MUTUAL LEARNING PROGRAMME:

PEER COUNTRY COMMENTS PAPER - ITALY

Partial activity and the Wage Guarantee Fund: Too close to choose?

Peer Review on "Employment measures to tackle the economic downturn: Short time working arrangements / partial activity schemes"

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1 LABOUR MARKET SITUATION IN THE PEER COUNTRY

This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on Italy's comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.

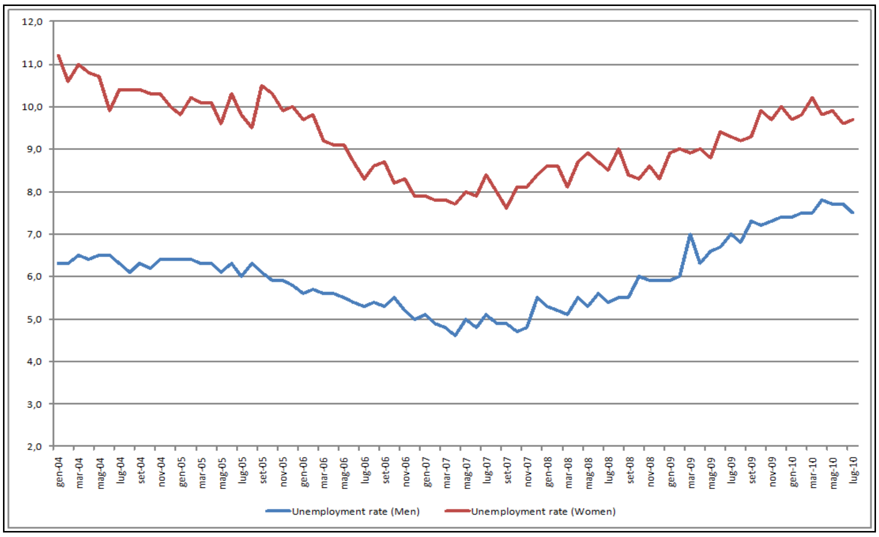
The impacts of the economic downturn have been significant on both Italian GDP growth and labour market indicators. After the peak of the economic cycle at the end of 2006, growth decelerated throughout 2007 and a series of negative variations started in the second quarter of 2008, with the deepest fall in the first quarter of 2009 (-2.9% on a quarterly basis and -6.5% on an annual basis). Thereafter, the situation has slowly improved and in 2010 growth has resumed, but remains relatively weak (1.3% on an annual basis in the second quarter) and prospects are uncertain.

Labour market performance started to weaken in 2008. The unemployment rate had remained around 6% during most of 2007, a record-low level for many years in Italy, but rose to 6.7% in December. In 2008, it remained around that level and did not exceed 7.0%. In 2009, the number of people in search of a job increased rapidly and the unemployment rate reached around 8.5% and has, thus far, stabilised around this peak.

Although the impact has been felt across all labour market segments, the most affected parts have been male workers and young workers. The male unemployment rate was around 5% in 2007 and rose to 7.8% in early 2010. For women, in the same period, it moved from around 8% to almost 10% in 2009 and 2010. Youth unemployment rose from around 20% in 2007 to almost 29% in April 2010.

