

INDUSTRIAL RELATIONS AND SOCIAL DIALOGUE IN ITALY*

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The paper describes the evolution of industrial relations and labour market reforms in Italy. It illustrates how the interaction of labour reforms, austerity policies, and structural reforms in the areas of taxation, pensions, and welfare have aggravated precariousness, inequality, and poverty. The analysis highlights the costs that derive from relying exclusively on labour market reforms to revive employment and growth, supporting the view that revitalisation of social dialogue and a shift from austerity to implementation of an effective industrial policy can provide a better recipe to weather the crisis and address the challenges of the emerging techno-economic system in a globalised and competitive environment.

Il saggio descrive l'evoluzione delle relazioni industriali e delle riforme del mercato del lavoro in Italia. Si mostra come l'interazione fra deregolamentazione del lavoro, politiche di austerità e riforme nei settori della tassazione, delle pensioni e del welfare abbia aggravato la precarietà, la disuguaglianza e la povertà. L'analisi evidenzia i costi che derivano dall'affidarsi esclusivamente a riforme volte ad accrescere la flessibilità del mercato del lavoro per rilanciare l'occupazione e la crescita. Si conclude che una ripresa del dialogo sociale e l'abbandono delle politiche di austerità a favore di un'efficace politica industriale possono fornire una ricetta migliore per superare la crisi e affrontare le sfide dell'innovazione tecnologica e della competizione globale.

1. INTRODUCTION

Industrial relations in Italy have gone through various phases. Long labelled 'confrontational', since the early 1990s the Italian industrial relations system came to be described as an example of the 'neo-corporatist revival' (Crouch, 1998). In this period, important agreements and reforms were implemented with the participation of the social partners. The neo-corporatist phase was interrupted by attempts on the part of conservative governments to weaken the trade unions and isolate the Italian General Confederation of Labour (CGIL), the main left-wing trade union confederation¹. With the crisis going from bad to worse and with the EU governing bodies turning from moral suasion to conditionality, labour legislation swerved from negotiated to unilateral (Eurofoundation, 2013). In the

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¹ In 2009, two separate framework agreements were signed between two of the three main trade union confederations (with the exclusion of the CGIL Federation of White and Blue-Collar Metalworkers, FIOM, and the General Confederation of Italian Industry, Confindustria), with the backing of the government.

name of urgency, national governments have increasingly resorted to legislation by decree, sidestepping the social partners and Parliament to pass reforms in the fields of labour, welfare, and industrial relations. Only recently has the industrial relations climate shown any signs of switching from confrontation back to dialogue.

In the following sections, we describe the evolution of industrial relations and social dialogue in Italy in response to various occurrences: ever more difficult economic and employment conditions, the stances taken by the governments, the often difficult relations between the main trade unions, the urgency imposed by the financial and economic crisis, and the structural changes produced by the new 'great transformation'. Labour policies came to be increasingly based on the idea that flexibility was required to respond to the changing realities of the world of work and that it alone could guarantee well-functioning labour markets. Labour market reforms were not effectively countered by compensatory, active or passive labour policies or social spending. Contrary to the common assumption postulating a positive relationship between flexibility and employment creation, deregulation resulted in an increasingly polarised labour market, with no enduring effects on employment. The interaction of these reforms with austerity policies and structural reforms in the areas of taxation, pensions, and welfare affected precariousness, inequality, and poverty, demonstrating that, in a recessionary macroeconomic context, no degree of 'flexibility' can counteract the massive unemployment created by the crisis and austerity policies on the one hand, and rapid technological change, on the other.

The paper highlights the costs that derive from relying exclusively on labour market reforms to revive employment and growth, and argues that revitalisation of social dialogue and a shift from austerity to implementation of an effective industrial policy can provide a better recipe to weather the current difficult economic and social situation. It is also maintained that new models and tools for bargaining and participation are needed to address the challenges of technological change in a globalised and competitive environment, bringing together the manifold, dispersed forms of work participation: part-time, low-pay, low-quality jobs; migrant, irregular, atypical workers; long-term unemployed, inactive, 'on-demand', and 'venture' labourers². The traditional, passive and active labour market policies are proving ever less appropriate to deal with the rapid obsolescence of skills caused by the emerging techno-economic system, while new welfare policies are needed to catch up and address the different risks entailed by the changing organisation of work.

2. INDUSTRIAL RELATIONS IN ITALY

According to a recent classification of industrial relations regimes (Eurofoundation, 2013), Italy – together with Spain, Portugal, France, and Greece – falls within the category of 'polarised pluralism': the role of the social partners is described as 'more irregular and highly politicised'. It shares with other 'Mediterranean' countries a model of industrial relations characterised by a traditionally high degree of central coordination in collective bargaining³.

