3.5 Italy

3.5.1 Setting the scene: key traits of the country's political economy

In the late 1980s and early 1990s, Italy was characterised by significant economic growth, but later on, growth stagnated and between 2001 and 2008 average growth was 0.8 per cent of GDP (roughly half the euro-area average). Economic contraction was particularly evident in 2009 (−5.5 per cent) and in 2012 (−2.8 per cent). Italy thus experienced a 'double-dip': the Great Recession of 2009 was followed by some first signs of recovery (in 2010 and 2011) and then by further economic decline in 2012.

Moreover, for many years in the 2000s Italy's national debt was the highest in Europe, and currently it is second only to Greece's. The government gross debt constantly increased between 2007 (99.7 per cent of GDP) and 2011 (132.1 per cent of GDP). As regards the deficit, during the first years of the crisis, it significantly increased (−2.7 in 2008 and −5.3 in 2009), but it started to fall between 2010 (−4.2) and 2013 (−2.9) (Table 19).

Table 19 **Italy: selected socio-economic indicators, 2007–2014**

Indicators/years	2007	2008	2009	2010	2011	2012	2013	2014
Real GDP growth	1.5	−1.0	−5.5	1.7	0.6	−2.8	−1.7	−0.4
General government gross debt (EDP concept) (% of GDP)	99.7	102.3	112.5	115.3	116.4	123.1	128.5	132.1
General government deficit/surplus (% of GDP)	−1.5	−2.7	−5.3	−4.2	−3.5	−3.0	−2.9	−3.0
Employment rate (% 20-64)	62.8	63.0	61.7	61.1	61.2	61.0	59.8	n.a.
Unemployment rate (%)	6.1	6.7	7.8	8.4	8.4	10.7	12.2	n.a.
People at risk of poverty or social exclusion (% of total population)	26.0	25.3	24.7	24.5	28.2	29.9	28.4	n.a.

Source: Agostini and Natali (forthcoming: Appendix).

Table 20 **The Italian social model**

Labour market regime	Welfare regime	Varieties of capitalism
Southern European	Southern European	Mixed market economy (MME)
		Peculiarities: - high level of debt; - falling productivity; - falling share of national goods and services in world trade; - declining role of the state in the national economy; - coordinated decentralisation of collective bargaining

Source: Authors' elaboration on Agostini and Natali (forthcoming).

The economic and financial crises have significantly affected the social situation; in particular, the unemployment rate doubled between 2007 (6.1 per cent of population) and 2013 (12.2 per cent of population). At the same time, the employment rate decreased between 2008 (63 per cent of population) and 2013 (59.8 per cent). As regards the percentage of the population at risk of poverty or social exclusion, we see a significant increase between 2010 (24.5 per cent) and 2012 (29.9 per cent). On the contrary, a slight improvement emerged in 2013 (28.4 per cent) (OECD 2015e).

A mixed market economy, the variety of capitalism typical of Southern European countries, characterises Italy. Mixed-market economies (MME) are political economies governed by non- market forms of coordination. The state is an important actor through the creation of a large state-controlled business sector, and the control of the financial system (Pagoulatos 2003). At the same time, interest associations of both business and labour have stronger organisational structures than in liberal market economies, but are more fragmented and weaker than in coordinated market economies. As a result, they are unable to deliver collective goods or develop strong autonomous forms of coordination throughout the economy, but they are powerful and demand some form of compensation from the state for their acquiescence (Molina and Rhodes 2007). Compensation usually consists of passive labour market policies and a transfer-oriented welfare state.

With regard to the economic model, Italy's major problem – partly explaining low growth – is its competitiveness gap, in particular high average unit labour costs and low productivity (Goretti and Landi 2013). Italy's position has deteriorated steadily since the launch of the euro area, after a decade of economic slowdown and declining exports. Italy's share in world trade has fallen since the mid-1990s, and the country has not profited from increased demand in fast-growing emerging markets. This seems to be closely related to the typical profile of Italian firms: they are very focused on low-technology and labour intensive products (such as textiles). Recent decades have seen no significant shift in the industrial specialisation pattern, while economic regulation and openness to competition lag far behind other Western countries. Another structural characteristic is the traditional predominance of small and medium-sized enterprises that are unable to fully exploit economies of scale. Furthermore, access to the equity market to finance firms is underdeveloped (especially for SMEs) (ibid.: 9).