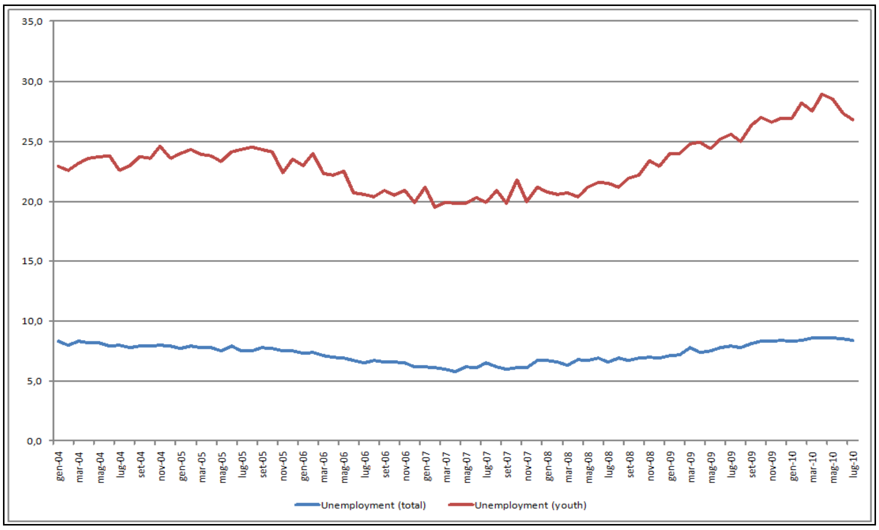
These differential effects mostly depend on the concentration of the impact of the economic downturn in manufacturing activities (more than 400,000 jobs lost between the second quarter of 2008 and the first quarter of 2010) and temporary employment (almost 400,000 temporary positions lost during the crisis), as well as on the weaker position of young people on the labour market. Youth employment (15-34 years) decreased by more than 900,000 jobs during the crisis, which represents almost the entire job contraction in Italy (in addition there were some 30,000 jobs less in the 35-54 age bracket and actually an increase by around 140,000 jobs for those aged over 54).

Figure 1. Monthly unemployment rate, Men and women 2004-2010



Source: Istat

Figure 2. Monthly unemployment rate, Total and youth (2004-2010)



Source: Istat

2 ASSESSMENT OF THE POLICY MEASURE

2.1 Short-time working measures in Italy

Working time reduction schemes represent a very interesting tool to address short-time variations in demand or to face unexpected adverse economic or even environmental conditions. In this sense, the 'partial activity' policy measure appears an important component of a set of policies aimed, on the one side, to cushion the social and economic effects of the recent economic downturn on the workers and the firms involved and, on the other, to accompany restructuring, when needed.

It has to be seen whether and to what extent a single policy can combine these two potentially contradictory objectives, since the former can be considered as 'conservative' of the existing situations concerning both jobs and firms, whereas the latter seems to be more 'innovative', as it may imply a reorganisation of occupations and economic activities. At first sight, the usual and in many respects positive preservation of the employment relationship seems to make working time reduction schemes more suitable to address the first challenge and relatively weaker in relation to the second goal. However, it is likely that a well-balanced policy design and coordination with more 'innovation-oriented' policies can provide a proper framework to reduce the negative social and economic impacts in the short-term and prepare restructuring in the medium-to-long-term. The attempts to better integrate the income-support aspects of working time reduction schemes with training and re-qualification initiatives, which have characterised the recent experiences in both France and Italy, are certainly a way to try to address such a dual challenge.

For the assessment of 'partial activity' and comparison with similar policies available in Italy, it is important to identify a number of relevant criteria or dimensions. These should probably include:

- a possible indication of simplicity and timeliness of the activation process,
- the capacity to provide an effective protection of incomes in terms of replacement rates,
- the capacity to guarantee an effective protection of workers in terms of the types of contract covered,

- the ability to ensure an effective protection of the production system in terms of sector and size coverage,
- the ability to support effective restructuring – when needed – in terms of inclusion of measures aimed to strengthen and enhance worker skills and company strategies,
- the economic and financial sustainability of the scheme in the long-term, taking into consideration the source of funding,
- the capacity to support social cohesion by involving trade union or worker representatives in the activation and implementation phases.

These points essentially refer to qualitative and institutional elements. Of course, it would also be relevant to investigate quantitative aspects and notably the actual utilisation of the scheme and the number of jobs thereby 'preserved'.

In Italy, the policy measures which are closest to 'partial activity' are those included under the Wage Guarantee Fund (Cassa integrazione guadagni, WGF hereafter). The WGF was introduced by collective agreements during WWII with a view to tackle the negative effects of the war. In 1945, legislative regulation of the WGF was introduced and it became a fundamental pillar of the Italian social security system. The WGF consists of two distinct instruments:

- the ordinary WGF (cassa integrazione guadagni ordinaria);
- the special – or 'extra-ordinary' – WGF (cassa integrazione guadagni straordinaria).

