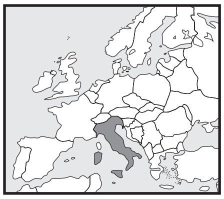
ITALY

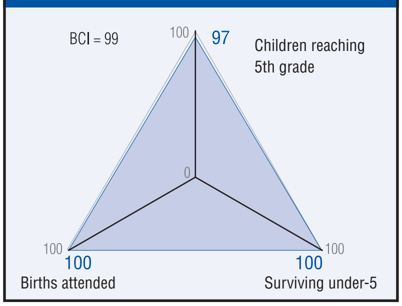
Privatization versus defence of public services



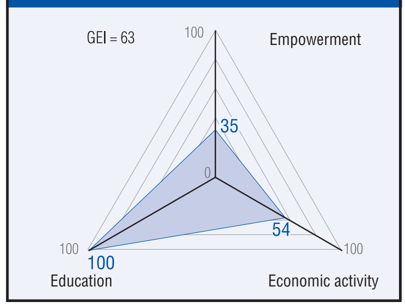
Despite the common conception that public expenditure is excessive, Italy actually ranks last among European countries in almost all areas of social protection spending. The one exception is the public pension system, which is now the target of a drive towards privatization. Attempts to privatize the provision of public services, however, have been tempered through the efforts of civil society.

Jason Nardi
Lunaria/Sbilanciamoci!
Tommaso Rondinella, Elisabetta Segre

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Current social expenditure trends

In Italy it is quite commonly believed that public expenditure is excessive, not only in absolute terms, but also in relation to other industrialized countries. In fact, however, European countries spend on average more than what is spent in Italy. This is not true only in the case of pension-related expenditure, whereas for social assistance and social security, Italy ranks among the last positions of European countries. One of the most critical aspects lies in the fact that as an ageing country, Italians are now increasingly paying more for their elderly without a sufficient generational exchange that can produce enough revenue to cover all social security costs.

Social protection expenditure in Italy represents roughly a quarter of GDP. During the last five years it has grown at a relatively high rate, though at a slower pace if compared with previous periods. The average increase in nominal terms between 2001 and 2005 was 4.9%, while it was 5.2% between 1996 and 2000 and 6.5% between 1990 and 1995. The ratio between social expenditure and GDP has grown by 1.6 percentage points during the last five years, rising from 24.5% in 2001 to 26.1% in 2005 (Pizzuti, 2007).[1] Most of the increase, however, is due to a slowing down of GDP growth. In 2005, for example, Italian GDP increased by 0.1%, while in order to maintain the same services, public expenditures had to grow by at least the same amount as the inflation rate, i.e. 2.4%.

Most of the increase in social protection expenditures is due to public institutions. Nevertheless, expenditure by private institutions – representing the activity of non-profit social institutions and the interventions of companies in favour of their employees – grew more in 2005 than public expenditure (4.4% vs. 3.5%).

Pension-heavy social expenditure

Considering the breakdown by sectors, there has been a clear decrease in the weight of the social security sector in favour of the health sector, while social assistance remained stable during the last decade. Nevertheless, social security still covers more than two thirds of total social expenditure, descending from 72.2% in 1995 to 68.5% in 2005. In terms of GDP, social security absorbs 17.7% of the 26.1% of GDP represented by total social expenditure. Most of this corresponds to pension contributions – 14.6% of GDP – while illness, maternity, unemployment, wage integration and family allowance benefits all combined total 1.7% of GDP. Health expenditure represents 6.4% of Italian GDP, having increased significantly during the last decade from 4.8% in 1995. Its main component is hospital services, which represent 43% of health expenditure and account for most of the increase. Finally, social assistance is the component that changed the least, remaining stable at around 2% of GDP.

Italy and the EU

A comparison with other European countries is possible only for the year 2004. Overall social expenditure in Italy was 1.4 percentage points below the EU-15[2] average (25.2% of GDP vs. 26.6%) and if per capita expenditure at purchasing power parity for the EU-15 were set at 100, Italian expenditure would reach only 86.7.[3]

With regards to social expenditures other than pensions, Italy presents very low levels, below most European countries. This is the case of health, for which Italy spends nearly one percentage point of GDP less than the average. But much worse is the pattern for assistance policies, such as support measures for families and the unemployed, as well as those for housing and social exclusion. For these areas Italy scores at the bottom of the European ranking.

