

# Italy

## The debate about 'social cushioning measures': how can a fragmented, inequitable system be improved?

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Unemployment protection has been a key topic in political and academic debate for at least a decade in Italy, and forms part of the more general debate about overall reform of the social security system. The institutional architecture of the Italian system, centring on employment and Bismarckian in inspiration, makes it part of the southern European family (Esping-Andersen, 1990; Leibfried, 1992; Ferrera, 1993; Pugliese, 2002; Maddaloni, 2008), with which it shares a number of characteristics. These include the centrality of the family<sup>1</sup> and, within it, that of the male breadwinner; the absence of a universal minimum safety net; the priority attached to length-of-service and old-age pensions; and the low-level 'sense of state', meaning both inadequate administrative regulation and a state apparatus that is highly permeable to political patronage (Paci, 1986; Ferrera, 2007).

The European Commission (2007) identifies five models of social security in its *Employment in Europe* report for 2006. Somewhat surprisingly, Italy finds itself grouped together with the central and eastern European countries, owing to what is deemed an average degree of labour flexibility and social security contributions and, above all, a low level of social security.

Italy brings up the rear in Europe as far as unemployment expenditure is concerned (Lagala, 2007; Maddaloni, 2008). Its 'social cushioning measures' are allocated 0.7% of GDP, compared with an OECD average of more than 1%. The resources devoted to activation policies (training, direct job creation, job sharing, etc.) amount to just 0.6% of GDP.

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1. Esping-Andersen (1990) highlights the residual nature of the social welfare typical of social security systems in southern Europe, describing it as the flipside of a system built on family solidarity. According to this thesis, welfare systems have never really been able to develop in the Mediterranean countries, where the dominant idea is still that the family not only plays the principal role in providing social assistance but is also best able to do so.

Although this figure is slightly above average for the OECD countries (0.5%), it comes a long way behind the most virtuous countries, such as Denmark, the Netherlands and Sweden (all in excess of 1% or even 2% of GDP). As for spending on employment services, it is derisory: 0.045%, compared with an OECD average of 0.145 %<sup>2</sup>.

## **Social cushioning measures: the genesis of a stratified system**

One historical weakness of the social security system is without doubt the arrangements for insurance against unemployment, known by the term ‘social cushioning measures’ (*ammortizzatori sociali*) (Giubboni, 2003; CNEL, 2003; Lagala, 2007; Bozzao, 2008). We have here a somewhat incoherent, highly fragmented system where the types and levels of protection depend on a whole host of criteria: nature of the employment contract, size of the company, sector of the economy, age of the beneficiary, regional employment situation. Access to benefits and their funding, and the degree of coverage by the system, vary considerably from one occupational category to another, depending on their negotiating powers over the decades and their ability to exert pressure on the government, itself keen to build and stabilise a social consensus.

The foundations for unemployment protection were laid in the 1948 Constitution, but certain elements date back to the second half of the 1930s and the corporatist scheme of the fascist era. The Italian model, which centres on work, is based on the principle of mutualisation, or insurance, with the criterion of need constituting a lesser concern (Negri, Saraceno, 1996). Ever since the Constituent Assembly (1946-1948), and during the post-war decades, the main political and trade union players asserted the primacy of work<sup>3</sup>, a tool of emancipation as well as social justice. Social assistance was regarded as residual and intended for persons who are unable to work owing to their mental or physical condition (Bartocci, 2005; Paci, 2005; Andreoni, 2006). Apart from such situations of need, the loss of employment is treated as a temporary, frictional, involuntary event (Liso, 2008; Giasanti, 2008).

2. [www.oecd.org](http://www.oecd.org)

3. Work represents an individual constitutional right and is described as such in the very first articles of the Constitution: “Italy is a democratic Republic founded on labour” (Article 1); “The Republic recognises the right of all citizens to work and promotes those conditions which render this right effective” (Article 4).

Article 38 of the Constitution<sup>4</sup> defines two categories of social benefits:

- a) *insurance*, intended for workers who have lost their jobs temporarily and through no fault of their own;
- b) *assistance*, which is universal and free of charge, intended for any citizen in a situation of need.

The development of legislation on unemployment benefit in Italy can be divided into two phases (Cazzanti, 2007; Balandi, 2007). During the first period, between 1949 and 1975, insurance to cover job loss was gradually extended to non-industrial occupational groups: farm workers and public sector employees. In the second phase, from the mid 1980s onwards, some forms of protection were extended to people working intermittently and for less than six months in a year.

