IZA COVID-19 Crisis Response Monitoring

Italy (June 2020)

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ABSTRACT

Italy was the first European country to enter lockdown in order to contain the spread of COVID-19. While managing the health crisis, the Italian government introduced several measures to limit the economic consequences of the pandemic. The cushion provided by short-time work programs and the suspension of the layoffs have limited the short-term effects of COVID-19 on the labor market. However, there are signals that as soon as these safety nets will be over employment levels will be severely hit: between April 2019 and April 2020, the share of inactive workers increased and the labor demand shrunk.

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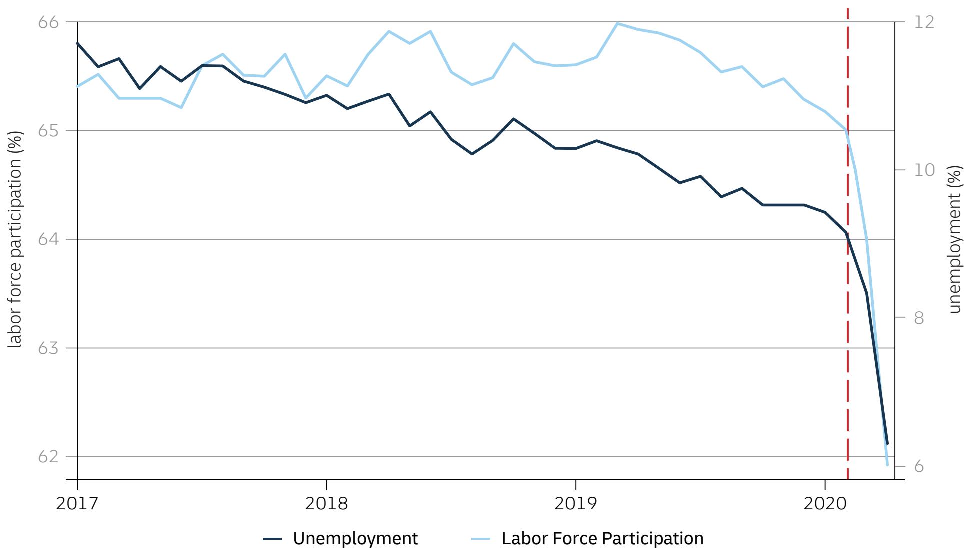
Labor market impact of COVID-19

In March 2020, Italy's industrial production fell almost 30% and GDP contracted 4.7% as a consequence of the lockdown measures. In April 2020, Italy hit a new record low for industrial production, which contracted by 19.1% relative to March.[1] However, the effects of the lockdown on employment levels have not yet manifested; the cushion provided by social safety nets and the suspension of the layoffs have limited the short-term effects of COVID-19 on the labor market. At the end of March 2020, the National Institute of Statistics (ISTAT) registered a decrease in the unemployment rate relative to March 2019, i.e. -11.1%, while the employment rate only decreased by 0.1%.[2] The decline in unemployment continued in April, reaching the lowest figure since 2007; this however reflected a considerable increase in the number of economically inactive people, as shown by the figure below. At the same time, the employment rate in April only decreased by 1.2% with respect to March 2020.

Figure 1: Labor force participation and unemployment rate in Italy



Source: Istat – Occupati e Disoccupati (June 2020)

Italy has adopted sectoral lockdown measures to contain the spread of COVID-19: the government decided to shut down non-essential businesses, involving almost 8 million employed people. Workers employed in financial, banking and insurance sectors, as well as in public administration and professional services could continue their activity from home. On the contrary, workers employed in manufacturing, construction, tourism and retail suffered the most (Barbieri et al. 2020)[3]. In April 2020, the Italian Social Security Administration (INPS) registered an increase in the requests for subsidies for temporary reductions of hours worked (i.e. Cassa Integrazione Guadagni) of about 2,953% with respect to April 2019.

It is still uncertain if these workers and firms will be able to resume their activities in the coming weeks. According to the estimates of the Ministry of the Economy (MEF), the employment is expected to fall by 2 percentage points and the unemployment to increase by 1.6 percentage points, from 10 to 11.6%, by the end of 2020 (DEF, 2020)[4].

1 https://www.istat.it/it/archivio/244211
2 https://www.istat.it/it/files//2020/04/Occupati-e-disoccupati-marzo-2020.pdf
3 https://voxeu.org/article/covid-19-workerss-exposure-risk-and-lockdown
4 http://www.mef.gov.it/en/inevidenza/2020-Economic-and-Financial-Document-DEF-approved-recovering-after-the-emergency-00001/

Orientation and targeting of adopted measures

On May 14th, the Italian government approved the third and most ambitious intervention, the *Decreto Rilancio* (Relaunch Decree), to revive the Italian economy. This 55-billion-euro plan aims at helping businesses with non-repayable grants and tax breaks; a sizable amount, about 16 billion euros, has been allocated to strengthen and broaden tools for income support, such as *Cassa Integrazione Guadagni* (short-time work programs), and allowances for self-employed.

