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Decentralized Bargaining and Measures for Productivity and Occupational Welfare Growth in Italy. Empirical Evidence from Administrative Data

Massimo Resce and Achille Pierre Paliotta ¹

Abstract

Purpose – The article aims to analyze measures to support labour productivity and occupational welfare in second-level bargaining in Italy

Design/methodology/approach – Both a quantitative and qualitative approach has been employed.

Findings – After illustrating the incentive system activated by the Italian Government, the limits of the policy and some risks of polarization are highlighted.

Research limitations/implications – The current incentive system needs to be integrated with the other labour policies and with the economic development policies.

Originality/value – The paper is original in its policy dimension, as it builds on unique data on collective bargaining.

Paper type – Qualitative and analytical paper.

Keywords – *Decentralized bargaining; Collective bargaining; Performance-related pay; Occupational welfare; Labour productivity; Tax incentives.*

¹ Massimo Resce (corresponding author. Email address: m.resce@inapp.org; § 1.1, 3.1, 3.2, 3.3, 3.4, Conclusions) and Achille Pierre Paliotta (Email address: a.paliotta@inapp.org; § Introduction, 1.2, 2.1, 2.2) are Researchers at Italy's National Institute for Public Policies Analysis (INAPP). The authors wish to thank the colleagues with whom they share the research work in INAPP on the same themes: Francesca Bergamante, Marco Centra, Francesco Manente, Manuel Marocco and Enrico Sestili who provided suggestions and useful contributions. This is an activity carried out under the National Operational Programme for the implementation of the European Social Fund (ESF) "SPAO". The INAPP cannot be held responsible for errors or any consequences arising from the use of information contained in this paper, the views and opinions expressed are solely those of the authors and do not necessarily reflect those of the Institute.

1. Introduction

From the post-war period to the 1970s, labour productivity in Italy developed more quickly than in other European countries. From the 1990s onwards, a decrease was reported as compared to other Member States. Moreover, since the introduction of the Euro, growth trends have showed little improvement. Economists have diverging views on the causes for this state of affairs. Many agree on the concurrence of multiple determinants. Some explanations do not consider wage trends, but sectoral dynamics and firm size. However, in the years immediately following the crisis, some European authorities – such as the European Central Bank (ECB) and the European Commission (Resce, 2016b; 2018) – launched a moral suasion for the adoption of flexibility measures/wage moderation with the aim of improving the ability of the economies of recovering from different negative shocks. According to their opinion, wages must adequately reflect labour market conditions and productivity increases. The evidence supporting this thesis refers to nominal rather than real dynamics, which instead show a moderate wage increase.

When considering the Italian two-level bargaining structure, this adjustment should occur with regard to decentralised or second-level bargaining. Nonetheless, this model presents issues. Italy is the Eurozone country with the highest share of salaried employment relationships governed by collective bargaining (ECB, 2017). Concurrently, second-level bargaining is far from widespread. Moreover, according to some experts, the bargaining model established with the Protocol of July 1993² has created a “perverse bond between wages and productivity”. In this sense, the restrictions provided for by the two bargaining levels have created a profit protection clause that does not encourage entrepreneurs to invest and innovate, causing a sort of productivity “non-development” (Tronti, 2009; 2010; 2014).

Therefore, the legislator provided a system of reforms and incentives – to be seen perhaps as a necessary choice – with the aim to foster labour productivity on the one hand, and fiscal and welfare measures on the other hand. This development was not pursued through structured policies, but with measures intended to favour performance-related pay³ (PRP) in decentralised, second-level bargaining (Resce, 2018).

In order to understand the recent policies supporting labour productivity in Italy, it is necessary to begin from the characteristics of the Italian collective bargaining system (Bergamante & Marocco, 2017). In particular, the wage

² Interconfederal Protocol of 23 July 1993 on income and employment policy, contractual aspects, labour policies and support to the production system.

³ “*premio di risultato*”.

bargaining mechanism introduced in 1993 replaced the previous system, based on the “wage indexation scale”. This Protocol, which is still in force, provides for two specific and distinct bargaining levels based on a form of advanced wage policy (threshold agreement).

The first level - the National Collective Bargaining Agreement (NCBA)⁴ - sets (minimum) wages linked to planned inflation. The second level - which includes both firm-level and local-level bargaining – relates PRP negotiations to productivity, profitability and production quality. At this level, further elements that strengthen the link between the worker and the company can be negotiated, among others: welfare measures; company participation; profit-sharing formulas; benefits and work-life balance. This level is important because it determines the conditions for labour productivity growth.

It is worth specifying that firm-level bargaining consists of an agreement between a single employer and trade unions. Conversely, local-level bargaining is the result of an agreement at local level (e.g. regional, provincial, district level) between workers’ representatives and employers’ associations. The local level of bargaining is widespread only in certain economic sectors, (manufacturing, commerce, agriculture and construction).

According to the most recent comparative studies, two-thirds of OECD countries resort to collective bargaining mainly at firm level (single-employer bargaining), while the national/sectoral one (multi-employer bargaining) plays a significant role only in Continental Europe (OECD, 2017). The decentralization of collective bargaining is a consolidated and global trend, which began in the 1980s. It then intensified in the 1990s and further strengthened during the great recession due to the demise of central and sectoral bargaining in a number of countries, among which were Romania, Greece, Slovenia, Slovakia, Hungary, Israel, Portugal, Bulgaria, Ireland and Latvia (Visser, 2016:5).

Italy followed suit and ended up decentralizing the bargaining structure, although only in part (D’Amuri & Giorgiantonio, 2015), as the NCBA still plays a major role. The firm-level agreement (single-employer bargaining) is estimated to account for 10% of the total (Visser, 2016:11). This “compromise” between the two levels⁵ - called “organized decentralization” (Traxler, 1995) - can also be seen if one looks at the membership of sectoral

⁴ Contratto Collettivo Nazionale di Lavoro (CCNL).

⁵ “As for the collective bargaining system, the 2014 agreement reasserts the centrality of the national agreement as the main tool to ensure the certainty of common terms and conditions of employment for all the workers of the sector. The possibility for the company agreement to derogate from the national level is provided for within the limits and the procedures set by the national collective agreements” (Pallini, 2106:7).

and corporate trade unions with national confederations (Ales & Senatori, 2015:2).

Moreover, between 2008 and 2018, the various Italian governments fostered, to a greater or lesser extent, the development of second-level decentralized bargaining, also encouraged by the ECB and the European Commission (Pallini, 2016:1). Over the years, there has been an acceleration of this process. Specifically: “due to various impulses and pressures, company level bargaining has certainly been boosted. This has been possible ‘qualitatively’, by (a) reducing some exclusive prerogatives of industry wide agreements, (b) weakening the role of external unions in coordination with and (c) expanding the possibility of opening clauses and concession bargaining. But in quantitative terms, it has not taken off” (Leonardi, Ambra & Ciarini, 2017:46).

With regard to welfare measures, from 2016 to 2018 the Italian government used a fiscal lever to disseminate tax incentives. Before the 2016 Stability Law (Law n. 208/2015), welfare measures were paid based on the employer’s voluntary or unilateral act. Instead, the 2016 Stability Law expressly allowed for the measures recognized by employers in compliance with the provisions of contract, agreement or corporate regulation (Treu, 2016). In this law, the scope and notion of ‘goods and services’ enjoying tax relief was clarified (thus recognizing services relating to the elderly or not self-sufficient family members).

In 2017, more goods and services were added to this category, as the tax regime was applied to welfare measures recognised by the employer in compliance with the provisions laid down in the NCBA, the inter-confederal agreement or the local-level collective agreement. The provision extended regulation to any level of the collective agreement, also in the public sector.

The 2016 Stability Law legitimizes “social benefits,” that is the possibility for workers to access welfare measures as a form of remuneration. Within the limits for accessing the 10% flat tax, employees may opt to transform the productivity bonus into welfare services, rather than monetary wages. This law also establishes that the basket of goods and services may be paid through vouchers, in paper or electronic format. This has fostered welfare measures also among those small enterprises that could not provide the services directly.

Another novelty introduced in 2016 was the collection of data for policy monitoring and evaluation purposes. The 2016 Stability Law provided for the monitoring of firm-level and local-level agreements. The inter-ministerial Decree of 25 March 2016 - signed by the Ministry of Labour and Social Policies (MLPS) and by the Ministry of Economy and Finance - reasserted that access to tax incentives was conditional on the on-line registration of the

collective agreement, to be carried out with the local Labour Inspectorate⁶. Moreover, in order to collect summarized data related to the agreements, the Decree made it mandatory to fill in a document called “compliance statement”⁷, supplementing the Decree. The procedure for the on-line registration was activated on 16 May 2016. On 22 July 2016, the MLPS provided operational indications issuing specific guidelines⁸.

In order to monitor the measure, the MLPS activated a Repository, which allowed collecting summarized data on the agreements. This work is based on the administrative data resulting from the applications submitted to access the specific tax bonuses on PRP introduced by the 2016 Stability Law.

The structure of the paper is as follows: the first paragraph illustrates the theoretical framework for productivity and welfare measures; the second paragraph focuses on supporting legislation and examines the first results concerning adherence to the incentive system through the two types of decentralized agreements (those concluded at firm and territorial level). The third paragraph provides details regarding the analyses carried out on company-level bargaining. Finally, some conclusions highlight the first assessments on the incentive system adopted by the government.

1. Theoretical Background

1.1. Labour Productivity in Negotiating Institutions

The tax bonus on PRP promoted by the Italian legislator involves different elements, all aimed at favoring business competitiveness, as long as they result in increases in productivity, profitability, quality, efficiency and innovation. Among them, the most important is undoubtedly the one related to productivity.

Among the various causes determining low levels of labour productivity in Italy, mention should be made of the effects of the institutions that regulate the labour market. An important part is played by the mechanism for wage negotiating introduced by the Protocol of 1993, which is currently in force, in

⁶ *Ispettorato Territoriale del Lavoro*.

