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Solidarity between Ethics and Law

**The welfare state and the right to work
in the Italian Constitution**

Address by the Governor of the Bank of Italy
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Men of widely different or even opposite metaphysical or religious persuasion joined forces in the creation of the Italian Constitution, motivated not by any doctrine but by their espousal of similar practical principles; they joined forces to participate in the same secular “faith”. They came together on the basis of a shared respect for truth, for intelligence, for human dignity, for freedom; the cement was provided by civil friendship and the assignment of an absolute value to moral good.

These principles can and must be at the foundation of every democracy. I have taken them, word for word, from Maritain’s *Man and the State* and applied them to those who, with the restoration of democracy and liberty following the Second World War, gave birth to our Constitution.

The political philosophy underlying the Italian Constitution is a noble one: it reflects a vision of the body politic in which sovereignty, by natural right, belongs to the people; the state is an instrument serving to promote the common good; elected representatives and governments exercise authority and sovereignty not as a right of their own but as vicars; they are subject to the ultimate control of the natural holder of the right of sovereignty, the people.

This represents the culmination of a long cultural and historical journey that began several hundred years ago and included the theoretical passage of the Leviathan and the social contract; the latter invested the mythical monad of the general will with the sovereignty previously attributed to princes in the Age of Absolutism, but in fact kept the

people in a state of subjection. It continued through the excesses of the French Revolution, then the Restoration and finally the tempering of power with the charters granted by sovereigns. Under the influence of Hegelian idealism, the vision of the state as the primary source of power and law then took hold.

The concept of democracy made laborious headway, assuming various guises and referring to historical experiences, some of which lay in the distant past, and to different theories and ideologies.

Albeit still confusedly, ideas having their origin in different cultural matrices converged in the configuration of a popular regime founded on the principles of universal liberty, equality and social justice. Sometimes the same ideas translated into the intransigent defence of class and material interests, or into boundless aspirations and the justification of revolt and revolution. The growth of industry bred and fueled class conflict.

On the historical plane, liberalism, rooted on the one hand in English utilitarianism and on the other in a continental vision of political economy, led to the excesses of laissez-faire and culminated in the dramas of the social question; the reaction, the search for a social *quid* going beyond the sum of individuals, took the form of utopianism in some instances, but it also nourished a social doctrine of Christian inspiration that was to be comprehensively formulated in Leo XIII's encyclical *Rerum novarum*.

The appalling devastation wrought by the First World War, the ensuing grave political tensions, paved the way for the rise of right and left-wing dictatorships: the return to a Hegelian idea of Absolute State on the one hand and, antithetically but partly inspired by the same political philosophy, socialist regimes and communism on the other.

More than other modern constitutions, the Italian Constitution bears the stamp of a classical metaphysical vision belonging to the ancient philosophers, developed by Scholasticism, embodied in many respects in American democracy, revived in Italy in the nineteenth century by Antonio Rosmini and in this century by Luigi Sturzo and by the liberal and socialist schools. *Man and the State*, published in 1951, returns to the classical strand and proposes a vision of sovereignty, the people and the state whose linchpin is the democratic constitution.

The national community is not just a juxtaposition of individuals, all seeking their own welfare; the state has an instrumental function to perform in the pursuit of general interests and the common good; on the strictly economic plane, it provides public services and public goods.

Attention is not given solely to the problem, albeit essential, of relationships, representative machinery and powers. It focuses first of all on people, their value, their well-being. Participation in civil society is realized through work.

The right to work is embedded in this anthropological dimension; it makes members of the community full-fledged citizens able to contribute to and share in the fruits of community life and to exercise their civil and political rights.

From solidarity stems the right to a minimum income and public social security.

1. Public intervention in the economy

According to the school of thought that can be traced back to Adam Smith, the working of the market, “the invisible hand”, maximizes the welfare of the community.

The role of the state is limited to ensuring justice, protection from external attacks and the schooling of the less well off; the state must nonetheless also ensure the supply of the goods and services which individuals have no incentive to produce.

The minimalist state theorized by Spencer in the nineteenth century, and more comprehensively by Nozick in this century, should only provide for the defence of persons and property.

