



## **European Employment Observatory**

# **EEO Review: Adapting unemployment benefit systems to the economic cycle, 2011**

**Italy**

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## 1. Introduction: Unemployment benefit systems and labour market incentives

The Italian unemployment benefits (UB) system is of a complex and fragmented nature, lacking universal coverage. This mainly stems from the absence of a unitary legislation, the regulatory framework being characterized by a gradual stratification of pieces of legislation dating back to the post-war years.

The system is characterized by three typologies of benefits:

- i) partial unemployment benefits granted in the case of temporary reduction of working hours or suspension of economic activity (*Cassa Integrazione Guadagni - CIG* schemes);
- ii) full unemployment benefits granted to laid-off workers, in the case of individual and collective dismissals (unemployment and ‘mobility’ allowances, respectively);
- iii) special regimes covering sectors characterized by a high employment seasonality (agriculture and construction).

The system is funded on an insurance basis, i.e., through the payment of social contributions by employees and employers. There also exists however, exceptional unemployment benefits (*ammortizzatori sociali in deroga*) which are financed through general taxation. Recourse to these schemes, directed to employees who in principle are not eligible, has dramatically increased during the crisis.

The Italian system does not include a universal means-tested benefit, with the exception of individuals over age 65. Moreover, self-employed and ‘project’ workers are not covered by ordinary schemes, which are addressed to employees only.

Coverage and generosity increase with workers’ seniority and firm size. The most generous schemes, i.e., the ‘mobility’ allowance and the *CIG straordinaria* (a CIG scheme aimed at avoiding redundancies in case of firm restructuring) are available, in principle, only to workers employed in manufacturing firms with more than 15 employees<sup>1</sup>.

The ordinary unemployment allowance is granted for a maximum of eight months (twelve for claimants over 50 years old) with a replacement rate of 60 % during the first six months<sup>2</sup>. However, stringent application criteria reduce the eligibility of younger and fixed-term employees<sup>3</sup>. It is likely that the coexistence of some generous schemes (which, together with scarce surveillance, tend to create benefit traps for recipients) with other relatively ungenerous (and non-universal) ordinary benefits, is enhancing labour market segmentation. Although the

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<sup>1</sup> Higher thresholds are set in other industries such as trade and publishing. The replacement rate of the extraordinary CIG scheme and the mobility allowance is 80 % (up to yearly defined thresholds). Their maximum duration can vary between 12 and 24 months in the case of extraordinary CIG (depending on the nature of the event causing the suspension of economic activity) and between 12 and 48 months in the case of the mobility allowance (depending on the workers’ age and geographical location – in Southern Italy the maximum duration is extended by 12 months).

<sup>2</sup> After the sixth month, the replacement rate decreases to 50 % until the eighth month and to 40 % afterwards. A fixed threshold for the benefit is set at EUR 1 073.25 for 2011. The replacement rate is computed on gross wages, and the allowance is subject to taxation.

<sup>3</sup> In order to apply for the ordinary unemployment allowance two criteria must be met: i) having been insured for at least two years (*insurance requirement*); ii) having paid at least 52 weeks of social contributions over the two previous years (*contribution requirement*). Less stringent criteria (78 days worked during the previous year, plus the same insurance requirement) are set for the ‘reduced’ unemployment allowance.

system has been temporarily amended during the crisis, this represents an urgent issue to be addressed by future reforms.

## **2. Unemployment benefit reforms during the crisis**

In order to cushion the social effects of the crisis and to increase the effectiveness and the coverage of existing instruments, several emergency measures have been introduced immediately after the downturn became evident. The adopted measures mainly aimed at increasing the number of potential beneficiaries and at extending the scope of short-time working arrangements and exceptional unemployment benefits, thus adapting the existing system rather than envisaging a structural reform.

