8. Italy: Limited policy responses and industrial relations in flux, leading to aggravated inequalities

Niall O’Higgins*

1. INTRODUCTION

Italy was hit hard by the global financial and economic crisis and there is little sign that the situation in the country is likely to improve significantly in the immediate future. As elsewhere, young people as a whole and prime-age adult men were particularly severely affected and, surprisingly, since the effects of the crisis were largely concentrated in industry, the impact was felt much more strongly in the less industrialized Southern part of the country, thereby further exacerbating territorial differences in employment and income which were already very marked.

In contrast to many other countries in Europe which reacted through the introduction and/or expansion of substantial macro- and microeconomic measures to counter the effects of the crisis, the response in Italy has been very limited. Discretionary fiscal stabilization has been almost entirely absent, which, given the relative lack of automatic stabilizers – such as unemployment benefits and, above all, social security benefits – has undoubtedly contributed to the relatively poor recovery. The main labour market programme was the temporary short-time working/layoff scheme, the Cassa Integrazione Guadagni. This income support scheme was mainly available to regular employees in industrial firms and although this undoubtedly relieved some of the worst effects of the crisis on incomes of workers, particularly in Northern Italy, and despite the fact that CIG was broadened in 2009 to apply to other sectors and forms of employment, the relatively limited application of the programme undoubtedly contributed to the territorial imbalance in the effects of the crisis.

All this has contributed to form a picture of growing multidimensional inequality: particularly between North and South, between the young and prime-age adults and between the poor and non-poor. In this chapter, Section 2 looks briefly at the overall characteristics of the crisis as it has
manifested itself in Italy; Section 3 then looks in more detail at some of the aspects of inequality in the crisis. Section 4 examines the response of the Italian government to the crisis and considers the extent to which such actions have mitigated or indeed worsened the differential effects of the crisis. Section 5 provides two case studies of the approaches of firms to deal with the crisis-induced fall in product demand and their effects on inequalities. The final section considers some of the implications for the future.

2. **SHARP FALL IN GDP WITH UNEQUAL EFFECTS ON DIFFERENT CATEGORIES OF WORKERS**

Despite fairly extensive reforms in the labour market, initiated in the second half of the 1990s, Italy’s growth performance has been relatively weak in comparison to the EU average or, indeed, the United States (Figure 8.1) since 2001. In contrast to the overall picture in which it was the previously strongest performers – Ireland and the Baltic states – which suffered the greatest falls in GDP, Italy had a relatively poor pre-crisis growth record and was (slightly) more severely hit in GDP terms by the

![Figure 8.1 Annual real GDP growth rate in Italy and elsewhere, 2000–2011](image)

**Note:** 2010 and 2011 are Eurostat estimates.

**Source:** Eurostat National Accounts database (http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/).

**Figure 8.1** Annual real GDP growth rate in Italy and elsewhere, 2000–2011
Recession in Italy in fact began early, with signs of faltering economic growth in the last quarter of 2007 (Figure 8.2). In the second quarter of 2008, however, the recession began in earnest, with GDP falling fast. Looking at the data in this way also gives a clearer idea of the gap between Italy and the EU average. At the low point in the recession in 2009Q2, GDP had fallen by more than 6 per cent in comparison to the first quarter of 2007, whereas in the EU as a whole, the recession led to a fall in GDP of a little over 3 per cent over the same period. In both Italy and the EU as a whole, the recovery began in the third quarter of 2009, although the recovery was significantly stronger in the EU as a whole, with GDP rising by 2 per cent between 2009Q2 and 2010Q2; in Italy, the corresponding rise was of the order of 1 per cent.

The crisis hit first and foremost industry (as in other countries), although it is also interesting to note that banking was hardly affected at all (Figure 8.3). Signs of recovery are clear in all sectors save construction, although industrial output in the second quarter of 2010 was still more than 15 per cent below its pre-crisis level.

The crisis has had significant effects on employment. However, as one
would expect, these were not as immediate or as strong as the effects on output. Between the second quarter of 2008 and the second quarter of 2010, employment among Italians fell by a little over 929,300 or 4.3 per cent of the Italian workforce (Anelli and Basso 2010b). Employment in industry fell particularly sharply, along with employment in commerce (Figure 8.4). Neither of these as yet show any signs of recovery. Employment in construction fell during the crisis but then recovered, which contrasts with the sectoral figures on value added.

Turning to the issue of different contractual forms of employment, in recent years there has been much discussion of the potential role of temporary contracts in facilitating entry to employment. In Italy, there has been a progressive, albeit fairly gradual, move towards the increased use of temporary employment contracts (see Box 8.1), particularly for young people, since the late 1990s. Indeed, most of the employment gains observable in Italy since 1995 were due to the expansion of so-called ‘atypical’ employment forms: temporary and part-time employment. Between 1995 and 2007, the share of temporary employment rose from 7.2 per cent of all employment to 12.4 per cent, and the share of part-time employment from 10.5 per cent to 15 per cent (Schindler 2009).

In a recession, one would expect the initial effects of changes in

Note: Data are seasonally adjusted.


Figure 8.3  Value added by sector (constant prices), Italy, 2007–2010  
(2007Q2=100)
Work inequalities in the crisis

temporary employment to be negative, temporary workers being cheaper to fire. In the longer run, if the notion of the beneficial effects of temporary employment on hiring practices has some validity, one might expect temporary employment contracts to pick up more quickly than permanent ones. In Italy, as in most EU countries, temporary employment fell during the recession. Indeed, the reduction in aggregate employment in Italy was heavily concentrated among those on fixed-term and short-term contracts, as well as, to a lesser extent, self-employed workers (Table 8.1). Moreover, looking at longitudinal data on the issue, the percentage of workers on temporary contracts who managed to move from temporary to permanent contracts within one year fell from a little under 30 per cent to around 25 per cent between 2007/8 and 2008/9. This difference is accounted for by an increase in the numbers moving from temporary contracts to unemployment or inactivity, while those remaining in temporary contracts remained virtually unchanged (CNEL 2010). At the same time, over two-thirds (68.2 per cent) of new hires in non-agricultural firms expected for 2010 will be on temporary contracts. Perhaps of more significance, fewer than one in ten (9.7 per cent) of new permanent contracts concern the hiring of workers who were previously employed in the same firm on a temporary contract (Unioncamere 2010). Thus, adjustment of employment levels in

Notes:
1) Data are seasonally adjusted.
2) The figures report an index of the total number of jobs (2007Q2=100).

Figure 8.4 Employment by sector, seasonally adjusted, Italy, 2007–2010 (2007Q2=100)
ITALY

BOX 8.1 INDUSTRIAL RELATIONS AND EMPLOYMENT PROTECTION LEGISLATION IN ITALY

According to the OECD index of the strictness of Employment Protection Legislation (EPL), at 2.58 (in 2008), Italian workers are slightly more protected than the OECD average of 2.23. This is lower, however, than many other OECD countries; much lower than Spain (3.11), Luxembourg (3.39) or France (2.90), for example. However, it is relevant here that the index regarding protection against collective dismissal, at 4.88, is by far the strongest in the OECD.

There are also well-established industrial relations. The current collective bargaining system was established in 1993, and postulates a two-tier bargaining structure:

1. collective bargaining at the national (sectoral) level, to determine the terms and conditions of employment (renegotiated every four years) and basic wage guarantees (minimi tabellari, renegotiated every two years); and
2. bargaining at the second (regional or firm) level, allowing the bargaining partners to supplement national contracts (valid for four years).