⁷ “*dichiarazione di conformità*”.

⁸ Basically, in order to have access to tax incentives, employers were required: 1) to indicate the firm-level agreement entered into with trade unions or the local-level agreement that they wanted to implement; 2) to fill in the “compliance statement” specifying such aspects as: the number of applicants; the parameters for measuring the results expected in terms of productivity and competitiveness; the entity of the performance bonus; the possible membership with a category association.

that it envisages two specific negotiation levels that are not comparable between different institutions and cannot be replicated (Resce, 2018).

At the first level, the National Collective Bargaining Agreement (NCBA) operates and regulates remuneration in line with the planned inflation adopted as a common objective. At the second level, at which both the company-level and local-level agreements operate, the resulting salary is linked to increases in productivity, quality and other elements of competitiveness.

In addition to criticisms concerning the functioning of this second level of bargaining (Tronti, 2009 and 2010), one of the main problems is the low diffusion of second-level bargaining.⁹ According to many, especially some European institutions,¹⁰ this is a real obstacle to the mechanisms for adjusting wages to local conditions and to productivity growth.¹¹

To better understand the link between productivity and wages and the role played by the 1993 Protocol on their dynamics it is useful to recall the productivity function of Sylos Labini (1984, 2004) as revisited by Tronti¹², who dedicated a significant part of his studies to analyzing the impacts of the agreements between the Government and the social partners.

The productivity function identifies labour productivity as a fundamental variable of economic development and, unlike other elaborations, incorporates the role of distributive conflict under a unitary vision. The function indicates two fundamental determinants of productivity growth:

- a "Smith effect", which identifies the role of the market dimension in favoring the division and specialization of work and therefore of innovation;

⁹ The lack of widespread adoption is confirmed by the various sample surveys, not least that reported in the "First report on second level bargaining" by the FDV - CGIL which refers to a 20% implementation level.

¹⁰ See for example "Council Recommendation on Italy's National Reform Programme 2017 - COM (2017) 511 final" and "Council Recommendation on Italy's National Reform Programme 2018 - COM (2018) 411 final".

¹¹ This is an approach that aims to resolve the conditions of productivity growth from a micro point of view at the corporate level. According to this vision, capping wages in times of economic crisis, the LCUP (labour cost per unit of product) would be controlled, guaranteeing the company's own competitiveness and therefore adequate productivity. In reality, this approach caused strong criticism, especially among non-mainstream economists, who highlight that at the macroeconomic level, wage growth is also important in times of crisis in the economic cycle which, by supporting domestic demand, can guarantee the conditions for productivity growth (Resce, 2018).

¹² In the specific case, reference is made to research conducted by Tronti (2009; 2010) on the productivity function of Sylos Labini.

- a "Ricardo effect", which identifies the role of growth in the relative price of labour as a way to encourage companies to introduce new machinery, technologies and forms of organization.

Regarding the "Smith effect", the increase in labour productivity depends on the division of labour and professional specialization, two factors lying behind endogenous innovation, which rises depending on the extent of market increases. Product market liberalisation and increased competition lead companies to contain prices, stimulate innovation and encourage productivity growth, ensuring the preservation of competitive positions.

Labour market reforms aim to moderate the growth in labour costs and therefore in wages. The balance between these two dynamics is stricken by productivity growth, if any. Wage moderation must not be brought to the point of being counterproductive. It must ensure the purchasing power of wages, thereby supporting domestic demand¹³. The containment of prices on the one hand and the guarantee of purchasing power on the other become crucial to ensure the stable growth of the economy, which is characterized by competitiveness on foreign markets and by the support for domestic demand. The mainstream models of the liberal type mainly consider the value of wages as a production cost¹⁴. Consequently, its moderation would imply low production costs, which would allow a containment of product prices, and hence greater market competitiveness. Yet wages feed the demand for goods and services¹⁵. To understand which effect prevails over the other, we need to ask ourselves if European economies are "wage-led" economies or "profit-led"/"export-led" economies. According to several studies, the negative impact of the fall in wages – in particular those regarded as a share of GDP – is greater the lower the openness of a country to foreign trade. Many empirical investigations on the Italian accumulation model confirm, at least in recent years, its nature as a wage-led economy and therefore the fact that it is guided by domestic demand (Canelli & Realfonzo, 2018). Therefore, the pursuit of the German model, which is based on wage moderation, has not had the same effects, since the Italian economy is structurally different.

As for the "Ricardo effect", productivity is linked to the growth of the relative price of labour as an endogenous factor, pushing companies to introduce new

¹³ Tronti (2009): «Only the growth of wage purchasing power in the face of price containment ensures a virtuous relationship between the two markets, which allows the economy to grow steadily, driven both by foreign demand (for the channel of price moderation), how much from the domestic one (for the increase in the purchasing power of wages)».

¹⁴ This is the main approach held by the European Central Bank in the post-crisis years.

¹⁵ The possibility of this link is now recognized both by economists so-called "critics" (Letter of the economists-2010, Fitoussi and Stiglitz) and by exponents of the "mainstream" (Rogoff and Rajan) and by international institutions such as IMF and ILO.

production solutions. From this point of view, real wages must grow, not only because they are the basis of household consumption, but because their growth will stimulate companies to innovate in order to balance profit rates.

Yet the Protocol of 1993 sets remuneration levels as a consequence of productivity gains rather than considering them as basic elements for its growth. The formal analysis of the agreement, therefore, contradicts the productivity function, making the condition of invariance of labour and capital quotas in income (known as Bowley's law)¹⁶ unlikely to take place. This law is important because it guarantees "balanced growth" (as defined by Kaldor) and represents a fundamental element for cooperation between the parties. It ensures conditions of economic growth enabling the maximum level of consumption without generating inflationary pressures on profits.

The main hypothesis formulated by Tronti (2010:8) to explain the fall in the relative price of labour is that the 1993 Protocol, due to the combined effect of the two negotiating levels, produces an invariance in functional income distribution, thus challenging Bowley's Law.

Proving this assumption has justified firms' little interest in the modernization of the productive system in these years, frustrating the attempt of the Government and the social partners to ask employers something in return to adjust functional income distribution (in terms of investments, training, organizational innovation, etc.).

In essence, at the first bargaining level wages are fixed with a downward rigidity and in the second level, due to the little diffusion of decentralized bargaining, productivity bonuses are not adequately distributed. This circumstance determines a countercyclical link between productivity growth and the share of labour in income. During the normal functioning of the economy reporting productivity growth, a compression of labour income is generated due to the fact that second-level bargaining is not available to all employees and/or is unable to match real wage growth with productivity growth. During stagnation, with little to no productivity growth, the functional distribution between labour quotas and profit shares in income is rebalanced thanks to the downward rigidity of real wages.

Therefore, in normal economic situations or during productivity growth, the extra profits accrued do not determine the condition of necessity for which companies are compelled to invest in reorganization. Furthermore, there is no opportunity for unions to negotiate remuneration for implicit company profits.

¹⁶ Tronti's demonstration (2010) of a fall in the relative price of labour is based on the application of a deterministic model of the functioning of the negotiating system, launched with the '93 Protocol, based on Bowley's law, which provides for the stability of the distributive shares of wages and of profits in income.

This way, economy stagnation is determined, this is why Tronti (2013:58) states that the contractual model introduced by the Protocol of 1993 establishes a "perverse bond between wages and productivity", which leads less dynamic companies into thinking that they are able to survive without investing in innovation. This agreement – but it was also the case with the following ones – failed to guarantee adequate wage increases, let alone productivity growth. The lesson to be learnt is that the institutions that regulate the labour market play a major role and can have a positive or negative impact on economic performance. This is the theoretical framework with respect to labour productivity in which government tax measures have been activated to benefit productivity bonuses, trying to affect the incremental wage while guaranteeing a wider implementation of decentralized bargaining.

1.2. The Gradual Institutional Shift towards the Commodification of Italian Welfare

The legislative interventions promoting both business competitiveness and second-level bargaining through increasingly incentivizing the PRP correlated to occupational welfare attest to the crisis of public state welfare, which today has become economically unsustainable due to complex economic, technological, cultural and demographic factors. As has been authoritatively stated, “the real 'crisis' of contemporary welfare regimes lies in the disjuncture between the existing institutional configuration and exogenous change. Contemporary welfare states [...] have their origins in, and mirror, a society that no longer obtains” (Esping-Andersen, 1999:5).

In general, the pressures associated with exogenous change (due to globalization, recession, Europeanization, etc.) do not produce a single trajectory of change or common distributional pattern. In this perspective, to better analyze the gradual shift in welfare capitalism, it is important to place the Italian situation within today’s most widely-used framework, called *varieties of capitalism* (Hall & Soskice, 2001). This framework focuses on the different types of institutional arrangements and distinguishes between “coordinated market economies” and “liberal market economies”¹⁷. Previously, Titmuss (1958) had made a distinction between three models of welfare states: Residual or Public Assistance Model (Reagan USA; Thatcher GB); Industrial Achievement or

¹⁷ This approach has been criticized (Boyer, 2005; Schröder & Voelzkow, 2016) but for the purpose of this paper it holds its validity. Another well-known framework, the theory of regulation, includes four types of capitalism: market-oriented; meso-corporatist; statist; social-democratic (Boyer, 2005). For a institutionalist conception of regulatory space see Inversi, Buckley & Dundon (2017).

Reward Model (Scandinavian states); Institutional Redistributive Model (continental European countries such as Germany and Italy). Esping-Andersen has further developed and refined Titmuss' original typology, by identifying three types of welfare capitalism based on: liberal regimes (United States, Canada, Australia and United Kingdom); social democratic regimes (Sweden, Norway, Finland, Denmark); conservative-corporate regimes (France, Germany, Italy, Japan) (Esping-Andersen, 1990).