The main legislative act in this field was the Law 2/2009 (converting into law the legislative decree 185/2008), which introduced the following innovations:

- i) the concession of the ordinary unemployment allowance to ‘suspended’ (i.e. temporarily laid-off) employees in firms that cannot apply for the CIG schemes (because operating in sectors different from manufacturing);
- ii) the concession of the reduced unemployment allowance to employees who are temporarily laid off, but who only meet the requirements for the reduced benefit (that is, 78 days worked during the previous year, plus the same insurance requirement);
- iii) the extension, for the 2009-2011 period, of the ordinary unemployment allowance to apprentices – either ‘suspended’ or laid off – with at least three months of seniority;
- iv) the introduction, for the 2009-2011 period, of a special lump-sum indemnity for project workers who work for a single employer (regime di monocommittenza) and whose previous year income falls within specific thresholds;
- v) the possibility to apply exceptional unemployment benefits to all typologies of employees (including fixed-term employees, temporary agency workers and apprentices).

The last innovation has been reinforced through a specific agreement between the Central Government and the regions, signed on 12 February 2009. The agreement defined funding modalities for these schemes, allocating a total of EUR 8 billion over the 2009-2010 period, of which EUR 5.35 billion is from the Central Government budget and EUR 2.65 billion is from the Regional Government budgets. Regions are required to locally define (through agreements with trade unions and employers’ associations) the field of application, the categories of potential beneficiaries and the duration of exceptional unemployment benefits (including ordinary and extraordinary CIG, mobility allowance and unemployment allowance), while the Central Government approves the proposals and the expected expenditures.

A relevant innovation introduced by this intervention is the utilisation of ESF resources provided by regions to provide integrated welfare-to-work policies. National funds cover part of the income support (70 %) and the payment of social contributions during the unemployment spell (*contributi figurativi* - imputed social contributions), while regional funds cover expenditures for:

- i) active labour market policies;

- ii) training interventions; and
- iii) the remaining share of the income support (30 %), in the form of an indemnity strictly linked to participation in the active policy measures.

Nonetheless, even if the integration between passive and active labour market policies achieved through this measure is noteworthy in a *flexicurity* perspective, an adequate evaluation is needed in order to assess its effects on beneficiaries' employability, to verify whether training policies have been effectively targeted on the skills needs of redundant workers and to monitor the actual degree of participation and skills upgrading.

A recent monitoring report jointly delivered by ISFOL and Italia Lavoro<sup>4</sup> (two technical agencies of the Ministry of Labour and Social Policies) provided information on the diffusion of these schemes (up to September 2010) by region, industry, typology of benefit and beneficiaries' characteristics, and on the different strategies adopted at regional level to define the governance<sup>5</sup> and the provision of training activities to beneficiaries (including planning of personalised measures, training courses catalogues, training vouchers, firm-level training plans, etc.). However, the effectiveness and efficiency of the system, as well as the impact on beneficiaries' employability, have not been evaluated so far.

The Budget Law for 2010 introduced some updates to the system by:

- i) refinancing exceptional unemployment benefits (although introducing cuts in the case of prorogations);
- ii) introducing a revision of income thresholds for the lump-sum allowance addressed to project workers;<sup>6</sup> and
- iii) introducing less stringent requisites for the ordinary unemployment allowance (periods worked under a project contract, up to 13 weeks during the previous two years, can now be counted in the computation of requisites).

In view of an enduring economic crisis, the option of providing exceptional unemployment benefits has also been extended for 2011, for a period no longer than 12 months and on the basis of regional agreements<sup>7</sup>. A new agreement between Central Government and regions, signed in April 2011, confirmed the provisions of the February 2009 agreement for the 2011-2012 period, although it increased the regional contribution to the income support measures from 30 % to 40 %

Because it has been almost three years since the beginning of the crisis, a first assessment of these measures can be attempted. According to CNEL (2009), the share of unemployed persons benefiting from some kind of unemployment benefits increased from 21.7 % in 2008 to 29 % in 2009. Excluding non-eligible subjects (first job-seekers, self-employed workers), the coverage rate increased from 63 % in 2008 to 72 % in 2009. Although the increase has been substantial, the UB system remains far from the universal coverage that would represent a significant step towards a proper *flexicurity* regime.

