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G20 Meeting of Labour and Employment Ministers
20–21 April 2010 Washington, DC

ITALY'S RESPONSE TO THE CRISIS

Economy hit hard by crisis

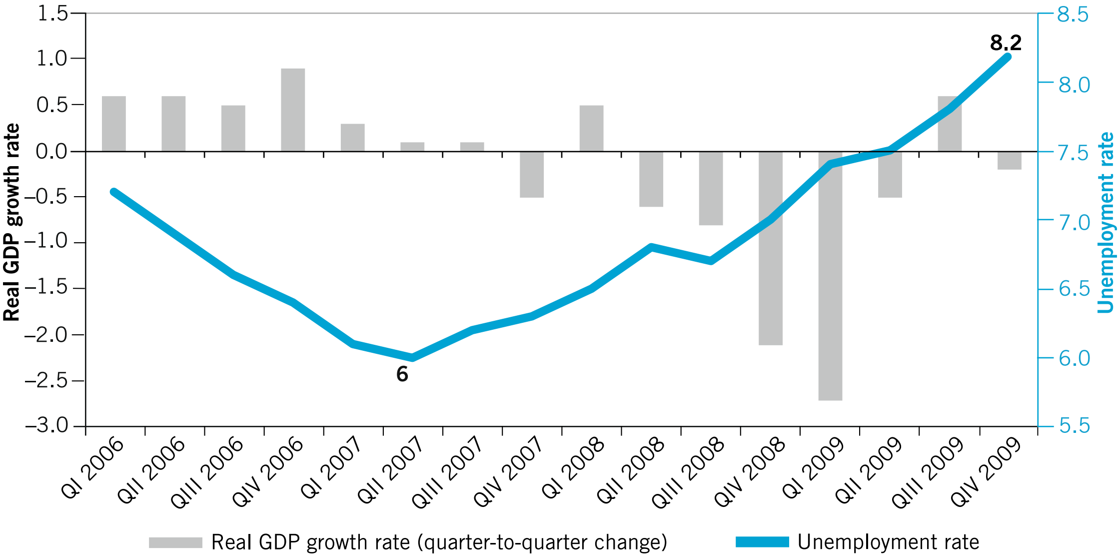
Despite the soundness of its banking system, Italy was hit hard by the financial crisis due to its exposure to the collapse in global trade and the credit crunch. The impact on the economy was accompanied by falling productivity and profitability, which had dampened growth in Italy for some years prior to the onset of the downturn. In 2007, industrial production had already begun to fall. In the following year, gross domestic product (GDP) shrank by 1 per cent. Italy's recession then deepened and the economy is estimated to have contracted by 5.1 per cent in 2009.

In spite of the deep recession, the impact of the crisis on the Italian labour market has been less severe. The unemployment rate rose from a recent low of 6 per cent in the second quarter of 2007 to 8.2 per cent in the fourth quarter of 2009. The rate increased more for youth, rising by 6.5 percentage points from the second quarter of 2007 to reach 26.3 per cent in the fourth quarter of 2009 (figures 1 and 2). However, there are little sings of rising structural unemployment so far.

During the crisis, Italian firms have adjusted both employment and hours worked. From the third quarter of 2008 to the same 2009 quarter, average actual weekly working hours fell from 38.5 to 38 hours per week (–1.3 per cent). In comparison, total employment fell by 2.2 per cent over the same period. Employment has decreased the most in the manufacturing sector, which accounted for 60.6 per cent of total net employment losses from the third quarter of 2008 to the same 2009 quarter. Other badly affected sectors include wholesale and retail trade, real estate, rental and business services, hotels and restaurants, and construction.

As in many other European Union (EU) countries, temporary employment in Italy as a share of total employees has fallen over the crisis period from

Figure 1. Unemployment rate and real GDP growth rate, 2006–2009 (percentage)



Source: EUROSTAT based on national sources. Data are seasonally adjusted.

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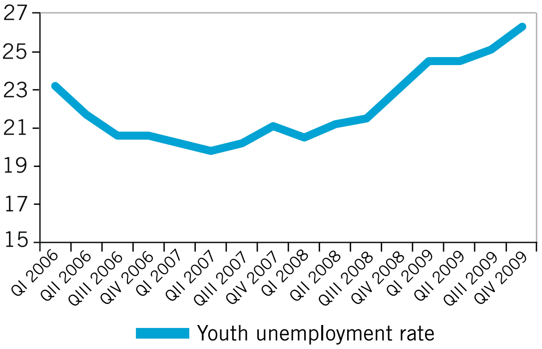
Figure 2. Youth unemployment rate, 2006–2009 (percentage)



Source: EUROSTAT based on national sources. Seasonally adjusted.

