

ITALIAN LABOR SUPPLY: DEMOGRAPHICS AND IMMIGRATION

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Introduction

The Italian way of life traditionally has revolved around and depended upon the family. Work has been no exception. The labor needs of the Veneto and southern-owned family businesses and the northern industries have been filled by the energetic youth characteristic of Italian families. But times may change: Italy's birthrate has dropped to one of the lowest in the world. With only 1.2 births per woman, compared with an average of 2.54 in the Far East and 5.57 in sub-Saharan Africa, the question of who will fill labor needs as aging Italians leave the workforce has risen to the political forefront. (Greenberg)

Although the workforce has been aging for some time, the direct threat of a labor shortage was offset for many years by the entrance of women into the workforce in the 1950s and 1960s (see Figure 4). However, the bulk of the working population has yet to leave their jobs. Unless the birthrate increases, providing a healthy stream of young Italians to fill the coming labor needs, Italy eventually will face a seri-

ous labor shortage.

Prime Minister Lamberto Dini's reforms of 1996 and more recent efforts by Silvio Berlusconi's administration in 1998 attempted to curtail the labor problem from several fronts. These efforts to encourage population growth actually led to families with *figlio unico* — exactly one child. The combination of these two conditions — a low birthrate and an aging population — means trouble for GDP growth and subsequent purchasing power, as spending on national programs such as health care already is growing faster than the GDP. An alternative to increasing the birthrate or the size of the labor force is to increase worker productivity, as discussed later.

Immigration may yield a more feasible solution than increasing the birthrate. It provides a supply of eager workers, but the situation is delicate. Increased dependence on immigrant workers comes with the potential for increased job competition and crime, along with a fear of losing Italian culture. The combination of these factors has led to widespread public bitterness regarding immigration. Italian

officials are aware of their citizens' concerns, but they can no longer afford to consider immigration simply a courtesy extended to other nations. Immigration is now a necessity: according to some estimates, up to one-third of workforce needs are met by immigrants. Although changes in immigration policy to combat crime and other issues have made some progress, officials struggle to balance assurance of an adequate workforce with their desire to maintain an "Italian" nation.

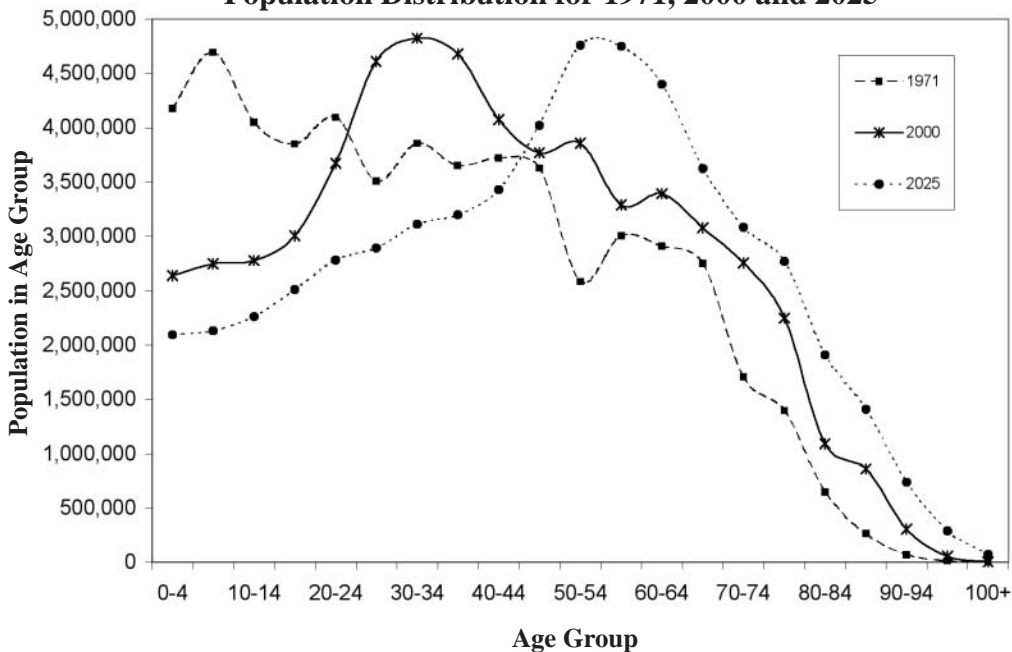
These two main factors, demography and immigration, influence the labor supply. This analysis begins with a discussion of key demographic data from both economic and statistical viewpoints, focusing on historical trends, changing family structures and increasing economic stress, all of which contribute to smaller Italian families. After providing background on Italian immigration, the second key contributor, I discuss the more complex immigration issues, including regulation, problems of related crime and labor competition between natives and immigrants. Comparisons with other parts of the globe and predictions for future trends follow, along with recommendations for ameliorating the labor supply on demographic and immigration fronts.

