

# **SENZA WELFARE?**

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### ***Social protection responses to the employment crisis: Short-time work in Italy in a comparative perspective***

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## Abstract

In all European countries, emergency policy measures have been introduced in order to counteract the employment consequences of the economic crisis. In the context of variously composed anti-crisis packages, many European countries have used Short-Time Work (STW) schemes, that is measures to subsidize a temporary reduction in working time intended to maintain an employment relationship. Countries which already had STW schemes, such as *Kurzarbeit* in Germany and Austria and the *Cassa Integrazione Guadagni* (CIG) in Italy, have loosened the eligibility requirements and extended their maximum duration. The goal is to compensate the worker for reduced working hours, while securing his or her work contract. Nowhere has this strategy been used more extensively than in Italy: in order to contain formal unemployment CIG has been extended, at least in principle, to previously excluded sectors, employers and workers. However, this is based on a discretionary decision on the part of the public authority, and in any case it does not cater to the problem of unemployment benefits effectively available only to some segments of the labour force, leaving large groups of workers (in particular: non-standard workers) unable to qualify. In the absence of a generalized minimum income scheme, this still leaves a considerable number of workers totally uncovered by the social protection system in the event of job loss.

This paper intends to analyze and assess how Italy used STW to cushion the crisis, building on existing schemes and introducing new ones. To this aim, Italy will be compared to Germany and Austria, two Bismarckian welfare states where STW has been in operation for decades, and in whose income maintenance system it plays an important role. In stark contrast to Italy, though, in Austria and Germany STW plays a complementary, rather than a substitutive, role with respect to the unemployment compensation system. Such differences can be traced to the different institutional features and complementarities lying at the core of the three countries' political economy and welfare production regimes, which also contributed to structure different social protection responses to the crisis in the three countries.

The paper provides estimates through panel administrative microdata on how many workers may have access to standard unemployment benefits in the Italian case, assesses how the emergency measures introduced to face the crisis have worked so far, and estimates how many workers may now have access to the whole package of monetary compensation in case of job loss. While it is too early to assess systematically the effectiveness of the emergency measures, some conclusions on their institutional effects on the political economy of income maintenance in case of non employment are drawn comparing the Italian case to Germany and Austria.

## 1. Introduction

As the crisis started to hit their economies, all European countries adopted more or less comprehensive policy packages in order to sustain employment levels, offset the social consequences of the crisis, and enhance firms competitiveness [Eurofound 2009; European Commission 2010]. Depending on the policy choices and fiscal capacities of individual countries, the size of these packages varied considerably across Europe. Whereas Austria and Germany (alongside Sweden) stood out comparatively in terms of the sheer size of resources poured into anti-crisis packages (about 1.5% of GDP in 2010), the effort of the Italian government was the most restrained among Western European countries, with anti-crisis measures making up only 0.2% of GDP [Watt 2009].

Composition by type of intervention of actual anti-crisis packages differ widely across Europe [Pisani-Ferry and Van Pottelsberghe 2009]. Most European countries, though, have strengthened – if already existing – or introduced Short-Time Work (STW) schemes, that is measures to subsidize a temporary reduction in working time intended to maintain an employment relationship [Arpaia et al. 2010]<sup>1</sup>.

Although widely used in the latest crisis, as in previous ones, STW schemes have been relatively under-researched by social policy scholars, as – with notable exceptions, mainly dealing with Germany and Italy<sup>2</sup> – the comparative study of income maintenance schemes has tended to focus on more conventional unemployment benefits (UB)<sup>3</sup>. Such neglect is partly understandable, insofar as STW schemes constitute *sui generis* contribution-based measures centred more on employers than on employees, and therefore more difficult to conceive as individual social rights [Clasen and Clegg 2007]. Moreover, scholarly attention for STW has tended to flourish in the wake of its widespread use during times of economic turmoil and industrial restructuring as the current one, while laying dormant in good times. Nevertheless, STW constitutes an important piece within the income maintenance systems in many Western European welfare states, and probably nowhere is it so to a greater extent than in Italy, where STW schemes have traditionally made up for an underdeveloped

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<sup>1</sup> What we here call short-time work has been variously named as ‘partial unemployment benefits’ or ‘work-sharing’ (see for instance Messenger [2009], Crimmann *et al* [2010]).

<sup>2</sup> Such as Seifert [1994] and Gualmini [1997]. Mosley and Kruppe [1996] provide a comparative analysis across Italy, France, Germany and Spain.

<sup>3</sup> See for instance Estevez Abe *et al.* [2001]; Clasen and Clegg [2006], Palier [2010].

unemployment compensation system for a restricted segment of the workforce, namely for those employed in large firms in the manufacturing sector. During the crisis, STW schemes have been strikingly stretched, extended and multiplied, to become *the* social policy response to the employment crisis in Italy.

This paper intends to analyze and assess how Italy used STW to cushion the crisis, building on existing schemes and introducing new ones. To this aim, Italy as our main focus of analysis will be compared to Germany and Austria, two Bismarckian welfare states where STW has been in operation for decades, and in whose income maintenance system it plays an important role. In stark contrast to Italy, though, in Austria and Germany STW plays a complementary, rather than a substitutive, role with respect to the unemployment compensation system. Such differences can be traced to the different institutional features and complementarities lying at the core of the three countries' political economy and welfare production regimes, which also contributed to structure different social protection responses to the crisis in the three countries.

Next section will sketch out the basic elements for a political-economy analysis of short-time work in different welfare production systems. Section 3 provides a description of the institutional features of STW schemes in Italy, Germany and Austria prior to the economic crisis. Section 4 places STW in the wider institutional context of income maintenance schemes in case of partial or non employment in the three countries, focusing on the relationships between STW and unemployment benefits. The outcomes of the current unemployment compensation system in Italy in terms of the ability of various categories of workers to gain effective eligibility to the benefits, given their work and contribution record are assessed, on the basis of individual administrative data. Section 5 shows how, also in order to fill the gaps in social protection highlighted in the previous section, Italy has stretched the boundaries and scope of STW schemes so as to make them the main social protection instrument in response to the crisis. This will be contrasted with changes made to STW within anti-crisis packages in Austria and Germany. Section 6 provides data on the actual use of STW in the three countries. The final section concludes, elaborating on the long-term consequences for the Italian welfare state of the particular strategy to tackle the employment crisis adopted in the past two years.

## 2. Short-time work in different institutional arrangements

STW provides a wage replacement allowance in order to compensate a temporary reduction in working time set in place in order to ensure the continuity of an existing employment relationship (see also Arpaia *et al* [2010]). As compared to UB, therefore, STW subsidizes the maintenance of employment levels through an increase in temporal flexibility within the firm, instead of compensating workers for the use of numerical flexibility on the part of the firm<sup>4</sup>. Moreover, insofar as workers are retained within the firm's workforce, and they may get training during reduced working time, it can be seen as an *active* labour market policy in contrast to the conventionally *passive* orientation of UB [Eichhorst and Marx 2009, Crimmann *et al* 2010]. STW schemes can generally cover three distinct types of risks: *conjunctural* crises – stemming from temporary downturns, thus limited in time and consequences – ; *seasonal* crises – for seasonal interruption of activities in particular sectors, such as construction and agriculture – ; and *structural* crises, due to lengthier processes of firm restructuring which may still result in future redundancies.

From the employers' point of view, STW allows the management to hoard labour – in particular, skilled workers – during temporary downturns without incurring in turnover costs: dismissal costs on the one hand, and costs pertaining to recruiting and training new workforce after weathering the storm on the other hand. From their own perspective, employees may chiefly regard STW as an instrument of job security; however, scholars also stress the contextual training to which workers often participate during reduced worktime in order to upgrade their skills and prepare for transitions, especially in cases of structural STW and in view of possible redundancies [Deeke 2009; Eichhorst and Marx 2009] thus making STW an instrument of employment security<sup>5</sup>. Finally,

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<sup>4</sup> Here we adopt a classification which identifies different types of work flexibility on the basis of their prevalent property, or dimension, leading to numerical, temporal, wage, organizational, locational, and hiring flexibility [Berton *et al.*, forthcoming]. Following different classifications, STW is an instrument of internal numerical flexibility, as opposed to external numerical flexibility (see for instance Lesckhe *et al.* [2006]).

<sup>5</sup>We are using the concepts of job and employment security consistently with the flexicurity debate: see among others Wilthagen and Tros [2004]. Therefore job security is the expectation to remain continuously employed with the same employer (although, we may add, not necessarily in the same occupation), while employment security is the expectation to be continuously employed, although not necessarily with the same employer, with the possible exception of short unemployment spells during transitions. Auer [2006] calls 'employability security' what has been called here 'employment security', reserves the latter concept to what has been called here 'job security', and connotes with the latter the expectation to remain continuously employed with the same employer, performing the same task in the same occupation.

national (and in some systems regional) governments increase through STW their own degree of control over industrial crisis management, depending on the level of market management they consider reasonable to achieve<sup>6</sup>. Avoiding the blame for mass redundancies certainly constitutes a powerful political incentive for political actors to facilitate eligibility to and use of STW with a view to sustaining employment levels. However, by no means are governments the sole decision makers as regards the overall and the micro regulation of STW, as the social partners do generally have a stake in both, and may even be the gatekeepers of the process leading to the concession of STW benefits in a given situation. As a consequence, the policy design of STW in different countries variously determines the share of costs taken up by the general revenues as opposed to that taken up by the employers, the categories of admissible firms and workers and the stringency of procedures for the concession of benefits, as we will see in the next sections with regard to Italy, Germany and Austria.

However, descriptions of the design of STW schemes overlook the fact that their actual functioning takes place in an institutionally dense environment, within which they interact with a set of complementary institutions underpinning different systems of economic and labour market governance [Thelen 2001]. STW typically interplays with UB and employment protection legislation (EPL). STW supports temporal and internal flexibility, therefore it is strictly associated with the level of job protection, as stringent rules for individual and collective dismissals are more likely to orient employers towards the maintenance of employment levels. Moreover, the availability of non-standard work allows employers to concentrate cuts in labour costs on the marginal segments of their workforce, for instance by not renewing fixed-term contracts, while safeguarding the jobs of skilled workers. By the same token, generous UB complemented with re-training programmes can balance recourse to STW, as they provide income support to enhance workers' employability, with a view to possible re-hiring in the same sector, if not firm<sup>7</sup>. In this respect, as Arpaia and colleagues crucially remark:

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<sup>6</sup> Mosley and Kruppe [1996] recall that in 1984 the neo-liberal Thatcher government substantially reduced the level of public financing on STW schemes in order to prevent the state from distorting free market dynamics.

<sup>7</sup> Auer [2010] notes how, until the 1970s, paths of - as it were - 'negotiated redundancies' were common, whereby a firm facing a reduction in demand for its products would dismiss workers, with a commitment to re-hire them in the same occupation when the downturn would be over; in the meantime the dismissed workers would collect UB. The suspension scheme in Austria (*Aussetzverträge*, see below) can be seen as an institutionalized instance of such arrangements.

It is the generosity of STW relative to the unemployment benefits, combined with costly [...] firing procedures, which make firms to adjust the average hours to avoid the restrictions on the volume of hours worked imposed by firing restrictions [Arpaia et al 2010, 13].

How can we pull the theoretical strings of such interaction between STW, UB and EPL in order to provide a better understanding of their joint functioning mechanisms, and eventually their outcomes in European labour markets? We can build here on the Varieties of Capitalism approach [Hall and Soskice 2001, Hancké *et al.* 2007] and contextualise STW arrangements within different types of ‘welfare production systems’ and related welfare arrangements for the protection of skills [Estevez Abe *et al* 2001]. Even more directly than UB, STW can be interpreted as a useful instrument of protection of firm- and industry-specific skills for the reasons mentioned above. Given the purpose of this paper (that of placing Italy in a comparative perspective), we will focus on the two models of Coordinated Market Economies (CMEs) and Mixed Market Economies (MMEs), while only depicting the third ideal type of political economy in the VoC approach, that is, Liberal Market Economies (LMEs).

*Liberal market economies* (LMEs) are typically associated with general skills, low employment protection and low UB. We can expect STW to play a residual role, as firms do not need to retain but a smaller portion of trained workforce and will generally opt for (external) numerical flexibility as the most convenient strategy. In these countries, STW actually take the shape of temporary lay-offs, during which workers count as unemployed.

*Coordinated Market Economies* (CMEs) typically present high levels of employment protection and generous UB in order to protect the industry-specific skills of the core workforce. The enabling role of the State [Streeck 1997] and cooperative industrial relations push firms to seek for consensual plant-level strategies during downturns, in order to retain their skilled workforce and maintain employment, also on the background of relatively strict dismissal protection. STW, associated with training schemes, precisely performs this function, while comparatively generous UB and activation measures provide a parallel (active) safety net for workers made redundant.