In these models, Italy is included within a coordinated and corporatist model (Tomassetti, 2017; Adapt, 2017) in which these countries are characterized by a "preservation of status differentials. Rights, therefore, were linked to class and status. This corporatism was subsumed under a state edifice perfectly ready to displace the market as a provider of welfare; hence, private insurance and occupational fringe benefits play a truly marginal role. On the other hand, the state's emphasis on upholding status differences means that its redistributive impact is negligible" (Esping-Andersen, 1990:27).

Over the past few decades, a constant process of liberalization, deregulation and reduction of social rights has affected coordinated and corporatist countries. There is no doubt that this change is toward a growing trend of "risk privatization" (Hacker, 2004) and market centrality. Some scholars have referred to the progressive convergence between the different models of capitalism and industrial relations, too (Vaughan-Whitehead & Vazquez-Alvarez, 2018) but there are multiple institutional forces that perpetuate the diversity of rich democratic countries. Depending on the social coalitions that are formed, countries follow one of three ideal-typical trajectories of liberalization in the sense of "the steady expansion of market relations in areas that under the postwar settlement of democratic capitalism were reserved to collective political decision-making. Although liberalization amounts to a quite fundamental transformation, it proceeds gradually and continuously" (Streeck & Thelen 2005:30). The three ideal-typical trajectories of liberalization are deregulation, dualization and socially-embedded flexibilization (Thelen, 2014). Italy is marked by dualization. Dualization, "does not involve a direct attack on institutions for collective regulation but transpires instead through the differential spread of market forces. Traditional arrangements for labour-market insiders are maintained even as an unorganized and unregulated periphery is allowed to grow that is characterized by inferior status and protections for labour-market outsiders" (Thelen, 2012:9).

In this institutional context, PRP measures were promoted that were linked to welfare initiatives. The goal was to delivery decentralized government-supported goods and services (via a voucher system) which places PRP under the direct management of workers, allowing them to determine which goods, and services they will buy from competing private suppliers. Market forces

emerge in this continuous process in the direction of what is called commodification, which can be seen in the health sector, among others (Paliotta, 2019).

Different terminology has been used in Italy to refer to the new ways these benefits are granted: corporate welfare, second welfare, contractual welfare, company-level welfare. However, we opted for the terms ‘fiscal and occupational welfare’, as they were those originally proposed by Titmuss in 1958. He classified welfare provisions into three types: social welfare, fiscal welfare and occupational welfare.

Social welfare consists of heterogeneous social services, from poor relief and sanitation to disability benefits and higher education. It will not be taken into consideration in this paper because it goes beyond the topic under evaluation.

As for ‘fiscal welfare’, it was used to indicate benefits available through tax systems. “Allowances and reliefs from income tax, though providing similar benefits and expressing a similar social purpose in the recognition of dependencies, are not, however, treated as social service expenditure. The first is a cash transaction; the second an accounting convenience. Despite this difference in administrative method, the tax saving that accrues to the individual is, in effect, a transfer payment” (Titmuss, 1958:44–45). Generally speaking, fiscal welfare is favourable tax treatment for particular types of activities or groups of taxpayers and “it can be obtained only by undertaking a specific role or behavior then it is not structural” (Wilkinson, 1986:27). It forms part of a hidden welfare state (Howard, 1997; Greve, 1994). These governmental measures, which change from year to year, have non-structural character. It has been compared with the liberal regime models, since fiscal incentives are used to support the purchase of welfare-related goods and services (Esping-Andersen, 1990; Hacker, 2002; Howard, 1997; Sinfield, 1978).

The term ‘occupational welfare’ refers to all benefits provided by companies to their workers by virtue of an employment contract: “pensions for employees, wives and dependents; child allowances; death benefits; health and welfare services; personal expenses for travel; entertainment; dress and equipment; meal vouchers; motor cars and season tickets; residential accommodation; holiday expenses; children’s school fees; sickness benefits; medical expenses; education and training grants; cheap meals; unemployment benefit; medical bills and an incalculable variety of benefits in kind ranging from ‘obvious forms of realizable goods to the most intangible forms of amenity’” (Titmuss, 1958:51). Favorable tax treatment is therefore ensured along with occupational welfare. It can be argued that the former encourages the spread of the latter. Without fiscal welfare, occupational welfare would perhaps have retained the paternalistic character marking it in the nineteenth century. Today, a variety of goods and services are offered through digital platforms. What seems to

explain its steady diffusion is therefore the government's favourable fiscal policy. The recent development of occupational welfare in Italy is evidenced by substantial research on this topic (Senatori 2017; Ciarini & Lucciarini 2017).

In general, occupational welfare measures are looked at favourably because of workers' centrality from a corporate citizenship perspective (Macchioni, 2014). Those opposing these initiatives have pointed out that the progressive commodification of social benefits can slowly erode universal rights, due to all citizens (Pavolini, Ascoli & Mirabile, 2013).

Finally, collective bargaining is embedded in a national and industrial setting, as are political systems, labour market institutions and welfare systems. These complex factors are intertwined and characterized by remarkable interdependencies which face change under advanced capitalism. We must always frame these interdependencies in workplaces where there is a clear asymmetry of power between the two traditional logics (Offe & Wiesenthal, 1980): capital and labour, freedom and justice, efficiency and equity. In this regard, government regulation and labour unions have traditionally provided a set of checks and balances to compensate for unequal power relations. Recently, some scholars have added a third element, i.e. voice. Voice is "the ability to have meaningful employee input into decisions. This includes not only free speech, supported by protection against unfair dismissal and grievance procedures, but also direct and indirect participation in workplace decision making" (Budd, 2004:8). In many workplaces, voice functions alongside collective voice institutions with the presence of employee delegates and works councils (Marsden, 2013) which have been involved in the definition of decentralized agreements, of second-level bargaining.

2. Local-level Bargaining and Measures for Fiscal and Occupational Welfare

2.1. The Supporting Role of National Legislation in the Promotion of Second-level Bargaining

Over the last ten years, the Italian government has promoted the second-level collective agreement through a number of legislative provisions, including varying degrees of tax benefit. An example of this was Legislative Decree No. 93/2008, which introduced an experimental tax incentive applied to PRP. This incentive was granted on an individual basis and was not necessarily related to the collective agreement. This measure concerned "money paid at corporate level" and involved "increases in productivity, innovation and organizational efficiency and other elements of competitiveness and profitability connected to the firm's economic trend", as well as overtime. Therefore, in this first phase,

the tax incentive was not connected to the collective agreement and concerned wage-related aspects. This initiative, which was in place until the end of 2010 - expressly aimed to “increase labour productivity.”

In 2011, the government decided to promote the second-level collective agreement. In this year the incentive was applied to a “productivity agreement” and implemented only in cases where amounts had been paid “in compliance with what provided for by the local-level or firm-level collective agreements or contracts.” In such context, PRP-related tax bonuses feature a broad definition: the tax deduction was applied to allocations “connected to higher productivity, quality, profitability, innovation, organizational efficiency linked to the results of the economic trend, the company’s profits, or any other element regarded as relevant for the improvement of corporate competitiveness” (Legislative Decree No. 78/2010). These parameters were not clearly defined *a priori*, with this task that was left to collective bargaining. This measure was further extended in the 2012 Stability Law (Law No. 183/2011).

The 2013 Stability Law provided further details about the PRP tax bonus. The link with decentralized bargaining was reasserted, by selecting for the first time the “more representative workers’ associations in comparative terms at national level or their trade unions operating in the company.” Moreover, the law introduced the formal notion of PRP with the aim of pre-determining the parameters for evaluating results.¹⁸ After extending the measure for a year, without bringing relevant innovations, this initiative was suspended in 2015 due to a lack of financial coverage.

A significant change was carried out in 2016 when the legislative measure was revived, leading to important changes as compared to the past, for example by providing tax bonuses on PRP and other aspects, such as occupational welfare and company profit-sharing.

A 10% substitutive tax is recognised to PRP introduced through second-level collective agreements. On the contrary, absent a corporate trade union, it is necessary to refer to local-level collective bargaining (e.g. a local-level agreement model, such as that of 14 July 2016 between the employers’ association (Confindustria) and trade unions (CGIL, CISL, and UIL). Without trade union representatives at company-level and with the firm not being a member of any employers’ association, local-level collective bargaining can be implemented regardless of the company’s economic sector and geographical

¹⁸ First of all, decentralised bargaining can introduce wage items expressly connected “to quantitative indicators of productivity/profitability/quality/efficiency/innovation;” secondly, also the items connected to elements of organizational flexibility are rewarded with regard to working hours, holidays, new technologies, etc.

location.¹⁹ There exist divergent opinions about this new form of local-level bargaining, according to which the agreement at local level might be concluded referring to a scheme used by each company. Some welcome this approach (Leonardi, 2017), while some oppose it (Tomassetti, 2016).

With regard to the income thresholds for accessing this provision, the government decided to widen the base of applicants, including workers with middle and high incomes (in 2016 individuals with incomes up to 50,000 Euros were included, while in 2017 those earning 80,000 Euros per year were also eligible). Moreover, in 2016 the substitutive tax applied to bonuses worth up to 2,000 Euros, whereas in 2017 3,000 euros-worth bonuses were also included.

Compared to the past, the most important novelty is the higher degree of strictness used in defining - hence reducing - social partners' discretionary power to identify the criteria assessing productivity increases. In this sense, the Inter-ministerial Decree of 25 March 2016, implementing the measure, moved beyond the uncertain notion of "productivity wages" used in 2013. Furthermore, additional criteria were identified to assess "the increase in production or saving when using productive factors, or the improvement of product and process quality". The Decree required second-level bargaining to refer to a "congruous period" to ascertain the results achieved. It also took into consideration organizational flexibility, such as the reorganization of working hours and agile work (salaried employment without restrictions relating to working hours or the place of work - Law No. 81/2017), explicitly excluding overtime. With regard to workers' profit-sharing, decentralized collective agreements must provide for a plan to regulate profit distribution. By way of example, they expressly provide for the creation of joint working groups made up of company managers and workers with the aim "of improving production areas or systems." Moreover, they must be provided with permanent monitoring and consultation structures.

