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Italy.
**An Uncompleted Departure
from Bismarck.**

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An uncompleted departure from Bismarck*

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- draft, please do not quote -

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Introduction

The institution and the subsequent consolidation of the Italian system of social protection took place under two different political regimes: the competitive regime that followed the formation of the nation-state in 1861, and the Fascist regime, which replaced the former in 1922 and later crumbled during the Second World War (1943).

Such a profound variation in the political background, however, did not have a decisive impact in the institutional features of the national welfare state: since the beginnings¹ the institutional development followed a Bismarckian design. Schemes therefore aimed at protecting dependent workers and were built along occupational lines, financing usually relied on social contributions (paid by the employer and the employees) – though the state directly contributed to finance a share of the total cost (tripartite financing), benefits were broadly contributions/earnings related and differentiated according to occupational groups and categories (blue collar, white collar workers...). The bulk of the system (i.e. for industrial and agricultural dependent workers) was managed by a public fund, but especially in the field of old-age protection fragmentation was high due to the existence of several independent funds that provided social benefits to specific occupational categories (civil servants and public employees, public transportation and maritime workers, and others).

As noted, the Fascist regime confirmed, and even reinforced, the Bismarckian imprint of the system that was perfectly in line with the “corporatist” orientation that informed its economic and labor policy. In this period a slow, and mostly incremental, consolidation of the social protection system occurred, while new benefits (survivors benefits, 1939) and programs (family allowances to dependent workers in the private sector, 1934) were introduced, and rules were made more generous (retirement age lowered to 55/60 years for women/men in the private sector², 1939).

Against this background, in the following the paper does not want to provide an encompassing illustration of welfare state and labor market developments in the Italian case³, rather aiming to describe the trajectory of development and (above all) reform by pointing out the role of four different elements within this process. First, *sequencing*, as I assume that even major departures from the traditional institutional path may be induced by a series of subsequent reforms; second, I try to analyze how *Bismarckian institutions* have contributed to mould both the policy making and the outcomes of reforms; third, *European influence* on the trajectory of reform will be evaluated and, fourth, likely processes of (policy and social) *learning* that might facilitate change will be investigated.

Section I provides a brief sketch of the development of the Italian welfare state during the so called golden-age (1945-1975), section II constitutes the core of our analysis by exploring three diverse sequences of welfare reform, while in section III a final evaluation of the reform trajectory in the Italian case will be provided.

SECTION ONE: THE BACKGROUND

1. A Bismarckian route....with some crossroads and a major departure

The Bismarckian model passes through crossroads

In the aftermath of the Second World War, with the foundation of the Republican regime, the national system of social protection became one of the objects of political debate- and competition - as well as the re-construction of political institutions and the choice of the economic model.

¹ Compulsory social insurance for work injuries was established in 1898, sickness insurance followed in 1910, while statutory protection for old-age, disability and unemployment was introduced in 1919.

² It is interesting to note that the retirement age remained “frozen” at this level until the recent pension reforms in the 1990s.

³ See Ferrera and Gualmini (2004) for a comprehensive illustration in English.

The Italian welfare state then found itself in front a *first crossroad*, presenting a choice between the traditional work-based, occupational approach and a citizenship-based, universalistic approach.

A commission appointed by the Ministry of Labor and Social Protection (*Commissione d'Aragona*) elaborated a major plan of reform: the central idea was to achieve (quasi)Beveridgean goals through Bismarckian means, as occurred in other European countries in that period (for example France, see Palier's contribution in this volume). In fact the commission sketched the main traits of the welfare system that should free (almost)⁴ all citizens from need, alleviate poverty and protect against major social risks (CRPS 1948), but this goals were to be pursued through the extension of social insurance schemes to those workers not yet protected and to workers' dependent. In a nutshell, the commission proposed to set up a "system of social solidarity for workers and their family", confirming the centrality of work to get entitlement to social benefits: this approach was in line with the orientations of the three major parties (Christian-democratic, communist and socialist) on the issue (Jessoula and Fargion 2007). This choice mostly relied on the assumptions that the universalistic, citizenship-based approach was considered not suitable for the Italian situation, and that economic recovery and growth would lead, sooner or later, to full employment, thus securing access to benefits to (roughly)⁵ every citizen through the (typically) male, employed, family member - the well-known "male breadwinner model".

Though the comprehensive plan could not be implemented because of both financial and political reasons, the underlying idea inspired most of the piecemeal reforms adopted in the following decades. In fact, during the 1950s and the 1960s, sickness and old-age insurance was repeatedly extended to those categories not yet covered and family allowances were introduced for public sector employees. As for pensions, of particular importance was the inclusion of self-employed workers (farmers 1957, artisans 1959) in Inps⁶, though with different rules from those in force for private employees: such extension confirmed, on the one hand, the Bismarckian and fragmented nature of the system, also introducing introduced a "structural" financing deficit due to the special regulations of contributions and benefits. Such unbalance, together with the gradual shift from pre-funding to "payg" in old-age insurance schemes (started in 1945) and the introduction of seniority pensions (1956 for public employees, 1965 for private employees and the self-employed) – that allowed workers to retire after 35 years of contributions even prior to reaching retirement age⁷ - would become a crucial issue some decades later, when governments decided to tackle the pension crisis (*cf.* Section II, par. 2.1, 2.2).

A *second crossroad* was represented, in the early 1960s, by the release of a comprehensive plan for welfare reform by the CNEL (National Council for Economy and Labor), that envisaged a shift towards a universalistic, citizenship-based, Scandinavian style approach both in the pension and the health-care sector. Again, the plan failed, and subsequent reforms further confirmed the Bismarckian route by extending old-age protection to dealers/shopkeepers (1966), and increased the generosity of benefits with full the adoption of the "classical" payg, earnings-related system (1968-69).

Thus, the Italian model of social protection was built upon the assumption that (quasi) universal coverage could be achieved through work-based social benefits in a condition of full-employment. The latter was therefore both a precondition for effective social protection and one of the major aims pursued by governments during the so-called "golden age" of welfare capitalism. To this purpose a strong role for the state in the labor market and in the whole economy was crafted,

⁴ The commission in fact proposed that the social insurance system should not protect people well-off people that did not get their income from work. This justifies the (*quasi*)Beveridgean nature of the project.

⁵ In this scenario an unemployed person living alone did not have access to most social benefits; however, this type of household was not very common in that period due to the diffusion and the strength of the traditional nuclear family.

⁶ Inps is the major public institutions providing old-age, survivors and disability pensions, but also unemployment subsidy, family allowances and sickness benefits. Social partners have usually had a role in management, though their room for manoeuvre was limited as major policy decisions were in the hands of central political actors, namely, the government and the parliament.

⁷ Public employees were allowed to retire after only 20 years regardless of age (so-called "baby pensions").

complemented – some years later – by a very rigid regulation of the former: employment grew in the public sector as well as in publicly-controlled firms, since 1949 the state assumed the monopoly of employment services and in 1966 and 1970 two provisions drastically limited the possibility of individual firing⁸.

Being the labor market regulation deeply geared towards job-security and employment protection, the system to tackle unemployment remained somewhat underdeveloped and fragmented – mostly relying on “first pillar” insurance schemes (that provided benefits of a very modest amount) and programs for wage replacement in case of (partial or total) working-time reduction without definitive dismissal - displaying a great variation in coverage and generosity of benefits between the different professional categories. Similarly the social assistance sector lagged behind and family policy maintained a Bismarckian “flavour”. As to social assistance, a “safety-net” for all those people that were neither employed nor were entitled to unemployment insurance was never introduced and a framework law at the national level was never designed. Family policy relied to a great extent on cash transfers, and family allowances were not conceived as universalistic and solidaristic, tax-financed, benefits related to children, being rather considered as wage supplements, financed through social contributions, for dependent workers only.

Yet, during the “golden age” these gaps in coverage and risks protection did not generate intense political debate, and they were mostly filled by: a) the persistence of the traditional family structure - that both guaranteed access to welfare benefits through the secure job of the male breadwinner and operated as a redistributive agency; b) the distortion and abuses in the provision of certain benefits – e.g. invalidity pensions - that especially in Southern regions performed assistance functions as unemployment subsidies in disguise.