*Mixed-Market Economies* (MMEs) constitute a hybrid model, in which a dualistic production system, displaying a minority of large manufacturing companies and a diffuse layer of micro- and small enterprises creates multiple differentiations in terms of needed skills [Regini 1997]. Hence, MMEs are associated to a fragmented configuration of varying degrees of job protection and UB,

pertaining to segregated segments of the workforce [Molina and Rhodes 2007]. Given adversarial industrial relations and a pervasive role of the state, STW is oversized with respect to CMEs as its resources are used as currency of ‘political exchange’ between the social partners and parties in government [Pizzorno 1975]. Its interaction with UB results, in turn, quite dysfunctional for standard workers in less protected small and micro-firms and for non-standard workers, whose skills are arguably inessential for firms during crises, thus making them the principal object of (external) numerical flexibility.

Among the cases taken into account in this paper, Austria and Germany belong to CMEs, while Italy provides a paradigmatic example for a MME. Despite a number of institutional similarities in the functioning logic of STW and UB due to the common Bismarckian roots [Palier 2010], respective reactions to the 2009 crisis reflected structural differences in the interplay between complementary institutions. We especially emphasise the Italian case, whose characterisation as a MME helps to interpret both the peculiar pre-crisis arrangements and the trajectory of the comprehensive interventions to the overall system of ‘social shock absorbers’ (*ammortizzatori sociali*) through the anti-crisis policy package.

As we will see, when compared to Germany and Austria the Italian case presents four peculiarities. First, a strong differentiation in eligibility exists at the firm level, between size classes and economic sectors. Before the changes introduced in the wake of the crisis the Italian STW schemes (*Cassa Integrazione Guadagni*, CIG, further differentiated in conjunctural, *Cassa Integrazione Guadagni Ordinaria*, CIGO and structural, *Cassa Integrazione Guadagni Straordinaria*, CIGS) mainly protected well-identified ‘risk categories’ (to use Baldwin [1990] expression) concentrated in large industrial and construction firms. Second, the generosity of the two STW schemes, both towards recipients (in terms of wage replacement rate) and with respect to firms (in terms of reduction of labour costs) appears more pronounced in Italy than in the two other countries, thus making CIG convenient to all economic actors. Third, the duration of CIG seems to be longer than Austrian and German STW schemes (*Kurtzarbeit*, KuG), as well as dependent on bargained decisions between the public authority and the social partners. Finally, STW schemes interact in Italy with an underdeveloped UB regime with respect to which they provide a functional substitute rather than a complementary instrument, as it is rather the case in Austria and Germany.

These peculiarities will become apparent in the next section, which deals with the design and institutional features of STW schemes in Italy as compared to Germany and Austria as they were regulated *before* the changes introduced to counteract the economic crisis. While changes in STW schemes to make them apter instruments to deal with the crisis will be analyzed in section 5, it is the pre-crisis functioning of such schemes that have moulded their role in a country's welfare production system, and its political economy more in general. Moreover, most of the changes introduced in the past two years have a transitory character, and are supposed to be phased out shortly.

### **3. Design and functioning of pre-crisis short-time work schemes in Italy, Germany and Austria**

In all our three countries, conjunctural STW schemes have long been inherent parts of the income maintenance system in case of non employment<sup>8</sup>. Germany and Italy (but not Austria) then introduced further schemes targeted on specific seasonal activities suffering cyclical suspensions (constructions and agriculture), and especially structural STW schemes, emerging from sweeping crises in the manufacturing sector, albeit at different timings<sup>9</sup>. Benefits are granted upon the occurrence of objectively unavoidable events (e.g. lack of product demand) and conditional to an evaluation of the economic reasons that justify the claim on the part of the employer (see below for country-specific details). Further institutional similarities concern the contributory basis of the schemes, their being targeted mainly standard workers (although fixed-term employees can be put on STW) and the exclusion of apprentices, temp agency workers, independent contractors, and managers<sup>10</sup>. Finally, the common Bismarckian root of the three welfare systems conventionally

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<sup>8</sup> Germany presents the oldest STW scheme, introduced in the immediate aftermath of the First World War, in 1918 [Brenke et al 2010], while a similar scheme had been already introduced as early as in 1910 in the mining sector [ILO 2010]. By the same token, Italy instituted Cassa integrazione guadagni - CIG (now known as CIG *ordinaria*, CIGO, to differentiate it from CIG *straordinaria*) just after the Second World War, in Northern Italy in 1945 and in the whole Italy in 1947 [Vesan 2009]. Austria introduced it in 1968 [Arpaia et al. 2010].

<sup>9</sup> A scheme of the like has existed in Italy already since 1968 (Cassa integrazione guadagni straordinaria, CIGS) and was progressively extended in scope and frequently abused in order to procrastinate *de facto* dismissals. By contrast, Western Germany introduced a similar scheme only in the late 1980s, and made extensive use of it in order to face the extraordinary challenges following the restructuring of the Eastern German industries [Seifert 1994].

<sup>10</sup>Changes in this regard, which may well prove to long-standing, have been brought in the wake of the crisis (see section 5).

assigns the management of the STW funds to the same administrative structures running the ordinary budget for unemployment insurance, namely the National Institute for Social Protection (Istituto Nazionale della Previdenza Sociale, INPS) in Italy, the Federal Employment Office (Bundesagentur für Arbeit, BA) in Germany, and the Labour Market Service (Arbeitsmarkt Service, AMS) in Austria<sup>11</sup>.

Upon these shared basis, however, the Italian system considerably diverges from the German and Austrian ones on a number of criteria, such as its function, firm eligibility rules, costs for employers and financing structure, administrative procedures, generosity of benefits, and duration. Short-time work schemes constitute the traditional core of the Italian system of ‘social shock absorbers’. The current configuration of the so called *Cassa Integrazione Guadagni* (CIG) has emerged through an incremental layering of interventions since the wartime – and particularly the 1960s [Vesan 2009]. In a path-dependent fashion, the priority assigned by the trade unions to job protection during the period of its systematization in the late 1960s moulded CIG as an instrument of fundamentally *passive* income maintenance, deployed in order to avoid redundancies [Gualmini 1997]. Unlike in Germany and Austria, the economic rationale of STW was subordinated to the political aims of adversarial industrial relations and no training measures have been associated to CIG receipt until recent reforms<sup>12</sup>. In turn, the German and Austrian systems present remarkable similarities in their functioning mechanisms. Such characteristics arguably reflect the different varieties of production systems outlined above, and they also patterned the changes made to STW rules and conditions as a response to the economic crisis.

### 3.1. Eligibility criteria and funding

The same set of political factors underpinning the construction of a ‘particularistic and clientelistic’ welfare state in Italy [Ascoli 1984; Ferrera 1984] also shaped the peculiar design of CIG as a highly fragmented system, differentiating eligibility and contributory obligations across firms of different

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<sup>11</sup>It is to be recalled that in these countries STW benefits are not directly paid to the worker, but rather to the employer as a compensation for the foregone work time s/he will pay to the worker at the rate provided for by the scheme rules. In practical terms, compensation goes as such into the worker's payroll.

<sup>12</sup> Italy's mode of political competition (polarized pluralism, as Sartori [1976] called it) also played a role. See Picot [2009] for an interpretation of the diverging developmental paths of Italy's and Germany's unemployment compensation systems based on political competition dynamics.

sectors and size classes. Conjunctural STW (*Cassa Integrazione Guadagni Ordinaria*, CIGO) is mainly reserved to industrial firms and related craft firms during temporary crises, whereas special STW in case of structural crises, reconversion or restructuring (*Cassa Integrazione Guadagni Straordinaria*, CIGS) entails a further eligibility restriction to industrial firms with more than 15 employees, related crafts, and more recently commercial firms above 50 employees<sup>13</sup>. Finally, dedicated schemes are in place for agricultural and construction firms during seasonal periods of inactivity, due to adverse weather conditions. Such configuration also entails an uneven distribution of the costs, as CIG is financed by earmarked contributions and borne almost entirely by the employer (1.90% or 2.20% of the employee's payroll for CIGO depending on the firm size, and 0.90% for CIGS) and it is distinct from unemployment insurance contributions. A considerable variation follows in the total amount of social contributions between firms variously included into CIGO or CIGS, and firms which are excluded.

The 'coordinated' character of the German and Austrian KuG could not be more different from the Italian segmentation, as there is no differentiation in firm eligibility, except for seasonal schemes. Before the recent changes, in order for a firm to be eligible to KuG in Germany at least one third of its workforce employed in the plant must be affected by working hours reduction, entailing an estimated income reduction of at least 10% of monthly gross salary (now the one-third rule has been lifted, and KuG can be applied even to a single worker). All other (internal) flexibility opportunities available to the employer (such as halting overtime, or using time banks and holidays) must have been exhausted before accessing KuG. As in Italy, for any given affected worker, working hours can be reduced up to 100%, this constituting the most extreme case of STW. In Austria, on the contrary, this was and still is not allowed: before recent changes working hours could be reduced only up to 80%; now any reduction between 10% and 90% is allowed. A major economic disruption, lasting for more than three months, must be envisaged in order for a firm to be eligible to Austrian KuG, the employer must agree not to dismiss any workforce while using KuG, and again other available opportunities to KuG must have been exhausted.

In both countries financial resources are drawn from the unemployment insurance fund – to which a single contribution is paid, equally divided between employer and employee – encompassing in a

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<sup>13</sup>The law actually states that only commercial firms with more than 200 employees can be eligible to CIGS, but exemptions to this threshold have routinely been introduced in the yearly Budget Law, so as to lower it to 50 employees.

common pool firms in exposed manufacturing sectors and in sheltered services. This stands in sharp contrast with the multiple and segmented risk categories identifiable in Italy, as firms covered by CIG share a similar risk profile (medium-large firms in export-oriented manufacturing) and do not bear any cost for the higher mortality rate of the large strata of micro and small firms.

### *3.2 Cost of STW use to employers*

Costs of CIG use for employers is remarkably low in Italy. INPS collects an employer's contribution of 4% of the worker's hourly wage for CIGO (8% for firms over 50 employees) and 3% for CIGS (4.50% for larger firms) upon use of the scheme, while taking charge of all social contributions for affected employees, calculated on the regular wage (i.e. the salary s/he would have been entitled to if s/he had not been put in STW). Under normal (i.e. prior to anti-crisis adjustments) rules for KuG, the German BA charges the employer with social contributions (including the employee's share) calculated on 80% of the wage corresponding to non-worked hours (on worked hours contributions are split between the employer and the employee, as usual). Bach and Spitznagel [2009] calculate that employers pay between 46% and 59% of the entire unit labour costs, thus resulting in a comparatively expensive arrangement for firms<sup>14</sup>. Moreover, collective agreements at the firm level might establish that employers top up KuG benefits with extra-wage. A similar arrangement usually operates in Austria, but this time at the plant level, where trade unions often bargain for the employer to top up the KuG benefit. Social contributions are levied in full on the regular wage of the worker in Austria, but this time they are split between the employer and the employee in the usual fashion.

### *3.3 Administrative procedures*

Mandatory consultation with work councils before a CIG request is filed to the public authority is an important power source for the Italian trade unions, as they never achieved co-decision rights and procedures for CIG have been used as a means to acquire some voice in management choices. They often act as institutional brokers, pushing for the employer to file a request for CIG whenever

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<sup>14</sup>However, costs for employers can be substantively rebated if the worker takes part in training activities, and also if KuG lasts longer than 6 months.

employment levels are in danger. However, whether or not trade unions reach an agreement with the employer at the firm level, in Italy it is a committee at the local or regional level composed by representatives of the social partners and INPS, and chaired by local or regional representatives of the Labour Ministry, which decides over the granting of CIG, and its possible extensions, on a case-by-case basis<sup>15</sup>. The resulting discretionary power exerted over CIG by public authorities in Italy finds no counterpart in Austria and Germany, where the gatekeepers of the whole process are instead the social partners, whose agreement is mandatory for a KuG request to be valid.

### 3.4 Benefits and duration

Finally, in Italy benefits are unrelated to UB compensation levels, and at least in principle more generous than the latter (see section 4). Both CIGO and CIGS benefits are nominally set at 80% of the replaced gross hourly wage, but ceilings to benefits introduced in 1994 in order to contain expenditures will often end up in lower replacement rates<sup>16</sup>. Eligible workers are all employees, including part-time and fixed-term workers, with a seniority rule (90 days of in-firm seniority) which only applies to CIGS<sup>17</sup>. Also the duration is quite long, since CIGO provides support to eligible firms for up to 12 months within a two-year period<sup>18</sup>, whereas CIGS may last even up to 48 months during restructuring or reconversion processes (24 months plus two possible 12-month

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<sup>15</sup> If reached, collective agreements reached at the plant level are however binding as regards the implementation of the scheme (choice of workers, rotation criteria, envisaged schedule of re-integration of workers in the productive process, etc.).

