



THE IMPACT OF ANTI-CRISIS MEASURES AND THE SOCIAL AND EMPLOYMENT SITUATION: ITALY

STUDY



European Economic and Social Committee

THE IMPACT OF ANTI-CRISIS MEASURES AND THE SOCIAL AND EMPLOYMENT SITUATION

ITALY

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SUMMARY

Italy was severely hit by the global economic crisis in the second quarter of 2008. After showing tentative signs of recovery during 2010 and in early 2011, with the deepening sovereign debt crisis in some European countries and a growing lack of confidence towards Italy, a country with a high level of debt, the economy suffered another setback and has slipped into a new recession.

Beginning in November 2008, a series of legislative measures have been taken, initially to counter the contagion effects of the global economic crisis, and subsequently to ward off an Italian debt crisis and regain credibility on the financial markets, as well as to put the country on the right track towards restoring the public finances.

However, Italy's high level of debt has tended to hamper its economic policies, even before the crisis of confidence that struck the euro area: the need to contain the deficit in order to avoid an excessive spike in public debt has curtailed its ability to take measures to support the economy during the recession.

The adjustment made through a series of measures over the period from 2008 to 2011 has largely been achieved through an increase in revenue. Among other measures, the introduction of a *prima casa* tax [on primary residence] (IMU), an increase in the higher rate of VAT, as well as increases in fuel excise duties and many tariffs is having an adverse effect on the disposable income of Italian households. In particular, household purchasing power is being eroded, while shrinking consumption has been coupled with a reduction in the propensity to save.

The crisis is effectively increasing the risk of poverty: according to ISTAT figures, some 18.2% of residents in Italy are at risk of poverty, while 6.9% live in conditions of "severe material deprivation". The incidence of poverty in Italy rose between 2007 and 2009 because of the crisis, while remaining broadly stable in 2010. An increased tax burden coupled with cuts in social and health spending may well further increase the risk of poverty among Italian families.

Still to be assessed is the impact of the shift of health- and welfare-spending management to local authorities, which are themselves affected by cuts in funding. Were local authority cuts to translate into increased taxation, this would further exacerbate the plight of low-income households.

A further factor in the impoverishment of households and the potential widening of inequalities is the dynamics of the labour market. Following an increase in the unemployment rate and a drop in employment between 2009 and early 2010 and a tentative upturn in 2010, the new period of recession forecast for the fourth quarter of 2011 and the first quarter of 2012 is set to further deteriorate labour market conditions. Also significant is the drop in the activity rate, due to a growing number of discouraged workers who, seeing little chance of finding work, give up their job search.

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There is now less recourse to the *Cassa Integrazione Guadagni* [wages guarantee fund], particularly as regards ordinary intervention. Future labour market trends will hinge, inter alia, on companies' ability to reinstate laid-off workers.

While government action to counter the crisis has, on the one hand, particularly with the 2008 and 2009 packages, seen the introduction of household income support measures, particularly for the poorest sections of society and households affected by job cuts, on the other hand, in order to reduce the public deficit and future debt, it has meant an increased tax burden and spending cuts in certain sensitive sectors such as welfare and health.

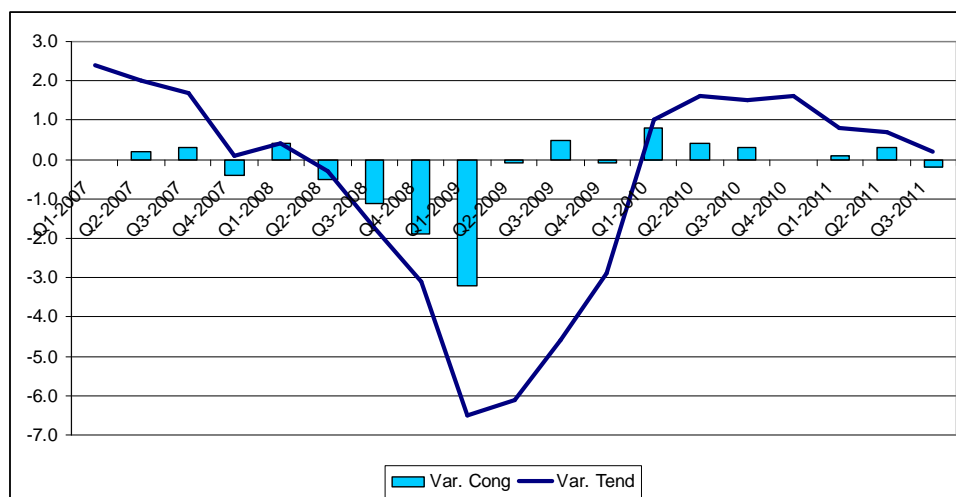
With the exception of the acceleration of pension reform in December 2011, the initiatives to date have lacked structural measures that would support sustained growth in Italy, an entrenched problem since before the global crisis.

