

5. Labour Cost, Social Security and Employee Severance Funds

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1. INTRODUCTION

There are many significant links between labour cost, social security and employee severance funds (Trattamento di Fine Rapporto – TFR). Decisions regarding each of them may affect the overall long-term development of economic and social policies in Italy through these links. For example, in the debate on economic policy there is the widely accepted notion that economic growth and employment can only be bolstered by shrinking the government role to a substantial extent. There is nothing new in this, and the fact that this view is gaining currency is in keeping with the ebbs and flows of the debate on the relationship between the state and the market, which at present is strongly affected by the laissez-faire stance.

In order to assess the rationale of the different arguments, however, it is necessary to avoid the irrational influence of fads and analyze the effectiveness of any general approach by looking into its nature and the specific proposed applications. In the matter at hand, the most appropriate way to reduce the government role would be the introduction of a new and radical pension reform designed to further put a curb on the state social security system and to develop a private funded pension system, which might be financed using also the flows to employee severance funds.¹ Downsizing the state social security system and the contribution rates that finance it would lower the cost of labor and boost economic growth and employment.

Before delving into it, it might be worthwhile to clarify the foundations and the building blocks on which this proposal rests, as summarized in the following points:

1. In Italy, apparently the state social security system is costly and its future is a cause for concern; this anomaly should be eradicated.
2. A reduction in the state social security system might lower contributions paid by firms, thereby decreasing the cost of labor. Along with other measures that would make the labor market more ‘flexible’, this would be

the most important course of action, as it would stimulate investments, raise competitiveness and improve growth and employment.

3. While preserving the current organizational system, the reduction of social security contribution rates would not translate into a simultaneous and corresponding reduction of social security benefits; these, instead, would diminish at a slower pace, over several decades. If, during the long transition period, additional burdens on the public budget cannot or will not be accepted, it would be necessary to cut pension benefits immediately, curtailing those that are being paid now.
4. Considering that the reforms of the 1990s have already reduced the degree of social security coverage provided by the state system, any additional cut to pension benefits would definitely increase the need for a private pension system, which should be encouraged by the state.
5. Advocates of this proposal hold that contributions to private pension funds would yield greater returns so that, in the transition from a public pay-as-you-go scheme to a funded private one, not only would labor costs for firms fall but workers might even take advantage of the higher returns provided by the market.
6. Furthermore, a supplementary pension system should help the development of Italian financial markets, thus making the economic system as a whole more efficient, thereby fostering its growth.
7. In order to develop a supplementary pension system, TFRs might be utilized. In fact according to some observers, TFRs should be dispensed with because they represent one of the anomalies of the Italian labor market. Within the context of this argument, the latter aspect, however, is controversial because the elimination of this important source of financing is not regarded favourably by firms

2. SHORT REMARKS ON SOME MACROECONOMIC ASPECTS

The proposal to reduce the social security system stems from a macroeconomic concept that regards the improvement of the supply-side as paramount for growth. However, attention is paid only to some supply-side variables, notably labor costs and flexibility. The existence of suitable demand-side conditions, which is equally relevant for the workings of the market, is ignored.

Economic analysis shows that, in general, an equal reduction in government revenues and outlays would have an overall negative effect on demand, on GDP and on unemployment (Haavelmo's theorem). In addition, while the adverse impact of a drop in public spending is immediate, the expansionary stimuli of lower taxes, particularly those intended to increase investments, take longer and are uncertain. Thus, one would have to think

that, in the present context of the Italian economy, lower taxes would stimulate investments and domestic demand in a way that would more than offset any cut in public expenditures.

While in theory this hope can become reality, it is by no means certain. Indeed, in terms of factual evidence, Italy's experience suggests otherwise. During the past few years, despite the better supply-side conditions determined by lower interest rates, favorable trends in the cost of labor and flexibility in the labor market, by the exit of many state-owned companies from profitable sectors, the new private investments capable of upgrading the Italian productive system and increasing its competitiveness have been well below the required levels.

The point is that, while the supply-side is important – in all its elements, not just some – economic policy in Italy and in Europe has long neglected the demand side. This, however, does not mean that demand should be accorded special privileges to the detriment of supply. Nor would it be acceptable to pick and choose from Keynes's thinking whatever serves our current purposes, as some policies did in the past. Moreover, it should be kept in mind that it would be of little or no use, or it would even be deleterious, to stimulate demand if this did not exert its action in high-unemployment areas of the country or if its effect was dissipated abroad.

A close cooperation between economic policymakers and market forces might help to mitigate these risks, even if this might imply a planning effort, which is something that runs counter to the zeitgeist.

On the other hand, in order to improve the supply-side, a distinction should be made between measures, mostly short-term in nature, designed to keep salaries under control and other innovative actions that affect competitiveness at a more structural level. The latter would involve the ability to adopt new manufacturing processes and to operate in 'dynamic' industries, whose qualitative and technological features shelter them from the competition of low-salary countries.

State intervention to improve these as well as more structural supply-side conditions are even more necessary in light of the reluctance of firms to invest in innovation. Indeed, it is a fact that Italian enterprises are not inclined to innovate; actually, they even have fond memories of the time before the EMU and of competitive devaluations. Thus, it is hardly surprising that, given this mental habit, firms pursue competitiveness in a way that is not consistent with the qualitative and technological level of production that global markets demand of advanced economies. Firms, on the contrary, try to maintain an improbable price competitiveness *vis-à-vis* the emerging economies, basically seeking to achieve a reduction in the cost of labor and in the rules that govern its market. Besides, not only is this the wrong approach for long-term growth but it is also unwarranted in terms of empirical

comparisons with countries more similar to Italy. In fact, according to recent OECD and Eurostat data, Italy's labor cost per unit of output continues to be the lowest in Europe: taking Italy as the base equal to 100, Germany is 174, France is 142, Belgium is 136, UK is 133, Greece is 118, Spain is 113, and Holland is 105.²

Table 5.1 Labor Cost and Productivity – 2000
Italy indices = 1.00

	Hourly labor cost (a)	GDP – per worker (b)	Labor cost Per unit of output	GDP – per capita (b)
Belgium	1.37	1.14	1.36	1.23
France	1.29	0.99	1.42	1.10
Germany	1.44	0.90	1.74	1.18
Greece (c)	0.61	0.71	1.18	0.75
Holland	1.19	0.88	1.05	1.27
Spain	0.82	0.83	1.13	0.92
United Kingdom	1.05	0.88	1.33	1.15
Italy	1.00	1.00	1.00	1.00
Japan (c)	1.14	0.80	1.72	1.19
United States (c)	0.93		0.97	1.73

Notes: (a) Manufacturing and service sector.

(b) Computed on the basis of the PPP.

(c) The hourly labor cost and the cost of labor per unit of output in Greece, Japan and United States refer to 1999.

Source: Compiled on the basis of OECD and Eurostat data.

