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„We need legal migration to stabilise the Italian social security system“. An interview with Professor Tito Boeri

12. April 2019 | Lutz Bellmann, Jutta Winters

With his pro-migration media statements, the Italian economics Professor Tito Boeri expresses his open dissent with the Italian government. He argues that Italy needs migration in order to secure the prosperity of the Italian society, the social standards, and the pension system. Tito Boeri was President of the Italian National Social Security Institute from March 2015 to February 2019 and is now professor at Bocconi University, Milan. In his interview with the IAB-Forum, Boeri explains the current situation and the future of the Italian social security system.

You have had an exceptional career for a social scientist. After your studies and your work as a journalist and an internationally renowned researcher, you were elected President of the Italian National Social Security Institute INPS on Christmas Eve 2014 by the Italian parliament. What attracted you most to this position?

Boeri: The President of the Italian National Social Security Institute has an independent position. He has to be approved not only by the Italian government but also by the Italian parliament and a council of stakeholders. The position requires some technical skills, and also an energetic character. For me, it was an opportunity to apply some of the ideas I had been promoting.

In the Parliament in Rome on 4 July 2018, you warned in no uncertain terms against the effects of a drastic reduction in migration on the Italian pension system: If immigration were curtailed severely, "we would lose the population of a town the size of Turin within five years." What consequences can be derived from that?

In Italy we have a serious problem of a shrinking population and therefore of a shrinking workforce. The workforce pays the pensions. Projections suggest that in 30 years, one worker will pay for one pensioner. Given this dependency ratio, what can we do? On the one hand, we could improve the labour market conditions in order to motivate more people to work. On the other hand, we could tighten the rules for pensions in order to have fewer retirees. Nevertheless, none of this would be enough. We need migration. Some politicians in the current government heavily attacked me when I pointed this out. Those same politicians presented a document in Brussels that suggested an increase of the debt-to-GDP ratio if migration did not increase by 30 percent. Although the politicians attacked me, they did acknowledge the problem.

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You have been working scientifically on the development of dual labour market structures. What is the situation in Italy in terms of fixed-term employment in the labour market and in terms of the possibilities of avoiding the related negative effects?

We see various developments in Italy. In 2000, the Italian government reformed the labour market in order to encourage employers to hire more young people with open ended contracts. This was a very positive development, not least for its contribution to the pension system. Then the Italian Constitutional Court ruled that an automatic annual increase of severance was not allowed. This brings us back to the conditions before the reform.

With the Contratto unico, Italy is attempting to make better use of the chances and potential of young people – to achieve more justice and growth at the same time. How does that work?

The Contratto unico has a very simple structure with severance pay increasing steadily with tenure: Temporary employment is subject to an additional unemployment insurance of 1.4 percent of the wage level. This has to be paid to the INPS. If the employer offers the temporary employee a

permanent position, the additional labour cost will be fully reimbursed. In my proposal, the Contratto unico only allowed to extend a temporary contract to up to 24 months. That was the way the reform would operate.

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In Germany, we are gradually managing to increase the labour participation of both men and women. On the eve of the demographic slump, this would seem important to ensure the availability of the qualified staff needed by the economy. What is happening in Italy?

This is an even more serious problem in Italy. We have a very low employment rate of women. A number of things should be done in this respect, including a more rigorous conciliation policy. Since 2000, Italian legislation has introduced mandatory paternity leave. It was meant to make employers more open towards the idea of hiring women, as male employees can also be expected to take parental leave. There is much more to be done.

In Germany, private and public employers, employees, and also the Federal Employment Agency have vigorously increased their commitment in the field of further training in order to meet the challenges of digitalisation. Are similar things going on in Italy?

Italy does not have a developed public employment service like Germany does. Therefore we have problems in this regard. The need for qualification and training of workers is even more serious in Italy than in Germany. A look at the competences of Italian workers shows that many lack the qualification they need for a changing labour market and a digital future. It is very important for us to do more in this respect.

What does the policy of the new Italian government mean for the financial sustainability of the social security system?

The new policy causes a number of problems. First of all, we need migration to increase the sustainability of the pension system. Therefore a complete closure to migrants is counterproductive. Secondly, the new laws allow more people to retire early. This foils the reform that aimed at discouraging early retirement. All these developments are not helpful to financially stabilise the Italian social security system. In the long run, the pension level in Italy cannot be guaranteed without allowing legal migration and increasing the retirement age.

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