The current government is exploring labour market reforms and other structural measures such as promoting competition and liberalisation, which could help stimulate growth and enable sounder management of the public accounts

.1. INTRODUCTION: THE CRISIS IN ITALY

The contagion effects of the global economic crisis that erupted in the USA in 2007 were first felt in the Italian economy in the second quarter of 2008, as the figures on gross domestic product (GDP) trends bear out. Figure 1 shows the year-on-year and quarter-on-quarter fluctuations in real GDP. Following tentative signs of recovery in 2010 and the early quarters of 2011, growth in the third quarter of 2011 was low (0.1%) and a downward trend is projected for the two subsequent quarters. This outcome is thought to reflect the persistence of an unfavourable climate on the financial markets, fiscal consolidation and the low level of foreign demand. Euro-area GDP is projected to fall by 0.4% in the fourth quarter of 2011 and by 0.2% in the first quarter of 2012 (Confindustria research department, *Nella spirale della crisi. Debiti pubblici, credit crunch e recessione*, December 2011). The sharp drop in GDP in 2008 and 2009 was accompanied by a fall in employment from 2009. Moreover, with a new recession forecast for early 2012, employment levels are expected to fall in 2012 and 2013, following the upturn, albeit limited to 0,9%, in 2011.

Figure 1 – GDP trends year-on-year and quarter-on-quarter



Figures seasonally adjusted and corrected for calendar effects
 Source: ISTAT, Quarterly economic accounts, 21 December 2011

In the summer of 2011, Italy was hit by the fallout from a speculative global financial market attack that arose amidst a general lack of confidence towards the euro area following the sovereign debt crises in other EU countries, primarily Greece. Italy became the subject of speculation and fear because of its high debt-to-GDP ratio; this generated substantial interest payments, making it more difficult to achieve a budget surplus even having achieved primary surpluses. Financial market speculation ratcheted up the pressure on the Italian economy and forced the government down the path of even harsher policies with a view to restoring the public finances, due to a dramatic hike in the interest rates on government debt.

Indeed, with a debt-to-GDP ratio of 120% in 2011, Italy is one of the most indebted countries in the euro area. Government debt was a straitjacket for Italy even before the speculative attack and the sovereign debt crisis in Europe. Indeed, in the early months of the crisis, while other countries were adopting expansionary policies to support their economy and employment and thus counter the effects of the recession – thereby running up large budget deficits – Italy's options were limited in terms of pursuing such policies as it had to maintain greater rigour in its public accounts. In fact, while other countries departed widely from the limit imposed by the Stability and Growth Pact on budget deficit relative to GDP, Italy's 5% ratio, at the peak of the crisis – though above the permitted threshold – constituted a much more modest breach than in the main EU countries.

It is clear, however, that the need to avoid excessive breaches of the deficit-GDP ratio initially and the urgent imperative to take even more stringent measures as of summer 2011 – given the general lack of confidence on the global financial markets towards Italy – narrowed the scope for policies to combat the adverse effects of the crisis, forcing the governments to adopt largely recessionary policies at certain points, instead of policies to stimulate the economy.

2. THE MEASURES TAKEN TO COMBAT THE CRISIS: 2008-2011

It is a widely held view that the Italian Government was slow to act, compared to other countries, initially as regards averting the risk of contagion, and subsequently in terms of combating the effects of the crisis.

In November 2008, Silvio Berlusconi's cabinet approved the so-called anti-crisis decree, a package of measures that the government hoped would kick-start the Italian economy. The decree, comprising 35 Articles, set out a EUR 6.4 billion economic stimulus package.

Among the most important measures in this decree was the boosting and extension of the instruments to protect income in the case of layoffs and unemployment. This measure was aimed at supporting household income at a time of crisis marked by rising redundancies and diminished job prospects.

Another labour market measure included in the law was extension of the tax relief on productivity bonuses (premiums and incentives) for workers earning up to EUR 35 000, a measure that had been brought in earlier aimed at stimulating productivity and supporting the earnings of low-income families.

The decree also extended the family bonus – a subsidy of between EUR 200-1 000 to support the income of poorer households – with a rise in the income threshold determining eligibility, and a particular focus on families with disabilities. Another measure in the 2008 package aimed at supporting households was the introduction of discounts on tariffs for the most vulnerable sections of the population.