In 1997, the then Minister of Labour, Tiziano Treu, formally introduced temporary contracts and incentives for part-time employment with the so-called Treu Law (No. 196/1997). The stated purpose of the law was to introduce 'flexibility at the margin'. In the same year, the public monopoly on employment services was abolished (Law No. 469/1997). In 2003, the 'Biagi' Law (No. 30/2003) further deregulated the use of 'atypical' work arrangements, such as temporary agency work (staff-leasing) and part-time work, and introduced some new forms, such as on-call jobs (lavoro intermittente), job sharing and occasional work (lavoro a progetto).


Italy was mainly through reductions, and subsequent increases in temporary contractual forms, accompanied by increases in temporary short-time working or temporary unemployment under the Cassa Integrazione Guadagni (CIG) scheme for those on permanent contracts (in industry).
There is little sign, for the moment, of temporary contracts acting as stepping stones to a more stable employment relationship.

Due to the reductions in overtime and the extensive use of subsidized temporary short-time working (CIG), which will be discussed further below, hours were also significantly reduced. Between 2007Q1 and 2010Q1, hours worked fell by 4.9 per cent. It is important to observe that those entering the CIG programme are included among the employed, even if the short time is at zero – that is, the workers affected are not actually working – as is very often the case. Interestingly, the proportion of those in part-time employment fell by 9.6 per cent between 2008 and 2009, while at the same time the proportion of such employment accounted for by involuntary part-time employment increased from just under 50 per cent to just over 55 per cent for men and from 37 per cent to 43 per cent for women. This reflects two phenomena: (a) workers on part-time employment, being cheaper and easier to fire, were more likely to be laid off than full-time workers; and (b) to a limited extent, full-time workers were being forced into part-time work as an alternative to being laid off.

Informal employment also rose during the crisis throughout Italy. In Italy as a whole, the rate of informal employment is estimated to have risen from 11.9 per cent in 2007 to 12.2 per cent in 2009. In the North-Centre, the increase was from 9.4 per cent to 9.7 per cent and in the South from 18.4 per cent to 18.7 per cent (CNEL 2010). Perhaps the most notable issue here is the pre-existing territorial imbalance in informality, with the South having an incidence which is almost twice that of the North.

The consequences of the crisis have, of course, also been felt in terms of increased unemployment (Figure 8.5). Between its lowest point in April 2007 and March 2010, unemployment rose by 3 percentage points, from 5.8 per cent to 8.8 per cent, although if workers in CIG

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**Table 8.1 Change in employment, by type of contract, Italy, 2008–2010**

<table>
<thead>
<tr>
<th>Type of contract</th>
<th>2008Q2 (million workers)</th>
<th>2010Q1</th>
<th>Change</th>
<th>% change</th>
<th>% of total reduction in employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent</td>
<td>15.053</td>
<td>14.942</td>
<td>−0.111</td>
<td>−0.7</td>
<td>−13.5</td>
</tr>
<tr>
<td>Fixed-term</td>
<td>2.443</td>
<td>2.047</td>
<td>−0.396</td>
<td>−16.2</td>
<td>−48.1</td>
</tr>
<tr>
<td>Short-term</td>
<td>0.471</td>
<td>0.396</td>
<td>−0.075</td>
<td>−15.9</td>
<td>−9.1</td>
</tr>
<tr>
<td>Self-employed</td>
<td>5.614</td>
<td>5.373</td>
<td>−0.241</td>
<td>−4.3</td>
<td>−29.3</td>
</tr>
<tr>
<td>Total</td>
<td>23.581</td>
<td>22.758</td>
<td>−0.823</td>
<td>−3.5</td>
<td>−100.0</td>
</tr>
</tbody>
</table>

*Source:* Calculated from Annelli and Basso (2010a), based on Italian Labour Force Survey data.
were included in this calculation, the unemployment rate would have risen to 11.6 per cent, almost doubling the increase (Anelli and Basso, 2010a). Unemployment had already begun to rise during 2007, before the main effects of the international crisis hit. Although the upward trend in unemployment rates was steeper for men than for women – reflecting, of course, the sectoral impact of the crisis which affected industry first and foremost, where the incidence of female employment is lower – this simply narrowed the gap between men and women. In April 2007, the low point of unemployment, the female unemployment rate was 67 per cent higher than the male rate. By April 2010, when unemployment reached its maximum, this had fallen to 26 per cent. In the summer/autumn of 2010 signs began to emerge that rising unemployment had stabilized and for men even started to fall very slightly; however, this has led to the re-emergence of a growing gender unemployment gap, which in September 2010 stood at 33 per cent.

Although average incomes fell as a consequence of the reduced employment and working hours, so far, the recession has had little impact on hourly wage rates, with adjustment having been undertaken in employment and hours (Figure 8.6) rather than in the hourly rate at which labour

Notes:  
1) Seasonally adjusted.  
2) Data for September 2010 are provisional.

Source: ISTAT database (www.istat.it).

Figure 8.5 Unemployment rates, by sex, seasonally adjusted, Italy, 2004–2010

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Work inequalities in the crisis was remunerated. Some caveats are in order. The data on wages are taken from tax and social security records and so do not record changes due to informal activity and practices. More importantly, the slightly increased wage rates observable in Figure 8.6 are largely the result of a composition effect in employment. That is, the crisis reduced the proportion of lower wage workers in employment and thus led to a rise in average wage rates due to the larger proportion of higher wage earners in employment. Analysis of employment changes and wages in firms with at least 20 workers (ISTAT 2010a) shows that industrial blue-collar employment fell by 3.9 per cent in 2008 and by 12.7 per cent in 2009 (net of CIG), while industrial white-collar employment actually rose in 2008 (by 0.5 per cent) and fell by only 2.2 per cent in 2009 (net of CIG).

As regards family and individual incomes, information from the Bank of Italy’s Survey on Household Income and Wealth (Banca D’Italia 2010) suggests that, between 2006 and 2008, average real household income fell by 4 per cent and the per person equivalent income by 2.6 per cent. Self-employed people saw their incomes drop by 7 per cent between 2006 and 2008, while for employees the corresponding fall was 4 per cent. Although these data precede the main impact of the crisis, they do suggest that the effects on incomes of the crisis are likely to be substantial. We shall return to this below.

Source: Calculated on the basis of wage and CPI data from the ISTAT database (www.istat.it).

Figure 8.6  Gross real hourly wage rates, Italy, 2006–2009 (2007Q1 = 100)
3. INCREASING SOURCES OF INEQUALITY WITH THE CRISIS

3.1 Age and Sex

The figures already presented illustrate one fairly universal differential effect of the crisis throughout Europe: it hit men harder than women because it affected sectors with a higher incidence of male employment. In the Italian case, however, this simply reduced the substantial gender gap in unemployment rates that existed before the crisis. Moreover, as noted above, in the latter part of 2010, the gender gap has risen once again, albeit not to its pre-crisis levels.

One may go into this in a little more detail. Looking at percentage changes in overall employment by age and sex (Figure 8.7), one may observe that the pattern of changes observable in Italy is fairly close to the European average; however, in Italy both positive and negative changes are accentuated compared to the EU as a whole, particularly for females. That is, in Italy employment has fallen more among young people and risen more among older workers than in the EU as a whole. Also observable from the figure is the trend towards greater participation in the labour force of older workers – this again is part of a longer-term trend which is also observable to a lesser degree in other countries in the EU.

Note: From 2007Q2 to 2010Q2.


