regulatory changes: (i) the introduction of apprenticeships as the main way to enter the labour market; (ii) measures to limit the misuse of atypical fixed-term labour contracts by firms in order to lower labour costs; (iii) reduction of employment protection in case of dismissals for unfair disciplinary reasons; (iv) introduction of a new system of social insurance for employment *(Assicurazione sociale per l'impiego, ASpI),* which will gradually substitute the current unemployment benefit system (to be fully effective from 2016) in order to increase duration and coverage of benefits; (v) extending the period during which mothers cannot accept »voluntary dismissal« from one to three years after the birth of the child;[2] (vi) introduction of compulsory paternity leave (on a three-year experimental basis); (vii) use of vouchers for baby-sitting services in the eleven months following the end of compulsory maternity leaves as an alternative to the period of voluntary leave; (viii) reduction by 50 per cent of employers' social contributions for the hiring of weak categories of workers; (ix) establishment of essential levels for Public Employment Services (PES).

1. From 2012, new pensions are computed through a mixed rule: a »defined-benefits« quota based on years of contributions paid up to 2011 and a »notional-defined contribution« quota based on contributions paid from 2012 onwards. The old-age retirement age for women in the private sector goes up from 60 to 62 years, with a gradual increase up to 66 years (as for men) in 2018. On the other hand, stricter limits on early retirement are introduced (except for physically demanding jobs). Early retirement (with reduced benefits) is possible for those who have accumulated 41 years of social contributions for women, or 42 years for men. Simulations of the effects of the reform indicate that the average retirement age is expected to move from 65/66 years in the next decade to more than 68 in 2050. The increases in retirement age will be accompanied by a 3 per cent to 5 per cent increase in the labour force and a 7 per cent to 15 per cent reduction in the number of retirees. As far as public expenditure is concerned, according to government simulations the 2011 pension reform will allow annual savings for the state budget ranging from EUR 2.8 billion in 2012 to a maximum of EUR 22 billion in 2020 (corresponding to 1.4 percentage points, as a proportion of GDP).

2. ›In Italy, a discriminatory practice exists whereby female workers can be required to sign blank resignations (›*dimissioni in bianco*‹) when starting a job, which can be used against them in case of maternity. In this scenario, ›voluntary dismissals‹ are often straightforward lay-offs.

The abovementioned reform strongly modified unemployment benefit schemes. It abrogated the mobility allowance and changed the duration and generosity of unemployment benefits. The ordinary unemployment benefit has been replaced by the new ASpI social insurance for employment, provided to individuals insured with the National Institute for Social Security (INPS) for at least two years and having accumulated at least 52 weeks of contributions in the two years preceding the cessation of employment. The ASPI will be paid up to 12 months (18 months for people over 55) and the replacement rates will be around 75 per cent (60 per cent from the seventh month). Compared with the current level, the maximum gross monthly amount of ASPI will also increase. Moreover, the reduced requirement unemployment benefit has also been abrogated and it will be replaced by the so-called Mini ASPI, provided to all employees who have worked at least 13 weeks before dismissal. The Mini ASPI amount will be the same as the ASPI, but it will be paid on a monthly basis for a maximum of 6 months (that is, half of the weeks worked in the year prior to dismissal).

Unemployment benefit schemes are financed by contributions from employers, providing earnings-related benefits. No special unemployment assistance scheme exists, nor do means tested unemployment benefits. There is no possibility of voluntary insurance and self-employed and atypical workers are not covered by the unemployment benefit system (apart from a means tested benefit provided to – very small – categories of atypical workers).

