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## Policy innovation in the Italian labour market: the influence of institutions

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**discussion paper**



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**Policy Innovation in the Italian Labour Market**

The Influence of Institutions

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## **Zusammenfassung**

Gegenstand der Analyse dieses Papiers ist der Umfang von Policy-Innovationen innerhalb des italienischen Arbeitsmarkts angesichts der wachsenden Arbeitslosigkeit. Dabei geht es um die Art, wie öffentliche und private Akteure ihr Routinehandeln zu verändern und neue Programme zu entwickeln versuchen, um gegen die alarmierenden Veränderungen auf dem Arbeitsmarkt anzugehen.

Im Vordergrund stehen dabei die in der jüngsten Zeit geschlossenen Solidaritäts-Abmachungen (bei denen es um Verträge mit flexibler und verkürzter Arbeitszeit geht), die sehr bewußt von Entscheidungsträgern eingeführt wurden, um Entlassungen zu vermeiden und neue Einstellungen zu ermöglichen. Ein detaillierter Vergleich zwischen den mehrheitlich praktizierten Standardansätzen in der Arbeitsmarktpolitik und den neuen Arbeitsprogrammen der 90er Jahre zeigt deutlich ein anhaltendes Setzen auf alte Policy-Muster und ein niedriges Innovationsniveau in neue Policy-Ansätze. Die Arbeitgeber halten an den alten Programmen fest, da sie den Verlust von deren Anreizstrukturen befürchten. Ebenso sind öffentliche Maßnahmen pfadabhängig vor dem Hintergrund des bestehenden Institutionengefüges von Anreizen und Einschränkungen, eine Abhängigkeit, die innovative Erfolge verhindert.

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«History matters. It matters not just because we can learn from the past but because the present and the future are connected to the past by the continuity of a society's institutions.»  
(D.C. North 1990:vii)

## 1. Introduction

«One million more jobs» was the central slogan of Berlusconi's electoral campaign in March 1994. Both the right coalition, which officially formulated the proposal, and the left coalition, denouncing its lack of realism, recognised the political salience of unemployment.

Since 1992, Italy has experienced a substantial fall in employment. While in the EC countries the employment increased by 2%, in Italy more than double the jobs were lost in 1993 (- 4,8). In January 1995 unemployment reached the historical peak of 12,2%, but distributed unevenly over territory: 22% in the South against 7,2% in the North. Long-term unemployment also increased significantly, amounting to 7,6% of total unemployment (ISTAT 1995).

The employment trends of the 90s in fact seem to go in the opposite direction of the 80s, when job creation, although insufficient to keep pace with the growth of the labour force, was significantly above the EC average. Between 1980 and 1991 total employment rose by more than 1,5 million units, a yearly growth rate averaged 0,6% against 0,4% in the European Community as a whole (*European Economy* 1993). This low cyclical sensitivity to economic activity and to international output fluctuations is largely due to some structural disadvantages which put the Italian labour market in a unique economic and political condition compared to the European scenario.

The territorial, economic and social dualism between the South and the North, the sectoral dualism between competitive and non-competitive sectors, the low level of youth- and female employment together with an under-institutionalised system of vocational training make the Italian case a peculiar one. This peculiarity is enhanced by a remarkable degree of social security which assures high income protection, a result of the compensatory function of public spending.

Consequences of this process are the well known huge public deficit, the persistence of high inflation (5,5% in May 95), the public sector's inefficiency, and the dominance of a culture of public assistance, often turning into clientelism (La Palombara 1964; Graziano 1974; Ferrera 1984).

The nineties, however, are a period of both hard economic recession and of multiple transitions<sup>1</sup>. Deep changes took place in the social and in the political arena. The introduction of the majority system, the new social pacts of '92 and '93, and the reform of collective bargaining, are just examples of the attempt to create more stability and introduce more rationality. Although they are preliminary steps in a wider political learning process, they open new spaces of action with direct repercussions on labour policy innovation.

The main purpose of this paper is to investigate the degree of policy innovation within the Italian labour market, in a period of tremendous unemployment, such as the one of the nineties. The paper analyses the way public and private actors try to modify their routines and to develop new programmes in order to tackle the alarming transformations of the labour market.

Particular attention is given to solidarity contracts (i.e. working time reduction), a new programme that was deliberately introduced to avoid dismissals and to promote new hirings. A case study is selected, Fiat's last-round bargaining process where solidarity contracts became a very controversial issue, supported by unions but strongly refused by employers. The Fiat case helps to understand the way social actors influence the policy process and try to pursue their own interests, hampering the full implementation of innovations brought in by decision makers. It is a privileged occasion which permits to address the leading issue of radical policy innovation from a more specific perspective.

The comparison between main stream labour policies and the new labour programmes developed in Italy, starting in 1988, demonstrates the salience of existing past policy schemes and the low degree of

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<sup>1</sup> See, beside economic change, the political transformations that occurred in 1992, as a result of the action of «Mani Pulite», which threw most of the ruling class out of office on grounds of corruption. It is beyond the scope of this paper to analyse the deep political changes after the period of corruption scandals.

effective policy innovation. Even so-called «radical unemployment programmes» turn out to be very conventional and to reveal the legacies of past experiences. Actors stick to the «old» instruments, in fear of losing the structure that they provide.

The failure of existing policies, confirmed by the persistence of high unemployment seems therefore not to be sufficient to stimulate substantial reform efforts. Policies are path-dependent: they are a product of the particular institutional framework of incentives and constraints that surrounds them. That is why they should be explained on the basis of the structural and historical features in which they are embedded. Institutional innovations are filtered by the existing institutions -that is, always modified and adapted. Decision makers do not autonomously choose new policies on the basis of their rationally expected outcomes, but constantly have to bargain with interest groups' pressures and with the institutional framework in which their strategies develop.<sup>2</sup>

The analysis I suggest will therefore contrast with a certain group of policy studies which tend to consider public policies as independent variables capable of influencing and gradually transforming the institutional setting (Lowi 1972; Richardson 1982; Richardson and Jordan 1985; Dente and Regonini 1987; Jordan 1990). Taking inspiration from recent neo-institutional contributions (Granovetter 1985; Granovetter and Swedberg 1992; Steinmo et al. 1992; Streeck 1992; 1994; Soskice 1994) I argue that institutions are more resilient than policies and that institutional innovation is a more complex phenomenon than the simple result of fixed causal relationships. Studying institutional innovation therefore requires a detailed investigation of the multiple and dynamic links between politics, history and policy.