<sup>16</sup> Ceilings apply not only to CIG but also to UB (see below) and may result in much lower replacement rates than the nominal ones. Two ceilings apply, depending on whether the replaced wage is higher or lower than a monthly wage threshold, yearly updated for inflation. Wages below or equal to threshold are capped by a lower ceiling, while wages above the threshold are capped by a higher ceiling. The relevant ceiling then applies on an hourly basis to each hour subsidized by CIG. In 2010, the income threshold was set at € 1,931.86 (gross) per month, the lower ceiling was set at € 892.96 gross per month, the higher ceiling at € 1,073.25 per month. Thus, a worker whose regular wage is € 1,800 per month and is put in CIG at a 100% rate (so-called *cassa integrazione a zero ore*, no worked hours) will receive a gross compensation of 892.96 per month, that is, with an actual replacement rate below 50%. If the worker were to be put in CIG at, say, a 60% rate in a month envisaging 160 hours of work (that is, s/he would be working 64 hours and be under CIG for the remaining 96 hours), s/he would get a wage of € 720 gross ( $1,800/160 \times 64$ ) supplemented by a CIG benefit of € 535 gross ( $892.96/160 \times 96$ ).

<sup>17</sup>As mentioned, apprentices are excluded. Also temp agency workers are excluded, insofar as they are formally employees of the temp agency, not of the firm in which they happen to be working. Moreover, temp agencies belong to the service sector, therefore are not eligible for CIG.

extension). These features considerably differentiate the Italian CIG from the German and Austrian KuG schemes. In Germany, benefits are set at the same level of the unemployment insurance (60% of the hourly wage, 67% if with children, with ceilings; net values) for each replaced unit of hourly wage. The basic duration of conjunctural KuG is limited to 6 months, although particularly serious conditions may lead to extensions up to 24 months. Also in Austria KuG is set at the same level as unemployment insurance (55% of net wage) for each replaced unit of hourly wage. A striking feature of the Austrian case, particularly if compared with the Italian one, is the very short duration of the scheme: it can be granted for up to three months only (extendible if a high share of KuG recipients are over 45). As a matter of fact, this is in stark contrast with the Italian maximum duration of CIGS – 4 years! - or, for better comparability with Austrian KuG, of CIGO itself – one year.

Table 1. Institutional features of STW schemes and mobility allowance in Italy

	<b>conjunctural short time work scheme - CIGO</b>	<b>structural short time work scheme - CIGS</b>	<b>mobility allowance</b>
<b>eligibility - firms</b>	manufacturing, agriculture excluded: crafts, service	manufacturing, crafts depending on manufacturing, they must employ more than 15 employees (some more than 50, other more than 200)	CIGS recipient firms firms enacting collective dismissals
<b>eligibility - workers</b>	dependent workers (both open ended and fixed term), no apprentices, no temp agency workers, no independent contractors	dependent workers (both open ended and fixed term), at least 90 days of firm seniority, no apprentices, no temp agency workers, no independent contractors	only dependent workers on an open ended contract must have a firm seniority of at least 12 months (6 actually worked)
<b>duration</b>	3 months in a row, extendable up to 12 months in 2 years	up to 48 months for restructuring (24+12+12)	depends on age and region north 12, 24 or 36 months south 24, 36, 48 months older workers: up to 7 yrs for men, 10 for women (pre-retirement scheme)
<b>amount</b>	80% of last wage, ceilings: 892 €/month gross for gross monthly wage up to 1,931 €; 1,073 €/month gross beyond	80% of last wage, ceilings as CIGO	80% of last wage in the first 12 months, 64% afterwards, ceilings as CIGO

<sup>18</sup> More precisely, a first duration limit is set to 13 consecutive weeks which is however extendible up to 12 months (in two years), following an agreement with the public authority and the consultation of trade unions.

To sum up, Italy's CIG (whose basic rules are summed up in Table 1 above, alongside those of a flanking scheme which will be described later, mobility allowance) displays rather peculiar features when compared to two other well-established instances of STW – German and Austrian KuG. Not only is it highly biased in favour of selected risk categories – defined in terms of type of firm, and thereby workers – but it also provides perverse incentives to its misuse beyond economic rationale in order for actors to pursue their own interests. Employers receive generous subsidies helping them to shift the costs of inefficiencies on their risk category; trade unions gain a stake in management choices, while protecting jobs and income of their members; the state retains control on the political economy and keeps unemployment figures low during crises. The outcomes of such a win-win game, which is much more palatable to the employers than in Germany and Austria, given stricter rules and higher costs for them in the latter countries, may well reinforce a stable actor constellation with a stake in its continuation, but tend to disregard the losers of such configuration: workers employed in firms excluded from STW schemes and non-standard workers, who bear the brunt of a highly deficient UB system. On top of all the differences in the policy design highlighted above, it is the place of STW schemes in the overall institutional framework of income compensation in case on non work to make a real difference between Italy on the one hand and Austria and Germany on the other. It is to this topic that we turn in the next section.

#### **4. The place of short-time work in the overall income maintenance regime**

In this section we broaden the focus of analysis to explore the place of STW within the wider income maintenance regime in case of non employment, and in particular the interaction between STW and UB schemes. The cases of Italy on the one hand and Germany and Austria on the other display different models of institutional interplay between the two instruments, albeit on the grounds of a similar insurance-based logic. In fact, the Italian CIG has traditionally worked as a *functional substitute* for a weak UB system, which provides for no unemployment assistance (not even through a general minimum income scheme), and whose unemployment insurance is characterized by rather strict eligibility rules and comparatively short benefit duration, while benefit amounts have been raised over the 2000s to match, by and large, German and Austrian ones (once again, though, ceilings tend to reduce nominal replacement rates dramatically). By contrast, German and Austrian KuG schemes seem – although with differences between the two – to be embedded in

a texture of income maintenance schemes in case of non employment, and exert in particular a *complementary* function to a comprehensive set of UB.

#### 4.1. Italy

As we will see in the next section, the selective adjustments to specific income maintenance instruments on the part of the Italian government during 2009 reflect the inequalities in the coverage of the Italian unemployment compensation system. Italy features an unemployment benefit system strongly centred on social insurance principles which are not coupled by any universalistic scheme of unemployment or social assistance. Ordinary unemployment benefits (*indennità di disoccupazione ordinaria a requisiti pieni, FUB*) are accessible to dependent workers (with the exception of apprentices; independent contractors are treated as self employed and therefore excluded) upon the joint fulfilment of a double eligibility threshold, i.e. two years of insurance seniority<sup>19</sup> coupled with one full year of accrued unemployment insurance contributions during the last two<sup>20</sup>. Replacement rate is now set at 60% of the previous wage for the first 6 months, then 40% for further 2 months, then 30% for any further time, but the same ceiling as CIG may well reduce the actual replacement rate<sup>21</sup>. The benefit is granted for a maximum duration of 8 months (12, for workers aged over 50).

As a partial substitute for a missing unemployment assistance scheme, a residual scheme with reduced eligibility requirements (RUB) targets the fallouts from FUB, mainly catering to fixed-term

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<sup>19</sup> Meaning that the worker must have been enrolled in the unemployment insurance fund for at least two years. This does not mean that the worker must have contributed to the fund since his/her enrolment; but there must be a weekly contribution to the fund dating back at least two years. This seemingly lax requirement excludes from eligibility a considerable share of workers, in particular those who have been in the labour market for less than two years (and even longer, if they entered the labour market as apprentices or independent contractors, who cannot enrol in the fund): see Table 4 below.

<sup>20</sup> 52 full weekly contributions must have been paid over the last two years. The existence of a contributory floor means that part-time workers run the risk of being excluded from the benefit due to insufficient contributions (see Table 3 below). Moreover, due to the way weekly contributions are credited, vertical and cyclical part-timers face a high risk of exclusion, even though the amount of their contributions should make them eligible to the scheme. For a thorough analysis of how the Italian social protection system copes with non-standard workers, see Berton et al [2009a].

<sup>21</sup> Until 2000, replacement rate was 30% of the former wage, subject to ceilings. A sequence of further reforms in 2005 and 2007 gradually increased generosity to current levels.

workers (direct hire temps, temp agency workers) who find it difficult to qualify for the FUB<sup>22</sup>. Nonetheless, this is again a fully fledged social insurance scheme, keeping the two-year insurance seniority requirement and trimming the contributory requirement to a minimum contribution record of at least 78 days in the year before that in which the benefit is claimed. This actually means that RUB is not a proper unemployment scheme, but rather some monetary compensation for unemployment spells experienced the year before, totally irrespective of the claimant's current employment condition. As a matter of fact, RUB beneficiaries receive a lump-sum allowance proportional to the number of days worked in the year before that of claim, up to a maximum of 180 days, and set at 35% of the previous year's wage up to 120 days, 40% for any further day, with the usual ceilings<sup>23</sup>.

Other specific schemes apply to those employed in the agricultural sector and in the construction sector. There is, then, an important scheme catering only to those employed in firms taking advantage of CIGS and declaring their impossibility to re-integrate CIGS beneficiaries into the productive process, or firms with more than 15 employees which proceed to collective dismissals: mobility allowance (*indennità di mobilità*)<sup>24</sup>. This is a very generous unemployment scheme (the benefit amount is the same as for CIG for a year, then it becomes 80% of the CIG amount, always with the usual ceilings), whose duration ranges from 12 to 48 months (for certain age groups in the South), and for older workers it can actually become a pre-retirement scheme, bridging the gap years to the pension as it can be extended for up to 7 years for men and 10 years for women (so-called long-lasting mobility, *mobilità lunga*). Unfortunately, such a scheme is only available to open-ended workers (fixed-term workers are not eligible) with a firm seniority of at least 12 months (6 of which actually worked) in the same firms that are eligible to CIGS. Above all, this scheme does not configure any social right in a proper sense (as a subjective right), as it is subject to the same procedures as CIG, and therefore to a discretionary approval on the part of the public authority.

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<sup>22</sup> Such a scheme was introduced in 1988 to cater for seasonal workers. Apprentices may qualify for this scheme if formerly employed in a dependent work relationship that provided them with a two-year insurance seniority (apprentices do not pay contributions to the unemployment insurance fund, therefore are not enrolled in it). Independent contractors are not eligible.

<sup>23</sup>For instance, if a claimant (who fulfills the insurance seniority requirement) worked 100 days in 2009, at an average daily wage of € 20, s/he can collect in 2010 a one-off benefit of € 700 (35% of € 20 times 100 days).

<sup>24</sup>Which has nothing to do with an understanding of mobility in the context of employability, though. It simply means that, typically after time spent in CIGS and thus on the employer's payroll, the worker is now 'mobile', untied by a work contract.

As such, it is to be considered a flanking scheme of CIGS, granting no individual rights to workers, and actually used to carry on workers after exhaustion of CIGS<sup>25</sup>.

Tab 2. Basic features of rights-based unemployment compensation schemes in Italy

	<b>FUB</b>	<b>RUB</b>
<b>entitlement</b>	only dependent workers, no apprentices, no independent contractors (formally independent)	only dependent workers, apprentices only if previous qualifying job spell, no independent contractors (formally independent)
<b>eligibility</b>	insured since at least 2 years contributory requirement: at least 52 full weekly contributions in the 2 years before unemployment	insured since at least 2 years work requirement: at least 78 worked (or work-equivalent) days in the year the benefit is claimed for
<b>duration</b>	8 months, 12 months for over 50	number of worked days in the reference year, with a maximum of 180
<b>amount</b>	60% of previous wage up to 6 months; 40% for the following 2 months; 30% for further months ceilings: as for CIG	35% of previous wage up to 120 days; 40% afterwards ceilings: as for CIG

How well do the two general UB schemes, granting automatic and individual rights to a benefit upon fulfilment of requirements on the part of the worker (recapped in Table 2), fare in covering those who become unemployed in Italy? In other terms, how many workers, if become unemployed, can expect to get UB, based on their own contribution record? This clearly is a distinct piece of information from the one given by coverage rates, defined as the share of the current unemployed who are receiving a benefit. Effective eligibility to a scheme subject to contributory requirements can only be assessed by looking at the individual contribution record of the claimant, as the administrative agencies in charge of managing the schemes do. Table 3 shows effective eligibility to UB schemes in Italy, calculated applying the various rules governing eligibility to a 1:90 sample of the individual work and contribution histories of all the Italian private sector employees since 1985,

<sup>25</sup> For such reason the basic features of the mobility allowance were listed alongside those of CIGO and CIGS in Table 1. Most of the considerations made for CIGO and particularly for CIGS thus apply to the mobility allowance (under which, it is to be recalled, workers are no longer on the employer's payroll, and count as unemployed).

based on the WHIP (*Work Histories Italian Panel*) administrative database created by the Laboratorio Revelli of Turin<sup>26</sup>.

