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## **Comparing the Development of Unemployment Benefits in Italy and Germany**

Georg Picot

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Georg Picot  
Università degli Studi di Milano

e

Unità di Ricerca sulla Governance Europea  
Collegio Carlo Alberto  
Via Real Collegio 30  
10024 Moncalieri (TO)

[georg.picot@unimi.it](mailto:georg.picot@unimi.it)

## **Abstract**

This paper confronts the trajectories of unemployment compensation in Italy and Germany, paying particular attention to the differentiation of social rights in this field. In its beginnings and up to the time of fascism these trajectories have been relatively similar in the two countries. It was only during the so-called Golden Age of welfare state expansion that the two systems diverged clearly, leading to high fragmentation and wide generosity differences in the Italian unemployment benefit system and a more contained three-tier stratification in Germany. In the 1990s, however, reforms in Italy have tended to reduce the segmentation between benefit schemes, whereas in Germany this segmentation has been sharpened: first incrementally (1980s and 1990s) then in more fundamental reforms (beginning of 2000s). Finally, the paper indicates how (next to other possible factors) the different structures of party competition in the two countries have shaped the two different trajectories.

## 1. Introduction<sup>1</sup>

This paper draws on my ongoing PhD research. It is not designed to be a stand-alone paper but rather reports on my ongoing work. My dissertation is about reforms of unemployment benefits in Italy and Germany and how the two different systems of party competition influenced those reforms. In this paper I confront the two development paths of unemployment benefits in both countries after the Second World War and offer some preliminary reflections (hypotheses in a general sense) on how these were shaped by different logics of political competition. In the dissertation I focus my causal analysis on the more recent reforms, as opposed to the more macro perspective on the whole post-war period in this paper.

In terms of the dependent variable I am particularly interested in the differentiation of social rights in this policy field. This differentiation can exist on the level of policy schemes, i.e. different programmes for different groups of unemployed, or it can take place on the individual level in the process of implementation, i.e. if granting of a benefit is decided on the basis of individual (and often illicit) criteria. The group-based differentiation of social rights in the field of unemployment compensation can be also coined segmentation of unemployment benefits. To account for it we have to consider two dimensions:<sup>2</sup> first, the division of compensation into various schemes and how inclusive or exclusive these are; secondly, the differences in generosity between benefit schemes.

Note that if we consider the whole range of unemployment benefits it is not sufficient to look only at programmes explicitly destined for the unemployed (such as unemployment insurance and unemployment assistance). In addition we have to take account of two other kinds of benefits. First, minimum income or social assistance schemes that protect, among other recipients, those unemployed who could not qualify for any other unemployment benefit. Second, benefit schemes that are not officially designed as unemployment benefits but effectively have the function of protecting the income of workers who are out of work but remain in the labour force (e.g. allowances for workers on “zero hours” short time).

So, this paper seeks to answer two questions: First, how did the unemployment benefit systems in Italy and Germany develop after World War II under the aspect of differentiation of social rights?

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<sup>1</sup> A previous version of this paper was presented at the 22nd Annual Conference of the Italian Political Science Association (SISP), 4-6 September 2008, Pavia. I thank David Natali, Matteo Jessoula and Franca Maino for their feedback on that occasion. All remaining shortcomings are of course my responsibility.

<sup>2</sup> On the concept of unemployment benefit segmentation, related literature, and variation across advanced capitalist countries see Picot (2007).

Second, in what way can we hypothesize that different dynamics of party competition have shaped these policy developments? The next section (2.) will first (2.1.) give a brief overview of the development of unemployment benefits in Italy and Germany up to the Second World War. Then separate subsections (2.2. and 2.3.) are dedicated to the post-war policy trajectories in each country. A further subsection (2.4.) summarizes and compares the two developments. Finally (3.), I will indicate some hypotheses on how party competition influenced these processes.

## **2. Development of unemployment benefits in Italy and Germany**

### **2.1. Similar trajectories up to World War II <sup>3</sup>**

When we look at the development of unemployment benefits in Italy and Germany prior to 1945, similarities prevail. In both countries there was no nation-wide unemployment benefit before World War One, only small and dispersed funds – in Germany run by trade unions and municipalities, in Italy run only by trade unions. Both countries introduced their first national measures in this field during WWI although these were more fragmented in Italy. Directly after the war both countries put national comprehensive unemployment assistance schemes in place, as a new measure in Italy and as a renewed version of a war-time policy in Germany. The democratic phase between WWI and fascism then saw in both countries the introduction of unemployment insurance, although this happened very soon in Italy (1919) and relatively late in Germany (1927). These two programmes were relatively similar in their characteristics, but the German scheme covered also agricultural workers, which in Italy was only initially the case (and also then only formally). In both countries unemployment insurance did not fair well under fascism. Both fascist regimes tightened their grip on policy administration and used unemployment funds for other purposes. Instead, both regimes favoured employment creation, public works and assistance schemes over rights-based unemployment insurance. However, in Italy unemployment insurance was by and large retained, while in National Socialist Germany it was transformed into unemployment assistance.

However, these similarities concern above all the prevailing benefit scheme: unemployment insurance. If we look at the unemployment benefit system more comprehensively one significant difference emerges. In Italy most of the time there was no secondary benefit (be it unemployment assistance or social assistance) to help those not supported by the primary benefit. Only in 1931 did the fascist regime introduce its public works program that effectively served as unemployment assistance but was not granted on the basis of legal entitlements. At the same time, social assistance

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<sup>3</sup> This subsection is based on a more detailed description of the two policy developments up to World War II that is not presented here for reasons of space.

was largely in the hands of private and church-affiliated institutions and regulated only very loosely by the state. By contrast, in Germany local government had traditionally been responsible for poor relief and in 1924 national legislation established a basic right to local welfare assistance.

Moreover, an unemployment assistance scheme was introduced in 1926 (first as a secondary scheme to main unemployment assistance then as secondary to unemployment insurance).

However, this multi-layered benefit system was overturned under National Socialist rule.

So one important aspect that still today distinguishes the German and Italian compensation system was in a way already present before WWII; that is, the lack of protection for those unemployed not eligible for unemployment insurance in Italy. Especially for social assistance this presumably did have a path dependent effect on the post-war time. But for the other unemployment benefits it is more difficult to argue that the institutional legacy determined the post-war development. In Italy the main peculiarity of the post-war benefit system is not that there is no unemployment assistance to back up unemployment insurance, but that unemployment insurance has degenerated into a very low-paying benefit that was exceeded by new and very generous benefits. In the German case the similarity between the post-war and the inter-war benefit system is clearer. But we have to keep in mind that the benefit system inherited from the Nazi regime at the end of the war was totally uprooted and not at all similar to the inter-war situation.

So, two points have to be underlined with respect to the development of unemployment benefits before 1945. First, in a comparative perspective the similarity of the two policy trajectories raises the puzzle why the two benefit systems diverged clearly after WWII. Second, also in single-country perspectives the policy constellations at the end of the war did not anticipate the future policy development.

## 2.2. Policy development in Italy after 1945

The post-war development of unemployment compensation in Italy can be divided into four phases: provisional reconstruction and neglect (1945-1963), lopsided expansion (1963-mid 1970s), mixed incremental reform efforts (end of 1970s-1987), and reduction of the gap (1988-2007). The first two of these phases belong to the overall period of welfare state expansion while the last two are part of the period of welfare state reform efforts.<sup>4</sup>

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<sup>4</sup> This reconstruction of policy development is drawn on Ferrera (1987), Gualmini (1998), Vesan (forthcoming), Ferrera et al. (forthcoming), Ferrera et al. (2006), Fargion (2001), Porcari (2004), CNEL (2003).

### Provisional reconstruction and neglect

In the immediate post-war years unemployment benefits were reconstructed but during the 1950s nothing was done to complement or update the existing benefits. Overall, unemployment compensation did play a major role in government policy during this phase and the benefit system that came to characterize most of the post-war time emerged only subsequently, during the 1960s. After the liberation of Northern Italy from German occupation provisional governments of National Unity ruled the country. Right after the end of fighting, a ban on dismissals was called in order to control the labour market consequences of the shattered economy. This was accompanied by the legal institutionalization of the wage supplementation fund (*Cassa Integrazione Guadagni*, CIG) for workers with temporarily reduced working hours (d.l. 788, 1945). This scheme had first been introduced by collective contract in 1941. It applied only to the industrial sector and was initially restricted to Northern Italy. However, in 1947<sup>5</sup> CIG was extended to the whole national territory. The nominal replacement rate of hourly wages was set at two thirds. The benefit could be paid for a maximum of 16 hours per week and 90 days in a year (d.l. 869).

Unemployment insurance (*indennità ordinaria di disoccupazione*, UI) continued to exist in this time. In addition, in 1946, when the ban on firing was partly lifted and unemployment soared up, a special unemployment benefit (*sussidio straordinario di disoccupazione*) was introduced for workers who did not qualify for UI (r.d.l. 373). However, applicability of this benefit was restricted to specific situations of economic crisis. Implementation was highly discretionary and in the hands of the ministry of labour. One year later the ban on dismissals was lifted for good (cf. also Ginsborg, 1990, ch. 3).

In 1947 the governing coalition of national unity broke up and a long period of governments led by the *Democrazia Cristiana* (DC) and without participation of the major left parties, *Partito Socialista Italiano* (PSI) and *Partito Comunista Italiano* (PCI) began. In 1948 the Constitution of the Italian Republic came into force.<sup>6</sup> Unemployment at the time was high and especially in the rural areas the bleak social situation gave rise to wide mobilizations and violent confrontations. Nevertheless, unemployment compensation ranked low in terms of reform efforts. The only significant reform

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<sup>5</sup> All years in this overview refer to the adoption of legislation not to its coming into force.

