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WELFARE STATE AND OCCUPATIONAL WELFARE

Abstract. The article draws upon the main results of the *Report on Welfare State 2019* edited by the Author. The first part analyses occupational welfare which involves the following aspects: the historical context of the most comprehensive state-market relations in which it developed; the reasons and the economic and social effects of the spread of occupational welfare; the areas of intervention and the dimensions it has assumed in various countries and in Italy; the connections with the welfare state; the links with employer-trade union relationships, productivity trends, decentralized wage bargaining and wage trends; and the effects on inequalities in access to social goods and services. The following two sections examine the social and economic policies implemented in Europe and Italy, and the quantitative and qualitative dynamics of expenditure. In particular, we explore: trends and policies regarding: the labor market; demographic and migration trends; education and healthcare; social safety networks; inequalities; the policies aimed at reducing poverty; and the basic guaranteed citizens' income (*reddito di cittadinanza*) a measure recently introduced in Italy. Finally, the analysis focuses on the measures adopted by the Italian Government in relation to the pension system, as well as the forecasts, problems and recommendations concerning public and private systems.

Keywords: welfare state, occupational welfare, EU and Italian social policy.

1. Public welfare and occupational welfare

1.1. The historical context and the development of occupational welfare

In the evolution of state-market relations, the periods of more accentuated development were often followed by major crises, and not only economic ones, followed by historical phases of re-launching the public role (see Pizzuti in Pizzuti, 2017a, Section 1.1).

The Great Recession that began in 2008 reiterated the limits of market functionality and their need for better interaction with public institutions. However, even in welfare systems, the tendency, which began in the last two decades of the last century, to accentuate the presence of private components and criteria remains. The diffusion of the various forms of occupational welfare (OW) and their connections with public welfare are to be placed in this context.

Even with different modalities and dimensions, OW has developed since the 1990s, mostly based on agreements between companies and workers, established at national or local, sectoral or company level (see Jessoula and Mallone in Pizzuti, 2017a, Section 1.2). Its expansion was supported by a composite set of ideological and political interests and positions, with the more or less heartfelt participation of the various representatives of the social partners. In this way, a consistent agglomeration of various actors was established which, although driven by different motivations, merged with the decision to develop new forms of welfare other than the public ones. Compared to these, the OW services can be supplementary or substitutional, but - although born from private initiatives - they mostly benefit from significant public incentives.

The main areas of OW intervention are welfare and health, but others include training programs and the reconciliation of familiar needs with productive activities. The beneficiaries are mostly workers - and possibly their families – closely connected to companies within specific productive sectors and within a specific territory; we are therefore outside the universalistic approach.

In the OECD area, the countries where spending on OW has the greatest impact in relation to GDP are (see table 11): the Netherlands (7.0%), the United States (6.7%), the United Kingdom (5.3%) and Sweden (3.2%); significantly lower values are recorded in countries such as Germany (1.2%), Spain (1.1%), Italy (0.9%) and Poland (0.4%). Between 1990 and 2015, this expenditure grew significantly in real terms, with increases that exceeded 500% in Spain and 300% in Sweden; in Italy it has grown by 85%. In the USA, between 1990 and 2007, the item of voluntary social expenditure - to which the benefits of the OW are attributable - doubled; but for the next eight years - following Obama's health reform, which made many private insurance contracts mandatory - the statistics show a sharp drop in this expenditure, both in absolute terms (its per capita value at constant prices decreased by 30% compared to 2007) and with respect to GDP (-3.2%), as well as in relation to the total social expenditure (from 61.2% to 27.2%) (see Pavolini and Natali, in Pizzuti, 2019, Section 2.2, table 5).

The relationship between OW and public welfare varies from country to country and from sector to sector. In Italy, the enrollment of workers in private insurance fund concessions is spreading, with fiscal incentives for companies. These funds (partially) replace monetary wage increases and, in health care, they tend to replace NHS services. In Scandinavian countries, instead, the OW in health care is in addition to the public one, while it tends to be of substitutive nature in the pension field.

1.2. Reasons and effects of Occupational Welfare

The development of OW has found nourishment in the neoliberal economic, social, political and cultural changes that have taken place in the most advanced market economies since the end of the 1980s. A structural novelty was the organizational reorganization of the production processes that led to their breakdown and delocalization. These changes have contributed to changing contractual power relationships in the labor market, favoring policies aimed at containing labor costs and differentiating both money wages and the new social benefits of OW.

In the dominant economic view, contractual decentralization and wage diversification at company, sectoral or territorial level connected to productivity dynamics are justified by objectives of efficiency and merit. Indeed, isolating the contribution given by each sector, company or worker is analytically and empirically incongruous; moreover, the competitiveness of a single company depends not so much on its labor costs as on its ability to express quality and innovation. These aspects are linked to development factors operating mainly at the intersectoral level and connected to the overall economic and social organization (see Pizzuti, in Pizzuti 2019, Section 1.3 and in Pizzuti, 2017a, Section 1.6).

