# Rising to the Populist Challenge: Social Security prescriptions for the Italian Welfare State
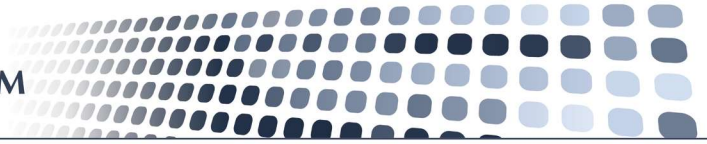
by

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**Abstract**

Nowadays, the European Integration process is challenged by a rise in anti-establishment parties proposing policies reactionary to globalization. Italy, one of Europe's founding nations and largest economies, leads this change with the Five Star – Lega Nord coalition government. The change in voting behavior urges a serious reflection on the social unease causing it. The prevailing view argues that the effects of welfare state reforms on labor market conditions has been a leading cause of the rise of populism. To operationalize this claim, Esping-Andersen's decommodification index is used in the article, drawing social security data from 1980 to 2015 for Italy's pensions, unemployment and sickness benefits. The results are plotted against key watershed reforms of the Italian Welfare State and confirm a decrease in social security performance experienced by the latter in the analyzed period.

**Key-words**

Federalism, Social Policy, Populism, Welfare Performance, Decommodification, Italy

## 1. The Populist Earthquake

In 2019, the main challenges for European Integration and the global order derive from the populist surge worldwide. A prospect trade war with the US, the issue of Brexit, a gust of anti-globalization rhetoric that questions the EU integration process are results of policies introduced by populist parties, who have been winning voters' share over the past two decades. A singular populist belt has now accessed remarkable shares of Member States' parliaments in Central and Eastern Europe, from the Baltic Sea to the Aegean (Eiermann et al. 2018). Anti-establishment parties are now likely to encroach even on Europe's founding nations, where the Five-Star – Lega Nord coalition government took the levers of power in Italy, the Front National is achieving popularity in France and the AFD reaches significant successes in Germany. The changed political scenario in Italy and the EU urges a reflection on why voters are siding with populist parties. Why are populist parties winning in Italy and how can Federalist Parties respond to the challenge?

It is firstly interesting to understand the diversity of populisms' political spectrum. Right-wing populist parties such as the Lega Nord hinge feature a protectionist rhetoric, with a strong stance against immigration and loss of state sovereignty (The Economist 2019). Parties such as the Five Star Movement move away from a right-wing narrative and address increasing socio-economic insecurity caused by the global financial crisis, at a juncture where the welfare state struggles to protect vulnerable groups. The crisis of the Welfare State called on by the Five-Star movement has brought about issues of purchasing power reduction, falling living standards, a rise in cyclical unemployment to low and middle classes, causing severe dissatisfaction (OECD, 2018: 3-10).

Welfare retrenchment is a key area to work out Europe's populist puzzle and propose policy advise for European Federalist parties (Giger and Nelson 2011:1-3; Raniolo 2012). This article presents a review of Italy's social security in the three dimensions of pensions, sickness and unemployment benefits from 1980s to 2015. It then measures the Italian welfare performance using Esping-Andersen's *Decommodification* score, hypothesizing lower performance scores over time. The results are plotted against key national welfare reforms to such as Law No. 92/2012 to elaborate a policy direction to rise to the populist challenge.

## 2. The Three Worlds of Welfare Capitalism and Beyond

The quantitative reference model for welfare performance indicators is Esping-Andersen's *Three Worlds of Welfare Capitalism*. In his cornerstone classic of social policy analysis, Esping-Andersen divides the way in which OECD countries allocate welfare benefits to vulnerable groups for pensions, sickness and unemployment benefits, in three clusters of welfare capitalism: Liberal, Conservative and Social Democratic (Esping-Andersen 1990: 32-33). The Liberal type of welfare capitalism embodies individualism and the primacy of the market and institutionalizes means-tested welfare schemes. Liberal Welfare types feature minimal state intervention and labor market conditions are mainly administered by the law of supply and demand, featuring low *decommodification* scores (Esping-Andersen 1990: 26-28). Conversely, The Conservative world of welfare capitalism shows a *corporatist* and *estatist* structure of welfare provision that levels income distribution according to occupational status and locates the traditional family structure as the unit of welfare recipiency. Conservative welfare states are characterized by upper-intermediate levels of *decommodification* scores (Esping-Andersen 1990: 27). Finally, the social democratic model of welfare distribution is based on principles of universal solidarity and egalitarianism, basing eligibility of social contributions on citizenship which results in very high social security performance and decommodification (Esping-Andersen 1990: 28).

## 3. Decommodification: A Key Performance Indicator

Esping-Andersen conducts part of his welfare state analysis using *decommodification*, a quantitative indicator that measures how effectively the welfare state supports vulnerable groups who, for conditions of old-age, unemployment or sickness benefits, are not able to work (Esping-Andersen 1990: 23). The term traces back to the Marxian commodity, an object of certain use-value produced or exchanged in a society where the social division of labor exists (Marx 1981:123; Polanyi 2001: 84-85). To Marx, a commodity is purposefully designed not to satisfy human needs, but to be traded off for something else, the exchange value (Marx 1981: 126). In this sense, *decommodification* measures the degree of human degradation of average labor conditions, or the degree of citizens' dependence from the wage (Marx 1981:126- 130).

Esping-Andersen builds the components of the *Decommodification* score according to three principles: (1) eligibility, such as work experience, contributions or means tests; (2) the strength of institutionalized disincentives to resort to welfare benefits, such as waiting days to receive the benefit and the maximum period for which the entitlement lasts; (3) the replacement level of the welfare contributions to a real job in terms of cash payment.

The index D is as the sum of the *decommodification* scores for pensions $\delta P$ and the *decommodification* score for unemployment $\delta U$ and sickness $\delta S$ cash benefits. Thus,

$$D = \delta P + \delta U + \delta S$$

The *decommodification* score for pensions $\delta P$ is calculated as the sum of four random variables: (1) the minimum pension benefit for a standard production worker receiving an average salary, with a replacement rate calculated as the ratio of the benefit to the normal worker earnings in that year net of taxes; (2) The standard pension benefits for the average worker, with a replacement rate computed as above; (3) The average individual's share of pension financing measured as total proportion of insurance fund receipts derived from contributions by the individuals insured; (4) The contribution period of the average worker in the country, computed as the number of years of contribution required to qualify for an average pension. The score attributed to this variable is calculated inversely, because lesser years of contributions mean easier eligibility criteria (Esping-Andersen 1990: 54-55).

