Reconfiguring Italian pensions. From policy stalemate to comprehensive reforms*

by

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1. Introduction

Italy experienced an early start in the field of pensions, introducing in 1919 a compulsory funded scheme for all the employees whose earnings were under a certain threshold.

The system was built according to the Bismarckian model, along occupational lines. The subsequent evolution of the Italian pension system was similar to that of many Bismarckian countries, and followed two major directions: a) coverage extension to protect all the categories of workers (farmers 1957; artisans 1959; dealers-shopkeepers 1966); b) introduction of a basic means-tested scheme aimed at preventing poverty in old-age (1969). Moreover, in 1969 the original funded system was eventually replaced by a fully PAYG one. The same year was crucial for the level of old-age pensions, as Law 153/69 modified the earnings-relating method of benefits calculation introduced one year before (Law 238/68), making it more generous (80% of earnings after 40 years of insurance)[1]

The result of such expansive interventions was a high increase of pension expenditure relative to GDP - which passed from 4.5% in 1960, to 6.8% in 1970 and 10.8% in 1980 [Ministero del Tesoro 1981] - and huge unbalances in the accounts of INPS[2] and other autonomous funds.

In fact, the shift from a funded system to a PAYG one, the expansion of coverage and the increase in the generosity of benefits took place in many well developed nations during the post-war period, yet in Italy pension policy assumed peculiar traits.

The Italian political system that emerged from the ashes of World War II has often been described (till the early 1990s) as a consociational and scarcely legitimized system, presenting a weak government, a turbulent parliament - *locus* of both harsh confrontations and "hidden", wide-ranging *quid pro quo* agreements - and a fragmented and polarized party system [Sartori 1982]. Against such background, and supported by a fast economic growth that provided considerable fiscal dividends, the fragmentation of political demand (many interest groups exerting micro-corporatist pressures) coupled with the fragmentation of political offer (many parties) led to a "distributive sliding" of welfare policy [Ferrera 1998]. In other words social policies, originally crafted as re-distributive measures, turned their nature into distributive policies, offering concentrated benefits to selected social groups while dispersing and obfuscating their costs. Such policies represented the main instruments in the hands of politicians to attract voters' support in a context where the diminished importance of "class politics" loosened the ties between parties and interest groups. In Italy this was also made possible by the early and undisciplined conversion of policy-makers to deficit spending, that shifted the burden of welfare state financing on public debt - and on future generations [Ferrera and Gualmini 2003]. This was in line with the polarization of the Italian political system, where social policies turned out to be one of the most powerful ways to enhance the legitimacy of the system.

Due to the occupational design of the pension system, old-age (and disability) policies emerged as the typical currency of such political exchanges. The (expansive) reforms were rarely preceded by serious forecasts on their impacts, and virtually no pension expenditure projection was carried out till the end of the 1970s. A clear example of such

[1] See Table 3.
[2] INPS is the major public institution for pensions.

developments is represented by the introduction of very favorable "seniority pensions", especially for public sectors employees (1956), that were allowed to retire after only 20 years regardless of age. Seniority pensions were also created for private sector employees and self-employed workers (1965), permitting them to retire after 35 five years, even prior to reaching the pensionable age.

The result was a bizarre system, generous, costly, and extremely fragmented along occupational lines - with many different schemes for the various categories, each with peculiar regulations about eligibility conditions, contributions and benefits.

This expansion also conditioned the development of the whole Italian social protection system, orienting it towards the overprotection of old age. Expenditure for pensions increased constantly in the last 30 years, representing almost 2/3 of overall social expenditure in the mid-1990s (Table 1).

Table 1. Social benefits by group of functions (as % of total social benefits) – selected countries, 1998.

	Old age + Survivors	**Sickness / Health care + Disability**	**Family + Children**	**Unemployment**	**Housing + Social Exclusion**
EU 15	45.7	35.1	8.3	7.2	3.7
Germany	42.3	36.1	10.1	8.7	2.8
France	44.0	34.1	9.8	7.6	4.5
Italy	*64.0*	*29.5*	*3.6*	*2.7*	*0.1*
Sweden	39.4	35.0	10.8	9.3	5.5
UK	43.9	36.9	8.6	3.6	7.1
Spain	46.1	37.3	2.1	13.5	1.0

Source: Adapted from Eurostat – ESSPROS 1998

In the following section the emergence of the pension problem in Italy will be illustrated, also providing a brief account of the main reasons that prevented any change in the field of pensions during the 1980s. Section 3 provides an analytic framework to examine the Italian shift from stalemate to pension reforms during the 1990s, then providing a detailed description of both the reform process and its content. Finally, section 4 will focus on the future evolution of the Italian pension system, highlighting the positive and negative effects of the implemented reforms.

Table 2. Major reforms of the Italian pension system, 1945-2000

1947	DLCPS 689	Introduction of a PAYG component
1952	L. 218	Reform of the PAYG component. Introduction of pension minima
1957	L. 1047	Scheme for farmers
1959	L. 463	Scheme for artisans
1965	L. 903	*Seniority pensions* for private employees
1966	L. 613	Scheme for dealers-shopkeepers
1968	L. 238	*Earnings-related formula*
1969	**L. 153**	**Reform of the *earnings-related* formula – more generous** **Basic means-tested pensions (*pensione sociale*)**
1975	L. 160	Reform of the indexation mechanism fro private employees – more generous
1976	L. 177	Reform of earnings-related scheme for public employees – more generous treatment
1982	L. 297	Reform of *Tfr*
1990	**L. 233**	**Earnings-related formula for self-employed**
1992	L. 421 and D.Lgs. 503	**Amato reform**: delegation to the Government Public pillar reform
1993	D.Lgs. 124	Legal framework for supplementary pensions
1995	**L. 335**	**Dini reform**
1997	**L. 449**	**Prodi reform**
2000	D. Lgs. 47	Incentives for supplementary pensions

2. The 1980s: crisis and stalemate

In the early 1980s, the Italian pension system was made up of a single, public and highly fragmented pillar, articulated in a labyrinth of schemes with different regulations (Table 3).

Table 3. Main features of the Italian pension system at the beginning of the 1980s

	Eligibility conditions		**Contribution rate**	**Benefit**		**Indexation**
	Old-age retirement age	**Seniority** contribution period		**Assessed earnings**	**Formula**[1]	
Private Sector (Fpld)	55 Women 60 Men	35 Women 35 Men	24.01% of which: 16.86% employers 7.15% employees	Best 3 years over last 10	*N/40 * 80%*	- Minimum pensions: *legal minimum wage* - Over minimum: *mixed index - inflation* and *gross wages*
Public Sector						
Central Government	65 Women 65 Men	20 (15) Women 20 Men	5.60% employees	Last month	*N/40 * 94,4%*	*Mixed index - inflation* and *gross wages*
Local Government	60 Women 60 Men	20 Women 25 Men	5.30% employees	Last month	*N/40 * 100%*	
Self-employed	60 Women 65 Men	35 Women 35 Men	Flat rate and low amount	Contributions-related system: most benefits supplemented at the minimum level		*Inflation*

[1] N: years of contribution.

Source: elaboration by the author.

