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Il Jobs Act. Occasione mancata o base per ripartire?

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The “Jobs Act” and Industrial Relations: a Lost Opportunity?[◇]

Claudio Lucifora*

Paolo Naticchioni**

Abstract

Following a long standing tradition in Italy that considers social partners as the only responsible for setting the rules in industrial relations, the “Jobs Act” did not attempt to reform the collective bargaining system. In this paper, we ask whether this waiver in reforming the industrial relations system was a lost opportunity. The current setting, which is still very close to the one emerged from the major reforms of 1992 and 1993, has been strongly criticized for its wage rigidity, in particular during economic downturns. We discuss a number of issues currently debated, such as the progressive erosion of trade unions and employers’ associations representativeness, increasing non-compliance of collective bargained minimum wages, and the emergence of ‘pirate contracts’ signed by non-representative social partners. We also review recent evidence that has focused on the impact of centralized collective bargaining along the spatial dimension, where productivity differentials generate differences in unemployment and housing costs across regions. In the concluding section we discuss some policy proposals, such as the introduction of a statutory minimum wage, the importance of measuring employers and unions’ representativeness, and the strengthening of firm-level (or territorial) bargaining.

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Sintesi - Jobs Act e relazioni industriali: un'occasione mancata?

Seguendo una consolidata tradizione italiana che considera le parti sociali come gli unici attori per la definizione degli assetti nelle relazioni industriali, il “Jobs Act” non è intervenuto nella riforma del sistema di contrattazione collettiva. In questo lavoro, ci si chiede se questa rinuncia ad un sostegno per la riforma del sistema di relazioni industriali sia stata un'opportunità persa. Gli assetti attuali, che sono ancora simili a quelli emersi dalle principali riforme del 1992 e del 1993, sono stati ripetutamente criticati a causa della rigidità salariale, soprattutto durante le recessioni economiche. Il lavoro prende in considerazione una serie di questioni che sono attualmente dibattute pubblicamente, come: la progressiva erosione del potere contrattuale e di rappresentanza di sindacati e associazioni datoriali, l'aumento della non-compliance dei minimi tabellari dei contratti collettivi e la diffusione di “contratti pirata” firmati da organizzazioni non rappresentative. Infine lo studio prende in esame l'evidenza empirica riguardo agli effetti spaziali della contrattazione collettiva, secondo cui i differenziali di produttività tra le aree sarebbero responsabili dei differenziali di disoccupazione e dei costi delle abitazioni tra le diverse regioni. Nella sezione conclusiva discutiamo alcune proposte di politica economica, come l'introduzione di un salario minimo legale, l'importanza di certificare la rappresentatività dei datori di lavoro e dei sindacati e il rafforzamento della contrattazione collettiva decentrata (aziendale o territoriale).

JEL Classification: J31; J52; J8.

Keywords: Collective Bargaining; Wages; Trade unions.

Parole Chiave: Contrattazione Collettiva; dinamiche salariali; sindacalizzazione.

1. Introduction

The “Jobs Act” introduced in 2015 in Italy was a comprehensive reform of the labour market, which addressed many issues that had been lively discussed in the public debate over the last decades. More specifically, the reform aimed at increasing the overall flexibility of the labour market while extending passive and active policies for the unemployed, in line with the European model of flexsecurity. Among the many measures that were successfully implemented are the reduction of firing costs for open-ended employment contracts, the reorganization of unemployment benefits and active labour market policies, as well as allowing greater discretion to employers in work organization and monitoring of employees’ performance. A number of issues in the “Jobs Act” were also targeted to the system of industrial relations, such as the structure of collective bargaining and the introduction of a statutory minimum wage. Nonetheless, following a long standing tradition in Italy that considers social partners as the only responsible for setting the rules in industrial relations, the associated decrees on those matters were never implemented by the government.

This paper asks the question of whether this waiver in reforming the industrial relations system might be considered as a lost opportunity, since the current system has been strongly criticized by all major international organization – such as the IMF and the European Commission - for its rigidity and lack of resilience against economic shocks. Indeed, the current setting for collective bargaining, apart from minor changes, is still very close to the one emerged from the major reforms introduced in 1992 and 1993, whose main goals were to protect wages from inflation and distribute productivity gains through firm-level bargaining. After 25 years the system of industrial relations is showing the passing of time with a progressive erosion of trade unions and employers’ associations representativeness, increasing of non-compliance with respect to collective bargaining minimum wages and the emergence of ‘pirate contracts’ signed by non-representative social partners. The current debate in Europe also concerns whether downward wage rigidity could represent a driver of unemployment, in particular in time of economic crisis such as the ones occurred in Italy in 2008 and 2011 when the need for wage adjustments is higher. Another worrying issue concerns the recent evidence that has focused

on an often neglected issue in the debate on collective bargaining, that is the spatial dimension of real wage differentials. In particular, in countries with large productivity differentials across firms and regions and compressed wage structures, productivity differentials might generate large differences in unemployment and housing costs across regions, with associated efficiency losses, providing biased incentives for worker job mobility, leading to increased unemployment and reduced output.

In the concluding section we discuss some policy proposals, concerning the introduction of a statutory minimum wage (and the related effects on the collective bargaining system), the hot issue of the measurement of employers and unions' representativeness - which is crucial to outlaw the agreements signed by non-representative parties, the so-called "pirate contracts" -, and the reorganization of pay components and the strengthening of firm-level (or territorial) bargaining.

The structure of the paper is as follows. In section 2 we describe the Italian Institutional setting, and in particular the Italian system of collective bargaining. In section 3 we address the critical features related to the collective bargaining system, such as the representation issue, the incidence of non-compliance and of contractual dumping. Section 4 briefly summarizes the wide economic literature concerning labour market institutions, particularly on collective bargaining, focusing also on the recent literature on firm reactions with respect to the European economic crisis in 2008 and 2011. In section 5 we focus on the interplay between wage dispersion, productivity dynamics, and cost of living. In the concluding section we provide some remarks and proposals concerning the current policy debate in Italy on wage setting system, collective bargaining and statutory minimum wage.