The so-called tax and social contribution wedge in the manufacturing sector (computed by dividing the cost of labor, inclusive of income taxes and all social security costs, by net salaries) is equal to 1.89 in Italy, 1.93 in France, and 2.08 in Germany.³

In Great Britain, where that ratio is significantly lower (1.44), the cost of labor in absolute terms is still 10 per cent higher than in Italy; obviously the take-home pay of salaried workers in that country is bigger than that of their Italian (and French and German) counterparts. However, with that excess amount British workers have to buy in the open market (thus incurring greater management costs and risks) the very social security benefits that Continental workers receive from public institutions at no additional cost.

Thus, the other alleged Italian anomaly, the structure of salaries and their links with the system to finance the welfare state is unfounded.

As to the downsizing of the welfare state, in the most liberal meaning allowed by the current laissez-faire climate, this would be a socially painful though inevitable exercise, in order to adapt to the internationalization of the economy.

*Table 5.2 Tax and social contribution wedge in the manufacturing sector – 1999
(a)(income taxes and social security contributions as a % of cost of labor) (amounts in euros)*

	Italy	France	Germany
A. Annual salary, net	14,238	15,028	18,068
B. Income taxes	4,009	2,965	6,591
C. Employee contributions	1,847	2,786	6,457
D. Gross annual salary (A+B+C)	20,093	20,779	31,115
E. Employer contributions	6,848	8,151	6,457
F. Per capita cost of labor (D+E)	26,941	28,930	37,572
% share of gross salary of:			
– employee contributions	63.2	66.9	62.7
– employer contributions	9.2	13.4	20.8
– taxes	34.1	39.2	20.8
	20.0	14.3	21.2
% share of labor cost of:			
– employee contributions	47.2	48.1	51.9
– employer contributions	6.9	9.6	17.2
– taxes	25.4	28.2	17.2
	14.9	10.2	17.5
Cost of labor to net salary	1.89	1.93	2.08

Note: This table reflects the conditions of an average worker in the manufacturing sector. Data refer to an individual without children and with a salary equivalent to the average for the manufacturing sector.

Source: OECD (2001), Taxing wages 1999-2000.

It is important to reiterate that these positions, much as they conform to the conventional wisdom that has gained ground over the past ten years, are not supported by time-tested economic theories or by reasonably certain and unobjectionable evidence produced by empirical surveys.

Instead, in the theoretical and empirical economic literature there is wide acceptance of the idea that the growing globalization of markets, regardless of its undoubted economic potential, might come back to haunt us if the social imbalances and the different market failures are not addressed by public institutions, particularly those that are active in the social area.

By altering the equilibrium between individual and public choices considered optimal even by laissez-faire standards, the supranational reach of markets makes it necessary to have an equally powerful counteraction in the shape of national and supranational institutions, especially those that operate in the social field.

The so-called ‘challenges’ set by globalization require not a reduction, but a qualitative adjustment to the economic and social activities carried out by these institutions and, in particular, by the welfare state, which should not be considered as a luxury item but as a fundamental productive input of a structural nature.⁴

3. ALARMISM AND REAL PROBLEMS

During the 1990s, Italy was one of the few countries whose social security systems underwent structural reform.⁵ The main goals pursued by the different measures that were implemented at different times during the period were: improvement of the financial sustainability of the mandatory public system; a more rational match between benefits and contributions, both in fairness and actuarial terms; the development of a private funded system.

Despite the obstacles presented by the significant ageing of the population and by a business cycle subjected to the adverse effects of tight policies implemented in the run-up to the euro, the financial results achieved by the social security reforms were basically in line with the goals of the reform. Nevertheless, it should come as no surprise that the new organization of the social security system shows increasing social sustainability problems.

Concerning the financial sustainability of the mandatory social security system, during the 1990s spending as a percentage of GDP stabilized and reversed its trend, falling from a maximum of 13.9 per cent in 1997 to 13.5 per cent in 2000 (Ministero del Lavoro ... 2001).

In 2000, the difference between social security benefits and contributions was a negative Lit. 29,672 billion (ca. €15.3bn); however, in the same year personal income taxes (IRPEF: *Imposta sul Reddito delle Persone Fisiche*) withheld from social security recipients by social security agencies amounted to approximately Lit. 40,000 billion (ca. €20.4bn.), so that the benefits actually paid by the government were around Lit. 10,000 billion (ca. €5.1bn.) less than the contributions and income taxes collected.

The Report of the ministerial Commission set up to verify the effects of the overall reform implemented by virtue of law 335/1995 and subsequent measures – the so-called Brambilla Commission – determined that the actual savings of the reform exceeded all expectations: fiscal balances for the period 1996-2000, which had been set to improve on a net basis by Lit. 52,928

billion (ca. €27.34 bn.), turned out to have surpassed that target by Lit. 5,600 billion (ca. €2.9 bn.), viz. more than 10 per cent.⁶

Concerning the rationalization objectives, the actuarial balance and the standardization of benefits at category and individual levels had been pursued first with the so-called Amato reform in 1992, which no longer linked the calculation of pensions to salaries received during the latter part of the active period but to the entire working life. Eventually, the transition to the contribution scheme (individual benefits are closely related to individual contributions) implemented by the so-called Dini reform in 1995 gave a further impulse to the achievement of actuarial balance between individual benefits and contributions. Typically, before 1992, the rates of return on contributions varied, depending on the retirement age, from 1.90 per cent to 4.60 per cent, for private sector workers, from 2.30 per cent to 4.60 per cent, for public sector workers, and from 4.10 per cent to 6.30 per cent for self-employed workers. Once the contribution system is fully operational, the rates of return will be about 1 per cent, for all male workers, around 1.65 per cent, for all female workers, approximately 1.17 per cent for self-employed men and ca. 1.83 per cent for self-employed women.

These data indicate that the standardization of the rates of return went hand in hand with a significant reduction of the amounts paid, namely a decline of the extent of pension coverage provided by the mandatory public system. Comparing some typical situations of retirees with a contribution period of 35 years, the replacement rate between the first annual pension amount and the last annual pay was 67.3 per cent before 1992 for a private sector worker, 77.1 per cent for a ministry employee and 64.1 per cent for a self-employed worker. With the contribution system, still on the basis of a 35-year contribution period, the replacement rate for all employed workers is 51.7 per cent, when they retire at 58, 58.6 per cent, at 62, and 65.2 per cent, at 65; for self-employed workers the corresponding rates fell to 31.3 per cent, 35.5 per cent and 39.5 per cent.

In the years following the Dini reform, a new category of worker began to appear on the scene, 'outsourced workers', with 'atypical' contracts and lower contributions than for regular employees. These workers total approximately two million and their contribution rate, for retirement purposes, is 13.5 per cent, and is expected to increase by one percentage point every two years, up to 19 per cent in 2014. Assuming a working life with 25, 30, and 35 years of contributions at the maximum rate, the replacement rate would range from 22 per cent to 29 per cent, 26 per cent to 34 per cent, 30 per cent to 40 per cent at 57 and 65, respectively. Assuming a 'mixed' career, the first ten years as outsourced workers and the subsequent 15, 20 or 25 years as regularly employed workers, the replacement rate would

range from 31 per cent to 41 per cent, 38 per cent to 50 per cent and 45 per cent to 58 per cent, respectively.⁷

Concerns about the financial sustainability of the current organization of the Italian pension system often are founded on allegedly better situations in other countries. In international comparisons, reference is made to Eurostat data that signal the Italian 'anomaly'.