In Italy, two redundancy payment schemes exist (ordinary and extraordinary). The ordinary compensation paid by the income supplement fund *(Cassa Integrazione Guadagni)* is intended for employees and managers of industrial enterprises in general and of industrial and craft enterprises in the construction and stone-quarrying sector when they are affected by a reduction or stoppage of activity for temporary difficulties resulting from temporary market conditions. The extraordinary redundancy pay – authorized by decree of the Ministry of Labour – is intended to preserve the income of employees of industrial enterprises which have ceased operations for restructuring, reorganization or conversion. This also applies to commercial enterprises, shipping and transport companies, and travel and tourism agencies with more than fifty employees. The condition for eligibility is that these businesses have had an average of 15 employees over the six months preceding the application for benefit. This allowance cannot be paid for more than 18 months for bankruptcy proceedings, 12 months for business crises and 24 months for restructuring, unless extended as provided by law. The amount of the ordinary and extraordinary redundancy pay is 80 per cent of the total pay the worker would have been entitled to for hours not worked.

At the beginning of the crisis, the government and the regions signed an Inter-institutional Agreement in February 2009 (and then again in April 2011) introducing a new integrative approach in the management of active and passive labour market policies, aimed at strengthening support for unemployed people. This agreement provided for the financing of unemployment benefits on »derogation« (total and partial) to unemployed people not meeting the ordinary eligibility requirements for claiming benefits unemployment benefits, through the integration of different financial resources: ESF funds, national, regional and private funds (for example, bilateral sectoral training funds). The use of resources devoted to the ESF was also beneficial for PES because the fact that ESF was not permitted to finance passive labour market measures pushed regions and provinces to arrange active labour market policies for beneficiaries. The goal was to integrate passive with active labour market policies through compulsory participation of beneficiaries in training courses or other ALMP measures. Although a comprehensive impact evaluation of this programme is not yet available, it helped to ease the impact of the economic downturn on workers and families.

The implementation of employment and social policy measures was also speeded up by incorporating them within the Cohesion Action Plan that Italy adopted in December 2011. The Plan primarily concerned the four convergence regions through national and regional programmes and, to a more limited extent, competitiveness regions, for an overall ERDF and ESF amount worth 12.1 billion euros. This has been achieved mainly through a reduction of national co-financing and the earmarking of these national resources to a number of areas with high relevance to the EU 2020 targets. The goal of the action is twofold: (i) de-financing interventions encountering implementation problems and/or which proved to be obsolete in the new economic and social context, or whose effectiveness is dubious; (ii) funding new interventions for social inclusion and growth, while disseminating the implementation results among citizens. The plan can be divided into three phases: (a) the first phase (December 2011) focused on education, railways, employment and digital agenda; (b) the second phase, which started in May 2012 and concerns funds managed by central administration in favour of a series of measures for young people: childcare; reduction of school dropout rate; support for non-profit projects promoted by young entrepreneurs; self-employment and self-entrepreneurship; apprenticeship and new initiatives for NEETs; and integration of young researchers in international research networks; (c) the third phase (December 2012) primarily concerned programmes in the convergence areas (southern regions) and entails measures specifically for young people, as well as tax credits for disadvantaged workers, including young people. The freed up national funds should flow into the Action Plan where they will be used primarily to support anti-cyclical measures designed to help workers, businesses and citizens to face the prolonged economic crisis. This phase mainly concerns the ERDF, with less than 200 million euros coming from the ESF (as most ESF resources have already been programmed).

Recent decrees have, however, reduced the scope for limiting misuse of atypical fixed-term labour contracts by firms. According to the original version of the reform, bogus self-employed workers should be considered to be dependent employees if two out of three restrictive conditions were met (they work for more than non-necessarily consecutive 8 months for the same employer, they earn more than 80 per cent of their total labour income from the same employer and they have a fixed workstation at an employer's office), but the implementing decree specifies that the automatic conversion into dependent employment will start to be effective only from July 2014. Furthermore, it will not apply to individuals registered with professional bodies and registers, or to those who have »high level« theoretical or technical-practical skills, as demonstrated by apprenticeship, high-school and first degree certificates or the declaration of employers for which the self-employed has worked for at least 10 years, or with an annual self-employment income higher than 1.25 times a minimum threshold fixed at 14,930 euros in 2012 (that is, higher than 18,662 euros). It is hence not surprising that recent data point to a 2.2 per cent annual increase in new self-employed workers and of 8.8 per cent among those under 35 years of age (for which a reduced 5 per cent personal income tax is applied if annual income is below 30,000 euros). As for the use of other contractual types, recent preliminary evaluations at the national and regional levels point to an impact of the reform on the dual economy through a decrease in the misuse of staff-leasing and atypical project (»*a progetto*«) contracts towards apprenticeship and fixed-term (»*tempo determinato*«) standard contracts.[3]