The system is based on a vast stratification of measures intended to protect employees in the event of involuntary unemployment. No fewer than thirteen laws, enacted between 1919 and the present day, deal with unemployment insurance in some shape or form. The system is further complicated by the innumerable decrees, decisions and other circulars pertaining to this issue in Italy - often detracting from the clarity of the legal provisions. The result is a hybrid system which, over the years, has seen numerous schemes superimposed on the founding principles - a 'veritable labyrinth' (Miscione, 2007) - often dictated by urgent requirements and by the power struggles undertaken by social groups seeking recognition. A broad array of special schemes exists alongside the general provisions. Many measures falling into the category of social assistance in other countries are classed as expenditure on old-age insurance in Italy.

The methods of funding insurance-based and assistance measures have likewise become more opaque and less effective over time, and the link between contributions paid and benefits received has become particularly tenuous. This phenomenon has worsened since 2005, when the centre-right government in office made it possible for the administrative

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4. Article 38 reads as follows: "All citizens unable to work and lacking the resources necessary for their existence are entitled to private and social assistance. Workers are entitled to adequate insurance for their needs in case of accident, illness, disability, old age, and involuntary unemployment".

authorities and the Ministry of Employment to derogate from the legislation on the wages guarantee fund (the *cassa integrazione guadagni*, CIG) by extending it - subject to regional agreements with the social partners - to production sectors and companies which by law should not benefit from it.

Despite the surfeit of regulation, there is no legal definition of the social cushioning measures. It is widely accepted that, above and beyond measures to protect against unemployment, they include measures to promote employment. A narrower definition encompasses only measures to protect against unemployment, and hence covers all schemes intended to assist employees who have, at least temporarily, lost their jobs for reasons not of their own making.

### **Three benefit systems paying out different amounts**

Almost all employees in Italy are covered by unemployment insurance. The method of disbursement differs according to the scheme under which a worker can claim, and the allowance either tops up or replaces his/her earnings for a specific period of time.

The Italian system comprises three main types of allowance (Porcaro, 2004):

- the most widespread scheme, ordinary unemployment benefit (*indennità ordinaria*), excludes agricultural workers but includes all other employees with the exception of public servants and apprentices;
- the second mechanism, which for the sake of simplicity can be called the ‘industrial’ model, pays out benefits resulting in the main from Law No. 223/1991 and other regulations complementing it. These provisions include the ordinary wages guarantee fund (*cassa integrazione ordinaria*, CIGO) and the special wages guarantee fund (CIGS), mobility benefit (*indennità di mobilità*) and solidarity contracts. This system offers relatively generous cover (in terms of the level of benefit, eligibility and the payment period) to employees in medium-sized and large industrial companies;

- the third scheme, the 'agricultural' model, was extended to seasonal and temporary workers in other sectors a few years ago (Law No. 160/1988). It is distinct from the industrial model, based on 'reduced requirements' (*indennità di disoccupazione a requisiti ridotti*) and pays out rather meagre allowances.

A fourth mechanism, as mentioned above, is the derogation from the wages guarantee fund (*cassa integrazione in deroga*) for the purpose of extending the CIGO to sectors excluded from it under the legislation in force. A further, crucial, instrument, used in the event of a crisis or short-term dip in output, is the 'solidarity contract', whereby - through negotiation with workplace trade union representatives - working time can be reduced in return for a less than proportional reduction in pay.

The replacement earnings afforded by these systems are extremely diverse, a situation which is the legacy of a neo-corporatist trade-off in favour of the best-organised segments of the wage-earning classes (the industrial model) but also results from compromises reached thanks to political patronage (the agricultural model)<sup>5</sup>. Whereas fairly generous protection is provided for workers covered by the wages guarantee fund and the mobility scheme, the ordinary and 'reduced requirements' benefit provisions grant far more modest pay-outs. The allowances paid amount to:

- 80% of pay (70-75% in real terms) for beneficiaries of the CIG, both ordinary and special, the special construction sector benefit and the mobility scheme;
- 40-60% for ordinary unemployment benefit;
- 35-40% for the 'reduced requirements' unemployment benefit.

The level of benefit and the eligibility conditions are not the only differences between these models of insurance. The CIG (both ordinary and special) also presupposes that the employment relationship is suspended only temporarily and will be resumed. By contrast, ordinary unemployment benefit, the mobility scheme and the construction sector

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5. Such as for self-employed workers (farmers, shop-keepers) or farm workers, particularly as regards pensions. This last group, whose situation on the labour market is rather weak, has proved quite successful at achieving social protection, by obtaining from the ruling political parties (and from the employers) robust income guarantees during non-working periods. This would appear to be a form of *assistance* in the guise of *insurance* (Pugliese, 2002).

unemployment insurance arrangements all imply that the employment contract has been terminated (Miscione, 2007). The trade unions have always had a preference for the former type of scheme.

Contributions to these benefit schemes vary according to the economic sector and size of company (Table 1). Employers contribute a larger share than employees; contributions to the CIG, both ordinary and special, as well as to the mobility scheme, are required of employers only.