Moreover, between the early 1950s and the early 1970s the social protection system became more robust and effective, reaching quasi universal coverage both in pensions and the health-care sector. This was allowed by the economic and socio-demographic scenario and by the macroeconomic orientations of the governments. A strong economic growth (5.8% average Gdp growth in 1952-1970) generated “automatic” fiscal surpluses with no need for raising the level of social contributions, the demographic structure (1,4 person over 65 out of 10 of working age 15-64 in 1960) contributed to a favourable balance between welfare contributors and recipients, Keynesian policies allowed to finance welfare schemes in deficit.

Apart from beneficial effects on social conditions, the proliferation of social protection schemes greatly contributed to the stabilization of the political system - that displayed a “polarized pluralist” party system (Sartori 1982) with two anti-system, left and right wings – and to the legitimisation of what has been considered a “blocked democracy” for almost fifty years, an actual alternation in government being excluded⁹. Against such background welfare policies represented a crucial instrument in the hand of politicians to secure votes for pro-system, governing parties on the one hand (also via “particularistic-clientelistic” exchanges in Southern regions, see Ferrera 1987), and to forge wide-ranging, consociational agreements between the latter and the extreme left (Pci) and right wings (Msi) on the other.

A partial hybridisation of the Bismarckian model

If, as illustrated above, in income maintenance schemes (pensions, unemployment insurance, family allowances) the Bismarckian imprint was repeatedly confirmed during the post-war decades, other developments led to the introduction of alternative goals, principles and instruments – i.e. equality

⁸ After 1966, individual firing was restricted by law to cases of motivated dismissal and, above all, with the adoption of the Worker’s Chart (*Statuto dei Lavoratori*) in 1970 a crucial provision (article 18) stated that (in firms that employed more than 15 workers) employers were obliged to re-employ fired workers if the Court did not accept the motivations for dismissal.

⁹ Neither Communists nor neo-Fascists were ever allowed to take part in the governmental coalitions led by the Christian Democrats, nor could they build a majority by themselves. The DC and its minor pro-system allies were thus “condemned” to stick together to form a majority, which had no possible alternative.

and poverty alleviation, citizenship/need based social rights, universal/selective coverage, tax financing, flat benefits – that ultimately hybridized the Italian welfare state.

The major change was represented by the gradual transition from an occupational to a universalistic health care system, between the early 1970s and 1978 when the National Health System was set up¹⁰. Such a transformation, that also led to the replacement of contributory financing with tax financing (see table 5), represents a clear path-shift in the field of health care, which was pursued – with different speed and intensity - in all Southern European countries (Greece, Portugal and Spain) in that period¹¹.

But also the schemes for old-age protection were somewhat “contaminated”, though the bulk of system remained public and fully Bismarckian. Two law provisions introduced the goal of poverty prevention next to the traditional income maintenance one: in 1952 a social assistance supplement for contributory pensions under a certain threshold was introduced (*minimum pension*) and, above all, in 1969 a *social pension* – i.e. a means-tested benefits for all the people in need over 65 years old – was established.

SECTION TWO: THE REFORMS

1. The First sequence

The early creaks in the welfare edifice: analyses, debates...and ambivalent reforms

The first oil-shock of 1973-74, which is usually considered a turning point in most studies on welfare state development, had only a partial effect on the Italian economic background: it prompted a spiralling increase of inflation rates, that reached double-digits already in 1973 - from 5.2% in 1972 to 10.7% one year later - and an impressive 19.4% in 1974, but the effects were more limited on economic growth. Soon after the critical year 1975 – when the GDP fell by 2 percentage points - the national economy quickly recovered, displaying a good performance till the end of the decade (average GDP growth 1976-1980: 4.3%, against 3.3% for France and 3.3% for Germany). However, unemployment started to grow (5.4%, 5.9%, 6.7% in 1974-5-6)

Things worsened after the second oil shock in 1979. This had a profound impact on the national economy that entered a prolonged phase of stagflation: four years of recession coupled with inflation rates still at a very high level while, due to the deepening of the process of de-industrialization, unemployment continued to grow and employment stabilized (and then slightly declined). Not enough, public finance presented annual deficits around 10% and an expanding public debt, partly as a result of policy choices of previous decades (see tables 1 and 2).

Table 1. Main economic and financial indicators, Italy 1980-1989. (%)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Gdp growth	-1.4	0.8	0.7	0.9	3.2	2.8	2.9	3.2	4.2	3.4
Inflation rate	21.3	19.5	16.5	14.6	10.9	9.1	5.8	4.4	5.4	6.3
General government balance	-8.4	-11.2	-11.1	-10.4	-11.4	-12.3	-11.4	-10.7	-10.4	-9.6
General government gross debt	56.9	58.9	57.4	68.9	74.3	80.5	84.5	88.5	90.5	93

Source: IMF Online database

¹⁰ See Maino (2001) for a full illustration.

¹¹ Due to this change, in the following we will not analyse the developments of the health care sector in Italy.

Nevertheless, financial issues were not on the top of the political agenda in the early 1980s, nor was the impact of social expenditure on public expenditure and the public budget. Certainly, there were worries about the persistent unbalance of public budget and some measures were taken to introduce a greater discipline in the budget session in parliament, but: fiscal deficits were justified – not to say they were considered necessary¹² - in a Keynesian macroeconomic framework and, as clearly stated by the socialist President of the Council Bettino Craxi, the reduction of inflation and the struggle against unemployment were the priorities in that phase. In particular, to address the second issue, research and innovation in order to obtain production increases and the liberalization of the labor market were deemed indispensable¹³.

Against such background, the welfare state continued to be (generally) considered an effective, efficient and useful institution, though some experts warned against the burden posed by the welfare system on public finances (Ferrera 1984) and sectoral studies were elaborated by different institutions, alerting on future prospects for financial and economic compatibilities with particular reference to old-age insurance¹⁴ and the health care system.

Table 2. Employment and unemployment rates, Italy and EU, 1980-1989 . (%)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Employment rates- Italy	-	-	-	54.0	53.3	53.2	53.0	53.0	53.3	53.3
Employment rates- EU 12	-	-	-	-	-	-	-	58.4	59.2	60.1
Unemployment rates - Italy	7.4	7.6	8.3	7.4	7.9	8.1	8.9	9.6	9.7	9.7

Source: Eurostat; OECD (2004b), IMF

However, at least four different factors pushed for an even greater reliance on welfare programs: a) social protection schemes were necessary to tackle increasing mass unemployment, b) there was no consensus on the diagnosis about the “sickness” of social, and in particular old-age, protection schemes, c) Italy was a welfare laggard, still displaying a (comparatively very) low level of social expenditure (see table 3) and, as a consequence, providing not very generous benefits for most beneficiaries¹⁵, finally, d) politicians had no enough incentives to address the issue of rising social expenditure by embarking on subtractive, cost containment, policies.

As for the latter, the Bismarckian character of income maintenance schemes – that induces the perception of social benefits as “quasi-property rights” (Myles and Pierson 2001) – together with the peculiar features of the Italian political system – where, as noted above, the stake of the game was very high and the government had too little autonomy from a “turbulent” parliament – substantially foreclosed the shift from distributive, “credit claiming” (Weaver and Pierson 1993), policies of the golden age to subtractive, blame avoidance, interventions. The clash between the alarming projections that envisaged future problems of financial and economic sustainability and the “short time horizon” of policy-makers (Pierson 1997) was, in fact, solved in favour of the latter. To put in a nutshell, with still moderate pressures for adjustment coming from the international

¹² In October 1984 a report of the Budget Commission of the Chamber of Deputies recalls attention on public debt but, at the same time, acknowledges the essential function of deficits to sustain the domestic product, especially in a period of economic restructuring.

¹³ Article from “Il Sole 24 Ore”, 26.10.1984.

¹⁴ An alarming report by the Treasury Ministry (Ministero del Tesoro 1981) envisaged a “gloomy” future for the national pension system. Pension expenditure was projected to rise to 11.7% of GDP in 1985 in the best scenario, and then up to 18-19% of GDP in the year 2000. For a full illustration of this report and the Italian pension policy in Italy during the 1980s, see Ferrera and Jessoula (2007); for the debate on pension reform in that decade, see Vitaletti (1988), Cazzola (1995).

¹⁵ Still in 1988, though the formulas to calculate old-age pensions for those who retired in that period were generous, most benefits were social pensions (800.000) and minimum pensions (9.200.000).

arena, the forecast problems were too far from, and the reliance on welfare programs too remunerative (in terms of consensus/votes) for, Italian policy-makers to prompt a reconfiguration of the social protection system.