Demographics

The underlying demographic issues are decreasing family size and increasing average age of the population. Without a sufficient workforce, GDP growth is difficult to maintain, in turn causing reduced spending on goods and services. This scenario could develop in the near future as the aging labor force leads to a sharp decrease in labor supply. Figure 1 shows the respective distributions of the Italian population by age group for 1971, 2000 and 2025 (predicted). Notice that in 1971 the distribution is dominated by a strong younger population, whereas by 2000 the median age of the population dramatically increased. The predicted population in 2025 shows the most severe aging, with the majority over age 50. If the trends shown by these distributions continue, a potentially disastrous situation may arise as the majority approach retirement age.

The average population age has been driven upward by a complex combination of demographic conditions. One of the major contributors to the low birthrate — affecting the average population age — is the increasing delay in what normally has been a standard sequence of events leading to the departure of

Figure 1
Population Distribution for 1971, 2000 and 2025



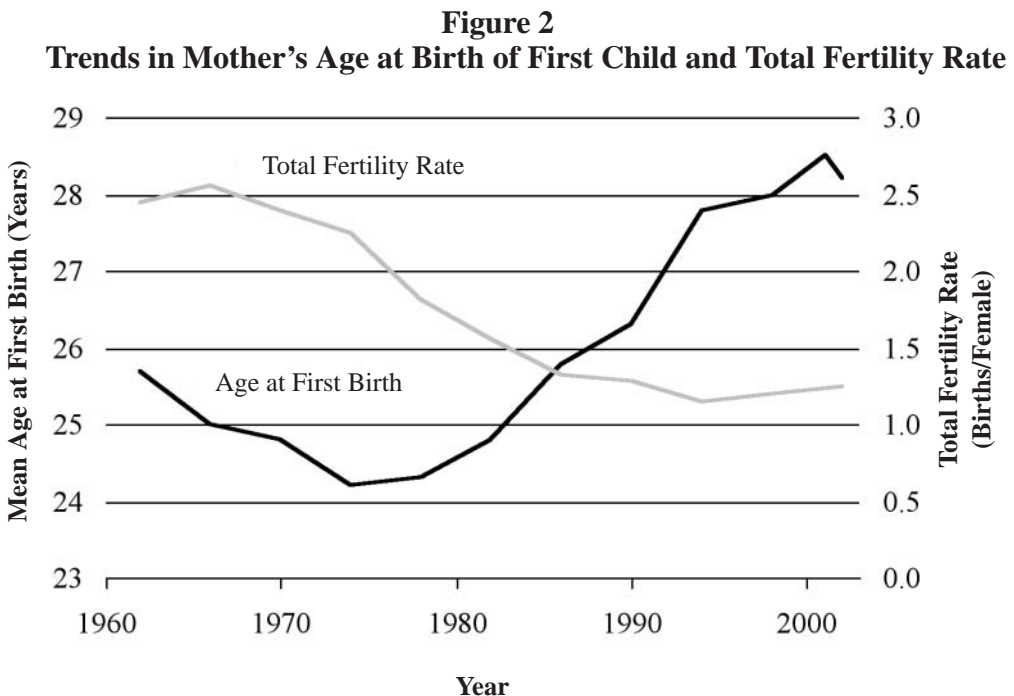
Source: U.S. Bureau of the Census.

young adults from their homes. Which economic and social conditions have led to this delay? An explanation stems in part from pressures on the traditional Italian life cycle.

