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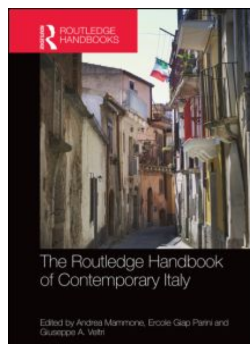

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PART IV

Italian welfare and economy

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WELFARE, ITALIAN STYLE

From Bismarckian beginnings to crisis and reform[1]

Julia Lynch and Peter Ceretti

At one time, the Italian welfare state was the envy of social reformers in the advanced industrialized nations. International observers lauded Italy's leadership in introducing pension and unemployment insurance programs for agricultural workers as early as 1919; and admired the generous system of family allowances set up in the 1950s and the 1960s (Fargion, 2013: 176; Lynch, 2006: 93). Yet by the late 1980s Italy seemed to offer an object lesson in how not to run a welfare state—and an expensive one, at that. The first section of this chapter describes the development of the main structural features of the Italian welfare state through the end of the First Republic. The second section analyzes reforms and continuities in the Second Republic. Finally, in the third section we assess prospects for significant reform of the Italian welfare state going forward.

A very brief history of the Italian welfare state

The Italian welfare state combines occupationally based social insurance for old age and unemployment; citizenship-based national health insurance; and regionally based provision of social services and safety net programs. The system began in classic Bismarckian style, with benefits conditional on participation in the labor market and gradated according to earnings. The Fascist government expanded the corporatist system of social insurance, further fragmenting it into separate schemes for different groups of workers in order to reward supporters and punish potential opponents of the regime. At the same time, both Liberal (anti-state) and Catholic elements left important traces on the system in the form of weak state participation, inadequate funding, and minimal state intrusion into the spheres of charity and early childhood education (Fargion, 1997; Quine, 2002; Lynch, 2009).

After World War II, the occupational foundations of the Italian welfare state persisted, even as many other countries in Europe began shifting toward social entitlements based on citizenship rather than labor market participation. In 1948, the D'Aragona Commission, convened by the De Gasperi IV government, recommended that Italy consider moving toward a citizenship-

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based model of social provision similar to Britain's, but opined that in the short to medium term, the country's fiscal infrastructure was better suited to a system in which benefits could be financed by employment-based contributions. Subsequent efforts to broaden and deepen social protection took place primarily through the social insurance system, which expanded to include new groups (e.g. agricultural workers and housewives [Zoli government 1957]; the self-employed [Segni government 1959, Moro III government 1966]); more generous pension benefits (e.g. Fanfani II government 1958, Moro II government 1965); and new programs intended to provide relief for those who were not eligible for full coverage—e.g. minimum pensions (De Gasperi VII government 1952) and social pensions (Rumor I government 1969). By the end of the 1970s, entitlement to income support in old age or in case of disability was nearly universal, with the amount of support largely dependent on the recipient's (or spouse's) employment history.

Despite its strengths and even at the height of its generosity, however, the social insurance system contained blind spots. For example, compared with other Bismarckian welfare states, Italy's regular unemployment insurance benefits were minimal (less than 20 percent of average wages), and first-time job seekers had no protection. Certain groups of laid-off workers could receive *Cassa integrazione guadagni* (CIG and CIGS; regular and extraordinary short-term earnings supplements) and, later, "mobility allowances." However, these forms of income support were subject to discretionary action by the state, not entitlements. Moreover, family allowances languished after 1964 (Moro I and II governments), so that a once generous system designed to provide a substantial benefit to families with children became a minor wage supplement.

A major departure from the occupational model in Italy came in 1978 (under the Andreotti IV government) with the introduction of the Servizio Sanitario Nazionale (SSN), modeled on the British National Health Service. A victory for the Italian left, which was at the peak of its power when the SSN was adopted, the SSN promised healthcare free at the point of service to all Italians. Despite lack of clarity in the financial arrangements governing the system and significant out-of-pocket payments introduced by Liberal health ministers responsible for the SSN's implementation, the Italian healthcare system has been generally well regarded outside of Italy for its universalism, low costs, and good health outputs. However, as will be discussed in the next section, regionalized administration of healthcare services has raised questions about the equity and fiscal sustainability of healthcare in Italy.

