

Economic Growth and Welfare Systems

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Objective and outline

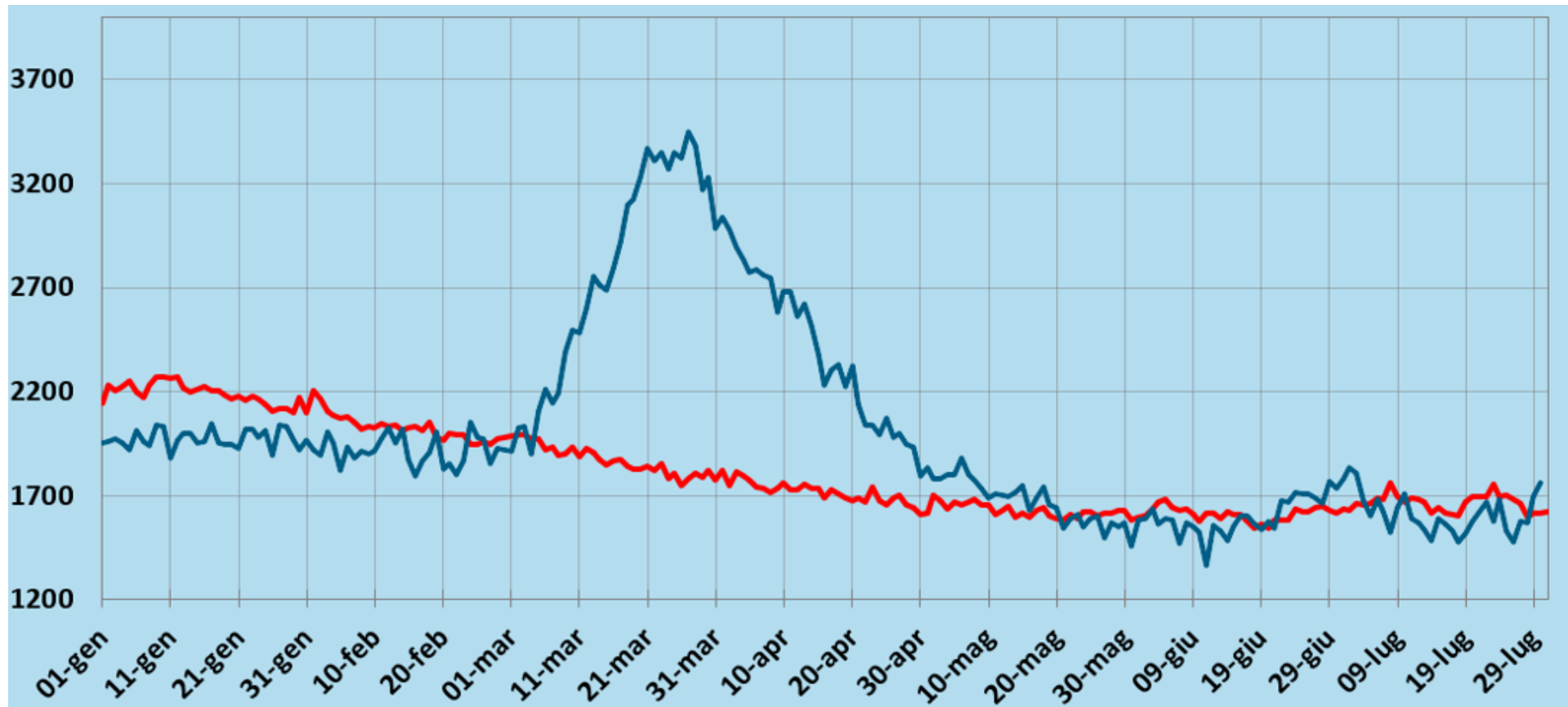
Objective

- The impact of Covid on health and welfare and the responses
- Income support during and after Covid-19
- Universalism vs categorial welfare
- Need for an welfare classification beyond the one of 20th century

The impact of Covid-19 in terms of human lives

Daily deaths in 2020 vs **Baseline (2015-2019 avg)**

1 January - 31 July 2020

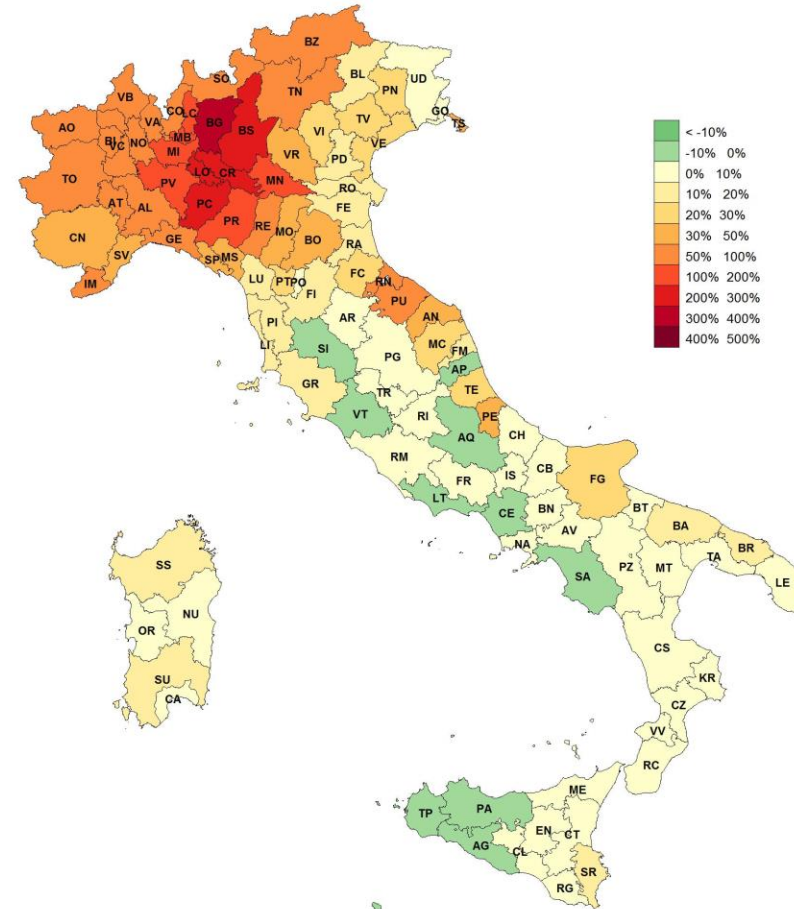


Covid-related support measures

What was going on...

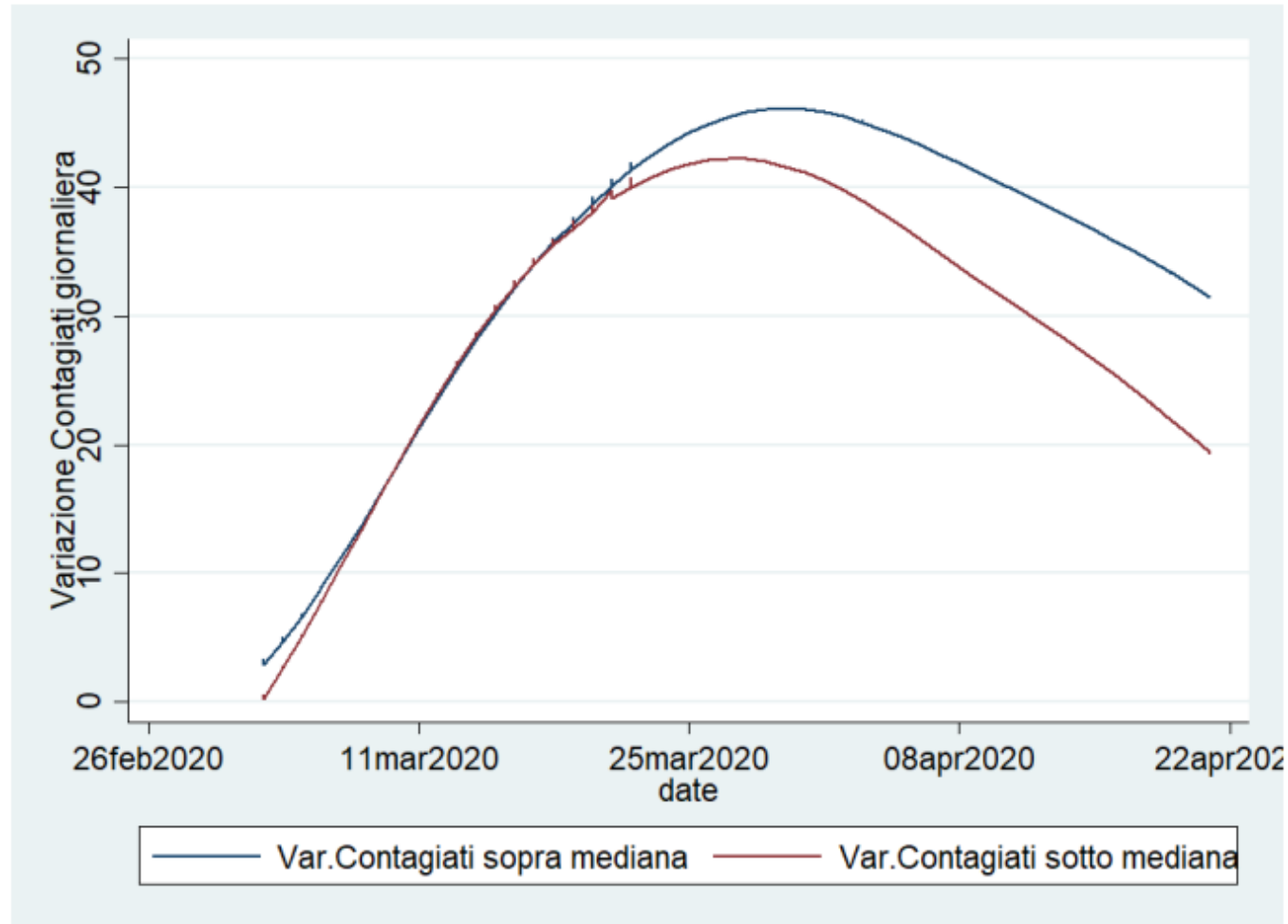
Percentage of deaths at provincial level detected in the period 01.03.2020 - 30.04.2020 compared to the baseline referring to the same period