The basic difference between the two types of allowance has to do with the situations which underlie their activation. The 'ordinary' WGF is intended to support firms to face seasonal or unexpected reductions in demand or other adverse conditions, including bad weather, which make the continuation of the usual production activity impossible. The 'special' WGF is specifically designed to assist and accompany firms in reorganisation and restructuring processes, including insolvency and bankruptcy. As a consequence, they have different activation procedures and they have a different maximum duration.

As far as the activation procedure is concerned, although they both envisage the involvement of the social partners, the 'ordinary' WGF requires little more than an administrative procedure, while the 'special' WGF usually entails deeper and more detailed negotiations with trade unions. The 'ordinary' WGF is authorised at local level, whereas the 'special' WGF is granted by the Ministry of Labour. The scrutiny of demands is far more significant in the case of the 'special' WGF, also because the application must include a reorganisation plan, which is of course not required in case of the 'ordinary' WGF.

The replacement rate of both allowances is set at 80% of the basic pay lost due to the working time reduction. In general it amounts to around 60% of the previous gross pay. This difference is linked to two features of the scheme: first, the basic pay includes only mandatory contractual wage elements and it excludes all supplementary components, such as shift and overtime pay; second, the monthly allowance cannot exceed an upper limit which is annually reviewed to take into consideration the cost of living. Such a limit depends on the worker's basic pay and, for 2010, it was set at EUR 892.86 for basic pay up to 1,931.86 and 1,073.25 if the basic pay is above this threshold.

The maximum duration of the 'ordinary' WGF is 13 consecutive weeks, which can be prolonged quarterly up to 52 weeks in exceptional circumstances. After 52 consecutive weeks of 'ordinary' WGF, a new request can only be submitted after 52 weeks of actual activity. In any case, no more than 52 weeks of 'ordinary' WGF can be used by a single firm in each running biennium (that is in a period made of 103 consecutive weeks).

The duration of the 'special' WGF depends on the specific motivations for the request:

- company crisis: in this case, WGF can last up to 12 months and can be prolonged to 24 months;
- company restructuring and reorganisation: it can reach 24 months and the Ministry of Labour can grant two further 12-month renewals for particularly complex situations; and
- insolvency and bankruptcy: it can last up to 12 months and can be prolonged for a maximum of 6 additional months.

Moreover, the utilisation of the WGF cannot exceed a total of 36 months in each reference five-year period. The current reference period started on 12 August 2010 and will end on 11 August 2015. Some exceptions are envisaged by specific legislation.

The WGF essentially covers firms in the manufacturing and building sectors, with a number of additions which were implemented since the establishment of the basic scheme in 1945. It involves employees, including fixed-term workers, with the exclusion of workers on apprenticeships, managers, temporary agency workers, posted workers and so-called ‘semi-dependent’ workers (lavoratori parasubordinati), who are effectively self-employed. For the ‘special’ WGF a seniority requirement (90 days) is also present.

The ‘ordinary’ WGF is funded by a contribution paid over the wage bill by the firms which can utilise it. The contribution rate depends on the firm size (1.9% of the gross wage bill up to 50 employees and 2.2% above this limit). Additional contributions must be paid in case of utilisation and they vary according to firm size (4% of the allowances paid for companies up to 50 workers and 8% for larger firms). The ‘special’ WGF is predominantly supported by public resources within the social security system (GIAS, Gestione degli interventi assistenziali e di sostegno alle gestioni previdenziali). Furthermore, a contribution of 0.9% is paid on the wage bill (0.6% by firms and 0.3% by employees). Firms pay an additional contribution when they use the ‘special’ WGF (3% of the allowances paid for companies employing up to 50 workers and 4.5% for those with more than 50 workers).

