

POLICY BRIEF #2016/02

# Labour Market and Social Policy in Italy: Challenges and Changes

Eight years after the outbreak of the financial crisis, Italy has still to cope with and overcome a plethora of economic and social challenges. On top of this, it faces an unfavourable demographic structure and severe disparities between its northern and southern regions. Some promising reforms have recently been enacted, specifically targeting poverty and social exclusion. However, much more remains to be done on the way towards greater economic stability and widely shared prosperity.

## Executive Summary

The Great Recession hit Italy at a time of protracted structural weakness, affected by two decades of sluggish productivity growth and a high ratio of public debt to GDP. Almost ten years later, Italy has not solved its two main problems and is affected by a social emergency that can be observed in all of the

dimensions analysed by the Social Justice Index. Italy ranks in the bottom third of all the main categories of the index and 25th out of the 28 EU countries overall. From a labour market perspective, Italy experienced a slight improvement in 2015 in comparison to 2014, but this was a general trend across all EU Member States and the extent of its improvement remained strictly below average.

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Out of all the Social Justice Index subcategories, the one on intergenerational justice is the most worrying, ranking 27th overall. This is a source of concern for a

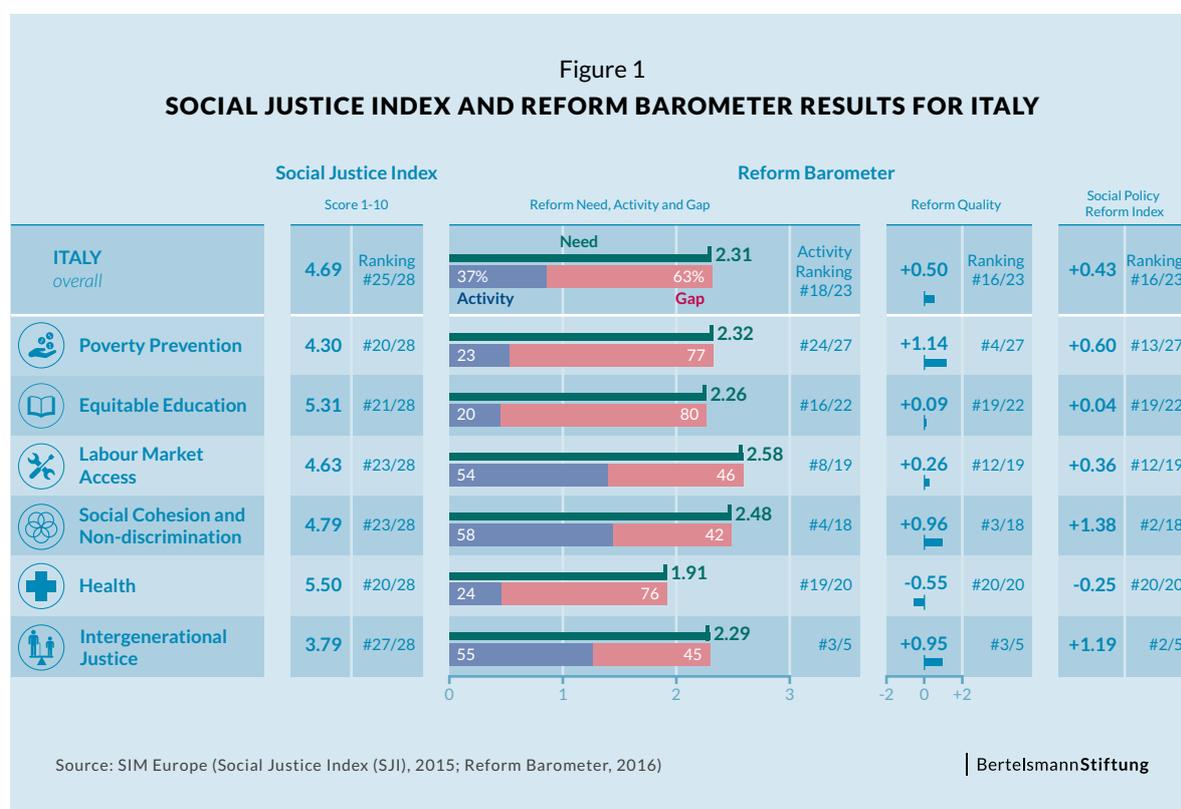
country characterised by the highest elderly dependency ratio in the EU. Greater labour market participation of working age people should then be one of the main policy targets. Efforts have been made and results achieved, but they remain insufficient and more needs to be done.

The situation has worsened in recent years, with the great majority of employment indicators reaching their lowest levels in 2014 and only small improvements being recorded during the last year. Italy has found itself in a situation of prolonged emergency, hit by crises in the financial and banking system, as well as in the labour market; it is also one of the countries that has been most affected by the refugee crisis. It is clear to see that, in recent years, the political system has struggled to cope with all of these emergencies: the incumbent government, in office since February 2014, holds the longest tenure of any administration since 2011. The recovery, albeit modest, has given Italy some room to tackle its main weaknesses.

During 2016, in order to avoid popular alienation and social exclusion, Italy finally decided to introduce unemployment assistance and social assistance schemes. These intentions are good and come at some relief for the European institutions, which have been encouraging their introduction for several years. However, the jury is still out regarding their implementation.

Taking advantage of more favourable macroeconomic conditions, Italy should also act with a long-term perspective and lay the groundwork for future sustainable growth. On the one hand, a stronger emphasis on labour market access will have positive consequences on the poverty rate and pension system. On the other hand, a greater investment in R&D, a reform of the tax wedge and improvements in education are pivotal to enhancing labour market productivity.