Tab 3. Effective eligibility to unemployment benefits in Italy

	<b>NO UB</b>	<b>FUB</b>	<b>RUB</b>
<b>full time open ended (standard)</b>	9,1%	86,8%	4,1%
<b>part time open ended</b>	19,4%	69,7%	11,0%
<b>apprentices</b>	78,9%	1,3%	19,8%
<b>direct hire temps</b>	38,1%	42,8%	19,1%
<b>part time direct hire temps</b>	47,1%	29,5%	23,4%
<b>temp agency workers</b>	47,8%	33,9%	18,3%
<b>part time temp agency workers</b>	63,4%	17,3%	19,3%
<b>independent contractors</b>	100%	0%	0%
<b>total</b>	17,1%	75,9%	7,0%

Own calculations on WHIP database. See Berton et al. [2009a] for methodology.

The second column (No UB) in Table 5 can be read as follows: if, at a given point in time, 100 workers employed under one of the contracts listed in the first column lost their job, how many of them would not be eligible to any UB compensation, for failing to fulfil the requirements? The third and fourth columns show how many are eligible to the more generous FUB, and how many must fall back on the RUB compensation<sup>27</sup>. As it can be easily seen, if 9 standard workers (i.e. full-time open-ended) out of 100 are not eligible to any kind of UB, mainly due to the insurance-seniority requirement, this share goes up dramatically when considering non-standard workers, due to their low wages and discontinuous careers [Berton et al 2009a]: almost 4 direct hire temps out of 10, and 5 temp agency workers out of 10 would not be eligible to any kind of UB compensation, if they lost their job. Such figures increase further for part-time workers (and even among those with an open-ended contract 2 part timers out of 10 would be unable to collect any UB). As it could be expected,

<sup>26</sup> The data source is therefore INPS. See [www.laboratoriorevelli.it/whip](http://www.laboratoriorevelli.it/whip) for details on the WHIP database.

<sup>27</sup> The chosen point in time at which to assess eligibility was December 2003, due to data availability. Eligibility rules have not changed since then.

almost 8 apprentices out of 10 could not even claim the only benefit they can, given particular circumstances, be eligible to<sup>28</sup>.

The importance of such figures comes in full magnitude when it is recalled that UB is the only income maintenance scheme available to any worker who lose their job (except independent contractors and, for FUB, apprentices), as mobility allowance is a discretionary scheme applying only in very particular circumstances, and reserved to open-ended workers. This means that those excluded from UB will get nothing whatsoever from the Italian welfare state, as there is no unemployment assistance scheme, or minimum income scheme (in place in all EU-27 countries, but for Italy and Greece)<sup>29</sup>.

Building on this picture, the traditional configuration of institutional complementarities in the Italian welfare production system evidently leans towards the prominence of STW as an instrument of job protection and internal flexibility for core workers in core sectors, given strict employment protection legislation in firms with more than 15 employees<sup>30</sup>. The generosity of CIGO and CIGS arrangements (and of mobility allowance when collective dismissals have to take place, often after exhausting CIGS duration, and possibly bridging the gap to the retirement age) in terms of wage replacement rates and benefit duration clearly overtakes that of FUB, thus generating incentives for the social partners to protract this equilibrium, at least as long as they tend to represent large firms on one side, and standard workers on the other.

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<sup>28</sup> The non-null figure in the FUB column for apprentices is only due to how job-to-job transitions were classified. Independent contractors are listed for the sake of completeness, as they are generally considered quasi-subordinate workers, but are not formally entitled to any UB scheme.

<sup>29</sup> A minimum income scheme was introduced in an experimental fashion in 1998 (*Reddito minimo di inserimento, RMI*), but was discontinued in 2002. See Sacchi and Bastagli [2005] on the RMI and on Italy's anti-poverty policies more in general.

<sup>30</sup> Contrary to widespread belief, Italy's EPL for open-ended workers is, and has been for a long time, comparatively rather low: already in 1990 Oecd EPL index for open-ended workers (version 1) was 1.77, very close to the Danish one (1.68 in 1990, 1.63 in 2008) and has not changed since then. Actually, in 2008 Italy's EPL index for open-ended workers was closer to that of UK (1.12) than to that of Germany (3.0). Also Italy's gross worker turnover is, and has been since the 1980s, closer to that of US and UK than to other Continental welfare states, and Italy is the country that in the past twenty years has reduced legal constraints to hiring under fixed-term contracts the most, among Oecd members [Berton et al 2009a]. Thus the customary depiction of the Italian one as a rigid labour market is grossly mistated. Italy's overall medium-low employment protection as regards open-ended contracts hides, however, two very distinct patterns, whereby individual dismissals are very easy and costless for the employer in small firms (up to 15 employees) and rather costly in firms employing more than 15 employees.

## 4.2 Germany

The German model presents a different equilibrium in this sense. In contrast to the Italian case, KuG provides no better treatment than unemployment insurance benefits (*Arbeitslosengeld*, ALG I), thus configuring STW as a distinct flexibility management strategy for firms. Although the 2005 Hartz IV law substantially reduced its duration, ALG I still ensures 60% replacement rates (67%, if workers have children) for a period ranging from 6 months to one year, depending on the claimant's contributory record (up to two years for older workers)<sup>31</sup>. Eligibility is based on the same contributory requirement as the FUB in the Italian system (one year of contributions over the last two), but here without any insurance seniority requirement. Moreover, the strong activation turn given by the Hartz reform is meant to provide workers with opportunities to upgrade their skills and prepare them for transitions [Clasen and Clegg 2006]. Especially in case of structural crises, workers face a similar condition whether they stay in employment, receive KuG benefits while profiting from in-firm training, or are dismissed, access to ALG I and move towards a new job [Crimmann *et al* 2010]. As mentioned, moreover, a social assistance package exists for jobseekers (*Grundsicherung für Arbeitsuchende*), comprising *Arbeitslosengeld II* (ALG II), a means-tested benefit for those able to work who are not eligible to ALG I (or have exhausted entitlement to it), and the means-tested Social benefit (*Sozialgeld*) which can be accessed by family members not able to work.

## 4.3 Austria

Even less crucial, for both employers and employees, is STW in Austria. As a matter of fact, KuG in such country has traditionally played a limited role as an instrument of labour market governance as compared not only to Italy, but also to Germany. This is due to the Austrian configuration of income maintenance schemes, which provides alternatives to KuG that are better valued by employers and give extensive protection to workers. As a matter of fact, the Austrian system provides a functional equivalent to KuG: temporary suspension arrangements (*Aussetzverträge*). Under such arrangements, employees voluntarily agree with employers to terminate the employment relationship and re-establish it during good weather. In particular, the employer can

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<sup>31</sup>Generally speaking, duration is proportional to length of contribution under a contribution/duration ratio of 2:1 (e.g. 20 months of contribution, 10 months of benefits).

assume a unilateral obligation of re-employment (*Wiedereinstellungszusage*) or stipulate an agreement binding also for the employee (*Wiedereinstellungsvereinbarung*). In the second case, if the employee later refuse to resume the work, entitlement to benefits for termination of employment (such as severance payments) can be lost. Suspension arrangements are cheaper for the employer than KuG, as the worker registers with the AMS like a normal unemployed and income support is provided by unemployment insurance or social assistance. For the same reason, the employer does not pay any social contributions for the workers suspended. Moreover, employers are forced neither to prove their economic condition with the public authority and bear administrative costs, nor to enter negotiations with the work councils: for these reasons, in Austria suspension arrangements are far more attractive for employers than short-time work. As regards workers, it is to be recalled that KuG duration in Austria is generally limited to three months: this contributes to make suspension arrangements a powerful competitor to STW as compared to Italy, where suspension is also contemplated by the law, but where suspended workers can only collect UB for up to 65 days, as opposed to three months, easily extendible to twelve, of the conjunctural STW scheme, CIGO.

Not only is there a well-oiled functional equivalent to STW in Austria, but workers can also access an unemployment compensation system which is more extensive than the German and the Italian ones. This is comprised of unemployment insurance, unemployment assistance and several schemes for older workers (such as part-time allowances and transition benefits).

In principle, all workers meeting the same contributory requirement as FUB in Italy and ALG I Germany (52 weeks over the last two years<sup>32</sup>) are entitled to benefits under compulsory unemployment insurance (*Arbeitslosenversicherung*), including – since 2008 – independent contractors (*Freie DienstnehmerInnen*), which pays 55% of the previous earnings (with ceilings) for a period ranging from 20 up to 52 weeks, depending on age and previous contribution record. Since 2009 also the self-employed can opt-in, by paying contributions according to dedicated conditions. The sole workers not covered by unemployment insurance are marginal workers, whose income is below an earnings threshold fixed by law yearly (e.g. € 366,33 per month in 2010). However, these workers usually benefit from other sources of income (other jobs, education, pension).

Unemployment assistance (*Notstandshilfe*) is reserved to those who have exhausted their entitlement to unemployment benefits and is of unlimited duration, although less generous than

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<sup>32</sup> This is reduced to 26 weeks over the last 12 months for claimants under 25 years of age.

unemployment insurance and of course means-tested. Austria is also equipped with a safety net for those not covered by insurance as well as those receiving a level of unemployment subsidies under a certain monetary threshold. Before July 2010, the means-tested social assistance scheme (*Sozialhilfe*) was not part of the statutory social insurance system; instead, it was organized by the provincial governments, providing different levels of assistance across *Länder*. A recent reform introduces a statutory and uniform basic scheme (*Mindestsicherung*) to be implemented as of September 2010. The scheme will entitle all people with a legal claim to unemployment insurance, unemployment assistance, social assistance and pension to apply for a minimum income equivalent if they are below a certain income threshold that takes the family status into account and is fixed by the government<sup>33</sup>.

#### 4.4. A comparative assessment

To sum up, while in Germany and in Austria there are comprehensive functional alternatives to STW schemes, palatable to both employers and workers, the imbalance in terms of generosity and duration between the conjunctural CIGO and even more so the structural CIGS (together with its flanking scheme, mobility allowance) on the one hand and a scanty unemployment compensation system, no unemployment assistance, no minimum income scheme on the other make the role of STW schemes of paramount importance in a comparative perspective, even when Italy is compared to countries such as Austria and Germany, where STW has been in place for a long time and does play a role in the political economy. Still, support for STW on the part of a constellation of actors comprising national (and, after changes introduced to counteract the crisis, regional) governments, trade unions and large firms make this a very stable equilibrium. Such an institutional configuration, however, comes at the cost of keeping the unemployment compensation system underdeveloped, as establishing a more comprehensive system based on some combination of social insurance and social assistance provision, rendered as a matter of right, would reduce the ability of such actors to reap the benefits of a discretionary, case-by-case decided arrangement such as the one provided by CIG<sup>34</sup>.

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<sup>33</sup> At the moment the scheme is raising some criticism, as the current threshold of € 740 for a single person per month is under the poverty line, given the living expenses in certain areas such as Vienna, where most of the population and the unemployed live. However, it is too early to judge the effectiveness of the *Mindestsicherung* as an anti-poverty policy.

<sup>34</sup>For a menu of reform proposals, with an estimation of the costs involved see Berton et al [2009a].

Table 4. (Non-)Eligibility to UB schemes in Italy under the current system (column two); lifting the insurance seniority requirement (column three); and replacing the current system with German ALG I (column four)

	<b>NO UB under current rules</b>	<b>NO UB with only contribution requirement</b>	<b>NO UB under German ALG I eligibility rules</b>
<b>full time open ended (standard)</b>	9.1%	2.1%	9.3%
<b>part time open ended</b>	19.4%	5.5%	24.6%
<b>apprentices</b>	78.9%	10.5%	100%
<b>direct hire temps</b>	38.1%	18.3%	51.5%
<b>part time direct hire temps</b>	47.1%	25.3%	66.6%
<b>temp agency workers</b>	47.8%	23.3%	60.6%
<b>part time temp agency workers</b>	63.4%	40.7%	78.6%
<b>independent contractors</b>	100%	100%	100%
<b>total</b>	17.1%	4.3%	18.8%

Own calculations on WHIP database.

Note: in column three eligibility under German ALG I is assessed for categories currently entitled under the Italian UB system. Apprentices if RUB is cancelled and independent contractors are not entitled.

The outcomes of this institutional configuration are those depicted in Table 3 above, where sizeable shares of non-standard workers are unable to gain eligibility to either full or reduced UB (and fixed-term workers are not entitled to mobility allowance either). Whether effective eligibility to unemployment insurance in Germany and Austria is consistently higher than this, across various types of employment contracts, depends upon workers' employment continuity (and wages) and is, as such, an empirical matter that can be only solved reconstructing individual work histories through administrative data. On the one hand, while the only eligibility requirement for unemployment insurance in Austria and Germany is the contributory one (52 weeks of contribution over the past two years, as in the Italian FUB), in Italy claimants get severely skimmed by the preliminary insurance seniority requirement. In Table 4 eligibility is assessed with the same methodology as in Table 3 (whose eligibility results are recalled in the second column), but lifting the insurance seniority requirement in the third column to leave the sole contribution requirement,

be it in actual contributions as in FUB or in number of days worked as in RUB. As it can be seen, the insurance seniority requirement considerably curtails eligibility to UB, be it the full or the reduced one. On the other hand, while unemployment insurance is comprised of only one scheme in Germany and Austria (although with reduced eligibility conditions for under 25 in the latter country), in Italy workers unable to qualify to the FUB (most often, non-standard workers due to interrupted careers for fixed-term and reduced income for part-time workers) can still be eligible to the RUB under more relaxed conditions (78 days worked in the past year). It is then interesting to see what would happen to eligibility if the German ALG I were imported as the only unemployment insurance in Italy<sup>35</sup>. Such results are shown in Table 4 above, fourth column.