It should however be pointed out that this package was largely budget neutral, whereby the increased government expenditure to assist families and workers was met by provisions for new revenue streams. It thus had a limited stimulus effect on the economy and proved partly ineffective in combating the effects of the economic crisis, especially since to fund the additional outlay new taxes were introduced, which therefore increased the tax burden.

Even a budget-neutral package, however, can have a stimulus effect and counter the effects of the economic crisis through careful redistribution of resources. However, seen also from this viewpoint, the initiative has been deemed ineffective, resulting in a modest redistribution of resources, without stimulating job creation.

Among the most contested measures in the package were those providing for income support for poor households.

The introduction of the social card met with particularly strong opposition. The social card is a benefit for people with low incomes going towards food purchases and energy bills. What has come in for the harshest criticism is the system for granting the benefit, in that the eligibility parameters are considered so stringent as to effectively exclude a significant swath of the neediest citizens.

The social card and the family bonus are initiatives with the potential to ameliorate inequalities and poverty, even though the temporary nature of the bonus and the administrative hitches with the social card reduce their positive impact.

A second important initiative was the *Decreto incentivi 5/2009* of 10 February 2009 on *Urgent measures in support of industrial sectors in crisis*. This decree provided for measures to combat the adverse effects of the crisis and stimulate economic growth. Among the expansionary measures, those benefiting households were expected to have the most impact, with some EUR 4.5 billion allocated here, and with around 70% through initiatives to support disposable income and the remainder to support consumption. In support of businesses, the Decree introduced incentives to buy cars and domestic appliances and tax relief estimated at some EUR 1.3 billion.

July 2009 saw the approval of Decree-Law No 78 of 1 July 2009 containing *Measures on the crisis and prorogation terms and on the Italian participation in international missions*. This was integrated into Decree-Law No 103 of 3 August 2009 setting out a number of *Corrective measures to the anti-crisis Decree-Law No 78 of 2009*, and converted into law in October. The corrections revived proposals on an investment tax, strengthening the social safety net and the "tax shield".

Focusing on the social impact of the crisis and the anti-crisis measures put in place, of particular significance is the inclusion in the correction to the package of rules on accelerating pension reform, which, however, deferred the adjustments until 2015.

The 2010 finance bill, approved in December 2009, prolonged and extended the measures introduced thus far, such as employment supports and incentives, extension of the tax relief on productivity bonuses, and boosting the national health fund.

In May and July 2010 the Italian Government passed urgent corrective measures aimed at financial stabilisation and economic competitiveness. Specifically, these corrective measures were aimed at lowering the deficit-GDP ratio from 5% in 2009 to 2.7% by 2012, i.e. below the 3% Stability and Growth Pact threshold, as requested by the EU with a view to restoring the euro area's credibility.

Then, with the Stability Law passed in December 2010, provision was made to bolster the social fund for employment and training and prolong the tax relief on productivity contracts and bonuses. Also noteworthy was the extension of the eco bonus for upgrading the energy efficiency of buildings.

These measures particularly impacted social services, however, due to cuts in state funding in the social sphere. Specifically, there were significant cuts to the national social policy fund and the family policy fund.

But it was the deepening of the sovereign debt crisis that forced the Italian Government to take urgent measures, aimed primarily at fiscal consolidation so as to counter the markets' increasing lack of confidence, which was pushing up the interest on the debt.

Decree-Law No 98 of 6 July 2011 (DDL financial stabilisation) containing urgent financial stabilisation provisions introduced cuts in transfers to local authorities and health

spending. With the amendments brought in by the conversion law of July 2011, the package, which had originally been set at EUR 40 billion, was increased to around EUR 48 billion. This increase was almost entirely due to higher revenue, an imbalance already present in the original version, especially with the increase in excise duties on petrol, and higher medical fees [*ticket sanità*] and pension solidarity contributions. Furthermore, the contribution of the revenue side could potentially be higher than anticipated by the decree should the cuts to local authorities be recovered through a hike in local taxes.

The July package was not sufficient to curb speculation against Italy and in August, under pressure from the financial markets and the European Central Bank, concerned about the sovereign debt crisis in Europe, Italy adopted further urgent fiscal consolidation measures. These included provision for a primary balance of 0% in 2011 to reach a surplus of 6% by 2014, with half of the adjustment planned for 2012. Once again the adjustment was primarily based on tax increases rather than spending cuts. Moreover, there was no provision for measures to stimulate economic growth, despite recommendations in this regard from Brussels.

The summer package was focused on the primary need to reduce the country's debt; its effects were felt particularly by households, with reduced disposable income and a squeeze on purchasing power. The tax burden on households reached a historic high and the increase in taxes, VAT, excise duties (on fuel and tobacco) and tariffs, although not passed on into end prices because of the weakness of the economic cycle, prevented, in any case, a more significant fall in the inflation rate.