Figure 8.7 Percentage change in employment by age (15–64) and sex, Italy, 2007–2010
Looking at the change in unemployment (Figure 8.8), one may observe the apparent paradox that, in Italy, it is the oldest age groups that have suffered most in terms of the increase in unemployment and ‘gained’ most in terms of employment (Figure 8.7). Indeed, unemployment among older men has almost doubled over the crisis period. The main explanation for simultaneous increases in employment and unemployment among older workers lies in the general trend towards greater labour force participation among older workers in recent years which has been encouraged by reforms in the pension system. It is also true that unemployment among this age group was very low prior to the crisis and so the denominator is very small. The increase in unemployment for older workers in absolute terms was less than for young or prime-age workers. Finally, some part of this may also be due to older workers returning to work as part of a household income generating strategy in light of prime-age (main) wage-earners’ reduced income.

3.2 Education

One aspect of the crisis which has raised concerns has been the emergence of educated unemployment; it is not just the low-skilled who have been affected. Among young people in high income countries, although there is
a fair amount of cross-country variation, it appears to be those with higher levels of education who have been hardest hit (O’Higgins 2010). For the working age population as a whole, however, this is not the case. In both Italy and the EU as a whole, employment and employment rates have fallen most sharply for those with the lowest levels of education (Figure 8.9). Indeed, looking at the percentage change by education, employment of tertiary graduates in Italy has actually increased by over 8 per cent (which indeed is very similar to the average in the EU as a whole).

### 3.3 Temporary Contracts by Age

Although, as already noted, the fall in aggregate employment in Italy was heavily concentrated among those not on permanent employment contracts, during the recession, the incidence of temporary employment actually rose quite significantly among younger people and particularly young men (Figure 8.10). For males as a whole, temporary employment remained virtually unchanged as a percentage of total male employment, rising by just 0.3 percentage point from 11.1 per cent to 11.4 between 2007Q2 and 2010Q2. Among females, temporary employment fell from 16.6 per cent of employment to 14.8 per cent. Among young men,
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Temporary employment rose by nearly 5 percentage points, from 40.1 per cent to 44.9 per cent, while the corresponding increase for young women was well over 3 percentage points from 46.4 per cent to 49.8 per cent. Here too, then, the gap between the sexes in terms of the incidence of temporary employment was narrowed – slightly – by the crisis. Since temporary employees were the first to be fired in the crisis, the fact that the incidence of temporary employment among the young actually increased reflects the fact that almost all new employment of young people during the crisis has been under temporary contractual forms.

3.4 Territorial Inequality: Reflecting Institutional Imbalances

Italy has the highest territorial variability in employment rates in the EU. The coefficient of variation on regional employment rates is 16.3, while in Germany it is 4.8, in France 6.6 and Spain 7.5 (CIES 2010). The crisis has clearly had the effect of widening gaps in employment and income. Perhaps surprisingly, given the relatively low industrial concentration in Southern Italy, it was precisely the less developed South which bore the brunt of the crisis in employment terms (Figure 8.11). This has much to do with the territorial distribution of production, in particular the concentration of industrial production in the North, and the nature of the CIG scheme which applies principally to industrial workers in firms with


Figure 8.10 Incidence of temporary employment by age (15–64) and sex, Italy, 2007–2010
a minimum of 15 employees. As a consequence, adjustment of employment in the North was more oriented towards reductions in working time through the CIG scheme, whereas in the South such adjustment manifested itself through direct reductions in employment. Interestingly, in the Central area of the country employment has actually increased by nearly 3 per cent since the beginning of 2007. Between the first quarter of 2007 and the first quarter of 2010, employment in Italy as a whole had fallen by less than 1 per cent, and by a little over 2 per cent since the first quarter of 2008. In the South, however, employment had fallen by 4 per cent since the first quarter of 2008. If one compares forms of employment in the North and South, one may observe that, while the percentage reduction in the numbers employed on temporary contracts was broadly similar for the North-Centre (–7.5 per cent) and South (–7.0 per cent) between 2008 and 2009, as was the percentage reduction in the self-employed (–3.6 per cent in the North-Centre and –3.3 per cent in the South), in the North-Centre, the number of workers employed on permanent contracts actually increased slightly (by 0.7 per cent) between 2008 and 2009, but fell in the South by 2.0 per cent.

Table 8.2 reports the variations in average hours in the industrial and service sectors in different parts of Italy, based on ISTAT’s annual survey.
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Table 8.2 Average hours worked per worker, by area, Italy, 2008–2009

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North-West</td>
<td>1625</td>
<td>1483</td>
<td>–8.74</td>
</tr>
<tr>
<td>North-East</td>
<td>1639</td>
<td>1526</td>
<td>–6.89</td>
</tr>
<tr>
<td>Centre</td>
<td>1664</td>
<td>1590</td>
<td>–4.45</td>
</tr>
<tr>
<td>South</td>
<td>1679</td>
<td>1601</td>
<td>–4.65</td>
</tr>
<tr>
<td>Total</td>
<td>1640</td>
<td>1523</td>
<td>–7.13</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North-West</td>
<td>1641</td>
<td>1614</td>
<td>–1.65</td>
</tr>
<tr>
<td>North-East</td>
<td>1580</td>
<td>1554</td>
<td>–1.65</td>
</tr>
<tr>
<td>Centre</td>
<td>1637</td>
<td>1589</td>
<td>–2.93</td>
</tr>
<tr>
<td>South</td>
<td>1712</td>
<td>1718</td>
<td>0.35</td>
</tr>
<tr>
<td>Total</td>
<td>1636</td>
<td>1606</td>
<td>–1.83</td>
</tr>
</tbody>
</table>

Source: Author’s calculations from ISTAT (2010b), table B5.

of firms (ISTAT 2010b). In the North-West, the reduction in average hours in industry was almost double the reduction in the South (and Centre). Hours worked in services in the South even increased slightly between 2008 and 2009. The origin of the differing patterns of response to the crisis – falling hours in the North and reduced employment levels in the South – are to be sought in the application of the CIG programme for temporary short-time working or layoffs, discussed in more detail below. The programme is applicable mainly to industrial firms and, since industrial employment is heavily concentrated in the North of the country, this meant that application of the scheme was also much more common in the North.

3.5 Wages, Incomes and Poverty

Interestingly, given the territorial pattern in employment changes over the period, between 2006 and 2008, average per person equivalent income fell by 4 per cent in both the South and the Centre of the country, while in the North, it fell by around 1.6 per cent. Again, the explanation for this can largely be sought in the greater use of the CIG scheme which, inter alia, implied a smaller loss of income associated with short-time working or temporary layoffs than would be the case for workers who were made redundant. Unsurprisingly, the Gini index also rose, albeit slightly, between 2006 and 2008, from 0.349 to 0.353 on household income and from 0.323 to 0.327 on per person equivalent income. Simulations undertaken by Addabbo and Maccagnan (2010) suggest that the effects
of the crisis on per person equivalent income distribution are of a similar order in the North and South of the country, although it is worth noting that the income distribution was significantly less equal in the South prior to the crisis.

