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(Occasional Papers)

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# RECENT DEVELOPMENTS OF ITALY'S INDUSTRIAL RELATIONS SYSTEM

by Francesco D'Amuri\* and Raffaella Nizzi\*

## Abstract

The article reviews the recent developments of Italy's industrial relations system, covering both bargaining rules and outcomes. An increasing fragmentation is observable in collective bargaining at the national level, with the spread of new agreements amongst small and recently created associations of workers and employers, leading to lower labor costs. The role of decentralized bargaining has remained secondary and subordinate to the provisions decided at the national level, although several - gradually more generous - tax breaks have been introduced in order to encourage the diffusion of firm-level wages. Giving decentralized bargaining a greater role in setting wages and in labour organization would allow for a better alignment of wage growth and increases in productivity, relaxing some of the rigidity in national bargaining, especially in terms of the duration of agreements and of the automatic indexing mechanisms, which risk making inflation more persistent.

**JEL Classification:** J31, J41, J51, J53.

**Keywords:** industrial relations, labor law, wage structure.

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## 1. Introduction<sup>1</sup>

Italy is the euro-area country with the highest share of employee contracts regulated by collective bargaining;<sup>2</sup> according to the results of the Structure of Earnings Survey carried out by the Italian Statistical Institute (Istat), in 2014 virtually all those persons regularly employed by firms with at least ten employees were covered by a collective agreement.<sup>3</sup> National bargaining also determines a large majority of the share of the salary, reducing to a secondary role other items such as individual premiums and remuneration negotiated collectively at the firm level. In 2016 in the private non-agricultural sector, contractual earnings defined at national level accounted for over 88 per cent of the national accounts total gross earnings.<sup>4</sup> An analysis of the structure and of the developments in industrial relations is therefore needed for interpreting the dynamics of remuneration and work organization.

The Italian collective bargaining system traditionally focuses on the role of the most representative employers and workers organizations. These associations, which operate in a minimal legal framework, stipulate both inter-sectoral framework agreements that regulate the bargaining structure and the exercise of representation, and national collective contracts, which establish salaries and work organization in each sector. In the absence of legislative action to set out the necessary requirements for the stipulation of agreements applicable across the entire sector,<sup>5</sup> such agreements are not effective overall and are only binding for the signatories. In any case they guide legal decisions on any work-related controversies even when they involve employers who are not formal signatories to such agreements. Decentralized bargaining is, with a few exceptions, hierarchically subordinate to that at national level: it can modify aspects of work organization, but only by delegation of the NCLA (National Collective Labour Agreement), and can establish the payment of additional wage components compared with the minimum ones envisaged by the national contract, but it cannot lower those minimums or reform the pay levels envisaged at national level. The lack of flexibility between firms and geographical areas in collective bargaining remains one of its most criticized aspects, including at international level: the European Commission's In-Depth Review, published in February 2017 in the context of the Macroeconomic Imbalances Procedure, reiterated the need to completely overhaul the collective bargaining system.<sup>6</sup>

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<sup>2</sup> ECB (2017), 'Wage adjustment and employment in Europe: some results from the Wage Dynamics Network Survey', in *Economic Bulletin*.

<sup>3</sup> Several observers refer to the figure reported in a comparative dataset on industrial relations (J. Visser, 2016, ICTWSS Data base, version 5.1. Amsterdam: Amsterdam Institute for Advanced Labour Studies (AIAS), University of Amsterdam), according to which in Italy 80 per cent of workers were covered by a collective contract in 2010 (a figure that has not changed from that since 1960). Although in theory it is possible to establish a regular subordinate employment contract by stipulating an individual contract subject exclusively to the law, this rarely happens in practice; the percentage figure is therefore to be considered as excessively low, also in light of the results from other statistical surveys cited in this paper.

<sup>4</sup> The high average incidence of contractual earnings on overall earnings might be partly due to employers not respecting the contractual minimums (Garnero, 2017 'The dog that barks doesn't bite', IZA DP; Lucifora, C. 2017 'Il salario minimo: contrattazione o minimo legale?', in Dell'Aringa, Lucifora and Treu, eds. *Salari, produttività, disuguaglianze. Verso un nuovo modello contrattuale?*, Volume Arel-il Mulino).

<sup>5</sup> See among others, Papa, V. 'Attività sindacale delle organizzazioni datoriali', (2017) Giappichelli Editore and the 'Proposta di intervento legislativo in materia sindacale' presented by the 'Freccia Rossa' association.

<sup>6</sup> See Sestito (2017) "Riforma della contrattazione: tra rischi di deflazione e gap di competitività", in Dell'Aringa, Lucifora and Treu eds., op. cit.

There has been no significant progress in recent years in the measurement of the representativeness of trade union bodies, envisaged by the 2011 agreement between Confindustria<sup>7</sup> and the main trade unions and by the subsequent Consolidated Accord on Representation of 2014; as a consequence there are no operational criteria in place in order to approve the contracts by a qualified majority. In theory, the scope for applying the criteria identified has been broadened thanks to the later adhesion of other employer organizations and to the stipulation of a subsequent agreement, with similar characteristics, between Confcommercio<sup>8</sup> and the main trade union bodies (October 2015); however, in these cases too, the data collection process has not been completed.

Moreover, in the agreements now referred to, the subordination of firm contracts to national ones is confirmed, albeit with slight differences in the various macro-sectors. The Government also did not follow up on the intention, anticipated in the National Reform Programme for 2016, to act on the regulation of firm contracts in order to guarantee their enforceability and to give them precedence over national ones in areas relating to work organization; this subject was taken up again in the recently published National Reform Programme for 2017, with a less ambitious call for a general intervention that ensures legal certainty for second-level bargaining and no reference to extending its scope of application.

In support of firm-level bargaining, the 2017 Budget Law increased the generosity of the tax incentives on the variable portion of the salary as defined by firm-level contracts<sup>9</sup> and confirmed full tax exemption for welfare payments. The funds allocated now amount to €1 billion a year; their full utilization would not impact directly on a firm's costs but would lead to an increase in net labor income equal to around 0.4 per cent, which would be concentrated among workers with medium to high incomes. The initial analyses of a sample of firm-level contracts deposited after the reintroduction of tax incentives by the 2016 Stability Law show how the structure of bonuses remained unchanged compared with the previous year; instead the number of contracts providing for bonuses to be converted into welfare services increased because of the total exemption on these payments introduced in that year.

In view of the continuing regulatory uncertainty, and bearing in mind that the NCLAs envisage single minimum wage levels throughout Italy that are mandatory at the decentralized level in the majority of cases, over time NCLAs that regulate the same sectors, but stating also markedly differentiated pay levels have become widespread. In some cases (FIAT/FCA), a group-level contract effectively agreed within a firm with some of the most representative trade union bodies has been adopted, which means that the firm – which in the meantime left Federmeccanica, the collective employer's organization in the metalworking industry– is not bound by the previous NCLA for the metalworking sector. In many other cases this has happened mainly through the stipulation of new contracts by minor trade union associations: the jurisprudence has yet to decide upon a single stance with regard to their legitimacy. This trend has soared over the last few years, reaching a figure of 373 existing NCLA deposited in the National Council of Economy and Labour (CNEL) archive (September 2017). According to the analyses reported in this paper and based on administrative data from INPS, in 2015 two per cent of employees in firms included in the Invind-Banca d'Italia survey were covered by a 'minor' contract, characterized by pay levels that in some cases may be lower by as much as 20 per cent compared with those envisaged by the corresponding traditional NCLA. The importance of these 'minor' NCLAs is also expressed indirectly. In some sectors, such as in the services one, the most representative of the traditional trade unions accepted the suspension of salary increases that were already agreed upon. In others, such as tourism, the social partners approved a mechanism that provides for the automatic application of the reductions

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<sup>7</sup> The main employers' federation in Italy, covering both the whole manufacturing sector and relatively bigger firms in the services sector.

<sup>8</sup> The main employers' federation of the services sector.

<sup>9</sup> That was reintroduced in 2016 after having been discontinued.



in labour costs envisaged by other ‘minor’ NCLAs if it is initialled by at least one of the signatories of the ‘most representative’ contract. The possibility of opting out from minimum contractual pay at firm level was finally and explicitly introduced in the Confcommercio framework agreement.