Harmonisation of the tax on investment income at a rate of 20% and savings in the public service and social expenditure impacted disposable income; this was on top of the impact of the reduction in tax relief and welfare benefits. Some estimates put the potential impact of these measures at around 1.5 percentage points of GDP; however, the final impact can only be assessed at the end of 2012.

Also to be taken into account is the impact of savings in the expenditure of government departments and local authorities. As regards local authorities in particular, the idea may have been (supported by official documents) that savings not be made on social spending, but rather through reducing the number of services and increasing local taxes so as not to further erode the delivery of services already affected by previous packages. Under pressure from global markets and Europe, and with growing tensions on Italian bond yields, the Berlusconi Government gave way to a technocratic government headed by Prof. Mario Monti. In record time, the new government had passed the so-called "Save Italy" Decree (Decree No 201 of 6 December 2011, converted into law on 22 December 2011).

This third economic package of 2011 was designed to counter the lack of confidence that had arisen on global markets and avert a debt crisis. Among the most significant and controversial measures was the re-introduction of the *prima casa* tax [on primary residence], now known as the IMU; this was bound to have a considerable impact in a country like Italy, where families tend to invest in purchasing their main home.

Particularly significant in terms of its social impact was the acceleration of pension reform, which meant that, from 1 January 2012, all workers were brought into the contributions-based system, thus including in the new system, pro rata, even workers who had not previously been affected by the reform of the Italian pension system (Dini reform, l.335/1995). The package also abolished the seniority pension as traditionally provided for under the pension system, replacing it with the early-retirement pension, which can be drawn, as of 2012, and regardless of age, by people with 42 years and one month of contributions for men and 41 years and one month for women, with more restrictive parameters to be come in future years. The decree also provided for raising the pension contribution rate for "autonomous workers" and for the *Gestione separata* of workers in the "coordinated continuous collaboration" category – an increasing cohort of workers with temporary contracts. The package also raised the pension age for all employees and the self-employed and for public sector employees to 66, as from 1 January 2012. For women in the private sector, both employees and the self-employed,

the new pension age is being phased in, rising to 62 years in 2012 and culminating at 66 years as from 2018.

However, the measure with the greatest immediate cost-saving effect was the de-indexation of pensions, excluding those at the lower end of the scale.

Furthermore, the "Save Italy" decree also retained the safeguard clause included in previous packages: should the tax and welfare measures not come into force to allow savings of at least EUR 4 billion to be achieved in 2012, a further hike in the VAT rate will be introduced from October 2012.

3. THE IMPACT OF THE ANTI-CRISIS MEASURES

This section analyses the impact of measures taken by the Italian Government between 2008 and 2011 on the labour market and on households. As previously pointed out, the Berlusconi Government was unable – particularly in the last months of its tenure – to adopt decisive measures. While, on the one hand, Italy is required to continue its efforts towards achieving a balanced budget and debt reduction, legislation is also in the pipeline to stimulate growth and productivity. Specifically, the new technocratic government's plans include a package on competition and liberalisation, along with reform of the labour market.

The measures taken to correct the budget deficit have particularly impacted disposable household income, due to both the introduction of new taxes, such as the increases in VAT and excise duties on fuel, and because of labour market problems. Figure 2 shows the fall in gross income from the third quarter of 2008; despite a timid recovery in subsequent quarters, by the third quarter of 2011 it was still below pre-crisis levels. The impact of the economic measures introduced during the crisis becomes more evident when you compare gross disposable income and household purchasing power, which has shrunk during the crisis, further declining in 2011. In particular, quarter-on-quarter, real income fell by 0.3 percent in the third quarter of 2011, and this can be partly attributed to the increase in VAT and excise duties.