The paper is organised as follows. Section 2 briefly presents the context and the historical development of Italian labour policies. The dominance of passive policies for income support, the lack of job creation programmes and the generosity of state subsidies emerge as the main features. Section 3 focuses on policy innovations introduced in the nineties in order to tackle increasing unemployment. Among

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<sup>2</sup> The actors somehow adopt a logic of normative appropriateness (March and Olsen 1989) conforming their strategies to the institutional constraints.



them, particular attention is given to solidarity contracts and to the last employment crisis at Fiat where solidarity contracts were a hotly debated topic. The confrontation between the old and the new instruments the actors choose to solve the crisis reveals the incremental nature and the limited possibilities of change. Section 4 tries to explain the low degree of labour policy innovation by looking at the characteristics of the Italian political and administrative system, where new programmes appear to be selected on the basis of their compatibility with core institutional imperatives. Section 5 develops the argument of policies path-dependency, on the basis of the information developed in the paper.

## **2. Context**

High fragmentation and lack of coordination was always part and parcel of Italian unemployment policies have. The policies varied according to a large number of parameters: the time they were introduced, the relevant legal procedures, the industrial sectors to which they applied, the territorial level on which they were implemented and the authority responsible for that. In general, they are based on a very sectoral and incremental logic. They frequently juxtapose and overlap and are entangled with other policy sectors, such as invalidity pensions and early retirements, which, especially during the seventies and the eighties, substituted for unemployment insurance.

A brief historical perspective is needed for a better understanding of this particularistic and contingent logic.

The Italian government was one of the first, soon after the British one, to introduce unemployment insurance in 1919. Yet despite, this early institutional innovation, the level of insurance has remained very low in comparison with other European countries<sup>3</sup>. After the Second World War a series of sequential and sectoral measures were introduced in order to make up for this deficit.

In 1945 the system of unemployment policies was based on two different instruments, temporary wage subsidies for industrial workers, the so-called *Cassa Integrazione Guadagni (Cig)* scheme, and

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<sup>3</sup> Only in 1985 did unions formally advance a proposal for the augmentation of the insurance subsidy.

unemployment insurance to cover involuntary unemployment, both insufficient to cope with the mass of unemployed people.

From the fifties to the seventies unemployment programmes represented the lowest amount of the total public expense; fluctuating from 2 to 4% (Ferrera 1984). Active programmes, which favoured the entry of young people in the labour market, were completely lacking. They did not become necessary during the following two decades either when, thanks to the unexpected recovery of the national economy, the problem of unemployment almost disappeared from the political agenda. The government only committed itself to extend the temporary wage subsidies year after year until they were transformed into ordinary benefits<sup>4</sup>.

It is therefore more appropriate to speak of labour policies (i.e. programmes introduced by a public authority in response to a specific policy problem) only from the beginning of the seventies, when the number of the unemployed began to rise and the electoral salience of the problem exploded on the political arena. The alarming consequences of the international recession, which deeply perturbed the macro-economic setting, forced the government to take immediate initiatives.

Changed economic conditions coincided with the explosion of the social conflicts provoked by union protests and strikes during the «hot autumn». The temporary weakening of centre-left coalitions at the beginning of the Vth legislature appeared balanced by the sudden strengthening of trade unions, after the long years of silence and exclusion from the political arena.

The most important pillar of the Italian labour policies system, the extraordinary wage subsidies, which expanded upon the ordinary CIG scheme, was not a deliberate innovation in response to 1968, the symbolic date of social mobilisation.

Law 1115 introduces these extraordinary interventions for more critical situations than those foreseen by ordinary ones, such as crisis-ridden industrial sectors.

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<sup>4</sup> It should also be noted that in 1949 a reform of the employment agencies took place, characterized by the establishment of public labour agencies at the national and the provincial level. In addition, an extension of the unemployment insurance to the agricultural sector was contemplated.

The period between 1968 and 1973, witnessed a quantitative explosion of labour measures -beside the extraordinary wage subsidies of law 1115: the introduction of pre-pensions for some *ad-hoc* categories, the establishment of a special fund (GEPI) for the rescue of crisis firms and the extension of insurance to the building sector (Regalia 1984).

The year 1970 also saw the creation of the Regional Order. Training competencies were transferred from the state to the Regions and some new instruments, which joined and intersected with the existing national programmes, were created in order to cope with the rising number of the unemployed at the local level.

In the same year the Workers' Constitution (*Statuto dei lavoratori*) was introduced, a big innovative step, which marked the end of the state's absence from the regulation of industrial relations. Particularly worth mentioning is article number 3 where the creation of employment commissions within the provincial labour registry offices was made compulsory. These special commissions, mostly composed of unions representatives, had to control the list of registered workers and deliver the permit for hiring.

In the second half of the seventies the evolution of economic policy making became more and more intertwined with political events. The seriousness of economic problems (in the period of the two oil shocks) and the weakening of centre-left governments, symmetric to the growth of the communist party at the local level, urged the government to look for a grand coalition (the so called «historical compromise» 1976-1979) between the major political forces of the country.

During this period of national solidarity collective of trilateral bargaining was attempted. The notion -perhaps myth- of neo-corporatism was quickly circulating in the public debate, fomented by its prescriptive inspiration, and the wish to emulate the successful economic performance of the North-European democracies became stronger and stronger. Trade unions exchanged wage moderation against labour policies and social reforms, above all for young people belonging to depressed areas, such as the *Mezzogiorno*.

In particular, four important instruments were brought in: the law for industrial restructuring, (law 677/1977), the law for young people

employment (law 285/1979), the general law on vocational training (law 845/1978) and the bill on the pensions reform.

On vocational training, the Regions were regarded as the responsible institutions. The system was designed to fill the mismatches between skill supply and labour demand. In practice, however, the lack of communication with the public educational system - regulated by the Ministry of Education -, the low intra- and inter-regional coordination and the lack of financial resources had a negative impact on the efficacy of the programmes and made of Italian vocational training one of the main obstacles to employment growth<sup>5</sup>.