<sup>6</sup> In 1948 the D'Aragona Commission that had the task of proposing a comprehensive revision of the Italian welfare state presented its report. Unemployment compensation played only a minor role in the report and the proposals were not very progressive, apart from the intention to extend coverage to agricultural workers (Ferrera et al., forthcoming, ch. 2). In any case, the impact of the commission was low as it had been set up only shortly before the break up of National Unity (cf. Ferrera, 1993, ch. 7).

was adopted in 1949 (l. 264), although the main object of debate in this reform was the establishing of the post-war system of Public Employment Services that had previously been controlled by the trade unions. With respect to UI the most important change was the extension of coverage to agricultural workers. This extension was implemented through a separate scheme of unemployment insurance. Given that frequent periods out of work, seasonal work and underemployment are normal features of agricultural employment it was clear from the beginning that an unemployment benefit was difficult to apply. Thus UI in the agricultural sector took in fact the form of an additional income support to agricultural workers. Those who paid a minimum number of daily insurance contributions during the previous year were eligible to certain maximum number of daily benefits in the subsequent year. For receiving these payments it was sufficient to be registered as unemployed, on the top of this the unemployment status was not effectively controlled.

For both the general and the agricultural UI scheme the 1949 reform changed benefit calculation from graduation according to income tables to a flat-rate benefit, set at 200 lira per day, which corresponded roughly to 17% of an average gross industrial wage at the time. There was no system of indexation so that the benefit was constantly losing real value. Only occasionally (in 1957, 1960, 1966, 1974) the government raised the benefit level in order to contain this constant decline. In spite of the meagre amount of UI payments, especially in the more depressed areas of the rural south these were still a welcome supplementation of the household income. Moreover, receiving UI gave access also to family benefits and health care coverage (before introduction of the National Health Service in 1978). Due to the weakness of bureaucratic structures, especially in the *Mezzogiorno*, UI was also used in clientelistic exchanges, starting already from the second half of the 1950s (Ferrera, 1984, 207-210).

The extension of UI to the agricultural sector was, however, initially not implemented. Only six years after the reform the necessary decree was adopted (d.p.r. 1323, 1955). This helped to increase the coverage of UI in the labour force significantly, although up to the middle of the middle of the 1970s it never exceeded 50% (see figure 1).

- figure 1 about here -

The 1949 reform also provided for a public works programme that was connected to payments of the *sussidio straordinario* and administered in a similarly discretionary way. Documents of the time show that in fact the government focussed on public works in order to combat unemployment rather

than providing protection through unemployment benefits. This was reflected in quantitative terms by the fact that in the beginning of the 1950s as much was spent for these programmes as for UI (cf. Ferrera et al., forthcoming, ch. 2).<sup>7</sup> In the field of social assistance (SA) no relevant changes were adopted in this period. Thus poor relief continued to be delivered by a plethora of private and church-affiliated institutions (*Istituti Pubblici di Beneficienza*, IPAB) and by the public *Enti Communalì di Assistenza* (ECA). The sector was only loosely regulated on the basis of a law from 1890 and without national minimum standards.

### Lopsided expansion

In 1963 for the first time after the National Unity governments the PSI re-entered the governing coalition, inaugurating the era of centre-left governments (*Centro-sinistra*). In this coalition there was considerable support for reforming the welfare state in a more universalist direction. This corresponded to the reform proposals of the consultative body on economic and employment policy CNEL that were presented in the same year. However, apart from the health care sector the universalist intentions failed (cf. Ferrera, 1993, ch. 7). In the wake of massive worker mobilizations the next 10 to 15 years brought a range of marked expansions that favoured in the first place workers with standard contracts in big industrial firms. Apart from unemployment benefits these expansions included the pension reform in 1969, a comprehensive law on workers' and unions' rights that included strong dismissal protection (*Statuto dei Lavoratori*) in 1970, and the strengthening of the wage indexation mechanism (aptly called: *scala mobile*, i.e. escalator) in 1975.

A similar transformation took place in the field of unemployment compensation. The already mentioned wage supplementation fund (CIG) was in effect turned into an unemployment benefit with highly generous conditions. As a first step in this direction, still in 1963 the coverage of CIG was extended with a separate administration to construction workers (l. 77). At the same time the nominal replacement rate of CIG was raised to 80% and it could now be paid for a weekly maximum of 40 hours, that is to say, also for workers who are put on short time work of zero hours. When this reform was adopted unemployment had fallen over previous years and had momentarily reached its lowest unemployment rate in the post-war period (3,9%, see figure 2).

- figure 2 about here -

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<sup>7</sup> The trade unions similarly pointed to public investments and public spending programmes for fighting unemployment rather than unemployment benefits (see for example the *Piano del Lavoro* of the CGIL, the biggest and most left-leaning union, in 1949; Ginsborg, 1990, 188-190).



The most relevant reform in this phase of lopsided expansion was adopted in 1968 (l. 1115). It launched a special scheme of CIG (*Cassa Integrazione Guadagni Straordinaria*, CIGS) that is applicable not only if workers have to work on short time for cyclical or accidental reasons but also in cases of sectoral crises or industrial restructuring. As for ordinary CIG (CIGO) this included workers that are suspended completely from work without being formally dismissed. At the same time CIGS covers only industrial firms with more than 15 employees. The replacement rate was set at 80% with maximum durations of 3 to 9 months. As initially no social contributions were paid on the benefit and there was no benefit ceiling the effective benefit amount in relation to previous net income was often higher than 80%. As figure 3 shows, over the course of the 1970s net replacement rates for the average production worker fluctuated between 85% and 95%. The same 1968 law instituted another special unemployment benefit (*trattamento speciale di disoccupazione*), which was meant for workers made redundant due to the closing down of firms in the industrial sector (excluding construction). This benefit paid two thirds of the previous wage for a maximum of 180 days. Special provisions helped older unemployed to bridge the gap into retirement and old-age pension.

- figure 3 about here -

Several smaller expansions followed. Thus access to the *trattamento speciale* was extended to construction workers in 1970 and to agricultural workers in 1972, at first in both cases on somewhat lower terms than for industrial workers. But the replacement rate for construction workers was raised in 1975 and for agricultural workers in 1977, when also additional coverage for agricultural part-time workers was introduced under yet different conditions. This fragmentation along occupational categories is in fact typical for the Italian system of unemployment compensation until the present day.<sup>8</sup> Thus, similarly, CIG for the construction sector was extended to artisan firms in the sector in 1970 and to the mining sector in 1971. And in 1972 an additional CIG scheme for the agricultural sector was set up (CIGA), initially with somewhat less generous conditions. However, in 1975 the replacement rate for all CIG schemes was fixed at 80% (l. 164). At the same time the role of trade unions in the activating procedures of CIG payments was strengthened.

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<sup>8</sup> This high fragmentation with its corresponding jungle of regulations led even the labour law experts that drafted a report of the government consultation body to comment: “the legislation is so complex, stratified and particularistic that it results often and in some areas absolutely indecipherable” (CNEL, 2003, 21).

Another significant move in 1972 made it possible to extend the duration of the extraordinary *Cassa Integrazione* scheme (CIGS) potentially indefinitely (l. 464). Furthermore, in 1977 the applicability of the scheme was extended to “corporate crises with a particular social relevance” (l. 675). Clearly, with these steps the transformation of this programme into a *de facto* unemployment benefit was completed. It became a mechanism for firms to shed labour without formally dismissing workers, the latter being basically impossible due to strong employment protection regulation. Remember that this option remained restricted to firms in the industrial sector (including construction) and with more than 15 employees (just as the principle clause on dismissal protection, par. 18, *Statuto dei Lavoratori*).

In contrast to these marked expansions only little changes occurred with respect to UI or SA. Due to the new regulations and the power of the worker movement in big establishments firms increasingly decentralized their production, including increasing use of domestic work. As a reaction, a law in 1973 specified that coverage of UI included also domestic workers (l. 877). A year later the benefit level of UI was raised from a daily amount of 400 lira to 800 lira (effective in 1975). This made the net replacement rate rise from 10% to 15%. But over the next 14 years the flat rate benefit was not increased any more, leading to a continuous loss in real value that was only cushioned by the entitlement to regularly adjusted family benefits (see figure 3).

Concerning the field of SA, in a wide sense, the 1969 pension reform (l. 153) introduced a social pension for over 65 year-olds without pension entitlements and sufficient income. Yet, obviously this did not affect the situation of the unemployed. More relevantly, the institutional decentralization of governance during the 1970s cleared the way for regional governments to assume responsibility for SA. This was formally transferred to them in 1972, and in 1977 the suppression of the private and church-affiliated IPAB and of national welfare entities was ordered. Yet, the use that regional governments made of their new competences depended on the initiative and capacities of each region. Thus, in the absence of national regulation a geographically highly differentiated and variegated system of welfare assistance evolved (cf. Fargion, 1996).

So, by the end of this period of lopsided expansion, and coinciding roughly with the end of the overall phase of welfare state expansion, Italy was endowed with a highly fragmented system of unemployment compensation, in which 4 broad strands can be distinguished (cf. also Sestito, 2006; Porcari, 2004): first, a very generous level that can be summarized as ‘industrial schemes’ because it originated from the industrial sector and still principally covers that sector, these industrial

schemes include mainly CIGS but also of other CIG schemes and the *trattamenti speciali*; second, the level of UI that paid only meagre benefits, but has the most general coverage with respect to the other unemployment benefits; third, UI for the agricultural sector that follows different rules than the general UI scheme and has the character of income support; lastly, we find essentially a gap of protection for those not qualifying for any kind of unemployment benefit due to the lack of a national entitlement or standard of minimum income.

### Mixed incremental reform efforts

In 1976 for the first time after the foundation of the Republic government, still led by the DC, was externally supported by the PCI. This phase of National Solidarity lasted only three years.

