Employment Pacts in Italy 1992 to 2002

Sascha O. Becker*

In Italy the 1990s were characterised by major changes and even turmoil on the political stage. In early 1992, investigations into political corruption led to the overthrow of the political class. At the same time, the signing of the December 1991 Treaty on European Union determined that member states had to meet five convergence criteria for membership in the single currency union. Italy was far from meeting the Maastricht criteria, and it was clear that it would have to struggle hard to enter EMU.

The events of the early 1990s also had a strong impact on industrial relations in Italy. The 1990s saw quite a number of employment pacts, all of which aimed at increasing the flexibility of the Italian labour market. In this paper, we provide a description and an assessment of the major agreements in 1992, 1993, 1996, 1998 and 2002.

The Italian economy in the 1990s

Italy is one of the leading economies of the world. At the same time it shows one of the highest regional disparities worldwide. The central and northern part of Italy is characterised by more flexible modes of production, high labour mobility and relatively low unemployment rates. By contrast, the south of Italy (Mezzogiorno) is marked by insufficient wage differentiation, lack of infrastructure, low quality of public services and the presence of organised crime.

The following table shows some indicators of regional differentials in 1995 and 2001.

These regional disparities make support for the south one of the central issues in all negotiations about employment pacts.

A further characteristic of the Italian labour market is its high youth unemployment rate (27 percent in 2001). Furthermore, long-duration unemployment (12 months and over) as a percentage of total unemployment was 63.4 percent in 2001 (see OECD, 2003, Table 24).

Italy has a very high percentage of small and medium sized firms which are considered the motor of the Italian economy.[1] Until the early 1990s Italy's industrial relations were characterised by a very low degree of coordination. The employment pacts described below (in particular the 1993 agreement) led to a complete restructuring of industrial relations.

The social parties

Trade unions

In Italy, there are three main associations of trade unions:

1) The CGIL (Confederazione Generale Italiana del Lavoro), the General Confederation of Italian Labour, has close ties with the Democratic Party of the Left (Democrazia di Sinistra). It was formerly dominated by the Italian Communist Party (Partito Comunista Italiano).
2) The CISL (Confederazione Italiana Sindacati Lavoratori), the Italian Confederation of Labour Unions, has links with the Italian Popular Party (Partito Popolare Italiano), for-

* Center for Economic Studies (CES), University of Munich, Schackstr. 4, 80539 Munich, Germany. sbecker@lmu.de; Phone: +49 (89) 2180-6252. He is also affiliated with CESifo and IZA.

[1] In 1999, 49.1 percent of all workers in the manufacturing sector in Italy were working in firms with less than 50 employees, which is by far the highest percentage in major economies, see OECD Statistical Database on Enterprises(2002).

	Italy		Centre-North		Mezzogiorno	
	1995	2001	1995	2001	1995	2001
GDP at market prices (shares)	100.0	100.0	75.8	75.6	24.2	24.4
GDP per capita	100.0	100.0	119.2	118.0	66.4	67.8
Productivity (GDP per worker)	100.0	100.0	105.3	104.9	86.3	87.2
Employment rate	57.4	61.0	60.9	65.3	51.1	53.2
Unemployment rate	11.6	9.1	7.6	4.8	20.4	18.6

Note: Latest labour data refer to January 2003.
Source: OECD Economic Surveys: Italy (2003), Table 3.

merly with the Catholic Christian Democrat Party (Democrazia Cristiana).

3) The UIL (Unione Italiana del Lavoro), the Italian Confederation of Labour, is associated with the socialists.

In 1994, CGIL had 5.2 million members (2.7 million retired), CISL 3.7 million (1.5 million retired), UIL 1.7 million (0.5 million retired). This compares to a workforce of around 22.5 million.

There is very little information on membership outside the three main trade union confederations in Italy. Several so-called "autonomous" unions and confederations exist, but little is known about their internal organization, functions, status and strength. Most of them operate in the public sector. These organizations are rarely involved in collective bargaining.

Each of the Italian union confederations includes large numbers of retired workers and also unemployed workers, in particular those unemployed workers who held regular jobs in the official economy. In the Italian layoff system (the so-called *Cassa Integrazione Guadagni*) a worker's employment contract with the former employer is retained, and he will probably maintain his links to the union in case he was a member.

On 1 March 1991 CGIL, CISL and UIL agreed on the so-called *rappresentanze sindacali unitarie*, the unified union representation, which was supposed to enable unions to speak with one voice and to give them more bargaining power by joining their forces.