**Table 1 Social security contributions (as a % of pay) by sector and size of company**

Sector	Size	Ordinary unemployment		CIG-O	CIG-S	Mobility	Total
		Employers	Workers	Employers	Employers	Employers	
Industry (blue-collar and white-collar)	< 15 employees	1.31	0	1.90	0	0	2.21
	> 15 < 50 employees	1.31	0.30	1.90	0.90	0.30	4.71
	> 50 employees	1.31	0.30	2.20	0.90	0.30	5.30
Craft trades		0.40	0	0	0	0	0.40
Commerce	< 50 employees	1.31	0	0	0	0	1.31
	> 50 < 200 employees	1.31	0.30	0.90	0.30	0.30	2.81
Banking and insurance		1.31	0	0	0	0	1.31
Agriculture (white-collar)		0.37	0	1.50	0	0	1.87
Construction (blue-collar)	< 15 employees	1.31	0	5.20	0	0	6.51
	> 50 employees	1.31	0.30	2.20	0.90	0	4.71

Source: our calculations based on INPS data

## Ordinary unemployment benefit

Compulsory insurance against involuntary unemployment, introduced in 1919, was the first ever social cushioning measure designed to be

universally applicable; even today it affords the broadest protection of all against the risk of unemployment.

'Ordinary' benefit is still regarded as the linchpin of the system (Liso, 1995). Coverage is universal in principle: anyone having worked in Italy, whatever his/her nationality (among other criteria) is entitled to claim. But despite the role it was supposed to have had, ordinary unemployment benefit played a residual and purely symbolic role for a long time<sup>6</sup> (Lagala, 2006).

Ordinary unemployment benefit, which is capped, is calculated in proportion to the last wage or salary received, the aim being to preserve the unemployed person's standard of living in relation to his/her former earnings. Certain conditions must be fulfilled: 52 weeks of social security contributions over the two previous years<sup>7</sup>, and registration with the employment agency (*centro per l'impiego*). The job loss must have been involuntary: resignation, unless provoked by a just cause, does not confer entitlement to unemployment benefit. The application for ordinary unemployment benefit must be filed within 60 days of the start of the period of unemployment for which benefit is being sought.

Some significant changes were introduced by Law No. 247/2007, arising out of a tripartite agreement. Certain entitlements have been improved:

- the pay-out period has been extended from seven to eight months for employees aged under 50, and from ten to twelve months for over 50 year-olds;
- the amount of benefit is now 60% of the last wage or salary (instead of 50%) during the first six months of unemployment, 50% during the seventh and eighth months, and 40% for the remaining months. Previously, the allowance corresponded to 40% of pay during the seventh, eighth and ninth months (Table 2).

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6. Until the late 1980s the rate was less than 1,000 Lire per day (€0.50 in today's money). The system switched from flat-rate sums to a percentage calculation in the 1990s.

7. Construction workers must have contributed for 43 weeks over the course of a two-year period of employment in this sector.

Table 2 **Ordinary unemployment benefit**  
(**indennità ordinaria di disoccupazione**)

Payment period	Between 8 and 12 months maximum
Replacement rate	- 60% of last wage for 6 months; - 50% for the 7 <sup>th</sup> and 8 <sup>th</sup> months; - 40% thereafter. Capped.

The progression in benefits diminishes as the ceiling (set in 2006) of €830.77 is reached, for wages of up to €1,797.31 per month, or, for higher earnings, €998.50.

### The industrial model: CIG, CIGS and mobility benefit

The *cassa integrazione guadagni* (CIG), established in 1941 and subsequently enshrined in legislation in 1975, responds to a reduction in normal working time with a proportionately lower reduction in pay. It mainly applies to medium-sized and large manufacturing companies and large retailers. The CIG excludes workers in the tertiary sector, craft firms, banking and insurance, agriculture, the public sector and the public utilities (former state monopolies: post, electricity, aviation and urban transport). Pay-outs amount to 80% of former earnings (70-75% in real terms, since entitlement to this income support is subject to two different upper limits).

The *cassa integrazione guadagni straordinaria* (special CIG) was introduced in 1968 (Law No. 1115) to handle situations of long-term, structural surplus labour in the wake of sectoral economic crises or corporate restructuring and reorganisation operations. It applies to industrial companies employing more than 15 staff and retail firms with more than 50 employees (apart from apprentices). As for the ordinary CIG, pay-outs amount to 80% of former earnings.