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<sup>4</sup> ISFOL-Italia Lavoro (2010).

<sup>5</sup> E.g., the role of public and private employment services in the provision of ALMPs.

<sup>6</sup> The allowance now amounts to 30 % of the income gained in the previous year, up to EUR 4 000. The allowance can be required by project workers who work for a single employer (*regime di monocommittenza*) and whose previous annual income ranges between EUR 5 000 and 20 000.

<sup>7</sup> Law 220/2010 allocated an extra EUR 1 billion for exceptional unemployment benefits for 2011.

Nonetheless, the anti-crisis interventions – in particular, the extra-ordinary extension of short-time working arrangements (*CIG*) – proved quite successful in limiting the increase in the unemployment rate. Even if the drop in GDP has been massive in the 2008-2009 period (almost 7 percentage points cumulatively lost in the two years), the unemployment rate has only moderately increased, rising from 6.1 % in 2007 to 8.4 % in 2010<sup>8</sup>. This result can be at least partly explained by the recourse to labour hoarding, which has been fostered by the extended availability of the *CIG*. From national accounts data, it emerges that a large part of the adjustment has occurred by reducing worked hours rather than the number of workers. In particular, in 2009 the number of employees decreased by 1.1 %, while equivalent labour units dropped by 2.8 % whereas no relevant differences can be observed in 2010. ISTAT also shows that hours worked per capita in industry and services decreased by 5.3 % in 2009 (-8.4 % in manufacturing).

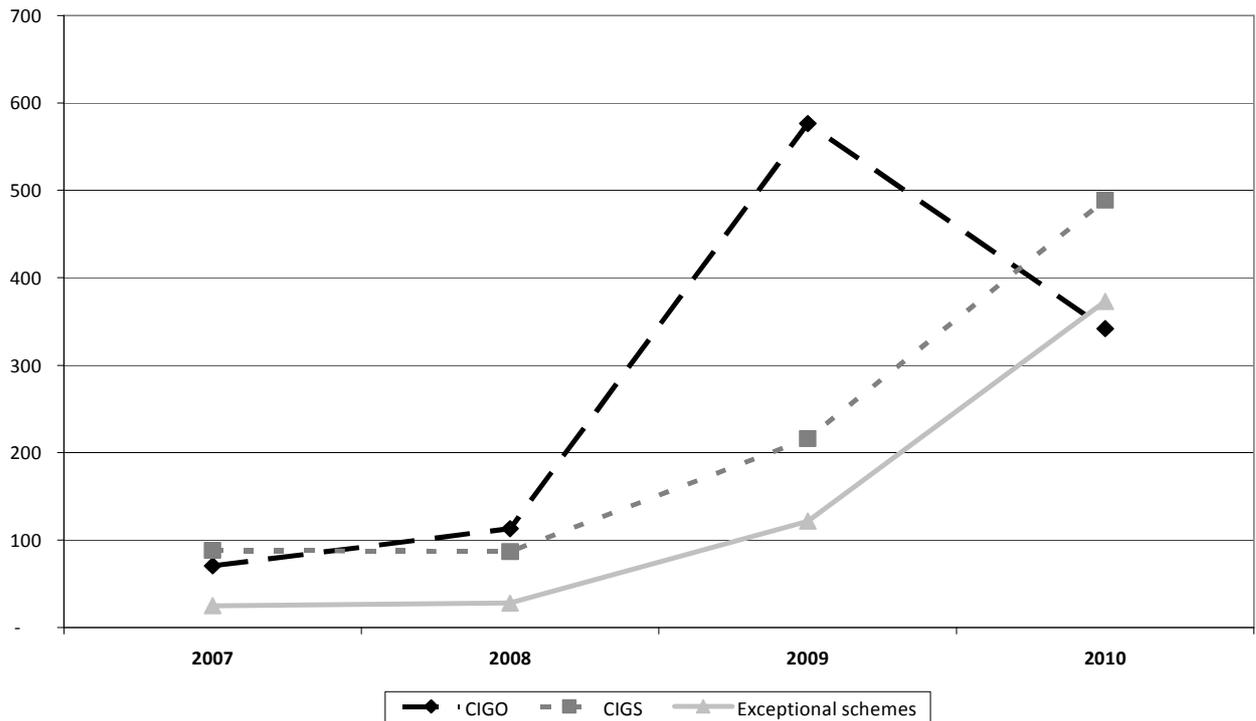
The available data provided by the national social security institute (INPS) show a massive increase in the utilisation of *CIG* schemes in recent years (Figure 1). The total number of authorized *CIG* hours (which, when used, correspond to an equivalent reduction of total worked hours) kept rising, from 183.7 million in 2007 to 1.2 billion in 2010 (the largest increase of +301.5 %, being recorded in 2009). The share of exceptional *CIG* schemes on total hours amounted to 31 % in 2010; almost one third of *CIG* requests came from enterprises that would not have been able to access this instrument in the absence of the extraordinary anti-crisis intervention<sup>9</sup>.