The diversification of remuneration dynamics had an effect on the change in industrial relations, but has also further accentuated it, reducing the bargaining power of workers. Furthermore, the fact that wage diversification is practiced by making social services non-homogeneous, through by-contract welfare, generates malfunctions both on growth and on equity. As regards growth, the inefficiencies of the private supply of social goods and services tend to recur (Pizzuti, 2017b). In particular, to entrust the financing of social benefits to market resources jeopardizes its function as an economic-social shock absorber, making it pro-cyclical. As for fairness, entrusting the satisfaction of primary needs, often guaranteed by the Constitution, to the logic of the market, accentuates its inequality, encouraged by a regressive use of the tax system (see further in this Section and cf. Bloise and Raitano in Pizzuti, 2019, Section 1.4; Di Nicola, Ibidem, Section 3.2; Dirindin, Ibidem, Section 3.12).

Among the reasons for the development of OW there is the great influence from the insurance and financial sectors interested in managing health risks and pension savings. Even in this case, the market logic worsens not only the fairness of the conditions of access to meritorious services, but also the efficiency since the management costs are structurally superior to those of public welfare2. Moreover, the

[1] Data in tab.1 have been elaborated by Pavolini and Natali, in Pizzuti (Ed.), (2019), Section 2.2, table 5, page 145.
[2] Nevertheless, their diffusion has also exceeded the integrative purposes by assuming a substitutional role; Raitano in Pizzuti (Ed.) (2019), Section 4.2.

reaffirmation of the market logic has strengthened the policies for containing public budgets, also inducing the replacement of public social benefits with those of OW.

OW seems to favor workers and trade unions, businesses and governments at the same time; however, contradictions are not lacking (see Arlotti in Pizzuti, 2019, Section 1.5 and Jessoula and Pavolini, Ibidem, Section 1.6). The changed contractual power relationships and the constraints of public welfare have led workers' organizations to accept the offers of employers of contractual welfare and to share their management. However, the exchange with the monetary wage, which surely gives companies tax reductions and fewer social security contributions, which almost halve the cost of the services, implies a corresponding reduction of the public pension and severance pay for workers. OW implies a negative redistribution for workers for two reasons: an indirect one, connected to the worsening of the public budget (from which a reduction in goods and services and / or an increase in taxes may derive) and a direct one, due to the overall lower services received.

For companies, contractual welfare also has the merit of retaining their employees who are linked to the workplace not only by remuneration, but also by the negotiated social services. And yet, in a more far-sighted view, companies should not miss the fact that the higher costs of the private offer of these goods and services increase labor costs, even if in the current state of industrial relations the added cost is transferred to the public budget and workers.

Governments tend to see in OW the justification for containing social spending. However, the tax reduction of productivity bonuses and additional tax incentives granted to the welfare services offered by the companies imply, contradictorily, a not inconsiderable drop in the revenues of the public budget (see Bloise and Raitano in Pizzuti, 2019, Section 1.4; Di Nicola. Ibidem, Section 3.2; Dirindin, Ibidem, Section 3.12). Tax deductions relating to WO in health care can be estimated at around 2 billion euros and the highest income holders benefit the most. The same regressive effects occur with the deductions of payments to pension funds which are also accessible mainly by workers with the most stable and consistent salaries. The empirical analyses confirm that OW favors, almost always, those who are already the most advantaged: people living in the Center-North with respect to those of the South; more men than women; those employed under guaranteed contracts, in stronger sectors and larger companies than those in weaker sectors, small businesses and more precarious wages; the private sector compared to the public sector; employees versus autonomous ones; executives over workers. The spread of OW also generates a quantitative and qualitative weakening of public welfare performances, reducing the willingness to use them and to finance them on the part of the more affluent classes, triggering unfavorable trends for the poorer classes.

2. Economic, social and labor policies in Europe and in Italy

2.1. The contradictions of the European system; social and labor policies, poverty and inequalities in the EU

In the Eurozone, after the stable return in 2014 to positive growth rates, a gradual slowdown is underway which also affects the more solid countries[3]. Among the possible explanations it should be noted that the world economy is suffering from increased uncertainty of the geo-political balance; growing uncertainties weigh on trade and on the positive trends of the two main economies, the USA and China. It is significant that the central banks' plans to return to less accommodating monetary policies have been canceled. The increased volatility of financial markets and the decrease in yields also push institutional investors to accept greater risks.

The new protectionist pressures contribute to curbing the globalization process that started in the 1980s. Yet, international economic integration may be experiencing a new phase, characterized by stronger economic policies. For each European country it would be much more advantageous to participate in this historical phase not in a random order, but united. However, European construction tends to get complicated. Brexit indicates that you can go back, but with many difficulties and unexpected costs.

[3] The GDP growth forecast by the German government for 2019 has been halved from 1% to 0.5%, a value not very different from that of almost stagnation foreseen for Italy.

Further breakages would not be easily managed in an orderly and painless way, yet they are favored by popular disaffection towards the Union fueled by the counterproductive policies adopted so far.

In the European Union, in the absence of an expansive common fiscal policy, responsibilities continue to be entrusted to the monetary policy beyond its own possibilities. Economic and social policies have accentuated national differences rather than reduced them, and, in each country, they have increased the dualism between the most guaranteed and best paid workers and others in situations of precariousness and low wages. The flexibility of the workforce and the contractual decentralization pursued in each country to improve its competitiveness by reducing the costs have reduced the overall demand, making it more difficult to overcome the crisis. This has happened above all in Southern European countries.