Aside from healthcare, other typical elements of a citizenship-based welfare state, such as robust social services and a national minimum income, remain conspicuous by their absence in Italy. As we have seen, elements of income protection—minimum pensions, social pensions, and disability pensions—were integrated into the occupational social insurance system. However, Italy did not develop a statutory minimum income guarantee, and poverty alleviation and other social services remained almost entirely in the hands of local and regional authorities. Regional variation in entitlements, actual availability of services, and quality of services resulted in a highly variable "geography of citizenship" (Fargion, 1997).

By the 1980s, Italian policymakers recognized systemic problems with their welfare state. Incomplete protection against social risks combined with structural unemployment and underdevelopment in Italy's Mezzogiorno to produce heavy demands on those social insurance and other programs such as disability pensions or minimum pensions that could be used, often illicitly, to buffer incomes. Italy's already expensive contribution-financed occupational pension system was thus additionally burdened with social assistance functions. Some of the costs of this system were covered by the government via deficit spending, which was sustainable only as long as Italy maintained control over its own currency exchange rates. Some restrictions were placed on the improper use of social insurance benefits from the mid-1980s (e.g. introduction

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of a means test for receipt of minimum pensions in 1983 and reform of eligibility for disability pensions in 1984, both under the Craxi I government). But at the same time, the social insurance system continued to grow, with more generous indexation of high-end pensions introduced in 1983 (Craxi I government), and a rise in the ceiling on earnings allowed to count toward setting the level of pensions in 1988 (Goria government). In 1990 (Andreotti VI government), self-employed persons were permitted to opt into the system at a contribution rate far lower than that paid by employees and their employers (12 percent vs. 25.9 percent of wages). To combat growing debts in the social insurance system, contributions were raised five times between 1980 and 1990, which created a "fiscal wedge" that made it expensive for employers to hire additional workers. This contributed to higher unemployment and to the development of two classes of workers in Italy: overprotected, often older, labor market "insiders" who enjoyed generous pensions and supplemental unemployment protection; and underprotected, often younger "outsiders" who spent long spells without work or in the informal labor market with no benefits.

By the dawn of the Second Republic, then, the Italian welfare state faced several structural problems: stark regional divergence in social protection; incomplete protection against both "old" social risks such as unemployment or earnings insufficient to support a large family, and "new" social risks such as youth unemployment or child care needs due to female employment; systematic misuse of benefits such as disability pensions to make up for poor employment prospects; fiscally

Table 20.1 Italian social spending, poverty and inequality in comparative perspective

	Public social spending % of GDP (2012)	*Relative poverty rate: total population (2004–5)*	*Relative poverty rate: children (2004–5)*	*Gini, household disposable income (2007)*
US	19.5	17.189	20.945	0.37
Spain	25.3	14.092	17.256	0.313
Ireland	19.8	13.209	15.857	0.289
Canada	19.3	12.977	16.872	0.328
Australia	16.1	12.187	13.96	0.324
Italy	**26.4**	**12.038**	**18.256**	**0.334**
Greece	23.1	11.867	12.429	0.307
UK	22.9	11.221	12.983	0.345
Luxembourg	23.6	8.882	13.494	0.292
Germany	25.8	8.518	10.9	0.3
France	29.9	8.489	10.174	0.292
Switzerland	18.5	8.001	9.308	0.29
Norway	22.4	7.073	5.264	0.256
Austria	28.1	7.07	6.82	0.261
Finland	28.0	6.617	4.008	0.258
Netherlands	21.5	6.338	9.15	0.297
Sweden	26.5	5.596	4.72	0.259
Denmark	29.5	5.586	3.872	0.243

Total public social expenditure from OECD (2013), OECD Social Expenditure Database.

Poverty rates calculated as share of population with size-adjusted household incomes below 50% of national median income. Data from Luxembourg Income Study (2013), Key Figures.

Gini coefficient from OECD (2011). *Divided We Stand: Why Inequality Keeps Rising* (available online at www.oecd.org/els/social/inequality).