Thereafter began a long phase of governing coalitions coined *Pentapartito* due to the participation of always the same five parties (DC, PSI, PSDI, PRI, PLI). At the same time, unemployment rose almost continuously since the middle of the 1970s and since the end of the 1970s we can observe the first efforts to reform the welfare state. Yet, in the field of unemployment compensation as in many other policy sectors no drastic changes were adopted during the first ten years of reform efforts.

In 1977 in the same legislation that introduced the last expansions of the *trattamento speciale* and the CIGS also the first reform intentions are visible (l. 675). Procedures and support measures were set up to support those recipients of CIGS that were willing to take up a new job instead of staying on CIGS payments. Apart from this timid first step, this phase of policy development was characterized by two developments: a reduction of CIGS and new passive measures. The first of these two is an aspect little recognized in the literature on Italian labour market policy. In 1979 a government decree contained provisions to limit the duration and benefit levels of CIGO and CIGS (d.l. 624). This decree was not fully converted into law. But in 1980 law 427 did introduce a benefit ceiling for CIGS payments. At first this maximum amount was set at a level slightly higher than 80% of the gross wage of an average production worker. Therefore it did not immediately have strong effects on the living of most CIGS beneficiaries. However, the law provided that the benefit ceiling should be increased yearly by 80% of the indexed growth of wages (*scala mobile*). Therefore it was clear that over time the benefit ceiling would become more restrictive. Accordingly, we can observe a significant decline of the net replacement rate for the average production worker over the 1980s (see figure 3).

As in Germany and as in other European countries during the 1980s, the government also tried to tackle unemployment by reducing labour supply. Accordingly, in 1981 early retirement was introduced – once more a measure that was restricted to the industrial sector (excluding construction). In this scheme under specific conditions and after authorization from government firms could give male workers aged 55 or above and female workers aged 50 or above the opportunity to retire. This was intended as a temporarily limited policy but in the end was regularly extended. Another passive measure was introduced in 1984. With the so called “solidarity contracts” workers can reduce their working hours in order to avoid dismissal or in order to enable the hiring of new workers. The forgone wages are partly replaced by the state. Formally not a “passive” policy but in effect similar in 1981 a new public works programme was introduced (*Lavori Socialmente Utili*, LSU). This was initially intended for workers affected from the closing down of public infrastructure projects in Southern Italy and extended to the rest of the country in 1984.<sup>9</sup> Note, however, that only the pre-pensions were numerously taken advantage of straight away, while solidarity contracts and LSU initially had no big impact.

### Reducing the gap

In the 1990s and up to the beginning of the 2000s several important welfare reforms have been adopted, such as in the fields of pensions, health care and labour market regulation (cf. Ferrera and Gualmini, 2004). On the political level in this period the old party system broke down, triggered by the corruption scandal *Tangentopoli* in 1992. As a consequence, from 1992 to 1996 so-called technical governments ruled the country (except for a Berlusconi interlude in 1994). These were followed by alternating centre-left and centre-right governing coalitions. In terms of public policy, since the end to the 1980s the unemployment benefit system has been changed more significantly than in the previous period. In particular two developments have to be highlighted: first, the raising of UI benefit levels; second, the attempt to establish a minimum income scheme.

In 1987 the Constitutional Court ruled that the benefit level of UI is inadequate for the needs of the insured (sent. 497). In fact since 1974 the benefit had remained at the lump-sum amount of 800 lira per day. The government reacted and in the following year benefit calculation was converted to a nominal replacement rate that was initially set at 7,5% (l. 160). In subsequent years the benefit level was expanded several times (in 1991, 1993, 1994, 2000, 2005, and 2007). In the last three of these reforms (in 2000, 2005, and 2007) in addition to raising the nominal replacement rate also the

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<sup>9</sup> For an interesting reconstruction of the policy trajectory of this scheme see Fargion (2001, 50-60).

maximum durations of UI were increased, differentiated by age. Thus, by now the general maximum duration is 8 months and 12 months for the 50 year-olds and older and the nominal replacement rate is 60% for the first 6 months, 50% for the next 2 months and 40% thereafter. This significant expansion of the generosity of UI can also be seen in figure 3, which illustrates furthermore how due to the benefit ceilings of CIGS the huge difference in benefit generosity has diminished drastically.

The same law that first introduced earnings-related calculation of UI also introduced an additional UI scheme for workers fulfilling only lower qualifying conditions than required for full UI. This is governed by similar regulations as the agricultural scheme. Note that initially these schemes that have been characterized as income support rather than unemployment insurance in a strict sense maintained the same (increased) benefit levels as normal UI. Only starting from the reform in 2000 their nominal replacement rate was not expanded along with normal UI. Today the UI scheme with reduced requirements the maximum duration is 180 days and the replacement rate 35% for the first 120 days and 40% after that.

Progress in the field of SA during this phase has been also notable but in the end did not last. Here, too, a ruling by the Constitutional Court in 1988 facilitated new reforms when it ruled the old law from 1890 that was still the basic regulation of the sector as unconstitutional. However, it took another ten years until an important policy initiative came up. In 1998, in the wake of the report of an expert commission (‘Onofri commission’), the centre-left government under Romano Prodi presented a proposal for a national framework law for SA (d.d.l. 4931). At the same time a minimum income scheme was launched on an experimental basis for 2 years in 39 municipalities (l. 237). This scheme (*reddito minimo di inserimento*, RMI) combined monetary transfers with activation measures, such as participation in training courses. Two years later the new framework law was adopted (l. 328). It substituted the old 1890 legislation and contained a universalist approach that was to overcome the previous division of welfare assistance along categorical lines. The law defined minimum standards and procedures to guide the multi-level governance in this policy field. Furthermore, with the budget law for 2001 the experimental RMI was extended for 2 more years and a total of 306 municipalities (Sacchi, 2007).

The new framework law constituted a major innovation. Yet, it was critically undermined only one year later by a constitutional reform that, among other things, granted exclusive competence in the field of social assistance to the regions. Consequently, the framework law was no longer binding for

regional governments. The RMI experiment did not fare well either. When a centre-right government under Silvio Berlusconi came to power in 2001 it was not continued. Instead the new government proposed in 2003 an “income of last resort” but a ruling of the Constitutional Court rejected the initiative in 2004 as interfering with the competence of the regions.

This picture of improved UI and SA reforms was complemented by some further steps to limit CIGS. Thus in 1991 an important reform (l.223) introduced the so-called mobility benefit for workers that get laid off from firms eligible for CIGS and limited the durations of CIGS receipt. This was an effort to reduce the number of formally employed but effectively unemployed workers and transfer them into a real unemployment benefit scheme. At the same time the mobility benefit pays the same benefit levels as CIGS (80% but with benefit ceiling). Its maximum duration varies between 12 and 36 months depending on age. This possibility to pay longer durations to older unemployed was meant to limit the use of pre-pensions. More directly, however, the benefit replaced the *trattamenti speciali*. The same law intervened in several other respects. Thus it extended the benefit ceiling of CIGS to other CIG schemes, but with some exceptions, and increased coverage of CIGS to trade sector firms with more than 200 dependent workers and of CIGO to white-collar workers.<sup>10</sup> Note also that some of the more restrictive measures in this law were subsequently watered down (cf. Fargion, 2001, 47f.). However, most of the exceptions for the benefit ceiling in CIG schemes were repealed in 1995.

Also with respect to the level of CIG benefit ceilings some interesting changes occurred. In an agreement of the Amato government with trade unions and employers in 1992 the wage indexation mechanism (*scala mobile*), to which the indexation of CIG ceilings was coupled, was abolished. Yet, in 1994 a second and higher benefit ceiling was established for those unemployed whose previous income exceeded certain threshold (d.l. 40). Moreover, it was decided that ceiling indexation should from that point be indexed at 80% to the consumer price index of the Italian Statistical Institute (Istat) for blue- and white-collar families (l. 451).

Later during the 1990s and in the beginning of the 2000s some steps were undertaken to bring also UI more in line with unemployment policies in other European countries. Thus in 1998 it was decided that unemployed who had themselves left their previous job were no longer eligible for UI

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<sup>10</sup> Another attempt to increase the coverage of more generous unemployment benefits was initiated in 1996. Law no. 662 gave social partners the possibility to set up bilateral funds for this purpose that would than be legally sanctioned and administered by government. The following sectors have set up such funds: credit, cooperative credit, ex-state monopolies, and insurance (cf. CNEL, 2003).

payments (l. 448). And in 2000 and 2002 the status of being unemployed was tied to conditions such as the participation in training courses. The latter aspect however, remains relatively ineffective because it is not directly related to the receipt of benefits. After all, a continued problem in Italian labour market policy is that unemployment benefits are administered by an agency (INPS) that is separate from Public Employment Services.

Figure 4 displays the beneficiary rates of unemployment benefits since 2000. Benefit schemes are aggregated into the groups identified above and the three data series are accumulative in order to indicate the overall proportion of unemployed receiving unemployment benefits. Note that in only 6 years this overall beneficiary rate has increased by ca. 20 percentage points but is still as low as 40%. Looking at the data in more detail reveals that the overall increase of the beneficiary rate is due to the falling number of unemployed in these years (cf. figure 2). But, in addition, also the beneficiaries of the industrial schemes and of UI have increased. In the case of the industrial schemes this may be caused by industrial restructuring, in the case of UI it is partly explainable by the increased attractiveness and duration of the benefit.

- figure 4 about here -

In sum, the 20 years between 1987 and 2007 have seen significant moves to reduce the segmentation of unemployment benefits in Italy. The benefit level of UI has been raised from a negligible lump sum to a net replacement rate of ca. 53%. And government almost succeeded in introducing a minimum income scheme that would have filled the protection gap for those not eligible for dedicated unemployment benefits. This combines with the continued limitation of CIG generosity that had already been initiated in 1980. After all, since the beginning of the 1980s and up to 2002 the net replacement rate of CIGS for the average production worker came down by ca. 30 percentage points, while the net replacement rate of UI rose only from the end of the 1980s by 40 percentage points (see figure 3).