Another indicator of the quality of social expenditure is the share of monetary and in-kind transfers within total social benefits. While in Ireland, the UK, Sweden and Denmark the in-kind benefits share is around 40%, in Italy it is around 25%, one of the lowest in Europe, showing a preference for monetary transfers instead of the provision of services.

Social security cushions

There is an obvious imbalance in the composition of social protection expenditure in different areas, particularly for protection against risks other than old age. From a detailed analysis of labour policies the social security cushions system appears as a "non-systematic and nearly ungovernable set of tools characterized by continuous overlapping" (Chair of the Council of Ministers, 1997). Inconsistencies are twofold: a sectoral one, since employees of bigger companies are more protected because of the strength of their union representatives; and a dimensional one, depending on whether employment is permanent or temporary and on the fulfilment of contributory requirements in periods previous to unemployment (Pizzuti, 2007).

The insurance nature of unemployment benefit schemes leads to inadequate or absent coverage of job loss risks for occasional workers or for young people who have been working for a short time. Moreover, the Italian system is completely lacking in protection measures for 'atypical workers', i.e. those working within the contractual frameworks aimed at a higher flexibility of the labour market introduced in 2003. Such contracts have been left with no social security safety net, resulting in an increase of precariousness together with flexibility.

1 It must be noted that, unlike in other European countries, social expenditure also includes severance payments. The actual value for 2005 should therefore be 24.7%.

2 The 15 EU member countries before the 2004 enlargement.

3 <epp.eurostat.ec.europa.eu>

The overall expenditure for social security cushions totals no more than 1.5% of GDP, and active unemployment policies represent 0.5% of GDP. The scarcity of resources for social security in Italy is demonstrated by the amount of benefits per unemployed person as a percentage of an active person's income. Italy shows an expenditure slightly higher than new EU member states, but much lower than Northern countries. Unemployment benefits as a percentage of income are below 10% in Italy, while the EU averages are 18% for the EU-15 and 15% for the EU-25.

The biased 'proof' for privatization of social security

One of the most noteworthy developments in the social protection sector is the privatization of the Italian pension system. The issue is very complex and does not only involve welfare considerations.

The need for drastic reform of the public and compulsory pension system due to its financial unsustainability is an issue that began to have major public resonance at the beginning of the 1990s. There are basically three factors used as 'proof' of this necessity: serious accounting imbalances in the Italian Institute of Social Security (INPS), population ageing, and the forthcoming retirement of the so-called 'baby boom' generation.[4] All these factors are used to justify the reduction of benefits guaranteed by the public system and a shift to a private pension system. Italian public opinion is deeply convinced that some sacrifices need to be made in order to permit the system to survive. What public opinion is not told is that there are strong biases behind this 'proof'.

First, one important reason for the INPS accounting imbalance is that it is responsible for providing other social security benefits that should be paid with general fiscal revenues. The INPS balance sheet includes expenditures that have nothing to do with pensions; revenues and expenses related to the pension system are more than balanced. Furthermore, pension expenditure is expressed in gross terms, which means a significant part of this money is going to return back to the state as tax revenues.

Second, it is not only the ageing population that should be taken into account, but also those who are currently unemployed, especially since the unemployment rate is not decreasing. Finally, the retirement of the baby boom generation, which comprises approximately 60,000 people, will imply an expenditure peak 20 or more years from now, while the reforms introduced are supposed to reach full application in 2010.

Contributory and earning-related pensions

Based mainly on the abovementioned considerations, a reform process began in the mid-1990s and is still ongoing. The goal is to convert the system from a pay-as-you-go system with earnings-related pensions aimed at guaranteeing a replacement rate close to 80% in many cases, into a funded system with contributory pensions. Basically, this implies abandoning a system based on the principle of intergenerational solidarity where active workers pay for the pensions of the former workers who contributed to their growth, education and the build-up of the infrastructure essential for their work. Under the funded/contributory scheme, instead, every worker is self-reliant, saving an amount of money to provide for an adequate pension upon retiring. The reform has reduced the public retirement system for future generations to a social security transfer meant to avoid extreme poverty among the elderly population. The replacement rate guaranteed is on average around 40%.