Figure 1  
**SOCIAL JUSTICE INDEX AND REFORM BAROMETER RESULTS FOR ITALY**



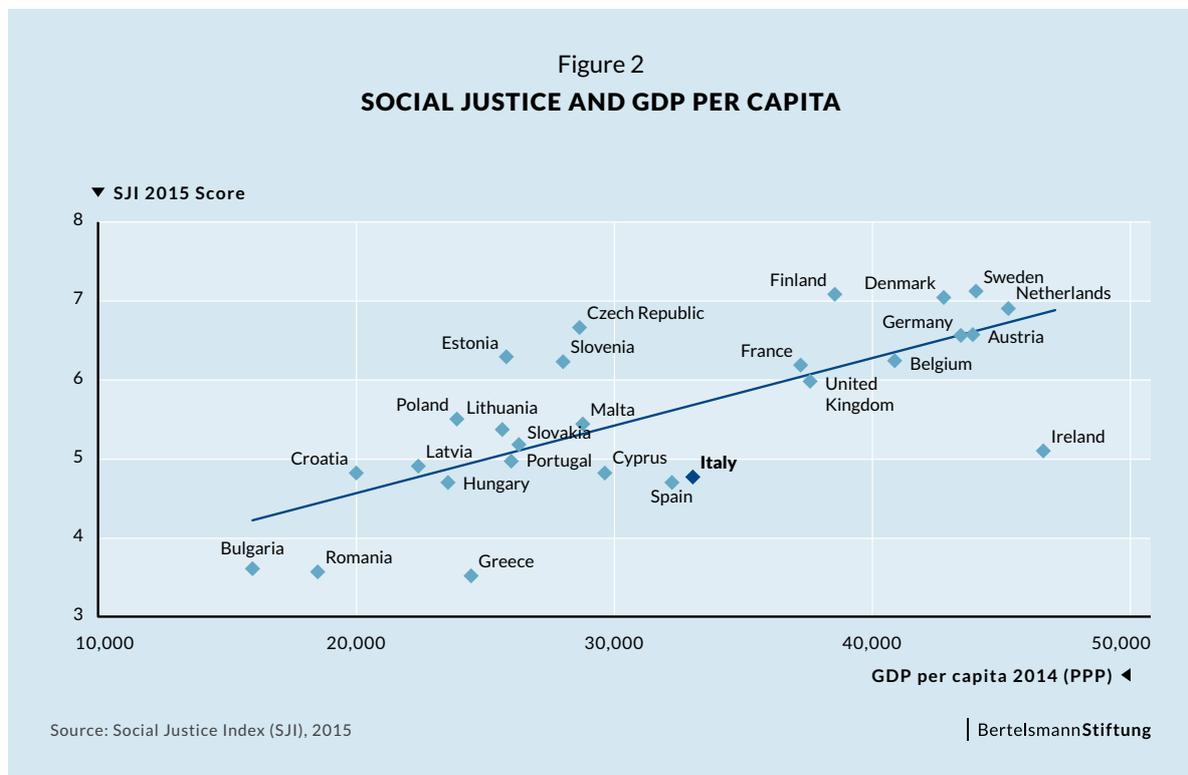
# 1. Introduction

Italy suffered greatly from the crisis, which hit the country as it was already suffering at a macroeconomic level. The crisis, beginning in the financial sector, swiftly spread to the economic and social realms, and required a rapid response. The limited available resources were used mainly for employment and income support policies (the so called “cassa integrazione in deroga”),<sup>1</sup> and for tax credits. Political instability did not help in developing sound and comprehensive mid-term strategies: four different governments have been in office since 2008 (Berlusconi, Monti, Letta and Renzi), with four different labour ministers (Sacconi, Fornero, Giovannini and Poletti).

The results of this macroeconomic and political instability are clear. According to the Social Justice Index developed by Bertelsmann Stiftung:

“Italy’s performance in terms of social justice has fluctuated somewhat since 2008, and shows only a minimal improvement over its 2014 score of 4.60. How Italy measures up against the other EU-member countries varies somewhat across the six dimensions, though it consistently ranks among the bottom third in all six dimensions. It performs worst in terms of inter-generational justice, where it ranks second to last, and ranks 23rd in both labour market access as well as social cohesion and non-discrimination. With regard to our sub-index on children and youth, the country comes in on rank 23rd with a score of 4.44.”

Overall, Italy ranks 25th out of all European countries, ahead of only Bulgaria, Romania, and Greece. If we look at the relationship between GDP per capita and the Social Justice Index across Member States, we can see that Italy is significantly underperforming.<sup>2</sup>



1 An exceptional wages guarantee fund which extended to entities previously excluded from the Cassa Integrazione Guadagni, an earlier wages guarantee fund introduced in 1947, which represents one of the traditional tools of the complex Italian unemployment benefit system.

2 Schraad-Tischler, D., Social Justice in the EU – Index Report 2015 Social Inclusion Monitor Europe. Bertelsmann Stiftung, 2015.

In comparison with 2008, Italy lost half of a point, decreasing from 5.17 to 4.69. Of the 19 countries that were already included in the 2008 survey,<sup>3</sup> only three had bigger index drops in absolute terms: Greece, Spain and Ireland. Still, the index highlights an uptick, given the rise in comparison to 2014. The rise is tiny in absolute terms, a mere 0.09, but it could prove to be a starting point.

Italy ranks 23rd for labour market access, 26th for employment rate (55.7%, ahead of just Croatia and Greece) and 16th for older employment rate (46.2%). It performs better in the low-skilled unemployment rate (17%) at 13th. The low-skilled unemployment rate itself has nevertheless doubled since 2008. The unemployment rate is even worse given that more people entered the labour force after the outbreak of the crisis.<sup>4,5</sup> For instance, that rate almost doubled between 2008 and 2015, from 6.8% to 12.9%; on top of that, long-term unemployment was up to 7.8% from an initial 3.1%, and low skilled unemployment rose from 8.5% to 17%.<sup>6</sup>

The situation in Italy is particularly hard for young people, in line with other Southern European countries. The youth unemployment rate more than doubled recently, up from 21.2% in 2008 to 42.7% in 2015 and the Child and Youth Opportunity ranking places Italy 23rd out of 28 countries in terms of the opportunity it provides for the young. In addition, in this case, a negative trend was experienced in the 2008–2015 period, but with a small uptick during the last year.<sup>7</sup> The level of NEET (Not in Education, Employment or Training) between 20 and 24 years old is, at 32%, the highest in Europe (followed by Greece, the second worst performer).<sup>8</sup> Like all of the other Southern European countries, Italy also performs poorly in

intergenerational justice. The ad hoc created sub-indicator of the Social Justice Index ranks Italy as second from last. Family policies lag far below the European level (Italy ranks last in this regard) and there is little in place beyond maternity allowance. The cuts in financial transfers to lower government levels exacerbates the problem, given the wide range of welfare policies implemented at regional and local level. Italian society continues to rely heavily on families within its welfare regime.

As for poverty and social exclusion prevention, Italy ranks 19th in the EU overall (the overall positions are marginally better for social exclusion prevention of children and the elderly, which are both 18th), with 28.1% of the Italian population at risk. The same applies to the percentage of the population in severe material deprivation, which stands at 11.5%.<sup>9</sup> Italy also ranks 23rd in terms of its in-work poverty rate, which stands at 9.6%, being one of the most affected countries.<sup>10</sup> The phenomenon changed structurally in recent years: in 2008, in-work poverty was combined with lower work intensity; in 2014, the probability of being a working poor is mainly related to the payment of low hourly wages, especially to younger workers and other<sup>11</sup> employees hired with “atypical” labour contracts not subject to collective bargaining (collectively agreed wages actually cover around half of the employees<sup>12</sup>).

As for gender equality issues, Italy has improved, but still remains the second worst performer in Europe, better only than Greece. Female participation in the labour market has improved constantly (from 39.9% in 1998 to 50.6% in 2015, according to Eurostat data), although it remains below the EU average of 64.3%. Some hope may be given by women’s representation

3 The Social Justice Index gives a complete ranking of all the 28 Member States only from 2014. Formerly, these countries were not taken into account: Bulgaria, Croatia, Cyprus, Estonia, Latvia, Lithuania, Malta, Romania, Slovenia.

4 This happened because more people entered the labour force to counteract potential job losses within the family.

5 <https://research.stlouisfed.org/fred2/series/LFACTTMAITQ647N>

6 Schraad-Tischler, D., Social Justice in the EU – Index Report 2015 Social Inclusion Monitor Europe. Bertelsmann Stiftung, 2015.

7 Ibid.

8 Ibid.

9 Ibid.

10 Lecerf, M., Poverty in the European Union – The crisis and its aftermath, EPRS – European Parliamentary Research Service, European Parliament, 2016.

