SUCCESS AND FAILURE IN PUBLIC PENSION REFORM:
THE ITALIAN EXPERIENCE

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<tbody>
<tr>
<td>AN</td>
<td>Alleanza Nazionale</td>
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<tr>
<td>AD</td>
<td>Alleanza Democratica</td>
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<tr>
<td>CCD</td>
<td>Centro Cristiano Democratico</td>
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<td>CDU</td>
<td>Cristiani Democratici Uniti</td>
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<td>c.f.</td>
<td>confer</td>
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<tr>
<td>CGIL</td>
<td>Confederazione Generale Italiana del Lavoro (union)</td>
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<td>CISL</td>
<td>Confederazione Italiana dei Sindacati (union)</td>
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<tr>
<td>Confindustria</td>
<td>Italian employers’ association</td>
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<td>CS</td>
<td>Cristiani Sociali</td>
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<td>DC</td>
<td>Democrazia Cristiana</td>
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<td>DN</td>
<td>Destra Nazionale</td>
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<td>DP</td>
<td>Democrazia Proletaria</td>
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<tr>
<td>ECJ</td>
<td>European Court of Justice</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FDS</td>
<td>Federazione liberal-socialista Unione dei Democratici e dei Socialisti</td>
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<tr>
<td>FI</td>
<td>Forza Italia</td>
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<tr>
<td>FPLD</td>
<td>Fondo Pensioni Lavoratori Dipendenti (National Pension Fund)</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>INPDAI</td>
<td>Istituto Nazionale per i Dirigenti di Aziende Industriali (National Social Insurance Institute for Entrepreneurs)</td>
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<td>INPGI</td>
<td>Istituto Nazionale Previdenza Giornalisti Italiani (National Social Insurance Institute for Journalists)</td>
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<td>INPS</td>
<td>Istituto Nazionale di Previdenza Sociale (National Social Insurance Institute)</td>
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<td>LN</td>
<td>Lega Nord</td>
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<td>MSI</td>
<td>Movimento Sociale Italiano</td>
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<td>PAYG</td>
<td>Pay-As-You-Go</td>
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<td>PCI</td>
<td>Partito Comunista Italiano</td>
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<td>PDS</td>
<td>Partito Democratico della Sinistra</td>
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<td>PLI</td>
<td>Partito Liberale Italiano</td>
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<tr>
<td>PPI</td>
<td>Partito Popolare Italiano</td>
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<td>PR</td>
<td>Proportional Representation</td>
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<td>PRI</td>
<td>Partito Repubblicano Italiano</td>
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<td>PSDI</td>
<td>Partito Socialista Democratico della Sinistra</td>
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<tr>
<td>PSI</td>
<td>Partito Socialista Italiano</td>
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<tr>
<td>RC</td>
<td>Rifondazione Comunista</td>
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<td>RS</td>
<td>Rinascita Sociale</td>
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<tr>
<td>SSD</td>
<td>Single-Seat-District</td>
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<td>SVP</td>
<td>Südtiroler Volkspartei</td>
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<td>UIL</td>
<td>Unione Italiano di Lavoro (union)</td>
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1. Introduction

1.1. The Puzzle

During the 1990s Italy has been exceptionally active when it comes to reforms within the fields of social and labor policy. This reform wave surprises the observer of Italian politics against the background of policy gridlock throughout the last decade of the First Republic. This thesis intends to answer two questions: First, which factors contributed to the ‘season of reform’ (Ferrera and Gualmini 2000b, S.187) and made it possible for Italian governments to pass public pension reforms during the Second Republic? Second, which reasons contributed to the fact that although many reforms have been proposed no far-reaching reform has been passed during the last decade of the First Republic? It is important to mention that success and failure do not refer to long-term effects or financial savings of the reforms. I define reforms as successful, if they pass the parliament, analogously failure describes reforms that do not pass the parliament.

The answer to this question is of scientific interest in two ways. First, the thesis integrates theories dealing with pension politics as well as theories referring to the transition from the First to the Second Republic. It relates the implications of this regime shift to the field of pension politics. Second, it contributes to the existing literature in the field of social policy because it deals not only with successful reforms which passed the parliament but also with those reforms which have been blocked in the legislative process. The literature on failed reforms is very rare up to this point, although it might offer interesting insights for policymakers\(^1\). Therefore I am going to confront the pension reform attempts of the last decade of the First Republic (1980-1991) with the reform attempts of the Second Republic (1992-1995).

Italy’s pension reforms in the 90s (Amato 1992, Dini 1995, and Prodi 1997\(^2\)) stand out in comparative European perspective due to the fact that they were very ambitious and far-reaching. But although, many authors (Castellino 1996; Ferrera 1996; Klammer 1997; Baccaro 2002) have mentioned policy gridlock throughout the 1980s, very few have examined the reasons for the permanent failure in pension politics (Franco 1993; Canziani and Demekas 1995). “Beginning with the 1970s virtually every government sought to reform the pension system. Yet, none of these reform projects ever saw the light of day” (Baccaro 2002).

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\(^1\) Pitruzello wrote an interesting article on the failed reforms in Italy and France (Pitruzello 1997).
\(^2\) Prodi will not be investigated since I will compare pension reform attempts between 1980 and 1995.
Due to the neglect of this period in the political science-literature it seems worthwhile to investigate the reasons for the incapacity of governments to pass public pension reform at the end of the First Republic, in the light of the reform wave of the 1990s. Which reasons explain the fact that numerous reforms have been proposed between 1980 and 1991 but none of them has ever passed the legislative arena? And which changes occurred during the transition period in the early 1990s, that made the unexpected success in public pension reform feasible? I expect that the regime shift had the consequence of a profound change of the ‘rules of the game’ altering the political context and therefore the feasibility for pension reform.

Answering this question requires a profound analysis of the ‘usual suspects’ (Schwartz 2001) in public pension reform: demographic and economic problem pressure, Europeanization, social pacts, political institutions and executive strength, and the party constellations. These are the independent variables of my research design. My dependent variable is success in public pension reform. As mentioned above, reforms are considered to be successful, if they pass the parliament. They fail, if they do not get approved by the parliament. Therefore I will investigate reform efforts between 1980 and 1995, with a deeper analysis of the legislative process of the Dini reform, since this reform has been the most far-reaching reform in Italy but in comparative perspective as well.

I will adopt a qualitative approach in this thesis. Pension politics and legislative processes will be reconstructed on the basis of primary sources, such as parliamentary debates, statements of parties, unions, and employers’ associations, annual reports of the different associations, and articles out of newspaper archives.

After the description of the research question, I will lay down the theoretical framework of this thesis integrating theories on retrenchment politics and theories dealing with the regime shift from the First to the Second Republic. The third chapter will give an overview about the institutional structure of the political system of Italy. The evolution of the Italian welfare state will be outlined in the fourth chapter. The case study describing the Italian experience in public pension reform is divided into two parts (Chapter 5 and 6) related to the First and the Second Republic. Chapter 7 will analyze the results of the case study with respect to the hypotheses derived out of the theoretical framework (c.f. Chapter 2.4.). Chapter 8 summarizes the results of the analysis and gives and outlook for potential future research.

3 According to Immergut the ‘rules of the game’ define the political logic for each nation. “This is a logic that public policy, no matter how technical the subject matter, cannot escape” (Immergut 1992a). Due to the transition from the First to the Second Republic it is expected that the rules of the game have changed.
2. Theoretical Framework

It is the objective of this thesis to answer the question, why several attempts in reforming the public pension system during the last decade of the First Republic failed, whereas the attempts during the Second Republic have been successful in two cases, but unsuccessful in a third case?

The formulation of the research question shows that explaining the phenomenon solely with theories about public pension reform will not suffice. It also requires a consideration of the regime shift from the First to the Second Republic. This transition, which took place between 1992 and 1994, makes Italy a very interesting case for political scientists. The fundamental changes in the political coordinate system implied fundamental changes for policymaking. That’s why explanations for success and failure in public pension reform during the First and Second Republic cannot neglect the changes which occurred in the political framework. I will present a comprehensive theoretical approach in this thesis integrating theories about policymaking during the First Republic, about the transition period from the First to the Second Republic, and theories about pension politics and the retrenchment of welfare state arrangements. I am expecting that the combination of these dimensions will offer a fruitful approach in solving the puzzle.

Accordingly, three different parts form the theoretical framework of this thesis. The first part describes important characteristics of the Italian political system during the First Republic, particularly the electoral rules, the post-war party system and the clientelistic nature of the Italian system. The second part focuses on the shift from the First to the Second Republic, mainly on the Tangentopoli scandal, the restructuring of the old part system and the new electoral rules. The third part turns to the theories about pension politics and the retrenchment of welfare state arrangements. The hypotheses will be derived out of these different strands. In a later chapter they will be applied to the Italian case.

2.1. Special Characteristics of the Italian Political System during the First Republic

The following paragraph addresses some special characteristics of the Italian system during the First Republic focusing on the post-war party system, the dominance of the Democrazia Cristiana, the old electoral system, and the clientelistic nature of Italian politics.
2.1.1. The Post-War Party System and its Effects

In 1966 Giovanni Satori characterized the Italian party system as a system of ‘polarized pluralism’ (Sartori 1966). This form of pluralism portrayed the Italian party landscape from the 1940s to the 1990s. Wellhofer has described the system of ‘polarized pluralism’ as follows (Wellhofer 2001, p. 157):

- “a wide ideological spectrum populated by a large number of parties,
- a high degree of ideological polarization and party fragmentation,
- a center ground occupied by a large moderate party essential to any coalition government since,
- the parties at the extremes of the ideological spectrum were excluded as legitimate coalition partners, and
- an electoral system, in the Italian case proportional representation (PR), which discouraged parties from electoral alliances, thus reinforcing the centripetal forces already present.”

The Italian post-war party system had the characteristics: The Democrazia Cristiana (DC)4 was Italy’s dominant party in post-war Italy. The party’s national mean vote share was 38.2% between 1946 and 1991. They provided every Prime Minister during the First Republic, except of two times (Spadolini of the Partito Repubblicano Italiano – PRI and Craxi of the Partito Socialista Italiano - PSI). They were part of every government coalition. Their ministers occupied influential posts in every cabinet, but also in the local offices in the major cities (Furlong 1996). Despite this dominant position the Democrazia Cristiana was dependent on coalition partners to secure its majority in the parliament. They gained the absolute majority only for one time in 1948. In all the other cases, they needed support of the smaller parties. “At the center of the governing camp, the DC has faced competition from both the left and the right. It has generally attempted to reduce the negative effects of this situation by incorporating both sides within the coalition. Centre-left and centre-right parties have typically had opposite interests” (Verzichelli and Cotta 2000, p. 442). PSI, PSDI, and PRI had always a very high degree of competition for the limited political space between the two dominant political parties (Democrazia Cristiana and Partito Comunista Italiano 5). Within the DC several factions have worked at cross purposes in pushing different alliances. “The results were coalition governments of remarkably short duration populated by ministers with remarkably long political careers. Italian politics demonstrated great stability within the epiphenomena of instability characterized as ‘stable instability’, in which a small number of parties were permitted access to governing and all coalitions cen-

4 In the Table A 2.1 I have listed the names, abbreviations, and English translations of the parties, which will considered in this paper.
5 A more thorough description of the Partito Comunista Italiano will come later in this paragraph.
tered on the Christian democrats” (Wellhofer 2001, p. 158). The seven parties who dominated the post-war political scene enjoyed relatively stable support between 1946 and 1992. On a left-right scale they can be categorized as follows: Partito Comunista Italiano (PCI), Partito Socialista Italiano (PSI), Partito Socialista Democratico Italiano (PSDI), Democrazia Cristiana (DC), Partito Liberale Italiano (PLI), Partito Repubblicano Italiano (PRI), and Movimento Sociale Italiano (MSI). The PCI can be categorized as the extreme left party, whereas the PSI and PSDI were moderately leftist. The DC was the dominant centrist party, whereas the PLI and PRI were conservative. The MSI was the extreme party of the right.

Besides the hegemony of the DC the Italian party system was characterized by ‘imperfect bipartism’, which described the concentration of the Italian party system around the two dominant parties the Democrazia Cristiana and the Partito Comunista Italiano. The PCI was excluded constantly from government for the entire post-war period. This was the result of the so-called conventio ad excludendum: un unspoken agreement between the DC and its coalition partners (PSI, PSDI, PRI, PLI) to exclude the PCI because of its perceived anti-system nature (Newell and Bull 1997, p. 82).

The exclusion of the PCI had three consequences for the Italian political system: firstly, the governments were highly instable. The smaller coalition partners knew that they could afford to quarrel, since it was certain that they would remain in office. Secondly, the governments were ineffective since their was little need for competition between parties on policies. Hiwatari described this phenomenon as policy neglect, which implies that “incumbents ignore responsible policy in order to maximize responsiveness to voters” (Hiwatari 2001, p. 7). Thirdly, “governing-party rivalry gave rise to a politicisation of the state apparatus as the governing parties engaged in ‘sharing out’ (lotizzazione) of ministerial and administrative posts according to the bargaining power of each” (Newell and Bull 1997 p. 82). As a consequence of this stability parties were able to establish long lasting clientelistic networks with their constituencies.

With respect to the welfare state, Italy has always been described as a particularistic-clientelistic welfare state (Ferrera 1996, p. 25). According to Ferrera the ‘Southern Model’ is characterized by a double deficit of ‘stateness’. “On the one hand, they display a low degree of state penetration of welfare institutions […] On the other hand, they also display a low degree of state power proper – public institutions in these countries are highly vulnerable to partisan pressures and manipulations” (Ferrera 1996, p. 25). Welfare manipulation takes the form of political clientelism, i.e. favors exchanged for support to a public organization, in most cases votes for certain parties. These practices are widespread in all democracies. The decisive difference lies in the kind of relationship between electorate and welfare benefits. In most of the countries the relationship is impersonal and not immediate, whereas in Italy, and other Mediterranean welfare states, a real exchange of individual votes for
individual benefits occurs (the so-called *voto di scambio*) (Ferrera 1996, p. 25). The Italian parties during the First Republic (especially the *Democrazia Cristiana*) have been described as ‘mass patronage parties’. Clientelism within the welfare state structure in exchange for preference votes has been spread in two ways:

1. through the partisan penetration of the welfare administration (not only the upper end of the administrative echelon, but especially the lower end, i.e. at the point of discretionary provision of benefits);
2. through the by-passing of the welfare administration via the creation of special committees/commissions (of political recruitment), entrusted with the discretionary powers with respect again, to the provision of single benefits” (Ferrera 1996, p. 26).

One example for clientelistic ties have been the catholic associations, which held a very strong position in the Italian political landscape and had very close contact to the DC. This has been advantageous for the DC: First of all, the catholic associations gave external legitimacy to the party. Second, their far-reaching structure built the societal basis for the DC, including their membership and their ruling class. The catholic associations were therefore a very strong pressure group, asking for various kinds of support, which has been offered generously by the government in form of political acceptance, exertion of influence in decision-making processes, and financial support. Whereas the three confederal unions had special ties to other parties: the *Confederazione Generale Italiana del Lavoro* (CGIL) comes from the communist-socialist camp and was therefore tied to the PCI. The *Confederazione Italiana dei Sindacati* (CISL) had a close relationship to the *Partito Socialdemocratico Italiano* (PSDI), whereas the *Unione Italiana del Lavoro* (UIL) was closely linked with the *Partito Repubblicano Italiano* (PRI).

The relation of the government with the employers’ associations has been ambiguous. The largest employers’ association, the *Confindustria*, had a tensed relationship with the government, especially during the 1960s and 1970s. A closer cooperation has been established between the government and the employers’ association of farmers, artisans, and traders. Trentini and Zanetti have characterized those associations as ‘side wings’ of the *Democrazia Cristiana*, which held very strong clientelistic exchanges with these associations (Trentini and Zanetti 2001).

Mershon and Pasquino summarize the First Republic as follows: “The lack of alternation has given rise to almost all of those defects in the Italian political system […]: inadequate turnover in, and thus the aging of, the political class; insufficient circulation of ideas and programs and thus ineffective public policies; and a crystallization of relationships between members of government and interest groups and hence systemic corruption” (Mershon and Pasquino 1995).
2.2. The Transition from the First to the Second Republic

The events of the early 90s in Italy “signaled a change within one regime type: a transition from one democratic regime, now worn-out and unable to renew itself, to a different democratic regime” (Mershon and Pasquino 1995, p. 42). The passage of one regime to another altered the democratic rules of the game. Four dimensions need to be considered in assessing the aspects of change in Italy: a mutation of the Italian party system; a change in the composition of government; new institutional rules; and a change in the relationship of society, politicians and political institutions. The main trigger of the transition from the First to the Second Republic was the tangentopoli-scandal starting in 1992 having a considerable impact on the restructuring of the party system and the changes in the electoral law.

2.2.1. Tangentopoli (Bribe City)

The tangentopoli scandal began in early 1992, with the arrest of Mario Chiesa (a middle-ranking figure in the Milan socialist party) on charges of corruption. The resulting mani pulite (clean hands) investigation quickly spread to engulf the leaders of all government parties, and to implicate them not only in simple bribe and kickback taking, but with mafia criminality as well (Katz 2001). The scandal revealed centrally organized systems of illegal financing of political parties and corrupt agreements between politicians and businessmen. First the political parties denied their knowledge and involvement, hoping that a relatively minor case of corruption would vanish out of the public’s attention. But the careful preparation and determination of the judges, especially Antonio di Pietro, to reveal the complex network of political criminality, led to the “end of the Christian Democratic-Socialist axis run by the powerful CAF triumvirate of Craxi, Andreotti, and Forlani” (Nelken 1996, p. 192). The enquiries have led to the so-called Cusani trial. The ‘father of all trials’ as it has been named by di Pietro, “saw a succession of charges, arrests, and measures of preventive custody concerning ministers, party leaders, and treasurers, parliamentarians (at one time as many as a third of them were under investigation), administrators, civil servants, businessmen, financial journalists and members of the secret services” (Nelken 1996, p. 193). The mani pulite-investigation led to a renewal of the Italian political class and a huge turnover of politicians within the parliament.

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6 This was the codename given by the police men which were involved in the investigations of the scandal.
7 Cusani was one of the Milan judges who was able to demonstrate the functioning of the illegal and corrupt agreements between politicians and businessmen in a show process.
2.2.2. The Restructuring of the Old-Party System

The restructuring of the Italian party system was not only an effect of the tangentopoli-scandal, but also of the collapse of the Berlin Wall in 1989 (Newell and Bull 1997) (Gundle and Parker 1996). The antagonism between parties of the anti-communist camp and the Communist Party has been broken, since the ‘communist question’ ended and the PCI was no longer assessed as an ‘anti-system party’ (Newell and Bull 1997, p. 84).

This led to the change of orientation of the Communist Party, which has been initiated by the leader of the PCI, Achille Occhetto, in 1989. He proposed a transformation into a non-communist party named Partito Democratico della Sinistra (PDS). This new orientation led to inner-party conflicts and finally to the split of a more radical wing, the Rifondazione Comunista (RC). Since 1991 this party marks the extreme left of the Italian party spectrum.

Two new party movements arose out of these dynamics: the Lega Nord (LN) and La Rete. The LN argued “that a corrupt, party-dominated bureaucracy in far-away Rome sought to appropriate the resources of the North in order to maintain its own power in the underdeveloped South” (Newell and Bull 1997, p. 85). People in the North often accused, that the money was earned in Milan, whereas it was wasted in Rome. The Lega’s main goal was regional autonomy. La Rete was a reaction against organized crime in Italian politics. The party saw itself as a ‘movement for democracy’ trying to ban organized crime from public life.

The 1992 elections caused a first partial restructuring of the party system mainly at the expense of the two dominating parties of the post-war period, the DC and the PDS (former PCI). The Lega Nord won an impressive share of votes, especially in the former strongholds of the DC in the North of Italy, whereas the success of La Rete was moderate, but with a higher share in Southern Italy. Still, the DC and PSI were able to build a government coalition together with the two minor partners PSDI and PLI (Newell and Bull 1997, p. 85 f.).

The beginning of the Tangentopoli-scandal was the end of the old party system. One consequence of the scandal was the withdrawal of the financial basis of the parties, so did the PSDI ended up bankrupt by the end of March 1993. The DC hoped that a new secretary (Mino Martinazzoli) might help to reform the party and initiate a reorientation. “But Martinazzoli at once found himself at the mercy of the party’s powerful factions which were unwilling and unable to make the sacrifices that effective adaptation would have entailed” (Newell and Bull 1997, p.90). The party split up into four different movements: Segni’s pact for National Renewal - the Patto Segni; the left leaning Cristiani
Sociali (CS); the Centro Cristiano Democratico (CCD), and the more conservative party Partito Popolare Italiano (PPI).

The PSI has also split up into new parties: The Rinascita Socialista (RS), the Federazione liberal-socialista Unione dei Democratici e dei Socialisti (FDS), which were the supporters of the old leader Craxi, and the rest kept the old name PSI and was led by Del Turco.

But again, new movements came into existence trying to catch the electorate, which has been set free by the implosion of the old party system. One was the Alleanza Democratica (AD), which wanted to unite the progressive forces. The new formed Alleanza Nazionale had a neo-fascist background. The party has a close relationship to the Movimento Sociale Italiano (MSI), both parties can be located at the extreme right of the party spectrum. But compared with the MSI, AN has a classic mass party format. The Forza Italia is a completely new formation founded by the ‘media mogul’ Silvio Berlusconi. The party had the reputation to be a ‘business party’ (partito azienda) with the objective of political renewal. “Hence FI was less a political party in any hitherto commonly-understood sense than a large and sophisticated marketing organisation designed to promote, above all else, the image and policies of its leader” (Newell and Bull 1997, p. 91). The 1994 more or less completed the restructuring of the old party system.

2.2.3. The Reform of the Electoral Rules

The Old Electoral System

Although the old electoral rules are not valid any longer, it is necessary to explain them briefly, since I am going to confront pension reforms during the First and Second Republic.

Until 1993, the Italian electoral system was characterized by perfect proportional representation. The system has been introduced after the experience of Fascism and intended to guarantee also the representation of minor groups in parliament. The proportional voting has been the main cause for the weakness which has characterized the Italian governments since, because it led to a high fragmentation of the party system and therefore only weak homogeneity of the government coalitions (Massai 1996, p. 8).

For the elections of the Chamber of Deputies, the country has been divided into 32 constituencies, each containing a number of seats which varies from four in the smallest to over fifty in the largest. Voters chose their party (the so-called list vote) and could also vote for up to three or four individual candidates in their party’s list (the so-called preference vote). In each constituency a quota has
been calculated by dividing the total number of valid votes by the number of seats to be filled plus two. Each party’s total list vote was divided by the quota to determine the number of seats the party won in any given constituency. Remainders were aggregated in a national constituency. In order to qualify for a share of seats available from the national constituency, a party had to obtain one local constituency seat or 300,000 votes nation-wide.

For the Senate the constituencies were of the single-member type, but unless the candidate won more than 65% of the vote, the seats were distributed proportionately on a regional basis by a variant of the d’Hondt formula. Despite the slight differences in the electoral rule of the two chambers the composition of the two chambers has always been quite similar. Smaller deviations have never been of political importance.

The New Electoral System

The Italian discussion about a new electoral law began long before 1993, because it has been recognized that the Italian political system did not work well. “Much of the blame was given to the parties and the party system, and to the electoral system, which was assumed to have been instrumental in creating and maintaining the conditions of fragmentation, factionalism, incapacity, and irresponsibility that afflicted Italian polity” (Katz 2001). The political leaders of all parties agreed upon the primary objectives of the new electoral law: more secure parliamentary majorities, and hence greater stability and a greater capacity to govern.

I will describe the modifications of the new electoral system for the two chambers below (Brand and Mackie 1995; Katz 1995; Katz 2001):

Chamber of Deputies: Italy is now divided into 26 multi-member constituencies (the so-called circoscrizioni). The multi-member constituencies return 155 deputies, roughly ¼ of the seats. The circoscrizioni in turn are divided into 474 single-seat districts (the so-called collegi), which correspond roughly to ¾ of the seats. In sum, a total of 630 deputies can be elected. Each of these collegi (single-seat districts - SSD) will elect a member by the ‘first-past-the-post system’. The other ¼ of the seats is distributed by proportional representation. Each elector has two ballots: one for a single candidate in his collegio (SSD) and one for a party list in the circoscrizione (multi-member constituency). Candidates in the collegi must be affiliated to one of the party’s lists in the circoscrizione. Nevertheless, the votes do not have to be given to the same party. The seats distributed according to plurality are first allocated on a national basis and then in the individual circoscrizioni (multi-member constituencies)

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8 It would exceed the frame of this thesis to explain the decision making process for the new electoral law. An excellent and very detailed summary can be found in (Katz 2001).
9 Plus one seat by the region Valle d’Aosta in order to reach the sum of 630 seats for the Chamber of Deputies.
using the Hare method. The most important innovation has been introduction of the plurality rule for three-fourths of the seats. The rest of the seats allocated by proportional representation are now less proportional than heretofore, since a 4% national threshold has been introduced. (Brand and Mackie 1995).

Senate: The electoral system of the Senate is based on the same principles. ¾ are elected by plurality rule in single-seat districts, in total 238 candidates. ¼ is elected according to proportional representation (77 senators). Nevertheless there are some key differences. The multi-member constituencies are the 19 regions. The elector has only one vote for an individual candidate in his collegio (single-seat district). The new rule prescribes that 75% of the seats are elected from the single-member constituencies. After the winners in the single-seat districts have been determined, the d’Hondt formula will be applied for the allocation of seats according to proportional representation.

Two effects have been expected by the adoption of new electoral rules: the significant reduction of the parties due to the 4% threshold and a greater stability of governments. We will see in the later course of this paper, whether these objectives have been realized. Now I will go over to the theories about pension politics.

2.3. The Theories about Pension Politics

This paragraph gives an overview about the most prominent approaches explaining pension politics. The ‘state of the art’ is broad, and it would exceed the extent of this thesis to consider all of them.

The welfare state literature has experienced a far-reaching change in the last decade. Until the early 90s scholars tried primarily to explain welfare state expansion and the differences occurring between OECD countries. Paul Pierson’s seminal work (Pierson 1994; Pierson 1996) marked a turning point in the orientation of the literature in the field of social policy. The phenomenon to be explained has shifted to welfare state retrenchment. The so-called ‘new politics of the welfare state’ differ from the politics of expansion. Welfare state expansion involves the enactment of popular policies in a relatively undeveloped interest group environment. Benefit expansion is therefore generally perceived as a measure of credit claiming and appreciated by the electorate.

In contrast, welfare state retrenchment requires politicians to pursue unpopular policies that stand in sharp contrast to the preferences of the electoral and corporatist arena. In the case of retrenchment politics concentrated groups of voters face considerable losses in return for diffuse and uncertain gains. The new politics are therefore an exercise in blame avoidance. “The shift in goals and
context creates new politics. These new politics, marked by pressures to avoid blame for unpopular policies, dictates new political strategies. [...] Whenever possible policymakers will seek broad consensus on reform in order to spread the blame” (Pierson 1996, p. 147). Retrenchment can therefore be seen as a very difficult project for policymakers and requires certain strategies in order to minimize the political costs involved.

The focus has shifted on the politics in times of austerity, and variations in the scope of retrenchment. Green Pedersen argues that variations in welfare-state retrenchment can be identified on two levels: First, variations in retrenchment in comparative perspective between countries; second, variations among different social-security schemes (Green-Pedersen 2000). With regards to the research question of this Master’s Thesis I want to examine variations in retrenchment attempts in pension politics between the First and Second Republic in Italy. Therefore I will only concentrate on those theoretical approaches which will be relevant with respect to the research question: problem pressure, social pacts, institutions and veto players, and party configurations.

2.3.1. Problem Pressure: the Impact of Demographic and Economic Variables

There are several sources pressuring the financial basis of the welfare state, such as the expenditure impacts of inflation, rising wage inequality, and changes in the family structure. “However, in terms of size of pools of claimants and potential impacts on the welfare state, the potential consequences of demographic and employment trends stand out” (Swank 2001, p. 199).

The vulnerability of social security schemes to these pressures varies between different types. Pension schemes of the Bismarckian type¹⁰ (such as Austria, France, Germany, or Italy) operate on a pay-as-you-go basis (PAYG). They are financed out of social contributions, which are remarkably higher than in other countries. The transfer payments depend on former income and on contributions paid in the past, these benefits are comparatively generous. The Bismarckian type of social security is highly vulnerable to economic and demographic pressures. According to Myles and Pierson pension systems do struggle most with demographic and economic changes (Myles and Pierson 2001). In the following paragraph I will outline the effects of demographic change on the pension system.