The Commission on Social Exclusion (CIES 2010) has estimated (by simulation) the effects of the crisis on incomes and income distribution in Italy. Looking first at the effects of the crisis at different points in the distribution on a national basis (Table 8.3), the simulation suggests that the effects of the crisis (including the effects of passive income support measures) were fairly evenly spread across pre-crisis incomes. The main losers in income terms seem to be placed in the middle of the distribution with a fall of 2.65 per cent in income. This is consistent with the effects of the crisis primarily affecting males in industrial employment. One might also observe that, in line with the slight increase in the Gini index, the ratio between average incomes in the fifth and first quintile widened slightly with the crisis. Turning to the effects of poverty by area (Table 8.4), one may observe significant differences in the territorial impact. The table estimates the effects of the crisis on absolute poverty rates – defined as the proportion of those earning less than 60 per cent of national median income – on a territorial basis. One may observe first of all the huge difference between North and South in terms of the pre-crisis poverty rates. One may also observe, however, that the crisis, notwithstanding the extensive use of passive income support measures, significantly raised poverty rates throughout the country, with the rise being more marked in the South (over 2 percentage points) than in the North (1.3 percentage points) or the Centre (less than 1 percentage point). The differences between North

Table 8.3  Simulation of the effect of the crisis on per person equivalent incomes by income quintile, Italy, 2010

<table>
<thead>
<tr>
<th>Income quintile</th>
<th>Average annual (quintile) income (€)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before the crisis</td>
<td>After the crisis</td>
</tr>
<tr>
<td>Lowest 1</td>
<td>8 556</td>
<td>8 402</td>
</tr>
<tr>
<td>2</td>
<td>14 158</td>
<td>13 848</td>
</tr>
<tr>
<td>3</td>
<td>18 826</td>
<td>18 328</td>
</tr>
<tr>
<td>4</td>
<td>24 222</td>
<td>23 696</td>
</tr>
<tr>
<td>Highest 5</td>
<td>39 437</td>
<td>38 805</td>
</tr>
<tr>
<td>Average</td>
<td>21 037</td>
<td>20 613</td>
</tr>
</tbody>
</table>

Note:  The simulation refers to families with heads of household under 65 years of age.

Source:  CIES (2010), table 2.12.
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4. POLICY RESPONSES: FAILURE TO ADDRESS TERRITORIAL INEQUALITY

4.1 Macroeconomic Measures: Lack of Expansionary Policy

The most notable feature of the response of the Italian government to the recession has been its absence in terms of macroeconomic measures aimed at counteracting the impact of the financial crisis on economic activity. Indeed, some commentators note the introduction of pro-cyclical measures – which, of course, in a recession tend to reinforce the downward trend in GDP – initially reacting to the crisis with measures designed to increase the overall incidence of taxation (Boeri 2009). Certainly, the reaction in Italy was modest compared to other advanced economies – European and non-European (IMF 2010). In 2008, total public intervention to support the financial system came to 0.8 per cent of GDP compared to, for example, 3.7 per cent in Germany, 7.5 per cent in the United States and 18.9 per cent in the United Kingdom (Ministero dell’Economia e della Finanza 2009). The argument was that the Italian financial system was relatively independent of the international banking system and therefore less exposed to the direct effects of the financial crisis. Less obvious is the justification of the lack of discretionary expansionary fiscal policy. In 2008 and 2009, public consumption in Italy rose by 0.8 per cent and 0.6 per cent, respectively, in comparison to 2.2 per cent and 2.1 per cent in the Euro area as a whole and 3.0 per cent and 2.8 per cent in the United States. At the same time, investment fell by 4.0 per cent in 2008 and 12.1 per cent and South are once again to be sought in the greater use of passive income support through the CIG scheme in the North.

<table>
<thead>
<tr>
<th>Area</th>
<th>Poverty rates (%)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before the crisis</td>
<td>After the crisis</td>
</tr>
<tr>
<td>North</td>
<td>8.5</td>
<td>9.8</td>
</tr>
<tr>
<td>Centre</td>
<td>10.8</td>
<td>11.6</td>
</tr>
<tr>
<td>South</td>
<td>33.3</td>
<td>35.4</td>
</tr>
<tr>
<td>Total</td>
<td>17.7</td>
<td>19.2</td>
</tr>
</tbody>
</table>

Source: Calculated from CIES (2010), table 2.16.
Italy in 2009 in Italy, a little above the Euro-area average of 0.4 per cent in 2008 and 11.1 per cent in 2009 (IMF 2010). The expansion of discretionary fiscal policy was modest, of the order of 0.2 per cent of GDP in 2009 and 2010 (Ministero dell’Economia e della Finanza 2009), which is around one-tenth of the level of estimated discretionary increase in fiscal policy in G20 countries as a whole of 2.0 per cent and 1.5 per cent of GDP in 2009 and 2010, respectively (IMF 2009). Even taking into account automatic stabilizers, the reduction in taxes and increase in expenditure amounted to around 0.7 per cent of GDP in Italy in 2009 and 2010, that is, around one-third (for 2009) and one-half (in 2010) of discretionary measures adopted in G20 countries on average (IMF 2009 and Ministero dell’Economia e della Finanza, 2009). The main argument offered in defence of the lack of expansionary fiscal policy was the substantial size of public debt. However, despite – or possibly in no small part because of – this cautiousness and the consequent prolonging of the recession, public debt increased by about 10 percentage points of GDP in 2009, reaching almost 116 per cent of GDP.

Perhaps the most important intervention measures adopted by the government have been those taken to try to counteract the immediate restriction of credit by financial institutions following the onset of the financial crisis by making funds available to banks that extended credit to SMEs and strengthening the existing guarantee fund for SMEs.

4.2 Micro-level Measures: Passive Labour Market Policies

The distinction between micro and macro measures is a little blurred, particularly since the bulk of the ‘discretionary’ fiscal expansion has comprised increased use of labour market policies (LMPs). In general, however, the main response of the Italian government in terms of labour market policy measures involved the expansion in January 2009 of the applicability of the CIG (Cassa Integrazione Guadagni) fund – essentially a combination of subsidized short-time working arrangements and temporary unemployment – to a broader class of workers (apprentices and temporary workers) on a discretionary basis. Indeed, the CIG scheme in various forms has been the most important income support measure utilized during the crisis in Italy and deserves further discussion.

4.2.1 Cassa Integrazione Guadagni scheme

First introduced at the end of the Second World War, the CIG scheme now exists in three mutually exclusive forms, each of which involves income support for workers who are ‘temporarily’ laid off or who are working reduced hours.
Cassa Integrazione Guadagni Ordinaria (CIGO) This is the basic scheme that allows industrial (including construction) firms with more than 15 workers to introduce short-time (including zero hours) working for some or all of its workforce in the face of reduced production due to temporary (including seasonal) factors not attributable to the behaviour of the firm or its workers. The maximum duration is one year. Workers, who must be on permanent contracts, are paid up to 80 per cent of their base (not including any overtime) salaries by the INPS (the State Social Security and Pension Fund).

Cassa Integrazione Guadagni Straordinaria (CIGS) This form has a broader applicability. It can be requested in more general circumstances – in the case of firm restructuring or reorganization, and/or in the case of a firm crisis – and is applicable also to agricultural and service sector firms. It also lasts longer, depending on the circumstances and the motivation of the request, up to four years. It also applies only to permanent workers. As before, workers are paid up to 80 per cent of their base salaries.

Cassa Integrazione Guadagni in Deroga (CIGD) Introduced in January 2009, this form of CIG was introduced with the aim of further broadening the coverage of the CIG, including in particular those in apprenticeships and other non-permanent contractual forms. It differs from the other forms in that it is administered at a regional (not national) level and its application and form vary somewhat from region to region according to specific agreements drawn up between regional and central governments. Once again, the maximum compensation allowed is fixed at 80 per cent of the employee’s previous base salary.