11 Quaderno “Povertà ed inclusione sociale in Italia: sfide e cambiamenti all’inizio della nuova programmazione dei Fondi strutturali”, Fondazione G. Brodolini, 2016.

12 <http://www.wageindicator.org/main/salary/minimum-wage/italy>

at the political level: Italy is tenth among the 28 member states for its presence of women in Parliament. Yet it is too early to assess broader effects on the Italian society as a whole.

Inequalities in Italy are also a serious cause for concern: its Gini coefficient ranks 20th out of the 28 Member

States. The continuing need to reduce the public debt, now at 132.1% of GDP, limits any room for redistributive policies. The fact that Italy comes last as regards its old age dependency ratio<sup>13</sup> and its demographic structure (among the top four countries with the greatest proportion of elderly people in Europe)<sup>14</sup> further increases the difficulties faced by policy makers.

## 2. Challenges

The four main challenges for Italy's labour market and, more broadly, social inclusion policies are to:

1. significantly increase employment levels, especially for women and younger people;
2. reduce income inequality and protect people at risk of poverty and social exclusion, especially children and young people;
3. increase intergenerational equity, taking into account the difficult macroeconomic conditions and the unfavourable demographic structure;
4. reduce regional disparities between Northern and Southern Italy.

### A well-functioning labour market with high employment level

As mentioned above, Italy displays the highest old age dependency ratio in the EU and is a Member State most in need of a well-functioning labour market with high employment opportunities. Yet, the labour market access score is only 4.63 according to the SJ1 index, underlining a poor performance on most of the indicators that comprise this dimension. In 2015, only 55.7% of the population between 15 and 64 years of

age was employed, 10% below the EU average, ahead only of Greece and Croatia.<sup>15</sup> Particularly troubling is the fact that Italian employment levels have been consistently below average, even before the crisis. The long-term unemployment rate more than doubled from 2008 to 2015, passing from 3.1% to 7.8%.<sup>16</sup>

The achievement of higher employment levels requires targeting specific – and weaker – segments of society. The main disadvantaged groups are easy to identify. As mentioned in the previous section, the situation of women in the labour market has markedly improved in the last 15 years, but remains significantly below the European average (-13.7 pp).<sup>17</sup> Cultural reasons contribute to this outcome, as in Italy (and in Southern European countries in general) household duties fall squarely on women's shoulders, as well as the provision of care to both children and the elderly. The inadequate supply and quality of public welfare services (especially a widespread system of early childhood care) further obstructs female participation in the labour market<sup>18</sup> and increases the probability of women moving into, or remaining in, poverty. Single parents form another category that is closer to poverty than average, due to a lower participation rate (with a further and against the flow reduction

<sup>13</sup> The age dependency ratio, old, is the ratio of older dependents (people older than 64) to the working-age population (those aged 15–64). Data shown as the proportion of dependents per 100 working-age population.

<sup>14</sup> Schraad-Tischler, D., Social Justice in the EU – Index Report 2015 Social Inclusion Monitor Europe. Bertelsmann Stiftung, 2015.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

<sup>17</sup> Source: Eurostat

<sup>18</sup> Del Boca, D., M. Locatelli e D. Vuri, Child Care Choices by Italian Households, IZA Discussion Paper, N. 983, 2004.

during the crisis): the result is that in 2014 single parents at risk of poverty constitute 32.9% of the total, two thirds more than the national average of 19.9%.<sup>19</sup> Even though, as of 2015, Italy is among the top six spenders in Europe on Labour Market Policies (including job search mechanisms, training, start-up incentives and unemployment benefits),<sup>20,21</sup> one of the challenges it faces is to spend more effectively, especially in targeting these disadvantaged groups through activation measures.

Another important issue, strictly related to this one, is the effect of social benefits in tackling poverty. For example, the table below reports the percentage of people under 16 at risk of poverty before and after the introduction of social benefits.<sup>22</sup> Italian policies became increasingly effective in tackling the risk of poverty during the period between 2008 and 2014. Their impact rose from 6.8 pp in 2008 to 8.1 pp in 2014. A broader perspective, including evidence from other EU Member States, suggests, however, that

their effectiveness in 2008 was limited rather than that of 2014 being good in its own right. In 2014, only Greek and Romanian welfare benefits produced a smaller effect than Italian ones, and outcomes of equivalent magnitude can be seen in Poland, Bulgaria and Portugal.<sup>23</sup>

### Reduce income inequality and protect people at risk of poverty and social exclusion, especially children and young people

Structural weaknesses also threaten social cohesion. Italy has a high level of income inequality, as measured by a Gini coefficient equal to 0.327 in 2012, according to the OECD.<sup>24</sup> The percentage of children and youth who are threatened by poverty or social exclusion (32%) clearly exceeds the proportion of older people (65 and above) at risk (20.8%). A child growing up in a poor and/or socially excluded environment has a much higher risk of continuing to live in such a state, remaining trapped in an intergenerational vicious cycle.<sup>25</sup>

**Table 1. Percentage of people under 16 years old at risk of poverty before and after the introduction of social benefits** (including pensions, family allowances, children allowances, education allowances and sickness benefits, and other allowances)

Year	Before Social Benefits	After Social Benefits
2008	30.8	24.0
2009	31.5	23.7
2010	32.7	24.7
2011	32.7	25.6
2012	33.5	26.1
2013	33.5	24.9
2014	33.1	25.0

Source: Eurostat

19 Quaderno "Povertà ed inclusione sociale in Italia: sfide e cambiamenti all'inizio della nuova programmazione dei Fondi strutturali", Fondazione G. Brodolini, 2016.

20 European Commission, Analytical Web Note 1/2015, "EU Labour Market Policies: how active are we and how do we respond to unemployment?", 2015, <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=2389>

21 OECD, <https://stats.oecd.org/Index.aspx?DataSetCode=LMPEXP>

22 A list of 50 different macrogroups listed by EU-SILC, including pensions, family allowances, child allowances, education allowances and sickness benefits.

23 Quaderno "Povertà ed inclusione sociale in Italia: sfide e cambiamenti all'inizio della nuova programmazione dei Fondi strutturali", Fondazione G. Brodolini, 2016.