As regards the social model, Italy is a typical example of a South European welfare state (Ferrera 1996). It is a typical 'transfer-centred' welfare state, where social and employment policies are very fragmented (with various schemes along occupational and social lines). The spread of a universalist health care system has hybridised the system rooted in occupational welfare provision in other policy fields. Italian welfare is therefore characterised by the individual appropriation of welfare resources, related to a low degree of state penetration of welfare institutions and a low degree of state power, with the consequent spread of political clientelism (social benefits exchanged for political support and votes) (Katrougalos and Lazaridis 2008).

In this context, at the beginning of the 1990s welfare programmes presented two main problematic aspects. The first was the financial strains upon them, part of the broader tensions in the public budget. The second was the inequity implicit in the system: across occupational groups, as well as in terms of standard risks (for instance, pensions versus unemployment benefits) and regions and gender (Ferrera, Fargion and Jessoula 2012).

Owing to its large public debt and low growth, Italy was vulnerable to the economic and financial crises of 2008. The European institutions applied pressure on national policymakers to address the country's structural weakness, considered to be the cause of the low growth rates

Table 21 **Italian governments, 2007–present**

Years	Prime Minister	Position in the political spectrum	Coalition forces	Reform programme
May 2008–November 2011	Silvio Berlusconi	Centre-right	PdL, Lega Nord e MpA	Social standards devaluation
November 2011–April 2013	Mario Monti	Technocratic government	PdL, PD, UDC	Social standards devaluation
April 2013–February 2014	Enrico Letta	Left-right	Pdl, PD, UDC, Lista Civica	(1)
February 2014–	Matteo Renzi	Left-right	PD, NCD, UDC, Lista Civica	Social standards devaluation and improvements

Note: (1) Due to the peculiar nature and short duration of the mandate, the approach to reform of the caretaker government is not clear.
Source: Authors' elaboration.

(Caritas Europa 2013). When the sovereign debt crisis began in the euro zone (in 2010) Italy was in a fragile position, and the effects of the crisis were particularly severe. Any request for an external loan was viewed as a danger to the entire euro zone (Oxfam 2013). For that reason, the reform programmes were based mainly on severe austerity measures. In particular, in December 2011, the technocratic government headed by Mario Monti adopted a package of fiscal reforms called 'Save Italy' in order to push the view that without such changes Italy would go bankrupt.

Italy has been subject to manifold EU pressure: 'informal conditionality' has influenced many reforms (in particular in the field of pensions and the labour market). This conditionality (differently from countries such as Greece, Portugal or Spain) was not linked to a 'memorandum of understanding'. Rather, it was put into action by supervision and coordination of economic and budgetary policies (particularly within EMU and often through unprecedented procedures) and through the leverage provided by the ECB's autonomous decision to purchase bonds on the secondary market within the Securities Markets Programme (SMP) (Sacchi 2013; Agostini *et al.* 2015). The ECB's support was made conditional on Italy following the EU prescriptions for budgetary austerity and structural reforms of the social models; in line with the idea that the social model played a key role in determining the fate of the country during the euro-crisis. As regards the policies adopted by Italian governments, it is clear that the euro zone crisis impacted significantly on social spending and public employment. In sum, the austerity policy implemented in recent years has led to a serious lowering of social standards (Perez and Rhodes 2015).

During the financial and economic crisis period, structural funds also played a significant role, particularly in the field of employment policies. These funds were used mainly to finance pre-existing programmes (short-time working schemes by way of a derogation) and the provision of active measures linked to them (Agostini *et al*. 2015).

3.5.2 Structural reforms sector by sector

Pensions

In Italy, public pensions have been extremely generous and costly (Italy has been one of the highest-spending EU countries). Since the 1990s, a long list of reforms has radically transformed the system, with a move to a (still incomplete) multi-pillar pension model (in line with a gradual reduction of public pensions and more room for supplementary pension funds).