This decree followed two previous interventions, the Cura Italia (Save Italy) and the Decreto Liquidità (Liquidity Decree). The first one was an immediate response to the COVID-19 outbreak, which aimed at (i) strengthen the heath care service, (ii) support businesses and families by pumping liquidity and suspending tax payments, (iii) and preserve employment levels by extending temporary unemployment benefits to all firms and by suspending layoffs for the coming 2 months. The Decreto Liquidità instead mainly focuses on firms; the measures involved state guarantees for 200 billion euros in favor of banks, ultimately enabling them to grant loans to firms of all sizes. The guarantees cover between 70% and 90% of the loan amounts, depending on firms' characteristics.

The first two interventions suffered from delays and difficulties in their implementation, mainly because of the excessive bureaucracy in the application procedures for accessing benefits and loans. The Relaunch Decree should simplify administrative procedures by cutting down bureaucracy.

Immediate liquidity support to businesses

The *Cura Italia* intervention introduced social safety nets for self-employed and seasonal workers, two categories that generally do not have access to such benefits. These workers were expected to receive a 600-euro allowance for the month of March. The allowance was then extended for the months of April and May and raised to 1,000 euros for seasonal workers employed in tourism. The implementation of this measure was quite successful, although some delays in the payments were registered. The Social Security Administration (INPS) received 4.8 million requests for the allowance, 83% of them were accepted and processed.[5] The payments for the month of March were issued Between April 14 and April 23 while the payment for the month of April will be delivered by the end of May.

Additionally, the government compensated shop owners by granting them tax credits to cover 60 percent of their March rent payment. The self-employed with mortgages can further ask to have their payments suspended for up to 18 months, conditional on their revenues falling by more than third.

Following the *Liquidity* decrees, small and medium firms (PMI) have access the Central Guarantee Fund. This Fund allows PMIs to take new loans with a maximum duration of six years (lately extended to 10 year); these loans will be 100% guaranteed by the Italian government for a maximum amount of 25,000 euros; further, the capital will not have to be repaid until 18 months after the loan has been disbursed. There are not yet official numbers on the take-up rate by Italian firms; according to a recent study (Boitani et al, 2020)[6], the number of firms granted a loan was about 300,000 out of a potential pool of 2 million firms. An excessive bureaucracy in the loan application is one of the reasons for this low figure.

5 https://www.inps.it/docallegatiNP/Mig/Allegati/Audizione_19_maggio_2020_Senato_PT.pdf

6 https://www.lavoce.info/archives/66692/garanzie-bancarie-lemergenza-deve-cambiare-le-regole/

Support of dependent workers

The Cura Italia decree limited the negative effects of the COVID-19 outbreak on employment mainly by suspending the layoffs for two months. At the end of March 2020, the National Institute of Statistics (ISTAT) registered a decrease in the employment rate by about 0.1% with respect to March 2019.[7] However, this suspension, which has been further extended in the Relaunch plan, will not prevent firms from dismissing workers in the future. Further, the measures promoted by the Italian government did not stop the effects of the pandemic on the demand for labor: a recent study shows that in March 2020 the net job creation was about 60% lower than the one registered in the previous year (Anastasia et al. 2020)[8]. At the same time, the share of inactive in the labor market increased by 2.3% and the unemployment rate decreased by 11.1% thus suggesting an increase in the number of unemployed individuals who stopped looking for a job during the lockdown.

To sustain income, the Italian government extended Cassa Integrazione Guadagni (CIG), i.e. short-time work, to all firms independently of the sector of activity and size. The CIG is a tool that allows workers to temporarily receive unemployment benefits, which generally accounts for 80% of the monthly salary, while still keeping their job.[9] Once firms restart their activities, employees can go back to work as usual. In April and May 2020, the total number of requests for unemployment benefits almost exceeded the whole number of requests received in 2009, one of the worst years in terms of employment outcomes. As of May 21th, the Social Security Administration (INPS) received more than 1.1 million requests for Cassa Integrazione Guadagni (CIG), 869,000 were authorized but only 510,000 were actually processed and paid. These delays are due to the long and complex procedure to grant workers the unemployment benefit and to the increase in the number of applications following the lockdown.[10] The Relaunch Decree should ease and shorten the procedure for unemployment benefits.

