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COLLECTIVE BARGAINING, WAGES AND PRODUCTIVITY

**Productivity and wages, dynamics in the euro-system
and the role of two-tier bargaining**

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PER L'OCCUPAZIONE
SISTEMI DI POLITICHE ATTIVE



Agenzia Nazionale Politiche Attive del Lavoro

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“SPAO”**

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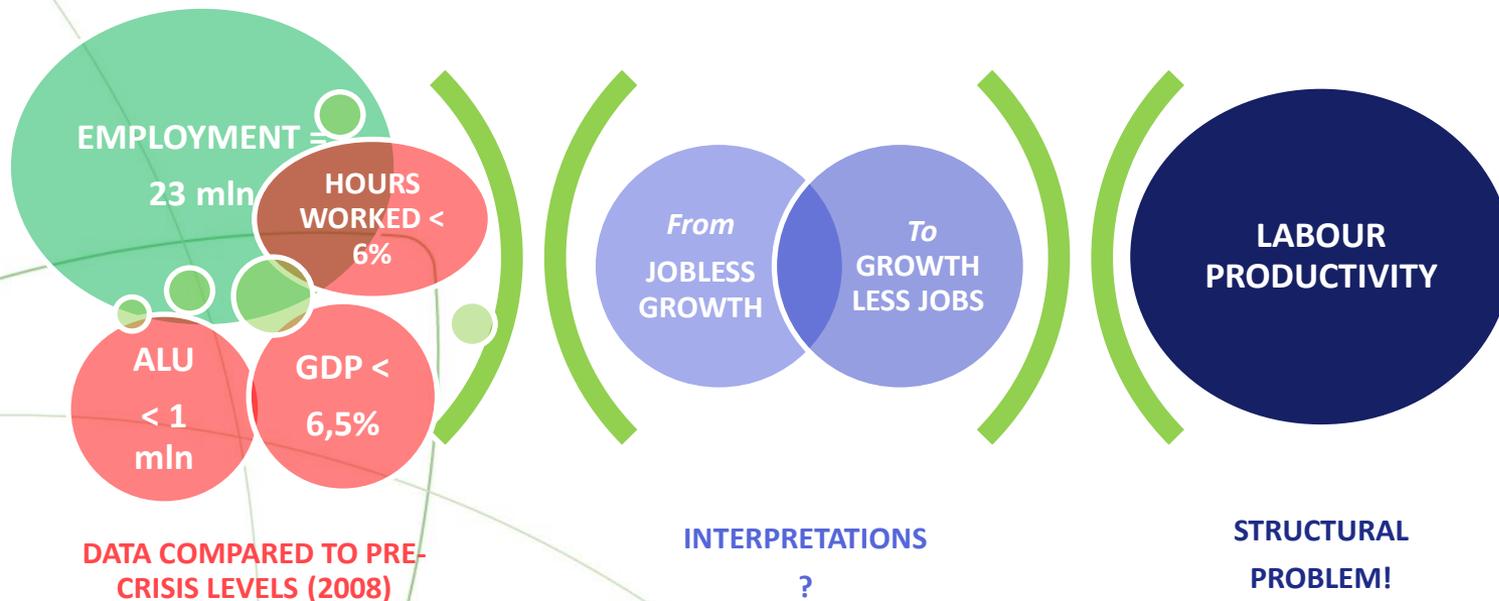
Bibliography

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The Italian labour productivity slowdown

The last quarter report on the labor market, published by ISTAT in September, gives us some encouraging results on the in employment’s increase. The debate that followed was characterized by conflicting positions on the overall reading of the labour market trend.

In reality, there is some evidence that should make reflect policymakers.

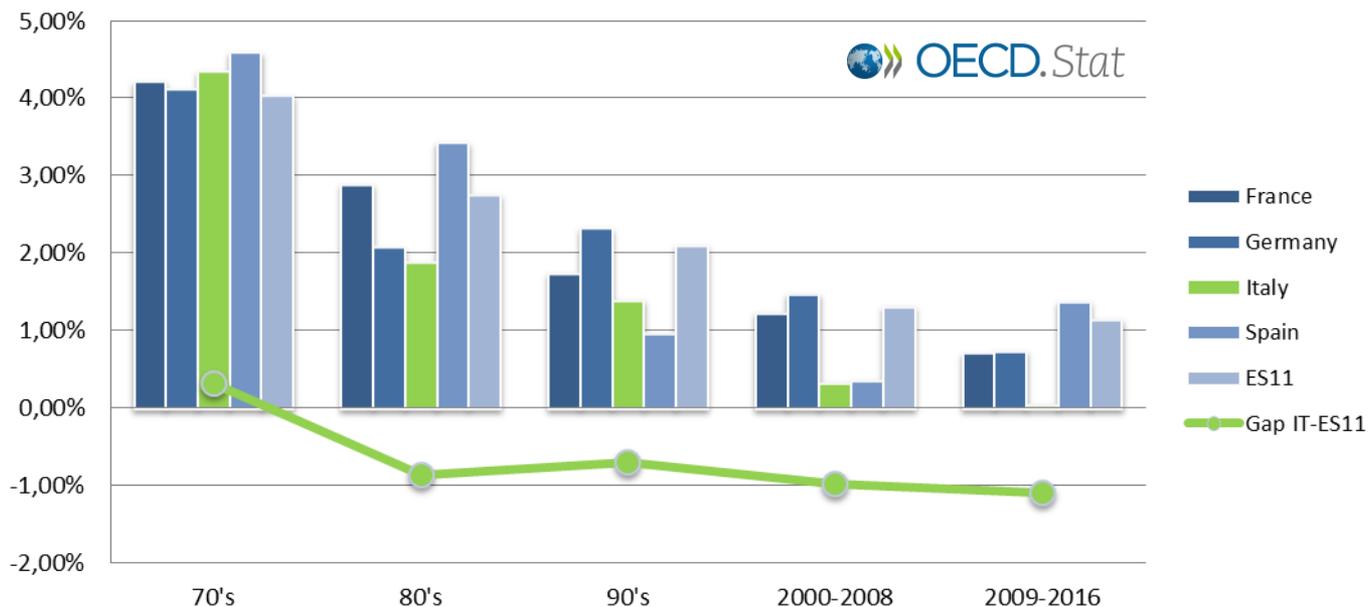


The Italian labour productivity slowdown

In addition to the complex evaluations on the transformation of the quality of work, once again the problem of productivity growth is raised. This 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 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 recommendations of the European authorities on bargaining

The drive to increase the use of decentralized bargaining intensifies after the crisis and even today there are strong demands in this direction from European authorities.