2. The Institutional setting

Italy is one of the few large countries within the European Union characterized by a low and relatively weak legal regulation of industrial relations. The main law, the so-called *Statuto dei lavoratori* of 1970 (*Statuto* from now onwards), voluntarily did not enter in the regulation of industrial relations, due to the widespread opinion that social partners were the only actors that

should be responsible for setting the rules, mainly through collective bargaining. The Italian *Statuto* had been in force for almost 50 years, only partially modified over time in some respects. One of the most comprehensive reform of labour market regulation, known as the “Jobs Act”, modified the *Statuto* in several ways: first, by allowing greater discretion to employers in the allocation of employees’ tasks to fit better in the firm’s organization of work (art. 13); second, introducing the possibility of stricter monitoring of employees’ performance to improve organization and safety (art. 4); third, revising the rules and the (implicit) costs of severance payment (art. 18) along with a new regulation for open-end contracts (*contratto a tutele crescenti*) with employment security growing with tenure in the company (Boeri and Garibaldi, 2018). Also a number of interventions of the Constitutional Court further changed the regulations concerning the determination of severance payment, as defined in the “Jobs Act” (art. 18)¹, as well as trade unions representation (art. 19). During the preparation of the “Jobs Act”, in the public debate several other options of the reform were discussed, one of them was the introduction of a statutory minimum wage (*compenso minimo orario*) which, in the final formulation of the Law (*Legge delega*) would only apply to workers not covered by collective agreements. Following the long standing tradition of subsidiarity in the regulation of industrial relations, the “Jobs Act” did not intervene in the rules that govern social partners’ representation and collective bargaining, and also the introduction of the statutory minimum wage was soon abandoned.

- The Collective bargaining system

The whole system of industrial relations in Italy is centered around the role of the most representative employers and workers’ organizations, that operate within a relatively weak legal regulation to set both the structure of collective bargaining and the regulation of national collective agreements. Collective bargaining in Italy takes place mainly at the industry-wide level (*Contratto Collettivo Nazionale di Lavoro*, CCNL). Wage levels are fixed at the industry level *via* collective agreements between trade unions and employers organiza-

1 Note that the structure of severance pay for dismissals without *giusta causa* (art. 3, comma 1, del D.leg. n.23/2015 of the “Jobs Act”) has been recently declared inconsistent with the Italian Constitution by the Constitutional Court due to its excessive rigidity.

tions. Trade union density (the number of members over the total number of employees) is around 30-40% in the private sector while the employers' organization density is over 50%, even if both figures however are highly uncertain due to the lack of specific rules determining the criteria for social parties' representativeness (ICTWSS database: Visser, 2015). Formally, a collective agreement in Italy is only binding for the members of the union(s) signing the contract, and firms' associates of the employers' organization(s). There are no formal extension mechanisms of the terms set in collective agreements to workers in firms not member of an employers' organization. Nonetheless, in Italy the wage levels (*minimi tabellari*) set in collective agreements may be used by labour courts as a reference to comply with the provision of Art. 36 of the Italian Constitution which states that “*workers have the right to a remuneration commensurate to the quantity and quality of their work and in any case such as to ensure them and their families a free and dignified existence*”. Case law stated that wages determined in collective contracts signed by the most representative social partners met the requirements outlined in the Constitution. Therefore, wage provisions contained in collective contracts represent the criterion to assess wages set in individual contracts. While workers can sue their employers in front of labour courts in order to make employers paying wages levels set in the collective contracts, this is not so widespread due to the high cost and the length of the judiciary process. Hence, in the Italian industrial relations system, collective agreements do not have a “binding” nature for all workers, either members or non-members of the union (the so-called *erga omnes* effect). Collective bargaining are simply regulated by the general provisions of the Civil Code governing contracts and obligations. Minimum wages set in collective agreement can be considered equivalent to sectoral minimum wages for all workers to which all firms should comply, which is a “*de facto*” extension to all workers, nominally showing a high collective bargaining coverage (European Commission, 2014).

Furthermore, over the last 30 years, the Italian industrial relations system has been affected by important changes. The rule on wage bargaining coordination was defined by the Protocol of 23rd July 1993, in which pay increases are set first at the industry level in line with the (projected) inflation rate, while decentralized (company or regional) increases must be linked to

productivity and firms’ economic performance.² Interestingly, the second tier of collective bargaining, which takes place at the firm or regional level, has always been subordinated to the national level and its diffusion has been fairly limited to the largest firms and the North regions. It is worth noting that the second-level bargaining is not compulsory, and it is subject to the *in melius* or favourability principle: that is, wages and working conditions cannot be worse than those agreed at the industry level.

Available data from the Survey of Industrial and Service Firms (INVIND) by the Bank of Italy suggest that in 2010 only 21 percent of firms had some form of second-level agreement (D’Amuri and Giorgiantonio, 2014). In terms of price indexation, the (new) reference indicator – the Index of Consumer Prices net of imported energy costs – was chosen for the protection of purchasing power of wages. This bargaining framework was reaffirmed by the framework agreement of 22nd January 2009, thus shaping a bargaining structure where the national collective agreements are targeted to safeguard the overall purchasing power of wages, while firm-level bargaining is intended to align wages to firms’ performance. The framework agreement of 2009, also institutionalized for the first time the possibility for firms’ collective agreements to deviate and derogate from the national ones. This derogation right was then transposed in various collective agreements following an explicit request of the European Central Bank (Art. 8 Decree N. 138/2011, converted into Law N. 148 of 2011). There are however exceptions concerning the matters that can be derogated. For example, wages cannot be derogated, hence companies in financial difficulty cannot use downward wage flexibility to recover profitability (Dell’Aringa, 2017).