Esping-Andersen draws the data points of the four different control variables from the two datasets for 1980 and assigns to each of them score from 1, indicating low decommodification, to 3, high decommodification. The score attribution process is based on the distance of the individual country's performance score from the mean μ of the set of OECD countries. The degree of dispersion from the mean is expressed in standard deviations σ, calculated with μ for each row of time-contingent observations. Esping-Andersen then multiplies every obtained score by the coverage rate of each variable. A coverage rate is defined as the percentage of the relevant population that successfully obtains the benefits entitled to by the program divided by the qualifying population (Esping-Andersen 1990: 54). For pensions, the coverage rate is the take-up rate. In other words, Esping-Andersen creates a confidence interval of the distribution of OECD countries in the 1980s and assigns a score to each difference between specific country score in four control variables and the OECD, awarding higher points if the country scores above average.

Esping-Andersen uses a similar system of computation to obtain the index of *decommodification* for sickness and unemployment cash benefits. In this case, the two *decommodification* indexes $\delta U$ and $\delta S$ are respectively the sum of: (1) The quality of the replacement rates that the benefits grant to a standard sick or unemployed worker during the first 26 weeks since the start of the eligibility status; (2) the number of weeks of employment required prior to qualification, which amounts to the time measured in weeks of employment required for eligibility, with a score computed inversely; (3) the number of days the beneficiary needs to wait before the payment is operated; (4) the amount of weeks during which individuals are entitled to the benefit. (Esping-Andersen 1990: 52-54). As computed for pensions, the *decommodification* scores for unemployment benefits and sickness insurance $\delta U$ and $\delta S$, are achieved through the sum of the scores attributed to the observations regarding the four random variables listed above. The score for each variable is obtained measuring, like in the case for pensions, a confidence interval where all the observations span within with a certain probability with a mean and a standard deviation. Finally, the four scores are summed up to obtain total decommodification.

## 4. Data Collection and Methodological choices

To conduct his inferential analysis on the *decommodification* scores, Esping-Andersen uses two popular databases in the 1990s: the *Svensk Socialpolitik I International Belysning* (SSIB), belonging to the Bank of Sweden Tercentary Fund, and the SIED data files, belonging to the Social Policy Indicator Database (SPIN) (Esping-Andersen 1990: iv). Unfortunately, the SSIB data files feature limited access and could not be retrieved. It was however possible to gather the data for the *decommodification* scores elaborated from *Figure 1* to *Figure 5* by using the SIED data files and collected from the SPIN. The SPIN is a major program at the Swedish Institute for Social Research (SOFI) of Stockholm University based on the larger social citizenship project. This project started in the 1980s and has gathered data at a five-year increment for all OECD countries from 1930 to 2015 for the control variables through which Esping-Andersen has extracted his indexes. The SPIN data are very important to Esping-Andersen's analysis of *decommodification* as they report all the components of his index. A good feature of the SIED data files is that they have been chronologically updated to 2015, benchmark point in time that is crucial to measure the variation of welfare policy for OECD

countries in the aftermath of the European Sovereign Debt Crisis, which for European countries has been a true watershed in terms of social policy spending. With regards to the specific case of Italy, the SIED database allows to observe the initial impact of the Fornero-Monti reform for old-age schemes.

To construct the decommodification for pensions, unemployment and sickness benefits adjusted for GDP expenditure in *Figure 6*, data on expenditure as percentage of GDP have been extracted by the OECD Social Expenditure Database (SOCX). The database has been designed to include sound and internationally comparable statistics on public and voluntary private social expenses for the social policy areas of: Old age, Survivors, Health, Family, Unemployment, Housing and Active Labor Market Programs. SOCX covers the 36 OECD countries for the period 1980-2015 and estimates for aggregates for 2017-18.

## 5. A Literature Review on the Welfare State

Few years after Esping-Andersen published the Three Worlds of Welfare Capitalism, the book became a modern classic of social policy theory (Arts and Gelissen 2002: 140). The book's influence has been unprecedented because Esping-Andersen was the first to emphasize the importance of cross-national differences in welfare state structures, expanding a field of study still in its infancy. For his widespread accomplishments, the *Three Worlds* model not only received praises but was also the epicenter of many criticisms that the later social policy literature raised and tried to work out. Among the various criticisms, three important areas stand out: (1) Esping-Andersen's arbitrary invention of ideal-types (Klant 1984; Boje 1996), (2) the omission of key regime-set typologies and the Misspecification of the Mediterranean Welfare state (Castles and Mitchell 1993) (Korpi and Palme 1998; Ferrera 2000), (3) the doubts regarding the goodness of fit of Esping-Andersen's dimensional property space of *decommodification* to explain welfare clustering (Allan and Scruggs 2006).

The first issue the literature highlights about the *Three Worlds* model is that Esping-Andersen arbitrarily constructed ideal welfare types that do not have *per se* theoretical nor empirical value. It may, in fact, be the case that Esping-Andersen has constructed his analytical lenses elaborating the three main typologies and super-imposed them *ex-ante* on the data he deemed relevant (Boje 1996: 20-25). These types of methodological criticisms scale back to Karl Popper's studies, according to which scientists often elaborate theories by
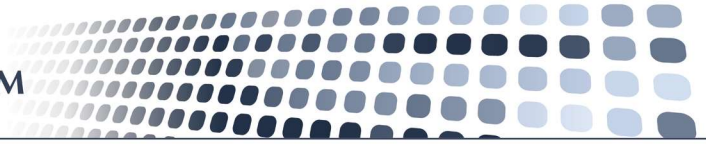
studying phenomena through replicable experiments, but then deliberately assume that the behavior of the examined phenomenon can be inferred and applied to a remotely related family of phenomena (Popper, 1990: 4). The tacitly agreed convention smoothens the passage between the empirical experiment and a comprehensive theory and often makes researchers attempt to effectively force nature into the conceptual boxes of the paradigm (Popper 1970: 5). Esping-Andersen (1999) and some later authors such as Arts & Gelissen (2006:139) address this methodological criticism claiming that typologies are fruitful to an empirical science that is still in its infancy. Although the literature on social policy is indeed hefty, many authors agree that a lack of theory did not make welfare studies reach a mature empirical science (Boje 1996: 18; Arts and Gelissen 2002: 139-140). For a lack of theoretical alternative, the arbitrary postulation of ideal types can be useful to give an overview of the broad characteristics of a situation of welfare policy variation, making Esping-Andersen's *Three Worlds* an advantageous cartography for social welfare analysis.

Finally, many authors have replicated the *Three Worlds* model, questioning the goodness of fit and the empirical robustness of the model's performance in measuring welfare analysis (Esping-Andersen 1997: 150). The goodness of fit of the three-branched regime typology has been many times examined, whereas the *decommodification* score assessed and double-checked. Authors such as Kangas (1994) corroborated the existence of Esping-Andersen's different welfare typologies through the clusters' analysis by data on healthcare and sickness schemes in industrialized countries from 1950 to 1985. The most recent and remarkable attempt to empirically corroborate Esping-Andersen's classifications on the *decommodification* index has been undertaken by Scruggs and Allan. In their research, the authors operate a reassessment of the welfare state index of *decommodification* and introduce a publicly available dataset of key welfare state programs (Scruggs and Allan 2002: 51). Their investigation questions the correct classification of certain countries in terms of the index, arguing that it does not empirically lead to welfare state typologies, and propose a reclassification of comparative welfare clusters by the new index of *Welfare State Generosity* (Scruggs and Allan 2006: 52). The replication results show that the three world typologies simply break apart: two conservative states show *decommodification* scores clustering around the liberal group, whereas Canada and New Zealand score higher than other conservative welfare system (Scruggs and Allan 2006: 60).