Based on data for 1999, the latest available, a comparison with the European average reveals that Italy's social spending as a percentage of GDP is 2.3 points lower (25.3 per cent vs. 27.6 per cent), while social security outlays are 3.5 per cent higher (15.6 per cent vs. 12.1 per cent).⁸

These data, however, come with a qualification. First of all, Eurostat computes Italian social security spending by including employee severance payments, which cannot be compared to pension benefits. Such severance payments account for 1.8 per cent of GDP, which explains half the 'anomaly'.

Second, as already mentioned, Italian social security benefits are recorded gross of tax withholdings which, in 1999, amounted to approximately Lit. 40,000 bn (ca. €20.4 bn), or 2 per cent of GDP. For other European countries, such as Germany, the corresponding figure is on an after-tax basis; thus, in a comparison, the Italian amount (which is reported gross) is overstated by two percentage points of GDP, as indicated above, which represent withholding taxes. For a typical retiree, married with an income of €10,000, the withholding tax rate is 15 per cent in Italy, 2 per cent in France, and 1 per cent in Great Britain.⁹

This overstatement (with respect to the pertinent countries) and that arising from the employee severance payments account in full for the Italian 'anomaly'; for instance, social security costs as a percentage of GDP in Germany – which according to Eurostat data (for 1999) are three percentage points lower than in Italy – are actually higher. Moreover, Germany does not have a public retirement system for self-employed workers, but the state does provide different tax deductions to encourage those workers to join private schemes; these are tax expenditures that are not recorded by Eurostat and that contribute to understate German figures.

The income support functions, which in other countries are fulfilled by unemployment insurance or public housing schemes, in Italy are performed by early retirement programs or minimum pension top-ups. Still with reference to the different methods for recording social expenditures, it is important to underscore that 'the total costs incurred for old-age, survivor, and disability pensions as well as for unemployment insurance basically fill the gap between Italy and the other European countries; these in fact range from 17.8 per cent of GDP in Italy, to 16.9 per cent in Germany, to 17.3 per cent in France, and to 17.9 per cent in the United Kingdom'.¹⁰

In terms of international comparisons, it should be noted that these costs are normally incurred by public pension systems. However, in terms of macroeconomic importance of current transfers to pensioners, it does not really matter whether pension benefits originate from a public system or from private schemes. On the other hand, while in Italy the public pension system accounts for virtually all the benefits paid, in other countries private pensions may account for a significant proportion of the total. Limiting the comparisons to the state systems tends to overstate Italy's social security benefits. For instance, in Great Britain personal pensions paid by private insurance companies to both employed and self-employed workers, accounting for almost 3 per cent of GDP, are not included in the figures recorded by Eurostat.¹¹

A comparative study of future pension expenditures by the European Commission¹² after the Dini reform in 1995 (thus before the further downward adjustments carried out in Italy) revealed as early as 1996 that the rate of increase of Italian pension spending was among the lowest in Europe. This was confirmed by subsequent surveys.

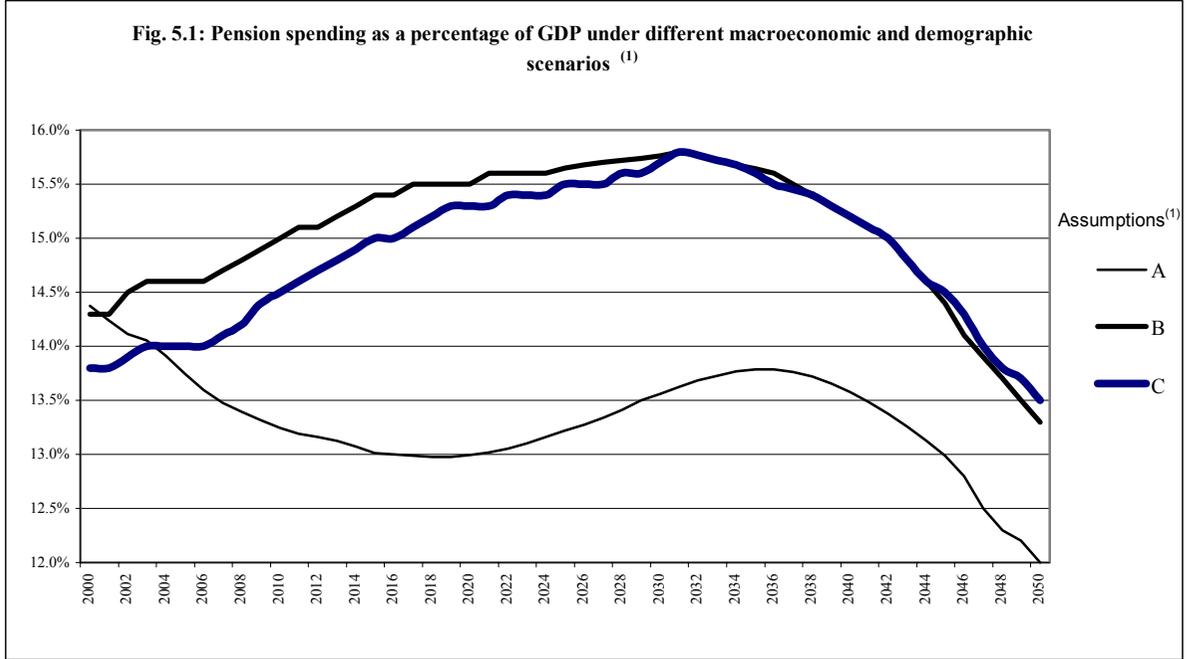
Among the most quoted forecasts, those by the Italian General Accounting Office (Ragioneria Generale dello Stato – RGS)¹³, adopted also in official economic policy documents, show that, over the next half century, pension spending as a share of GDP in Italy should rise progressively to a peak of 15.8 per cent in 2031, only to fall in the remaining period to levels below the current ones.¹⁴

The trend shows a 'hump' which, at the peak, marks an increase from the current value of 1.4 or 2 per cent of GDP (see curves B and C, respectively, in Figure 5.1).

These pension forecasts resulted from the adoption of demographic and macroeconomic scenarios for the next fifty years which, overall, are consistent with an almost-constant growth rate of the real GDP of 1.5 per cent per annum for the entire period (see Table 5.3, scenarios B and C).

In particular, with reference to scenario C, which was utilized for the most recent RGS projection and included in the 2002-2005 DPEF:

- at demographic level, the central ISTAT scenario is adopted; for the next fifty years, this calls for a 5.5 million decrease in the Italian population, a 10 million drop in the population group of working age and a 138 per cent rise of the dependency ratio of senior citizens. In the meantime, immigrants are expected to flow in at a rate of 120,000 per annum;



(1) A: Our scenario (2.4 per cent average GDP growth rate for the entire period).
 B: RGS scenario, 1999 forecast (1.5 per cent average GDP growth rate for the entire period) adjusted for the 2 per cent GDP growth rate for the 2001-2005 period.
 C: RGS scenario and forecast updated to 2001 (1.5 per cent average GDP growth rate for the entire period) taking into account the actual and preliminary pension-to-GDP ratio for 2000 and 2001, respectively.