It must be mentioned that firms covered by the ‘special’ WGF could, alternatively, conclude a so-called ‘solidarity agreement’ (contratti di solidarietà difensivi) with the trade unions, with a view to allocating the working time reduction to as many workers as possible. Indeed, the average working time reduction cannot exceed 60% of the usual working time of the workers involved. The replacement rate is 60% of the wage lost as a result of the reduction in working time, without an upper limit. For the years 2009 and 2010, the replacement rate has been increased to 80%. The utilising firms do not pay the additional contribution envisaged for the ‘special’ WGF. The maximum duration of a solidarity agreement is 24 months, which can be prolonged by another 24 months. The weeks covered by ‘solidarity agreements’ must be included in the calculation of the 36-month ceiling of WGF in the fixed five-year period.

In 2009, in order to better respond to the consequences of the economic downturn, an ‘exceptional’ WGF (cassa integrazione guadagni in deroga) was introduced to benefit the workers employed by firms which are not covered by the regular WGF. It essentially applies to SMEs in the crafts and service sectors (but it could also be used after the ‘ordinary’ and the ‘special’ WGF). It covers a wider range of employment relationships, including apprenticeships and temporary agency workers, but a seniority of at least 90 days is required. The implementation of this scheme is defined at regional level through specific collective agreements. Funding is guarantee by public resources, including European structural funds. Income support is directly linked to the activation of parallel training and requalification initiatives. The determination of the allowance follows the general rules of the WGF (80% of the basic pay with upper limits).

The number of applications for the utilisation of the WGF fund has increased considerably in the economic crisis; as a result, the WGF has become the main tool to address the social and economic consequences of the global recession. Total authorised WGF hours (including the 'ordinary', 'special' and 'exceptional' allowances) increased in 2008 by 24% over 2007 levels and by 302% in 2009. In 2010, in the January-June period, the increase was still of some 70%. The regional distribution of the authorised hours points to a concentration in Northern Italy, especially Lombardy, Piedmont, Veneto and Emilia Romagna, that is in the traditional locations of both large- and small-size manufacturing firms

In recent months, there has been an apparent shift from the 'ordinary' WGF, which was extensively used at the beginning of the economic recession, to the 'special' and 'exceptional' allowances. This seems to highlight a certain integration and complementarity between the various segments of the WGF.

If we turn to the actual use of the WGF, it must be noted that the utilisation rates stand between 60% and 70% of the authorised volume. If we consider the total hours of WGF authorised from 2008, almost one billion hours have been effectively used (981,558,225) until April 2010, which corresponds to some 245,000 full-time equivalents (at 1,720 hours per year for 28 months) or around one percentage point of unemployment.

2.2 The contrast between the Italian and French measures

As illustrated by the Host Country paper and the brief – and necessarily incomplete – description above, there are a number of similarities and some relevant differences between 'partial activity' and the WGF, and more specifically the 'ordinary' WGF. Among the former are certainly the nature of the intervention (economic support in case of working time reductions to address temporary difficulties), including the preservation of the employment relationship, the types of reasons which can motivate recourse to the policy measure, the traditional focus on manufacturing, the scant connection with labour market activation, and the recent attempts to enhance the effectiveness of the policy measure by an extension of its coverage in terms of sectors and employment relationships and a stronger link to training and requalification. Also the levels of protection of incomes, types of worker and the economic system appear to be quite similar. The promotion of social cohesion is an important ingredient of both schemes through the role played by the social partners.

As for the differences, the WGF, and especially its 'ordinary' segment, seems easier to be activated and less complex to be managed. The funding systems appear to ensure a rather sound viability and sustainability of the scheme. The WGF, with the presence of the 'special' segment, should be more capable of supporting restructuring. However, it must be underlined that practical experience highlights the difficulties in effectively exploiting this possibility. Often the focus remains on income-support aspects, while the lack of strong links to training initiatives and other innovation-oriented policies limit the capacity to improve worker employability and contribute to employment creation through a revitalisation of company strategies.

3 ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY

The numerous similarities between the two policy measures outlined above coupled with very different levels of utilisation make the assessment of the success factors and of the potential transferability problematic. On one side it would be rather safe to affirm that 'partial activity' could be easily transferred to Italy. But then, would it be more, or at least equally, effective? The relative utilisation level would suggest a cautious approach.