The corporatist experiments had a brief life: after only three years the great coalition broke into pieces and the old centre-left alliances came back with the new name of «*pentapartito*» (five parties coalition). Only in the middle of the eighties did more successful trilateral bargaining take place.

At the beginning of the eighties industrial relations became highly conflictual. Social peace, only just obtained in the seventies, was suddenly broken: the high point of conflictuality was reached at the biggest Italian industrial firm (FIAT), which unilaterally dismissed almost 15.000 workers on the grounds of overcapacity. Subsequent industrial action turned into a gigantic defeat for the unions which appeared unable to counter business strategies. Ten years after the «hot autumn» the power relations between labour and business had completely turned around: the difficulties and inner contradictions of the trade unions (supported by the communist party while contested by the workers) were highlighted, while business associations were expanding and regained the initiative in industrial relations.

These advances in the power of business were not disconnected from the new phase of economic recovery that brought positive effects on the Italian economy.

The 1980s were one of the most interesting periods in the history of labour policies, since it was marked by two relevant phenomena: the first was the restarting of corporatist agreements between the government and the social actors, deliberately adopted to reach

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<sup>5</sup> More generally, Italy has a low level of general educational attainment compared to the other OECD countries. In 1988, particularly in the *Mezzogiorno*, fewer than 25% of the population had more than a basic secondary education (Rhodes 1995, 23).

consensual economic and income policies; the second was the introduction of deregulation programmes for the labour market.

The law 864/1984, translating the contents of corporatist agreements, introduced three new instruments aimed at boosting flexibility in labour contracts and working times: part-time jobs, work and training contracts and solidarity contracts. Part time work was considerably extended in the service sector, in order to respond to the increasing number of female workers. Work and training contracts were two-years contracts for young people under 29 which offered social contribution discounts to employers and a variable wage to the workers. Work had to be combined with on the job training. Solidarity contracts were a form of working time reduction which included job sharing and provided a subsidy for the lost salary; they were never implemented until 1993 when a new law completely redesigned their main characteristics.

At the end of the eighties, the list of mainstream labour policies can be summarised as follows (Table 1.).

	<b><i>Mainstream labour policies</i></b>
<i>Income Support Policies</i>	<ul style="list-style-type: none"> <li>• Unemployment insurance (1919; 1986)</li> <li>• Ordinary wage subsidies: i.e. ordinary <i>Cig</i> scheme (1945)</li> <li>• Extraordinary wage subsidies: i.e. extraordinary <i>Cig</i> scheme (1968)</li> <li>• Early retirements (1981)</li> <li>• Solidarity contracts (1984)</li> <li>• Block of collective hiring (1977)</li> </ul>
<i>Active Policies</i>	<ul style="list-style-type: none"> <li>• Work and training contracts (1984)</li> <li>• Vocational training regulation (1978)</li> <li>• Part time working (1984)</li> <li>• Apprenticeship (1955; 1987)</li> </ul>

Table 1: "Mainstream labour policies at the end of the 80's"

In sum, it is important to remark that the whole system of income support policies at the end of the eighties (when unemployment

appeared still tolerable) was built around the functioning of the wage subsidies fund (the so-called *Cig* scheme), an unorthodox policy compared to other European countries. This is a very generous and flexible instrument, composed of ordinary and extraordinary payments. Ordinary wage benefits foresee compensation of earnings in case of temporary interruption of the firm's activities (companies with more than 15 employees), for a maximum of three consecutive months, providing 80% of the income. The fund is located and administered by the state (*Istituto nazionale della previdenza sociale*); employers contributions vary between 1,90 and 2,20% of incomes on the basis of the size of firm. In addition, users of the ordinary *Cig* scheme pay 8% of compensation paid to their employees (4% in companies with less than 50 employees).

Extraordinary wage subsidies were introduced, as already argued, in order to respond to the situations of industrial crisis and restructuring. They are a veritable bulwark against unemployment, almost unique in Europe for their generosity and duration. That is why they are frequently asked instead of ordinary measures, transforming their original structural connotation into a cyclical one, related to the conjuncture. In case of economic difficulties extraordinary interventions can be extended for a maximum of 1 year; while in the case of industrial restructuring up to 2 years, which can be extended until a maximum of 4 years. Wage subsidies contribute 80% of gross income; they are mostly paid by public money through annual transfers, calculated in the financial law. Companies pay 0.60% and employees 0.30%. Users additionally pay 4,5% of the wage replacement benefit (3,0% in firms with less than 50 employees). After 2 years of benefits this last contribution doubles (Bentivoglio 1994). In both ordinary and extraordinary interventions employers do not pay social security contributions.

The other social shock absorbers played a subsidiary role: they were very rarely used, except for cases in which the possibility of applying for the *Cig* scheme was over. Curious is the case of solidarity contracts, which, as mentioned before, were not demanded at all in their original version.

In the group of active labour policies the most significant instrument was work -and- training contracts. Part time work was used almost

exclusively by women: in 1990, 75% of those working part-time were woman. Even higher was the percentage of women turning their full time work into part time, most frequently in the sector of services.

Active policies played a minor role anyway compared to income support subsidies. The whole system was lopsided because of the *logic of public assistance* which provided for great income protection without boosting job creation. Social shock absorbers, particularly the *Cig* supplementary fund, are in fact instruments of resource allocation and distribution that did not incite any active creation of jobs. Policies are at the same time regulative and distributive: they define a regulatory framework for the actors and at the same time give out benefits and resources (Regalia and Regini 1994).