Table 5.3 Assumptions adopted by the three forecast scenarios for applying the RGS model in the 2000-2050 period

	<i>Scenario A</i> (our assumption)	<i>Scenario B</i> (RGS forecast - 1999)	<i>Scenario C</i> (RGS forecast - 2001)
Legal framework	Law 449/97	Law 449/97	Law 449/97
Demographic framework	1997 ISTAT forecast scenario involving an inflow of 150,000 immigrants per annum in 2015	1997 ISTAT forecast scenario involving an inflow of 50/60,000 immigrants per annum	2000 ISTAT forecast scenario involving an inflow of 120,000 immigrants per annum
Macroeconomic framework			
Average activity rate	From initial 56.4% to 68% in 2015 and for the following period	From initial 57.4% to 62% in 2020, to 67% in 2050	Progressive increase from 57% in 2000 to 69% in 2050
Average unemployment rate	From initial 11.4% to 5% in 2015 and for the following period	From initial 12.3% to 10.3% in 2003, al 5% ncl 2045 c al 4% nel 2050	Progressive decrease from 10.6% in 2000 to 4.5% in 2050
Productivity growth rate			
1998-2000	1.5-2.0%	Until 2003 ca. 1.5%	From 1.1% in 2001 to 1.6% in 2020
2001-2005	2.0-2.5%		
2006-2015	2.5%	Between 2004 and 2020 rises from 1.5% al 2%	From 1.6% to 1.9% in the 2020-2030 period
2016-2025	2.5%		
2026-2045	2.5%	Between 2021 and 2050 2%	2% in the following period
Average GDP growth rate for the entire period, consistent with the other assumptions adopted	2.4%	1.5%	1.5%

- from an economic standpoint, the average economic activity rate is assumed to rise at a progressive but modest pace, from the current 57 per cent to 62 per cent in 2010, to increase by 2050, after two decades of stability, to 69 per cent; the unemployment rate is expected to fall slowly; down to 8 per cent in 2020, 7 per cent in 2030, 5.5 per cent in 2040 and 4 per cent in 2050. Productivity is projected to increase by 1.1 per cent until 2010, going up to 1.6 per cent in 2020, until it reaches 1.9 per cent in 2030, settling at 2 per cent starting in 2040.¹⁵

This development scenario, which is consistent with an average GDP growth of 1.5 per cent per year can certainly be included among the plausible ones, though it can hardly be defined as optimistic.

Let us consider a more favorable, though not exceedingly favorable, trend of the economic and demographic variables which calls for (see table 5.1, scenario A):

- 150,000 immigrants a year (which would only offset three-quarters of the decrease of the local active population);
- an increase not greater, but faster, of the average activity rate which would reach 68 per cent in 2015 (while remaining below the current average for the OECD countries);
- a lower reduction, though over a shorter-term horizon (fifteen years), of the unemployment rate up to 5 per cent (the same level Italy had in the early 1980s);
- a progressively faster productivity rate, up to 2.5 per cent in 2005, only to stabilize at that level (over the past three decades, Italy's productivity rate rose at an average annual rate of 2.4 per cent).

Overall, based on the above assumptions, the average annual GDP growth rate over the next half century should be 2.4 per cent, ranging during the period between 1.7 per cent and 3.3 per cent.

Given this different economic and demographic context, instead of going up, the pension-spending-to-GDP ratio should fall shortly, up to a minimum of 13 per cent in the five-year 2015-2020 period, only to rise again to 13.8 per cent in 2035, and eventually decline again to 13 per cent in 2045. Thus, not only would the 'hump' disappear but it would actually be replaced by a 'valley'.

Of course, by adopting a more pessimistic scenario which, for instance would entail a progressive reduction of GDP growth rates, stopping short of 'zero growth', the pension-spending-to-GDP ratio would go up even more; in this case, however, other social and economic problems would overshadow pension issues.

In 2000, in addition to those included in the 2001-2004 DPEF, the RGS came up with other projections based on scenarios consistent both with actual higher growth rates, compared to the projected ones, and with the guidelines set forth at the end of the Council of Lisbon held by the European Union; the projections so obtained do not show the 'hump', basically indicating a flat trend of the pension-spending-to-GDP ratio.¹⁶

While all these provisos may, on one hand, help to shed some light on a debate that has been sidetracked by misunderstandings, on the other, they should not be construed as indicating a lack of problems in this sector.

Population ageing is an issue which pension systems – and socio-economic systems in general – have to grapple with; the fact that a growing number of senior citizens will have to be supported by a shrinking base of younger people, a good number of whom may not even be active, cannot be overlooked.

This problem is present in all developed countries, particularly in Italy, which is characterized by one of the most remarkable demographic ageing processes. However, besides reducing significantly the pensions that had been paid until then, the three reforms introduced between 1992 and 1997 took to some degree demographic trends into account, encouraging by means of incentives the postponement of the retirement age.¹⁷

The forecasts prior to the 1995 reform signalled an increase in the pension-spending-to-GDP ratio to 23 per cent, a level much higher than the 15.8 per cent forecast by RGS adopting a more pessimistic scenario than that consistent with the 'Lisbon objectives'.

The reforms of the 1990s provide for a long transition: this was a price which the advocates of a more rapid transition, among the economic policymakers of the period, agreed to pay, considering it necessary to gain consensus among the social partners.

At any rate, by their nature, pension systems require several decades to fully implement change. Change can only occur gradually, as the hint of a forceful approach might be dangerous. Evidence of this is that the revenues generated by the tight pension measures passed in 1997 were mostly offset by the costs arising from the large number of early retirements prompted by the long debate that preceded such measures.

The process of eliminating seniority pensions outlined by the reforms of the 1990s could have been faster; this comment, which is made only for argument's sake as the various pre-set targets are approaching, should be considered in light of the continuing early retirement requests submitted by firms and, in any case, of the 'obsolescence' of young workers. The latter is brought about by the introduction of new production techniques and the inability of the productive and social system to upgrade workers' skills.¹⁸

The 18-year contribution ‘threshold’ that separates workers who qualify for pension benefits under the earnings-related system from those to whom the ‘pro-rata’ system applies, which founded its rationale on the need to help older workers to adapt to the lower benefits determined by the ‘Dini reform’ and to join a funded plan to obtain a supplementary pension, is to this date a gap that could be filled.

A serious problem in financing pension systems, but which is not mentioned too often, is lower growth rates and higher unemployment. In assessing the trend of the pension-spending-to-GDP ratio, the focus is on reducing the numerator, failing to consider that tight economic policies implemented to achieve that purpose may have, and did have in Italy over the past decade, negative effects also for the denominator, i.e. the GDP, which, obviously, should increase for many other reasons, in addition to financing pensions.