Demographics and the Pension system

Demographic change pressures the financial viability of social security systems. Its impact is multifarious: First, the size of the population and its age structure are correlated with the size of the economically active population and more immediately with that of the elderly in a society. “The popu-

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¹⁰ The counterexample of the Bismarckian welfare state is the Beveridge type in countries like Great Britain, Australia, or New Zealand.
lation and its age distribution at any given time are a function of past trends (from the birth of the oldest living generation to the present), of birth and dead rates and, if the population is not ‘closed’, of emigration and immigration” (Livi Bacci 1995, p.10). For example, the babies born after the Second World War are now approaching the retirement age, which leads to a significant change in the ratio between retirees and active population. Currently the ratio of active workers and retirees is 2:1 in most of the industrialized countries, in about twenty years the ratio is expected to be 1:1, which implies far-reaching consequences for the revenue basis of the social security system (Gruber and Wise 2000).

At the same time the younger population, those who are not economically active, such as babies, children and inactive youths, are also dependent on their parents. The size of these younger inactive and dependent cohorts affects the well-being of the population yet active in the future. A further decrease in the fertility rate will therefore reduce the active population who will be able to finance the social security system in future.

Another trend in the equation is the growing life expectancy in the industrialized world. Higher life expectancies will increase pension spending significantly since benefits will be received for a longer period of time. The financial situation is further aggravated by a growing share of employees opting for early retirement. “Ironically, in many countries social security provisions themselves provide enormous incentives to leave the labor force early, thus by their very structure exacerbating the financial problems they face” (Gruber and Wise 2000).

**Labor Market and the Pension System**

The arguments about economic pressures on the viability of the pension system are mainly the reverse of the structural theories throughout the period of welfare state expansion. Arguments of this type assume that governments have to respond to macro-economic difficulties. “Therefore the extent of the retrenchment measures governments will implement depend on economic factors such as the gravity of the economic situation and how extensive and hence costly welfare states they govern” (Green-Pedersen 2000, p. 27).

The effects of demographic change combined with the changes on the labor market have a great impact on the financing of pensions and social protection in general. Longer education, later entrance in the labor market, while, as I have mentioned above, the retirement age has fallen sharply because of early retirement. The revenue base of the welfare state is endangered by a lower overall volume of contributions due to rising unemployment and lower participation rates. High participation rates and low unemployment are crucial for the revenue basis of the pension system.
In this context it is also important to mention the level of pension spending as a percentage of the GDP and the pension spending as a percentage of overall expenditure. If the pension spending is already high, we can expect that policymakers face a higher pressure to retrench their pension benefits.

But as we know, domestic policies are no longer independent from the globalized economy, and this trend became stronger within the last decade. Therefore we might expect that effects of the ‘Europeanization’ will influence and constrain domestic policymaking.

**The Impact of Europe**

It is a widely held assumption that international pressures have gained an enormous impact on all advanced industrial democracies and force those to converge in their fiscal and social policies. The increasing globalization of goods and services is considered to be the driving force behind domestic reforms of the welfare state. Policy makers are expected to adopt economically efficient reform measures, in order to increase their competitiveness in the world economy (Gohr 2001). According to Myles and Pierson “in most countries the current wave of pension reform, then, is essentially a matter of adapting pension regimes designed for an ‘old’ political economy to one compatible with a new policy environment” (Myles and Pierson 2001, p. 311).

The European welfare states are further controlled by the process of European integration. According to Leibfried and Pierson European integration undermines the sovereignty and autonomy of the national welfare states. “National welfare states remain the primary institutions of European social policy, but they do so in the context of an increasingly constraining multi-tiered polity“ (Leibfried and Pierson 2000, P. 268). Very important are the direct negative pressures due to the creation of a common market. Leibfried and Pierson describe those measures as “[a] wide range of market compatibility requirements, through which either EU-regulations or ECJ decisions impinge on the design and the reform of national social policies” (Leibfried and Pierson 2000, p. 258). An evenly relevant impact have the indirect effects of European integration, which come from the common economic policy of the European Union. National actors lose control over certain policy areas, which originally supported the welfare state, such as macro-economic policy, public finances, taxation policy or industrial relations. Therefore it can be expected that European integration will have an impact on the chances of pension reform. “Member states now find their revenue basis under assault, their welfare reform options circumscribed, many of their delivery regimes under threat of new competition, and their administrators obliged to share control over policy enforcement” (Leibfried and Pierson 2000, p. 287).

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11 Myles and Pierson recognize globalization and open markets as a driving force behind public pension reform, but they do not support the assumption that those reforms lead to a convergence in pension politics, because every country follows an individual path in pension reform which is determined by institutional and programmatic designs inherited from the past.
Ferrera and Gualmini argue similarly. They identified three stages of adjustment for EU member states due to economic internationalization (Ferrera and Gualmini 2000a, p. 364). 1) The entry in the European Monetary System; 2) The completion of the internal market in the late 1980s; and 3) The fulfillment of the Maastricht convergence criteria during the 1990s. “The adjustment pressures for all three stages had different relative weights, however, each process was filtered by domestic dynamics of the policy and political change” (Ferrera and Gualmini 2000a, p. 364). Especially the Maastricht convergence criteria led to the situation that restoring public finances became ‘more a necessity than a virtue’. Increasing internationalization and EU integration forced policy makers to modify their strategies and accordingly their policies. In the analysis I will concentrate on the two most prominent Maastricht convergence criteria: public debt and budget deficit.

Taking these different sources of problem pressure together, we can assume, that the overall climate determining the change in Italy’s capacities to reform their pension system is much more diversified, and it cannot only be traced back to an increase in problem pressure. Now, I am going over to alternative approaches explaining the differences of success, such as the impact of social pacts.

**2.3.2. The Impact of Social Pacts**

Another prominent approach for the explanation of pension reform is the ‘social pacts approach’. This strand of literature emphasizes the interorganizational bargaining processes, and assumes that the ability to set up functioning concertation processes with the social partners is a key to achieve major reform (Ebbinghaus and Hassel 2000).

Social pacts can be defined as “formal agreements between governments and social partners” (Ebbinghaus 2001, p. 5), which can be involved at different levels of the decision-making process, for example at the level of planning or consultation, or at the level of policy formulation, monitoring or implementation of policy (Rhodes 2001). Governments, unions and employers make these agreements, because all actors expect to gain some benefits from participation. Nation-states face a multitude of challenges due to international and domestic changes, that is why income policies, the functioning of the welfare state, and job creation policies acquire new importance. These are all traditional fields for tripartite bargaining (Regini and Regalia 1997, p. 225). But “whether existing corporatist institutions can play a role in the reform processes depends to a large degree on the ability to find a consensus that goes beyond the status quo interests of both sides, and a policy innovation forum which finds new joint solutions with long-term positive results for all sides” (Ebbinghaus 2001, p. 6). But what are the motives for participation in social pacts?
Governments have an interest in engaging in social concertation because they fear the ‘veto power’ of the unions. ‘Veto power’ cannot be understood as a formal veto power in the legislative process, but as the multiple opportunities to influence political decision-making and their capacity to mobilize their members. Firstly, unions are involved in the self-administration of certain welfare programmes and have therefore a chance to play a consultative role in political decision making. Secondly, unions are also engaged in lobbying within the parliament, in order to make their claims. Thirdly, unions do also have direct alliances with certain political parties, which might transport their point of view in the legislative arena. In the fourth place, unions might have a decisive impact in the electoral arena. As ‘encompassing institutions’ unions can mobilize the mass and claim their electoral power. In case of unpopular reform measures members of unions might therefore penalize the government in the next election. Ebbinghaus assumes that negotiated reforms might also increase the legitimacy of unpopular decisions if they are based on a broad social consensus. Furthermore, responsibility and accountability for the reform can be shared with the social partners.

One of the most convincing arguments for why unions participate in social concertation is the incentive for union leaders to make up for their lost powers in collective bargaining and therefore engage in concertation concerning welfare reforms. Unions try to find a new field of political action for not being condemned to political insignificance. They also participate in social pacts because of the expected side payments, such as tax relieves, as a reward for their compliance in welfare reform. Another argument deals with the external circumstances (e.g. need for budgetary constraints and competitiveness) which force unions to adopt or support retrenchment politics, because they tend to act more in the public interest in order to guarantee the sustainability of social programmes in the long run. This means a turning away from the preferences of the core membership for the advantage of other societal and economic objectives and therefore for the whole society. Another reason for unions to participate in social pacts might be ‘organizational guarantees’ that provide legitimacy, financial resources or selective incentives for membership.

Employers’ Associations are also interested in social pacts for reasons of self-interest. They might give concessions to the government and trade unions in order to receive agreements on issues that might be of importance for them, or they might get concessions from governments for their compliance in certain political disputes. Employers might expect that social partnerships can facilitate a socially acceptable restructuring.

All these general considerations can also be applied to pension reform. Pension reform is traditionally one of the most difficult tasks for politicians, which hardly can push through reforms unilaterally in case of opposing unions. ‘Pension reforms are often an all-party agreement, referenda requiring the consent of the 'people', or corporatist 'social pacts' involving organized labor and employers'
associations are the rule rather than the exception so that 'negotiated settlements' are the usual political mechanism for redesigning pension politics” (Myles and Pierson 2001, p. 306).

It is important to mention that social concertation is not successful in any case, but as Ebbinghaus has noticed success in social pacts is probable in the context of deep political or economic crisis which increases the need for reform. This argument is supported by the argument of Regini and Regalia who stated that technocratic governments (such as Amato in 1992, Ciampi in 1993, and Dini in 1995) were much more in need of external support and social legitimacy. During these troubled times Italian governments were much more capable in finding consensus and realizing reform projects (Regini and Regalia 1997, p. 226). I will apply the Italian case to the ‘social pacts’ theory in order to see whether they had a decisive impact on success and failure in public pension reform in Italy.

I will now turn to approaches dealing with the impact of institutions on pension reform politics.

2.3.3. Institutions and Pension Politics

The ‘new institutionalism’ had an considerable impact on the retrenchment debate triggered by Pierson. The arguments of the new institutionalists focus on macro institutions in the sense of veto players (see Tsebelis 1995; Tsebelis 1999) or veto points (Immergut 1992b; Immergut 1992a). It is assumed that the formal institutional structure of a given system, can determine the feasibility of a reform.

Tsebelis focuses his argument on the issue of policy stability. Different political systems have different capacities in producing policy change. “Veto players are individual or collective actors whose agreement (by majority rule for collective actors) is required for the change of the status quo” (Tsebelis 1995, p. 289). Tsebelis distinguishes institutional and partisan veto players. “Policy stability will increase with (i) the number of veto player, (ii) their incongruence (the difference in their policy positions), (iii) the internal cohesion of each of them” (Tsebelis 1995, p. 293).

Partisan Veto Players:

Parties which are members of a government coalition are considered to be partisan veto players. “[A] government proposal has to be approved by a majority of the relevant actors within each party of the government coalition” (Tsebelis 1995, p. 302). The disapproval of a certain law proposal

12 The ‘new institutionalists’ are subdivided into three different camps: the rational choice institutionalism, the historical institutionalism, and the sociological institutionalism. It would exceed the extent of this work to describe the differences between these schools. With regards to the hypothesis, I am going to focus on the work George Tsebelis, who determines the chances for policy stability according to the number of veto players.
by one coalition partner might lead to the failure of the law proposal. Partisan veto players have there-
fore the same effect as institutional veto players\textsuperscript{13}. The number of the partisan veto players is deter-
mined endogenously by the party system and the type of government coalition. The role of partisan
veto players changes slightly in two types of governments:

A) \textit{Minority governments}. Minority governments need to find partners in parliament
who support their legislation. Therefore it seems useful to distinguish between the governmental
majority and the legislative majority. According to Laver and Schofield minority governments
usually stand in the center of the party spectrum. For this reason, they can lean to both sides in
order to get their laws approved (Laver and Schofield 1992). Although minority governments
are more free in their search for coalition partners, they still have to respect every coalition part-
ner.

B) \textit{Oversized governments}: Oversized governments have more coalition partners than
necessary for a legislative majority. “In these cases, some of the coalition partners can be disre-
garded, and policies will still be passed by a majority in parliament” (Tsebelis 1995, p. 304). But
as Tsebelis has noticed this tactic can have high political costs, and in the end, each coalition
partner has to be respected.

\textbf{Institutional Veto Players}

The number of institutional veto players is specified by the Constitution. “An institutional veto
player will not count as a veto player unless it has formal veto power” (Tsebelis 1995). Thus, the sec-
ond chamber in a bicameral system, the courts, central banks, constitutionally required super majori-
ties, and referendums may all have veto power. Nevertheless, not each of them is relevant in every
decision. One has to keep in mind that the number of veto players varies by issue. If a referendum
decides about a new electoral law, this referendum has to be counted as a veto player. But if a law
does not require approval by a referendum it won’t be counted as a veto player. The same mechanism
comes into play in a bicameral system. In case that the majorities are equal in both chambers, the sec-
ond chamber will not be considered as an additional veto point. The veto player concept requires the
analyst to identify the veto players seperately for every issue on the agenda.

The veto points concept represented by Ellen M. Immergut is similar to the approach of
George Tsebelis. The comparison of health reform attempts in Sweden, France, and Switzerland deal-

\textsuperscript{13} With the only difference that the approval of a law proposal by the institutional veto players is a necessary and
sufficient condition for policy change, whereas the agreement of partisan veto players is neither necessary nor
sufficient, because a law proposal might be approved by all parties in the government coalition, but may be de-
feated in parliament (Tsebelis 1999).
ing with the introduction of socialized medicine shows that same objectives can lead to considerable differences in the outcome. These differences in outcome can be explained by the institutional structure. It has been shown that the “organization of the political system as wholes and the overall logic by which they work” (Immergut 1992a, p. 24 f.) have a decisive impact on the reform outcomes.

Institutions determine the frame in which political decision-making takes place. “By mediating political conflicts in distinct ways, political institutions bring together different constellations of organized actors and change the ways in which they interact (Immergut 1992a, p. 25). The success of reform attempts depends on the executive power, or more specifically in how far the executive can act independently of representatives in other arenas, such as the legislative, jurisdictional or the electoral arena.

It can be assumed that retrenchment-minded governments having a substantial degree of control in the legislative arena (power concentration) are more likely to realize their aims. Whereas weaker governments need to negotiate their plans with other actors and might be forced to make concessions or “grant quid pro quos to key actors” (Bonoli 2001). Bonoli stated that pension reform is a difficult exercise regardless of the institutional setting. But depending on the rules which determine the process of law production, power can be more or less concentrated by the executive. “These rules which are enshrined in the constitutional order of a country, determine the extent of agreement needed to legislate, and thus establish the degree of influence that external groups, opposition parties, and lower tiers of governments can expect to have on national policy making” (Bonoli 2001).

I would like to apply the Italian case to the veto players approach. As I have already demonstrated, the ‘rules of the game’ have changed with the transition from the First to the Second Republic and therefore changed the political context for policymaking in the field of pension reforms.

2.3.4. The Impact of Party Competition

The last approach that I would like to integrate into the theoretical framework is the party-competition approach. This approach assumes that the strategic configuration of the party system is a critical force in shaping social policy reforms (Kitschelt 2001, p. 265). Internal opportunities offered by the dynamics of a competitive party democracy may induce politicians to pursue unpopular retrenchment measures. Nevertheless, it has to be noted, that party competition is not the only mechanism affecting social policy retrenchment. In this section I will concentrate exclusively on the approach presented by Herbert Kitschelt.
Since retrenchment is generally conceived to be unpopular, it is surprising that some countries were capable of considerable reforms of their welfare arrangements. According to Kitschelt there are four mechanisms that may work in conjunction with each other and improve the probability of social policy reform.

1) **the existence of a strong market liberal party and the declining credibility of parties defending the welfare state**: the existence of a market-liberal party helps to shift the social policy debate towards cost-containment and retrenchment. At the same time, the credibility of the parties defending the welfare state needs to decline. “Where the credibility of a major opposition party as defender of the welfare state is diminished, its competitors for government office, whether they run under social democratic or conservative ideological labels, have the opportunity to embrace unpopular social policy reforms with a reduced probability that they will earn the wrath of the voters” (Kitschelt 2001, p. 274).

2) **Electoral Trade-Offs and Social Policy Reform**: Social policy retrenchment might imply high electoral losses. It is possible that the new social policies of a governing party lead to the defection of former supporters of the party. Therefore, “parties will be more inclined to embrace social policy retrenchment, if the trade-off between office-and vote-seeking strategies is likely to be mild at subsequent elections” (Kitschelt 2001, p. 276).

3) **Inertia of Intra-Party Strategic Capabilities**: “Political parties face difficulties in revising their political appeals and practical policies when they are tied down by a large apparatus of organized constituencies that participate in intra-party policy making” (Kitschelt 2001, p. 276). Party leaders may gain more flexibility when they shift their emphasis from rank-and-file working to more formal channels of intra-party deliberation. Another possibility is the shift from a ‘mass’ party to a ‘framework’ party mobilizing new party members who might push for new strategies and weaken the status-quo lobbies. The renewal of a parties strategy depends on the citizen-party linkage. If the citizen-party linkage is based on programmatic grounds, parties engage in an indirect exchange with the voters. If parties are in a favorable legislative and executive position, they will commit themselves to the realization of policies that will favor voter constituencies. This relation differs in clientelistic systems, because parties engage in a direct exchange with the citizen. For citizens who provide votes and financial resources, the party will offer selective benefits in return. It is primarily new parties not entangled in clientelist networks, that are likely candidates to engage in social policy retrenchment. “On balance, party systems that emphasize clientelist voter-party linkages may be more resistant to social policy retrenchment or market liberalization more generally than those relying on programmatic competition” (Kitschelt 2001, p. 278).
The Salience of Economic-Distributive Policy Conflict as a Dimension of Party Competition:
This point emphasizes the importance of programmatic divides among the different parties other than the economic distribution. It can be expected that it is easier for parties to retrench the welfare state in case they are to a lesser extent engaged in economics as a competitive dimension. The supporters of those parties are more receptive for signals dealing with non-economic issues and ease the politicians orientation towards retrenchment. But in a party system with an underlying consensus on social policy it might be very dangerous to undermine this consensus by retrenchment measures. Furthermore, it is hazardous for leading parties to support the reform of the welfare state, since all competitors might present themselves as “credible ‘centrist’ supporters of the welfare status quo” (Kitschelt 2001, p. 279).

These four variables influence the extent to which politicians might be able to pursue unpopular policies. Kitschelt has combined these four dimensions, and obtained 16 different configurations offering conditions more or less favorable to social policy retrenchment. Kitschelt described four configurations in greater detail: 14

Configuration 1: United Market-Liberals versus United Social-Democrats
Configuration 2: Divided Market-Liberals and Centrists Versus United Social Democrats
Configuration 3: A Three-Way Divide between Liberals, Centre, and Social Democrats
Configuration 4: Weak Liberals, Strong Centre, and Strong Social Democrats

I want to neglect the party configurations 1, 2, and 315 since they do not characterize the Italian party system at any time. More important is the fourth configuration of weak liberals, strong centre, and strong social democrats. Kitschelt characterizes the parties as follows: the centre-right parties tend to be “hegemonic organizations with distinctly conservative socio-cultural appeals, but in a socio-economic compromise position that permits them to incorporate significant elements of the working class and of domestic protected economic sectors” (Kitschelt 2001, p. 286). The social democratic counterparts of these parties have moderate positions on economic and social policy making. The two dominant parties are confronted with smaller parties supporting more authoritarian or libertarian positions. The liberal parties are weak and not able to gain influence, pushing towards the restructuring of the welfare state through a liberalization of capital and labor markets.

14 The reasons for the choice of these configurations is not obvious.
15 It might be contested that I neglect also configuration 3. After the erosion of the Italian post-war party system, the ‘new’ system might tend to this configuration. Nevertheless, the 90s did not show any clear pattern, making it possible to categorize the ‘new Italian party system’ (compare to Kitschelt 2001).
What impact does this party constellation have on the feasibility of retrenchment? According to Kitschelt it is only the centrist party which could push social retrenchment. This shift might result in high electoral losses for the centrist party and strengthen the social democratic party. The Centrist parties does not have any incentives to initiate social policy reform. Similar considerations hold for the social democrats. They could be certain that the centrist party would be the ‘electoral beneficiary’ of such policies. A grand coalition of the two dominant parties would be the only constellation to overcome the policy deadlock. The blame for such unpopular policies could be spread to both parts. Nevertheless, certain electoral groups might feel betrayed and change over to the extreme alternatives (radical left-libertarian and right-authoritarian parties). These policies would bear high electoral costs for both parties and might prevent any kind of measure. Countries with this type of party constellation face “the greatest obstacles to social policy reform, even in economic and demographic crisis situations” (Kitschelt 2001, p. 287).

My argument with respect to my research question suggests itself. The party constellation during the First Republic has hampered social policy retrenchment. The transition from the First to the Second Republic has broken down the stable post-war party system and therefore offered an opportunity to governments of the Second Republic for social policy reform.
2.4. Hypotheses

This Master’s Thesis tries to analyze pension politics within a comprehensive theoretical framework, considering theories about pension politics, but also theories about the political system and the transition from the First to the Second Republic.

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3. The Italian Political System: A General Overview

Before we will go over to the case study, I think that it might be useful to give a brief overview over the most important political institutions, in order to make the understanding of this thesis easier for the reader who is not as familiar with the Italian system. In the following I will describe the institutional framework in which Italian policymaking takes place:

3.1. The Institutional Structure of the Italian System

Unlike almost all other European legislatures, the Italian Parliament is based on completely co-equal bicameralism (the so-called bicameralismo perfetto). The bicameralism is assessed as perfect, since both chambers, the Chamber of Deputies (Camera dei Deputati) and the Senate (Senato) perform identical functions. Governments must win and retain the confidence of both, legislation must pass both chambers in the same form. Chamber and Senate have the same parliamentary committees for legislation and scrutiny (Hine 1993, p. 189). The first chamber, the Chamber of Deputies, is composed of 630 representatives, which are elected by universal and direct suffrage. The Senate of the Republic is elected on a regional basis. The number of Senators chosen through elections is 315 (art. 57 Cost.)\(^{16}\). Senators are elected by universal and direct suffrage as well. In addition, the Constitution foresees a number of Senators by law (Senatori di diritto), these are the former Presidents of the Republic, and a number of Senators for life (Senatori a vita nominati). These Senators are nominated by the President of the Republic, because they have brought honour to the country through their exceptional merits in social, scientific, artistic and literary fields (art. 59 Cost.).

The duration of the parliamentary term for each chamber is 5 years. Elections for the Chamber of Deputies and the Senate are held simultaneously (art. 60 c. 1 Cost.).\(^{17}\) Though, between 1968 and 1992 only one parliamentary term endured 5 years. In all the other terms, the president had to dissolve the two chambers and call for new elections (Massai 1996, p. 4).

The government of the Republic consists of the prime minister (Presidente del Consiglio)\(^{18}\) and of the Ministers, who together constitute the Council of Ministers (art. 92 Cost.). The power to nominate the prime minister is vested in the President of the Republic (Presidente della Repubblica).

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\(^{16}\) The abbreviation Cost. stands for Costituzione (translated Constitution).

\(^{17}\) Originally the two chambers have been elected at different times and also with different parliamentary terms (Chamber of Deputies 5 years and Senate 6 years). The constitutional law (legge costituzionale) nr. 2 of 1963 has modified these rules (Massai 1996, p. 5).

\(^{18}\) The exact translation for Presidente del Consiglio would be President of the Council. For the sake of simplicity I will refer to the prime minister.
“In practice, prime ministers were until 1992 chosen on the basis of suggestions of the parties which had agreed to coalesce, or from the Democrazia Cristiana (DC) in the case of single-party cabinets. […], the head of state has on occasion been able to exert a certain degree of influence over the choice of the prime minister and even about some other aspects of the coalition” (Verzichelli and Cotta 2000, p. 445). The prime minister is vested in choosing the ministers who are then nominated by the president (art. 92 Cost.). Once it has been decided about the composition of the government, it is sworn before the president.

According to the Constitution an incoming government has to receive the confidence of both chambers by a positive roll-call vote of confidence (scrutinio per appello nominale). The majority of Deputies and Senators have to be present. Due to differences in the standing orders of the two chambers, the Chamber of Deputies counts abstentions as favorable votes, whereas the Senate counts them as negative votes. If an individual senator wants to enable the government to form, but does not want to support it explicitly, he/she has to leave the house at the moment of the vote instead of abstaining (Verzichelli and Cotta 2000, p. 445).

In order to provoke the fall of a government, a vote of no confidence in one of the two chambers suffices. Every parliamentary group can provoke a vote of no confidence. One-tenth of the members of the chamber has to sign the no-confidence motion. The vote will take place at least three days after its presentation (Verzichelli and Cotta 2000, p. 445). The majority or the government can also ask the parliament for its confidence. This occurs often during legislative processes. The executive links the vote of confidence to the approval of a certain law. Voting is, as in the case of no confidence motions, open and by roll-call. The vote of confidence asked by the government has three different functions (compare with Massai 1996, p. 211):

- it tries to bring the coalition parties of the government in line;
- since the vote is by roll-call, it is expected that the deputies feel forced to vote in favor;
- it is a measure against obstructionism of the opposition during the legislative process. In case of numerous amendments, the government tries to evade the vote on every single amendment and asks the vote of confidence.

3.2. The Legislative Process

The two chambers are responsible for the legislation (art. 70 Cost.). Law proposals can be introduced by the government, by each member of the two chambers, and by the initiative of the citi-

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19 The President of the Republic is elected by the Deputies and Senators in a joint sitting (art. 83 Cost.) by secret ballot with two-thirds majority of the Assembly. The Presidential term lasts 7 years (art. 85, Cost.).
zens if a draft is signed by more than 50,000 people (art. 71 Cost.). Every law is submitted to one of
the two houses, examined first by a committee and then by the House itself, which approves it article
by article and subsequently in a final vote (Art. 72 Cost). In the majority of cases an executive bill
initiates the legislative process. The approval of a law requires the approval of both chambers. After a
law proposal has been approved (prima lettura) by one chamber, it has to be transmitted to the other
chamber (seconda lettura). It becomes law, if no modifications were introduced by the other chamber.
In case the law proposal has been modified by the second chamber, the law proposal has to go back to
the first chamber\textsuperscript{20} and so on (the so-called navette). This process could continue endlessly, only the
two Presidents of the chambers could intervene and facilitate an agreement between the parliamentary
groups.\textsuperscript{21}

As I mentioned above, first the bill is transferred to the appropriate committee of the chamber.
In case of a pension reform the bill gets transmitted to the XI Commissione Permanente Lavoro Pub-
blico e Privato if it has been presented first in the Chamber of Deputies, or to the 11\textsuperscript{th} Commissione
Permanente (Lavoro, Previdenza Sociale) if it has been presented to the Senate.\textsuperscript{22} The chambers could
refer the bill also to several other committees.

The chambers decide about the competence of the Committee. The Italian system distin-
guishes three kinds of competences:

- \textit{Commissione referente} (reporting Committee): This Committee agrees on a common text and
 reports it to the chamber.
- \textit{Commissione legislativa} (legislative Committee): This Committee can vote on a law proposal.
  The proposal does not have to pass the chambers.\textsuperscript{23}
- \textit{Commissione redigente} (editing Committee): The Committee formulates the articles of a law
  proposal, but the approval (without the introduction of any amendments) is left to the cham-
bbers.

\textsuperscript{20} First and second refers only to the sequence. It depends on where the law has been presented first.
\textsuperscript{21} It seems as if it depends exclusively on the personal opinion of the Presidents of both chambers to continue or
end the navette-system.
\textsuperscript{22} In the following I will only refer to the translated names: XI Committee for Labor Affairs and 11\textsuperscript{th} Committee
for Labor Affairs, Social Security, and Social Affairs.
\textsuperscript{23} The \textit{Commissione in sede legislativa} is authorized to pass laws. According to Massai this phenomenon is
unique in the entire world. The Committee passes the so called leggine, the reorganization of minor norms for a
small segment of a certain field. Especially throughout the 80s, a lot of proposal have been transferred to the
\textit{Commissione in sede legislativa}. During the X legislature (July 1987 – April 1992) 54.74\% measures have been
passed in this Committee (Massai 1996).
After the committees have completed their work, the bill is re-transmitted to the chamber. The discussion is divided into five parts: a discussion about the general lines of the law, an examination of the single articles and the amendments presented, general principles about the voting in the chamber, vote about every single article and amendment, and the final vote.

With respect to the general principles of voting in the chambers, I have to mention three important points. First, the decisions of each House of the Parliament are not valid unless the majority of the members are present *(numero legale)* (art. 64 Cost.). If the *numero legale* is not present, the sitting has to be suspended for at least one hour.

Second, the principle of majority *(principio di maggioranza)* refers to the vote. A bill is only approved if half plus one of the present deputies/senators votes in favor. It is important to remember, that the standing orders of the two chambers count abstentions differently.