Remaining in the sphere of traditional NCLAs, there are important new factors with regard to the structure established by the 2009 framework agreements, which envisaged a three-year duration for the economic aspect of collective contracts, with wage growth benchmarked to the expected increase in the Harmonized Index of Consumer Prices (HICP) net of imported energy goods. On the one hand, a duration of more than three years has been envisaged for many contracts, which enables firms to reduce negotiation costs and workers to obtain nominal wage increases that justify a renewal when price developments are weak and there are adverse economic conditions. On the other hand, due to an unexpected fall in inflation that led to an increase in real wages of around 2 per cent in the period 2013-15, there was a significant slowdown in the negotiations for renewals (in the first half of 2016, nearly two out of three workers were covered by an expired contract) in part to freeze wage growth and recover some of that increase. In some cases, in the new agreements (Confcommercio) any explicit reference to the HICP has been removed, while in others there has been an attempt to tighten up the clauses for recovering the differences between expected and actual index values during the contract period (chemical and textile industries), in still others automatic ex-post automatic indexation clauses have been introduced (metalworkers, wood). The weaker bargaining power of workers has also been highlighted by the widespread removal of wage components automatically linked to length of service. The paper is organized as follows. Section 2 describes the latest developments relating to the bargaining rules and in particular to the enforceability of contracts and to the links between first- and second-level contracts; Sections 3 and 4 look at the recent trends in first- and second-level bargaining. Section 5 concludes.

## 2. Bargaining rules

There have been numerous interventions, in the areas of legislation and negotiation over the last few years in order to guarantee the enforceability of first- and second-level agreements and to broaden the scope for applying decentralized contracts.<sup>10</sup> Problems still persist in both areas;<sup>11</sup> most recently, the European Commission’s In-Depth Review, published in February 2017 in the context of the Macroeconomic Imbalances Procedure, has reiterated the need for an overall reform of the system. Calls for a wider role for decentralized bargaining are featured in the International Monetary Fund Article IV consultation.

### 2.1 *Enforceability of national contracts and measurement of representativeness*

With regard to the enforceability of national contracts, recent framework agreements have established useful criteria to be enforced in various sectors in order to measure the representativeness of trade unions and to provide for the majority approval of the NCLAs. The 2014 Consolidated Agreement on Representation between Confindustria and the main trade unions, later also adopted by Confcooperative and Confservizi,<sup>12</sup> set the average between the associative figure (reported by INPS) and the electoral figure relating to the election of trade union representatives

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<sup>10</sup> D’Amuri, F. and C. Giorgiantonio (2015) ‘The Institutional and Economic Limits to Bargaining Decentralization in Italy’, *IZA Policy Papers*, No. 98.

<sup>11</sup> See among others Dell’Aringa, Lucifora and Treu eds. (2017) ‘Salari, produttività, disuguaglianze. Verso un nuovo modello contrattuale?’, Collana Arel, il Mulino.

<sup>12</sup> Employers’ association mainly covering the public utilities sector.

(RSU; as reported by the CNEL<sup>13</sup>) as the trade union measurement criterion. The 2015 framework agreement, signed by Confcommercio and the most representative trade unions, recalled these criteria and added further parameters relating to trade union activity (such as the number of disputes followed and cases of wage integration and unemployment); a subsequent agreement (26 November 2016) introduced the principle of measuring the representativeness of employers too for the first time. To date the process of measuring representativeness at national level as provided for by various agreements has not yet been completed. Measurement of the associative figure was begun by INPS<sup>14</sup> in relation to the 2014 Consolidated Accord on Representation, while nothing has been heard about the involvement of INPS in the Confcommercio agreement or about the CNEL with regard to measuring the electoral figure. Finally, given that these agreements are private pacts rather than legislation, even if they become fully operational, they would remain ineffective for associations that have not signed them.

## 2.2 *Allocation of powers to the various bargaining levels*

As far as the structure of collective bargaining, the subordination of second-level contracts to national ones is confirmed overall.<sup>15</sup> For NCLAs falling within the scope of the Consolidated Accord on Representation, many renewals of NCLAs have still not defined<sup>16</sup> the scope and the procedures under which firm-level contracts can derogate from the provisions laid down by the same national collective agreements, referring instead to the generic formula already envisaged by that Consolidated Accord. As a consequence, firm-level bargaining can currently: i) introduce or change additional wage components compared with the minimum contractual ones envisaged by the NCLAs, ii) modify aspects linked to working hours and organization within the perimeters set by the NCLA or, in cases of investment or firm-level crisis situations, in derogation of the national contract by exploiting the Article 8 of the Law 148/2011. According to some observers,<sup>17</sup> the rule has been applied on several occasions, although the social partners have urged its repeal. Based on the results of the Bank of Italy's annual Business Outlook Survey of Industrial and Service Firms, in the four-year period 2011-2014, over 10 per cent of firms (which employ 25 per cent of workers) intended to take advantage of the possibilities offered by the rule.

As far as the recent legislative initiative is concerned, the government did not follow up on its intention, anticipated in the National Reform Programme (NRP) for 2016, to take action on the regulation of firm-level contracts in order to guarantee their enforceability and to allow them to take precedence over national ones for issues linked to work organization. This commitment was reiterated in the 2017 NRP, though with less ambition.

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<sup>13</sup> The functions and future tasks of the National Council of Economy and Labour have not yet been clarified, following the rejection of the constitutional reform that would have abolished it.

<sup>14</sup> Ministry of Labour, Directive of 26.9.2014 and Circular of 26.9.2016; INPS Convention, Circular of 16.3.2015.

<sup>15</sup> Although there are some exceptions, as for example the Confartigianato contracts that operate at territorial level. According to some observers, the territorial level should play a more prominent role, though remaining subordinate to the national level. Sateriale (2017) 'Ripensare la contrattazione', *Diritto delle Relazioni Industriali*.

<sup>16</sup> As envisaged by the Framework Agreement of 28 June 2011.

<sup>17</sup> Imberti, L. (2013) 'A proposito dell'articolo 8 della legge n. 148/2011: le deroghe si fanno, ma non si dicono', *Giornale di Diritto del Lavoro e di Relazioni Industriali*.

### 3. Trends in national level bargaining

#### 3.1 *The growing fragmentation of bargaining*

##### 3.1.1 *Applying the principle of proportionate and sufficient wages*

Italy is currently the only main euro-area country not to have a legal minimum wage.<sup>18</sup> It is established legal practice to determine whether wages are ‘proportionate to the quantity and quality of their work and in all cases sufficient to ensure them and their families a free and dignified existence’ (Article 36 of the Constitution) by using the minimum contractual wages decided as the benchmark by the reference NCLA in the relevant sector and for the specific job. Nevertheless, such interpretation does not envisage the automatic extension (namely its application to non-signatories as well) of the relevant NCLA. Article 39 of the Constitution formally confers the power of stipulating contracts with ‘binding force for all those belonging to the categories to which the contract refers’ to trade unions embodied as legal entities, provided that together they represent the majority of the workers. However, to date trade unions are technically still ‘unrecognized associations’ without legal personality; furthermore, in the private sector there are no useful, operational criteria for measuring the representativeness of trade unions at national level (see the previous Section). The failure to apply Article 39 of the Constitution means the judge has the burden of deciding, with no clear parameter and by definition in a discretionary manner, the amount of earnings that observes the constitutional provision. Where there are several NCLAs linked to the same sector and with different pay levels, in some cases the contract most favourable to the worker has been used as a benchmark, in others the contract signed by the trade unions held to be most representative (though in the absence of any quantitative figures), while for others it has been established that, in the absence of the requisites necessary for extending the contract and without encroaching on freedom of association, an NCLA stipulated by minor trade unions is also applicable, even if this would mean lower wages for the worker.<sup>19</sup> There have also been cases where the judge’s decision has taken into consideration aspects beyond the scope of the general effectiveness of the contracts into consideration, such as the size of the firm, its economic conditions or those of the area where it is located.

##### 3.1.2 *The diffusion of NCLAs stipulated by organizations that are not very representative*

In a climate of prolonged legal uncertainty, which the 1993 protocol already underlined while proposing a subsequent legislative intervention on representativeness that was never adopted, and bearing in mind that the NCLAs set out single minimum wage levels for Italy that represent a large share of total remuneration (88 per cent in 2016, Figure 1) and are usually binding also at the decentralized level, NCLAs regulating the same sectors but with widely varying wage levels have become more widespread over time. This has happened through both the stipulation, by organizations deemed to be more representative, of NCLAs specific to small firms, and through the adoption of entirely new NCLAs by less representative trade unions and employers federations. The first example of this type of NCLA dates back to 1992 and was the result of an agreement between lesser trade unions operating in Emilia Romagna that concerned the tourism sector.<sup>20</sup> During the Great Recession these events became even more common, leading to an increase in NCLAs, in part as a result of the Fiat-Chrysler group not joining Confindustria and the subsequent stipulation of a

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<sup>14</sup> The other countries that do not have a legal minimum wage are Austria, Cyprus and Finland.

<sup>19</sup> For further details see Petrella, S. ‘Il principio della retribuzione proporzionata e sufficiente nel sistema italiano di contrattazione collettiva’, Università di Milano Bicocca.