However, alongside the public pension pillar another peculiar scheme existed, which could be roughly considered a "quasi-pension" second pillar. The *Tfr* (*Trattamento di fine rapporto*) was, and still is, a severance pay that firms must compulsorily grant to their employees when either they retire or leave the company for any reason. It is financed through payroll taxes (6.91% of gross wages) and operates as a defined-benefits scheme for private employees.[3] In fact it is basically a "deferred-wage" for all private employees, providing modest but guaranteed returns: every year 6.91% of

[3] Public employees had a similar and more generous scheme.

annual earnings is accumulated and then revalued at fixed 1.5%, plus 75% of the inflation rate. As contributions are only *virtually* accumulated, the TFR represents an important (and relatively cheap) source of financing for companies. The portability of the accumulated amount is neither allowed if the worker changes company or if he/she is fired. Moreover, the *Tfr* also functions as an unemployment subsidy in disguise in the latter case.

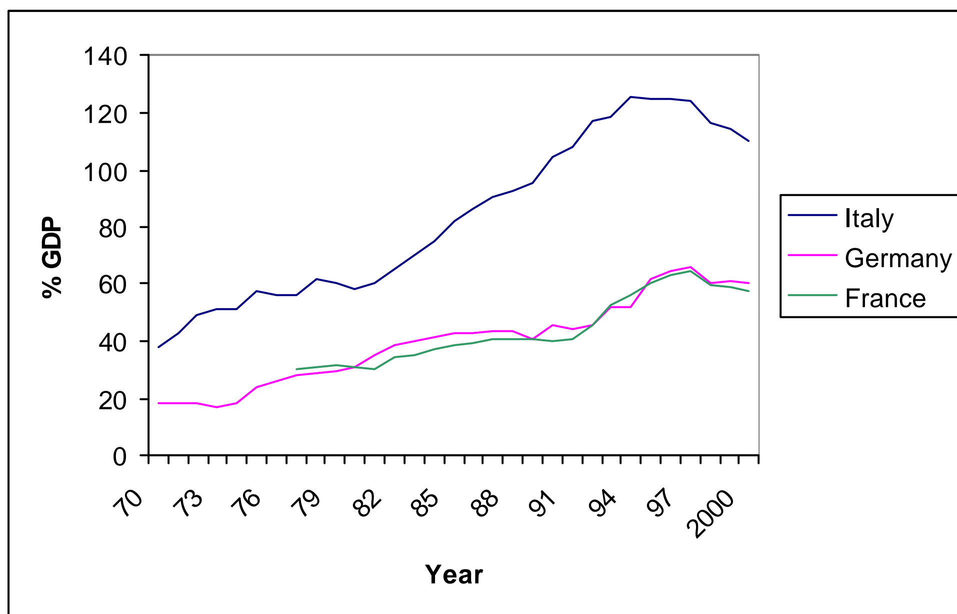
The modification of economic and demographic patterns, which affected the PAYGO pension systems of many well developed countries [Hinrichs 2000; Myles and Pierson 2001], had a tremendous impact on the Italian pension system that already presented deep internal imbalances.

In 1981 the Treasury Minister, Beniamino Andreatta, set up a Commission (chaired by prof. Castellino) that provided the first comprehensive evaluation of the pension system since the 1960s, suggesting some measures to tackle the most evident problems. The Commission report [Ministero del Tesoro 1981] also contained one of the first projection on pension expenditure. Two different periods were considered (1980-85 and 1980-2000) envisaging two diverse scenarios. The situation was critical in both scenarios for both periods. Pension expenditure – which had grown from 4.5% in 1960 to 10.8% in 1980 - was projected to rise to 11.7% of GDP in 1985 in the best scenario and to 12.4% in the worst, and so would the transfers from public budget from 4.2% to 6.1% of GDP. Thus, pension expenditure would be around 18-19% of GDP in 2000, and the equilibrium contribution rate for the seven major schemes would rise from 20% to a striking 32-34%.

The Commission proposed some reform measures, which mainly aimed at restoring the financial viability of the system by pushing the lever of fairness: a) harmonizing contribution rates for public and private employees and raising the overall contribution rates for both employees and self-employed; b) harmonizing of the eligibility conditions for seniority and old-age pensions between the different schemes and equalizing the retirement age for male and female private employees by raising the latter; c) gradual abolition of the privileged regulations of seniority pensions in the public sector; d) shifting the indexation mechanism from real wages to the inflation rate; e) modification of the benefit formula to take into account the whole career and not only the last (and best) years.

Such proposals addressed the pension problem in the wider framework characterized by overprotection of old-age within the social protection system and, from a financial and economic point of view, a high deficit – which was to rise from 8.6% (1980) to 11.1% (1990) of GDP – and a large public debt, 58.1% of GDP in 1980, then exploding to over 100% during the 1980s (Graph 1).

Graph 1. Gross Public Debt as a Share of GDP, 1970-2000.



Source: OECD*, Economic Outlook,* various years.

However, the Italian political system seemed not to be ready to embark on a process to modify pension rules. 15 Governments, 8 Prime Ministers, 9 Labour and Welfare Ministers struggled with the situation between 1978 and 1992, different reform proposals were prepared and some of them also reached the legislative bodies, but none managed to get through.

The Italian political system was still marked by high fragmentation and strong polarization of the party system, and weak governments usually relying on wide coalitions. During the 1980s 5 parties participated in the diverse governmental coalitions – with an average of 3.7 parties per coalition – so that the latter were "colorful" and heterogeneous, usually covering from the middle-right to the middle-left of the political spectrum, around the pivotal Christian Democratic party. Such coalitions also displayed deep internal conflicts – especially between the more and more influential Socialist Party and the Christian Democrats – which affected governments stability and often led the latter into harsh confrontations with the parliament. Therefore governments remained in power only 300 days on average, consequently meeting formidable obstacles on their way to comprehensive pension reforms.

After the first alarming reports, the subsequent lack of consensus on the relevance of the pension problem also played a role in the never-ending postponement of reforms. [Franco and Marino 2001].

However, since 1978 almost every Labour and Social Protection minister proposed reform projects which always faced the same destiny: they were abandoned because of change of governments. Most of the proposals shared some objectives like harmonizing the regulations for the different schemes in terms of contribution rates, benefit formulas

and retirement age. Some of them were more innovative, envisaging a reconfiguration of the system on different pillars.

At the end of the 1980s more than ten years had passed since the debate on pensions had first appeared in the political arena, and still no significant change had occurred. The shift from the distributive policies typical of the expansionary period – mostly actions of "credit claiming" – to the subtractive ones requested by the modified external and internal environment proved to be difficult, almost impossible, in Italy. Though the relation between power concentration ("*majoritarianism*") and the chances to pass a pension reform is far from being straightforward [Pierson 1994], in Italy the Government still had too little autonomy from the supporting coalition, and was therefore often involved in struggles with the parliament, to commit itself to a delicate exercise of "blame avoidance" and carefully control it in the various stages of a pension reform.

On the contrary, the last Government supported by the five-party-coalition (*pentapartito*[4]) of the "First Republic" passed a reform act that followed the old policy pattern of the "golden age": in spite of population ageing, rising unemployment, huge public debt and rising deficit, the earnings-related system was extended to self-employed workers, though maintaining the contribution rate at a low level. This represented another expansionary change - introduced without forecasting its impact on public expenditure - which deeply worsened the financial situation of the three schemes affected by the reform [Franco 2002].

In the early 1990s, however, Italy was on the edge of a new era, where the inefficiencies and the vices of its pension system were no more tolerable because of the joint impact of both external and internal factors.