24 <https://data.oecd.org/inequality/income-inequality.htm>

25 "Piattaforma contro la povertà, La piattaforma europea contro la povertà e l'esclusione sociale: un quadro europeo per la coesione sociale e territoriale", 2011. Available at: [ec.europa.eu/social/BlobServlet?docId=7003&langId=it](http://ec.europa.eu/social/BlobServlet?docId=7003&langId=it)

Italy is 4.3% pp worse than the EU average for the proportion of people under 16 who are at risk of poverty, performing better than Romania, Bulgaria, Spain, Portugal, and Greece only. The main tools of the Italian welfare state are in-kind transfers, but more effort, in terms of both resources allocated and efficiency, is the order of the day.<sup>26</sup>

In addition, we have already mentioned that the country's NEET rate in the age bracket 20–24 in 2014 is by far the highest across EU Member States: 32% of young people.<sup>27</sup> NEETs are not only at a much higher risk of poverty than average, but they show a much higher societal disengagement (and therefore higher risk of social exclusion) and represent a high social cost, quantified as almost 2.5% of Italian GDP.<sup>28</sup> The working poor are another relevant category at risk of poverty and social exclusion, especially because they have tended to remain trapped in this disadvantaged status since the beginning of the crisis. Italy ranks 23rd out of 28 in Europe for its in-work poverty rate which, as clarified above, is mainly a result of low salaries, rather than reduced working time.<sup>29, 30</sup> A sub-category that has been hit particularly hard by this phenomenon is that of the bogus self-employed, a group which has been consistently growing in size since the year 2000.<sup>31, 32</sup>

Coordinated work is a typology of employment relationship which allows for the service to be performed personally and continuously by the worker under the direction of the client. Yet, in order to be considered as genuine, the relationship cannot imply the client's power of organization, including what concerns

working time and place of work. If these conditions did not apply, these workers would represent bogus self-employed individuals, as they are obviously employees but are described as self-employed and they are subject to the same provisions as subordinate workers.<sup>33</sup> The Istat Labour Force Survey allows us to identify bogus self-employed workers as respondents are asked to specify if they; i) are required to work at the premises of their 'employer/client'; ii) can or cannot autonomously decide their working time; iii) work for a single employer/client. In 2014, out of 242,000 coordinated workers, 108,700 (44.9%) features all the three indicators of subordination, while other 4,890 (2%) comply only with the first two indicators, therefore having two or more clients, but still being required by their main client to work at its premises and being obliged to observe a working time schedule. As for the 130,000 workers with casual self-employment contracts, 69,300 of them satisfy all the three conditions resembling subordination (53.3%), and 78,460 (60.3%) the first two.

Finally, ethnic minorities (representing 8.33% of the overall population)<sup>34</sup> are another group at risk of poverty and social exclusion; they have a participation rate in the labour market that is 7.8 pp higher than the national average and the risk of their becoming poor is more than twice the national average.<sup>35</sup>

In this scenario, according to Bertelsmann Stiftung SJI, Italy's inclusion policy scores just 4 out of 10 and the tax system's redistributive functions "have largely ceased to work," having "been curtailed by the rise in tax rates and the erosion of benefits and deductions

26 Quaderno "Povertà ed inclusione sociale in Italia: sfide e cambiamenti all'inizio della nuova programmazione dei Fondi strutturali", Fondazione G. Brodolini, 2016.

27 Schraad-Tischler, D., Social Justice in the EU – Index Report 2015 Social Inclusion Monitor Europe. Bertelsmann Stiftung, 2015.

28 Eurofound, NEETs – Young people not in employment, education or training: Characteristics, costs and policy responses in Europe, 2012.

29 It is important to remember that Italy does not have a statutory minimum wage.

30 As with other indicators, in-work poverty affects more younger workers and presents high regional variability: Trentino Alto Adige, the best performer, has a 4.5% of in-work poors, six times less than the worst performer, Calabria. See: Fondazione Giacomo Brodolini, "Povertà ed inclusione sociale in Italia: sfide e cambiamenti all'inizio della nuova programmazione dei Fondi strutturali", Quaderni della Fondazione G. Brodolini, 2016.

31 European Parliament, Social protection rights of economically dependent self-employed workers, Directorate General for Internal Policies, 2013.

32 Eurofound, Italy: Self-Employed workers, 2009.

33 This rule does not apply in the following cases: when exceptions are set out by national collective bargaining agreements; in relation to intellectual professions for which enrolment in specific professional registers is required; when the work activity is performed by members of boards of directors or of audit committees of businesses; when the work activity is performed for recreational sport organizations.

34 Source: ISTAT.

35 Quaderno "Povertà ed inclusione sociale in Italia: sfide e cambiamenti all'inizio della nuova programmazione dei Fondi strutturali", Fondazione G. Brodolini, 2016.

due to inflation”.<sup>36</sup> It is hardly surprising that a stronger redistributive effort has been requested by several NGOs.<sup>37</sup>

### Increase intergenerational justice

Italy ranks second to last in terms of intergenerational justice, only ahead of Greece. Italy had a higher than average youth unemployment rate as early as the 1980s,<sup>38</sup> but the situation rapidly worsened with the outbreak of the crisis. The fragmentation of the labour market, protecting mainly the insiders, exacerbated the situation, as well as poor transitions from school to work.<sup>39</sup> To make things worse, Italy is one of the demographically “oldest” countries in the EU and carries one of the highest public debt to GDP ratios (132.1%). The fiscal burdens for today’s young people, as well as future generations, are thus substantial. After the launch of the Youth Guarantee programme, Italy’s 2016 stability law promotes intergenerational staff turnover through voluntary measures, envisaging a phasing out mechanism that should promote knowledge transfers from older to younger workers, but it is of course too early to judge its effect. Moreover, trade unions have questioned the amount of resources allocated for the measure, and similar proposals in the past had limited effect because the older workers would lose both wages and working time.<sup>40</sup>

### Productivity stagnation

Productivity in Italy has been stagnant since the beginning of the 1990s, when new technologies were rapidly improving production possibilities in other parts of the world. Several observers and decision makers identified a key underlying reason in the misalignments between productivity and wages. Based on this viewpoint, several measures were introduced in order to foster the diffusion of company-level and territorial contractual agreements following the framework agreement among social partners signed

in 2009 (but not by the CGIL, the largest trade union confederation). The basic idea was to favour productivity growth through fiscal incentives on wages bargained at a “second-level”. This approach was not helped by the presence of a large proportion of SMEs, which indeed represent the vast majority of the Italian industrial system. In fact, the dimensional structure of Italian firms, which has changed very slowly over the years, maintaining a rather stable average size below four employees, has contributed to the low rates of productivity growth. Also, owing to the introduction of a series of labour laws aimed at fostering labour market flexibility, the price of labour fell, at the margin, relative to capital, incentivising these small firms, characterised by limited distance between owners and managers and by a cautious attitude towards risk, to remain in the low value added and (low-skilled) labour intensive sector. This led to reduced investments in innovative capital and to delays in the reorganisation of working places, with negative effects also on total factor productivity. More innovative investments and improvements in human capital, as well as increases in R&D (which remains at 1.3% of GDP compared with the Europe 2020 Strategy target set at 3%<sup>41</sup>) must hence be favoured through a set of policy measures which should include a new wage bargaining system aimed at fostering productivity growth.

### The regional disparity between Northern and Southern Italy

Northern and Southern Italy performed in radically different ways following the creation of the unified state in 1861. Centuries spent under different rulers and political systems had contributed to what were initially very different levels of GDP, employment and development. However, it is only after World War II that these differences widened rapidly, despite massive investment in the South, mainly through the so-called Cassa del Mezzogiorno. This agency, active from 1951 to 1992, provided funding on a grand scale

<sup>36</sup> Cotta, M., R. Maruhn, C. Colino, SGI 2015 Italy report, Bertelsmann Stiftung, 2015.

<sup>37</sup> See, e.g., Caritas, Poverty and Inequalities on the Rise, 2015.

<sup>38</sup> Source: Eurostat.