2.2. The Relative Success of Local-Level Bargaining for Accessing Tax Bonus On PRP

From May 2016 to August 2017, 23,063 compliance statements were submitted by Italian enterprises (Table 1) in order to access tax benefits, involving almost

¹⁹ This interpretation seems to be confirmed by the fact that the operational instructions recalled under the previous note - in case of a company that intends to access the tax bonus stating to enter into a local-level collective agreement - substitute the obligation to register with the mere indication of the date of occurred registration of the contract, and also allow the "selection of any territorial direction".

five million applicants. Bonuses on PRP were worth almost six billion Euros, with an average value of 1,284 Euros.

Since this data points to significant differences between firm-level and local-level agreements, it is important to analyse this distinction in detail. Local-level agreements are used less in Italy, therefore this paragraph will provide only a general outline of this issue. Conversely, firm-level agreements bear relevance for the development of second-level agreements. Consequently, they will be analysed in depth in the second paragraph, starting from a number of interpretative theses relating to regional imbalances which are still evident in Italy. Analysing the data obtained from MLPS's Repository, "compliance statements" are 23,063, 18.1% of which refer to local-level bargaining (Table 1). This share is not significant, but is not irrelevant, either (this type of contract concerned 4,166 applications). As mentioned, the Law legitimizes a company's direct local-level bargaining. This means that there is no obligation to join a representative association, and/or to have a trade union within the company, somehow welcoming a sort of "contractual shopping". The data illustrates important findings also in geographical terms, as local-level bargaining in Italy is implemented as follows: 55.9% in North-East; 23.7% in North-West and 15.3% in the Centre, while only 4.9% in the South and the islands. Moreover, firm-level bargaining is more widespread in the Western Italy, while local-level bargaining dominates in Eastern Italy (Table 1).

This is due to the fact that most small-sized companies are based in the north-east. Some 42.2% of the firms that submitted a compliance statement on-line employ less than 15 employees, followed by those employing from 15 to 50 employees (19.8%), and the rest

Table 1. Applications, beneficiaries and average value of PRP per typology of agreement, territorial division, firms' size, economic sector (a.v.)

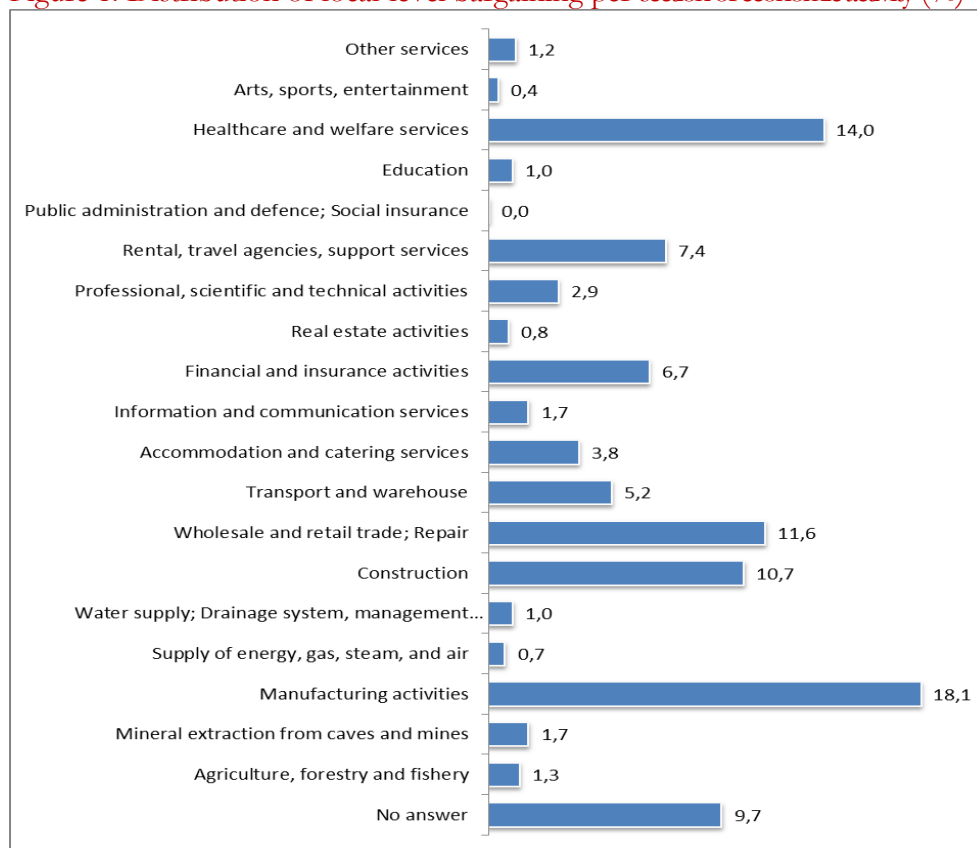
Total	Sector of economic activity		Firms' size					Division of the contract							
	S	C	2	5	10	15	S	C	N	N	O	O	O		
														Applications	
18,897	6	2	9	9	2	4	3	2	3	2	3	1	3	6	8
244	3	3	1	5	2	6	1	6	3	2	3	2	2	2	2
4,615,076	3	0	7	8	9	4	3	9	4	4	7	3	9	1	5
6,054,621,241	2	8	1	5	6	2	4	1	1	4	9	3	9	1	2
1,312	7	8	1	1	1	8	8	8	1	8	0	4	2		
	2	1	2	5	9	3	6	2	1	6	1	5	1	1	2
	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
4,166	2	4	8	5	4	3	2	3	8	1	5	2	6	2	9
80	4	9	5	0	5	9	7	2	6	0	3	8	7	9	
333,737	7	8	6	1	2	3	1	6	3	6	2	8	8	7	9
299,907,716	1	3	6	8	9	1	3	2	2	1	1	1	5	1	9
899	7	0	6	8	1	6	3	4	1	7	4	6	7		
	1	2	9	7	6	1	2	2	2	8	9	2	7	8	1
	3	9	0	7	7	8	3	3	1	4	9	7	1	1	5
	7	7	1	8	6	1	7	9	9	7	7	1	1	5	1
	0	5	1	1	3	0	8	5	6	5					
23,063	8	7	1	1	2	4	3	3	4	3	3	1	3	8	9
215	3	0	4												
4,948,813	2	1	1	4	2	6	1	6	3	1	3	2	2	1	2
6,354,528,956	6	2	6	2	8	2	3	9	3	6	0	1	6	7	3
	2	9	1	6	7	2	5	2	1	5	1	3	9	1	2
	0					8	1	0	3	9	6	8			
	2	1	2	6	1	3	6	2	1	7	1	5	1	1	2
	2						3	3	5	2	7				
1,284	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
	0	4	5	0	2	3	2	1	1	2	2	5	4	1	2

Source: Elaboration on MLPS's Repository.

As a way of comparison, 55.4% of the firms that entered into firm-level bargaining have 50 employees or more, but only 24.5% of those with the same number of staff engaged in local-level bargaining.

With regard to the economic sector (Table 1), 56.8% of companies belonged to the macro category of services, 21.5% to industry strictly speaking, 10.7% to the construction sector and 1.3% to agriculture. When this data is disaggregated and economic activities are considered (Figure 1), the most represented sectors are manufacturing (18.1%), followed by healthcare and welfare services (14.0%), wholesale and retail trade, car and motorcycle repair (11.6%), and construction (10.7%).

Figure 1. Distribution of local-level bargaining per section of economic activity (%)



Source: Elaboration on MLPS's Repository

It is also interesting to analyse in detail the characteristics of firms with regard to the four most significant economic sectors. The manufacturing sector accounts for 48.7% of firms up to 15 employees, and for 28.3% of firms

employing from 15 to 50 employees. The healthcare and welfare services involve significantly larger firms: from 15 to 50 employees (30.1%); up to 15 (27.9%); from 100 to 250 (15.4%); over 250 (10.6%); from 50 to 100 employees (10.6%).