Historically, the Italian family has been very strong, consisting of many children and extended family members. Italian families provide emotional support and often bear portions of financial burdens for young adults as they depart from their childhood homes. The departure process is a methodical one, consisting of a series of sequential events. The first step is the completion of formal education and entry into the labor market. Once they achieve some degree of financial stability, young adults must shift their efforts to finding a reasonable home to replace their childhood dwelling. Only at this point, in conjunction with a stable relationship, is marriage considered. Sometime after marriage, a child may be conceived. (Krause) The conception of this child, however, depends on the completion of all the preceding events; only 6% of Italian children are born out of wedlock. (IRP) This lengthy process has a strong influence on the fertility rate in Italian populations as the time available to have children decreases as the mother's age at which the first child is born increases.

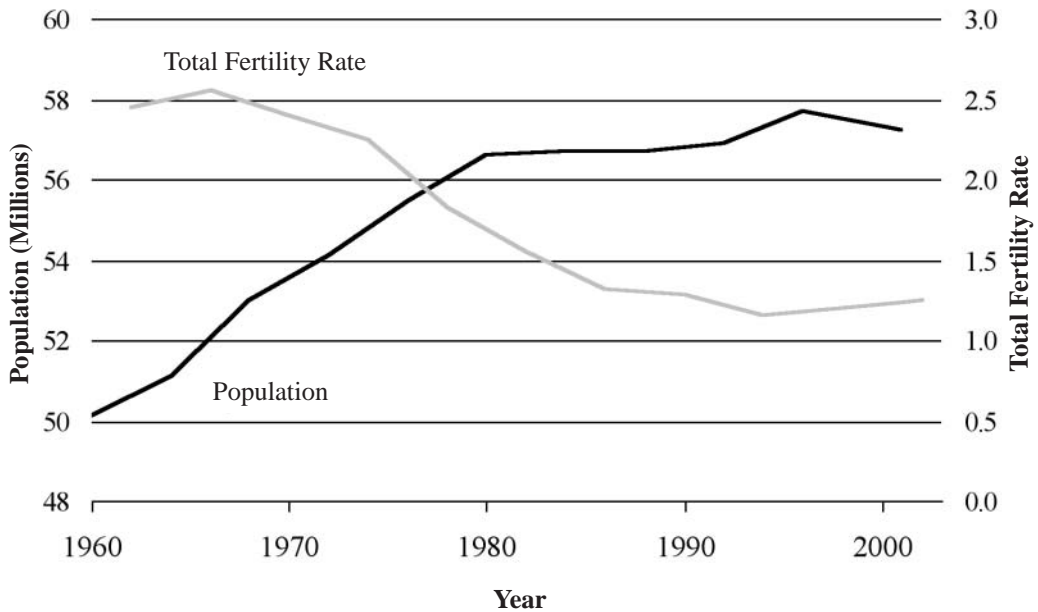
In the past, these events have been accomplished relatively quickly, with less emphasis on education along with the simultaneous pursuit of jobs, specialized training and relationships. In recent years, however, with more participation in formal education (see article by Rheinauer in this issue) and increasing expectations of young adults for a higher quality of life, the completion rate of the "departure sequence" has slowed dramatically. In 1987, 35% of working adults ages 25 to 29 still lived at home. Just 11 years later, that number reached 50%. (IRP) Livi-Bacci calls this gradual increase in the time that children remain at home *syndrome del ritardo* — postponement syndrome. The age at which childbearing begins thus has also increased. Figure 2 shows the steady rise in the mother's mean age at birth of her first child (MAB₁) over the past 40 years. Likewise, the total fertility rate (or lifetime births per female) has decreased.

Not surprisingly, the decrease in the total fertility rate has affected population growth. Experts suggest that a total fertility rate of approximately 2.0 is required to balance the rate at which deaths occur; that is, with a total fertility rate of 2.0 the population remains approximately constant. (Krause) Italy's total



Source: IRP.