Most observers of Italian labour market policy suggest that little has changed in the field of unemployment benefits. It is true that policy experts point toward a more structural reform that has not taken place yet. However, what has been presented above shows that the series of reforms since 1987, with respect to CIGS since 1980, have added up to a significant change in the Italian benefit system that should not be underestimated and that reduced segmentation. In this sense I suggest that

these reforms can be seen as a case of gradual but transformative change in the institutional mode of layering (Streeck and Thelen, 2005).

### 2.3. Policy development in Germany after 1945

The development of unemployment compensation in post-war Germany (Western Germany, 1945-1990) can be distinguished into five phases. The first three constitute the overall period of expansion: provisional reconstruction and expansion (1945-mid 1950s), establishment of the post-war benefit system (mid 1950s-1961), linear expansion (1960s-1974). The last two phases make up the overall period of restructuring: a long phase of incremental retrenchments (1975-2001), fundamental reform (2002-2005).<sup>11</sup>

#### Provisional reconstruction and expansion

Right after the Second World War basically the old unemployment benefit system of the Weimar Republic was re-established by the Western occupation authorities. Under National Socialist rule, war-time production and labour allocation had marginalized unemployment benefits and their institutional framework had been uprooted. In the social and economic crisis of the immediate post-war years with its high unemployment the occupation authorities first reacted with a wage freeze and labour planning. But soon they reconstructed unemployment insurance (UI) by reintroducing in 1947 the Act of Labour Exchange and Unemployment Insurance of 1927 (*Gesetz über Arbeitsvermittlung und Arbeitslosenversicherung*). In the American and British zones unemployment assistance (UA) was also set up. As a last resort, local poor relief based on 1924 legislation continued. Coverage of UI was immediately extended and the benefit level raised. UI benefit levels were related to previous earnings but, in this initial phase, only weakly so.

Soon after the foundation of the Federal Republic of Germany (1949) and at the beginning of a long spell of Christian Democratic led governments UI and UA benefit levels were standardized and increased across the territory (1951). UA benefits were also related to previous earnings. Minor expansions of coverage and benefit duration followed in the next few years. The first significant intervention in the field of poor relief that was at all adopted after the war came only in 1953. This

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<sup>11</sup> This overview of policy development is based mainly on Schmid et al. (2001), Schmid et al. (2005), Schmid and Oschmiansky (forthcoming a, 2006, forthcoming b, 2005, 2007), Alber (1987), Clasen (2005), and [www.sovd.de/805.0.html](http://www.sovd.de/805.0.html). For a good description of the recent German system of unemployment benefits, and indeed labour market policy more generally, see Ebbinghaus and Eichhorst (2006). For a description of the social assistance scheme see Alber (1987: 281-284) and Clasen (1994: 43-44).



reform, however, clearly upgraded the assistance to the poor. Benefits were mandated to cover the cost of living and accordingly were coordinated across the local authorities responsible for policy administration. A 20% benefit increase was introduced for various special groups, including the economically active and *ergo* the unemployed. Moreover, the private means were specified that were to be exempted from the means-test. In this first phase of provisional reconstruction, therefore, UI and UA were first re-established and adjusted to socio-economic needs. Only with a certain time lag assistance to the poor was also improved.

#### Establishment of the post-war benefit system

The reforms of the first years were only meant to cater for immediate exigencies while the more fundamental choice of the post-war policy framework was considered as yet to be made. This institutionalization of the post-war regime of labour market policy started in 1952 with the establishment of the Federal Office for Labour Exchange and Unemployment Insurance (*Bundesanstalt für Arbeitsvermittlung und Arbeitslosenversicherung*). This reform, however, had no direct effect on the policy features of unemployment benefits. The major revision that established UI and UA in the form in which they would characterize the Federal Republic up to a few years ago came in 1956. UI was fully standardized at the national level, the benefit level was increased and more closely related to previous earnings, the upper income limit for compulsory coverage was raised, the maximum duration was, as previously, graduated according to contribution records, but the longest possible duration was extended to one year and its contributory requirements were relaxed (down to three years of insurance-covered employment).

With respect to UA it was defined that it could be claimed by all those unemployed who have exhausted UI and in addition by those who are not eligible for UI but have fulfilled a lower minimum contribution record (at least ten weeks). UA benefits were still earnings-related and subject to a means-test, but the benefit level was raised, its regression reduced and the earnings exempted from the means-test extended. Duration of UA was unlimited, yet claimants had to reapply after three years. “The guiding idea [of UA] was, in contrast to social assistance, an insurance of the standard of living, even if on a lower level than unemployment insurance” (Schmid et al., 2005: 291). So, although at this point social assistance proper was not yet introduced, with the establishing of UI and UA there was clearly the aim of a three tier status stratification.

The corresponding foundational reform of social assistance (SA) was only adopted five years later. In the meantime unemployment continued to decline (see figure 1) and some minor expansions of UI coverage were introduced. In 1961, when full employment had been achieved, parliament passed the Federal Social Assistance Act (*Bundessozialhilfegesetz*) that replaced the 1924 poor relief legislation. The law defined a socio-cultural minimum to be the standard for benefit levels and thus went beyond merely safeguarding the subsistence of the poor. It also strengthened the legal entitlement of needy individuals and extended the scope of benefits and services available. SA was designed as a safety net available for all persons without sufficient means to sustain themselves and therefore was always open to those unemployed who received neither UI nor UA or for whom these benefits fell below the socio-cultural minimum. However, while we lack precise data on this aspect, in the years of full employment combined with relatively good accessibility of UA it is unlikely that SA had a lot of unemployed claimants. This situation changed in the years of mass unemployment after 1975 when eligibility for UA was increasingly restricted.

#### Linear expansion

The 1960s up to the beginning of the 1970s were characterized by generally favourable economic conditions and full employment. From 1966 to 1969 a grand coalition between Christian Democrats and Social Democrats ruled the country that was subsequently replaced by a coalition of Social Democrats and the Liberals. The main structure of unemployment benefits being in place, these years were generally characterized by extensions of coverage and increases in generosity (not affecting the structure – in this sense linear). The most significant labour market reform was the Employment Promotion Act of 1969 (*Arbeitsförderungsgesetz, AFG*). This law for the first time introduced a comprehensive range of active labour market policies. Re-training and qualification measures were meant to confront problems arising from labour shortages and the increasing post-industrialization of the labour market. Although the AFG concerned also unemployment benefits it did not redesign these in a fundamental way.

Significant with respect to UI was that in 1967, in line with pension insurance, the upper income limit for compulsory insurance was abolished. Together with some categorical extension of coverage mandated by the AFG (concerning miners, agricultural workers, and apprentices), UI thus reached its maximum coverage of close to 80% of the labour force (see figure 1). The only significant parts of the work force remaining outside the membership space were civil servants and the self-employed (cf. Alber, 1989: 133-139). This high coverage depended, however, also on

employment regulation that made most contracts subject to social insurance. In terms of generosity, benefits were raised for UI and UA in 1967 and the AFG in 1969 reduced benefit degression, cancelled the waiting period, and eased the conditions of receipt by obliging the jobless only to accept offers of “suitable work” that were not specified any further. In 1974 UI and UA benefits were again increased and their calculation was changed from income tables to a defined replacement rate (68% for UI, 58% for UA).

Regarding SA, still under the previous coalition (in 1965) parliament had increased the benefit supplement for special groups (including the unemployed) from 20 to 30% of the basic amount. Additional extensions of generosity were introduced in 1969 and 1974, the same years that also UI and UA were expanded. These improvements included better support for family members and a relaxing of the means-test. Overall, the phase of expansion did not significantly change the three-tiered segmentation that had been previously established. The whole system gained in generosity, such that differences in generosity were by and large kept stable (although SA was expanded to a somewhat lesser extent). The more relevant change was the greater inclusiveness of UI and, consequently, of UA, which moderated the significance of generosity differences.

#### Long phase of incremental retrenchments

Following the first oil crisis unemployment shot up at the beginning of the 1970s. In 1975, for the first time after almost 20 years the official rate of unemployment reached again the level of 4% (see figure 1). For unemployment benefits, as for the welfare state in general (cf. Alber, 1989: 286-299), policy restrictions began precisely in that year, after only a year earlier the last expansions had still been adopted. Therefore retrenchment started while a governing coalition of Social Democrats (SPD) and Liberals (FDP) was in power. In the remaining time of this coalition (1975-1982) regarding UI and UA mainly the conditions of receipt as well as eligibility were restricted, whereas benefit levels were only affected in an indirect and cautious way. Right in 1975 the concept of ‘suitable work’ that an unemployed person has to accept was for the first time defined and thereby the range of job offers that had to be accepted increased. This reform caused some debate and back and forth in the following years. But in 1979 the range of ‘suitable work’ was again enlarged. Connected to rejections of suitable job offers (but not only to them) sanctions were tightened in 1977 and 1981 respectively. As regards eligibility, school-leavers and university graduates were excluded from receiving UA in 1975 and pupils and students were denied access to both UI and UA in 1979. Required contribution records for UI and UA (without previous UI) were doubled in 1981

and only a year later, already under Christian Democratic and Liberal rule,<sup>12</sup> again increased for UI. Other changes under this coalition included for UA the more frequent re-examination (every year) of claimants' eligibility, but also a certain weakening of the means-test, and for UI a reduction of the benefit calculation basis and lower pension contributions paid on behalf of recipients.