² We borrow Gina Neff's expression (Neff, 2012), to denote 'the people who work at the platform firms. They receive high wages, and if the firm is successful, the value of the platform is capitalized in the stock market, resulting in remarkable amounts of wealth for the firm's direct employees and entrepreneurs. If the firm falters or fails, these individuals must find new employment' (quoted in Kenney and Zysman, 2016).

³ The system of industrial relations is not regulated by law: key issues such as workers' representation, collective

Although declining, union density in Italy is still among the highest in the world: it stood at 41% in 1980 and is now estimated at 33%. The data include retired workers, but exclude workers affiliated to unions other than the three major ones – CGIL, the Italian Confederation of Workers' Unions, CISL, and the Italian Labour Union, UIL. Over time, there has been a huge reshuffling of membership composition. The proportion of pensioners jumped from 20% in 1981 to a peak of 50% in 2001, decreasing thereafter to 47% in 2014 (Carrieri and Feltrin, 2016). The changing structure of the economy is reflected in the decline in manufacturing in favour of the public sector and private services, though the latter still registers the lowest rate of unionisation (17%). Female and migrant participation is also low, though increasing. The weakest area continues to be the under-30s, where atypical workers are more concentrated: this age group is the least unionised (15%), with a gap of 30 percentage points (p.p.) with respect to workers aged 45-60 (Leonardi, 2017).

Bargaining coverage rates are still high due to the presence of statutory extension mechanisms or their functional equivalents (ETUI, 2017). There is no legal minimum wage, but the minimum pay settled in sectoral agreements is extended to all workers. Compared with other European countries, the minimum pay in Italy is relatively high both in absolute terms and relative to the median wage⁴, but non-compliance rates are far from negligible. There are many legal and illegal ways of circumventing payment of the minimum wage: unpaid overtime, sub-framing, resort to free-lance or bogus self-employed, or signing a deal with a minor union with the explicit goal of setting lower wages. Finally, the complexity of the system (with more than 800 agreements currently in place) and the increasing blurring of sector borders may offer employers – and not only small businesses, as the case of Amazon illustrates –⁵ leeway to apply the 'wrong' contract. Garnero (2017, p. 1) estimates that 'on average around 10% of workers are paid one fifth less than the reference minimum wage. Non-compliance is particularly high in the South and in micro and small firms, and it affects especially women and temporary workers. Overall, wages in the bottom of the distribution appear to be largely unaffected by minimum wage increases'.

Participation does not belong to the Italian practice of industrial relations. Italy has one of the lowest levels of workers' participation (Eurofoundation, 2013). A unified strategy to encourage direct participation is still lacking, and most of the steps taken have only been with a view to compliance with European directives, and limited to information and consultation. While Legislative Decree No. 25 of 6 February 2007 reinforced the rights to information and consultation on several issues – such as the company's economic conditions, changes in work organisation, and the possible risks for employment –, the focus has been mostly on introducing forms of wage flexibility linked to firm performance in the context of decentralised bargaining. The findings of a Bank of Italy survey of firms with more than 50 employees (Banca d'Italia, 2015) show that half the companies observe only the forms of consultation contained in the collective agreement, while only one quarter (the

bargaining, minimum wages, and strikes are regulated by tripartite and/or bilateral agreements; the only exception is the 'Workers' Charter of Rights' (*Statuto dei lavoratori*), passed in 1970 (Law No. 300 of 20 May 1970).

⁴ The ratio of the minimum to the median wage (the so-called 'Kaitz index') is approximately 80% in Italy, 60% in France, and 50% in Germany (Garnero, 2017).

⁵ On 24 November 2017 ('Black Friday'), the Amazon employees went on strike because of a dispute over a rise relative to the contractual minimum wage. As it turned out, union and management were referring to two different national collective bargaining agreements (NCBAs), services and distribution, on the one hand, and logistics on the other.

largest enterprises, foreign groups, and firms where there is union representation) envisage other methods of participation. Conversely, in Europe, participation includes workers' involvement in education, training, lifelong learning, and empowerment.

Global competition and new technological paradigms call for customised, high-quality products, and high production standards. Greater motivation and commitment on the part of the workforce and its involvement in the definition of production processes and business strategies are considered an increasingly key component of personnel management. The recent literature emphasises the positive link between participation and workers' empowerment, which is required to respond to the technological challenge. Indeed, the Bank of Italy survey found a positive correlation between employees' involvement, the share of pay not determined by the national contract, and innovation (D'Amuri and Giorgiantonio, 2015). Favouring a cooperative climate between management and labour together with supplementary firm-level bargaining are credited with encouraging the dissemination of information and responsibility, with positive effects in terms of productivity and innovation. Consequently, there is strong pressure to foster decentralisation of industrial relations. Since 1997, various financial laws have introduced and regularly extended substantial incentives, in the form of reduction of social security contributions linked to productivity bonuses. Leoni (2018) estimates at 6,000 billion euros the total cost to the State over the period 2008-2017. He concludes that, given the amount of financial resources lavished by the State, assessment of their effectiveness has been widely inadequate, 'leaving policymakers [...] without appropriate indications on the causal links between contracts and outcomes'⁶. Moreover, despite huge subsidisation, between 2010 and 2016 the share of firms implementing firm-level bargaining remained very low (about 20%), covering 50% of employees, mostly in large, exporting firms of the Centre-North (D'Amuri and Nizzi, 2017). Predominance of small firms, subordination to the national collective agreement, and the low rate of productivity growth are among the reasons usually cited for this low coverage.