Table 3. Total social protection expenditure as a percentage of GDP, 1980-2000

	1980	1990	2000
EU15	21,9	24,4	26,2
Germany	25,7	24,4	28,5
Spain	17,1	19,4	19,7
France	24,5	26,5	28,3
Italy	18,2	23,7	24,3
Sweden	:	:	30,2
UK	:	21,9	26,2

Source: Eurostat

During the 1980s the governments therefore followed a strategy based on four cornerstones. First, the fight against unemployment mostly relied on traditional passive policies, undertaking the well-known “labor reduction route”. Basically, three instruments were employed to this purpose: 1) the possibility of early retirement was introduced in 1981, and then massively exploited till the end of the decade – ca. 300.000 early-exit per year between 1981 and 1987; 2) pre-existing rules for seniority pensions allowed workers to leave the labor market at a very low age (*cf.* par. I.1), 3) unemployment insurance was moderately modernized by calculating benefits as a percentage of previous wages (though the replacement rate was fixed at a very low level, i.e. 25%).

Second, under pressure coming from (micro)categories, some incremental, expansionary measures were still adopted, especially in old-age insurance schemes, to improve the adequacy of benefits – more generous indexation for medium-high pensions (1983)¹⁶, subsequent increases and partial sterilization (1988) of the cap on earnings taken into account in the pension formula.

Third, the consequences of such interventions and pre-existing financial deficits of some social insurance schemes were tackled by raising the level of social contributions (five times between 1980 and 1990, from 23.9% to 25.9%). The consequent increase of labor cost was generally not considered a critical issue, as competitiveness – so crucial for an “open”, export-oriented economy – was maintained through subsequent devaluations of the national currency – that occurred twice in 1981 and once in 1982, 1983 and 1985¹⁷.

Fourth, in contrast with these expansionary interventions oriented at strengthening social protection, at least two thesis supporting a partial revision of welfare and labor market rules and institutions gained some credit, thus inspiring some innovative (though limited) measures. As for social protection, the frauds, waste and inefficiencies in both the management of specific programs and the provision of certain benefits were addressed: in 1984 contributory disability pensions were reformed, tightening eligibility conditions and reinforcing control mechanisms¹⁸, while a means-test to get entitlement to minimum pensions had been already introduced in 1983¹⁹. In the field of labor policy, the priority goals of the period were pursued: inflation control and unemployment reduction/employment growth. In 1983, a “tripartite social pact” led to a revision of the automatic

¹⁶ Already in 1976 the indexation mechanism to prices only had been replaced by a mixed index that also registered wages growth.

¹⁷ This policy was pursued despite employers associations warned that it would increase inflation, thus activating a risky “vicious circle”. See “Il Sole 24 Ore”, 22.11.1984.

¹⁸ Again, in the words of the President Craxi: “we have put an end to unproductive assistance draining resources”. Interview appeared on “Il Sole 24 Ore”, 26.10.1984.

¹⁹ Also proposals for more comprehensive, cost containment, pension reforms were sketched by almost every government during the 1980s, but this plans were never adopted. For a detailed description of these projects and the reasons behind the failed adoption, see Jessoula and Ferrera (2007).

indexation mechanism for wages - in order to make it less generous and put a brake to spiraling inflation²⁰, being subsequently (1984 and 1986-7) compensated by the adoption of some innovative measures aimed at stimulating employment and fostering “activation”. Special contracts for “on the job training” directed to facilitate a stable insertion of young people, guidelines for the public system of vocational training, the regulation of part-time work, so-called “solidarity contracts” were introduced, regional agencies for employment were set up, and the hiring rules were made less rigid. Moreover, the difficulties on the labor market and the pressure on the system to tackle unemployment brought some more innovative ideas and instruments at the entry gateway of political bargains – as for example the establishment of a guaranteed minimum income, supported by the Treasury Ministry²¹ – but they never gained enough political support from most political and social actors (in the specific case, for example, it must be stressed that the Ministry of Labor and Social Protection had traditionally the primary competence on the issue, not financial/economic departments).

At the end of the decade the Italian welfare state still presented a strong Bismarckian connotation – apart from the health care sector that, as already noted, was completing the transition towards a Beveridgean-style, universalistic model – and it was much geared towards the protection of the so-called “insiders” – i.e. people that had access to employment and, through this, to social insurance. Subtractive interventions on *contributory* disability pensions had managed to reduce benefit provision and expenditure, but a sort of “substitution effect” had possibly emerged as *assistance* disability benefits augmented impressively just after the 1984 reform (Ferrera 1987). In the labor market, the implementation of innovative, more “active” policies was often not effectively pursued and these measures did not prove very successful in tackling unemployment and creating new jobs: unemployment rate reached 9.7%, employment rate was 0.7 point below the level of the early-1980s and, even more important, long-term unemployment grew significantly (table 4).

Table 4. Incidence of long-term unemployment on total unemployment. (%)

	1980	1981-89	1989
Germany	28,7	45,0	49,0
Italy	51,2*	64,6	70,4
Sweden	5,5	9,1	6,5
UK	29,5	44,4	40,8
EEC	32,7	52,8	53,7

* 1979

Source: OECD (1991)

In the early years of the new decade, two further interventions confirmed the ambivalent nature of the Italian social policy in that period. In the field of old age protection, despite increasing costs, gloomy analysis for future financial equilibriums and expanding public deficit and debt, in 1990 the government “opened” to the requests of self-employed workers by extending the earnings-related method though maintaining the contribution rate for this category at a low level (ca. 12%). This represented an expansionary change which further worsened the financial situation of the three schemes affected by the reform (Franco 2002) and increased the unfairness of the system - as the return on contributions was higher for the self-employed than for private employees. As we shall see, both these factors would play a role in the reform of the system in the following decade.

²⁰ An analogous intervention was adopted by decree one year later, in a much more heated climate of social conflict, especially between the leftist union (CGIL) and the government/employers.

²¹ Article from “Il Sole 24 Ore”, 21.12.1984.

Secondly, in the face of mounting unemployment (see below table 7) in 1991 a new scheme, so-called “mobility allowance” was introduced for workers of big firms mainly in the industrial sector. This measure followed the traditional path characterized by the reliance on passive policies - further increasing the fragmentation and the segmentation of the system to tackle unemployment - and aimed at reducing the job offer on the labor market, being often employed as an instrument for early-retirement (Geroldi 2005).

Table 5. Social Contributions as a % of Social Protection Receipts, selected countries, 1990-2002

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
European Union 15	65,9	65	62,1	63,1	63,4	63,8	63,6	63,3	61,2	60,7	61	60,6	60,2
Germany	72,1	70,5	70,2	68,2	69,5	68,9	66,9	67,1	66,3	65,1	65,7	65,5	64,3
Spain	71,3	69,9	69,6	66,5	69,5	67	68,5	68,9	68,7	68	68,9	69,3	70,6
Italy	70,3	68,7	43	67,5	64,6	67,6	68,2	68,2	59,6	58	57,7	57,5	57,2
Sweden				40,4	40,8	42,6	45,8	46,9	48,7	46,7	50,1	52,3	50,8

Source: Eurostat

To conclude, we may say that the modest interventions adopted during the first sequence of reform, though introducing some innovative measures mainly in labor market policy, did not alter the nature of Italian social insurance schemes, which were still directed to workers and contributory financed (see above table 5), provided earnings-related benefits and presented problems of fairness due to the high heterogeneity of rules. The policy making had essentially unfolded within national boundaries, where domestic actors had no incentives to radically alter both the existing institutional architecture and the underlying (re)distributive compromises.

2. The Second sequence

Pressures from “beyond”: reforming a Bismarckian welfare state in emergency

By the early 1990s Italy had mostly closed the gap with most continental countries in terms of “welfare effort”, and expenditure for social protection (23.7% of Gdp) was just slightly below the EU15 average (24.4%, see table 3). Moreover the maturation of the system of social protection, along the lines designed during the golden age, had produced a re-alignment of goals and means: the post-war objective of *poverty alleviation* had been replaced by the goal of *income maintenance* that, being pursued through occupational, contributory schemes providing earnings-related benefits, conferred a more coherent Bismarckian connotation to the system (apart from, as mentioned, the health care sector).