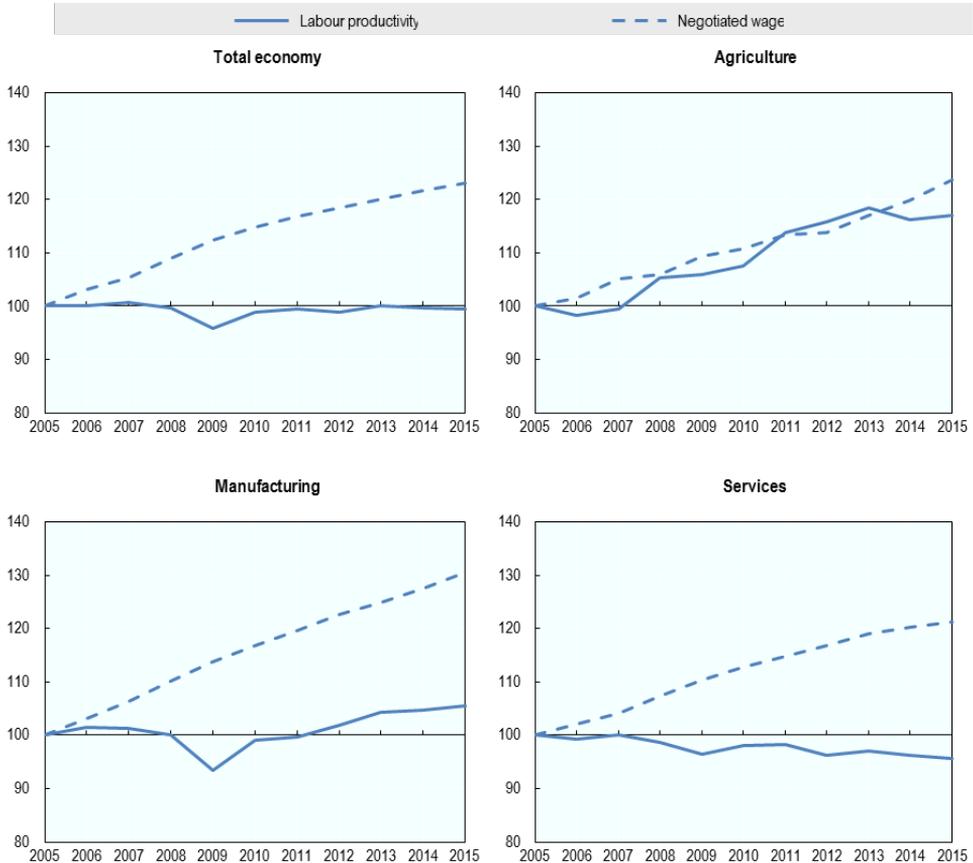
In recent years, however, the bargaining structure introduced along with the 1993 Protocol has come under pressure due to the excessive wage rigidities - believed to limit flexibility over the business cycle and during economic crises - and due to the concentration of decentralized bargaining only in large firms and in selected industries, while small-sized firms, particularly those located in the South, never fully exploit the possibility offered by decentralized bargaining.

2 National-level bargaining takes place between the sectoral social partners federations, i.e. trade unions and employers’ organisations, while firm-level bargaining is conducted by the unitary union representative body (*Rappresentanze sindacali unitarie* or RSU), elected in works councils.

During the financial crisis, the current structure of collective bargaining favored an increase in the dynamics of negotiated wages regardless of the evolution of productivity. Even between 2008 and 2014, when GDP in Italy decreased by around 9% and productivity growth was flat, the dynamic of contractual wages remained positive. Figure 1 shows both the evolution of bargained wages and labour productivity since 2005 using the monthly index of negotiated wage levels by industry (Istat, 2016).

These features have given rise to a growing policy debate at the international level concerning how to reform the system of collective bargaining, focusing in particular on the two-tier multi-plant level bargaining. In 2015 during an official speech, the ECB Governor Mario Draghi, argued that “[...] *firms with flexibility at the plant-level have reduced employment less during the crisis than those bound by centralised wage bargaining agreements, partly because they have been able to adjust wages to economic conditions*”, a statement based on ECB research (Di Mauro and Ronchi, 2016). In its 2016, 2017, and 2018 Country Reports for Italy the European Commission also expressed concern regarding collective bargaining. Similar conclusions emerge from IMF (2016).

Figure 1 **Negotiated wages and labour productivity (by industry)**
(Index 2005=100)



Source: Garnero (2017, fig.1). Index of negotiated wages and labour productivity (value added per hour worked), Istat (2016).

3. Representation, non-compliance and contractual dumping

Faced with the increase in unemployment, the diffusion of working poverty and growing regional imbalances, social partners after the crisis renewed

the debate on how to reform the system, but with diverging views. On the one side, the employers' association, *Confindustria*, called for a further decentralization in wage setting, in order to shift the level of bargaining from the central level to the firm level. On the other side, trade unions were resisting any change to the two-tier bargaining system while urging the renewal of the collective contracts already expired. Due to these divergences, social partners eventually agreed to reform only marginal aspects of the industrial relations system, for example introducing fiscal incentives to foster firm-level bargaining or adopting measures to strengthen social partners' representativeness. This inertia fueled tensions between employers and trade unions and, in 2009, the biggest Italian company, FCA (Fiat-Chrysler), dropped its membership with *Confindustria* and signed an establishment-level agreement different from the CCNL provisions. Since then other large firms have left the employers' organization (such as Marcegaglia or Luxottica), following a growing dissatisfaction with the state of industrial relations.

Regulatory uncertainty, increasing fragmentation of social partners and the lack of operational criteria for the assessment of representativeness in collective bargaining (governing who is entitled to sign industry-level agreements) further contributed to the erosion and fragmentation of industrial relations. Over the last few years, the number of national collective agreements dramatically increased, mostly by associations lacking real representation. A total of 860 National industry-level collective agreements are currently registered at the National Council for Economy and Labour (CNEL), 25% more with respect to 2015 and 70% more with respect to 2010. Just one third of the collective contracts signed involve at least one of the largest union confederations (CGL, CISL and UIL) or *Confindustria*.³ A kind of "race to the bottom" that has led to the definition of "pirate contracts", that is collective contracts negotiated and signed between smaller unions and compliant business associations, whose aim is to deviate from the standards of the main collective contracts and apply lower economic and regulatory provisions. Notice, that the increase in non-representative contracts does not represent a sort of opti-

3 Currently no comprehensive statistical evidence on collective agreements is available. Signing parties have to send to CNEL the collective contracts (see www.cnel.it archive of collective agreements). Some of the existing collective contracts may have ceased their effects and no longer be active after expiration, other collective contract are a simple replica with similar provisions of other contracts but with different social partners seeking collective bargaining legitimation to benefit from access to training funds and other guarantees.

mal “opting-out” rule for firms operating in industries where wage minima set in collective contracts are deemed to be too high compared to productivity. Quite the opposite, “pirate contracts” mainly follow a rent-seeking behavior and are more concentrated in industries where social partners are more fragmented and weaker.

- Non-compliance in negotiated minimum wages

An additional sign of the erosion of collective bargaining enforcement is given by the extensive non-compliance of wage levels set in collective contracts. Particularly, where the level of minimum contractual wages is relatively high compared to the median wage (i.e. the Kaitz index), such as in the South, there is evidence that many workers are paid less than the bargained minimum wage (see Figure 3).⁴ In other words, employers often respond to the rigidity of the system not complying with the minimum wage provisions (Garnero and Lucifora, 2018). Different channels are used by employers to pay lower wages than the minimum level set in collective contracts. For example, employers hire employees on a regular contract but ask them to work unpaid extra hours, or allocate workers to a lower skill level to underpay them. In micro and small firms, when the contractual classification is not clear or when several agreements are potentially applicable, firms also resort to loopholes and misclassification to pay lower wages. Firms may hire workers on non-standard contracts and “bogus” self-employed workers, or even set their own wage levels below the collective agreed ones. Finally, in more extreme forms of non-compliance, firms may hire workers with informal or no contracts. Table 1 reports the shares of workers paid less than the wage level established in their reference collective agreement. The figures of violation, in 2015, range from 8% in “Transport and Finance & Insurance”, to nearly 40-50% in “Business and other Services” or “Hotel & Restaurants”. On average, around 19% of workers are paid less than the minima established in collective agreements.