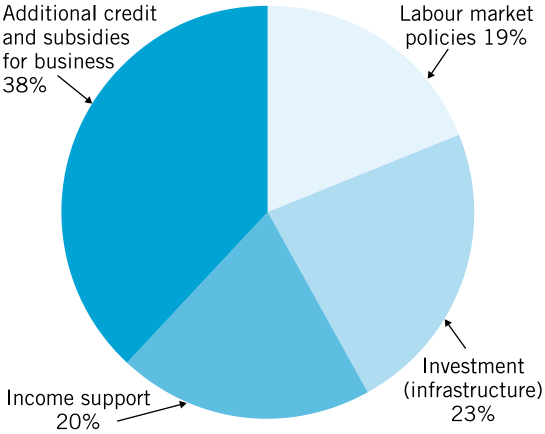
13.6 per cent in the third quarter of 2007 to 11.9 per cent in the first quarter of 2009 (before increasing again to 12.6 per cent in the third quarter of 2009).

Part-time employment in Italy increased slightly over the downturn from 13.8 per cent of total employment in the third quarter of 2007 to 14.2 per cent in the same 2009 quarter. More importantly, involuntary part-time employment has increased over recent years, reaching 28.9 per cent of total part-time employment in 2008.

Fiscal constraints limit stimulus

Partly because of its pre-existing level of public debt, Italy initially introduced a budget-neutral stimulus package, in which increased expenditure or tax cuts were offset by measures to raise revenues. Altogether, three stimulus packages were implemented since the start of the crisis – in November 2008, February 2009 and March 2009.

Figure 3. Composition of extra spending in the Italian stimulus packages



Source: Ministry of Economy and Finance (2009).

Size: The overall strategy of the authorities has been to implement budget-neutral packages by seeking to reallocate resources towards effective instruments to stimulate the economy. Based on figures provided by Ministry of Economy and Finance, the combined resources set aside for the stimulus packages in 2009 were nearly €14.1 billion (in gross terms). Overall, the Italian stimulus has been smaller than most OECD countries due to the limited fiscal space.

Composition: The largest component, accounting for 38 per cent of the 2009 outlay, of the combined Italian fiscal stimulus packages was support for business in the form of increased access to credit and subsidies (figure 3). Included in this set of measures were a car rebate subsidy ("cash for clunkers" scheme) and incentives to buy energy-saving appliances. The next largest item was investment, consisting mostly of infrastructure projects, including €1.3 billion for the construction of a bridge to Sicily.

According to government figures, 20 per cent of the resources were devoted to income support measures, including one-off cash transfers to low-income households. The remaining 19 per cent of the package was allocated to improving the functioning of the labour market, including training, job search assistance and subsidized reductions in working hours.

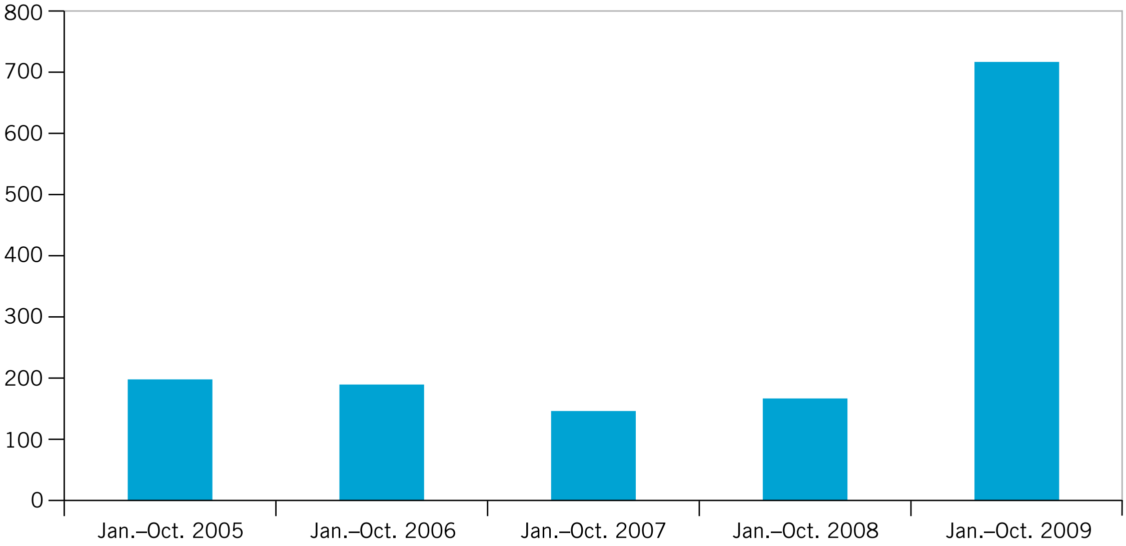
The macroeconomic effect of the Italian crisis package was estimated at 0.7 per cent of GDP in both 2009 and 2010. More specifically, measures such as the Wage Guarantee Fund (*Cassa Integrazione Guadagni*), described below, have to some extent helped the Italian government mitigate the impact of the crisis on the labour market.