Raising the employment rate of women is a key priority that needs to be addressed by setting ambitious objectives and designing comprehensive policy measures. The female employment rate was 50.5 per cent in 2012 (one of the lowest in the EU27) and there were dramatic differences between population subgroups. Italian women recorded an unemployment rate higher than the EU female average (9 per cent and 8.5 per cent, respectively) and a very high inactivity rate (48.3 per cent) in 2012, especially in southern regions, which is associated with persistent discouragement effects. The crisis has indeed worsened female participation in the labour market and this requires more attention to supporting the reconciliation of work and family life, particularly by means of: flexible working time arrangements and the second level of bargaining; implementing women-friendly fiscal measures; providing adequate childcare facilities (children below 3 years of age) and vouchers for care services; providing training for women willing to return to work after a certain period of time. The latest data provided by the Italian National Institute of Statistics (ISTAT) in 2010 showed the low coverage rate of such services at the national level (12.7 per cent as compared with the EU target of 33.3 per cent), with sharp differences among regions and limited progress in the provision of adequate childcare facilities over recent years (only +1.3 percentage points since 2004). This also explains why the number of women leaving their job after the first child is equal to 27.1 per cent of total employed women, a figure explained mainly by caring for children. The 2013 Budget Law tried to foster the reconciliation of family and working lives by establishing the right for parents to be absent for up to 10 months (overall, considering both parents) during the first 8 years of their child's life but it needs to be fully implemented.

3. The ISFOL is in charge of monitoring the effects of Law 92/2012. Evaluations of the effects of the reform on hiring in the period July–November 2012 can be found at: http://www.isfol.it/comunicazione/Isfol-appunti/archivio-isfol-appunti/marzo-2013-monitoraggio-della-riforma-del-mercato-del-lavoro.

As discussed in the previous sections, labour productivity is one of the main weaknesses affecting the Italian labour market and workers' incomes. At the beginning of 2013, the government adopted a decree implementing the agreement on productivity *(Linee programmatiche per la crescita della produttività e della competitività in Italia)* between the government and the main employers' associations and trade unions (with the notable exception of CGIL, the largest Italian trade union confederation) in order to foster productivity through fiscal discounts on productivity bonuses set in the second level of wage bargaining.

The decree, which aims at enhancing productivity and reducing the tax wedge on labour, earmarked 915 million euros for 2013 and 400 million euros for 2014 (out of the 2.15 billion euros instituted by the 2012 Budget law up to 2014) and defined a 10 per cent personal tax rate on bonuses up to 2,500 euros received by private sector employees with annual gross wage below a threshold of 40,000 euros (it was 30,000 euros in 2012). Apart from the augmented threshold on the annual gross wage, the main novelty of the measure is the attempt to link the tax rebate to either specific quantitative indicators on productivity, profitability, efficiency and innovation specified in the contracts, or to contracts that activate at least three out of the four areas within the scope of second level bargaining, in other words, flexible working-time, flexible days-off arrangements, compatibility of new technologies with workers' rights, task fungibility and skills integration.