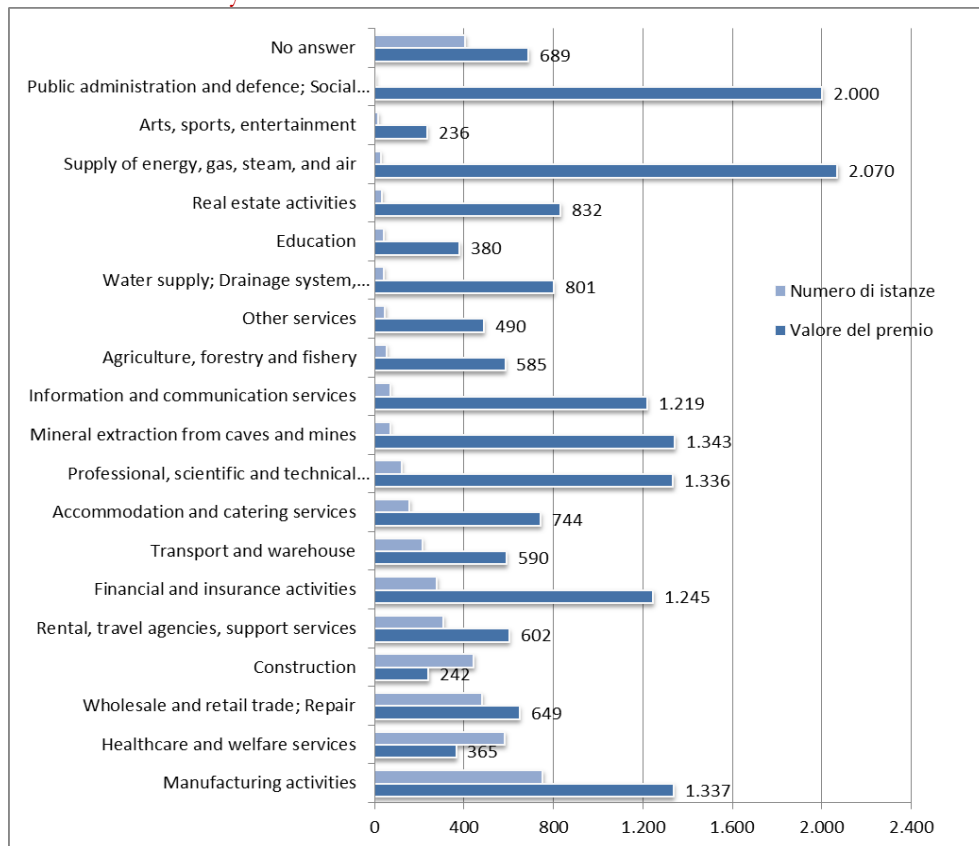
Small-sized and micro-sized firms are prevalent in the commerce sector: 63.1% of the firms employ up to 15 employees, and 24.3% of them consist of 15 to 50 workers. Firms in the construction sector are also small-sized ones, as those up to 15 employees account for 90.1%. Therefore, the number of firms involved in local-level bargaining is affected by structural dynamics connected to size and geographical position. However, it is also necessary to consider the variable relating to applicants. Local-level bargaining concerns a significant number of employees providing them with the relevant benefits established by law, even though its poor implementation as compared to firm-level bargaining. The number of local applications (4,166) involved 333,737 workers (Table 1). Therefore, those applying for the tax bonus on PRP are far below the 4,600,000 employees engaged in firm-level bargaining. Applicants are located in the north-east (164,281), in the north-west (97,304), and to a limited extent, in the centre (54,318) and in the south of Italy (17,834).

When comparing the share of applications by firms (18.1%) with that relating to applicants (6.7%), employees' little participation is even more evident. Since firms are small- and micro-sized ones, 30.1% of the compliance applications submitted on-line account for 1 to 5 applicants; 44.0% account for a number of applicants up to 10; and 53.4% up to 15. As might be the case in this distribution, the average value is rather high (80), while the median certainly represents a more adequate value to the summarized representation of the data counting 14 applicants. Significantly, the most widespread value concerns 1 applicant. In this latter case, an annual average bonus of 404 Euros is granted.

The total value of the tax bonus on PRP (Table 1) is almost 300 million Euros, not even close to the corporate one, which is equal to 6 billion. The pro-capita annual average value is equal to 1,265 Euros (firm-level bargaining) and to 779 (local-level bargaining). This figure is related to the 2016-2017 average value; considering June-December 2016 and January-August 2017, the value is 727 Euros and 917 Euros, respectively. For information purposes, we provide the median and 5% trimmed mean in order to better contextualize Repository data. In 2016, the median was 455 Euros (trimmed mean: 683 Euros), while in 2017 it was 620 Euros (trimmed mean: 842 Euros). Assumingly, the value of the tax bonuses on PRP seems to have increased over time. However, in order to substantiate this hypothesis, it is necessary to wait for next year's data. The Repository features various issues linked to the modalities for submitting compliance applications which does not allow comparing the two periods. With regard to geographical position (Table 1), the PRP value is 112 million

Euros in the north-west, almost 83 million in the north-east, some 80 in the centre and 24 in the south. This leads one to infer that in Northeast Italy the number of applications was higher, although with a high degree of variability. However, they concern a lower average PRP value (582 Euros) when compared to the North-West (824 Euros), as well as to the Centre (1,276 Euros). As mentioned, the highest PRP value is not reported in sectors where it is most disseminated, but in others where this practice is unusual (Figure 2).

Figure 2. Value of the Pro-capita Annual PRP and Number of Applications per Economic Activity



Source: Elaboration on MLPS's Repository

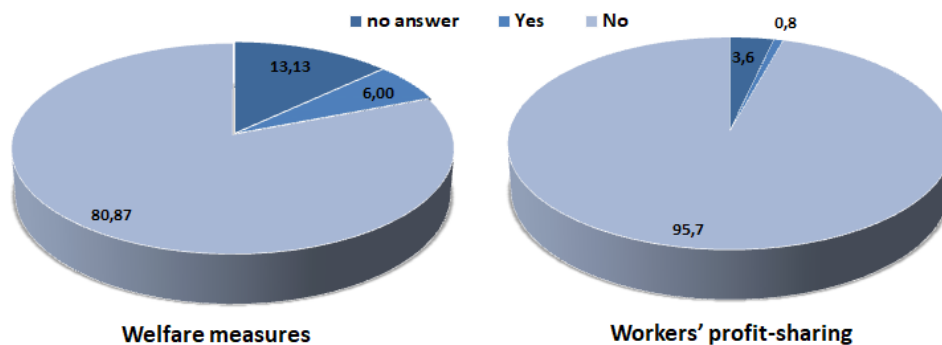
The manufacturing sector (18.3% of the cases) is certainly among the most important sectors in Italy, and the estimated value of PRP is 1,337 Euros. This is one of the highest values and, in 50% of the cases, concerns firms with less than 15 employees. In addition, one might argue that the manufacturing sector bears relevance in Italy also with regard to the diffusion of local-level

bargaining. In the healthcare sector (13.5% of cases), the PRP is low when compared to that of the engineering industry (365 Euros). The commerce sector (11.5% of cases) reported a PRP slightly below average (649 Euros), while the construction sector (10.2% of cases) registered an even lower average PRP value (242 Euros). With reference to the latter figure, it is important to highlight that almost all cases concerned firms with less than 15 employees (91.3%).

As mentioned above, local-level bargaining may also regulate specific aspects, such as occupational welfare or profit-sharing. Occupational welfare has been given new momentum in the media, academia and politics, so more significant figures could have been expected (Figure 3). In this case, only 6.0% of firms resorted to local-level bargaining, while it was concerning that few firms answered the relevant question (13.1%). This may be due to various reasons: uncertainty resulting from the small size of the firm; an existing welfare scheme which has been adjusted to employees' needs; today's increasing access to services platforms.

With regard to geographical position: 6.7% of firms are based in the north-west, 6.4% in the north-east, 5.0% in the centre, and a meagre 1.4% in the south. With regard to the economic sectors, an above-average value was registered only among financial and insurance firms (29.6%), while a lower value was reported in the manufacturing sector (3.5%), healthcare and welfare services (6.7%), commerce (3.1%) and construction (0.4%).

Figure 3 Recourse to Occupational Welfare and Profit-sharing (%)



Source: Elaboration from MLPS's Repository

Access to welfare services still seems to represent a problem. Access modalities for those who are not – and are not willing to become – members of employers' associations could be solved by creating a network among the firms concerned. This could be easier to realise among firms of the same industrial district, or by joining private groups specialized in the sector that have already

set up and make available a digital platform of goods and services. In all these cases, however, these digital platforms would be able to take off only with high scale volumes.

Unlike occupational welfare, profit-sharing is given scant consideration in the media and among experts (Carrieri, Nerozzi & Treu, 2015). This is well reflected the Repository data (Figure 3), where profit sharing accounts for less than 1% among the firms which have concluded registered local-level agreements. In addition, considering unanswered questions (3.6%), profit-sharing is residual, regardless of its relevance. Thus, it seems unnecessary to analyse this aspect in depth, either at local or at sectoral level.

The lack of interest toward this aspect certainly constitutes a missed opportunity. Considering employees' ideal involvement in corporate policy, it is a topic that could develop in the upcoming future, but currently it is still suffering from strong cultural hesitations (Ichino, 2013). However, although there is no participation in firm management yet, profit-sharing represents another element toward a firm with a "human face" (Budd, 2004) to which also the labour force is called to give its "voice" nowadays, not only in terms of work performance, but also by joining an overall common project. A firm in which "employment outcomes are the product of interactions between employees and employers as influenced by both the work environment and the nature of human decision making, including ethics" (Budd, 2004:8).

3. Measures for Labour Productivity in Firm-Level Bargaining

3.1. The Territorial Rootedness of Firm-Level Bargaining

With the aim of analysing the territorial rootedness of the measures promoting labour productivity in firm-level bargaining, the regional level has been considered, for a number of reasons.

First of all, these measures provide useful statistics for local comparisons also at international level (NUTS 2). Moreover, with regard to labour market legislation, the Regions have powers which at times overlap with those state ones, while in other cases are exclusive, with this state of affairs that has given rise to local labour markets.

The variables highlight a territorial distribution of firm-level bargaining with distinct characteristics. Most applications were submitted in the centre-north (17,406), with fewer applications submitted in South Italy (1,491).

Firm-level bargaining can have a different impact, as the number of employees benefitting from the measure varies greatly. Therefore, besides the number of applications registered, it is advisable to consider the number of actual beneficiaries, which confirms the progressive geographical gap. In particular,

the 4.6 million beneficiaries are divided as follows: 44.1% in the north-west, 28.3% in the north-east, 20.1% in the centre and 7.5 in the south and the islands. Each region presents different firm sizes and employment conditions. Therefore, in order to better understand the effectiveness of the initiative and its diffusion in local labour markets, the relevant incidence was calculated¹ (Figure 4).

When considering absolute values, Lombardy ranks first among the regions in relation to the number of applications submitted (5,940) and that of the beneficiaries involved (1,408,807). Calculating incidence, it ranks second, due to the large share of people employed in this region. The following are the regions with the highest incidence: Emilia Romagna (11.17%), Lombardy (10.52%), Piedmont (9.52%), Valle d'Aosta (9.03%), Lazio (8.68%), Friuli Venezia Giulia (8.56%), Veneto (7.05%). In Southern regions and the islands, incidence is extremely low and does not go beyond 2%, with the exception of Basilicata and Abruzzo (4.06% and 3.93%, respectively). In all other regions, the values ranged between 3% and 4%.