Figure 3
Trends in Total Fertility Rate and Population



Source: ISTAT, IRP.

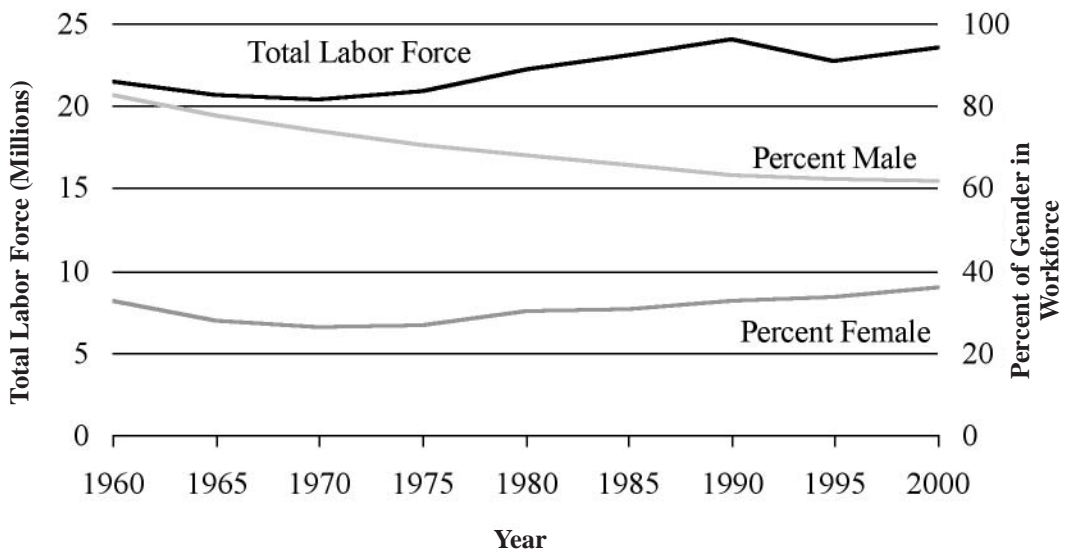
fertility rate currently is 1.2, which means that more people die each year than are born, a scenario known as sub-replacement fertility. (Greenberg) Figure 3 illustrates the effects of fertility on the population from 1960 through 2003.

The total fertility rate has undergone a steady decline from the mid 1960s through the end of the millennium. Correspondingly, the population growth slowed beginning in the 1960s, reaching a period of sub-replacement fertility in the late 1970s through the present; in 2002 the Italian population actually showed a slight decrease. Postponement syndrome is not the only contributor to the decreased fertility rate and increased MAB₁. Several liberal legislative victories also led to a further decrease in the birthrate. Between the mid 1960s and 1980s divorce laws were relaxed, abortion was legalized and family planning bans were lifted.

To promote the entrance of women into the labor force, new laws guaranteed benefits such as maternity leave. Despite these extensive Italian maternity benefits, the entry of women into the workforce has hindered child-bearing in two ways. First, although government-mandated maternity benefits require support to be granted to women for each child that

they have, the increased financial stress, care requirements and time constraints associated with having multiple children have swayed many families to have just one child. (Krause) Parents may choose *figlio unico* in order to provide the best education and extracurricular activities, often impossible if financial resources are split between two or three children. (Greenberg) The government has done a poor job in providing state-supported childcare. Daycare centers are rare, although increasingly important as more families have double incomes. Secondly, companies tend to hire those women who have one child, because they are aware of the fact that more women are choosing to have only a single child. This reduces the likelihood of paying maternity benefits or of career interruptions due to a birth. (Greenberg) The result, then, of the government's efforts in the workplace has been to encourage some working families to have children, but only one. Thus, more must be done: a survey by *Noi Donne* reported that 52% of Italian women between the ages of 16 and 24 have decided they do not want to have children because of "interference with career." (Greenberg)

Figure 4
Gender Trends in the Italian Labor Force



Source: Eurostat; U.S. Department of Labor.