Third, the form of the vote. Originally, the Constitution has prescribed no rules concerning the form of the ballot, whether open or secret. The chambers were authorized to decide autonomously on the form. Most of the votes have been secret ballots, which had the effect that many law proposals have not been approved due to the defection of coalition members (the so-called *franchi tiratori*, translated ‘snipers’). “Similarly, in Italy, *franchi tiratori* were taking advantage of the system of secret ballots to embarrass the government with defeats in the Parliament” (Tsebelis 1995, p. 302). In 1988 it has been decided that the secret ballot should only be used in extraordinary cases, if the vote concerns individual persons. This has been an important modification with respect to the legislative output (compare to Kreppel 1997).

In the last paragraph I have described the legislative process for a ‘regular’ law (the so-called *legge*). But the Italian system distinguishes several different types of legislation, I would like to describe them briefly:

**Decreto legge:** According to the Constitution a *decreto legge* is an act to regulate ‘extraordinary’ situations of necessity and urgency (art. 77 Cost.). The government might use this instrument in the case that an immediate reaction of the executive is required. Today, *decreti legge* are not only used to handle cases of extraordinary necessity and urgency, but in order to fasten the approval of certain laws which could have been approved also by ordinary legislative instruments.\(^{24}\) The *decreto legge* has to be approved by the two chambers within 60 days after their presentation, in order to be con-

\(^{24}\) The *decreto legge* has been transformed from an extraordinary instrument of urgency to an element used by the executive to influence the use of time within the parliament (Massai 1996).
verted into law. If they are not converted they become invalid. Nevertheless, the decreto legge can be introduced again.

Legge delega: The legge delega (art. 76 Cost) is a special kind of law, which delegates the regulation of very complex technical matters (such as pension politics) to specialists in this subject matter. In this responsibility they have to move within the constitutional and legal framework and will be controlled by the parliament. As every other law the legge delega has to be approved by the parliament. The initiative can come from the government or any deputy. The legge delega has to circumscribe the time frame in which the government can exercise its delegated power; the area of intervention; and the principles and criteria of the measures. Within these parameters legislative decrees (decreti legislativi) will be formulated, which will reorganize the different sectors.

La Finanziaria (the budget law): The approval of the budget law is one of the most important moments in the calendar of the parliament. The budget law determines the programmatic framework for the economic activity of the country and summarizes the need for legislation in different areas. It contains a document (documento di programmazione) dealing with the macroeconomic objectives which should be realized in the successive year and a series of laws to be approved by the end of the year realizing the macroeconomic objectives: fixing economic parameters, determining areas of retrenchment, estimating and defining revenues and expenditures. In the course of the following year the laws to be approved have to respect the parameters and limits defined by the budget law.

Now I am going to present the case study of the Italian case. First I will describe the origins of the Italian pension system. In a next part I will summarize the attempts of Italian governments to pass a pension reform law. The third part will focus on the pension reforms of the 1990s.

4. The Evolution of the Italian Welfare State

On the following pages I will give a brief overview of the evolution of the Italian welfare state.

4.1. The Origins of Social Welfare in Italy

In the beginning of the Italian nation state (1861) social policy was provided almost exclusively by the Catholic Church through friendly societies (the so-called opere pie)\(^\text{25}\). Until the end of

\(^{25}\) In the year 1860 more than 18 000 voluntary associations existed (Klammer 1997).
the 19th century the monopoly remained in the hands of the Church\textsuperscript{26}. The role of the state was limited to a mild regulatory role\textsuperscript{27}. By the end of the century, the emergence of the social question, moved social policy on the agenda of all political movements. Formerly opposed, for different reasons, to any kind of reform, the socialist and catholic movement were in favor and forced active intervention by the state. In 1890 a comprehensive law (the so-called \textit{Legge Crispi}) regulated the sector of poor relief, bringing all friendly societies under a strict control of the state and transforming them into the Public Institute for Assistance and Beneficence (\textit{Istituto Pubblico di Assistenza e Beneficenza}). State intervention was intended to direct the social initiatives at assistance into legal channels and an administrative system which was subordinated to wide-ranging political controls (Paci 1989). The \textit{Cassa Nazionale di Previdenza} for aged and infirm workers approved in 1898, serves as a good example which was characterized by its status as a state institution of popular insurance and by a formally autonomous board whose members, however, were morally dependent upon the government. The benefits were based on voluntary contributions of the employee and were supplemented by contributions of the employers and a small contribution of the state.\textsuperscript{28}

4.2. The Italian Welfare State in the Beginning of the 20th Century

In the 20th century “spontaneous activism, intellectual and political debate and the government’s ‘new social attention’ were translated into concrete social policy” (Ferrera 1986). Under Giolitti, the new liberal leader, new interventionist social policies came on the way. In 1919 the government introduced a compulsory insurance for old age, invalidity and unemployment.\textsuperscript{29} From January 1, 1920 the insurance was mandatory for all dependent employees, except those with a very high income.

A further development of the Italian welfare state was interrupted by the upcoming Fascism. In the 1930s and early 1940s there was a remarkable increase in the field of sickness and family policies, which aimed at improving the physical and moral ‘health of the race’. “The most peculiar characteristic that Fascism impressed on the Italian welfare state was an overall bureaucratization of its structures and their use as instruments of social control” (Ferrera 1986). The state restored relationships of politico–clientelistic connivance between middle-level professional public bureaucrats and the party of

\textsuperscript{26} The financial strength of the voluntary associations can only be imagined by the following figure: in 1870 the income of the associations has been twice as high as the income of the state (Körner 1993).

\textsuperscript{27} In the law 753/1862 regulated the \textit{opere pie}, and standardized the rules of administration and accounting within the voluntary associations. The state wanted to protect the associations, but also to gain some control over them (Klammer 1997).

\textsuperscript{28} The principle of equivalence was prevalent. Benefits depended on the contributions paid.

\textsuperscript{29} The state was partly responsible for the administration and financing of the insurance scheme.
the regime (Paci 1984). Three large insurance companies\textsuperscript{30} and several smaller institutes for special categories of employees have been established. Governments secured the compliance of the clients through the provision of selective benefits.

4.3. The Development after the Second World War

After the Second World War Italy still had an established institutional structure of the welfare state, nevertheless the ‘Reconstruction’ of the economic and social infrastructure was an urgent task for the political class. A vivid debate about the transformation of the fascist welfare state has been initiated, with fundamentally different opinions about the future of Italian social policy\textsuperscript{31}.

Concerning the reorganization of the social security system a Commission, chaired by the Socialist senator D’Aragona, has been set up in order to discuss the possible guidelines for reform. The realization of the reform ideas has been prevented by a change in the political opinion. The dominant 
\textit{Democrazia Cristiana} decided to restore the welfare system according to the pre-institutional framework. Ferrera stated “the traditional traits of the Italian welfare state were maintained and the ‘natural’ continuation of the pre-war experience was promoted” (Ferrera 1986). The decades to come were characterized by marginal adjustments, further expansion, and clientelistic exchanges. This period has also been described as the ‘phase of freezing’ (congelamento). The fragmentation of functions and competences, ineffective structures, and the persistence of inequalities between different occupational groups maintained.

During the late 1950s and 1960s the division of the Italian welfare state in three segments has been consolidated: social insurance (previdenza), health and sanitation (sanità), and assistance (assistenza). The social insurance was administered by several separate agencies distinguished according to occupational categories but with different eligibility criteria and benefits. The coverage was limited to employees, self-employed were excluded. The benefits were flat-rate or based on contribution payments. In 1952 the pension formula has been changed and a minimum pension has been introduced. “The underlying trend was therefore substantial continuity in the basic institutional principles and regulations, as well as in organizational and administrative patterns” (Ferrera 1986).

The economic well-being of the country in the 1960s led to the recognition of the need for

\textsuperscript{30} The \textit{Istituto Nazionale di Previdenza Sociale} INPS (National Institute for Social Insurance), the \textit{Istituto Nazionale per l’Assicurazione contro gli infortuni sul Lavoro} INAIL (National Institute for the Insurance of Occupational Injuries) and the \textit{Istituto Nazionale per l’Assicurazione contro le Mallatie} INAM (National Institute for Sickness Insurance).

\textsuperscript{31} The Left wanted drastic reforms and workers’ and unions’ self-management; the Catholic party negated the secularization of the welfare state and wanted to maintain the Church’s role in social assistance; the smaller liberal parties were attracted by the ideas of Beveridge.
economic and social reforms in Italy. Despite the existence of ambitious plans the actual success has been minimal due to the disagreement between the coalition partners.

Between 1957 and 1966 the compulsory pension insurance has been extended to different groups of self-employed (agriculture, commerce, and traders), which have been integrated into the *Istituto Nazionale di Previdenza Sociale* (INPS – National Social Insurance Institute). The retirement age for women and the minimum pensions has been increased. The accumulation of pension benefits with income from work has been regulated more generously. Since 1963 housewives had the opportunity to enter the pension insurance voluntarily. In 1965 seniority pensions have been introduced, pension benefits were paid in case of a 35 years long contribution period, independently from any age requirements. Another pension reform in 1969 has changed the pension formula relating pension benefits to the previous earnings (Klammer 1997). The innovations in the social insurance during the 1960s were the starting point for a permanent increase in social expenditure as a percentage of the GDP. Nevertheless, the development of the Italian welfare state corresponded with the expansion of social spending in other European countries and has not been exceptional (Alber 1988).

The third defeat of the Moro Cabinet in 1968 has aggravated the crisis of Italy and confirmed the impression of the impossibility to govern the country. Different social movements, but especially the unions increased their political significance. The dissatisfaction of the Italian population led to the “hot autumn” (the so-called *autunno caldo*) with massive claims of the unions in the sector of social assistance and labor market policies. The government increased the social spending, without any corrections on the revenue side. A chronic financial crisis began. In the mid 60s the pension reform has been the central topic of the political debate, which has never been realized. A crucial problem since the late 70s have been the invalidity pensions which have been used to relieve the desolate labor market. All over Italy, but especially in the South, invalidity pensions (assegno ordinario di invalidità) have been the focal point for unemployed.

We can conclude that the pension system expanded in an uncoordinated and excessive way during the 1960s and 1970s. The overall objective of an encompassing reform of the pension system has failed several times.

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32 Many clientelistic and particularistic innovations – such as the pension for housewives or the extension of coverage to self-employed can be understood as pre-election promises of the *Democrazia Cristiana*. A statistical correlation between years of election and increase in social spending has been proven by Ferrera (Ferrera 1984).

33 The popularity of the invalidity pension can be seen in the following figures: In 1972 approximately 21,48 million people were paying contributions, 10,27 million were receiving different kinds of pension payments, 2,6 million of the beneficiaries received invalidity pensions. In 1974 already 3 million people received invalidity pensions, whereas only 2,9 million people received regular old-age pensions (Klammer 1997).

34 Invalidity pensions (assegno ordinario di invalidità) must be distinguished from the inability pension (pensione di inabilità).
5. The Case Study – Part 1: The Gridlock of the First Republic

5.1. The Last Decade of the First Republic: An Overview

The main objective of this thesis is the answer to the question, what factors caused the policy gridlock during the last decade of the First Republic (1980-1991) against the background of the reform activity in the pension sector after 1992. In the following paragraph I will outline the reform attempts between 1980 and 1991.

There have been numerous pension reform plans, many of them only reforming certain pension schemes and others reforming the entire pension system. I will focus on general reforms aiming at the reform of the entire system, since they can be best compared to the reforms of the Second Republic.

5.1.1. The Scotti Proposal - 1980

“The actual pension system is based on a general scheme covering virtually all dependent employees in the private sector and a scheme for dependents employed in the public sector and in addition to that general scheme more than 50 special treatments, some supplementary, some exempting, some exclusive, and some integrative”35 (translation by the author, original citation see footnote). These have been the introductory words of the law proposal n. 1296 Riforma del sistema pensionistico (Reform of the Pension System) presented to the Chamber of Deputies on January 23, 1980 by the Minister for Labor Affairs Vincenzo Scotti. This introduction clarifies the underlying problem of the Italian pension system in the early 1980s in Italy: an administrative complexity resulting out of numerous regimes for different occupational groups. The disparities in the treatment of these groups in form of several privileges disturbed the relationship between revenues and expenditures and put the Italian pension system under pressure.

The reform project of Scotti was not very far-reaching, nevertheless it was the point of departure for a series of pension reform projects throughout the 1980s and early 1990s. The major reform projects during this period were all very similar in their emphasis. Scotti’s reform project paved the way for the other law proposals to come, it contained the following points: a unification of the different regimes within the INPS (the National Social Insurance Institute); harmonization of contribution rates between employees in the public and private sector; an increase in the retirement age to 65 years for men and 60 years for women; new measures concerning the accumulation of income and pension

35 “L’attuale sistema pensionistico è fondato su un regime generale abbracciante la quasi totalità dei lavoratori dipendenti privati, da una gestione ordinaria per i dipendenti dello stato e da oltre 50 trattamenti speciali tra sostitutivi, esonerativi, esclusivi, aggiuntivi ed integrativi del regime generale”.

32
benefits.

Despite the need for austerity measures Scotti did not want to touch already ‘acquired rights’. The reform proposal ‘Scotti’ was discussed for more than two years in the parliamentary committees before it has been transmitted to the Chamber of Deputies. The negotiations about the reform proposal stopped after three sittings.

5.1.2. The Commissione Castellino sulla Spesa Previdenziale – 1981

Reforming the public pension system in Italy was an heatedly debated issue since the late 1970s. Several experts recognized the need for reform, among those Onorato Castellino, who was the President of the Commissione sulla Spesa Previdenziale (Commission on Pension Spending) which has been appointed by the Ministero del Tesoro (Ministry of the Treasury) to outline some reform guidelines in 1981. Need of intervention has been stated for the following areas (Canziani and Demekas 1995): an increase in the retirement age; an extension of the reference period for the calculation of pension benefits; the harmonization of benefits between the different categories of workers, especially between private and public employees; an increase in the contribution period requirement for seniority pensions. The suggestions of the Castellino Commission have infiltrated the following law proposals which have been formulated in the decade to come.

5.1.3. The Attempt of De Michelis - 1983

The first attempt for a sweeping reform has been initiated in 1983 by the former Minister for Labor Affairs Gianni De Michelis. He has presented the ‘pension challenge’ in a more alarming tone than his predecessors. The pension expenditure was growing in an uncontrollable way. De Michelis said that “the pension benefits have to be reduced significantly, if we don’t want to provoke a breakdown of the entire system in the year 2000” (CENSIS 1984, p. 333). De Michelis’s critical assessment resulted in drastic reform measures compared to the reforms of his successors. His reform proposal contained the following measures:

- cuts of pension benefits, since they were too generous against the background of the critical conditions of the public finances;
- more proportional relationship between contributions and benefits;
- abatement of pension benefits for civil servants;
- introduction of supplementary private pensions, calculated according to capitalization mechanism;
- increase in the retirement age;
- means-tested benefits should be separated strictly by the regular benefits of the pension insurance.
The proposal of De Michelis coincided with the institution of a Commissione Speciale per la Riforma delle Pensioni (Special Commission for the Reform of the Pension System) under the presidency of Nino Cristofori (DC) in July 1984. The Commission was supposed to examine more than 40 competing law proposals dealing with the issue of pension reform. The objective of the appointment of the special Commission has been the acceleration of the debate. The government expected that the meeting of the experts in the field of pension politics of all parties, would help to find a consensus in pension reform and therefore help to pass the reform in the two chambers. In Table A 4.1 of the Appendix I have compiled a synopsis of the positions of the most important parties the parliament referring to the key points of the reform. The reform project of De Michelis has been criticized harshly by the unions, the opposition, and by the government coalition, whereas it has been appreciated by the Confindustria. The employers’ association claimed a reorganization of the State Pension Fund (INPS) and the need for a financial equilibrium of the pension system. The opposition of the coalition partners and the other parties in parliament have led to the rejection of the proposal by the Special Commission for the Reform of the Pension System.


The Cristofori Commission has been the most ambitious project during the 1980s. The special Commission has been set up in March 1984. It had the difficult task to examine more than 40 law proposals and to draw a common law proposal. After 34 sittings in the year 1984, the Commission was not able to present any progress. The president of the commission Nino Cristofori was not able to bring the different positions concerning the key issues of the reform in line. This has been primarily caused by disagreement within the government coalition (DC, PSI, PSDI, PLI, PRI).

The local elections in 1985 have further procrastinated serious efforts to push the reform. A typical pattern in Italian legislation is the so-called stralcio of law proposals. In case of a general reform of a certain policy field, politicians tend to split the law proposal in different parts. This technique should guarantee at least the realization of certain parts of the law. This has also been the case for the Cristofori Commission. Against the background of the local elections, the measures rather extended benefits than cutting them. The laws 140/1985 (April 15, 1985) and 141/1985 (April 17, 1985) aligned pension benefits for certain groups.

The first law contained an augmentation of the social pensions. The second law aimed at the extension of benefits for dependent employees in the public sector (CENSIS 1985).

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36 The proposals came from about every party represented in the Chamber of Deputies and the Senate.
Another law has increased the upper ceilings for pension benefits. Nevertheless, the more rigorous and controversial points of the law have been omitted. The central issues remained unsolved and a rapid conclusion of the reform seemed out of reach.

In the end of 1985 the so-called Comitato ristretto (restricted Committee) has been appointed. The fundamental lines of the testo unificato will be summarized in the following table (CENSIS 1985):

<table>
<thead>
<tr>
<th>Table 5.1 Content of the Testo Unificato</th>
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<tbody>
<tr>
<td><strong>Issue</strong></td>
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<tr>
<td>Harmonization of Rules</td>
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<tr>
<td>Supplementary Private Pensions</td>
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<tr>
<td>Retirement Age</td>
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<tr>
<td>Seniority Pensions</td>
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<tr>
<td>Accumulation of Pension Benefits with Salary</td>
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<tr>
<td>Calculation of Pension Benefit</td>
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<tr>
<td>Upper Ceiling for Contributions</td>
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<tr>
<td>Financing</td>
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<td>Self-employed</td>
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<td>Reorganization of INPS</td>
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</tbody>
</table>

After the testo unificato has been approved by the Comitato ristretto, the law proposal has been re-transmitted to the entire Commissione Speciale per la Riforma delle Pensioni. On March 13,

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37 This subcommittee is established after the examination of the law proposals by all the members of the Commission. The subcommittee examines the still existing disagreements between the groups and tries to overcome them in a so-called testo unificato (unified text). This is a law proposal, which should satisfy the demands of all parliamentary groups. The meetings of the Comitato ristretto are informal and not public. The Committee might arrange hearings of interest groups which are interested or affected by the reorganization of the sector.
1986 the Commission approved a law proposal containing 84 articles reorganizing the entire pension system. Although the proposal has been approved by the commission, the polemics did not end, especially by the Commissione Bilancio (Committee for Finances), the Commissione Speciale per la Spesa Pubblica (Special Commission for Public Expenditure), the Treasury, and the Minister for Labor Affairs Gianni De Michelis. The critics complained about the neglect of the following issues:

- plurality of different pension schemes;
- insufficient savings only realizing short-term effects for pension finances, but no long-term effects;
- insufficient reform of regime for self-employed.

The Minister for Labor Affairs De Michelis claimed a further increase in the retirement age up to 65 years by 2007 with financial disincentives for those who plan to retire between 60 and 65 years. The possibilities for the accumulation of salary and pension benefits should be restricted. The reference period should be extended (not only last 5 or 10 years of working career). The contribution rates for dependent workers should be increased for 3 percentage points in case of deficits in the State Pension Fund.

The unions did not agree with the pro rata method in the calculation of pensions and wanted to distinguish between employees already insured and employees who enter the pension insurance after the law came into effect. Furthermore they criticized the retention of exemptions from the harmonization of pension schemes and the increase in the retirement age for women. The age limits should be more flexible. The upper ceilings for benefits and contributions should be abolished. They claimed an increase in the minimum contribution period from 15 to 20 years (CENSIS 1986). It is important to mention that the unions showed a pro-reform attitude and did not torpedo the reform proposal through mass mobilizations (CENSIS 1987).

The Treasury complained about the insufficient reform of the main reasons for the chronic financial disequilibrium, such as the low age requirements for retirement, the high replacement rates, the inadequacy of the pension payments against the background of the disastrous labor market and demographic situation. The Treasury claimed a reduction of the retirement age for workers in high-risk jobs. The Commissione Speciale per la Spesa Pubblica criticized the shortsightedness of the reform and the disproportional relation between costs and benefits.

The IXth legislative term has been concluded without the approval of the pension reform due to continuing disagreement within the government (the two competing projects of Cristofori and De Michelis) but also between the coalition partners. These points of disagreement also prevailed in the beginning of the Xth parliamentary term (beginning in 1987). After the transmission of the law pro-
posal to the Chamber of Deputies it became clear, that it was not possible to reconcile the two opposed projects. Therefore the pension reform has been re-transmitted to the commission which was now in sede redigente, appointed to create a definite law proposal, which should not be discussed any longer in the parliament but only be voted on. This task has not been carried out due to new elections and the end of the parliamentary term (Confindustria 1988). The ‘big’ pension project failed. Three years characterized by numerous sittings in the special commission and in the Chamber of Deputies did not result into the approval of the first general pension reform during the 1980s.

5.1.5. Next Try – the Formica Project 1988

The Minister for Labor Affairs of the new government, Rino Formica, did not opt for a resumption of the ‘old reform project’. Formica approached the pension issue differently and appointed two Commissions which were supposed to frame a possible path for reform addressing a complete reorganization of the entire pension system and a restructuring of the National Social Insurance Institute (INPS). The commissions have been under the presidency of Professor Franceschelli and Professor Vitaletti (Confindustria 1988). The Commissions outlined the following suggestions (CENSIS 1988):

- extension of the rules of the State Pension Fund (FPLD) to all employees with less than 15 years. Some categories should have been exempted (judges, military officials, entrepreneurs, journalists, flight personnel, theatre staff);
- gradual tightening of the valid norms: a longer reference period up to the last 10 years of employment; increase of the contribution period required for the minimum pension from 15 to 20 years; elevation of the retirement age in two stages. First, an increase in the retirement age for women from 55 to 60 years and then for men and women from 60 to 65 until 2005; the accumulation of pension benefits with salary should be allowed as long as it did not exceed the double amount of the minimum pension;
- rules for dependent employees should also be applied for self-employed (in terms of contribution rates and replacement rates).

After the presentation of the suggestions the unions declared their opposition to the plans aiming at the tightening of currently valid norms. They claimed that the new rules should only be applied for newly insured employees in order to secure the ‘acquired rights’ of pensioners and employees already insured (and not only for those who have more than 15 years of contributions). Furthermore they suggested the introduction of a flexible retirement age giving the worker the opportunity to retire within a frame of 5 years (CENSIS 1988). The reform did not gain the support of the coalition partners and the unions, it did not even enter one of the two chambers. The opinion of the Confindustria has
been more positive, especially with respect to the tightening of the rules of eligibility.

5.1.6. The Attempt of Donat Cattin – 1989

Who pays the pensions of the future? This has been the underlying question of the reform plans of Donat Cattin in 1989. With regards to the relation between active and inactive population there has been a high need for a thorough reform. Donat Cattin planned to reduce the level of pension benefits. He wanted to augment the retirement age for men and women up to 65 years and increase the contribution requirement for a full old-age pension from 35 to 40 years. He wanted to give incentives for investment into private pension funds (CENSIS 1990). The contribution period for a minimum pension should stay the same (15 years). Benefits should be indexed to the contractual wage (Franco 1993). The reference period should be extended to the entire working career (Ferrante 1990). Furthermore, Donat Cattin wanted to reduce the accrual factor of the pension from 2% to 1.75% each, which would result in a reduction of the replacement rate from 80 to 70% (Ferrante 1990). All these measures should reorganize the pension system for dependent employees of the private sector. Donat Cattin expected the parliament to delegate the reorganization of the public sector to the government which wanted to alter the system for dependents of the public sector with several _decreti legislativi_.

Although the social partners signalled their willingness to reform the pension system, they opposed the plans of Donat Cattin fearing considerable reductions in pension benefits. For a long time Donat Cattin presented only possible issues of the reform, he waited until the end of December 1990 to present a law proposal. The tightening of the rules was unacceptable for the unions, although they had several meetings with Donat Cattin in order to negotiate about certain issues of the pension reform, they were not able to reach a consensus since the positions were too opposed.

5.1.7. The Last Attempt of the First Republic – Franco Marini 1991

In 1991 the Minister for Labor Affairs Franco Marini presented the next reform proposal, which has been an integral part of the budget law for 1992-1994. I will summarize the reform plans in the following table. All modifications prescribed a transition period until 2005:

<table>
<thead>
<tr>
<th><strong>Table 5.2 Content of the Marini Proposal</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issue</strong></td>
</tr>
<tr>
<td>Retirement Age</td>
</tr>
<tr>
<td>Calculation of Pension Benefits</td>
</tr>
<tr>
<td>Seniority pension</td>
</tr>
<tr>
<td>Contribution Credits for Times of Unemployment</td>
</tr>
</tbody>
</table>

38
Continuation of Table 5.2

<table>
<thead>
<tr>
<th>Issue</th>
<th>Marini Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution Rates</td>
<td>The contribution rates of dependents in the public and private sector should be aligned to each other on the basis of the Pension State Fund norms.</td>
</tr>
<tr>
<td>Contribution Credits</td>
<td>The limit of 12 month maximum in case of sickness or work injuries was abolished. No upper-limit any longer.</td>
</tr>
<tr>
<td>High-Risk Jobs</td>
<td>Individuals in high risk jobs should be eligible for the old-age pension five years earlier.</td>
</tr>
<tr>
<td>Accumulation of Pension Benefits with Salary</td>
<td>Pension benefits and salary could be accumulated without any limits if pension benefit does not exceed the minimum pension. If the already acquired pension benefit is three times higher than the minimum pension than it is not possible to accumulate the two benefits.</td>
</tr>
<tr>
<td>Pension Benefit for Family Members of Deceased Pensioners</td>
<td>The pension for family members (who are still working) should aligned at a level of 50% of the original pension benefit of the deceased pensioner.</td>
</tr>
</tbody>
</table>

In addition he included three *decreti legislativi* into his law proposal, reforming the following issues: the indexation of pensions to actual wages; supplementary private pensions; a reorganization of the pension sector for all newly insured employees.

The unions showed their general agreement with the Marini proposal: the rules for workers in high risk jobs, contribution credits for unemployment, sickness and work injuries. They opposed the elevation of the compulsory retirement age up to 65 years. They also claimed a better specification of high-risk employment, that means clear-cut criteria which help to distinguish between high-risk employees and ‘regular’ employees. With respect to the harmonization of the rules of different pension schemes, the unions assessed positively that Marini did not insert several exemptions from the rule for certain categories (as we have seen in the proposals of his predecessors). With respect to the reference period for the calculation of pension benefits the unions claimed an extension to the entire working career and not only to the last ten years.

The employers’ association *Confindustria* has underlined several times the urgency for a complete revision of the pension system since the finances were out of control for a long time. The measures described in the law proposal by Franco Marini were considered to be insufficient. First, the expected savings of the ‘soft’ measures were not enough when it came to the rising deficit in the State Pension Fund. Second, the long transition periods would even delay the financial effect of the reform. According to the *Confindustria*, the pension expenditure had to be cut. This objective was supposed to be realized with a reform fulfilling the standards of equity and flexibility. The relation between contributions paid and benefits should be more direct. A clear distinction between means-tested assistance measures (*assistenza*) and social security benefits (*previdenza*) should be established. This distinction should be realized with respect to the organizational structures, financing, and benefits.
The Confindustria claimed the elevation of the retirement age up to 65 years, and an extension of the reference period. The accrual factor should be reduced and the ‘double’-indexation of pension benefits should be revised. Pension benefits should therefore only be indexed according to the cost of living. A uniform regulation of the accumulation of pension benefits with salary or other pension benefits has been claimed. The contribution rate should be equal for employers and employees (Confindustria 1991).

The Xth parliamentary term ended again without the realization of a pension reform. The reason for the failure was a counterproposal of the PDS (former PCI) which contained different rules concerning the retirement age (stabilization of the retirement age at 60 years for men and women, with the opportunity to work until the age of 65). The retirement age should be flexible including financial incentives for employees who work longer than 60 (Ferrante 1991). The disagreement about the ‘retirement age-issue’ has not been solved by the end of the parliamentary reform, which implied the failure of the Marini proposal (Confindustria 1991).

Table A 4.2 of the Appendix will give an overview confronting the contents of the main reforms proposals of the 1980s.

6. Case Study – Part 2: Italy Awakes Out of its Slumber

6.1. The Amato reform: The End of the Gridlock

After the lack of success during the 1980s, it was the serious financial crisis in 1992, which forced the Amato government to introduce an emergency plan in order to balance the public finance. Against the background of failed reform efforts since 1980, it was surprising that Amato was able to realize his objective with three different laws:

- the budget law for 1993 (Finanziaria 1993);
- law (legge delega) 421/1992 and the legislative decree (decreto legislativo) 503/1992;

In the following paragraphs I will explain the content of each law, with a more profound analysis of the legislative process for the law 421/1992.
6.1.1. The Budget Law for 1993

The budget law is often used for the integration of measures in the public pension sector. Since the problem pressure in 1992 has been very high, and the government intended to introduce an encompassing reorganization of the pension system in a separate law, the budget law\(^{38}\) contained only a single measure referring to the pension issue, namely the increase in the contribution rate. It has been planned to raise the contribution rate by 0.8 percentage points for dependent employees (now 26.5 % of gross salary: 2/3 paid by the employer and 1/3 paid by the employee), and 1.0 percentage for self-employed (now 15% of receipts).