The CIG scheme as a whole is by far the most significant income support measure in Italy. By its nature it applies to established workers on permanent contracts, thereby further widening the gap between the protection available to permanent as opposed to temporary workers, although this has been modified somewhat with the introduction of the CIGD scheme. As the recession has worn on, both CIGS and CIGD schemes have become increasingly important (Figures 8.12 and 8.13). In part, this depends on the relatively short-term nature of CIGO as compared to CIGS, the former being of only one year’s duration compared to the four years (in certain circumstances) of the latter. The growing importance of the CIGD depends in part on the fact that it was only introduced in January 2009, but its rapid growth during 2010 perhaps also reflects the increasing impact of the crisis on sectors outside manufacturing and construction.

As noted above, the geographical distribution of the CIG scheme in
its various forms is heavily weighted towards firms in the more industrialized North (Figure 8.14). This largely accounts for the difference in reaction in terms of hours and employment observable in the North and South and has remained true even with the growing importance

Sources: INPS (2010); ISTAT database www.istat.it.

Figure 8.12 Usage of CIG (million working hours), Italy, 2009–2010

Source: INPS (2010).

Figure 8.13 CIGO, CIGS and CIGD as a percentage of total CIG hours, Italy, 2009–2010

its various forms is heavily weighted towards firms in the more industrialized North (Figure 8.14). This largely accounts for the difference in reaction in terms of hours and employment observable in the North and South and has remained true even with the growing importance
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of the broader CIGS and CIGD forms of the scheme. In March 2010, Northern firms accounted for 70.5 per cent of the total hours covered by the CIG scheme, 70.1 per cent of the hours covered by CIGO (the first scheme), 75.3 per cent of CIGS (second scheme) hours and 61.9 per cent of CIGD (the latest scheme) hours. So, although the CIGO scheme has slightly reduced the North–South imbalance in the application of the scheme, the change is minor, especially when one notes that in that month the CIGD form of the programme accounted for only 22.2 per cent of total CIG hours. With the first signs of recovery and the consequent gradual reduction in the usage of the scheme visible since March 2010 (see Figure 8.12), the percentage of CIG hours accounted for by Northern firms had fallen from a high of above 70 per cent to close to 60 per cent by June 2010. In the Centre and South, the usage of the programme has increased in more or less equal measure from around 15 per cent in each of these areas to 20 per cent by June 2010. Nevertheless, the geographical distribution of the application of CIG does not vary greatly between forms of the scheme. In June 2010, Northern firms accounted for 66.7 per cent of CIGO hours, 63.5 per cent of CIGS hours and 55.4 per cent of CIGD hours. Thus, the reduced weight of Northern firms in total CIG hours is to be attributed to recovery rather than to the broadening of the scheme per se.

Source: INPS (2010).

Figure 8.14 CIG schemes by geographical area as a percentage of total CIG hours, Italy, 2009–2010
4.2.2 Increased eligibility for mobility lists and unemployment benefits
On completion of the CIGS eligibility period, in the case of mass layoffs or firm failure, qualifying firms’ – essentially those which qualified for CIGS assistance – laid-off workers enter the ‘mobility lists’ where they may stay for a maximum of one (for workers under 40), two (workers aged between 40 and 49) or three (for workers over 50) years. For the first year, the payment is equivalent to that paid under the CIGS scheme (80 per cent of the person’s normal full-time wage), after which those still eligible for payment receive 80 per cent of that amount. As a consequence of the crisis, eligibility for the mobility lists was broadened (Mobilità in Deroga) to include some laid-off workers not otherwise eligible for the payment.

Two different unemployment schemes exist for agricultural and non-agricultural workers, respectively. The agricultural scheme essentially compensates workers for seasonal unemployment, whereas the non-agricultural scheme is payable for a maximum of 8 months (12 months for workers over 50). Apart from some exceptional cases, the scheme envisages payments of between 40 and 60 per cent of the previous wage.

Firms who hire workers either in the mobility lists or on unemployment benefit receive a reduction in required tax and social security contributions payable on employees.

4.3 Active Labour Market Policies: Training but Mainly in the North
At the beginning of 2010, the social partners, along with regional and central governments, agreed on the importance of improving the usefulness of passive income support measures, and in particular ‘mobility’ and unemployment benefits by combining them with active measures largely involving vocational training. A sum of 250 million euros has been set aside to fund this initiative. Thus far, courses have been instituted on a limited basis, mainly in the Northern regions of the country.

Prior to the crisis, the main form of ALMP was, and remains, apprenticeship. Since a reform of the system in 2003, this takes essentially three forms: (a) apprenticeship for the completion of the duty and right to education – open to those between 15 and 18 years old for the purpose of ensuring that all those under 18 can access some form of education and training; (b) professional apprenticeships aimed at young people aged between 18 and 29 and allowing them to obtain a professional qualification through on- and off-the-job training; and, (c) apprenticeships for higher qualifications, again aimed at those between 18 and 29 – this form envisages the obtaining of a higher professional qualification. At the time of writing, the system of apprenticeships is under review and is expected to be reformed in the near future. In each case, firms receive tax and social
security exemptions to give them an incentive to participate. They are also not obliged (as they would be with a regular working contract) to guarantee a permanent employment contract to apprentices.

### 4.4 Passive Income Support Measures: Positive Effects on Incomes and Poverty

Although it is a little early to get a full picture of the likely effects of active and, above all, passive incomes policies on employment and incomes in Italy during the crisis, a simple simulation undertaken by the Commissione di Indagine sull’Esclusione Sociale (CIES, Commission for the Investigation of Social Exclusion) on the basis of the It-SILC 2007 sample estimates the remedial effects of passive income support measures on incomes. In the first place, Table 8.5 reports estimates of the impact of the crisis with and without passive income support measures on average quintile income. The first column estimates the change in income arising as a consequence of the crisis on the basis of changes in employment and the usage of income support measures. The second column excludes from the estimation changes arising from income support measures to arrive at an estimate of what would have happened in the absence of intervention. The final column reports the percentage of the estimated income loss without passive income support (column 2) which was recouped by the application of such measures for each income quintile. The table is somewhat encouraging in that the income support measures have clearly mitigated the effects of the crisis and have done so in a progressive manner.

#### Table 8.5 Estimated Impact of the Crisis on Incomes, with or without Passive Income Support Measures, Italy

<table>
<thead>
<tr>
<th>Income quintile</th>
<th>% change in income due to the crisis</th>
<th>% change in income in the absence of PIS</th>
<th>% of income loss made up by PIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-2.3</td>
<td>-4.0</td>
<td>43</td>
</tr>
<tr>
<td>2</td>
<td>-3.3</td>
<td>-4.7</td>
<td>30</td>
</tr>
<tr>
<td>3</td>
<td>-3.5</td>
<td>-4.9</td>
<td>27</td>
</tr>
<tr>
<td>4</td>
<td>-2.6</td>
<td>-3.7</td>
<td>28</td>
</tr>
<tr>
<td>5</td>
<td>-1.9</td>
<td>-2.4</td>
<td>21</td>
</tr>
<tr>
<td>Average</td>
<td>-2.6</td>
<td>-3.6</td>
<td>28</td>
</tr>
</tbody>
</table>

*Note:* The simulation refers to families with heads of household under 65 years of age.

reducing the income loss to a greater extent (in percentage terms) among those with lower incomes; the estimated loss made up ranges from 43 per cent of the ‘no intervention’ income loss for the lowest income quintile to 21 per cent for the highest quintile. Having said that, given the substantial differences in average incomes between the lowest and highest quintiles, if one looks at the effects of intervention in absolute terms, the benefits of passive income support were largest for the highest quintile who gained on average 210 euros per person (or 21 per cent of average fifth quintile income), whereas those in the poorest quintile received an average gain of only 143 euros per person (corresponding to 43 per cent of the lowest quintile average income) as a result of intervention.