While the so-called welfare protocol of 2007 adopted by the left-of-centre Prodi government reduced cutbacks introduced earlier by the right-of-centre parliamentary majority, three different pension reforms were introduced in the period 2009–2011 (Natali 2011). Both were shaped by external constraints. The EU put pressure on Italian policymakers by means of a range of different instruments. First, direct pressure came from the European Court of Justice (ECJ). Its ruling C 46/07 found Italian legislation on the retirement age – in particular, the different legal retirement ages for men and women in the public sector – to be discriminatory. This led to the opening of an infringement procedure against Italy. The Berlusconi government decided to introduce a revision of pension legislation in 2009, to equalise the retirement age for men and women in the public sector at 65 (for women it was 60), with a phase-in period of 9 years. This direct pressure from the ECJ was supplemented by the first impact of the economic recession. The Italian government had to pass measures to stabilise the public budget deficit in a context of huge recession. The increase of the legal retirement age was thus supplemented by automatic mechanisms to further increase the retirement age (for both social assistance, old-age and seniority pensions) in line with the gradual increase in life expectancy. These measures were introduced through a short phase-in period, with full implementation since 2015.

A second reform package was passed in 2010. Due to the persistent economic recession and the gradual deterioration of the public budget, the Berlusconi government reduced the transition period for full implementation of the measures introduced in 2009. As a consequence of the new law of 2010, the equalisation of the retirement age for men and women (in the public sector) became operative in 2012, and the activation of the automatic adjustment of the legal retirement age to life expectancy has applied since 2010.

The dramatic context of the so-called 'spread-crisis' in 2011 led to a more radical revision of the Italian pension system. The Monti government passed a new set of measures in 2011 (the so-called 'Save Italy' decree of December 2011). Law Decree 201/11 (December 2011) – then translated into Law 214/11 – introduced major changes, in particular:

- a move towards a single retirement age for men and women (66 years and 7 months by 2018), for employees in both the public and private sectors, and the self-employed;
- a flexible retirement age, with a minimum retirement age of 63 (in the case of pension benefits above the minimum level of 2.8 times the *assegno sociale*), and a postponed retirement at 70;
- regular adjustment of the retirement age in line with increases in average life expectancy since 2013 (while before the reform it was supposed to be introduced in 2015) with a rise of three months, and further increases every three years up to 2019;
- from 2012, the full enforcement of a defined-contribution pension scheme introduced in earlier reforms to replace the earnings-related defined-benefit scheme;
- the seniority pension – allowing workers with at least 35 years of pension contributions to retire early – was eliminated;
- gross monthly pensions above 1,400 euros were not indexed to bring pension spending under control for 2012 and 2013.

These new measures were expected to produce savings from 2012 (around 2.7 billion euros) reaching 22 billion euros in 2020. Accordingly, the reduction in public pension expenditure in terms of GDP was deemed to be 0.2 percentage points in 2012, 0.9 in 2015 and 1.4 in 2020, then gradually declining to 1.1 percentage points in 2025, 0.9 in 2030 and 0.5 in 2035 (Jessoula and Pavolini 2013). In distributive terms, this reform largely reduced the transition towards the full implementation of cutbacks (related to the introduction of the defined-contribution type of benefit). This has addressed the inter-generational divide between younger generations (already affected by previous reforms) and older cohorts.[39] But there is a risk that retrenchment will lower the adequacy of pension benefits and put some elderly people at risk of insufficient protection: this is the case with regard to workers on low wages and with interrupted careers (ibid.).

Labour market

In the shadow of the economic and financial crisis, the main measure adopted by the Italian government to reduce its impact involved short-time working schemes and the new regulation of labour contracts. These measures (adopted by the Berlusconi government) did not structurally affect the employment benefit system (Sacchi 2013). As far as short-time working schemes are concerned, the *Cassa Integrazione Guadagni* (CIG) is used in a new version that derogates to current legislation by extending protection to further categories of worker, enterprises (including small and medium-sized enterprises), economic sectors and extending the duration of the measure. The so-called *Ammortizzatori Sociali in Deroga* (AD) – the CIG plus other short-term work schemes – are aimed at: (i) extending income support measures to some categories of workers (especially those in small and medium-sized enterprises) previously excluded from the scheme; and (ii) finding, with the help of the regions, the necessary funds to cope with the increasing demand for wage support due to the economic crisis. The Italian government signed an agreement with the regions, which calls on them to cover 40 per cent of the cost of AD, partly through the European Social Fund. As has been noted, the social safety net has not been revised in response to the economic crisis, but it is subject to a temporary derogation, thus leading to the further fragmentation of the sector (Sacchi and Vesan 2011; Vesan 2012). As regards employment legislation, the package of emergency measures adopted by the Berlusconi government recognised the possibility of derogating from the principle of the individual employment relationship in