4 ISTAT collects data on negotiated gross wages, including tax and social security contributions paid by employees, in around 90 collective agreements (the most representative ones). Information record wages before taxes and transfer (the presence of a deferred payment, 13th and a 14th month, is also recorded). Bonuses related to individual performance or supplementary payment agreed at the company or local level are not included. The ISTAT minimum wage data are classified by NACE rev. 2 at 2-digit codes.

Table 1 **Collective agreements non-compliance in selected industries (% employees)**

| Industries | Non-compliance negotiated minimum wages (% employees) | |
|-----------------------------|--|------------------|
| | 2009 | 2015 |
| | % non-compliance | % non-compliance |
| Agriculture | 27 | 30.4 |
| Food | 30.1 | 39.4 |
| Chemical & Pharmaceutical | 10.9 | 8.7 |
| Rubber | 19.5 | 16.0 |
| Stone, Clay & Glass | 24.9 | 28.0 |
| Mining | 17.2 | 18.2 |
| Metal products | 12 | 14.9 |
| Paper & Wood products | 15.3 | 19.8 |
| Construction | 33.2 | 28.4 |
| Energy, Oil, Gas & Water | 19.3 | 31.7 |
| Textiles | 24.7 | 20.9 |
| Retail trade | 19.6 | 18.9 |
| Finance & Insurance | 10.1 | 8.5 |
| Real Estate | 21.6 | 21.9 |
| Transportation | 13.1 | 8.2 |
| Hotel & Restaurants | 31.9 | 43.3 |
| Information & Communication | 8.3 | 5.7 |
| Professional activities | 23.2 | 19.9 |
| Business and other services | 57.5 | 54.3 |
| Personal services | 7.4 | 6.9 |
| Total | 20.6 | 20.8 |

Notes: Employees full-time/full-year (35-45 weekly hours worked).

Source: Lucifora (2017, tab.2, pag. 419). Istat (2016).

4. The economics of collective bargaining: a brief overview

There has been a lively debate concerning the impact of labour market institutions, and in particular collective bargaining, on economic outcomes in the last decades, focusing mainly on the impact of downward rigidity and hiring/firing costs on unemployment and employment dynamics. Unfortunately, findings emerging from this literature are rather mixed.

This ambiguity in the literature is associated to numerous policy pronouncements in the 1990s and 2000s in favour of market-oriented reforms in order to raise employment (among others, Freeman, 2007). The most well-known example is the OECD Jobs Study (1994), that was accompanied by supporting research and followed by studies and reviews of studies, as the OECD’s annual Employment Outlook (Layard, Nickell, and Jackman, 1994). Further, Nickell, Nunziata, and Ochel (2005) summarized this evidence with the claim that “the broad movements in unemployment in the OECD can be explained by shifts in labor market institutions”.

As economists have examined the evidence more critically, a more caution stance has emerged, rejecting these strong claims. For instance, Baker et al. (2005) showed that the time series models used by the OECD, IMF and other international institutions, are not robust: covering more years, countries, and measures than the early studies did “provide little support for those who advocate comprehensive deregulation of OECD labor markets” (p 106). Similar evidence is reached by Blanchflower (2001), Howell et al. (2006) and Baccaro and Rei (2005).

Because of this more recent evidence, the 2004 OECD Employment Outlook admitted that previous OECD evidence was “somewhat fragile”, and that the effect of collective bargaining “appears to be contingent upon other institutional and policy factors that need to be clarified to provide robust policy advice” (p. 165, OECD, 2004). Similar remarks can be found in the 2006 Employment Outlook.

Apart from the impact on employment and unemployment dynamics, attention has been paid to the level of centralization in collective bargaining. It is worth noting that whereas in the 1960s and 1970s unemployment was lower in countries with highly centralized bargaining systems than in countries with highly decentralized wage-setting systems, in the 1980s unemployment

was higher in countries with collective bargaining institutions between the extremes (totally centralized vs totally decentralized), at least according to some measures of wage-setting institutions (Calmfors and Driffill, 1988). The intuition behind this inverse U relation is that decentralized market wage setting presumably achieves low unemployment through competitive pressures on firms and workers, while centralized wage setting attains low unemployment by inducing bargainers to consider the impacts of wages on national unemployment. The intermediate level of collective bargaining (industry or other intermediate level) might provide biased incentives to unions and firms at the industry level, ignoring the effects of their decisions on the aggregate economy, assuming that costs associated to unemployment compensation for workers with higher settled wages could be paid by all workers and not only by the ones in that specific sector.

In the nineties, however, the inverse U relation disappeared. In the early 1990s in Sweden, an economy characterized by highly centralized bargaining, unemployment increased due to an important economic crisis. At the same time, two market-oriented economies, Canada and New Zealand, experienced high unemployment. On the contrary, the Netherlands, a standard example of intermediate collective bargaining institutions, had modest wage settlements and modified its structure to pursue successfully an increase in employment (Teulings and Hartog, 1998). Some other European countries, including those with industry bargaining, improved their economic performance. OECD (2004) confirmed that the inverse U relation in cross-country comparisons of wage institutions and unemployment in the 1990s was no longer at work, suggesting a wide variation in aggregate outcomes among countries classified as highly centralized, decentralized, and intermediate, with no general patterns.

In recent years, the issues of collective bargaining and its degree of decentralization has been further investigated to understand whether collective bargaining is playing a role in the adjustment processes concerning wages and employment associated to the European crisis in 2008 and 2011.