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unsustainable social insurance programs; an insider/outsider cleavage in the labor market and the occupational benefits linked to labor market participation; and intergenerational imbalances in both access to social protection and responsibility for financing the system. The absence of a nationwide safety net exacerbated pre-existing divergences in living standards resulting from varying levels of economic development between Italy's North and South, so that despite social welfare spending near the West European average (23.7 percent of GDP in 1990, versus the EU15 average of 24.4 percent [Eurostat]), levels of poverty and inequality in Italy have approached those in the United States (see Table 20.1).

The incomplete transformation of the Italian welfare state during the Second Republic

As the First Republic began to crumble, the speculative crisis that forced Italy's exit from the European Monetary System in 1992 made it clear that comprehensive welfare state reform could wait no longer. Stabilizing the public finances and structural reforms to the economy suddenly became urgent priorities, and the next twenty years saw an incremental series of reforms to pensions, unemployment benefits, healthcare, and social assistance. These efforts have been more successful in some areas (e.g. pensions) than others (e.g. social assistance).

Pensions

Pension spending had reached 12.8 percent of GDP in 1992, and was projected to balloon to 23.4 percent of GDP by 2040 if left unchecked (Ferrera and Jessoula, 2007: 431). Measures adopted since 1992 have gradually harmonized pension eligibility requirements between genders and across sectors, increased the retirement age, and curbed seniority pensions (available to those below the statutory retirement age who have made a certain number of years of contributions). As a result, the sustainability of the social insurance system has greatly increased, but the pace of adjustment has begun to raise new concerns about generational fairness, pension adequacy, and poverty in old age.

The pension reform process began with the Amato reform in 1992, which lengthened the reference period for calculating benefits, adjusted indexation, increased the retirement age for private sector workers, and gradually raised contributory requirements for seniority pensions. The Dini government passed another significant reform in 1995, introducing a flexible retirement age and shifting from a defined-benefit to a "notional defined contribution" system, in which workers' accumulated contributions are linked more directly to eventual benefits. However, the price of union support for both the Amato and the Dini reforms was a slow phase-in period to protect older workers (Schludi, 2005: 116; Ferrera and Jessoula, 2007: 433–7; Schludi, 2005: 56).

Subsequent reforms in 1996 and 2004 further tightened requirements for seniority pensions, introduced incentives to forgo early retirement, and gradually increased the retirement age. In 2009–10, in response to the financial and sovereign debt crises, retirement ages for men and women in the public sector were made identical, the statutory retirement age was linked to life expectancy, and retirement flexibility was limited (Jessoula, 2012: 14–15). Finally, under pressure from the European Central Bank, the 2011 Fornero reform sped up the phase-in of the Dini reform and post-crisis measures. All benefits accrued since 2012 are now calculated according to the new formula. Indexation of benefits to aggregate life expectancy and harmonization of pension plans have been accelerated, and retirement flexibility has been restored. Seniority pensions have been replaced with an early retirement scheme that penalizes retirement

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before 62. By 2018, the retirement age is projected to be a uniform 66 years and 7 months for all, increasing to at least 67 by 2021.

Steps have also been taken since 1993 to develop funded, supplementary pensions on both an individual and a collective basis. Nevertheless, supplementary pensions remain fragmented across occupational and geographic lines, and coverage is limited. At the end of 2011, supplementary schemes covered about 5.5 million workers, or 24 percent of those employed (Finocchiaro, 2012: 11). While still modest, the coverage rate is a substantial increase over 2005, when only 13 percent of workers were enrolled (Coletto, 2007). In other regards, however, the changes to the pension system have been significant, and signal a breakthrough of the policy stalemate of the First Republic that had protected pension spending at the expense of more thorough protection for non-elderly Italians, particularly labor market outsiders.