Mobility benefit (*indennità di mobilità*) came into being with Law No. 223/1991. It provides a temporary income for workers taken out of the production process following either the expiry of their CIG entitlement or redundancy. It is geared to the employees of companies falling under the scope of the CIG, who have a minimum of 12 months of service and have worked for at least six months during this period (including sick leave and paid holidays). The allowance, which is capped, corresponds to

80% of the final wage or salary for the first 12 months, and 64% thereafter. It is paid for a minimum of 12 months and a maximum of 48 months, depending on the employee's age when dismissed and the location of the company (24 to 48 months in the south of the country)<sup>8</sup>.

### Casual and seasonal workers: 'reduced requirements' unemployment benefit

Law No. 160/1988 extends unemployment insurance to casual and seasonal workers in all economic sectors and introduces a type of unemployment benefit with 'reduced requirements' (*requisiti ridotti*) (Renga, 2006; Bozzao, 2008). This new mechanism was based on the insurance model obtaining in the agricultural sector; it forms part of a policy to gradually phase out the traditional insurance-based logic in favour of extending the universalist principle, albeit in a partial and patchy fashion.

Employees on fixed-term contracts, including those working on a part-time or temporary basis, are eligible for 'reduced requirements' unemployment benefit. To claim it, they must:

- submit proof of two years' social security contributions;
- have worked for at least 78 days in the year preceding the application for benefit. During that period they must have paid compulsory social security contributions (paid leave, public holidays, ordinary rest days and time-off in lieu, maternity leave, sickness);
- have worked a maximum of 156 (now 180) days out of 360, from which any days of unemployment already accounted for may be deducted;

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8. An arrangement similar to the CIG and the mobility scheme was introduced in the public sector in the late 1990s with a view to aligning the state of affairs in the public and private sectors, as demanded by the trade unions. Thus a form of wages guarantee fund may be drawn on here too so as to avoid having to dismiss surplus staff: employees remain available to the administration with a view to being transferred at a later date and receive 80% of their pay for a two-year period. The scheme is funded by the administration from which the employee originated. But this arrangement (governed by Law No. 59/1997 and Decrees 80/1998 and 165/2001) is hardly ever used, since the problem of staff surpluses is generally resolved by other means, namely via transfers to other administrations.

- have held the status of employee at some point during the two years preceding the benefit request, with social security contributions having been paid by the employer to the social security institute INPS for at least one week.

As for the similar provisions in the agricultural sector, this allowance is paid out by the INPS as a single lump sum in the year following the reference year. As in the case of agriculture, the intention is to combat undeclared work and encourage people to take up regular jobs (Liso, 2008): the more one works and the more contributions one pays in, the higher the allowance received in the following year.

Law No. 247/2007 raises the amount of ‘reduced requirements’ unemployment benefit to 35% of pay (up from 30%) during the first 120 days and 40% thereafter, with the maximum benefit period set at 180 days.

## **A non-inclusive and highly polarised system**

Italy stands out among European countries for its lack of generosity as concerns protection against unemployment and social exclusion. The Italian system affords less coverage as regards the number of claimants, offers a lower average replacement rate and devotes fewer resources overall to employment policies. This poor performance is a consequence both of the contribution levels set and of the amount of public expenditure earmarked for employment policies and social cushioning measures. Italy is classified among those countries devoting the least resources to both of these headings: it spends just 1.3% of GDP on employment policies. The OECD average (1.6%) is amply exceeded by the central and northern European countries, with 2.6% in Sweden, 2.7% in France, 3% in Finland, 3.5% in Germany, the Netherlands and Belgium, and as much as 4.5% in Denmark. Even two Latin countries - Spain and Portugal - are ranked well ahead of Italy, spending more than 2% of GDP.

Fewer than 30% of the unemployed currently benefit from Italy’s social cushioning measures, compared with 36% in the United Kingdom, 60% in France, 65-70% in Germany, Austria, Spain and Ireland, and as many as 70-80% in the Scandinavian countries and Belgium (EIRO, 2007; Lagala, 2007; IRES, 2008). This proportion has however risen significantly in recent years, up from 17.3% in 2000 to 28.5% today.

More than 70% of unemployed people are excluded from the social cushioning measures, in practice if not in law. These are mainly:

- jobless persons who have not accumulated the necessary minimum entitlements (e.g. young people, casual workers, apprentices and *parasubordinati* [an atypical and potentially precarious working arrangement]);
- jobless persons who have exceeded the benefit periods under the various schemes (e.g. older workers and the long-term unemployed);
- undeclared workers (especially in the south).

Italy is the only European country, apart from Greece and Hungary, where the regulations make no provision for any earnings of last resort ('follow-up benefit'), i.e. in cases where the benefit provided under the ordinary provisions, following the suspension or definitive termination of the employment relationship, has been exhausted. This is the main reason why so many jobless workers, initially covered by statutory forms of income support, end up being excluded from them once their status extends beyond the period envisaged under the legislation.