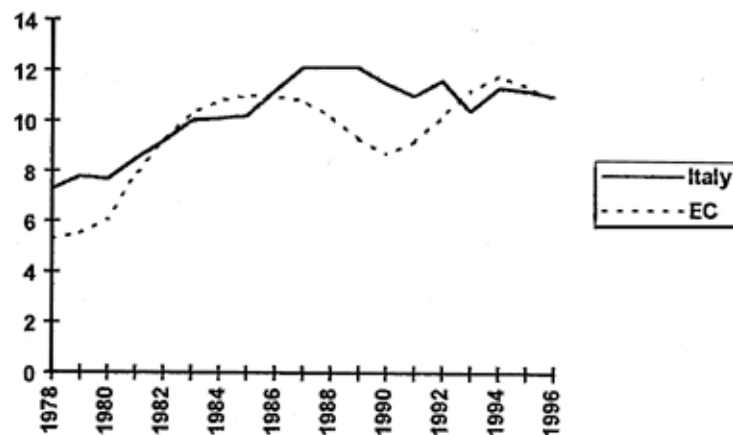


Fig.1. Unemployment in Italy and in EC countries, 1978/1996  
"Source: OECD Economic Outlook, 56, 1994: A23"

The state, although active, is not a prominent institutional actor in the labour market. The Ministry of Labour (not rarely with his under-secretary) is used to directly intervening in the social agreements giving and receiving resources and benefits. During the tripartite labour accords in 1983 and 1984, for instance, labour policies were exchanged with tax allowances and special investments in the South. As the recession worsened in 1988 (as opposed to the EC average; see Fig.1), doubts began to creep in and policy makers wondered whether the traditional system of unemployment policies was still

adequate. The need for innovation in the labour policies moved to the centre stage in the policy debate. The dimensions of the public deficit, the level of unemployment, surpassing 11%, and the gradual termination of public funds, made government aware of the necessity for deep changes.

### **3. Labour policy innovations in the nineties**

In the nineties changes took place in three different but related, directions: deregulation of employment conditions, drawing on lessons, sometimes delayed (Haas 1992; Rose 1991; Regonini 1993), from the Anglo-Saxon experiments of the eighties; institutional reforms and qualification policies; and working time reduction.

These programmes were qualitatively innovative at the national level and were supposed, at least in the words of their proponents, to be capable of significantly reducing unemployment.

#### **3.1. Deregulation of employment conditions**

The core objective of deregulation policies is to affect the protective nature of labour policies in a country where labour market has hitherto been heavily regulated. The national employers' association (*Confindustria*) had always complained about the rigidity of the Italian labour market. The employers association found support among well-known economists and academic professors whose opinions were gathered in the most prestigious Italian economic newspaper, "*Il Sole 24 ore*", sponsored by the *Confindustria*. Even though flexibility is traditionally employers' philosophy, the unions, worrying about the widespread evasion of regulatory norms, did not fight the movement.

Law 223/91 (Norms on wage subsidies fund, mobility, unemployment benefits, EC directives and other measures for the Labor market) introduced three substantial innovations: it redesigned the system of social shock absorbers, thus modifying the whole set of passive policies; it altered the procedures of placement introducing the so-called «nominative call» instead of the compulsory call; and it recognised collective dismissals as a possible solution to firms' crisis situations. The introduction of a new instrument, the mobility insurance (a longer form of early retirement), along with the modification of the



beneficiaries and of the duration of the extraordinary *Cig* scheme should also be noted. But it is in relation to the hiring procedures that this law was everywhere welcomed as a liberalising step, because of the dismantling of the public guarantees inaugurated in 1949 (law 264).

The reform of the forties had established the public monopoly on the management of the demand and supply of labour, by making workers' hirings dependent on a compulsory list. Law 221 introduces, on the contrary, the principle of free choice and, in so doing, widens the employers' space of action. The removal of the block to collective firing is again to the employers' advantage.

More recently, following the tripartite labour accord between the government and the social actors in July 1993, law 236/93 (Urgent interventions for employment support) introduces a series of rules aimed to extend the instruments of income protection, as a consequence of the negative conjuncture. It introduced an exceptional employment fund for the period '93/'95, of extraordinary interventions for the *Mezzogiorno*, and the augmentation of employment insurance.

As for job creation, law 451/94 regulates the so-called "public utility works" (workfare). Public administrations and some private organisations, identified by the Ministry of Labour, are allowed to promote projects for works of public interest in some innovative sectors such as cultural goods, environmental protection and public services.

During the government of Berlusconi some other measures were taken, though to a lesser extent than the electoral promises. A premium was introduced for young employers starting new enterprises: they are allowed to choose an alternative fiscal regime (2 Million liras for the first year, 3 Million for the second, 4 Million for the third), which substitutes for all the existing taxes except for the IVA (added-value tax). The premium, moreover, is accompanied by some hiring incentives: among them a fiscal bonus of 25% of the gross income of the new employees.

Among the proposals not yet being implemented, but present on the agenda of at least the last three governments (Ciampi, Berlusconi, Dini), we find the notorious issue of *ad interim* jobs, which would permit employers to rent workers from specialised agencies (following the French example). Now the proposal is near to realisation, since it has become a central issue of both the last bill of Labour Minister Treu and of the Labour Commission at the Chamber of Deputies.

### **3.2. Institutional reforms and qualification programmes**

In the years 1992/93 the government and the social actors undertook a series of non-stop negotiations which concluded with the tripartite labour accord of the 23rd July 1993 which can rightly be considered as the most innovative step in the Italian industrial relations since the Workers' Statute (1970) and the experiments of concerted action in the eighties. In the face of rising unemployment and slow economic growth, severe solutions were proposed: the abolition of the automatic wage-indexation clause, the reform of collective bargaining, the specification of bargaining themes and of the responsible institutions. (*Rapporto '93-'94*). The agreement aims to keep wage increases within the projected rate of inflation.

The new structure of collective bargaining is organised on the basis of two levels of bargaining: the national level (*contratto collettivo nazionale di lavoro*) and the plant- or territorial level. The reform intends, on the one side, to eliminate the chaos of overlapping levels of bargaining that have hitherto impaired Italian industrial relations; on the other, to respond through higher sensibility to local unemployment crises. The national level is now supposed to set general standards on the determination of salaries, and leave the regulation of specific contents to decentralised bargaining. The agreement also introduces a specific *iter* of tripartite confrontations based on two annual meetings: the first, in May, concerning the objectives of the budget policies and the annual employment trends; the second, in September, on the regulation of income policies before the approval of the financial law. A special Observatory is established with the purpose of controlling prices dynamics.

Beside the strategies of wages moderation, within the same agreement, qualification policies and vocational training gain a relevant space. A reorganisation of the apprenticeship system is sought, in order to suit the different firms' exigencies, and work and training contracts are encouraged. In the law 451/94, following the agreement, the age of the beneficiaries is extended (16-32) and a clearer classification is outlined between contracts for the acquisition of high and intermediate skills, and contracts that are generally aimed

to favour the professional entry of young people into the Labour market.