While multi-level bargaining within a coordinated system may be compatible with moderate wage disparities, the risks entailed by 'disordered fragmentation' of decentralised bargaining should not be underrated: it increases the risk of dualism between successful and unsuccessful firms, north and south, and insiders and outsiders in the labour market, with consequences on policies, intermediate bodies, and the forms of representation. And there are, in fact, various possible ways to circumvent the collective agreement. Preceded and urged by government intervention (Art. 8 of Decree Law No. 138 of 13 August 2011), motivated by the economic crisis and by the legal uncertainty following the Fiat case, an inter-confederal agreement, signed by the three main trade union confederations in June 2011⁷, regulated the conditions for derogation from the national contract. However, increasingly blurred sector borders leave open the possibility of resorting to a different NCBA. Since 2012, we have witnessed the explosion of NCBA's signed between scarcely representative (or 'pirate') employee-employer organisations. On 15 May 2017, there were 823 national contracts deposited in the national archive of the National Economic and Labour Council (CNEL)⁸: of these, 552 (67% of the total) were signed by unions other than

⁶ Leoni (2018) argues that various distortions mar the empirical studies seeking to assess the overall effectiveness of these subsidies, while evaluation of the relative effectiveness of the various incentives is totally absent.

⁷ Although fiercely contested from within CGIL, this agreement paved the way to ending the isolation of this union confederation.

⁸ They had increased to 868 by September.

the big three, and 704 (86% of the total) were signed by representatives of the employers other than the 'Confindustria system' and the Agency for Bargaining Representation of Public Administration Bodies (ARAN, the representative institution for the public sector) (CNEL, 2017). Many of these contracts have the sole purpose of evading the norms in terms of work organisation and pay set by the sectoral collective bargaining. According to D'Amuri and Nizzi (2017), they result in wages up to 20% below those agreed in the corresponding 'standard' NCBA. Finally, there is the Fiat solution: breaking away from national representation and the national contract (NCBA), and bringing in a new contract (CCSL or *contratto collettivo specifico di lavoro*) with only the signatory trade unions⁹. Since disagreement between unions gave veto powers to the dissenter, in December 2011 Fiat abandoned the NCBA, constituting a new company not associated with Confindustria and signing a first-level contract (CCSL). The bargaining for the new rules took place in emergency conditions and under threat of relocation (to Poland and Serbia). The agreement was not signed by CGIL, but its terms, no longer exceptions to an NCBA, apply to all employees, regardless of their union affiliation. It introduces flexibility on issues related to performance, overtime, excessive absenteeism, and enforceability of the agreements.

Following the ruling of the Constitutional Court No. 231/2013, Fiat had to accept the representation of representative organisations, even if not signatories of the agreement. The case of Fiat highlights the more general problem of representation of both employees and employers¹⁰: indeed, Article 39 of the Constitution is still waiting to be implemented. This disordered fragmentation of representation and proliferation of NCBA corresponds to contractual dumping and constitutes a drag on healthy firms. Establishment of a national register of workers' and employers' representatives could help to bring order to the bargaining jungle.

3. LABOUR IN THE SECOND 'GREAT TRANSFORMATION'

We can distinguish three phases of labour market legislation. In the early 1990s, agreements aimed mainly at achieving wage flexibility. In this first period, reforms were implemented with the participation of the social partners. The tripartite protocol signed in 1993, which established the framework rules for collective bargaining, workplace representation, and labour policies, epitomises this phase in Italy's industrial relations, during which other important agreements were signed, heralding reforms in pensions, labour flexibility, and welfare. This neo-corporatist approach began to ebb well before the crisis. From 1997 to 2003, legislation aimed at increasing flexibility in the labour market through the liberalisation of a wide range of atypical contracts. With the crisis, and with the EU governing bodies turning from moral suasion to conditionality, labour legislation veered from negotiated to unilateral.