While retrenchment of UI and UA concerned mainly conditions of receipt and eligibility, the benefit level of SA was clearly reduced. Note that it is difficult for a democratic government to cut back a benefit that is defined to cover the socio-cultural minimum necessary for a life in dignity. One path that was embarked upon in this sub-period and that was followed also later in the retrenchment phase is to limit or to suspend the indexed rise of the benefit. This limiting was first decided in 1981 (i.e. the basic amount of SA could rise only 3% in spite of a 5.4% increase in cost of living). At the same time the benefit supplement that certain SA beneficiary groups receive (including the unemployed) was reduced from 30 to 20%, means-test exempted property was reduced, and some additional SA payments curtailed. Indexation was again limited in 1982 and, in addition, the next scheduled rise was postponed by half a year. Figure 2 compares the trajectory of the net replacement rate of UI to the net replacement rate of SA starting from 1975. The rate of SA is calculated analogously to Scruggs' (2004) replacement rate of UI. The figure shows how the SA benefit level declined steeply in the second half of the 1970s while UI benefits remained stable.<sup>13</sup> Also over the retrenchment phase as a whole, the figure illustrates how the SA replacement rate was reduced more strongly than the UI rate. Thus by 2003 UI had lost 5% of its replacement rate with respect to 1975, whereas SA had lost 19%.

- figure 5 about here -

The reform pattern changed somewhat under the Christian Democratic and Liberal government (1982-1998). Regarding dedicated unemployment benefits (UI and UA), for the first time their transfer levels were also directly reduced, though to a limited extent. On the other hand, maximum durations for older unemployed workers were actually prolonged. The first benefit cut came quickly after the change of government (1983) but affected only the recipients without children. Their nominal replacement rate was cut from 68 to 63% for UI, and from 58 to 56% for UA. The second benefit cut was approved in 1993 (UI: from 68 to 67% with children, 63 to 60% without children;

<sup>12</sup> The budget law for 1983, was adopted only two months after the 'black-yellow' government had taken office. It included several social policy restrictions that followed the pattern under the previous coalition.

<sup>13</sup> As acknowledged in Scruggs' (2004) data file, the effect of the 1981 reform that reduced the calculation base for UI benefits is not reflected in the data. However, the effect of this reform on the overall replacement rate is presumably small.

UA: 58 to 57% with children, 56 to 53% without children). This cut was largely a reaction to the huge unemployment crisis in Eastern Germany after reunification and the related cost explosion. In fact, reunification was the greatest challenge to labour market policy during the 'black-yellow' coalition.<sup>14</sup> But the policy responses affected the unemployment benefit system only indirectly, i.e. through the greater cost pressure. Apart from the benefit decrease, for both UI and UA also conditions of receipt and some other generosity aspects were tightened (throughout the period, but especially in 1996 and 1997; this included that redundancy payments were now to be deducted from benefit payments).

Besides these general incremental reductions of UI and UA, other reforms had a more differential impact. Some groups of unemployed profited even from selective expansions. In particular in the 1980s the maximum duration of UI was increased for elderly unemployed (in 1984, 1985, and 1987), up to a maximum of 32 months for those older than 53 years. This was part of the government's strategy of reducing labour supply as a response to unemployment.<sup>15</sup> This approach was, however, partly revised in the 1990s. Thus in 1997 the graduated age limits for different maximum durations were raised by a couple of years. For UI in general, eligibility was eased in 1987 by repealing a previous reform (of 1982), but new restrictions were adopted in 1997. On the other hand, in 1993 for those UA claimants who had not previously received UI the maximum duration was limited to one year. For the other UA claimants the benefit level was cut beyond the reductions already mentioned, when in 1996 parliament decided that the replacement rate should decrease automatically by 3 percentage points after every year of benefit receipt.

Regarding SA the general retrenchment trend continued. In 1983 housing subsidies were limited and indexation was weakened through a revision of the guidelines. In 1990 it was decided to incrementally introduce a new method of calculating the basic amount of SA. This was set to result in lower benefits. In 1993 and 1996 indexation was again constrained. In 1993, in addition, the means-test was tightened. Besides this continued retrenchment a new development was that 'activation' measures, as typical for dedicated unemployment benefits (i.e. UI and UA), were now adopted also for SA. Thus, in 1993 a law introduced the instrument of obligatory and sanctionable

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<sup>14</sup> In addition to cutting benefits, the government reacted to the cost explosion in labour market policy with the biggest single increase in the UI contribution rate of the post-war period (effective from 1991). Apart from benefit transfers also active labour market programmes were used to absorb the upsurge in unemployment, which helped at the same time to disguise the effective numbers of jobless statistically (cf. also Zohlnhöfer, 2001, 670-678).

<sup>15</sup> The expanded durations enabled many older unemployed to move from joblessness directly into early retirement. This contributed to the well-known vicious circle of the German and other Continental welfare states: social programmes, such as early retirement, supported firms' labour shedding, which increased social contributions, which impeded job creation, which aggravated unemployment, which, in turn, was approached by reducing labour supply through social programmes and so forth.

community work, and in 1996 another reform specified sanctions for unemployed SA recipients that decline work offers. This development reflected the fact that continuing mass unemployment, a high share of long-term unemployment, and more restricted access to dedicated benefits had relegated increasing numbers of unemployed to SA. Accordingly, Figure 3 shows how the rate of unemployed receiving UI declined steadily right from the beginning of the retrenchment phase in 1975. Although the beneficiary rate of UA increased, it did not make up for the decline of UI. At the bottom of this trend, around 1986, only 63% of the unemployed were receiving dedicated benefits.<sup>16</sup>

- figure 6 about here -

Therefore, not only was the differential treatment of different groups of unemployed in terms of generosity very clear in this period. In addition, an ever greater share of the unemployed received compensation from the less generous schemes. Schmid and Oschmiansky comment in clear words on the development of the 1980s:<sup>17</sup>

“To be sure, the three-fold stratified system of social protection against unemployment was accentuated: ‘merit-oriented’ unemployment insurance was hardly affected in its generosity level, rather it was being concentrated even more on the core groups of the labour market. ‘Need-oriented’ unemployment assistance, itself moderately cut back, catered increasingly to those unemployed excluded from insurance [...]. ‘Relief-oriented’ social assistance, finally, increasingly had to take care of those left over. [...] this burden restrained more and more the freedom of action of local authorities. Many of them started to increase the pressure on unemployed social assistance claimants” (Schmid and Oschmiansky, 2005: 281).

Yet another remarkable SA reform was in 1993 the exclusion of asylum seekers from SA. This step abolished the universal character of the scheme. It resulted from linking the debate on social policy cost containment to an immigration debate that had been triggered by xenophobic sentiments in parts of the population.

The last sub-period of incremental retrenchment was the first period of office of the Social Democratic and Green government (1998-2002). Although mixed in its nature this period generally displayed a pattern similar to the previous years of incremental reforms. Right after the parliamentary election, the new coalition repealed in 1999 some cut-backs that the black-yellow

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<sup>16</sup> The average of the combined beneficiary rate of UI and UA for the years 1960-1975 is 74%, while for the years 1976-1990 it is only 66%. The huge differences in unemployment rates between the two periods (see figure 1) imply of course that also the beneficiary rates have a different significance. Note, furthermore, that the skyrocketing UA beneficiary rate in 2005 and 2006 is explained partly by the inclusion of previous (unemployed) SA recipients in the new UA scheme (implemented in 2005) and, more importantly, by the fact that the new scheme pays also to employed persons with low incomes.

<sup>17</sup> For a similar assessment see Clasen (2005: 64-67).

coalition had adopted, such as the reduction of the calculation basis for benefit levels and the deduction of redundancy payments from benefit payments. While mainly UI recipients benefited from these measures, the same law abolished UA for unemployed who had not previously received UI. Therefore all jobless not eligible for UI were now referred to SA. On the other side, in the context of an active labour market policy reform in 2001, an opportunity to avoid annual UA benefit reduction was introduced on the condition of participating in a training measure.

### Fundamental reforms

In the years 2002-2004, during the second term of the red-green coalition, the German parliament adopted a range of comprehensive labour market reforms based on the recommendations of an expert commission that had been chaired by *Volkswagen* manager Peter Hartz. The reforms were divided into four legislative packages. Apart from a fundamental reform of the unemployment benefit system (Hartz IV reform), they included an organizational reform of the Public Employment Service and a range of new active labour market policies (cf. Kemmerling and Bruttel, 2006). The most important change in unemployment compensation was the fusion of UA and SA. A totally new UA scheme was set up (*Arbeitslosengeld II*) for all jobless persons who do not receive UI. Accordingly, all SA claimants capable of working (i.e. not only those looking for work) were referred to this new scheme. At the same time, the kind of benefit (flat-rate, means-tested) and its level of generosity are essentially similar to SA. Therefore, all existing UA claimants were referred from their previous earnings-related benefit to the new flat-rate benefit with stricter means-test, conditions of receipt and sanctions. This meant for the majority of beneficiaries to be downgraded to a less generous benefit (cf. Becker and Hauser, 2006).<sup>18</sup> However, the Hartz reforms affected UI as well. Most significantly, the maximum duration was limited to a standard of 12 months and to 18 months for over 54 year-olds. Conditions of benefit receipt were made stricter, mainly by enlarging the definition of 'suitable work'. Also contributory conditions of eligibility were tightened, thus making the scheme less inclusive.

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<sup>18</sup> The change did not make all UA recipients worse off because of the modest replacement rate of the old scheme and the resulting benefit levels for people with low previous earnings. For this reason, some previous UA recipients had actually fallen below the SA assistance level and not all of them had claimed SA to top up their UA benefit. So, unemployed in this group gained when they started receiving the new UA (Becker and Hauser, 2006; cf. also Alber, 1989: 181).