As it can be appreciated from Table 4, non-standard workers find it extremely difficult to qualify for social insurance benefits, as eligibility conditions based on work and contributory records simply do not match well with low employment continuity (i.e. long and frequent unemployment spells between rather sparse and interrupted employment spells) which tend to characterize non-standard careers<sup>36</sup>. While under a welfare provision system where access to benefits is in principle universal (either by granting social benefits as a matter of citizenship, thus with universal coverage, or by giving them on the basis of need, thus in a selective fashion) lack of employment continuity (the empirical referent of lack of 'employment security') needs not translate into lack of 'income security', within a social-insurance welfare system it does, bringing about what Berton et al. [2009a] have called, with reference to the Italian case, 'flex-insecurity'. It is thus evident that what really makes a difference between the Italian UB system and the German and Austrian ones (though the two are different in design and generosity) is the availability of social assistance in the latter.

Again, assessing how many workers are unable to gain contributory eligibility to unemployment insurance *and* do not meet the means-test to get social assistance in these two countries, having worked too little to qualify for the first and not being poor enough for the second is an empirical matter to solve, but one can be confident that their number will not match that of the Italian dependent workers (plus independent contractors) who would get nothing whatsoever as a matter of right from the welfare state if they lost their job: over 3 million workers at the end of 2008 (Table 5), as resulted from applying to the exclusion-from-benefit figures in Table 3 the employment stocks by type of contracts, calculated just before the crisis started to bite. To these 3 million

<sup>35</sup>This basically boils down to considering eligibility to the sole FUB scheme, lifting the insurance seniority requirement, but abolishing the RUB scheme.

<sup>36</sup>At least, it does so in Italy, as the empirical analysis in Berton et al. [2009a] shows.

workers, one may want to add some 5 million self-employed workers (other than independent contractors), notoriously a huge category in Italy which has actually been hit the hardest by the crisis so far<sup>37</sup>.

Table 5 Excluded from any rights-based benefit if lost their job in Italy, IV quarter 2008 (x1,000)

	<b>EMPLOYMENT STOCK</b>	<b>NO UB</b>	<b>STOCK OF EXCLUDED FROM UB</b>
<b>open ended (private sector only)</b>	11,302	10,5%	1,187
<b>direct hire temps</b>	1,968	38,1%	750
<b>apprentices</b>	260	78,9%	205
<b>trainees</b>	140	50,0%	70
<b>temp agency workers</b>	116	47,8%	55
<b>public sector independent contractors</b>	560	100%	560
<b>private sector independent contractors</b>	375	100%	375
<b>total</b>	14,721	-	<b>3,202</b>

Own calculation on WHIP database and Istat, RCFL (IV quarter 2008).

This was the institutional landscape facing Italy, Austria and Germany just before the economic crisis. In all the three countries STW schemes have been used as instruments to contain the adverse employment consequences of the financial crisis. Their eligibility conditions have been weakened, maximum duration extended, and incentives to employers to use such schemes as an alternative to dismissals have been introduced, mainly via lower social contributions on their part. Squarely following a logic based on institutional complementarities, however, STW schemes have been used as an emergency measure complementing other existing measures in Austria and Germany, and as the only game in town in Italy. Far from using the opportunity window offered by the crisis to fix the holes in its income maintenance system through the establishment of a more comprehensive UB system, catering in principle to all employees, and introducing a social assistance scheme, Italy has added to its existing particularistic, micro-categorical system new schemes catering to particular

<sup>37</sup> Open-ended public employees (making up for some 3 million workers) are not included in calculations, as they are immune from dismissals (but for extremely severe disciplinary reasons).

categories of workers eligible under complex criteria, while new regulations providing specific exemptions and deviations from the general rules of STW schemes have been layered.

## **5. Adjusting STW rules to face the crisis**

The financial crisis has so far hit Italy's economy harder than the German and Austrian ones. Italy's GDP shrank significantly already in 2008 (-1.3%, as compared to +1.2% in Germany and +2% in Austria) and plunged in 2009, falling by 5% (Germany's GDP fell similarly by 4.9%, while Austria's GDP fell by 3.6%)<sup>38</sup>. Recovery is also estimated to be quicker in Germany and Austria than in Italy: projected GDP growth as estimated by the IMF amounts to 1.4% in 2010 and 1.6% in 2011 in Germany, 1.3% and 1.7% in Austria, while 0.9% and 1.1% in Italy<sup>39</sup>. As is well known, employment is a delayed pro-cyclical variable: it tends to follow the economic cycle with some delay, as firms tend to wait and see what the overall economic outlook is and the demand they are facing looks like before dismissing workers. For the reasons outlined in section 2, moreover, it can be expected that in countries where STW schemes are part and parcel of the social protection system, such as the ones analysed in this paper, labour hoarding through STW is extensively used, at least in the initial phase of the economic crisis. All the more so since in all three countries rules and conditions regulating STW have been changed in order to make the latter an apt and quick instrument to cushion the employment consequences of the financial crisis.

Despite extensive use of STW, Italy's employment figures appear bleaker than Austria's and Germany's, where employment (15-64) fell in 2009 with respect to 2008, but was still higher than it had been in 2007 (Table 6). In Italy, in contrast, 2009 employment was some 200,000 units short of that in 2007. After increasing in 2008 by 627,000 units (+1.7% on 2007), Germany employment fell in 2009 of 108,000 units (-0.3%); Austrian employment increased in 2008 by 56,000 units (+1.4% on 2007) and fell by 17,400 units in 2009 (-0.4%). Italy's employment only increased by 0.7% in 2008 (+164,300 units), to fall by 1.6% in 2009 (-360,000 units).

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<sup>38</sup>IMF, World Economic Outlook.

<sup>39</sup> IMF, World Economic Outlook, April 2010 for Austria; June 2010 for Germany and Italy.

Tab. 6 Employment (15 to 64 years), annual averages

	2007 (x1,000)	2008 (x1,000)	2009 (x1,000)	2008/07 (%)	2009/08 (%)
Austria	3963	4020	4002	-0.4	1.4
Germany	37611	38239	38131	-0.3	1.7
Italy	22846	23010	22650	-1.6	0.7
Euro area	137703	139631	139430	-0.1	1.4
EU-27	215276	217751	213887	-1.8	1.2

Source: Eurostat LFS

The same can be said as regards unemployment: while being lower than in the Euro-area and EU-27, Italy's unemployment rate is still rising, while it seems to be decreasing both in Austria and in Germany, after peaking in the summer of 2009 (Table 7).

Tab. 7 Unemployment rates (%)

	2007	2008	2009	June 2010
Austria	4.4	3.8	4.8	3.9
Germany	8.4	7.3	7.5	7.0
Italy	6.1	6.7	7.8	8.5
Euro area	7.5	7.5	9.4	10.0
EU-27	7.1	7.0	8.9	9.6

Source: Eurostat LFS

Still, unemployment has been kept lower than it would have otherwise been in Italy also thanks to STW. As a matter of fact, STW has been the main instrument to mitigate the social impact of the economic crisis in Italy. While the Berlusconi government has repeatedly shunned social policy experts' pleas for reform of the UB system in order to make it more inclusive, or for the introduction of a generalized minimum income scheme to cater for those without any other means, it has heavily invested in extending the scope of STW beyond its original boundaries in order to make it the anti-crisis policy par excellence.

### 5.1. Italy

The Italian government invested 7 billion Euros for the years 2009 and 2010 on strengthening CIG as the main labour market policy instrument within the Anti-Crisis Package approved in January 2009 (Law 2 of 2009, subsequently modified by Law 33 of 2009 and Law 191 of 2009, so-called Budget law for 2010)<sup>40</sup>. The preservation of employment levels under the threat of mass redundancies was a leading principle which found widespread consensus among the social partners. However, the bulk of the government's effort was directed to 'fix the holes' in the coverage of CIGO and CIGS as well as to provide some income maintenance for the weakest categories among non-standard workers. It is difficult to provide a comprehensive description of the whole gamut of rules and interventions, all the more so as adjustments have been made over time, and rules have layered quickly. In a nutshell, the following labour market interventions can be identified:

- until 2010, relaxation of eligibility rules for CIG and mobility allowance to include firms previously not covered for reasons of size or economic sector, and non-standard dependent workers when previously excluded (so-called *ammortizzatori in deroga*);
- until 2010, extension of duration for CIGO and CIGS;
- relaunch of job-sharing schemes (*contratti di solidarietà*) through higher replacement rates for foregone working time;
- until 2011, introduction of limited-duration FUB for apprentices who get suspended or dismissed (therefore, not to those whose contract is not transformed at the end of apprenticeship), partial extension of FUB duration and limited introduction of RUB for suspended workers, and introduction of a lump-sum compensation to some segments of unemployed independent contractors.

The Italian debate named the set of adjustments regarding eligibility to CIG and mobility allowance as 'derogation social shock absorbers' (*ammortizzatori in deroga*), on the grounds of their deviation as a matter of exceptional circumstances from ordinary rules governing eligibility, seen in Table 1 (therefore we will denote them as 'emergency' CIG, 'emergency' mobility allowance). Changes in eligibility rules with respect both to firms and to workers truly occupies an outstanding place for its

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<sup>40</sup> After an agreement with the Regions, the latter took over one third of the total costs (2.65 billions) by diverting resources from the European Social Fund. This produced an unprecedented decentralisation of power over the granting of CIG. As such monies were earmarked to training programmes, the government had to get formal approval from the European Commission, after conditioning benefit receipt to participation in training programmes by the beneficiary (see below).

relevance in the Italian system. It might seem that the economic crisis prompted some measure of de-segmentation of the Italian income maintenance system in case of partial or non employment, achieving 'de-corporatization', as it were, of CIGS from large industries, thus creating equal conditions for standard workers in the majoritarian layer of micro and small Italian firms (especially in non-industrial crafts) while, at the same time, providing non-standard workers with eligibility to schemes typically reserved to standard employees<sup>41</sup>. However, it seems more accurate to view *ammortizzatori in deroga* as brand new (still discretionary) schemes for firms and workers not eligible to regular CIG and mobility allowance. Nowhere is this more true than for the emergency mobility allowance (*indennità di mobilità in deroga*), which is basically a specific UB for those who are neither eligible to the regular unemployment benefits nor to the regular mobility allowance. The duration of the benefits for either emergency CIG or emergency mobility allowance cannot exceed 12 months (or the duration of the contract for fixed-term workers in the case of emergency CIG); duration, generosity and granting procedures are however bargained at the regional level between the regional government, trade unions and employers' associations and sealed in a tripartite agreement, after the regional governments have bargained with the national government over the amount of resources made available by the latter. This means that there can be considerable variation across regions as regards almost every aspect of *ammortizzatori in deroga*, even though, after subsequent regulatory interventions at the national level on the part of the government and of INPS (which is in charge of the financial administration of the cash benefits) and two rounds of tripartite agreements at the regional level, initial heterogeneities are reducing. Also, eligibility rules to emergency schemes are homogeneous: a firm seniority of at least 90 effectively worked days for CIG and 12 months for mobility allowance, of which six of effective work<sup>42</sup>.

The introduction of emergency CIG and mobility allowance is clearly the most important institutional innovation in Italy's anti-crisis labour market policy. However, given the magnitude of

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<sup>41</sup> Law 2/2009 established that available resources 'can be used with reference to all types of employment contracts, including apprenticeship and temporary agency work' (Art. 19.8.).

<sup>42</sup> An unprecedented conditionality for STW workers was applied to both emergency and regular CIG, namely the signing of a declaration of immediate availability to ALMP, whereby the worker certifies his or her willingness to undergo training; in the case of mobility allowance this declaration includes accepting any job offer. Training programmes (arranged for the recipients of the benefits as a condition put by the European Commission to allow for the use of ESF money) are variously organized and managed by the Regions through the Public Employment Services at the provincial level. (Since the late 1990s ALMPs have been devolved to the Regions, which have variously delegated the Provinces with related tasks. A good deal of organizational variance across Regions occurs.)

the workforce involved in firms normally eligible to the regular CIG, this was obviously mobilized as the main safeguard against dismissals and employment losses. This entailed more resources, presumably laxer granting evaluations, and the possibility for employers to extend both CIGO and CIGS beyond their usual period by cumulating conjunctural and structural periods of STW, as no formal procedure of case assessment is now required for the employer to get from CIGO to CIGS once the former has expired.