Baseline: average of deaths 2015-2019 weighted with the resident population

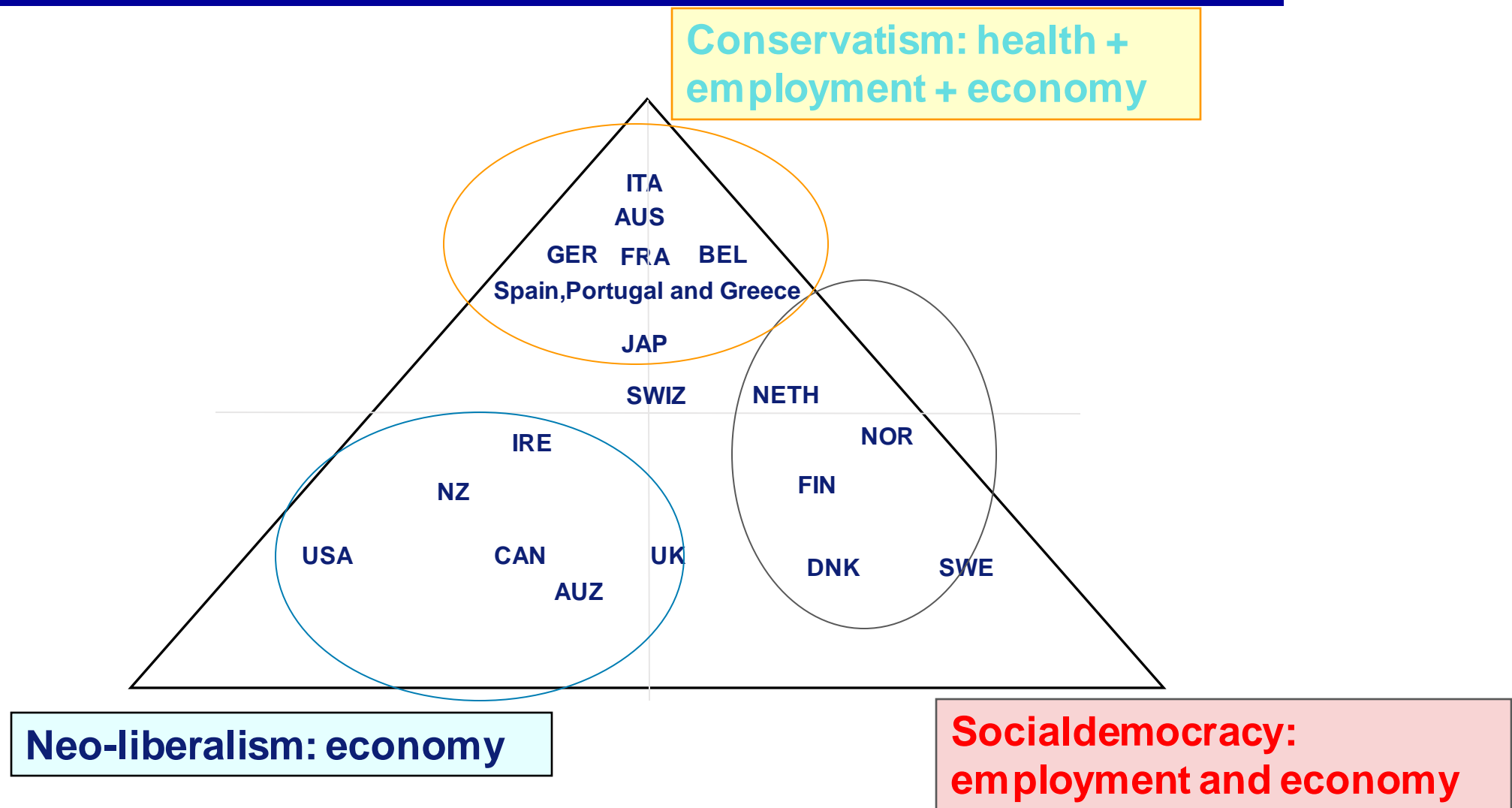


Essential activities and lockdown

inequality of protection during covid 19



Responses to covid...based on traditional welfare classification



Based on Hicks & Kenworthy 2003

The Covid-19 crisis and the role of the State

- The Covid-19 emergency has brought the **State** back to the center of the country's economic life.
- After decades of liberalization (precarization) of the labour market, austerity and progressive reduction of the role of the public sector, the crisis has shown how much **State intervention is necessary** to guarantee the well-being of citizens.
- The State intervened both through **public spending** (in particular through **income support** tools, such as 'CIG', bonuses for particularly exposed categories, parental leaves) and through forms of **labour market regulation** aimed at preventing the crisis from turning into a socio-economic crisis of enormous proportions (through the **prohibition of layoffs**).

The Covid-19 crisis and the role of the State

- **Public debt**, from being the main problem of the Italian economy, has turned into an **indispensable tool**.
- Investment is a variable, by its nature, very subject to the **expectations** of entrepreneurs. Uncertainty plays a key role (Keynes used the phrase '**animal spirits**').
- Such a crisis, without the government's interventions, would have had far more serious consequences for employment, precisely because of **uncertainty** and **worsening expectations**.
- These consequences would then be felt, in the years to come, with even greater force: more unemployment, less consumption, less demand, less production, less investment, even more unemployment, in a negative spiral with easily predictable **social and economic consequences**.

Inequality reduction due to emergency measures (avoided reduction of the drop of income by 55%)

Forgone income (percentage values)*

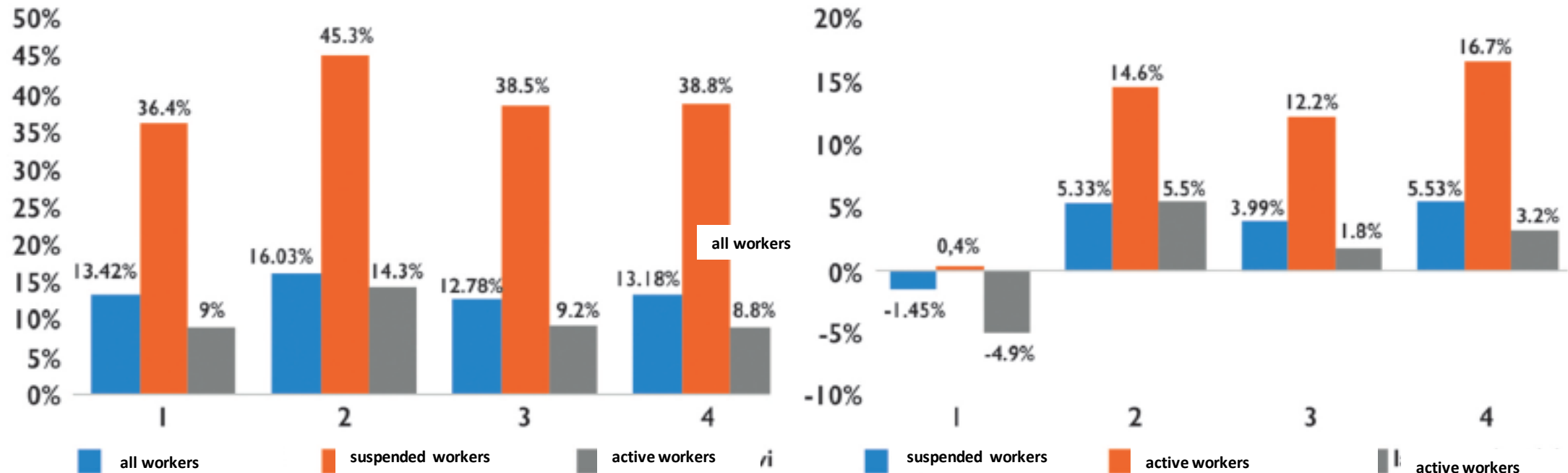
)*

a) Scenario **without** measures

b) Scenario **with** measures

a) Scenario senza misure

b) Scenario con misure



The impact of the pandemic on a fragmented labor market

- Pandemic crisis has shown even more clearly the **fragmentation** of the labor market and the **weakness** of some categories of workers, even in rich countries
- This process was already ongoing before the Covid-19 crisis: **globalization** and **liberalization** of the labor market have significantly contributed to this fragmentation
- The pandemic has shown that the aim of satisfying the needs of all categories highlights a welfare fragmentation
- Pandemic crisis has highlighted a considerable **inequality** in the coverage of the welfare system and the need of a **universal welfare**

Government measures to tackle the crisis

The
Economist

The 3 main characteristics of last century Welfare:

1. Means test;
2. category;
3. conditionality.

Not longer enough

- To tackle the COVID-19 pandemic, its social and economic consequences, many countries have implemented various **measures**, i.e. primarily to:
 - protect **employment** (not category) and mitigate loss of **income**;
 - support **businesses** facing high risks of disruption;
 - reduce the impact of the crisis on people and especially the most **vulnerable** groups;
 - support public **health** systems;
 - slow down the spread of the pandemic.
- BIG GOV (The Economist)