3. The reconfiguration of the Italian pension system through negotiated pacts

3.1. Institutions and learning

Welfare and pension reforms have been the object of many neo-institutionalist investigations since Pierson's classic analysis of retrenchment in UK and US [Pierson 1994]. These studies stress the fact that the politics of pension reform is different from pension politics during the "golden age" for two basic reasons: a) the goals, and b) the context. In fact, this "new politics" essentially emerges as a search for blame avoidance, because it tends to impose concentrated losses to achieve diffuse benefits in a context in which the existing policy arrangements are defended by dense networks of interest groups emerged around social protection programs [Pierson 1994]. Therefore, for those governments willing to reform pensions, this seems to be a very delicate operation that must be carefully managed. The new institutionalist approach has identified many strategies that may be pursued (and have indeed been pursued) by governments in order to successfully reform public pension systems. Firstly, a seemingly indispensable condition for success consists in obtaining the consensus [Myles and Quadagno 1997; Pierson 1997; Bonoli 2000; Hinrichs 2000; Myles and Pierson 2001] of either opposition parties or social actors [Schludi 2001] - above all the unions – through a

[4] Socialist Party, Social Democratic Party, Christian Democratic Party, Republican Party, Liberal Party.

negotiation process, in order to spread the responsibility and prevent a blockage of the reforms. Secondly, including some specific elements in reform proposals may facilitate their approval: long phase-in periods – excluding current retirees and older workers – and mechanisms for automatic adjustment (reduction) of pension benefits that hide the real magnitude of reform [Pierson 1994; Pierson 1997], or at least reduce political protest by hitting those interests less represented in the political system, namely future generations. Thirdly, policy makers can play different groups against each other in order to justify the adoption of some policy solutions. Moreover, the new institutionalism has pointed at the relevance that formal institutions have for a successful reform [Bonoli 2000; Taylor-Gooby 2001]. Although there does not seem to exist an univocal link between concentration of power and the prospect for successful reforms is far from being straightforward [Pierson 1997], it is plausible that when governments are either less concerned about electoral punishment or enjoy greater autonomy from their majority in the parliaments (as in the case of "technical governments") they may have more chances to implement important pension reforms.

This digression is useful because Italian pension policy during the 1990s has proved to be a case in which all the elements described above operated, allowing two major pension reforms – and a further adjustment some years later – that significantly re-cast the Italian pension system.

However, such deep reconfiguration [Myles and Quadagno 1987; Myles and Pierson 2001; Franco 2002; Ministero del Welfare 2002] cannot be explained without introducing further elements. The point is that the factors highlighted by the neo-institutionalist analysis operated in a very peculiar environment, characterized by the multifaceted crisis which affected the Italian economic, financial, political and social protection systems at the beginning of the 1990s.

More precisely, "the reforms were the result of a complex learning process, prompted by a sudden change of actor constellation in the early 1990s, in the wake of both internal and external developments". External pressures - coming from the run towards EMU and financial markets – induced relevant learning processes among domestic societal and political actors, operating through the typical form of "operational conditioning". Domestic dynamics, like the profound reconfiguration of the political and institutional arena of the early 1990s, facilitated these processes that largely altered actors' preferences and the overall stake of the game. Indeed, in the diverse stages of the reforming process actors – especially the unions - realized that "the failure to reform could no longer mean maintaining the distributive status quo, but implied instead suffering unexpected and unavoidable losses".[5] Learning processes and collective "puzzling" helped to overcome the long-lasting stalemate in the pension field as well as the dynamics of "powering" and the political exchanges noted above.

3.1 The Amato government: emergency management and (partially) negotiated pension reform

In the early 1990s the economic performance showed some fluctuations, including a significant recovery in 1994 (+ 2.2%) and 1995 (+3.0%), but the financial situation was dramatic with a public debt risen to 104.5% on GDP in 1990 – and still rising to 108.4%

[5] For a full illustration of this argument, see Ferrera and Gualmini [2003].

in 1991 and 117.3% in 1992 – and the public deficit at 11.1% in 1990 and 10.5% in 1991. The situation was even worse in the light of the European convergence criteria, established in Maastricht in 1992, which prescribed the target of 60% for debt/GDP ratio and 3.0% for deficit/GDP one.

But Italy also suffered from a deep political and institutional crisis, whose first signs appeared in spring 1992 when the big "*Tangentopoli*" scandal broke out. A widespread system of corruption involving peak politicians and top businessmen was unveiled, soon leading into a deep crisis the traditional parties that had dominated the political stage for over 40 years. Even before this scandal swept away a relevant portion of the Italian political history, the election of April 1992 registered signs of a partial, but meaningful, de-structuring of the party system with a large loss of votes for the three bigger parties (Christian-Democrat; former Communist Party; and Socialist Party), the growth of some new parties like the Lega Nord, and the decrease of the electoral turnout [Sani 1992].

As noted some years later by the Prime Minister that led the government after those elections – the Socialist Giuliano Amato – in such a situation he clearly perceived that the country needed a firm guidance to avoid that the economic, financial and political-institutional challenges, together with those brought in by the mafia – which killed two well known magistrates in the spring of 1992 - could sweep the whole democratic system away.[6] Amato then constituted a mostly "technical" cabinet - supported by a four party coalition (DC, PSI, PLI and PSDI) – and then embarked on the so-called process of "risanamento", i.e. restoring-to-health public finance. Central in this process – for the specific character of the Italian welfare state – was the reform of the pension system, then absorbing about 2/3 of social expenditure.

Moreover, in 1991 a new consensus on the alarming trend of pension expenditure had emerged from the projections of both INPS and General Accounting Office. These estimates showed the gloomy future for the scheme for private employees, but the situation was not better in the schemes for public employees and the self-employed. Expenditure for public pensions had reached 12.8% of GDP in 1992 [Ministero del Welfare 2000] and the projections were even more dramatic: 23.4% in 2040 according to General Accounting Office.

Thus, the issues that had to be addressed were the same on the ground since the early 1980s and could be roughly grouped in three categories: a) stabilizing pension expenditure and achieving financial sustainability; b) harmonizing regulations to increase intra-generational fairness between the different occupational categories, i.e. public/private employees and employees/self-employed workers; c) clearly separating contributory benefits (*previdenza*) from social assistance (*assistenza*), the latter to be financed by general revenues.

The government followed a twofold strategy: reducing public expenditure in the short term through emergency measures, while nominating a Commission to design an organic reform of the system. In the first direction, the government passed, in the Summer of 1992, an integration of the budget law for the same year, which also suspended the indexation of pensions for 1992. As for the structural changes, the early steps were quite prudent as the draft bill delegating the Government to draw the reform of the pension system re-proposed most of the measures recommended during the 1980: lengthening of both the minimum contribution period to be entitled to old-age pensions

[6] See Cazzola [1995].

from 15 to 20 years and the minimum contribution period for seniority pensions from 35 to 36 years.

Table 4. Main features of the Italian pension system at the beginning of the 1990s

	Eligibility conditions		**Contribution rate**	**Benefit**	
	Old-age retirement age	**Seniority** contribution period		**Assessed earnings**	**Formula**[1]
Private Sector (Fpld)	55 Women 60 Men	35 Women 35 Men	26.22% of which: 18.93% employers 7.29% employees	Last 5 years	*N/40 * 80%*
Public Sector					
Central Government	65 Women 65 Men	20 (15) Women 20 Men	7% employees	Last month	*N/40 * 94,4%*
Local Government	60 Women 60 Men	20 Women 25 Men	7% employees	Last month	*N/40 * 100%*
Self-employed	60 Women 65 Men	35 Women 35 Men	12%	Last 10 years	*N/40 * 100%*

[1] N: years of contribution.
Source: elaboration by the author.

For their part, the unions adopted a twofold strategy as well, protesting against the short-term measures included in the budget law, while proving their willingness to negotiate on the draft bill for an organic pension reform. However, much of this changed during the summer as a consequence of strengthened external pressures.

