Tackling the Crisis: The Italian Case in the E.U. Context

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The Economic Crisis in European Union

Between the second quarter of 2008 and the second quarter of 2009, the real GDP in the EU (27 member states) fell by almost 5%. Unavoidably, the real GDP fall caused reduced labor demand and therefore job losses (Massarelli 2009).

TABLE 1

Member state	GDP (2008Q2–2009Q2)	Employment (2008Q2–2009Q2)	Member State	GDP (2008Q2–2009Q2)	Employment (2008Q2–2009Q2)
EU27	**–4.9%**	**–1.9%**	Italy	–6%	–0.9%
Austria	–4.5%	–1.1%	Latvia	–17.4%	–13.1%
Belgium	–3.7%	–3.7%	Lithuania	–21.1%	–6.7%
Bulgaria	–4.9%	–1.8%	Luxembourg	–5.3%	1.3%
Czech Republic	–5.5%	–1.4%	Malta	–3%	–0.8%
Cyprus	–0.7%	–0.5%	Netherlands	–5.2%	–0.8%
Denmark	–7%	–2.6%	Poland	1.1%	–0.7%
Estonia	–15.8%	–10.2%	Portugal	–3.7%	–2.7%
Finland	–8.9%	–3%	Romania	–8.3%	–1.2%
Germany	–5.9%	–0.1%	Slovakia	–5.4%	–1.3%
France	–2.8%	–1.2%	Slovenia	–9%	–1.6%
Greece	–0.3%	–1%	Spain	–4.2%	–7.1%
Hungary	–7.3%	–4.5%	Sweden	–6.1%	–2.2%
Ireland	–7.3%	–8.3%	United Kingdom	–5.5%	–2%

Source: Eurostat, Employment: National concept.

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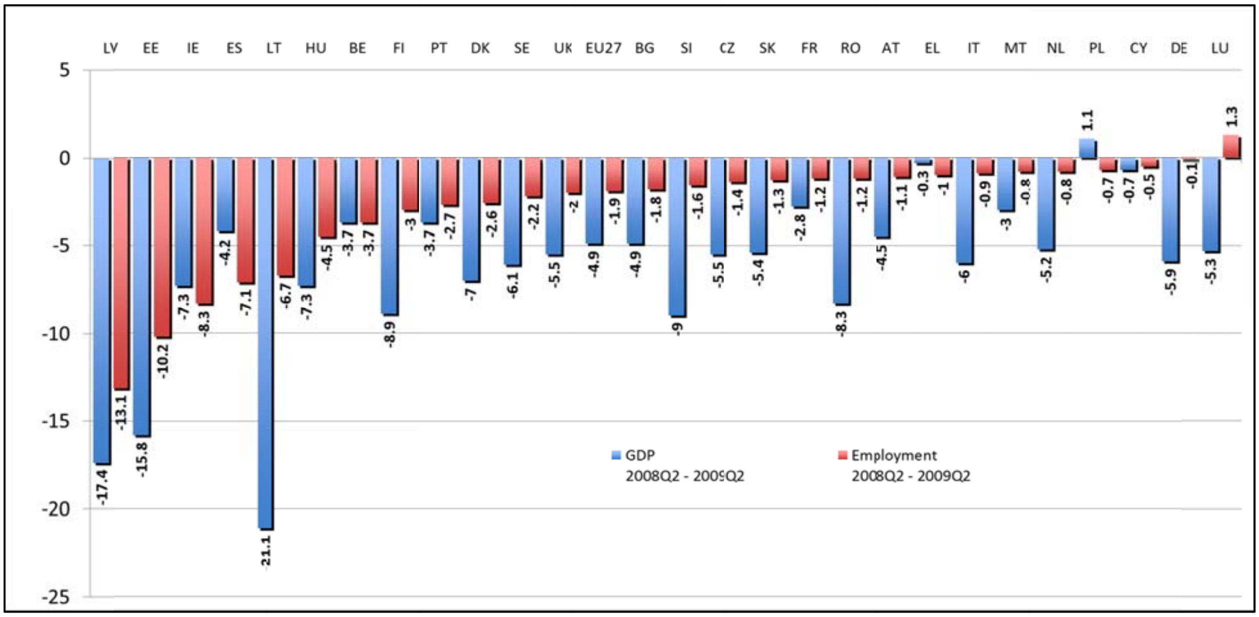
But if you compare the two series of data, the measure of the reduction is different, and in particular job losses are limited by comparison with the decrease of real GDP. As is well known, in fact, GDP growth and employment generally evolve differently, since employment reacts to economic developments with a certain time lag (Hijman 2009).

FIGURE 1
Trend of Real GDP and Employment
(2008Q2–2009Q2)



Another reason for this discrepancy is related to the choices of employers and the dismissal protection legislation of each country. During economic crises, in order to protect their human capital employers may reduce the number of hours worked or suspend production. This strategy is indeed facilitated within countries where the State pays financial support for income loss related to short-time work or suspension of work.