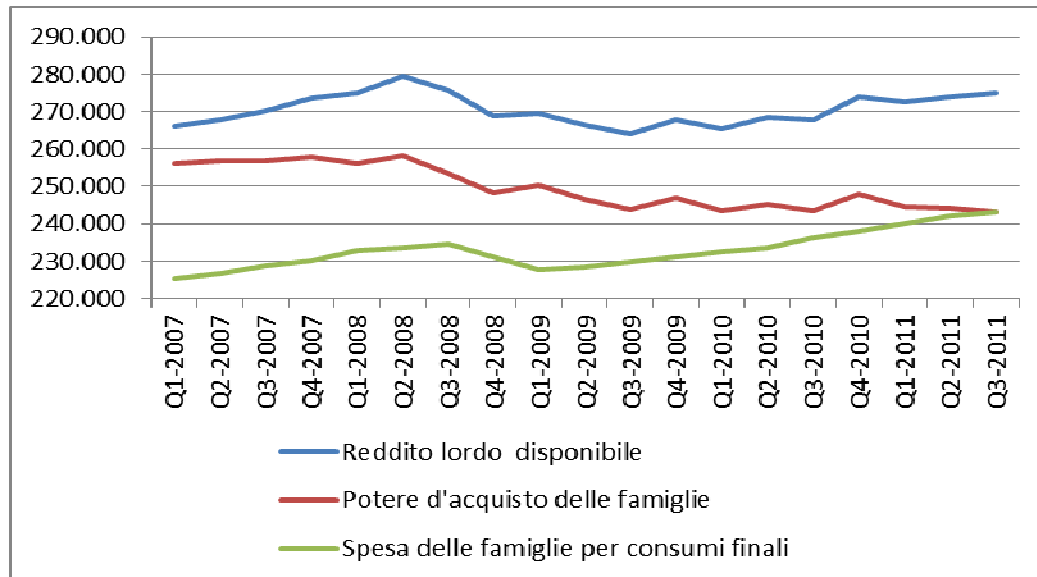


Figure 2 – Gross disposable income, real income and final consumption expenditure

Source: ISTAT, Quarterly economic accounts, 21 December 2011
 (a) Gross disposable household income adjusted to take account of the change in net equity of households in pension fund technical reserves.

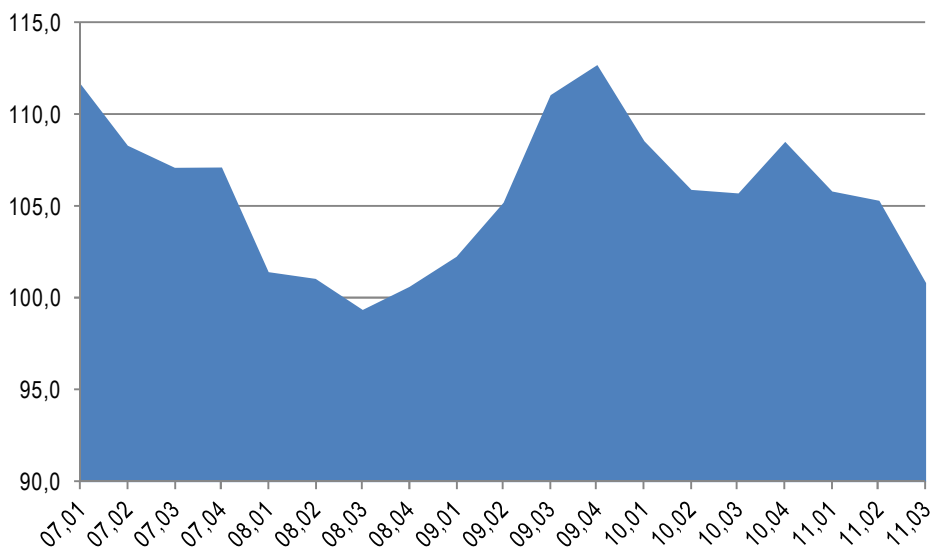
- (b) Gross household disposable income in real terms, obtained using the deflator of final consumption expenditure of households and non-profit institutions serving households (chain-linked with reference year).
- (c) Includes consumption expenditure of non-profit institutions serving households.

In terms of consumer demand, uncertainty about future prospects, and the loss in value of shares and government debt in households' portfolios resulted in a fall in household consumption through the so-called wealth effect. With disposable income, consumer choices are determined by financial and real wealth.

This trend is even more evident when observing the deterioration in consumer confidence, which has adversely affected households' spending decisions. There is a significant correlation between confidence and consumption of goods (mainly durables) and particularly in the short term with the deferral of certain expenditure. The consumer confidence index reached its lowest level in the third quarter of 2008, before recovering up to the end of 2009. A further decline was recorded in the second and third quarters of 2010 and then from the second quarter of 2011.

Also noteworthy is the deterioration of expectations on actual ability to save over the next 12 months (from -62 a -89). Forecasts by consultants Prometeia on propensity to save show a decline that will continue until 2014. Households will eat into their savings to maintain their outgoings in the face of a reduction in real disposable income for the fourth consecutive year as well as a decline in financial wealth (-7% in real terms in 2011).