Beside the ones just reviewed, further policy instruments were deployed during the crisis. We will describe only those more general in scope, leaving aside those which are geared to even more specific categories than those listed in what follows. Through work-sharing agreements the social partners may agree on a general reduction of working time among employees in order to avoid employment losses, while the State subsidizes employees' wages for non-worked hours. As replacement rates for such arrangements were lower than CIGO and CIGS (60% of the hourly wage in firms with more than 15 employees, 50% for smaller firms), such arrangements were rarely used. The government thus tried to revitalize them raising the benefit level by 20%, though only for larger firms. Until 2011, apprentices who get dismissed or suspended are entitled to a provision matching the same amount of FUB, provided that they have a firm seniority of at least 3 months. Duration is however limited to 90 days. Until 2011, suspended workers who fulfil the relevant requirements can collect FUB up to 90 days (while it used to be 65 days under regular conditions) while also RUB is temporarily extended to them, although up to 90 days only (as opposed to 180 for unemployed workers). Also until 2011, a provision for independent contractors who are not employed applies. Eligibility conditions are rather strict, as a set of necessary conditions must be jointly fulfilled. Applicants must be exclusively insured with the dedicated INPS pension fund, they must have worked in 2009 for a single principal in the private sector, earning between € 5,000 and € 20,000, have been credited in 2009 with at least 3 months of contributions, have worked and earned in 2010 enough to be credited with at least a month of contributions, and be without any work contract since at least two months. Provided that these requirements are met, independent contractors are entitled to a lump-sum compensation of 30% of their 2009 annual income, with a maximum benefit of € 4,000. Not surprisingly, being eligible to this benefit seems to be no easy task at all<sup>43</sup>.

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<sup>43</sup> Another provision indirectly regarding independent contractors was passed with the Budget law for 2010, as during 2010 in order to assess a claimant's eligibility to the FUB scheme up to 13 weeks worked and contributed to the dedicated INPS pension fund as an independent contractor can be included in order to meet the contributory requirement (52 weeks of contributions over the past two years), even if independent contractors, being formally self-employed, pay no contributions to the unemployment insurance. This provision does not mean that independent

Overall, it is apparent how an effort to cover those excluded by the current income maintenance regime (while trying to uphold employment levels and supporting – even subsidizing – firms in order not for them to go bust) has followed the usual Italian route of providing category-specific benefits (some very difficult to qualify to) on the one hand, and discretionary rather than rights-based benefits on the other.

## 5.2. Germany

Building on the post-reunification experience, the German federal government identified KuG as a valuable instrument in order to limit employment losses in the immediate aftermath of the financial crisis. Especially with the second Conjunctural Package (*Konjunkturpaket II*) – approved in January 2009 – the then Grand Coalition cabinet adjusted KuG schemes along various dimensions. First, it prolonged the legal duration of conjunctural KuG from 6 to 18 months for schemes activated till the end of 2010<sup>44</sup>. Eligibility conditions for firms were then relaxed. Under the new rules firms can apply for KuG if any share of their workforce undergoes a wage reduction of 10%, whereas the original rules required that at least one third of the workforce was affected by work loss. Flexibility in the use of KuG is introduced, as employers may interrupt KuG for three or more months and then resume it with no need of notification to the Federal Employment Office (BA). Also, until the end of 2010 it is no longer required that recourse to other instruments of temporary, internal flexibility such as time banks and work-sharing arrangements are exhausted for the employer to apply for KuG. Another important change entailed that the employers were relieved of some of the otherwise higher costs in comparative perspective, as BA now takes charge of half of the social contributions in the first 6 months, while taking over the full amount after the sixth month. Also, BA takes over from the outset the full contribution load from employers offering training schemes to their employees. Moreover, the 2009 reform extended the coverage of workers to include temp agency workers, previously excluded. As in Italy, finally, activation measures were applied to recipients, as

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contractors have a right to UB, though: only dependent workers are eligible; this provision may be of some help for former independent contractors who have then been hired as dependent workers before becoming unemployed.

<sup>44</sup> This provision was actually approved in the first policy package in the Fall of 2008 and entered into force from January 2009 for schemes activated in 2009. Between June 2009 and January 2010 a ruling by the labour department further extended the legal duration until 24 months until the federal government restored the previous 18 months ceiling until the end of 2010.

the BA can offer qualification courses or job opportunities which workers cannot turn down without a motivated reason. Employers can also provide KuG beneficiaries with training activities and vocational programmes, particularly activities leading to formal vocational qualifications, and be partially reimbursed by BA. To the aim of updating and upraising skills among the workforce, the Federal government strengthened the financial resources (€ 2 billions for the years 2009-2010) for training schemes, with a particular focus on workers on short time and young unskilled persons.

Moreover, a further law in 2009 (*Gesetz zur Änderung des SGB IV*) weakened the eligibility rules for ordinary unemployment benefits (*Arbeitslosengeld*, ALG I) in order to facilitate access for discontinuous workers, albeit over an experimental period until 2012. If a worker does not meet the contribution requirement (one year of contributions over the last two), she can nonetheless qualify for ALG I with only six months of contributions, provided that she has been employed 'predominantly on fixed-term contracts of short duration' for up to six weeks during those months, and did not exceed the annual income of € 30,240<sup>45</sup>. She is then eligible for ALG I, for a duration of the standard proportion contribution/benefits of 2:1 (e.g. 180 contribution days, 90 days of benefits) up to a maximum of 5 months. Among the expected targets of this measure are temp agency workers who are likely to collect sequences of short missions before accessing a longer-term job (not necessarily open-ended).

### 5.3. Austria

As we have seen, while being an integral part of the income maintenance regime, STW in Austria is not as widely used as in Germany or Italy, as it is perceived as a rather inflexible and inconvenient instrument particularly by SMEs, as compared to functional equivalents such as temporary suspension arrangements. Consequently, in the initial phase of the crisis take up of KuG was close to zero. Changes to increase its flexibility and appeal to employers were then introduced by the Austrian parliament in February 2009, based on a joint draft to make STW more flexible, presented in January by the Austrian Federal Economic Chamber (WKÖ), the employers' main peak organization, and the Austrian Trade Union Federation (ÖGB). Besides duration, the strictness of

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<sup>45</sup> According to Steffen [2009], the expression 'predominantly on fixed-term contracts of short duration' would essentially mean that fixed-terms contracts have occupied more than half of the total days of one's employment.

eligibility criteria was lamented – the economic reason the employer has to provide to justify his or her claim to the KuG in particular. The main changes consisted of:

- clearer eligibility criteria, to be provided by the Federal Employment Service (AMS);
- basic duration extended to 6 months (from 3), with possible extensions up to 18 months;
- working hours can now vary between 10% and 90% of normal working hours, whereas before it was up to 80%;
- introduction of a special training subsidy co-financed through the ESF (*Kurzzeithilfe mit Qualifizierung*) for employers that offer training courses to their employees during the hours not worked, with the AMS covering up to 60% of expenses (max 10.000 per participant).

Following the amendments passed in February, take up of KuG increased rapidly (see next section). However, in July 2009 a second labour market package further extended duration up to 24 months for the period 2010-2012 and made KuG more attractive by waiving the part of social contributions to be paid by the employer for employees enrolled in the scheme after the sixth month, as in Germany. Also, temp agency workers were included.

In addition to changes introduced to make KuG more flexible in response to the requests of SMEs, Austria passed other measures to cushion the employment consequences of the crisis, more geared towards the aim of supporting workers' income and skills upgrading. A series of incentives for further education were introduced, to be agreed between the employer and the employee to temporarily suspend the work activity of the employee without terminating the employment relationship. In addition to existing unpaid training leave (*Bildungskarenz*), the government introduced an expanded version of the scheme (*Bildungskarenz plus*). The latter differs from the former in that the further training courses (up to 18 months instead of 3 to 12) are paid by the employer who may then charge half of the costs (up to € 1,500) to the respective regional authority. Both schemes provide the employees with a public training allowance (*Weiterbildungsgeld*) amounting to the unemployment benefit that would have been paid by the AMS if they had been otherwise unemployed. The government offered further possibilities for skilling through labour foundations targeted to the young and to temp agency workers (*Jugendstiftung*). For temp agency workers made redundant during the recession, a special re-employment scheme managed by a private company on behalf of the Labour Ministry was introduced through a package of measures in July 2009 in order to respond to the massive dismissals of these workers since the early stages of the crisis. Finally, another worth-noting measure is the solidarity premium model

(*Solidaritätsprämie*), extended from the long-term and older unemployed to apprentices who have just passed their final exam. The scheme provides unemployment insurance benefits to compensate employees who agree to the reduction of working hours so as to favour hirings of those unemployed.

## **6. The use of short-time work arrangements in the crisis**

The previous section has showed as all three countries strengthened their STW arrangements in order to use them, among other measures, to cushion the employment crisis. Italy has heavily invested on CIG, to the extent of making it a blanket scheme; however also Germany and Austria, while keeping KuG within the boundaries of an STW scheme nested within a complex system comprised of extensive unemployment insurance and social assistance, have climbed one or two steps towards Italy's CIGS, as they both have significantly extended duration, and have waived the employer's contribution to the scheme upon actual use. In this context, it is not at all negligible that, despite relatively moderate use of the scheme, Austria repeatedly rearranged its KuG regulations so as to be able to make a strictly contained temporary STW scheme into an instrument for managing tremendous exogenous shocks (all in all, Austrian GDP fell by 3.6% in 2009). All three countries, then, have introduced training schemes for STW recipients.

But beyond changes in rules, what has been the actual extent of recourse to STW schemes in the three countries? One could expect that, being one of the very few games in town, and definitely the most glittering among them, CIG has flown high in Italy, also keeping in mind the magnitude of the shock it has had to face, while in Germany and Austria firms may have used STW to retain trained workforce, but the crisis can have been cushioned also with other tools, or the UB system used to cater for those less skilled workers being dismissed. Checking theoretical expectations with empirical data would however require availability of data on skills, firm behaviours and the like, and in any case it would go well beyond the scope of this paper<sup>46</sup>. In what follows some descriptive evidence on the use of STW in Italy, Germany and Austria will be provided.

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<sup>46</sup>Causal analysis on the German case is provided by Bellmann and Gerner [2010], who find weak evidence of a moderating role of STW on employment adjustment.

## 6.1. Italy

Available data confirm the fundamental role played by CIG in Italy during the crisis. At the end of June 2010, the use of CIG appears only slightly receding from the peak reached in March 2010 (respectively, 103.5 and 122.6 millions of authorized hours), which is still a strikingly high level in comparison with January 2009 (29.5 millions). However, a decreasing share of such authorized hours was effectively being used by firms (so-called *tiraggio*). While in 2008, 75.9% of authorized hours were actually used, these decreased to 64.7% in 2009, and 51.9% during the first four months of 2010 [INPS 2010]<sup>47</sup>. In terms of individual beneficiaries, this amounted to some 609,000 workers in June 2010 in full time equivalents, i.e. workers potentially unemployed, whereas they had been only 475,437 in the same month of the previous year [UIL 2010]<sup>48</sup>. On the whole, during the whole year 2009, approximately 1.8 millions workers – overwhelmingly blue-collars - received at least one hour of earnings compensation which amounts to a yearly average of 296,712 individuals in full-time equivalents: roughly 1.2% of the workforce (in 2008, they had been 86,447). The average duration for CIG is slightly more than a month, whereas for CIGS it amounts to 4 months [INPS 2010].

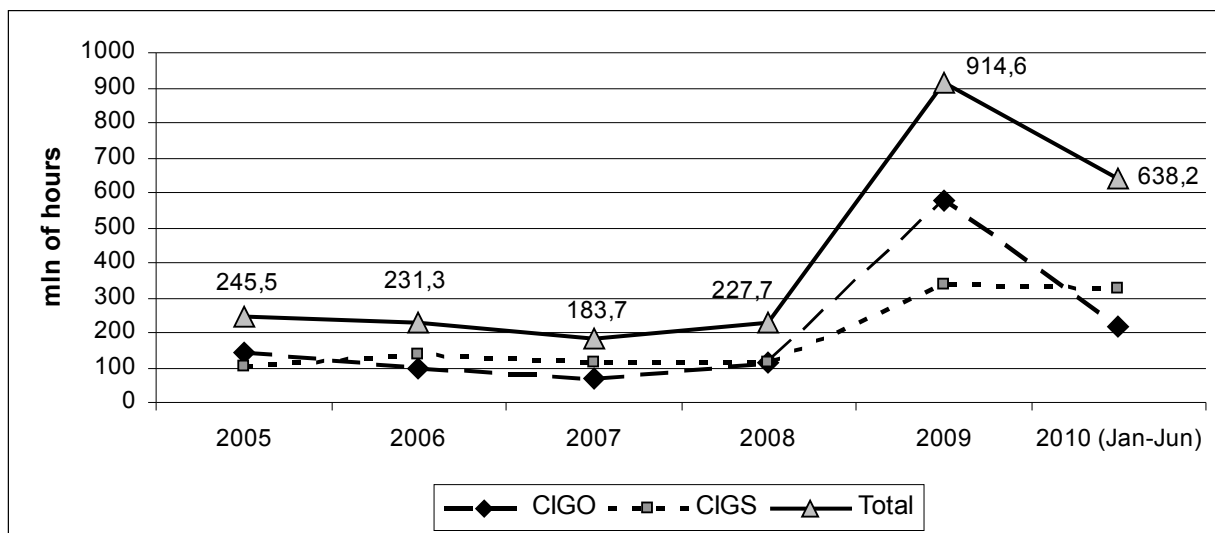
Despite the extension of entitlement to all sectors, the concentration of CIG recipients occurred in the manufacturing and construction sectors. During 2009, industrial firms accounted for 86.6% of all beneficiaries, and construction 10.3%. Most affected sectors were mechanics, textile, chemical products, and transports. Not surprisingly given their higher industrial density, thus, workers in the Northern regions (chiefly, in Lombardy, Piedmont, Veneto and Emilia Romagna) accounted for 68.8% of all CIG beneficiaries. However, such proportion started to diminish in favour of firms in trading and crafts in the Southern regions during the first six months of 2010, as these two sectors increased by more than 13 and almost 12 times respectively, when compared to the same period in 2009 (such figures hide the fact that the initial baseline was very low, though, as they were in large part previously excluded).