Table 6. Main economic and financial indicators, Italy 1990-1999. (%)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Gdp growth	2.1	1.5	0.8	-0.9	2.2	2.8	0.7	1.9	1.4	1.9
Inflation rate	6.4	6.2	5	4.5	4.2	5.4	4	1.9	2	1.7
General government balance	-11.4	-11.4	-10.4	-10	-9	-7.4	-6.9	-2.6	-2.8	-1.7
General government gross debt	94.6	97.7	104.7	115.1	121	120.6	120.1	118	114.8	113.5

Source: IMF Online database

The social and economic background differed slightly from the previous decade, as most problems were still on the ground though with a diverse intensity: inflation was still quite high but more under control (table 6), unemployment trend was upward (table 7), while employment indicators all registered the effects of an advanced process of de-industrialization and displayed an alarming downward trajectory (table 8), an evidence of a severe “welfare without work” syndrome. Besides, the phase of good economic performance of the late 1980s had come to an end - with Gdp growth rates rapidly declining – and financial problems had become extremely acute - the public debt reaching ca. 100% of Gdp and budget deficits over 10% (table 6). The financial situation was especially worrying in the light of the deepening of European integration, that led to the Maastricht Treaty in February 1992 and was then reinforced with the definition of the path towards the monetary union: this included the so-called “convergence criteria”, prescribing the well-known 3% and 60% threshold on Gdp for public deficit and debt respectively, and a variable and relative (with respect to the other members states) limit for the inflation rate.

Table 7. Unemployment rates, Italy and EU15, 1990-2000. (%)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
European Union 15	:	:	8,4	10	10,4	10	10,1	9,8	9,3	8,5	7,6
Italy	8,9	8,5	8,7	10,1	10,6	11,2	11,2	11,3	11,3	10,9	10,1

Source: Eurostat

Table 8. Employment rates, Italy and EU15, 1990-1997. (%)

		1992	1993	1994	1995	1996	1997
Total	<i>EU 15</i>	61,2	60,1	59,8	60,1	60,3	60,7
	<i>Italy</i>	-	52,3	51,4	51	51,2	51,3
Older workers (55-64)	<i>EU 15</i>	36,3	35,7	35,7	36	36,3	36,4
	<i>Italy</i>	-	30,2	29,3	28,4	28,6	27,9
Women	<i>Italy</i>	-	35,8	35,4	35,4	36,0	36,4

Source: Eurostat, Ministero del Welfare (2005)

2.1 The first wave

The 1992 represented the turning point for both government priorities and the content of public discourse: attention and actions rapidly turned from the struggle against inflation to financial emergency and the need to restore-to-health public finances²².

This happened during the summer when - in a phase characterized by a deep political turmoil due to a serious politico-institutional crisis that followed the so called “bribe-city” (*Tangentopoli*) scandal - the five party²³ government led by Amato revived the season of tripartite agreements, by signing an important social pact on labor cost: in particular, automatic indexation of wages to prices increases was eliminated and this represented a crucial step that would contribute to the sharp reduction of inflation rates in the following years (table 6).

²² See Radaelli (2002) on public discourse in Italian reforms of the 1990s.

²³ It included the pivotal centre Christian-democratic party and its allies: the socialists, the social-democrats, the liberals and the republicans.

Soon after the signature of the pact the top priority became financial consolidation. In order to prove their commitment to the building up of the monetary union, Italian policy makers had in fact to adopt rigorous financial and monetary policies, that especially included: the reform of pensions and the reduction of debt service, which was crucial to contain public deficits in the short term. In this perspective it was also absolutely necessary that interest rates declined, but this seemed to be out of reach when, after the Danish “no” to the Maastricht Treaty and before the French referendum that was to be held in September, speculative attacks on weaker currencies were launched, and especially on the Lira. During the summer 1992, the Italian government had thus to face a tremendous challenge, that came from the interplay between the deepening of the process of European integration and the financial markets, and risked to end up in a sort of “cul-de-sac”. In fact a devaluation of the national currency would have endangered the credibility of the country, demonstrating that Italy was following the “same old route”, and it could also have determined higher interest rates but, on the other hand, persistent speculative attacks obliged the Bank of Italy to raise interest rates²⁴. Finally, a few day before the French referendum, the Lira was devalued – and pulled out the EMS - but the government opted for accompanying this intervention with a plan to reform pensions, which was much more incisive than the proposal elaborated in the early summer.

The Amato reform consisted of two components: the revision of the public payg pillar and the establishment of a regulatory framework for supplementary, (pre)funded, pension pillars. Despite this second element aimed to transform the institutional architecture of the pension system, the reform entailed a path-dependent, incremental change, basically modifying the settings of instruments in the field of old age protection: the period to calculate reference earnings was lengthened and the minimum contributory requirement for earnings-related pensions was raised, but the first, payg pillar maintained its primary role and the earnings-related method for benefits calculation was preserved together with its traditional income maintenance function. Nonetheless, from our perspective it is noteworthy that the Bismarckian nature of the system – characterized by a high institutional fragmentation and regulatory variation along professional lines – was exploited by the government by pushing the lever of fairness in order to introduce subtractive and cost containment measures: the rules concerning eligibility conditions and benefits formulas were harmonized between public and private employees. Moreover, the diversity of rules between the different professional categories and their unjustified redistributive effects offered the government a chance to phase-out the most evident anomalies of the national pension system, and to tackle the connected welfare-without-work syndrome: the retirement age for private sector employees was gradually raised to 60 (women) and 65 (men) – closer to retirement age for public employees and the self-employed (65 years) - and the contributory requirement for public employees to be entitled to seniority pensions²⁵ was equalized to that in force for private employees (35 years).

As a result, such process of harmonization not only contributed to tackle some typical problems of Bismarckian schemes – namely, the above mentioned welfare-without-work syndrome – but it also “lightened” the Bismarckian connotation itself of the system by reducing the great variation of rules between professional categories.

A final note to stress that the implementation of these changes was also facilitated by the adoption of some tactical devices by the government aimed at preventing strong resistance. In particular, as the unions had acquired, since the 1960s, an informal guarantee²⁶ of involvement in social and economic policy-making (and especially pension policy), in order to gain (at least) their acquiescence, long phasing-out periods (e.g.: for raising retirement age, eliminating “baby pensions” in the public sector, and for the application of the new pension formula) as well as key exemptions and concessions were provided.

²⁴ See Barucci (1995) for a vivid illustration of that period by one of the major actors, the Ministry of the Treasury Piero Barucci.

²⁵ *Cfr. infra* Section I.

²⁶ Such guarantee was indeed informal: certainly the unions did have a role in the management of Inps, but pension policy was in fact centralized and major decisions were taken by the government/parliament.

As illustrated, the joint pressures from the international arena thus proved to be crucial to overcome the resistance to change that had appeared during the 1980s, and the reform was also favoured by at least three factors: a) the fragmented institutional architecture of the Italian pension system, b) the use of “tactical devices” in the design of the reform, but also c) the temporarily looser ties between political parties and pressure groups, as a result of the crisis of the party system that had followed the “bribe city” scandal.

But why external pressures induced the government to reform pension as the first, and most important step, of the process of financial consolidation? If we think that in a Bismarckian system pensions are financed through social contributions, the link between the need for financial consolidation and pension reform is not that straightforward, thus requiring closer investigation. Indeed there were at least three reasons that pushed the Italian government to adopt a pension reform in order to restore-to-health the public finance. Firstly, both pensions and contributions for public employees and civil servants were paid directly from the Treasury Ministry, therefore contributing to the general state outlay (just as the wages of public employees): it is therefore not a case that the first reform aimed at reducing the generosity and the number of pensions for those categories. A second source of pressure for public finance came from the fact that likely gaps between revenues and expenditures for contributory pensions were to be filled, ultimately, by the state budget²⁷. Though estimates vary (due to the fuzzy accounting relationship between Inps and the state budget) the deficit for private sector schemes (dependent and self-employed workers) was around 2% of Gdp in 1988 (Castellino 1988), and increases were forecast for the future. The revision of pension formulas and retirement age for workers in the private sector, as well as the modest increase of social contributions (up to ca. 27%), therefore aimed at reducing existing and prospective deficits. Finally, it is necessary to consider a sort of “demonstrative effect” of pension reforms. In a nutshell, pension reforms reassure financial markets – as they are taken as evidences of the commitment to financial rigour – and this facilitates the reduction of interest rates and, ultimately, the decline of both debt service and deficit.

2.2 The second wave: the “watershed” reform

After the Amato reform – which was part of a comprehensive plan to reduce public expenditure that also included the reform of the health care system (1993) – the run-up to Emu continued in a climate of financial emergence.