### **3.3. Solidarity contracts**

Working time reduction is an important instrument in the Italian labour market; it is encouraged in at least three different ways. The first one is given by the *Cig* scheme in which working time can be temporarily reduced from 80% until 0%. The second one is part-time working to which Italian firms have increasingly resorted in the nineties. The third form of shorter-hours working is represented by solidarity contracts, a very different instrument compared to the others: workers accept to reduce working time in order to save jobs. Solidarity contracts can be applied to all the categories of workers (as the term solidarity suggests) and works can be shared.

Solidarity contracts were introduced in 1984 (law 864), on the wave of enthusiasm following the national corporatist agreement between the government and the social actors in 1983, with the explicit purpose of boosting labour demand and of tackling youth unemployment in a period of rapid technological transformation. Trade unions, particularly the centre-moderate union (CISL), have always struggled for the introduction of solidaristic instruments to cope with unemployment (“Work less to let all work”, drawing lesson from the French philosopher Guy Aznar<sup>6</sup>). This was of course anathema to the employers who have always feared the repercussions of work sharing on the inner organization of companies. In 1983, however, unions exchanged wage moderation for the recognition and the regulation of work sharing.

Solidarity contracts are a form of working time reduction (from 20% upwards), requiring previous agreements between the firm and the unions. Two kinds can be distinguished: internal and external contracts. The former, also called «defensive contracts», are used inside the company to avoid dismissals through higher internal mobility; the latter contemplate work sharing in order to create new employment.

For “defensive contracts” the Ministry of Labor provides workers and employees (neither middle managers nor managers) for wage compensation benefits amounting to 50% of the lost work (Bentivoglio

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<sup>6</sup> The brief essay of G. Aznar, translated into Italian in 1994 with the title *Lavorare meno per lavorare tutti*, has had great success.

1994), for a period of 24 months. If the reduction of working time is higher than 20%, employers' social security contributions are additionally reduced by 25%, (30% in the South), rising to 40% when the working time reduction is higher than 30%. The beneficiaries are industrial and trade companies with more than 100 employees.

For external contracts, employers receive, for each new hire, contributions equal to 15% of the income for the first year, 10% for the second and 5% in the third year. When employers hire young workers (15-29) through working hours reductions, they receive the same insurance and pensioning treatments as for the apprenticeship. Studying solidarity contracts is particularly worthwhile because of three reasons:

- for more than ten years working hours reductions were very rarely demanded, whereas the *Cig* subsidies fund was increasingly utilised;
- up until now the only type of contracts which have been exclusively made use of are the first, the defensive ones; no active contracts exist;
- in the 90's the situation radically changed and working time reductions suddenly jump onto the political agenda and in public debate becoming an hotly debated issue.

Today these measures are more and more widespread: in 1993 the government spent 12 Billion liras for solidarity contracts. Requests of working hours reductions for 1994 reached a total amount of 10 Billion liras, far beyond the forecasted sum<sup>7</sup> (inforMISEP, 1994)<sup>8</sup>.

For about ten years solidarity contracts, which require preliminary intra-firm collective bargaining, were not part of the official policy paradigm<sup>9</sup>; deep changes only occurred after the introduction of law 223 in 1993, nearly ten years later. These changes did not take place as a consequence of another social pact (23 July 1993) between

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<sup>7</sup> The current Labor Minister, Tiziano Treu, is now trying to come up with other types of funds.

<sup>8</sup> More in detail, in February 1994, in the engineering sector 55.000 workers are involved in solidarity contracts; among them, 30.000 are metallurgists and mechanics (Alenia, Piaggio, Olivetti, Iveco, Italtel, Fiat) and 10.000 are textile workers. The use of solidarity contracts has permitted to avoid 20-25.000 redundancies. Lombardy is the Region with the highest numbers of solidarity contracts: 139 for 19.000 workers (D'Aloia and Magno 1994).

<sup>9</sup> It is worth noting that the law regulating working time dates back to 1923 and establishes a maximum limit of 48 hours per week. Since then, several proposals were made to change it, but none was formalized.

unions, employers and government, where incentives for employers played a prominent role.

In the fifth article of this law three substantial innovations are introduced, valid until the end of '95: firstly, the benefits are elevated from 50% to 75% of the salary lost as a consequence of working hours reductions; secondly, employers benefit from a contribution equal to one quarter of the non due-salary, corresponding to the number of reduced hours. Last but not least, greater flexibility is promoted by a provision that the reduction of time can be based on daily, as well as weekly, monthly and annual hours.

As a result of these modifications it is rather obvious to understand why the new instruments began to spread across many companies (Iveco, Italtel, Ilva), and ended up next to the other labour programmes introduced in the same period. (Table 2.)

In 1994 new arrangements introduced further significant changes.

It is at this point that the strategies of the government and the interests of Italy's biggest industry, the car sector, intersect.

<i><b>Increasing demand for labour</b></i>	<i><b>Institutional reforms and qualification policies</b></i>	<i><b>Decreasing supply of labour</b></i>
<ul style="list-style-type: none"> <li>• Deregulation of employment conditions and procedures;</li> <li>• Modification of the system of social shock absorbers;</li> <li>• Juridical recognition of collective dismissals.</li> </ul>	<ul style="list-style-type: none"> <li>• Reform of collective bargaining;</li> <li>• Abolition of wage indexation;</li> <li>• Plant level flexible agreements;</li> <li>• New regulation of apprenticeship;</li> <li>• Modification of work and training contracts.</li> </ul>	<ul style="list-style-type: none"> <li>• Part time working;</li> <li>• Solidarity contracts</li> </ul>

Table 2. "Unemployment policies in the 90s"

### **3.3.1. Case Study: FIAT**

The Fiat crisis in November 1993, with the dismissal of nearly 16.000 workers on the grounds of overcapacity, shows how the Labour market can effectively be described as a complex system of regulation where public and private actors interact. The history of solidarity contracts and of their legislative evolution is strongly related to the disposition of big firms to accept them.