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<sup>47</sup> After applying for a certain number of short-time work hours, firms might restart their productive activity earlier than expected or, on the contrary, definitely dismiss their employees.

<sup>48</sup> INPS measures beneficiaries in terms of wage hours effectively replaced. In order to calculate the numbers of individuals affected, hours are subsequently converted in annual work units, that is a statistical measure considering workers as if they received full-time earning replacement during the whole year. INPS [2010] reports that 1.8 million distinct individuals – measured through their social security number - received some CIG benefits during 2009: 1.5 million were at some point on CIGO and 343,000 on CIGS. However, these data tell us precious little about how long these individuals were on short time.

Fig. 1. Authorized hours of CIG (2005 – first semester 2010, data in millions of hours)



Source: INPS

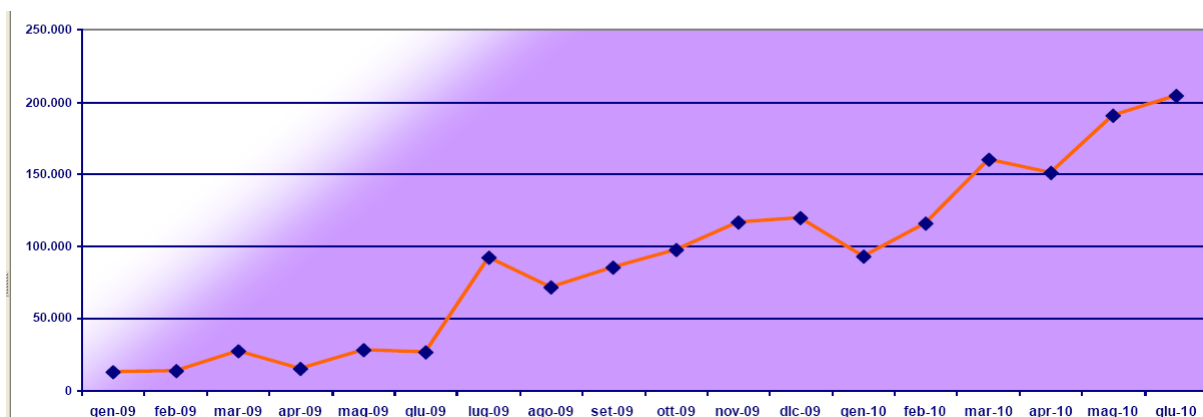
Figures for CIGS include both regular and emergency CIGS. Data for 2010 include only the first semester.

Figure 1 shows the trends in authorized hours of CIG: as mentioned, they continued to grow over 2010 (recall that for 2010 only data for the first semester are included), although decreasing percentages of actually used hours on the part of the employer help mitigate the picture. However, what Figure 1 shows is that emergency and regular CIGS (combined in the graph) are growing fast, while CIGO has somewhat slowed down. Since January 2010, the former schemes increased respectively by 12.3 and 19 million hours, making up for the relative decline in the use of CIGO (-12 millions) during the same period [UIL 2010]. In June 2010, hours of emergency CIG took over those of CIGO, and they now make up one third of total authorized hours [ibid.]. Although the growing share of CIGS can be due to the large number of firms extending the duration of short time beyond their normal validity<sup>49</sup>, it nonetheless points out the protracting duration of economic hardship for Italian firms.

In the absence of more precise data, the increase in the share of recipients of emergency CIG depicted in Figure 2 helps shedding light on the behaviour of sectors and smaller firms previously excluded from CIGO and CIGS, as they arguably constitute the main target of these extra-funds.

<sup>49</sup> As seen, one of the novelties introduced by law 2/2009 is the possibility of cumulating CIGO and CIGS in a sequence, even in the absence of conditions of structural crisis which are legally necessary for applying for the latter.

Fig. 2. Workers covered by emergency CIG (Jan 2009 – June 2010, full-time equivalents)



Source: [UIL 2010, 29].

Figure 2 hints at the longer duration of the crisis for smaller firms, especially those in trading and crafts. It should be further noticed that regional-level tripartite pacts regulating the allocation of resources gave explicit priority in the destination of the funds to non eligible firms and non-standard workers in most regions – in particular Northern ones. In addition, during 2009, 180,000 workers have received (regular) mobility benefits after collective dismissals (+9.5% against 2007), with a particular concentration in Southern (32.6% of the total) and North-Western regions (30.1%). Further 1.1 million workers applied for ordinary UB, and 505 thousands for reduced UB during the whole year 2009 [INPS 2010]. Scant but meaningful data were so far published about the experimental measure geared to independent contractors (although referring to a previous version of the measure, introduced in 2009 with partially different requirements). By the end of 2009, INPS received some 10,000 applications; 8,300 of them were 'refused due to lack of requirements' [INPS 2010]<sup>50</sup>.

## 6.2. Germany

The year 2009 marked one of the highest peak of use of short-time work schemes in the post-war history of Germany [Brenke et al 2010]. Arguably, the relaxation of access rules to KuG contributed to this result. There is consensus among scholars on the reasons for the extraordinarily higher use of KuG with respect to past crises. As Eichhorst and Marx [2009] recall, in the early 1990s German firms pursued alternative strategies of flexibilization, such as the preventive exhaustion of hours

<sup>50</sup> Referring to such former version of the scheme for unemployed independent contractors, then amended with the Budget law for 2010, Berton et al. [2009b] estimated that, if all independent contractors were to lose their job, only one out of eight would be eligible to the lump-sum benefit.

accounts and job-sharing. Since the 2009 adjustment precisely relaxed the rule prescribing firms to resort to all other instruments before applying for KuG, it is arguable that short time has resulted more convenient for firms and workers than before. It has also become much less expensive for employers, as the BA now takes up a large share of social contributions (50% until the end of the sixth month of short time and 100% after), even though in-firm collective agreements might bring employers to top-up KuG benefits with extra-wage<sup>51</sup>.

The higher availability of non-standard work as a cushion against demand slumps as compared to previous crises should not be underrated either. According to surveys [Bogedan *et al* 2009], 24% of firms reduced the number of temp agency workers, and a further 14% did not renew fixed-term contracts in order to cut costs during the current crisis (see also IfM [2009]). As the use of temp agency work has been consistently high during the latest years precisely in the industrial sectors now in crisis [BA 2009], it may be guessed that, consistently with theoretical expectations on firm behaviour in coordinated market economies (CMEs), well-trained workforce on open-ended contracts could be retained on the firm's payroll, also thanks to STW arrangements, at the expenses of non-standard workers<sup>52</sup>. As a matter of fact, the number of non-standard workers diminished by 1.7% between 2008 and 2009, as confronted to an overall decline in employment by 0.3% (see Table 1 above). It was especially temporary agency workers (-8.5%) and fixed-term workers (-3.3%) to suffer the main losses, especially in the manufacturing sectors, whereas these categories actually increased in the service sector [Statistisches Bundesamt 2010].

Figures regarding actual use of KuG show that after the peak reached in May 2009, when as many as 1.5 million German workers drew KuG, their number has constantly diminished, while the number of firms using KuG tended to remain stable at the peak level (about 60,000 firms) over the second half of 2009: see Figure 3.

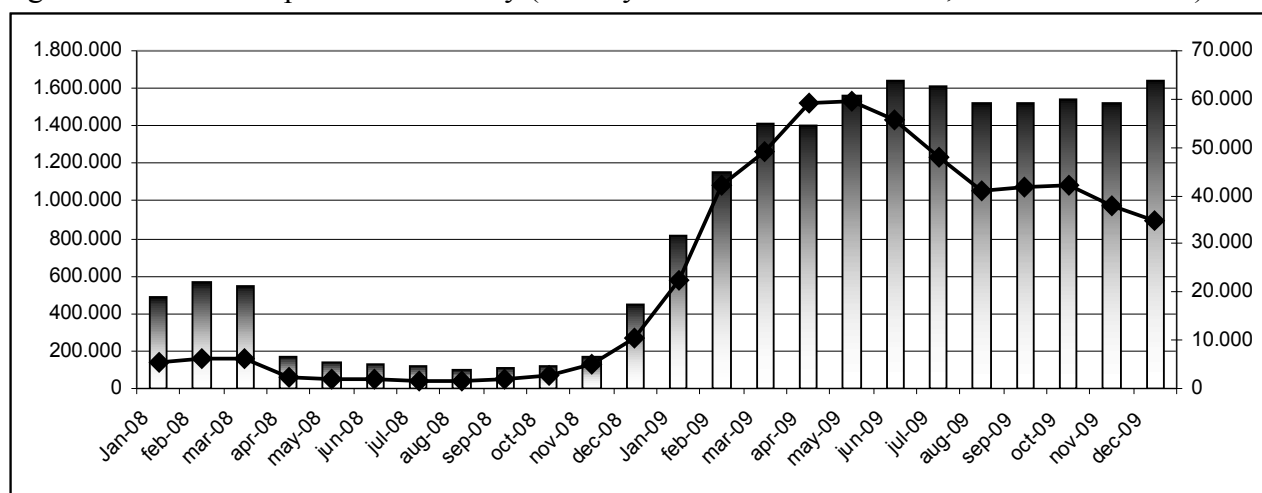
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<sup>51</sup> As Bach and Spitznagel [2009] calculate, labour costs for firms decrease to 24 or 35% than the normal ones, depending on the share of social contributions paid for by the BA. In the normal regime, labour costs under KuG would amount to 46 or 59% of the full rate.

<sup>52</sup>Results in Crimman *et al.* [2010] and Bellmann and Gerner [2010] show however that, contrary to previous crises, a higher share of qualified employees does not lead to a higher probability of work sharing, nor does a higher share of university graduates. Their explanation is that the crisis has first hit production-intensive establishments with a higher share of less qualified or low-skilled staff, and employer are trying to retain even less skilled workers employed under open-ended contracts.

Firms in the export-oriented manufacturing sector and related services constituted the bulk of total users, mostly due to the exogenous sources of the crisis, affecting foreign demand for German manufactures [Eichhorst and Marx 2009; Crimmann *et al* 2010, Brenke *et al* 2010]. As a matter of fact, 9.8% of total manufacturing firms used KuG during 2009 as contrasted with firms in transports (1.6%) or in the communication sector (1.5%), with particular concentration in sectors such as engineering, metal production, electric and electronic equipment [Crimmann *et al* 2010]. Not surprisingly, then, it was more industrialised Western Länder as Baden Württemberg, North-Rhine Westphalia and Lower Saxony those displaying a higher share of KuG recipients among workers. In 2009, half of the recipients were employed in firms up to 10 employees (51.3%) [Brenke *et al.* 2010].