Beneficiaries of the wages guarantee fund (ordinary and special CIG) are concentrated in the north-western regions, where there is a stronger presence of medium-sized and large industrial companies affected by the crisis of Fordism. This territorial split is likewise a consequence of the unequal access to early retirement arrangements (Table 3). The Mezzogiorno (south) is excluded from the industrial model of social security since its production fabric consists mainly of small businesses. Unemployed people there more often receive benefits under the 'ordinary' scheme or specific measures (construction, agriculture, casual or seasonal workers under the 'reduced requirements' scheme). The Mezzogiorno also has the highest proportion of long-term unemployed.

Looking at ordinary unemployment benefit in isolation, we note that, although in principle it provides universal coverage, it in fact plays a residual role. Of all those persons entitled to claim help under the social cushioning measures, the only ones who receive ordinary unemployment benefit are workers excluded from receipt of the more advantageous allowances available in more robust, better protected sectors of the economy.

**Table 3 Claimants of replacement incomes in 2005**  
(annual average figures, in thousands)

	North-West	North East	Centre	South	Italy
CIG - ordinary	35.2	12.4	13.0	21.5	82.1
CIG - special	24.6	6.7	7.3	20.2	58.8
Mobility benefit	32.4	14.5	18.8	44.3	110.0
Ordinary unemployment benefit (non agricultural)	26.1	28.1	23.8	59.3	137.3
Unemployment benefit – construction	2.0	0.8	2.5	24.5	29.8
Unemployment benefit – reduced requirements	16.4	24.7	23.2	63.7	128.0
Unemployment scheme – agriculture	3.2	11.3	8.4	110.9	133.9
Early retirement	39.6	11.7	17.0	27.1	95.5
(a) Total	179.5	110.3	114.1	371.4	775.4
(b) Total without CIG and early retirement	80.1	79.5	76.7	302.7	539.0
(c) Unemployed (2005 average)	308	202	312	1,067	1,889
(d) Coverage rate (b/c)	26.0	39.4	24.6	28.4	28.5
(e) Long-term unemployed/unemployed (%)	36.6	30.9	44.2	56.1	48.3
(f) Inexperienced unemployed/unemployed (%)	14.1	13.0	16.0	23.3	19.5

Source: Ministry of Employment, based on INPS data (2007).

The main beneficiaries of this scheme are workers in the retail trade, small and micro industrial firms, craft businesses and service companies, all of which are excluded from the scope of the special CIG and mobility benefit. Most of these workers are women aged between 25 and 44, living in the north of Italy.

The ‘reduced requirements’ unemployment benefit paid to seasonal and intermittent workers (on fixed-term and temporary contracts) is claimed in particular by women and workers aged under 44 and/or coming from southern regions (Porcari, 2004).

An important function of supplementary cover has become apparent over the past four years, since the introduction of legislation allowing for derogation from the sectoral and company-size restrictions built into the

regulations on the wages guarantee fund (the *cassa integrazione in deroga*). This scheme is controversial, in that it grants the administrative authorities extensive discretionary powers, with the possibility - by no means remote - that it may be misused owing to political wheeling and dealing. Besides, these measures are funded out of general taxation and not through contributions from employers and employees, because these sectors are excluded - by law - from the benefits (but also the costs) of the CIG. Nevertheless, in the absence of a comprehensive reform of the entire system, the *CIG in deroga* has been a means of enabling hundreds of thousands of workers affected by the current recession to be covered during suspensions of production.

During the crisis of recent months, it has been deemed preferable at regional level and in sectors excluded from access to the ordinary CIG - such as the craft sector - to draw on the *CIG in deroga* rather than on the bilateral income support funds. It is estimated that approximately 200,000 suspended workers benefited from this arrangement in 2008 and 2009. The government has earmarked an overall sum of €900 million for the period 2009-2011.

## **Usage of the social cushioning measures during the current crisis**

To grasp the magnitude of the crisis currently underway, as well as the extremely grave effects it is having in terms of the suspension and loss of hundreds of thousands of jobs, one need only call to mind a few significant facts.

First of all unemployment, which rose to 7.4%, the highest rate for several years in Italy, during the first quarter of 2009. In mid 2008 the rate was still 6.8%; the prediction is that it could rise to around 10% by the early months of 2010.