Also the choice of the different possible scenarios to be adopted in pension forecasts is not without consequences for the actual outcome, as assumptions may easily become self-fulfilling. In fact, if preference is accorded to a worst-case scenario, whereby the pension-spending-to-GDP ratio experiences the largest increase, the resulting policy recommendations would be restrictive, and if the policy is effective, its effects would curb GDP growth or lower its expansion. Thus, economic growth would be restrained and, holding pension costs unchanged, the pension-spending-to-GDP ratio would rise. In this case, the adoption of a worst-case scenario would become a self-fulfilling prophecy. The same can be said for the adoption of an optimistic scenario.¹⁹

Over the last decade, however, the true shortcoming of the Dini reform has slowly emerged, but the debate has failed to take due notice. The most worrying failure of the pension system as it is outlined in present laws is its inability to ensure adequate coverage to the growing number of workers with irregular working careers, falling within the scope of the contracts (outsourced workers, part-timers, etc.) that govern most new employment arrangements.

The development of funded pension schemes will not be sufficient to ensure a pension to these workers, as we will see in section 5.

To cope with these problems, before they become a social, economic and political emergency, one alternative might be to enlarge the base to finance pensions. Steps in this direction might be taken within the framework of the current public pension system, by drawing a distinction between the contribution rate and the rate at which pensions are computed (a distinction that has already made it possible to diversify the ratio of contributions to benefits among different worker categories) or by topping up directly the lower contribution rate (compared to that utilized for the computation) with

notional contributions. This alternative, however, requires special attention, so as not to enhance the segmentation of the labor market determined by the different contribution costs of the new workers; however, the overall application should be reduced in order not to alter to a significant extent the consistency of pension ratios and the related actuarial fairness among the positions of the individual workers, or the overall financial balance resulting from the benefit outflows and the contribution inflows coming from the production system.

It is clear that, if the cost of filling the gap of the existing contribution rate via the notional contributions for the new categories of 'flexible' workers, who are less expensive in terms of contributions, were to be financed with taxpayers' money, pressures would mount – not only for new workers but also for those who are already on the payroll – to replace 'regular' contracts with 'atypical' contracts; the effects would be devastating both in terms of the socio-economic balances related to the market economy and for the current set-up of the welfare state, as well as for the public budget. Moreover, some of these risks are of the same kind as those related to the proposal summarized in the introduction, and which is being criticized in this essay. The rationale of the action that is being recommended is of a completely different nature and is founded on the conviction that, in essence, since it has to ensure the continuity of income for workers, the pension system needs to be financed by the productive system in which workers operate; income security for workers in their old age, or in case of disability, is part of the employment compact.

In the case of the new category of workers, it is argued that their greater flexibility and the lower contribution costs are useful, if necessary, features to keep the Italian productive system competitive. Whether one shares these views or not, or simply acknowledges the fact that this new category is here to stay, the need to guarantee a sufficient income during their old age cannot disregard the idea that it is their special employment arrangement that constitutes an obstacle to the financing of an adequate pension coverage within the framework of the current system; that need cannot be met and financed only in reference to their earnings, but requires a measure of involvement for all the parties that take advantage of their contractual peculiarity – including the entire community.²⁰

4. PAY-AS-YOU-GO VS. FUNDING

Going back to the initial proposal, one of its main benefits would be the transition from a pay-as-you-go to a funded pension system. This, however, is a very questionable benefit, since both economic literature and experience fail to attest to the greater effectiveness and efficiency of funded systems,

compared to pay-as-you-go systems, in terms of ensuring adequate pension coverage to the majority of workers in a country. In particular, there is no evidence to support the opinion that the problems related to demographic aging are more of a burden for pay-as-you-go pension systems.

In addition, the idea that the transition from a pay-as-you-go system to a funded system would be obvious and in the general interest is absolutely groundless.

Thus, to summarize highly complex issues²¹, first of all it should be noted that whatever the financing method – funded or pay-as-you-go, public or private – pension systems always redistribute current output, shifting part of it to pensioners.

If demographic patterns reduce the potential output and increase the number of senior citizens and if, in addition, the economic system is incapable of deploying all the resources available, all things being equal, the burden of pension transfers will always lie on producers' shoulders, regardless of the financing method.

On the other hand, it could be said that a funded system fosters a greater amount of savings and faster growth rates so that, in light of a greater output, the redistribution in favor of pensioners would be less conflictual. However, no time-honored economic theory can demonstrate beyond any doubt that funded systems encourage more savings in an economic system, nor has it been proved that a larger amount of savings is always the propeller of economic growth. Indeed, Italy's very economic situation, after introducing restrictive policies in order to join the European Union, indicates that one of the main obstacles to a faster growth rate is a lack of demand not of savings.

In any case, there is no empirical evidence that can be extrapolated and projected into the future to substantiate the idea that, in the long run, the financial returns of a funded system are definitely higher than the GDP growth rates that underpin the returns of a pay-as-you-go system.

On the other hand, if such higher returns were constant over the long run, we would experience an increase in financial returns as a share of GDP, a condition that might give rise to social and economic problems. Furthermore, should this happen there would be, ironically, a higher pension-spending-to-GDP ratio, which is exactly what the critics of the public system want to reduce.

Stating that by developing a funded system workers could share, as pensioners, in future equity market returns means that they would acquire a small part of the greater share of the output, produced by active workers, intended for profits and rents, which is thus deducted from current salaries. This is tantamount to saying that even workers can partake in the economic surplus they have created, but to an extent rather different from that of the recipients of other types of income.

Referring to the alleged virtues of funded systems, Orszag and Stiglitz (2001) speak about 'myths', highlighting their lack of analytical substance. What is certain is that private funded systems have higher management fees and subject pension benefits to the vagaries of financial markets.

Thus during 2001, the Italian stock exchange registered a fluctuation of the MIB 30 index from a maximum of 45,242 (in January) to a minimum of 23,541 (in September), a 48 per cent decline; the NUMTEL index fell from a maximum of 5,388 to a minimum of 1,392 (down 74 per cent). The large number of failures with which the history of private pension systems is littered, the latest being Enron's bankruptcy, provides different examples of market shortcomings, including the significant risk of entrusting pension funds to private managers.²²

It is not a coincidence that even Modigliani (see Ceprini and Modigliani (1998)), the Nobel-prize winner, in his controversial and radical proposal to replace completely the pay-as-you-go system,²³ wants the new funded system to be managed by the state, to reduce management costs and the uncertainty of returns. Even Antonio Fazio, the Governor of the Bank of Italy, keeps remarking that financial instability has increased to dangerous levels, especially with respect to prices in equity markets, which are unwarranted in terms of the performance of the real economy.²⁴

With specific reference to the Italian situation, in evaluating the positive role that the development of a private funded system might have on its financial markets, it should be noted that the absence of breadth and depth of the stock exchange reflects not so much a lack of demand for shares but a reluctance of firms to list. This reluctance is due mainly to the small size of most Italian firms, as well as to their unwillingness to undergo the controls on their accounts that a listing would require.