LETTER OF THE EUROPEAN CENTRAL BANK TO PRIME MINISTER (5 AUGUST 2011)

«[...] b) There is also a need to further reform the collective wage bargaining system allowing firm-level agreements to **tailor wages** and working conditions to firms' specific needs and increasing their relevance with respect to other layers of negotiations. [...]



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

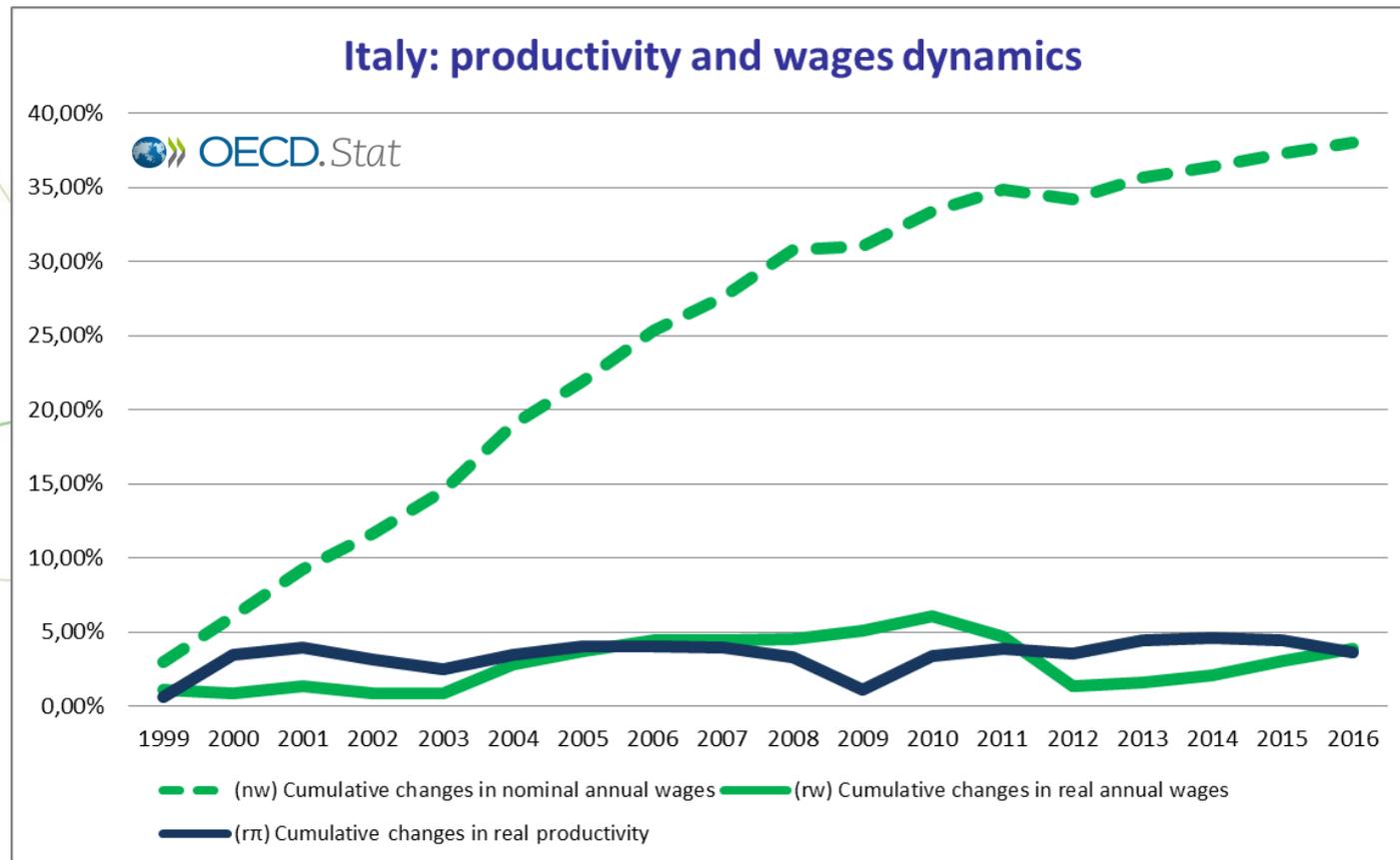
«Whereas: [...] (22) Second-level bargaining is not broadly used. This hampers the efficient allocation of resources and the **responsiveness of wages** to local economic conditions. This is also due to the existing framework rules and practices for collective bargaining, which entail uncertainty in industrial relations and leave limited scope for local-level bargaining. [...]

[...]

«RECOMMENDS [...] (4) With the involvement of social partners, strengthen the collective bargaining framework to allow collective agreements to **better take into account local conditions**. Ensure effective active labour market policies. Facilitate the take-up of work for second earners. Rationalise social spending and improve its composition. [...]