Hayek and Friedman also consider that government intervention should be restricted to a narrow range of functions, in order not to reduce the overall welfare of society. In reaffirming the key role of individual freedom, these two authors attribute crucial importance to the market, which they deem able to guarantee the efficient allocation of resources. The concept of social justice does not lend itself to an analytical definition; seeking to achieve it is likely to alter the working of competition and thus prove harmful.

The theoretical analysis of the market and the maximizing behaviour of households and enterprises received a fundamental contribution from the Lausanne School, Walras and Pareto, between the end of the nineteenth century and the early years of the twentieth.

With the work of Samuelson, who makes considerable use of mathematical techniques, we arrive at a far-reaching application of the principle of optimization, which is extended to social welfare.

It has become obvious that to entrust the working of the economy to market forces suffers from two drawbacks: an inequitable distribution of the wealth produced and a lack of public goods, which the market cannot supply, or at least not in quantities sufficient to ensure the full use of the factors of production. The assumption of perfect

competition, upon which the efficient allocation of resources depends, is often false. The inability to provide a theoretical explanation of important aspects of economic life is evident and comparison with reality is sometimes disappointing.

The concept of distributive justice can have different meanings for different individuals, involves numerous aspects of social life and changes over time as political and economic conditions evolve.

Following Rawls, the allocative mechanism must aim to maximize the welfare of the least well-off person in society; it is the choice the members of a community would make, in the absence of information on the original position, if they were risk-averse.

In every society justice is given a concrete definition through the aggregation of individual choices. Citizens must have equal opportunities. Education is a field of state intervention of fundamental importance; it ensures everybody has an initial endowment of goods with which to take part in community life. The resources individuals and households possess are thus primarily the result of their ability and industry.

This century has seen public intervention in the economy acquire the new function of stabilizing the economic cycle and the emergence of a major social objective, full employment.

The traumatic event that triggered these new approaches, at both the theoretical and the practical level, was the Great Depression.

In nearly all the leading countries the budget did not exceed 15 per cent of national income at the time.

The imbalances in the world economy, especially between finance and productive activity, that had already appeared in the last years of the gold standard were temporarily mitigated by the First World War. They reappeared with even greater intensity in the twenties, leading to the crisis at the end of the decade. In all the industrial economies they engendered unprecedented falls in economic activity and employment.

Output fell in some economies by more than one third; enormous masses of unemployed powerfully influenced political equilibria, with the dramatic growth of dictatorships.

In the United States the political response took the form of the New Deal, with the direct intervention of the government in economic activity and public investment programmes. In Italy the stabilization of the economy inevitably involved the nationalization of a substantial portion of both industry and the banking system.

Keynes's vision of the working of the economy, a revolution compared with the doctrine that had prevailed for nearly two centuries, was developed and gained ground in the United States and the United Kingdom. It involved a new treatment of the role of money and interest rates, and of their relationships with investment, growth and employment. The Keynesian doctrine was to underlie economic policy in the decades to come in all the leading industrial countries.

In a difficult macroeconomic environment, attention was focused on the management of aggregate demand. Nonetheless, the analysis envisaged the need to ensure an adequate supply of public goods, able to foster the growth of the economy in the longer term. The policy Keynes advocated for public expenditure was, in fact, mainly concerned with infrastructure and strengthening the productive capacity of the private sector.

Only later did it become clear that public intervention had to create the conditions for production to grow in line with its potential; the ultimate objective of the government is the full use of the resources available, full employment. This increases the welfare of the community as a whole and of individuals.

2. The welfare state and budgetary policies

The social and political transformation that began at the end of the nineteenth century was accompanied by the emergence of new needs in terms of security and equality. Public intervention provided workers and the population in general with protection in the form of welfare assistance, insurance and social security; it introduced new rights in connection with particular events and instituted contribution duties.

Within compulsory insurance schemes, which are the heart of the modern welfare state, the rule that benefits must be equal to contributions does not imply that the sums paid in and received by each individual correspond; the objective is to assist the weakest groups.

The first compulsory insurance schemes were introduced in Germany at the end of the last century. From the Second World War onwards the linkage between contributions and benefits was relaxed in many of the social insurance systems of continental Europe. Minimum benefit levels were introduced, pensions were based on earnings rather than contributions, and funding replaced by pay-as-you-go.