Working conditions and work organization

As of mid-April 2020, six weeks after the beginning of the Italian lockdown, the share of workers who (temporarily or permanently) stopped working was estimated to be around 34% (Galasso, 2020).[11] Among different occupations, blue collar workers were the most affected by the lockdown: 50% of them had to stop working. As expected, the lockdown affected occupations and jobs that could not be done remotely; when considering white collars, only 18% could not work as a result of the lockdown, this is because a high share of these workers (about 66%) could continue doing their job from home. Similarly, about 50% of service sector employees could continue working from home and only 28% of them had to stop working.

Italy has one of the most advanced legal frameworks for smart working (Ichino 2020), however this practice is not widespread especially among small and medium firms.[12]

7 https://www.istat.it/it/files//2020/04/Occupati-e-disoccupati-marzo-2020.pdf

8 https://www.lavoce.info/archives/65325/mercato-del-lavoro-gia-contagiato-dal-covid-19/

9 See Giupponi and Landais "Subsidizing Labor Hoarding in Recessions: The Employment & Welfare Effects of Short Time Work" for an extensive review of the functioning of the CIG

10 https://www.inps.it/nuovoportaleinps/default.aspx?itemdir=53641

11 The data come from a survey (REPEAT) interviewing about 1,000 individuals representative of the Italian population. More information on REPEAT – REpresentations, PErceptions and ATtitudes on the Covid-19 – can be found here: https://www.lavoce.info/archives/66253/primo-maggio-il-lavoro-in-tempi-di-lockdown/

12 https://www.lavoce.info/archives/63816/se-lepidemia-mette-le-ali-allo-smart-working/

According to a study by Corso (2020)[13], only 12% of small and medium firms in Italy have smart working initiatives, however this number is on the rise. Although the restrictions imposed by the lockdown cannot be seen as "real" smart working, but rather forced "teleworking", the Covid-19 emergency highlighted the potential of smart working and companies that had already introduced models of smart working found themselves at an advantage. This pushed companies, universities and public administration into considering the adoption of new technologies that allow employees to work from home.

Universities were the first institutions to react by setting lectures, seminars, exam and graduation sessions online. By the end of February most of Italian universities already adapted to the COVID shock and were able to restart their activities. A good response and adaptation also came from schools all over Italy. The public administration workers were able to perform their task from home, such as employees of the Social Security Administration who have managed and processed the huge amount of applications for unemployment benefits (Garibaldi, 2020).[14]

According to a recent survey (Boeri and Caiumi, 2020), 70% of managers interviewed adopted technologies to allow employees to work remotely. However, only 51% of the firms think that this type of smart working would be beneficial in the future once the COVID-emergency will be over.[15]

Finally, the closure of schools and kindergartens have placed a particular burden on families. This may have lasting effects on labor force participation and household work arrangements. Del Boca et al. (2020) find that during the pandemic in Italy, women spent significantly more time on housework than men, as the additional care responsibilities caused by school and childcare closures fell to women.[16] The impact of the lockdown on labor market outcomes may be larger for women as a consequence of unequal intrahousehold distribution of additional work.

New labor market entrants

Graduating in a recession has negative and long-run effects on the wages and employment prospects of workers (Oreopolus et al 2012)[17].

The share of inactive in April 2020 increased by 11.1% relative to April 2019. This is because individuals stopped looking for a job, including new labor market entrants. Further, the demand for labor has shrunk since the beginning of the lockdown as shown by Anastasia et al. (2020). In June 2020, the Italian Social Security Administration presented new figures about labor turnover in the first quarter of 2020. Relative to 2019, the number of new jobs activated in 2020 decreased by more than 9%,[18] while the number of job separations stayed more or less constant, as shown by Figure 2:

13 https://www.som.polimi.it/en/smart-working-during-the-time-of-the-coronavirus/