Unemployment benefits

In contrast to pensions, since the early 1990s unemployment benefits have become more generous, but starting from a very low level. By 1993, the ordinary unemployment benefit (OUB) was still substantially less generous than in most other European countries, but had been raised to a 25 percent replacement rate (with duration capped at 6 months, and substantial insurance and contribution requirements: 2 years of insurance coverage, and 52 weeks of contributions in the year before unemployment) (Madama and Coletto, 2009). Between 2001 and 2008, both duration and generosity gradually rose, but benefits were differentiated according to age, with longer and more generous benefits for older workers (Leombruni *et al.*, 2012: 11–12). Unemployment benefits were also limited mainly to cases of involuntary job loss and tied more tightly to availability to work than in the past (Sacchi and Vesan, 2011: 8).

The Monti government's 2012 labor reform then made broader changes to unemployment insurance, bringing the replacement rate closer to the 80 percent offered by the CIG/CIGS schemes and phasing out mobility allowances as of 2017 (CGIL Rimini, 2012). The reform replaced the standard OUB with a new "social insurance for employment" benefit (Aspi) from January 2013. Contribution and insurance requirements remain the same, but the duration and age differentiation of benefits have been adjusted, and coverage expanded. When fully phased in, the Aspi will last a maximum of 12 months for workers up to 55 years of age, and 18 months for those 55 and over. The replacement rate is 75 percent for monthly incomes up to €1,180 in 2012, bringing the benefit in line with that offered in other European countries. The benefit falls to 60 percent for months 6–12, and to 45 percent thereafter. Eligibility has been extended to all categories of dependent employees, and coverage is expected to increase from about 4 million workers in 2013 to 12 million in 2017 (Consiglio Nazionale Economie e Lavoro [CNEL], 2012: 247–8, 262).

Given the high contributory and insurance requirements for the OUB and Aspi, younger and temporary workers are more likely to qualify for the less generous "reduced requirement unemployment benefit" (RUB), which by 2012 had a 35 percent replacement rate for the first 4 months of eligibility, and 40 percent thereafter, for up to 6 months (CGIL Rimini, 2012). Until the Monti government's reform, the RUB had a lengthy insurance requirement (2 years of insurance coverage), but lower contributory requisites than the OUB (78 days in the year before unemployment). However, the benefit was paid out in a lump sum in the year after job loss (Madama and Coletto, 2009). The 2012 Monti reform set the replacement rate of the RUB, renamed the "mini-Aspi," equal to that of the full-fledged Aspi. The insurance requirement has been eliminated, but the contributory requirement has been increased (13 weeks in the year

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before job loss). Workers will now be able to collect the benefit for half as many weeks as they contributed in the previous year. Not only has coverage been expanded as in the case of the Aspi, but the benefit is also paid out at the time of job loss, which eliminates the peculiar *ex post* nature of the RUB (CGIL Rimini, 2012).

Expanding and strengthening the Aspi and mini-Aspi required additional contribution-based financing, which aggravated the already substantial tax wedge on employment. To finance the new unemployment benefits, employers now pay a further 1.61 percent for apprentices and regular employees on top of the prior total social contribution of 33 percent of wages (shared by employers and employees). The contribution addition is 3.01 percent for fixed-term contracts, both to increase the attractiveness of apprenticeships and to cover the higher likelihood of recourse to the Aspi or mini-Aspi by less-protected temporary workers.

Despite significant improvements in social protection for the unemployed in Italy since the start of the Second Republic, labor market "outsiders" remain vulnerable. For example, most workers on short-term contracts are eligible only for mini-Aspi benefits, with a maximum duration of 26 weeks. Similarly, formally self-employed workers under contract to single firms must bear the costs of their own insurance. In short, the social insurance logic of the Italian welfare system is poorly adapted to an economic reality in which 60 percent of new jobs are "atypical" (part-time, fixed-term, or contracted-out) (Fargion, 2013: 189).

Healthcare

Like unemployment and social insurance, Italy's healthcare system has also undergone profound changes over the last twenty years. Reforms have professionalized management, increased the role of the private sector in care provision, and devolved policy-setting competencies to regional governments (Jessoula and Pavolini, 2012: 16). Despite these changes, serious quantitative and qualitative disparities between the North and South persist; and while Italian healthcare spending is lower than in many other rich democracies, cost containment remains a challenge in some regions.