Given this specific feature of the Italian financial and productive system, a too rapid development of a funded pension system would inevitably cause a large part of the savings entrusted to it to be channelled abroad, in markets with more opportunities. This would translate into a lower level of financial resources available to medium and small Italian firms, which would make it even more difficult than it is at present for this very important component of the country's productive system to meet its financial requirements.

5. THE DEVELOPMENT OF PENSION FUNDS AND THE POSSIBLE USE OF TFRs

In recent debates, and lately in the plans of the Berlusconi Government which were outlined in the draft enabling law on social security (Disegno di legge Delega sulla Previdenza – DdLDP), the twofold objective of lowering the

cost of labor and shrinking the size of the public pension system in favor of a private one crossed paths with the proposal, in itself unrelated to those objectives, to utilize the TFRs to finance the new funded pension schemes.

In this new version the overall plan can be summarized as follows. With a new pension reform, contributions payable by enterprises would be lower. Benefits might also be unaffected by this contribution decrease, as provided by the government DdLDP, for instance; in this case, however, besides the inevitable reduction of current revenues, a structural imbalance within the pension system would be triggered: once the new regime would be fully operational, approximately one-sixth of all pension benefits paid to all employed workers would not be financed via the actuarially correspondent contribution revenues.

The lower contributions, even though they were followed by the actuarially correspondent decline of pension benefits to future pensioners, would still result in a substantial shortfall of current revenues for the pension system. Applying this decrease only to newly-hired workers (as provided for by the DdLDP), the loss of revenues would be small initially, but it would rise progressively up to (in case of a 5 per cent reduction of social security contributions, as provided for by the DdLDP) 0.8 per cent-1 per cent of GDP, which would accumulate over time. The necessary period for the reduction to be applied to all employed workers might even be shorter than the natural turnover cycle, if one considers the new incentive for firms to replace 'older' full-contribution workers with 'new' lower-contribution ones.

In order to offset the decline of public pension coverage, that determined with the 1995 reform, in particular with respect to workers with atypical contracts, as well as the additional shrinkage resulting from the inevitable downward adjustments to the benefit due to today's contribution reduction, private pension schemes would be encouraged by increasing tax incentives and by resorting to TFRs as a source of financing for the new pension funds. Joining the new funded pension plans and the use of TFRs to that effect might somehow be made mandatory.²⁵

Overall, the average pension coverage might not even decline, but would change the mix of public and private pensions, increasing substantially the latter. In keeping with a market-based rationale, pension coverage might even improve for those who might be willing and, of course, able to place more financial resources in private pension plans; however, those who are less provident or just with less financial resources available would be worse-off.

In any case, given the same pension coverage, workers would lose their severance payments; in fact, under the financial arrangements of the new pension system (and of the labor market), severance payments would be utilized to make up for the lower contributions paid by companies.

In the past legislature, the above proposal to utilize the TFRs to finance supplementary pension schemes was part of the negotiations between the government and the social partners and was also set down in draft bills. However, those attempts were seriously thwarted by the unwillingness of Confindustria, the main employer association, to lose control of the TFRs (which would have been compensated by reimbursing the excess interest charges paid by companies on replacement funds borrowed in the open market) in the absence of the simultaneous implementation of a far reaching pension and labor market reform, like the one summarized above, i.e. based on the reduction of contributions and of the cost of labor; this had been covered by the negotiations, but was to be implemented at a later date.

Even though they were largely unnoticed, significant measures intended to initiate a substantial pension reform had already been adopted in the past legislature, with legislative decree 47/2000, implementing the tax mandate proposed and applied by the Ministry of Finance. By setting forth the tax neutrality principle, legislative decree 47/2000 standardized the incentives to save for retirement purposes without making any distinction in terms of retirement products (both occupational funds closed to specified categories or open and individual plans) or of sources of income (salaries, profits, rents). This particular set-up modifies the basic tenet of the Italian pension system which, in keeping with the Constitution (article 38), was designed to provide pension benefits not to recipients of any kind of income but to workers no longer active.

Aside from the Constitution, it is clear that pension needs vary in ways structurally different, depending on the sources of income of individuals. Retirement is by definition a period that involves individuals who can no longer work, either because of age limits or health reasons; old-age, disability and survivor pensions represent a form of income that replaces earnings from working activities. Instead, there is no need for pension insurance for recipients of incomes from sources other than work, as their earnings do not change as they age. By encouraging recipients of incomes from sources other than work to save, the state incurs, and saddles the community with, a cost for which there is no pension-related social need but only the generic need to stimulate savings as such, regardless of its pension purposes. It is equally clear that, also for recipients of the different types of income (employment, self-employment, professional), the problem to ensure income continuity as age progresses arises in different ways and to different degrees.

Thus, following the tax neutrality principle, the state supports in the same way contributors who have different pension needs and those who have no pension needs at all. Actually the distributive inconsistency introduced by Legislative Decree 47/2000 is enhanced by the fact that the tax incentives for retirement products is provided for and computed in a way that is

advantageous mostly for high-income individuals. In fact, payments for any form of insurance are deductible from personal taxable income up to a maximum which rose from approximately €2,550 to €5,100 and from 6 per cent to 12 per cent of total income. It is obvious that only high-income individuals can afford to pay insurance premiums up to €5,100 and obtain a tax benefit on this amount which, moreover, is proportional to their higher marginal tax rate.

Even though they might be able to buy private retirement products with a sum much lower than €5,100, middle-to-low-income individuals would receive a contribution by the state proportionally lower, i.e. in line with their lower marginal tax rate (see the paper by Hughes and Sinfield in this volume). Add to this that workers who will keep all or part of their severance payments without placing them in a pension fund will pay a higher tax amount on this deferred salary, which from a tax point of view is considered as a form of pension, but without the benefits accorded to private pension funds. On the other hand, Legislative Decree 47/2000 relies on the greater revenues generated by the increase in taxes on the TFRs to offset the generous tax benefit to those who are in the best position to take full advantage of private pension plans.

This criticism, however, does not mean that the introduction of a funded system would be inappropriate; instead it is intended to restrain the excessive enthusiasm of some, including no doubt some vested interests, who think that a funded system can play a much larger role, which would be unwarranted or counterproductive in the current Italian social security and economic context, both in terms of the working of the pension system and in terms of the interaction between the latter and the overall domestic economy.

The goal to develop supplementary social security should be considered in light of a set of general and specific circumstances; in particular, the speed and the magnitude of the intended result cannot be disregarded.

In order to assess the desirable quantity and procedures for a further shift of resources from TFRs to supplementary pensions, it is important to analyze the recent development of pension funds and the effectiveness of the incentives that fostered it.

The analysis of the data on the development of pension funds released by COVIP²⁶ and the comparison with countries where pension funds have a longer tradition do not justify the dissatisfaction often shown with our recent experience; or at least, the dissatisfaction cannot be attributed entirely to an alleged lack of effectiveness of the incentives in place since 1999, or to the partial use of TFRs as a financing tool.