<sup>20</sup> See Lassandari, A. (1997) ‘Pluralità di contratti collettivi nazionali per la medesima categoria’, *Lavoro e Diritto*, 1997, p.261; Pera, G. ‘Note sui contratti collettivi pirata’, *Rivista Italiana di Diritto del Lavoro*.

firm-level, first-level contract in 2011, which nevertheless envisaged innovations mainly in work organization and made no significant changes compared to the contractual wage levels mandated by the metalworkers' NCLA adopted up until then. INPS currently uses a classification published in 2004<sup>21</sup> to verify the adequacy of the contributions received, which has 284 NCLAs for 152 sectors. According to a recent study,<sup>22</sup> the number of NCLAs in the CNEL archive totalled 398 in 2008 and 868 in September 2017; excluding those that have expired would halve this figure, that would still be very high (377 in September 2017). The growing fragmentation of bargaining affected all sectors, but was particularly significant in the trade sector.<sup>23</sup> One important example linked to this sector is as follows: in 2011 Federdistribuzione<sup>24</sup> withdrew from Confcommercio, whose members include firms accounting for around half the turnover of the large-scale retail trade sector and that employ 200,000 workers. Federdistribuzione is still applying the Tertiary NCLA for distribution and services that was in force when it left Confcommercio and has now expired, since it has not yet stipulated a new stand-alone contract and has not signed the subsequent renewal of the abovementioned Tertiary NCLA, which initially set out a 4 per cent wage increase over 33 months.<sup>25</sup> In other cases, new NCLAs have been stipulated by minor trade unions, which established lower wage models, greater flexibility of working hours and no pay rises during the period of validity. This is the case of the CIFA-PMI agreement of July 2013 which, compared with the Confcommercio one, provides for one less monthly wage, a pay scale for minimum contractual wages that starts 7 per cent below the Confcommercio one, and no pay rise during the period of validity. Given this marked fragmentation, the Confcommercio framework agreement has considered, for the first time in the history of Italy's industrial relations, the possibility of measuring the representativeness of employers' organizations as well, with the aim of identifying the 'most representative' organizations that are able to sign agreements that can be more easily recognized, legally speaking, as being effective for the whole sector. More recently, the need to create a system for measuring employers' representativeness, together with a clear definition of the scope of application (sectoral and by size of firm) of the various framework agreements has been echoed by Confindustria representatives too.<sup>26</sup>

### 3.1.3. *The available evidence*

Leaving aside this anecdotal evidence, in the absence of a measurement for the national level of representativeness for representative bodies for both firms and workers, and thus of the number of workers for which an individual NCLA is applicable, the extent to which bargaining is fragmented cannot be quantified. Nevertheless, some indications can be obtained from INPS administrative data for the years 2005-2015, which report the data on daily pay for a sample of around 6.5 per cent of all Italian private sector employees (INPS 24 dates of birth sample) or on all the workers employed by firms that are in the Bank of Italy's Invind survey<sup>27</sup> (INPS-Invind sample), together with their job title and the NCLA applied.

Using the data available, contracts can be reclassified into three categories:

- 'main' contracts: defined as those monitored by Istat to calculate the contractual wage index; these are the most representative contracts within each sector;

<sup>21</sup> Annex 6 of INPS Circular 130 of 7.9.2004.

<sup>22</sup> Olini, G. (2016) 'I contratti nazionali: quanti sono e perché crescono', *Giornale di diritto del lavoro e di Relazioni industriali*.

<sup>23</sup> Tomassetti, P. (2014) 'Arginare la piaga dei contratti-pirata', *Bollettino Adapt*.

<sup>24</sup> A federation of employers in the Large-scale retail trade.

<sup>25</sup> Following the agreements between Confcommercio and the trade unions, the suspension of some wage increase was first planned, but then paid on subsequent dates and as a consequence of an extension of the contract's duration from the 33 months initially envisaged to 40 months.

<sup>26</sup> Albini, P. (2017) "A proposito di rappresentanza datoriale", *Giornale di diritto del lavoro e di relazioni industriali*.

<sup>27</sup> Bank of Italy (2017), Survey of Industrial and Service Firms, various years.

- ‘secondary’ contracts: not monitored by Istat but still present in the INPS classifications; these are agreements generally signed by representative bodies that may involve specific categories of firms in a sector where there is already a ‘main’ contract;

- ‘minor’ contracts: namely those that are not in the Istat survey or in the INPS contribution classification updated up until 2004; these are agreements recently stipulated, mainly by marginal organizations. First-level, firm-level contracts also fall into this last category if they were stipulated after 2004, and the FCA NCLA (approved by some of the main trade unions) is the best example for those. Finally, it can be assumed that this classification only picks up a part of the minor contracts, as in some cases the employer, though using a minor contract, could use the INPS contractual category which is nearest to the one for their firm.

Given these limitations, Figures 2 and 3 show the incidence over time of the various types of contract in industry and services respectively, measured as shares of total equivalent work units. The virtual stability over time of traditional contracts can be seen; in industry, the main contracts involve around 60 per cent of Full Time Equivalent (FTE) workers, while secondary ones represent around 40 per cent of them. Minor contracts are of marginal weight but they have been increasing since 2011. In 2015 they accounted for just under 1 per cent of total FTE workers in Invind firms. In contrast, in services there are more ‘main’ contracts (about 80 per cent), while the minor ones represented almost 3 per cent of total FTEs in 2015.

Again in 2015, the sector with the highest share of minor contracts is trade (9.2 per cent of total FTEs, Table 1), with average wages 8 per cent lower than those of workers covered by ‘traditional’ contracts in the same sector; in manufacturing the share is close to 1.1 per cent, while wage levels are similar. There are also minor contracts in the transport and business services sectors, but the incidence is marginal; moreover, average salaries are lower by 16 and 20 per cent respectively.

As previously indicated, firms with ‘minor’ NCLAs could also use the INPS contract code nearest to the one actually applied rather than the residual category. In this case it can be verified whether jobs with particularly low wage levels have emerged over time in each contractual category recognized by INPS.

In contractual practice, the pay increases agreed in the NCLAs are normally assigned to each pay level so as to guarantee the same increase as a percentage of the minimum wage for all workers. If all the firms classified in the same contractual category by INPS actually applied the same NCLA, this should lead to a certain stability over time in the ratios between the various wage deciles, except in the case of salary increases due for example to the presence of a second-level contract, to variations in the amount of overtime worked or to the presence of individual bonuses (superminimi). However, in view of the low diffusion and incidence of pay components that exceed the minimums<sup>28</sup> and of use of overtime, these variations should only affect the highest part of the wage distribution; the ratio between the bottom deciles of the distribution and its medium to low values should instead remain essentially stable over time, except for the stipulation of minor NCLAs with lower wages than those of the standard contracts as defined by INPS. The analysis only considers the daily wages of workers employed full-time, for the whole year at firms that only pay the minimum wages set by the NCLAs and without making use of any concessions for social security contributions or supplementary payments from INPS.<sup>29</sup> The unconditional values and net of the composition effects are considered, using as a wage measure the constant plus the estimated residual values from a daily wage regression on the worker’s age and sex plus the constant and the

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<sup>28</sup> According to the annual Business Outlook Survey of Industrial and Service Firms conducted by the Bank of Italy, about 70 per cent of workers in firms with at least 20 employees in the non-financial private sector only get the minimum wage; the share would be even higher if we also consider smaller firms where it can be assumed that the incidence of additional pay is even lower.

<sup>29</sup> These firms are identified by means of a specific question in the Invind- Bank of Italy survey; however, to obtain data on the distribution of wages in each firm, the INPS sample relating to the population of workers employed by the firm is used.

fixed effects per year, carried out separately for blue and white collar workers. Figure 4 shows, for the main contracts, the changes in the ratio between the 5th and 30th percentiles of the distribution of real wages in the period 2010-2015, separately for white and blue collar workers.

Apart from isolated cases, there are no significant reductions in these ratios, looking both at unconditional values and at values net of composition effects. It can therefore be assumed that, even if firms used INPS contractual codes, though using a ‘minor’ NCLA, this would not have implied a dramatic impact on wage levels. It would still be possible for the firm to take advantage of a different work organization not permitted by the NCLA (this element is undetectable in the dataset used).