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<sup>8</sup> In spite of the modest increase in the unemployment rate, from 2008 to 2010, the number of inactive persons increased more than the number of unemployed persons (465 800 inactive persons against 412 300 unemployed). This evidence shows that discouragement effects are at work, mostly in southern regions. Taking into account the number of discouraged people, the Bank of Italy (2011) estimates that the unemployment rate in 2010 would be higher than the official rate by an amount ranging between 0.8 and 1.5 percentage points.

<sup>9</sup> Most of these firms operate in the craft and trade sectors.

**Figure 1.** Cassa Integrazione Guadagni authorized hours (millions), different schemes



Source: INPS

Taking into account the actual degree of *CIG* utilisation (which amounted to 76.8 % of the total authorized hours in 2008, 65.4 % in 2009 and 50.4 % in 2010) and assuming that a full-time employee works, on average, for 1 650 hours per year, it is possible to estimate that 362 000 full-time equivalent workers were covered by *CIG* in 2009 and 368 000 in 2010<sup>10</sup>; had these people been unemployed, the unemployment rate in 2010 would have been 9.7 % instead of 8.4 %.

As of 2011, no relevant changes or a real phasing out of the extra-ordinary anti-crisis measures has been planned, apart from some limits to prorogations and the increase of the regional contribution from 30 % to 40 %, documented above.

### 3. Reform priorities within the Europe 2020 framework

As discussed in the previous section, the business crisis raised four relevant issues concerning the UB system:

- i) in contrast with the spirit of flexicurity, the high level of fragmentation, the stringent requisites to access the ordinary unemployment allowance and the absence of a means-tested benefit, leave discontinuous and self-employed workers (who bear the highest risk of unemployment) substantially unprotected;
- ii) measures taken in the immediate aftermath of the crisis helped retain people in employment and helped avoid a sudden increase in the unemployment rate, but did not specifically address the situation of fixed-term and younger workers, who heavily

<sup>10</sup> According to INPS, the total number of beneficiaries of the various *CIG* schemes, irrespective of the number of hours, amounted to 439 700 in 2009.

contributed to the increase in unemployment (in 2010 only 7.9 % of the workers under CIG schemes were under 30 years old);

- iii) these measures fostered an integration between active and passive labour market policies (lacking in the Italian system) and stimulated innovations in the governance of labour market policies. However, the effectiveness of this process has not been evaluated so far;
- iv) the exceptional unemployment benefits increased the discretionary power of regional governments, thus introducing – at least in principle – a further element of fragmentation in the system.

The extension of the *CIG* schemes (which are extra-ordinary measures rather than structural, and are renewed on an annual basis) might introduce perverse incentives for employers, as it:

- a) might lead to expectations of further renewals in the years to come, thus postponing internal firm restructuring and reorganization;
- b) in the absence of proper surveillance, might lead to free riding by inducing employers to generalize the use of *CIG* and use it as an unintended source of external flexibility (i.e., as an extreme *job on call* scheme).