39. The Dini reform of 1995 that introduced the defined-contribution logic in the PAYG pension system had a 40-year transition before its full implementation in 2035. The Fornero reform of 2011 cut this transition and made the new rules operative from 2012.

national contracts and law, through collective bargaining agreements at the industrial or territorial level (the so-called 'proximity agreements'). This provision was introduced under pressure from the EU and international institutions to reform the labour market and promote decentralisation of the collective bargaining system (Vesan and Pavolini 2015).

On April 2012, the executive led by Mario Monti passed the so-called 'Fornero reform' (named after Ministry of Labour Elsa Fornero) (Law No. 92/2012). The reform regulates individual dismissal and fixed-term employment contracts, with the aim, on one hand, of favouring the use of permanent contracts (reducing atypical contracts) and, on the other hand, of simplifying the procedures for laying off employees. In this framework, Law No. 92/2012 reformed Article 18 of the Workers' Statute by limiting the reinstatement of workers in case of unlawful dismissal only to specific circumstances. At the same time, this law introduced monetary compensation as a general rule for unlawful dismissal (Vesan and Pavolini 2015).

Moreover, the reform defined new measures for income support. It redefines the system of social safety nets, distinguishing between measures to support wages in the case of unemployment and measures to complement wages in the case of suspension or reduction of working hours. A new scheme called *Assicurazione Sociale per l'Impiego* (ASPI) has been introduced and, for the government, it should represent the first step towards a unique scheme of income guarantees in case of unemployment. Finally, as regards 'proactive employment policies', contracts 'with training contents' were introduced. Apprenticeships are considered the main way to promote the access of younger workers to the labour market. The reform also introduces some measures to promote women's labour market participation. These measures are, however, limited compared with what has been implemented in other European countries (Vesan 2012).

At the end of 2014, the centre-left government led by Matteo Renzi introduced the so-called 'Jobs Act'. As regards the regulation of employment relationships, the Act introduced a new kind of contract (*contratto a tutele crescenti*) that, by replacing permanent contracts, has made it even easier to dismiss workers employed in firms with more than fifteen employees. In the framework of the new '*contratto a tutele crescenti*', reintegration has been limited to discriminatory and unlawful dismissals, whereas for all other situations, and if the dismissal is declared unlawful by the judge, the employer has to pay monetary compensation.

Moreover, the Renzi government introduced a further liberalisation of temporary contracts in 2014 and limited the use of other forms of atypical contract. The Jobs Act reformed also the unemployment benefits system. In particular, the reform reviewed the strict eligibility criteria for unemployment insurance. To obtain the ASPI (now called NASPI), the jobseeker must have paid three months of contributions in the past four years and worked for at least 30 days in the past year. The amount of NASPI is 75 per cent of the previous salary up to 1,195 euros (for 2015), and 25 per cent for the share exceeding that amount up to a maximum amount. Its duration is related to the length of the period of contributions and with the new rules, the effective average duration of NASPI is estimated to be equal to 8.6 months. Finally, another important change concerns the introduction of a social assistance allowance for the unemployed (*assegno sociale per la disoccupazione* – ASDI). This measure is reserved for workers who have finished NASPI. This scheme is means-tested and gives access to a sum equal to two-thirds of the last NASPI benefit for six months. Due to budgetary constraints, this new scheme has been introduced on an experimental basis and it will be provided only up to the exhaustion of the available budget set by the government (400 million euros for 2015 and 2016). If ASDI becomes permanent, it will be the first universal unemployment assistance scheme to be introduced in Italy (Vesan and Pavolini 2015).