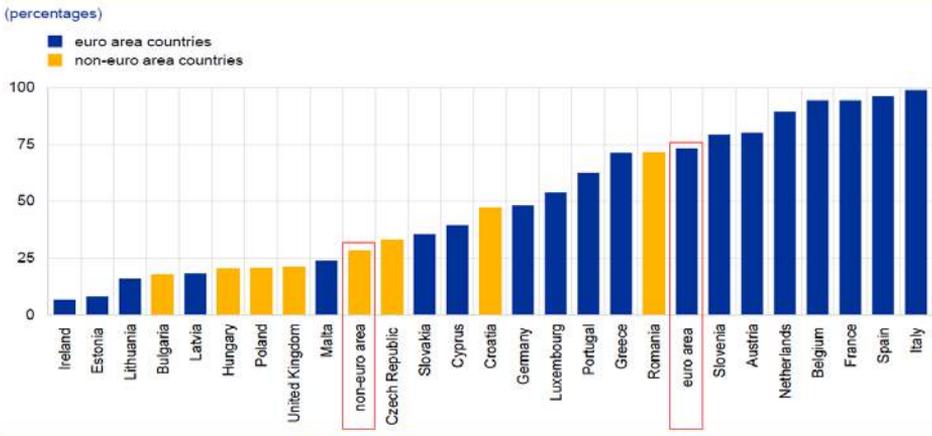
In order to assess this issue it is useful to provide an overview of the distribution of collective bargaining across countries. OECD (2017) claims that in two-thirds of OECD and accession countries collective bargaining takes place predominantly at firm level. Nonetheless, sector-level agreements are

more at work in continental European countries, although the actual degree of centralisation or decentralisation in these countries is rather heterogeneous depending on the flexibility for firm-level agreements to modify the terms settled down in higher level agreements. In some countries, for instance the Nordic countries, the bargaining at the firm level can prevail over the sectoral agreements. In other countries, for instance Germany, Austria and Spain after the recent reform, industry-level agreements dominate but still firm-level agreements can apply less favorable terms for employees. In other countries, such as Italy, Portugal and Slovenia, firm-level bargaining exists although in most cases they are strictly regulated by higher level agreements (for instance due to the favorability principle). Furthermore, the coverage of collective bargaining is actually very heterogeneous at the European level, as shown in figure 2, ranging from very low levels for Ireland (less than 10%) to almost 100% for Italy.

Figure 2 **Collective Bargaining Coverage across European Countries (2013)**

Chart A

Share of workers covered by collective pay agreements – country overview in 2013



Sources: ECB calculations on the basis of the WDN3 survey in “New evidence on wage adjustment in Europe during the period 2010-13”, *Economic Bulletin*, Issue 5, ECB, 2016.

Notes: Firms with fewer than five employees are excluded from the calculations. Figures are weighted to reflect overall employment and rescaled to exclude non-response. Figures for Ireland are unweighted. Euro area and non-euro area averages are calculated across countries that have weights.

As for the relation between collective bargaining and firm reaction to recent economic crisis in Europe, the main data source used to investigate this issue is the European Central Bank's Wage Dynamics Network (WDN) survey, an ad hoc survey on wage and pricing policies at the firm level in the EU with information on bargaining structures at large and middle-size firms. Three waves of this survey are available. Researches have widely investigated the second wave for 2007–2009, covering 13 countries (Austria, Czech Republic, Estonia, France, Greece, Hungary, Italy, Ireland, Lithuania, the Netherlands, Portugal, Slovenia, and Spain), and the most recent wave associated to the period 2010–2013.⁵

According to Boeri (2015), in countries strongly affected by the crisis, such as France, Greece, Italy, Spain, and Portugal, on average “about 90% of employers reported that they were constrained in making downward wage adjustment by higher-level, multi-employer collective wage agreements”. Boeri (2015) argues that that two-tier regimes may result in the worst of both fully centralized and fully decentralized systems, since it is not associated to the expansion of performance-related pay, and do not permit adequate adjustment to temporary shocks by cutting wages and hours of work rather than laying off workers. The role of downward wage rigidities and collective bargaining is confirmed by other papers, such as by Izquierdo et al (2017).

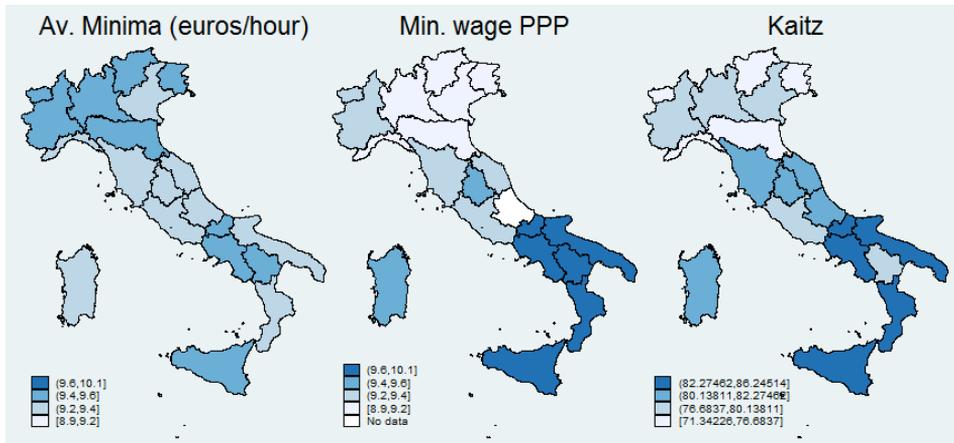
5. Wage dispersion, productivity dynamics, and cost of living

One often neglected issue in the debate, as discussed above, is the spatial dimension of real wage differentials. Since negotiated wages are set at the national level, regional differences in nominal wages are deemed to be negligible, while differences in terms of real purchasing parity – i.e. indexed to the local cost of living (prices are around 40% lower in the South as compared to the North of Italy) - are large. As reported in Figure 3, the impact of centralization of collective bargaining might be rather different when taking into account nominal or real wages purchasing power. In particular, in the left panel,

5 Note that the WDN data have some caveats. For instance, small firms, below 10 employees, are not surveyed. This is clearly an issue in a country like Italy where the share of micro firms is much higher compared to other countries. Also, WDN addresses only issue of nominal downward rigidity.

we report the regional averages of the nominal wage minima set in collective bargaining; in the central panel, the same wages are deflated by a spatial indicator of consumer purchasing power; while in the right panel we compute the ratio of the collectively bargained minimum wage over the average regional wage levels, both in nominal terms. The latter measure is the so-called “Kaitz index”, which is estimated to be much higher in the South as compared to the North, implying a larger “bite” of collectively bargained wages in the South as well as a lower dispersion in wages (i.e. mainly in the bottom part of the distribution) (Boeri et al. 2018).

Figure 3 Nominal minimum wages, minimum wages in PPP and Kaitz index (by region)



Source: Garnero et al. (2018, fig.3). Contractual minimum wages and consumers’ purchasing power parity (PPP) index in Italian regions (Istat, 2009).