Employers' associations

On the employers' side, the main actor is the employers' association Confindustria, which has 105 territorial associations and 110 branch associations, totalling 107,000 firms with 4.1 million employees. The CONFAPI (Confederazione Italiana della Piccola e Media Industria) represents 65,000 small and medium-sized private enterprises employing about a million workers.

Major agreements in the 1990s and early 2000s

Political and institutional background in the 1990s

The negotiations of 1992 and 1993 have to be seen in light of the overthrow of the political class resulting from the investigations into political corruption in early 1992. The operation *Mani Pulite* (Clean Hands) revealed a complex web of corruption linking political parties, local authorities and business. It became clear that most political parties had long been involved in an institutionalised system of bribes which had "milked" state companies for political purposes and extracted huge sums from businessmen in return for public-sector contracts. When parliament was dissolved in January 1994, over one third of its members were under investigation. These events are also commonly associated with the end of the *First Republic*.

From April 1992 to March 1994 the political parties left the task of reform to governments mainly made up of tecnici (non-party academics, managers or senior civil servants). They managed to carry through major reforms, including the toughest budget since the Second World War and the abolition of the old inflationary system of wage indexation, the *scala mobile*, which had been introduced in 1946.

The 1992 agreement

The 10 years following the first Italian experience of co-determination (concertazione sociale) (the agreements of 23 January 1983 and 14 February 1984) were marked by a large number of partial agreements that were characterised by their weak stability and ineffectiveness, due to both the fragility of the trade union environment and the weakness of the governments and, finally, due to the temporary nature of the measures agreed upon. Still, the central aim of these agreements was the reduction of the sliding wage scale (scala mobile) and of the cost of labour.

The agreement of 31 July 1992 between social parties was the first step towards the major agreement of 23 July 1993. For the first time, it brought forward the idea of changing to a system of wage determination without automatic wage adjustments. It proposed national contracts of 3-year duration based on the projected inflation rates for the following three years. At the end of each year of this three-year period, wages should be readjusted if the difference between projected and actual inflation rates is too high. However, this first step towards the abandonment of the scala mobile was not stated clearly enough and gave way to contesting. The restructuring of the bargaining system (both in the private and in the public sector) was postponed to a second period of negotiations, the start of which was considered insecure and controversial.

The most controversial practical result was the agreement to increase earnings by LIR 20.000 per month (about EUR 10) in exchange for the "temporary" suspension of the *scala mobile* for two years and the renouncement of any firm level agreements in the same period. While the CISL celebrated the agreement to be the only way to save the welfare state and as a first step towards the reshaping of industrial relations in particular, including true union *participation*, the other unions and left-wing newspapers saw it as an agreement forced upon them by the economic and political circumstances. The Amato government threatened to resign and even left-wing newspapers commented that this was not a purely theatrical gesture but a real threat stressing how much the economic and financial future lay in the hands of the workers and of the unions (L'Unità, 2 August 1992).

The long-lasting re-negotiations about the cost of labour and the reform of collective bargaining between government and social parties started in autumn 1992, and they almost ended prematurely due to two government changes. The whole process has to been seen against the background of the biggest political and institutional crisis after the Second World War (described above), which was supposed to lead to the "Second Republic". The endless negotiations were thus also due to the extreme instability of Italian politics during that period and in particular caused by the weakness of the third involved party in the negotiations, the government.

The 1993 agreement

The final agreement of 1993, also known as the *Ciampi Protoco*l, was reached after three-party negotiations (intese triangolari), bilateral agreements between trade unions and employers' associations and bilateral arrangements between trade unions and the government, some of which were followed by laws, thus constituting a whole mosaic of accords. It was signed by the government and 22 employer and employee organizations with the exception of agricultural organizations. After 3 July 1993 the 3 major unions CGIL-CSIL-UIL consulted for the first time all their members for their support in this matter. 67.05 percent voted in favour. Union leaders regarded this vote as a "real democratic success for the union movement" and "as a reference method also for the future" (L'Unità, 24 July 1993).

The first element of the agreement is the removal of the scala mobile system. The only remaining element of wage indexation was the introduction of an indexation system to compensate for delays in contract renewals in the private as well as in the public sector (equal to 30 percent of the projected inflation rate for delays up to 3 months, 50 percent% for longer delays).