These analyses confirm the diffusion of minor contracts, especially in the services sector; the effects in terms of wage reductions compared with the most representative NCLAs are already clear and may become more marked in the long term. The very existence of an NCLA with labour costs reduced compared with those of the ‘main’ ones exerts downward pressure on wages across the entire sector, since they reduce the contractual power of the most representative trade unions. It is no coincidence that it was the trade sector where the expected wage increase (determined by the 2015 renewal) was suspended in autumn 2016, and where the possibility was envisaged of an exception to downward wage adjustments compared with the minimum foreseen; in a subsequent agreement (September 2017), the parties decided to pay the suspended wage increase, but at the same time increased the duration of the contract from 33 to 40 months. At the same time the parties established, as a deterrent, that should one of the signing associations, whether an employer or a trade union, sign other NCLAs for the same sector with smaller wage increases, this reduction would automatically be applied to the ‘main’ NCLA. A similar clause had been envisaged in the tourism sector (Federalberghi agreement), where in February 2017 the social partners extended the contract in force by 16 months without providing for wage increases.

### *3.2 Differences in defining the dynamics of contractual minimum wages*

The 2009 framework agreement between Confindustria, CISL and UIL introduced the three year expected variation in the harmonized index of consumer prices (HICP) provided by the National Statistical Institute as a benchmark for deciding wage increases over three-year horizons: the agreement also introduced a clause stipulating the recovery of the differences between expected inflation and the inflation actually observed (in favour of both the worker and the firm) while the contract is in force. Although the agreement was expected to expire after four years and despite the CGIL’s failure to sign it, it has since influenced the bargaining for all NCLAs and continues to be applied up to the present time, though with growing margins of flexibility. The main objective was to reduce the transaction costs by lengthening the duration of the economic part of the contract (previously two years) and anchoring wage growth to an indicator provided by a third party institution. Even before the agreement was implemented, several observers had pointed out problems connected with the long duration of the economic part of the contract,<sup>30</sup> which considered the economic conditions at the moment of renewal and not the subsequent developments,<sup>31</sup> and with the fact that adopting indexation mechanisms, even indirect ones, could make inflation dynamics more persistent and make it less easy to align wages and productivity. In addition, in case of unexpected price shocks, the system would in any case remain subject to the opening of negotiations for recovering the differences between the expected and the observed HICP. This was the case for contracts signed in the period 2012-2014, which included renewals based on an

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<sup>30</sup> Visco (2008), ‘Indagine conoscitiva sull’assetto delle relazioni industriali e sulle prospettive della riforma della contrattazione collettiva’, testimonianza alla Camera dei Deputati, 25 November 2008.

<sup>31</sup> Rosolia (2015), ‘On the response of Italian wages to the unemployment rate’, Banca d’Italia, *Questioni di Economia e Finanza* (Occasional Papers), 287. Sestito (2017) ‘Riforma della contrattazione: tra rischi di deflazione e gap di competitività’, in Dell’Arling, Lucifora and Treu eds. *Salari, produttività, disuguaglianze. Verso un nuovo modello contrattuale?*

expected price variation which then turned out to be much higher than the one actually observed (Table 2); nevertheless, despite requests from employers, the differences were not recovered as provided for by the agreements, which would have led to a reduction in workers' nominal wages. In light of these problems and with particularly unfavourable economic conditions in some sectors, the debate on an overall review of the bargaining framework has become more heated recently. This debate, which has yet to produce any result, has helped to slow down the negotiations for contract renewals; with regard to delays, in the end it was the employers' need to recover part of the real wage increase due to the unexpected fall in inflation by not renewing contracts that actually wiped out wage growth.<sup>32</sup> In the first half of 2016, over 60 per cent of private sector employees were covered by an expired contract (Figure 5). Many negotiations were concluded between 2016 and 2017, when it had become clear that there would not be an overall review of the bargaining framework. The agreements signed differed, often greatly and in different directions, from the arrangement envisaged by the 2009 agreement.

The renewal of the metalworkers' contract introduced the full indexation of wages to the HICP index net of imported energy goods observed in the previous year; this ex-post indexation was subsequently adopted for the renewal of the contract for the wood sector.<sup>33</sup> More stringent procedures for recovering the differences between the expected and the observed HICP were introduced in the textiles and chemicals sectors.<sup>34</sup> In other minor renewals (insurance, paper and ceramics, and railways) wage increases were included that were quite close to the HICP index forecast net of imported energy goods, with no specific reference to the recovery of any differences.

Finally, Confcommercio and Confartigianato signed framework agreements with the most representative trade unions that anticipate the replacement of the expected HICP for deciding wage increases in future NCLAs with a more generic and discretionary reference to macroeconomic and sectoral dynamics.

In a sample of 22 contracts that involve around 70 per cent of the private wage bill, 9 NCLAs (about 14 per cent of the total private wage bill monitored, Table 3) currently include different procedures for recovering any differences between expected and actual inflation. In the metalworking and wood sectors (which represent about 20 per cent of the total monitored private wage bill) automatic ex-post indexation clauses were included. There are no clauses for recovering differences in the remaining sectors.

Remaining on the subject of automatism, for some sectors renewals (chemicals and gas) the clauses that linked individual wage growth to seniority have been completely eliminated. The effects of these changes will not be felt immediately, since the increases already accrued will not be affected, but they will lead to a reduction in wage growth in the future. Prior to this change, a worker with 25 years of service with the same firm would have earned 4 and 6 per cent more than a new hire with exactly the same qualification in the chemical and gas sectors respectively. These wage components continue to be of significant weight, though varying across the different sectors (Table 4). Again, for a worker with 25 years of service, seniority pay can account for over 10 per cent of pay in some sectors (banks and post offices), and below 3 per cent in others (construction, textiles and wood).

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<sup>32</sup> One example is that of the NCLA for telecommunications. The wage growth provided for by the contract in force for 2012-2014 recorded a final figure that was over 2 percentage points higher than that of the price index. The contract was then not renewed for 35 months. In November 2017, a bridge agreement envisaged a pay increase of 1.8 per cent and the extension of the NCLA until July 2018. Overall, in the period from January 2012 to July 2018 there has been a nominal wage growth in line with that of consumer prices.

<sup>33</sup> Although this refers to the overall HICP variation, not net of imported energy goods.

<sup>34</sup> In the chemicals sector, a draft agreement was initialled in June regarding the ex-post adjustment of wage minimums for 2016 (expected HICP 1.1 per cent, actual HICP 0.1 per cent). The parties agreed on a 1 per cent reduction of the wage minimum, which was nevertheless accompanied by an equal increase in the so called Distinct Pay Component (Elemento Distinto della Retribuzione in Italian, which does not imply an increase in indirect costs such as overtime and bonuses), valid until the next review (June 2018).

### 3.3 Differences in the degree of autonomy granted to the second-level bargaining

With regard to the definition of wage dynamics, the differentiation between NCLAs in the amount of autonomy granted to firm-level contracts has increased over the last year.

The recent Confcommercio framework agreement explicitly included the possibility of opting out, at the firm level, from minimum contractual wages;<sup>35</sup> this option will effectively become viable if it is implemented in future renewals of NCLAs for member firms of these associations.

In other cases of renewal, the NCLA has instead further reduced the autonomy of decentralized bargaining. The food industries' NCLA (February 2016) extended the validity of the firm-level contracts expiring in the period 2016-2017 by one year, and at the same time decided that also for subsequent renewals of the first-level contract, the wage components negotiated at local level will remain unchanged during the first year of validity. In contrast, the electrical workers' NCLA, together with that of the gas sector, defined ex-ante the amount of pay based on productivity<sup>36</sup> that could be paid under firm-level agreements. This component, on the expiry of the contract, will be incorporated into the contractual minimum wages if the expected HICP is in line with the actual HICP. Finally, for the metalworking sector (November 2016) it was established that the wage components paid under a firm-level contract would be absorbed by subsequent increases decided in the NCLA (so called absorption). This latter provision could in theory reduce the reluctance of firms to grant wage increases at firm level, since they would be wiped out over time by the increases determined by the NCLA.<sup>37</sup> However, in the current economic conditions, it is more likely that the need to reduce costs will prevail and therefore that firms take advantage of the absorption to further reduce the wage components negotiated at local level.

## 4. Trends in decentralized bargaining

### 4.1. Diffusion and main characteristics

In the past, decentralized bargaining (at firm and territorial level) played a limited role in industrial relations in Italy, both because of the small size of firms that makes the negotiation costs excessive and because, in the bargaining framework, second-level contracts remain essentially subordinate to the national labour contract;<sup>38</sup> this setup limits its potential importance. Finally, according to the structure defined by 1993 agreements (Protocollo del 1993), while the national contract was supposed to guarantee salary increases in line with inflation, second-level bargaining was supposed to distribute productivity gains to the workers. Nevertheless such productivity gains failed to materialize.<sup>39</sup>

According to Invind survey data, relating to firms with at least 20 employees in the non-financial private sector, the share of firms adopting firm-level bargaining remained stable at around 20 per cent between 2010 and 2016; the workers involved were just under half the total (Figure 6).<sup>40</sup>

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<sup>35</sup> The Confesercenti framework agreement of September 2017 includes the possibility of opting out at local level from the minimum contractual wages established by the NCLA, expressly delegated by the NCLA itself.