The healthcare reform process began with the 1992 "reform of the [1978] reform," which began the decentralization of the healthcare system and introduced greater competition in care provision (Ferrera and Gualmini, 2004: 114; Frisina Doetter and Götze, 2011: 4). Health agencies and larger hospitals previously run by elected committees and political appointees were given over to professional executives, and were required to run balanced budgets to keep their independence. Deficits were to be covered by regional tax additions or higher co-pays. The central government retained its planning role, providing the regions with funding to deliver a standard package of mandatory or "essential" services (LEAs).

A third healthcare reform in 1999 and other legislation passed between 1998 and 2000 accelerated regional devolution and created new funding sources. The 1999 reform reorganized the national government's and the regions' financing responsibilities, restricted the private activities of full-time SSN doctors, and altered regulations on supplementary health insurance funds (Ferrera and Gualmini, 2004: 117). During this period, a regional business tax (the IRAP) was introduced to finance healthcare spending; revenue sharing and the scope for regional tax additions were expanded; and a redistributive fund was created to complement the regions' independent resources (Frisina Doetter and Götze, 2011: 6). Finally, in 2001, the reform of Title V of the Italian Constitution confirmed the regions' responsibility for organizing and delivering healthcare.

In 2009, the third Berlusconi government's framework law on fiscal federalism attempted to link funding allotted to the regions to cover essential services to "standard cost" benchmarks,

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determined by the cost of provision in several regions with "virtuous," efficient healthcare systems. However, the Monti government left the standard cost provisions unimplemented: federalization was not a priority for Monti's technocratic administration, which was appointed with a mandate to stabilize the public finances and enact structural reforms. In fact, in an effort to control spending, Monti instead sought to reassert central government's primacy over local administrations. As a result, the financing of regional health budgets remains in limbo until cost benchmarks can be worked out.

Social assistance

As with healthcare, progress in the field of social assistance got off to a bright start in the Second Republic, but in contrast to other welfare policy areas, eventually flagged. The overall picture is one of an attempted transition to a universal system that was halted by the process of federalization and devolution. As a result, social assistance remains regionally variegated and largely transfer-based, with services in kind insufficient to meet demand, particularly in many Southern regions.

The path to reforming social assistance began with the Onofri Commission, which was tasked with reviewing the performance of the welfare state in 1997. The Onofri Commission's final report recommended a citizenship-based assistance architecture and more effective selection criteria for determining eligibility. It also called for further decentralization of service provision, a greater emphasis on services in kind rather than cash transfers, and better offerings in the areas of long-term care and child care, among other reforms (Bosi *et al.*, 2003: 2–3).

Although the Commission prescribed incisive reforms to pensions, healthcare, and unemployment insurance, as well, social assistance was one of the few areas where its recommendations were taken up in earnest (Ferrera and Gualmini, 2004: 114–20). In response to the Onofri Commision's recommendations, and satisfying a long-term desideratum of both unions and large employers that social assistance functions be separated from the contribution-based social insurance system, the Prodi government passed clearer, more transparent rules on social assistance financing. Then, in the 1998 budget law, provisions were laid out for an experimental "minimum insertion income" (RMI), a means-tested minimum wage with an activation component. A new scale for measuring eligibility, the "indicator of the economic social equivalent" (ISEE), was also introduced. The ISEE would be applied to all new means-tested benefits (Ferrera and Gualmini, 2004: 117; Sacchi and Bastagli, 2005: 68).

The most important innovation was a framework law on social assistance, adopted in 2000. The planning architecture was modeled on the healthcare system, which allowed the government to set national standards for decentralized provision of child care, elder care, rehabilitation, and other social services. The law fit into the federalization process by defining national, regional, provincial, and municipal responsibilities for social assistance. However, it also gave the state firm powers to set guidelines for various aspects of assistance policy through national plans (Sacchi and Bastagli, 2005: 69). Nevertheless, the new policy framework was only used briefly, however, as the 2001 constitutional reform devolved greater control over social assistance to regional and local governments, much as in the area of healthcare policy. Central government planning powers were watered down, and although the state still retains the power to set essential levels of provision for social assistance transfers and services, crafting territorially coherent policies is now much more difficult (Sacchi and Bastagli, 2005: 70), and very substantial regional variation in provision remains (Fargion, 2013).