#### 2.4. Comparative summary

Let us look at the two overall phases of welfare state expansion and restructuring separately. Coming from a relatively similar previous policy history, in the Golden Age of welfare state expansion Italy and Germany established vastly different unemployment benefit systems. Three differences can be highlighted. First, generosity differences were much wider in the Italian case, where the benefit systems comprised some very generous benefits mainly restricted to medium-sized and large industrial firms, a low-paying general UI, income support schemes in on the same benefit level as UI, and no minimum income scheme for those who did not qualify for any of the dedicated unemployment benefits. The German post-war benefit system, by contrast, was clearly stratified into three tiers but with lower generosity differences between the tiers. Thus the net replacement rate of the most generous benefit in Germany (UI) in the beginning of the 1970s was more than 20 percentage points below the net replacement rate of the most generous benefit in Italy (CIGS) and the basic floor in the German benefit system (SA) was 20 percentage points above UI in Italy (not accounting for the housing payments of SA).

Second, the two benefit systems consisted of very different kinds of benefits, the main components of the Italian benefit system being wage supplementation benefits, flat-rate UI and a gap of protection at the bottom end and in the German case UI, earnings-related UA, and SA. Moreover, unemployment compensation was (and still is) much more fragmented, being composed of a variegated range of occupationally defined schemes, as opposed to only three benefit programmes in Germany.

Note that these first two differences are typical for distinguishing the Southern European model of welfare from other Continental welfare states (cf. Ferrera, 1996). In this respect analyzing the reasons for why these differences emerged gains additional significance. Needless to say, that in a more comprehensive welfare regime perspective (cf. Esping-Andersen, 1999) the protection gap at the bottom of the Italian system is filled to a large extent by the family. In this work, however, I focus on government policies.

A third difference between Italian and German unemployment compensation in the phase of welfare state expansion lies in the sequence of reforms. In Italy after first reconstruction measures unemployment compensation was largely neglected. In the 1960s and 1970s a wave of reforms then led to the emergence of the generous upper level of benefits. In Germany after provisional



reconstruction already in the 1950s the main features of the post-war system were established. This system was then maintained during further expansion. This observation on the timing and sequence of reforms implies that in Germany the main period to be explained is the establishing of the post-war system during the second half of the 1950s. By contrast, in Italy two aspects have to be accounted for: the failure to introduce a comprehensive system of unemployment benefits in the 1950s and the lopsided character of the expansion that followed in the 1960s and 70s.

Turning to the overall phase of welfare state restructuring we find first a similarity. In both countries in spite of problem pressures only moderate or incremental reforms were adopted during the first 10 to 15 years of restructuring. The pace of reforms speeded up in Italy at the beginning of the 1990s and in Germany at the end of that decade. Yet, in Germany even in the early reform years a common tendency was visible while the picture was more mixed in Italy. More interesting is, however, the different effect that reforms had on the benefit systems. In Italy the upper benefit level was gradually reduced and the lower benefit levels (UI and SA) were upgraded. This reduced benefit segmentation, even though in the end introduction of a minimum income scheme failed.

In Germany, by contrast, the long phase of incremental retrenchments led to an increase of segmentation, both in terms of higher generosity differences and in terms of lower inclusiveness. The case of the Hartz reforms is more complex. The new UA scheme is much more inclusive but its benefit is on roughly the same level as SA. Moreover, it is true that also UI was made less generous (by cutting durations) but at the same its qualifying conditions were tightened making it less inclusive. So, overall, also this reform has increased segmentation.<sup>19</sup> However, we have to keep in mind that the Hartz reforms are distinct from the previous changes because, first, they altered the structure of the benefit system, and because, second, they affected labour market groups that had previously been spared from retrenchment.

Therefore, recent reforms have by and large reduced segmentation of unemployment benefits in Italy and increased it in Germany. Speaking in terms of tendencies and exaggerating a bit, we can say that the outsiders that have been disregarded during expansion have re-appeared in the later reform phase in Italy. By contrast, in Germany social and labour market outsiders have been taken into care of during welfare state expansion but marginalized during welfare state restructuring.

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<sup>19</sup> In this perspective my account goes along with other recent studies that have found tendencies of dualization or segmentation in the German labour market and welfare state (Palier and Thelen, 2008; Karcher, 2008; Clegg, 2007).

### **3. The role of party competition for explaining the different trajectories: Preliminary hypotheses**

As mentioned in the introduction, my dissertation focuses on how party competition has shaped reforms of unemployment benefits in Italy and Germany. Party competition has its own dynamic that makes it partially autonomous from social class structures, economic models and institutions (Sartori, 1990 [1968]; Ferrera, 1993). This independent dynamic of competition is conditioned by the spatial constellation of the party system. The positioning of parties in political space determines where competition between parties is concentrated and, consequently, the preferences of which groups of the electorate are taken into account by the policy decisions of parties (cf. Sartori, 1976, ch. 10; Kitschelt, 2001). Therefore, in addition to the party system we have to account for the distribution of policy preferences in the electorate. Overall, the main logic of this argument is that the policy choices of parties are conditioned by the presence of other parties and that parties move in the political direction with the greatest expected net gain of votes (i.e. accounting for the possible loss of votes on the side they move away from).

The comparison of the two policy developments has brought up three puzzles. First, why have the two trajectories diverged so clearly after World War II? Second, why has benefit segmentation been reduced during recent reforms in Italy? Third, why has segmentation been increased during the reform phase in Germany? Here I propose only some preliminary hypotheses (in a general sense) as to the role that party competition plays in answering these questions. If I do not discuss alternative explanations this does not imply that I rule out their relevance. Rather, I deliberately focus on one theoretical perspective that has received little attention in the field of Comparative Welfare State research. I take up the mentioned questions in turn.

For explaining the post-war path of unemployment benefits in Italy two phases are important: the relative neglect of unemployment compensation in the 1950s and the lopsided expansion in the 1960s and 70s. In both phases the party system was characterized by polarized pluralism (Sartori, 1976). Why unemployment benefits played such a minor role during the 1950s is not very clear. I presume that these years have to be seen in the light of a strong competition between two political forces with widely different ideologies, one led by the DC the other led by the PCI. In this context two factors conditioned the relative disinterest in unemployment benefits. First, the problem of unemployment was simply seen in different terms. Especially the communist left, including the CGIL, apparently had no interest in state benefits that help those who lost out on the capitalist

market. Rather they wanted the state to govern the economy in a way that prevented unemployment, such as through large investments in infrastructure. The advocates of a capitalist economy on the other side had to respond to this challenge. Second, to the extent that it was not clear which side in this political confrontation would prevail the DC-led government focussed more on the control of institutions such as the Public Employment Service and on discretionary means to combat unemployment. The latter could be used to win and stabilize the support of specific parts of the electorate without setting up broad benefit programmes, which in case of a change of government would then be controlled by the other side.

When the PSI moved more towards centre and entered a coalition with the DC, the economic and political situation of the country was more consolidated. Given the centre-left positioning of the PSI there was some competition between DC and PSI and, even more so, between PSI and PCI. Overall, this competition was disciplined by the radical left side of the electorate. Small incursions by left parties to the centre were immediately punished in the next election or gave rise to a splinter party. Therefore the PCI defended the interests of industrial workers and the PSI could not afford to go against these interests. I hypothesize here that the political process behind the expansion of CIGO and CIGS is analogous to the field of pension reform in the 1960s (cf. Ferrera, 1993).

In the German case, right after World War II the party system was relatively fragmented and polarized. However, almost immediately a process of concentration and de-polarization began. Therefore, by the middle of the 1950s party competition followed already a centripetal logic.<sup>20</sup> The main competition was between the two dominant centre-right and centre-left parties, CDU and SPD. Thus, the governing CDU had to mobilize consensus from central and broad parts of the electorate including consistent parts of the working class. This favoured the emergence of relatively inclusive and generous but however occupationalist UI and UA, as well as, only later and economic conditions permitting, SA.

For the phase of welfare state restructuring I hypothesize that since the formation of the National Solidarity governments in Italy a slow and gradual process of de-polarization took place. For this reason towards the end of the 1980s and still before the shake-up of 1992 some innovative reforms could be introduced (new benefit calculation of UI and mobility benefit).<sup>21</sup> During the technical

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<sup>20</sup> The SPD congress in Bad Godesberg which adopted a decisively more moderate party programme took only place in 1959 but it was the end point of a process that had started in the beginning of the decade.

<sup>21</sup> It is less clear, however, why already in 1980 the benefit ceilings to CIGS could be introduced with a method of indexation that was bound to make them more restrictive.

governments party competition was to some extent suspended (cf. Ferrera and Gualmini, 2004). The structure of competition that emerged thereafter remains in flux. However, I argue that it can be described as distorted bipolarism. I hypothesize that the electorate on both sides of the political spectrum has moved towards centre. Nevertheless, there is little competition between both camps as only few voters switch sides. Therefore consistent parts of electoral competition are going on within each side of the political spectrum, thus assigning an important role to the central voters *within* each side. This dynamic is reinforced by coalitional dynamics and the need to keep together very diverse governing coalitions. For centre-left parties this constellation of distorted bipolarism implies that they have to find reform projects that appeal to centre voters but do not alienate the coalition partners on the left margin. I argue that the upgrading of UI and the SA reform corresponded to these requirements. They implied a modernization and rationalization of the welfare state but in expanding benefits appealed also to left-wing preferences.

In Germany, centripetal competition continued during welfare state reform. The combination of reform pressures and high welfare consensus among the electorate implied that only marginal and electorally less significant groups were affected during the incremental retrenchment phase. Before the Hartz reforms, a limited shift in public opinion in favour of reforms pushed the SPD to compete harder in the centre of the political spectrum. In doing so it was not constrained by relevant left-wing competitors.