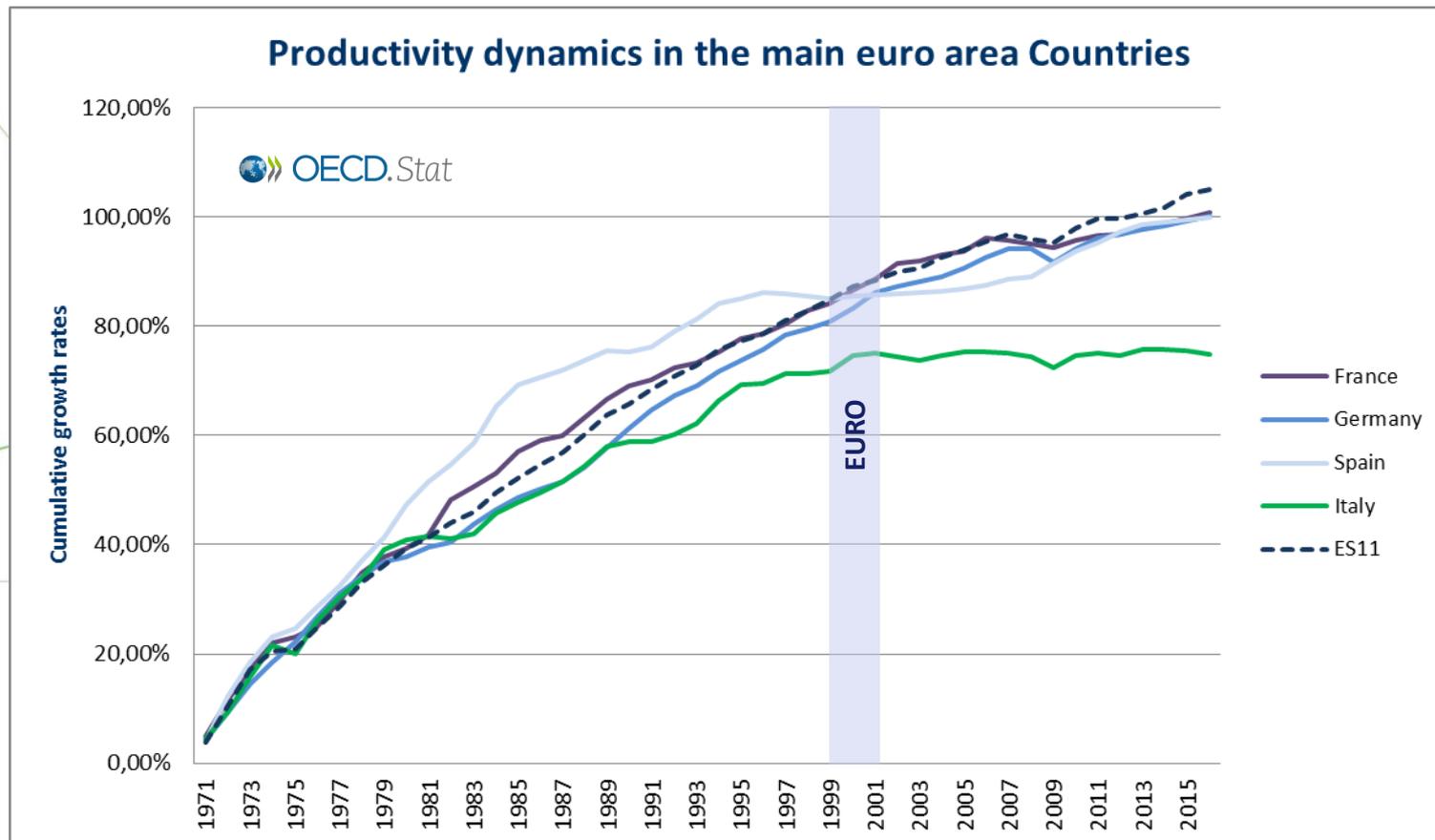
The recommendations of the European authorities on bargaining

The use of greater decentralized bargaining is mainly seen as a function of the possibility of wage moderation. To support this orientation, has often been used empirical evidence about sustained growth of "nominal" wages compared to productivity. The dynamics of the "real" wage, on the other hand, show a lower trend compared to the ones of productivity, except the period in which the crisis occurred (most likely due to the effect of labor hoarding).



Introduction of the euro not neutral on productivity

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 reality, even the adoption of a single currency and the transfer of sovereignty over monetary policy seems to have had an impact on productivity dynamics in the recent years.



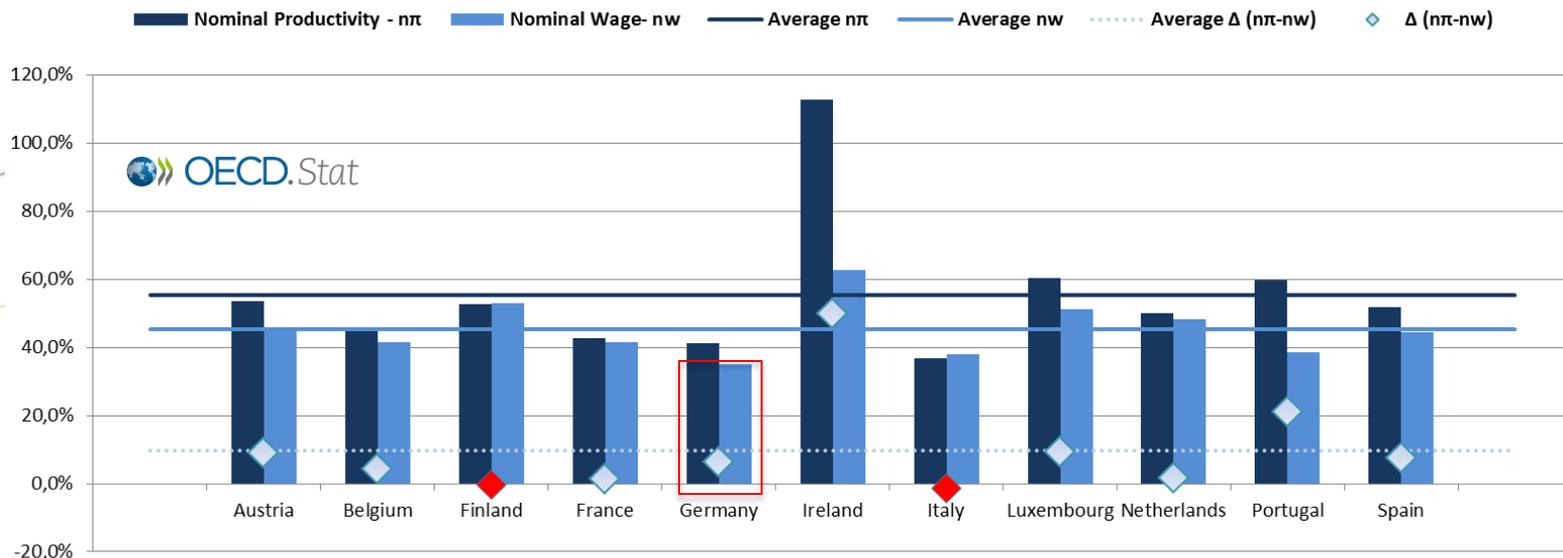
Italy placement in the euro area

In the analysis of the positioning of Italy, the classical dichotomy between "nominal" and "real" variables was considered. The first one are expressed in terms of current monetary values instead the second are defined net of changes in general prices levels.

Therefore, the average variation of productivity (π) and wages (w) from the introduction of the euro (1999) to the last available data (2016) was calculated.

Considering the "nominal" variables, Italy has the lowest value of the average productivity growth (2.04%). For the wages, the lowest growth is that of Germany (1.95%) while the trend in salaries in Italy has been more sustained (2.11%). Therefore in Italy the differential between productivity and wages (Δ) was negative even if only slightly (-0.07%).

