INDUSTRIAL RELATIONS IN EUROPE CONFERENCE (IREC) 2018

Sustainable labor markets:
social welfare and protection, working conditions, job quality and work-life balance

KU LEUVEN – CENTRE FOR SOCIOLOGICAL RESEARCH & INSTITUTE FOR LABOUR LAW
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DECENTRALIZED BARGAINING AND MEASURES FOR PRODUCTIVITY AND CORPORATE WELFARE GROWTH IN ITALY

- Empirical evidence from administrative data -

Achille Paliotta & Massimo Resce
Activities carried out under the National Operational Programme for the implementation of the European Social Fund (ESF) “SPAO”
INDEX

1. Collective bargaining in Italy
2. Conundrum of labor productivity in Italy
3. Measures for dissemination of two-tier bargaining
4. Conclusions: some policy recommendations

Bibliography

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The Italian model of collective bargaining involves two levels:

**First level**
- National Collective Labor Bargaining (CCNL)

**Second level**
- Decentralized bargaining (Company or territorial level agreements)

**Minimum Wage**
- Link between pay and prices

**Others issues:**
- Working time;
- Work organization;
- Disciplinary dispositions;
- Etc.

**Performance related pay (PRP)**

**Other issues:**
- Corporate welfare;
- Company participation;
- Rent-sharing formulas;
- Benefits;
- Work life balance;
- Etc.
The Protocol of 23 July 1993 and the two-tier bargaining

A large number of countries adopted in the 1990s two-tier bargaining structures or extended the scope of the existing ones.

Although the history and design of these structures differ considerably from country to country, a common factor behind these developments was the search for an organized or controlled decentralization of collective bargaining, in which the so-called social partners, rather than moving from fully centralized to fully decentralized structures, opted for an intermediate solution.

In Italy the «Protocol» of 23 July 1993 expressly opened to forms of «decentralized bargaining».

One of the aims was to stimulate productivity growth in the second level of bargaining, by linking wages dynamics to productivity. This pattern still today is hard to catch on.

In essence, national collective agreements do not compensate the productivity increases. This function is delegated to decentralized bargaining (at company and / or territorial level), which can remunerate productivity gains on the base of the achievement of production results (ie Performance-related pay).
The Italian labour productivity slowdown

The problem of productivity growth is a structural aspect of our economy. In fact, since the post-war years up to the '70s, productivity growth in Italy has been more sustained than the European average, whereas from the 1990s to the present day it has collapsed compared to other European States.

Labour productivity - GDP per hour worked

Annual average percentage changes

ES11 - Definition

The entry into the euro area was progressive and did not occur for all countries at the same time. Therefore the first 11 countries entered between 1999 and 2002 were taken into consideration as Euro-System: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.
The Italian labour productivity slowdown

There are several factors traditionally taken into account to motivate productivity growth (such as variables on the size of the company, those technological, demographic, institutional, on the knowledge, etc.). In literature it is possible to recognize three interpretative strands about the causes of the flat trend of labor productivity in Italy. These causes have occurred since the 1990s:

1) Adoption of the euro and policies to reorganize public finances. Loss of the lever of the competitive devaluation of the lira that supported exports. Containment of public spending with a consequent decrease in GDP.
2) Labor market reforms which, since the 1990s, increase the flexibility of workers entering. They generated wage moderation and an increase in employment despite the stagnation of the economy.
3) Globalization and ICT revolution, which has increased international competition above all by emerging economies.
The opportunities offered by two-tier bargaining

Decentralized bargaining remains the level where conditions for a better company-workers relationship can be made, which indirectly could result in increased labor productivity.

The solutions that can be developed in the second level are many: from corporate welfare, to company participation, to rent-sharing formulas, to productivity bonuses on accessory wages, to performance-related pay, etc.

In recent years, the Government has put in place a package of incentives aimed at rooting the two-tier bargaining in the firms, providing for a tax benefits regime for an ever-wider basket of services (scholarships for the children of employees, assistance to elderly relatives, baby-sitting or gym voucher, etc.).
The new incentive measures for decentralized bargaining

Since 2008 the Italian law has expected forms of variable wage tax reduction. Starting from 2016, after an experimental phase, the measure was reactivated making important changes compared to the past.