No less worrying is the situation regarding employment relationships suspended on account of falling sales and output. During the first five months of 2009, CIGO usage increased by 256.59% compared with one year before, reaching 292,931,055 hours. All major sectors of the economy are increasingly turning to the CIGO. The circumstances of the CIGO are critical, with a 466.08% rise in take-up compared with the previous period. The percentage increases on 2008 remained high during

the first five months of 2009, with increases in the vast majority of sectors well in excess of 100%; in five sectors they exceeded 1,000%. Of particular significance are mechanical engineering (+1,262.83%) and metalworking (+2,177.88%). This take-up of the CIGO is a clear sign that the economic recovery has not yet begun, and that the crisis is so deep that the apparatus of production is being severely affected. Confirmation comes from the index of industrial output, which shows a decline of 22.7% for the period January-April. Moreover, it is worth noting that, in view of the large number of hours involved, even apparently slight percentage rises represent huge volumes of CIG hours.

Pay-outs under the special wages guarantee fund (CIGS) went up by 81.57% in the first five months of 2009, compared with the same period in the previous year.

In view of the already severe repercussions on employment, if the crisis were to continue for many more months all the resources hitherto set aside to provide income support for the unemployed could be exhausted. The assurances so far given by the government - 'no one will be left out' - have by no means allayed the trade unions' concerns. Large-scale redundancies could be on the cards as soon as late autumn 2009, which is when the deadlines for pay rises expire (as will the resources to fund them). The CGIL union has sounded the alarm bell, but so too has the managing director of FIAT.

## **Joint funds compensate for flaws in the system**

Given the flaws in the social security system, collective bargaining has without doubt functioned as a 'stop-gap' (Balandi, 2007). 'Bilateralism' (*bilateralità* - Leonardi, 2004), is one of the original forms of collectively agreed welfare provision which have made up for some of the shortcomings in the universal arrangements for income protection in the event of temporary job losses. Initiatives have been taken by the two sides of industry in economic sectors which have traditionally been fragmented, where employment has been unstable and the trade unions weak (construction, craft, agriculture, retailing and tourism), as well as in some fairly robust segments of the tertiary sector (banking, post office, aviation) not covered by the social cushioning measures available to industry.

A law dating from 1996 promotes the establishment of funds to finance experiments with 'income and employment support measures' in sectors and companies not eligible under the system of social cushioning measures.

The tripartite agreement on social security, adopted on 23 July 2007 and transcribed into Law No. 247/2007, advocates strengthening the role of joint (employer/employee) bodies, not least so as to establish benefits topping up those provided by the general system. These support measures must be devised as active employment policies (training, vocational retraining) and not merely as social assistance schemes. They must be justified by either a sectoral crisis or a corporate restructuring exercise.

Thus it was that, at the end of the 1990s, regional, joint 'income support' funds were set up by craft firms. They are financed by companies paying in annually the equivalent of ten hours of a blue-collar wage, based on the collectively agreed pay scale. This quota of hours is then allocated to income support for the workers (eight hours), and to support for the artisans and their companies (two hours).

Experiments with bilateralism have also yielded interesting results in the banking sector, the Italian post office and at Alitalia. Similar initiatives have likewise been developed in temporary employment firms, where specialised agencies now jointly manage training (*Formatemp*) and support for microcredit (*Ebitemp*).

These joint funds, a non-governmental stream of income support in the event of unemployment, find favour with the centre-right government<sup>9</sup> and with certain trade unions, in particular the CISL. Champions of bilateralism regard joint funds as a tool to promote regulatory autonomy on the part of the social partners, in a participatory and proactive approach to labour relations. The CGIL is more sceptical: it believes that the rhetoric around bilateralism is fraught with risk, above all that of stripping the unions of their traditional negotiating role in favour of 'para-state' intervention. A legal difficulty arises too, in that these joint agencies and funds are private-law institutions and hence unable to guarantee universal coverage (Fammoni, Piccinini, 2008). Another concern, lastly,

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9. Ministry of Employment (2008).

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is that the Berlusconi government, through its Welfare White Paper, is planning a reform of the social cushioning measures which will unite all the existing institutes under the umbrella of ordinary unemployment benefit. The wages guarantee fund would be abolished, so that during suspensions of employment the bilateral - self-financed - bodies would be the only means of managing employment crises on a temporary basis. Such a reform of the entire system is deemed regressive.

Some major innovations were made at the start of 2009 with the enactment of Law No. 2, which contains provisions of considerable importance in this area. Most particularly, the craft industry model is extended to all other sectors not having access to the CIG. From now on, ordinary unemployment will be recognised even in cases where the employment relationship is suspended (but not where it is terminated) owing to a 'company crisis'. 'Reduced requirements' unemployment also now applies to craft firms and to contract staff working in craft firms. The number of days payable has been raised from 65 to 90.

Bilateralism has a highly significant role to play in this context, since it in effect contributes to managing what could be defined as a 'mixed' system of social cushioning measures. Indeed, unemployment benefit is awarded subject to a 20% contribution from the joint body: this presumably reflects a desire to avoid uninhibited recourse to unemployment benefit by employers, but the arrangement nonetheless provokes serious objections on constitutional grounds. These relate for example to the list of sectors in which joint bodies either are not, or are not yet, permitted to disburse allowances of this kind. Receipt of public allowances, in the form of unemployment benefit, is now partly contingent on a top-up from a private-law institution, namely the joint body.