Gender-specific population trends also have contributed to smaller families and conditions that could diminish the labor force. As shown in Figure 4, the male labor force has decreased over the past 40 years, whereas the size of the female labor force has increased nearly 70%. Although the influx of women did provide short-term benefits by countering the exit of males from the labor force, in the long term this trend has dealt a significant blow to family size by reducing the number of children families have.

Currently 18.5% of the Italian population is over 65 years old and just 14.3% is under 14. (“Italian Population ...”) As the population continues to age, signs of strain on the Italian economic base are becoming apparent. In 2001, for example, 7% of Italy’s population was over 75 years old, and the cost of health care for that 7% amounted to 30% of the nation’s total health care expenses. (“Experts Appeal...”) This is just one of many factors stemming from the real issue: maintaining GDP growth as the workforce shrinks. With an aging population, a decreasing birthrate and a dwindling workforce, Italy could be in for rough economic times. Large numbers of workers will be leaving the workforce in coming years and the frail stream

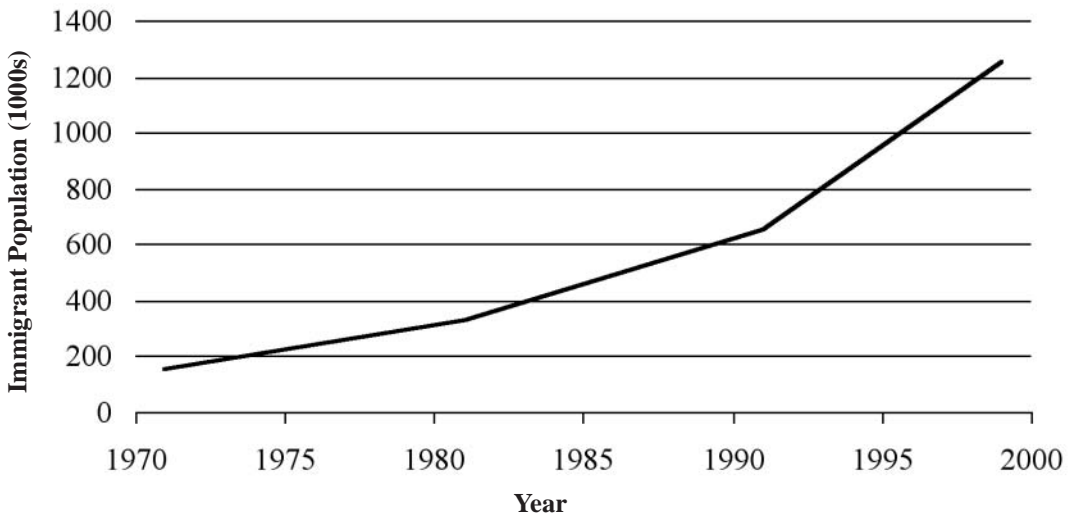
of youth will be inadequate to replenish labor needs. GDP growth will decrease while GDP spending on items such as health care continues to increase. If this scenario is to be avoided, Italy must look for solutions in other areas or perhaps other populations.

Immigration

Immigration may be the last immediate solution to the approaching labor shortage. As the government’s efforts to curtail the low birthrate have failed, efforts to encourage immigration have been made. Recent reforms have created more flexible immigration laws, causing an influx of immigrants. However, increased crime, resistance by native Italians and fear of job competition are creating tensions.

Historically, Italy has had strong emigration to other European nations, particularly in the early 20th century. However, that trend has given way to a dramatic reversal — a sharp increase in net immigration. In 1980, yearly immigration accounted for a population increase of 0.01%, whereas births minus deaths contributed 0.15%. Just 20 years later, as the fertility rate continued to plummet, births fell below deaths and led to a population decline of

Figure 5
Rise in Italian Immigrant Population



Source: IRP.