Wage guarantees

First established in 1945, the *Cassa Integrazione Guadagni* (CIG), or Wage Guarantee Fund, is a scheme to protect workers' income in firms threatened with financial difficulties due to a temporary shock or restructuring. The ordinary Wage Guarantee Fund (CIGO) covers cases involving bankruptcy, while the extraordinary Wage Guarantee Fund (CIGS) is used in instances of restructuring. Under the scheme, workers facing either a layoff or a reduction in working hours receive 80 per cent of their normal wage. Payments are co-financed by firms and the state, and are paid in nomal circumstances for a maximum of three consecutive months in the case of CIGO and 12 months for CIGS.

Both the ordinary and extraordinary CIG are only available to firms above a particular size operating in certain sectors, although coverage has increased over recent decades, especially since the 1992 economic crisis. Dialogue with unions is a prior condition for firms seeking to access the fund. In the case of support during periods of restructuring (CIGS), firms also have to provide a plan detailing the restructuring process and how they will safeguard employment levels.[1]

Figure 4. Total hours compensated through the Wage Guarantee Fund (CIG) scheme, 2005–2009 (millions)



Source: Italian National Social Security Institute, available at www.inps.it

As part of its response to the crisis, the Italian government has extended both the ordinary and extraordinary CIG schemes.[2] Specifically, the government has broadened the coverage of the programme temporarily to small and medium-sized firms in the tertiary sector, including retail companies with more than 50 employees, tourist agencies and operators with more than 50 employees and security companies with more than 15 employees.

The impact of these measures is evident in data on the utilization of the CIG scheme provided by the Italian National Social Security Institute (INPS), which show that the number of working hours compensated by the fund increased by about 184 per cent in the first quarter of 2009 compared with the same period in 2008. Over two years, the increase was even larger, with the total number of hours compensated rising by about 390 per cent in January to October 2009 compared with the same 2007 period (figure 4). This surge in compensation under the CIG scheme has been driven by applications for blue-collar workers, mostly in the manufacturing sector.

In addition to the CIG scheme, jobs in Italy have been protected through the *Contratto di solidarietà*, or job-security agreement. This work-sharing instrument is also financed through the CIG and allows a subsidy of up to 50 per cent of any wage cut for a maximum period of 24 months, with subsidies varying by region.[3] In March 2009, the government increased the resources allocated to this mechanism from €5 million to €50 million.

Extending unemployment benefits

The unemployment benefit system in Italy has been characterized as fragmented and complex. In general, redundant workers can access benefits if they have paid at least two years of insurance prior to losing their job. In addition, laid-off workers in specific sectors can be placed on a *lista di mobilità*, or mobility list, and subsequently become eligible for a mobility allowance, providing their previous job lasted at least 12 months. Such workers join job registers to facilitate their re-employment and receive vocational training.

Recognizing the need to provide enhanced income protection during the current downturn, the government enacted a law in January 2009 broadening the coverage of unemployment benefits to workers who were previously ineligible, such as those on fixed-term and temporary contacts, along with apprentices. Under this law, project workers are now eligible for a lump-sum severance payment, which is equal to 30 per cent of the income received in the previous year, providing they meet certain conditions.

Based on data from the Italian National Social Security Institute, there were 750,000 applications for unemployment benefits and mobility allowance in the first quarter of 2009, an increase of 44.2 per cent from the same quarter in 2008.

Outlook and challenges

Along with the majority of EU countries, the recession officially ended in Italy in the third quarter of 2009, when GDP grew by 0.6 per cent (over the previous quarter). However, the recovery in Italy so far has appeared tentative, with output again contracting in the fourth quarter of 2009, compared to the previous quarter, by 0.2 per cent. Overall, the economy is projected to grow by 1.1 per cent in 2010 *(Italy's Stability Programme 2009 Update*, Ministry of Economy and Finance, 2010).

References:

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The level of public debt, which is projected to increase to nearly 117 per cent of GDP by the end of 2010, will continue to be a major challenge for the government, which in recent years has been committed to tackling the high deficit and public debt.

Regarding the labour market, government projections indicate that employment levels are likely to remain relatively stable in 2010, followed by a slow improvement in ensuing years. The Ministry of Economy and Finance forecasts that the unemployment rate will be 8.4 per cent in 2010 and 8.3 per cent in 2011.

Long-term challenges remain, such as the low level of labour force participation and segmentation of the labour market. In addition, long-term unemployment is a major problem in Italy. As of the third quarter of 2009, 45.2 per cent of the unemployed had been without a job for more than 12 months.

The main challenge for the Italian government in the post-crisis period is to raise economic growth through improvements in productivity and participation, along with tackling debt and long-term structural problems in its labour market.

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[1] See http://www.eurofound.europa.eu/emire/ITALY/WAGESGUARANTEEFUNDCIG-IT.htm

[2] See the approval of legislative decree 185/2008, which was subsequently approved as Law 2/2009.

[3] See http://www.eurofound.europa.eu/emire/ITALY/JOBSECURITYAGREEMENTJOBCREATIONAGREEMENT-IT.htm