14 https://www.lavoce.info/archives/64787/il-mercato-del-lavoro-si-scopre-smart/

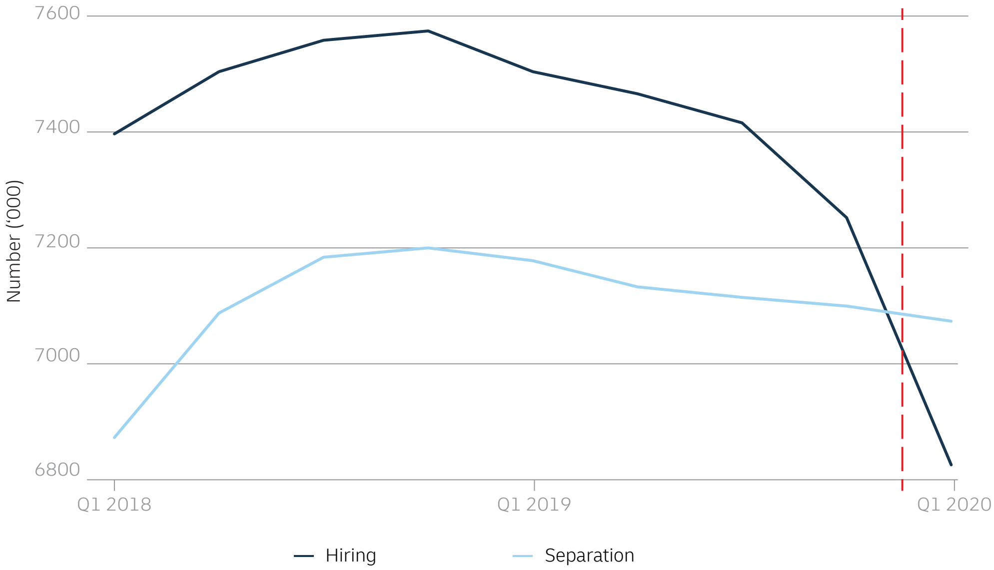
15 Although this response varies by type of activity, i.e. 61% among firms in banking and finance, while 32% among firms in tourism. Source: https://www.lavoce.info/archives/64486/lavori-che-possiamo-continuare-a-svolgere/

16 https://voxeu.org/article/women-s-work-housework-and-childcare-and-during-covid-19/

17 https://www.nber.org/digest/nov06/w12159.html

18 https://www.lavoro.gov.it/notizie/Pagine/Online-la-Nota-trimestrale-sulle-tendenze-dell-occupazione-per-IV-trimestre-2019.aspx

Figure 2: Labor turnover



Source: INPS - Uniemens (June 2020)

Some Italian regions provide daily and more detailed information on labor turnover. For instance, in the region of Veneto, the number of new jobs activated in the private sector between February 23 and June 14 2019 was about 204,000; in 2020 the same figure decreased to 100,000 (-51%), while job separations decreased of about 21% (from 145,000 to 107,000).[19]

As young workers have the lowest fatality rate and the lowest risk of needing healthcare, they should be employed to revive the economy (Anelli et al. 2020).[20] However, the employment prospects of new labor market entrants are particularly bleak; so far, no measures to facilitate the job search have been introduced by the Italian Government. Moreover, the National Agency for Active Labour Market Policies (ANPAL) has not been particularly responsive.

Policy innovations and labor market trends

During the lockdown, firms, universities, and the public administration adopted smart-working practices for their employees to carry on their activities. These practices are likely to continue if their impact on workers' productivity is not negative; this clearly depends on whether workers adapt to the new technologies and on the type of jobs performed, e.g. the frequency of interactions with other people. According to Boeri et al. (2020), jobs that can be carried out remotely are only a small fraction of all jobs, i.e. 24%.[21] This share however could be lower if some essential sectors, such as schools and childcare, do not resume their activities.

A key challenge for policy makers then becomes to get people back to work without putting their health at risk. The question is then to mitigate the work-security tradeoff by identifying sectors of the economy that have the lowest levels of exposure to the virus, physical proximity and demographic characteristics of their workforce (Barbieri et al. 2020).[22] Still, the proportion of safe jobs in Italy remains below 50%.

19 https://www.venetolavoro.it/documents/10180/1693590/Misure%2095_Covid-19

20 https://voxeu.org/article/transition-steps-stop-covid-19-without-killing-world-economy

21 https://voxeu.org/article/mitigating-work-security-trade

22 https://voxeu.org/article/covid-19-workerss-exposure-risk-and-lockdown

If a large share of the workforce could not go back to work, firms may increase investments in automation or reorganize production lines in order to continue their activities. While robots are generally perceived by workers as a threat for their jobs, they may help preserving labor by allowing firm to expand their production (Boeri et al. 2020).

Next steps and fiscal viability

The Italian Government extended social safety nets to support workers and their families. These measures only postponed the effects of COVID-19 on the Italian labor market but as soon as these will be over employment levels will be severely hit; it is essential that the Italian government will be ready and prepared when it happens. As suggested by Lucifora (2020), the Italian government should invest in ALMP that should trace and treat newly unemployed workers.[23] In particular these intervention should sustain the workers who is going to lose a job and facilitate his/her job search process by (i) identifying and (ii) developing skills and qualifications needed by the firms in the labor market.

23 https://www.lavoce.info/archives/66863/disoccupazione-un-contagio-annunciato/