<sup>36</sup> Therefore subject to the tax cuts envisaged by the 2017 Stability Law.

<sup>37</sup> Dell'Aringa, C. (2016) 'Nel contratto dei metalmeccanici spunta il salario di garanzia', [www.lavoce.info](http://www.lavoce.info).

<sup>38</sup> Although there are some exceptions, for example in the case of the Confartigianato contracts.

<sup>39</sup> Torrini (2017), 'La quota del lavoro: trend di lungo periodo ed evoluzione recente', in Dell'Aringa, Lucifora and Treu eds. *Salari, produttività, disuguaglianze. Verso un nuovo modello contrattuale?*

<sup>40</sup> These figures are similar to those found by Confindustria among member firms, see Felli, C. and G. Labartino *Nota del Centro Studi Confindustria* (2015) No. 14. The Ministry of Labour regularly publishes the number of contracts deposited so as to be able to be eligible for the reduced tax rates on wage components paid at the firm level. However, the data published refer to the absolute number of contracts deposited and it is not possible to see whether they are new agreements or pre-existing contracts. It is not possible to calculate the number of workers involved either.



Again in 2016, the firms that adopted a decentralized contract were mainly exporting firms of a larger size and located in the Centre and North.

With regard to the elements established by firm-level bargaining, according to what the ‘Bollettino Adapt’ reported,<sup>41</sup> out of 1,565 firm-level contracts for firms operating in 23 economic sectors<sup>42</sup> monitored in the period 2012-2016, pay was the most negotiated topic, although many performance bonuses still have a low degree of variability and there is a widespread presence of increases paid to workers in fixed amounts; this is also confirmed by the result of the Invind survey (Figure 7).

Turning to other aspects, working hours is the issue most regulated by firm-level bargaining, even though flexible work hours are still not very common. In contrast, welfare measures are almost exclusively present in larger firms.<sup>43</sup> However, following the introduction of the total tax exemption of welfare payments (see the next section), there has been an increase in the firm-level contracts that give workers the possibility to allocate all or part of their eventual variable bonus to finance these services.<sup>44</sup>

#### 4.2. Incentives for decentralized wages

The Budget Law for 2017 confirmed the flat rate 10 per cent taxation for the productivity bonuses paid in the execution of company or territorial contracts and linked to quantitative production indicators to be set by the government; no changes are envisaged in the Budget Law for 2018 which is currently under discussion. This kind of reduction had been reintroduced by the Stability law for 2016 after its appearance for the first time in 2008 (Law 247/2007).<sup>45</sup>

The Budget Law for 2017:

- raised the limit on income from employment for the beneficiaries of the incentive (from €50,000 to €80,000 gross per year); it raised the limit on the maximum amount subject to reduced taxation from €2,000 to €3,000 gross;<sup>46</sup> for firms that provide for forms of workers’ participation, the limit is raised to €4,000;
- confirmed the total exemption scheme for welfare payments made to workers in the execution of supplementary contracts, extending the reduction also to payments included in the national contract and to payments made to pension funds.

Smaller tax incentives were also introduced that were linked to insurance coverage for lack of self-sufficiency and serious illnesses.

According to the General Accounting Office of the Treasury (Ragioneria Generale dello Stato), the measure would cost of €400 million a year, which is added to the €600 million a year already allocated for the fiscal incentives introduced by the 2016 Stability Law, which had,

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<sup>41</sup> Adapt (2016) *La contrattazione Collettiva in Italia, Anno 2016*.

<sup>42</sup> Agri-food, footwear, cement, chemicals, communications, banks and insurance, construction, energy and oil, electricity, gas and water, rubber and plastic, wood, metalworking, multi-services and cleaning, eyewear, leather and leather products, hygiene and environmental services, tertiary, distribution and services, textiles, transport, tourism and glass.

<sup>43</sup> These measures range from covering school and medical expenses, to agreements with supermarkets, hotels and restaurants, to work-life balance policies, and even to increasing the reasons accepted for anticipating deferred compensation (TFR).

<sup>44</sup> Generally speaking, the payment of bonuses is divided into two distinct and alternative programmes: a standard plan based on payment in cash, and a welfare programme: the employee is therefore free to combine monetary income and welfare income according to their needs.

<sup>45</sup> See D’Amuri, F. and M. R. Marino (2008) ‘La detassazione del lavoro straordinario in Italia: prime valutazioni’, *Politica Economica*.

<sup>46</sup> This figure is to be considered net of social security contributions, so that €3,000 becomes roughly €3,303 and €3,314, gross of contributions equal to 9.19 or 9.49 per cent.

however, abolished tax relief on the salary negotiated in the second-level bargaining for a sum of around €350 million.

Overall, the reduced flat tax rate on firm-level pay in force in 2017 would imply an increase in net labor income of around 0.4 per cent,<sup>47</sup> in favour of workers employed by firms with second-level contracts, generally larger and mainly located in the Centre and North.

An analysis of the Ministry of Economy and Finance's aggregate data on tax returns underlines the regressive nature of this type of tax relief. In 2014, the last year in which the maximum threshold for obtaining favourable taxation was €40,000 for payroll workers' gross labor income, around 3 million workers benefited from the fiscal incentive. People with an overall income of less than €7,500 per year have not benefited, since they have an effective marginal tax rate that is anyway lower than flat 10 per cent rate. For incomes above this threshold, the benefits included an increase in disposable income of around 1 per cent (Figure 8). There were particularly high gains for those with a total income of just over the threshold of €24,000, since for them the tax bonus introduced by Legislative Decree 66/2014 (the Renzi bonus) reduces rapidly when income rises, leading to high effective marginal tax rates.<sup>48</sup>

Almost all the tax cuts are attributable to income tax rate being lowered, while the total exemption on welfare payments would be a marginal cost for the public finances (€4.5 million per year is the cost estimated by the General Accounting Office). However, the rapid spread of these components following the introduction of the incentive might lead to a greater loss of revenue. The initial analyses of the firm-level contracts deposited following the reintroduction of the fiscal incentives by the 2016 Stability Law<sup>49</sup> show that the bonus structure is unchanged compared with the previous year; in contrast, the number of contracts that provides for converting performance bonuses into welfare services has increased.

Although, over the years, there has been no shortage of attempts to make the possibility of benefiting from these tax cuts conditional on the existence of a quantitative link between pay and productivity indicators,<sup>50</sup> or on the presence of some clear cases of organizational reform, the real effectiveness of these provisions is doubtful, given how difficult it is to verify whether they are effectively enforced; there is currently a high share of supplementary contracts that provide for fixed-amount payments.

Following the reintroduction of tax cuts in 2016, on 14 July 2016 the social parties signed a framework agreement including a model for a territorial agreement to be used to access tax concessions, also by smaller firms not represented by trade unions. In these cases there is a heightened risk that the fiscal incentives do not lead to productivity spillovers and greater involvement of workers in the production process.<sup>51</sup>

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<sup>47</sup> Value obtained by measuring the overall amount of tax cuts as provided for by the 2016 Stability Law and the 2017 Budget Law (respectively €600 and €400 million per year for a total of €1 billion) relative to the total value of net income from employment in 2015 estimated by Istat's Continuous Labour Force Survey. The only contribution relating to the 2017 Budget Law is below 0.2 per cent. The assessment is based on the assumption that gross wages (and labour costs) do not change for firms; the reduction of tax provisions could partly work to the advantage of firms if they can appropriate some of the benefits by agreeing on a lower gross wage with their workers.

<sup>48</sup> See Banca d'Italia (2014) 'Annual Report, 2013, Chapter 13, The public finances, p. 169.

<sup>49</sup> Mosca, D. (2016) 'Prima analisi dei premi di risultato dopo la detassazione 2016', Bollettino Adapt.

<sup>50</sup> At the moment the interministerial decree of 25 March 2016 delegates the definition of these criteria to collective bargaining.

<sup>51</sup> Tommasetti P. (2016), 'Detassazione 2016: il ritorno degli accordi 'fotocopia' di livello territoriale', in Bollettino Adapt, 19 October.