Briefing

Mar 6th 2021 edition >

Shelter from the storm

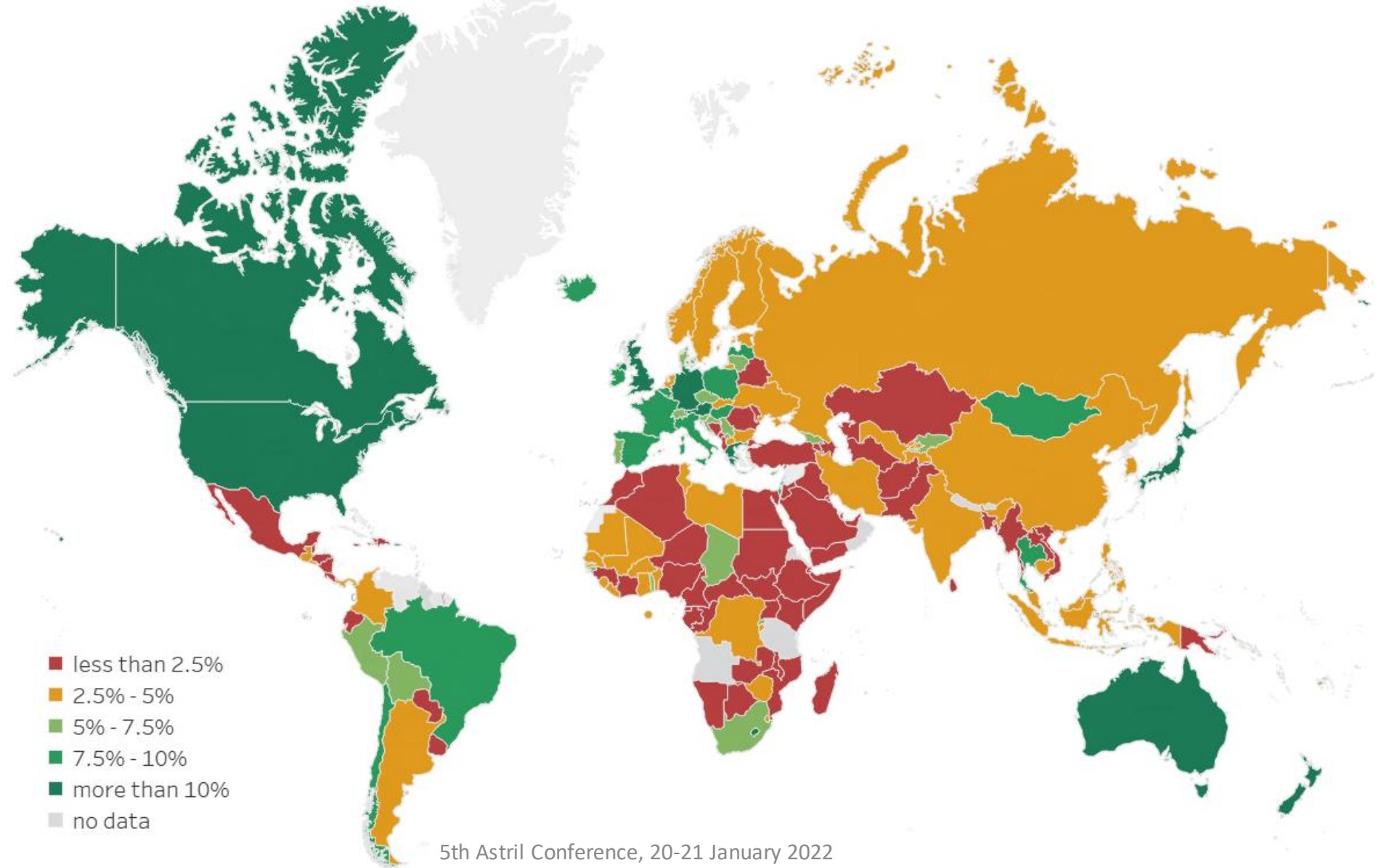
Covid-19 has transformed the welfare state.
Which changes will endure?

The pandemic may mark a new chapter in the nature of social safety-nets



Additional Spending and Forgone Revenue in Response to the COVID-19 Pandemic - (Percent of 2020 GDP)

Budgetary fiscal support to people and firms has varied widely across countries.



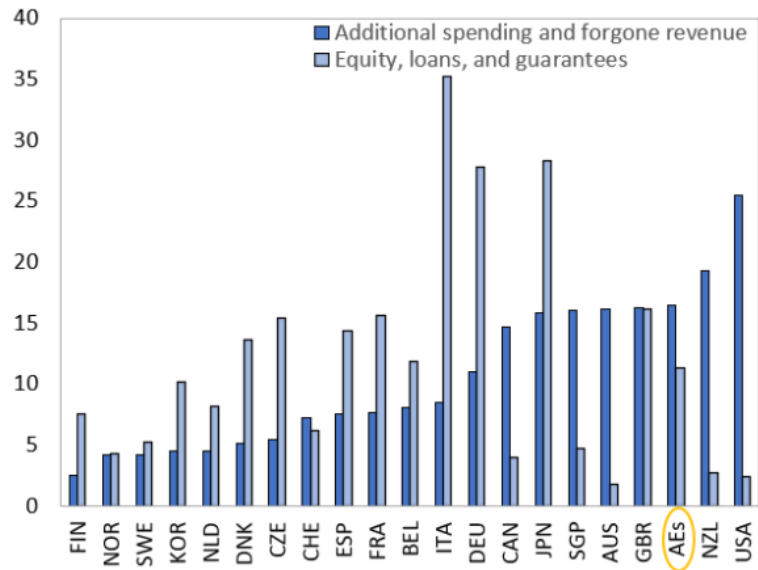
5th Astril Conference, 20-21 January 2022

Source: International Monetary Fund

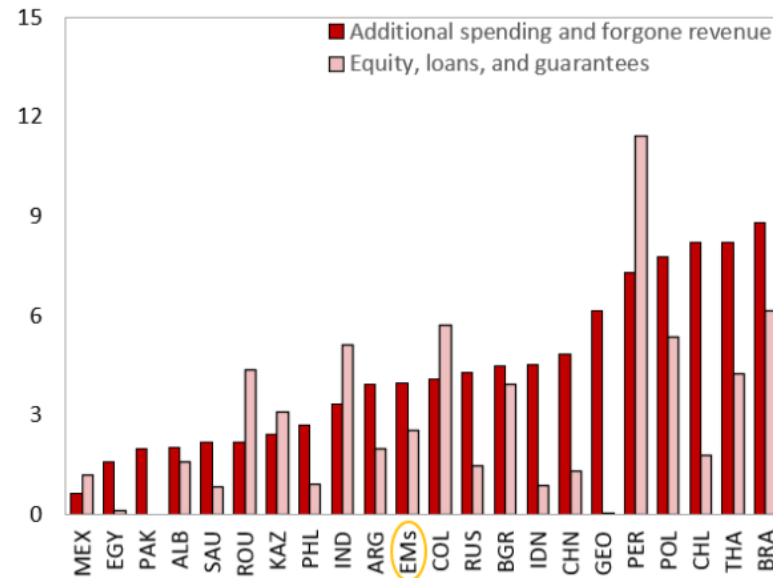
Fiscal response in selected economies

Discretionary Fiscal Response to the COVID-19 Crisis in Selected Economies (Percent of 2020 GDP)

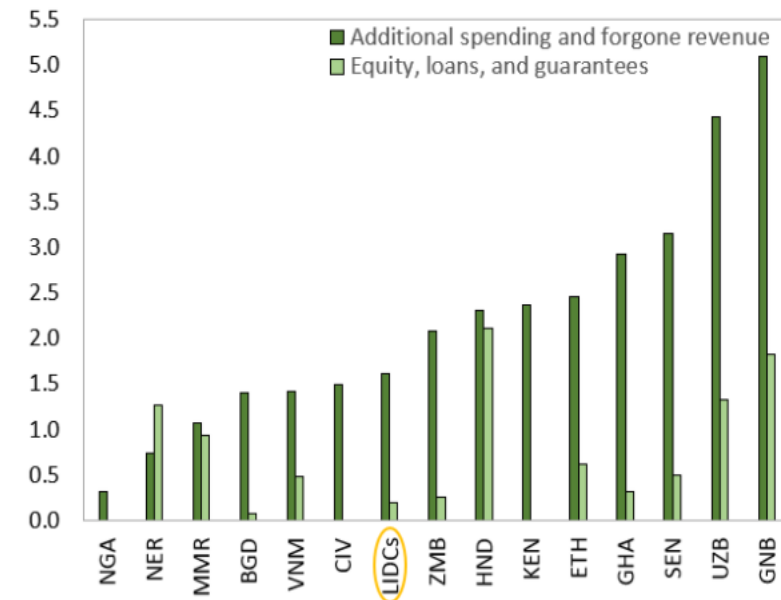
ADVANCED ECONOMIES



EMERGING MARKETS



LOW-INCOME DEVELOPING COUNTRIES



Sources: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic; and IMF staff estimates.

Note: Estimates as of March 17, 2021. Numbers in U.S. dollar and percent of GDP are based on April 2021 World Economic Outlook Update unless otherwise stated. Country group averages are weighted by GDP in US dollars adjusted by purchasing power parity. Data labels use International Organization for Standardization country codes. AEs = advanced economies; EMs = emerging markets; LIDCs = low-income developing countries.

Key Policy Responses: (more than (7% GDP in 2020)



the state was back also in ITALY: more than 100 bln only in 2020

- “Cura Italia” emergency package, €25 billion (1.6% of GDP): to strengthen the **health** care system and **civil protection**; to preserve **jobs** and support **income** of laid-off **workers** and **self-employed**; to support **businesses**, including tax deferrals; to support **credit** supply;
- On April 6 (2020), additional state guarantees (25% of GDP) for businesses and households.
- “Relaunch” package”, (3.5% of GDP): further income support for **families**, funds for the **healthcare** system and other measures to support **businesses**, including grants for **SMEs** and **tax** deferrals (€16 billion).
- A further €25 billion (1.6% of GDP) **deficit deviation**: income support for families and some workers, an extension of the short-time work program, and a suspension of social security contribution for **new hires**.
- Other key measures: extensions of the moratorium on SMEs’ debt repayment and the time to pay back tax obligations.