Italy underwent a sharp devaluation of the national currency that led to the exit from the EMS, thus putting pressure on the government to recover credibility *vi-à-vis* financial markets also via a more incisive pension reform. However, the government did not abandon the dialogue with the social actors, even more relevant in a climate of stricter austerity, and absolutely necessary in a situation in which the channel of inter-parties negotiation was unavailable, because of the discredit into which the major parties had fallen [Natali 2001]. Some measures concerning pensions – i.e. the suspension of the possibility to retire with seniority pensions in 1993 and the

neutralization of the indexation mechanism for the same year - were introduced in the huge (about 46 billions Euro) budget law for 1993 (Legislative Decree 384/92, later converted with Law 438/92), thus provoking some harsh protests by the unions, which organized several strikes and demonstrations in September and October mobilizing thousands of people and workers. Nevertheless, the reform process did not stop and, though with some stop-and-go, the tripartite informal negotiation between the government, the unions and the employers association (*Confindustria*) went on till the adoption of the bill delegating the government to revise pensions (October 1992 - Law 421/92).

Although no formal agreement was signed, both Confindustria and the unions accepted the revised version of the structural pension reform. More particularly, the unions did not revolt against the plan – which imposed a much deeper reform than expected only some months before – also because they obtained some concessions in terms of smaller cuts in the short term: the lengthening of minimum contribution period for seniority pensions (from 35 to 36 years) was eliminated and the adjustment of pension to inflation rate was granted also in 1993. Law 421/1992 delegated the government to issue two legislative decrees aimed at moving the Italian pension system towards a multipillar configuration: the first decree (D. Lgs. 503/92) would concern the revision of the first public pillar, while the second (D. Lgs. 124/93) would establish a framework for supplementary occupational and private pensions.

The plan to reform the public pillar was informed by two basic principles: 1) stabilizing pension expenditure and, 2) harmonizing the different regulations for private and public employees. The two goals were often pursued together. In this perspective the first intervention modified the pension formula of the earnings-related system by lengthening the period to assess the *reference earnings* from the last 5 years (private employees) or last month (public employees) to 10 years for those workers with at least 15 years of contributions - and the whole career for the new entrants in the labour market[7]. Likewise, the modification of *retirement age* was directed to both (partially) harmonizing the rules and reducing the number of future pensions: the retirement age for private employees was raised from 55 to 60 for women and from 60 to 65 for men, (public sector: 65 for both men and women). Finally, in the field of *seniority pensions* the eligibility conditions were tightened, putting an end to the anomaly represented by the so-called "baby-pensions" in the public sector.[8] The minimum contributory period to be entitled to seniority pensions was equalized at 35 years for public and private employees. In spite of these important changes, the gradualist character of the reform stands out if we consider that extremely long phase-in periods were introduced for all of these measures [INPS 1993; Cazzola 1995; Artoni e Zanardi 1997] - the price to pay to obtain the acquiescence of the unions.

However, these were not the only measures adopted in 1992. Another important change, that was expected to generate a great part of the projected savings, affected not only future pensions but also the benefits of current retirees: the previous, generous *indexation mechanism* that linked benefits to both prices and wages was replaced by a new index adjusting pensions to *prices* only. Finally, in both schemes for employees and self-employed the *minimum contributory period* to be entitled to an old-age benefit

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[7] For those with less than 15 contribution years the *reference earnings* would be calculated on the basis of the last 5 years plus the period from January 1993 and the moment of retirement.

[8] See above Table 4.

was raised from 15 to 20 years, and the possibility to *cumulate* pensions and wages was limited.

The Amato reform also created a legal framework for the development of *supplementary pension pillars*. Two kinds of pension funds were envisaged: "open" pension funds and "closed" pension funds. The main difference consists in the relevant role played by employees and employers representatives in the "closed", mainly occupational, pension funds, which are thought to constitute the second pillar of the pension system. Due to the scarcity of resources– for both the high contribution rates in the first pillar and the constraints on the public budget – the possibility to use the *Tfr*[9] to finance pension funds was introduced, together with tax incentives. For those workers entering the labour market after 1993 the *Tfr* must be compulsorily transferred to a pension fund, if they decide to subscribe a supplementary pension plan.

Pension funds for employees can only follow the defined-contributions principle. The tax model is the ETT[10], which anyway avoids any "double taxation" through some specific regulations.

The (projected) results of the Amato reform were relevant in terms of both harmonization and cost containment, but limited because of the introduction of transition periods and "key" exemptions. Rules regarding pension formulas and seniority pensions had been harmonized between the schemes for private and public employees and the most striking anomalies (e.g. baby-pensions) were being phased-out. Projections also showed that expenditure for pensions would be contained with also a sharp decrease of future liabilities [Franco 2002]. Moreover, the changes brought into the pension formula were to enhance fairness, reducing (or even eliminating in the case of the new entrants) the favorable treatment that the former system provided to those workers with the less "flat" careers; similarly, the lengthened minimum contributory period for old-age pensions would improve the equity of the system because of the stricter link between benefits and contributions.

On a negative note the issue of the (comparatively) short minimum contributory period - 35 years - to get an entitlement to seniority pensions and the persistent different regulations between the schemes for (public and private) employees and the self-employed had not been tackled.

3.3 From Berlusconi to Dini: different bargains, different outcomes

After the Amato reform of 1992, an articulated report was released by INPS [1993], analyzing the main schemes of the Italian pension system. It showed that if the first retrenchment interventions adopted one year before had improved the overall condition of the system, some aspects still required further interventions. More precisely, the projections smoothed the worries for the scheme for private employees, where the impact of the reform was evident. The schemes that displayed much more alarming perspectives were actually those for self-employed workers, i.e. artisans, dealers-

[9] See above par. 2.
[10] Contributions Exemption, returns Taxation, benefit Taxation.

shopkeepers and farmers. These programs had always shown a structural deficit and the situation had dramatically worsened after the 1990 reform [INPS 1993].

Therefore, the debate around pensions remained lively: welfare and pension reform became crucial issues in the electoral campaign for the 1994 elections [Natali 2001]. The electoral round – the first held with the new mainly majoritarian electoral system introduced in 1993 – registered a partial restructuring of the party system and the formation of a new center-right majority that supported the first truly "political" government after two "technical" cabinets (led by Amato and Ciampi).[11] Silvio Berlusconi was appointed Prime Minister.

Determined to continue the austerity policy inaugurated by his predecessors, Berlusconi chose Lamberto Dini as Treasury Minister and Clemente Mastella as Minister of Labour and Welfare. The latter soon started to work on a new pension reform, setting up a Commission, chaired again by professor Castellino, which included some experts appointed by the social actors.

Though committed to a negotiation with the unions and Confindustria, the government led by Berlsuconi did not speak with a single voice in the debate on pensions, threatening the unions with hypotheses of radical interventions and privatization of the Italian social security system [Natali 2001]. Although this behavior made the unions suspicious, a very loose kind of negotiation between the government, the unions and Confindustria went on during Summer and the early Autumn. A bill delegating the government to reform pensions was eventually submitted at the end of September. The proposal aimed at: a) strongly *discouraging early retirement* through seniority pensions by lowering the benefit by 3% per each year below the legal retirement age; b) reducing the accrual factor from 2% to 1.75% for all those workers with at least 15 years of contribution, who had been less affected by the 1992 reform; c) replacing the existing indexation to prices with a new indexation mechanism linking pensions to *projected* inflation rate only.