Education

Various laws were adopted to reform the education system in the period between 2008 and 2010. The so-called 'Gelmini Reform' (after a Minister of Education and Research in the Berlusconi government) prioritised the reduction of education expenditure, for both the school and university systems. The school reform, for example, reduced the hours of teaching in primary schools, in particular the afternoon schedule (*tempo pieno*), which was transformed into a sort of complementary activity also with the payment of fees (Pattarin 2011; Saraceno 2010).

Concerning the main measures affecting mandatory schooling since 2008, we refer to Decree-Law 112/2008 (*Decreto Brunetta*) that:

– increased the student/teacher ratio by 1 per cent;
– reduced schools' staffing levels (administrative, technical and auxiliary) by 17 per cent;
– reorganised schools, curricula and classes; and
– cut public expenditure by at least 7.8 billion euros by 2012.

In an effort to justify the cuts in public expenditure, the Decree-Law makes express (and generic) reference to international and EU commitments to stabilise public finances.

Provision was made also to increase the size of school classes:

- about 18 to 29 pupils in pre-primary school classes;
- about 15 to 27 pupils in primary school classes;
- about 18 to 28 pupils in lower secondary school classes.

Moreover, to implement the budget goals, measures were taken to assign only one teacher (no longer three) to primary school classes. Reductions were also made regarding hours of teaching, subjects and staff. Finally, a number of schools were merged. As a result, between the school years 2007/2008 and 2013/2014 the number of pupils increased by nearly 2 per cent, whereas the number of classes and teachers fell by more than 2 per cent and 12 per cent, respectively.

Law 122/2010 and DPR 122/2013 have frozen teachers' salaries since 2009. This helped to increase the gap between Italy and other OECD countries, because the starting salary for teachers in upper secondary school is 6 per cent lower than the OECD average. This gap is wider for experienced teachers: they are paid 11 per cent less than the OECD average (European Parliament 2015).

The university reform made significant cutbacks to the 'ordinary funds' at national level (*Fondo di Finanziamento Ordinario*) (Ichino and Terlizzese 2012). Moreover, the 'Gelmini Reform' has heavily restructured the internal organisation and governance of the university system. Two main changes were inspired by 'New Public Management' and cost containment. The first concerns the governance structure of universities, which became more centralised. At the same time, the reform has changed recruitment and careers, abolishing permanent positions for new entrants and increasing the importance of merit-based selection in the careers of professors (Ballarino 2015).

Cutbacks did not stop with the Monti government. As has been pointed out (European Parliament 2015), after the public budget spending review of August 2012, cost-sharing for higher education was increased, while fees rose by between 25 per cent and 100 per cent for students graduating with some delay (after the statutory deadline). In the wake of the financial and economic crisis, Italy registered a significant drop in real public education expenditure. Italy is the only Member State that has reduced this kind of expenditure for four consecutive years: –0.2 per cent in 2009, –3.0 per cent in 2010, –4.0 per cent in 2011 and –1.8 per cent in 2012.

In 2015, the Renzi government passed the so-called 'Good school' reform. The bill redesigned the powers of head teachers and allowed for pay increases based on merit (rather than on seniority). It also provided tax incentives for private schools and launched a plan to hire about 100,000 full-time teachers. The government budgeted about 3 billion euros for the reform (Binnie 2015).

Public sector

Italy has introduced two main measures to reform the public sector (Bach and Stroleny 2013; Setnikar Cankar and Petkovšek 2013), involving the freezing of recruitment and wages. Also in this case, the measures were approved after the ECB pressed the government to take measures to reduce the cost of public employees by strengthening staff turnover rules and, possibly, by reducing wages (Bordogna and Neri 2014). On the first point, since 2008 recruitment of public employees has been significantly limited (10 per cent in 2009, 20 per cent in 2010 and 2011, 50 per cent in 2012). The rationalisation measures have applied to schools and staff with flexible employment contracts. The effect of the freeze on recruitment was evident in 2010, when the total number of public employees was 4 per cent lower than in 2008. This decrease applied to the number of permanent employees (3.6 per cent) and, even more (almost 13 per cent), the number of employees with flexible contracts. Other measures for strengthening and prolonging the recruitment freeze were adopted in 2010; as a result a contraction of 10 per cent in the public sector was expected by 2014. In 2012, these measures were confirmed and reinforced by the Monti government.