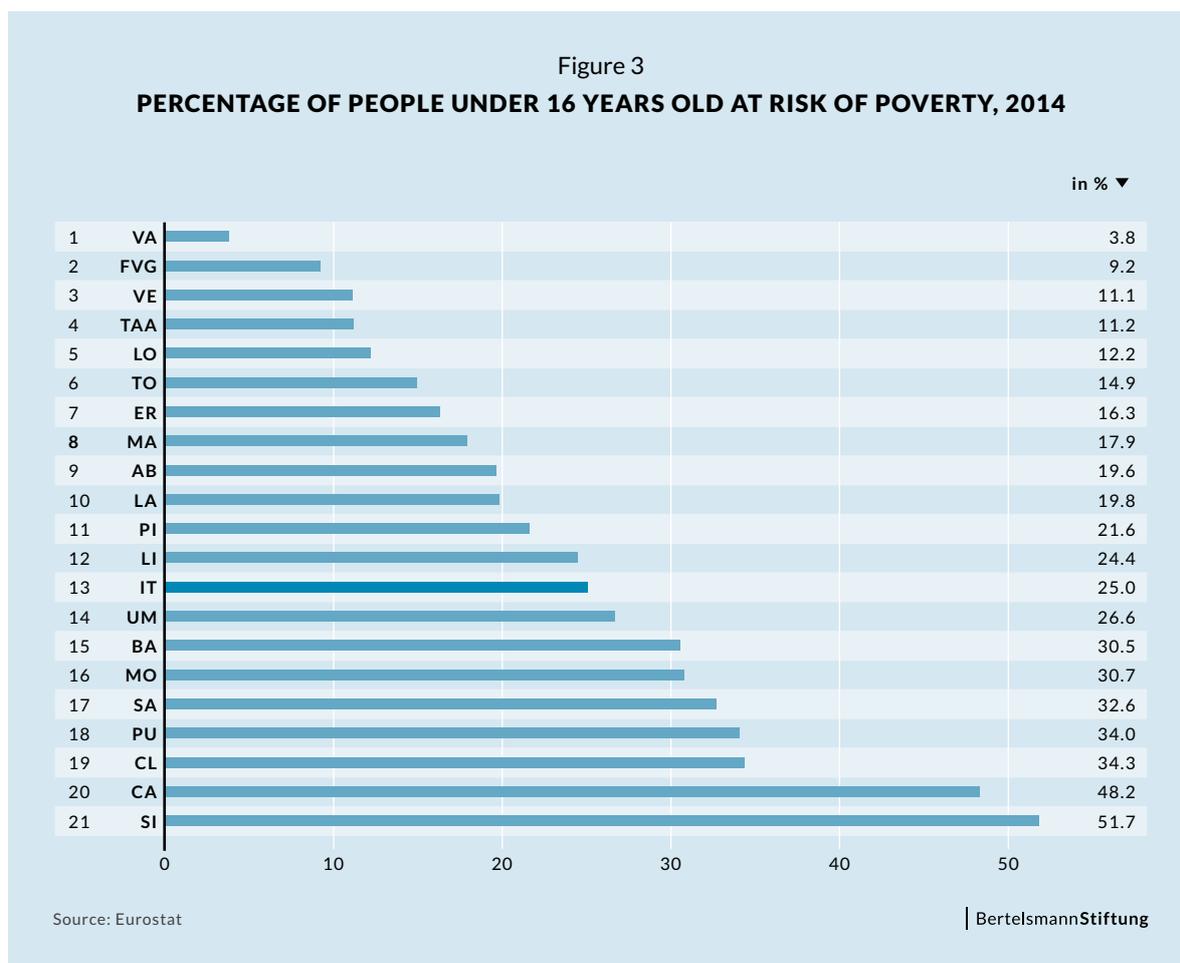
<sup>39</sup> J. Dolado, “No Country for Young People? Youth Labour Market Problems in Europe”, 2015.

<sup>40</sup> <http://www.eurofound.europa.eu/observatories/eurwork/articles/labour-market/italy-new-solidarity-contracts-boost-inter-generational-staff-turnover>

<sup>41</sup> [http://ec.europa.eu/europe2020/pdf/themes/16\\_rd\\_target\\_02.pdf](http://ec.europa.eu/europe2020/pdf/themes/16_rd_target_02.pdf)

of €140 billion during its life,<sup>42</sup> even though the proper use of such resources has been seriously questioned. An economic convergence took place shortly after the closure of the Cassa del Mezzogiorno, but unfortunately for the country it was a downward one.<sup>43</sup> This

regional effect cuts across all the statistical groups and indicators. The figure below illustrates the magnitude of regional disparities through the different percentages of people under 16 at risk of poverty in 2014.



Note: The dark bar is the Italian average and the two digit codes identify the region; from top to bottom: VA = Valle d'Aosta; FVG = Friuli - Venezia Giulia; VE = Veneto; TAA = Trentino - Alto Adige; LO = Lombardia; TO = Toscana; ER = Emilia-Romagna; MA = Marche; AB = Abruzzo; LA = Lazio; PI = Piemonte; LI = Liguria; IT = Italy, average; UM = Umbria; BA = Basilicata; MO = Molise; SA = Sardegna; PU = Puglia; CL = Calabria; CA = Campania; SI = Sicilia.

<sup>42</sup> Stella, G. A., "Lo Spreco", Dalai, 1999.

<sup>43</sup> Felice, E., "Perché il Sud è rimasto indietro", Il Mulino, 2014.

### 3. Government (re)actions

The World Bank has recently identified the Italian welfare state as truncated.<sup>44</sup> This definition stems from the fact that Italy allocates a high share of its GDP to social protection spending (close to 24% behind only Denmark, Sweden, and Finland), but performs very badly in the social assistance coverage of the bottom 20% of the population. In this regard, Italy outperforms only Greece and Spain. This highlights questionable management of resources in terms of protecting the most vulnerable members of Italian society. Removing inadequate protection has emerged as a clear priority for policy-makers even at European level, as testified by the 2015 Country Specific Recommendations for Italy:

*“Italy has witnessed one of the highest increases in poverty and social exclusion rates in the Union, with a particular impact on children. Social assistance schemes remain fragmented and ineffective in tackling this challenge with resulting substantive cost inefficiencies.”<sup>45</sup>*

In 2015, Italy was one of the two European countries without any comprehensive unemployment assistance and social assistance program,<sup>46, 47</sup> the other one being Greece. In 2016, a range of programmes will start to tackle this deficiency. More detail is presented in the following pages.

Italy was among the first countries seeking to introduce, in 1997, a minimum income scheme (the so-called “Reddito minimo di Inserimento”, RMI henceforth), following a 1992 European recommendation. The scheme was first piloted in 39 municipalities (a

number that rose to 306 after 2000) and was designed to tackle both poverty and social exclusion. The RMI comprised two parts: one focusing on money transfers and the other on active labour market (and social) policies. Nevertheless, after an election round in 2001, which led to a radical change in the Italian political landscape, the RMI was no longer a priority on the agenda of the new government and it was abolished in 2002. The regions co-financed the final part of the program until its ultimate end in mid-2003. The RMI should have been replaced by an income of last resort (“Reddito di ultima istanza”), but the law introducing it remained ill-defined and the project was never completed.<sup>48</sup>

With the 2008 crisis, a European Commission recommendation<sup>49</sup> reminded Member States of the importance of income support policies, also because “Article 34 of the Charter of Fundamental Rights of the European Union provides for the right to social and housing assistance so as to ensure a decent existence for all those who lack sufficient resources.”<sup>50</sup> In this recommendation there is the first formulation of an integrated and active inclusion strategy, which should be complementary to the flexicurity approach. The strategy relies on three main pillars: adequate income support, inclusive labour market and access to quality services.