These three measures, praised by the association of the employers, were enough to provoke massive protests by the unions: on October 14th thousands of workers went on a general strike, on November 12th 1 million people crowded Rome for one of the largest demonstration since a decade and a further general strike was threatened for December.

In the meanwhile, the parliamentary majority was flaking off and at the beginning of December the government beat a retreat. The agreement signed on December 1st 1994 between the government and the unions retained only few and mostly temporary measures, like the suspension of the right to retire with seniority pensions in 1995. The agreement also allowed the government to keep in the budget law (Law 724/94) the acceleration of the transition period (introduced by the Amato reform) to raise the retirement age, also stating that before June 1995 an organic and structural reform had to be adopted or else the contribution rate would be increased by decree.

On December 22nd Silvio Berlusconi resigned, concluding his first political experience with a defeat in the field of pensions. As noted above, the commitment to a concertation process leading to a substantial consensus among political and social actors –especially between the government and the unions – seems to be a fundamental prerequisite for successful pension reforms. The cabinet led by Berlusconi, obliged to deal with different preferences within its heterogeneous majority, and within the government

[11] The coalition was formed by the new-born Berlusconi's party called Forza Italia, the renovated former neo-fascist party Alleanza Nazionale, the Lega Nord and some smaller center parties.

itself (some differences emerged between the rigorous approach of the Treasury Minister, Dini, and the Minister of Labour and Welfare, Mastella), did not fully commit itself in the negotiation with the unions. On the contrary the government, backed by Confindustria putting pressure for a structural intervention [Natali 2001], decided to attack just on the most sensitive issues for workers and representatives: i.e. seniority pensions, the level of benefits for the older workers (by changing the accrual rate) and pensions of the current retirees (via indexation mechanism).[12]

In a few words, the governmental plan failed because it aimed at achieving financial sustainability and expenditure cuts without providing any (compensatory) measures that could reduce the intra-generational unfairness of the system in a direction that might please the unions.

After Berlsuconi's resignation no new elections were held (somewhat violating the unwritten rules of a majoritarian democracy) and President Scalfaro worked to form a new government, which was led by the former Treasury Minister Lamberto Dini and was supported by a center-left coalition (PDS, Popular Party, Lega Nord and some smaller center parties).

The Cabinet had an evident "technical" character and it was thought to remain in power for a limited period in order to adopt some extremely necessary measures, clearly expressed in its program. In fact, if on the one hand the economic situation was improving (GDP growth was at 2.2% in 1994 and deficit had decreased to 7.1% of GDP), on the other hand public debt reached the level of 125% of GDP and the political unrest of 1994 had provoked a sharp decline in the value of the national currency, requiring some firm interventions [Ferrera and Gualmini 2003]. The reform of pensions, as stated in the agreement of December 1994, was part of the plan, that also contained a supplement of the budget law for 1995, the new budget law for 1996 and the revision of the regional electoral system.

The government soon proved its willingness to start a process of concertation with the social partners in the pension field, paying particular attention to the unions' requests. For their part, the latter seemed to be convinced that a further pension reform had to be prepared, and they supported the idea to rewrite the "social pact" by preparing a proposal to reform the pension system [Cazzola 1995; Lapadula and Patriarca 1995; Natali 2001].

The Minister of Labour and Welfare Tiziano Treu committed himself to a more institutionalised and smooth dialogue and negotiation with the unions than in the previous years. The concertation focused on three major issues: institutional and financial separation of social insurance and social assistance, modification of the pension formula, and revision of seniority pensions. On May 8th a formal agreement was signed by the government and the unions, which later verified acceptance by the workers through a referendum that approved the reform draft. On the other hand, Confindustria refused to sign the pact, lamenting its too prudent approach to the issue of seniority pensions. Despite this defection, the parliamentary *iter* of the bill did not found insurmountable obstacles, so that at the beginning of August Law 335/1995 was passed.

The Dini reform operated a substantial reconfiguration of the Italian pension system along the lines of financial sustainability and cost containment, intra-generational fairness, modernization and flexibilization. The main intervention was the modification

[12] It's worthy to note that in the mid-1990s retirees represented the majority of members of the major workers organization (CGIL).

of the pension formula with the shift from an earnings-related system to a *contributions-related* one for private/public employees and the self-employed. As suggested below, this shift *per se* could be not so relevant without the introduction of some less visible mechanisms for benefits adjustment. In the new system pensions not only reflect the length of contributory period (as in the previous system) but also the amount of contributions actually paid. Moreover the pensions amount depends on the age of retirement, the economic trends and the demographic dynamics. Nonetheless, the system remains PAYG and benefits are calculated as follows: the contributions[13] paid by the workers are "virtually" accumulated in a personal account and indexed to the mean GDP growth rate of the last five years. At the moment of retirement, such amount is converted into a pension through a *conversion coefficient* that varies in relation to the age of the worker. The reform in fact introduced a *flexible retirement age* – between 57 and 65 – with the maximum benefit obtained retiring at 65. It's important to stress that such conversion coefficients must be compulsorily revised every ten years to take into account the changes occurred in both economic and demographic factors.

The flexible retirement age represents a factor of modernization of the system together with the *reduction to 5 years of the minimum contributory* period to be entitled to old-age pension.

However, to prevent the opposition by the unions, the reform largely protected the so-called "acquired rights" of the older workers by introducing a long transition period. In fact, the contributions-related system fully applies to the new entrants in the labour market only, while the reform differently affects the other workers according to the length of the contribution period already matured in 1995. For those with at least 18 years of contribution, the old earnings-related system (as reformed by Amato) remains in force. For those with less than 18 years the new system applies *pro rata*: i.e. for working years before 1995 pension will be calculated with the old rules, while the contributions-related method will apply to working years beyond 1995. During retirement pensions will be indexed to prices only.

A similar protection of the "acquired rights" was granted when the new regulation of s*eniority pensions* was laid down: the eligibility condition was tightened by lengthening the minimum contributory period from 35 to 40 years. This measure *de facto* phases-out seniority pensions, though with a long transition period. In 2008, at the end of this transition period, workers will be thus allowed to retire either at the age of 57 with at least 5 years of paid contributions or (at any age) after 40 years spent in a regular job.

Other interventions of the Dini reform regarded: the introduction of *credits* for periods of both child rearing and care activities; the creation of a *new scheme* for those workers hired with the new "atypical" contracts; the increase of the contribution rate for the self-employed; specific rules for those employed in *particularly hard jobs*; the abolition of both the so-called *pensione sociale* and the supplement for lower pensions, replaced by a new means-tested benefit (*assegno sociale*) for all the citizens over 65 years without other incomes; the creation of a *permanent body* responsible for *monitoring* pension expenditure. The reform also established a clear *separation* between *social assistance benefits*, that had to be financed by general revenues, and the *contributory benefits.*

The introduction of the contributions-related system harmonized the regulations of the schemes for private employees, public employees and the self-employed – all of them subject to the new system in the future. When the latter will be fully operative, also the

[13] See Table 9 for the contribution rates in the different schemes.

regulations of retirement age and seniority pensions will be the same in the different schemes. Coupled with the new rules for seniority pensions, the reformed system should also induce workers to retire later because of the links between retirement age and pension amount (via the conversion coefficients) [Lapadula and Patriarca 1995]. Besides, it should reduce contribution evasion as benefits closely reflect the contributions actually paid.

Finally, the government revised the 1993 regulation for supplementary pensions, providing more generous tax incentives to develop the second pension pillar. Contributions to pension funds were made deductible up to 2% of the annual income (or 1291 euros).