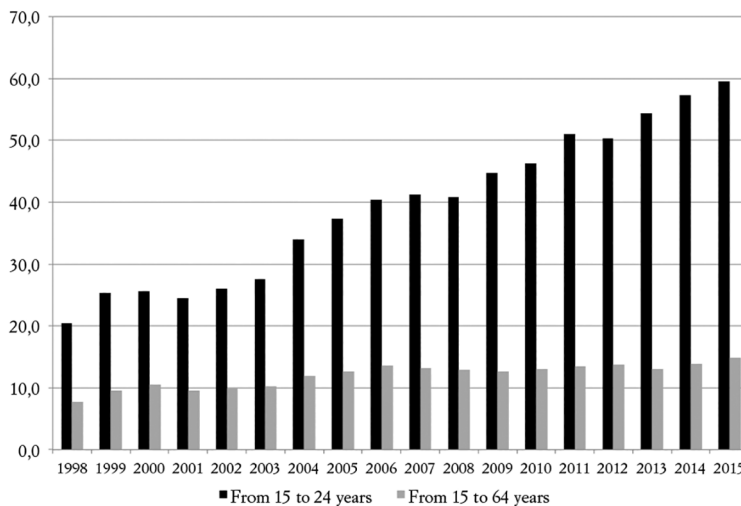
Flexibility policies were first advocated as the necessary response to the low job creation of the 1980s. In those years, 'jobless growth' and 'Eurosclerosis' were ascribed

⁹ Simonazzi and Fiorani (2018) define 'corporatisation' a process of decentralisation of collective bargaining from industry to firms, which may no longer refer to a national agreement – as in the case of the CCSL of Fiat Chrysler Automobiles (FCA) – or where the NCBA provides only a very general framework.

¹⁰ For instance, there is the anomaly of two types of representation – RSU (unitary trade union representation at factory level) and RSA (specific trade union representation at factory level) – while the 2014 Industrial Relations System Agreement (*Accordo Interconfederale*) stated the majority principle in the election of RSU; it should be the task of the legislator to choose between the two models of representation.

to the rigidity of the labour market. Deregulation, it was argued, would lead to a net creation of jobs. Labour market reforms in Italy mostly targeted new hirings (so-called ‘flexibility at the margin’), while the firing rules for regular contracts were left substantially untouched. This policy was originally justified as a means of promoting participation in the labour market for young people and other hard-to-employ categories (Rubery and Piasna, 2016). Between 1995 and 2007, despite a mediocre rate of GDP growth, more than three million jobs were created (what has been called ‘growth-less job creation’), with flexible employment, characterised by fixed-term contracts, involuntary part-time, and bogus self-employed accounting for most of it. On top of and often intermingled with them, a great number of informal workers were in the shadow economy. New hiring took place mostly through temporary work contracts. These workers are the first to be made redundant in a slowdown. Their high turnover means that, while permanent contracts still account for the vast bulk of employment in Italy, young people are employed mostly on temporary contracts (Figure 1).

Figure 1. Share of temporary employment in total Italian employment by age group, 1998-2015



Source: Eurostat, <http://ec.europa.eu/eurostat/data/database>.

With dualism actually worsening, debate on the increasing inequalities in the labour market intensified. Various arguments, ranging from insider-outsider to inter-generational conflict, converged in attributing the precariousness of the ‘outsiders’ to the protection of the ‘insiders’ and contributed to orienting policies towards reduction of protection. After decades of policies aimed at reducing the alleged rigidity of the labour market, compounded by austerity measures implemented in the crisis, the increasing precariousness of ever-greater segments of the workforce produced by these policies has been instrumental

in arguing for the need to eliminate the excessive protection of insiders that unfairly discriminates against outsiders.

Since 2011, labour policies sought to reduce the dualism in the labour market by cutting the firing costs of open-ended contracts, while seeking both to regulate and to promote non-standard forms of employment¹¹. A wide-ranging enabling law (the so-called 'Jobs Act', Law No. 183 of 10 December 2014) changed the rules governing dismissals, simplification of contracts, and labour law procedures, reformed unemployment benefits and active and passive labour market policies, and improved reconciliation between work and family life. The Jobs Act abolished workers' reinstatement rights in the case of dismissal (except for discriminatory reasons), replacing it with monetary compensation, and introduced a new standard open-ended contract for new hires ('graded security contract', *contratto a tutele crescenti*), which reduces the level and uncertainty of firing costs for all new permanent contracts in firms with at least 15 employees. The Jobs Act was complemented by a measure, passed in the 2015 Budget Law (Law No. 209 of 28 December 2015), which provided a sizable temporary rebate of non-wage labour costs (up to 8,060 euros per year for three years) for new permanent hiring of workers who had not held an open-ended position in the previous semester. These incentives were not targeted to specific groups of workers, nor were they contingent upon firm-level net job creation; that is, firms could use the subsidy to convert a temporary contract into a permanent one.

Assessment of the success of the new law is still controversial. The latest data indicate that the flexibility provided for the first three years of the graded security contract has not reduced the incidence of fixed-term contracts, especially among young people. When the effect of the reduced social security contributions petered out, precarious contracts for young people took over again (Beraldi and Lagrosa, 2017).