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Poverty and family policy

Poverty has long been a challenge for Italy, particularly among children, a group for whom Italy still has by far the highest poverty rate in Western Europe (see Table 20.1). Absolute measures of deprivation confirm the vulnerability of families with three or more children (Coromaldi and Zoli, 2012; Devicienti *et al.*, 2012; Sacchi and Bastagli, 2005). These same studies also reveal a marked North–South divergence in relative and absolute poverty; in 2002, poverty rates in the South and Islands were more than three times higher than in the Center, and four and a half times higher than those in the North (Sacchi and Bastagli, 2005: 73). However, after its experimental period ended in 2002, the RMI was discontinued. Thus, Italy still lacks a national minimum income that could effectively combat poverty.

A number of categorical benefits have anti-poverty effects. "Civil disability" pensions have no contribution requirement, and are intended for those who are almost totally disabled. The "social allowance," introduced by the Dini reform of 1995 to replace social pensions, can be collected by those over 65 who are ineligible for a pension, or whose contributions would yield a monthly pension less than the social allowance itself.[2] Within the social insurance system, means-tested family allowances, pension supplements (available until the Dini reform), disability pensions, and inability pensions for those totally disabled all play some poverty-alleviation role (Sacchi and Bastagli, 2005: 80). Since 1999, a means-tested benefit for all families with three or more children (*assegno per il nucleo familiare*) has been available to Italian and other EU-member families resident in Italy. Arcanjo *et al.* (2013: 16) estimate, however, that family cash benefits reduce child poverty in Italy by only 8 percent.

The same legislation also provided for a new, five-month maternity benefit for legal resident households ineligible for an insurance-based maternity benefit. Means-testing is performed according to the ISEE (Sacchi and Bastagli, 2005: 80). Despite these new additions, the Italian family policy arsenal remains antiquated. For example, child care spaces are inadequate to meet demand in many regions, and private solutions have not been adequate to fill the gap (Da Roit and Sabatinelli, 2013). Italian family policy has lagged behind other European countries in other respects as well: very low replacement rates (30 percent of wages) result in low take-up of parental leave by fathers, and many primary schools in southern Italy lack cafeterias, which stunts female labor force participation (Naldini and Jurado, 2013: 52–5).

Reforms in political context

Many of the changes in the Italian welfare state since the 1990s are due to the transformation of Italy's domestic politics and international position since *Tangentopoli*, and the commitment to join the EU's Economic and Monetary Union (EMU). The politics of decentralization have also strongly affected the evolution of the welfare state in the areas of healthcare and social assistance. While pressure from the Northern League triggered the start of federalization of the Italian state, this policy "solution" was adopted by the center-left and center-right alike as something of a panacea with respect to healthcare and welfare (Fargion, 2005: 139; Frisina Doetter and Götze, 2011: 6). Federalization has not always led to positive outcomes, as persistent healthcare disparities (especially between northern and southern regions) and the stunted process of social assistance reform demonstrate.

The external constraints posed by financial markets and deepening European integration have also played an instrumental role in encouraging reform (Ferrera and Gualmini, 2004; Jessoula, 2012). In the 1990s, the goal of EMU accession pushed the social partners and technocratic (or left-leaning, partly technocratic) governments into a process of institutional learning.

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The search for policy solutions in an adverse fiscal climate led unions, employers, and governments to collaborate on measures such as the Dini reform and a series of social pacts. In addition, EU initiatives such as the European Employment Strategy helped to clarify policy priorities and increase institutional capacity (Ferrera and Gualmini, 2004: 104).

In recent years, welfare state reform has been less collaborative, though the external constraints are as real as ever and continue to tighten in step with European fiscal integration. This point is underscored by the experience of the Monti government, which was appointed largely in response to pressure from financial markets and EU institutions, and relied on these external factors to facilitate the passage of strict austerity measures and pension and labor reforms (Jessoula, 2012: 25–7).