Analysis of the territorial dimension is also instructive. In this case (Table 8.6), the table reports the change in poverty rates (defined as the proportion of those receiving less than 60 per cent of median pre-crisis income) arising with and without income support measures (estimated in the same manner as before). The table reports the mitigating effects of passive income support both in percentage point terms (column 3) and, in column 4, as a percentage of the change in poverty rates which would have occurred in the absence of intervention (column 2). In absolute (percentage point) terms the effect of passive income support measures was to mitigate more or less in equal measure the effects of the crisis in both the North and South of the country. However, if one sees these figures in terms of the proportion of the increase in poverty mitigated, the intervention measures operated more than proportionately in favour of Northern regions since the increase in poverty rates was more marked in the South. This is to be explained by the heavy reliance on CIG measures in providing income support and its predominance in the North. One may further note that the pre-crisis poverty rates were already extremely imbalanced,
with a pre-crisis poverty rate of 33.3 per cent in the South and 8.5 per cent in the North. Thus, largely as a consequence of the territorial application of remedial income support measures, the crisis had the effect of further widening the already substantial difference in poverty rates between Northern and Southern Italy.

5. CASE STUDIES: ADJUSTMENT STRATEGIES AND IMPACT

This section looks at the approaches adopted by various firms operating in Southern Italy to deal with falling final product demand.

5.1 Family Firms in Southern Italy

5.1.1 Company A: Using the CIG scheme to address the crisis

Difficult context even before the crisis  Company A is a family group currently comprising seven operational plants, employing a little under 200 workers and producing (principally) components for domestic appliances. It grew out of a cement plant founded in 1969. In the new millennium, the group expanded operations, opening factories in Slovakia, the Russian Federation and the United Kingdom. Already in 2007, the firm faced difficulties due to rising oil prices with the consequent effect on the price of plastics and rubber and the profits of the group remained virtually unchanged between 2007 and 2008, while in 2009 profits fell by 40 per cent. Employment in the group fell by 6 per cent in 2008 and by a further 21 per cent in 2009.

Restructuring through Naples plant closure  In the face of the crisis, the family sought to reorganize and restructure the group and one of the Italian plants, in Naples, stopped production, with the workers entering into CIGS, even though it was clear to all – workers, unions and the A family who own the group – that the plant in Naples would not resume operations. Such a use of the CIG scheme – which in principle is limited to temporary layoffs – is widespread in Italy and is agreeable to all those directly involved since it is the least painful way of effectively laying off workers. Workers (and their representatives) accept it because it ensures a longer period of relatively highly paid unemployment. The alternative – plant closure – would see all the workers enter directly into the mobility lists with the prospects of shorter eligibility for income support. If workers enter first into CIG (and the plant remains formally operational, although
it is producing nothing) and then, when eligibility is exhausted, the plant closes and the workers enter into the mobility lists, workers effectively receive up to four additional years of unemployment benefits (under a different name). For the A family, such a solution means that they have less opposition from the workers’ representatives to the plant closure. At the same time, as a relatively small family operation (at least in Italy), as a consequence of which they feel a moral obligation towards their Italian workers, they can feel that their actions are less damaging to the workers. It moreover postpones for up to four years the strategic choice as to whether to definitively close the plant or not. Workers at the Naples plant were offered relocation to a plant in the Avellino Province some 50km to the south-west, but most refused due to the transport and/or relocation costs involved.

Clear preference for temporary workers Until 2008, all the workers in the group’s Italian plants were on permanent contracts. However, in the face of the crisis, the Italian parts of the group are hiring new workers on temporary contracts (of six months) as an experimental strategy and an alternative to taking them from mobility lists of unemployed workers. In part, the use of such temporary contracts – a new practice for the group – is due to the current market uncertainty, but it also effectively allows a longer trial period for workers (under Italian legislation the trial period for workers hired on permanent contracts is 30 days). Employment of new workers on temporary contracts means effectively taking on younger, less experienced employees, but at the same time increases flexibility for the firm by enabling it to fire them without further significant additional expense after six months. The alternative, hiring workers from mobility lists, means that the company is obliged to issue a permanent contract, but benefits from more experienced workers, as well as from a reduction in tax and social security contributions paid by the firm (from 32 per cent of the wage to 5.5 per cent) and so labour costs on these workers. Both strategies have advantages but the group feels that the current market uncertainty makes the additional flexibility associated with temporary contracts more valuable.

Shifting production to Slovakia A second strategy adopted by the group has been to shift production, to some extent, to the Slovakian plant. Here the workforce is much more easily adjusted, given the much weaker employment protection available to workers in that country. In fact, the Slovakian operations in 2009 accounted for over half (57 per cent) of the group’s workforce and 43 per cent of the group’s sales.

In terms of its usage of CIG for its stated purpose – temporary
short-time working – the firm has been able to coordinate with the firms it supplies, in order to introduce short-time working in its Italian branches in correspondence with the application of short-time working by its clients to cope with short-term lulls in production.

5.1.2 Company B: Adjusting through temporary workers

A company hit by price increases  Company B is a manufacturing firm producing iron and steel components, such as wire, tubing and so on. Prior to the crisis, the firm had been planning to expand production. They had already moved to a two-shift working day and had been looking to increase this to three. The crisis essentially put this process on hold. The major problem arising for this firm, too, was the very strong increase in the price of raw materials, and in particular steel, during 2008. Between 2007 and 2008, the price of raw materials rose by around 20 per cent. The consequences of this were felt in 2009 when production fell by 35 per cent.

Firing and hiring back temporary workers  The firm had already been using temporary contracts for some time and the reaction to the contraction of production essentially meant laying off of such workers. Prior to the crisis, out of a total workforce of around 65, around 20 per cent were on nine-month temporary contracts. Although it did not actually lay off any workers during the crisis, the firm did not renew contracts that expired. From May 2009, production was returning to ‘normality’ and the firm started hiring back the temporary workers it had let go during the period of low demand. Thus, Company B used variations in temporary workers – as opposed to CIG – as a means of varying employment (and production) levels.

Neither of the firms interviewed make use of apprenticeship contracts.

One of the major points arising from the case studies concerns the importance of CIG as a means of regulating the workforce and laying off workers, even where there is no intention of restarting production. Used in this way, the scheme has the effect of providing relatively generous income support for a relatively long period, but, as it stands, it does little or nothing to actually support either productivity growth among retained workers, or the relocation of (effectively) dismissed workers – indeed, the CIG scheme prevents workers on de facto unemployment benefit from seeking work elsewhere – apart from in the informal economy, since they would otherwise lose their right to the CIG payment. At the same time, as yet, although there is agreement that it should be done, little attempt has been made to utilize periods of down time to encourage training and retraining among the workforce in view of their return to work with the same employer.
The implications of the illustrations provided by these firms on the usage of either CIG or temporary contracts underline the notion, already evident from the analysis above, that labour market policy is effectively reinforcing a two-tier labour market and that ‘flexibility at the margin’ means buttressing an insider-outsider labour market.