In the field of social protection, attention once again focused on the pension system, where some problems were still on the ground: a) the comparatively short minimum contributory period (35 years) for seniority pension entitlement was the major factor beyond the low average age of exit from the labor market (58.4 years), b) the unfair treatment of public and private employees with respect to the self-employed, with the latter that were granted higher returns on contributions than the former, c) further massive increases of contribution rates were deemed necessary for the future in order to keep the balance between revenues and expenditure (INPS 1993).

The Amato reform had not solved all the problems. Moreover the plan to revise pensions advanced by the Bersluconi cabinet in 1994 had been finally withdrawn because of the harsh reaction by the unions, that was essentially due to: the confrontational style adopted by the government on the one hand and, on the other, the proposed interventions aimed at achieving financial sustainability and expenditure cuts without providing any (compensatory) measures that might please workers’ organizations²⁸.

²⁷ The *ultimate* nature of these transfers by the public budget derives from the fact that deficits are firstly filled through inter-categorical, inter-schema solidarity transfers.

²⁸ For a full description see Natali (2007), Ferrera and Jessoula (2007).

External pressures increased when, after the “pension failure” of the Berlusconi cabinet that also contributed to its final resignation (December 1994), financial markets reacted to both the political instability and the loss of credibility of the country by putting pressure again on the Italian currency. The issue was thus tackled by a technocratic government - led by the former director of the Bank of Italy Lamberto Dini - that after a long-lasting and thorough concertative process with the unions came to an agreement on pension reform which was later transposed into law 335/1995.

The “Dini” reform constituted a crucial watershed for the process of reform of the Italian welfare state. In fact, it did not only contribute to (1) substantially smoothen the financial worries around the bulk of the social protection system for the long-term, but (2) it also changed the underlying logics of the pension system and (3) strengthened the institutional change promoted by the Amato reform with the set up of the regulatory framework for supplementary pensions. Finally, (4) the reform further “lightened” the Bismarckian connotation of the system through a deeper harmonization of the rules for the diverse categories.

The Dini reform was in fact based upon two cornerstones: 1) in the first pillar, the replacement of the traditional earnings-related system with a “notional defined contribution” (NDC) system²⁹ - where benefits are no more linked to previous earnings, but depend on the amount of contributions actually paid, the age of retirement as well as economic and demographic trends; 2) more generous tax incentives to support the take-off of funded pensions, also through a more effective exploitation of the so-called *Tfr*³⁰.

The reform aimed at a comprehensive reconfiguration of the national pension system (Ferrera and Jessoula 2005), decoupling the goal from the institutions traditionally pursuing the latter. More explicitly, the traditional goal of *income maintenance and security through public old age protection schemes* was abandoned, and in the future the same objective will have to be achieved through a much more complex, and insecure, interplay between the first and the second/third pillars, between the state and the market, between payg and funded system. Moreover, central in the reformed system is the “saving” principle both for public schemes and occupational/private funds: in fact, the NDC as well as the DC (defined contributions) systems do not provide any pre-determined level of benefits, relying instead on the assumption that contributions are fixed and pensions vary according to different parameters (Gdp growth for the former, investment returns for the latter, life expectancy for both the NDC and DC).

As for the public pillar, the latter mechanism, that shifts on insured workers the risk associated with old age insurance, will play a major role in the future to contain pension expenditure and reduce deficits that, as noted above, had been among the major trigger of the reforms.

These developments testify a greater reliance on market mechanism and a partial retreat from Bismarck, which is also clear with reference to at least two other points. First, as in 1992, the fragmentation and unfairness of the system was exploited in order to adopt harmonization, but also cost containment, measures. In this occasion, however, it was less the lever of fairness that was pushed than a “*do ut des*” agreement between the government and the unions: during the concertative process, in fact, the convergence on the introduction of the NDC system for all categories – private/public employees and the self-employed - occurred because NDC would improve financial sustainability - which pleased the cabinet - also putting an end to the privileged system for the self-employed and those workers with the most dynamic careers (namely, medium-high income workers), that was in the interests of the unions. Second, the implementation of the NDC system with a new flexible retirement age (57-65 years) would provide strong incentives to postpone retirement because of the links between retirement age and pension value, while the gradual increase of the contributory requirement for seniority pensions (from 35 to 40 years) would

²⁹ In Italian the NDC system is usually referred to as *sistema contributivo*, i.e. contributions-related system.

³⁰ The Amato reform had already introduced the possibility to finance supplementary pension funds through the voluntary transfer of the *Tfr*. This is a compulsory severance pay that firms must pay their employees, either when they retire, or when they leave the company for any other reason. It is basically a “deferred-wage” for all private employees, financed through payroll taxes (6.91% of gross wages), providing lump-sum benefits with a minimum (but only nominal) guaranteed return. As contributions are only *virtually* accumulated, the *Tfr* has also traditionally represented an important (and relatively cheap) source of finance for companies.

pose a brake to early retirement. As a consequence of these interventions the system presented an even “lighter” Bismarckian connotation than before and the main incentives to retire early were removed, thus contributing to tackle the welfare-without-work syndrome.

Despite these incisive changes, however, as three years before the reform largely protected the “acquired rights” of older workers by introducing long transition periods for the phasing-in of the new NDC system - that fully applies only to new entrants in the labor market after 1996 - as well as for other measures. Once again, tactical devices had been adopted to forestall union opposition.

3. The Third sequence

Reforming welfare through learning and the “voluntary impact” of Europe

After the adoption of the Dini reform and the 1996 elections, that registered the victory of the centre-left coalition led by Romano Prodi, economic recovery and the (relative) political stability slightly smoothed financial worries, thus opening more space for a partial re-orientation of both the public discourse and the policy-making on the reform of the welfare state³¹.

Certainly, arguments around fiscal rigour were still present - especially because of the 1998 deadline for the verification of the convergence process of EC member states – and they would also stimulate a further, incremental revision of the pension system in 1997 (*Prodi reform*), mostly directed at achieving cost reductions in the short-run; but next to these a wider debate on the shortcomings of the national system of social protection and the need of a deep “recalibration” (Ferrera and Hemerijck 2003) aroused.

3.1 The first wave: learning from Europe to modernize the Italian welfare state

Such political debate, which particularly focused on labor market, social assistance and family policies, emerged under different stimuli. First, the reflection by experts on the shortcomings of the national welfare state and the labor market: a very acute “double distortion” of social protection (Ferrera 2006) – i.e. “functional”, because of the overprotection of old-age, and “distributive” due to the very deep security gap between the insiders and the outsiders – and the excessive rigidity of labor market rules were emphasized. Meanwhile, inputs coming from the supranational, European level, brought innovative ideas and policy solutions well into the national debate and policy-making, also re-orienting the attention of domestic actors towards the so called “new social risks” – e.g. lone parenthood, longer life expectancy, need for care activities, interrupted careers and precarious jobs. These, though not representing a crucial question at that moment in Italy, would very likely, and very soon, pose a serious challenge to the national Bismarckian welfare edifice and the underlying traditional “male breadwinner model”.

Innovative ideas and policy solutions had already started to pour down, drop by drop, from European institutions during the early 1990s³² and they had also contributed to mould the guidelines for the reform of the labor market contained in the social pact between the Ciampi government and the social partners in 1993. Similarly, some law provisions had already been introduced in order to tackle the (consequences of) the new social risks: e.g. the 1995 pension reform had extended compulsory insurance to those worker hired with non-standard contracts, it had removed the penalization for workers with interrupted and fragmented careers by reducing the minimum contributory period for old age pensions from 20 years (as decided by the Amato reform) to 5 years, and it had also introduced contributions credits for periods spent in child raising, thus strengthening

³¹ See Ferrera and Gualmini (2004) about the differences between the early 1990s and the second part of the decade.

³² See for example how a well-know Italian expert and politician – Gino Giugni – criticised the approach of the Berlusconi cabinet to labor market regulation by contrasting it with the guidelines included in the Delors “White Book”: see Giugni (2007).

selective redistribution whereas the logic of the new NDC system aimed at reinforcing the link between paid contributions and benefits.

However, it was not until the late 1990s that these issues came to the centre of the action of government. This particularly happened with the Prodi government, which aimed to represent a modernising coalition that would bring Italy – with all its vices and few virtues – closer to both Europe and its social model.