The employment recovery, especially for young people, has been accompanied by a decrease in the average number of hours worked and by the growth of precarious, intermittent and involuntary part-time employment. Women's employment has increased but remains 12.2 points lower than for men. After 2008, the differences between the employment rates of the various countries have grown. The target set by the Commission is 75% in 2020, but the values set by each country range from 63% in Croatia to 80% in Sweden, Holland and Denmark; that of Italy is 67%, while for Germany and France they are, respectively, 77% and 75%. Only 9 EU28 countries, mostly from the Center-North (plus Malta), have achieved their goals; those of the South have not. Italy has risen only from 60% in 2014 to 62% in 2017 (see Barbieri, in Pizzuti, 2019, Section 2.4). Larger gaps are recorded for NEETs, that is, young people between 15 and 29 who do not work, do not study and do not seek work (mostly discouraged to do so). In Italy there is the highest NEET value in EU15, equal to 24.1% in 2017 (see Segre, in Pizzuti, 2019, Section 2.6), due to the presence of many young people with high education who also feed the flow of emigrants. Between 2013 and 2017, in the age group over 24 years there was a net emigration of 244,000 units, of which 64% with medium-high educational qualifications and, among these, with graduates on the rise (see Guarascio, in Pizzuti, 2019, Section 2.8).

Despite the traditional references to social Europe, the economic vision that has prevailed in the Union so far tends to consider social objectives not as justified in themselves and functional for growth, but as costs, that are not compatible with the recovery of state budgets. Public social spending in all 28 countries since the beginning of the "great recession" has increased between 2 and 3 percentage points of GDP[4], but not so much for the increase in performance as for the low growth in income. In 2016, average spending was 27.1% of GDP[5], with national differences ranging from 32.1% in France to 14.3% in Romania. The Italian figure, equal to 28.6% of the GDP[6], is higher than the average, but our per capita expenditure, with purchasing power parity, is lower by about 10%[7].

European welfare systems have only partially cushioned the social effects of the crisis. The social objectives established with the Lisbon Strategy have also been blatantly disregarded and national distances have increased.

Against the aim of reducing the number of poor people in the Union by 20 million (equal to 116 million in 2008[8]), after three years they increased by 7 million, only to fall to 111 million in 2017. In Italy, the share of the poor has also grown in the last seven years, from 25% to 29%[9]. Income inequalities have also grown within each EU country, and in our country more than the EU average: in the Eurozone, the share

[4] Eurostat data (2018). In the EU-15, the values that had been between 24.5 and 25.5% for about twenty years, have reached figures above 28% since 2009 (except for 27.9% in 2016). See Corezzi, in Pizzuti (ed.) (2019), section 2.1.

[5] It rises to 28.2% also considering administrative costs and other expenses. In Eurostat statistics, social protection expenditure includes: social benefits consisting of transfers from public institutions, in cash or in kind, to families and individuals to lift them from the burden of a defined set of risks or needs; administration costs, which represent those charged to the system for its management and administration; other miscellaneous expenses for social protection schemes (payment of income from capital and others).

[6] 0.7 more than the EU15 average and +1.5 compared to EU28. The expenditure ratio on GDP rises to 29.7% also considering administrative costs and other expenses.

[7] With the value of EU15 equal to 100, the Italian one is 89.6. As will be seen in paragraph 3.4 below, Italian social spending, particularly pension spending, is comparatively overvalued by the greater incidence in our country of a tax levy on social benefits.

[8] See Cataldi in Pizzuti (Ed.) (2019), Section 2.5. The number of individuals at risk of poverty or social exclusion is the sum of individuals living in families with low work intensity, individuals with severe material deprivation and individuals at risk of poverty after social transfers.

[9] The European average fell from 23.8 to 22.4%. In Italy, compared to the target for 2020 of reducing the number of poor people by 2.2 million as observed in 2008 (about 15 million), the result has even been the opposite so far; in fact, in 2017 the poor have increased by 2.3 million.

of income received by the poorest 20% of the population has decreased from 8.1% to 7.8%[10]; In Italy, from 7.4% to 6.3%[11].

The reduction in the share of wages in GDP, already underway since the 1980s, has been further strengthened with the crisis. On the one hand, the market has widened income inequalities, even among employees, to the detriment of those that are less specialized and in favor of managers; on the other hand, welfare systems, increasingly constrained by fiscal consolidation policies, have found it more difficult to compensate for this trend. Between 2007 and 2015, the differences in income established by the market increased in almost all European countries, except in Germany: + 8% in Sweden, + 4% in the United Kingdom, + 3% in Italy, + 2% in France, -4% in Germany.

Comparing the available incomes, first and after welfare transfers and the tax levy, in Sweden the inequalities have even increased to 12% and in Italy they remain at 3%; instead, they fell by 1% in France and by around 4% in Germany and the United Kingdom. Thus, during the crisis, the welfare and fiscal systems have operated a certain effective redistributive action in the last three countries, nothing in Italy and negative in Sweden (see Barbieri and Bloise in Pizzuti, 2019, Section 2.3).

2.2. The worsening of the Italian economic and social situation

The Italian economy has not yet recovered the setbacks induced by the crisis that began in 2008. The pre-existing negative gaps with respect to the European average have increased, but our decline had already begun in the 1990s. In the middle of that decade, the Italian per capita GDP at PPP was 9.3% higher than the average of the countries of the current Euro area and 24% higher than the average of the EU28 countries. The Italian value was surpassed in 2005 by that of the Euro Area and in 2013 by that of the EU28; in 2017, it was about 4% lower than that of the EU28 and 9.4% lower than that of the Euro Area[12].