In many cases insurance schemes came to conceal elements of welfare assistance. Benefits of a social security nature were paid to persons who should have received assistance funded out of general tax revenues.

In parallel with compulsory insurance, many countries created welfare programmes to assist the economically distressed.

With social security, a concept developed in Britain in the forties, the state introduced systems of social protection based on minimum coverage for the entire population and uniform benefits not linked to beneficiaries' participation in their financing.

In the mature welfare state social protection has progressively lost its character as assistance and been transformed into a right. Public welfare assistance has joined ranks with the traditional private forms of charity. Families, voluntary associations, the "private social welfare" sector have helped to meet a part of the needs of the weakest groups.

Our Constitution affirms: "Any citizen unable to work and lacking the means of subsistence has the right to income maintenance and social assistance"; moreover, "Workers have the right that adequate means be provided for and guaranteed to meet their needs in the event of accident, illness, disability or old age, or involuntary unemployment".

The increase in the level of the coverage offered by the social protection system has been raised very considerably in the course of the last few decades.

Pension coverage was gradually extended to all working people, both employees and the self-employed; pensions were improved; unemployment benefits were broadened and compensation introduced for those temporarily redundant with respect to the needs of employers. Welfare benefits for the needy were extended, with the introduction of an old age-welfare benefit known as the social pension in 1969; civil disability benefits were improved.

Health care coverage was extended to a steadily increasing proportion of citizens. Since the early eighties the national health service has provided care to the entire population.

The Italian system of social protection has attained a degree of coverage sufficient to cope with the historically rooted needs of the least well-off and to eliminate pockets of indigence and poverty, insufficient assistance to the elderly, especially at a time of weakening family ties. However, there have also been organizational inefficiencies and poorly targeted or simply improper uses of social security. New forms of poverty are now emerging.

The New Deal in the United States provided the initial impetus for the expansion of government intervention, fostering a recovery in economic activity internationally. The Second World War brought a further step increase in public expenditure.

After the war the size of budgets increased further. The requirements of reconstruction were added to those of the progressive realization of basic social institutions and important infrastructure; during this period the rise in public spending was accompanied by rapid growth in output and employment in conditions of price stability. In 1960 the ratio of public expenditure to gross domestic product in the OECD countries ranged between 25 and 30 per cent.

In August 1971 the dollar reserves held by central banks were a multiple of the value of the gold held by the Federal Reserve; the dollar's link to gold was severed. The economic context underwent a rapid transformation. Money was now purely fiduciary at the international level as well. Wage pressures, rising raw materials prices and the oil crisis led to sharp increases in inflation. Budgetary policies became expansive in an

attempt to attenuate the economic repercussions of domestic and international factors. Public expenditure accelerated, budget deficits widened, and very substantial public debt was accumulated. The disequilibria were more severe in Italy than in most of the other industrial countries.

Government transfer payments to households in Europe as a whole increased from 12 per cent of GDP in 1970 to 16 per cent in 1980. Transfer payments to enterprises also increased. The ratio of public expenditure to GDP rose to 46 per cent.

The adverse macroeconomic developments, the seriousness of the social problems and the increasing pressure of public expenditure pushed government intervention beyond the limit compatible with economic growth in conditions of stability.

Priority was given to efforts to sustain demand by increasing social spending. Private economic activity suffered from crowding-out effects, the efficiency of the economy as a whole was reduced, and growth slowed. The accumulation of public debt diminished the private sector's ability to save and accentuated the risks of financial instability.

In the early eighties the necessarily restrictive stance of monetary policies brought sharp increases in nominal and real interest rates, with a further adverse impact on investment.

A rethinking of fiscal policies began. By the end of the decade many European countries had largely restored their public finances to a sound footing. However, this achievement was reversed in the early nineties by a severe cyclical downturn and, in Germany, by the costs of unification.

The need to ensure balanced economic conditions became more impelling in view of the implementation of Economic and Monetary Union. Binding constraints were established on budget deficits and government debt. Subsequently, the Stability and Growth Pact imposed the requirement that budgets be brought rapidly to a position close to balance or in surplus.

In Italy from mid-1994 onwards monetary policy was put on a decidedly restrictive course designed to eradicate inflation and regain monetary credibility. Since 1995 remarkable progress has been made with regard to the budget deficit, foreign debt and exchange rate and price stability.