In August 1990 Fiat told the unions that after years of great success (1989 was a record year for sales) it was forced to have recourse to ordinary wage subsidies. Firm management thought the crisis was of a cyclical nature; the strategic line adopted was therefore so-called «middle-ray navigation» (i. e. incremental adjustments), based on the gradual but continuous use of ordinary wage subsidies, without any drastic solution. Essentially the firm waited for the favourable market to change. Unions agreed with this strategy, since the absence of more definitive measures allowed social tensions to be contained. The «middle ray navigation» continued for the whole of 1991. In the meantime foreign automobile industries announced deeper restructuring plans. In 1992 Fiat realised it faced not only an external crisis in terms of economic recession, but its own internal crisis, in terms of declining market shares and a budgetary deficit. At the same time the new technological investments planned for Melfi resulted in overcapacity. A reorganisation process was required and three plants were quickly closed: Maserati (where 49% is owned by Fiat), Desio and Chivasso. At this moment, unions were struggling against any kind of layoff. The state redundancy fund was once again being demanded, even though temporarily, since law 223/91 established a maximum of 52 consecutive weeks. The situation exploded in June 1993 when all the available bonuses came to an end and when budget constraints forced Romiti to go to Mediobanca for re-capitalisation. The transition from cyclical to structural crisis was marked formally on the 22nd of June 1993 when Fiat officially announced the need to resort to extraordinary wage subsidies. Bimonthly examinations of market trends were also conducted in order to reach more flexibility in the application of extraordinary benefits.

A second phase, faster but more serious, started in November 1993 (curiously simultaneous with the VW agreement on the 4-day

week) at the Ministry of Labour. Fiat presented a restructuring plan, forecasting massive layoffs, immediate closing of the Sevel Campania and Arese (ex Alfa Romeo) plants, and, for the very first time, dismissal of white collar workers. Unions asked for inter-plant redeployment and they officially demanded work sharing to avoid firings.

The bargaining table therefore opened with positions that were far apart: on the employers' side, *Cig* subsidies at 0-hours (that is: dismissals) and eventually inscription on the mobility lists<sup>10</sup>; on the workers' side, work sharing and industrial restructuring.

The strategies were so incompatible that the Ministry of Labour was immediately called for as an arbitrator. It is important to mention that the minister, Gino Giugni, is a respected professor of labour law, and internationally famous as one of the fathers of the Workers' Statute<sup>11</sup>. In December '93 he officially announced direct governmental intervention and the postponement of the *Cig* subsidies at 0-hours, forecasted from the following January.

Notwithstanding the intervention of the minister and, later, of Prime Minister Ciampi himself in a meeting on the possibility of introducing the production of electric cars to re-industrialise old plants, the negotiations were suddenly halted in the middle of January 1994. The interruption, probably initiated by the company, was in fact the result of the interaction of the different strategies: Fiat did not intend to renounce its objectives and the unions did not consider the existing proposals acceptable. The Minister of Labour, even though he had attempted to find a consensual solution, was forced to stop in the face of the irreconcilable positions of the social actors.

After nearly a month of suspension the bargaining process started again and on the 24th of February it was officially concluded through a workers' referendum. The hot climax of the general political elections (Giugni himself was candidate for the «progressist coalition» in Turin) favoured a quick termination.

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<sup>10</sup> The so-called "mobility procedure" is a form of early retirement offering the workers the possibility of being deployed on some employment lists, in case of future jobs. The word mobility stands for the worker's eventual redeployment from one job to another.

<sup>11</sup> More and more frequently the role of the Labour Minister is attributed to respected technicians (mainly coming from the academic world) and not to politicians. That was the case with Giugni, and it is now the case with Treu, the current Labour Minister. They are both professors of labour law and industrial relations, and are both very close to the unions.

Why was this outcome negotiated instead of unilaterally imposed as the mass-dismissals of 1980? The state played a central role in this process, by providing legislative backing for the negotiations. Among this was:

- a specific agreement between the government and the firm, including direct public interventions in favour of the automobile industrial sector, such as financial aid for research projects on the production of electric cars, introduction of a special commission on industrial development at the Ministry of Transport, and extraordinary subsidies for the Sevel-Campania plant restructuring;
- the introduction of a decree (40/1994), soon after the interruption of the bargaining, which encouraged the use of solidarity contracts and made them compatible with *Cig* subsidies. In other words, the law welcomed the requests of employers and at the same time changed the original nature of solidarity contracts.

The final result was a mixture of four instruments, where innovative programmes overlapped with mainstream policies: 6.500 early retirements (for the first time for 2.800 white collars); 2.200 mobility insurances; 4.100 extraordinary *Cig* subsidies; 3.500 solidarity contracts (only for blue-collars)<sup>12</sup>.

The role of the government appeared to be crucial. Not only did solidarity contracts become a legitimised part of the policy paradigm (Hall 1989; 1993) only after concerted social pacts, but their conditions depended on the government direct intervention.

#### **4. Institutional dynamics**

The reason why in the eighties solidarity contracts were not demanded at all, is related to the functioning of the existing mainstream policies, in particular of the *Cig* scheme. As mentioned above, the preference for this instrument was easily explained by the generosity and the flexibility of the subsidies, which mostly rested on the state's shoulders. Solidarity contracts thus became a plausible alternative when the high cost of unemployment benefits stimulated authorities to look for less

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<sup>12</sup> In regard to solidarity contracts, in Arese (Milan) 1.500 jobs are concerned with 4.500 workers (Camuffo and Volpato 1994).



expensive instruments. In the Fiat plants employers agreed to introduce work sharing mainly because the possibility of demanding wage subsidies was running out.

The exclusive use of “defensive contracts”, restricted to protecting existing jobs instead of creating jobs, was consistent with the institutional features of the Italian labour policies system: the culture of the public assistance, the prevalence of passive policies for income support and the fear for redistributive programmes hindered a proactive attitude towards external challenges. A vicious circle enhanced the protection of the “already-protected” and the continued exclusion of those “outside” the system.

It is therefore possible to seek the political causes to the particular development of solidarity contracts and of labour policy innovations in general in the *low compatibility of the new programmes with existing institutional imperatives*.