On the eve of the crisis, in 2007, the unemployment rate was 6.1% in Italy, 7.2% in the EU28 and 7.5% in the Euro Area[13]. In 2013 the Italian figure becomes the worst and decreases constantly. Currently (April 2019) it is 10.2%, compared to 7.7% in the Euro area and 6.4% in the EU28. From 1995 to 2018, the productivity index[14] grew by 23 points in the EU28 and by 17 points in the EU15, while in Italy it decreased by 1 point[15]. In the period 2010-2018, only Greece did worse than Italy.

Among the other aspects that describe the Italian decline are the shortcomings of investments, especially public ones, with particular reference to innovation (see Centra et al. in Pizzuti, 2019, Section 3.7); the inadequacy of infrastructure and public administration; the precariousness of labor contracts, the compression of wage dynamics and the increase in wage inequalities.

As regards the labor market, from 1998 to 2014, the share of full-time and permanent employees in total employment decreased by over 20 percentage points. Since 2008, salary levels have progressively decreased until 2014; subsequently there was a slight recovery, but in 2017 the average real wages were still about 5% lower than those of 2008. The Italian value of the hourly wage inequality index is higher than the average of the high-income countries (28.4 vs. 26.1) (see Freguja et al. in Pizzuti, 2019, Section 3.6). These trends are reflected in the strategy widely adopted by the Italian companies to increase competitiveness more by compacting wage costs than by improving the quality and innovative content of production; the overall result is to weaken the quantity and quality of domestic demand, reducing growth stimuli and triggering the perverse spiral of decline that affects not only the economic dimension but also the social, cultural and civil prospects of the country.

Even in the presence of these structural problems, the first budget law of the new legislature (Nadef 2018; Ministero dell'economia e delle finanze, 2018a), and the debate that accompanied it, focused on two

[10] From 3% to 2,8% for the last decile.
[11] While the share of income of the last decile has fallen from 2.6% to 1.8%; see the contribution by Freguja et al. in Pizzuti (ed.) (2019), section 3.6.
[12] Eurostat https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=sdg_10_10&plugin=1
[13] OECD Data, Harmonised unemployment rate (HUR), April 2019 https://data.oecd.org/unemp/harmonised-unemployment-rate-hur.htm
[14] 1995 value equal to 100.
[15] Eurostat Data, Labour productivity and unit labour costs, update 1.4.2019

measures dictated essentially by contingent political motives[16] and concern about the budget deficit. Both in the provisions and in the criticisms addressed to them we note an inadequate attention to the long period that instead would be necessary to face our structural problems. Secondly, the adopted measures show a limited expansion capacity. The reduction of public investments and the concentration of commitments on transfer items and on the defusion of safeguard clauses tend to contain the overall multiplicative effect of the maneuver on GDP (see Beqiraj and D'Imperio, Tancioni in Pizzuti, 2019, Sections 3.10 and 3.11).

One aspect of some concern is the assessment that a budget deficit maneuver may give rise to restrictive effects on growth or "restrictive expansion" (Blanchard and Zettelmeyer, 2018; Blanchard et al.,2018; Pizzuti, 2018; see also Tancioni in Pizzuti, 2019, Section 3.3). What tends to recur is a specular view of "expansive austerity". This latter has already been widely established as analytically and empirically unfounded, and where it has especially been applied with more "severity", as in the EU, it has generated unsatisfactory economic performances (see De Rose et al. in Pizzuti, 2019, Section 3.4).

3. Some social problems in Italy

3.1. The effects of demographic evolution and migration flows on the economic and social system

Among the structural problems of Italian society, demographic trends can be placed both among the causes and among the effects of its decline. In the last thirty years, population aging has been particularly marked: from 1987 to 2017, the incidence of over 65s on people of working age has risen from 20.6% to 36.3%, while the average European figure is 30.5%; the ratio between the over 65s and young people under 15 has risen from 76% to 170%, while the European value is 128% (see De Rose et al. in Pizzuti, 2019, Section 3.4). Population aging has an impact on the workforce, with negative consequences on its amount and structure, on the quality and quantity of production, on the productivity and competitiveness of our production system and on the extent and stability of wages. The increase in the non-active population compared to the active one makes intergenerational transfers operated by welfare systems more onerous. These consequences, in turn, negatively influence births by creating a negative interaction between population aging and economic results, which can be countered with adequate social policies aimed at improving the conditions of supply and fostering demand.

An effective contrast to population aging can come from immigration which, however, is managed in ways that enhance the problems more than opportunities. Immigrants, who represent about 8.5% of the population have not only more than compensated for the overall decline in births in our country, but they have concentrated on the population groups left most exposed by Italians: that of the working age and that of the less educated and less available workers for the lower profile tasks[17] which continue to be required by the social and productive system. Of particular relevance was the increase in foreigners employed in housework and care assistance for the elderly and the sick, who responded to a growing demand, compensating for the specific shortcomings of the public welfare system and the supply of Italian workers. In Italy there are over two million domestic workers; three quarters are foreigners, mostly women (about 90%), and it is estimated that only 40% are regularized (see Dandolo et al. in Pizzuti, 2019, Section 3.5.2). In the last few years, the regular flows of immigrants with the granting of residence permits has been almost stopped[18], falling from 238 thousand in 2007 to 31 thousand as a result of the January 2018 legislative decree[19]. The inevitable consequence is the spread of irregularity in labor relations that tends to extend to Italians employed in the sector. A more effective policy for managing the flow of foreign workers should be set, avoiding an approach that lacks civic sense and is counterproductive, even with respect to our material needs.