0.03%, whereas net immigration accounted for a total population increase of 0.31% or approximately 170,000 legal immigrants. (Statistical Office...) The immigrant population has been on the rise, with an approximate doubling of the immigration population each decade (Figure 5). Immigrants now make up a significant portion of the total population. In 2002, the legal immigrant population was estimated at 1.25 million, approximately 2.9% of the Italian population. (King) Compared with Germany (8.4%) and France (6.3%), Italy is below the European average but the numbers are growing. The largest legal immigrant populations are from Albania, the Balkans and Africa. An estimated 300,000 illegal immigrants raise the total to over 1.5 million, with forecasts that surpass 2 million by late 2003. (Jewkes)

Many Italians are uncomfortable with the increasing numbers of immigrants. Although the net immigration increase has positive aspects, natives are worried that they are exchanging the culture of Italy for an army of foreign workers. Their concern is understandable considering the potential for increased crime and job competition. However, their concerns of maintaining cultural identity, personal safety and job security may not be valid.

Safety concerns have some justification as

immigrants represent a disproportionate portion of the criminal population. Immigrants make up 25% of the total prison population and 50% of juvenile correction facility populations, while accounting for less than 3% of the total Italian population. (Zincone) Although these numbers may be somewhat misrepresentative because alternative penalties such as house arrest cannot be applied to immigrants without homes, the evidence for a substantial criminal immigrant population is clear. Curtailing the problem is even more difficult than dealing with crimes committed by native Italians, as immigrants often provide false names when caught or claim political asylum to avoid criminal charges. Given these reports, it is not surprising that 61% of native-born Italians feel there are too many immigrants in Italy. (IRP)

Besides fearing for their safety, native Italians fear job competition from immigrants, despite common knowledge that Italy's labor force is in trouble. In this case, the fears are less justifiable. In fact, in the case of skilled labor, positive net immigration has helped revive failing industries — fishing in Mazara del Vallo, sheep-farming in Abruzzo and floriculture in Liguria, among others. (Zincone) Two illustrative cases suggest a real need for more skilled laborers: one northern engineering firm recent-

ly was unable to fill 1500 vacancies for skilled workers and several companies in the Veneto were able to fill their labor needs only with immigrant workers. (“Europe”) Thus it seems, at least in 2003, that immigration has not increased job competition in the skilled labor market, but actually has helped rejuvenated industries drained of workers.

Italians are increasingly concerned as well about maintaining their own heritage. Even the Vatican has expressed fears of the “Islamisation” of Italy. While Italians contend that too much immigration will dilute Italian culture, 84% of Italians surveyed indicated that immigrants should not abandon their own culture. (Zincone) With this somewhat paradoxical view, it seems that Italians, while hoping to preserve their Italy, have some level of tolerance for the cultures of immigrants.

In an effort to balance the cultural, safety and economic concerns of native Italians while promoting legal immigration, in 1998 Silvio Berlusconi proposed a policy (No. 40) composed of the following four key points. (Zincone)

1. *Interaction based on security.* This point addresses interaction between government officers and immigrants (legal and illegal). It aims to provide a sense of equality and legality for Italians and legal immigrants entering the country by allowing for expulsion of convicted individuals and by imposing stiff fines and prison sentences for slave traffickers. It also attempts to curtail illegal immigration through penalties on employers hiring immigrants without work permits.

2. *Integrity of human rights for illegal immigrants.* This second component protects illegal immigrants during their presumed brief stay in Italy. Provisions under this objective include access to emergency hospital services, therapy, pregnancy care and limited preventative treatment. Immigrant children gain the right to educational programs and schooling.

3. *Full integrity for legal immigrant.* Although proposition two gives limited rights to illegal immigrants, a key goal of policy No. 40 is the distinction between benefits allotted to illegal and legal immigrants. The rights awarded to legal immigrants include provisions for health services, housing, pension payments and other benefits. Additionally, legal immi-

grants have the option to obtain green cards after five years, and any foreigner may enter the country for one year to find work as long as a sponsor agrees to provide lodging, food and so forth.

4. *Interaction based on pluralism and communication.* The fourth of Berlusconi’s reform points encourages communication between natives and immigrants. This measure provides funds for bilingual education of immigrants in Italian and their native languages.