Key Policy Responses



USA - The containment measures vary by state and geographical area

- 1st act provided around 1% of GDP for **health services**, paid **sick leave**, **food assistance**, expanded **unemployment** insurance; expanded **loan** subsidies and international assistance;
- 2nd act (around 11% of GDP) to provide one-time **tax rebates** to individuals; expand unemployment benefits; provide a food safety net for the most vulnerable; prevent corporate **bankruptcy** and guarantees to help **small businesses**;
- Latest act (March 11th, 2021) the “American Rescue Plan” (about 8.8% of GDP): investment in public health and assistance to **families**, **communities** and **businesses**. It extends the unemployment benefits programs, stimulus payments to eligible individuals, provides direct aid to State and local government, adds resources to the **vaccination** program and increases funding for **school** reopening;
- Federal Reserve introduced facilities to support the flow of **credit**.

Key Policy Responses



UK - Tax and spending measures to support households and families include:

- funds for **health** system, **public services** and **charities**; measures to support **businesses**, small **firms** and firms in the most-affected sectors, compensation for **sick pay leave**, strengthening the social safety net to support **vulnerable** people. The government launched three separate loans schemes to facilitate business' **access to credit**.
- The government paid 80% of the earnings of **self-employed** workers and **furloughed** employees (to a maximum of £2,500 per employee/month) initially for the period March-May. Coverage fell to 70% of wages in September (up to £2,187) and 60% in October (the ratio has been replaced back to 80% in the second lockdown) with employers required to contribute the difference to 80% of wages (up to £2,500).
- For businesses required to close due to the restrictions, the government will pay 2/3 of the **employees' salaries** (or 67%) up to a maximum of £2,100 a month, and the employers will cover **social contributions**.
- Support to customers (firms should offer a payment freeze on loans and credit cards for up to three months, extended for 6 months)

Key Policy Responses



EUROPEAN UNION

- EU budget and **Next Generation EU** (NGEU) recovery package: funds split between grants and loans, channeled through a special **Recovery and Resilience Facility** (RRF) and to existing EU budget programs. Most of the money is set to be committed in 2021-23.
- High-debt countries hit hard by the pandemic (e.g., Italy and Spain) and Eastern European countries will be the biggest net **beneficiaries** from the RRF (30% of the budget will be targeted towards **climate change**-related spending).
- Latest package (4% of EU27 GDP): to finance **health** related spending and **companies**, with a focus on **SMEs**; a temporary loan-based instrument (SURE) to protect **workers** and **jobs**;
- incentivize banks to provide **liquidity** to SMEs and midcaps;
- **monetary** policy support - interest rates lowered below the average deposit facility rate.

Key Policy Responses



EUROPEAN UNION

- A broad package of easing measures for Eurosystem **credit** operations;
- recommendation to banks to suspend **dividend** payments and share buybacks, to be resumed within strict limits;
- the "banking package": provides exceptional legislative **changes** to the capital requirements regulation, including greater **flexibility** in the application of the EU's accounting and prudential rules, which are aimed at facilitating bank **lending** to support the economy.
- Capital Markets Recovery Package: to encourage **greater investments** in the economy, for the rapid **re-capitalization** of companies, and increase banks' capacity to finance the recovery.

Key Policy Responses



- 1st budget (around 8% of GDP), followed by a package of public guarantees (close to 15 % of GDP):
 - ✓ boosting **health** insurance and supplies; **liquidity** support through postponements of social security and **tax** payments for companies; support for **wages** of short-timeworkers; direct financial support for affected **microenterprises, liberal professions, independent workers, and low-income households**;
- additional allocation for equity investments or **nationalizations** of companies in difficulty; exceptional exempt from **social security contributions**; preservation of rights and benefits under the **disability** and active **solidarity** income schemes; support measures for the **hardest-hit sectors** (e.g. including incentives to purchase greener vehicles and **green investment** support for the auto and aerospace sectors).

Key Policy Responses



- Some measures were expanded in response to the reintroduction of lockdown measures: additional funding for **emergency programs** amid ongoing containment measures (around 0.7% of GDP);
- focus on the **ecological** transformation of the economy, increasing the firms' competitiveness, and supporting social and territorial **cohesion**. (About 40 billion of the plan is expected to be covered by grants from the EU Recovery Fund);
- reducing the counter-cyclical bank capital buffer to 0% (an increase from 0.25% to 0.5% was to become effective by April); a temporary ban on short-selling stocks was place until May 18, 2020; credit mediation to support renegotiation of SMEs' bank loans.

Key Policy Responses



GERMANY

- Federal government budgets: €156 billion (4.7% of GDP) in March 2020, €130 billion (3.9% of GDP) in June 2020, and €60 billion (1.7% of GDP) in March 2021, spent on: **healthcare** equipment, **hospital** capacity and **vaccine**; expanded access to short-term work subsidy to preserve **jobs** and workers' **incomes**, expanded **childcare** benefits for low-income parents and easier access to basic income support for the **self-employed**;
- grants to **small business** owners; **interest-free tax** deferrals and funding for **start-ups**; temporarily expanded duration of **unemployment insurance** and **parental leave** benefits.
- The stimulus package in June comprises a temporary **VAT reduction**, income support for families, grants for hard-hit SME's, financial support for **local governments**, expanded **credit guarantees**, and subsidies/investment in **green energy** and **digitalization**.

Key Policy Responses



SPAIN

- about 7.4% of GDP to: **health** services; **unemployment** benefit for workers temporarily laid off; measures on **social services**, **education** and support to **firms**; direct aid for **corporate solvency** support and extraordinary benefit for **self-employed** workers, including **seasonal** self-employed; increased **sick pay** from 60% to 75% of the regulatory base, paid by the Social Security budget (€1.6 billion);
- introduction of a new means-tested **Minimum Income** Scheme (about €3 billion annually);
- new **rental** assistance programs and additional contribution to the State Housing Plan 2018-21; strengthened unemployment protection for workers not qualified for unemployment benefits; investment in **digitalization** and **innovation** in the **tourism** sector; €25 million to autonomous communities funding **meals for children** affected by the school closure; financial assistance to the **education** system and other industry and sectoral support measures.

Key Policy Responses



SWEDEN

- Measures (16% of 2019 GDP) include: **wage subsidies** for short-term leave, temporary payment of **sick leave** (also for sole traders), **loans** to SMEs, funding to the **media, cultural** and **sports** sectors and for **education** and **training**; temporary **rent subsidies** to vulnerable sectors, temporarily more generous **unemployment** benefits, expanded active **labor market** policies;
- initiatives for **green jobs** and **summer jobs** for **young** people, temporary reduction of employers' **social security contributions**, additional general **grants** to municipalities, regions and to **businesses**, more funding to train health workers, **housing** allowances to families with **children**, **infrastructure** investment; deferral of companies' social contributions, VAT and payroll taxes for a period of up to 12 months, deferral of SME taxes;
- credit guarantees for Swedish airlines, aid to regional airports, extra support to regional **public transport**;

Key Policy Responses



SWEDEN

- State credit guarantees for **loans** to companies, extended until June 30, 2021.
- For 2021 and 2022: extensive fiscal stimulus measures and **reforms** worth 2.1% and 1.7 % of 2019 GDP, respectively.
- Further measures to limit the spread of the virus (i.e. more **vaccine** purchases and coverage of **health** care costs) and to work Sweden out of the crisis (i.e: the authorities proposed extending crisis support for **culture** and **sports**).
- Key monetary measures include: reduction of the lending rate for overnight loans by 55 basis points to 0.1% (while leaving the repo rate unchanged at 0%); easing rules to access the new Funding for **lending facility**.

Covid-related support measures

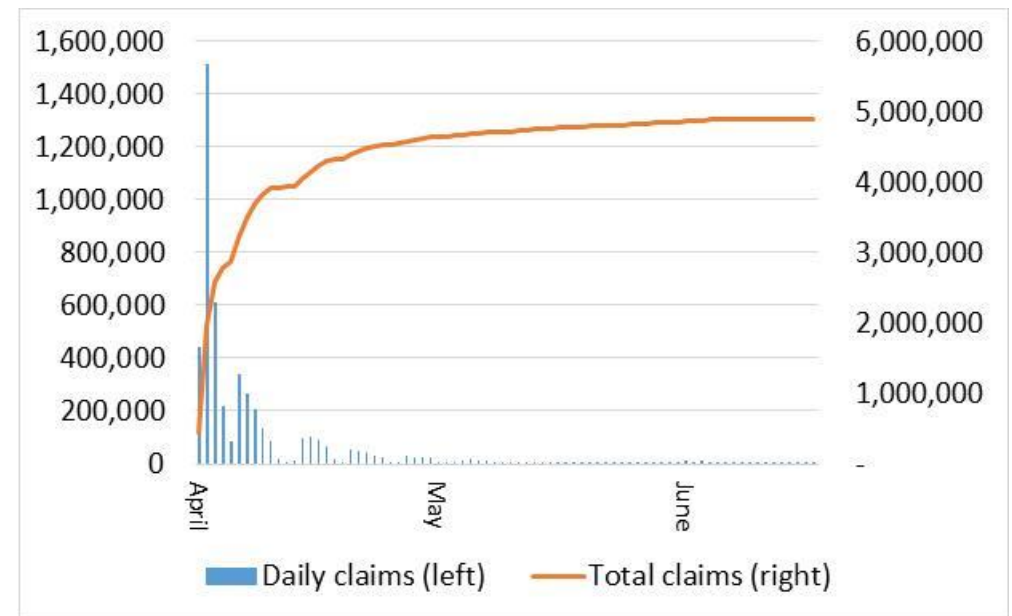
BONUS 600 €/1000 € (March, April, May)