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[16] Increasing support for the income of the poor ("Citizenship income") and the possibility of early retirement ("Quota 100)

[17] Particularly in agriculture, construction, catering, family services; Dandolo et al. in Pizzuti (Ed.) (2019), Section 3.5.

[18] For subordinate work and seasonal jobs.

[19] DPCM 15. 12. 2017, published on G.U., 16.1.2018.

3.2. The fight against poverty: income support programs in Europe and Italy

Economic and social inequalities and the condition of the poor have always stimulated income support programs in all welfare systems (see Natili in Pizzuti, 2019, Section 2.7). Their adoption was constantly encouraged by the European Commission and it was recently completed with their introduction into the last countries where they were absent: in Greece, in 2017, and in Italy, where the Inclusion Income was launched in 2018 replaced in 2019 by the Citizens' Income.

In the generality of existing schemes, the subsidy depends on the difference between the poverty threshold and the beneficiary's estimated income. In Europe, the maximum monthly payment granted to an individual varies, in absolute terms, from low values (between € 32 and € 126) disbursed in Eastern Europe, to average values (between € 400 and € 500) in the United Kingdom, Germany, Spain, Sweden, Finland and France, and to the highest ones (between 800 in Austria and 1400 euros in Denmark and Luxembourg). For a couple with two children it fluctuates between 100 euros in Romania and 4112 euros in Denmark.

Related to the poverty line[20], an individual subsidy varies from around 20% in many Eastern European countries to over 100% in Denmark. The generosity of these services suffered a reduction in the two decades between 1990 and 2009, especially in Northern and Eastern Europe.

The conditions of access to the services are very uneven. The number of beneficiaries compared to the population under 65 in conditions of severe poverty (i.e. with an income below 40% of the poverty threshold) fluctuates between the low values (12- 60%) of very different countries such as Bulgaria (11.7 %), Spain (16.2%) and the United Kingdom (48.6%); the average values (85-100%) of Denmark, the Netherlands and Austria; and high values between 175% of Germany and 340% of Finland.

In Italy, the data for 2018, when the "Inclusion income" was operating, placed our country among those with the lowest levels, both for the generosity of the services and for spending levels and for coverage levels. The resources allocated, equal to 0.11% of the GDP, were also lower than those of countries with per capita income much lower than Italian one, such as Greece, Portugal and Lithuania. With the introduction of a new measure called "Citizens' Income" (RdC – *Reddito di Cittadinanza*), the resources increased to 0.40% of GDP[21]; if actually spent, they would make Italy rise from the low end of European countries (with values below 0.20%) to the average (with values below 0.50%), still far from the most generous countries (with values close to 1.40%).

However, compared to the forecast of 1.3 million acceptable applications, the received requests as of April 30, 2019 were 1,016,000, of which it is estimated that those complying with the required requirements will be 70%: this means, that the measure would affect slightly more than half of the 5 million people indicated by the Government as a target.

In recent decades, with the affirmation of the workfare approach inspired by the logic of the market, the objective of supporting people in poverty has been added, and in part replaced, by that of their inclusion in the labor market. Poverty contrast schemes have therefore incorporated elements of conditionality to access services that bring them closer to employment policies. Of course, inclusion in the world of work is an economic and social objective of primary importance and an effective way to combat poverty and social exclusion. However, it must first be considered that employment and even more retirement do not guarantee the absence of poverty. Secondly, the absence of full employment is normal and even appropriate to market economies so that combating poverty cannot be based only on incentives for their functionality. More generally, welfare state systems have developed also to meet the needs that the markets generate but fail to satisfy.

[20] Equal to 60% of the equivalent median per capita income.

[21] For 2019 they went from 2.2 to 7.1 billion euros and for the next two years they are 8.05 and 8.3 billion; see Natili in Pizzuti (Ed.) (2019), Section 3.9. For the analysis of all the social shock absorbers present in the Italian welfare system, see Cataldi and Raitano in Pizzuti (Ed.) (2019), Section 3.8

3.3. Healthcare

Forty years after its establishment, the Italian National Health Service, despite being among the least expensive, still guarantees on average good services to the general citizen. However, the continuing containment of funding - that the public sector itself does not lack for private health services - is reducing its functionality, especially in the South.

Our public and private health expenditure, equal to 8.9% of GDP, is perfectly in line with the OECD average, but it is lower than the EU28 average of 9.6%[22]. In recent years, the negative gap has grown, essentially due to the reduction in the public component, which has decreased from 78.4% to 74.0% from 2010 to 2017, while it has increased in EU28. The public budget contributes 3.4 billion euros of tax relief to private health expenditure made directly on the market. Another 2 billion euros are recognized as subsidies for health services provided by company contracts. Additional deductions of around 270 million concern health insurance outside the employment relationship. Overall, the burden on the public budget to support private healthcare spending can be estimated at around € 5.7 billion (data referring to 2017) with an increasing trend parallel to the growing restrictions for financing the NHS.