The unions criticized this measure, especially since it has been decoupled from the rest of the law proposal dealing with the reform of the pension system, and announced their opposition. Shortly after the presentation of the budget law, Amato presented the law proposal no. S 0463\(^{39}\), which distracted the unions from their opposition against the raise in the contribution rate.

6.1.2. The Legge Delega

The law proposal in form of a *legge delega* (Art. 76 and 77 Cost.)\(^{40}\) contained measures in the sector of health services, pensions, and the public service (*Delega al Governo per la razionalizzazione e la revisione delle discipline in materia di sanità, di pubblico impiego, di previdenza e di finanza territoriale*).

In the introduction to the *legge delega* the government has outlined the great need for reform. In the first place, the reform was needed in order to guarantee the future of the Italian welfare state, but in addition, “a serious reform is a privileged objective, since the European partners expect from Italy to assure the achievement of the objectives delineated by the Maastricht Treaty”\(^{41}\) (translation by the author, original citation see footnote) (Camera dei Deputati, 1992). During the debate on pension reform, the European partners discussed the issue of a ‘two-speed-Europe’, with one group of strong countries (such as Germany, France, the Benelux-countries) entering the step of a the European Monetary Union in 1999, whereas others who deviate from the common convergence criteria (such as Spain or Italy), having to wait.

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\(^{38}\) Throughout the 1980s budget laws have been used to integrate measures in the field of social security.

\(^{39}\) The letter written in front of the number of the law proposal describes the chamber in which the bill has been presented first. S stands for Senate, C stands for Chamber of Deputies.

\(^{40}\) The law has been presented to the Senate on July 14, 1992, but since it was close to the summer recess, only the Commissions have started to work on the proposal.

\(^{41}\) “Una seria riforma in questo senso è del resto obiettivo prioritario che i partners europei ci impongono per assicurare l’ingresso a pieno titolo dell’Italia nel sistema europeo delineato dal trattato di Maastricht.”
Against the background of several failed pension reforms throughout the 1980s Amato asked the Parliament not to gamble away the chance to reform the pension system. The legge delega prescribed that “within 90 days after the bill comes into effect the government has to pass one or more legislative decrees in order to reorganize the public pension system for dependent employees of the private and public sector” (Camera dei Deputati, 1992). Demographic, social, and occupational transformations do not allow a further delay of the reform. The bill presented to the Senate addressed four fundamental points:

- the stabilization of the financial basis of the current pension scheme;
- the stabilization of the expenditure as a percentage of the GDP;
- the harmonization of the different rules for different categories;
- the guaranty of ‘acquired rights’.

The Content of the Legge Delega

The objectives should be realized by a gradual increase in the retirement age (men: 65 years; women 60 years)\(^2\), but only for employees who had less than 15 years of contributions. Pension payments were supposed to start as soon as the employee retired from work. The minimum contribution period required for the eligibility for an old-age pension should be elevated gradually from 15 to 20 years. Every two years the contribution requirement should be elevated for one year. The reference period for the calculation of pension benefits should be increased from the average income of the last 5 to the average income of the last 10 years.

The required contribution period for seniority pensions of 35 years (already, applied for dependent employees in the private sector) should be extended\(^3\) to all dependent employees, public and private.

Employees in high-risk jobs should have the right to retire earlier than employees in regular jobs. For every year in high-risk employment the worker should gain a two-month-benefit for early retirement. The maximum benefit should be fixed at 60 months. Contribution credits should be introduced for maternity, the care of handicapped or older family members. These contribution credits for old-age pensions were not allowed to exceed the limit of 5 years. For seniority pensions the maximum limit was fixed at 3 years.

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\(^2\) This measure should not be applied for women older than 50 years, and men older than 57 years.

\(^3\) The valid norm for seniority pensions in the public sector differed considerably from the norm for private employees. Men were able to retire after 20 years, women with children after 15 years of service without any age requirement. The elevation will be gradual.
The rules for the accumulation of pension benefits with income from self-employment or minor employment should be harmonized, and limits should be tightened. The pension payments should be indexed to prices alone. The requisites for a minimum pension should be revised and the income requirements for different categories should be harmonized. The eligibility for a minimum pension should also depend on the income of the spouse. It should be only paid, if the family income is lower than the minimum standard of living.

It has been emphasized that the reform of the pension system does not reduce ‘acquired rights’. The ‘new’ Minister for Labor Affairs Nino Cristofori said “I know that many people are anxious about their acquired rights, the government assures that these rights will be guaranteed” (Cecchini 1992) (translation by the author, original citation see footnote)44. Nothing has been changed with respect to the plurality of pension schemes (in total 54 different schemes) for different categories of workers (Vaiano 1992b).

The reform project of Nino Cristofori has been contested by two Ministers of the Amato cabinet, the Minister of the Treasury Piero Barucci and the Minister of Finance Franco Reviglio. They criticized that the reform measures planned by Cristofori would bring only insufficient savings, and called for stricter retrenchment in the pension sector. According to Barucci “the credibility of Italy depends on the success of the pension reform” (Vaiano 1992a) (translation by the author, original citation, see footnote)45 and the credibility would not be regained with a reform of limited scope. The gradual elevation of the retirement age was supposed to bring only moderate savings. He emphasized that the austerity measures have to be more severe if the objective, to stabilize the ratio between pension spending and the GDP at 14%, wants to be achieved. Reviglio reaffirmed the opinion of Barucci. The new figures of the social security corporations have stated that the measures have to be stricter. The norms of the legge delega have to be adapted to the current situation. The disagreement between the three ministers has been solved in two meetings on August 5 and 6, 1992 with the Prime Minister Guiliano Amato, who agreed with the plans of Cristofori, due to the threatened negative reaction of the unions in case of an aggravation of the reform measures.

The Committee for Labor, Social Security and Social Affairs

On July 23, 1992 the debate started in the Committee for Labor, Social Security and Social Affairs (11a Commissione Lavoro, Previdenza, Sociale). In the general discussion the parties stated their point of view on the reform of the pension system.

44 “So che la gente e molto preoccupata per i diritti acquisiti. Posso dire che il governo li garantirà in modo assoluto”.
45 “La credibilità dell’Italia sui mercati dipende dal rispetto di queste tappe”.

43
The *Partito Democratico della Sinistra* (PDS) emphasized the great need for reform after numerous failed attempts during the last 20 years. It has been criticized that the norms in the *legge delega* were too vague and therefore have to be stated more precisely. The PDS wanted to change four fundamental points of the reform concept: a ‘real’ harmonization of pension treatments; they agreed to the elevation of the retirement age, but claimed more flexible margins; a better explication of the mechanisms of pension adjustment; and different rules for the assessment of contribution credits. During the debate the PDS demonstrated their rejection of the reform presented by the government.

The *Lega Nord* (LN) criticized that the current problems of the pension system were not an effect of the economic downturn, but an effect of the irresponsible behavior of the political class, which administered the pension system with “looseness, superficiality, and clientelism” (translation by the author, for original citation see footnote)\(^46\). The party considered the reform to be a fraud because the dependent workers are disadvantaged by the reform. The LN interpreted the introduction of a private pension pillar, as a need in order to guarantee the minimum standard of living. They claimed a more flexible interpretation of the retirement age; the institutionalization of a pension regime for dependent employees in the public sector; and a reorganization of the invalidity pensions (*pensione di invalidità*), which were often paid to individuals, who were not eligible. During the debate the LN announced their opposition to the proposal.

The *Democrazia Cristiana* (DC) appreciated the gradual transition to the new pension system and the harmonization of the public and private sector. The party depreciated the retrenchment of the welfare state. The general position of the DC is outlined in the following points: a stabilization of the calculation method for pensions and no penalizations for younger employees. Furthermore, the DC questioned whether the level of wages would allow employees to build up a private pension. Concrete changes were announced for the following issues: employees in high-risk jobs; extension of rules regarding seniority pensions to the public sector; the adjustment of pension benefits; and changes of the contribution credits. They emphasized ‘acquired rights’ should not be reduced by the reform, because they did not want to endanger the confidence of the citizens in the government. Nevertheless, the DC demonstrated their agreement to the reform proposal.

The *Rifondazione Comunista* (RC) criticized that the reform will weaken the weakest stratum of the society, making them pay for the financial disequilibrium caused by the political class. The RC announced that they agreed with the criticism brought up by the PDS, but they intended to present amendments, which were supposed to alter the proposal radically. Therefore the RC announced to vote

\(^{46}\) “Il frutto dell’ attuale congiuntura negativa ma dell’operato di una classe politica che ha gestito il sistema previdenziale con leggerezza, superficialità e con sistemi clientelari” (1992)
against the reform proposal.

The Partito Socialista Italiano (PSI) underlined the necessity and urgency to initiate the reform of the pension system. They emphasized the need to consider also future generations in the reform and not only to safeguard ‘acquired rights’. The party claimed stronger disincentives for seniority pensions. They did not agree with the elevation of the minimum contribution period for old-age pensions up to 20 years.

The Movimento Sociale Italiano – Destra Nazionale (MSI-DN) wanted to alter the entire bill and presented several amendments. During the discussion all their amendments were rejected, therefore the group expressed their negative vote on the reform proposal.

On August 5, 1992 the Committee decided about the amendments of the different parties and groups. None of the amendments of the opposition in the Parliament have been accepted, especially the numerous amendments of Lega Nord, Rifondazione Comunista, and Movimento Sociale Italiano – Destra Nazionale. Changes have been accepted primarily by the two coalition parties Democrazia Cristiana and Partito Sociale Italiano. The most important modifications have been the following:

- It has been decided that the new rules concerning the retirement age were only valid for male employees younger than 55 (instead of 57) and female employees younger than 50 years. The possibility to retire according to old rules with a contribution record of 15 years were deleted.
- Early retirement should be penalized by a reduction in pension benefits, whereas incentives should be set in form of higher pension benefits for later retirement.
- It has been agreed upon the restructuring and harmonization of the social security corporations, the stabilization of the contribution rates and the assurance of the financial equilibrium of the corporations. It was not allowed to increase contribution rates for employees and employers for that reason.
- It has been accepted the amendment of DC to introduce a flexible retirement age. All employees who are older than 60 years or have a contribution record of 30 or more years were allowed to leave work gradually, by working part-time.
- The accrual factor for medium-high pension benefits (upper limit 52 million lira) should be decreased in favor of lower pension benefits. This measure should foster the investment in private pension funds.

After the bill has been transferred to the Senate, the amendments of the parliamentary groups have been examined. More than 120 amendments have been presented, mainly by the parties in the opposition. Only a few suggestions have been accepted, none of them of high relevance. The main
work has been done already in the Committee for Labor, Social Security, Social Affairs. On September 14, 1992 the Senate voted on article 3, the part of the legge delega dealing with the pension reform. 127 senators voted in favor (DC; PSI, SVP, PRI); 86 voted against (PDS; RC; LN; MSI-DN; Verdi-La Rete); 3 abstained. The law has been transferred to the Chamber of Deputies.

6.1.3. The International Monetary Fund

In September the situation in the Italian economy aggravated, especially the public debt seemed to grow inexorably. At the annual assembly of the International Monetary Fund (IMF) in Washington starting on September 14, 1992 the experts of the IMF underlined the need for far-reaching reforms in order to gain control on the public finance and expected further efforts of the Italian government through supplementary measures. According to the Economic Outlook of 1992 “Italy has been the country with the smallest success in controlling the deficit” (OECD 1993). According to the experts, the measures announced by Amato in his budget law and the related laws is the minimum necessary in order to fight high inflation, deficit and debt. Italy was supposed to take further measures in order to meet the Maastricht convergence criteria (Cecchini and Vaiano 1992). The negative economic outlook for Italy triggered further measures of Amato who wanted to react with an immediate and strong sign for the international markets in order to regain the credibility of Italy. Therefore he planned to introduce a decreto legge which should cut expenditure in the health and pension sector. This measure has been appreciated by the Confindustria, whereas the unions feared the decreto legge for strict retrenchment measures and announced their opposition. But also within the government coalition the conflict lines of the summer reoccurred. Franco Reviglio, Minister of the Treasury, took advantage of the situation and tried to introduce stricter measures, such as blocking the access to the so-called baby pensions for public servants, which was rejected by Cristofori. The Minister for Labor Affairs also opposed the amendment brought in by Amato who intended to reduce the calculation coefficient by 0.5% for high pension benefits with an upper limit of 52 million lira a year. Cristofori defended his ‘soft reform’, whereas the economists, such as Barucci and Reviglio claimed more drastic measures (Cianca 1992).

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47 The entire legge delega with measures in health care, pensions, and public employment has been approved on September 16, 1992. The vote nearly failed since the PDS and Rifondazione Comunista did not vote, and therefore the legal number of senators needed for the approval of a law (which has been 152) was endangered. In the end 145 voted in favor, 3 voted against, and 2 senators abstained from the vote (Marro 1992)
6.1.4. The Lira under Pressure

On September 17, 1992 a dramatic devaluation of the Italian currency has forced the Lira out of the European Monetary System (EMS). Amato needed to close the stock markets for two days. The monetary crisis was the trigger for the presentation of the decreto legge n. 384 on September 19, 1992 and several amendments related to the legge delega. Amato announced that “the situation does not allow any delay. If the parliament is not willing to recognize the severity of the situation, I will resign” (Macaluso 1992). He was therefore willing to link the vote on the decreto legge with a vote of confidence.

6.1.5. The Decreto Legge

The decreto legge presented by Amato contained the following norms:

1. Seniority pensions were not approved (‘Bewilligungsstop’) until December 31, 1993. The option to retire for employees meeting the requirements for seniority pensions, was blocked for more than one year. Retirement was only possible in case the requirements for old-age pensions were met (for men 60 years and 55 years for women).

2. The scala mobile was abolished. For 1992 and 1993 the pension benefits would not be indexed twice to wages and consumer prices. The government planned a one-time indexation according to consumer prices.

3. For Italian citizens who worked only limited time in Italy and most of their work-life in a foreign country a minimum international pension benefit was only granted after a minimum contribution requirement of five years to the Italian social insurance has been met.48

The Three Confederal Unions: CGIL, UIL, and CISL

The unions criticized the legge delega right from the beginning. First of all, because Amato did not negotiate with them about the bill he presented in the Senate. This anger was aggravated by the different decreti legge (not only the decreto legge presented in the field of pension politics, but also in the field of health politics, and public employment). The unions’ threat of a general strike has been credible, because regional strikes and a national manifestation of pensioners49 have already been organized by the unions. The meetings of Amato with the union leaders were counterproductive because afterwards the positions of the actors were more distant than before. Although the unions’ were able to mobilize their members, Amato was not impressed and did not fear a general strike.

48 Prior to this norm, a few weeks were sufficient in order to get a international minimum pension.
49 The manifestation has taken place on September 26, 1992 in Rome with more than 200 000 pensioners protesting against the government plans.
I have summarized the position of the confederal unions in the following table (CGIL/CISL/UIL 1992):

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Opinion of the unions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement age</td>
<td>- 60 years for men and women</td>
</tr>
<tr>
<td></td>
<td>- all employees can opt to work up to 65 years.</td>
</tr>
<tr>
<td>No elevation of retirement age for the</td>
<td>- women older than 50 years</td>
</tr>
<tr>
<td>following groups</td>
<td>- men older than 55 years</td>
</tr>
<tr>
<td>Seniority pension</td>
<td>- no changes in the requirements for seniority pensions</td>
</tr>
<tr>
<td>Minimum contribution requirement</td>
<td>- rejection of minimum contribution requirement of 20 years, but confirmation of the valid norm of 15 years</td>
</tr>
<tr>
<td>Contribution credits</td>
<td>- extension of fictitious contribution periods for maternity without an employment contract, assistance and care for handicapped and older family members, unemployment)</td>
</tr>
<tr>
<td>Indexation of pension benefits</td>
<td>- pension benefits should be indexed to the cost of living or the increase in wages</td>
</tr>
</tbody>
</table>

Amato was willing to accept modifications of the *decreto legge*, but only in case the modifications helped to improve it. He emphasized that the severe economic situation of Italy forced him to expand the retrenchment measures to all societal groups – also the pensioners.

### 6.1.6. **The legge delega in the Chamber of Deputies**

In the XI Committee for Labor Affairs, Social Security and Social Affairs the article 3 of the legge delega has been modified. First of all, Amato wanted to increase the financial effects of the bill by some modifications. This was definitely a defeat for Nino Cristofori, Minister for Labor Affairs, who insisted that severe retrenchment should be avoided. According to Amato the changes were indispensable referring to the economic situation of the country. The PDS was also able to introduce some amendments which have been approved by the committee. The main changes will be summarized in the following paragraph:

- **Retirement Age**: The retirement age for men was fixed at 65 years, for women at 60 years. The retirement was compulsory, and not voluntary as approved by the Senate.

- **Reference Period**: The pension benefits for all employees who paid less than 15 years of contributions when the law came into effect, are calculated according to the entire working career and not only to the last 10 years.

- **Seniority pensions**: The contribution requirement for seniority pensions was elevated by one year for the different categories of employees: 16 years for public servants, 21 for employees in local corporations, and 36 for private employees.

- **Indexation**: The contributions paid will be indexed according to the cost of living + 1%.
The law proposal has been transmitted to the Chamber of Deputies for their approval. The government linked the approval of Article 3 of the legge delega to the vote of confidence without accepting any modifications to the text approved in the Committee. Although this decision has been contested by the parties of the opposition and the unions, the government insisted on this instrument because it wanted to prevent that the bill was weakened by several amendments. The government won the vote of confidence, thus Article 3 of the legge delega has been approved by the Chamber of Deputies on October 10, 1992. 521 deputies have been present, 518 voted, 3 abstained from the vote. The majority has been 260 votes. 307 deputies voted in favor (DC, PSI, PSDI, and PLI), 211 voted against the bill (PDS, Lega Nord, Rifondazione Comunista, Repubblicano, Movimento Sociale Italiano – Destra Nazionale, La Rete, Verdi) (1992).

Since the government faced more than 1000 amendments on the four paragraphs of the entire legge delega, it decided to link the approval of each paragraph to a vote of confidence. All articles have been approved on October 10, 1992. Amato needed another four votes of confidence in the Senate, before the legge delega has been approved without any modifications.

Two weeks later Amato asked another vote of confidence in order to convert the decreto legge n. 384 into law with some slight modifications. Pensioners who requested a seniority pension prior to September 18, 1992 were able to retire. For the rest of the employees the seniority pensions were blocked until December 31, 1993. Furthermore, the increase in the contribution requirement for private employees, which has been increased up to 36 years in the legge delega, has been cancelled.

6.1.7. The Main Modifications: an Overview

Table 6.2 gives an overview about the main innovations which have been introduced by the different measures of the Amato reform.

<table>
<thead>
<tr>
<th>Issue</th>
<th>New Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age Requirement for Old-Age pensions</td>
<td>65 years for men; 60 years for women</td>
</tr>
<tr>
<td>Minimum Contribution Requirement</td>
<td>20 years</td>
</tr>
<tr>
<td>Contribution Credits</td>
<td>Credits for maternity and care for older family members (upper limit 5 years)</td>
</tr>
<tr>
<td>Reference Period</td>
<td>Entire working career</td>
</tr>
<tr>
<td>Minimum Pensions</td>
<td>If the family income is more than three-times higher than the minimum pension benefit, the employee is not eligible for this allowance.</td>
</tr>
</tbody>
</table>
Continuation of Table 6.2

<table>
<thead>
<tr>
<th>Issue</th>
<th>New Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indexation</td>
<td>Pension benefits are adjusted according to the cost of living.</td>
</tr>
<tr>
<td>Seniority Pensions</td>
<td>All employees who requested their seniority pensions later than September 19, 1992 are not able to retire until December 31, 1993.</td>
</tr>
<tr>
<td>Accumulation of Pensions with Salary</td>
<td>Accumulation is restricted.</td>
</tr>
</tbody>
</table>

6.2. The Failed Attempt under Berlusconi 1994

During the electoral campaign in the spring of 1994 Berlusconi committed himself to reduce Italy’s public debt and deficit not through increased taxation but rather through expenditure cuts (Baccaro 2002). Only the rumors about another reform effort, after the Amato reform, has led to a considerable increase (by 84%) of applications for seniority pensions.

Berlusconi set up a study Commission “for the prospective investigation of ideas to reform the social welfare and pension system” (Castellino 1996). University professors, public functionaries, and experts appointed by trade union organizations and by the employers’ association Confindustria. The Commission soon turned into a sounding board for the discussion of issues that excited the public opinion and were covered daily in the national press (Castellino 1996). Three issues were identified to be the main reasons for failure in public pension reform attempts in the last two decades:

1. **The High Number of Different Pension Regimes**: The Commission discussed about the issue of numerous different pension regimes. Some regimes had an unfavorable ratio of workers and beneficiaries, which had the effect that several pension regimes have been indebted. Since they existed all independently from another it was difficult to compensate the deficits from other sources than the government budget. Castellino noticed that “the distinction between pension regimes, however are not inevitable facts but rather simply historical accidents. If instead of many regimes there were only one, there would be an automatic compensation of the different relations between pensioners and active workers, reducing both the possibility of more favorable contribution-benefit combinations and recourse to state subsidies” (Castellino 1996).

2. **Distinction between previdenza and assistenza**: The Italian pension system suffered of the insufficient distinction between previdenza, which are benefits provided during or after working life, financed out of contributions, and assistenza, which are allowances paid in situations of need, financed out of taxes.
3. **The Problem of ‘Acquired Rights’**: The ‘acquired rights’ have restricted policymakers to adopt far-reaching austerity measures for years. Policymakers were not willing to distribute the burden of the reform to all societal classes, also the pensioners and those who are close to retirement. ‘Acquired rights’ have led to the allocation of conflicts but have to be safeguarded by anybody who wants to reform the public pension system.

The Commission agreed that these three points have been the main cause for failure in public pension reform in the last decades, but because of the heterogeneous composition of the Commission, the members were not able to find an agreement on the crucial points which should have been addressed. That’s why the negotiations ended in September 1994 without having succeeded in settling any of the open questions on the agenda.

In November 1994 however, the government finally reached a decision and presented important measures reforming the public pension system. The pension reform was supposed to be an integral part of the budget law for 1995. The law proposal comprised the following measures: A *decreto legge* was supposed to block seniority pension (*pensione di anzianità*) until the end of 1995. It was planned that the accrual rate for pension benefits was fixed at 2% for the year 1995 and 1.75% for the year 1996. Berlusconi wanted to index the pension benefits to the projected inflation rather than to the actual inflation rate, because Berlusconi expected considerable savings of this measure (Baccaro 2002). Furthermore, he planned to reduce pension benefits in case of early retirement (which means before the retirement age) by 3% per year. Additionally, it has been proposed that the retirement age will be increased more rapidly. 65 years for men and 60 years for women by the year 2000.50

Although the unions have expressed their general support for a pension reform, they strongly opposed the Berlusconi plans. Especially when Berlusconi has been backed by the *Confindustria*, the unions mobilized against Berlusconi’s proposed reform and organized a general strike on October 14, 1994. The unions demanded the government to split the pension law from the budget law and to deviate from the planned provisions. Since Berlusconi refused to negotiate with the unions, another general strike has been organized for November 12, 1994. With more than 1.5 million people on the streets, it has been the greatest protest since the Hot Autumn in the late 1960s.

50 The Amato reform has planned the same increase in retirement age gradually until the year 2002.
Despite the opposed public opinion Berlusconi won the confidence vote in Parliament when it came to the issues of retirement age and seniority pensions. As a reaction, the unions announced another mass demonstration for December 2, 1994. The Lega Nord (the strongest party of the government coalition) collaborated with the opposition. They supported a legislative amendment that restored the 2% annual accrual rate for pension benefits and the adjustment of pensions to the actual inflation rate. The governing coalition started to crumble and the personal conflicts between Berlusconi and Bossi (the leader of the Lega Nord) aggravated (Verzichelli and Cotta 2000).

Berlusconi needed to re-approach the unions. Even the Confindustria advised Berlusconi to resume the dialogue with the unions, since they feared high economic losses because of the strikes. After intensive negotiations Berlusconi and the unions signed a contract on December 1, 1994. In the contract both parties accepted austerity measures, although the agreement was written in a language which was susceptible to differing interpretations. It contained the following points: 1. pension benefits of the individual should be linked more closely to contributions paid; 2. pension levels should be linked to the life expectancy; 3. different rules for different categories of employees should be harmonized. The unions agreed to call the planned general strike off for the next day.

The pension reform was no longer an issue of the budget law, the realization of a reform project was devolved to future tripartite negotiations. Shortly after the failed attempt to reform the public pension system, on December 22, 1994 the first Berlusconi government came to an end after the Lega Nord withdrew from the governing coalition.

6.3. The Dini Reform in 1995

6.3.1. The Choice for Dini

On January 13, 1995, after 22 days of uncertainty after the resignation of Berlusconi, Scalfaro appointed Lamberto Dini as Prime Minister of Italy. Dini was the former Minister of the Treasury in the Berlusconi government and was an acknowledged expert in the field of economy and finance. In his office at the Treasury he has been appreciated for his rigidity concerning the rehabilitation of public finance in Italy. The new government won the parliamentary investiture (vote of confidence) in

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51 Berlusconi asked the vote of confidence in order to bring his coalition partners in line, especially the Lega Nord.

52 In the meantime, on December 16, 1994 the parliamentary group (consisting of different parties of the center-left) Progressisti federativi presented a law proposal in the Chamber of Deputies addressing the points government and unions agreed upon, by moving from the defined-benefit method to the defined-contribution method, which calculated pension benefits according to contributions paid.

53 Dini worked two decades for the International Monetary Fund. From 1979 until 1994 he was the chairman of the Banca d’Italia – the Italian National Bank.
both chambers.\textsuperscript{54} Despite the call of the former Berlusconi government to have new elections, Scalfaro decided to hand the government over to Dini, who was supposed to build a government of technocrats. A few ministers were university professors, but all in all the government was dominated by technical bureaucrats, “who were drawn from the bureaucratic and administrative corps in Rome” (Pasquino 1996, p. 140).

Right from the beginning it has been agreed that Dini’s government should be a transitional government. Dini himself wanted to stay as short as possible in office. The condition for his resignation was the completion of four objectives he intended to realize with his government: 1) a supplementary budget for the year 1995 in order to meet the shortfall of the Berlusconi government’s budget; 2) the reform of the electoral rules for local elections; 3) a decree, which intended to rule equal rights of TV access for electoral propaganda\textsuperscript{55}; 4) and the realization of a pension reform (Pasquino 1996), which, drawn up by Berlusconi and Dini himself, had met with fierce resistance from the unions and the Italian population in November 1994. During his inaugural speech Dini said: “To dispel any doubt or misunderstandings, I confirm that the government will consider its mandate at an end as soon as the four main points comprising its program have been achieved.” And he added that “should it become clear that the above points are impossible to carry through because of objectively insuperable obstacles, the government would have to view this too as a reason for handing in its resignation” (Pasquino 1996). The realization of these objectives was important when it came to the revaluation of the Italian Lira and the connected reentrance in the EMU.

\textbf{6.3.2. The Italian Economy under Pressure}

At the beginning of his term the Lira has been under strong pressure from the International Finance Market, not only in comparison with strong currencies like the Deutsche Mark and the US-Dollar, but also with respect to weaker currencies. The major reason for this development has been the ailing national budget, mainly the public debt. “Despite the fiscal consolidation process […], the public debt/GDP ratio jumping by 6 points to 119.9 per cent of GDP. […] With debt servicing costs amounting to 12 per cent of GDP, Italy’s fiscal position has remained unsustainable even after the cut in the structural budget deficit” (OECD 1995, p.40).

\textsuperscript{54} The vote in the Chamber of Deputies on January 25, 1995 had the following result: 302 votes for Dini’s government (votes from the Progressisti, Popolari, and Lega Nord), 39 against Dini’s government (almost all the Deputies from Rifondazione Comunista), and 270 abstentions (Polo del Buon Governo, and some members of the Lega Nord, who had left Bossi). In the Senate, on February 1, 1995, 191 Senators voted in favor of Dini (Progressisti, Popolari, and Lega Nord), 17 voted against Dini (Rifondazione Comunista), and abstentions from one Senator of the Lega Nord and of the Alleanza Nazionale (Pasquino 1996).