Finally, two pivotal authors discussing welfare economics are Peter Hall and David Soskice (2001: i-iv) who build a model measuring the degree of convergence of countries' economic policies over time. To find an answer to the quandary, the two authors create a new approach to the comparison of national economies and divide industrialized countries in two distinct types of market economies: The Liberal Market Economy (LME), and Coordinated Market Economies (CME). In LMEs, firms coordinate their activities mainly via hierarchies and competitive market arrangements and an emphasis is put to the maximization of stock market capitalization (Hall, Soskice 2001: 8). In these systems, market relationships feature the exchange of goods and services in competitive markets and formal debt-credit contracting. The laws of supply and demand generate an equilibrium price that represents the willingness to buy and sell those goods and services, factors at the basis of neoclassical economics (Hall, Soskice, 2001:10). In CMEs, production occurs in firms that rely more importantly on non-market institutions to construct core objectives and competences non-market institution may be corporative relationships, favoritism and other forms of patronage, incomplete contracting, an exchange of private information inside networks of interest. The value of a good and service is in these systems more established by the result of the strategic interaction among firms and institutions than the laws of supply and demand, with prevalence of monopolies and monopsonies (Hall, Soskice 2001: 23-24). By arranging the various nations according to the two models of economic system, the two authors show how institutional arrangements push firms towards corporate strategies that distribute income and employment differently. Hall and Soskice (2001: 468-470) conclude that Europe enters the new millennium with increased pressure towards the convergence of the two different economic systems into one, the main cleavage being the liberalism of British firms and the coordination of German and French firms (Hall and Soskice, 2001: 469-470). The authors' research is very relevant in that they set the basis for an analysis on whether there is a convergence towards a unique liberal economic system in Europe, which in this research is epitomized in the hypothesis of convergence to lower *decommodification* scores.

The formidable contribution offered by the various authors shows that the *Three Worlds* model has room for improvement but maintains its legitimacy as the best model for welfare state analysis for the scope of policy prescription to the Italian Welfare State for two main reasons. Firstly, the remarkable amount of the literature's criticisms did not propose an

alternative model of welfare state performance measurement. Secondly, while Esping-Andersen's typologies may have changed, the *decommodification* score is a useful means to understand if the Italian social security has decreased over time and open the discussion to policy prescriptions.

## 6. The Italian Welfare System: An Overview

The Italian welfare State (*Stato Previdenziale*) dates to the 1960s and 1970s, a period when Italy achieved heavy industrialization and experienced rapid economic growth in what has been later globally recognized as the *Miracolo Economico Italiano*. It is relevant to note that social policy was developed in terms of generous Keynesian policies that fostered full-employment and early retirement, which were designed in concert with a taxation system that was needed to fund them. This phenomenon entailed the creation of an increasingly critical view to the Keynesian social policies once Italy experienced a decline in its rate of growth in the 1980, that focused on the dubious effectiveness of Italy's welfare system in achieving income and wealth equality (Fadda and D'Apice 2010: 321). In fact, social spending seemed to be devoted to benefit the upper middle class at the expense of the lower ones: patches of poverty persisted despite state intervention and a growing tax burden to finance what were conceived as inadequate services. The wave of critics in the 1980s led to the first reforms by the Social Democratic governments, followed by further revisions in the 1990s in compliance with the budgetary parameters spelled out by the Maastricht Convergence Criteria and enshrined in the namesake treaty of 1992 (Martorelli and Zani 2015: 4).

Despite the increasing pressures towards budget cuts in the 1990s, Italy steadily devoted a quarter of its GDP to social protection in terms of old age schemes, healthcare and unemployment benefits from the 1980s up to the 2000s, falling below the Western European average of 27% in the same period. However, a clear-cut comparison with other member states cannot be operated due to the great anomaly of the Italian support system. Firstly, Italy is the European country with the highest share of people with more than 65 years of age : 18,2% compared to the European average of 16% (Fadda and D'Apice 2010: 322). Because of this, the Italian social support system spends 60 percent of its social security budgets on old-age schemes. The bias in supplying a generous pension system works in concert with the traditional importance of family as a societal nucleus distributing welfare, where the elderly

strongly contributes to the support of the entire household. The anomalous shock-absorption features of old-age schemes in the Italian Welfare State also exemplifies why unemployment benefits are highly marginal in conditions of disability or long-term unemployment (Fadda and D'Apice 2010: 322-323). The weight difference of the various social security domains in the Italian case urges separate sections regarding the history of pension schemes, unemployment and sickness benefits from 1980 to 2015, as well as the weighing of the decommodification index with each related GDP spending.

## 7. Italian Pensions: An Ever-Changing Area

Italy is a very peculiar country because of the complexity of its pension schemes and the various social security reforms it experienced throughout the analyzed three decades and a half. The pension system Italy had during the 1980s was institutionalized in 1975 and based on a defined benefit pension plan (*sistema retributivo*), which conceived the monthly benefit paid by the pension scheme to have a near-one replacement rate with the highest wage attained by the pensioner in his or her best-performing years of productivity (Martorelli and Zani 2015: 3-4). This resulted in being highly decommodifying, since workers reaching sixty years of age for men and fifty-five for women fulfilled the requirements of old-age pension (*pensione di vecchiaia*) becoming independent from the labor market without changing their life-style. During the 1980s, the *sistema retributivo* featured a final salary plan, under which a pension's replacement rate is eighty percent of the most favorably paid three-year wage of the last decade of productivity. As previously stated, the 1990s have been a playground for path-breaking reforms that echoed a general European shift from a universal support network approach to a residual welfare approach. From 1992, every legislative mandate put forward a pension reform aiming to reduce welfare spending. The proposed policies spanned from increasing the retirement age, to requiring higher contribution to qualify for pension schemes, to cutting pension benefits by changing how equalization funds are computed (Martorelli and Zani 2015: 4). The Amato Reform of 1992 is the first step towards the welfare reductionist shift by increasing the retirement age of workers in the public sector of one year every two-year period until reaching a stable threshold of 65 years of age for men and 60 for women. The reform introduced a mandatory requirement of 35 contribution years to qualify for *pensione di vecchiaia* (Martorelli and Zani 2015: 5).