Average nominal productivity and wage in euro area ES11 (1999-2016)

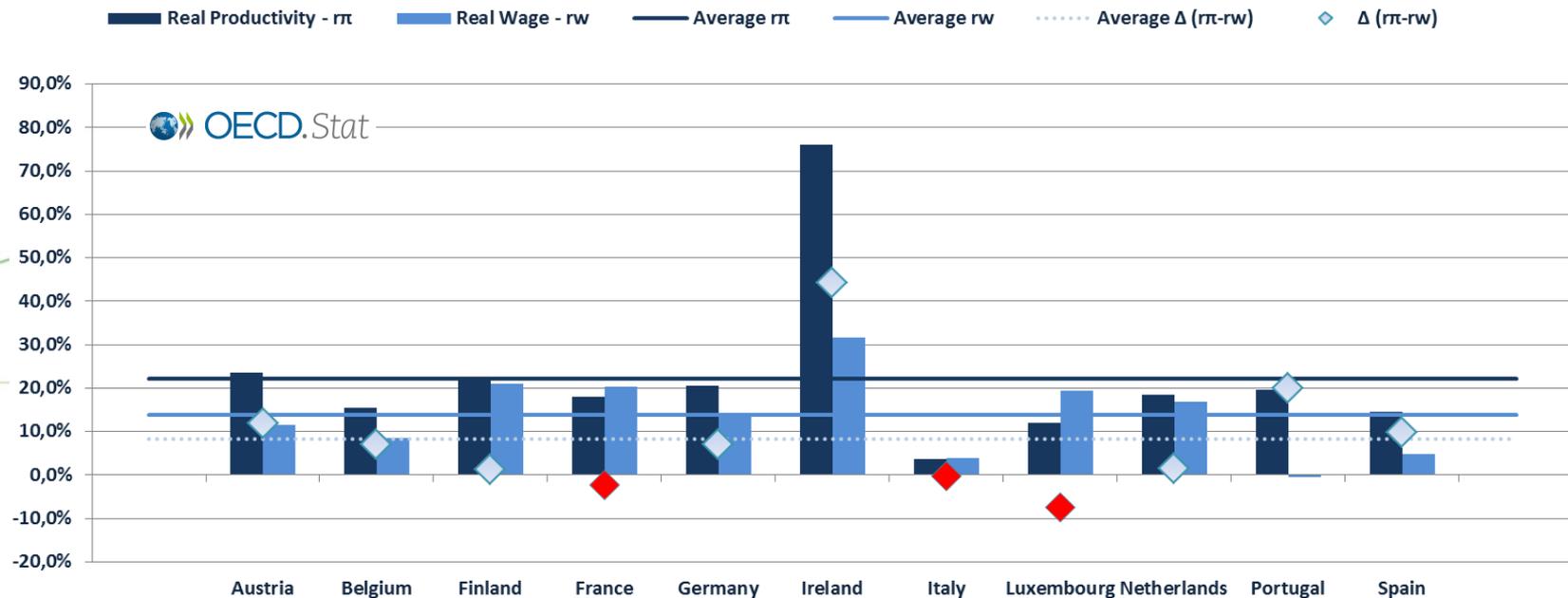


Italy placement in the euro area

From the point of view of real dynamics, however, Italy has the lowest average productivity growth rate in the euro area (0.20%) but the trend in real wages is much lower than in Germany (0.21% against 0.76%).

In Italy the productivity-wage growth differential is almost nil (-0.01%) in the period considered, while in Germany also in this case it is positive (0.39%).

Average real productivity and wage in euro area ES11 (1999-2016)

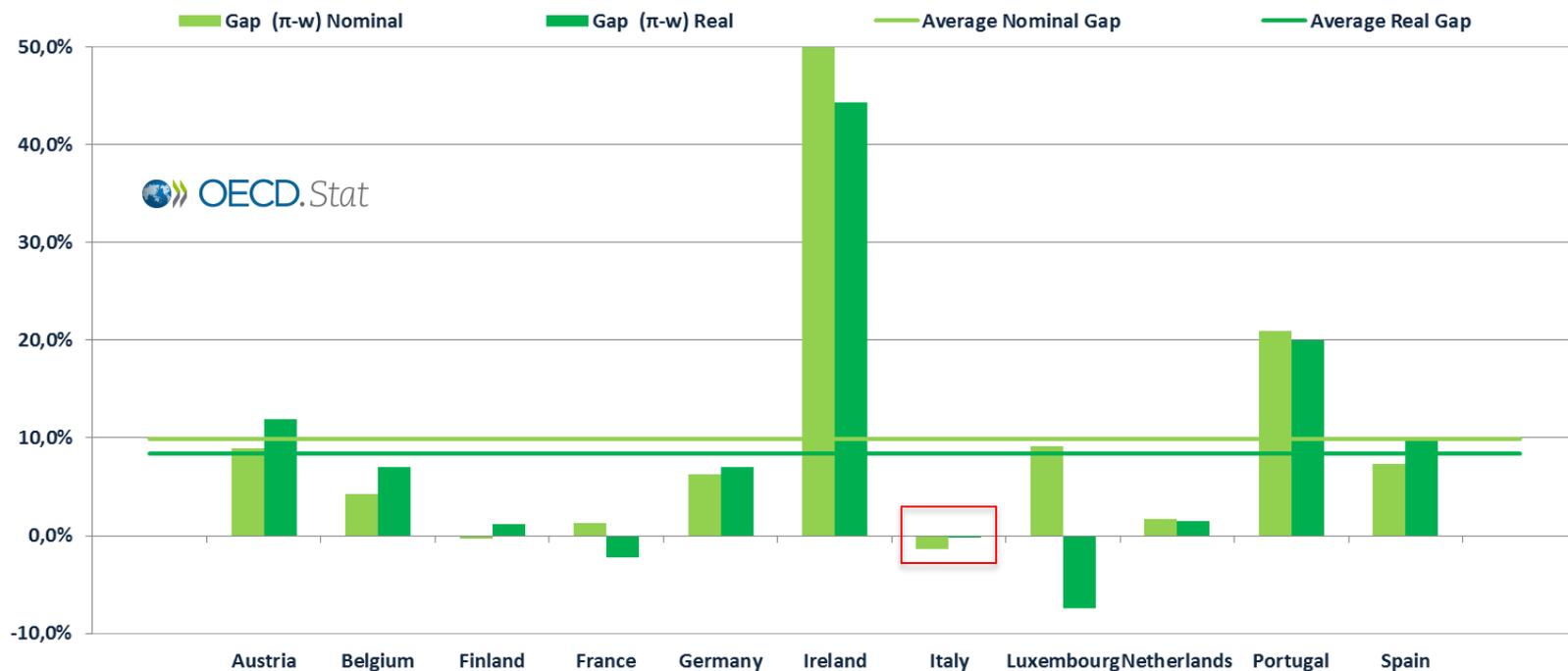


Italy placement in the euro area

Comparing the two types of differentials (nominal and real Gap) it is clear that Italy has been affected by the more contained dynamics in the euro area. Furthermore, in real terms, productivity and wages have grown in the same way. Hence two main observations:

1. the push for the use of second level company bargaining to stimulate greater wage moderation may not have the hoped-for effect of increasing the differences between productivity and wages, considering the already flat dynamics;
2. even if we are looking for mechanisms to anchor wage growth to productivity, it would seem that in the period under review the system has already achieved a balance in the dynamics of the two variables.