The achievement of a budgetary position close to balance makes an important contribution to monetary and financial stability. However, the relatively heavy tax burden still imposed on labour and on firms has repercussions on the competitiveness of the economy and the level of productive activity and employment.

In the medium term, a structural reduction in the rate of growth of public spending requires a rethinking of the welfare state, which is the largest and fastest growing component.

Our system of social programmes was designed in the fifties and sixties; it was based on the assumption of rapid economic growth in the decades to come. In addition to a rapid expansion of economic activity, these programmes also counted on a growing population with a “normal” demographic structure and virtually full employment for the population of working age.

The conditions in which the welfare state has to operate today are radically different. Economic growth has slowed, while the population and employment are stagnating.

We must defend the welfare state, its ability to protect against risks and provide for the necessities of present and future generations. In a medium-term perspective, reforms are required to limit the amount of resources allocated to this sector and concentrate intervention on the neediest.

Recognition of the right to benefits ensuring a satisfactory standard of living to all citizens is a dictate of the Italian Constitution; it is a factor of civility; it cannot be abandoned.

3. The right to work

The Italian Republic is founded on work.

The fact that work was made the foundation of Italy's political order characterizes the concept of democracy embodied in the Constitution. In addition to the purely "formal" aspect, there is a broader "substantial" significance that encompasses the economic and social fields. It marks a shift from a vision of the body politic as a simple sum of individuals to one in which the creation of the state permits and presupposes the pursuit of higher ends and objectives.

The affirmation that the Italian Republic is founded on work must therefore be adopted as a criterion in interpreting the rules that make up the legal system and as a guiding principle of the activity of the public authorities.

The Constitution states that "sovereignty shall be exercised by the people".

The power of the state is made to derive from the authority of those who are subject to it. The Constitution recognizes the person as an absolute value.

The concept of popular sovereignty denotes the clear, and still valid, intention of placing man, the value of the person, at the centre of the entire system. The individual is given social dignity: his person and the right to be put in the best position to make the most of his aptitudes must be recognized and respected. The dignity of the individual and his freedom are linked to the right to work.

Substantive equality is undermined by the absence of work. The complete implementation of the Italian state envisaged by the members of the Constituent Assembly requires the creation of at least the basic conditions for the full realization of the right to work.

Only the performance of an activity that contributes to the material and spiritual progress of the country allows the individual to express his personality and, at the same time, participate with full dignity in the democratic life of the nation.

Unemployment is a source of social exclusion and inequality. It prevents citizens from exercising their right and duty to contribute to the formation of the wealth of the community, lowers the level of social protection.

The persistence of a high rate of involuntary unemployment and a low participation rate for the population of working age reveals the presence of legal and institutional mechanisms and conditions in the Italian economy that prevent the achievement of full employment.

This is not the place to enter into the debate on the causes of Italy's high unemployment and low level of employment, that is, the small number of employed persons in relation to the population and its composition by age.

The ratio of employed persons to the population of working age is equal to 74 per cent in the United States, 59 per cent in France, 64 per cent in Germany and 50 per cent in Italy, with the figure falling to 40 per cent in the Mezzogiorno. Many people, especially women and southerners, are discouraged from entering the labour market.

The segment of the active population that is most severely affected by the weakness of the labour market is that made of young people. The unemployment rate for people between 15 and 24 years of age is more than 50 per cent in the Mezzogiorno. A first-time job seeker aged between 25 and 29 remains unemployed for an average of 4 years.

This causes severe harm to the overall efficiency of the economy, to society and to democracy.

In the past the public sector used to absorb large numbers of new workers, but it has long since reached saturation point. New employment must necessarily be generated by the vitality of the private sector, by a prolonged and vigorous recovery in private economic activity. To this end, firms must be able to count on appropriate conditions and prospects for profitability.

Competitiveness is essential: for firms in regions where unemployment is worse than in the more developed part of the country and for the country as a whole in relation to other countries. In a world of open economies, competitiveness is a crucial determinant of the level of economic activity and therefore employment.

Competitiveness is linked first and foremost to the cost of labour, with reference to workers' earnings and the tax and social security contribution component. It depends on the ability of labour costs and their structure to adapt to the needs and productivity of firms and to the general and sectoral economic situation.