In sum, the government has taken a step in the right direction on the immigration front, attempting to control illegal immigration while making legal immigration more appealing. Several measures have been taken to combat crime and reduce the number of victims of black market slave trading. Immigration does have the potential to make a significant contribution towards combating the labor problem, but the Italian population remains wary of increased immigrant influx. Improvements must be made to fight crime, reduce illegal immigration and, perhaps more importantly, find a permanent solution to the declining labor force. This is the complex issue I now address.

Stabilizing the Labor Force

The Italian population has chosen to have fewer children, but ultimately in the coming years it will be the role of the government to reverse that trend. As discussed previously, government mandated maternity benefits have led to fleets of career-oriented families with single children and employers who prefer to hire mothers with figlio unico. Instead, policies must provide incentives, financial assistance or tax deductions for companies who provide maternity benefits. The belief that only one child can be supported with the resources available to families must be countered by increasing the number of quality daycare centers and providing benefits and financial support upon birth of a second or third child. Efforts to reverse postponement syndrome should include property financing and job search assistance, hopefully reducing the time between completion of each event in the classical Italian departure sequence. Although implementation of these programs may be expensive, the conse-

quences of ignoring the need to increase the fertility rate are even more costly.

In conjunction with increasing the size of the labor force, productivity increases may provide a viable solution. Between 1950 and 1973 annual productivity in the United States increased an average of 2.75% versus 6% for Italy. However, between 1990 and 2000, the average annual productivity increase in the United States was 4% but only 2.3% in Italy: the need for improvement is evident. (Cobet and Wilson) Programs that focus on improving productivity of current and new workers in their daily tasks would allow a smaller labor force to provide the same GDP output per labor hour as a larger, less efficient workforce. Capital investment, training, infrastructure improvements and educational reform may in fact be more feasible, or at least quicker to enact, than raising the birthrate.

The value of immigration must be considered, because recent policy, although producing some results, has fallen short in addressing the relationships between Italians and immigrants. First, efforts to encourage childbearing should not be limited to natives. Although some native Italians may disagree, previous laws that provided maternity support to citizens only if they had lived in Italy for 15 years were too limiting. That same support should be extended to all permanent residents of Italy. Second, legislation has been enacted to combat immigrant crime and increase the appeal of legal immigration, but last year although 64,734 expatriation warrants were issued, only 2,867 were carried out. (Jewkes) More resources must be devoted to removing illegal immigrants from Italy, crystallizing the policy of rewarding legal immigrants while not tolerating illegal immigrants. Finally, native Italians must feel that their concerns are of utmost importance; their views should be monitored closely. The purpose of this is twofold: to meet the needs of the citizens and perhaps more importantly to allow those citizens to maintain a positive attitude toward the immigrants who may be so desperately needed in the near future.

In short, Italy has attacked the problem of labor by enacting relatively conservative measures and those measures have been ineffective. More aggressive policies are needed in both demographic and immigration arenas if the labor force is to remain at a healthy level.

Conclusions

This article has analyzed the two key tensions of the current Italian labor situation. From a demographic perspective, the Italian population is aging, which soon will lead to large numbers of workers exiting the workforce, leaving a much smaller generation to replace them. Although government efforts have encouraged childbirth somewhat, these efforts often have caused just the reverse. To truly encourage population increase, a concerted investment must be made in programs that provide a wide range of support to childbearing Italians, immigrants and their employers.

The immigration issue is complex, as native Italians are suspicious of the crime, job competition and cultural fading that may accompany immigration. These fears, some more justified than others, must be addressed if Italy is to maintain an adequate GDP. Immigration must be encouraged, but encouraged only through the legal route, with stiff penalties for those who choose otherwise. Establishing feelings of respect and equality between Italians and immigrants is crucial to successfully supplementing the weakened Italian labor force.

Finally, although aggressive policy is required to improve the feeble fertility rate and the immigration process, care must be taken to closely monitor the needs of Italy. As shown with previous policies aimed at increasing the fertility rate, effects are often unexpected and a massive influx of immigrants or a further decrease in the fertility rate could significantly destabilize the Italy we know today. The solution to this problem will not come through increased births or immigration alone, but rather a delicate and balanced encouragement of the two.

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