The *Protocollo sulla politica dei redditi e dell'occupazione, sugli assetti contrattuali, sulle politiche del lavoro e sul sotegno al sistema produttivo* (Incomes Policy Agreement), agreed upon on 3 July 1993 and ultimately signed by the social parties on 23 July 1993, was received as a historical agreement with constitutional character because it reshaped industrial relations in Italy. Indeed, the principal content of this agreement consists of new bargaining rules at all levels, in particular trade union participation at all levels with the aim of creating more stable relationships between social partners.

The agreement is characterised by a new attitude on both sides of industry (parti sociali): former agreements always consisted of advantages and sacrifices for all social partners while the 1993 agreement stresses "common objectives".

The reform of the collective bargaining system is considered the most important piece of the agreement. The agreement provides for a two-tier bargaining system (*doppio livello contrattuale*) with specific indications for the relationship and functioning between them: a national collective labour contract (*contratto collettivo nazionale di lavoro*) and a second bargaining level (*secondo livello di contrattazione*) on a firm basis or on a regional basis. The national sectoral contracts provide for normative standards and minimum wages. The contracts at the second bargaining level can determine further wage increases and provide for more specific contract conditions. Put differently, the national contracts are aimed at keeping up purchasing power while the second level can distribute gains reached through higher productivity.

While in the 1992 agreement some unions (with the positive exception of the CISL) still considered their role to be passive and wage adjustments to be a fair *reaction* to past price increases, they now acknowledge that wage increases are also a cause of price increases and that therefore the unions' role is a more comprehensive one which has to take into account the whole economic framework.

Firm-specific wage increases are made possible within the framework of the second bargaining level. Decentralised bargaining (secondo livello contrattuale) only takes place if agreed upon in the national contracts. Thus, the second bargaining level is no must and also no "right" in itself. Still, the passage referring to "the specific situation of the sector" paves the way to a more decentralised bargaining model, taking account of the individual firm's *ability to pay*.

The pact stipulates new rules for employment and training contracts for young job seekers and paves the way for the introduction of temporary work agencies. These two measures were the first taken towards facilitating integrating young workers into the labour market.

The 1993 agreement also institutionalises the *rappresentanze sindacali unitarie*. In all firms with more than 15 employees a single body representing employees is elected from a list of candidates presented by the trade union associations. These special union representatives are authorized to negotiate, at the firm level – together with the regional union organizations – all issues in connection with the national contracts.

To sustain this political change, the parties involved have planned a large number of initiatives devoted to the promotion of research and innovation, human capital formation and the creation of business and employment and supported by large private and public investment programs. All parties agreed that with public finances in better shape all these tasks could be accomplished more easily.

The Employment pact (1996)

On 24 September 1996, the *Accordo interconfederale* was agreed upon by the government and the social partners. It is better known as the *Patto per il lavoro*, the Employment Pact. It added the missing piece to the 1993 agreement by providing measures of implementation for labour market policy, in particular for fighting unemployment among youth, women, in the south and long-term unemployment. The government promised to provide "fresh resources" for the years 1997–1999 amounting to LIR 15,000 billion (approx. EUR 7.5 billion), to be financed by fighting tax evasion and privatizing state-owned firms.

The ambitious aim was to halve the unemployment rate by the end of the century. In particular, 1.7 million persons between the age of 15 and 29 were unemployed at that time and half of them were unemployed for more than 2 years.

In order to promote employment, the parties agreed on:

- Raising the maximum qualifying age for apprenticeships from 20 to 24 years, with a preferential clause for the south (26 years)
- Gradually introducing a dual system of apprenticeship, redefined as a relationship combining vocational training and working (following the German model). The apprenticeship contracts are subject to low entry wages and low social security contributions
- Investing 0.3% of the total labour income in continuous formation
- Partial tax deductibility of training costs incurred by the worker
- Introduction of manpower/part-time work agencies (by authorization of the labour ministry) which employ (formerly unemployed) workers and lease them to other firms
- Providing incentives for part-time work (up to 24 hours of work per week) by adjusting social contributions for new entrants and re-entrants into the labour force
- Favouring business start-ups by providing easier credit access

As for working hours, the government supported an "orientation" towards a legal maximum of 40 hours per week instead of 48 hours.

So-called area contracts (*contratti d'area*) are targeted at economically depressed regions which are identified by a government agency from time to time. Under these agreements, local authorities and social partners collaborate to co-ordinate job-creating efforts in specific sectors while introducing simplified administrative procedures. The intention of these agreements is also to allow for more wage differentiation across geographical areas.