A dichotomy can be seen in Italy's economy from many viewpoints. The divergence between the central and northern regions and the southern ones emerge when measuring labour market conditions and the territorial rootedness of intervention policies (Resce, 2016a). Also in this case, a marked concentration is identified at regional level, which is characterised by a significant incidence in central and northern Italy.

These divergences are confirmed also by the overall distribution of bonuses (Figure 5). The total amount of wages facing tax reduction is 6 billion, 43% of which are concentrated in the north-west, 26% in the north-east, 22% in the centre and only 9% in the south and the islands.

¹ The incidence was calculated as the number of total beneficiaries out of the average number of people employed per region registered in the 2015-17 period.

Figure 4. Regional incidence of firm-level bargaining

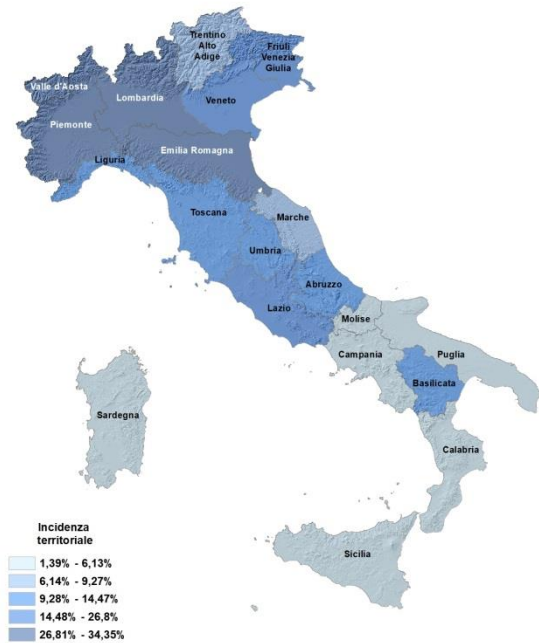
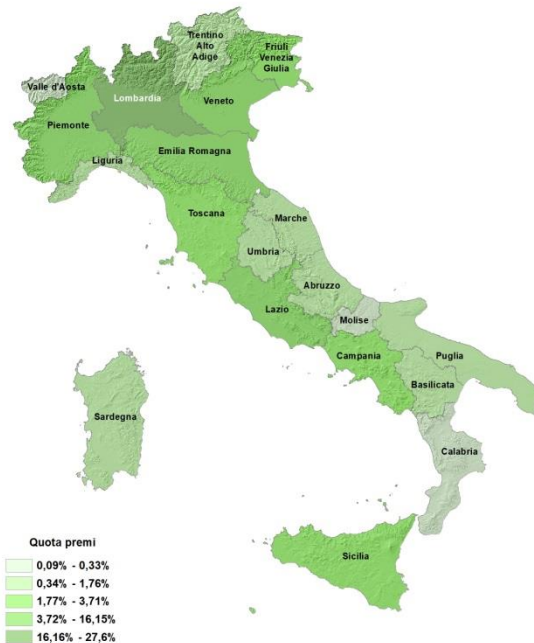


Figure 5. Regional distribution of the declared bonuses

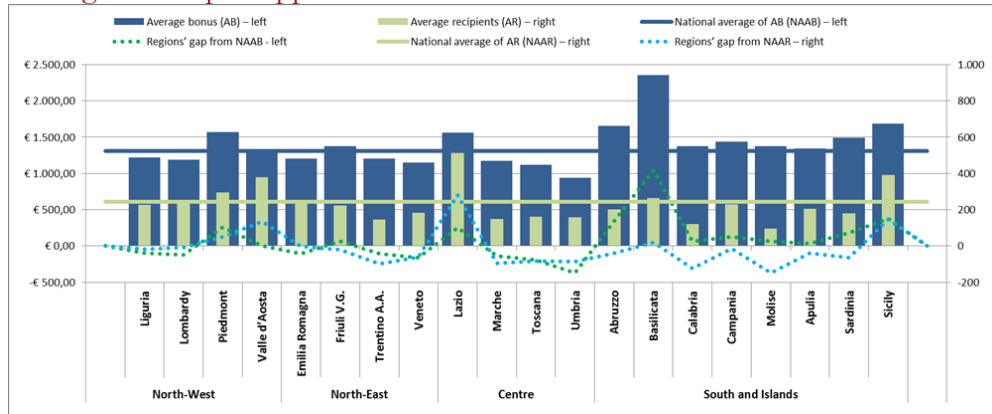


Source: Elaboration on MLPS's Repository

Figure 6 highlights a number of trends at local level. In particular, the average values of the bonus per beneficiary in Southern regions (the south and islands) are above or equal to national average. At the same time, the average number of beneficiaries involved per agreement is below national average, with the exception of Sicily, Basilicata and Campania, which are in line with the national average. The values of the bonus in northern regions are below national average (with the exception of Piedmont and Friuli) and the number of beneficiaries is almost in line with the national average (with the exception of Trentino Alto Adige). In central regions, the average values of the bonus and the beneficiaries are below national average. In this context, the average number of beneficiaries in Lazio is so relevant (525) to affect not only local statistics, but also national averages. Geographically speaking, the average number of beneficiaries per agreement and of the bonus per beneficiary are

distributed as follows: north-west (250, € 1,287.72); north-east (212, € 1,204.49); centre (299, € 1,413.73); south and islands (232, € 1,586.13).

Figure 6. Regional Distribution of the Average Applicants per Agreement and Average Bonus per Applicant

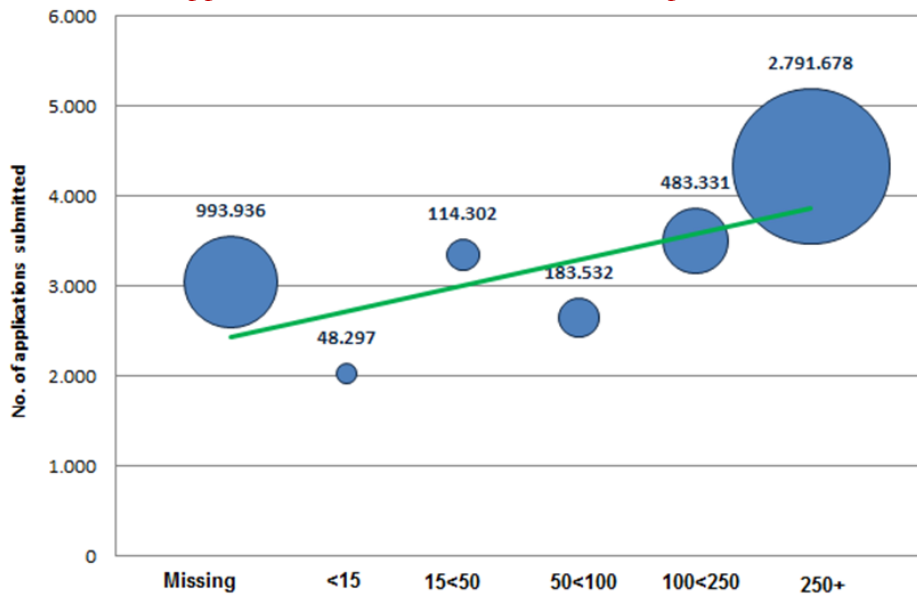


Source: Elaboration on MLPS's Repository

3.2. The Dimensional Structure of Firm-level Bargaining

One of the determinants affecting the recourse to firm-level bargaining is firm size. Although most agreements are not comparable due to a lack of data (about 16%), it is possible to argue that the larger the size of a firm, the higher the tendency to enter into firm-level agreements. With the exception of a slight decrease of the applications submitted by firms with 50 to 100 employees, the number of agreements has increased steadily (see Figure 7).

Figure 7. No. of Applications and Beneficiaries Involved per Size



Source: Elaboration on MLPS's Repository

The impact of size is evident when considering the total number of beneficiaries. Without taking account of absent data, and comparing two groups of firms – one employing less, the other hiring more than 100 employees – the situation is almost equivalent (actually, the first group prevails over the second, 42.46% against 41.42 %). Things are completely different in terms of beneficiaries involved, as the first group concerns 7.5% beneficiaries, while the second group 70.96%. This natural multiplying effect on beneficiaries applies to firms with many employees. The last category, which refers to firms with more than 250 employees (Figure 7), includes 4,330 agreements (22.91%), involving 2,791,678 beneficiaries (60.49%).

Figure 8. Distribution of Shares relating to Employment and Beneficiaries per Firms' size and Geographical Area

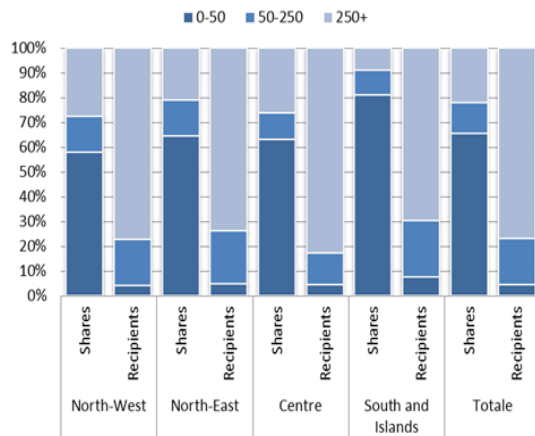
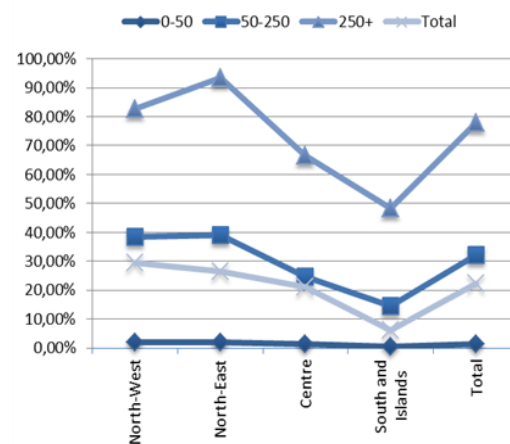


Figure 9. Incidence of Beneficiaries over Employees per Firms' size and Geographical Area



Source: Elaboration on MLPS's Repository

This correlation between firm size and the tendency to enter into firm-level bargaining is the argument mostly resorted to when justifying the scarce consolidation of second-level collective agreements in the South, on account of many micro and small firms in that area.