Hence, even if collective bargaining could be a driver of a reduction in nominal wage dispersion (Freeman, 2014), the impact on real wage dispersion could be ambiguous, notably in countries with large productivity differentials across firms and regions.⁶ In particular, when wage structures are compressed, productivity differentials might generate large differences in unemployment and housing costs across regions. The wage structure is then

6 Note that in standard urban economic models a productivity shock in a given region translates in higher employment and higher prices, the latter due to the assumption fact that the housing market cannot fully adjust in terms of quantities, with an increase in rents and hence in prices.

biased as workers move from low-productivity and high-unemployment areas to high-productivity and low-unemployment areas, increasing housing costs in the latter areas and thus reducing real wages. In such a framework, real wage dispersion may be even larger in countries with centralized wage structures. Even more important, inequalities in real wages might be associated with efficiency losses, providing biased incentives for worker job mobility, leading to increased unemployment and reduced output, and reducing job creation in high-productivity areas.

Only few papers have investigated these issues in recent years. Boeri et al (2018) investigate the interaction between spatial heterogeneity in the cost of living and collective bargaining in the determination of the spatial wage differentials. Their theoretical framework is able to replicate and explain some of the wage and employment patterns discussed above. In the baseline model they assume constant labour supply, perfect labour mobility, and homogeneous preferences for locations. The utility function incorporates a trade-off between real wages, i.e., the ratio of nominal wages to local prices, and unemployment. It is also assumed that housing prices are proportional to the region population. Finally, total factor productivity (TFP) is allowed to differ across regions. When introducing collective bargaining into the model, imposing equal nominal wages across locations at a higher level than the competitive one, employment is higher in equilibrium in the high productivity regions, generating higher costs of living and, *ceteris paribus*, a lower real wage. In this setting, the unemployment rate has to adjust, i.e. it increases in lower productivity areas, to achieve the equality of utilities across locations. According to this model, the winners can be considered as the workers employed in low productivity locations and house owners in high productivity locations.

Boeri et al (2018) carry out an empirical analysis focusing on two European countries, Germany and Italy, characterized by wide regional unbalances (between the South and the North in Italy, and between the East and the West in Germany). At the same time, Italy and Germany had very similar wage setting institutions in the nineties. However, in Italy the two-tier system is basically unchanged since then, and it is still subject to the *in melius* or favourability principle: wages cannot be worse than those agreed at the industry level.⁷ On the contrary, in Germany a profound reform process took place at

7 Note that there is no limitation for productive firms in high productivity regions to pay higher wages to their

the beginning of the century, with the introduction of the so called “opening clauses” that allow, in some cases, firms to negotiate locally with unions, outside the nation-wide agreements.

Boeri et al (2018) clearly show that the two countries have similar geographical distribution of firm productivity, while they find important differences in the geographical distribution of nominal wages, with higher wage compression across provinces for the Italian case.

Regressing log mean nominal wage per worker on log value added per worker across provinces, Boeri et al (2018) find an elasticity six times larger in Germany with respect to Italy (0.83 vs 0.14 respectively). Further, the wage difference between North and the South in Italy is only 4.2%, while the West-East difference in Germany is seven times larger (28.2%), despite almost identical productivity differences. Consistent with the model, in Italy, where wages cannot adjust fully, provinces with low productivity display higher non-employment rates: the elasticity of non-employment rates with respect to value added is negative and almost ten times larger in Italy.

Furthermore, Boeri et al (2018) derive for Italy a negative relationship between real wages and local value added, with the North having lower real wages than the South, since the latter has low housing costs but similar nominal wages. Authors claim that the current institutional settings might have created a spatial equilibrium where workers queue for jobs in the South: if they find one, their situation is better than their colleagues in the North in terms of real wages. Hence, from a macro-economic point of view, this means that Italian GDP and aggregate employment is lower than it could be with flexible wages.

While Boeri et al. (2018) consider differences across macro regions, the paper by Belloc et al (2018) investigates the agglomeration dimension, exploiting the richness of unique administrative archives from the Italian National Social Security Institute (INPS), released through the VisitInps program. This dataset provides the universe of the employer-employee of subordinate workers, as well as datasets on the universe of various groups of self-employed workers.⁸

workers on a performance-pay base. Italian data however show that this wage component is rather limited.

8 As in Boeri (2018), Belloc et al (2018) make use of a very rich database on housing prices (Osservatorio del Mercato Immobiliare, OMI hereafter) to derive a spatial price index, according to the approach by Moretti (2013). Thus, real wages are computed using this spatial price index.

Belloc et al (2018) clearly show that while nominal wages increase along the population density distribution, this is not the case for real wages, as reported in table 2.

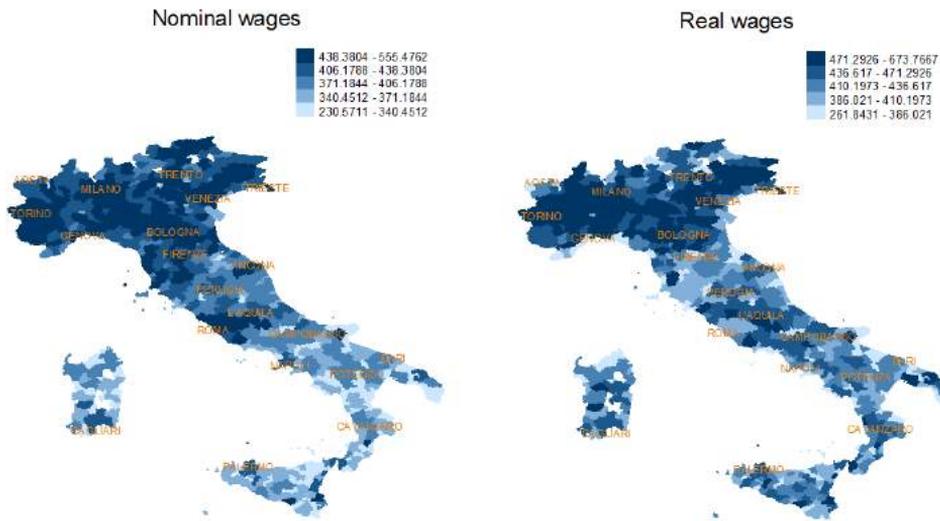
Table 2 **Distribution of weekly nominal and real wages, by population quantiles** (Belloc et al, 2018)

| Population density | Nominal wages | Real wages |
|--------------------|---------------|------------|
| first 20 % | 401 | 446 |
| 20-40 % | 428 | 459 |
| 40-60 % | 444 | 458 |
| 60-80 % | 472 | 465 |
| top 20 % | 511 | 443 |
| total | 452 | 452 |

Note: Quantiles weighted by population.