At the end of 1999, there were 33 so called 'closed pension funds'²⁷ licensed by COVIP, with about 700,000 enrolled members; in addition to these, there were 88 so called 'open pension funds'.²⁸

At the end of 2001, the number of closed pension funds had risen to 41, with more than one million members; out of these, only 27 (31 at the end of January 2002) were fully licensed to operate.²⁹ There were 102 open pension funds, with 285,000 enrolled members; out of these 94 were fully licensed.³⁰ Overall, the new pension funds went from 121 at the end of 1999 to 143 at the end of 2001, with approximately 1,3 million enrolled members. Taking account of the 577 that existed prior to the new law introduced in 1992, currently there are 720 pension funds with around 2 million enrolled members. By the end of 2000 the assets of the new pension funds, which will be used to pay pension benefits, had reached a total of €3,338 million (€2,270 million for closed pension funds and €1,068 million for open pension funds), in addition to the €28,190 million managed by pre-existing pension funds.

At the end of 2000, the target membership for fully-licensed closed pension funds for employees amounted to 2.354 million workers; the average enrolment rate was 32.6 per cent, with a peak of 76.4 per cent for company and group funds; trade-association closed pension funds posted lower enrolment rates. At the end of 2001, the average enrolment rate fell to 15.4 per cent; this was because licenses were issued to funds with large target memberships, which caused the number of potential enrolled members in fully-licensed closed pension funds to increase to 5.827 million (up 130 per cent compared to the preceding year).

In European countries where pension funds are many and have been operating for decades, enrolment rates vary between 30 per cent and 50 per cent.

From these data it emerges that many funds were established in the few years following the 1995 reform, but only some of them were able to obtain a license from COVIP. However, once this hurdle was cleared, pension funds were able to reach membership levels which in other countries had required decades to build up.

Thus, any problems experienced so far by pension funds seem to be due not so much to a lack of tax incentives or to the partial use of TFRs but to a combination of management shortcomings within the funds, to cumbersome procedures and to lengthy application reviews by supervisory and regulatory bodies. As was highlighted in a MEFOP³¹ study, closed pension funds are fully operational after only three years from the date of the memorandum of incorporation.

There is a problem of low enrolment in pension funds by young people; this is a phenomenon attributable mainly to the large presence among recently-hired workers of some employment contracts such as fixed-term contracts or training contracts, which do not turn automatically into long-term employment contracts and which do not provide for TFR payments.

Obviously, the current performance of financial markets does not encourage new enrolments in pension funds. In 2001 closed pension funds showed an aggregate negative return (down 0.5 per cent). For open pension funds the average aggregate return of stock sub-funds was a negative 10 per cent, while bond sub-funds posted a positive performance, up 2.4 per cent; the average return of all the sub-funds (overall index) was a negative 5.6 per cent.³²

These obstacles cannot be overcome by providing greater tax incentives; on the other hand, it should be noted that, for the small group of newly-hired workers with contracts providing for TFR payments, the law requires that the TFR be fully utilized in case of enrolment in a pension fund.

Another obstacle that stands in the way of enrollment in a pension fund, especially by young people, might be myopia or the inability to see the need to provide for old age. Sometime this argument is used to justify more or less compulsory rules for workers to enroll in pension funds. However, this view fails to take into account that pension insurance is properly guaranteed by the obligation to enroll in the public social security system. Introducing further pension requirements, to be complied with by resorting to private funds, may not be fully understood.

Contributions to existing pension funds by both workers and employers account for approximately 1 per cent of gross salary; the utilized share of the TFR represents approximately 2 per cent, on average. The issue is to define whether it is desirable to increase such percentages, by how much and how, and whether by incentives or mandatory rules.

There are two main alternatives to solve this problem: one calls for the state to continue to play its current role and is centered on the public pension system; the other is more radically consistent with a market-based rationale and its application also to the social area.

Basically, the first alternative involves an incentive to resort in part to the TFR or to other saving sources without changing the current contribution rates paid to the public pension system; the additional payments would be enough to finance such additional benefits by the new pension funds as are sufficient to compensate for the decrease in coverage by the public system brought about by the reforms in the 1990s.

The second alternative would be to channel rapidly all the TFRs or a similar mass of other financial resources into the pension funds, utilizing also the flows arising from a substantial decline in the current contribution rates. The rapid development of the pension funds would constitute a tool to compensate for further and substantial cuts in the public pension system determined by the lower contributions. As was already seen, from a macroeconomic standpoint, the other objective that characterizes this alternative is the reduction of the cost of labor.

In the first alternative, the problems include the choice of quantities (which is limited anyway), timing and ways to achieve optimal transfer of the TFRs or other financial resources to the pension funds. These choices should take into account also the need not to undermine the current functions of the TFRs, which are of a social security nature for workers, and of a credit nature for firms, and which act also as a countercyclical tool to smooth out sharp socio-economic changes in the entire system.

In the second alternative, the abolition of the TFRs and/or a substantial reduction in the contribution rates paid by firms would give rise to significant redistribution effects and to a strong curb on the welfare state; the loss of the TFR by workers and/or the reduction of the contributions payable by firms would take place, *de facto*, without any *quid pro quo* since the development of a private pension system would not supplement the public one, but would replace it.

However, there would be problems also for the financial and productive system; as noted above, a rapid and sustained development of private pension funds would entail an outflow of savings which would benefit foreign markets to the detriment of small and medium Italian enterprises, the bulk of the Italian productive system, due to the subsequent reduction of already limited financial resources.

To conclude, if a private funded system which also utilizes TFRs should develop beyond a given threshold, to the detriment of the public pay-as-you-go system, with the objective of reducing contributions payable by firms, there would be a distortion of the current social and economic system. This might have negative consequences not only for the degree and security of pension coverage, but also for the distribution of income, for the ability of effective demand to support economic growth and, more generally, for the structural functioning of the productive and financial system.

Like competitive devaluations before Italy joined the European Monetary Union, the reduction in the cost of labor would boost profits only temporarily. Meanwhile, the lack of domestic effective demand would become more serious and the solution to the structural problems of Italy's productive system would be postponed and the reluctance of Italian firms to carry out innovative investments would be reinforced.