The Dini reform has deeply modified the Italian pension system, that now rests on more sound financial basis, also reducing fragmentation and intra-generational unfairness. This seemed to be the factor that played the crucial role in the negotiations between the government and the unions. Differently from Berlusconi, Dini and his Labour Minister Treu greatly considered the requests of workers organizations, carefully delivering a final proposal that allowed a successful political exchange with the unions on this basis: substantial savings – especially in the long-run – in exchange for the protection of benefits of older workers and pensioners, and greater equity within the system via the elimination of the privileges for the self-employed.[14] In such bargain the role of the unions resulted decisive: on the one hand, they mobilized consensus among their members to provide the government with the necessary support to implement the reform; on the other hand they channelled into the reform process the "right" information for the policymakers to obtain (at least) the acquiescence of the workers.[15]

As we will show below, on the ground of equity between the different generations, a "generational break" was created by the introduction of the contributions-related system and the long transition period, thus overburdening the younger generations with most of the costs of reforming pensions and the restoring-to-health public finance.

After the 1996 elections, won by a center-left coalition, a new government led by Romano Prodi was appointed, relying on the parliamentary support of the coalition formed by the "Olive tree" and Rifondazione Comunista.

The new government set up a Commission (Commissione Onofri), charged to carry out a detailed evaluation of existing social and labour market policies and to formulate some policy proposals. In the field of pensions it suggested to: a) quickly implement all the measures introduced by the Dini reform; b) unify the different regimes; c) fully apply the contributions-related system, removing the existing exemptions; d) introduce mechanisms for automatic revisions of the conversion coefficients; e) accelerate both the harmonization of transition periods for private employees and public employees and the establishment of supplementary pension funds for the latter. A heated debate arose around such proposals within the government itself, that had to confront the opposition of Rifondazione Comunista to the most important recommendation of the Onofri plan, i.e. a much faster phasing in of the new pension formula introduced in 1995 that could not be actually adopted. In spite of such conflicts, some measures were approved. These measures aimed at tightening the conditions for seniority pensions, while harmonizing

[14] See Natali [2001] for a detailed analysis of the political exchanges in the Italian pension reforms during the 1990s.

[15] On the role of the unions in the Dini reform and their aggregative and deliberative capacities see Baccaro [2002] and Culpepper [2002].

those (looser) for public employees with those for private employees. Moreover, a one year freeze of the indexation was introduced, a partial cumulability of pensions and incomes from work was restored, and basic pensions were raised.

4. Lights and shadows after a decade of stepwise reforms

As stressed by the Italian report [Ministero del Welfare 2002] prepared for the "Supporting national strategies for safe and sustainable pensions through an integrated approach"[16] process, and recently confirmed by the "Joint Report" of the Commission and the Council of the European Union [Commision and Ecofin 2003], the "three major reforms during the 1990s took on the challenge of securing financially sustainable pensions and radically transformed the Italian pension system…[Such efforts] have started to stabilise public pension expenditure and will control the future spending dynamics. The move towards a notional defined-contribution pension scheme represents a thorough modernisation of the first pillar, which is of critical importance also for its financial sustainability" [Commision and Ecofin 2003].

In particular, the reforms prevented the collapse of the system by acting on different fronts: 1) financial sustainability and cost containment; 2) normative fragmentation and inequity; 3) the move towards a multipillar configuration with the development of supplementary pension funds.

On the first front, it must be stressed that the targets fixed in 1995 for the ensuing 5 years have been reached, as reported by the "Brambilla Commission" in 2001 [Ministero del Welfare 2001]. On a positive note, the projections of pension expenditure for the medium-long term are much more reassuring than 10 years ago, with a projected increase of 2.2% on GDP up to a peak of 16% of overall pension expenditure in 2033 (from 13.8% in 2001 – Table 5). Pension expenditure is then expected to decrease for the impact of the new system (fully operative only after 2030) and the forecast changes in the demographic situation [Ministero del Welfare 2002]. These figures are even more meaningful if we consider that the projected economic dependency ratio is really worrying in the Italian case (Table 6).

Table 5. Projected pension expenditure on GDP (%); 2000-2050

	2000	**2010**	**2020**	**2030**	**2040**	**2050**	***Peak***
Expenditure on GDP (%)	13.8	14.6	15.3	15.9	15.2	13.6	*16.0 (2033)*

Source: Ministero del Welfare [2002, Statistical Appendix: 75]

[16] Such process, aimed at applying the so-called "Open method of coordination" in the field of pensions, was launched by the European Commission in Summer 2001.

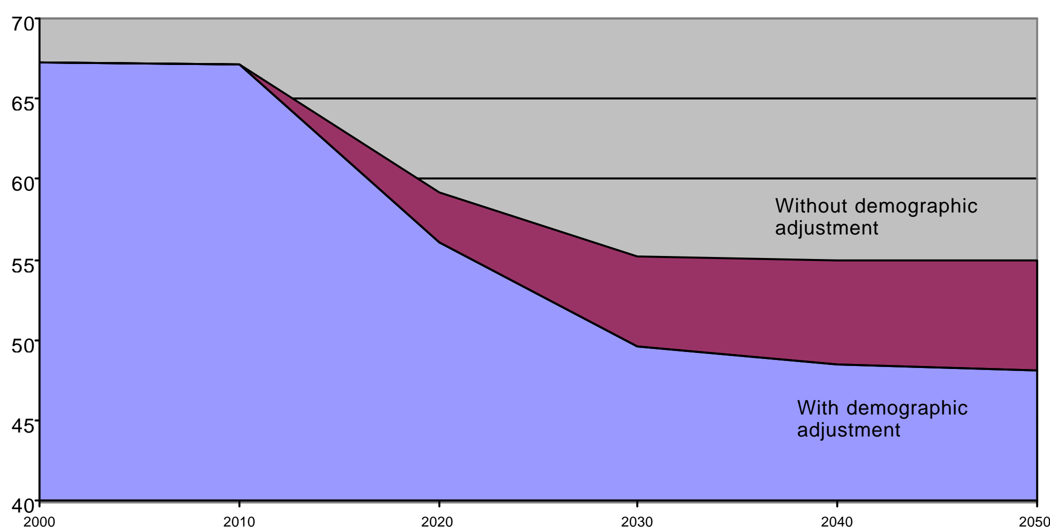
Table 6. Economic dependency ratio[1] for the elderly (%); 2000-2050.

	2000	2010	2020	2030	2040	2050
Economic dependency ratio	48.8	54.9	64.5	79.9	97.8	100.1

[1] Ratio between the population of 65 and over and employed people aged 15-64.
Source: Ministero del Welfare [2002, Statistical Appendix: 59]

Such results will be made possible by two crucial mechanisms operating in the new contributions-related system, which automatically link the value of future benefits to economic and demographic dynamics. These are: the revaluation of paid contributions according to the mean GDP growth rate of the last 5 years and the compulsory revision of the conversion coefficients every 10 years. The effects of the latter are clearly visible in and Graph 2, that shows the projected decline of replacement rates due to such revisions.

Graph 2. Effects of revisions of conversion coefficients on gross replacement rates[1] (%) for private employees provided by public pensions.



[1] Gross Replacement Rate: ratio (%) between the gross pension at the moment of retirement and the last gross wage

Source: Ministero del Welfare [2002:13]

Moreover, as can be seen in the tables 7 and 8, the reduction of the gross replacement rate provided by public pensions is substantial for both workers retiring at 60 with 35 years of contribution and for those retiring after 40 years at the age of 65. In the period 2010-2030 the replacement rate diminishes by 17.5 points in the first case and by 12.7 (2010-2040) points in the second.