A replacement of public services with private ones is therefore taking place, which generates the inefficiencies well highlighted by economic theory and empirical experiences. Added to these are the inequitable effects of tax reductions that favor higher income users.

3.4 The public pension system and social cohesion

In the social security field, the recent debate focused on the introduction of "Quota 100", a measure that allows workers to retire early, provided that the sum of the age in years and the number of years of paid contributions reaches the value of 100. However, a social emergency that has been manifested for some time continues to be neglected: more than half of the employees entered the labor market after 1995, having had low and irregular salaries, in the absence of their improvement and of changes in the current social security structure, they will mature a completely inadequate pension to protect them from poverty (see Raitano in Pizzuti, 2019, Section 4.5). Currently, these workers are focused on more immediate difficulties such as starting a home and having children; but when in a few years they will realize that the inadequate income is about to recur along their working life, and aggravated in old age, a serious social crisis could arise.

The comparative evaluations of our pension budgets are sometimes distorted by statistical heterogeneity and accounting confusions that tend to overestimate the relative importance of our expenditure with respect to GDP. For example, to the social security expenditures to be financed with the contribution are often added those that, instead, concern the general taxation and account for 2.65% of the GDP[23]; or it is overlooked that the values of pension expenditure include income taxes (equal to about 2.5% of GDP), which in the public budget are an item offset by corresponding revenues[24] and which in other countries also affect much less or are even negative[25]; moreover, it is overlooked that in the Eurostat statistics, our severance payments are incongruously included in the pension expenditure which, therefore, only for this reason, is overvalued by about 1.4% (see Corezzi in Pizzuti, 2019, Section 2.1 and Fantozzi, Ibidem, Section 3.1; see also Ministry of Economy and Finance, Department of General Accounting, 2018, from page 308).

With these statistical precautions, the incidence on the GDP of the services actually paid to Italian pensioners loses its alleged anomaly, resulting in between the French and the German, at a distance of

[22] OECD Data (2018), referring to the year 2017.

[23] The role of Care Intervention Management (GIAS) is often ignored. In 2017 it provided welfare benefits of around 45.6 billion euros (see Fantozzi in Pizzuti (Ed.) (2019), Section 4.1 and, in particular, table 4.1, page 422).

[24] The amounts that actually account for the budget of the Public Administration are those net of withholding taxes.

[25] In Italy, income tax deductions on pensions amounted to over 42 billion in 2017 (see Fantozzi in Pizzuti (Ed.) (2019), section 4.1 and, in particular, table 4.1, page 422). It represents about 2.5% of GDP. In other countries, such as France, the taxation on pensions is lower than on other incomes (the total levy affects about 1.5%); in Germany - before the recent reform that is slowly modifying the tax mechanism of the pension system - there was no difference between gross and net benefits as pensions were taxed in the contribution phase. In countries where tax incentives for private pension insurance are very high and exceed the tax burden, such as the US, gross expenditure is even lower than the net.

about 1 point from both countries[26]. In any case, after the reforms of the first half of the 1990s, the annual balance between contributory revenues and social security benefits, net of withholding taxes, returned significantly in surplus; in 2017 it was around 32 billion, equal to 1.8% of GDP (see Fantozzi in Pizzuti, 2019, Section 4.1).

The forecasts shown in the Report[27] indicate that, in the short term, the worsening of the demographic situation, the slowdown in immigrants and the expected decline in growth will negatively affect the ratio between pension expenditure and GDP. To prevent it from rising, real growth should be close to 1.3% (assuming inflation at 1%). This value is close to the expected growth rate in the medium-long term[28], but the one programmed in Def 2019 is 0.2% for the current year and 0.8% for the following three years.

In the short to medium term, the increase in pension expenditure also depends on the degree of compliance with the "Quota 100" provision; in any case, the higher initial expenditure due to the greater number of pensioners will be compensated in the medium term by the lower amount of benefits paid. The Government's expectations are that adhesions will reach 80% of potential beneficiaries, valued at 365,000[29], corresponding to a higher expenditure of 4.8 billion in 2019. As of April 11, 2019, INPS received 116 486 questions and of those examined, around 20% were rejected due to lack of requirements. With regard to the definitive number of "Quota 100" users, it must be considered that taking early retirement means anticipating the normal loss of income that intervenes in the transition from remuneration to retirement[30]. Therefore, this provision has the merit of widening the margins of choice in a delicate passage of life and could be particularly useful for those who find themselves in the condition of the so-called "exoduses"[31]. But especially if the Italian economy continues to instill uncertainty, it is likely that "Quota 100" will have little success, with corresponding effects both on the public budget and on its other objectives of rejuvenating the workforce and improving the productivity of the production system.

There remains an urgent need to intervene in the social security system, both to avoid the social crisis that is expected in the medium term and to give a positive stimulus to the development of the country already in the short term.