Complementing those labour market measures are agreements dealing with improving professional training and fostering scientific research. All these measures were to be accompanied by reviving public investment projects –- focussing on the transportation and the energy sector – which were frozen in the wake of the corruption scandal.

While all union leaders praised the employment pact as "good", "very important", "innovative", the leader of Confindustria, Giorgio Fossa, added some scepticism: "It is an important step forward, but is certainly not yet the solution to all problems". He underlined the necessity of reducing the cost of labour by 1.2 percent by relieving employers from the duty of paying workers' health coverage by transferring it to the 1997 budget. (La Repubblica, 25 September 1996).

Social pact for development and employment (1998)

On 22 December 1998, the Social Pact for Development and Employment (*Patto sociale per lo sviluppo e l'occupazione*) was agreed upon by 33 parties including the government, Confindustria and the three major parent unions, CIGL, CISL and UIL.

The 1998 agreement provides for several measures that alleviate the tax burden of both firms and workers and for the extension of new types of contracts. The major issues of the 1998 agreement were the following:

- Labour costs will go down by 1.2 percent before the year 2003 by transferring employers' contributions for maternity leave and family allowances to the general budget. In addition employers' contributions for safe working are reduced and the state financing program for social security contributions in the south will be extended.
- Income tax is reduced by 1 percentage point in the second tax interval (from 27 to 26 percent); this step is to be by financed by fighting tax evasion.
- The dual income tax (DIT) hitherto comprised two different tax rates for firms: a lower one for those gains that were reinvested and a higher one for the gains used for dividends. The lower tax rate shall be extended to all capital accounts; this step will lead to a tax relief of LIR 6,000 billion (approx. EUR 3 billion) in the two years following investments.
- Co-determination is now extended also to local authorities whose representatives have signed the agreement.
- To fight illegal work, adjustment contracts (*contratti di realleamenti*) should be more widely used; these contracts regularise black-market activities by treating underground employment as new visible employment, which will give rise to preferential tax treatment.
- Professional training is supported by LIR 1,600 billion (approx. EUR 800 million) in three years and allocation of resources is handed over to the regions.
- Streamlining the administrative procedures for public investment projects.

Furthermore, a minor change was made to the two-tier bargaining system: the quota of the production premium on which the firms do not have to pay contributions was increased from 2 to 3 percent.

The pact for Italy (2002)

After its election in October 2001, the new center-right government led by Silvio Berlusconi pressed for reforms of the labour market, the tax system and the pension system. It appointed a group of experts which drafted a White Paper setting out the main lines of its reform policies. After several general strikes and the murder of the labour law consultant and one of the authors of the White Paper, Marco Biagi, by the Red Brigades in spring 2002, negotiations between the social partners were concluded. On 5 July 2002, the Italian government, employers' organizations and trade unions - with the notable exception of the Cgil union - signed the "Pact for Italy"'. An interesting side-aspect of the agreement is that the government explicitly recognises the importance of active cooperation between social partners and the success of the 1992 and 1993 agreements in allowing Italy to join EMU.

The agreement covers three main issues: incomes policy and social cohesion; "welfare to work" (including labour market matters); and investment and employment in the Mezzogiorno regions.

First, the agreement envisages a tax reform, in particular income tax reductions for families earning up to EUR 25,000 per year as well as a reduction and simplification of company taxation.

Second, under the heading “welfare to work”, a long list of instruments aimed at encouraging and assisting workers in entering or re-entering the labour market was agreed on. Most prominently, those measures included the institution of public employment services, promotion of education and training for employability and income support measures for unemployed people. The latter involved an increase in unemployment benefits together with an increased monitoring of search activities of the unemployed. Income support schemes for the poor were to be introduced. Those measures were aimed at increasing both support, and the famous *articolo 18*, the article of the Workers’ Statute providing additional employment protection for workers employed in firms with more 15 employees (which the government wanted to abolish) was only marginally altered in the end, following strong opposition by all trade unions.

Third, investment and employment in the Mezzogiorno was to be boosted by increasing public expenditure and simplifying procedures to provide businesses with credit.

Not much can be said about the success of this latest employment pact so far. The only action taken so far is the passing of a “proxy law”, DDL 848bis including labour market reforms, in early 2003.

Ten years of employment pacts in Italy

Sine 1992, Italy has seen quite a number of important agreements between labour market parties and the government. These employment pacts led to a complete overhaul of the Italian system of industrial relations. Did these changes have any impact on Italy’s employment performance? To answer this question, in the next section we will present the results of a unique study on the flexibility of the Italian labour market following the 1992 and 1993 employment pacts.