5.2 Fiat at Pomigliano: Imposed Flexibility a New Way Forward?

5.2.1 A symbol of Italian industrial success
The Fabbrica Italiana Automobili Torino – Fiat, for short – is the most important automobile producer in Italy and one of the best known car-makers in the world. The company and its principal owners, the Agnelli family, have been symbolic representatives of Italy for generations. These days, Fiat also owns Maserati and holds an 85 per cent share in Ferrari, along with the Alfa Romeo and Lancia cars which were subsumed into the Fiat car-making operations in the last century. In addition, the Fiat group also comprises commercial vehicle and agricultural machinery construction, as well as component manufacture. These days only a minority – albeit substantial – of the operations of the Fiat group take place in Italy. In 2009, around one-third (64 out of 188) of the group’s manufacturing plants were in Italy, accounting for 42.3 per cent (or around 80,400) of its workforce of 190,000. The merger with the bankrupt Chrysler in 2009 will further extend the group’s overseas operations.

5.2.2 Also hit by the crisis
As with other car-makers, Fiat was significantly affected by the global crisis with after-tax profits falling from 1.7 billion euros in 2008 to a loss of 0.8 billion euros in 2009. At the same time, between the end of 2008 and 2009 the total workforce was reduced by 4.2 per cent from 198,348 to 190,014.

In this context, Fiat is planning its future strategy and, of central interest in Italy, the extent to which the production of new models – and consequently new investments in plant and employment – will be based in Italy or transferred elsewhere in Europe. Reflecting its symbolic as well as its substantive importance, discussions on the future of Fiat operations, as well as on aspects of its current practices have involved the President of Italy and even the Pope, as well as the Italian government and the leaders of Confindustria (the Italian employers federation).

5.2.3 ‘Anti-crisis’ proposal passed via referendum (after failed agreement with unions and threat of relocation)
It is in this context that, in June 2010, a referendum was held in Fiat’s Giambattista Vico plant in Pomigliano d’Arco. The purpose of the
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referendum was, in the absence of agreement from workers’ representatives, to get workers to sign new contracts involving shorter breaks, compulsory overtime on request, penalties for excessive absenteeism and limits on strike action. Fiat’s CEO Sergio Marchionne announced to the workers that, if they did not agree to the new working conditions, the production of the new Panda cars planned for the Pomigliano plant would be moved abroad (to Poland or Serbia). The justification cited for the new contracts was essentially the relatively low productivity of Italian plants. In Poland, Fiat produces 77.6 cars per worker per annum, in Brazil 53.2 and in Italy only 29.4. However, it is a little difficult to compare the production processes and the comparison is not like with like. Production in Italy is more heavily oriented towards medium range cars, whereas Poland produces exclusively small economy cars. Moreover, Italian plants tend to produce older models; no new production lines have been introduced in Italy for over two years. Moreover, as Marchionne himself has noted, labour costs account for only 8 per cent of total production costs, so it is a little difficult to see how agreements such as those presented to the Pomigliano workers will significantly affect any real productivity gap that may exist.

In the event, a significant but not overwhelming majority (62 per cent) of the workforce of 5,200 workers in Pomigliano voted in favour of the agreement, in the face of opposition from the FIOM, the union representing the bulk of the workers in the plant. However, it was not until November 2010 that Fiat, or rather the Minister of Welfare (and Labour), Maurizio Sacconi, announced that the investment would be forthcoming for the new Panda model to be produced in Pomigliano, and that production of the model would begin in late 2011. In the meantime, workers at the plant would remain in CIGD (as opposed to CIGS), as had been announced by Fiat in the run up to the June referendum. In doing so, a new company will be formed, FIPO (Fabbrica Italiano Pomigliano), the purpose of which is to ensure that the new contracts do not run foul of existing collective agreements since the workers will effectively have a new employer and will therefore not be bound by national collective agreements to which FIAT is subject.

5.2.4 A precedent for future flexibility?
The referendum and events surrounding it raise a series of issues concerning the future of Fiat, but more generally, the future of industrial relations in Italy. In September 2010, Marchionne extended his ‘Pomigliano Strategy’, announcing that he would be prepared to invest 20 billion euros in Italy, to double vehicle production in the country by 2014, but that at the same time the workers must accept more flexible ‘US-style’ contracts. If they refused, the company would pull out altogether from the country.
Thus Pomigliano may be seen as an opening move in a longer-term strategy of the company. Some have seen the confrontation between Fiat and the unions as some sort of ‘Thatcher’ moment, comparable to the British government’s confrontation with the National Union of Mineworkers in 1985. Maurizio Landini, the Secretary of FIOM, has argued that Fiat is leading efforts to divide the union movement and dismantle or weaken the system of collective bargaining in place in Italy since 1993. Moreover, Sergio Brancato (FIOM) suggests that other companies, such as Finmeccanica and Indesit, intend to follow Fiat’s approach in introducing greater workforce flexibility, should Fiat succeed. Moreover, the financial and global crisis has seen significant disagreements emerging between the principal workers’ confederations – exemplified by the case of Fiat – which are likely to have repercussions for the entire system of industrial relations in the country. In particular, the strategy of the company raises the issue of how contractual agreements can be enforced under current legislation in the face of disagreements among the contracting parties.

6. CONCLUSIONS AND IMPLICATIONS

The global financial and economic crisis has had serious repercussions for the labour market in Italy. As yet, there is little sign of improvement and it is likely that the crisis will also have important repercussions for the country’s system of collective bargaining. In general, the effects of the crisis, which have, as elsewhere, been concentrated in industrial firms, have been, somewhat paradoxically, more strongly felt in the poorer and less industrialized Southern regions of the country. This has had the effect of worsening the already very marked territorial differences that exist in employment and income in Italy. In part, the reasons for this are to be found in the labour market policy ‘response’, or rather in the pre-existing labour market institutions which have not been substantively modified since the crisis began. Labour market policy has been based almost exclusively on passive income support measures and, in particular, the Cassa Integrazione Guadagni scheme which provides income support for ‘temporary’ short-time working or layoffs. In the face of the crisis the CIG scheme was extended through the introduction of a new scheme, the Cassa Integrazione Guadagni in Deroga. This has extended the application of the measures to a broader range of firms and categories of workers, including apprentices and temporary workers. In principle, this should also provide more equal geographical coverage, but since the CIGD form is reliant on regional activation and financial support, so far, the increasing
importance of the CIGD (and CIGS) forms of the programme have had very little effect on the geographical coverage of income support measures. The heavy reliance on passive income support measures and, despite stated intentions to the contrary, the integration of short-time working and measures to combine passive with active measures to promote the acquisition of human capital among temporarily laid-off workers, has so far been extremely limited and does not bode well for Italy’s long-term recovery. This is likely to be further exacerbated by the rapidly expanding use of temporary contractual forms, as evidenced by the growing proportion of young workers employed on temporary contracts despite the crisis and the case studies which illustrate the use of temporary contracts as a relatively new way to regulate labour demand at the firm level. The expansion of temporary employment forms may well, as its proponents suggest, facilitate the expansion of employment, but, given that such contractual forms discourage the investment of firms in workers’ human capital, may also damage long-term productivity and therefore the competitiveness of Italian firms.

The crisis has once again worsened the position of young people in the Italian labour market. They have been particularly severely hit and, at the same time, the lack of career-oriented employment opportunities threatens to have severe long-term consequences. The increasingly marked distinction between heavily protected insiders and vulnerable outsiders has led to increasing age-based inequalities in the quantity and quality of employment and there is the danger of the creation of a ‘lost’ generation of current new labour market ‘entrants’. More generally, there are indications that the quality of work, as exemplified by growing involuntary part-time work and informal employment has decreased and wages – although not wage rates – have fallen.

Clearly, there is a need to rethink labour market policy in Italy with a view to dealing with the longer-term structural issues. At the same time, the emerging industrial relations crisis in the country – as exemplified by the Fiat case study – suggests that the collective bargaining system also needs to be re-examined. As things stand, the absence of constructive structural intervention bodes ill for the country’s future prosperity.