SELF-EMPLOYED / EMPLOYEES

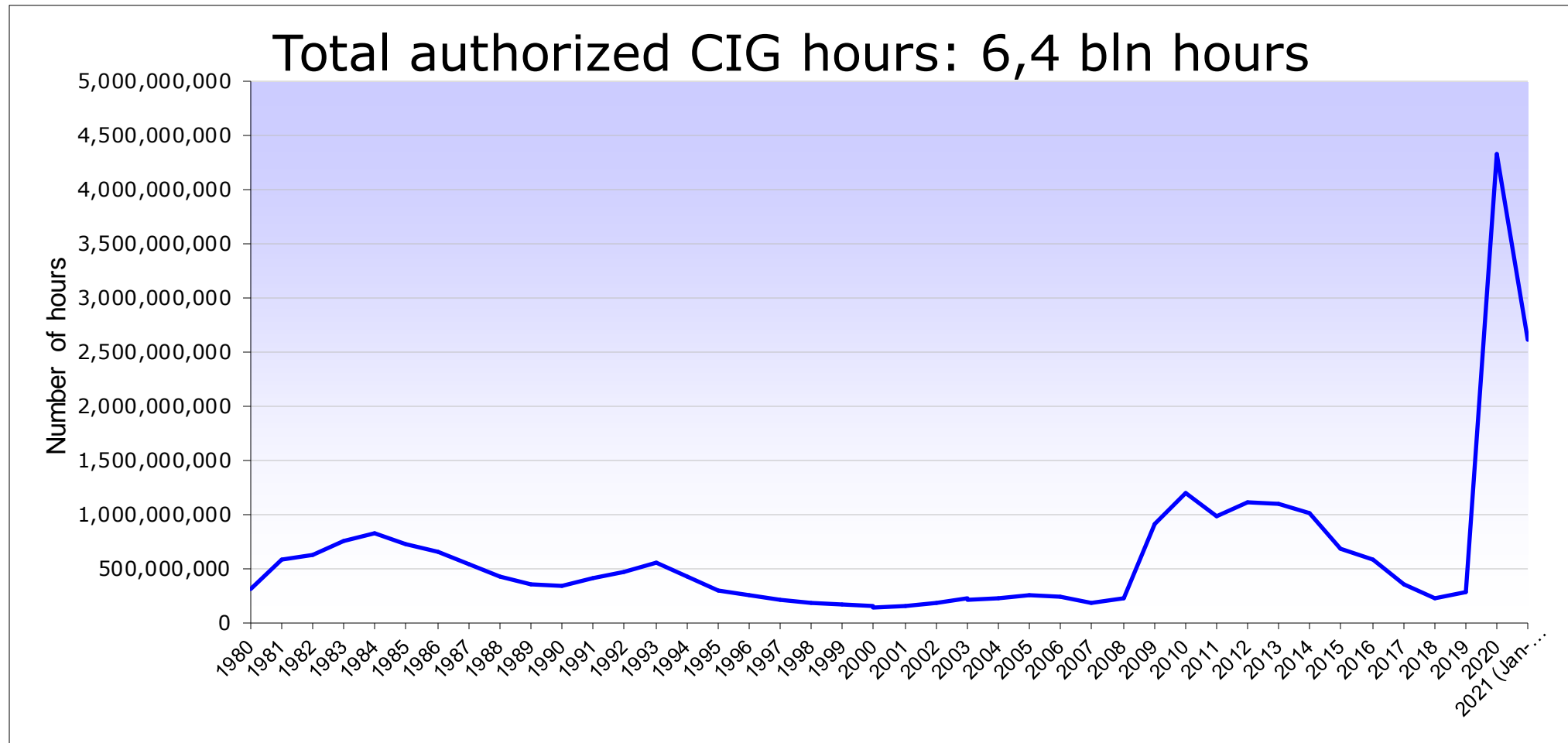
Allowances of 600/1000 € paid monthly to the following categories of workers:

1. Parasubordinati (freelancers and collaborators)
2. Self-employed workers (artisans, shopkeepers, agricultural)
3. Seasonal workers of tourism
4. Agricultural employed workers (temporary hands)
5. Workers in the entertainment industry
6. Seasonal workers of other sectors than tourism
7. On-call workers
8. Casual workers
9. Door to door sellers
10. Arts Music Spectacle sectors
11. Colf domestic workers

For freelancers and self-employed, with 33% reduction in Income, the allowance
Since May was 1000 €



CIG usage trends

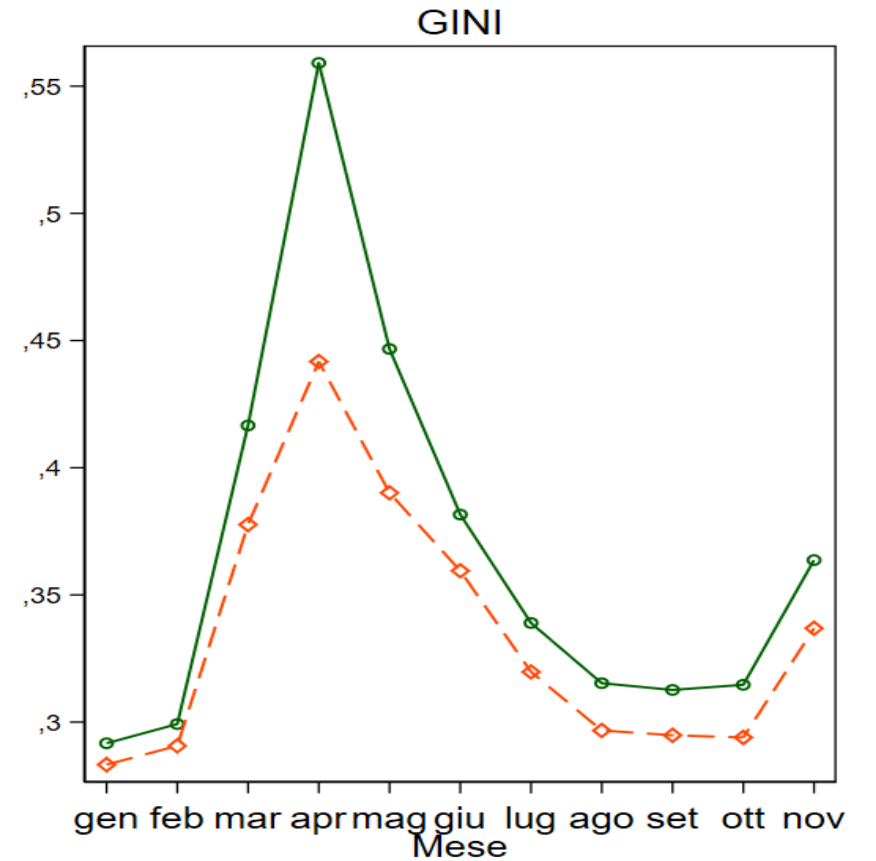
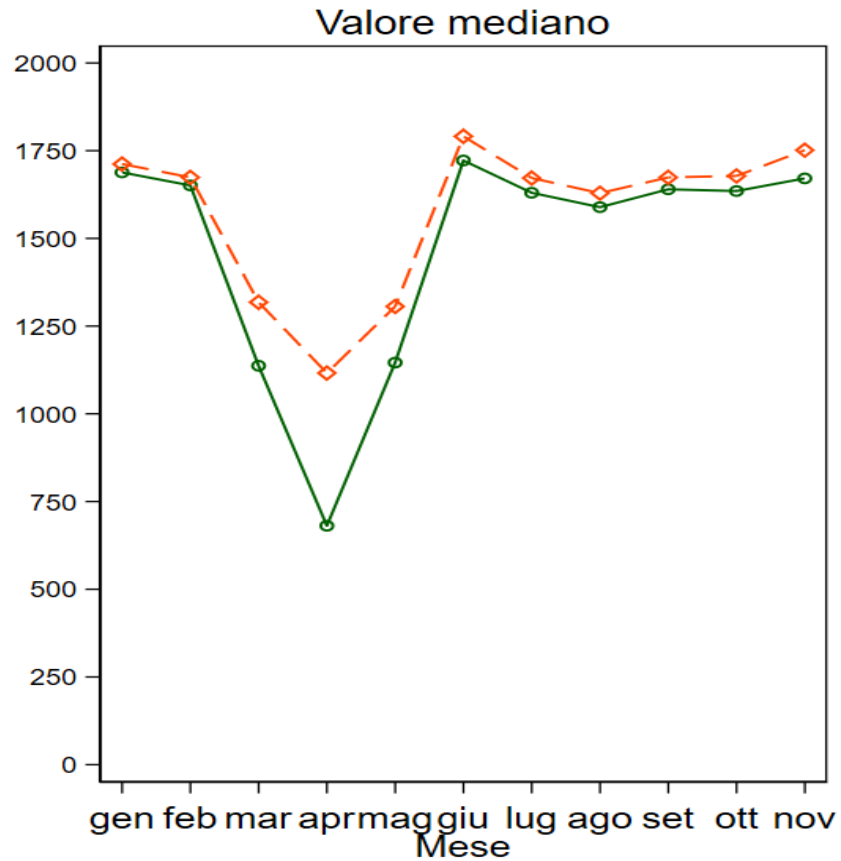


From April 2020 to October 2021, 6.4 billions CIG-Covid hours have been authorized, out of which: 2.7 billions for ordinary CIG, 2.3 billions for ordinary Solidarity Fund allowances, 1.4 billions for in Derogation CIG (“*in deroga*”)

Has CIG-COVID been effective as counter-cyclical buffers? YES

Imponibile refers to the earnings dynamics without the CIG provision

Imponibile compensato includes the CIG provision



—○— Imponibile - - -◇- - - Imponibile compensato

CIG almost halves the wage drop, and inequality increases only by 55% instead of 93%, among CIG beneficiaries. Even stronger protection for women and young workers