\textsuperscript{55} This law relates to the last election campaign in which Berlusconi has been advantaged in comparison to other politicians due to the fact that he is the owner of a media concern.
The lack of confidence in the Italian finances and currency was based on three insights: Firstly, Italy would be not able to take part in the first round of a common European currency if it continued to perform this badly. Secondly, the developments in domestic politics did not offer a stable basis for the realization of drastic and urgent reforms, in order to consolidate public finance. Thirdly, the discouraging forecasts for the economic performance of Italy, lead to persisting high levels of inflation.

Under these circumstances Dini was the right actor to regain confidence for the Italian economy. The Dini government had therefore a therapeutic role, which should guarantee stability for the institutions and the markets (Pasquino 1996). These goals were shared by all parties and the members of Parliament, albeit to different degrees and with a different sense of urgency. This common sense has still been shared when it came to the issue of pension reform in May of 1995. Generous pension provisions by international standards have translated into a comparatively high ratio of pension spending to GDP in Italy, reaching 14 per cent in 1994 (OECD 1995). There was a broad party consensus in Parliament that the public pension system should be reformed in order to ensure the long-run viability of pension funds. Although the consensus about the need for a reform was broad the views about the contents of reform were quite different among the political actors.

6.3.3. Starting over Pension Reform: The Unions’ Proposal

Remembering the strong opposition of the unions against the initial budgetary proposal of the Berlusconi government, Dini decided to reach an agreement with the unions, prior to the legislative process (Baccaro 2002). On March 24, 1995 Dini and the Minister for Labor and Social Affairs Tiziano Treu have re-started to negotiate the reform project with the unions. At the beginning of the negotiations the three main Italian unions CGIL, CISL, and UIL presented a unified pension reform proposal. This agreement built the basis for the negotiations between the government and the unions. Table 6.3 summarizes the proposal presented by the unions for employees with more than 18 years of contributions paid:

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56 The agreement was presented on March 30, 1995.
57 This distinction was related to the planned introduction of the defined-contribution method. The pension benefits of employees with more than 18 years of contributions paid, should be calculated according to the old defined-benefit method. The benefits of employees with less than 18 years of contributions paid, should be calculated according to the defined-benefit method.
Table 6.3 Unions’ Proposal for Employees with more than 18 Years of Contributions

<table>
<thead>
<tr>
<th>Issue</th>
<th>Unions’ Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculation Method of Pensions</td>
<td>Defined-benefit system 58</td>
</tr>
<tr>
<td></td>
<td>2% each year for the medium income of the last 10 years</td>
</tr>
<tr>
<td>Contribution Requirement for Seniority Pension</td>
<td>35 years</td>
</tr>
<tr>
<td></td>
<td>faster adaptation of public sector to private sector rules</td>
</tr>
<tr>
<td>Retirement Age for Old-Age Pensions</td>
<td>60 years for women</td>
</tr>
<tr>
<td></td>
<td>65 years for men</td>
</tr>
<tr>
<td>Age Requirement for Seniority Pensions</td>
<td>End of blockage of seniority pensions.</td>
</tr>
<tr>
<td></td>
<td>53 years</td>
</tr>
<tr>
<td></td>
<td>gradual increase to 55 years</td>
</tr>
<tr>
<td></td>
<td>No age limit with 37 years of contribution</td>
</tr>
<tr>
<td>Harmonization of the Public Sector</td>
<td>Harmonization according to the rules of the INPS</td>
</tr>
<tr>
<td>Pensions for Employed Family Members of Deceased Pensioners 59</td>
<td>Pension will be paid up to the limit of 24 million lira income.</td>
</tr>
<tr>
<td></td>
<td>Rise of the pensions for orphans and handicapped.</td>
</tr>
<tr>
<td>Invalidity Pensions</td>
<td>Limits to the accumulation with the income</td>
</tr>
</tbody>
</table>

Table 6.4 summarizes the unions’ proposal for employees with less than 18 years of contributions.

Table 6.4 Unions’ Proposal for Employees with Less than 18 Years of Contributions

<table>
<thead>
<tr>
<th>Issue</th>
<th>Unions’ Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculation of Pensions</td>
<td>Defined-contribution system 60</td>
</tr>
<tr>
<td></td>
<td>Pension = 5% of total contributions paid, indexed to nominal GDP or wages +1%.</td>
</tr>
<tr>
<td></td>
<td>Introduction of incentives and disincentives:</td>
</tr>
<tr>
<td></td>
<td>Age 55-57: -10%</td>
</tr>
<tr>
<td></td>
<td>Age 58-60: - 5%</td>
</tr>
<tr>
<td></td>
<td>Age 61-63: no incentive or disincentive</td>
</tr>
<tr>
<td></td>
<td>Age 64: +3%</td>
</tr>
<tr>
<td></td>
<td>Age 65 and older: +5%</td>
</tr>
<tr>
<td>Minimum Requirements for Seniority Pensions</td>
<td>35 years and fast adaptation of public sector rules to private sector rules.</td>
</tr>
<tr>
<td>Minimum Retirement Age for Old-Age Pension</td>
<td>58 years</td>
</tr>
<tr>
<td>Minimum Retirement Age for Seniority Pension</td>
<td>55 years</td>
</tr>
<tr>
<td>Minimum Contribution Period</td>
<td>5 years</td>
</tr>
<tr>
<td>Harmonization of Public Sector</td>
<td>Harmonization to rules of the INPS; reversibility pension, and invalidity pension.</td>
</tr>
<tr>
<td>Pensions for Employed Family Members of Deceased Pensioners</td>
<td>Up to the income of 24 million lira.</td>
</tr>
<tr>
<td></td>
<td>Rise in pensions for orphans and handicapped.</td>
</tr>
<tr>
<td>Invalidity Pension</td>
<td>Limits of accumulation with income of dependent work</td>
</tr>
</tbody>
</table>

58 Pension benefits are calculated according to the wage of the employee.
59 The pensione di reversibilità is a kind of survivors pension, but for family members who are still employed.
60 Pension benefits are calculated according to the contributions paid throughout the working career.
According to the calculations of the unions, the reform proposal would lead to annual savings of five billion lira for the next three years (Bonafede 1995, p. 7). The unions have demonstrated their reluctance to negotiate with the government about further measures as long as they are balanced and socially tolerable. Right after the presentation of the proposal the contentious issues of the reform became clear: seniority pensions, the new calculation method, private pension funds, indexation, and the transition period.

6.3.4. Reaction of the Government

This paragraph will outline the position of the government to the unions’ proposal.

The government considered the law proposal of the unions as a good starting point for the discussion on pension reform, but has announced to scrutinize it especially with regards to the projected savings. The long transition period, the co-existence of the defined-benefit and the defined-contribution system, and the seniority pensions were considered to be crucial points of possible disagreement between government and unions. According to Tiziano Treu, the Minister for Labor and Social Affairs, the law proposal would be used as a starting points which needed to be modified the following points.

**Private pension pillar:** One of the most essential modifications was the introduction of supplementary private pension schemes. The government planned to introduce a second pension pillar, which should supplement the regular public pension. The second pension pillar should be financed by employees and employers, who were encouraged to establish a private pension fund by tax exemptions. The private pension funds should be established through contracts between the unions and companies. If those abstain from establishing a private fund, the worker is allowed to join an “open fund”. The administration is transferred to different institutions such as banks, insurance companies, real estate funds, or investment funds. The decision to join a private pension fund is voluntary. The member of a

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61 In an interview with La Repubblica Sergio D’ Antoni, leader of the CISL said, that if government intends to abolish the seniority pensions, we will oppose this (Sivo 1995b, p. 3).

62 Dini himself assumes that the savings the government is striving for (15 billion lira) are not feasible with the proposal of the unions. “Le proposte sindacali sono interessanti, ma insufficienti a realizzare i risparmi previsti (Marro 1995c).

63 The general secretary of the UIL, Pietro Larizza, answered to Treu’s announcement: “Poichè la nostra proposta è per noi l’unica possibile, è assai difficile pensare che possa essere modificata.” “Our proposal is the only proposal possible, and it will difficult to think about how it could be modified” (Sivo and Schettino 1995, p. 23).

64 In “closed funds” the rules are negotiated between unions and enterprises. The funds are reserved for workers of this certain enterprise or a certain category.
private pension fund should be able to change over to another fund. The share paid out of the budget is estimated to be 4,000 billion lire for the next 10 years.65

**From the defined-benefit to the defined-contribution method:** The government agreed on the transition from the defined-benefit to the defined-contribution method. Under the old system pension benefits have been calculated according to the wages of the employee, whereas under the new defined-contribution system pension benefits should be calculated according to the contributions paid throughout the entire working career. The government contested the rules of transition and the differentiation between ‘old’ workers (who are already insured and pay contributions) and ‘new’ workers (who started to work after the law came into effect) because this would disadvantage younger employees over older employees when it comes to the level of pension benefits. Dini and Treu planned to introduce a mixed method (the so called system *pro-rata*) (Vaiano 1995). The defined-benefit method should be applied for all contributions paid before the law comes into effect, the defined-contribution method should be applied for all contributions paid after the law comes into effect (Marro 1995d).

**Age requirement for old-age pensions:** The government intended to introduce a flexible retirement age between 57 and 67 years.

**Upper-limit for contribution:** Dini planned the introduction of an upper limit for contributions to be paid by workers. For newly insured workers, the upper limit for contributions was 60 million lira. Everybody who exceeded the limit should be encourage to invest into a private pension.

**Seniority pensions:** A crucial point of disagreement was the issue of seniority pensions.66 The unions intended to introduce a minimum retirement age of 53 years for seniority pensions67, whereas the government wanted to increase the minimum retirement age for seniority pensions gradually up to 58 years in 2000.68 Furthermore the government intended to extend the blockage of seniority pensions

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65 This money is primarily used for the support of enterprises in paying parts of the tfr.
66 On April 20, 1995 Cofferati (leader of the CGIL) has threaten with a general strike and consequently a breakdown of the negotiations between government and unions due to the disagreement on the issue of retirement age for seniority pensions. The danger has been further increased by the announcement of Tiziano Treu, that in case of insurmountable obstacles, the reform will be passed as a decreto legge. But after vehement critique from the unions, Treu has withdrawn this intention from the agenda.
67 Mainly the introduction of an age requirement encounters disapproval among the workers and members of the unions. As one of the union members said: “Non si può dire a chi ha cominciato a lavorare a 15 anni e, oggi, a 50 sta per andare in pensione: Devi aspettare ancora tre anni.” (“You cannot say to somebody who has started to work since the age of 15, and who, at the age of 50, wants to retire: You have to wait another three years.”)
68 54 years in 1996 with 35 years of contributions; 55 years and 37 years of contributions in 1997; 56 years and 38 years of contributions in 1998. For the year 2000 Dini plans a retirement age of 58 years, by increasing it about one year every 18 months.
until January 1996 and wanted to introduce a single annual period\textsuperscript{69}, in which people were able apply for seniority pensions.\textsuperscript{70}

The so-called ‘baby-pensions’\textsuperscript{71} of the public sector should be reorganized as well. The unions planned to adapt the new requirements for seniority pensions also to the ‘baby-pensions’. According to the unions nobody should retire prior to 53 years. The government wanted to introduce a more favorable norm, namely all public employees should be able to retire as soon as they have completed 28 years of contributions paid.

**Penalizations for early retirement:** Disagreement existed also with respect to penalizations for early retirement. The unions wanted to set incentives and disincentives for late and early retirement (cf. Table 6.4). The government agreed that early retirement should be penalized with reductions in pension benefits. The suggestion of the government planned the introduction of the ‘quota 90’, which calculated penalizations on the basis of a mix of retirement age and contribution period. By adding the retirement age with the contribution period every employee should reach the sum of 90. The threshold should be increased up to 95 until 2004 (Vaiano 1995). Graph 6.1 summarizes the different positions of unions and government and explains the ‘quota 90’-approach of Dini and Treu.

\textsuperscript{69} The Minister for Labor Affairs Treu and the Treasury disagreed about the blockage of seniority pensions. Treu wanted to allow retirement for seniority pensions for every 4 or 6 months if the age or contribution requirements were met.

\textsuperscript{70} For example, if a worker turned 55 years in February, he would have to wait until January of the following year in order to receive his first pension payment.

\textsuperscript{71} Pension benefit for civil servants after 20 years of service for men and only 16 year for women without any age requirement.
Measures for self-employed: Another contentious issue were the measures for self-employed (farmers, traders, and manual workers). According to government plans these categories should be eligible for seniority pensions at the age of 58 years. Furthermore Dini and Treu intended to introduce a 5% tax on pension benefits for self-employed in case they would continue to work after retirement.²²

6.3.5. The First Reaction of the Confindustria

The chairman of the employers’ association Confindustria, Luigi Abete, criticized that the government failed to present an own complete and concise proposal. It has been hoped that the reform would strengthen the public finance and the credibility of the country with respect to the European partners and to the international markets (Sivo 1995b, p. 3). The reform measures suggested by the unions would have a counterproductive effect. The Confindustria clarified their position with the following four points (Marro 1995b):

²² The two federations (Confartigianato and Confcommercio), which represent the self-employed rejected the taxation of pensions in case self-employed would continue to work after retirement.
1. **Seniority pensions:** The minimum age for seniority pensions should not differ more than 5 years from the age requirement for old-age pensions. According to the Amato reform\(^ {73} \), the retirement age for old-age pension will reach 65 years in the year 2000, accordingly the retirement age for seniority pensions should be 60 years. All employees who wanted to work longer should gain an increase in pension benefits. According to *Confindustria* there should be no exceptions for workers who started to work at an early age. Somebody who started working with 15 years, should not be able to leave work with 55 years, although he completed 40 years of contributions, but he should gain an increase in the pension benefit.

2. **Self-employed:** Self-employed (farmers, traders, manual workers) should not be eligible for seniority pensions any longer, since these categories continue their work after retirement. Another reason for the abolition of seniority pensions for these categories are the comparatively low contributions (contribution rate of 15% of receipts in 1995) instead of 30% for dependent employees (2/3 paid by employer; 1/3 paid by employee).

3. **Indexation:** The *Confindustria* opposed the double-indexation of pension benefits to inflation and wages and claimed that the inflation rate should be the only mechanism of adjustment. It should be maintained that the executive can negotiate with the social partners each year, whether the pension benefits should be indexed to the wages as well.

4. **Private Pension Funds:** The *Confindustria* encouraged the establishment of complementary pension funds and claimed for courageous steps concerning fiscal incentives for individual workers to enter these funds.

### 6.3.6. The International Monetary Fund (IMF)

Another important opinion has been expressed by the International Monetary Fund (IMF) during the G7-meeting of the Ministers for Economic Affairs on April 25, 1995. The IMF criticized the “too generous Italian pension system” and claimed to adapt it to international standards. Especially the disequilibrium between contributions and pension benefits was considered to be the main reason for the growing deficit in the pension budget. Therefore the IMF outlined some guidelines for pension reform (Marro 1995a):

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\(^ {73} \) The Amato reform has foreseen a gradual increase in the retirement age for old-age pensions for men (60-65 years) and women (57-62 years). The suggestion of the *Confindustria* included an increase for seniority pensions according to the raise in old-age pension requirements.
1. **Retirement age for women at 65 years**: It seems unfair that women who live longer compared to men can retire 5 years earlier than their male counterparts. The increase in retirement age, might bring savings about 0.5 - 1% of the GDP.

2. **Reduction of the replacement rate**: Compared to the other G7-countries the current replacement rate of 2% of the income for every year contributions are paid is the highest and should be reduced to 1.6 or 1.45%. This measure could bring the most extensive savings.

3. **Seniority pensions**: People who choose seniority pensions should be penalized by a reduction of pension benefits up to 2.5 or 5% for every year prior to the retirement age;

4. **The benefits for still employed survivors of deceased pensioners (pensione di reversibilità)** should be reduced significantly (Cecchini 1995).

These suggestions for reform were much more drastic than the proposals presented by CGIL, CISL, and UIL and the Dini government. But the presentation of the IMF proposal came to a more than inconvenient time, since the negotiations between government, unions, and employers were already in the decisive round with the main points of the reform already fixed.

### 6.3.7. The Final Agreement between Government and Unions

**Harmonization of Regimes, Invalidity Pensions, and ‘Pensione di Reversibilità’**

The final agreement between government and unions has been achieved in stages. Already on March 24, 1995 government, unions, and Confindustria agreed upon the harmonization of different pension regimes, new rules for invalidity pensions (*pensione di invalidità*), and pensions for employed survivors of deceased pensioners (*pensione di reversibilità*). The agreement contained the following points (Sivo 1995g; Sivo 1995e; Sivo 1995f):

- The five special regimes (gas fitters, electricians, employees in telephone companies, employees for airlines or airports, and employees in public transportation) should be integrated into the INPS (National Social Security Institute).
- The administration of pensions for former public employees will be transferred from the Treasury to an independent administrative authority.
- Invalidity pension (*Pensione di invalidità*): Everybody who received an income up to four times higher than the minimum pension determined by the INPS (1995: 630 000 Lire) could cumulate the whole invalidity benefit with his income. Everybody who received an income five times higher than the minimum pension could cumulate only 50% of the invalidity benefit.
The controls concerning invalidity pensions should be intensified, since too many people were receiving invalidity pensions without being eligible. Pensioners, who received already invalidity pension benefits, should be controlled by a Commission composed of physicians of the INPS, INAIL, and the Treasury.

Pension benefits for employed survivors of deceased pensioners (*pensione di reversibilità*):

Everybody who received an income three times higher than the minimum pension should receive 75% of this type of pension benefit. Everybody who received an income four times higher than the minimum pension should receive 60% of this type of pension benefit. Everybody who received an income five times higher than the minimum pension should receive 50% of this type of pension benefit.

**Private Pension Pillar**

On April 12, 1995 the next settlement has been reached between government, unions and Confindustria about the organization of the private pension pillar. All three groups have agreed upon the need to establish a supplementary pension pillar in order to guarantee a sufficient coverage after retirement. The negotiations dealing with the topic of private pensions have been of a consensual and constructive nature without much disagreement. The Confindustria gave only a final assessment concerning the suggestions made by government, whereas the unions negotiated about some marginal changes. The organization of the private pension pillar is summarized in Graph A 6.1:

Graph A 6.1 shows the result of the negotiations between the government and the social partners on the issue of private pensions. Every employee should decide voluntarily whether he/she wanted to join a private pension fund. If the employee did not opt for a private pension, the ‘old’ system should be applied. After retirement the employees received their public pension, and liquidations of the *trattamento di fine rapporto* (*tfr*). If the employee decided to opt for a private pension, two different rules have been applied: For those who have already paid contributions 2% of the gross salary of the employee, 2% of the liquidations of the *tfr*, and 2% of the employee were paid into a pension fund. The employee would therefore get a lower share of the *tfr*. For workers who entered employment after the law came into effect, the 2% of the gross salary of the employee, 2% of the employer, and the entire liquidation of the *tfr* within 4 years were paid into the private pension fund.

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74 Between January and March 1995 the Treasury has investigated whether people receiving invalidity pensions are truly invalid or false invalids. The result has been devastating. 1,025 people of 3,000 investigated beneficiaries have wrongly received invalidity pensions (Ferraino 1995).

75 The *trattamento di fine rapporto* (*tfr*) is a one-time payment for the employee with the beginning of the retirement. The *tfr* is unique in comparative perspective. Since 1982 all employees were entitled to receive the *tfr* (law 297/1982). For every year the employee worked in a company he got 7.41% of his annual gross income. This amount was double-indexed: an increase in value of 1.5% and an adjustment of 75% of the annual increase in prices. The payment of the *tfr* is guaranteed by a fund (*fondo di garanzia*) which has been administered by the INPS since 1982.
contracts of the private pension funds should be negotiated between companies and the unions. The funds should be administered by banks, insurance companies and real estate funds, etc. As soon as the employee retired he got a private pension payment out of the private pension fund.

**The Non-Stop Negotiations**

From April 27, 1995 on the unions, government and Confindustria have started non-stop negotiations in order to reach a final agreement about the law proposal. Beginning with a tripartite meeting of government, Confindustria and the unions on April 27, 1995, the groups debated about the central issues of the pension reform. During the following days the government preferred separate meetings with unions and employers’ associations. In these meetings the contentious issues of the reform have been discussed with the objective of a final agreement. The entire agreement should be integrated in a law proposal which should be presented to the two chambers.

On the first day of the non-stop negotiations the three groups have agreed upon the transition from the defined-benefit to the defined-contribution system. This was the core of the entire pension reform. The traditional method should still be applied to all employees with 18 or more years of insured employment. On January 1, 1996, the defined-contribution system was introduced. With the new system, the pension benefit should be calculated according to the contributions paid throughout the employment career. Every employee should have a virtual account into which he/she pays the monthly contributions. The savings should be indexed to the five year average growth rate of the nominal GDP. The accumulated amount of contributions (montante contributivo) should be multiplied with a coefficient that varied according to the retirement age (cf. Table 6.7).

The level of monthly pension benefits should be proportionated to the yearly amount (aliquota di accantonamento) paid on the individual pension account. The yearly amount varied between different categories of employees. Dependent employees in the public and private sector paid 32% of the yearly taxable income, self-employed paid 20% (farmers, traders, farmers, and manual workers) of their income. Categories which were not registered by the compulsory social insurance system had to pay 10% of their yearly income. The annual amount was added year by year. At the time the employee decided to retire, the adjusted amount (capital + interests) in his virtual account should be multiplied with the transformation coefficient in order to calculate his/her annual gross pension benefit.

76 Although the method of calculation has been altered, the pension system works still according to the pay-as-you-go system. The paid contributions will be used to pay current pension benefits.
The pension benefit of the employee should be related to the average life expectancy. Employees who retire early should get lower benefits for a longer time, whereas employees who retire later will get higher benefits for a shorter time. The pension benefits are indexed to the increase in prices.

On April 29, 1995 the groups have decided that after the law comes into effect pension benefits should be calculated according to three different systems. Table A 6.1 in the Appendix gives an overview about the different calculation methods. The transition period was a controversial issue. Dini and Treu wanted to apply the new method to all employees by the end of 2006, whereas the unions wanted the full application of the new rules by the end of 2013.

Between May 3 and May 7, 1995 non-stop negotiations have solved the last points of disagreement between government and unions. Whereas Luigi Abete, the leader of Confindustria, decided to leave the negotiations on May 5, 1995 because he felt deceived by the two other groups. He criticized the limited scope of the so called ‘riformetta’ (translated ‘mini-reform’) which would only bring insufficient savings. Dini said has not been impressed by Abete, he said, “do whatever you want, if you want you can also leave” (translation by the author, original citation see footnote). Some days later Dini said: “It is better to agree upon a reform less severe, which passes the two chambers than to agree upon a very drastic reform, which will never be approved” (translation by the author, original citation see footnote).

Although Confindustria withdraw from the “pre-legislative”-negotiations, they did not consider their influence to be at the end. Abete announced that they would try to use all points of access to gain influence in the legislative process. “Our dissatisfaction does not mean that we will be excluded of the debate in the Parliament. We will try everything possible in order to bring the pension reform in line with the economy. We appeal to the parties of the Left and Right that they should not exploit the reform for political purposes, but that they should try their best to pass rational and efficient measures in the field of pension politics (translated by the author, original citation see footnote). Although the employers’ association withdraw from the negotiations, unions and government found a final agreement. Table A 6.2 and A 6.3 in the Appendix (Galantini and Greco 1995) confront the old and new rules for seniority and old-age pensions. These tables give a brief overview of the main modifications as well. The other rules will be explained briefly in the following paragraph:

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77 The transformation coefficients can be altered in case the life expectancy will increase significantly or in case of growth or decrease of the GDP. (Camera dei Deputati 1995a)
78 “Fate come credete. Se volete potete anche andare” (Lonardi 1995).
79 “E poi è molto meglio una legge magari meno severa, ma che passa al vaglio delle Camere, piuttosto che una cura draconica che non sarà mai approvata?” (Lonardi 1995).
80 “La nostra insoddisfazione non significa che ci chiameremo fuori dal dibattito in Parlamento. Anzi, faremo ogni azione utile per riportare la riforma in una logica di congruità economica. Noi appelliamo a tutti i parti di Destra e di Sinistra affinché non utilizzino la riforma per strumentalizzazioni politiche, ma per fare in modo che il paese abbia regole razionali ed efficienti in materia previdenziale” (Lonardi 1995)
‘Baby pensions’: ‘Baby pensions’ should be abolished, the rules for public employees should be adapted to those for seniority pensions of private employees until 2008. They should be able to retire with 52 years and 35 years of contributions paid. Early retirement should be penalized with cuts between 1% and 35%.

Rules for employees in high-risk jobs: Employees in high risk jobs should get a contribution credit of up to 5 years as a compensation for their jobs (Petrini 1995b).

Fictitious contribution periods: Employees who have to quit their job temporarily due to maternity, education of younger children, care for older family members, precarious working conditions, or season work should receive a credit for their contribution record. This credit should not be higher than two years as a compensation for their absence and makes retirement at a younger age possible (Petrini 1995b).

Self-employed: It has been agreed upon the introduction of an age requirement for seniority pensions. A minimum age of 56 years will be introduced in 1996, which will be elevated to 58 years combined with 35 years of contributions in 2005. The plan to tax the pension benefits had to be cancelled (Petrini 1995a).

Harmonization between public and private employees: The rules of public employees should be harmonized with the rules for private employees. For seniority pensions the rules should be adapted gradually until 1996. (Petrini 1995a)

On May 8, 1995 the Dini government and the unions agreed with the negotiated compromise and signed the final agreement. Both parties were satisfied with the compromise and praised the constructive co-operation between the government and the unions. Dini plead for the approval of the reform in the parliament; every plan which aimed to weaken the reform would be opposed by the government and the unions. The unions wanted to leave the final vote on the agreement to the employees themselves and set up 42,000 workplace assemblies to discuss the contents of the pension agreement between May 9 and May 27, 1995. The unions planned a nation-wide referendum between May 30 and June 1, 1995. All employees whether union member or not, unemployed and pensioners were allowed to vote on a secret ballot. In 49 000 different locations throughout Italy, including plants, offices, union locals, and municipalities the employees were allowed to vote (Baccaro 2002). About
4.5 million people voted, more than 64% of them approved the reform (Galantini 1995).  

3.6 million people were active workers, among those 58% approved the reform. It is interesting to distinguish the vote according to sectors and regions. Pensioners voted overwhelmingly in favor of the reform (yes-vote: ~ 91%; no-vote: ~ 9%), because the reform will affect only future retirees, whereas metalworkers (yes-vote: ~ 44.8%; no-vote: ~ 55.2%), school workers (yes-vote: ~ 46.3%; no-vote: ~ 53.7%), and university workers (yes-vote: ~ 40.9%, no-vote: ~ 59.1%) have rejected the agreement. Geographically the largest dissent can be observed in northern Italy, such as Lombardy, and Piedmont, whereas in Southern Italy the workers were overall, more supportive for the reform. Table A 6.4 in the Appendix shows the result of the national referendum on the pension agreement (Galantini 1995).

6.3.8. The Legislative Process

The Transfer to the Committee for Labor Affairs

After the approval of the unions Dini and Treu presented the law proposal to the first chamber which transferred it directly to the Committee for Labor Affairs which was in sede referente (reporting committee). This was the first time the parties got involved into the reform process, although most of the parties commented on the negotiations between the government and the social partners prior to the legislative process. In the first sitting the president of the committee, Marco Satori (Lega Nord) made perfectly clear, that the government would not accept amendments which undermine the proposal or limit the projected savings. Furthermore, he insisted, that all committee members should be aware of the importance and urgency of the pension reform, and that they should help to approve it in the interest of the whole country (XI Commissione Permanente (Lavoro pubblico e privata) 1995c). Tiziano Treu presented the main points of the reform. In the following sittings the Committee examined the law proposal. In the following paragraph I will give an overview about the positions of the different parties in the parliament.

Polo della libertà

During the negotiations between government and social partners, the parties of the “Polo della Libertà” the centre-right coalition (Forza Italia, Alleanza Nazionale and Centro Cristiano Democratico) have criticized the road taken by Dini. This was not because they were primarily opposed to the suggestions of the proposal, but more because they did not accept that Dini negotiated first with

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81 The union were confident about the approval of the reform. It is not clear, what would have happened in case the majority of voters decided not to approve the reform. The main problem is that the unions signed the agreement prior to the referendum among workers, pensioners, and unemployed.

82 More than 800 000 pensioners voted in the agreement. This is about 1/5 of all voters. Pensioners intended to secure their “acquired rights” with the referendum.

83 Although the result can be interpreted in terms of relative losses, no clear voting pattern can be formed.

84 59% voted “yes” in the North, 65% voted “yes” in the Centre; and 75% voted “yes” in the South.
the unions, while excluding the parties from this process.

Forza Italia (FI)

Before the agreement between government and unions was signed, Silvio Berlusconi criticized the government plans harshly because of only moderate and insufficient savings. Mainly young employees would bear the costs of the reform, tax rates and the deficit would rise further. Berlusconi appealed to Dini to pass the law as a decreto legge, “because it would save the government from being a slave of the unions and the PDS” (Verderami 1995).