Figure 3 Consumer confidence index – index base 1980



Source: ISTAT, Consumer confidence, 23 December 2011

Average monthly household expenditure fell from EUR 2 480 in 2007 to EUR 2 453 in 2010. In particular, spending on food and beverages dropped from EUR 475 to EUR 467, while spending on non-food items went from EUR 2 009 in 2008 to EUR 1 987 in 2010. The burden of housing on average monthly expenditure continues to increase, as does the burden of health and education. Average monthly mortgage payments made by Italian households peaked in 2009 (from EUR 465 in 2008 to EUR 510) before falling back to EUR 494, still higher than the 2008 level.

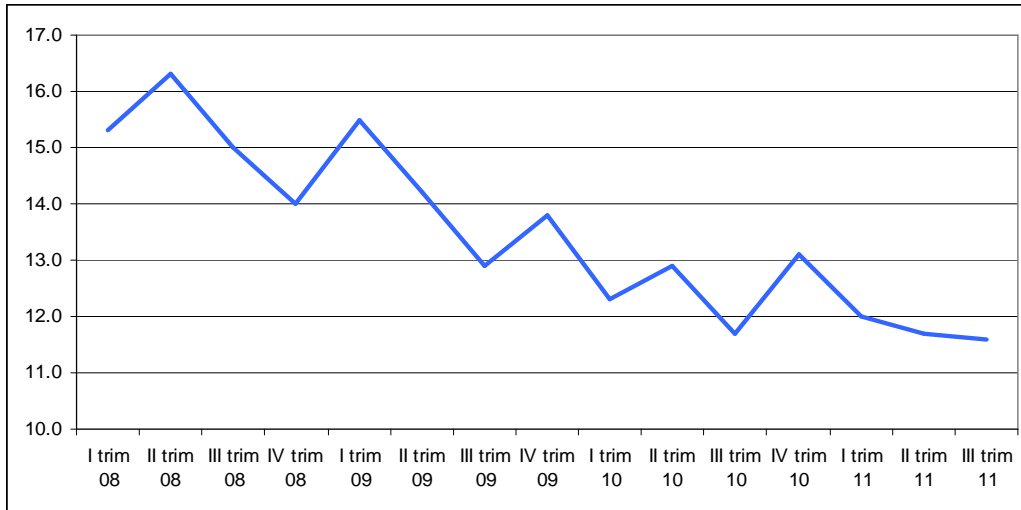


Figure 4 Households' propensity to save (2008-2011)

Source: ISTAT, Household income and savings and corporate profits, 13 January 2012

There is a difference of some EUR 1 300 between the average monthly expenditure of the families of manual workers (EUR 2 372) and that of the families of entrepreneurs and professionals (EUR 3 674), while the figure drops to EUR 1 856 for the expenditure of households headed by an unemployed person, a homemaker or other person of non-professional status (excluding retired people, whose households spend an average of EUR 2 108). The same findings are observed, at lower levels, in terms of median expenditure. In general, households with the lowest levels of expenditure (older people, families headed by a person excluded from the labour market, whether retired or with another non-professional status) tend to devote a higher share of their total spending to the basic necessities, such as housing and food (these constitute some 63.8% in the case of households headed by a person with a non-professional status and 74.7% among older people living on their own). In the case of older people, essential expenditure also includes that on healthcare, which accounts for a further 4.9% in the case of single people and 5.4% for couples. These are the most vulnerable groups who have been hardest hit not only by the hikes in indirect taxes and increased tax burden in general, but also by the cuts to local authorities and social spending.

Among the most significant effects of the anti-crisis measures on disposable income and household spending are those arising from the introduction of new taxes and the increase in excise duties and VAT: according to Confindustria forecasts, the tax burden is set to reach a record 45.1% of GDP in 2012 and will rise even higher in 2013.

ISTAT figures reveal that one in four Italians was living in poverty in 2011 (24.7% of the population). According to ISTAT's latest figures on income and households' living conditions (ISTAT, December 2011), applying the Eurostat definition, some 18.2% of people resident in Italy are "at risk of poverty" while 6.9% live in conditions of "severe material deprivation". Specifically, ISTAT data reveal that the "risk of poverty" remained broadly stable over the period 2009-2010, after rising between 2007 and 2009. However, an increase was recorded during the period 2009-2010 in the proportion of people living in households with low work intensity, i.e. where the members aged between 18 and 59 work less than a fifth of the time.

Compounding the economic plight of pensioners, the measures provided for in 2012 to accelerate reform of the pension system include freezing the indexation of pensions exceeding EUR 915.52 per month. This threshold, according to ISTAT estimates, will guarantee the indexation of some 89.7% of pensioners at risk of poverty; however, when the higher tax burden is also taken into account, the proportion of pensioners below the poverty line is set to rise.