Interaction between CIG and firing ban: Italy and Spain in particular

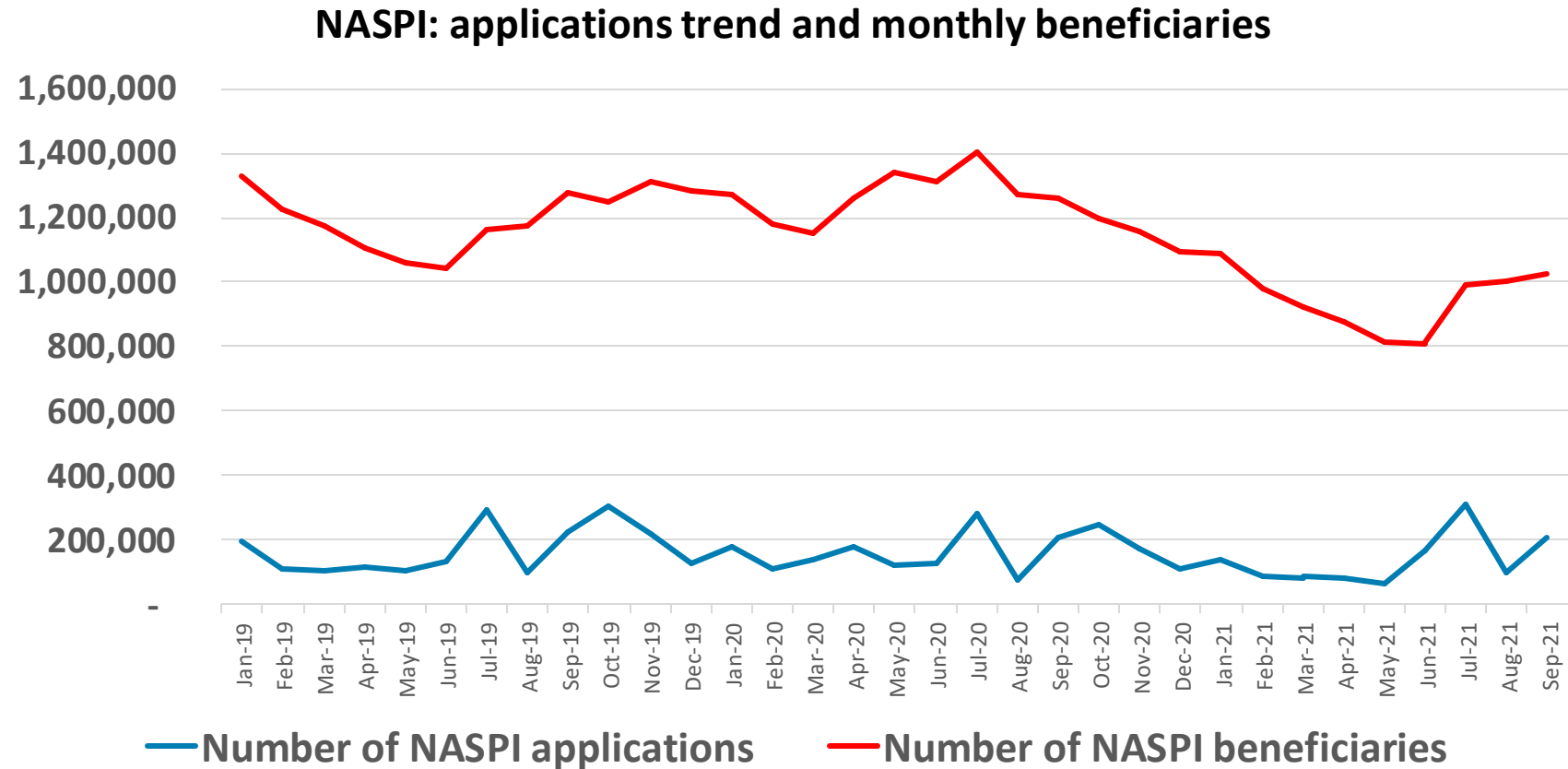
ECONOMIC FIRING BAN

Apart from CIG, several provisions have been enacted during the pandemic.

Starting from the first months of 2020, a firing ban has been introduced (gradually extended until June 2021), for both individual and collective firings justified by objective reasons.

Starting from July 1st 2021, the firing ban has only been maintained for firms eligible for the CIGO in the textile sector (where CIG COVID has been preserved) and for employers who use the ordinary CIGO without additional contribution, until the expire of the treatment of Cassa Integrazione to be used until 31 December 2021.

Interaction between CI&G and firing ban



The increase in the number of beneficiaries in the first months of 2020 was due to the sharp contraction in the number of permanent employees and to the extension of existing treatment until August. In the following months, the number of beneficiaries contracted sharply as a result of the firing ban and of the fewer activations of fixed-term contracts

CIG: 2022 reform

Extension to workers currently excluded

Extension to companies currently excluded

CIGS: *extended to all companies over 15 employees, not covered by bilateral Solidarity Funds*

CIGO: *unaffected*

FIS: *companies up to 5 employees which fall within areas where no bilateral solidarity funds are established*

Ensuring more generous treatment for low-income workers

Less stringent requirements

reduction from 90 to 30 days of minimum seniority requirement on the firm

Unemployment subsidies more generous

Unemployment benefit for self-employed entertainment workers (ALAS) Law Decree no.73/2021 and ISCRO

ALAS is a monthly cash benefit, in force from 1/1/2022, granted to self-employed entertainment workers in the event of involuntary unemployment,

- **Beneficiaries:** self-employed entertainment workers with at least 15 days of contributions in the previous year, with income up to 35,000 euro/year.
- **Duration:** The coverage is granted for half the days of contributions in the year before the end of the last contract. Maximum 6 months.

Beneficiaries estimate: 6.000

ISCRO:

From 1 January 2021 for free lance/independent workers

Requirements:

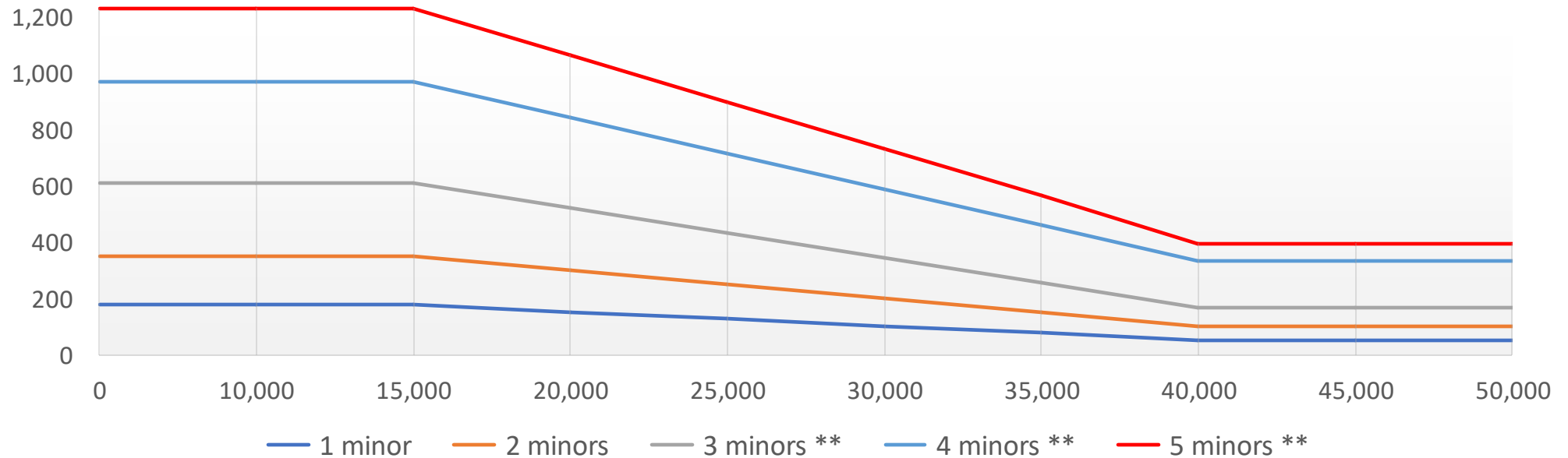
Income previous year <50% average 3 years before

Income y-1 >=8145 euro

IsCro= 250 euro x 6 months or 25% of previous year income (over 6 months)