As mentioned, especially for the Italian case, these hypotheses are still preliminary and have to be revised and consolidated. The analysis will then concentrate on the later phase of welfare state restructuring. For this purpose I will analyze party positions and strategies as well as the policy and party preferences in the electorate.<sup>22</sup>

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<sup>22</sup> For the German case this has already largely been done (see Picot, 2008).

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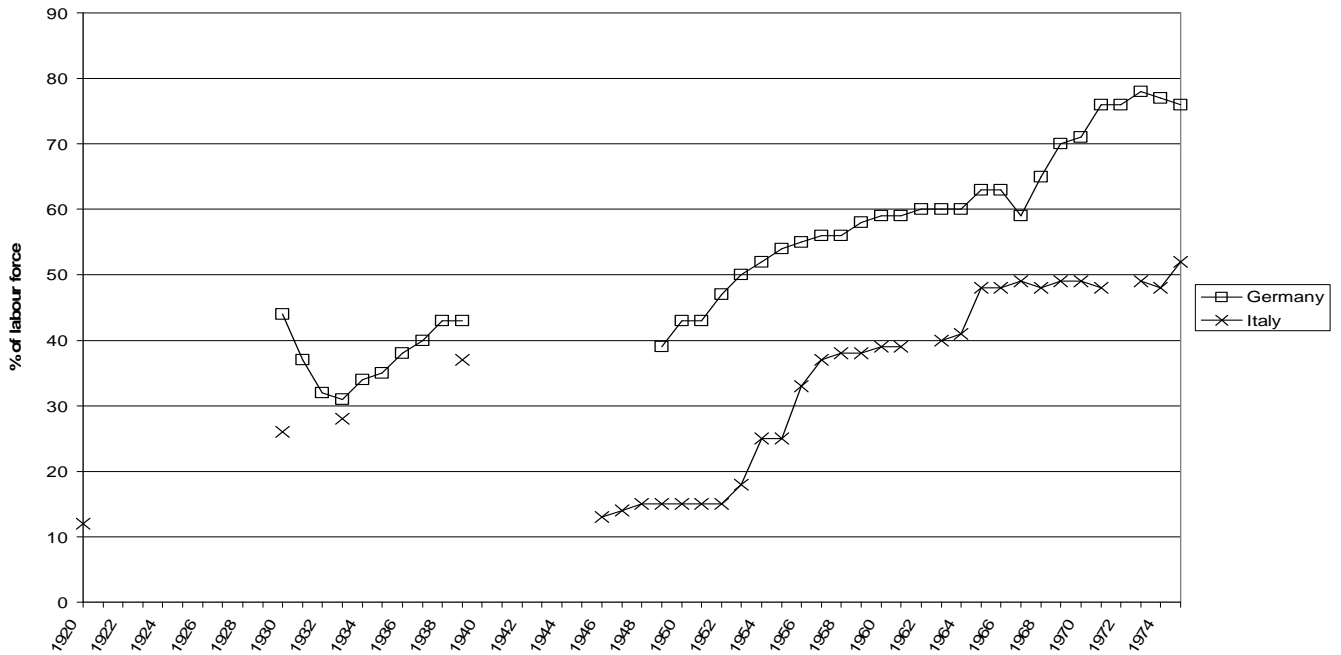
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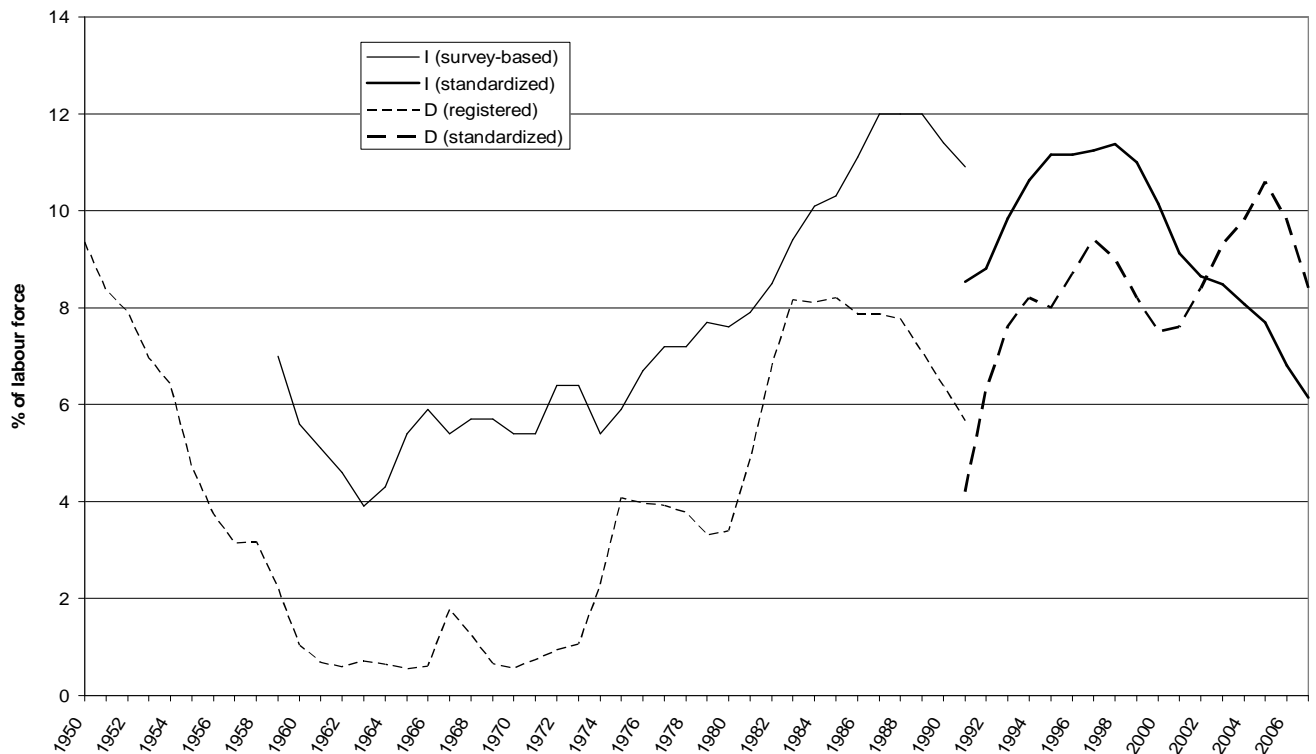
## Figures

**Figure 1: Coverage rates of unemployment insurance in Italy and Germany.**



Source: Flora et al. (1983)

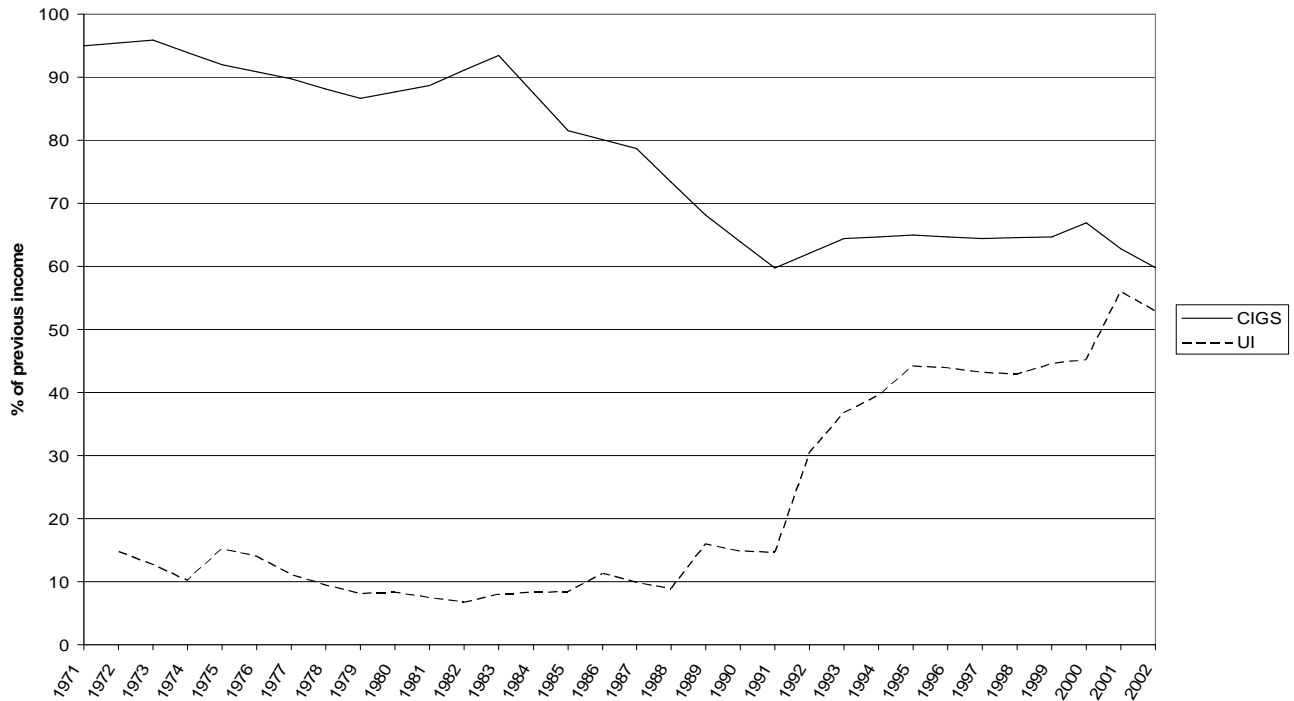
**Figure 2: Unemployment rates in Italy and Germany.**



Sources: OECD.Stat, for registered rate D: Federal Ministry of Labour and Social Affairs (2007), OECD.Stat, own calculations.