GAP Productivity- Wage, nominal and real, in euro area ES11 (1999-2016)



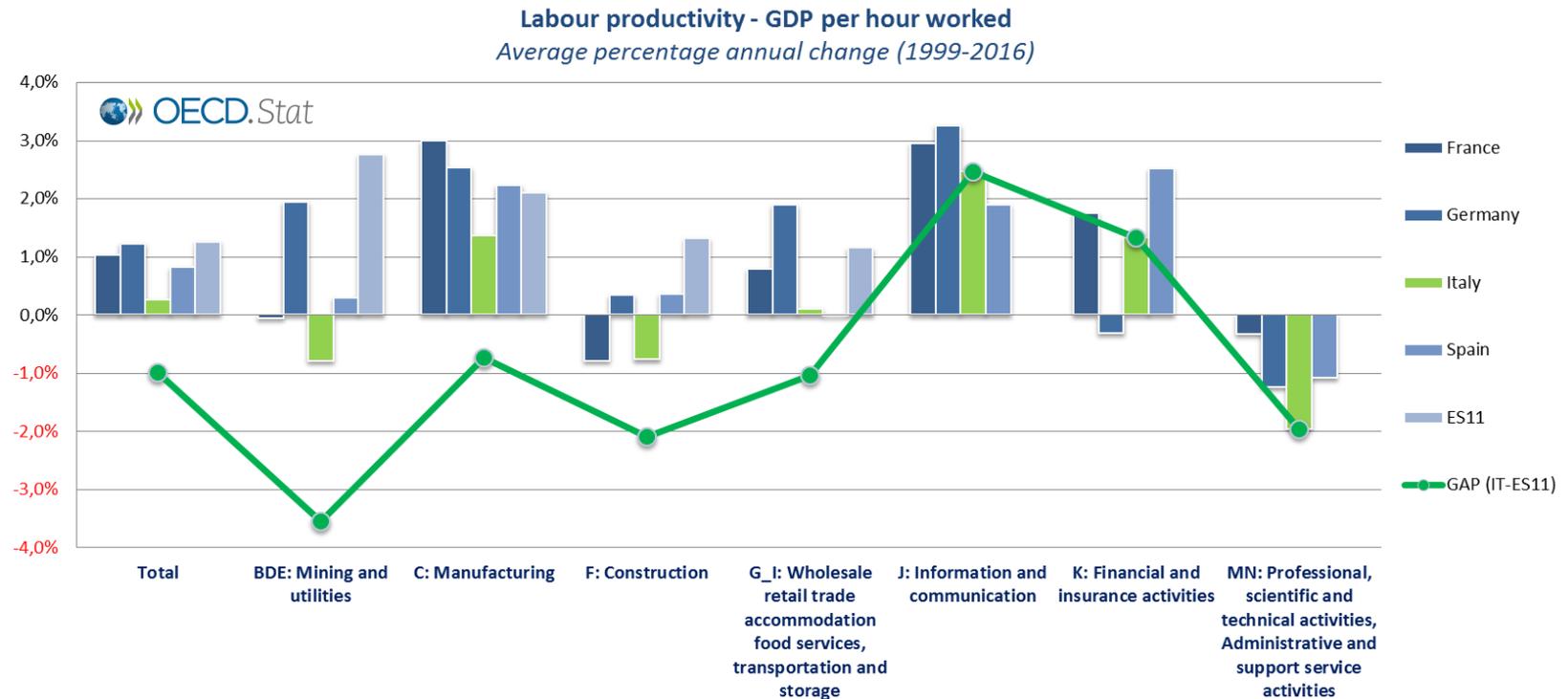
Some explanations of the productivity trend in Italy

Some explanations of the productivity trend in Italy can be found in the sectorial dynamics and in the dimensional structure of our economy.

With regard to the former, the collapse of the professional services sector in Italy is more intense than in other countries. Also the traditional sectors (such as construction and trade) together with the mining and utilities industry have suffered.

Manufacturing grows but not as much as that of other countries.

On the other hand, the performance of “information and communication” and of “financial and insurance activities” is good.