The economic and social consequences of current and future policy measures can be further enhanced if there is a favourable environment for business development. Two reform packages were adopted by the previous Monti government (Law 134/2012 – »*Decreto Crescita*« and Law 221/2012 – »*Decreto Crescita 2.0*«). Their provisions aimed at: fostering competitiveness through the liberalisation of professions and strategic sectors (mail, telecommunications, electricity and gas); promoting business internalization; simplifying economic activities through the introduction of a new legal framework for business start-ups and a digital agenda for all interactions with the public administration; and reforming civil justice in order to cope with disproportionally high length of trials. The same is true as for Law Decree No. 35 of April 2013, introducing an urgent package of measures to inject liquidity into the economy by speeding up payments in arrears owed by general government bodies to their suppliers (about 20 billion euros in the second half of 2013 and an additional 20 billion euros in 2014). According to Bank of Italy estimates, the arrears owed by general government bodies to their suppliers amount to more than 90 billion euros and delays in payments by government bodies are substantial (about 100 days on average according to European Payment Index estimates). This delay has multiple negative effects: (i) most suppliers absorbed the delays by increasing prices for the public administration (others stopped selling to the public administration *tout court*); (ii) firms' financial structures weakened, increasing the demand for credit and reducing investment capacity; (iii) the negative consequences of the public administration suppliers/creditors relationship spilled over to the whole supply chain, from suppliers to workers. As most of these reforms need to be fully implemented in order to influence the possibility of future growth, the necessary measures need to be adopted quickly.

## 4. Conclusions

Overcoming the consequences of the crisis and the austerity measures will require the completion of the already enacted measures (namely the reform of the labour market, which will probably be partially amended by the current government); the strengthening of apprenticeship contracts for young people; the implementation of the new unemployment benefit system; and the measures that support the reconciliation of family and work duties.

The social partners need to further encourage the second level of wage bargaining, as the possibility of significantly affecting productivity and innovation will critically depend on future agreements between social partners at the firm/territorial level. Additional action to be considered in future policy measures concerns the need to boost PES effectiveness in activation services and to define national benchmark standards for service delivery.

The simplification of the tax system and the fight against tax evasion represent two important challenges that need to be addressed effectively, as they may have a significant impact on long-term economic growth prospects and Italian society. They involve: (i) pursuing the shadow economy and undeclared work (which amount to 16.3–17.5 per cent of GDP according to the 2010

ISTAT figures); (ii) shifting the tax burden away from capital and labour to property and consumption, as well as the environment. Currently the tax wedge on labour in Italy is one of the highest among EU27 countries. If a reduction of social contributions is not viable, due to its negative impact on the pension system, the decrease of the tax burden on labour could foster households' spending decisions and increase the labour supply and participation rates (in particular of weaker categories, such as women and young people).

However, the achievement of this ambitious goal requires that public spending cuts are carried out in other areas (possibly on a selective basis, whenever possible) and the fight against tax evasion is pursued more effectively. Relevant measures in this respect are contained in both the 2012 Budget Law (namely those to fight tax evasion through limits on payments in cash and extended surveillance of bank accounts) and the 2013 Budget Law (the introduction of a tax on financial transactions involving securities from March 2013 and the creation of a fund benefitting from the revenues collected through the fight against tax evasion and explicitly devoted to reducing the fiscal burden on workers and firms). Nevertheless, more needs to be done to simplify the tax system, whose reorganisation remains an issue to address in the future, and to tackle undeclared and irregular work which, according to the most recent ISTAT estimates, involves about 12.2 per cent of the workforce.

Priority should also be given to policy measures promoting youth and female employment and reducing school dropouts. These actions should, however, be continued and further strengthened within the 2014–2020 Cohesion Policy Programming Period in view of the recent labour market outlook, displaying disproportionally higher increases in youth unemployment levels and rates, together with female employment rates that are among the lowest in the EU27.

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## About the author

**Giancarlo Dente** is an Economist and Researcher/Program Manager at the Fondazione Giacomo Brodolini.

## Imprint

Friedrich-Ebert-Stiftung | Western Europe/North America
Hiroshimastraße 28 | 10785 Berlin | Germany

Responsible:
Anne Seyfferth, Head, Western Europe/North America

Tel.: ++49-30-269-35-7736 | Fax: ++49-30-269-35-9249
http://www.fes.de/international/wil

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ISBN 978-3-86498-808-0