This evidence is widely confirmed when looking at the distribution of nominal and real wages (Figure 1), computed at the local labour market level that allows emphasizing the role of agglomeration forces. When considering nominal wages, big cities such as Rome, Milan, Naples, Palermo, Cagliari, Venezia display higher wage levels. However, when moving to real wages, big cities are associated to low-medium wage levels.

Figure 4 Distribution of nominal and real wages by local labour market (Belloc et al, 2018)



When moving to a rigorous wage regression analysis approach, for the 2005-2015 period, to estimate the elasticity for both nominal and real wages with respect to population density, they find that the elasticity of nominal wages with respect to population density, once controlling for individual and firm characteristics, is close to zero and not statistically significant. In terms of real wages, the elasticity is, instead, negative and non-negligible (-5.1%), suggesting that urban workers suffer a penalty in terms of real wages.⁹

Apart from collective bargaining, one might argue that the findings derived by Belloc et al (2018) could be related to other urban issues, such as amenities and/or idiosyncratic preferences for locations (Moretti, 2011). For instance, individuals might be willing to receive lower real wages in cities because of amenities/entertainment services or because of higher quality of public services such as education and health.

To isolate the collective bargaining effect, Belloc et al (2018) consider various groups of self-employed workers, because, differently from employees,

⁹ In an agglomeration dimension, Belloc et al (2018) also verify whether the estimated urban wage penalty reflects a higher probability of being employed in more densely populated areas. Their evidence rejects this hypothesis, i.e. non-employment rates are rather flat along the population density distribution, while it was the case in the comparison across macro-areas (Boeri et al., 2018).

they are not subject to centralized wage settings, while living in the same locations and enjoying the same local amenities as employee. Using various groups of self-employed workers, Belloc et al (2018) find that the estimated UWP for these groups in nominal terms, including all possible controls, is up to 25 times greater than that found for employees (around 5%). Instead, in real terms, the UWP falls to zero, with higher wages that, on average, are compensated by higher costs of living. Interestingly, once worker and firm fixed effects are included, a more pronounced drop in the UWP for independent contractors is observed with respect to employees, suggesting the presence of spatial sorting: higher spatial variability of wages for self-employed provides higher incentives for individuals and firms to sort into agglomerated areas. Furthermore, differences between employees and self-employed are found to be rather homogenous along the wage distribution, for both skilled and unskilled workers.

In such a setting, Belloc et al (2018) conclude that collective bargaining can be considered a driving force behind such differences in the presence of heterogeneity in the cost of living, since workers in the two groups enjoy the same amenities and live in the same locations.

6. Policy implications and concluding remarks

In recent years, after the crisis, Italy introduced a major reform of its labour market institutions - best known as “Jobs Act” - to increase labour market flexibility and extend income support and activation policies for the unemployed, in line with the European model of flexsecurity. What the “Jobs Act” did not attempt to reform - following a long standing tradition in Italy that considers social partners as the only responsible for setting the rules in industrial relations - was the structure of collective bargaining and the rules to measure trade unions’ (or employers’) representation. The question is whether the increased flexibility achieved on the employment side by reducing firing costs will be sufficient to reduce unemployment and regional imbalances, or additional flexibility on the wage side would be necessary to provide the right incentives for an optimal allocation of production factors. Indeed, the debate on whether the current set-up of collective bargaining is to be held respon-

sible for the high unemployment, the existence of regional imbalances and the overall inefficient allocation of resources is open and highly controversial. Some regard the current two-tier bargaining system as the optimal structure to preserve wages’ purchasing power (through national collective contracts) and allow some additional (upward) flexibility with performance-related-pay schemes (through firm-level bargaining). Many others, instead, criticize the excessive downward rigidity of wages and their inability to accommodate differences across regions in productivity, real purchasing power and local labour market conditions.

As the empirical evidence discussed in the paper has highlighted, over the crisis the dynamics of negotiated wages proceeded at a faster rate if compared to the evolution of productivity. Moreover, since negotiated wages in industry-wide collective agreements are set at the national level, differentials in nominal wages are modest, while differences in productivity and in real purchasing parity are large, thus contributing to feed regional imbalances in inactivity, unemployment, NEET and poverty. In this highly regulated context, market forces seem unable to re-establish a more efficient equilibrium either by workers’ moving to regions where labour demand is higher or by forcing wages downwards to meet the local labour market productivity levels. At least this is what happens in the formal economy, while adjustment mainly occurs in the informal economy through high rates of irregular work, non-compliance with minimum wage provisions of CCNL, as well as higher rates of inactivity of selected groups such as young, women and older workers. This apparent counterintuitive evidence contrasting the high wage dynamics of collective contracts with a large share of workers paid below the minimum wage levels is a signal of the inefficient institutional setting governing wage determination, which ends up in a segmented labour market where the informal economy is left to clear the imbalances and some groups of workers disproportionately bearing the burden of the adjustment.

In other words, some argue that the “Jobs Act” – which planned to be a comprehensive reform of labour market regulation – fell short of expectations leaving the Italian labour market still “crossing the river”. Some of the missing pillars of the reform, which are currently discussed in the public debate, are the following: first, a more flexible structure of collective bargaining with a more pronounced decentralization at the firm or territorial level (i.e. mainly

for small firms); second, a statutory minimum wage to protect low-skilled workers from wage dumping and to set a wage floor for collective bargaining; third, a set of rules and criteria to measure trade unions and employer organization's representation for collective bargaining, with the purpose of limiting the erosion of social partners' bargaining power and the increase in "pirate agreements".

With the only exception of a statutory minimum wage, the other policies do not need an explicit Government intervention. More "nudging" on the Government side might have helped social partners to proceed faster than what occurred in recent years. For example, while the fiscal incentives for firm level bargaining introduced with the 2016 Budget law did contribute to increase second level bargaining and to promote various forms of company welfare, the diffusion of decentralized bargaining is still limited to large companies and concentrated in selected industries and regions.