## 5. Conclusions

There has been a further fragmentation in industrial relations over the last two years, due to the proliferation of the number of employment contracts signed by minor and not very representative organizations. If on the one hand these developments have broadened the margins of flexibility concerning wage and work organization, on the other hand they have further increased the system's complexity and uncertainty. In contrast, with regard to NCLAs signed by more representative organizations, there has been a gradual move away from the arrangement defined by the 2009 framework agreement; many renewals have seen a lengthening of the duration of contracts, and in a few but important sectors there has been a return to ex-post inflation indexation mechanisms. These trends have increased the risks of deflationary trends and of prolonged weak price growth over time.<sup>52</sup>

In contrast, the role of decentralized bargaining has changed very little, in that it remains secondary and subordinate to the provisions decided at national level. If it played a great role in deciding on wages and work organization, there could be a better alignment between wages and productivity and some rigidities in national bargaining could be eased, especially regarding the insufficient wage flexibility, the long duration of contracts and the presence of indexation mechanisms. In this regard, the provision of procedural rules would help – possibly applicable at legislative level too, with a view to greater legal certainty – aimed at guaranteeing the possible prevalence of firm-level agreements over the provisions of the national contract, including the possibility of opting out from the wage levels established by the NCLA.

The provision of tax incentives, in favour of the portion of the wage agreed at decentralized level – and as such expensive and a source of potential distortions in the tax collection system that risks becoming regressive in a disorderly way – has so far had a limited effect on encouraging the spread of firm-level bargaining. In this regard, the fact that these incentives, in the form of a reduction in social security contributions since 1997 and of personal income tax reduction since 2008, have been relaunched over time with interruptions and frequent changes in the eligibility requirements, the number of beneficiaries and the incomes subject to them, has also played a part in discouraging firms from adopting long-term plans.

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<sup>52</sup> See Sestito (2017), op. cit.

**Table 1**  
**Incidence and wage difference for minor NCLAs in some sectors**  
**Year 2015**

National account sector	Share of workers covered by a minor contract (%)	Wage difference (%)
Manufacturing	0.9	-0.6
Trade	9.2	-8.1
Transport	0.6	-16.3
Services to firms	0.3	-19.8

Source: Authors' calculations on INPS-Invind data

**Table 2**  
**Differences between expected and actual inflation per year**

Year	Expected cumulative inflation in the following 3-year period	Actual cumulative inflation in the following 3-year period	Cumulated difference between expected and actual inflation in the following 3-year period
<b>2009</b>	6.0	7.0	-1.0
<b>2010</b>	5.6	7.3	-1.7
<b>2011</b>	5.9	4.9	1.1
<b>2012</b>	6.6	2.3	4.3
<b>2013</b>	6.0	1.5	4.5
<b>2014</b>	4.5	2.2	2.2
<b>2015</b>	4.0	2.7	1.2

Source: Authors' calculations on Istat data

**Table 3**  
**Recovery of differences between the expected and observed HICP**

<b>NCLA</b>	<b>Share of total payroll among monitored NCLAs</b>	<b>Recovery of differences between expected and actual HICP and means used</b>
Ceramics	0.5%	No
Chemicals	2.7%	Yes, agreed upon before contract expiry
Construction	8.1%	No
Electricity (*)	1.0%	Yes, agreed upon before contract expiry
Food	3.3%	No
Gas	0.3%	Yes, agreed upon before contract expiry
Graphics	1.3%	Yes, automatically after check
Hotels and restaurants	6.8%	Check only during renewal phase
Insurance	1.0%	No
Journalists	0.3%	No
Metalworkers	26.6%	Increases only ex-post
Paper and paper products	0.7%	No
Post offices	1.9%	No
Public transport	1.2%	No
Railways	1.2%	No
Road haulage	3.0%	No
Rubber and plastic	2.0%	Yes, automatically after check
Telecommunications	1.3%	Yes, agreed upon before contract expiry
Textiles	4.0%	Yes, agreed upon before contract expiry
Trade	23.7%	No
Wood (*)	2.2%	Increases only ex-post

Source: NCLA.

**Table 4**  
**The weight of seniority wage on total minimum contractual wage**

<b>Contracts and initials</b>	<b>Seniority steps</b>	<b>Value of average seniority step in euros</b>	<b>As a percentage of the monthly gross wage level for a worker with 25 years of service</b>
Banks	8, one every 3 years	42	0.10
Ceramics	6, one every 2 years	13	0.04
Chemicals	Abolished since 1/1/12*		
Construction	5, one every 2 years	10	0.02
Electricity	5, one every 2 years	32	0.06
Food	5, one every 2 years	32	0.07
Gas	Abolished since 31/12/2015*		
Graphics	5, one every 2 years	14	0.03
Hotels	6, one every 3 years	35	0.12
Metalworkers	5, one every 2 years	27	0.06
Paper and paper products	5, one every 2 years	13	0.03
Post offices	5, one every 2 years	52	0.12
Public transport	6, one every 2 years	24	0.07
Railways	7, one every 2 years	29	0.07
Road transportation	5, one every 2 years	24	0.05
Rubber and Plastic	5, one every 2 years	17	0.04
Telecommunications	7, one every 2 years	24	0.08
Textiles	4, one every 2 years	8	0.02
Trade	10, one every 3 years	22	0.08
Wood	5, one every 2 years	10	0.03

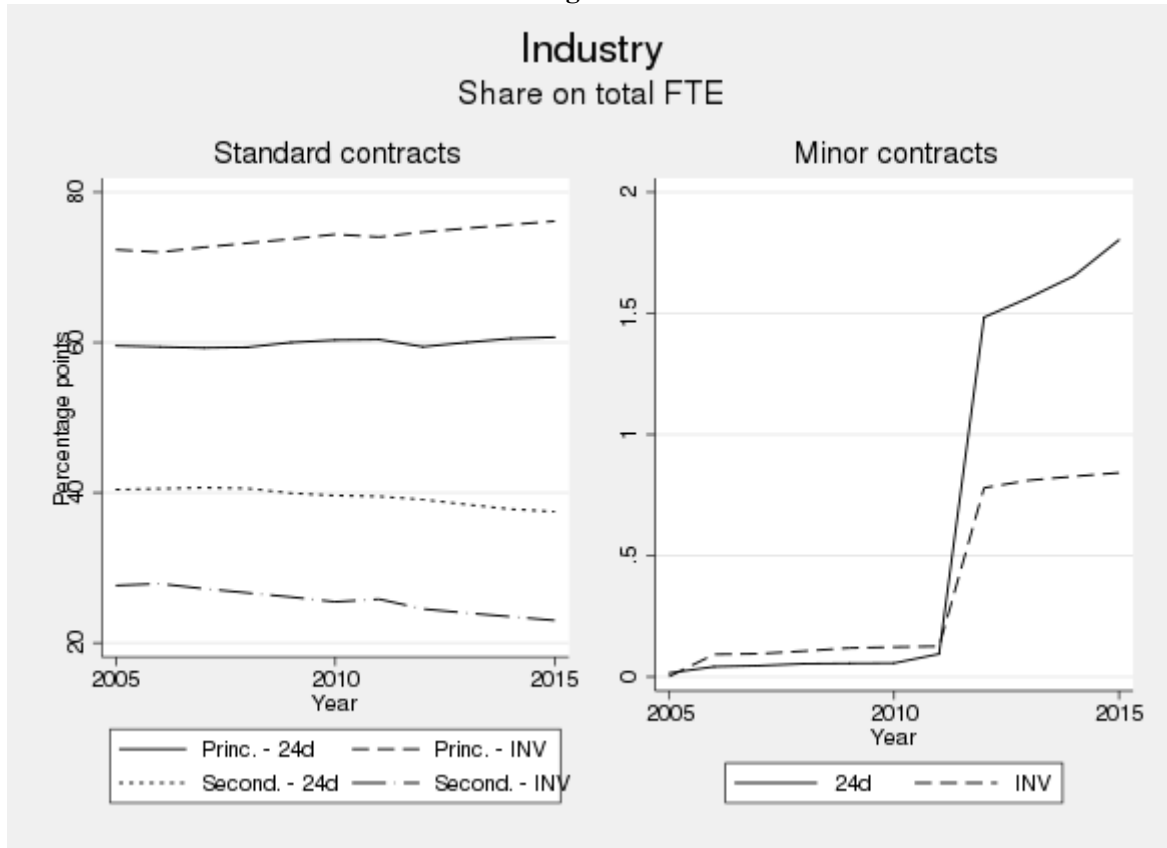
Source: NCLA

Figure 1



Incidence of minimum contractual wages on total national account gross wages. Source: Istat, Contractual earnings and national accounts data.