As regards the second point, the measures adopted in 2008 implemented the national wage freeze, which was extended from 2010–2011 to 2013 and 2014. In particular, for 2011–2013, the wages of individual employees may not exceed the level of 2010. With the partial exception of the component linked to performance or merit pay, the economic effect of career promotions has also been frozen. Moreover, other measures concerned higher wages and, in particular, cuts of 5 per cent for those with a gross wage of between 90 and 150 thousand euros a year, and of 10 per cent for the proportion exceeding 150 thousand euros. In sum, in comparison with the 2000–2007 period, wage growth slowed significantly in 2008–2009 and has substantially been frozen since 2010.

Research and development

In the shadow of the economic and financial crisis, R&D investment has not been significantly reduced. In Italy, the level of R&D expenditure is lower if compared with the average level of the EU28 (–0.7 percentage points in 2013). Average EU28 expenditure in R&D is 2 per cent of GDP, in Italy it is 1.3 per cent. This level of expenditure remained substantially stable during the crisis: it was 1.2 per cent between 2008 and 2011 and 1.3 per cent in 2012 and 2013. This increase should be understood in terms of trends in GDP.

The government has adopted various measures for promoting investments. They include a temporary tax credit for companies that increase investment and specific loans (for small and medium-sized enterprises for the purchase of machinery, equipment, capital goods and for investments within the country). A specific tax credit devoted to an increase in investments in R&D has been introduced for the period 2015–2019. Moreover, a favourable 'patent box' taxation on income derived from the use of intellectual property, patents and trademarks has also been introduced. Project bonds for infrastructure investment have been made cheaper and simpler to issue. Similarly, regulations governing the involvement of institutional investors in real estate have been relaxed (OECD 2013e).

3.5.3 Preliminary remarks on structural reforms in Italy and their determinants

The Italian reform pattern seems consistent with the 'low-road' to economic growth and competitiveness, a model reliant mainly on cost containment in the different policies under scrutiny. Budgetary cutbacks – in the context of broader social standards devaluation – have been the main goal of the reforms implemented since 2009 in the domains of pensions, unemployment, education, R&D and the public sector. All these fields have experienced retrenchment both in the long- and short-terms. The latter has become a key part of the reforms since the eruption of the 'spread-crisis'.

This reform path has reflected the guidelines laid down by the EU. Italy has experienced huge constraints, related to the SGP (application of EDP), hard regulation (for example, the role of the ECJ in the field of pensions) and tough forms of conditionality implemented by the ECB. The EU has also shaped – but with a more limited impact – social policy and labour market policies in order to favour the move towards activation in the two policy areas through the structural funds. The role of domestic political forces has proved limited, but the Renzi government has implemented a more pro-growth agenda with more flexibility in application of the EU budgetary rules (despite ongoing austerity measures, more social standards improvements have appeared).

Table 22 **Summary table: drivers of reform and major reform trends in Italy, 2008–2014**

	2008–2011	2011–2012	2013–2014
Drivers of reform			
Economic crisis	Deep recession; Surge of general government deficit	Deep recession; High general public deficit (2010)	Slight economic growth
Coalition governments	Centre-right (PdL/ Northern League)	Grand Coalition (Pdl; PD; UDC) supporting a technocratic government	Left-Right (PD; NCD; LC)
EU influence	EDP	EDP; European Semester; Financial Assistance (Securities Markets Programme)	European Semester; Financial Assistance (quantitative easing)
Structural reforms			
Reform path (for the five policies under scrutiny)	Social standards devaluation	Social standards devaluation	Social standards improvements and devaluation
Main reforms in each policy field			
Pensions	- Increased retirement age (e.g. for women)	- Increased retirement age (automatic mechanisms) - Cut in seniority pensions - Introduction of the NDC system since 2012	
Labour market		- Increased flexibility - Recalibration of passive labour market policies	- Increased flexibility - Recalibration of passive labour market policies
Education	- Retrenchment	- Retrenchment	- Increased spending through the 'Good School' reform
Public sector	- Retrenchment	- Retrenchment	
Research and development	- Stability	- Stability	- Tax incentives to favour private investments

Source: Authors' elaboration.