The employment rates per firm size (Figure 8) show a high concentration of firms up to 50 employees in the south and islands and a limited number of medium- and large-sized firms. This explains, albeit only partly, the conclusion of these agreements. Another explanation might be the little tendency of all firms in this area, irrespective of size, to implement this measure through second-level collective agreements. In turn, this trend might be ascribed to the limited space given to this measure, due to the presence of other labour market incentives. The sectoral structure of the firm-level bargaining might also have a play.

3.3. The Sectoral Structure of Firm-level Bargaining

The sectoral structure of the applications (Figure 10), irrespective of lacking data, accounts for about 14.81% and sees the prevalence of the services sector, which in terms of beneficiaries totals 44.99%, followed by the industry strictly speaking (38.20%), the construction sector (1.89%), and the agricultural sector (0.11%).

Breaking up these macro-sectors into single activities, it is clear that the greatest contribution comes from manufacturing, and in particular from manufacturing (32.18%), followed by financial and insurance activities (14.58%), commerce (8.09%), transport (7.33%), professions (4.76%) and communication services (3.57%). All other activities have an incidence below 3%. Therefore, different sectoral dynamics exist. When considering the regional specialization models, these may have affected the current territorial dynamics.

Figure 10. Sectoral Distribution of the Beneficiaries (Macro-Divisions And Details Ateco 2007)

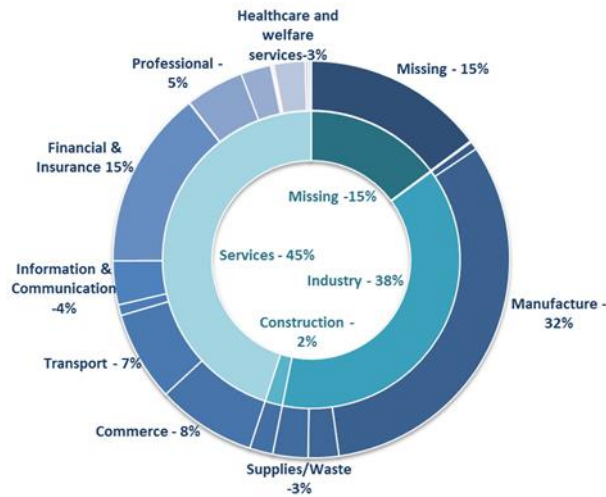
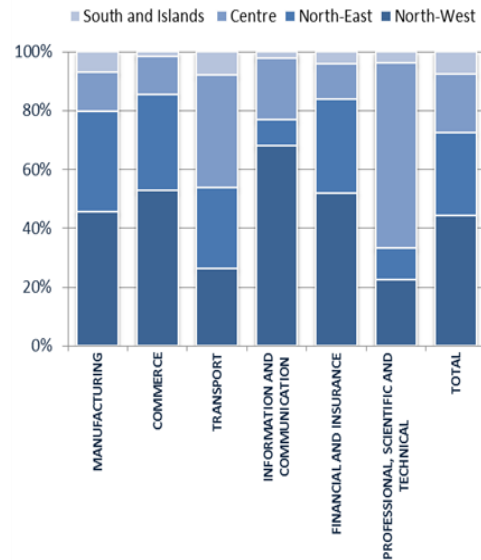


Figure 11. Composition of Applications per Main Sectors on the Basis of the Geographical Area



Source: Elaboration on MLPS's Repository

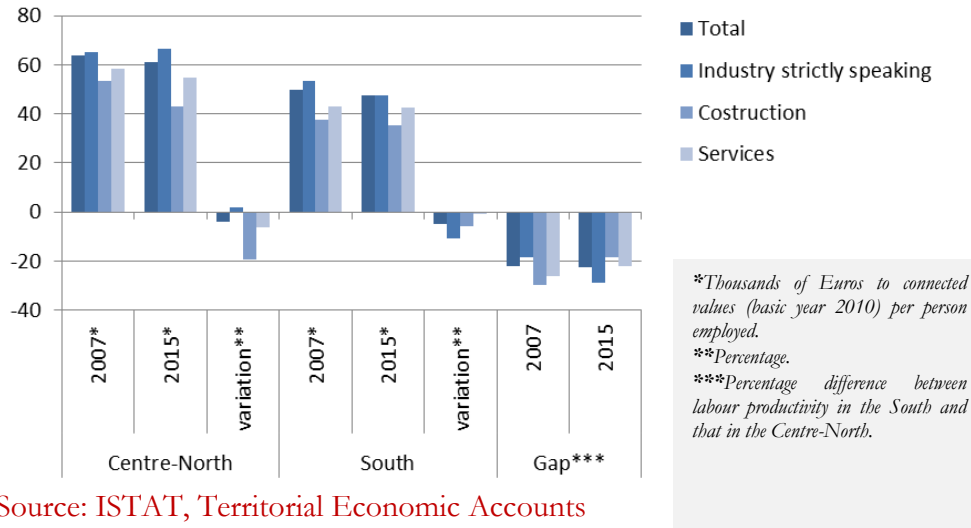
The making up of the single productive sectors per geographical area (Figure 11) shows that the South has little presence in the largest sectors. An exception is given by the transport sector, as its contribution has increased. On the contrary, the north-west alone concerns 44% of applicants. Therefore, a relatively higher presence is reported in the sectors more involved in registrations of firm-level bargaining, in particular manufacturing, commerce, information and communications, and financial and insurance services.

3.4. Geographical Divergences and the Risk of Polarization

The data collected through the registration of firm-level agreements with the MLPS and on the concessional taxation of performance-related bonuses highlights a significant territorial divergence. Firm-level bargaining is implemented in the centre-north more than in southern regions.

The traditional explanation for this is the greater presence of micro and small-sized firms in the South, with them showing little tendency to use these agreements. However, this explanation does not seem sufficient. The registration of agreements concluded in the South and the islands is relatively concerns micro and small enterprises to a limited extent, where greater presence was expected. A more logical explanation for this geographical dichotomy is the sectoral specialisation of the regional economies. In the sectoral composition of firm-level bargaining - calculated on the basis of the number of applications submitted and the number of applicants involved – the regions of the South are relatively less present in the most dynamic sectors. Moreover, it is important not to underestimate undeclared work (Resce, 2016b), which by definition is excluded by bargaining. Another aspect, which has not been considered in this paper, refers to the recourse to undeclared work, which is more widespread in this country. This concentration in the distribution of applications rises some concern especially with regard to firm-level bargaining. When considering how firms entered into the agreements, such measures could increase the already marked territorial dualism which characterises Italian regions. This difference rests on an inefficient allocation of the increases of productivity. From 2007 to 2015 – that is from the pre-crisis to the post-crisis period – the already wide labour productivity gap between the south and the centre-north slightly increased (Carmignani & Staderini, 2016), even if with differentiated sectoral dynamics (Figure 12).

Figure 12. Labour Productivity in Italy (2007 and 2015)



Source: ISTAT, Territorial Economic Accounts

With regard to the industry strictly speaking, the centre-north regions quickly recovered the 2009 labour productivity crisis, and reporting values higher than those of the pre-crisis period. In the South recovery was weak, causing a widening of the productivity gap between the areas. In the services sector, the drop in productivity in the centre-north areas was more marked compared to that in the South, especially due to the higher stability of employment levels in the former. This dynamic can also be seen in the construction sector. The overall added value decreased more intensely than the number of people employed in both areas of the country. These dynamics were partially due to a more marked increase of the efficiency of allocation² in the centre-north compared to the South (Linarello & Petrella, 2016).

When contrasting the added value per employee per region before the introduction of incentives (Figure 13) with the territorial incidence of governmental productivity measures within the framework of firm-level bargaining, the divergence process of the Southern regions' productivity would increase more markedly for several regions, such as Molise, Campania, Apulia, Calabria, Sardinia and Sicily.

² The allocative efficiency measures the ability of an economic system to direct resources toward the most efficient firms.