The interventions followed two different, but interconnected trajectories. The traditional model of rigid labor market regulation aimed at job stability and security was put into question, and this called for a partial revision of the “welfare-through-work” model of social protection, where entitlements to most benefits are obtained through regular employment. Moreover these developments also matched another strand of debate which focused on the expansion of social assistance/family policy and, above all, on the shift towards a universalistic approach for both sectors.

In the field of labor policy, the failure of the measures adopted during the 1980s and the persistent problems of low employment and high unemployment were tackled by starting a radical, “paradigmatic” change. Following the third social pact (1996) since 1992, the “Treu reform” (1997) prompted a clear shift towards a more flexible and deregulated labor market: a) the public monopoly on employment services was abolished, this representing a fundamental step in Italian labor policy, as it relied on the acknowledgment that private actors and market mechanisms could give a beneficial contribution to labor market performance; b) so called “atypical”, flexible job contracts, like temporary and part-time jobs were either introduced or re-launched after the failure of the late 1980s; 3) the traditional predominance of passive policies was limited, moving towards a more equilibrated “policy mix” (Graziano 2005) with the development of active labor market policies to facilitate insertion – especially of the most disadvantaged groups (younger and older workers, women).

All these measures were in line with the European Community approach to labor market reform, and supranational influence was indeed crucial to induce policy interventions also because the strengthened competition in a more open continental economy made the long-lasting shortcomings of the Italian labor market no more tolerable. But EC influence was also more straightforward: on the one hand, the then-in-the-making European Employment Strategy channeled into the national policy making detailed principles – i.e. adaptability, employability, and labor market modernization – and guidelines for the reform of the labor market, thus prompting a *learning process* at the domestic level; on the other hand, the liberalization of employment services was implemented under the pressure of an impending sentence by the ECJ which was to thought to declare the illegitimacy of the public monopoly³³.

As illustrated in details by Graziano (2004) these developments facilitated the emergence of a pro-reform “*advocacy coalition*” (Sabatier 1998) that acted to modernize and, to a certain extent, “Europeanize” the Italian labor market. Such coalition, that managed to overcome (at least partly) the traditional policy network oriented at the maintenance of the status quo, was in fact formed by a part of the trade unions movement (especially the moderate unions, Cisl and Uil), some members of the government (as the Ministry for Labor and Social Protection Treu), a portion of the central bureaucracy, but especially some experts networks and the external advisers of the Ministry that aimed at introducing at the national level the goals, the principles and the policy instruments elaborated at the European level³⁴.

A similar and, as noted above, interconnected process unfolded in the sectors of social assistance and family policies that were then substantially underdeveloped (the former) or geared to the protection of the insiders (the latter, *cf.* section I).

³³ *Job Centre II* (case C-55/96), sentence issued on 11.12.1997.

³⁴ See the full argument in Graziano (2004).

Since the beginning of 1990s community institutions such as the European Observatory on National Policies for Combating Social Exclusion had started a reflection on the topic of social exclusion. Then, in 1992 the Council Recommendation 92/441/EEC had defined common criteria about sufficient resources and sufficient provisions within the social protection systems as a precise commitment for the completion of the Community Charter of Fundamental Social Rights of Workers issued in 1989: the Recommendation had thus conferred anti-poverty policies a precise status in the process of European integration, and in the construction of the European citizenship, also indicating the method of co-ordination of information and experiences among Member States as the mechanism to achieve the policy target of alleviating poverty and social exclusion. Finally, the fight against social exclusion had also been included in the 1997 Treaty of Amsterdam. This attention for the issue of social exclusion/inclusion went in parallel with the proliferation of technical committees specialized in the field, such as the European Anti-Poverty Network.

The activity of supranational committees led to the formation of “epistemic communities”, that contributed to socialize national experts and bureaucrats on the subject, thus stimulating a process of *policy learning* and *policy diffusion* in a two-level (national and EU) policy and political arena. The transposition of ideas emerged at the community level into the Italian policy making on social assistance reform was mainly accomplished by two groups of experts: the committee on poverty and social exclusion (*Commissione di indagine sulla povertà e l'esclusione sociale*), and the committee of experts on social security (*Commissione Onofri*) appointed in 1997³⁵. These committees played a crucial role in the formulation of major proposals for the reform of social assistance in line with the EC approach, thus meeting the modernizing ambitions of the Prodi cabinet. In fact, in order to bridge the insiders/outside gap and to start a recalibration of the national system of social protection between the different risks - also including “new social risks” - a series of measures were implemented, most of them relying on an innovative principle: *selective universalism*. According to the latter eligibility to social assistance benefits has to be conditional only on *citizenship* and *need* or, in other words, all the people (universalism) in need for economic help (selectivity) should have a right to social assistance benefits, without any link with the labor market.

The budget law adopted in 1998 did not only set up a “Fund for social policies”, but it also strengthened the reliance on means-tests through the implementation of an “indicator of socio-economic conditions” for those applying for social benefits and services and introduced three innovative means-tested measures to alleviate poverty for those not entitled to contributory benefits: the allowance to families with more than three children, the maternity allowance and, above all, a pilot scheme of “minimum insertion income” (mii), which was designed as a non categorical, means-tested, tax financed measure, addressed to all people under a pre-defined poverty threshold. The innovative character of the latter was also related to its “activation” component, since the monetary transfer was accompanied by integration programs aimed at alleviating social exclusion and stimulating recipients’ autonomy. The establishment of a last resort safety-net and its characteristics were perfectly in line with indications by the European Commission, that in the communication COM(98)774 strongly advocated the reinforcement, and eventually harmonization of minimum income schemes³⁶, that were already in place in most Member States.

After fifty years, the goal of poverty prevention/alleviation was then reintroduced, in a mature Bismarckian system, also for programs not directed to protect older people. This time, however, this goal would not be pursued relying on occupational schemes but through selective-universalistic programs.

Two years later, the budget law for 2000 provided for a two-year extension of the experimentation of the “mii” and in the same year the Italian social assistance seemed to make another big step forward with the approval of a national framework law. According to Law 328/00, social assistance

³⁵ Interviews to key informants. See Alti (2006).

³⁶ These were defined as a non contributory, tax financed, policy responses to satisfy essential needs, and considered fundamental instruments for increasing equality, solidarity and social cohesion in a modernized social protection system.

would be based on both an integrated system of services and benefits - with the reinforcement of the former in order to reduce the Bismarckian “cash-transfer bias” – and a strong co-operation among the different social sectors and the various levels of government.

It is worthy to note, however, that within this major reconfiguration of the Italian labor, family and social assistance policy the reform of unemployment insurance was not adopted and it was passed on to future governments.

As I have illustrated, after the adoption of two pension reforms under the joint stimuli from both the EC and financial markets, the labor market and social assistance/family policy reforms were the result of the interplay between the supranational – i.e. community – level influence and domestic challenges and political strategies. In particular the emergence of supranational, cross-national and national “epistemic communities” contributed to the elaboration of innovative ideas and policy solutions, thus prompting a learning process by national actors and empowering pro-reform “coalitions” that supported modernization stances.

The plan launched at different stages during the 1990s could have led, if fully accomplished, the Italian welfare state and labor market clearly beyond Bismarck.

3.2 The second wave: a difficult compromise between modernization and conservatism

The early years of the new millennium presented a gloomy scenario for Italy and its policy makers: the economic situation deteriorated after 2000 and four years of recession followed (much harsher in comparison to the one that affected most Western countries after 9/11th) and, what is more, the ten year long³⁷ loss of competitiveness of Italian economy neither stopped nor slowed down.

If the “magic word” in the public discourse during the 1990s had been fiscal consolidation, in the early 2000s it turned to be “competitiveness” (Radelli 2002).

Table 9. Main economic and financial indicators, Italy 2000-2006. (%)

	2000	2001	2002	2003	2004	2005	2006
Gross domestic product	3.6	1.8	0.3	0	1.1	0	1.5
Inflation rate	2.6	2.3	2.6	2.8	2.3	2.3	2.4
General government balance	-0.7	-3.1	-2.9	-3.4	-3.4	-4.1	-4
General government gross debt	109.1	108.7	105.5	104.3	103.9	106.4	107.5

Source: IMF Online database

Also the debate on the reform of the welfare state was affected by these new context, but it also registered the change of government majority, with the new centre-right cabinet led by Berlusconi from 2001. The public discourse focused on four issues, partly reflecting these two changes, partly informed by the consequences of welfare reforms of the previous decade. First, in the pension sector demographic and financial sustainability problems were joined by the issue of benefits adequacy for future cohorts of retirees. This was particularly due to the “generational break” provoked by the Dini reform, as the introduction of the NDC system and the long transition period imply the overburdening of younger generations³⁸, who will bear most of the costs of reforming

³⁷ “Il Sole 24 Ore”, 1.6.2005.