These schemes are in general typical of countries characterized by strict dismissal protection legislation. In fact, within countries based on the traditional welfare system (Spattini 2009), restrictive legislation against economic dismissal enables employees to keep their jobs, but at the same time a social security payment is granted to suspended employees in substitution of their full pay.

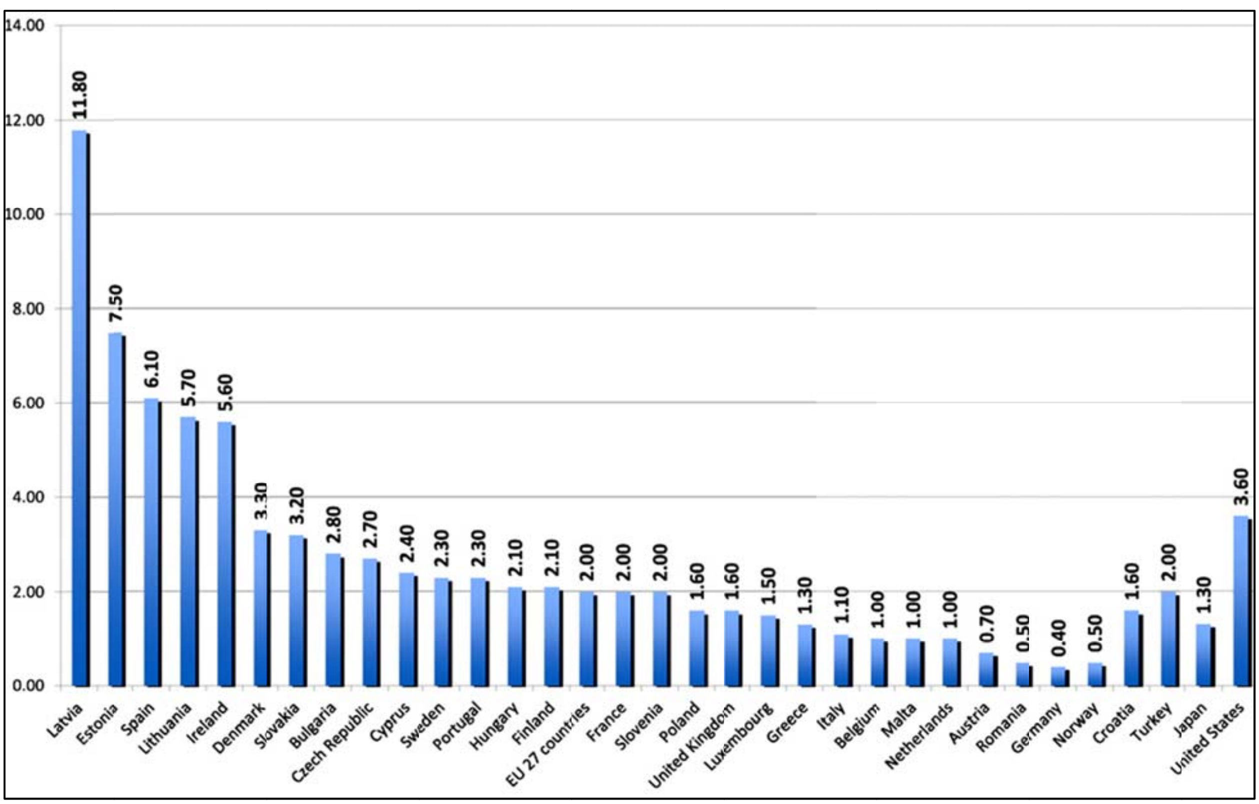
On the contrary, in countries where the "flexicurity" system is adopted, the dismissal protection is lower and the flexibility in dismissal is higher (Spattini 2009). Consequently, the system foresees generous unemployment benefits rather than social security payments in case of short-time work or layoff.

Now, looking at the unemployment rate increase, it is clear that it is lower within the member states adopting a traditional welfare system with strict dismissal protection legislation and short-time work or layoff support schemes (Italy, Austria, Germany).

TABLE 2
Growth in Unemployment Rate

Latvia	11.80	EU 27 countries	2.00	Norway	0.50
Estonia	7.50	France	2.00	Croatia	1.60
Spain	6.10	Slovenia	2.00	Turkey	2.00
Lithuania	5.70	Poland	1.60	Japan	1.30
Ireland	5.60	United Kingdom	1.60	United States	3.60
Denmark	3.30	Luxembourg	1.50		
Slovakia	3.20	Greece	1.30		
Bulgaria	2.80	Italy	1.10		
Czech Republic	2.70	Belgium	1.00		
Cyprus	2.40	Malta	1.00		
Sweden	2.30	Netherlands	1.00		
Portugal	2.30	Austria	0.70		
Hungary	2.10	Romania	0.50		
Finland	2.10	Germany	0.40		

FIGURE 2



As a consequence of the GDP decrease, the unemployment rate within the EU member states has grown, but thanks to the anti-crisis measures, in the majority of member states this increase has been limited or not as high as could have been expected.