Finally, another experiment (2009-11) worth noting is a flat-rate contribution amounting to 20% of 2008 earnings (10% for the following two years) in support of project workers whose employment has been terminated. The level of average earnings under this type of contract is however very modest: between €8,000 and €10,000 per year, according to studies by the IRES (2008). Above all, this measure is thought likely to affect no more than 10% of all project workers, in other words a tiny minority, on account of the very selective eligibility criteria adopted.

## Reforms under discussion

A turning-point in the debate about the social security system was reached in 1997, when, under the first Prodi government (1996-98), a report by a committee of experts coordinated by Professor Paolo Onofri highlighted the highly critical state of affairs.

Today, reform is deemed necessary in order to respond to changes on the labour market. All of the recent plans and proposals are aimed at introducing a closer link between passive compensation measures and a strategy of activation, which has until now been completely absent from employment policies in Italy. The idea is of course to widen access to the benefit system and make it fairer, whilst also raising the amounts paid out - especially for ordinary benefit, which is still the most inclusive and universal component of the Italian system. Yet there is at the same time a desire to bolster (if not to create from scratch) the principle of compulsion, in the form of a 'service contract' linking the government, its administrative outposts (the employment agencies) and claimants. Thus a full-blown legal obligation is to be established, with harsh penalties imposed for non-compliance.

It should nevertheless be remembered that the issue of activation arises in quite different terms in Italy from the rest of central and northern Europe. In those countries it is a matter of minimising, or averting, the phenomenon of the welfare trap, and hence the risk that recipients of relatively generous replacement earnings will have little incentive to find a new job. In Italy the problem is quite different in nature: there is a very large amount of insecure employment, going hand-in-hand with both an extremely modest level of replacement earnings and very rudimentary activation policies (especially in respect of training).

### Influence of the European debate and search for a national compromise

International organisations have played, and continue to play, a very important role in the development of social and employment systems in all the European countries<sup>10</sup>. The EU employment strategies have created

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10. Some even refer to the 'limited sovereignty' of national social security policies (Ferrera, Hemerijck, Rhodes, 2000).

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a favourable climate for debate about thorough reform of the Italian unemployment protection system. The social cushioning measures need to be better tied in with proactive employment policies. Another concern is to strengthen protection on the labour market and share out the existing schemes and resources more equitably. The terms employability, activation and flexicurity (Wilthagen, Tros, 2004; Wilthagen, von Valzem, 2006) loom large in this debate. The reform initiatives discussed and put forward in the course of the past decade have been clearly influenced by the idea that we should move 'from the social cushioning measures/employment duo to the social cushioning measures/employability duo' (Garofalo, 2006:66).

The European Commission's 2006 Green Paper<sup>11</sup>, championed particularly in centre-right circles, has fuelled a wide-ranging debate about the right to work and the future of work. Special attention is being devoted to 'new rights' which are less employment-centred, and to the issue of social security, which requires the creation of more universal, equitable and rational instruments and models of social integration. Critics have however challenged the notion that binding legislation on employment protection tends to undermine the dynamism of the labour market.

Discontinuity between periods in work and out of work is a problem that can no longer be ignored. A broad consensus has formed around the need to extend protection in such a way as to ensure that sectoral affiliation, company size and/or type of employment contract no longer represent grounds for exclusion from social security. At present, the dominant approach is to consider that the current trend cannot be reversed and we must therefore live with it, while rethinking and reshaping both the labour market and social security systems. 'Good flexibility', or 'acceptable flexibility' as it is described in centre-left political and trade union circles, must be introduced.

Extending protection to sectors of the labour market currently without any cover is a key element in the debate on reform of the social cushioning measures. Lawyers have expressed doubts as to the constitutionality of the present system, which could seriously infringe the principle of equality on account of 'the absurd four-way division of citizens' (Balandi,

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11. European Commission (2006); Council of the European Union (2007).

2007:612): between those who are excluded from any protection and those who are covered by ordinary unemployment benefit, the various CIG schemes and mobility benefits respectively.

The two institutions for which reform is most urgent are the wages guarantee fund (the *cassa integrazione guadagni*) and the unemployment benefit system. But the legislator appears inclined to overhaul only the latter. The tripartite protocol on social security, of 23 July 2007, and thereafter Law No. 247 contain criteria and principles for a reform of the social cushioning measures which the government was obliged to put in place within twelve months of the Law's entry into force. Their aim is 'gradual harmonisation of unemployment benefits and the creation of a single mechanism to provide benefits and to help unemployed persons back into work, irrespective of their qualifications, sectoral affiliation, company size and type of employment contract'.