As for the incentives provided by the UB system, one of the innovations introduced by Law 2/2009 was the obligation, for the beneficiaries of unemployment allowances or *CIG*, to sign a ‘declaration of immediate availability’ to work, or to undertake a re-qualification pattern; once the declaration is signed, declining a ‘congruous’ job offer causes the beneficiary to lose the right to unemployment benefit<sup>11</sup>. However, the effectiveness of this measure aimed at increasing job search effort cannot be assessed, as data are not yet available. It may thus remain a formal fulfilment, unless a proper surveillance is put into place and a cultural change among PES operators and labour market actors (including social partners) occurs. In this perspective, the April 2011 agreement between Central Government and regions invoked a tightening of surveillance measures in order to avoid opportunistic behaviour by UB recipients.

In our opinion, these are the focal points that should be addressed by a structural reform of the unemployment benefits system inspired by the principles of universality, inclusiveness, integration with activation policies and conditionality of the benefits. Yet, in spite of the multiple delegations assigned to the Government by the Parliament to define its content (in 1997, in 2003, in 2007 and again in 2010), the path toward a systemic reform appears difficult, in view of the severe budget constraints faced by the Italian Government and the existence of contrasting interests among different actors (reflecting the duality of the Italian labour market).

This is why the Government has not presented any formal proposal to reform the system in the short to medium term. The April 2011 ‘National reform’ programme affirms that the Government will evaluate the results of the current anti-crisis experimentations so as to set the bases for a structural reform, but offers few details on its possible content. In particular, the

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<sup>11</sup> ‘Congruity’ is defined in terms of distance from the workplace, qualification and salary. The counterpart of the ‘declaration of availability’ is the ‘service pact’ signed between the unemployed and the PES (or accredited labour agency), which defines obligations and responsibilities of both parts (specific rules concerning this document are defined at the regional level).

NRP asks for a ‘more efficient’ utilisation of the unemployment benefits, currently available (due to the extraordinary anti-crisis measures) to a large number of workers. According to this statement, it seems that universality of the unemployment benefits is not among the Government’s priorities.

Furthermore, the NRP indicates a stronger link between passive and active labour market measures and the involvement of bilateral bodies (i.e., associations representing both employers and workers), among the main drivers of the reform. As stressed in another document (a reform proposal concerning the Workers’ Statutes, i.e., the main legislative act establishing workers’ rights), the involvement of bilateral bodies in offering income support to their members could help reform the system without increasing public expenditure. This approach is not however convincing, as it could reinforce the segmentation of the current system, rather than decrease it. The intervention of bilateral bodies may act as an additional pillar, but it cannot substitute a thorough reform for three important reasons:

- i) bilateral bodies are not uniformly distributed across sectors and regions;
- ii) as the financing of additional benefits would act on a purely insurance basis, it would be difficult to provide adequate coverage for fixed-term employees;
- iii) this system would exclude project workers and collaborators who are not included in the ‘economically dependent’ employment category.

The debate on this issue is however alive and in the past years several reform proposals have been presented by economists and concerned actors. Among these proposals, an interesting one presented by the CGIL (the largest Italian trade union) also includes important expenditure projections (Altieri et al., 2010), showing that a budget-neutral reform could be achieved by remodelling the structure of social contributions, i.e., maintaining a purely insurance basis.

According to this proposal, the unemployment benefits system should reduce the number of instruments from seven to two: a universal unemployment benefit and a short-time working arrangement covering temporary suspensions of workers and replacing the different typologies of *CIG* existing today<sup>12</sup>.