Production costs are also affected by the availability and efficiency of public services and the existence of adequate infrastructure.

In the final analysis, a key element in facing the challenge of the international economy is Italy's overall competitiveness.

It is essential that the favourable conditions on which to base the growth of economic activity be created in a context of social, political and institutional stability.

For entrepreneurs to undertake new activities, there must be certainty with regard to the prospects for a sufficiently long period ahead; there must be the perception that costs, taxation and the supply of infrastructure and public services are steadily improving.

What is needed today, after achieving the major objective of monetary stability, is a structural curbing of government current expenditure that, in medium-term perspective, will permit a gradual reduction in the fiscal burden weighing on the economy and make room for a revival in public investment, which has contracted sharply in relation to GDP since the early nineties.

Growth cannot be based solely on the creation of new infrastructure. Nevertheless, the shortfall in Italy's infrastructure compared with that of the countries with which we compete has an adverse impact on productivity, especially in the South, and hence on the economy's ability to compete.

The lack of competitive conditions is revealed by the size of the market for “grey labour”, which often mortifies the worker; in the worst cases, young people are pushed into criminal activity, which harms the economy and leads to social degradation.

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In the body politic the state is an instrument for pursuing general objectives, for fostering the common good from which the good of civil society can be derived. It is based on the *philos* of the classics, on civil friendship, on the concept of full citizenship. The public good, the general interest, cannot be simply the result of the aggregation and reconciliation of individual interests.

Economic growth is an indispensable prerequisite of social justice and essential for citizens to be able to participate fully in the life of the community.

The principal form of inequality and exclusion today is the inability to play a part in productive activity. As things stand today in the domestic economy and the international economy, achieving a higher level of employment requires an improvement in the competitiveness of the productive system and of the country as a whole.

The firm stance of monetary policy that was maintained made it possible, from mid-1995 onwards, to bring inflationary expectations under control and then down. The foreign debt accumulated during the eighties and nineties, the primary cause of the lira’s weakness, was progressively repaid and then eliminated.

During the last two years the measures to reduce the budget deficit, the curbing of the growth in the public debt and the readmission of a much strengthened lira to the Exchange Rate Mechanism have allowed inflation to be stabilized at a very low level.

The restoration of economic and monetary equilibrium allows us to look ahead with confidence to a future of faster economic growth; we have the resources, now and potentially, to achieve this.

The ample surpluses on Italy's trade balance and the current account of the balance of payments reveal the existence of a flow of private savings in excess of what is needed to cover the budget deficit and the current level of investment. Each year our economy exports a volume of savings equal to some 3 per cent of GDP. Transformed into productive investment within Italy, these resources would boost both GDP and employment. Faster growth of the economy would further increase the volume of savings.

The financial resources of firms and households are being invested abroad to a greater extent than in the past. In part this is the natural behaviour of a developed economy open to international trade. Competition will become tougher, not least on account of the European single currency. Italian firms are increasing their productive investment abroad considerably, but still investing too little in Italy; foreign direct investment in Italy continues to be at a low level.

The incomplete use of the savings available in the domestic economy is evidence, together with the unsatisfactory level of employment, of the need for coordinated efforts to improve Italy's overall competitiveness.

It is up to economic policy and the two sides of industry to create conditions encouraging wider use of domestic savings within the Italian economy, in order to foster the growth of economic activity and employment.

Policies must be formulated that provide adequate responses to the substantial differences in regional and sectoral levels of development. Realizing the growth potential

of the Mezzogiorno would be an advantage for the entire economy and for Italian society as a whole.

The protection of savings is solemnly sanctioned in the Constitution.

It should be seen not only from the fundamental standpoint of the well-being of individuals and households, the owners of the wealth accumulated, but also from that of its macroeconomic implications.

There is a broad consensus — albeit accompanied by legitimate differences of detailed opinion — regarding the measures that must be taken, by all those involved in the economic policy process, in order to make full use of the available resources and potential.

Ultimately, economic well-being and employment serve to enhance society and the person.

The Constitution is based on these values and requires us to give them substance, to promote them by creating work. Over an appropriate period of time this is feasible today.

It is the high aim of politics to transform the country's potential into reality.