Four elements stand out as particularly relevant. They can be considered on the one side as lock-in effects (Arthur 1989; North 1990), hindering the full development of radical programmes, on the other, as “spaces of opportunity” permitting unusual (even random) courses of action. They have a *structural* nature, that is, that they do not depend on the “incompetence” of institutional actors, but, rather, they are historically rooted and thus capable of affecting the degree of innovation and learning in the labour market (Gualmini 1995). I referred to the bundle between private and public interests and the extensive intervention of the state in the regulation of the labour market<sup>13</sup>; the particularistic nature of labour legislation; the weakly institutionalised system of industrial relations; and the «cultural» obstacles to innovation.

The development of labour policy innovation appears to be strictly dependent on the political strategies of interest associations and on the kind of relation they have with the government. It is not possible to understand the historical evolution of Italian labour programmes without taking into consideration unions’ and employers’ strategic goals and their capacity of lobbying on behalf of their interests. Labour market

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<sup>13</sup> That seems to be the biggest difference with the Volkswagen negotiations in November 1993, where on the basis of *Tarifautonomie* the social actors were able to regulate themselves.

policies are the result of the power exchanges and of the negotiations between public and private actors, in dynamic and unstable policy networks characterised by conflictual games that never approach a zero-sum (Crozier and Friedberg 1977). It is not a rational calculus, the maximisation of individual preferences, that drives the exchanges between the actors, but a political rationality, that also has the implicit goal of assuring the actors' long-term organisational survival and future identities.

From the «national solidarity» government to the neo-corporatist agreements of the seventies and the eighties, to the new social pacts of the nineties, we witnessed in continuous attempts of consensual trilateral regulation, characterised by micro-political exchanges and clientelistic compliance, that allow to perpetuate a policy making process where resources and incentives are distributed and shared out (Brunetta 1993). That is why the intervention of the state is always called for: its role is essential not to directly promote the formulation of new programmes, but to guarantee the functioning of the whole mechanism.

The introduction of innovative labour policies (solidarity contracts, reform of collective bargaining, qualification policies, deregulation of employment conditions) is bargained between the state and the groups. This pattern of interest intermediation reflects the extension of the public hand into the economic sector and, at the same time, the difficulty of the private actors to reach autonomous agreements (as, for instance, would be the case in German industrial relations). Instead of underlining the strength of public institutions, the state's role is evidence of their weakness and their penetration by organised interests.

The permeability of the political system is moreover confirmed by the redundant and particularistic nature of Labour legislation, fragmented and segmented according to a multitude of criteria (what are called *leggine*: small laws)<sup>14</sup>. The jungle of laws, bills and decrees, responding to the cyclical demands of the actors involved, emphasises, on the one hand, the lack of coordination that characterises the

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<sup>14</sup> The Italian model can be placed in the opposite position compared to the German case, where the labour legislation is collected within the *AFG* scheme which provides for coordination and general standards.

administrative system; on the other, it provides for high flexibility and high sensitivity towards local exigencies<sup>15</sup>.

In the FIAT case the bargaining process was successfully solved when the firm decided to accept solidarity contracts, after they were declared compatible with mainstream wage subsidies. In other words, a law was made for them to accept it. This strongly underlines the *ad hoc* nature of that legislation, which addressed the interests of business.

However, the incremental evolution of laws and decrees outside of a general framework tends to frustrate any effort of radical reform<sup>16</sup>. This is even more evident for qualification policies where public decisions mix with collective bargaining agreements giving rise to demarcation conflicts.

Widespread public intervention in the Labour market, underlined by the torrential nature of labour law, seems to compensate for the low institutionalisation of industrial relations (Lange and Regini 1987). There is not a legislative framework regulating the relationships between labour and business. This is also a legacy from the past. When trade unions were reconstructed soon after the Second World War, their internal structure, their resources and their functioning were strictly dependent on political parties activities. Gatekeeping by the parties substantially obstructed the organisational development of unions and exasperated their ideological fragmentation<sup>17</sup>.

This is particularly true at the national level; while things are different at the decentralised level, where active voluntarism, frequently accompanied by the escape from the general standards fixed by collective bargaining, develops rather quickly (Regini 1995; Regalia and Regini 1994). In general, however, the lack of homogeneous and co-ordinated action is a major issue.

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<sup>15</sup> The high fragmentation of legislation is not an exclusive characteristic of this policy sector, as Di Palma (1977) has widely explained.

<sup>16</sup> In addition, the characteristics of the political system do not favour coordination. On the one part, the instability of governments can not assure, because of their limited tenure periods, the introduction of national policy guidelines; on the other, the fragmentation of legislation emphasizes the “personalization” of the issues. It is quite obvious, for instance, that solidarity contracts have had an easier life under labour ministers close to the unions, such as Giugni and now Treu.

<sup>17</sup> At the national level Italian unions are splitted into three different organizations: the CGIL, the biggest one, traditionally linked to the major opposition party (PCI, now PDS), the CISL the center-moderate union linked with the ex- christian-democratic party, and the UIL having a centre-liberal connotation and linked with minor parties.

Italian trade unions are complex organisations. Each federation is organised according to two different dimensions that often combine: the industrial dimension and the territorial dimension. Unions find it hard to develop unitary strategies, above all when they have to assume a political role before the government and the employers. It is important to remember that one of the reasons why solidarity contracts in their original version have not been accepted for so long is the condition of previous collective bargaining they required.

Even though during the «hot autumn» unions had the power to influence the political arena, along with employers' strategies, from the end of the seventies they never benefited from 'allies in power' who might have been more ideologically disposed to their requests (Reyneri 1990).

Despite the low institutionalisation, however, in 1993 the government and the social actors reached an important agreement that seemed to open a new era in the industrial relations, build around bargaining and coordination between the parties.

The fourth institutional dimension which has an impact on the development of innovative policies is of a cultural nature; it relates to the long-established tradition of stable full-time jobs in the Italians' way of life. The lack of job mobility, or rather the fear for new kinds of work organization, seems to mean that radical changes in the workplace have high costs for the individuals' way of life. Dividing jobs, working less than «normal» times, encouraging inter-job mobility, goes against the traditional proclivity for stability. Particularly noteworthy here is that the majority of the Italian labour force works in the public administration, where protection and immobility are central prerogatives. The typical propensity for full-time work (the so-called «myth of the guarantee») obstructs the way to unorthodox policy innovation, such as work sharing and high working time flexibility would represent for the Italian case.