Also in terms of the total replacement rate a significant decline is to be expected as the figures reported by the government are somewhat misleading. In fact, as the figures for supplementary private pensions are calculated assuming a contribution rate of 9.25% (of gross wages) – constituted by the whole *Tfr* (6.91%) plus further contributions paid by employers and employees – such values gradually absorbs the *Tfr*. Therefore, for a fair comparison the latter should be fully added to the figures shown for year 2000.

Table 7. Projected gross replacement rates for a private employee that retires at 60 with 35 years of contributions

	2000	**2010**	**2020**	**2030**	**2040**	**2050**
Compulsory Public pensions	67.3	67.1	56.0	49.6	48.5	48.1
Supplementary Private pensions	0	4.7	9.4	14.5	16.7	16.7
Total	67.3	71.8	65.4	64.1	65.2	64.8

Source: Ministero del Welfare [2002:11]

Table 8. Projected gross replacement rates for a private employee that retires at 65 with 40 years of contributions

	2000	**2010**	**2020**	**2030**	**2040**	**2050**
Compulsory Public pensions	76.9	76.7	72.4	66.8	64.0	63.4
Supplementary Private pensions	0	5.3	10.6	16.3	18.8	18.8
Total	76.9	82.0	83.0	83.1	82.8	82.2

Source: Ministero del Welfare [2002:15]

As for the second front – i.e. the harmonization between the different schemes – we have already noted that the Dini reform was quite incisive, putting an end to the

privileged treatment for the self-employed, though with a transition period.[17] This stands out considering the reduction of the replacement rate for such category, which is expected to diminish by 34 points in 20 years (2010-2030). On a similar ground, the revisions operated by the Amato and Prodi reforms in the field of seniority pensions for public employees eliminated some unjustified favourable regulations and the most striking anomalies (entitlement with only 15 years of contribution and very long periods to phase-out seniority pensions after 1995). Besides, both the Amato and the Dini reforms abolished the favourable treatment provided by the previous earnings-related system to those workers with the most dynamic careers.

On the third front, the step-wise processes of system reconfiguration (L. 124/93; Law 335/95 and recently D. Lgs. 47/2000) have created a legal framework to foster the development of supplementary pensions.[18]

So far the lights, now the shadows.

Due to the long period of transition for the implementation of several changes, it seems appropriate to distinguish the problems affecting the system in the short-medium term from those forecast for the long run, i.e. the condition of steady state, in which the new contributions-related system will be fully operative (around 2035)

As for the financial sustainability, in the short term the slow phase-in does not help to contain the increase of the equilibrium contribution rates in the schemes for artisans and dealers – which will grow from 21.3% and 18.5% to 33.4% and 29.3% respectively in the next 30 years. The situation is relatively better in the scheme for private employees (rise form 45.0% in 2000 to 48.4% in 2020 and 2030), tough the level of the equilibrium contribution rate is already quite high. This would probably lead to more generous transfers from public budget, as there seems not to be so much room to further raise the actual level of contributions.

In the meanwhile, the old-system still in force for the older workers continues to create disincentives to keep on working when the minimum condition for seniority pensions is met. Moreover, the coexistence of such different regulations will create sharp intergenerational iniquities in the medium term, especially for those employed in the public sector [Fornero e Castellino 2001]. To address these problems, two major solutions have appeared in current debate on pensions The first aims at *extending (pro rata) the contributions-related system* also to those workers excluded by the measure in 1995. However, some commentators have estimated that such intervention would produce only modest results in terms of cost containment [Fornero e Castellino 2001]. On the contrary, they suggest the *actuarial correction of seniority pensions* in order to discourage early-retirement. This measure would produce some positive results on both the grounds of intergenerational fairness and reduction of pension expenditure.

In the long run the main problems regard the financial situation, because the (intra-generational) equity issues have already been tackled and solved by past reforms. Critics usually focus on four factors. Firstly, the slight differences (see Table 9) between the actual *contribution rates* and the nominal rates used to calculate benefits must be corrected; secondly, the *conversion coefficients* should be more frequently revised to avoid sharp differences in the value of the benefits for very similar cohorts [Fornero e

[17] In fact, the nominal contribution rates for benefits are set at a higher level than the actual contribution rates for the transition period (see Table 9).

[18] See below.

Castellino 2001; Franco 2002]. Thirdly, the variation of conversion coefficients in relation to the different retirement ages should be amplified to discourage early-retirement. Alternatively, the *bracket of retirement* (57-65 years old) could be modified, rising the minimum age to 60 or 62 [Franco 2002]. Finally, the *cumulability* of pensions and wages should be made easier, taking also into account the new logic incorporated in the contributions-related system. This measure has already been included in a draft bill on pension reform prepared by the Berlusconi government.[19]

Table 9. Actual and nominal contribution rates

Categories of workers	Current financing contribution rate	Financing contribution rate: steady state	Nominal contribution rate for benefit calculation
Private employees	32.7%	32.7%	33%
Public employees	32.35%	32.35%	33%
Artisans	16.2%	19%	20%
Dealers-Shopkeepers	16.59%	19%	20%
Farmers	18.8%	20%	20%
Atypical workers	13%	19%	20%

Source: Adapted from Fornero e Castellino [2001: 62]

The last three proposals aim at reducing early-retirement and raising the actual retirement age in a country that shows on of the lowest employment rates for people over 65 in the EU as result of past regulations on seniority pensions and early retirement. However, the reforms of the 1990s seem to have produced some effects, as

[19] See below box 1.

the downward trend of the average age of retirement has been arrested and, recently, inverted (Table 10).

Table 10. Actual average retirement age, 1994-2001

	Men	**Women**	**Total**
1994	58.8	57.4	58.4
1995	58.5	58.3	58.4
1996	58.3	56.3	57.8
1997	57.4	57.1	57.4
1998	58.8	59.3	58.9
1999	59.8	58.3	59.4
2000	59.5	58.9	59.3
2001	59.1	60.4	59.4

Source: Ministero del Welfare [2002:22]

Some studies have also pointed at another problem: the possibility that the new indexation mechanism – linked only to prices - might create disparities in the future stock of pensions, thus generating likely demands for adjustment in real terms [Fornero e Castellino 2001; Ministero del Welfare 2002].

Finally, let us briefly address the issue of supplementary pensions development that is crucial in the context of the illustrated retrenchment interventions in the public pillar.

Since 1993 different legal provisions tried to foster the take-off of the pension funds sector. In spite of this, most studies maintain that the transition to a multipillar pension system still appears like a far prospect in Italy. This is partially true, but a careful analysis of the sector and some recent data allow a slightly different view. First of all, it must be remembered that no actual development occurred between 1993 and 1998, when the first pension fund was established. Since then the number of pension funds has rapidly grown as showed in table 11. Members have grown in the last years up to over 1000000, although the take-up rate remains modest – 15.4% of potential beneficiaries[20] at the end of 2001, rising to 34.7% if we exclude those (recently authorized) funds that still are in an very initial phase. Moreover, some positive notes come from the average level of contributions paid to supplementary pension funds – 9.25% of gross wage for

[20] *Potential beneficiaries* are all the employees that can join a “closed” pension fund because such a fund has been actually established for their category.

those entered in the labour market after 1993 – and from the performances of some particularly virtuous funds [COVIP 2002].