The macroeconomic projections (see Beqiraj andTancioni in Pizzuti, 2019, Section 4.4) show that over the next three decades the average pension will decrease compared to the average salary and GDP per person employed, penalizing even more the generations that entered the world of work in the last quarter of a century. To counter this trend, it is necessary to recognize the current active generations - penalized by occasional work histories - a contribution corresponding to all the years of presence in the labor market, including those of involuntary unemployment. This measure would not at all weigh on the current public accounts and the related European constraints. As for future budgets, the largest benefits that would accrue for the figurative contribution should be related to the contemporary values of the GDP that will also depend on the current economic-social policies.

It is necessary to immediately defuse the social crisis that is coming, by reassuring the future for the active people of today, thus favoring their life projects also in terms of family building and having children, the current propensity to consume, as well as investments from companies that do not depend only and so much on the cost of work, but also on a climate of trust and effective demand.

Instead, every substitution of the public pay-as-you-go system with the private capitalization system immediately implies the need for additional financial resources, that is, additional savings in an economic situation which, on the contrary, requires greater consumption and investments. It must also be considered that adherence to private funds is more practicable for those who have a good working history that already

[26] Excluding severance pay and taking tax deductions into account, the overall amount of social spending is also significantly reduced and its incidence on GDP falls well below the European average. The overall tax wedge - the incidence of the sum of social contributions and the tax levy on labor costs - for a single worker employed in the manufacturing sector is 41.5% in the average of the European countries included in the OECD area; the Italian value is higher (47.7%), but it is almost in line with those of France (47.6%) and Germany (49.7%).

[27] Results from the deterministic macrosimulation model (MoDEP), developed at the Department of Economics and Law of Sapienza University of Rome in 2006 and annually updated. See Beqiraj and Tancioni in Pizzuti (Ed.) (2019), Section 4.3.

[28] Ibidem. See also Ministero dell'Economia e delle Finanze, Dipartimento della Ragioneria Generale dello Stato (2018).

[29] In the technical report to the decree law 4/2019.

[30] A worker with a net salary of 2000 euro with an adequate contribution history and who may count on a good replacement rate (say 75%) when 67 years old, would have his income drop to 1500 euro; retiring at the age of 62, he not only would anticipate this fall in revenue by 5 years, but his pension would decrease by about a further 15%, reducing it to € 1275 for the rest of his life.

[31] This is the case for those who no longer have a job but are still far from the retirement age established by the "Fornero reform".

gives rise to an adequate public pension; it is less so for those who would most need to compensate for the effects of an insufficient contributory career.

In any case, the possibility of increasing the pension coverage beyond that mandatory - currently limited to participation in private capitalization funds - should be extended with the faculty to increase, even for limited periods, the contribution to the public pay-as-you-go system. This choice would not imply any additional cost for INPS, with an obvious advantage for the services provided; last but not least, the new contribution revenues would improve the public budget[32].

Supplementary pensions require more information for members. It is symptomatic that in the last few years individual Pension Plans (IPP) have become particularly widespread, having management costs six times higher than the negotiation funds (see Raitano in Pizzuti, 2019, Section 4.2).

A lack of information is also present in the calculation of pensions proposed to the fund's members. Upon Covip's indication, the calculation is made assuming that, for the entire period, the annual real returns of the invested contributions are 4% or 2% if used in shares or bonds, respectively. Since an annual inflation rate of 2% is also assumed, the two nominal rates of return rise to 6% and 4%. These values have long been decidedly optimistic, with the risk of inducing excessive hopes at the time of enrollment and disappointments at the time of retirement.

In assessing the desirable role for the private pension provision, it should also be considered that its managers, given the reduced depth of our financial markets, invest mainly in foreign ones. Of the 180 billion euros of savings collected, around 126 are allocated abroad (Covip, 2019b) where, in the end, they rejoin Italian younger and more educated workforce which are trained with the scarce resources available to the national education system, but which cannot be employed in Italy.

Without prejudice to the objectives of security and return on retirement savings and avoiding any conflict of interest in their allocation, it would be appropriate to encourage their use in projects aimed at modernizing the real economy of Italy (see Beqiraj and Pizzuti in Pizzuti, 2015, Section 4.7).

However, despite the relevance of the issue, which has already been discussed and reported for some time, neither the leaders of economic policies nor those of pension funds have paid any real attention to the situation so far.

4. A concluding remark

The lack of attention to important issues as mentioned above suggests, in conclusion, a more general assessment that leads back to state-market relations and to the role of social policies.

Welfare state systems represent a characterizing aspect of European countries, but the policies that guide the Union tend to limit their role in favor of private welfare, jeopardizing the possibility of compensating for the limits of the markets and provoking negative reactions to the European construction. In Italy, social well-being requires that we address issues of structural importance, without being diverted from contingent consensus objectives, and without reintroducing market methods that increase differences rather than reducing them, which reproduce inefficiencies and inequity rather than countering them.

In this regard, Federico Caffè's warning remains valid: "... the problem of the welfare state (since a problem undoubtedly exists) is that of its non-fulfillment; not already that of its decline, or its overcoming" (Caffè, 1982).

Moreover, we are reminded that there is still much to do to achieve the welfare state in Italy, by two recent events in particular, each very different, but each in its own way emblematic: the 1860 employees of *Mercatone Uno* fired via Facebook. and the killing of Leonardo, the two-year-old boy torn away from his family33.

[32] For a detailed discussion of this proposal see Pizzuti in Pizzuti (Ed.) (2015), Section 4.6, page 451. This proposal also inspired the bill n. 2154 "IntegraINPS" an initiative of Sen. Mucchetti, XVII legislature, report to the President, 2.12.2015.