In the beginning of the discussion of the Committee of Labor Affairs Mario Masini, parliamentarian of Forza Italia, criticized that the proposal at issue did not differ much from the proposal of the Berlusconi government. Forza Italia announced that it would contribute to a constructive debate but that it would present several amendments to modify and improve the proposal. The main amendments are summarized in the following paragraph (XI Commissione Permanente (Lavoro pubblico e privata) 1995a):

**Let-out clause**: Since the party pointed out several times that the projected savings of the reform would not be realized, they appealed for the introduction of a so-called let-out clause. This clause planned that the savings of the law would be monitored year-by-year. In case that the savings were insufficient, the government would be allowed to reduce the benefits, or increase the contribution rates. The reduction in benefits relates to the percentage of unattained savings.\(^{85}\)

**Indexation**: The indexation of pension benefits should not be equal to the 5-year average growth rate of the GDP, but only to 80% of the 5-year average growth rate. It should be prevented that the benefits grow excessively. Furthermore, only 70% of the income should be used in order to calculate the pension benefit.

**Mixed system for calculation of pension benefits**: Forza Italia wanted to extend the mixed system to all employees, instead of applying it only to employees with less than 18 years of contributions. The pension benefits should be calculated pro rata, all contributions paid before the law came into effect should be calculated according to the defined-benefit method, all contributions paid after the law came into effect should be calculated according to the contribution-based method.

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\(^{85}\) If the savings are 5% lower than projected, the benefits will be reduced by 5%
**Minimum contribution requirement:** The minimum contribution requirement should be increased from 5 to 10 years.

**Pension for housewives:** Forza Italia wanted to establish a pension for the spouse. 50% of the contributions of the working spouse would be paid on an account for the non-working spouse from the date of marriage until a potential divorce.

**Private pensions:** The individual employee should have the freedom of choice to enter an ‘open’ private fund and should not be committed to enter a ‘closed’ fund established by the company or a certain category of industry. The party considers the amount to be paid into a private fund as insufficient.

In general, Forza Italia seemed to assess the reform positively, but asked the government to modify the law proposal with respect to the amendments summarized above.

**Alleanza Nazionale (AN)**

The agreement signed by the government and unions met with disapproval of the Alleanza Nazionale. Implementing this reform proposal would mean an aggravation of the situation of the public pensions system. The unions stood in the centre of their criticism. The Alleanza Nazionale accused the unions that they approved a reform proposal, which they have fought against last autumn. By the same token they criticized the government to present a reproduction of the Berlusconi reform proposal with only marginal changes. Therefore the group announced several amendments:

**Calculation of pension benefits:** The defined contribution method should only be applied for newly insured persons in order to prevent inequalities and a violation of the constitution. AN particularly questioned the line of demarcation drawn by the unions and the government.

**Contribution period:** AN wanted to introduce a maximum contribution period of 38 years instead of 40 years. They justified this amendment with the fact that the working career of the majority started later due to longer education phases.

**Pension formula:** The pension formula should include mortality rates rather than transformation coefficients.

**Indexation:** The contribution amount (*montante contributivo*) saved by the individual should not be indexed to the GDP, but to the average income out of government bonds.

**Contribution credits:** AN wanted to redefine the contribution credits: 18 months per child for child education and 24 months for each handicapped child.
AN warned the government already that it would not accept a vote of confidence to reach the approval of the reform. AN wanted to discuss the reform extensively in the parliament, since they saw several points with need of profound intervention. There general position was not in favor of the law proposal.

**Partito Popolare per l’Italia (PPI)**

The PPI assessed the reform positively, especially with respect to the equilibrium between savings in the pension sector and the needs of the labor market. Whereas it criticized the neglect of the family. The following amendments have been presented:

**Method for calculation of pensions:** The PPI wanted to extend the mixed method (*pro rata*) to all employees and not only to those with less than 18 years of contributions. In addition, the transition period from the ‘old’ to the ‘new’ system should be accelerated, particularly for the measures in the field of seniority pensions.

**Contribution credits:** the contribution credits should be increased. The PPI did not accept the upper limit fixed by the government (max. 24 months), because families with many children would be penalized by the reform. The contribution credits should be granted for the care of dependents in need as well.

The amendments of the PPI have been very few, and in general they had a positive opinion about the law proposal.

**Rifondazione Comunista (RC)**

During the negotiations in the Committee, the President Marco Satori has pointed out to the members of the Committee that the schedule for the reform is very restricted, since Dini intended to approve the reform prior to the summer recess of the Parliament. This has been contested by several parties, predominantly by the *Rifondazione Comunista*. They have criticized the demand of the government to accelerate the consultation in the Committee harshly. In a matter of such an importance for the country, the proposal needed to be examined properly, especially because of the numerous shortcomings of the reform. For this reason the RC presented 3000 amendments. I will only summarize the most relevant ones (*XI Commissione Permanente (Lavoro pubblico e privata) 1995b)*:

**Contribution requirements for seniority pensions:** Referring to the contribution requirements for seniority pensions, the requirement in force (35 years of contributions) should be maintained, since people started to work later. Keeping the employees longer in the job would have negative side effects for the labor market since many young people will not find work.
**Level of pension benefits:** The level of pension benefits should not be related to the life expectancy. Particularly people with high-risk jobs would be penalized by this measure, since their life expectancy might be lower due to their work. The party does not present suggestions of how to improve the law proposal.

**Retirement age:** An increase in the retirement age would have negative side effects for the labor market since older workers are not the most productive workers and much more at risk to have an accident at work.

The RC reduced its criticism to pure obstructionism. Criticising the majority of measures planned by the government, without showing up ways of how to improve to improve the law proposal. RC sided with the *Alleanza Nazionale*. Italo Cocci said “we would fight bitterly against the possibility to force the approval by asking the vote of confidence” (XI Commissione Permanente (Lavoro pubblico e privata) 1995b).

**Centro Cristiano Democratico (CCD)**

The CCD agreed with the *Rifondazione Comunista* when it came to the acceleration of the legislative process. The group presented more than 300 amendments “not with the intention of obstructionism or dilation, but for the realization of important objectives” (XI Commissione Permanente (Lavoro pubblico e privata) 1995b). The main amendments have been the following:

**Retirement age requirements for self-employed:** Self-employed should be required to fulfil 40 years of contribution payment.

**Pension benefit for employed survivors of deceased pensioners:** This pension benefit (*pensione di reversibilità*) should be tied to the duration of marriage. Spouses would only be eligible in case of 20 years of marriage.

**Integration of housewives into National Social Insurance:** Housewives should be integrated into the pension scheme since they might earn contribution credits for maternity.

**Reporting of government about implementation progress:** The government should be committed to report on the progress in the implementation process of the pension reform.

Although the CCD presented more than 300 amendments, they assured their constructive attitude towards the reform process.
**Progressisti-Federativo**

The centre-left parliamentary group *Progressisti-Federativi* assured that they were in favor of the reform measures. But they agreed with the CCD and RC that the parliamentary process should not be accelerated. The group defended the unified proposal of the unions and condemned the malicious campaign from the *Alleanza Nazionale*. The reform was necessary because it guaranteed certainty and stability in the long run. Only a few amendments have been presented by the group.

**High-risk workers:** Workers in high-risk jobs (*lavoratori usuranti*) should not be penalized by the reform. Their work should be acknowledged with contribution credits. A similar rule should be introduced for employees who start working at a young age, and who should not be penalized by the increase of the retirement age.

**Contribution credits:** The contribution credits should be introduced for certain other groups as well, such as workers in precarious working conditions, part-time employees, seasonal workers, mothers, and workers in the agricultural sector.

**Pension benefits for housewives:** A pension fund for housewives should be institutionalised. The caretaker, whether husband or wife, who wants to stay at home in order to care for the family, should have the opportunity, to pay contributions into a pension fund, in order to get an individual pension.

**Lega Nord (LN)**

The reaction of the *Lega Nord* has been positive. Marco Satori, the president of the Committee for Labor Affairs, said that the suggestions marked the right path for a reform, but that the savings for the public budget are insufficient. The reform was necessary and needed to be approved, nonetheless, some amendments have been presented.

**Method of calculation for pension benefits:** The mixed system (*pro rata*) should be extended to all employees independently from the contribution record.

**Upper Limit:** An upper limit for pension contributions should be introduced.

**Harmonization of public and private sector:** The harmonization between public and private employees should be fostered and accelerated, particularly with respect to the eligibility criteria for seniority pensions. The transition period should be reduced.

**Invalidity rules:** The rules for invalidity pensions should be stricter. The monitoring of invalidity
should be reserved to the INPS, since in the past the plurality of monitoring institutions has facilitated abuse and hindered effective controls.

In general, the LN was in favor of the law proposal presented by the Dini government.

6.3.9. The Transmission to the Chamber of Deputies

The last sitting of the consultation on the pension reform within the Committee on June 29, 1995, has been characterized by various arguments. It was not possible for the different groups in the Committee XI to reach an agreement, although the President of the Committee met with the party whips in order to find consensus. The deputies of the Alleanza Nazionale left the sitting. The Rifondazione Comunista announced that they would continue with obstructionism in the Parliament. Now it depended on the government to find a majority which would approve the reform.

Marco Satori (LN) had the mandate to present the opinion of the majority in the first chamber. He announced that the general line of his argumentation would be in favor of the reform. The minority nominated Maria Carrazzi (RC) to present the opinion of the minority. She announced that her party, but the AN as well would continue with obstructionism86. Before the proposal has been finally transferred to the first chamber Marco Satori built the Comitato dei Nove. In case of the Dini reform, Rifondazione Comunista and Alleanza Nazionale refused to attend the meetings of the Comitato dei Nove out of protest.

The Debate in the First Chamber

The points of disagreement which have already dominated the debates in the Commission for Labor Affairs continued during the first sittings of the Chamber of Deputies. Dini, Treu and Satori tried to bring the parliamentary groups on course of the government. It was very difficult to find an agreement, especially since some groups tried to ‘torpedo’ the entire reform88, whereas other parliamentary groups showed at least a certain willingness to promote the legislative process.

86 Certain parties did not reject the possibility of a vote of confidence, because of the high number of amendments presented primarily by the RC and AN. Bruno Solaroli (Progressisti-federativo) mentioned, “I am in favor of the vote of confidence, if the presentation of 3,800 amendments tries to undermine the reform” (translation by author, original citation: “Sono un teorico del voto di fiducia come strumento legittimo, quando, come in questo caso, la presentazione di 3,800 emendamenti sembra un tentativo di affossare la riforma.” (Sivo 1995c)

87 This committee is composed of members of the different parliamentary groups in the chamber. All groups are considered proportionally to their strength in the Parliament. The Committee is in so far important as the members try to reach a consensus having in-depth examinations of the proposal and searching for possible points of agreement. During the debate in the Assembly, the Comitato dei Nove examines the different amendments which have been introduced by the parliamentary groups.

88 For example on July 4, 1995 the Rifondazione Comunista tried to suspend the negotiations and to adjourn them until the end of August. The so-called questione sospensiva has been rejected by the majority of deputies.
The government started a diplomatic offensive with the objective to find a parliamentary majority. It was important to find an agreement with the Forza Italia, therefore the government sent 20 amendments to the Comitato dei Nove, integrating the ideas brought in by FI, but of parliamentary groups as well: the introduction of let-out clause; the increase of the fund for workers in high-risk jobs from 100 to 200 billion lira; the increase of the limit for the accumulation of income with the pension benefit for employed survivors of deceased pensioners by 10%; the introduction of an upper limit for contributions at 132 million lira a year; the improvement of the calculation base for workers who completed 40 or more years of contributions.

Forza Italia demonstrated its willingness to support the approval of the law, saying “we will at least help to pass the law” (translation by the author, original citation, see footnote). Although Forza Italia sent positive signals, the Lega Nord had considerable inner-party disagreements. The party leader Umberto Bossi wanted to delay the legislative process. He feared that Dini might resign after the approval of the reform. Due to the miserable election result in the regional elections in April 1995, he feared that new elections in autumn could bring another defeat. The party whip Petrini wanted to promote the reform approval, and wanted that the Lega should play a crucial role in the legislative process. He argued that a constructive co-operation might bring advantages with respect to the potential election result. The disagreement between Bossi and Petrini led to the resignation of Petrini as the party whip and intermission of the parliamentary debate on July 5, 1995. Dini felt under pressure, he wanted to pass the law prior to the summer recess. A later approval would have been a negative sign for Italy, the stock market, and the international markets.

The Vote in the First Chamber

On July 6 and 10, 1995 the debate has been reopened and the first articles of the law have been approved. Satori proposed the motion to vote first on the articles 40 to 51 on private pensions, since the government was certain that a majority of deputies (Progressisti-Federativo, Lega Nord, and Forza Italia) would vote in favor of this part of the law. The chamber approved the articles with slight modifications, such as the appointment of a Committee supervising the pension funds; the portability of pension benefits; and in case a pensioner died before he could benefit of the private pensions, the private pension can be signed over to the survivors.

89 Letta (FI): “Communque lasceremo passare” (Sivo 1995d)
90 The parties had the majority of 390 of 630 seats in the first chamber.
91 Members of private pension funds should be able to change to another fund.
All the amendments brought in by the *Rifondazione Comunista* have been rejected. The amendments presented by the government, *Forza Italia*, the Committee of Finances[^92], and Labor Affairs have been approved by a majority of deputies of *Progressisti-federativo*, *Lega Nord*, and *Forza Italia*.

The next step has been the reorganization of the public pension scheme. It was very difficult to find an agreement among the parliamentary groups. The government took the initiative, being certain of the support of the *Progressisti-Federativo* and *Lega Nord*. On July 11, 1995 Treu presented a so-called maxiamendment[^93], absorbing the first 11 articles of the law proposal including amendments brought in by certain parliamentary groups, the Committees, and the government. The maxiamendment included the let-out clause proposed by *Forza Italia*. Until 1998 the executive should have the right to increase the contributions or cut the benefits in case of insufficient savings. From 1998 on, the savings should be integrated into the annual budget law. The employees should get an annual overview over their personal contribution account. Employees who started working at a very young age (14/15 years) should get their full pension benefit as soon as they complete 40 years of contribution period[^94]. In the case an employee deceases before he/she reached the minimum retirement age, the spouse and children should get a survivors pension calculated with the transformation coefficient for 57 years. It was planned that employees who have more than 18 years of contributions and whose pensions would therefore be calculated according to the defined-benefit method could also opt for the defined-contribution method. It should be possible to accumulate the seniority pension with an income out of part-time work. The fund for high-risk workers should be increased from 100 to 200 million lire.

The different parties presented more than 150 subamendments relating to the suggestion of the government, especially the *Alleanza Nazionale*, *Rifondazione Comunista*, and the *Partito Popolare Italiano*, but the *Lega Nord* as well. As already mentioned above, Treu repeated that the government did not accept amendments which intended to weaken the entire proposal and endanger the projected savings. For this reason the government linked the approval of the maxi-amendment, without any sub-amendments or additional articles, to the vote of confidence[^95]. The announcement of the vote of confidence led to discrepancies within the *Polo della Libertà*. The *Forza Italia* intended to vote in favor or abstain from the vote, whereas the *Alleanza Nazionale* wanted to vote against the government. The

[^92]: The Commission of Finance examines the amendments and checks the admittance of the amendments, several hundreds of amendments have been rejected, because they were not affordable.

[^93]: Dini and Treu introduced the maxi-amendment, because they did not want to vote on every single amendment, since more than 3,800 have been presented in total.

[^94]: This group would have been penalized under the new contribution based system.

[^95]: Tiziano Treu called this strategy a “legislative cleaning act” (“strategia di pulizia legislativa”) (Sivo 1995a)
vote of confidence had the following result: 284 deputies voted in favor (Progressisti-Federativo, Lega Nord, Partito Popolare Italiano, Democratici, SVP); 148 abstained from the vote (Forza Italia, Centro Cristiano Democratico, Popolari di Butiglione), 147 voted against the proposal (Alleanza Nazionale, Rifondazione Comunista, Comunisti unitari, Liberali)\textsuperscript{96}.

It has been interesting that the unions criticized the integration of the let-out clause very harshly, but at this point it was no longer important what has been agreed upon, but what majority was needed in order to push the reform through the Parliament.

After the success in the first vote of confidence the government announced to introduce another two maxi-amendments linked with the vote of confidence. The first one absorbed the articles 12-23 of the law proposal, the second maxi-amendment absorbed the articles 24 to 34, 36 to 39 and 42 of the law proposal. These articles dealt with the harmonization of the public and private pension scheme; the harmonization of self-employed and dependent workers; the separation between assistance benefits and pension benefits; the control of invalidity pensions. There has not been as much disagreement on these articles than on the first 12 articles which have already been approved. There have only been slight changes, which do not alter the general objectives of this part of the law.

It was probable that government would win the vote of confidence and therefore pass the reform through the first chamber. On the first amendment 384 deputies voted, 120 deputies abstained, the majority would have been 193, 265 deputies voted in favor, 119 deputies voted against the maxi-amendment and against the government. In the second vote 359 deputies voted, 112 abstained, the majority would have been 180, 259 voted in favor, 100 voted against the maxi-amendment. The law has been approved in the first Chamber and has been referred to the Senate.

\textbf{6.3.10. The Transmission to the Commission for Labor in the Senate}

The Senate was under time pressure, since the summer recess was supposed to start by the beginning of August. It became clear that there would be slight corrections of the text modified by the Chamber of Deputies, but the main actors were confident that the law could be approved in time. The Committee for Labor Affairs of the Senate started to study the text on July 19, 1995. There were several points of disagreement referring to the 1) the let-out clause; 2) rules dealing with the right of social security corporations to invest money in real estate; 3) the upper limit of 132 million lire every year for contributions; 4) fund for high-risk jobs; 5) seniority pension for employees in jobs that require high mobility or blind workers; 6) accumulation of income from part-time employment with

\textsuperscript{96} 579 deputies were present; 431 voted on the amendment; 148 abstained from voting. The majority would have 216 deputies; 284 voted in favor, 147 voted against (1995c)
pension benefit; 7) contribution credits for maternity; 8) minimum pensions; 9) self-employed. 350 amendments have been sent to the Committee for Labor Affairs formulated by the parties, mainly by the Lega Italiana Federalista, the Alleanza Nazionale, and the Rifondazione Comunista. Seven amendments have been brought in by the centre-left majority (Progressisti, Lega Nord, PPI, Verdi-La Rete, PSI, Sinistra Democratica). These amendments intended to improve the rules for mothers, workers in high-risk jobs, adaptation of contribution rates for employees in the agricultural sector, family allowances, and minimum pensions. The government agreed with the amendments, although it was not guaranteed that they were affordable, this needed to proved by the Commission of Finances. The amendments considered the position of the Forza Italia as well, in order to secure their approval in the final vote.

Although the tensions within the party alliances have still been great, especially between Forza Italia and Alleanza Nazionale, and Progressisti and Rifondazione Comunista, the atmosphere in the Committee for Labor Affairs and in the informal meetings of the government with the party whips has been much more consensual.

After the examination of the Commission of Finance the number of amendments has been reduced from 350 to 200 due to the lack of admittance. The Committee for Labor Affairs has suggested the following modifications of the law proposal, these suggestions were also supported by the majority (1995):

- **Let-out clause**: In case the expenditure for pension benefits is higher than the contributions paid, the Minister for Labor Affairs would not be entitled to cut benefits or raise contributions. These measures would have to be approved by the parliament.
- **Accumulation of part time work and pension benefits**: The accumulation of part-time work with pension benefits should be possible with a contribution record of 37 years, instead of 38 years.
- **Seniority pensions for self-employed**: Self-employed should have the right to receive a seniority pension if they have paid contributions for 40 years.
- **High-risk workers**: The fund for high-risk employment will be increased up to 250 billion lire. For every ten years of employment in high-risk jobs the employee will gain a one year contribution credit for seniority pensions (max. 24 months).
- **Contribution credits**: The contribution credits for housewives will be increased.
- **Upper limits**: The upper limit for contributions should be only applied to newly insured employees. Income that exceeds the upper limit should be invested in private pension funds.
The Approval of the Senate

The law proposal including the modifications of the Committee has been send to the Senate. The law proposal has been approved by a majority of Progressisti-Federativo, Lega Nord, Partito Popolare Italiano, Cristiani Democratici Uniti, Verdi–La Rete, Laburista-Socialista-Progressista, Partito della Sinistra democratica. Forza Italia and Centro Cristiano Democratico abstained from the vote. Alleanza Nazionale and Rifondazione Comunista voted against the proposal. 269 deputies were present, 268 voted. The majority would have been 135 deputies, 175 voted in favor, 56 against the reform, 37 abstained from the vote (1995).

The Final Approval

The law proposal, which has been modified by the Senate, had to be transferred back to the Chamber of Deputies, in order to be approved article by article. Although it was more than lucid that the reform will be approved, Rifondazione Comunista and Alleanza Nazionale revolted one last time against the law. Italo Cocci (RC) asked the so-called questione pregiudiziale di costituzionalità (1995b), this question is similar to the questione sospensiva. It can be asked by a single deputee, who doubts that the law proposal is constitutional. In case a simple majority votes in favor of the questione pregiudiziale di costituzionalità, the law will be deleted from the agenda. Cocci (RC) did not gain the necessary simple majority. 97 Another 75 amendments have been presented by RC, AN, and CCD all have been rejected by the Commission XI for Labor Affairs. Despite the continuing obstructionism, the Chamber approved the modified law proposal with 266 deputies in favor, 92 against the law, and 125 deputies abstaining from the vote. On August 4, 1995 the most far-reaching law of the last 20 years has been approved.

The main modifications are presented in Table A 6.1, A 6.2 and A 6.3 in the Appendix.

7. How to Explain the Story: Analysis of the Italian Case Study

In the case study we have seen that Italian pension politics during the First and Second Republic differed from one another. The 1980s have been characterized by several attempts, but no realization of a general reform of the pension system, whereas the 1990s were characterized by more successful than failed reforms. In this paragraph I want to go back to the hypothesis, which I have derived in the Chapter 2.4. I want to examine which impact the different variables had on the likeliness of reform.

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97 442 deputies were present, 440 voted. 2 deputies abstained from the vote, 82 voted in favor, 358 voted with “no”. The majority would have been 221 votes.
7.1.1. Problem Pressure

The hypothesis referring to problem pressure assumes that the likeliness for the approval of a reform of the pension system, will increase if problem pressure increases. As I have mentioned before, problem pressure is a combination of several aspects, therefore I have summarized all the factors I would like to consider in the following Table:

Table 7.1 Overview over Problem Pressure Indicators

<table>
<thead>
<tr>
<th>Indicator for Problem Pressure</th>
<th>Relation to Likeliness for Pension Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Demographic Indicators and Source</strong></td>
<td></td>
</tr>
<tr>
<td>Fertility Rate (United Nations 1998)</td>
<td>If the fertility rate in a given population decreases, the higher the need for reform increases.</td>
</tr>
<tr>
<td>Life Expectancy (World Bank Group 2001)</td>
<td>The higher the life expectancy of a given population, the longer pension benefits have to be paid, and the higher the need for reform.</td>
</tr>
<tr>
<td>Dependency Ratio (Eurostat 2000)</td>
<td>If the dependency ratio increases, the higher the need for reform.</td>
</tr>
<tr>
<td>Share of Elderly in a Population (Eurostat 2000)</td>
<td>The higher the share of elderly in a given population, the higher the need for reform.</td>
</tr>
<tr>
<td><strong>Labor Market Indicators</strong></td>
<td></td>
</tr>
<tr>
<td>Participation Rate (OECD 2001)</td>
<td>The lower the participation rate in a given population, the higher the need for reform.</td>
</tr>
<tr>
<td>Unemployment Rate (OECD 2001)</td>
<td>The higher the unemployment rate, the higher the need for reform.</td>
</tr>
<tr>
<td><strong>Pension Spending Levels</strong></td>
<td></td>
</tr>
<tr>
<td>Pension Spending as % of GDP (Eurostat 1999)</td>
<td>The higher pension spending as a share of the GDP, the higher the need for reform.</td>
</tr>
<tr>
<td>Pension Spending as % of Social Expenditure (Eurostat 1999)</td>
<td>The higher pension spending as a share of the overall social expenditure, the higher the need for reform.</td>
</tr>
<tr>
<td><strong>The Impact of Europe</strong></td>
<td></td>
</tr>
<tr>
<td>Public Debt (OECD 1988; OECD 1996; OECD 2002)</td>
<td>The higher the public debt, the higher the need for reform.</td>
</tr>
<tr>
<td>Deficit (OECD 1988; OECD 1996; OECD 2002)</td>
<td>The higher the deficit in the budget, the higher the need for reform.</td>
</tr>
</tbody>
</table>

**Demographic Changes**

It is a commonplace that the ‘ageing’ of the society will put social security systems under pressure. This has to do with lower fertility rates, higher life expectancy, and therefore a growing share of elderly in a population.

First I want to take a closer look at changes in the life expectancy and changes in the fertility rate. The data is presented in the following Table:
Table 7.2  Life Expectancy and Fertility Rate in Italy and EU-countries

<table>
<thead>
<tr>
<th></th>
<th>Life Expectancy(^{98}) (in years)</th>
<th>Fertility Rate(^{99})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>74</td>
<td>79</td>
</tr>
<tr>
<td>Belgium</td>
<td>73</td>
<td>78</td>
</tr>
<tr>
<td>Denmark</td>
<td>74</td>
<td>76</td>
</tr>
<tr>
<td>Finland</td>
<td>73</td>
<td>77</td>
</tr>
<tr>
<td>France</td>
<td>74</td>
<td>78</td>
</tr>
<tr>
<td>Germany</td>
<td>73</td>
<td>77</td>
</tr>
<tr>
<td>Greece</td>
<td>74</td>
<td>78</td>
</tr>
<tr>
<td>Ireland</td>
<td>73</td>
<td>76</td>
</tr>
<tr>
<td>Italy</td>
<td>74</td>
<td>78</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>No data</td>
<td>No data</td>
</tr>
<tr>
<td>Netherlands</td>
<td>76</td>
<td>78</td>
</tr>
<tr>
<td>Portugal</td>
<td>71</td>
<td>75</td>
</tr>
<tr>
<td>Spain</td>
<td>76</td>
<td>78</td>
</tr>
<tr>
<td>Sweden</td>
<td>76</td>
<td>79</td>
</tr>
<tr>
<td>UK</td>
<td>74</td>
<td>77</td>
</tr>
<tr>
<td>EU-average(^{100})</td>
<td>~ 74 years</td>
<td>77.5 years</td>
</tr>
</tbody>
</table>

Source: (United Nations 1998; World Bank Group 2001)

Table 7.2 indicates that the life expectancy increased between 1980 and 1998 by four years. Italy corresponds with the general EU-trend with respect to life expectancy. Higher life expectancy has a negative impact on the financial basis of the pension insurance, especially in the PAYG-systems. If life expectancy grows, pension entitlements have to be paid for a longer period. The financial effect of longer lives is further aggravated by early retirement. The average age of transition to inactivity among older workers in Italy has decreased from 61.6 years in 1980 to 60.6 in 1995 for males and from 59.5 (1980) to 57.2 (1990) for women (Blöndal and Scarpetta 1998).

The fertility rate-data between 1970 and 2000 shows the following pattern: In 1970 a women has born 2.5 children throughout her life time. This has been in line with the EU-average. In 1980 the fertility rate of Italian women has fallen sharply by 1.0. Within one decade the average number of children born by each Italian women has fallen from 2.5 to 1.5 children. Together with Austria and the

\(^{98}\) Life expectancy at birth is the average number of years a newborn infant would be expected to live if health and living conditions at the time of its birth remained the same throughout its life (World Bank Group 2001).

\(^{99}\) The fertility rate data refers to five year averages. Fertility rate is defined as the average number of children born by women throughout her life time.

\(^{100}\) EU-average refers always to the current number of EU member states.
Netherlands, this has been the most significant drop in the European Union, the fertility rate fell under the EU-average of 1980 (1.9 children per women). The declining trend in Italy has continued in 1990 (1.4 children) and 2000 (1.3 children), although the trend is much more slowed down. Italy remains still under the EU-average (1990: 1.6 and 2000: 1.5), although the distance to the European counterparts has declined. Since the size of younger and dependent co-horts affects the well-being of the generation yet active, a decline in the fertility rate will reduce the active population in future, and therefore endanger the financial basis of the pension insurance. A lower number of active persons will have to finance a higher share of pensioners. This effect would be less severe with a low share of elderly in a given population.