³⁸ Replacement rates are projected to decline from ca. 67% in 2010 to 49% in 2030.

pensions and restoring public finance to health. Second, the interplay between welfare (especially pension) costs and labour market performance became a crucial issue in the light of the above mentioned competitiveness deficit of the country. Third, financial compatibility between social expenditure and public finance equilibrium in the medium term was at risk, especially because of the projected tax cuts that constituted a crucial objective for the centre-right government. Fourth, the governmental coalition proposed a vision of the welfare regime that gave a great emphasis to the family, not only as recipient of social policies, but also as a redistributive/caring agency.

Table 10. Unemployment rates, Italy and EU15, 2000-2004. (%)

	2001	2002	2003	2004
European Union (15 countries)	7,2	7,6	8	8,1
Italy	9,1	8,6	8,4	8

Source: Eurostat

Against this background, the early moves of the new cabinet aimed to find a way out from employment³⁹, economic and, as a consequence of the latter, fiscal problems (i.e. raising deficits since 2001, tab. 9). In particular the government elaborated two reform proposals for pensions and the labor market.

As for the reform of public pensions, proposed measures were directed to contain pension deficits in the medium term and contribute to raise employment rates. The interaction between the two goals, however, ruled out further contributions increases - as both the Amato and the Dini reforms had done (up to 33% of gross wages) - to reduce deficits. On the contrary, in order to foster employment a reduction of contributions for workers hired with non-temporary contracts was proposed and the same goal was addressed by the provision of stricter requirements for seniority pensions, that would also contribute to reduce expenditure and deficit.

Next to the interventions on the public pillar, a major goal of the proposal was the definitive transition to a multi-pillar system, through the compulsory transfer of the Tfr to supplementary pension funds – a measure that would have mobilized between € 12 and € 13 billion per year - around 1% of GDP. The reconfiguration of the system on different pillars was justified, on the one hand, by the release of the first projections on future replacement rates (Ministero del Welfare 2002), that confirmed the declining trends of the latter and raised the problem of adequacy of future benefits⁴⁰; on the other hand, however, this shift was “pulled” by financial actors (bank, insurance companies) - that had entered the policy arena after the reforms of the 1990s—which found the favour of the centre-right cabinet..

The unions, however, strongly opposed the reform proposal. Then the government, *learning* from its past 1994 failure (cfr. par.II.2.2) (Natali 2007), withdrew the most controversial measures – i.e. the reduction of contributions and the compulsory transfer of the Tfr - from the plan. The final version of the reform was eventually adopted in 2004. As for the first pillar, interventions followed recommendations by the UE to promote longer working lives by providing a) incentives for later retirement – i.e. a tax bonus equal to 100% of pension contributions if the entitlement to a seniority pension had been attained, b) stricter age requirements for seniority pensions and c) a higher standard retirement age for old age pensioners (65 men, 60 women). As for the transition to a multi-pillar architecture, a compromise was ultimately found for the take-off of supplementary pensions with the introduction of the so called “silent-assent” formula for the transfer of the *Tfr* to pension funds.

³⁹ To be precise, employment and unemployment figures were improving after the 1997 labor market reform, but the situation was still quite critical (tab. 10).

⁴⁰ Cfr. note 37.

In the field of labor policy, the learning process that had started during the 1990s stretched along the early-2000s, regardless of the different political orientation of the government. Once again, experts played a major role in the elaboration of both the diagnosis and the reform proposal that (at least partly) followed recommendations coming from the EU level, and especially the EES. The White Book (Ministero del Welfare 2001) inspired by Marco Biagi represented the starting point for the debate on labor market reform along the following directions: a) a greater emphasis on “flex-security”, by combining more deregulation of the labor market with stronger protection for those not employed and the reform of shock-absorbers, b) restructuring employment services and ALMPs in order to facilitate insertion, c) strengthening life-long training.

The opposition of the major union (Cgil) to the revision of the stringent rules for non motivated dismissal – a revision that would endanger the traditional pattern of job security for those employed – and other provisions led to the building up of a pro-reform coalition, which was formalized through the signature of a social pact (Pact for Italy) between the government, the employers’ association and two unions (Cisl and Uil).

The consequent 2003 reform contained measures that were much more tuned towards *flexibility* than *security*, even if the revision of the rules for non motivated dismissal was withdrawn. Flexibilization was re-launched with the introduction of a series of new “atypical” contracts, employment services were strengthened, but the reorganization of shock-absorbers was not included in the reform. Such exclusion is striking for at least two reasons: first, because the Pact for Italy had envisaged to bring the replacement rate of unemployment subsidy more in line with European standards (from 40% to 60%); second, as the reinforcement and the rationalization of the unemployment protection is crucial in a labor market which is becoming more and more flexible. As reported in table 11, the incidence of “atypical employment” on total employment is growing and, above all, in the period 1995-2001 over 60% of employment growth was due to the new “atypical” jobs (Ministero del Welfare 2001), therefore indicating that at least for the younger generations the flexible labor market is already in place and the traditional goal of job security has been abandoned.

Table 11. Incidence of “atypical”, flexible, contracts

	1993	1998	2003
Part-time	3,2	4,7	6,3
Temporary	4,2	5,8	7,0
Temporary part-time	1,9	2,8	2,9
TOTAL	9,4	13,3	16,2

Source: Ministero del Welfare (2005)

From another perspective, the missed strengthening and recalibration of shock-absorber (necessary for the national underdevelopment in this sector) – that should accompany, according to EU guidelines, the move towards a more flexible and deregulated labor market – is even more relevant because also social assistance measures aimed at protecting from lack/loss of income and poverty were all but reinforced by the Berlusconi cabinet.

In fact, if the expansion of social assistance found some obstacles due to the Constitutional reform (Law 3/2001), that has redefined the sharing of legislative power and administrative functions between the State and the regions, on the other hand the road towards the institutionalization of new goals – i.e. poverty alleviation, especially for the outsiders - and principles – i.e. selective universalism – within the national bismarckian welfare state was soon barred by the political/policy priorities and preferences of the centre-right cabinet.

Privileging a model of social protection based on family and community networks (Ministero del Welfare 2003), the government drastically reduced the resources of the fund for social policies, did not set up the so called *essential levels of assistance* - that were crucial after the devolution to regions of the exclusive competences in the field of social assistance – and put an end to the experimentation of the minimum insertion income⁴¹.

These steps (back) and in particular the removal of the latter instrument - that, as noted, had been introduced in the welfare edifice under the stimuli from EU institutions in order to (at least partly) fill the insiders/outside gap, also in the light of labor market transformations – testifies that supranational influence through learning is strongly filtered by domestic political orientations and strategies⁴².

SECTION THREE: An evaluation of the reform trajectory

In the light of the developments illustrated above, we now need now to go back to the original questions: do Bismarckian welfare states change? How do they change? In addressing these questions we also aim to evaluate the likely influence of Europe and learning on these developments.

As illustrated, the process of reform of the Italian welfare state roughly stretches along the last two decades and it is articulated into three different sequences, most of which present different waves of reforms.

In the first sequence (1980-1991), only minor changes were introduced, that basically consisted of adjustments in the settings of social policy instruments. Indeed in this period welfare state developments were *ambivalent*, aiming at *cost containment* on the one hand, but also at the completion of the *expansionary parabola* of the national welfare state on the other. The second trajectory was still viable because the domestic policy-making was not influenced by strong external pressures and macroeconomic and monetary policies did not differ much from those of the golden age. This meant that financing in deficit of social provisions was still possible, because high fiscal deficits were generally tolerated, while the welfare state crisis and fiscal problems were mainly forecast for the medium-long term. In such a situation policy makers had no real incentives in adopting retrenchment measures, that are essentially blame avoidance exercises, especially in Bismarckian systems where social benefits are perceived as quasi-property rights and strongly defended by powerful social groups, such as the unions. Expansionary, credit claiming measures matched better politicians' short-time horizon.