Welfare retrenchment policies continued in 1995 with the Dini reform, which changed the computation of pensions' benefit from the salary-based model *sistema retributivo* with a replacement rate of 0.8 to a contribution-based model (*sistema contributivo*) where benefits are conditional on the amount of contributions each worker gives (Martorelli and Zani 2015: 6). This system was also imposed retroactively to some who had already made contributions under the previous salary-based pension system, to then create a hybrid computation process for pensions. The new system has been conceived to consistently yield lower pensions and demand more stringent eligibility standards, weakening the existing social support system. To dampen the problem, the Dini reform introduced a second pillar of support in the form of a supplementary pension system through employment-based old-age schemes. The initiative has been met with significant resistance from employers and has proven inadequate to generate enough resources. Therefore, a third completely private-based pension pillar has been introduced. The third pillar is to be combined with incentives enacted in the Finance Bill of 2003 and the *Riforma Maroni* which, among other measures, abolishes financial disincentives to combine pensions with earned wages (Fadda and D'Apice 2010: 330). In 2007, the *Prodi Reform* introduces quotas calculated as the sum of the person's age and working contributions for eligibility. (Martorelli and Zani 2015: 6).

In 2012, a heavy and comprehensive overhaul of the pension system and the labor market dynamics was brought forward by the technocratic government led by Mario Monti, supported by the main European and international financial institutions, in the form of Law No. 92 of 28 June 2012. The Monti-Fornero Reform has been widely controversial in Italy for the magnitude of the change it implemented in the various fields of welfare and labor market conditions. The reform hinged on the main principles of increasing flexibility in dismissals while decreasing it in hiring and toughening eligibility criteria for welfare benefits devoted to vulnerable groups (Tiraboschi 2012: 83). The reform harmonizes retirement age, increasing it to 67 years, and eliminates the old 'quota' reference parameters of legal age and the contribution period whose sum determined a minimum threshold to access old-age benefits (Falasca, 2012). The reform also introduced an exceptional condition of early retirement (*pensione anticipata*) whereby employees can retire before the age of 67 if their contribution period is greater than 41 years. Disincentives for early retirements are however stringent: old-age allowances gradually decrease of 1% every year (Falasca, 2012). This brief history of the complex evolution of the Italian pension system is useful to create a theoretical

background that helps to correlate and explain changes in the *decommdification* score for Italy over time.

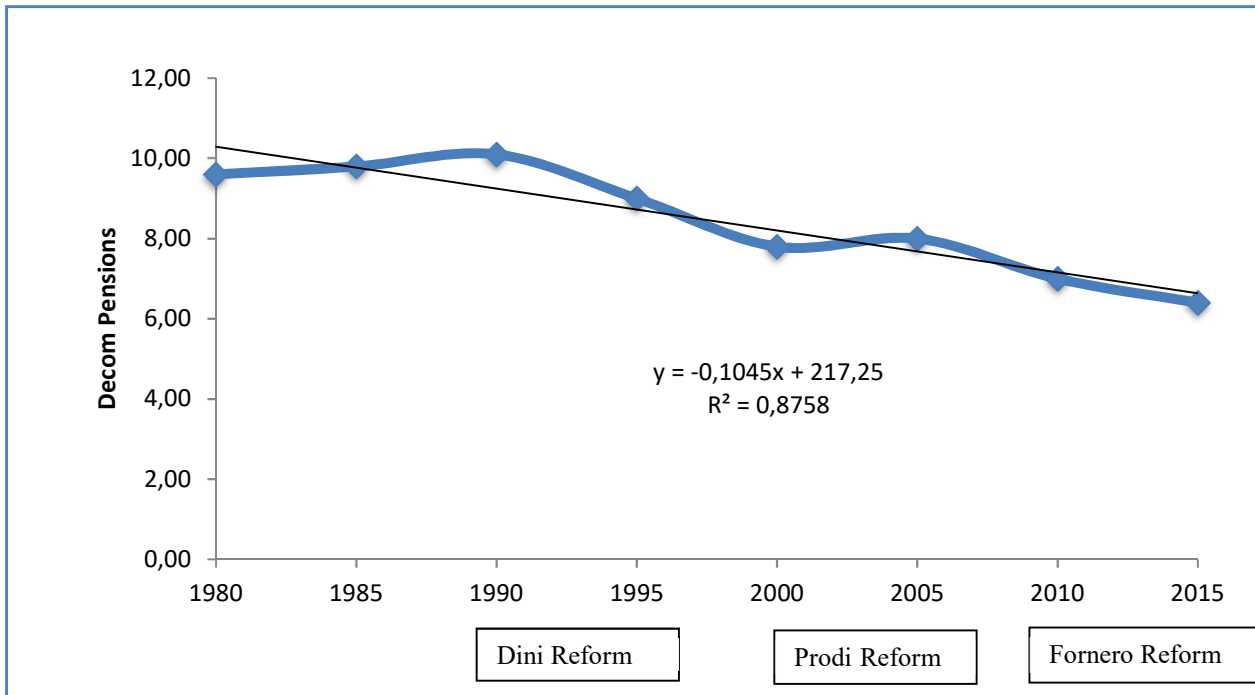## 8. Measuring Decommodification for Italian Old-Age Schemes



*Figure 1 - Decommodification for Italian Pension System 1980 - 2015*

The results in *Figure 1* above confirm the overall downward-sloping trend of decommodification scores for the Italian pension system that has been formulated by the prevailing literature. More in depth, the score has a 1-point increase from 1980 to 1990, then decreases two points from 1990 to the 2000, slightly recovers in 2005 and then gradually sinks to a minimum of 6.40 in 2015. As the graph shows, the correlation between the passing of time and a change in *decommodification* score displays a negative slope of 0,104 for the fitting line. With a goodness of fit explaining 87 percent of the variation, the significance of the test exhibits an overall negative trend in *decommodification* scores for the Italian pension system, proving the general soundness of our initial hypothesis in this section. Very interesting are the points of deviation from the common downward trend in the years 1980-1990 and 2000-2005 showing how Italian pension plans do not unequivocally follow a linear worsening of social security conditions over time.

An in-depth analysis of the period spanning between 1980 and 1990 reveals that the increase in *decommodification* scores is due to a temporary 1.5 boost in minimum take-up rates while the coverage rate remains equal. The introduction of the Amato reform relates *prima facie* to a significant drop in pensioners' levels of independence from the labor market with an increase in mandatory contribution years to qualify for benefit. Three years later, the Dini Reform of 1995 ushers in a decrease in *decommodification* by an increase of insurance funds paid by the individual insured, resulting in less overall benefits. Subsequently, the *Prodi Reform* of 2007 negatively affects the performance score by heavily reforming the minimum pension benefit. Finally, the first effects of the Fornero-Monti reform in 2015 are mixed and do not exhibit the foreseen plummeting in *decommodification*: the score increases in replacement rates for standard workers and for looser eligibility criteria in terms of contribution years for the early retirement schemes and slides one point in minimum replacement rates. This result entails greater social stratification and income inequality, and an increase in individuals' share of pension benefit. An additional feature to highlight is the slight decrease in the take-up rate over time. Since the take-up rate represents the amount of population over 65 that is covered by the pension scheme, an increase of the Italian population over 65 occurring with the phenomenon of population aging could be the variable which inflates the *decommodification* index and produce observations that counter the decreasing trend. A sound explanation of the lack of drop in decommodification in the period after the crisis is that an increase in unemployment and worsening living condition increase citizens' reliability to social welfare and therefore its GDP spending, interfering with the degree of the score's reflection of social unease.