Therefore it makes sense to have a closer look at changes in the share of elderly\textsuperscript{101} in the Italian population and the development of the old-age dependency ratio\textsuperscript{102}. Graph 7.1 shows the dynamics of the two indicators between 1980 and 1999:

\textbf{Graph 7.1 Dependency Ratio and Share of Elderly in Italy and the EU}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{Graph7.1.png}
\caption{Dependency Ratio and Share of Elderly in Italy and the EU}
\end{figure}

\textsuperscript{101} The share of elderly in a given population is defined as the percentage of persons (60 and older) in the total population (Eurostat 2000)

\textsuperscript{102} The old age dependency ratio describes the ratio of old people (65 years and older) to the working-age population (between 20 and 60 years) (Concialdi 2000, p. 17).
Graph 7.1 shows the following results: in addition to the decline in the fertility rate, the share of elderly in the Italian population increased constantly during the last two decades. Between 1980 and 1999 the old-age dependency ratio rose from 32% in 1980 up to 41.6 in 1999, this is a growth rate of 9.6%, which indicates a rapid ageing process of the Italian population. Although the Italian dependency ratio in 1980 was lower than the EU-average (I: 32% compared to EU: 33.8%), it exceeded the EU-average in 1990 and 1999. The growth rate of Italy has been three times higher than in the EU (+ 3.1%).

Consequently, the share of elderly (60 and older) in the total population has grown in a parallel manner. Again, in 1980 the share of elderly in the Italian population was slightly lower than EU-average (I: 16.8% compared to EU: 17.6). In 1990 and 1999 the Italy had a greater share of elderly in their society than the EU-average. The share of elderly in Italy grew by 6.7%, whereas the share of people 60 years or older in the EU-average grew by 2.8%.

The development of the four indicators implies that the problem pressure increased. We can therefore expect that the likeliness for the approval of a reform increased between 1980 and 1999. As I have mentioned before a well-functioning labor market might absorb the negative effects of demographic changes.

**Labor Market Changes**

Table 7.3 describes the developments of the labor market in Italy between 1980 and 1997.

<table>
<thead>
<tr>
<th>Table 7.3</th>
<th>Developments on the Labor Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation Rate</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>60.8</td>
</tr>
<tr>
<td>(in brackets Ø EU)</td>
<td>(67.4)</td>
</tr>
<tr>
<td>Males by Age Group</td>
<td></td>
</tr>
<tr>
<td>15-24</td>
<td>49.4</td>
</tr>
<tr>
<td>25-59</td>
<td>93.1</td>
</tr>
<tr>
<td>60-64</td>
<td>39.6</td>
</tr>
<tr>
<td>65 and older</td>
<td>9.0</td>
</tr>
<tr>
<td>Females by Age Group</td>
<td></td>
</tr>
<tr>
<td>15-24</td>
<td>41.2</td>
</tr>
<tr>
<td>25-59</td>
<td>39.9</td>
</tr>
<tr>
<td>60-64</td>
<td>11.0</td>
</tr>
<tr>
<td>65 and older</td>
<td>3.5</td>
</tr>
<tr>
<td>Female Labor Force</td>
<td></td>
</tr>
<tr>
<td>(in brackets Ø EU)</td>
<td>26.1</td>
</tr>
<tr>
<td>(in brackets Ø EU)</td>
<td>(30.5)</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>7.5 (5.3)</td>
</tr>
<tr>
<td>Source: (OECD 2001)</td>
<td></td>
</tr>
</tbody>
</table>
The participation rate describes the total labor force as a percentage of population from 15 to 64 years. A high participation rate is crucial in pay-as-you-go systems, since the contributions of employees pay the pension benefits of the retirees. We can assume that higher unemployment rates combined with lower overall participation rates put the revenue basis under pressure.

The participation rate in Italy was very constant between 1980 (60.8%) and 1995 (58.8%) with a peak in 1990 (62.7%). Therefore I can not make the point that problem pressure increased. Again, the European perspective is instructive. In all the years the participation rate in Italy has been far below the EU-average, in 1995 more than 7% less. Against the background of high dependency ratios and growing shares of elderly, we must expect that the low participation rate has a negative effect for the financial sustainability of the pension insurance.\(^{103}\)

In Table 7.3 I have also differentiated according to different age groups and sex. What implications do the male participation rates have? First we can see, that the distribution of employees among different age groups remained stable. Nevertheless, the participation rates declined over all age groups, especially within the core employment age group (25-59) the drop has been considerable. In 1980 93.1% of males between 25 and 59 were part of the labor force, whereas in 1995 the rate dropped to 86.8% (-6.3%). In the other age groups the decline has not been as high. The decline within the age groups 60-64 and over 65 can be explained by early retirement measures. The decline in the youngest age group (15-24) can be explained by longer education and therefore later access to the labor market. We might expect negative effects for the financial basis of the pension insurance.

It is assumed that declining participation rates for men might be compensated by an increase in the participation rates for women. The pattern in female participation rates is ambiguous. Participation rates in the youngest age-group (15-24) and in the two oldest age-groups (60-64 and older) declined, whereas participation rates in the core employment group (25-59) rose considerably. In 1980 only 39.9% have participated in the labor force, whereas this share has risen to 49% in 1995 (+9.1). Again, the decline in the participation rate among younger potential employees can be explained by longer education and later access to the labor market, whereas low participation rates of older female employees can be explained by the compulsory retirement age, which has been 55 until 1992, when Amato decided about a gradual increase of the retirement age for women. We can conclude that increases in female employment can compensate losses in the male participation rates to a certain extent. Nevertheless it would be useful to have a last look at the overall dynamics of female employment in Italy, because low female overall employment might weaken the effects of compensation for the nega-

\(^{103}\) Especially if we keep in mind, that replacement rates in Italy range among the highest in Europe. Some categories (f.e. civil servants) get a replacement rate of 100%.
tive changes in male participation rates. The female labor force describes the female labor force as a percentage of the female population. The figures show, that the rate rose from 26.1% to 28.7%. The rise has been very low compared to the European figures for that time period (30.5% to 37.1%). We can conclude, that female participation in the labor market is generally lower than in the European average. The compensation effect of female employment with respect to declining male participation rates might therefore be less significant.

The last result of Table 7.3 refers to the dynamics of the unemployment rate. The unemployment rate describes unemployment as a percentage of the total labor force. As a consequence of lower overall employment, the unemployment rate increased between 1980 and 1995. The increase during the 1980s was faster than during the 1990s. Still, policymakers were not able to decrease the unemployment rate during the 1990s. Problem pressure has therefore been constantly high. But compared to the differences between Italy and the EU-average in the other indicators, the unemployment rate differs only slightly from the EU-average. Nevertheless, the negative effects for the pension insurance remain. A constantly high unemployment rate, decreases the revenue basis for the pension insurance, since less contributions can be paid. In addition, does high unemployment bear additional costs for unemployment benefits and active labor market policies.

We can conclude that the negative demographic effects shown are further aggravated by the labor market situation in Italy. Low and decreasing overall participation rates, very low female employment, and constantly high unemployment rates endanger the financial basis of the pension system. We can state that problem pressure referring to the developments in the labor market increased the problem pressure, and therefore the need for reform.

I expect that the combination of demographic and labor market variables would have a significant effect for the dynamics of pension spending. In Graph 7.2 we can see the development of pension spending as a share of the GDP\textsuperscript{104} and pension spending as a share of overall social spending\textsuperscript{105}:

\textsuperscript{104} Pension spending as a share of the GDP describes all spending for old-age (for Italy including seniority pensions) and survivors pensions as a percentage of the nominal GDP. For 1980 and 1985 data was missing for Denmark, Greece, Portugal, Finland, Spain and the UK (I have therefore reduced the divisor from 15 to 9 an average of the available data for EU countries) (Eurostat 1999).

\textsuperscript{105} Pension spending as a share of total social spending describes the share of pension spending on overall social expenditure. For 1980 and 1985 data was missing for Denmark, Greece, Portugal, Finland, Spain and the UK (I have therefore reduced the divisor from 15 to 9 an average of the available data for EU countries) (Eurostat 1999).
Between 1980 and 1995 pension spending as a percentage of the GDP, rose in Italy and the EU, whereas the increase in Italy was nearly three times higher (EU: +2.4; I: +6.7). The figures for pension spending as a share of overall social spending underline the general description of the Italian welfare state as a ‘pensioner state’. First of all, the share grew from 55% in 1980 to 65.7 in 1995 (+10.7), that means that nearly 2/3 of social spending go into the pension sector. Second, in comparison to the EU-average, Italy spends 20 percentage points more on pension benefits than the EU-average. The figures reflect the easy access to direct pensions and the generous provisions, especially for survivors\textsuperscript{106} in the absence of adequate social assistance programs. The problem pressure referring to a reduction of pension spending was therefore extremely high. This had certainly a negative effect for the public finances (public debt and deficit). Therefore we can continue with the indicators related to the Europeanization.

\textsuperscript{106} D’Ercole and Terribile state that despite lower participation rates of women (as I have shown above), the number of pension paid to women by the general mandatory scheme for employees (FPLD) amounted to 6 million Lira as compared to 4.2 million for men (d’Ercole and Terribile 1998).
The Impact of Europe

It is assumed that the process of European integration increased the pressure for national governments to adjust their policies. As I have mentioned before, the Maastricht convergence criteria forced the memberstates of the EU to restore their public finances. Again, it is important to notice that high public debts and negative financial balances pressure governments under every circumstance. The external pressure coming from European integration can only channel pressure towards the retrenchment of certain welfare programmes. Nevertheless, I am convinced that policymakers would need to reduce their deficits and debts anyhow, independently from existing convergence criteria. I would like to refer to the criteria, which have been cited most: the public debt and the financial balance of the government budget\(^\text{107}\).

Graph 7.3  Italy and the Maastricht Convergence Criteria

Graph 7.3 shows that the Italian public debt doubled between 1980 and 1993 from 58.5% to 118.1% of the GDP. It seems as if throughout the 1980s no government took care of the ailing public finances, this explains Italy’s opposition to the introduction of the convergence criteria (together with

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\(^{107}\) For better orientation I have inserted the European convergence criteria in Graph 7.3. The gross public debt was not allowed to exceed 60 per cent of the nominal GDP, the government deficit was not allowed to be under –3% of the nominal GDP. One has to notice that these criteria did not play a role throughout the 1980s. In March 1990 the European Council has decided that there is need for convergence criteria all participants in the EMU must meet. In December 1991 these criteria have been fixed in the Maastricht Treaty, they had to be met by the member states of the EMU by 1999 (Moravcsik 1998).
Spain, Greece, Portugal, and Ireland). 1992 Italy felt for the first time potential external pressure from the European Union. In September the public debt reached a new peak and the Italian currency has been devaluated. Italy was forced out of the EMU. In this case we were able to see, how problem pressure might force politicians to react in form of certain policy measures. As we have seen in the empirical part of that Thesis, Amato introduced an additional *decreto legge*, which tightened the rules. Still, the Italian public debt continued to grow in 1993 and 1994. 1994 was the turning point for the public budget, which decreased in the following years. Nevertheless, Italian did not meet the convergence criteria of the EMU, with 114.5% in 1999 the public debt was far over the 60% threshold.

The course of the public deficit between 1980 and 1994 was very constant, although on a very high level. Throughout this period the deficit averaged around –11%. That was far below the convergence criteria. The pressure to reduce the deficit grew with the introduction of the Maastricht convergence criteria. From 1994 on the Italian deficit decreased constantly, and fell below the 3%-treshhold in 1997.

We can conclude that the level of public deficit and public debt has been growing or on a constantly high level throughout the 1980s. The problem pressure was already high during this period. Obviously it did not push policymakers to realize needed reforms in order to restore public finances as we have seen throughout the 1980s. The signing of the Maastricht Treaty seemed to be a turning point. Amato was able to pass the first general pension reform since decades and the following governments were endeavoured to reduce the deficit and debt, such as Ciampi (in the field of the labor market), and Dini (in the field of pension politics).

**Conclusion: The Impact of Problem Pressure**

Almost all the indicators that I have listed in this chapter have developed in a direction, which might indicate higher problem pressure and therefore higher need for reform. I have summarized the direction and possible effect in the Table 7.4.

<table>
<thead>
<tr>
<th>Indicator 1980-1990 (+/-)</th>
<th>Decrease or increase of problem pressure (+/-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life expectancy +</td>
<td>+</td>
</tr>
<tr>
<td>Fertility rate -</td>
<td>+</td>
</tr>
<tr>
<td>Dependency ratio +</td>
<td>+</td>
</tr>
<tr>
<td>Share of elderly +</td>
<td>+</td>
</tr>
<tr>
<td>Participation Rate +/- (but on low level) -</td>
<td>+</td>
</tr>
<tr>
<td>Female Labor Force +</td>
<td>-</td>
</tr>
<tr>
<td>Unemployment +</td>
<td>+</td>
</tr>
<tr>
<td>Pension Spending +</td>
<td>+</td>
</tr>
<tr>
<td>Public Debt +</td>
<td>+</td>
</tr>
<tr>
<td>Public Deficit +</td>
<td>+</td>
</tr>
</tbody>
</table>
Although one might see a clear relationship between increasing problem pressure between 1980 and 1997 and therefore more reforms that passed the parliament, I do not support this interpretation. The instructive confrontation of Italy with its European counterparts has shown that Italy has always been a problematic case. The problem pressure was already high in the 1980s, the relationship is therefore not as clear cut as we might assume. If problem pressure is the trigger for policy reform, policymakers would have been able to pass laws already during the 1980s. Therefore we must look for alternative explanations.

7.1.2. The Impact of Social Pacts

One of the most prominent explanations for success in pension politics is the impact of social pacts. The hypothesis referring to social pacts stated the relationship that the co-operation of governments with the social partners increase the likeliness for the approval of reforms. The literature dealing with interorganizational bargaining describes social pacts as “formal agreements between governments and social partners” (Ebbinghaus 2001).

In the literature on social pacts the Dini reform is often seen as the most successful attempt of interorganizational bargaining. The basis for this kind of bargaining has been the agreement signed by the unions and the Berlusconi government in December 1994. In the agreement the unions accepted the need for a reform in the next year, which was supposed to include several austerity measures. As we have seen in the empirical part, the unions have formulated a common law proposal, which has been the basis for the negotiations between the government and the unions. As we have seen in the empirical part, the negotiations between the Dini government and the unions resulted into a common agreement. This agreement has been presented as a law proposal to the parliament. The employers’ association did not sign the agreement, because they considered the projected savings as insufficient. The parties in the parliament criticized that the parties have been excluded of the negotiations.

We can certainly say, that the negotiations between the unions and the government were far-reaching in comparative perspective. I am convinced that the long bargains between Dini, Treu and the confederal unions, increased the legitimacy of the reform and therefore had an impact on the success of the reform. Still, the reform needed to pass the legislative arena in order to get adopted and this depended on the approval of the majorities of both chambers. We have seen that the government needed to approach certain parties in order to get their approval, for example the let-out clause which has been claimed by Forza Italia. This clause prescribed that the government was allowed to cut benefits or increase contribution payments in case that the projected savings were not realized by the reform. This clause has been fiercely opposed by the unions, but Dini agreed to integrate the clause in the law, because the opposition of the Forza Italia would have led to the failure of the reform. This
shows that it was important for Dini to find an agreement with the unions, but in the legislative agreement is was more important to find a sufficient majority.

Now we should also take a look at the other reforms I have discussed in the empirical part. The Amato reform has shown a different pattern. Amato refused to negotiate with the unions for a long time. Not until they announced a general strike Amato was willing to invite the unions to talks into Palazzo Chigi (the office of the Prime Minister in Rome). But the meeting was counterproductive, since the positions were even more distant afterwards. Although regional strikes have taken place, Amato was not impressed by the announcement of a general strike and refused to approach the claims of the unions. As we have seen, the severe economic situation in Italy explains Amato’s reluctance to negotiate with the unions. Amato expected sacrifices of all societal groups and did not see any leeway for concessions to the unions.

Amato was successful in the adoption of the law without any negotiations with the unions. The legislative process has shown that reforms can be passed without serious negotiations with the social partners.

In the case of Berlusconi it might seem as if the mass mobilizations of the unions all over Italy have caused the failure of the pension reform. It is certainly true that the general strikes have pressured Berlusconi to approach the unions. Nevertheless, another interpretation is possible. It might be the case that the defection of the Lega Nord (LN) and its collaboration with the parties of the opposition were more decisive for the failure of the reform, since Berlusconi knew that he relied on the support of the Lega Nord for a majority in the two chambers, since LN was the strongest coalition partner in the centre-right coalition (117 seats). According to this interpretation the weakness of the executive had a greater impact on the failure of the reform than the opposition of the unions.

I conclude, that it is very difficult to say, which reason was decisive for the failure of the Berlusconi reform. At least we can state, that it was not only the lack of consultations between government and social partners, but also disagreement within the executive, which led to the failure and finally to the resignation of Berlusconi.

With respect to the research question we also need to have a look at the reform of the First Republic. The hypothesis assumes that the cooperation between government and social partners increases the likeliness of approval of a pension reform. We have seen that all the governments between 1980 and 1991 failed in their attempts to reform the public pension system. This might lead to the conclusion that the governments did not negotiate their plans with the social partners. It is important to point out, that it would have required a different focus of this thesis to answer this question more pre-
The case study does not support the generalized conclusion that reforms failed because governments did not negotiate with the unions.

First, the case study did not demonstrate a generally negative attitude of the unions towards the reform of the pension system. During the negotiations of the Cristofori Commission the unions signaled their general willingness to negotiate about a reform, although they had several objections to the plans of Cristofori. They did not start any mass mobilizations with the objective to stop the reform plans. Two main reasons caused the failure of the reform project: first, the permanent conflict between Cristofori and De Michelis who had different ideas about the reform of the pension system and presented competing proposals; and second, the different positions of the coalition partners about key issues of the reform. These controversies have not been solved by the end of the parliamentary term, which also meant the end of the reform project.

The suggestions elaborated by the two Commissions appointed by Formica have also been discussed with the unions, which had a positive attitude towards the pension reform, but opposed the rules aiming at a reduction of benefits and the increase in the retirement age. Formica met the unions several times. It did not find their approval and has also been rejected by the coalition partners. Formica did never present the law proposal to the legislative arena.

The Marini reform has been assessed quite positively by the unions, they agreed with several points of the bill and proposed only slight changes, whereas the employers’ association suggested several modifications and considered the bill to bring only insufficient savings. The reform failed because of a counterproposal presented by the PDS, which wanted to introduce different rules with respect to the retirement age. The controversy has not been solved by the end of the parliamentary term. The reform had to be postponed till the next parliamentary term.

**Conclusion**

We can conclude that the social pacts assumption can not be hold if it is applied to the Italian case study. First, successful reforms, in the sense of reforms adopted by the parliament, do not necessarily require the approval of the unions (Amato). Second, even an agreement between unions and the executive, as in the case of 1995 reform, does still require the approval of the parliament. The executive needs to approach parties which should secure the required majority in the chamber (Dini). Even the reforms of the 1980s do not support the assumption of the social pacts argument. The reforms did not fail because of insufficient negotiations between the executive and the unions. They failed due to various reasons, because of the end of the parliamentary term (Marini) or disagreement within the government and between the coalition partners (Cristofori and De Michelis). This might lead to the
conclusion that the executive strength has a more decisive impact on the feasibility to pass the reform than social pacts of government and social partners. In the next paragraph I am therefore applying the veto players concept to the reforms under investigation.

7.1.3. Veto Players

My hypothesis focussed on the argument of George Tsebelis, who assumed that “veto players are individual or collective actors whose agreement (by majority rule for collective actors) is required for the change of the status quo” and further, “the potential for policy change decreases with the number of veto players, and the lack of congruence (dissimilarity of policy positions among veto players)”.

I assume that also the inversion of the argument is possible. The potential for policy change increases if the number of veto players decreases.

I want to apply this hypothesis to the Italian case in different steps. First, I am going to identify the veto players (partisan and institutional) in order to see whether the differences between the pension reforms of the First Republic compared with those of the Second Republic can be explained by the number of veto players. In a next step I will refer to the congruence of the veto players and there explanatory power with respect to the underlying research question.

Let us first focus on the different kinds of veto players which can be identified. Partisan veto players are the parties in the government coalition. Each party in the government coalition (in terms of the number of parties participating in the government) represents a hurdle to the successful proposal and acceptance of a bill since the government must work as a unified group in order to reach the required majority (in the case of pension reform in Italy the requirement is 50% + 1 deputy or senator). Thus, each additional party in the government coalition, increases the difficulties for the government to pass legislation successfully. The number of institutional veto players is specified by the Constitution. An institutional veto player is only counted if it has formal veto power. Not every veto player is relevant in every decision. Possible institutional veto players are the president, central banks, courts, super majorities or referendums. Applied to the Italian case we can say that none of those institutions can be counted as a veto player in the legislative process. We have to remember that Italy is a bicameral system and laws have to pass both chambers to get adopted. But, referring to Tsebelis, the second chamber can not be counted as a second veto player, if the distribution of seats are equal, therefore the two chambers will be counted as one veto player. In the following Table I have listed the different

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108 Tsebelis mentions also the cohesion of veto players, describing the similarity of policy positions among the constituent units of each veto player, as a decisive element concerning policy stability. I will not consider the cohesion of veto players in my argument.
governments between 1980 and 1995 with the respective number of veto players. The shaded rows mark those governments which have undertaken pension reform efforts.

<table>
<thead>
<tr>
<th>Government</th>
<th>Institutional Veto Players</th>
<th>Partisan Veto Players</th>
<th>Reform Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cossiga I</td>
<td>1</td>
<td>3 (DC-PSDI-PLI)</td>
<td>Scotti</td>
</tr>
<tr>
<td>Cossiga II</td>
<td>1</td>
<td>3 (DC-PRI-PSI)</td>
<td></td>
</tr>
<tr>
<td>Forlani</td>
<td>1</td>
<td>4 (DC-PSI-PRI-PSDI)</td>
<td></td>
</tr>
<tr>
<td>Spadolini</td>
<td>1</td>
<td>5 (PRI-DC-PSI-PSDI-PLI)</td>
<td></td>
</tr>
<tr>
<td>Fanfani V</td>
<td>1</td>
<td>4 (DC-PSI-PSDI-PLI)</td>
<td></td>
</tr>
<tr>
<td>Craxi</td>
<td>1</td>
<td>5 (PSI-DC-PRI-PSDI-PLI)</td>
<td>Cristofori and De Michelis</td>
</tr>
<tr>
<td>Goria</td>
<td>1</td>
<td>1 (DC-tec)</td>
<td></td>
</tr>
<tr>
<td>De Mita</td>
<td>1</td>
<td>5 (DC-PSI-PRI-PSDI-PLI)</td>
<td>Formica</td>
</tr>
<tr>
<td>Andreotti V</td>
<td>1</td>
<td>5 (DC-PSI-PRI-PSDI-PLI)</td>
<td>Donat Cattin</td>
</tr>
<tr>
<td>Andreotti VI</td>
<td>1</td>
<td>5 (DC-PSI-PRI-PSDI-PLI)</td>
<td>Marinl</td>
</tr>
<tr>
<td>Amato</td>
<td>1</td>
<td>4 (DC-PSI-PSDI-PLI)</td>
<td>Amato</td>
</tr>
<tr>
<td>Ciampi</td>
<td>1</td>
<td>4 (DC-PSI-PDSI-PLI)</td>
<td></td>
</tr>
<tr>
<td>Berlusconi</td>
<td>1</td>
<td>4 (FI-LN-AN-CCD)</td>
<td>Berlusconi</td>
</tr>
<tr>
<td>Dini</td>
<td>1</td>
<td>0\textsuperscript{109} (technical government)</td>
<td>Dini</td>
</tr>
</tbody>
</table>

Source: (Verzichelli and Cotta 2000)

First of all, we can see that the number of institutional veto player is constant, since the majorities within the two chambers are equally distributed. The number of institutional veto players is one in all governments between 1980 and 1995. Therefore we can conclude that the institutional veto players do not explain the differences in the capacity of governments to pass pension reforms. Therefore we need to take a closer look at the partisan veto players.

The first question that arises is how to deal with technical governments as in the case of Dini\textsuperscript{10}. Tsebelis does not give an answer to this question. Nevertheless, we can assume that technical governments have two advantages compared to ‘regular’ party governments. As Kreppel has stated, we have to remember that there are two steps in the legislative process: first the proposal of the bill by the government, and then its adoption by the parliament (Kreppel 1997). The first step is definitely easier for a technical government, since the need to reconcile different interests between the coalition partners drops. The formulation of the government proposal can be entrusted to the competent minister, as in the case of pension politics the Minister for Labor and Social Affairs\textsuperscript{11}. As we have seen in the Dini reform it was also Dini himself who had a considerable influence on the formulation of the law (together with the social partners, but this will be discussed later).

\textsuperscript{10} Dini had external support by centre-left parties.
\textsuperscript{11} None of his ministers was member of a political party.

\textsuperscript{11} Under Dini this has been Tiziano Treu.
The second advantage of technical governments is in line with the argument of Tsebelis referring to minority governments. He argues that minority governments are usually located centrally in space, therefore it can lean slightly to one or the other side in order to have its policies approved. It does not need formal allies, nevertheless, it needs a majority for the adoption of the law in the parliament. Especially the President of the Commission Satori, Prime Minister Dini, and the Minister for Labor and Social Affairs Treu have started a diplomatic offense in order to find partners for a parliamentary majority. As we have seen it was especially important to find an agreement with Forza Italia. Therefore Dini agreed to introduce the so-called let-out clause which has been claimed by FI, leading to their abstention in the vote of the Chamber of Deputies, where abstentions are counted as not present, and therefore decrease the threshold for the majority, whereas they left the Assembly during the vote in the Senate, because abstentions would have been counted as negative votes. The greater freedom of the Dini government to find its coalition partners due their placement in the political space might be an important reason for the success of his reform.

Now we should have a look at the other reforms. First we can see, that according to the veto player approach, Scotti would have had the greatest chances to get his reform approved since the coalition government has been set up by three parties. His failure does not correspond with the Tsebelis-argument, whereas the failure of the rest of the reforms during the 1980s is in line with Tsebelis. The so-called pentapartito-governi (translated five-party governments) faced the greatest obstacles to approve reforms. The Democrazia Cristiana needed to consider and reconcile the different competing positions of its coalition partners in order to prevent their defection in the parliamentary vote. How difficult this could be, can be seen in Table A 4.1 in the Appendix summarizing the positions of the parties in the debate about the Cristofori reform. The parties all wanted to exempt other categories of employees from certain norms; one party was willing to reduce benefits, whereas other partners still wanted to extend benefits. These cleavages made an agreement very difficult and they can also explain, why all the proposals that I have presented in the empirical part did not fail due to the parliamentary vote, but due to insurmountable differences in the positions of the coalition partners, which made an agreement of the coalition within the parliamentary Committees impossible.112

These differences might be explainable with two characteristics of the prevailing party constellations in the 1980s. In the center the dominant Democrazia Cristiana has been located, which had far more seats then the other coalition partners. On the other side, we had the Partito Socialista Democratico Italiano (PSDI), the Partito Socialista Italiano (PSI), the Partito Repubblicano Italiano (PRI), and the Partito Liberale Italiano (PLI), which were alternating coalition partners of the DC.

112 The parliamentary Committees do usually examine several law proposals. It is the task of the Committee to present a unified text (a law proposal that reconciles the different positions of the majority in the Commission).
Two kinds of competition resulted out of this constellation: First, the four-small parties competed in order to be part of the government coalition. Centre-left and centre-right parties had typically opposite interests. In addition, the main party knew that the defection of one of the small coalition partners would result in the defeat of the proposal in the parliament. Compared to their actual number of seats in the parliament, the small partners gained an overproportional blackmail-potential. Another conflict line could be located within the DC: various competing factions worked at cross-purposes in order to push different alliances (Verzichelli and Cotta 2000). Verzichelli and Cotta have shown that in 8 of 10 governments, cabinet termination has been caused by conflicts between coalition parties (Verzichelli and Cotta 2000). The short durations of the government coalitions during the 1980s (Ø 359 days (Verzichelli and Cotta 2000)) is another indicator for this assumption. This would prove the argument that lack of congruence between the coalition partners decreases the chances for the approval of the reform.

Now we need to find reasons for the success of Amato and Prodi against the failure of Berlusconi. The answer can not be found in the number of partisan veto players since all government coalitions were composed of four parties. As Kreppel said, the number of veto players does not only affect the feasibility of the adoption of a law, but also the type of legislation. Kreppel bases the argument on the increase of leggine (laws regulating certain policy fields, which can be approved by the Committee and do not have pass the parliament). Policymakers have used this instrument in order to compensate the incapacities of government to pass their legislation in the parliament. This argument can be adopted to Amato. As we have seen, he has splitted his reform plans in three different types of legislation: a legge delega (delegating legislative power to the executive), a decreto legge (which comes into effect with its presentation and has to be approved within 60 days) and as part of the budget law. After nearly 10 years of failure in pension reform he was the first Prime Minister who passed a reform in the two chambers. A key to the approval was his technique to link the vote of confidence to the approval of the law which had two effects: first, it helped to bring the coalition parties of the government in line. Since the vote is by roll-call, deputies are forced to vote in favor. Second, it was a useful measure against obstructionism of the opposition. The government evaded the vote on every single amendment by asking the vote of confidence. This technique (to ask the vote of confidence) has also been adopted by Dini. Berlusconi failed because the Lega Nord, the strongest coalition partner with 117 seats in the Chamber of Deputies, defected from the government coalition, which guaranteed the parliamentary majority of the centre-right coalition. The vote of confidence is no innovation of the Second Republic. Even policymakers during the 1980s would have been able to ask the vote of confidence, but since proposals failed already during the consultations in the Committees, governments did not even come to the point to link the approval of a law to the vote of confidence.
Conclusion

We can conclude that the number of partisan veto players have played a significant role in the failure of the reforms between 1980 and 1991, but it was only the pure number of partisan veto players (in most of the cases 5), than the lack of congruence in the policy positions of the government coalition, which has been proven by the fact, that most of the reform proposals failed in the Committee where the differences between the coalition partners were not surmountable.