In order to try to provide an answer it may be useful to follow two different paths. First, a brief presentation of the main features of the Italian debate on income support measures may help to identify whether 'partial activity' can represent a useful reference to amend the

Italian system. Second, it will be possible to identify the components of the 'partial activity' scheme which could enhance the existing WGF.

Despite the great appreciation of both firms and workers and the recent praise for substantially reducing the economic and social impact of recession, the WGF has long been considered an issue in the Italian social security system and the reform of the income-support schemes and labour market policies has been on the agenda of policymakers for several years. The main criticism refers to the 'exclusive' nature of the WGF – that is the fact that it covers only certain employers and workers – which would contribute to producing an insider-outsider configuration of the Italian labour market. Moreover, the combination with the traditional weakness of the Italian general system of unemployment benefits would reinforce the tendency towards a two-tier labour market since the WGF also protects the job and not only the income. Proposals for reform often suggest the introduction of strong universal income-support schemes complemented by well-developed active labour market policies. In this perspective, the WGF should be reformed and its key position in the Italian income-support system should be downgraded. It is clear that the 'partial activity' scheme does not provide suggestions on how to pursue such reform objectives. On the contrary, it points to the importance of this kind of policy measure and suggests careful consideration of any reform initiative.

If we turn to the elements of 'partial activity', the integration of public and contractual schemes is very interesting and it is also suggested as a possible future development in the Italian debate. In fact, it would enable pursuit of a three-fold objective: provide more scope for the role and the involvement of the social partners; contribute to extending the coverage of the WGF; and possibly reduce the utilisation of public funds (essentially for the 'special' and 'exceptional' WGF) which could be used to (partly) finance the reform of the income-support system. In this perspective, the creation of a minimum ('lean') mandatory public scheme could be supplemented by a series of contractual schemes, which may be better suited to specific sectoral or territorial needs. The complex articulation of the French case would not represent a direct model – and in fact the Host Country Paper at some points seems to regard such complexity as a possible source of difficulty for the policy measure – but rather provides a more general inspiration.

It would also be important to better link the WGF with active labour market policies; namely training and requalification initiatives. Here the French experience and tradition in designing and implementing training schemes could be useful, but it should be further investigated how this link operates in the specific case of 'partial activity'.

4 QUESTIONS

There are a number of quite specific questions regarding:

- the link between 'partial activity' and social and pension contributions. Are they covered by public funds?
- the actual role of training during 'partial activity' and the specific content of "proactive approaches to skills needs" (Host Country Paper, p. 17)
- the connections with other active labour market policies, for instance providing support for self-employment or company start-ups.

More generally, it would be interesting to investigate the prospects of the 'partial activity scheme in France:

- 'long-lasting partial activity' represents a new model? Is it likely that it will be confirmed in the future? A reform of 'partial activity' is on the agenda?

ANNEX 1: SUMMARY TABLE

Labour market situation in the Peer Country
• Significant increase in unemployment, especially involving men and youth. • Concentration of job losses in manufacturing and temporary employment.
Assessment of the policy measure
• Working time reduction schemes provide an important tool to address short-term variations in demand and unexpected and temporary difficult economic situations. • An important challenge is how these schemes can accompany occupational and economic restructuring. • The involvement of the social partners is important to support social cohesion in addressing the economic and social impact of economic downturns. • The Italian Wage Guarantee Fund is in many respects similar to 'partial activity', but it shows a far greater utilisation level.
Assessment of success factors and transferability
• The reduction of the complexity of the scheme would be crucial for transferability. • The integration between public and contractual measures provides relevant insights for the adjustment of the Italian schemes. • A better combination of income-support and activation measures is a common challenge for the future.
Questions
• 'Partial activity' and social and pension contributions • 'Partial activity' and training and other active labour market policies in practice • 'Long-lasting partial activity' represents a new model? It is likely that it will be confirmed in the future? • A reform of 'partial activity' is on the agenda?