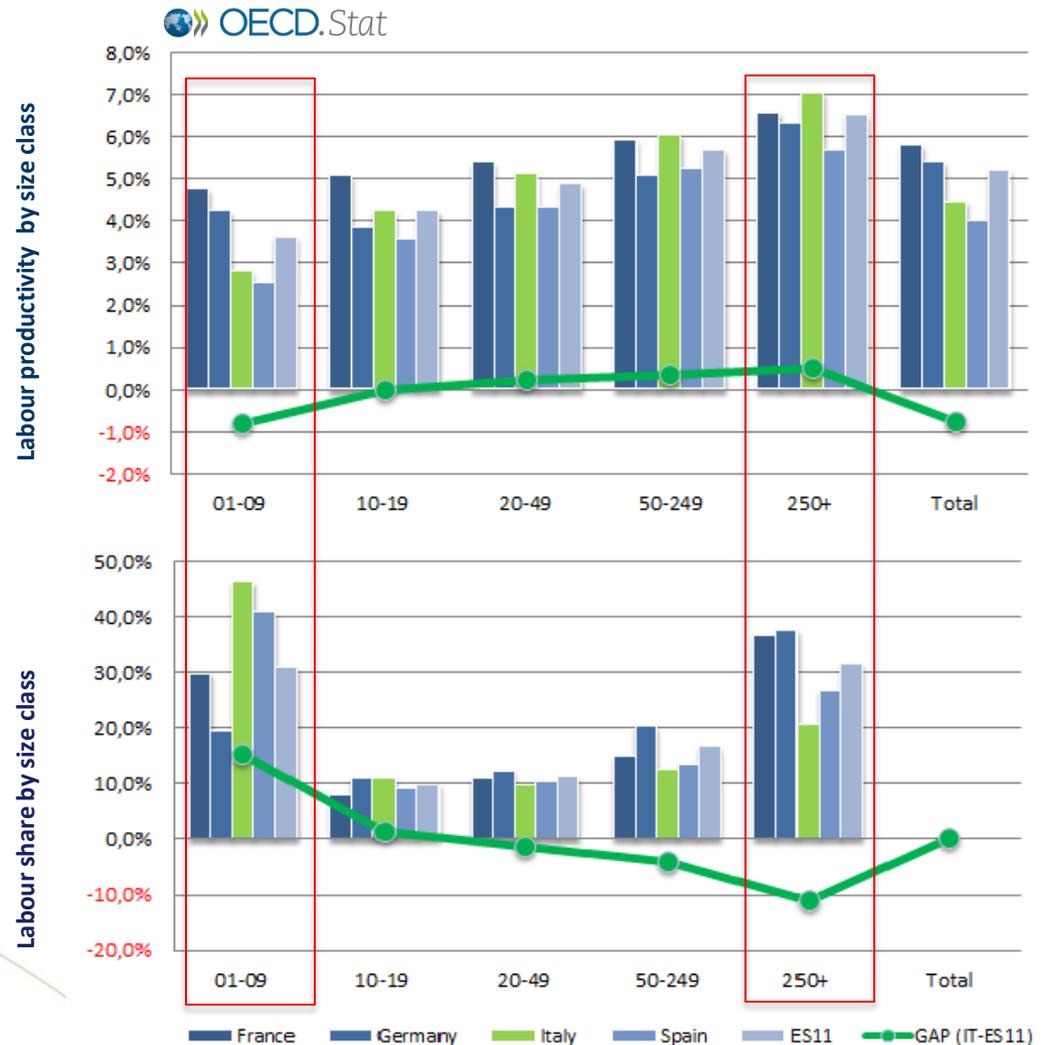


Some explanations of the productivity trend in Italy

Another explanation of the underperformance of productivity in Italy is generally found also in the **structure of the productive fabric** consisting mainly of micro-enterprises (1-9 employees).

Approximately 46% of employed persons are concentrated in this category while in the large enterprise (250+ employees) is concentrated the lowest share of ES11 around 20%.

Productivity grows as company size increases, so Italy is penalized by the spread of micro businesses.

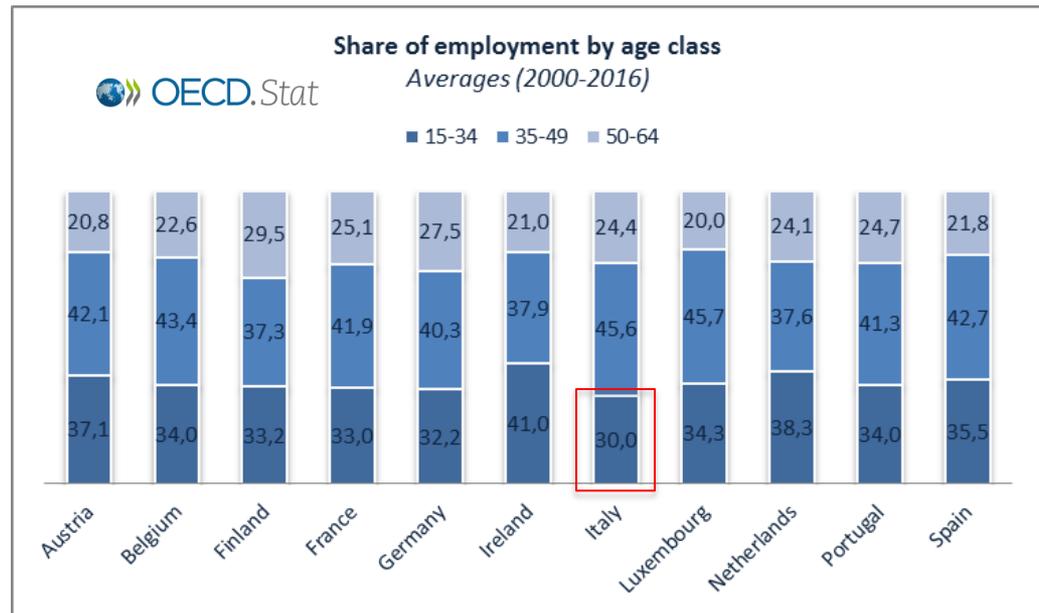


Some explanations of the productivity trend in Italy

Another explanation can still be found in the employment structure by age group.

In fact, Italy has the lowest participation of young people (15-34) among the employed only 30%.

Young people is the most skilled category of all for which many think that this is a deterrent for productivity growth.



The opportunities offered by two-tier bargaining

Two-tier 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.).



A new repository

Since 2008 the Italian law has expected forms of variable wage tax reduction. The new discipline preserves some elements of this "experimental" system and makes significant changes.

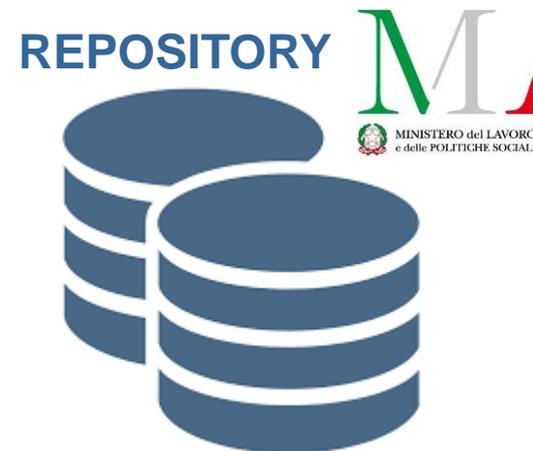
The intervention, initially envisaged in the 2016 Stability Law, was subsequently strengthened with that for 2017, which widens the maximum limit of the productivity bonus deducted from € 2,500 to € 4,000 p.c. and expanding the income threshold (€ 50,000 to € 80,000).

Measure monitoring was also envisaged, by compiling a special instrument for collecting summary data: the **Repository** activated by the MLPS, whose data were processed by INAPP.

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.

The incentive system has stimulated until today the deposit of more than **25 thousand** second-level contracts.

Below are some analyzes, limited to company level bargaining, extracted from the preparatory works for the «Rapporto sul mercato del lavoro e contrattazione collettiva 2016-2017» (CNEL in collaboration with ANPAL and INAPP).