Table 11. Number of authorized "closed" and "open" pension funds

Funds	**1998**	**1999**	**2000**	**2001**	**2002**
Closed	16	33	42	41	44
Open	71	88	99	102	95

Source: Adapted from COVIP [2003]

On a negative note, critical points are still represented by the low participation rate among young workers, that is even more dramatic if we consider the projected reduction of the replacement rate of public benefits, and the *de facto* exclusion (till 2001) of public employees from the possibility to adhere to pension funds.

The main factors behind the slow take-off of the second and third pension pillar seem to be: a) the scarce resources available to finance the system, because of the already high contribution rates and the constraints on public budget; b) the limited tax incentives provided by the law – at least till 2000, when the threshold to deduct contributions was raised to 12% of income, or 5165 euros.

On the other hand, the existence of the *Tfr* opens up some possibilities to overcome the first kind of problem, and the current government has recently proposed (draft bill 2145/2001) the compulsory devolution of the *Tfr* to funds for the new entrants in the labour market.[21] This measure could disclose completely different prospects for supplementary pensions in Italy, by mobilizing between 12 and 13 billions euros per year (about 1.5% of GDP in 2001) [Ministero del Welfare 2002]. However, the issue is controversial as the trade unions – especially Cgil – strongly oppose such possibility: in fact, the workers devolving the *Tfr* to pension funds lose the guaranteed return of the former in favor of the uncertain return of the latter.

The current center-right government has suggested some incremental adjustments to the existing regulations for both the pension pillars. As already indicated, in December 2001 the Berlusconi government asked the Parliament a delegation of powers to pass a new pension reform. Though the *delega* on pensions encountered harsh opposition from the trade unions, after lengthy debates the lower Chamber of the Parliament (*Camera dei Deputati*) approved the law of delegation in the spring of 2003.

[21] See below box 1.

As box 1 shows, this law contains a number of “soft” incentives for postponing retirement as well as a “hard” incentive for transforming the TFR into a second pillar pension. While – if actually implemented - the latter do promise to prompt that take off of supplementary pensions which has been pursued in vain in the last decade, the soft incentive part of the *delega* is considered as insufficient by most commentators for achieving an increase of the average age of retirement – a much needed development both for cost containment and for equity reasons. In addition, although reducing non wage labour costs to promote employment is considered as a promising strategy in general, the reduction of pension contributions in particular is seen as a wrong step: it either violates the contributive logic of the Dini reform, creating a dangerous precedent, or it worsens the pension prospects of an already disfavoured occupational group such as the new entrants into the labour market. According to some commentators, the net effects of the *delega* on spending trends may even turn out to be expansionary rather that restrictive, thus worsening the projections from the status quo and aggravating the “hunch” syndrome, i.e. the “peak” to be reached by pension spending in 2033 (*cf.* table 5 above).

BOX 1

The delegation law on pensions: main provisions

- Liberalization of the upper limit of the age of retirement (now 65)
- Incentives for workers who decide to retire later than the lower age limit (now 57): 50 percent of due social security contributions are paid directly to the workers
- Gradual elimination of the non-cumulability between pension and earnings from work
- Further incentives to supplementary pension funds
- Obligation to pay extra contributions (ca. 7 percent) now paid for the TFR into supplementary pension funds
- Reduction (3-5 percent) of social security contributions for newly hired workers – without prejudice to future benefits

Conclusions

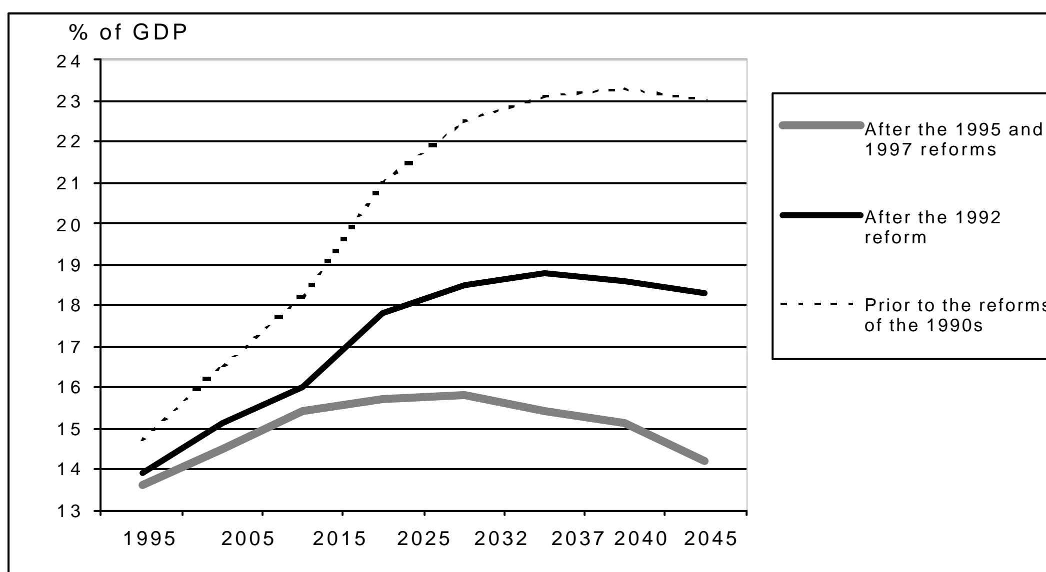
Whatever the future of the Italian pension system will be, some lessons can be drawn from the events of the last decade.

After more than ten years of debate on the crisis of the pension system, three reforms have altered its main traits, stabilizing pension expenditure and harmonizing the different schemes. Despite the risk of being blamed for such unpopular measures, the governments led by Amato and Dini have implemented two major reforms, carefully committing themselves to a process of concertation with the social actors. In Italy the path of retrenchment has also been facilitated by the coexistence of several dramatic

crisis that simultaneously affected the political, economic and financial systems, and the welfare arrangements as well. Also the external constraint represented by the *marche forcée* towards EMU played a major role [Ferrera and Gualmini 2000; Radaelli 2000;] together with pressures coming from financial markets, stimulating a considerable learning process among domestic actors [Ferrera and Gualmini 2003]. On the other hand, the logic of political exchange proved to be crucial for the success of the reforms: the negotiations between the government and the unions allowed to work out politically acceptable and technically viable plans [Baccaro 2002; Culpepper 2002]. In this context a relevant role has also been played by the "obfuscation measures" highlighted by new-institutionalism: both the Amato and the Dini reform established long transition periods, exploited the divergent interest of the different social groups and the Dini reform also included some mechanisms for an automatic adjustment of benefits.

All these factors simultaneously operating, the Italian pension system underwent a radical (see Graph 3) – though gradual – change.

Graph 3. Pension expenditure projections, 1995 – 2045.



Source: Ministero del Tesoro (1998).

In the past pension benefits were usually generous and secure, while in the future they will probably be significantly reduced and their actual amount will depend on several (uncertain) factors. This is even more true if we remind that the Italian pension system will combine a first public pillar, providing contributions-related benefits linked to demographic and economic dynamics, with a second (and third) defined-contributions

private pillar. As recently affirmed by a well-known Italian expert, Elsa Fornero[22], in such a system there will be no guarantee for the actual amount of pensions.

From another point of view, the compression of pension benefits operated by the new contributions-related system seems to leave some room for the possibility that Italy will move, though in the long-run, towards the group of the so-called “Latecomers” countries - as suggested by Hinrichs [2002] with reference to Germany and Sweden - especially if some recently formulated proposals [Fornero e Castellino 2001], including provisions like partial opting-out, will be legislated.

[22] See Fornero [2002].

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