The deep and prolonged economic crisis has taken a toll on the labour market, with falling employment rates and dramatic increases in unemployment, in terms of both numbers and duration. Between 2007 and 2014, unemployment doubled, from 6% to 13%, only partly mitigated by a massive use of short-time working schemes and wage redundancy funds. Employment conditions worsened, especially for the young. The unemployment rate increased across all age groups, reaching 9.7% for the traditional male breadwinner category (35-49 years of age), and peaked at 35.5% in the 15-24 age bracket. The share of young people who are not in education, employment, or training (NEETs) increased from 17.7% in 2008 to 25% in 2013 (down to 22.3% in the second quarter of 2016) (2.3 million aged 15-29 in 2015, 96% of whom in the age bracket 18-29) (Istat, 2016b). Despite the current mild recovery, employment and inactivity rates are still among the worst in the EU.

The crisis also affected people who remained in employment, substantially worsening the quality of existing jobs and levels of pay, while aggravating inequalities across socio-economic groups (OECD, 2017) (Table 1). Worst-off are the young and low-skilled workers. Not only do they have the poorest results in terms of employment and unemployment rates but they also have the worst outcomes with respect to job quality: lower earnings, greater labour market insecurity, and job strain.

¹¹ Law No. 92 of 28 June 2012 (*Legge Fornero*) addressed labour market dualism by acting on the firing and hiring costs of different types of contracts. On the one hand, it reduced the cost of individual dismissal, weakening the effectiveness of Art. 18 of Law 300/1970; on the other hand, it sought to limit employers' use of 'bogus' self-employment and 'collaboration contracts' (*contratti di collaborazione coordinata e continuativa*) and to create incentives for the greater use of apprenticeship contracts. It also reformed the system of unemployment benefits, extending the coverage to some forms of precarious contracts.

Table 1. Scoreboard of labour market performance, selected EU countries (2015)

	Quantity				Quality			Inclusiveness		
	Employment rate	Full-time equivalent	Unemployment rate	Earnings quality	Labour market insecurity	Job strain	Very long hours	Low-income rate	Gender pay gap	Employment gap disadvantaged group
	1	2	3	4	5	6	7	8	9	10
Italy	57.1	51.6	12.1	18.0	11.8	46.6	3.9	13.4	45.3	34.2
Spain	58.7	53.9	22.2	16.6	26.6	52.6	3.9	16.5	37.4	27.6
Portugal	63.9	60.6	12.9	8.6	11.7	46.2	4.7	13.3	29.4	22.0
Germany	74.0	64.6	4.7	24.5	2.7	45.5	3.3	9.1	45.4	20.3
Belgium	61.8	56.2	8.6	27.2	3.6	39.3	5.4	9.4	33.3	30.6
Netherlands	74.1	57.7	6.9	29.2	3.1	41.2	2.6	9.0	46.6	22.1
France	64.3	59.6	10.1	20.1	4.6	45.2	4.9	7.9	35.3	27.5
United Kingdom	73.2	63.7	5.7	16.8	5.7	36.6	5.2	9.8	42.8	23.0
Ireland	63.1	55.3	10.0	17.6	5.0	33.7	4.5	9.2	38.7	27.6
Poland	62.9	60.9	7.6	7.2	8.9	46.2	5.4	10.4	35.9	31.7
Hungary	63.9	62.6	6.8	7.3	7.8	49.1	1.9	10.0	28.6	34.8
Slovakia	62.7	60.7	11.5	8.3	10.7	47.1	2.3	7.9	32.6	35.3
Czech Republic	70.2	68.7	5.1	8.5	4.7	40.2	3.6	5.6	45.7	31.1
Slovenia	65.2	61.9	9.1	14.4	5.2	48.6	3.2	8.8	22.4	28.6
Sweden	75.5	70.1	7.6	19.8	5.2	37.9	1.9	9.4	24.4	14.2
Denmark	73.5	64.3	6.3	27.3	2.3	30.5	2.4	6.7	24.1	18.8

Source: OECD Employment Outlook, 2017, Table 1.2.

Like all other ‘crisis’ countries (but also the United Kingdom; see Blundell *et al.*, 2014), between 2010 and 2016 Italy suffered a reduction in real wages. Low levels of entry wages for newly hired young workers and wage penalties associated with working under a temporary contract affected mostly workers in the two bottom quintiles, while workers in the top quintile were less penalised. Checchi and Leonardi (2015) found that this penalty is halved when individual fixed effects are included, suggesting that labour market flexibility increases wage differentials partly by sorting individuals according to their unobservable characteristics and partly by changing the wage for less qualified occupations. This indicates that there are at least two types of temporary workers: the ‘professionals’, who take advantage of temporary contracts to increase their market power, extending the range of potential employers; and the ‘precarious’, who fail to find a permanent job because they lack the abilities demanded in the labour market. This same difference determines the probability of moving out of a temporary contract onto an open-ended one. Checchi and Leonardi conclude that whenever a legislative reform expands the share of workers under temporary contracts, other things being constant, an increase in earnings inequality should then be expected. This polarisation of wages and job opportunities is likely to be exacerbated by the new technological upheaval.