Fig. 3. Kurzarbeit recipients in Germany (January 2008 – December 2009, firms and workers)



Source: Bundesagentur für Arbeit  
Dotted line: workers (left-hand scale)  
Bars: Firms (right-hand scale)

□ Betriebe ◆ Kurzarbeiter

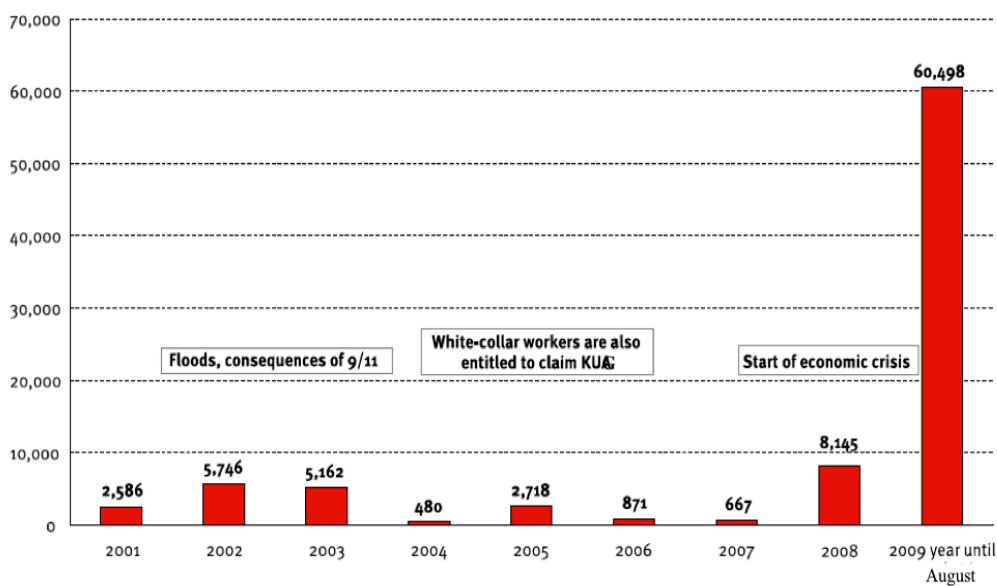
The initial predominance of employees working short-time for maximum 6 months gradually left place to more structural crises during 2009. By September 2009, 52% of recipients were in KuG between 6 and 12 months, although only a residual 3% were in KuG longer than one year [Crimmann *et al.* 2010]<sup>53</sup>. Moreover, most employees worked short-time only up to 25% of their ordinary working time, but the share of those with a loss of work of more than 50% remained constantly at about 20% of the total throughout the year 2009 [Brenke *et al* 2010].

<sup>53</sup>Obviously, though, truncation applies.

### 6. 3. Austria

We have seen how Austrian KuG was considered a rather inflexible scheme and has found functional equivalents in schemes preferred by firms, such as the suspension arrangements. This is reflected in a very mild use of KuG in the past, and also in the initial phase of the crisis. However, after the first wave of changes introduced in February 2009, recourse to KuG went up and this became also in Austria a widely used instrument to counteract the employment crisis. Figure 4 shows employees collecting KuG from 2001 to August 2009: already in the summer of 2009 the number of KuG recipients was one order of magnitude higher than in previous crises.

Fig. 4. KuG beneficiaries in Austria, 2001 – mid-August 2009



Source: BMASK 2009

In February 2009, firms taking up KuG were about 150 (some 27,600 employees involved); already in April of the same year, just after changes were introduced, the number of firms taking up KuG went up to 250, with about 60,000 employees enrolled in the scheme. However, after the crisis peaked in the Summer of 2009 the number of beneficiaries decreased, so that planned beneficiaries exceeded actual recipients by one third already in October 2009. In July 2010 the number of KuG recipients was in the region of 8,000 workers. Figures for firms tend to decline more slowly than recipients, as employers can adjust workforce in KuG while still been covered by the scheme;

however KuG is probably returning to its physiological size in Austria as arrangements reach their end: firms under KuG were still 150 in June 2010 (but only involving 12,000 workers), but already as low as 99 a month later.

At the peak of the crisis, in August 2009, workers receiving STW benefits were 47,025, of whom 8,176 (17.4%) women; half of the recipients were employed in the sectors of manufacturing of vehicles and vehicle parts, mechanical engineering, wholesaling, metal production and metalworking [BMASK 2009]. Austrian AMS reports that three quarter of the schemes have been implemented in Upper Austria, Lower Austria and Styria, where many of such companies (those of the automotive, metalworking, woodworking and plastics industry) are concentrated [AMS 2010].

All in all, it can be estimated that the use of STW in Austria involved some 600 firms [European Commission 2010] and saved almost 8,400 jobs in the course of 2009 [Mahringer 2010], roughly 0.2% of the workforce.

## 7. Conclusions

Over the past two years, most of the advanced capitalist countries have been smitten by the deepest economic crisis since the 1930s. Italy was hit much more severely than many other European countries, and certainly more than Austria and Germany. To a certain extent, the impact of the crisis on growth and employment is dependent upon the magnitude of the fiscal stimulus governments have applied in order to support aggregate demand. In this regard, while Italy's effort has been the most contained amongst Western European countries, with a mere 0.2% of the GDP invested in stimulating the economy, its public finance conditions as a pre-crisis high-debt country must be taken into account.

Overall crisis-management strategies, however, go well beyond the scope of this paper, whose aim was that of analyzing how Italy mobilized social protection instruments in response to the employment crisis, in comparison with two other social-insurance welfare states such as Germany and Austria, and focusing in particular on the role of short-time work schemes, well-established in the political economy of all three countries. In this regard, despite much similarity in the use of such schemes and in the changes made in order to tune them up to the task at hand – that of helping weathering such a terrible storm – when looking at institutional patterns of response, differences can be clearly detected among Austria and Germany, on one side, and Italy on the other.

True, STW has been used extensively in all three countries, even in Austria where it traditionally occupied a much less relevant role than in the German or Italian political economy. Still, it has been used with partially different purposes in Italy as contrasted with Germany and Austria, consistently with the underlying dynamics of their different welfare production systems in a varieties of capitalism approach, and with pre-existing relationships of complementarity or substitution between the various social protection programmes.

In Germany and Austria STW schemes were already accessible in principle by all kinds of firms, with no segmentation in this regard. Thus changes have addressed the issues of excluded categories of workers, and most importantly those of administrative procedures, costs for employers and duration of the schemes. Under the latter regards, it may well seem that German and Austrian STW has now become more 'Italian'. Given its embeddedness in an income maintenance system with well-established unemployment compensation coupled with social assistance, however, changes did

not challenge complementarity of STW to other pieces of the system, reasserting its main *specific* function within a Coordinated Market Economy: that of retaining trained labour force within the firm so as to uphold its competitiveness once the crisis is over (which in the current context should be read systemically, as: to uphold the competitiveness of the whole economic system once the global crisis is over), and to avoid devaluation of the level of skills in the workforce. As STW provides beneficiaries with the same level as unemployment insurance, and the income maintenance system in case on no work is relatively comprehensive, short-time work is not meant to substitute unemployment compensation.

In Italy, on the contrary, changes to STW have been intended to make it a blanket social protection scheme, on the one hand, to make up for a skimpy unemployment compensation system; and as an industrial policy tool, on the other hand, to support firms all across the board while at the same time upholding employment levels so as to sustain the level of aggregate demand. Thus, STW in Italy has been meant to perform a *general* function across various public policy fields. While also the strategy of using STW to support firms all across the board is a questionable one, insofar as it prevents the economic crisis to develop its positive effects of creative destruction, pushing inefficient firms out of market, prompting restructuring of productive processes, fostering innovation and forcing re-assessment of competitive strategies and positioning in the world-market at the firm, industry and economic system level – all valuable goods contemporary Italy is badly in need of – this paper highlighted the use of STW as a blanket social protection scheme, for income maintenance purposes.

To be fair, it should be recognized that in 'regular' (i.e. pre-crisis) CIG two underlying logics coexisted – two natures, as it were –: one leaning towards the specific function of STW qua active labour market policy, as in Germany and Austria (with the conjunctural CIGO being more in this vein); the other leaning towards its exploitation as an exclusive income maintenance scheme reserved to the core workforce, detached from general schemes and substituting for them among such core workforce (with the structural CIGS nicely fitting the bill). Now, while changes to regular CIG updated the existing schemes to face the crisis in the footsteps of this double logic, emergency STW is mainly meant to take over those income maintenance functions typically performed by an unemployment compensation system.

Given the magnitude of the crisis, and the gaps in Italy's income maintenance system, one may think this was an apt way to proceed. Still, having set up a whole, articulated system of *ammortizzatori in deroga* and categorial measures does have significant consequences, probably long-lasting ones.

First of all, as compared to unemployment benefits, and also 'modern' social assistance (despite the existence of some intrinsic discretionality in the administration of the means test), *ammortizzatori in deroga* are not rights-based, but discretionary. They must be requested by the employer, follow an evaluation procedure, and are eventually subject to approval on the part of the public authority on a case-by-case basis. As a matter of fact, the most important feature of Italy's way of dealing with the crisis is that it considerably increased the degree of public discretionality in social policy: more schemes subject to approval by the public authorities, and a new actor, the Regions, vested with control over financial resources and veto powers. Also, such benefits are not rights-based in a further sense: they can be granted only up to the availability of ear-marked funds in the regional budget.

Second, this strategy entailed the 'layering' of new regulations over the old ones [Streeck and Thelen 2005], often tailoring them to specific categories. This adds complexity to the social regulation system, bringing about more particularism and multiplying access points to decision making and opportunities for a return to distributive social politics, with the whole gamut of its empirical correlates in which Italy excelled in past decades: logrolling, pork barrel, low visibility and the like. True, all these measures are supposed to be phased out by the end of 2010, or 2011 at the latest, but they stand a considerable chance of being continuously renewed even after the crisis<sup>54</sup>.

Third, this strategy has crowded out other social policy interventions: the establishment of generalized social assistance, and a more comprehensive UB system. Dismissals and non renewal of fixed-term contracts occur, despite the government's push for labour hoarding on the part of employers, and once they get unemployed workers are faced with the existing UB system and its distributional outcomes, that as we saw are particularly alarming for non-standard workers. This is all the more relevant as there might be a fundamental flaw in the strategy of relying on emergency

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<sup>54</sup>It is customary for emergency social measures in Italy to get institutionalized simply by routinely extending the date of their phasing out, year after year, usually in the Budget law.

STW for non-standard workers. While firms and trade unions will generally try to retain trained workforce, as a matter of fact non-standard workers are generally much less likely to get workplace training on the part of the firm than standard ones [Bassanini et al 2005] for obvious reasons having to do with weighing training costs against the expected stability of work relationship on the part of both employers and workers. Be that as it may, employment figures show that workers lost their jobs, and most of them were fixed-term workers. Between the beginning of 2008 and March 2010, employment losses amounted to 413,000 units. Of these, 142,000 pertained to fixed-term employment and 298,000 to self-employment, while the level of open-ended employment grew by 23,000 units in the period, due to sustained growth up to the first quarter of 2009. Although the employment crisis has now led to a severe contraction of open-ended employment (192,000 units lost between first quarter of 2009 and that of 2010<sup>55</sup>), many non-standard workers lost their job in the past two years, despite emergency STW. We know from previous sections of this paper that many of these workers were unable to qualify for 'regular' unemployment benefits. Still, even after the government's emergency interventions (such as emergency mobility allowance, benefits earmarked to specific categories) a sizeable share of them is likely not to have been able to qualify for any kind of benefits and therefore, absent unemployment assistance or a minimum income scheme, have been left without social protection. Working independently with different methodologies on different databases, Bank of Italy [2009] and Berton et al [2009c] get to the same result: although the government's emergency interventions halved the number of dependent workers and independent contractors who are excluded from benefits, still 1,6 millions of them would get no income support whatsoever from the Italian welfare state if they were to lose their job. To these, 5 million self-employed can be added, that have so far been hit the hardest by the employment crisis.

Finally, the anti-crisis strategy contributes to securing the constellation of actors who have a stake in the status quo of the Italian income maintenance system in case of non employment, despite lip service tokenistically being paid to its reform<sup>56</sup>. Also, in addition to vesting the Regions with more powers, many bits of the anti-crisis strategy in the social field provide for direct benefit provision on the part of bipartite organizations, called *enti bilaterali*, set up by the trade unions and the

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<sup>55</sup> Within open-ended employment, full-time employment loss by 357,000 units was being only partially compensated by growth in part-time open-ended employment by 149,000 units. Source for all data mentioned in this section is the National Statistics Bureau, ISTAT.

<sup>56</sup> Vesani [2009] notes that it has been since 1988 at the latest that every piece of legislation in this field begins with the standard clause 'pending a comprehensive reform of the whole social shock absorbers system', only to introduce some new changes at the margin.

employers. More and more functions are being delegated to such organizations by the current government in an attempt to de-statalizing the welfare state and favouring corporatist social provision. In the context of *ammortizzatori in deroga*, bipartite organizations can top up benefits, while some of the interventions envisaged in the anti-crisis strategy (such as unemployment benefits for apprentices) can be activated only after top up on their part has been secured: public intervention is thus made conditional on intervention on the part of corporate actors.

Despite the extraordinary opportunity window provided by the crisis to reform Italy's income maintenance system in case of non employment, social protection interventions introduced in response to it have arguably raised the cost of changing the status quo, by raising the stakes each actor in a very powerful constellation has in preserving the current equilibrium. Governments keep unemployment figures lower than they would otherwise have been and can play symbolic politics as policy tools formally are in place, irrespective of their effectiveness; employers retain workforce at extremely low cost, while new entrants (firms previously excluded) actually free-ride on contribution-based schemes at the expense of the general revenue; trade unions see their role as institutional brokers multiplied, and even get to provide social protection directly, through bipartite agencies; regions have acquired a considerable amount of resources in a highly legitimizing way vis-à-vis their political communities, and have de-facto expanded their competencies into passive labour market policies, through emergency social shock absorbers. Departing from this equilibrium of well-entrenched vested interests seems now even less likely than it was before the crisis.

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