## 9. Unemployment Benefits in Italy: A Short Overview

Social Policy for unemployment benefits in the post-war Italian period witnessed a sequence of expansive reforms in terms of coverage rate and increase of benefits until 1975 to then remain stable in the 1980s (Ferrera 2000: 71). Only since the mid-1990s a standard critique of the unemployment assistance (*assistenza occupazionale*) gained political preponderance and institutional attention due to the high fragmentation of the unemployment schemes, policy overlaps and a bias towards certain vulnerable groups in terms of transfers. More specifically, the nature of employment programs' fragmentation in

labor law was highly skewed towards unilateral protection of people in special need (*contraente debole*) (Ferrera 2001: 76). Moreover, the Onofri commission established in 1997 highlighted that Italy featured deep inequalities with regards to eligibility criteria, duration and amount of benefits in favor of groups such as the elderly or public workers that left excluded the least represented. In 1990s the sovereign debt adjustment policies highlighted even more the weakness of the programs it sought to reform, as well as the various discussions regarding the reform of unemployment schemes that would pave the way to the Monti-Fornero Reform in 2012 and Renzi's Jobs Act of 2014. In the period 1980-2015, the unemployment benefits system, since highly marginal, has not been reformed repetitively, but experienced significant change with the Monti-Fornero Reform (Bonke and Elke 2004: 241-242). Before 2012, unemployment schemes were divided into two branches: (1) an insurance system with time-limited benefits (*indennità di disoccupazione ordinaria*) which is for formerly employed people who became unemployed due to dismissal. The eligibility criteria for access to the benefit is 52 weeks of contribution for all those who do not quit their job voluntarily, except for justified resignation (*dimissioni per giusta causa*). The benefit is calculated as a percentage of the wage of the formerly employed that is paid for 8 months for workers of up to 49 years of age and for 1 year for citizens of 50 years of age or more. A more generous insurance system that functions as a shock absorber to factory workers is the Redundancy Fund (*Cassa Integrazione Guadagni*), where the State relieves factories in financial difficulties by paying unemployment benefits to unused workforce. The workers entitled to Redundancy Fund receive 50% of their previous wages from a threshold established by law, and their contributions validated figuratively (*contributi figurativi*) (Bonke and Elke 2004: 243).

The Fornero-Monti Reform of 2012 did not only encompass labor market conditions and old-age schemes but had a significant impact in social insurance for unemployment safeguards. The reform gathered all the previous scattered unemployment schemes under the umbrella of the Social Insurance for Employment (*Assicurazione Sociale per l'Impiego, ASpI*), granted to workers at the end of the employment contract in cases of dismissal and special causes of resignation at the Centers of Budgetary Assistance (*CAFs*) (Tiraboschi 2012: 76). The eligibility criteria amount to being outside of the labor market because of dismissal or being inactive from the labor force and wishing to re-entering it. The lack of equality in the welfare provision is a remarkable highlight because it shows the lack of the universality principle employed by Italian labor law (Tiraboschi 2012: 77).

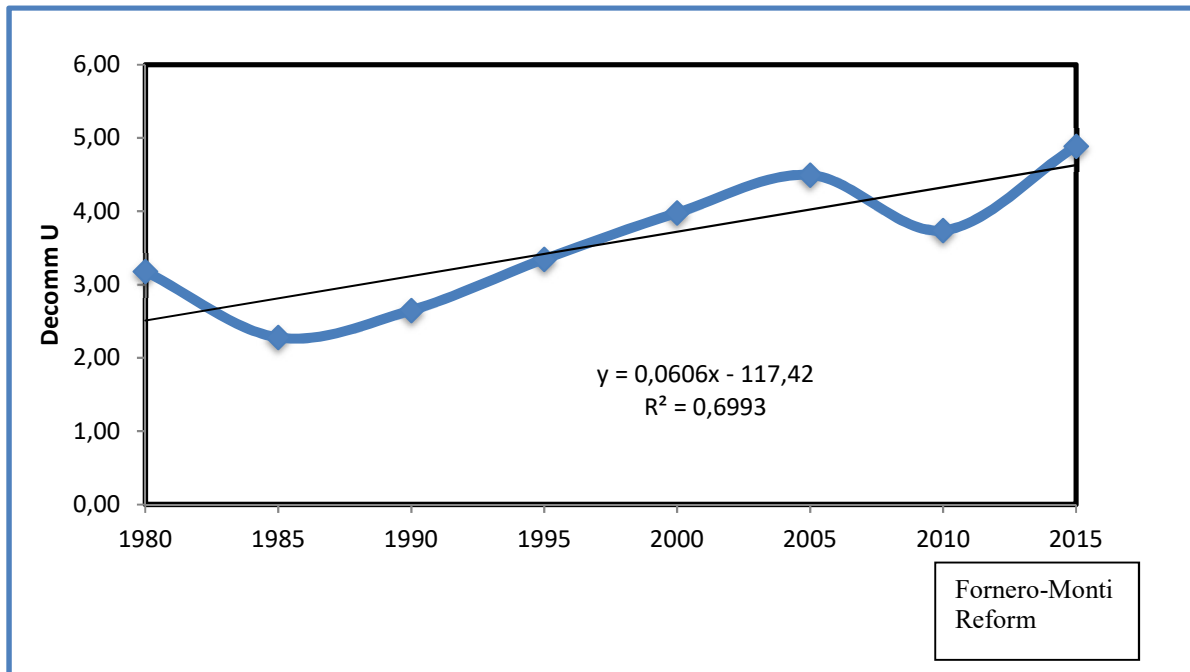## 10. Measuring Decommodification in Unemployment Insurance



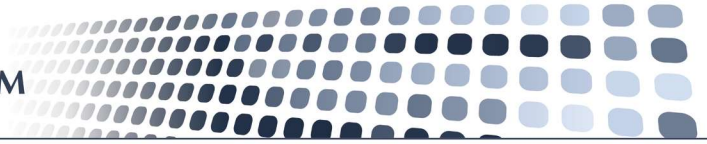*Figure 2 - Decommodification δU for Unemployment Benefits in Italy*

The results in *Figure 2* show an unambiguous rise in the levels of *decommodification* from 1985, the absolute minimum of 2,28, to more than double of it in 2005, with a trend reversion and a local minimum of 3,74 in 2010. After 2010, the curve reaches its peak point at 4,89. The components of the *decommodification* score that create the positive temporal variation are a small increase the coverage rate that weighs all the indicators, the rise in the payment period of the unemployment benefit and its replacement rates. The singularity points in 1985 and 2010 have been originated respectively by a tightening of eligibility requirement in terms of contribution period and a drop-in replacement rate. Despite the small trend swings to attribute to the reforms, the Italian Welfare State has undoubtedly increased its performance in distributing unemployment benefit schemes via increased coverage rates and replacement rates. The coverage rates have been enhanced by the Monti-Fornero reform through the ASpI and mini-ASpI. As the labor market becomes more flexible, unemployment benefits acquire a more important role. A last comment to point out is that the replacement rate of this score incurs in operational hurdles when it comes to describing citizens' quality of life, as it only measures the degree of the replacement the pension has with a wage but does not

examine the wage variation over time. As the replacement rate is the quotient between the dollar value of the benefit scheme and the wage, it rises either by an increase in pensions' dollar value or due to falling wages.