Figure 13. Added Value Per Employee per Region (2014)

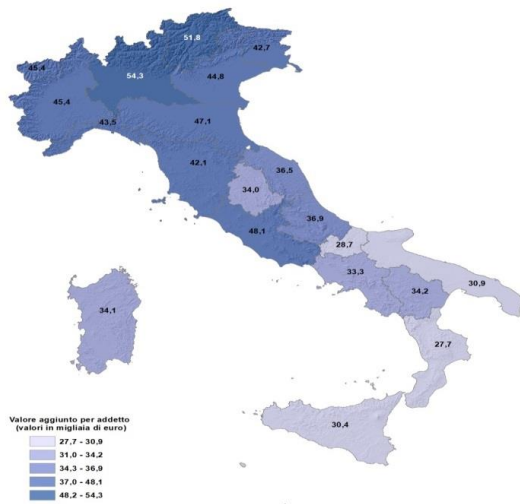
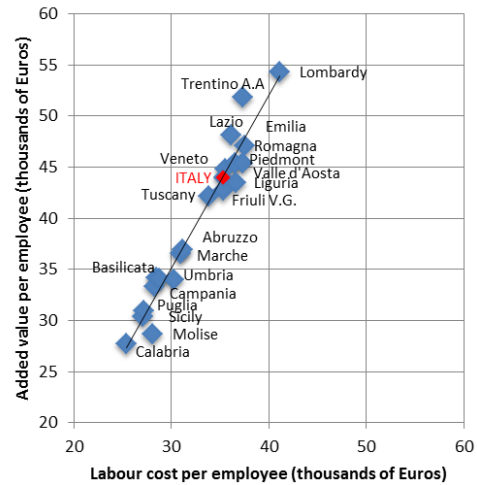


Figure 14. Added Value per Employee and Labour Cost per Employee per Region (2014)



Source: Processing of ISTAT's data (2017 Italian Statistics Report)

The current debate involves the advisability to redefine the structure of the collective bargaining system in order to support the recovery of competitiveness of the Italian economy. There is a need for an industrial relations system capable of guaranteeing flexibility in regulating wages and a greater employment resilience toward the economic cycle (Boeri, 2014 and 2017).³ Some suggest reforming the industrial relations system in favour of the decentralised system, also recognising the possibility to set lower wages.⁴ Others opt for the introduction of legal minimum wages leaving to the decentralised bargaining system the establishment of further wage components

³ In particular, reference is made to the debate organized by AREL, Agenzia di Ricerche e Legislazione (Research and Legislation Agency), on the occasion of the presentation of the volume "Salari, produttività, disuguaglianze" (Rome, Thursday 14 September 2017), with the intervention, besides the curators (Treu, Dell'Aringa, Lucifora) and various stakeholders, also of Boeri and Letta.

⁴ The inter-confederal agreement of Confcommercio of 2016 expressly provided for the possibility for the second-level collective agreement to derogate to institutes the economic content established at national level. Also the confederal agreement of Confesercenti of September 2017 provides for the possibility of derogation at local-level of the wages defined by the NCBA, upon explicit delegation of the NCBA.

(Tufo, 2018). The aim is to use decentralised bargaining to decrease wages in the South. However, this decrease could lower families' consumption with a slowdown of economic growth in these areas, which already struggle. There is a world that goes beyond corporate production, and refers to conditions of social cohesion. Therefore, these dynamics should be analyzed taking into account wealth-related trends, according to which people living in the South are 40% more likely to face poverty (Bank of Italy, 2018). Moreover, the idea to increase young people's mobility toward higher-wage areas is not properly substantiated. This state of affairs would increase the already evident skill drain in the South. This would hinder generational change and human capital development, which are necessary in these areas to promoting local growth (Resce, 2006; Svimez, 2018).

Wage reduction in the South is often justified with the need to increase profit margins in relation to low productivity, even though it is in the South that the lowest labour costs per employee are reported. Apart from the reflection on wages as a lever for internal demand, it is difficult to imagine that labour costs per employee may be further reduced, in consideration of the already low levels (see Figure 14). Regaining competitiveness in this area, especially when making a comparison with eastern European countries, appears to be an unreachable target, particularly when taking into account the already low labour costs reported.⁵ The run-up must not be downward but upward, increasing production upgrading in qualitative terms. Policies other than those related to the labour market could be much more effective, acting on aspects on which Southern Italy still lags behind, e.g. infrastructure development, education and training quality, financial slowdown, etc. The regulation of the labour market is certainly important. However, besides a closer interconnection between industrial relations and active and passive labour policies, greater external integration with the other development policies is also needed. European policies draw inspiration from convergence attempts, also in industrial relations (Vaughan-Whitehead & Vazquez-Alvarez, 2018). However, the models are still substantially different. This paper highlights that although the regulations and conditions for accessing a measure may be equal, local market conditions produce different results, with the risk of triggering further divergences. In conclusion, this analysis suggests that, for the future, it will be necessary to design instruments which adequately invest in the specific characteristics of local labour markets in order to promote second-level bargaining. Moreover, the current incentive system needs to be integrated with other policies that take into account contextual differences. The answer should be sought not only in

⁵ Eurostat, news release No. 58/2017– “Labour costs in the EU Hourly labour costs ranged from €4.4 to €42.0 across the EU Member States in 2016” - 6 April 2017.

labour policies, but also in wider measures, in particular industrial policies and in those relating to local development.

4. Conclusions

It is still too early to assess whether and to what extent these policies have contributed to determining positive effects on collective bargaining and productivity growth. Generally, creating a “race to the incentives”, which is a problem that is common to all support policies, gives rise to a lot of criticism. This attention to tax relief is also confirmed by the approaches that took place with agreements negotiated and which reproduce the same tactics (Fazio & Tiraboschi, 2011) in the face of different realities that would imply different solutions to increase productivity. The practice of so-called “cosmetic agreements” (Antonioli & Pini, 2013) has become widespread, determined by a merely formal link between accessory wages and performance-related pay, the results of which are difficult to measure.

Some authors have pointed out that in local-level bargaining the risk of an improper use of this measure is likely (Tomassetti, 2016b) as is that of generating “photocopy agreements” (Tomassetti, 2016a) aimed at ensuring access to the tax premium to workers in companies without trade union representation.

The Council of the European Union was also critical⁶: “Tax rebates on productivity-related wage increases have not proved effective in significantly extending the use of second-level bargaining”. Recently, the EU has reviewed its own judgment, recognizing the difficulty of evaluating this policy, without expressing a specific recommendation. Despite the challenges to evaluating politics as a whole, some conclusions can be drawn on the first implementation of tax relief measures, identifying some pros and cons.

As for “pros”:

- the new tax rebates on productivity-related pay increases is more rigorous, also due to a mandatory monitoring process provided by law;
- while not fully contributing to the growth of labour productivity, the new incentives generate a reduction in the tax wedge;
- “productivity” and “profitability” are primary objectives in the agreements considered;
- complexity reveals the collective bargaining capability to adapt to the company’s organizational and production needs.

⁶ Ref. “Council Recommendation on Italy’s National Reform Program 2017 - COM (2017) 511 final” and “Council Recommendation on Italy’s National Reform Program 2018 - COM (2018) 411 final”.

As for “cons”:

- second-level bargaining is not yet widely used and therefore the potential advantages of its application are not evenly distributed in the productive fabric;
- two-tier wage bargaining structures could reconcile macroeconomic stability with a closer link between productivity and pay: this goal is far from being achieved due the limited use of firm level agreements;
- the use of occupational welfare programs is limited even if the growth trend is positive, with workers' participation practices being poorly widespread;
- it is still early to evaluate tax rebates on productivity-related pay increases but, even if successful, this policy could generate polarizations of productivity gains depending on geographic areas and company type (i.e. size and sector).

Today, decentralized bargaining is considered of fundamental importance because its wider implementation in wage definition and work organisation would produce a closer link between productivity and wage growth. This alignment is more complex in the recessionary phases, for the rigidity of downward salaries is dependent upon first-level collective bargaining. Divergent views exist as to how the structure of the collective bargaining system should be redefined to support the recovery of competitiveness of the Italian economy. There is a need for a system of industrial relations capable of guaranteeing flexibility in the regulation of wages and a greater resilience of employment to the economic cycle⁷. Some advocate for a major overhaul of the industrial relations system in favor of the decentralized one (D'Amuri & Nizzi, 2017)⁸, recognizing the possibility of setting lower wages. Others welcome the introduction of a legal minimum wage, leaving to decentralized bargaining the determination of additional wage components.

Many follow a micro approach, considering that flexible downward wages at company level guarantees greater competitiveness together with higher profit margins. From the macro point of view, however, it has been highlighted that salary increases are important, since Sylos Labini's productivity function recognizes their fundamental role for the growth of productivity, equating it to

⁷ In particular we refer to the debate organized by AREL (Agenzia di Ricerche e Legislazione) on the occasion of the presentation of the book "Salari, produttività, disuguaglianze" (Rome 14 September 2017).

⁸ See D'Amuri e Nizzi (2017): *«In this regard it would help the provision of procedures - possibly articulable, for the purpose of greater legal certainty, also at a legislative level - aimed at guaranteeing the possible prevalence of company agreements on the provisions of the national contract, including the possibility of derogating even in a pejorative sense from the stipulations established by the NCBA».*

an extension of the demand for consumer goods, to the price of machinery-related work, to the absolute cost of labour (Tronti, 2013). In this sense, the review of collective bargaining should make company reorganization necessary and cost-effective in order to increase productivity. For this purpose, it is useful to recall the "dialogue between economists", which took place a few years ago but it is still relevant. It provided policy indications that can be summarized in three points: negotiation of guidelines for reorganizing workplaces; determination of objective values of productivity increase (c.d. programmed productivity); explicit bargaining of a target value of the wage share in income. It seems clear that further developments in measures supporting productivity in the context of decentralized bargaining should be conceived in a more organic framework featuring the close integration between policies at different levels. Connection within labour policies must be increased, just as the latter must be integrated with territorial and industrial development policies. After years of labour market reforms, which have not generated the productivity gains hoped for, perhaps it might be useful to provide a new approach which considers reforms and new policies to be implemented. Just as greater integration between policies is essential, the system of industrial relations must also achieve closer coordination between the two levels of bargaining, to avoid the risk of treating wages as a variable independent of macroeconomic conditions (Fadda, 2013) and consider it only for its micro value at company level and for short-term solutions. Regarding occupational and fiscal welfare, they are key to redistributing benefits and opportunities within the segmentations already present in the Italian labour market and which have been analyzed in the literature (company size, sector, territorial district). In this sense, occupational and fiscal welfare measures can reinforce a general trend toward fragmentation and inequalities within the labour market and the welfare state itself. This constitutes a very strong policy indication that political authorities should take into due account. With these measures, the traditional north–south divide, which has been one of the main political concerns of central institutions, may have caused further exacerbation. As has already been authoritatively affirmed “one of the consequences of both fiscal and occupational welfare can be even more divided society. Furthermore, fiscal welfare can turn upside down and occupational welfare prolongs existing inequalities on the labour market (along the lines of gender, ethnicity, and the level of educational attainment)” (Greve, 2008:64).

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