NOTES

1. The flows to employee severance funds (TFRs) are financed with current salaries. Every month firms withhold 6.7 per cent from salaries, setting these sums aside in the TFRs and returning them to workers in a lump-sum when they retire or leave. Firms pay lower-than-market interest rates for using the balances of TFRs. In short, TFRs are a steady and cheap source of capital for firms.
2. Dr. Francesca Corezzi cooperated in compiling Tables 1 and 2. For similar data related to past years, see Delli Gatti, De Novellis, Forti, and Padoan (1998).
3. For similar data related to past years, but obtained on the basis of different statistical information, see Onofri (1999).
4. For a more detailed analysis of this aspect by the author, reference should be made to Pizzuti (1999b) and to the bibliography mentioned therein. In particular, see Atkinson (1995a and 1995b), Fitoussi (1995), Garrett and Mitchell (1996), Rodrik (1997a and 1997b), and Wilensky (1993).
5. See Pizzuti (1996a).
6. Commissione Ministeriale (Ministerial Commission) to assess the effects of law 335/95 and subsequent measures (2001).
7. See Inpdap (2001). For outcomes, before and after the reforms, regarding rates of return on contributions, replacement rates for regular workers, and replacement rates for 'outsourced workers' salaries are assumed to increase by 2 per cent per annum in real terms; in the defined contribution system a 1.5 per cent capitalization rate is also assumed.
8. European Commission (2001).
9. See Inpdap (2001).
10. Inpdap (2001), p. 116.
11. See Inpdap (2001).
12. European Commission (1996).
13. The Government utilized the RGS model in January 1998 as the official forecast of the convergence plan for European Monetary Union [see Ministero del Tesoro (Ministry of the Treasury) (1998), in particular see figure 19. For the RGS model specifications, see Ministry of the Treasury – General Accounting Office (1996) and (1997)].

In 1999, even though the macroeconomic assumptions were different (as per table 1, scenario B), new projections worked out with the updated RGS model (curve B, figure 1) basically confirmed the trend of the pension-spending-to-GDP ratio forecast in 1998 [see Ministero del Tesoro (Ministry of the Treasury, Budget and Economic Planning – General Accounting Office) (1999)].

In 2000, the RGS model was further updated and was utilized for two forecasts included in the 2001-2004 Economic and Financial Plan (DPEF) [see Presidenza del Consiglio dei Ministri (Presidency of the Council of Ministers) (2000)]. One of the two 2000 forecasts confirmed those of 1998 and 1999; the other forecast, taking into account the faster growth rate envisaged in the DPEF for the 2001-2004 period, highlighted a lower trend for the pension-spending-to-GDP ratio, which was very similar to that reflected for the first five years in figure 1, curve A.

In the June-September 2001 period, RGS again updated its forecasts, taking account of the consolidated spending data for 1999, the institutional and policy framework in place in the period in which the 2002-2005 DPEF was drawn up, the review of the actual data for 2000 and the forecast data for 2002, and of the new demographic forecast with 2000 as base year prepared by the Italian Statistical Institute, ISTAT. The latter was based on the 'central' assumption whereby, compared to the preceding one for 1997, the increase of life expectancy at birth is revised upward by more than three years for both sexes, reaching 81.4 years for males and 88.1 years for females by 2050, and also on new assumptions, whereby the number of immigrants will more or less double, reaching about 120,000 per annum, and the fertility rate expected for the entire 2000-2050 period will be slightly lower (from 1.26 to 1.42, instead of 1.31 to 1.46). The macroeconomic assumptions are basically unaltered. The new trend of the pension-spending-to-GDP ratio is that reflected in curve C in figure 1 and the assumptions adopted are summarized in scenario 3, Table 3.

14. These and the following data, which concern curve C in figure 1, refer to the latest forecast devised by RGS in 2001, which reflects the updated one described in the previous footnote. Compared to that expressed by curve B, related to the forecast prepared in 1999, the pattern of curve C is similar in the first part of the period considered and virtually the same in the second; the differences in the first part are due to the fact that the starting pension-spending-to-GDP ratio in the more recent projection is 13.8 per cent instead of 14.4 per cent, because during the period between the two forecasts the current (actual) ratio dropped. The actual ratio for 2000 and the preliminary figure for 2001 were lower than those indicated in the projections prepared with the model in the preceding years. The change in the demographic assumptions did not determine any change in the expected trend of the ratio 'owing to the substantial offsetting effects of a lower mortality and higher immigration flows' [see Ministero dell'Economia e delle Finanze (Ministry of the Economy and Finances – RGS) (2001, page 7)]. The new curve C is lower vis-à-vis curve B in the initial stretch, but it heads toward the peak value of 15.8 per cent, which is reached in 2031 as well, only to follow a very similar descending slope.
15. As already noted, in the RGS forecast, which was updated in 2001, the macroeconomic assumptions are basically unchanged, compared to those adopted in the 2000 projections; however, attention is called to the expected lower productivity growth trend, which still attains a 2 per cent level, though only in 2040 (instead of 2025), and starting from the lower value, 1.1 per cent, instead of 1.5 per cent. The built-in growth rate for GDP is set at the on average at 1.5 per cent per annum for the entire forecast period.
16. Ministero del Tesoro, del Bilancio e della Programmazione Economica – Dipartimento della Ragioneria Generale dello Stato – Ispettorato Generale per la Spesa Sociale (2000).
17. On this subject, see Aprile and De Persio (1997).
18. On these aspects see Gallino (2001).
19. For a more detailed analysis of these issues by the author, please see Pizzuti (1999c).

20. The notional contribution might be set also in view of other specific objectives. For instance, the definition of a time limit for the top-up contribution period by the state 'would signal' the length of time deemed acceptable – and worthy of support – for maintaining the atypical contract conditions within a working career; given the wide range of 'atypical' contracts, the time limit and the extent of the top-up might vary according to the type of workers, deemed more or less compatible with this type of employment arrangement, or deemed in need of support; taking account of the restrictions established by the European legislation, the notional contribution might be adjusted on the basis of industry and/or territorial objectives.
21. For an analysis of the characteristics of pay-as-you-go systems versus funded systems, see Pizzuti (1995 and 1996b).
22. Enron the US energy giant, which only two years ago was the seventh largest company in the world, with a market capitalization of 77 billion dollar, left 11,000 people without pensions, after the money in their plans had been invested in company shares whose prices had fallen from 83 dollars to 67 cents).
23. Ceprini and Modigliani (1998) conceive a system which, on one side, takes advantage of the returns generated from investments subject to market risks, on the other calls for the state to guarantee those returns. However, once this aspect has been included, which is indicative of the appropriateness, or lack thereof, of entrusting substantial amounts of pension benefits to market uncertainties, one wonders whether the system devised by Ceprini and Modigliani is in effect a funded system or, instead, a veiled pay-as-you-go system which, however, requires the state to provide a return on pension contributions not on the basis of GDP growth rates but always at a rate that is assumed to be substantially higher.
24. See for instance Banca d'Italia (2001 and 2002) 'Final Remarks' for 2000 and 2001.
25. The government DdLDP calls for new tax incentives to join a pension fund as well as the use of the TFRs as a source of financing. Similar measures had been discussed and proposed also by governments in previous legislatures, but were never implemented.
26. Commissione di Vigilanza sui Fondi Pensione (Covip), the body that supervises pension funds, (2001) and (2002).
27. Occupational plans, set up by employers and employee associations, open only to specified categories of workers by firm, region or occupation
28. Personal plans, set up by financial services companies, not available to anyone who is able to join a closed pension fund.
29. At the end of 2001, there were 23 fully-licensed closed pension funds, compared with the 12 that had started collecting contributions in 2000.
30. At the end of 2000, 70 out of 84 fully-licensed open pension funds had already commenced operations.
31. Società per lo sviluppo del mercato dei fondi pensione. Mefop (2000) – a company for the development of pension funds.
32. See Covip (2002).

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