## 11. Italian Sick Pay

Together with pensions, healthcare has always been the chief sector of Italian welfare spending. Italy has been allocating on average more than 30% of the overall social security resources to its public National Healthcare System (NHS) and has made public health a number one state priority. Thus, the Italian Labor Law defines sickness benefits, or *indennità di malattia*, as the benefit that a standard public or private worker should receive upon certified sick leave from the workplace (Phillips 2016: 173). In Italy, employees have been eligible for the *indennità* from the first day of sickness without any legislative variation throughout the whole analyzed period. In the *Three Worlds* paradigm, Esping-Andersen does not differentiate between short-term illness or disability, which in Italy is covered by the National Collective Bargaining Agreement of the trade sector and long-term accident insurance. However, through the various indicators that Esping-Andersen uses, he appears to describe the welfare treatment of an employee's absence from work as a long-term illness. This has been spelled by the law in the period 1980-2015 without significant changes in the legal provision. According to Italian law, managers or *dirigenti* are paid 100% of the regular salary by the employer for the first 12 months of sickness. Employees in the public sectors, or *impiegati,* are entitled to an indemnity of 50% of the daily normal salary from day 4 to day 20 by the Welfare state, whereas the company pays the same amount for first three days of sick leave. From the 21st day, the employee has the right to an indemnity of 66% of her salary, charged to the National Social Security Institute (INPS) (Phillips 2016: 173-175).

## 12. Welfare Performance Score for Sickness Insurance in Italy



**Decom Sickness Benefits**

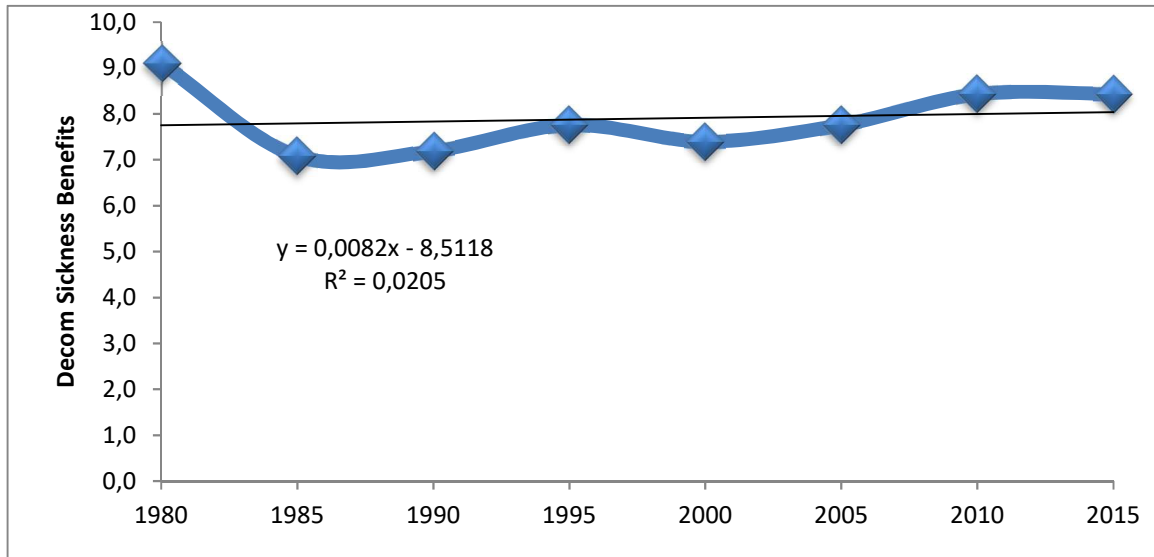$y = 0{,}0082x - 8{,}5118$
$R^2 = 0{,}0205$

*Figure 3 - Decommodification Score for Sickness Benefits 1980-2015*

*Figure 3* confirms the general stability of the welfare state performance in terms of sickness benefits, conferring a very high score to the Italian Welfare State over time without remarkable drops or increases related to any legal reform or watershed event. The main source of variation for this score lies in the decrease of the replacement rate of the benefit for the 26-week period enjoyed by workers in sick leave from 1980 to 2005 and then its recovery in 2010 and 2015. Interestingly, but not surprisingly, another factor that contributes to the variation is a significant increase of the coverage rate of sickness insurance of 20% in the period 2005-2015. The increase of sickness benefits' coverage rate can partly be explained as a certain number of private sickness contractors that after the global financial crisis of 2008 gradually leaned towards public sickness benefits provision.

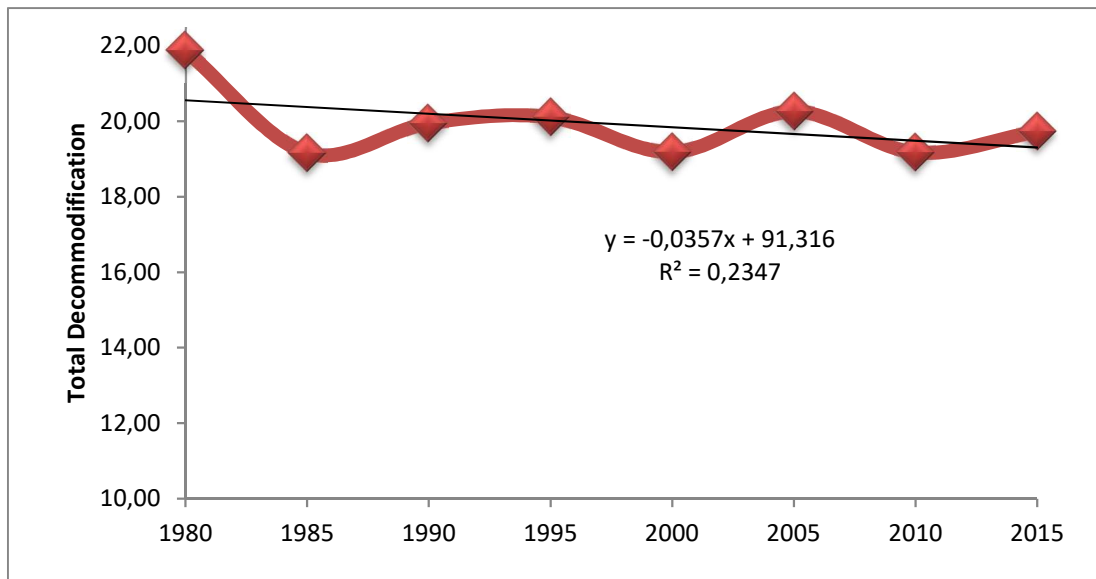## 13. Measuring Total Decommodification Trends for Italy