While it is clear that many of the measures agreed on will only have an effect on employment in the long run, it is instructive to see the immediate effects of increased flexibility, in particular on new entrants into the labour market.

Finally, we will then briefly summarise the state of affairs nowadays and give an outlook on what might be the long-run effects of the Italian labour market reforms.

Some evidence for the increased flexibility of the labour market

In 1997 the ISTAT, the National Statistical Office, commissioned a study on the flexibility of the labour market following the 1993 agreement.[2] It interviewed 8,000 firms in the production and service sector with more than 10 employees. In particular, all firms with more than 500 employees were interviewed. Firms were asked to give information on the main forms of contractual flexibility at the firm level. This study is an important confirmation of a change. The number of atypical contracts has increased considerably and the system of incentives (output premiums) has undergone huge changes. In the sequel; we will describe some of the main results from the Istat study and provide corroborative evidence from other sources.

• *Firm-level negotiations*

In 1995–96, 9.9 percent of firms with more than 10 employees, equivalent to 38.8 percent of the all workers, were involved in firm-level negotiations within the two-tier bargaining system agreed upon in the 1993 agreement. There is a strong relationship between firm size and propensity to negotiate at the firm-level: the percentage of firms involved in firm-level negotiations goes from 3.3 percent of the firms with 10-19 employees, 15.7 percent of those with 20-49 employees, up to 61.1 percent in the class of firms with more than 500 employees. This pattern applies to both industrial and service sector and holds across all geographical areas. However, firm-level negotiations are more common in the industry than in the service sector. Also, they are more common in the north than in the south: while 44.4 percent of all workers in the North-West are involved in firm-level negotiations, it is only 34% in the centre and in the south.

• *Flexible compensation schemes*

The 1993 agreement also suggested new schemes of remuneration, in particular different sorts of performance-related pay. Thereafter piece-rate

[2] See ISTAT (1999). Unfortunately, there is no follow-up study with more recent data.

pay, una tantum pay (i.e. bonuses from time to time), bonuses for team performance, so-called flexibility bonuses, bonuses for regular presence and premiums based on the economic performance of the whole firm were introduced in a large number of firms. In particular, premiums based on economic performance were introduced in 58.6 percent of the firms with new firm-level contracts, followed by bonuses for team performance, which were instituted in 32.2 percent of those firms.

Additional empirical evidence by Casadio and D'Aurizio (2000) for the manufacturing sector shows that the adoption of flexible wage premiums is complementary to working time flexibilities. Both types of flexibility together may favour efficiency.

Casadio (1999) and Rossi and Sestito (2001) suggest three main effects of firm level wage agreements on wage differentials: Because paid bonuses are fairly homogeneous across workers within the same firm, the first effect is to reduce wage dispersion inside the firm. The second effect is the enlargement of the wage differentials among similar qualifications, but in different firms, with high or low productivity and profitability. The last effect, only partly induced by the previous two, is a small increase of regional wage differentials between firm located in the north or in the south of Italy.

• *Contract lengths*

To evaluate the degree of flexibility in the labour market, it is important to have information on the distribution of different types of contracts. At the beginning of 1996, 92 percent of all those employed had an unlimited contract. This reveals a high degree of rigidity in the stock of workers in 1996. However, among those that started working on a new contract during the year 1996, only 45.3 percent were offered a contract of undetermined length. Thus, a remarkable 54.7 percent were offered contracts with limited length.

Conclusion and outlook

The precious section showed that the Italian labour market has started to become more flexible. The increased number of limited-term contracts (see also Frey and Pappada 2002) for new hires is going to change the turnover patterns in the Italian labour market in the long run, as the fraction of workers on those contracts increases. The more decentralised bargaining system will lead to increased efficiency as worker compensation will follow their productivity more closely.

The latest employment figures for Italy are encouraging (see Table 1): employment rates have increased, unemployment has declined. The most recent OECD Economic Survey on Italy (OECD 2003) states that Italy's strong employment performance is "a clear result of the greater flexibility" of the labour market following the reforms of the 1990s. However, the employment and unemployment gap between the north and the south of Italy has not been diminished.

The agreements reached were a necessary and overdue step to pave the way for Italy's economy in the new century. In particular, they were crucial in allowing Italy to enter EMU. While first results of the reforms in the 1990s are quite encouraging, Italy still has some way ahead in order meet one of the main goals of the Lisbon European Council, namely to raise the overall EU employment rate to 70 percent by 2010.

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