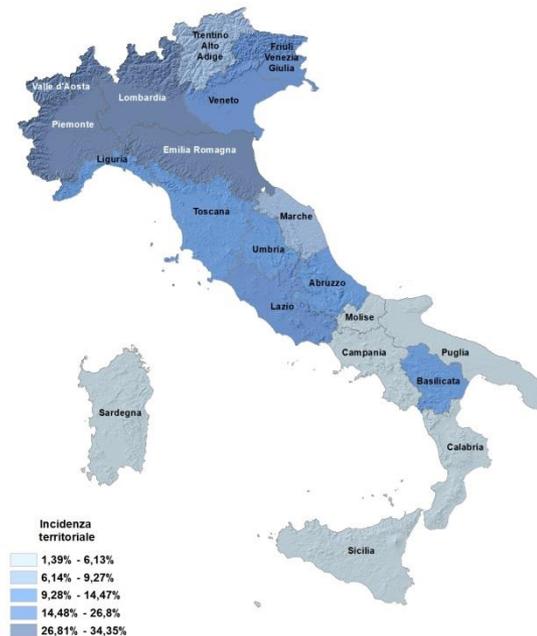


First effects of the measure: the risk of a territorial dualism

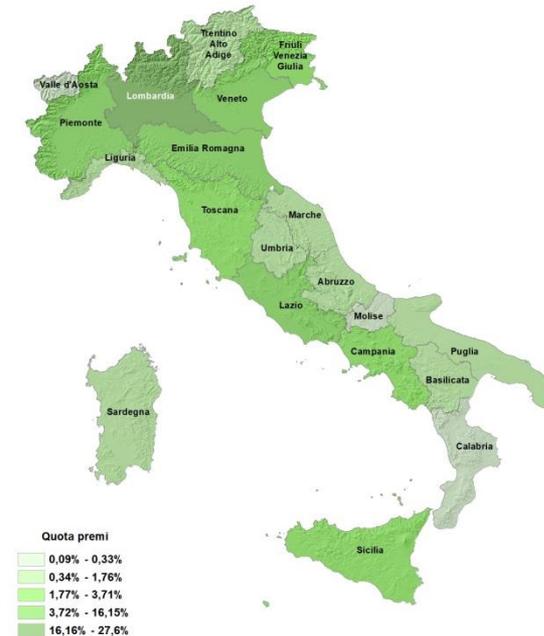
In the field of two-tier bargaining, company level bargaining represents the prevalent type with approximately 82% of the applications filed to the MLPS. The territorial distribution of the company level bargaining appears with clear characters already from the first reading. In fact, most of this requests 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.

Corporate bargaining incidence by Region



Regional distribution of declared prizes



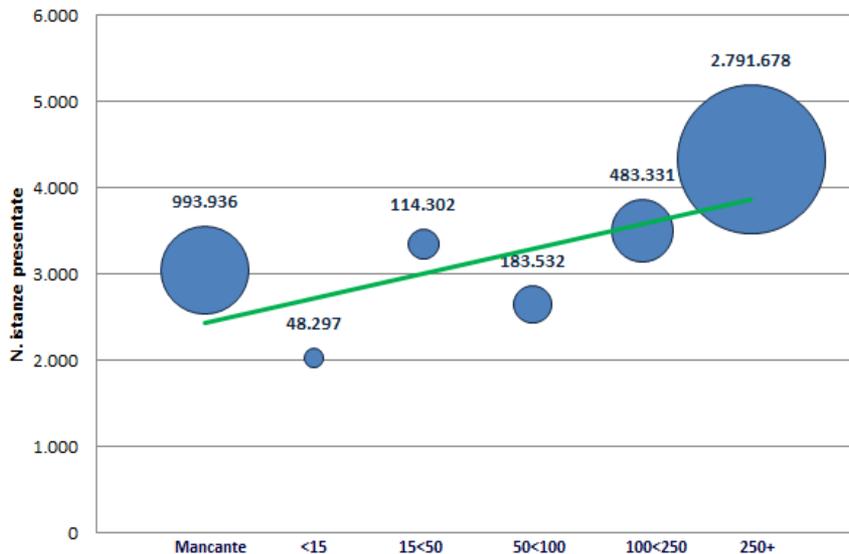
First effects of the measure: the risk of a territorial dualism

Among the determinants that most affect the propensity for 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 explodes more clearly considering the number of overall beneficiaries involved in the measure.

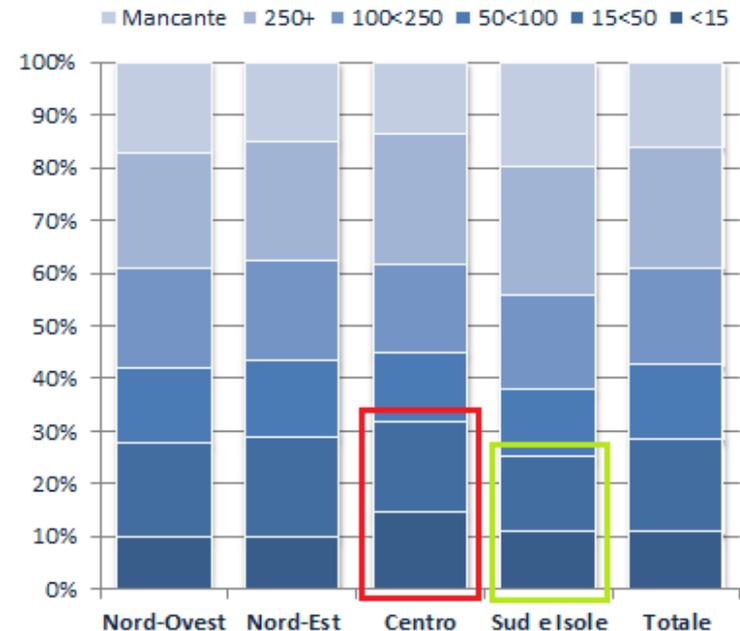
This correlation between the size of the company and the propensity for company bargaining is one of the most used motivations to justify the low level of second level bargaining in the South, due to the high presence of small and micro companies in this geographic area.

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.