Among the measures adopted in the series of packages introduced in recent months, the cuts to social and health spending have possibly had the greatest social impact.

Moreover, the cuts to local authorities risk not only further reducing public spending on welfare but also further increasing the tax burden, already at a historic high after the December 2011 package. Specifically, cuts to the *Fondo per le non autosufficienze* [fund for people needing long-term care] and the *Fondo Minori e Famiglie* will see a considerable number of families lose their benefits, thus contributing to their impoverishment, especially large families and those with disabilities, while also reducing support services for working women with children.

With the gradual shift of health- and welfare-spending management to local authorities, cuts to local government itself could exacerbate the effects of the cuts.

In addition to the various tax hikes and price rises that are eroding incomes, a further factor in the impoverishment of families and the potential widening of inequalities is the dynamics of the labour market. Labour market conditions are again deteriorating after an upturn in the early part of 2011.

As regards recourse to the *Cassa Integrazione Guadagni* [wages guarantee fund] (CIG), there has been a decrease in ordinary intervention since 2009, while special and "in-derogation" intervention have decreased only since 2010. While ordinary intervention fell further in 2011, the other two types of CIG remain at levels higher than in 2009. The future outlook (Confindustria, 2011) is that recourse to the CIG will continue to decline. The impact on the labour market will hinge on companies' ability to reinstate laid-off workers; if in fact companies are unable to reinstate workers, the reduction in recourse to the CIG will result in an increase in unemployment, while, on the other hand, the re-absorption of laid-off workers may slow down the creation of new jobs.

The negative economic outlook for the coming quarters, however, raises fears of a reduction in the rate of reintegration of laid-off workers, with a consequent increase in the number of workers *in mobilità* [redundant].

Table 1 – CASSA INTEGRAZIONE [wages guarantee fund] – hours authorised by type, 2005-2011.

	ORDINARY	SPECIAL	IN DEROGATION	TOTAL
2005	142 449 534	89 779 557	13 326 838	245 555 929
2006	96 571 464	111 194 082	23 509 256	231 274 802
2007	70 646 701	88 181 307	24 884 204	183 712 212
2008	113 024 235	86 688 660	27 947 360	227 660 255
2009	576 418 996	215 897 088	121 718 553	914 034 637
2010	341 810 245	488 790 424	373 037 580	1 203 638 249
2011	226 168 922	411 490 663	315 847 211	953 506 796

Source: INPS, *Osservatori Statistici*

Looking at the figures on employment, the number of people employed declined in the third quarter of 2011. The effects of the global economic crisis on employment in Italy were first felt in the third quarter of 2008, with the biggest fall coming in the first quarter of 2010. Following a tentative and fluctuating recovery in employment levels between late 2010 and early 2011, the financial market pressure on Italy and the resulting packages of measures adopted led to a further slowdown in the economy and thus a further deterioration in labour market conditions.

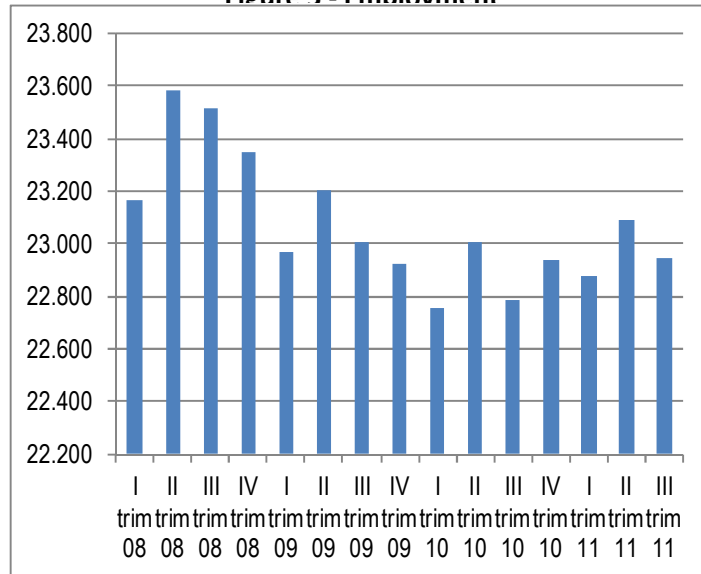
Particularly significant is the reduction in the rate of activity in 2010 and the subsequent recovery of that rate in late 2010 and early 2011. Despite early signs of recovery from the low of 2010, the rate of activity shrinks again in 2011.

The unemployment rate rose sharply at the end of the fourth quarter of 2009 and then fell in the third quarter of 2010 to 7.6%, before rebounding in the fourth quarter of 2010, and finally settling in the third quarter of 2011 at 7.6%, a rate higher than before the 2008 crisis.