All of the reform proposals of the Second Republic entered the parliament. The number of partisan veto players was only slightly different to the number of veto players in the reform attempts during the 1990s (four partisan veto players). But obviously (with the exception of Berlusconi) the congruence in the policy positions of the coalition partners have been reconcilable, since all governments won the vote of confidence which has been linked to the approval of the law.

The application of the veto player theory to the Italian case supports the assumption that the increase in the number of veto players and their lack of congruence in policy positions decreases the chances for policy change.

7.1.4. Change of the Electoral Rules

My hypothesis referring to the electoral rules have stated the following relationship, the new electoral rules have an effect on the number of parties represented in the parliament. The new rules will decrease the party fragmentation and therefore increase the likeliness for the approval of reform.

In 1993 the electoral rules have been reformed after more than two years of discussion. The old electoral rules seats have been distributed according to perferct proportional representation. This system resulted in high fragmentation of the party system and therefore a high number of parties represented in parliament. The high fragmentation was seen as the main cause for the weakness and short duration of Italian governments. It was hoped that the new electoral system would be able to solve these defects.

The new electoral rules introduced a mixed-member system. The extremely proportional variant has been replaced by a relatively majoritarian system (Shugart and Wattenberg 2001). Although the electoral system is different in some points, they are both mixed. 75 per cent of the seats are allocated through a plurality system in single-member constituencies and 25 per cent on the basis of compensatory proportional representation. The introduction of 4% treshold was supposed to make it difficult for smaller parties to enter the parliament. In Table 7.5 we can see whether the introduction of the new electoral rules had the expected effect on party fragmentation, and therefore the number of
parties. I have marked the transition to the new electoral law, with the black line. The reform has been passed in 1993 under Ciampi, but came into effect with the 1994 elections with the victory of the centre-right coalition of Berlusconi.

<table>
<thead>
<tr>
<th>Name of Government</th>
<th>Number of Parties in Parliament</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cossiga I &amp; II</td>
<td>10</td>
</tr>
<tr>
<td>Forlani</td>
<td>10</td>
</tr>
<tr>
<td>Spadolini</td>
<td>10</td>
</tr>
<tr>
<td>Fanfani V</td>
<td>10</td>
</tr>
<tr>
<td>Craxi</td>
<td>11</td>
</tr>
<tr>
<td>Fanfani VI</td>
<td>12</td>
</tr>
<tr>
<td>Goria/ De Mita</td>
<td>12</td>
</tr>
<tr>
<td>Andreotti</td>
<td>12</td>
</tr>
<tr>
<td>Amato</td>
<td>13</td>
</tr>
<tr>
<td>Ciampi</td>
<td>13</td>
</tr>
<tr>
<td>Berlusconi</td>
<td>13</td>
</tr>
<tr>
<td>Dini</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: (Verzichelli and Cotta 2000)

The table shows that the expected improvement has not been realized. The number of parties has not been reduced, it has even been higher than during the 1980s. “In short, the strongest parties have a smaller share of the vote than before while that of the smaller ones increased. Taking into account, we can say that the party system has changed from a configuration with two large parties to a configuration of equitable distribution, characterized by four or five medium-sized parties with little difference in strength among them” (D’Alimonte 2001).

The table shows that the electoral rules do not explain the difference when it comes to the question why pension reform attempts during the First Republic failed, while several reforms during the Second Republic were successful. The reason for the failure of the new electoral rules to produce a simplification and lower fragmentation of the party system has been explained by D’Alimonte: "The reform has been introduced in a context characterized by high and increasing fragmentation, increasing volatility, and great uncertainty of the electoral outcome because of the destructuring of the old party system. Given these factors, the introduction of the plurality system, far from penalizing small parties gave them a coalition potential (or blackmail potential) which they have used to bargain successfully their participation into ‘cartel-like coalitions’ based on a ‘equitable’ distribution of SSDs via stand down agreements” (D’Alimonte 2001).

113 SSD is the abbreviation for Single-Seat Districts.
Conclusion

I have to conclude that the hypothesis referring to the new electoral rule, aiming at the reduction of parties in parliament did not have the expected effect. It is not possible to integrate the change in electoral rules into an explanation of success and failure in public pension reform during the First and Second Republic. Therefore I would like to focus more thoroughly on the changes within the party system, changes in the party configuration, and possible effects on clientelistic ties caused by the transition from the First to the Second Republic.

7.1.5. Party Configuration and Clientelism

My hypothesis referring to party configuration, clientelistic ties, and parliamentary turnover stated the following relation “if a given party system is restructured and the turnover within the parliament is high, clientelistic ties will be cut and the likelihood for the approval of the reform will increase”. As Ferrera has demonstrated the Italian system has been infiltrated by clientelistic exchanges. The ‘mass patronage parties’ stood in direct exchange relationships with their clients. In order to gain votes by the electorate, the parties provided individual benefits. In Italy, this relationship has been personal and immediate: ‘real exchange’ of individual votes for individual benefits (Ferrera 1996).

First of all, we can assume that clientelism is a very stable system established by politicians and parties with their constituencies. Second, this system has grown over a long period, and became very elaborated. Politicians and their clients established very special ties, exchanging votes with different kinds of benefits, such as demands for certain welfare benefits or jobs in the welfare administration. Third, we can assume that both sides had a vital interest in the maintenance of these exchange relationships. The interests of the actors within this ‘machinery’ have been very stable. I don’t think that this assumption is problematic, since it lies in the nature of the political game, that benefits for voters are always welcomed, whereas votes for parties are the foundation for their political power.

My argument is the following: During the First Republic the party constellation has been stable and established. It has not been characterized by government alternation. Clientelistic exchange relationships between politicians, parties and their constituencies were able to grow within this constellation. The party configuration rendered retrenchment an unfeasible policy measure. The reform of

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114 It is important to notice, that the new electoral rules caused the formation of pre-election coalitions, which has not been the case with the old electoral rules. These coalitions did not replace parties, but they became actors on their own within the Italian party system. These pre-election coalitions might lead to a simplification of the party system. Nevertheless, the coalitional alignments are far from stable and are constantly redefined. Therefore it is difficult to assess their impact on the feasibility of reforms.
the welfare state was not possible since it implied high electoral losses and an abandonment of the clients.

First, we have to prove whether the party constellation has been stable and therefore an establishment of clientelistic ties was possible. As I have mentioned, in the theoretical part of this Thesis, I want to refer to the party configuration 4 described by Kitschelt. This configuration is characterized by weak liberals, a strong centre, and strong social democrats. In the Italian system, the Democrazia Cristiana was the centrist party, which had a dominant position within the party spectrum between 1946 and 1992. Four alternating coalition partners were securing the majority for DC within the two chamber: the Partito Socialista Italiano (PSI), the Partito Socialista Democratico Italiano (PSDI), Partito Repubblicano Italiano (PRI), and the Partito Liberale Italiano (PLI). The PLI was the small and weak liberal party, which did not gain much influence. The Partito Comunista Italiano (PCI) was the strong leftist party (nearly as strong as the DC), which never participated in the government. (For election results of the Chamber of Deputies see Appendix Table A 7.1)\textsuperscript{115}. This pattern prevailed also during the last years of the First Republic (1980 until 1991) as the Table 7.6 shows:

<table>
<thead>
<tr>
<th>Cabinet</th>
<th>Duration</th>
<th>Government Composition\textsuperscript{116}</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forlani</td>
<td>18/10/1980 – 26/5/1981</td>
<td>DC-PRI-PSDI</td>
</tr>
<tr>
<td>Fanfani V</td>
<td>1/12/1982 – 22/4/1983</td>
<td>DC-PSI-PSDI-PLI</td>
</tr>
</tbody>
</table>

The DC has always been the strongest party, and the majority in the two chambers has been secured with the small coalition parties (PSI, PSDI, PRI, PLI). The PCI has always been excluded, as well as the MSI. The party system has been very stable, despite the competition among the small coalition parties for government participation.

I assume that the stability of the party configuration has fostered the formation of clientelistic structures. They were perpetuated with every election, since pre-election promises have been made in return for votes of their clients. This explains, why Kitschelt expects this party configuration to face the greatest obstacles for social policy reform, even in economic and social crisis situations. The DC

\textsuperscript{115} I have only listed the electoral results of the Chamber of Deputies, the results of the Senate were similar with respect to the distribution of votes and seats.

\textsuperscript{116} The party in the first place is the party of the Prime Minister.
might have seen the need for reform, but feared electoral losses, the PCI was not able to push reform, since they were in the opposition, and expected also electoral losses and knew that the DC would have been the electoral beneficiary, and the small parties were too weak to push their interests against the will of the DC (in addition they maintained also clientelistic ties).

Clientelistic exchange structures are in danger if one partner defects: 1) if the government supports policies which imply losses for their clients; 2) if the clients do not vote for their party. We can expect that 2) is usually an effect of 1). With respect to pension reform attempts between 1980 and 1991, we might be able to explain the reasons for their failure. It was less the problem of lacking executive strength, than the matter of lacking willingness among the government parties (especially the DC), who feared to anger their electorate. This explains the numerous attempts and their failure. We have also seen, that all attempts failed during the examination process in the Commission, not as one might have expected in the Parliament. Only the Cristofori attempt entered the Parliament but has been retransmitted to the Commission, where the reform has been postponed for reasons of disagreement within the coalition.

Another reason for the failure of reforms has been the inadequate turnover which resulted in the aging of the political class and therefore a lack of new ideas for solutions to certain policy problems. If we look at the overview A 4.2 in the Appendix we can see how similar the reform proposals of the Ministers for Labor Affairs have been, there have been only slight deviations between the different proposals. Obviously there has been no innovation in the formulation of the bills.

In my opinion, change was only possible because of the radical restructuring of the party system in the beginning of the Second Republic in 1992. This process has been continued with the 1994 elections. 1992 represents a partial renewal, started by the re-orientation of the former PCI (now PDS). The second phase in spring 1994 saw the completion of the turnover with the strengthening of the Lega Nord, the foundation of Forza Italia, and the defeat and political end of the former government parties (mainly the DC, PSDI, PRI). During this period the Italian parliament faced the most significant period of transformation since 1946. A useful measure, which helps to assess the scope of transformation, is the turnover rate. The turnover rate describes the number of deputies who have been re-elected. Verzichelli has shown that the turnover rate during the First Republic was always kept around 30%. In the 1994 election the turnover rate has been 70% (Verzichelli 1995). Table 7.7 presents the parliamentary experience of 1994 deputies\textsuperscript{117} divided by party:

\textsuperscript{117} I did not find comparable data for the Senate, but it might be expected that the dynamics in the Senate have been similar to the dynamics in the Chamber of Deputies.
Table 7.7  Parliamentary Experience of Deputies in the First Chamber

<table>
<thead>
<tr>
<th>Party</th>
<th>Elected in 1994 (%)</th>
<th>Elected in 1992 (%)</th>
<th>Elected before 1992 (%)</th>
<th>Number of Seats (absolute)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RC</td>
<td>62.5</td>
<td>27.5</td>
<td>10.0</td>
<td>40</td>
</tr>
<tr>
<td>PDS</td>
<td>59.5</td>
<td>24.0</td>
<td>16.5</td>
<td>121</td>
</tr>
<tr>
<td>La Rete</td>
<td>71.4</td>
<td>14.3</td>
<td>14.3</td>
<td>7</td>
</tr>
<tr>
<td>Verdi</td>
<td>36.4</td>
<td>36.4</td>
<td>27.3</td>
<td>11</td>
</tr>
<tr>
<td>PSI</td>
<td>71.4</td>
<td>14.3</td>
<td>14.3</td>
<td>14</td>
</tr>
<tr>
<td>SC</td>
<td>75.0</td>
<td>-</td>
<td>25.0</td>
<td>4</td>
</tr>
<tr>
<td>AD</td>
<td>68.8</td>
<td>18.8</td>
<td>12.2</td>
<td>16</td>
</tr>
<tr>
<td>PPI</td>
<td>51.5</td>
<td>18.2</td>
<td>30.3</td>
<td>33</td>
</tr>
<tr>
<td>Patto Segni</td>
<td>76.9</td>
<td>-</td>
<td>23.1</td>
<td>13</td>
</tr>
<tr>
<td>Lista Pannella</td>
<td>33.3</td>
<td>50.0</td>
<td>16.7</td>
<td>6</td>
</tr>
<tr>
<td>CCD</td>
<td>76.2</td>
<td>4.8</td>
<td>19.0</td>
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<tr>
<td>Forza Italia</td>
<td>94.0</td>
<td>3.4</td>
<td>2.6&lt;sup&gt;118&lt;/sup&gt;</td>
<td>117</td>
</tr>
<tr>
<td>Lega Nord</td>
<td>69.2</td>
<td>29.1</td>
<td>1.7</td>
<td>117</td>
</tr>
<tr>
<td>AN</td>
<td>73.3</td>
<td>10.5</td>
<td>16.2</td>
<td>105</td>
</tr>
<tr>
<td>Chamber Total</td>
<td>70.8</td>
<td>17.5</td>
<td>11.7</td>
<td>630</td>
</tr>
</tbody>
</table>

Source: (Verzichelli 1995)

Table 7.7 shows, that only 11.7% of the deputies which have been elected in the 1994 elections were already elected before 1992. The share of deputies elected in 1992 has also been fairly small (17.5). 70.8% of the deputies have been newly elected, which confirms the assumption of political renewal.

Table 7.8 compares the turnover rate for the parties between 1983 and 1994, unfortunately the data starts with the year 1983. Nevertheless, it contrasts the high turnover rate of the 1994 elections with the static political class during the First Republic.

Table 7.8  Turnover Rates in the Chamber of Deputies between 1983 and 1994

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>DC</td>
<td>not re-nominated</td>
<td>14.1 (34)</td>
<td>7.8 (16)</td>
<td>16.2 (35)</td>
<td>62.4 (128)</td>
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<tr>
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<td>not re-elected</td>
<td>20.4 (49)</td>
<td>13.7 (28)</td>
<td>18.9 (41)</td>
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<tr>
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<td><strong>65.4</strong> (157)</td>
<td><strong>78.4</strong> (160)</td>
<td><strong>64.8</strong> (140)</td>
<td><strong>11.7</strong> (24)</td>
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<tr>
<td>PCI-PDS</td>
<td>not re-nominated</td>
<td>47.4 (83)</td>
<td>41.9 (68)</td>
<td>49.3 (76)</td>
<td>37.0 (37)</td>
</tr>
<tr>
<td></td>
<td>not re-elected</td>
<td>5.1 (9)</td>
<td>8.0 (13)</td>
<td>12.3 (19)</td>
<td>13.0 (13)</td>
</tr>
<tr>
<td></td>
<td>re-elected</td>
<td><strong>47.4</strong> (83)</td>
<td><strong>50.0</strong> (81)</td>
<td><strong>38.3</strong> (59)</td>
<td><strong>50.0</strong> (50)</td>
</tr>
<tr>
<td>PSI</td>
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<td>18.6 (11)</td>
<td>5.0 (4)</td>
<td>15.7 (15)</td>
<td>75.2 (70)</td>
</tr>
<tr>
<td></td>
<td>not re-elected</td>
<td>13.5 (8)</td>
<td>10.1 (8)</td>
<td>15.7 (15)</td>
<td>20.4 (19)</td>
</tr>
<tr>
<td></td>
<td>re-elected</td>
<td><strong>67.7</strong> (40)</td>
<td><strong>84.8</strong> (67)</td>
<td><strong>68.5</strong> (65)</td>
<td><strong>3.2</strong> (3)</td>
</tr>
</tbody>
</table>

<sup>118</sup> Although Forza Italia has been founded in 1994, it can be expected that politicians have been candidates of other party’s before.
In the 1983 and 1987 elections the nearly 2/3 of the Chamber got re-elected. In the 1992 the number declined for the first time, a first sign of the restructuring. The 1994 elections mark the clear turning point for the renewal of the political class. With respect to clientelistic structures between politicians and electorate, the renewal of the political class within the Parliament, has cut these ties. Especially the disappearance of the DC, who promoted these relationships, helped to overcome ‘an over twenty year interruption in democracy’ (Verzichelli 1995).

The following years have been shaped by a completely new class with new ideas and new forms of cooperation with the social partners and, as we have seen, success in pension reform. Berlusconi can also be counted to that new political class, who had markedly different reform plans than his predecessors during the 1980s. Although his reform failed, due to the defection of the Lega Nord, he and Dini (the Minister of the Treasury in the Berlusconi cabinet) introduced innovative ideas which were met by fierce resistance of the unions. Dini who realized the most far-reaching reform in the 1990s was definitely part of the new political class and as the former president of the Banca d’Italia

<table>
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</thead>
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<tr>
<td>Lega Nord</td>
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</tr>
<tr>
<td></td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>5.4 (3)</td>
</tr>
<tr>
<td></td>
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<td>69.0 (38)</td>
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<tr>
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<td>not re-nominated</td>
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<td>11.3 (5)</td>
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<td>18.1 (8)</td>
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<td>Verdi</td>
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<td>-</td>
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<td>23.5 (4)</td>
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<td>47.1 (8)</td>
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</tr>
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<td>16.6 (1)</td>
</tr>
<tr>
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<td>-</td>
<td>50.0 (5)</td>
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<tr>
<td>RC</td>
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<td>33.3 (4)</td>
<td>40.0 (16)</td>
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<td>-</td>
<td>58.3 (7)</td>
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</tr>
<tr>
<td></td>
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<td>-</td>
<td>-</td>
<td>54.5 (6)</td>
</tr>
<tr>
<td></td>
<td>re-elected</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>18.2 (2)</td>
</tr>
<tr>
<td>Chamber Total</td>
<td>not re-nominated</td>
<td>23.9 (161)</td>
<td>20.3 (133)</td>
<td>34.1 (205)</td>
<td>50.2 (317)</td>
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<tr>
<td></td>
<td>not re-elected</td>
<td>12.2 (71)</td>
<td>12.7 (83)</td>
<td>15.0 (99)</td>
<td>20.6 (130)</td>
</tr>
<tr>
<td></td>
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<td>61.8 (391)</td>
<td>64.8 (423)</td>
<td>53.7 (356)</td>
<td>29.0 (182)</td>
</tr>
</tbody>
</table>

Source: (Verzichelli 1995)
and economist more interested in the solution of policy problems. This can also be said for the rest of his ‘cabinet of technicians’ who all did not have any experience in the political arena. The successor of Dini has been Romano Prodi, who was newly elected into the Chamber of Deputies in 1996. He was the former president of the *Istituto per la Ristrutturazione Industriale* (IRI, translated Institute for the Reconstruction of the Industrial Sector) and economist, also without any political experience.

**Conclusion**

The interpretation of the results, seems to support the assumption that there has been a clear relationship between the restructuring of the Italian party system and the corresponding renewal of the political class with the cut of clientelistic ties. These developments helped to break up the policy deadlock which characterized the reform attempts during the 1980s, and led to the diffusion of new innovative ideas in the pension sector.

8. **Conclusion**

It has been the aim of this thesis to explain success and failure in public pension reform during the First and the Second Republic in Italy. I identified the reasons which contributed to the fact that during the First Republic numerous reforms have been proposed but none of them ever passed the legislative arena, whereas during the Second Republic at least two comparatively far-reaching laws have been adopted by the parliament.

There are two reasons why this research question is of scientific interest: First, the approach that I have used integrated theoretical assumptions about retrenchment politics and about the regime shift from the First to the Second Republic. This integrated approach seemed useful since it is well-known that policies cannot be analyzed independently from the political system. Second, the thesis focused not only on successful reforms, but on failed pension reform attempts as well. Failed reforms have been fairly neglected in the social policy literature so far, although this kind of analysis might give interesting insights for policymakers about the feasibility of reform under certain circumstances.

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119 Also Ciampi, the prime minister in 1993 prior to the Berlusconi was a former president of the Banca d’Italia.
120 Another interesting pattern has occurred during the Second Republic, the prime ministers were all deeply involved into the reform process, whereas the reforms of the 1980s were initiated by the Ministers for Labor Affairs.
121 An exception is the Berlusconi attempt of 1994.
As mentioned above, I have considered theoretical approaches dealing with characteristics of the Italian political system during the First Republic, such as the post-war party system dominated by the hegemonic Democrazia Cristiana and the emergence of clientelistic networks. Then I have considered the changes which resulted out of the transition from the First to the Second Republic, namely the mani-pulite-investigations, the restructuring of the party system, and changes in the electoral rules. In the last part I have concentrated on theories about pension politics, especially the theories on welfare state retrenchment. In this context I have referred to the impact of problem pressure, social pacts, institutions, especially veto players, and the impact of party configurations on the feasibility of retrenchment politics.

The empirical part, which has examined pension reform efforts between 1980 and 1995, has demonstrated that every attempt of Italian governments to realize a comprehensive pension reform failed during the last decade of the First Republic (1980-1991). We have seen that the constant failure has not been caused by the inactivity of the policymakers in the pension sector. New pension reform proposals have been presented nearly in every year (1980 Scotti; 1983 De Michelis, 1984 Cristofori, 1988 Formica, 1989 Donat Cattin, 1991 Marini). The failure can not be explained by the lack of seriousness of the policymakers either, as we have seen with the Cristofori Commission which has been appointed for the realization of a pension reform and negotiated the issue for more than three years without any success.

In the second part of the case study I have focussed on the two successful reforms of the Second Republic: the reform package of the Amato government in 1992 and the negotiated reform of the Dini government in 1995. I have also considered the failed reform of the Berlusconi government in 1994. First, we have seen that after more than eleven years of immobility in the pension sector, the gridlock has been overcome. Second, the case study has shown that far less proposals were needed than during the First Republic. Third, the reforms of the Second Republic were comparable in scope to the planned reforms of the First Republic. Therefore we cannot argue, that the reform efforts of the Second Republic were less ambitious than those of the First Republic.

8.1. Results of the Analysis

In the analytical part of this thesis I have applied the hypothesis (cf. Chapter 2.4.), to the case study about pension politics during the First and Second Republic in Italy.

Problem Pressure

It might seem as if the analysis of problem pressure indicators has confirmed the assumption that higher problem pressure increases the likeliness for reform. Nevertheless, we have to be cautious
in the interpretation of the results. First, the results have demonstrated that problem pressure has always been high in Italy. This has been shown impressively in the instructive comparison between Italy and the EU-average. According to the hypothesis, these findings implied that reform attempts would have been successful at any time between 1980 and 1995. In addition, the results would not explain the failure of the Berlusconi in reforming the pension system in 1994, since the problem pressure was quite equal as in 1995 (Dini reform).

According to point of view, the findings have been ambiguous.

With respect to possible future research questions, we have to see that the descriptive analysis of the problem pressure indicators and their impact on the likeliness of reform had an important shortcoming. I have assumed that all indicators increase problem pressure in equal shares. But we should not neglect the fact, that we do not know anything about their impact in terms of strength. This question would require a further statistical analysis (f.e. multivariate regression).

Another link to future research might give the answer to the question whether a concrete link exists between problem pressure and policy reforms. This research might give concrete insights into the mechanisms which translate problem pressure into policy measures. As long as this link has not been proven, the impact of problem pressure remains a vague assumption.

**Social Pacts**

The application of the social pacts assumptions to the Italian case has not been fruitful. On the one side, we have seen that successful reforms, such as the Amato reform, do not necessarily require consultations with the social partners. On the other side, we have seen that the failed reforms have not been passed due to insufficient consultations with the social partners. Even though policymakers negotiated with the social partners, the reforms have not been successful. This shows that social pacts do not determine whether a reform will be succeed or fail.

In addition, we have seen that negotiated reforms, such as the Dini reform, still required the approval of the parliament. Dini needed to approach the parties in the parliament in order to get the reform approved. Although Dini negotiated the reform prior to the legislative process, it has been seen that he did not consider the unions during the negotiations in the legislative arena.\(^{122}\) During the First Republic reform attempts have failed due to numerous reasons, some of them were very simple, such as the end of the parliamentary term and therefore new elections. This shows that social pacts do not play a decisive role when it comes to success and failure in public pension reform.

\(^{122}\) Dini did not consider the criticism of the unions with respect to the let-out clause which has been proposed by *Forza Italia.*
According to my opinion, the problems of the social pacts approach can be traced back to the insufficient specification of the concept. The existing literature does not give concrete details for the operationalization of the concept. This makes the application to case studies very difficult, because we do not know, which intensity of inter-organizational bargaining is required in order to name it a ‘social pact’. Furthermore, it is not clear, what distinguishes social pacts from traditional corporatist networks.

**Veto Players**

The application of the veto players concept has been very fruitful for the explanation of the Italian case study.

It has been shown that the number of veto players and the lack of congruence in their policy positions have been very decisive for the explanation of success and failure in pension politics during the First and Second Republic.

For the First Republic we have seen, that the number of partisan veto players has played an important role for the failure of pension reform attempts. Most of the governments during the First Republic were composed of five coalition partners, which decreases the chances for policy change. The high number of partisan veto players has complicated the negotiations on pension reform (c.f. Cristofori Commission). Another important insight has been the fact, that the reform proposals did not fail due to the negative vote in the parliament; most of the reforms failed due to insurmountable differences among the parties of the government coalition. Here comes the importance of congruence in policy positions into play.

The application of the concept to the reforms of the Second Republic have revealed the following results: The technical government of Dini has been in an advantageous position, especially compared to the governments of the First Republic. First, Dini did not have to agree with other coalition partners on the reform. Second, since the technical government was located centrally in space, it could lean to both sides of the political spectrum in order to find coalition partners. The Amato reform has supported the argument that veto players do have an impact on the type of legislation (Kreppel 1997). It has been demonstrated that Amato has used different kinds of legislation in order to pass his reform package through the parliament. In addition he linked the vote of confidence to the approval of the law in order to bring the coalition partners in line.

The application of the veto players concept has raise the question how to deal with technical governments. Further research in the field of pension politics might contain a more profound analysis of the policy positions of the different actors, in order to gain a more detailed insight into their effect
on the feasibility of pension reforms.

**Electoral Rules**

The changes in the electoral rules during the transition period did not have an impact on the feasibility of the pension reforms. It has been shown, that the desired objective of the changes in the electoral rules, namely the reduction of parties in the parliament, has not been realized. We have seen, that the number of parties did even increase after the application of the new electoral rules.

**Party Configuration and Clientelism**

The application of the assumptions dealing with party configurations and clientelistic structures has shown very interesting results. First we have seen that the stable party configuration during the First Republic has hampered the feasibility of pension reforms. The *Democrazia Cristiana* (DC), which has been the strongest party throughout the entire First Italian Republic, might have seen the need for policy reform, but expected to lose electoral support. Whereas the *Partito Comunista Italiano* (PCI), the second strongest party in the parliament throughout the First Republic, was not able to push the reform, since they knew that the DC would be the electoral beneficiary.

The high stability of the party constellation had another important effect on the feasibility of pension reform. It facilitated the development of clientelistic structures between parties and constituencies, which made it extremely difficult for political parties to reduce benefits of their clients, since this would result in high electoral losses. Strong clientelistic networks seem to strengthen the impact of ‘blame avoidance’ and ‘electoral threat’ on the feasibility of pension reforms. This idea might be a good link to further research.

With respect to the success in pension reform during the Second Republic, it has been demonstrated that the restructuring of the party system combined with high turnover rates in parliamentary elections have increased the likeliness of reform. The renewal of the political class disrupted clientelistic ties and made policy change possible.
8.2. The Outlook

The results of this analysis have opened the way for further research. I would suggest the following directions for future analyzes:

Firstly, it might be interesting to examine pension politics after 1995 in order to see whether the results of this case study prevail as well for a later phase of the Second Republic.

Secondly, we have seen that the comprehensive approach which integrated theories about pension politics and theories dealing with the transition from the First to the Second Republic has been very instructive. Therefore, it might be interesting to apply this approach to other fields of public policy in Italy, for example health care policy.

A third direction for further research might be the application of the comprehensive approach to other countries, which experienced a similar transition period as Italy.

All things considered, I tried to show how a multi-dimensional political environment produces certain policy outcomes. Explaining those results in a context that is characterized by its complexity should help us to understand the basic political mechanisms. Vediamo!
9. References


Sivo, Vittoria (1995d). Pensioni, il giorno più nero, la lega lascia soli gli alleati. La