Incidence: n. contracts on employees by size class



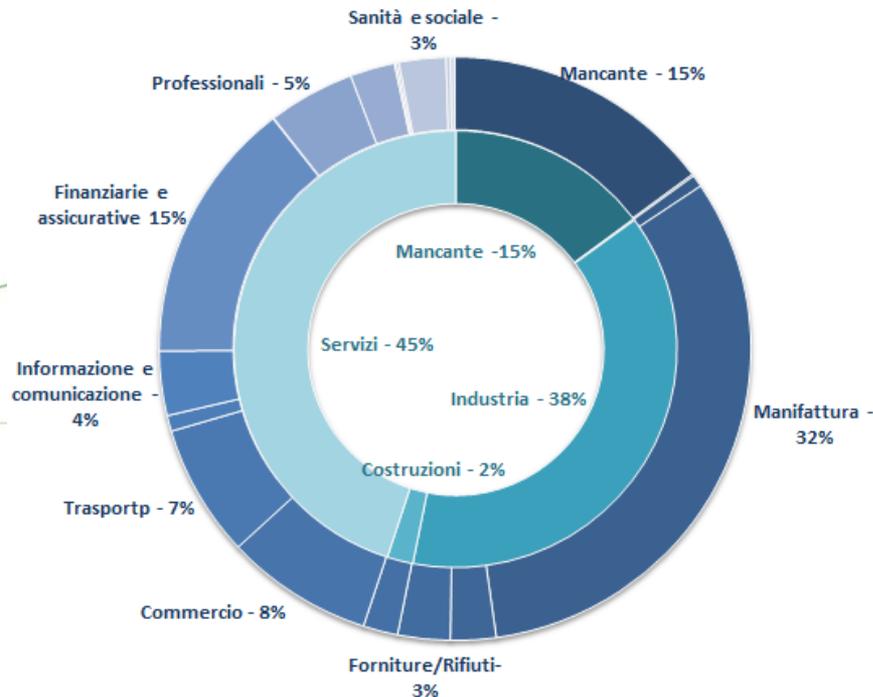
Labour productivity in the manufacturing sector



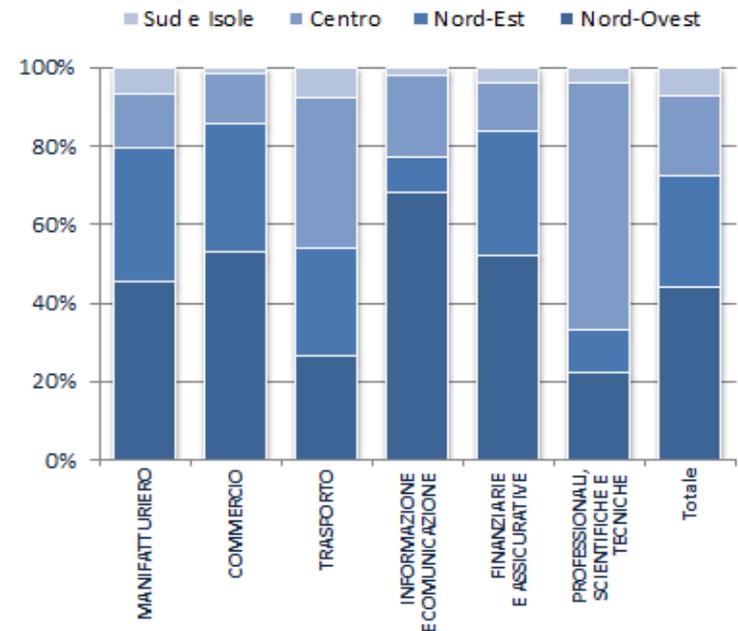
First effects of the measure: the risk of a territorial dualism

The sector structure of the requests, net of a missing data that weighs around 14.81%, sees the prevalence of the 'services' sector, which measured in terms of beneficiaries involved represents 44.99%, followed by the sector 'industry' in the strict sense (38.20%) and the 'construction' sectors (1.89%) and 'agriculture' (0.11%). So we are witnessing a very differentiated sectorial dynamics. If we consider the regional specialization models these could have influenced the same territorial dynamics.

Sectorial distribution of beneficiaries
(breakdown Ateco 2007)



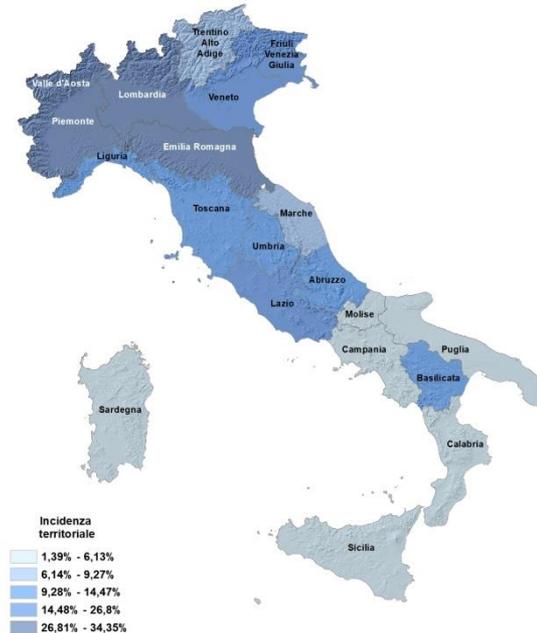
Distribution by sector and geographical area



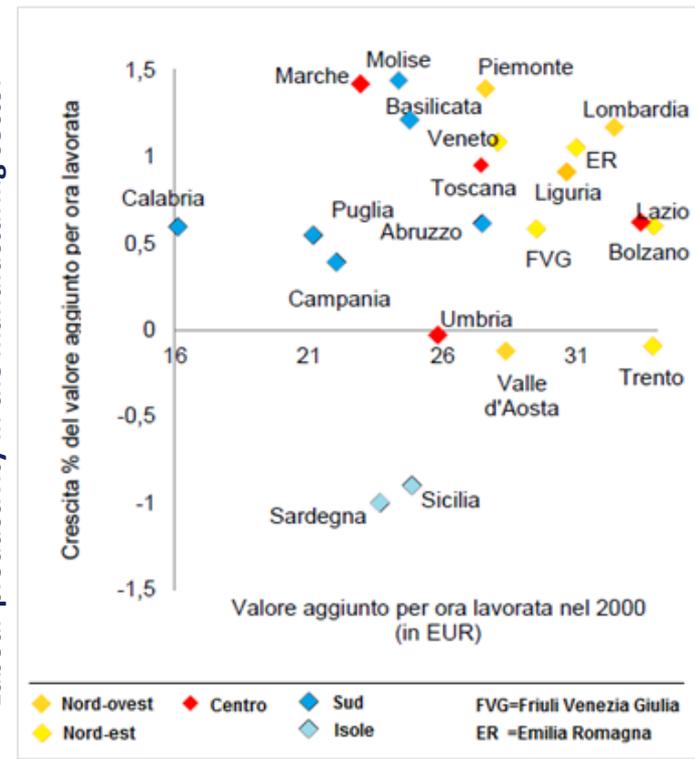
First effects of politics: the risk of a territorial dualism

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 risk 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 differences in the context.

Corporate bargaining incidence by Region



Labour productivity in the manufacturing sector



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