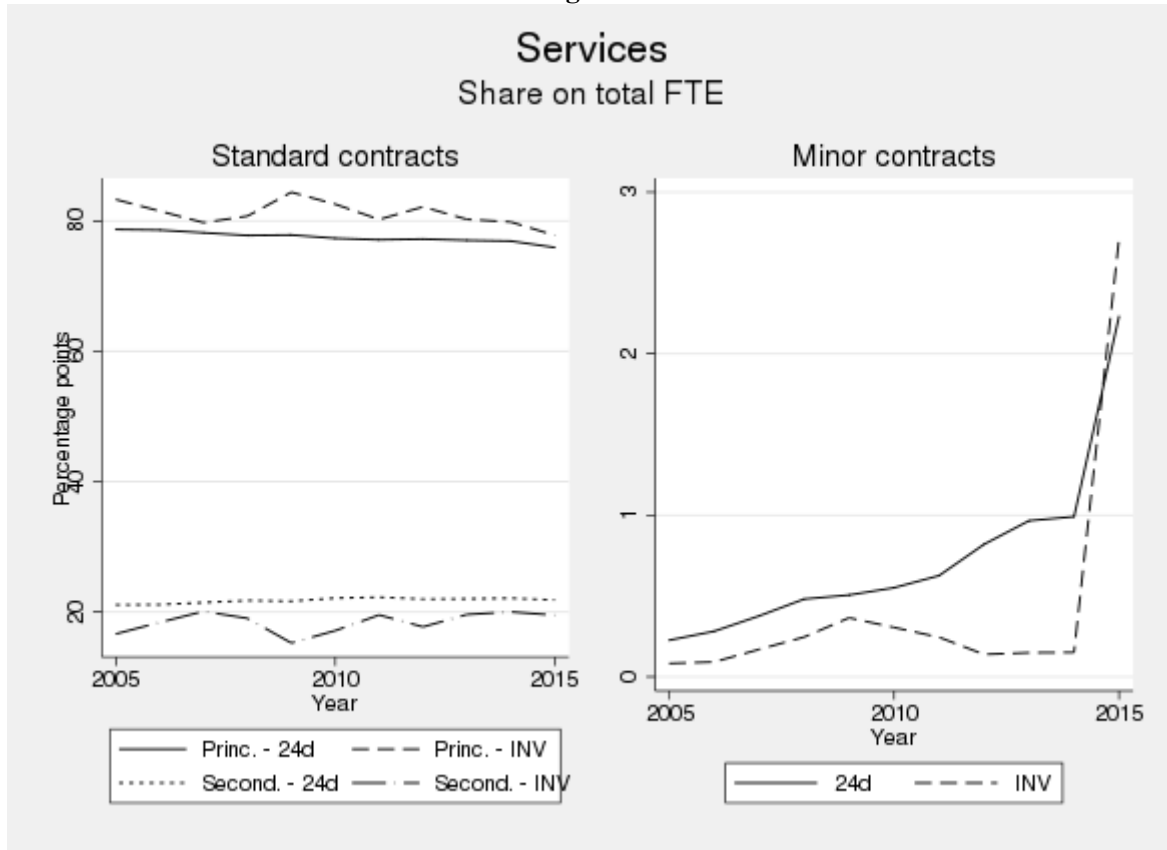
Figure 2



Source: Authors' calculations on INPS and Invid data, various years. The 24 dates sample (labelled 24d) is representative of the population of private non-agricultural workers. The INPS-Invid sample (labelled INV) covers the population of private sector employees employed at 20+ industrial and non-financial services firms sampled by the Bank of Italy Invid survey.

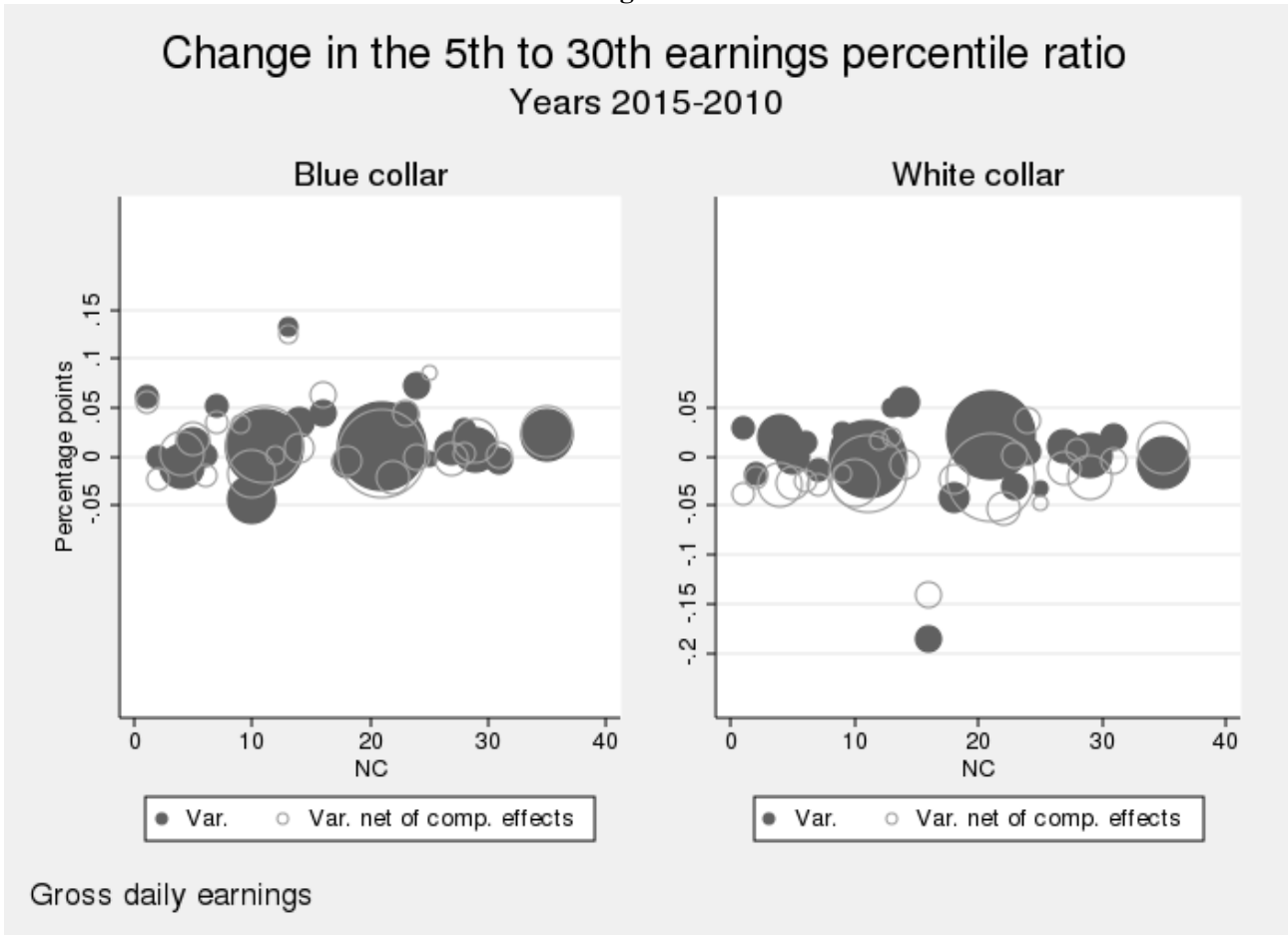


Figure 3



Source: Authors' calculations on INPS and Invind data, various years. The 24 dates sample (labelled 24d) is representative of the population of private non-agricultural workers. The INPS-Invind sample (labelled INV) covers the population of private sector employees employed at 20+ industrial and non-financial services firms sampled by the Bank of Italy Invind survey.