Since the crisis, labour market reforms have been accompanied by structural reforms in the areas of taxation, pensions, and welfare. The economic and financial urgency of initiatives such as the pension and labour market reforms have prevailed over the objective of coming to agreement with the social partners on the content of these reforms, while budget constraints left little room for compensatory, active or passive labour policies and social spending. Deregulation of the labour market has been accompanied by partial reform of the so-called ‘shock absorber’ systems,¹² but a truly universal unemployment benefit and income support schemes are still in the making. Active labour market policies (ALMPs) have had only a secondary role. Traditionally, Italy prioritised hiring incentives, which are easy to implement, although subject to significant deadweight losses. Consequently, most ALMPs consisted in introducing and/or modifying the eligibility requirements for employment subsidies, according to what were deemed the categories of workers most in need of employment opportunities at that time. Budget constraints aggravated the notorious inefficiency of the Public Employment Services (PES) in reallocating labour towards scarce job opportunities.

Intermediation between labour demand and supply has gone through several reforms, following various institutional and political vicissitudes (Simonazzi and Fiorani, 2017). In 2015, one of the legislative decrees implementing the Jobs Act (Legislative Decree No. 150 of 14 September 2015) created the National Agency for Active Labour Policies (ANPAL), which has the function of coordinating labour policies to assist job-seekers and the jobless living on the various unemployment benefits. The newly created agency will coexist with the reinstated regional agencies: lacking clear definition of functions, the PES risk being left in disarray while the unemployed workers risk running adrift in a multiplicity of agencies, training courses, and red tape.

¹² The Jobs Act further revised the unemployment insurance system, setting new conditions for the renamed unemployment benefit (NASPI), a new provision (ASDI) to cover unemployed workers in distressed economic conditions who had finished the period (up to 18 months) of normal unemployment benefit, and a special benefit covering atypical workers (DIS-COLL). Moreover, as from 2017, NASPI has also replaced the redundancy pay scheme for workers subject to collective dismissal by medium-large firms restructuring or closing (‘mobilità’) (Arachi and Baldini, 2016).

After 20 years of reforms and reorganisations, the structures that should have accompanied the increased flexibility in the labour market are still inadequate to meet the demand for their services. Insufficient financial and human resources prevent efficient functioning of the PES¹³, resulting in long waiting times, fragmented information spread over different agencies, and limited capacity to offer solutions. The heterogeneity across agencies, users, and providers is marked, calling for greater coordination among actors and greater public-private cooperation. ANPAL's initial activities include experimenting with the re-employment agreement (*contratto di ricollocamento*) regarding workers unemployed for more than four months and receiving the unemployment benefit (NASPI). To be effective, the system needs specific skills and capabilities in analysis of competences, an efficient national information system, standardisation of the basic rules guiding the provision of active and passive labour policies, and sound coordination with firms and agencies in charge of professional training. Simonazzi and Fiorani (2018) analysed the working of PES, assessing the different organisation of employment centres in two regions, Lombardy and Marche. They conclude that Italy's difficulty in the implementation of ALMPs does not lie only in their institutional design (centralisation versus decentralisation, public versus private), but also in the historical marginality of these services – in terms of financial and human resources.

Modest outcomes in terms of working conditions (wages, employment, occupational safety, welfare, inequalities), limited representation among atypical workers, and internal divisions have elicited criticism of the trade unions from opposite sides. On the one hand, they have been accused of being 'the harbingers of a worn-out notion of representation, concentrated in safeguarding the interests of the last bastions of the protected workforce, increasingly out of touch with the newer generations and jobs', on the other hand of being 'too accommodating and substantially unable to block the long-lasting erosion of wages, job security, labour rights, welfare protections and youth prospects' (Leonardi, 2017).

With unity to some extent reinstated, the trade unions must resume their role in the policy arena and tackle the old and new challenges brought about by the emerging technoeconomic system. The digital revolution – Artificial Intelligence, the Internet of Things, the digitally based reorganisation of manufacturing, Industry 4.0 – is leading to reorganisation of a wide variety of markets, work arrangements, and ultimately value creation and capture. As argued by Kenney and Zysman (2016), platforms can transform work previously done by traditional employees into tasks performed by contractors, consigners, or *quid pro quo* workers – or even create entirely new categories of work. The relations with the employer will be more tenuous, the preponderance of the work and value creation more dispersed, even as the platform owners centralise the transactions and capture their value. Platform businesses matching workers and tasks may make labour markets more efficient, but they are at the same time likely to generate fragmented work schedules and increasing levels of part-time work without the employment-related benefits that previously characterised much employer-based full-time work. Indeed, the advantage of platform-based companies rests on the possibility to evade the rules by which established companies operate, and which are intended to protect customers, communities, workers, and markets. The increasing fragmentation of labour calls for a variety of instruments for participation and

¹³ At present, the staff of the employment centres numbers a mere 7,000 employees, with a total budget of 700 million euros, and can provide only 350,000 hours of services. By comparison, in Germany there are more than 100,000 PES employees, with a budget of approximately 9 billion euros.

bargaining models – to extend the coverage of collective bargaining to non-standard forms of employment, envisage training programmes to help employees to cope with automation and the continuous churning of jobs and skills – and an inclusive welfare in support of the ever more fragmented working careers.