[33] The two events occurred in the days immediately preceding the presentation of the Report on Welfare State 2019 (29 May 2019) which the Editor dedicated to involuntary protagonists of the happenings.

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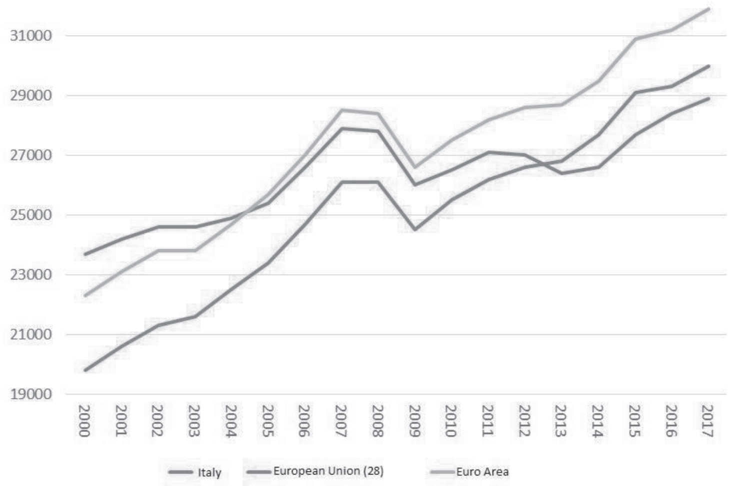
Table 1 – Occupational Welfare Expenditures – 1990-2005

	Voluntary private social expenditure (% on GDP)				% variation
	1990	2000	2007	2015	1990-2015
Austria	1	1	1	1.4	93.10%
Belgium	1.5	1.7	2.1	1.9	75.90%
Germany	1.5	1.6	1.8	1.2	4.20%
Italy	0.5	0.5	0.6	0.9	85.50%
the Netherlands	5.3	6.1	5.9	7	91.70%
Poland			0	0.4	..
Spain	0.2	0.3	0.4	1.1	532.70%
Sweden	1.2	1.9	2.2	3.2	310.30%
United Kingdom	4.4	6.6	4.4	5.3	76.50%
USA	6.8	8.4	9.9	6.7	40.00%

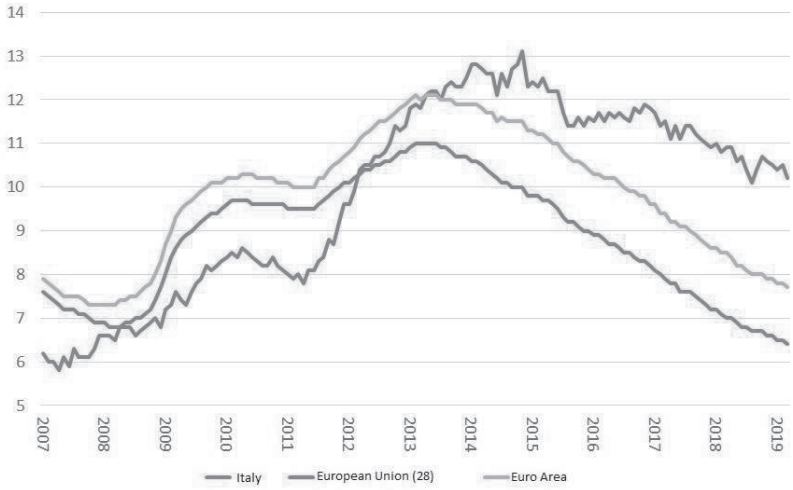
Source: OECD Database SOCX 2019.

Figure 1 – GDP per capita, current prices, purchasing power parities



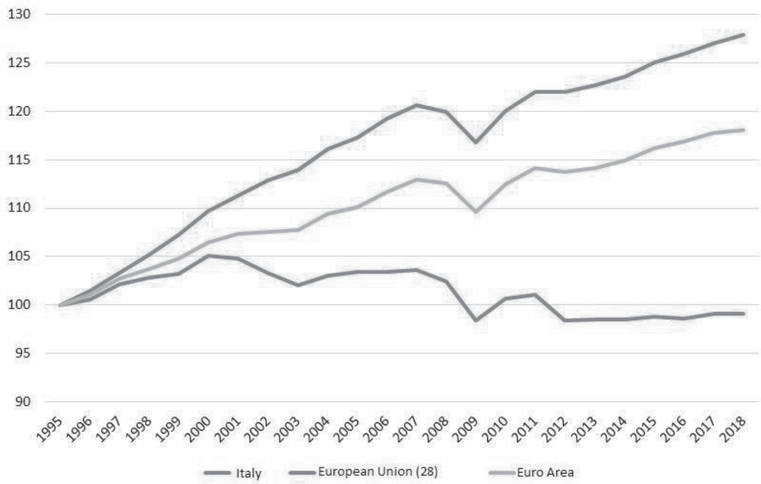
Source: Eurostat Database by themes, June 2019

Figure 2 - Unemployment rate



Source: OECD, Harmonised unemployment rate (HUR), April 2019

Figure 3 – Productivity Index (1995=100)



Source: Eurostat Database by themes, labour productivity and unit labour costs (nama_10_lp_ulc), April 2019.