A broad consensus seems to be emerging in favour of gradually scaling down the insurance-based approach by extending the principle of universality, albeit in a partial and inconsistent manner. The involuntary nature of unemployment should no longer be regarded as an absolute value overshadowing other principles which likewise justify the granting of protection from economic and social changes underway. The traditional notion of work - in the Fordist sense - should therefore be cast aside in favour of a notion of employability, whereby periods in work and out of work can and must follow on from one another without too much trauma (Sandulli, 2002; Bozzao, 2008). Everyone must undertake to fulfil the duty of social solidarity referred to in Article 2 of the Constitution.

A major debate has been ongoing for several years to determine whether protection should be more closely linked to the labour market rather than geared to the contract of employment, as is the case today. Advocates of a (decidedly) liberal slant favour linking social security to the labour market: they recommend moving from welfare to workfare, reducing protection against dismissal and strengthening the logic of activation (Sacconi, Reboani, Tiraboschi, 2004; Ministero del Lavoro, 2008).

For the political and trade union left, first and foremost the CGIL, job stability and employment protection still represent the crux of a social security system centring on the dignity of the individual. The trade unions are traditionally distrustful of forms of assistance - such as for example a

minimum income for all citizens - which are disconnected from this key element, i.e. work. They fear that a reinforcement of the social cushioning measures and of protection related to the labour market might downplay the experience of unemployment and permit a more flexible use of the labour force. This explains why Italy's trade unions have expressed such strong reservations about the flexicurity plans contained in the European Commission's Green Paper (Leonardi, 2007).

What overall shape should a new type of solidarity take? The debate here relates to a trade-off between an insurance-based approach and a universal approach. According to some observers, the insurance mechanism 'even if appropriately adapted, can guarantee neither universal protection nor that all citizens will be sheltered from need; these goals evidently call for initiatives and measures that transcend the logic inherent in the [insurance] mechanism' (Cinelli, 2008:15). Certain experts in the field, such as Massimo Paci, believe that we should overcome such old, deep-rooted distrust and should regard assistance not as a social stigma, but on the contrary as 'a pillar of modern social citizenship' (Paci, 2005:192).

On the other hand, a 'pure' universal dimension would lead one to envisage the introduction of a guaranteed minimum income scheme. The absence of any such national minimum subsistence income, along the lines of similar arrangements in most other EU Member States, is without doubt one of the anomalies of the Italian social security system. The critical points here are:

- a) the problem of making the system not just financially but also socially viable;
- b) the risk that the system may be abused and manipulated;
- c) the political risk arising from a system whose funding would come mainly from northern Italy but most of whose beneficiaries would live in southern regions (Leonardi, 2009).

Some new proposals have surfaced in the debate during the past few months, such as those from Boeri and Garibaldi (2008), who believe it advisable to apply higher contributory rates for unemployment insurance in the case of employers who make greater use of flexible and temporary forms of labour. An insurance-based approach of the 'bonus-malus' type

would be applied: the greater the use of unemployment support funds, the higher the payment to help finance them. Those employers who make heaviest use of fixed-term contracts would have to pay higher insurance contributions. Spanish legislation, for example, has moved in this direction, weighting the employer's contribution more heavily (up to 10% of gross pay) where flexible contracts of employment are used (be they fixed-term, temporary or part-time).

One problem with raising social security contributions for unemployment purposes is the fact that, as well as increasing the tax burden, these contributions already help to put Italy at the top of the European league table for the taxation of labour (Eurostat, 2009).

Another interesting proposal worthy of careful assessment is the one put forward by Tommaso Nannicini on the *lavoce.info* website: in a bid to encourage employers to put workers recruited on fixed-term contracts on a permanent footing, the severance pay awarded would be proportional to the duration of the temporary contract. The employer could only avoid having to pay this additional sum by offering the worker a permanent contract.

The indirect objective in both cases is to discourage the use of fixed-term employment. Similar proposals are under discussion elsewhere in Europe, for example the 'flexinsurance' idea advanced by Andranik Tangian (2007). This Russian researcher at the Hans Böckler Foundation in Düsseldorf has suggested aligning the employer's insurance contribution with the degree of contractual flexibility. The intention would be to compensate flexible workers for the higher risk inherent in their employment relationships, while at the same time encouraging the employer to hire them permanently. Tangian does not believe that such a practice would significantly add to labour market rigidity.

We must undoubtedly think in terms of a mixed social security model, comprising both measures to protect against unemployment and appropriate mechanisms to promote employment. A wide array of provisions will therefore be required. Measures and policies need to be adopted in three main areas: vocational training, active employment policies and income transfers.

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