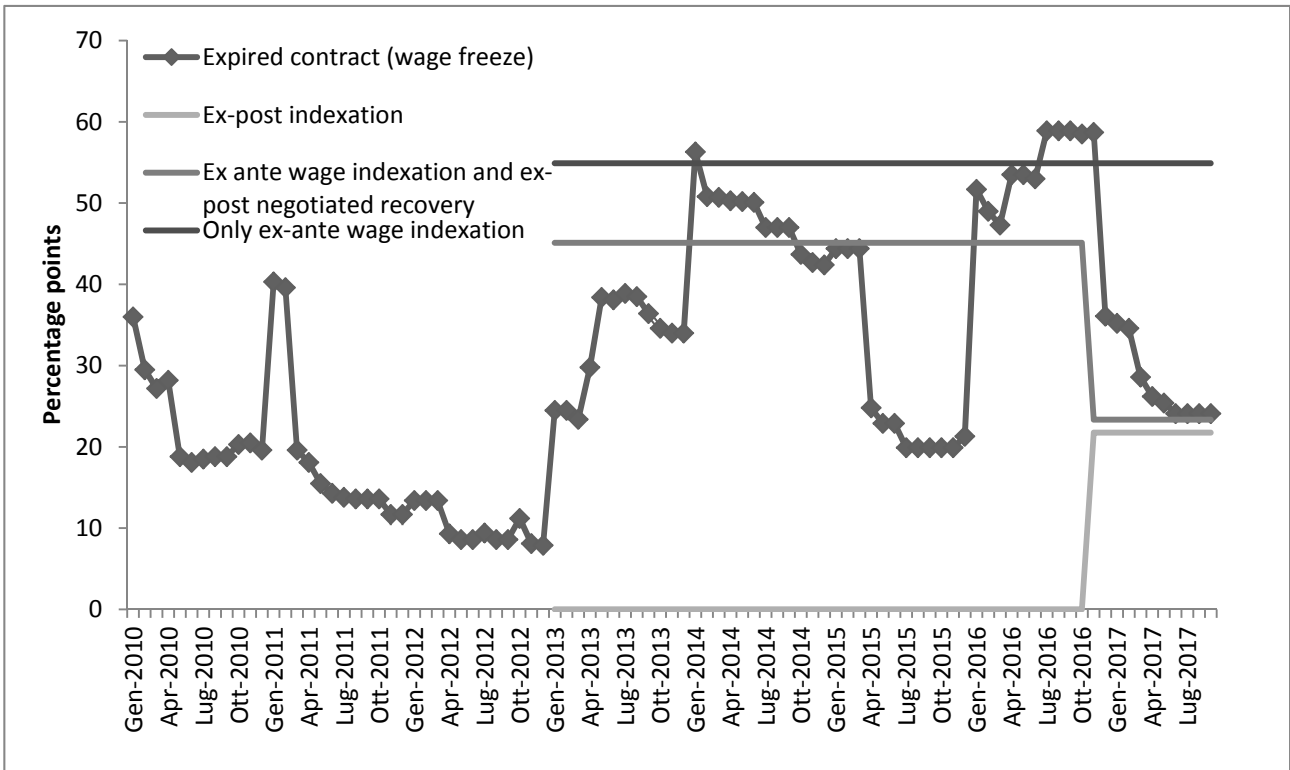
Figure 4



Gross daily earnings

Source: Authors' calculations on INPS and INVIND data, various years. Each point in the graph represents the percentage points variation in the p5/p30 ratio of gross daily wages who took place between 2015 and 2010. The diameter is proportional to the number of the observations used in the estimate.

**Figure 5**  
**Industrial relations in Italy**



Source: for the share of expired contracts: Istat; for indexation mechanisms, our analysis on 22 NCLA representative of the private non-agricultural sector.

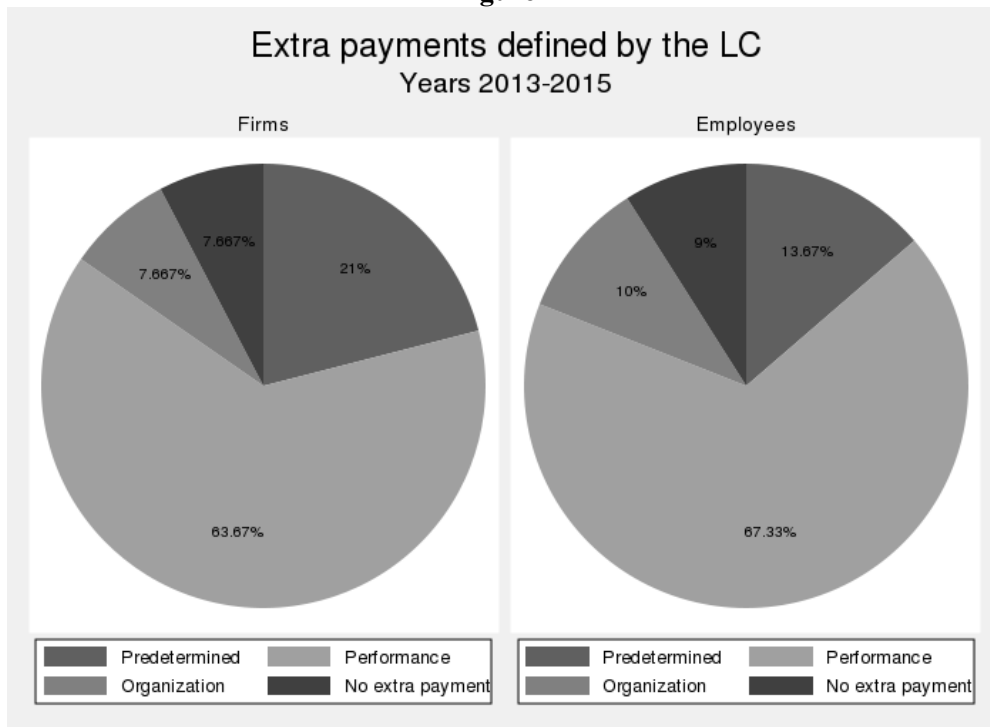
**Figure 6**



Source: Invind survey.

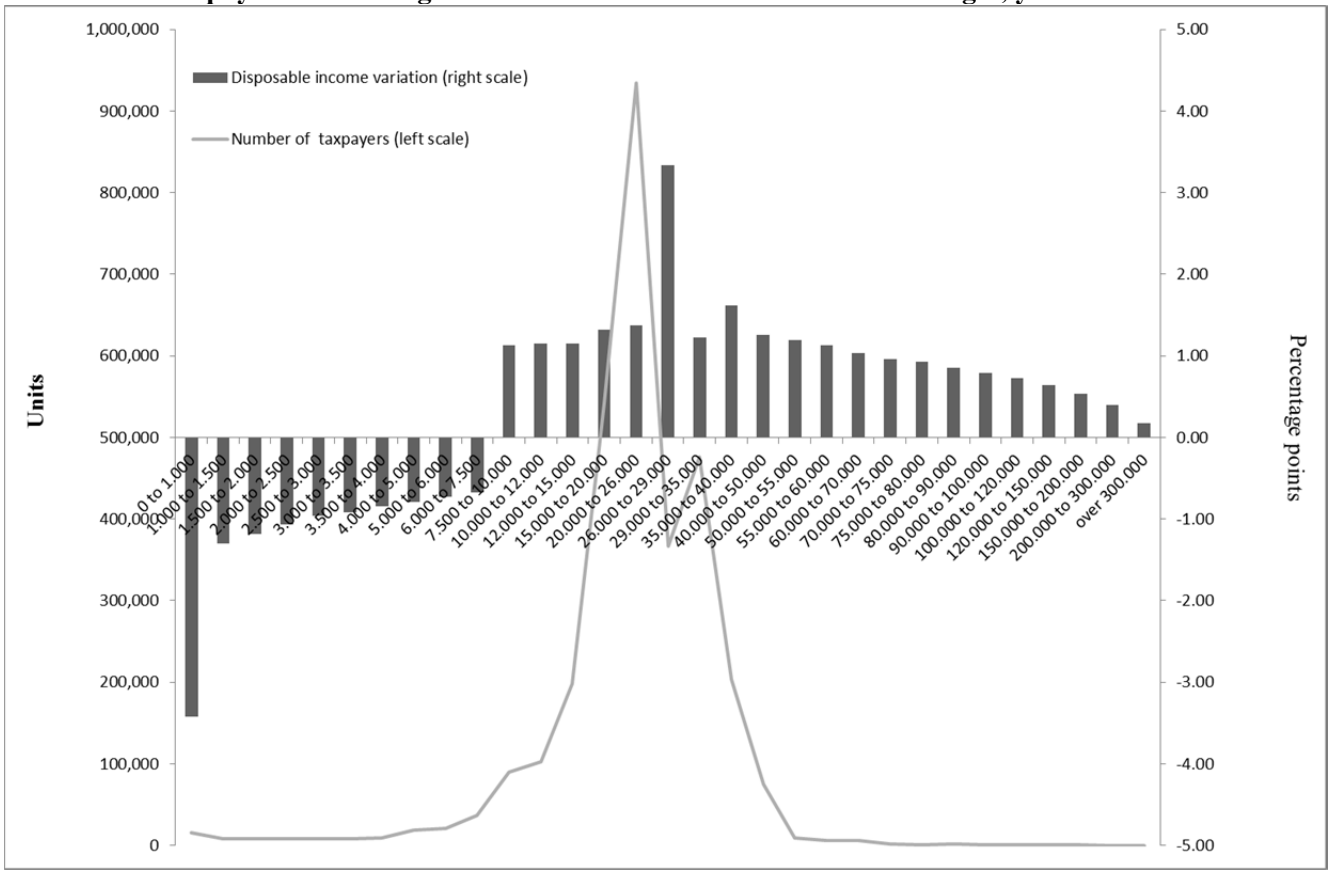
2016 data are not perfectly comparable with those of the previous years

**Figure 7**



Source: Invind survey on industrial and service firms, various years  
(no data available for 2016)

**Figure 8**  
**Taxpayers benefitting from fiscal incentives on decentralized wages, year 2014**



Source: Ministry of Economy and Finance