Universal single allowance for children: ASSEGNO UNICO

Total monthly household amounts
by number of children and ISEE level

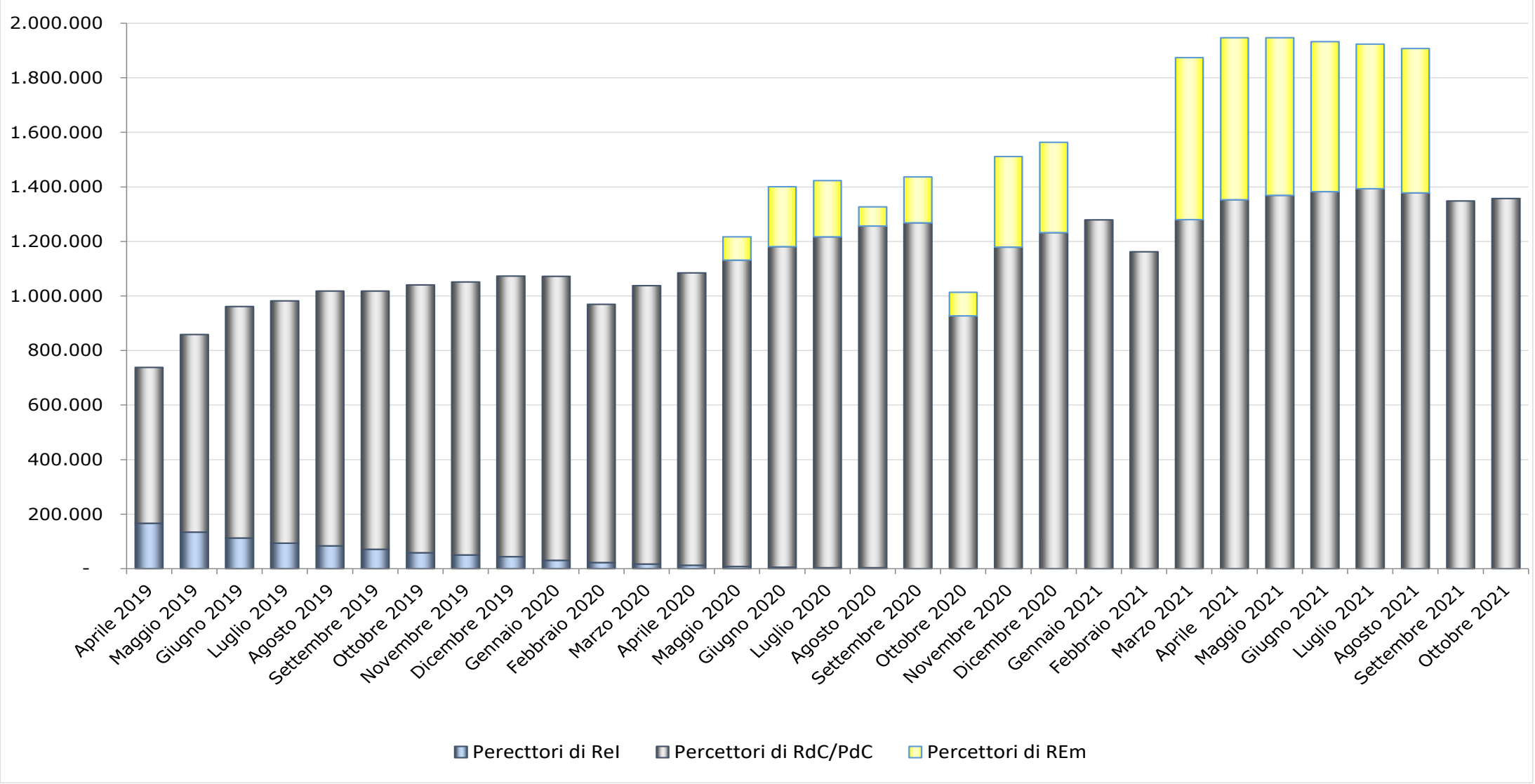


* Under certain subjective conditions, for children aged 18-21, an allowance ranging from 85 euros (for ISEE<=15.000 euros) to 25 euros (for ISEE>= 40.000 euros) is provided. Furthermore, for dependent children with disabilities who are >= 21 years old, there is an allowance ranging from 85 euros (for ISEE<=15,000 euros) to 25 euros (for ISEE>= 40,000 euros). A temporary equalization measure has been planned for households with an ISEE level up to EUR 25000 which received, in 2021, higher amounts between tax allowances and family allowances (transitional increase up to 2024).

** For each additional child to the second, an additional payment from 85 euros (for ISEE<=15,000 euros) to 15 euros (for ISEE>= 40,000 euros) is provided; moreover, a flat-rate increase of EUR 100 per month per household is granted for households with four or more children.

Public income support recipients: REI, RdC/PdC, Rem

April 2019 – October 2021



RdC/PdC recipients

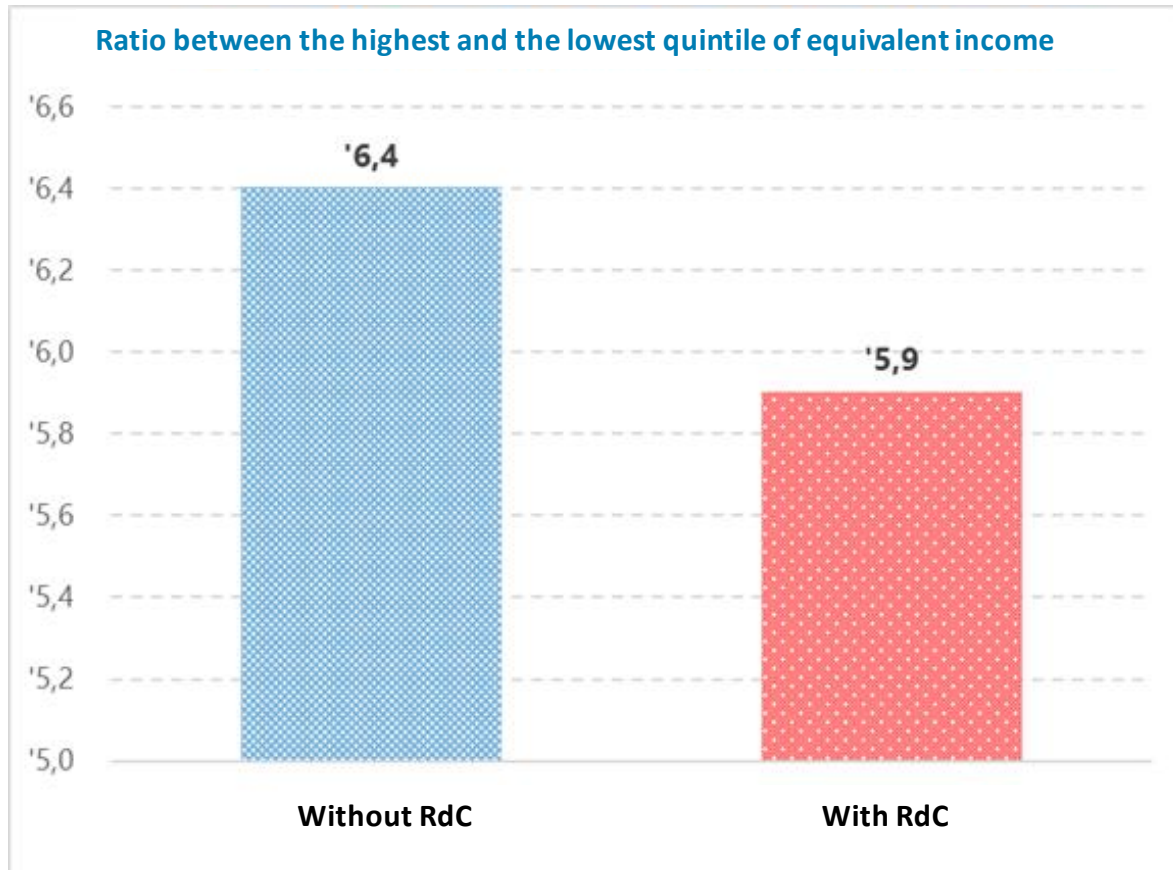
October 2021

Macro-region	Households	Monthly payment
Italy	1.357.171	544,57
North	297.454	472,28
Centre	213.431	506,01
South/Islands	846.286	579,70

- Only 1/3 of **beneficiaries** has pension contributions during 2018-2019...
- Among these, 72% are employees (likely low-skilled, fixed-term or with unemployment benefit)
- The remaining part is composed by domestic, agricultural workers or self-employed
- With respect to their average counterpart in terms of demographics, **beneficiaries work 34 weeks less per year**

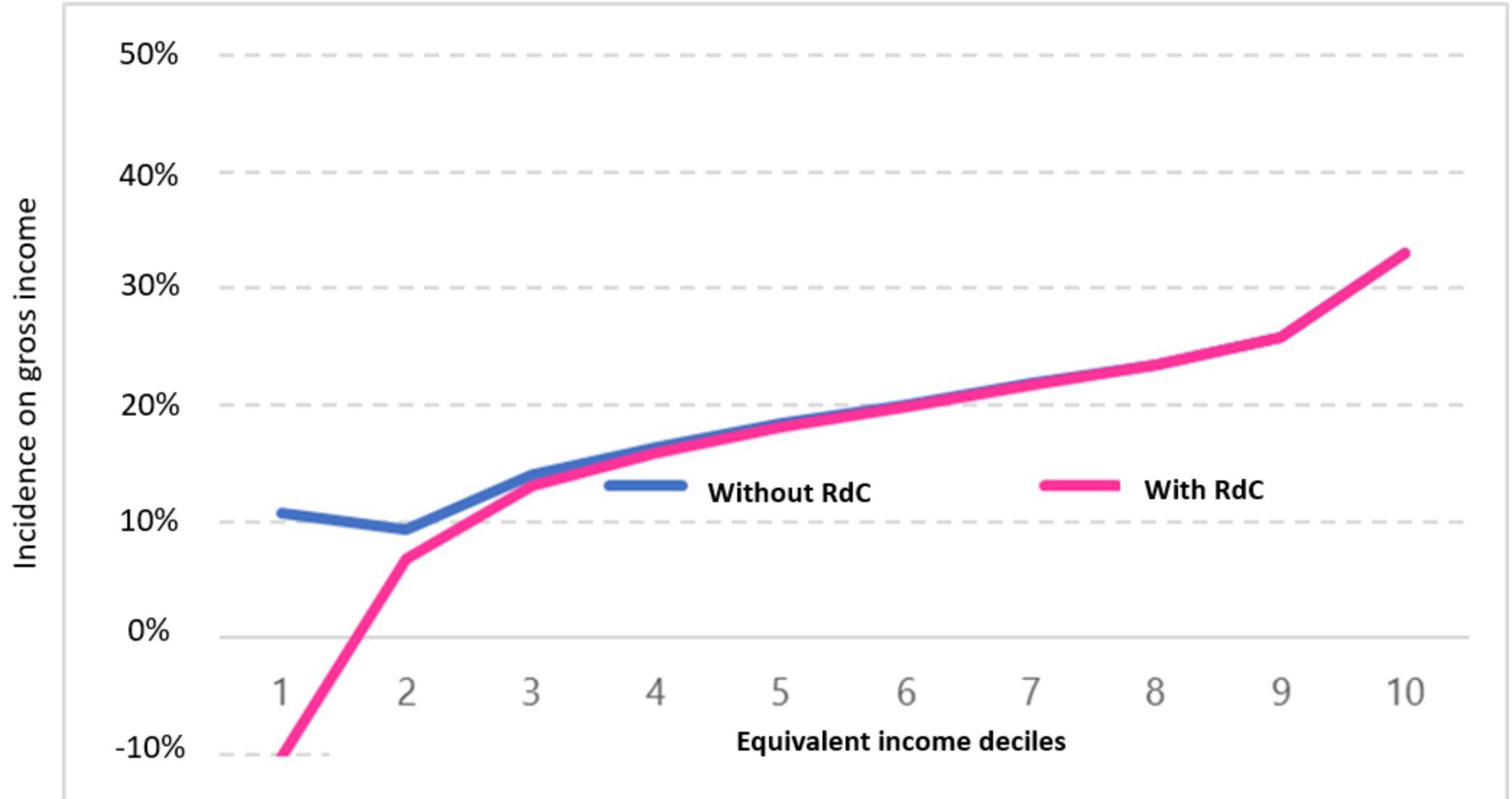
RdC: 3,7 milioni people involved + 1 milion people in REM