Pushed by internal pressure and the European institutions, Italian governments decided to actively and comprehensively tackle the poverty issue from 2008 onwards, with a range of actions.

<sup>44</sup> World Bank, EU Regular Economic Report 2 – Sustaining Recovery, Improving Living Standards, Fall 2015.

<sup>45</sup> Council Recommendation of 14 July 2015 on the 2015 National Reform Programme of Italy and Council opinion on the 2015 Stability Programme of Italy.

<sup>46</sup> Esser, I., T. Ferrarini, K. Nelson, J. Palme, O. Sjöberg, Unemployment Benefits in EU Member States, Report for European Commission. D-G Employment, Social Affairs & Inclusion. Brussels: European Commission, 2013.

<sup>47</sup> Unemployment assistance and social assistance are not contributory based, unlike in the case of unemployment insurance.

<sup>48</sup> Quaderno “Povertà ed inclusione sociale in Italia: sfide e cambiamenti all’inizio della nuova programmazione dei Fondi strutturali”, Fondazione G. Brodolini, 2016.

<sup>49</sup> <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32008H0867>, EC recommendation 2008/867/CE

<sup>50</sup> Ibid.

The first measure approved was the Carta acquisti ordinaria (ordinary purchase card), which is a monthly €40 support for expenses related to eating, health and electricity/gas bills. It can reach €50 for households using LPG or natural gas heating. The measure does not include active labour market policies and the target group is twofold: elderly people above the age of 65, with an annual income below €6,788.61 (€9,051.48 for the over-70s), and families with children up to three years of age and an ISEE<sup>51</sup> below €6,788.61. From 2016, the budget set aside is €250 million.<sup>52</sup>

Another measure, introduced for the second semester of 2013 by article 60 of legal decree 5/2012, is the Social card sperimentale (experimental social card). It is called experimental because it was experimentally introduced in 12 cities with more than 250,000 inhabitants.<sup>53</sup> The budget was €50 million, and it could be spent on food or other basic goods. The target group is families with at least one person under 18 years of age, with no family member of working age listed as employed, an ISEE below €3,000 and movable assets below €8,000. The Social card sperimentale does not just provide income support, but includes activation policies involving both the beneficiaries and the social policy administrations at municipality level. With law 208/2015, the Social card sperimentale was extended to the whole country, with the name of Sostegno per l'inclusione attiva (or active inclusion subsidy, SIA henceforth). Its budget for 2016 is €750 million for income support measures, while 80% of the PON budget<sup>54</sup> is earmarked for the active policies. From 2017 onwards, the yearly budget should reach €1 billion. The SIA is not a minimum income scheme for Italian citizens, a topic that has gained traction in recent years, but rather a means-tested subsidy targeting poor people. The SIA is not only a direct

income support tool, but should be considered as a first step towards an holistic approach entailing a specific set of activation policies for beneficiaries. The monthly amount of SIA is €80 per family member, capped at €400 per family. The strict eligibility criteria are as follows:

- being a European citizen;
- living in Italy for the last 2 years;
- ISEE below €3,000;
- not being a SIA recipient in the last 6 months;
- at least one family member under 18 years of age, or affected with disability, or a pregnant woman;
- availability to work, with no right to refuse a job offer;
- receipt of benefits obtained in any capacity no higher than €600 (€900 for families with disabled people);
- not having in the last 12 months a car with cubic capacity greater than 1,300, or motorbikes with cubic capacity greater than 250, registered in the last three years;
- reaching the threshold of 35 out of 90 on a specific multidimensional indicator (taking into account economic situation, working situation and dependents).<sup>55</sup>

The use of the multidimensional indicator is particularly interesting, as it allows to draw comparisons among potential SIA beneficiaries and aim resources at the more difficult family situations. The SIA relies on the active participation of both local authorities and program beneficiaries, which should endorse what has been called Patto per l'inclusione attiva (active inclusion pact). Local welfare services should help the more marginalized members of society by trying to

51 Acronym for Indicatore della Situazione Economica Equivalente, literally "equivalent economic situation indicator". This indicator takes into account family income, some assets, the number of people in the family and other possible disadvantages, such as disabilities.

52 Quaderno "Povertà ed inclusione sociale in Italia: sfide e cambiamenti all'inizio della nuova programmazione dei Fondi strutturali", Fondazione G. Brodolini, 2016.

53 Bari, Bologna, Catania, Firenze, Genova, Milano, Napoli, Palermo, Roma, Torino, Venezia, Verona. The project has not started so far in Rome.

54 The PON Inclusion (the National Operational Programme targeting inclusion) is the national operative program, which has a €1.2 billion budget for the period 2014–2020. It is financed by the European Social Fund and it aims at reducing the number of people living in disadvantaged economic situation by 2.2 million. This should be done through the creation of a blueprint for poverty prevention policies, which can take the form of "structural adjustments, pilot projects, social intervention innovative models and integration of people in poverty or at risk of social exclusion". The PON's main objective is to sustain active inclusion in Italy through a universal income support instrument, not depending on specific personal or family characteristics.

55 Quaderno "Povertà ed inclusione sociale in Italia: sfide e cambiamenti all'inizio della nuova programmazione dei Fondi strutturali", Fondazione G. Brodolini, 2016.

provide a tailor-made path towards social inclusion, while beneficiaries should keep to the rules: stay in contact with the services available, attend training sessions, demonstrate sufficient effort and commitment, and actively look for a job.

The SIA is a program which departs significantly from Italian standards, starting with the fact that this is the first time that a comprehensive anti-poverty plan has been launched.

Another particularly relevant program by Italian standards, which has been implemented in order to fight poverty, is the unemployment assistance program called Assegno di disoccupazione, or ASDI (literally unemployment allowance). As a classic unemployment assistance scheme, it is not financed by the worker's contributions, but rather through standard taxation collected at the central level. The aim is to sustain incomes over a longer time span, in order to enable the unemployed to find a job opportunity (preferably one that better suits his/her skills and expertise), thereby reducing the risk of poverty.<sup>56</sup>

The Fondo di aiuti europei agli indigenti, or FEAD (Fund for European Aid to the Most Deprived), is the European framework plan aiming to help the most deprived European citizens by providing non-financial assistance. The overall goal is to have 20 million fewer poor people across Europe by 2020 and Italy should contribute more than a tenth of this number. Here the plan replaces the old Programma di aiuti alimentari ai meno abbienti, which redistributed agricultural food surpluses but was judged not in line with Community agreements. The budget for the program is €790 million for the period 2014-2020, the biggest budget across all the Member States taking part in this fund. The range of FEAD measures is:

- food distribution, with a budget of €480 million;
- distribution of school supplies such as books and pens to children belonging to families in severe financial difficulties, with a budget of €150 million;
- school meals services for the most economically and socially deprived sections of society, with a €77 million budget;
- targeted actions for the homeless, with a budget of €50 million.<sup>57</sup>

According to the Bertelsmann Stiftung Reform Barometer,<sup>58</sup> respondents to the questionnaire concerning poverty acknowledged that policies tackling this issue have been put into law and have sometimes even been implemented in the past; however, they also stressed that there was underfunding or simply no funding at all. The RMI, introduced at the beginning of this section, is a good example of this practice. The same applies to the Social Cohesion and Non-discrimination dimension. Nevertheless, important measures have recently been launched and it is still too early to assess them properly. On the other hand, respondents do feel that the reforms are going in the direction of improved social welfare.