4. THE TRADE-OFF BETWEEN FLEXIBILITY AND GROWTH

Structural reforms have their roots in mainstream economic theory, according to which ‘excessive’ wage and labour protection are detrimental for efficiency, productivity, and growth. By increasing firms’ dismissal costs, employment protection has a negative impact on productivity at the firm level: by reducing the threat of layoff, it lowers workers’ effort (poor work performance or absenteeism), and it discourages firms from experimenting with new technologies with higher mean returns but also higher variance. Since the influential 1994 Jobs Study by the Organisation for Economic Co-operation and Development (OECD) (OECD, 1994), which maintained that job creation is prompted by ‘efficient markets’, free from institutional constraints, the lively debate on the employment effects of employment protection legislation (EPL) that accompanied labour reforms has not been definitely settled. The 2004 OECD Employment Outlook drew more cautious conclusions, stating that employment cannot increase without economic growth (while differences in the strictness of EPL for regular and temporary jobs may aggravate labour market duality and negatively affect the careers and productivity of those trapped in temporary jobs). Conversely, a reasonable degree of EPL ‘may foster long-term employment relationships, thus promoting workers’ effort, cooperation and willingness to be trained, which is positive for aggregate employment and economic efficiency’. Ten years later, the 2016 OECD Employment Outlook turned this argument on its head. Well-designed structural reforms of product and labour markets may entail costly adjustments in the short run, but in the long run the greater productivity of a more efficient allocation of labour will prevail again. The high employment and wage losses associated with greater flexibility in dismissal of workers on regular (open-ended) contracts would be reversed in a few years. The short-run costs would be smaller if reforms were implemented in the upswing, though it is in a depression that they are politically more enforceable (OECD, 2016).

This view legitimised the inclusion of structural reforms as a pre-condition in any agreements between the European Commission and ‘programme’ or crisis member countries. While the protection of regular employment has gradually been eroded with the deepening of the crisis, increasing competition from low-cost countries in ‘mature’ products and accelerating technological change, no one has been safe from the risk of dismissal and unemployment. A (rough) indication of the decreasing degree of rigidity of the labour market is provided by the OECD index of EPL (OECD, 2017b). The index for Italy fell from 3.82 in 1990 to 2.26 in 2013, and now compares not too unfavourably with an index of 2 for Germany and 3 for France. Firing obstacles, which have great weight in the indicator, were further reduced in 2015. Thanks to levelling-down equalisation, in 2013 the index no longer indicated the existence of dualism in the Italian labour market (Table 2).

The extensive empirical literature indicates that EPL can have different effects in different macroeconomic and institutional contexts, in the short and long run. In the USA, skills are mostly scouted in the market, while in Europe they are chiefly nurtured

within the firm. This difference may explain why the empirical literature has found that firms' innovative dynamics are associated with centralised bargaining systems in European economies (Addison *et al.*, 2015) but with decentralised bargaining mechanisms and flexible labour markets in the USA (Menezes-Filho and Van Reenen, 2003).

Table 2. Index of protection for open-ended contracts (EPRC) and ratio of temporary contracts (EPT) over EPRC, selected countries, 2013

	Italy	France	Germany	Spain	Portugal	Greece
EPRC	2.79	2.82	2.98	2.28	2.69	2.41
EPT/EPRC	0.97	1.33	0.59	1.39	0.87	1.21

Source: OECD (2017b).

Moreover, while the short-run costs have been reassessed and found to be neither low nor transitory, even for flexible labour markets like the US one (Autor *et al.*, 2016), the analysis of the long-term effects of labour reforms on productivity and growth has been challenged on two grounds. First, the assumption of a (full) employment equilibrium pre-empts any serious consideration of adjustment costs. Second, a truly dynamic analysis must consider the effects of employment relations on the factors determining innovation and competition. Specifically, with competition increasingly focusing on the quality and complexity of products rather than their price (Simonazzi *et al.*, 2013), to be successful firms must innovate their products, processes, and organisation. To this end, a skilled and cooperative workforce is as essential as the firm's commitment to invest in its labour force. If arm's-length labour relations can make cost competitiveness profitable in the short run, this strategy may not pay in the long run. Cross-country analysis also highlights the strong complementarity between national legislation on labour protection, the kind of industrial relations, and overall employment policies. Countries with close social dialogue institutions, like Belgium and Sweden, managed to keep wage inequalities at relatively low levels (Vaughan-Whitehead, 2018). Conversely, in the Italian case, concern over 'excessive' regulation of the labour market has diverted attention from the structural problems at the origin of the stagnation of the Italian economy. While the Nordic experience cannot be automatically transposed to the Italian scenario, in Italy labour market deregulation has been preferred to an alternative strategy based on investing in people, combined with an industrial policy aimed at strengthening and upgrading the industrial structure (Simonazzi *et al.*, 2013). Social dialogue has been weakened and industrial relations have become more adversarial. The result has been slow growth and stagnant productivity, a segmented labour market, and an impoverished workforce.