Private pension funds

This brings us to the core of the process aimed at inducing people to shift to a private retirement scheme based on private pension funds. This intention is always justified through the idea of the public scheme's unsustainability combined with the supposed 'evidence' that the market is in the long run more remunerative than the public provision system (essentially based on the average GDP growth rate over the last five years). The point that is not made clear is the contradiction of a financial market growing constantly faster than the real economy. This phenomenon represents a redistributive process from the real economy made up of firms, work and wages towards the owners of financial assets: financial markets do not create wealth, they only redirect it. The outcome of this flow is the reduction of the wage share in the economy in favour of the capital share.

Pension funds have incredible power in the financial markets: they represent 30% of the financial instruments present on the New York Stock Exchange. Whoever has access to this enormous amount of money has access to enormous economic and political power: it is not by chance that pension funds are managed by a financial oligopoly composed by Merrill Lynch, Rothschild, Crédit Suisse, ABN AMRO and a few others (in Italy a handful of banks – San Paolo, Unicredit, Generali, Arca, Fineco-Capitalia and Monte dei Paschi – manage 70% of the funds).

In spite of the efforts of past governments to encourage people to shift to a private system, pension privatization is still at an early stage, mainly because of the complexity involved in the shift from a pay-as-you-go system to a funded system that will probably take generations to be definitively implemented.

Defence of public social services

Another ongoing process is aimed at reducing welfare universalism in favour of a market structure through the privatization of the provision of public services such as education, health care, energy distribution, collective transportation and water supply. Although the privatization process has been presented to the public as unavoidable and somehow 'scientifically tested' by economists, a great debate has arisen between those who believe that the market is the only way to reduce losses caused by the public structure's lack of incentives, and those who highlight the distinct role of public services which cannot simply be converted to commodities. In fact, even though their production might be feasible (and profitable) for private firms, the nature of these services has historically induced the state to guarantee and protect their provision, keeping the production or process under public democratic control.

Mainly following the European Commission's directives, the current government prepared a law approved by the parliament (the so-called Lanzillotta Bill, named for the minister of Regional Affairs) concerning the privatization of local public services. The final version of the law was fairly different from the first version presented to the parliament. The constant work of many civil society campaigns not only prevented the complete realization of the government's intentions, but also opened the way for a possible future return to local management of important public services. While within the earlier legislation the only way to provide those services was through a joint-stock company only partially controlled by the municipalities, the forthcoming law clearly distinguishes between two ways of provision of public services: the private one and public one. This might be seen as an important step to overcome the ambiguity nested in a system that used to consider as public the provision of services by a stock company which is actually a private institution aimed at creating economic profitability hardly consistent with the provision of public services.

Another significant outcome of the negotiations between government and civil society concerns water management. An amendment to another important law aimed at introducing more competition within certain markets (such as taxis, mobile telecommunications, petrol distribution and pharmacies) made it possible to exclude water from those goods and services managed by private companies. In Italy, water has been at the centre of an increasingly successful struggle against privatization. The Forum for Public Water, which brings together about 70 campaign groups and trade unions and over 700 municipalities, recently launched a national initiative to halt local water privatization processes and bring back the already privatized regional and local water services to public management. ■

References

Andruccioli, P. (2004). *La trappola dei fondi pensione.* Nuova Serie Feltrinelli.

Attac Italia (2007). *TFR o fondo pensione? Cosa davvero si nasconde dietro questa scelta.* <www.attac.it>

Marano, A. (2002). *Avremo mai una pensione?* Feltrinelli.

Marcon, G. and Zola, D. (2007). "European Unions of the People". *Eurotopia* Issue 4.

Pizzuti, R. (ed) (2007). *Rapporto sullo Stato Sociale 2007*, UTET.

Chair of the Council of Ministers. (1997). *Commissione per l'analisi delle compatibilità macroeconomiche della spesa sociale (Commissione Onofri).*

Sbilanciamoci! (2006*). La Finanziaria per noi. Le proposte di Sbilanciamoci! per il 2007.* Roma: Lunaria.

4 In the 1960s, due to improved living conditions, there was an increase in the birth rate, and the people belonging to this generation are supposed to retire in the mid-2030s.