This is also reflected by Reform Barometer aggregates for the respective dimensions (see Figure 1): Within the Poverty Prevention dimension, the extent of reform activity is rated well below the EU average, whereas its quality ranks fourth highest. In the Social Cohesion and Non-discrimination dimension, it ranks fourth for reform activity and third for reform quality. In the Labour Market Access dimension, it has the sixth highest reform activity (with quality ranked 12th).

While the overall Social Policy Reform Index<sup>59</sup> ranks Italy 16th (out of 23 Member States covered), it comes a noteworthy 2nd in Social Cohesion.

<sup>56</sup> Quaderno "Povertà ed inclusione sociale in Italia: sfide e cambiamenti all'inizio della nuova programmazione dei Fondi strutturali", Fondazione G. Brodolini, 2016.

<sup>57</sup> Ibid.

<sup>58</sup> The SIM Europe Reform Barometer 2016 is based on a Europe-wide expert survey conducted in March 2016, asking participants to rate, for six dimensions of social inclusion and for each EU Member State, the relative need for reform, actual reform activity and its quality. The evaluation report will be published in the fall of 2016.

<sup>59</sup> The Social Policy Reform Index is calculated on the basis of the answers collected in the Reform Barometer expert survey. It reflects both the reform activity ("To what extent did the government address relevant issues?") and the reform quality ("Are the effects of introduced reforms expected to go in the right direction?").

## 4. Comparison with other EU countries

Italy lags in the bottom quartile for the great majority of indicators in the Social Justice Index and it does not stand out as an interesting case study in the majority of its categories. The only ranking in which Italy does outperform the great majority of other European countries is the effect of socioeconomic background on students' performance (where Italy ranks fourth overall), but even in this case two important caveats must be highlighted: the overall index for equitable education is not outstanding (21st position out of the 28 Member States) and the recent trend is negative (Italy was leading the EU in 2008, but both its relative and absolute performance has worsened, with the index passing from an excellent 2.2 to a good-but-less-remarkable 3.0).<sup>60</sup>

Given the impressive effort during recent months to build new basic unemployment assistance and social assistance schemes while dealing with a complex macroeconomic situation, Italy could be taken as a good example of social transition for Greece (the Hellenic state would indeed remain the only European country devoid of both such schemes). The Commission recently asked Italy, with increasing insistence, to implement a minimum income scheme,<sup>61, 62</sup> arguing that it would be cost-effective. Italy has not yet completed the process, but the measures that were passed in recent months (the above mentioned Carta acquisti ordinaria, Social card sperimentale, Sostegno per l'inclusione attiva, Assegno di disoccupazione and Fondo di aiuti europei agli indigenti) go in the right direction. This attempt to establish a comprehensive and coherent social assistance scheme could be of great import for the Hellenic state as even in the case of Greece the Commission has highlighted the need for a

broader anti-poverty strategy, setting quite ambitious targets.<sup>63</sup>

It is crucial for Italy to learn from other EU Member States how improvements can be made concerning intergenerational justice, which stands out as one of the country's biggest problems. Here the models could be the Nordic and Baltic states but need to take into account the different age structure: the fact that Italy is among the four "oldest" countries in the EU, the low birth-rate and an increasing migration of younger people towards other EU countries also presents further problems. This calls for rapid policy change and a major increase in employment opportunities, with a special focus on greater involvement of young people in the labour market.

As mentioned in the previous section, in terms of its social protection spending Italy ranks fourth in Europe, yet the protection of the poorer sections of society is limited, especially in terms of resources. In 2012, Italy spent almost 24% of its GDP on social protection, only one pp. less than Sweden and Finland, and at least as much as Austria, the Netherlands and France.<sup>64</sup> The country focuses its resources more on the protection of old people and families, and less on the protection of people with disabilities and on housing subsidies. Even though specific measures could be introduced – such as a means-tested guaranteed minimum income scheme on Austrian lines, which could be a feasible and socially desirable policy, considering the resources allocated<sup>65</sup> – a streamlining of the entire welfare system should aim to ensure greater equity and protection for those excluded from the labour market.

60 Schraad-Tischler, D., Social Justice in the EU – Index Report 2015 Social Inclusion Monitor Europe. Bertelsmann Stiftung, 2015.

61 [http://ec.europa.eu/europe2020/pdf/csr2015/csr2015\\_council\\_italy\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2015/csr2015_council_italy_en.pdf)

62 [http://ec.europa.eu/europe2020/pdf/csr2016/csr2016\\_italy\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2016/csr2016_italy_en.pdf)

63 [http://ec.europa.eu/europe2020/pdf/csr2016/nrp2016\\_greece\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2016/nrp2016_greece_en.pdf)

64 World Bank, EU Regular Economic Report 2 – Sustaining Recovery, Improving Living Standards, Fall, 2015.

65 Ministry of Social Affairs and Consumer Protection, Austrian Report on Strategies for Social Protection and Social Inclusion 2008–2010, Vienna, September 2008.

Tackling poverty is not the only issue that Italy has to face, as other employment and social issues matter greatly. As mentioned in the challenges section, effectiveness and efficiency remain matters for concern within the whole Active Labour Market Policy field. Italy tends to be proactive in labour market legislation and ALMPs follow this pattern. In fact, whereas in the period 2010–2013 the EU average was roughly 14 ALMPs reforms per year, Italy's rate of implementation was almost two times higher, with 24 ALMPs legislative changes passed in those four years.<sup>66, 67</sup> Nevertheless, the budget expressed in terms of percentage of GDP was very small. Italy spends less than 0.4% of its GDP on ALMPs, with the EU average standing at more than 0.6%.<sup>68</sup> Breaking this number down by subcategories, Italy has an above average expenditure concerning employment incentives. Expenditure on training and direct job creation is instead below average. Crucially, Italy lags behind in start-up incentives, labour market services and employment programmes for individuals with disabilities. It must improve the implementation of personalized assistance for specific groups, such as young people (one of the most effective form of ALMPs)<sup>69</sup> and further develop evaluation and assessment practices, starting with

the Youth Guarantee scheme, since no evidence is available on the impact of concrete measures. Even those ALMPs with a budget in line with EU averages, such as wage and hiring subsidies, can function better,<sup>70</sup> while Italy has plenty to learn from training schemes in Germany, Denmark, Finland and Austria.