### PRP 5 goals

<table>
<thead>
<tr>
<th>Productivity</th>
<th>Profitability</th>
<th>Quality</th>
<th>Efficiency</th>
<th>Innovation</th>
</tr>
</thead>
</table>

### Other goals

<table>
<thead>
<tr>
<th>Workers participation</th>
<th>Corporate welfare</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Taxation period</th>
<th>Amount limit for tax benefits</th>
<th>Income limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2,000/2,500* €</td>
<td>2015 income not exceeding 50,000 €</td>
</tr>
<tr>
<td>2017</td>
<td>3,000/4,000* €</td>
<td>2016 income not exceeding 80,000 €</td>
</tr>
</tbody>
</table>

*:companies that involve workers in the organization of work
A new repository

Measure monitoring was also envisaged, by compiling a special instrument for collecting summary data: the Repository activated by the Ministry of Labour (ML), whose data were processed by INAPP.

The incentive system has stimulated, from May 2016 to August 2017, the deposit of more than 25 thousand second-level contracts.

The data obtained from the Repository, like all administrative data, have been verified by INAPP and linked with other datasets (Asia - Sisco) to increase the quality of information.

Therefore the application forms considered valid for processing are 23,063.

Below are some analyzes extracted from the preparatory works for the «Rapporto sul mercato del lavoro e contrattazione collettiva 2016-2017» (CNEL in collaboration with ANPAL and INAPP).
## Applications distribution

<table>
<thead>
<tr>
<th>Applications</th>
<th>23,063</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recipients/Beneficiaries</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>215</td>
</tr>
<tr>
<td>Total</td>
<td>4,948,813</td>
</tr>
<tr>
<td>Value of the bonus</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6,354,528,956 €</td>
</tr>
<tr>
<td>Average</td>
<td>1,284 €</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Firm level</th>
<th>18,897</th>
</tr>
</thead>
<tbody>
<tr>
<td>Territorial level</td>
<td>4,166</td>
</tr>
</tbody>
</table>

### MEASURES FOR DISSEMINATION OF TWO-TIER BARGAINING
Welfare measures and Workers’ profit sharing

Only 13% activated corporate welfare measures. Access to welfare services still seems to represent a problem. When considering corporate welfare programs, firms' size still makes the difference. Access modalities could be solved by creating a network among the interested firms. This could be easier between firms of the same industrial district or by joining private groups specialized in a sector, which have already set up and offer on the market a platform of services at an acceptable price. In all these cases, however, such services platforms would be sustainable only with high scale volumes.

Even less are the practices of Workers’ profit-sharing: almost 4% Unlike corporate welfare, the theme of profit-sharing does not occupy a relevant position in the public opinion and in that of the experts of the sector. This is very well reflected in the data, where it does not even reach 1% among firms that registered local-level agreements. The lack of interest toward this aspect certainly constitutes a missed opportunity. It still an important theme that could really develop in the upcoming future.
Details on the geographical distribution of firm level contracts

In the field of two-tier bargaining, company level bargaining represents the prevalent type with approximately 82% of the applications filed to the ML.

The territorial distribution of the company level bargaining appears with clear characters already from the first reading. In fact, most of this requests came from the central-northern regions, while in the southern Italy were much lesser.

In particular, about 4.6 million beneficiaries are divided into 44.1% in the North-West, 28.3% in the North-East, 20.1% in the Center and 7.5% in the South and Islands.
Among the determinants that most affect the activation of company bargaining there is the dimensional aspect: the propensity to activate company contracts increase as the company size increases. The dimensional impact augments more clearly considering the number of overall beneficiaries involved in the measure.

This correlation between the size of the company and the propensity for company bargaining is one of the most used motivations to justify the low level of second level bargaining in the South, due to the high presence of small and micro companies in this geographic area.
In reality, in the “South and Islands” the demand coming from micro and small companies (ie with up to 15 employees and from 15 to 50) is the lowest demand of all the other areas.

This scarce tendency can be explained with the crowding-out of the measure due to the presence of other incentives on the labour market. Other explanations can be searched in the sectorial structure.