The duration of the ordinary unemployment benefit should reach 24 months for all workers; it should be extended up to 36 months for workers over 50 or living in southern regions. The duration would not in any case be longer than the months of paid contributions, so as to maintain the insurance nature of the system without harming fixed-term workers, whose contribution periods are usually shorter. The replacement ratio would be 80 % in the first year (with a threshold set at EUR 1 800), 64 % in the second year and 50 % afterwards. According to simulations, the number of beneficiaries of the different schemes (keeping other things constant) would increase from the current 900 000 to about 1.3 million, with total yearly expenditure going up from EUR 8.2 billion to EUR 13.8 billion, but with a *net* difference of EUR 4.2 billion, due to the higher fiscal revenues produced by higher incomes. This

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<sup>12</sup> A similar proposal, presented by Anastasia et al. (2010) and based on two instruments (a universal unemployment benefit and a short-time working arrangement), presents differences in generosity, duration and eligibility. In particular, a 24-month insurance requisite is maintained for access to the unemployment benefit.

difference could be entirely funded through an increase and re-modulation of the contribution rates, whose structure could be simplified (from the current 24 schemes to only 6).<sup>13</sup>

A reform of this kind, if coupled with an effective integration with active labour market policies (ALMPs) and training (using as benchmark the regional best practices), could respond to the objectives set by the Joint Employment Report. On the other hand, it should be noted that concrete proposals concerning the conditionality of benefits (e.g., the intensity of the job search efforts, the frequency of visits at job centres and the surveillance system) have not been part of the debate.

As regards the adaptation of the UBs to the economic cycle, the current system does not provide any automatic linkage; the extension of the benefits' duration has been achieved only through exceptional and discretionary measures. Nonetheless, the availability of short-time working arrangements from the very beginning of the crisis has proved to be a strength of the Italian system, acting as an automatic stabiliser not only on the income side, but also on the unemployment side. This is also relevant because the ordinary *CIG* system (excluding extraordinary 'on derogation' schemes) is financed on a contribution basis, rather than by the general taxation, and the most recent INPS data show that *CIG* funds are in surplus, on average, during the 2003-2009 period (with a positive balance of around EUR 1.65 billion<sup>14</sup>).

#### **4. Conclusions**

The economic crisis has stressed the limits (many) and the strengths (some) of the Italian unemployment benefits system. On the one hand, lack of universality and fragmentation of the system has made fixed-term, younger and self-employed workers more exposed to the social consequences of the downturn. On the other hand, the availability of short-time working arrangements has avoided a massive rise in unemployment, safeguarding jobs and preserving human capital, although mainly targeting permanent employees working in larger firms. Extraordinary anti-crisis measures, approved since the outset of the recession, have extended the scope of unemployment benefits and short-time working arrangements to workers and firms previously not eligible for these. This was mainly achieved through derogations to the ordinary legislation, and leaving the regions the faculty to locally determine the categories of potential beneficiaries and the duration of the benefits.

Even if these measures have not produced a universal system, they significantly increased the overall coverage and succeeded in fostering integration between passive and active labour market policies. The provision of 'on derogation' unemployment benefits is in fact conditional on the participation in ALMPs and to the signing of a 'declaration of immediate availability' to work or to undertake a re-qualification programme. Although no evaluation on the effectiveness of this integration is yet available, it presents features that could be included in a future structural reform of the system.

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<sup>13</sup> In particular, the contribution for the 'new' unemployment benefit would be 1.5 % of gross wages in firms with less than 15 employees and 2.5 % in firms with more than 15 employees (the current rate is 1.61 %, with several exceptions at the sectoral level).

<sup>14</sup> When considering unemployment benefits as a whole, it emerges that during the 2003-2009 period the overall deficit (around EUR 2.7 billion) was mainly attributable to the mobility schemes (whose deficit amounts to EUR 1.2 billion) and the 'reduced' unemployment allowance (whose deficit amounts to EUR 1.8 billion), while the *CIG* and the ordinary unemployment allowance schemes exhibited a surplus (Lucidi, 2011).

In spite of a lively debate among stakeholders and academics, such a reform does not seem to be on the short-term agenda of the current Government. This is unfortunate, as some studies begin to show that there could indeed be room for the introduction of a budget-neutral reform of the system, inspired by the principles of universality, inclusiveness and conditionality.

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