*Figure 4 – Total Decommodification score for Italy 1980-2015*

Once that the *decommodification* scores of the three dimensions of Italy's welfare have been successfully calculated, one can finally draw the conclusive values for total *decommodification* in Italy from 1980 to 2015. To compute the final *decommodification* score for Italy in the 1980s, Esping-Andersen (1990) has added each single of the three scores $\delta P$ for pensions, $\delta S$ for sick pay and $\delta Q$ for unemployment benefits to then compose an overall index of welfare performance for social security distribution shown in *Figure 4*. The graph firstly reveals a two-point difference in *decommodification* scores for Italy with Esping-Andersen's results in 1980. This comes without great shock since the literature following the *Three Worlds* model has already highlighted the divergence of results with Esping-Andersen's due to the constant update of the numbers in the SIED database. The study's results show the overall confirmation of a downward trend in *decommodification* scores over time that is far from being linear. The *decommodification* levels experience their greatest plummet in the 1980-1990 period

with a 2.7-point drop, and then stabilize around a mean score of 20 exhibiting a gentler downward-sloping trend. The findings are however unusually interesting in that they show a small decrease in the *decommodification* scores forecasted by the initial hypothesis but do not seem to fully explain voters' discomfort and reveal a much more nuanced scenario that excludes a total confirmation of our expectations. As Graph 4 shows, the downward trend is associated to an overall negative coefficient of the fitting line of -0,032. The linear model features an R squared of only 26% of the variation, leaving many crucial variables outside the model. Further studies should be done in the points of singularity characterized by a high drop or rise, such as the values of 1995, 2005 and 2010.



*Figure 5 - Deconstruction of the Decommodification Score in Italy*

To better understand how and why total *decommodification* does not reflect all the unease related to social security, *Figure 5* is drawn. The graphics show the change of the various components of the *decommodification* scores and the role they play in the score's variation. It needs to be noted that the sharp fall in *decommodification* for pensions, an area strongly reformed throughout the studied period, is partly offset by the rise in the score for both unemployment and sickness benefits over time. The results of the overall *decommodification* score are particularly interesting to understand because it shows quantitatively that the Italian Welfare State is having a worse performance in insuring vulnerable groups against the job market and therefore decreasing its levels of social security provision. A major highlight is
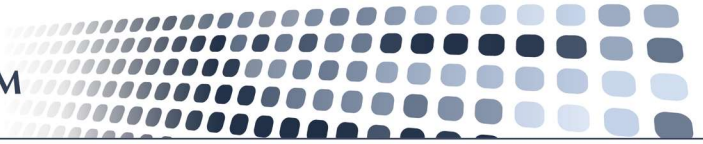
that the *decommodification* score does not reflect the widely denounced welfare retrenchment introduced by the Monti-Fornero reform. The score in fact is greater than 2010 and the welfare performance for pensions only decreases of 0,20. There are two reasons for the inconsistency between the *decommodification* trend and the widely denounced cuts to social spending. Firstly, the cut towards financial spending in a national economy results in the increase of the coverage rate of the various welfare dimensions, as more people lean towards social security. Secondly, the full effects of the reform are felt later than 2015, as the impact of welfare reforms takes time to reflect in the data. A proposed scenario to offset the Italian welfare state's peculiar skewness towards its pensions system is presented in *Figure 6* weighing each component of the total decommodification score with the respective percentage of GDP divided by the full social security budget for each five-year span.
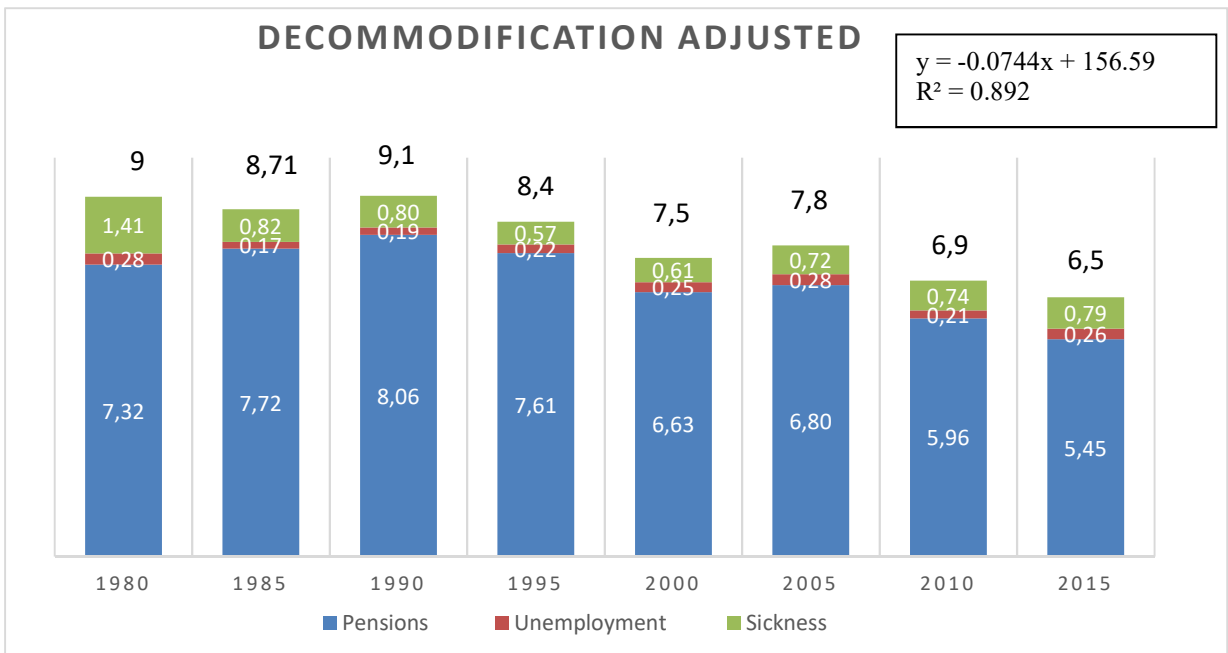