In light of the results of the 2013 parliamentary elections, in which the center-left "Italy, Common Good" coalition and Mario Monti's centrists were penalized by the public for supporting austere fiscal policy and structural reforms, the outlook for future changes to the welfare state is uncertain. The scope for collaboration with the social partners also appears to have diminished in recent years, thanks in part to the heavy-handed approach to negotiations espoused by the center-right under Berlusconi and the severity of the reforms imposed by the Monti government. With a public suffering from the beginnings of reform fatigue and significant developments in the party system underway, it looks increasingly unlikely that the changes in the welfare state to come will be well-planned, far-sighted ones. Despite significant progress in recent years, welfare state reform is now in a "holding pattern," awaiting the emergence of a government with a political mandate strong enough to continue the work left unfinished in the Second Republic.

Sources of policy stability in welfare *all'italiana*

Why has the Italian welfare state, with its recognized territorial, generational, gender and insider/outsider inequities, proved resistant to fundamental change? The nature of political competition in Italy—marked as it is by longstanding patterns of clientelism and conflict over territorial economic divergence—constitutes a serious impediment to reform. This impediment has persisted throughout the First and into the Second Republic, and continues to bedevil serious welfare reform efforts.

Clientelist political competition during the First Republic, aided and abetted by a pattern of polarized pluralism in the party system (Ferrera *et al.*, 2012), was directly responsible for many of the Italian welfare state's pathologies, including the insider/outsider cleavage and the strong elderly and male-breadwinner orientation (see Lynch, 2006 for more detail). A tradition of exchanging tailored policies and even individual benefits for votes in Italy helped maintain occupationalist welfare programs even in the face of calls by high-level commissions (the CNEL in 1963, the Onofri Commission in 1992) for a system of universal benefits. Extreme fragmentation of pensions, in particular, benefited clientelist politicians, but made it difficult for citizens and even policy specialists to project the long-term budgetary consequences—which were grave indeed when combined with population aging, declining labor force participation, and a weakening contribution base. The use of selective welfare benefits for clientelist purposes, predominantly by the DC and later the PSI, altered the preferences of those political actors who had an ideological affinity for more equitable universalist solutions: the PCI and labor unions came to fear that expansion of the state's role in the areas of unemployment insurance and poverty relief would provide even more fodder for DC and PSI clientelist activities, and so eventually opposed universalizing reforms despite having shown some enthusiasm for them

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in the early post-war period. Additionally, since the PCI was excluded from power under the system of polarized pluralism, it was tempted to make promises in the realm of welfare policy that it would never have to keep, which led to a pattern of leap-frogging promises that resulted in the extraordinarily generous and expensive pension system put in place from 1969 (Ferrera *et al.*, 2012).

Clientelism, then, was a major determinant of the configuration of the welfare regime up to the end of the First Republic. And because welfare state policies are complex institutions that tend to "stick" once enacted, the Italian welfare state still bears strong traces of this aspect of political competition that so dominated the political context of the First Republic. Does clientelism pose a continued obstacle to reform in the Second Republic? Persistent scandals in regional healthcare administrations—Lazio and Lombardy are two prominent examples—suggest that despite the disappearance of the two parties most implicated in clientelism during the First Republic, the longstanding link between the Italian welfare state and clientelist politics has yet to be dissolved. Under Berlusconi, the familiar pattern of clientelist exchange appears to have been grafted onto a neo-liberal agenda. The protection of key center-right clienteles—for instance, business owners and professionals for the PdL, northern pensioners for the Northern League—has led to ambiguous stances on tax evasion and hesitance to overhaul certain welfare policy instruments, such as seniority pensions. All of these factors have tended to slow the process of recalibration initiated in the early years of the Second Republic.

The second key feature of Italian politics that has rendered the welfare state so resistant to thoroughgoing reform is the perennial political salience of the North–South economic divide. Throughout its history, many aspects of the Italian welfare state were invented or survived because they provided a political buffer against the economic mal-integration of the South. For example, minimum, seniority, and disability pensions have all found political support in part because of the way they have been (mis)used as subsidies for underemployment and low household incomes in the South. Until the regional economic divide lessens, there will be political pressure to retain those aspects of the welfare state that provide resources for Southern families—even if rebuilding the entire edifice of the welfare state might itself contribute to lessening the economic divide, and could in any case lead to more effective and efficient policies.