In particular, with the purpose of minimizing the social consequences of the economic crisis and avoiding mass dismissals, most member states have adopted measures to maintain employment, especially short-time work and temporary layoff support schemes (Mandl and Salvatore 2009; Hurley, Mandl, Storrie, and Ward 2009), that turned out to be effective not only in maintaining jobs, but also in guaranteeing incomes, making real job security and income security.

In order to take advantage of the low level of business activity while at the same time preparing enterprises and employees for the economic recovery, several governments support training measures for employees in short-time work or in layoff. Contributions are granted to fund training costs arising for the employer and to wage subsidies for the training time.

Anti-crisis Measures in Italy

Thanks to a system of safety net provisions, known as "social shock absorbers" (*ammortizzatori sociali*), and mainly to public financial support measures (compensation) for income loss in case of short-time work and temporary layoff, Italy has succeeded in containing the job losses and the unemployment rate increase originated by the current economic crisis (Spattini and Tiraboschi 2009a).

Wage Guarantee Fund

The wage guarantee fund (*cassa integrazione guadagni*), which is one such financial support measure, is a public fund aimed at protecting workers' income in case of suspension of work. Even if this measure dates back to the 1940s, it seems to be successful in preventing worker dismissals, guaranteeing job and employment security and income security. The fund is managed by the National Institute of Social Insurance (INPS) and works like insurance. It is financed by social security contributions paid by both the employers and the employees, and in case of total or partial suspension of the employment relationships due to interruption or reduction of the company's activities, the enterprise applies for the wage guarantee fund in order to get a social security payment in substitution of the wage for the suspended employees. There are two types of fund: ordinary and extraordinary.

With reference to the field of application, the wage guarantee fund operates in the industry sector. In particular, the extraordinary wage guarantee fund concerns industrial enterprises with more than 15 employees. As years went by, the field of application of the extraordinary wage guarantee fund was extended, for example to commercial enterprises with more than 50 employees.

Enterprises can apply for the ordinary wage guarantee fund in case of suspension of productive activity due to unexpected and unavoidable circumstances that cannot be ascribed either to the employer or to the employees or to temporary market situations (lack of orders). The extraordinary wage guarantee fund is utilized in the case of a suspension of productive activity resulting from the restructuring, reorganization, or conversion of the activity, as well as in cases of severe financial difficulties for undertaking, bankruptcy, or liquidation.

Within this system, suspended employees receive a social security payment amounting to 80% of their wage in substitution of their full pay. The duration of the measure related to the ordinary wage guarantee fund is up to 13 weeks; that relevant to the extraordinary wage guarantee fund is up to 24 months, with reference to the reason for the suspension.

Derogations

This system of compensation for short-time work and temporary layoff based on the wage guarantee fund has a problematic nature related to the non-universal coverage, since the field of application of this system is limited to the industry sector and some categories of employees (blue and white collars, with apprentices, for example, excluded). So in order to face the present economic crisis and extend the coverage of social protection provisions, the anti-crisis legislation has approved derogations of the existing law.

These derogations allow applying compensation for short-time work and temporary layoff to the categories of employees excluded from the wage guarantee fund, because of the economic sector of the employer or by reason of their type of employment contract. Since these compensation measures are based on the derogation of the law, they are not funded by social security contribution as wage guarantee fund, but by taxes.

Partial Unemployment Benefit

With the same purpose of extending the coverage of social protection provisions in case of suspension of work, in 2009 a new kind of income support was introduced in the Italian legal system (Spattini and Tiraboschi 2009b). This new measure is funded not by social security contribution but by taxes and private funding. A partial unemployment benefit is paid to employees suspended from work for reasons of economic or employment crisis. This income support measure is applied to all categories of employees employed by enterprises not covered by the wage guarantee fund.

The innovatory aspect of this kind of income support measure is represented by the co-funding by bilateral bodies, organizations in form of association within a particular economic sector for the joint administration of financial resources collected by employers' associations and trade unions for the allocation of benefits to employees in certain critical circumstances (illness, accidents at work, mutual assistance in case of stoppage or reduction in working hours, etc.).

According to this scheme, suspended employees receive a social security payment amounting to 60% of the previous wage from INPS and 20% of the benefit from the bilateral body. Suspended employees are entitled to the measure for up to 90 days.

Welfare to Work

Nevertheless, the Italian "social shock absorbers" system does not want to be a welfare system, based on social assistance; it aims instead at becoming a workfare system, founded on the idea of the integration between active and passive labor market policies (Tiraboschi 2008). In this perspective, a recent legal provision introduced a new form of the "declaration of immediate availability for the labor market or for a vocational retraining program," that each benefit recipient has to sign up while applying for income support measures.

With this provision the legislation aims at strengthening a system based on complementary rights and responsibilities, where the benefit is subordinated to the recipient's actual availability for work and to his or her activation toward reintegration in the labor market.

To encourage benefit recipients to actively search for work, to accept suitable job offers, and to participate in training programs, sanctions are foreseen in case the recipient does not comply with these obligations. In fact, in case of refusal of subscription of the declaration or of an acceptable job or vocational retraining program or even in case of failure to participate in the measures, the recipient loses the right to the income support measure or to the unemployment benefit.

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