*Figure 6 – Decommodification adjusted for GDP expenditure*

The weighed parameters of the adjusted decommodification model show a much more unambiguous trend towards lower decommodification scores. It is immediately notable how the Italian skew towards pensions in terms of compared GDP percentage allocated to each area is accounted and how pensions' decrease in decommodification scores is no longer offset by an increase in unemployment benefits. The innovation increases the variation

explained by the model of 66% with an R squared of 0.89. This model better aligns with the prevailing view of the variation of social security performance perceived by the vulnerable groups in decommodification epitomized by the downward sloping curve reflected in the graph with a negative coefficient of -0.07. This analysis shows a maximum decommodification in 1990 of 9.1, after which a decrease in welfare performance ushered in by the Amato pension reforms takes over, with the singular exception in 2005. As the Italian Welfare System is plotted against the European average, with a high partiality of its GDP spending devoted to pensions that is not reflected in the indicator (Fadda, D'Apice, 2010: 322-323), the decrease in decommodification scores is epitomized by the change from the retribution-based system (*sistema retributivo*) to the contribution-based system (*sistema contributivo*), which decreases the replacement rates and coverage rate of pensions, along with increasing the years of contributions required for eligibility. Conversely, the *decommodification* trends for Italy do not reflect the bemoaned disruptive worsening of social security made by the Monti-Fornero reform in the three years after its issuance as predicted by the literature. The greatest drop in social security performance occurs from 1995 to 2000 and from 2005 to 2010, and the negative variation in 2015 in the aftermath of the Monti Reform is small compared to the latter points. However, a final judgement of the Monti-Fornero reform cannot be drawn at this point as an analysis of decommodification over a wider time-span will be needed to understand the complete effect of it on Italian social security.

## 14. Conclusion: The teachings of Italian Welfare State Performance

This article has attempted to formalize the change of social security conditions in Italy from 1980, a period in which Esping-Andersen formalized his social security model, to the 2015, a date that marks the first effects of the significant Monti-Fornero reform. To operationalize the welfare performance in the key domains of pensions, sickness and unemployment benefits, the *decommodification* index employed by Esping-Andersen in his book *Three Worlds of Welfare Capitalism*, has been used. The analysis of the index shows a decrease in *decommodification* over time that reflects the view of the prevailing majority on welfare state retrenchment (Mishtra 1999; Schumacher et al. 2013; Starke 2006). A chief point to highlight is the inadequacy of the total *decommodification* score elaborated by Esping-Andersen to fully reflect the Italian Welfare State performance, since the country prioritizes

an important amount of its social spending to pension schemes. A proposed suggestion to achieve greater precision in representing social security conditions across countries has been to weigh the *decommodification* scores for the areas of pensions, sickness and unemployment benefits with their respective percentage of GDP spending, divided by the overall social security spending for each five-year interval. The results presented in *Figure 6* is very useful to bridge a connection between the wide discomfort expressed by Italian voters in supporting populist and a decrease in social security levels.

The Italian case hereby studied reconnects to the point raised by Ramesh Mishra (1999) who claims that from 1990s, a core of industrialized welfare states is committed to reduce social expenditure and introducing labor market deregulation that goes hand in hand with a period of intense globalization. In Italy, the greatest source of variation is related to the shift between the higher scores in decommodification associated to the retribution-based system for pensions, and the less performing contribution-based system. Anti-establishment parties highlighting socio-economic issues such as the Five-Star movements have understood the unease spurring from welfare state retrenchment and are addressing it, proposing increased welfare spending in 2019 with the *Reddito di Cittadinanza* for unemployment benefits and *Quota 100* reform for pension systems. The movement has justified the provision by claiming that it will positively impact on GDP growth by 0.18% in the first year based on the notion that higher liquidity for middle and lower classes will increase the money multiplier, enhance spending and lead to growth and employment (Il Fatto Quotidiano 2019). However, such an indirect stimulus is unlikely to bear a strong boost to economic growth in terms of debt-GDP ratio than a more direct expansionary measure, as the risk-averting behavior of the post-crisis Italian population may lead to higher saving (OECD 2019b). Historical Italian Federalist parties, the most influent of which the Democratic Party (*Partito Democratico*), should vocally address the worsening of social security and labor market conditions by putting redistributive policies in their political agenda as the Five Star movement has done. They should however differentiate themselves by the movement by conditioning welfare aid on the credible achievement of economic growth, as prescribed by economic international institutions. This would mean firstly implementing macro-economic counter-cyclical measures to increase productivity and employment, a list of which needs elaboration in a further study.

Other than initial policy prescriptions, the article brings forward countless stimuli to further research. Firstly, the scope of the analysis hereby operated for Italy can be spatially extended to more European Member States, resulting in a complete overview of European Welfare State Performance. Secondly, the exercise could be extended to the second social policy indicator of social stratification that Esping-Andersen (1990) has elaborated in the Three Worlds model. Social Stratification measures studies to detect welfare state clustering measures to what extent does the state encourage income stratification among the population by ad hoc social security transfers or lack thereof to certain social groups (Esping-Andersen 1990: 57). Social stratification can help to determine the trajectory of how the three clusters of welfare capitalism have changed in Europe from 1980 to 2015 converging, as Hall and Soskice (2001) claim, to a Liberal model with low decommodification scores.
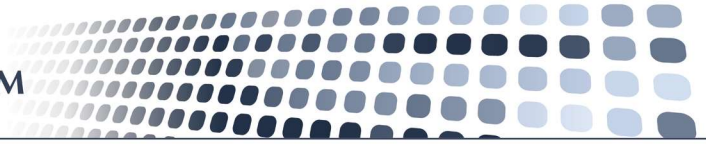
Secondly, the analysis for decommodification scores adjusted for GDP expenditure in Figure 6 that confirms the worsening social security levels endorsed by the prevailing literature has limitations to fully explain the rise of populism. It is necessary to highlight that the present article's aim so far has not been to show a causal relationship between the vote for populists in Italy and the fall in decommodification over time. The article has attempted to formalize the debate on social security in Italy, confirming a significant fall in welfare performance for pensions. A next step to the analysis could be the construction of a rigorous econometric model to understand to what extent the fall of social security standards correlates with the change in Italian voting patterns to populism. To do that, a better account of the varieties of populism needs to be outlined through the modeling of key characteristics that divide Italian populist parties in various clusters. It is in fact clear that Lega Nord and Five-Star movements have different focus areas, political programs and supporters. Once that populist groups are obtained, a regression or ANOVA model between the voting behavior and social security standards can be drawn. The unidimensional model correlating the voting behavior of Italian citizens can be improved including other determinants of populism: economic inequality, captured by the Gini index, income per capita, employment rates, and immigration flows per year in terms of total Italian population. These factors can offer a contribution to understand the key issues behind voters' inclination towards populists. However complex the populist phenomenon is, nowadays' political polarization needs a thorough discussion on freedom from want, income security, inequality levels and labor market conditions to bring Europe beyond its current challenges.

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