Italy must also modernise its Public Employment Service, which has proved to be ineffective and in need of organizational restructuring. Reforms have recently been implemented with the aim of increasing efficiency in the Netherlands, the UK and in Estonia. Good results have been obtained by adapting new structures and linking benefits and employment services more clearly.<sup>71, 72</sup> Digitalization and an effective use of outsourcing have both also proven effective.<sup>73</sup>

Italy ranks fifth in Europe for the labour tax wedge, which significantly hampers growth.<sup>74</sup> A tax shift such as the one being implemented in Belgium in 2016 could free resources for companies and SMEs and allow them to invest more in both physical and human capital.<sup>75</sup> The tax wedge is not, however, the only indicator of the country's limited capacity to attract investment.

<sup>66</sup> European Commission, Labour Market and Wage Developments in Europe, 2015.

<sup>67</sup> <https://webgate.ec.europa.eu/labref/public/>

<sup>68</sup> <http://ec.europa.eu/eurostat/web/labour-market/labour-market-policy/database>

<sup>69</sup> <http://bruegel.org/wp-content/uploads/2016/04/Regina-Konle-Seidl-Active-Labour-Market-Policies-Bruegel-Presentation.pdf>

<sup>70</sup> <http://ftp.iza.org/pp84.pdf>

<sup>71</sup> <http://bruegel.org/wp-content/uploads/2016/04/Dan-Finn-Active-Labour-Market-Policies-Bruegel-Presentation.pdf>

<sup>72</sup> [http://ec.europa.eu/europe2020/pdf/themes/25\\_almp\\_and\\_employment\\_services.pdf](http://ec.europa.eu/europe2020/pdf/themes/25_almp_and_employment_services.pdf)

<sup>73</sup> Ibid.

<sup>74</sup> Given the complexity of tax and benefits structures, we take into account an average single earner person. The data are taken from the tax and benefits indicators database of DG Economic and Financial Affairs, available at: [http://ec.europa.eu/economy\\_finance/db\\_indicators/tax\\_benefits\\_indicators/index\\_en.htm](http://ec.europa.eu/economy_finance/db_indicators/tax_benefits_indicators/index_en.htm)

<sup>75</sup> It is to be noted that Belgium is one of the four European states that have a tax wedge higher than the Italian one.

## 5. Conclusion

Italy ranks third to last in the ranking of the time needed to enforce a contract among EU Member States, with 1,120 days (better than Greece and Slovenia only).<sup>76</sup> Luxembourg, the best performer in terms of both the number of days needed to enforce a contract (321) and of Foreign Direct Investment received (another category in which Italy has room for improvement), can represent a good case study for further reforms of the legal system. France might, on the other hand, be a good benchmark for reducing the length of court proceedings, given that Italy has the highest number of violations of reasonable time for a trial to take place, enshrined in the European Convention of Human Rights (article 6).<sup>77</sup> As a result, Italy ranks only 22nd in the European ranking for ease of doing business, and 45th in the world.<sup>78</sup> Denmark and Sweden are the EU benchmark in this category and they should be taken as the model for getting credit and paying taxes. The UK and Lithuania, on the other hand, represent good examples for starting a business and registering property.

Italy entered the Great Recession with slow growth, stagnating productivity, declining macroeconomic fundamentals and the absence of a comprehensive and coherent system of unemployment and social assistance. Facing the need to quickly respond to an increasing default risk, expansionary fiscal policies were ruled out and the attempt to tackle the economic crisis resulted in an above average legislative output: from 2008 to 2013, EU Member States produced on average 73 labour market reforms,<sup>79</sup> whereas Italy recorded 120 legislative changes.<sup>80</sup> Such high productivity was not, however, matched by the establishment of effective policy evaluation systems.

With some relief, due to an improved global outlook and the budget flexibility allowed at the European level, Italy has subsequently designed a more expansionary policy and started to forge a basic unemployment and social assistance scheme. This vital step clearly moves in the right direction, but there is still a long way to go and the journey is likely to be full of challenges. Among them, the following obstacles appear the most important:

- With the highest rate of NEET among all the 28 Member States, more incisive action is required, starting with the improvement of the vocational training system and of the entire education system, with the aim of reducing skill mismatches.
- Participation in the labour market must be strengthened along with further improvements in the medium-term sustainability of the welfare state given the highest old age dependency ratio in the EU. This requires a greater involvement of women, the long-term unemployed and young people in the labour market. Female participation has increased significantly in comparison with the 1980s, but Italy still lags behind the other Member States. There is also a strong need for the establishment of a modern European system of care for the elderly and children, along with moves to rebalance household duties and family care. Long-term unemployment has to be tackled too, as Italy ranks 23rd in Europe for this indicator,<sup>81,82</sup> and the long-term unemployed face a higher risk of poverty and social exclusion. Many young people left the country during the crisis, helping their families in the short term but reducing Italy's future

<sup>76</sup> <http://www.doingbusiness.org/data/exploretopics/enforcing-contracts>

<sup>77</sup> Lanau, S., G. Esposito, S. Pompe, "Judicial System Reform in Italy - A Key to Growth", IMF working Paper, 2014.

<sup>78</sup> <http://www.doingbusiness.org/rankings>

<sup>79</sup> The number becomes 75 excluding the Croatia, for which reforms are considered only from 2012 onwards.

<sup>80</sup> <https://webgate.ec.europa.eu/labref/public/>

<sup>81</sup> Schraad-Tischler, D., Social Justice in the EU - Index Report 2015 Social Inclusion Monitor Europe. Bertelsmann Stiftung, 2015.

<sup>82</sup> After Greece, Spain, Croatia, Slovakia, and Portugal in 2015 according to Eurostat.

competitiveness. This requires creating favourable conditions for their return.

- Directly related to the above is the need to further reduce the tax wedge, shifting taxation onto other elements so as not to hamper growth, employment and international competitiveness. A reduction of the barriers to business, especially in the product market, must also be sought, as well as a way to cut red tape for SMEs and start-ups.
- It seems difficult to foster productivity growth without realigning domestic expenditure on R&D (the indicator being at 1.26) with the EU average (equal to 2.01) and without supporting innovative investment and managerial talent.<sup>83</sup>
- A sound and effective policy evaluation system must be created, starting with the new unemployment assistance and social assistance schemes, in order to optimise the available resources.
- The wide regional disparity between Northern and Southern Italy must be addressed once and for all, seeking upward convergence.
- After five years of public expenditure cuts, improved economic growth gives more scope to introduce and develop long-awaited reforms. This must go hand in hand with the imperative goal of progressively reducing future budget deficits and the public debt to GDP ratio.

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<sup>83</sup> [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Gross\\_domestic\\_expenditure\\_on\\_R%26D,\\_2003%E2%80%99313\\_\(%25\\_of\\_GDP\)\\_YB15.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Gross_domestic_expenditure_on_R%26D,_2003%E2%80%99313_(%25_of_GDP)_YB15.png)

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### ABOUT SIM EUROPE

The Social Inclusion Monitor (SIM) Europe is a new EU social-policy tool that is composed of two instruments. The Social Justice Index measures the level of social justice in the 28 EU member states, based on statistical data as well as assessments by selected experts. The Reform Barometer assesses social-reform need, activity and quality in the 28 EU member states, based on a survey among several hundred experts from across Europe. Both instruments are updated annually.

[www.social-inclusion-monitor.eu](http://www.social-inclusion-monitor.eu)

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