With the RdC the income quintile share ratio (S80/S20), poverty gap and inequality were reduced



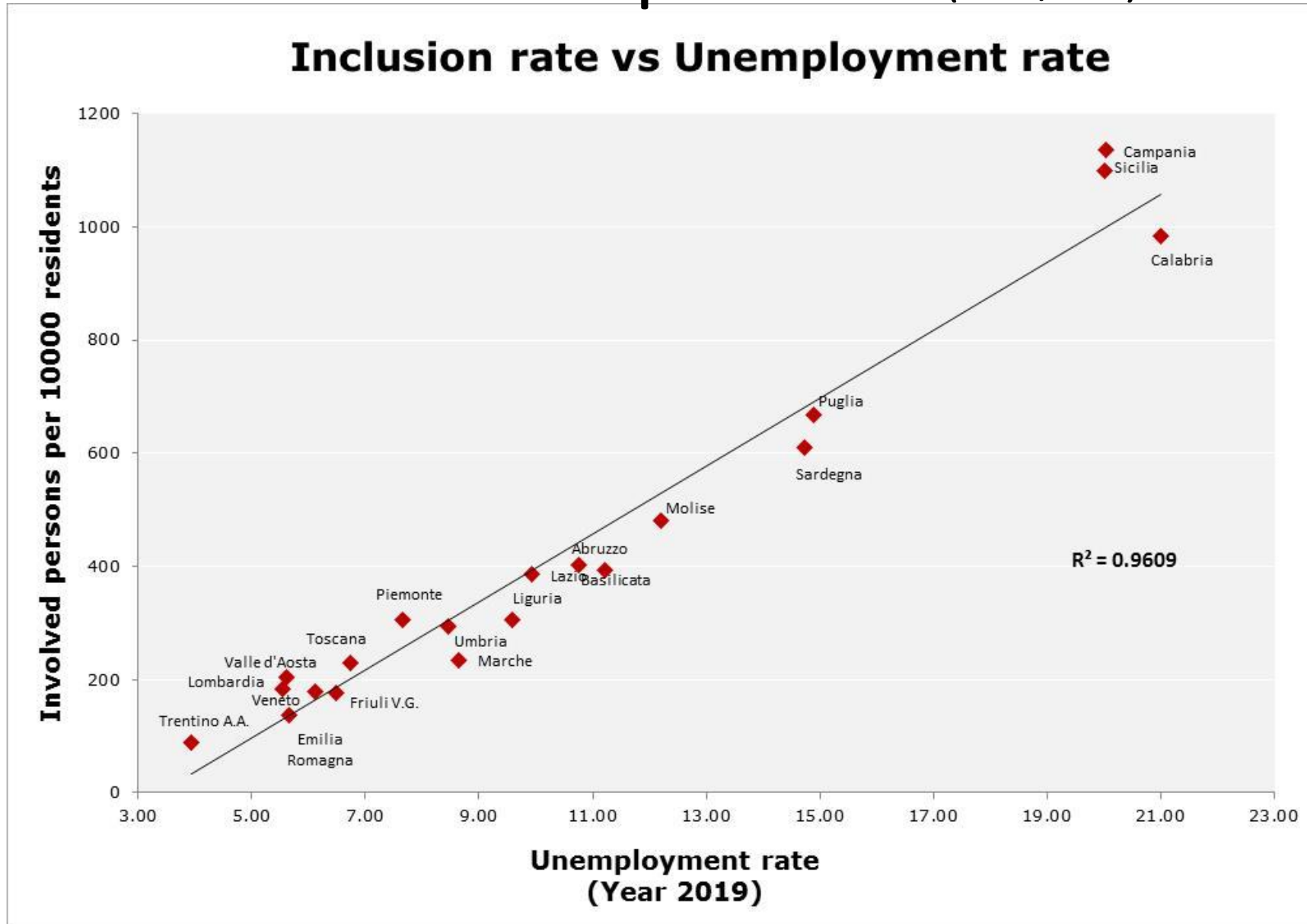
Reduction in Poverty Gap Ratio with RdC	from 39,2% to 33,4%
Reduction in the Gini index with RdC: -0.7 percentage points	from 33,9% to 33,2%

Microsimulation on RdC: net effect by income deciles

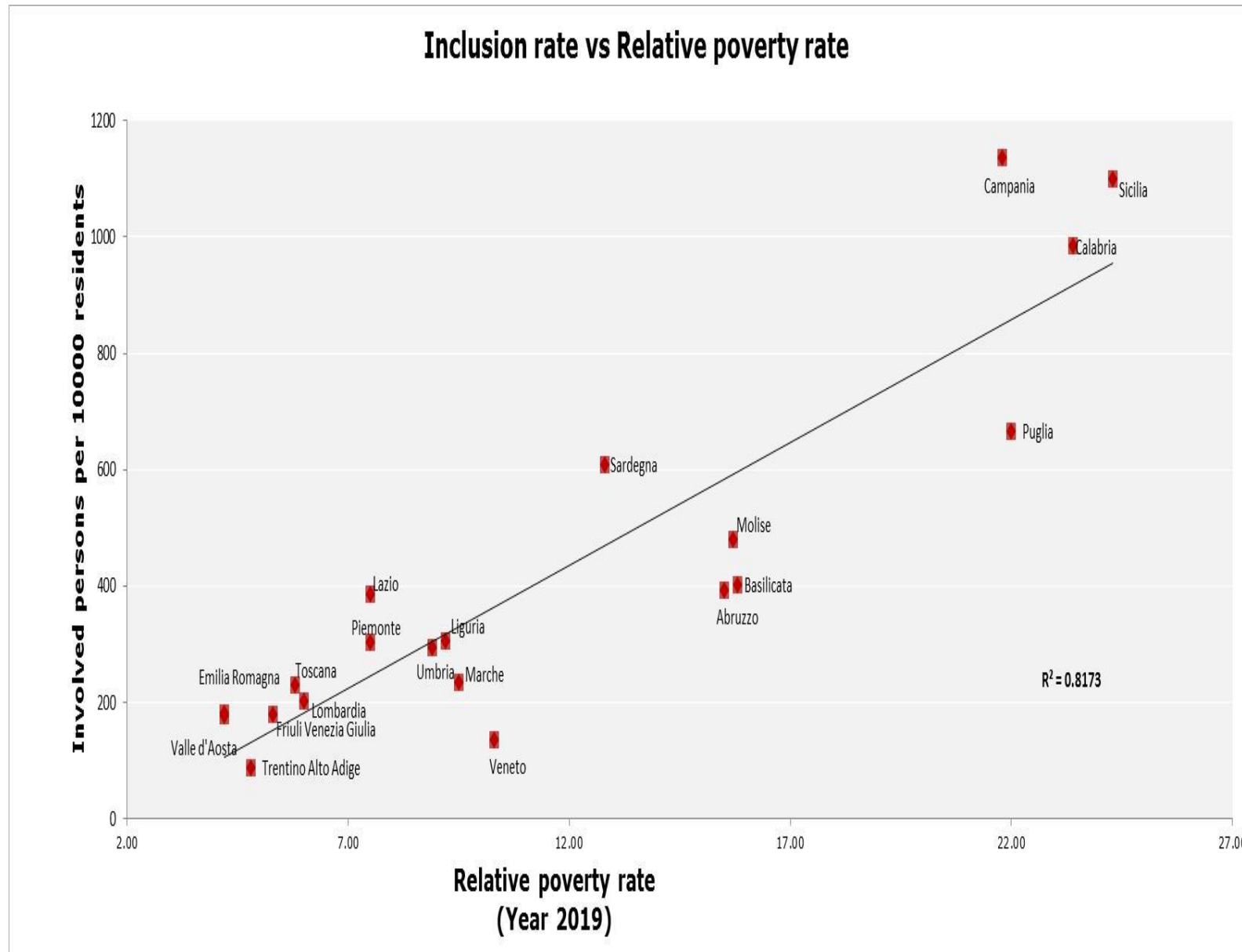


Citizenship income (RdC/Pdc)

Inclusion rate vs Unemployment rate



Citizenship income (RdC/Pdc)



Conclusions

- The pandemic also affected the perception of the role of the state in the economy. Indeed, the Covid-19 emergency has brought the state back to the centre of the country's economic life. After decades of liberalisation of the labour market, austerity and progressive reduction of the role of the public sector, the crisis has shown how necessary state intervention is to ensure the well-being of citizens. The State intervened both through public spending, in particular with income support instruments, and through forms of labour market regulation, e.g., the freeze of dismissals, aimed at preventing the crisis from turning into a socio-economic crisis of enormous proportions over an extended period of time.
- Looking at Italy, the list of measures adopted shows how much effort is needed to deal with unexpected crisis situations in such a fragmented labour market and in the absence of a universal welfare system. A fragmentation that, besides creating unequal rights and protections, reduces the capacity of the welfare system to adapt to the changing needs of workers and firms. The welfare state needs to be modernised. As it is, it was born under a different social organisation, to protect against risks different from the ones prevailing today. A new welfare state should provide enough flexibility not to discourage work too much but must also be ready to take over during crises.

Financing the welfare system: alternative sources

It is more and more difficult to cover the welfare costs only through this channel of financing.

New forms of financing should be found, based on a **different definition of capital** and on the identification of **rents** coming from **new products**, **new processes** and **new sources of value** such as **internet, robot, financialisation** and global **ownerships**.

A specific power relation

- The welfare state is not only a sum of social institutions and public budgets, but first and foremost the result of certain power relations in society or the result of shock and radical change (like the Pandemic..)
- The welfare state was never planned, it was a compromise of interests in a specific historic situation
- IT IS AN EVOLUTIONARY PROCESS