Things suddenly changed when external pressures grew stronger, thus paving the way for the second sequence of reforms (1992-1995). Though pressures already existed in 1991, one year later the interplay between the start of the convergence process towards the monetary union and the speculative attacks on financial markets proved to be crucial for the shift to a rigorous fiscal policy in order to “join Europe”. The macroeconomic framework started to change and the need for restoring-to-health public finances in the short-medium term altered the strategic calculus of political actors and called for a reform of the welfare system. Two subsequent waves of reform followed in 1992-93 and 1995. The first, Amato reform mostly introduced *incremental, path dependent changes*, while the Dini reform represented a rupture with the traditional pattern of old-age protection, also with respect to pension reforms adopted in other European countries in that period (apart from Sweden). However, in both cases the governments exploited the Bismarckian

⁴¹ The “second child bonus” introduced under the centre-right cabinet in 2003, and consisting in a *una tantum* provision of a modest amount, has been subjected to a means test only in 2006 and it seems to represent more a symbolic policy than a structural intervention to provide actual economic support to family.

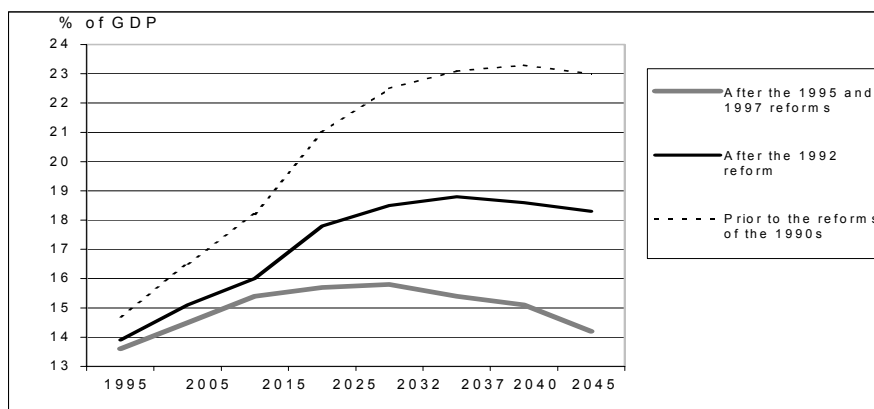
⁴² It is noteworthy, however, that some regions (Emilia Romagna, Piemonte, Puglia and Sardegna) have proposed some experimental forms of minimum income, but only the Region Campania has actually introduced a so called “citizenship income”

configuration of the system in order to tackle the welfare-without-work syndrome and to adopt subtractive, cost containment measures, that were thus justified with the need to put an end to the privileged treatment for certain professional categories (i.e. public employees and the self-employed). Therefore, after these interventions the *Bismarckian connotation* of the public pension system was somewhat “lightened” because the rules for the different professional categories were substantially harmonized.

But this was not the major departure from Bismarck. With the establishment of a regulatory framework for supplementary pensions the Amato reform introduced an “institutional seed”, which was later exploited by the Dini reform. The latter entailed a major *institutional change* by prompting a transition towards a multi-pillar configuration through the inclusion of market actors and mechanisms in old-age protection, but also strengthening the “saving principle” with the shift to NDC (*per se*, a second order change in Hall’s terminology) in the public pillar and the introduction of DC supplementary schemes. Both these transformations contributed to start a paradigmatic, though gradual, change in old-age protection, as in the future the traditional goal of income maintenance will not be pursued through compulsory, public, social insurance schemes providing earnings-related pensions, but through a mix of public and private-market institutions, providing actuarially fair benefits.

The gradual character of this transformation derives from the tactical devices used by governments to prevent unions opposition, that mainly consisted of the provision of long-phasing in periods for most measures.

Figure 1. The effects of the different waves of reforms on pension expenditure projections in Italy, 1995 – 2045



Source: Ministero del Tesoro (1998).

As for external pressure, to use Pochet’s terminology⁴³, within this second sequence of reform, the European influence was therefore essentially *indirect* and produced different effects. On the one hand, convergence criteria posed a sound constraint on the public budget, thus drastically reducing the room of manoeuvre for Italian policy makers that were pushed to adopt strong cost containment interventions; on the other hand pension reforms were justified with the need to consolidate public finance in order to match European requirements, the latter functioning as a useful device in the attempt to avoid blame for unpopular measures. Pension reforms were undertaken because of the tight links between old-age expenditure and public finance, even in a Bismarckian system where these benefits are mainly financed through social contributions, and – as already illustrated – Bismarckian institutions also filtered external pressure by opening up opportunities of reform for national policy makers.

⁴³ See Pochet (2006).

But let me spend a few more words on the relationship between Europe and pension reform. It must be noted that budget constraints risked to activate a sort of “vicious circle”, triggering the reduction of the role of the public pillar in order to improve financial sustainability, while also severely limiting the resources available for the development of supplementary funded schemes – as the move towards a multi pillar architecture entails transition costs and it is usually supported through tax deductions. In Italy, however, this vicious circle was at least partly overcome because the existence of what I elsewhere called “institutional gate” – the Tfr – made possible to finance supplementary funds with a limited impact on public finances, though the coverage of supplementary pillars is still modest⁴⁴.

Moreover, due to the extremely critical situation of Italian public finances, the definition of the convergence criteria led to a different *timing* in the reform process: in fact the intensity of pressures induced Italian policy makers to adopt *major* reforms earlier than their counterparts in other continental, Bismarckian countries, such as France and Germany (see Palier and Hinrichs in this volume). This seems to be a common feature of the reforms of Southern European welfare states (see Guillen in this volume), apart from the Greek case.

The third sequence of reforms (1998-2005) shows two different scenarios. In the first, the start of a paradigmatic change of labor market policy – geared towards a shift away from job security, at least for the new entrants the labor market, and a move towards more flexible and “active” labor policies – was accompanied by some measures directed at compensating such transformations by introducing the goal of poverty alleviation through means-tested, non categorical, programs. Both these developments were mostly induced by the emergence of pro-reform “advocacy coalitions”, that channeled into the national policy making ideas and policy solutions elaborated in supra- and cross- national epistemic communities: then, a *voluntary* (Pochet 2006) (but crucial) *influence* of Europe through *learning*. In the second scenario *learning* from Europe continued, but it mainly led to a stronger institutionalization of *flexibility* in the labor market, while elements of *security* were not introduced, or even removed.

The differences between these two scenarios brings two further, final considerations. As for the process of reform, it leads us to the point that European influence is *mediated* not only by domestic *institutional (policy) settings* and their links with *interest groups* (e.g. the unions, see paragraphs on pension reform), but also by *political strategies and orientations* of national actors (Falkner *et al.* 2005, Pochet 2006). In the first scenario, policy receipts proposed at the European level matched the modernizing ambitions of the centre-left Prodi government, while more recently the latter were at least partly opposed by the political priorities of the centre-right cabinet, that aimed to preserve the traditional patterns of interplay between the welfare state and the family. The “politics matters” argument is also reinforced by the recognition that the adoption of 1990s pension reforms, and especially the major 1995 intervention, was facilitated by the temporary “neutralization” of political competition⁴⁵ due to the crisis of the party system and the “technocratic” character of the cabinet.

As to effects on welfare state change, such a mix of modernizing stances and conservatism in national politics, together with the ambivalent European influence – triggering reforms on the one hand, while limiting resources for this purpose on the other (at least in the short term) – seem to have restrained the definitive departure from a fully Bismarckian welfare state. More precisely, it seems that if the retrenching component (pension and labor market reforms) of the reform process has substantially been accomplished – despite usual claims in the literature about blaming-risks and institutional stickiness – on the other hand the introduction of those innovative instruments that should constitute the compensatory component has lagged behind. As a result the Italian welfare state currently adds to the traditional gaps of coverage (in terms of both risks and social groups) new gaps – due to the abandon of Bismarckian goals and principles both in pensions and the labor market, and their interplay - that mostly affect younger generations. It is certainly not a case that the

⁴⁴ See Ferrera and Jessoula (2007) for the full argument.

⁴⁵ On the role of political competition in pension reforms see Immergut *et al.* (2007).

European Commission has recently warned that “continuing the reform of the shock-absorbers system remains a high priority. A universal approach to extreme poverty should be established through a concerted effort. Sustained effort should also go towards increasing the provision and affordability of care services” (EU Commission 2006), while the destiny of old-age protection for the youngsters is strongly linked to the outcomes of the recent provision for the transfer of the Tfr to supplementary funds with the “silent-assent” formula.

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