Deregulation and austerity policies in Italy have negative implications for macroeconomic performance, also through their effects on income inequality. The unions' weakened bargaining power has resulted in low or negative real wages. More decentralised and individualised wage setting has increased wage dispersion and polarisation. Together, these factors have affected the rate of growth of domestic demand (consumption and investment). With the fiscal compact barring public expenditures, only exports have been left to counter the recession. By sustaining the share of wages and reducing inequality,

industrial relations oriented towards a more equal society might have contributed to economic sustainability, thereby supporting growth.

Overall, these results confirm one tenet of labour market segmentation theory, namely that flexibility is much more easily achieved with policies that support growth when job opportunities abound and workers move between jobs. The data on gross labour turnover (hiring and firing) in Italy bear out this proposition (Checchi and Leonardi, 2015). Labour turnover was high at the beginning of the last decade, before the reforms addressing insider protection, but in fact fell during the crisis, when turnover was mostly a matter of dismissals. Once dismissed, adult workers face greater difficulties in re-entering the labour market (Simonazzi and Villa, 2007). The absence of effective re-training and activation policies exposes these workers to loss of human and social capital, increasing the risk of long-term unemployment: in 2015, 68.4% of the total adult unemployed and 55.5% of the unemployed young remained jobless for over 12 months (Istat, 2016).

5. CONCLUSIONS

Our analysis started from the premise that the labour market is a social institution. Industrial relations and social dialogue reflect the social, economic, and legal environment and interact with economic, labour, and welfare policies in determining the path and quality of growth. As in many other EU countries, the Italian labour market has gone through a process of deregulation, based on the idea of a 'self-regulating market'. Since the crisis, within the Economic and Monetary Union (EMU) framework, austerity measures and structural reforms (wage and labour flexibility) have been the only instruments used to address macroeconomic imbalances. Drastic cuts in social expenditure and social investment together with 'internal devaluations' have magnified the dualism in the labour market and increased inequality and poverty. Faced with the severity of the socio-economic conditions, social dialogue has focused on the creation of safety nets, such as promoting pursuit of and experimentation with basic or minimum income policies, negotiating reductions of the fiscal drag on lower incomes, and supporting proposals for an extension of care service provisions.

Experience in Italy bears out the view that no degree of labour flexibility can provide an adequate response to the manifold challenges represented by technological, organisational, and social changes. These changes call for coordinated responses in the production, employment, and social spheres. The threat of increasing segmentation and polarisation of labour and society posed by the emerging techno-economic system can also be tackled within a cooperative climate in industrial relations. In Sweden, for instance, new forms of work organisation and generous policies favouring the upgrading of skills and the improvement in the quality of work have turned the challenge of technical change into an opportunity (Anxo, 2018). Conversely, Germany seems to have co-opted only one part of the labour force, leaving a large proportion of low-skilled or vulnerable workers behind (Bosch, 2018). However, as argued by Lehnendorff (2015), Germany's comparatively positive economic development is not to be attributed to 'Agenda 2010', but rather to the first attempts at limiting the damage caused by it. The growing trade union influence over wage development has played an important role here. Pointing to the discontinuity in German labour policy, Lehnendorff observes the paradoxical situation whereby the employment success at home served as a political platform for the German government

to push for a policy of internal devaluation in other countries – quite the opposite of the policies underlying Germany's positive development. In the Southern European countries, the structural reforms implemented in the crisis have eroded labour rights and weakened labour unions, reinforcing a 'low road' of wage cuts and precarious work that has priced out any alternative attempt at benefitting from technological innovation. Wage moderation and low wages could not counter the effects of the productivity decline; on the contrary, they are at the root of the productivity problem.

We conclude that there is increasing theoretical and empirical evidence in support of the hypothesis that social dialogue and good industrial relations can be good for innovation and growth. Their effects work through two channels: (i) a cooperative environment between unions, firms, and the State, working together to devise long-term policies capable of fostering organisational changes and patterns of innovation that better respond to a shared social model; and (ii) a more equal income distribution – and higher wages – sustaining domestic demand. In this light, labour market policies supporting less adversarial social relations and strengthening the unions' bargaining position may represent a key element within an overall industrial policy aiming to long-term sustainable growth. This calls for a complete reboot of the European and national approaches to macroeconomic, labour, and social policies.

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