Besides, the mainly juridical and formal culture of Italian public administrators tends to hinder effective radical reforms. The bureaucratic ethos embodied by civil servants tends to favour the phenomenon of goal displacement: target orientations are substituted by the compliance to legal norms in generic and abstract acts and decrees, with minor effectiveness. If the organisational properties of the

administrative institutions show high continuity with those of the VIII century's «State of Law», it is easy to understand how hard must be the way for innovation and how sharp the distances between the new policy challenges of the modern state and the kind of interventions which are being enacted (Freddi 1989). Bureaucrats tend to act like judges who apply the law to the reality, mainly worrying about the formal procedures rather than about substantive contents<sup>18</sup>. The inefficiency of the Italian public administration slows down the capacity of attaining programmatic goals. That is why passive old policies (social shock absorbers) tend to prevail: they show higher compatibility with institutional constraints.

If we examine in detail the amount of public expense for labour market policies, the hypothesis is confirmed. First, the Italian total percentage is among the lowest in Europe (1,8% against 4,2% in Germany, 3% in France, 4% in Spain); second, more than half of this percentage is composed of income support subsidies (Employment Outlook 1994). Active policies, more suitable to erode structural unemployment (which is independent from aggregate demand and from the level of economic activity), are still a minority.

## **5. Conclusion: policies' path-dependency**

Policy failure, that is, high unemployment persistence, has not been sufficient, itself, to stimulate radical reform efforts. Institutions have their own interests, which sometimes become constraints for policy innovation. Most of the innovative programmes examined above appears to suffer from a sort of institutional inertia which impairs their full development. The higher the degree of innovation, the higher the pain.

The weakness of public institutions and their penetration by private interests groups; the distributive character of public intervention, the fragmented nature of labour legislation and the traditional rigidity of the Italian labour market tend to divert the path of policy innovation like work sharing and deregulation. The institutional framework of

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<sup>18</sup> According to the following argument: «quod non est in actis non est de hoc mundo» (Mortara 1981, 142).

incentives and constraints is, in fact, more compatible with passive income support policies that were successful in the past and that tend to be reiterated in the present along with the set of incentives they can offer.

Work sharing provided an excellent case on which to build this argument. At FIAT, solidarity contracts were accepted by employers only when it was clear that they could be accompanied by old wage subsidies and by some appealing compensations. As a consequence they lost their original function and connotation.

Even if the model now enjoys widespread acceptance, it is not likely to be extended at the national level, because of the various constraints identified. It seems much more probable, as current trends show, that its development will strictly depend on the local decisions of the different companies. Each company prefers to bargain for its specific kind of contracts, according to its own production requirements. The segmentation of the labour market and the regional differences, instead of encouraging national patterns of innovation, further localism.<sup>19</sup>

As for deregulation, a curious paradox should be noted. From a formal point of view, it appears extremely difficult to introduce flexibility among the tight web of institutional rules devoted to employee protection, which make Italy one of the industrial countries with the highest degree of employment rigidity. From an informal point of view, the widespread evasion of juridical rules, particularly at the local level, gives rise to high deregulation, or rather, to micro-regulation that is arduous to control and to evaluate. To say which of the two realities is more real, is an uneasy task. The link between the two systems of regulation is complex and varies according to territory, firms and sector

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<sup>19</sup> A better image for the Italian labour market, despite of considering it as the usual anomaly, is to depict it as a «loosely coupled system» (Weick 1976), in which the different parts and the different actors, though influencing one with the other, have rather independent behaviours; they are reciprocally connected (so that a change in one part of the system affects the other parts) but not in a unilateral way. Random changes, serendipities and sudden events are also understood as important variables. In this kind of system, political parties, economic interest groups, national and local administrators try to pursue their strategies in a complex game whose solution never approaches a zero-sum.

of production. But it is probably this bundle, this mix of different regulative regimes, which characterises the Italian labour market.<sup>20</sup>

In a broad sense, it is possible to argue that the future acceptance and expansion of innovative unemployment policies will very much depend on their degree of institutional compatibility and on the specific «combination of opportunities» which exist in the political arena. The implementation of unorthodox programmes in the labour market thus seems to require a political reorganisation in order to deal with institutional reforms. Policies are *path-dependent* (we could say «past-dependent») on their institutional context.

Their potential of innovation is somehow «genetically written» in the old experiences and in the old configuration of labour programmes. Although in their emergence they can be driven by stochastic assumptions, the initial characteristics, once institutionalised, are highly resilient. In this sector, institutional change therefore has an incremental nature; it plays out as a sequence of progressive local adjustments. Its course includes lock-in effects (Arthur 1989) that condition from inside future alternatives and directions.

The incentives produced by institutions encourage individuals to adopt repetitive routines that can also become self-reinforcing mechanisms. Their learning by doing forces them to stick to the old routines and tend to frustrate sudden changes and big deviations. In this genealogical model (as opposed to a teleological model of explanation), policies are «carriers of history» (David 1992); in their current structure it is possible to find out the deposits of past programmes.

The point of this argument is not to establish a unilateral, deterministic relationship between policies and institutions, but to reflect on the nature of the links between the two variables in a specific empirical situation, such as the one provided by the Italian labour market. If the relevance of institutions in the evolution of policies has been very much stressed, it was simply to highlight the dynamic and

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<sup>20</sup> In regard to institutional reforms and qualification policies it must be said, on the contrary, that there exist some interesting opportunities for innovation. It is worth noting that vocational training has recently assumed high electoral salience, becoming one of the favourite areas of Romano Prodi, the neo-leader of the centre-left coalition. Reforms, however, are still at a very preliminary stage.

circular perspective where policies and politics should be collocated<sup>21</sup>. Institutions and policies evolve together and change together; changes in one sphere provoke changes in the other sphere.

Individuals' strategies and intentionality combine with and have to take into account the presence of institutions, so much is evident from this paper. Theoretical explanations have therefore to be searched in the unstable equilibrium between actors' strategic choices and structures' «inertial choices» (Pérez-Díaz and Rodríguez 1994) that innovations paradoxically enact.

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<sup>21</sup> On the relationship between institutions and policies in the new political economy see Hall (1994).



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