<table>
<thead>
<tr>
<th>Distribution of shares relating to employment and recipients per firms’ size and geographical area</th>
<th>Incidence of recipients over employees per firms’ size and geographical area</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shares</strong></td>
<td><strong>Recipients</strong></td>
</tr>
<tr>
<td>North-West</td>
<td>North-East</td>
</tr>
<tr>
<td>0-50</td>
<td>50-250</td>
</tr>
</tbody>
</table>

**Details on the distribution by sector of firm level contracts**
The sector structure of the requests, net of a missing data that weighs around 14.8%, sees the prevalence of the services sector, which measured in terms of beneficiaries involved represents 44.9%, followed by the sector industry in the strict sense (38.2%) and the construction sectors (1.89%) and agriculture (0.1%). So we are witnessing a very differentiated sectorial dynamics. If we consider the regional specialization models these could have influenced the same territorial dynamics.

Details on the distribution by sector of firm level contracts

Composition of applications per main sectors on the basis of the geographical area
First effects of politics: the risk of a territorial dualism

In conclusion, the impact of this policy still remains to be assessed but it is clear from the first deposits that there is a greater activation by the regions of the Center-North compared to those of the South. This condition could accentuating the territorial dualism, which characterizes the growth of productivity in the Italian regions, if the system is not integrated by other policies that take into account the regional differences.
Council recommendation on the decentralized bargaining

COUNCIL RECOMMENDATION on the 2017 National Reform Programme of Italy and delivering a Council opinion on the 2017 Stability Programme of Italy
COM(2017) 511 final

«Whereas: [...] (22) Second-level bargaining is not broadly used. This hampers the efficient allocation of resources and the responsiveness of wages to local economic conditions. This is also due to the existing framework rules and practices for collective bargaining, which entail uncertainty in industrial relations and leave limited scope for local-level bargaining. Tax rebates on productivity-related pay increases have not proved effective in extending the use of second-level bargaining significantly.

[...] ».

[...] «RECOMMENDS [...] (4) With the involvement of social partners, strengthen the collective bargaining framework to allow collective agreements to better take into account local conditions. [...]».

COUNCIL RECOMMENDATION on the 2018 National Reform Programme of Italy and delivering a Council opinion on the 2018 Stability Programme of Italy
COM(2017) 411 final

«Whereas: [...] (22) Bargaining at firm or territorial level remains limited, also due to the prevalence of small firms in Italy. This may prevent wages from adapting swiftly to local economic conditions. At the end of February 2018, Confindustria and the three major Italian trade unions (Cgil, Cisl and Uil) signed a framework agreement, stressing the role of second-level bargaining, by increasing legal certainty through setting clearer rules for the representation of social partners at negotiations. The tax rebates on productivity-related wage increases set by second-level agreements were strengthened in 2017, but their effectiveness is difficult to evaluate. While the total number of collective agreements is on the rise, only a small share of them is signed by the main trade unions and employers’ associations.[...] ».
## Key findings

<table>
<thead>
<tr>
<th>Pros (+)</th>
<th>Cons (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attention of the policy maker on the importance of decentralized bargaining.</td>
<td>Second-level bargaining is not broadly used. Bargaining at firm or territorial level remains limited.</td>
</tr>
<tr>
<td>Incentive policy for the diffusion of decentralized bargaining.</td>
<td>The use of corporate welfare programs is limited even if the growth trend is positive. On the other hand, workers' participation practices are still very marginal.</td>
</tr>
<tr>
<td>Tax wedge reduction.</td>
<td>In theory, two-tier wage bargaining structures could reconcile macroeconomic stability with a closer link between productivity and pay. This did not happen in fact.</td>
</tr>
<tr>
<td></td>
<td>It is still early to evaluate this policy but if it should work, it could generate polarizations of productivity gains between territories and between types of companies (by size and sector).</td>
</tr>
</tbody>
</table>
Policies

Policies for the dissemination of corporate welfare programs and workers' participation practices should improve their appeal.

Policies for the diffusion of decentralized bargaining and productivity growth should be integrated with broader industrial and local development policies.

Industry relations

The industrial relations system should guarantee programmed levels of productivity gains.

The industrial relations system should ensure closer coordination between the two levels of bargaining to ensure the responsiveness of wages to local economic conditions.
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