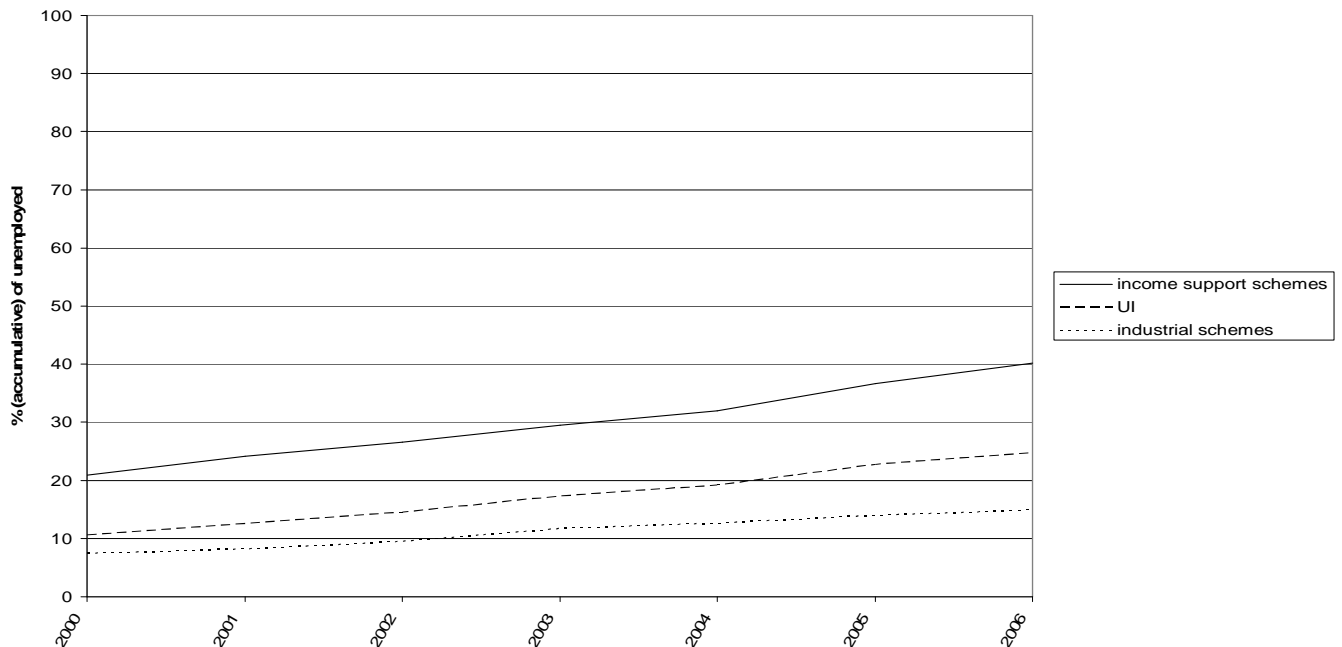
**Figure 3: Net replacement rates (NRRs) for CIGS and unemployment insurance in Italy.**



Sources: Scruggs (2004), INPS circulars, own calculations.

Note: CIGS data is partly interpolated.

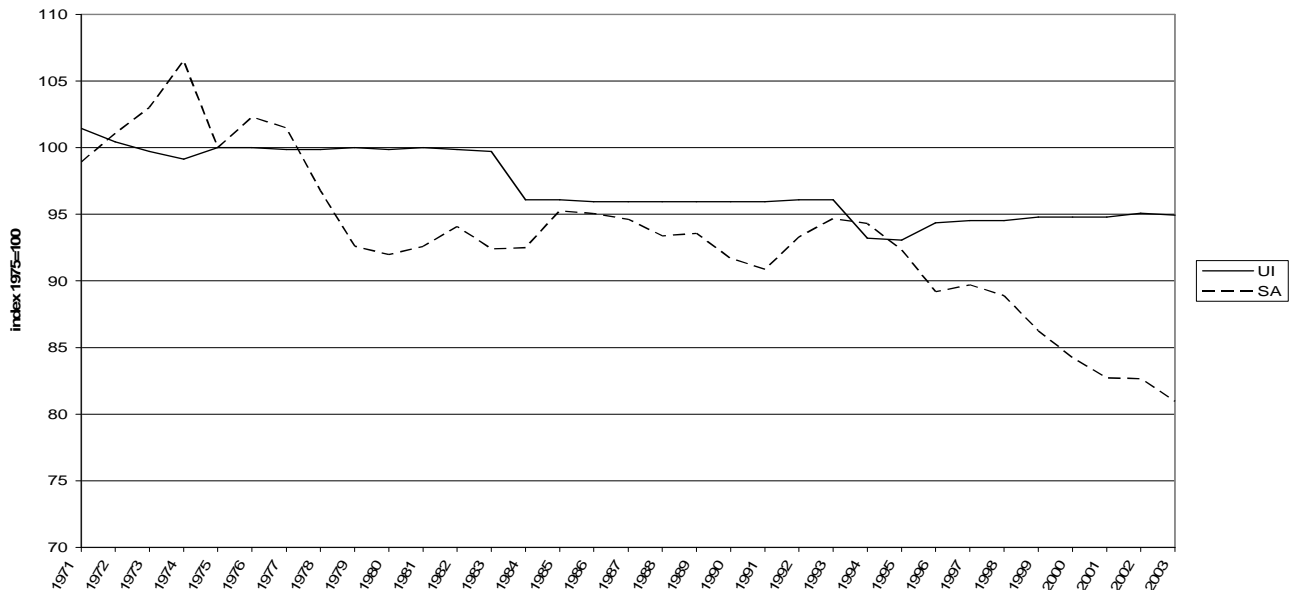
**Figure 4: Beneficiary rates aggregated into three groups of benefit schemes in Italy.**



Sources: Ministry of Labour and Social Protection (based on data by INPS) for beneficiary numbers, OECD for unemployment, own calculations.

Notes: Income support schemes include: UI reduced requirements, UI agriculture (normal, reduced requirements, special 40%, special 66%). UI included normal UI and UI for construction sector. Industrial schemes include: CIGO, CIGS, Mobility, special construction benefit, bilateral funds (credit sector, credit cooperative, ex-monopolies).

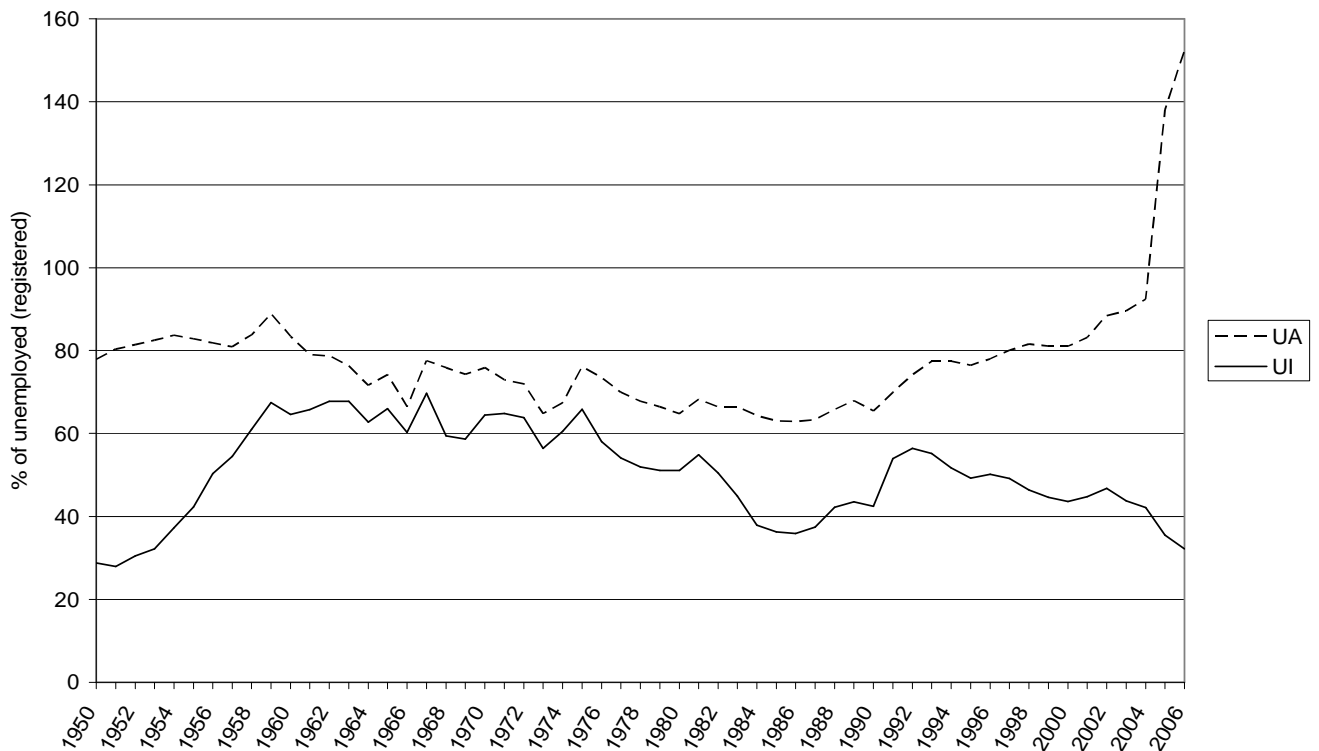
**Figure 5: Net replacement rates (NRRs) for unemployment insurance and social assistance, indexed 1975=100, Germany.**



Sources: Scruggs (2004), Federal Ministry of Labour and Social Affairs (2007), MISSOC, own calculations.

Notes: The NRR for SA is based on standard amount and family supplements not on additional payments (e.g. for housing). Both NRRs are unweighted averages for two household types.

**Figure 6: Beneficiary rates for unemployment insurance and unemployment assistance, Germany.**



Source: Federal Ministry of Labour and Social Affairs (2007), own calculations.

Note: Lines are accumulative.