It is particularly instructive to compare the quarterly trends in the rates of activity, unemployment and employment. The figures show a rise in the number of discouraged

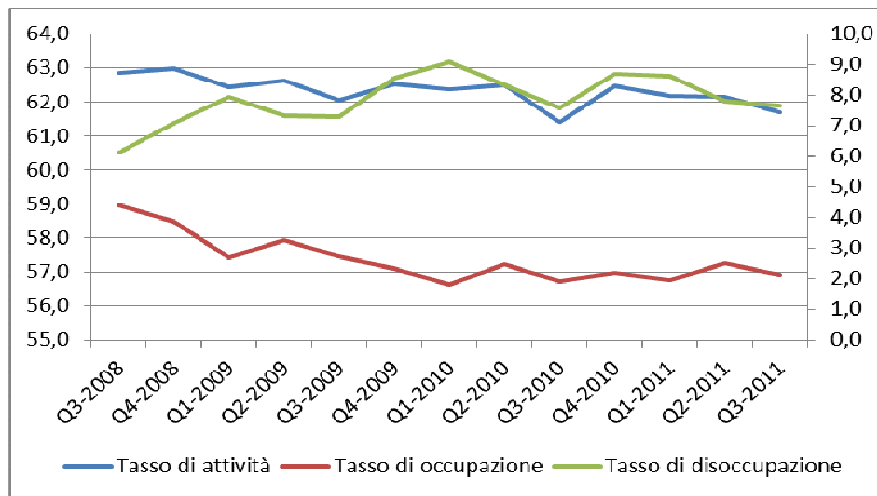
workers, people who become disheartened as regards their job prospects and give up their search for work.

Figure 5 - Employment



Source: ISTAT, Employment and unemployment, 5 January 2012

Figure 5 - Rates of activity, employment and unemployment (2008-2011)



Source: ISTAT, Employment and unemployment, 5 January 2012

Only temporary employment continued to grow in 2011; the number of jobseekers fell, while the number of discouraged workers and long-term unemployed rose; the long-term unemployment rate amounted to 52.6 % in the third quarter of 2011, an increase of 2.5 percentage points on the previous year. On the labour market, the positive signs that emerged in the first half of 2011 were dampened by the trends over the summer months which saw an increase in the use of the *cassa integrazione*. This led to renewed fears of a rise in unemployment and the possibility of a reduction in working hours, increased insecurity and youth unemployment.

The policies implemented initially by the Berlusconi Government and then by the Monti Government have failed to provide sufficient stimulus to the economy to counteract the impact of the economic crisis; on top of this, the measures introduced to restore the

public finances, essentially tax hikes and cuts to welfare funding for the most disadvantaged households, are set to compound the economic plight of a growing number of families and individuals.

4. CONCLUSIONS

Beginning in November 2008, and using different means and timescales, the Italian Government has introduced a series of measures aimed initially at counteracting the effects the economic crisis and subsequently at mitigating the impact of the crisis of confidence in government debt.

The packages introduced over the period under review, however, have focused mainly on increasing revenue as a means of restoring the State's public finances, thus ratcheting up the tax burden on the Italian people. The most recent package – the "Save Italy" Decree – passed by Prof. Monti's technocratic government is not exempt from this criticism.

Moreover, the spending cuts, which have always been aimed at bringing the State finances under control and countering speculative pressures from global markets, particularly during 2011, have often exacerbated the economic situation of households, especially those most disadvantaged.

The crisis has hit Italy hard in employment and social terms; however, the need for fiscal consolidation has reduced the Government's room for manoeuvre in combating the crisis. This trade-off became even more severe from the summer of 2011, when the speculative global market attack on Italy made it imperative to adopt drastic measures.

The urgent nature of the initiatives to tackle the crisis has precluded the introduction of measures to fix Italy's weaknesses in a structural way; such measures are, however, under consideration by the new Government.

An increased tax burden, and specifically the re-introduction of the *prima casa* tax, higher medical fees, increased VAT and excise duties, is helping to erode the purchasing power of households and push an increasing number of families below the poverty line.

Moreover, the spending cutbacks, and particularly cuts to health, local government and the social funds, are having the biggest impact on the most disadvantaged households.

The country's economic woes, which are resulting in lower employment, higher unemployment and greater difficulty in entering the labour market, are also exacerbating the financial plight of households.

Italy's problems are primarily structural; the current government is thus exploring more radical reform programmes, such as labour market reform and liberalisation. Compliance with the measures introduced towards achieving a balanced budget and reducing the public debt is a prerequisite to proceeding with measures to stimulate growth.



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