Of course, the welfare state itself has also served as a cause of interregional tensions. The Lega Nord's cries of "*Roma ladrona*" refer not only to politicians on the take, but also to government social spending that the party claims benefits the South at the expense of the North. The federalizing reforms pushed by the Lega Nord have resulted in substantial regional autonomy in the health and social assistance sectors, while tensions over newly visible fiscal transfers between regions necessitated by federalization have hindered both national-level oversight and the eventual completion of these decentralization processes. Further, while devolution has led to some fruitful experiments in alternative welfare and healthcare models at the sub-national level, continuing regional disparities in the benefits and services available to citizens have also occasioned invidious political comparisons, and make it difficult to rationalize the state's investment in major infrastructure such as hospitals and medical centers to reduce costs and create greater geographic equity in access to healthcare.

Prospects for further reform

Italy's social insurance model is highly resilient. Transformation to a universal, citizenship-based model with flat-rate benefits is exceedingly unlikely. At best, Italy will probably come to more closely resemble the continental social insurance systems of Germany, the Netherlands, or France. Furthermore, while pressure from international financial actors to increase productivity and

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decrease unit labor costs could provoke some convergence, the structural economic differences between Italy's North and South also seem unlikely to recede. Should we then expect the Italian welfare state's occupational, insider-protecting, and regionally variegated welfare state to persist indefinitely?

Perhaps not. Once reform of the electoral law is accomplished, there may be opportunities for subsequent governments to undertake further reform. We see three reasons for cautious optimism in this regard. First, the financial crisis has brought pressure from the ECB and international financial actors that introduces a fundamentally new kind of *vincolo esterno*. Instead of demanding adherence to general fiscal targets, generating fixes that may unravel once targets have been met, international actors are now pressing for (and receiving) very specific reforms. For example, the ECB outlined a series of specific pension reforms that needed to be undertaken after 2011 in return for Frankfurt's support in secondary bond markets (Jessoula, 2012: 25). This significant reduction in domestic policy autonomy may generate political ill will toward both European and domestic political elites, and it is almost certain to result in a decrease in the total resources available for social protection. On the other hand, it may also give reformers the political cover needed to undertake very unpopular reforms, freeing up resources to devote to new protections for labor market outsiders and younger Italians.

A second cause for cautious optimism is that the details of fiscal federalism cannot remain in limbo indefinitely. Unless the federalist project is abandoned altogether, which seems unlikely at this point, standard costs will have to be defined. Once this occurs, the central government will have increased control over health and social assistance spending, and may also be able to press for greater uniformity of social provision across regions.

Third, and most speculatively, there are indications that the Italian welfare state's harsh intergenerational inequities—which despite the quicker phase-in of pension reforms may have actually gotten worse since the crisis—have finally generated a meaningful political backlash. After decades of gerontocracy, the recent elections have returned a younger parliament than in France, Germany, Spain, Great Britain, or the United States. There is also a larger share of female parliamentarians than in the past (Coldiretti, 2013), which may be a result of the primaries held by the PD and M5S. This parliament is unlikely to last long, or to undertake any substantial welfare policy changes. But if parties continue to hold primary contests, it seems likely that the increase in younger and female parliamentarians may also persist and lead to a reorientation of welfare policy away from highly protected insiders, and toward the needs of families and younger workers.

Notes

1 This chapter was drafted in March 2013, shortly after Italy's general elections and at a moment of considerable political volatility. Since then, the political outlook has changed significantly, and some welfare policy changes—most notably with respect to the unemployment insurance system—are currently under way or have already been enacted.

2 Thanks to the third Berlusconi government's pension measures and the Fornero reform, the eligibility age for the social allowance is now indexed to life expectancy, much like the retirement age. This means that the elderly poor will effectively be forced to wait longer for relief as the eligibility requirement is revised upwards over time (Jessoula and Pavolini, 2012: 140).

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