Another important change that characterized industrial relations in Italy is the so-called "Pact of the factory" (*Patto della Fabbrica*) signed in March 2018 by the main Social Partners (Confindustria, Cgil, Cisl and Uil). Two main aspects of the Pact are expected to deeply transform social partners' representation criteria as well as wage flexibility. The first point concerns the measurement of employers' representativeness, which complements the 2014 Agreement concerning trade union representation. This issue will be fundamental to outlaw many agreements signed by non-representative parties and aimed at dumping existing collective contracts (the so-called "pirate contracts"). The second point concerns the reorganization of pay components and the strengthening of firm-level (or territorial) bargaining. Pay levels will be set according to a first component, called "TEM" (*Trattamento Minimo Economico*), which is a sort of base pay linked to inflation (consumer price index adjusted for import energy prices); and a second component, called "TEC" (*Trattamento Economico Complessivo* TEC), which is negotiated at the firm-level and expected to encompass all wage components as well as company welfare. The introduction of the distinction between TEM and TEC is going to be an important feature of future wage dynamics. In the new setting any increase in minimum wages (TEM) will not be "automatically" translated onto the other pay components shifting total pay (TEC) upward. Firms already paying an overall wage (TEC) that is above the newly negoti-

ated minimum level, could continue to pay the same overall wage simply absorbing any increase in the negotiated minimum level into the *wage drift* (i.e. pay components above the minimum): a mechanism known as “cushioning effect” (Dell’Aringa, 2017; Cardoso and Portugal, 2005). To what extent the above features will be effective in wage determination is still to be assessed, as it crucially depends on their implementation in the next round of national collective agreements.

Furthermore, another issue that has to be taken into account concerns how to address the fact that wages in Italy are settled at the industry level, with no differences between different regions, i.e. between the North and the South, and between local labour markets characterized by different level of agglomeration. To make wages aligned with productivity dynamics in a geographical dimension, some authors have proposed to relax the *in melius* clause in the second level of bargaining, making this possibility dependent on the approval of the local labour unions. Other proposals refer to a possible overall change in the current system, such as a replacement of the national bargaining structure with the adoption of a system based on decentralization at the firm level. Nonetheless, the transition to a completely decentralized system is likely to raise serious applicability issues in order to achieve a new equilibrium for the whole system of industrial relations. For the Italian case, this transition is even more complicated by the fact that 90% of firms have less than 15 employees, and only a very low share of firms with less than 15 employees –no more than 10% - have trade unions at the local level.

Finally, the statutory minimum wage was another unaccomplished part of the reform. The debate that developed in Italy concerning the introduction of the minimum wage was highly controversial, with social partners strongly opposing it (Lucifora 2017). In particular, employers expressed concern related to the displacement effects of a high minimum wage on the employment of low-skilled workers, as well as reservations concerning the risk that firms could find profitable to abandon employer organizations further reducing the coverage of collective contracts. On the trade unions’ side, the concerns focused on the risk that firms could choose to pay the statutory minimum wage neglecting the outcomes of collective contract and thus contributing to further erode the effectiveness of collective bargaining. While these worries should receive appropriate attention, it is also true that the economic effects

of statutory minimum wages have been extensively investigated and empirical studies generally agree that the impact on employment is negligible (Card and Krueger 1994). In most European countries, statutory minimum wages coexist with collective bargaining and the two complement each other. Furthermore, a number of countries which recently introduced a legal minimum, such as the United Kingdom and Germany, have experienced a reduction in inequalities without any significant displacement effects on employment or collective bargaining. The benefits of a statutory minimum wage could be numerous. Firstly, even if set at a level that is nominally lower than the (minimum level of) collective bargaining level, a statutory minimum wage could guarantee - by virtue of a greater enforceability - a more effective protection against non-compliance. Secondly, a minimum wage set at an appropriate level would still offer employment opportunities for workers less qualified and in the less dynamic areas of the country. Thirdly, a statutory minimum wage could constitute an important reference point for the industrial relations system allowing national and firm-level collective bargaining greater degrees of freedom in the determination of performance-related-pay. Finally, anti-poverty and activation policies could be more efficiently designed and implemented on workers paid the minimum wage.

In other words, it is time that the neglected aspects of the recent reform process are included in the policy agenda of future Governments to complete the modernization of the Italian labour market that was fruitfully started by the “Jobs Act”.

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Il Jobs Act. Occasione mancata o base per ripartire?

Pur con limiti e incompiutezze, il **JOBS ACT** rappresenta un esempio raro di traduzione in un corpus legislativo e regolamentare di una visione del mercato del lavoro emersa da due decenni di acceso dibattito teorico ed empirico. Si può non condividere questa visione, ma è impossibile negare l'iniquità del mercato del lavoro duale ereditato dalle precedenti riforme, a cui la legge risponde. Le riflessioni e i risultati dei lavori di questo numero di *ECONOMIA ITALIANA*, coordinato da **Fabiano Schivardi**, sono quindi particolarmente attuali, data la fase di ripensamento dell'intero progetto di riforma del mercato del lavoro italiano. L'auspicio è che il dibattito si svolga sulla base di evidenze teoriche ed empiriche solide, e non solo di principi ideologici.

Il **JOBS ACT** è stato giudicato dalla sua capacità o meno di creare lavoro. Quel dibattito si è incentrato sulla domanda sbagliata. L'obiettivo era di costruire un sistema adeguato a un mondo del lavoro con carriere lavorative inevitabilmente meno stabili che in passato e più bisognose di un continuo aggiornamento delle competenze. Ed è sul raggiungimento di questo obiettivo che i contributi di questo numero si focalizzano.

Sestito e Viviano offrono una valutazione complessiva degli effetti del **JOBS ACT** rispetto all'obiettivo dichiarato di ridurre il grado di dualità del mercato del lavoro. **Boeri e Garibaldi** si concentrano sull'effetto del contratto a tutele crescenti. **Anastasia e Santoro** analizzano le politiche attive del lavoro. **Lucifora e Naticchioni** analizzano l'inadeguatezza del nostro sistema di contrattazione collettiva, suggerita anche dai confronti internazionali. **Leonardi e Nannicini**, fra i principali protagonisti dell'elaborazione del **JOBS ACT**, illustrano le motivazioni sottostanti la riforma, offrono una valutazione di cosa ha funzionato e cosa no, valutano i recenti sviluppi legislativi alla luce della filosofia generale del **JOBS ACT**.

ECONOMIA ITALIANA nasce nel 1979 per approfondire e allargare il dibattito sui nodi strutturali e i problemi dell'economia italiana, anche al fine di elaborare adeguate proposte strategiche e di *policy*. L'Editrice Minerva Bancaria si impegna a riprendere questa sfida e a fare di *Economia Italiana* il più vivace e aperto strumento di dialogo e riflessione tra accademici, *policy makers* ed esponenti di rilievo dei diversi settori produttivi del Paese.