NOTES

* I would like to thank participants in the workshops in Geneva for their useful comments, and Francesco and Roberto Amitrano, Paolo Coccorese, Mauro Maccauro, Ernesto Pappalardo and Paolo Piciocchi for their support in the preparation of the case studies.

1. Indeed, the IMF argues that the poor overall productivity performance in Italy which
underlies the relatively low trend growth in the country is at least partly attributable to these labour market reforms which were accompanied by a reduction in unemployment rates from 11 per cent in 1997 to 6.1 per cent in 2007 (IMF 2010). The types of employment (temporary and part-time) encouraged by the reforms were fairly naturally in lower skilled work.

2. The authors’ calculations exclude foreigners working in Italy. Including foreigners, the fall in employment is reduced to 574,336 or 2.4 per cent of the workforce. Anelli and Basso (2010a) argue that excluding foreigners gives a more accurate impression since the figures for the employment of non-Italians, which have risen significantly over this period, reflect various measures legalizing illegal immigrants and formalizing informal employment rather than any real increase in the demand for foreign labour.

3. See, for example, the collection of papers in the *Economic Journal*, vol. 112, no. 480. It might be observed that, of the four substantive papers in the collection, three find negative effects of temporary employment (Blanchard and Landier 2002; Booth et al. 2002 and Dolado et al. 2002), with only one (Holmlund and Storrie 2002) suggesting a (partially) positive role. In Italy, the view appears to be somewhat more positive with several studies (for example, Ichino et al. 2005, 2008; Barbieri and Sestito 2008) finding a weak positive effect of temporary employment on the chances of finding permanent employment, although Gagliarducci (2005) finds that the intermittence of work experience associated with temporary work tends to impede the transition to permanent employment and Berton et al. (2008), while noting that the probability of the transition to permanent employment is higher from temporary employment than from unemployment, also observe the existence of strong state dependence or persistence in temporary employment. That is, for young people in particular, there is a tendency towards ‘permanent precariousness’ with new labour market entrants becoming trapped in repeated short-term contracts.

4. The estimates of informal employment are based on the definitions used by the Italian National Statistical Agency (ISTAT) which follow the guidelines laid down by the OECD (2002). Estimates of the size of the informal economy are derived from Italian national accounts which are then used to estimate informal employment. Here the percentages of employment are defined in terms of working days, rather than jobs.

5. In practice, the changes in informal employment reported here are entirely due to changes between 2008 and 2009. Between 2007 and 2008 there was no change in informal employment as a percentage of total employment at these levels of aggregation.

6. See, for example, European Commission (2009).

7. Note that, even if workers were effectively unemployed – that is, employed on zero hours – under the CIG, they continued to be counted for the calculation of official statistics among the employed, not the unemployed.

8. For a more detailed description of the underlying methodology, see CIES (2010, pp. 81–94).

9. Obviously, these are partial equilibrium estimates which do not take account of any macro economic demand effects. In this sense one may think of the figures reported, excluding passive income support measures, as upper bounds of the estimates since, in the absence of income support measures, the aggregate demand effects of lower average incomes would have been negative.

10. That is, the difference between column 1 and column 2 as a percentage of column 2.

11. Although, of course, substantial additional employment is dependent on the presence of Fiat in Italy. Estimates of the derived employment from Fiat operations in Italy vary, but could reasonably be as high as an additional 250,000 workers.


13. See, for example, ‘Tute blu contro tute blu così si divide in fabbrica’, *La Repubblica*, 4 October 2010.

14. This issue has been stressed in particular by Tito Boeri in two recent newspaper articles, ‘L’anomalia del Lodo Marchionne’, *La Repubblica*, 16 June 2010, and ‘Quegli errori da evitare’, *La Repubblica*, 25 August 2010. In January 2011, divisions sharpened...
following a referendum – similar to the referendum in Pomigliano – at the Mirafiori plant in Turin, which produced a 50–50 result. As well as encouraging divisions among the different unions involved, the referendum has also fed emerging divisions between workers’ representatives in the various Fiat plants.

BIBLIOGRAPHY


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### APPENDIX

**Table 8A.1  Overview of the main-crisis measures, Italy, 2008–2009**

<table>
<thead>
<tr>
<th>Policy area</th>
<th>Description of measure</th>
<th>Implementation</th>
<th>Results (expected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial crisis</td>
<td>A number of measures were introduced to stabilize the financial system including: (a)</td>
<td>From October</td>
<td>Only four banks took advantage of the recapitalization scheme (with a take up of €4.05 billion from the €10 billion available), mainly because the recovery of the global financial system was already under way by the time the scheme was implemented. €9 billion in loan repayments suspended.</td>
</tr>
<tr>
<td></td>
<td>government guarantee for the deposit insurance fund; (b) state guarantee for new bank</td>
<td>2008</td>
<td></td>
</tr>
<tr>
<td>measures</td>
<td>liabilities; (c) bank recapitalization scheme; (d) funds made available for banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>extending credit to SMEs; and (e) a bank loan moratorium.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiscal policy</td>
<td>discretionary fiscal expansion was very limited, comprising: (a) access to credit for</td>
<td>2009</td>
<td>One of the smallest stimulus packages among G20 countries, of the order of 0.2% of GDP in 2009 and 2010, i.e. around one-tenth of the level of the estimated discretionary increase in fiscal policy in G20 countries as a whole of 2.0% and 1.5% of GDP in 2009 and 2010, respectively. Despite (and/or because of) this, the fiscal situation worsened considerably, with public debt increasing by about 10 percentage points of GDP in 2009, reaching almost 116% of GDP.</td>
</tr>
<tr>
<td></td>
<td>SMEs; (b) a car scrap-page programme.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income support and</td>
<td>A Government Decree (DL 185/2008) transformed into law in January 2009</td>
<td>Applied from</td>
<td>The effects of the broadened application have been modest. By mid 2010, the new CIGD scheme</td>
</tr>
<tr>
<td>training</td>
<td></td>
<td>January 2009</td>
<td></td>
</tr>
</tbody>
</table>
Table 8A.1 (continued)

<table>
<thead>
<tr>
<th>Policy area</th>
<th>Description of measure</th>
<th>Implementation</th>
<th>Results (expected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Law 2/2009) widened the field of application of ‘discretionary’ unemployment benefits (the Cassa Integrazione Guadagni scheme). Coverage was extended to include workers on temporary contracts and apprentices. The same law extended the application of insured unemployment benefits to apprentices and those on temporary contracts by reducing the contributions required for eligibility.</td>
<td>accounted for around 30% of hours in the CIG scheme as a whole. The scheme remained concentrated in the North and the mitigating effects of CIG have mainly been felt in Northern Italy where the crisis was least acute. The new CIGD scheme envisaged the incorporation of training but thus far the take-up by regions has been limited and concentrated in the North.</td>
<td></td>
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<tr>
<td>Subsidized employment and training</td>
<td>The PARI programme was introduced to subsidize training and employment for persons not eligible for CIG or unemployment benefits. The programme involved an interview and subsequently a subsidy of up to €1,000 for training costs and up to €4,500 in income support (spread over 10 months).</td>
<td>2008 Around 10,000 workers obtained employment contracts (70% of which were temporary) out of 36,000 persons involved. Almost the same number left the employment office lists at the same time without participating in subsidized employment and training.</td>
<td></td>
</tr>
</tbody>
</table>