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Implications of the UE Directive for Adequate Minimum Wage in the case of Italy

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1. The state of play

In Italy, there's at the moment a quite lively debate about the opportunity to shift from the traditional exclusive primacy of the collective bargaining in wage setting, to an unprecedented statutory minimum wage. A fact which deserves to be stressed, as none of the other countries with a similar system (Austria, Denmark, Sweden and Finland) is taking in consideration to change box. On the contrary, some of them have been extremely hostile to the EU Directive, in spite of its soft prescriptions and clauses of safeguard.

Let me recall that in Italy, pay floors are set by collective agreements at the national industry level, according to job classification scales; 7-8 different levels, from the lowest to the highest, usually within a range of 100/250. Moreover, there is no administrative extension mechanism. Judges and social security institutions have established the practice that industry-wide agreements about the sufficient and proportional wage signed by the comparatively most representative social partners satisfy such constitutional requirements. If a worker complains to be unfairly paid, the yardstick is the remuneration set in the corresponding industrial agreement for his kind of task and level.

The perspective of transposing the Directive has been paving the way to a wider focus on the national industrial relations, as whole, and their performance. Surveys and polls reveal a strong discontent and dissatisfaction with the current wage standards, including their setting system. A large part of the public opinion has emerged to be favorable to the introduction of a SMW, at the level of 9 euros gross, proposed by the Centre-left parties in a bill, presented to the Chamber of Deputies in July 2023. A project already rejected by the current right-wing government, which is going to prepare a legislative decree, with an alternative approach, apparently based of the extension of the most applied collective agreements (with no mention and references to the representative quality of the signatory parties).

For the time being, the implementing of the AMWD impacts on a country characterized by some flattering indicators in international comparisons on one side, but also by others, that are unquestionably critical on the other. The highest CB coverage of the EU, matched with the worst wage dynamic of the OECD and EU Countries. A true paradox, which requires some quick insight.

2 – Two good news about collective bargaining and wage setting in Italy

Let's start with the good news; they're basically two, and both quite remarkable:

- 1) *CB coverage*. International statistics credit Italy with nearly 100%; it is at the top of the list in the EU. Around 95%, according to most of the national sources. These data come from the monthly communications, digitally sent by employers to National Institute of Social Protection (INPS), with the notable exception of agricultural and domestic workers. Even with

assuming more prudential data, there's no doubt that Italy is already aligned with the Directive's target (80%).

- 2) *The "Kaitz index"*; although difficult to be extrapolated by an average of hundreds industry-wide agreements, it is esteemed at approximatively 75-80%. That is 20 points higher than in the other AMWD objective, and in the Member States with the highest ratio (France).

From this double point of view, Italy seems to satisfy already the Directive twofold "decency threshold", as some commentators and policy makers say: there's no need to adopt an unprecedented SMW, but just to make some adjustments such as making the most representative collective agreements binding for all, cutting out the minor and unrepresentative ones.

3. Is the situation as rosy as it looks? Some critical issues

Now, the heavily debated point is: can we really consider the situation as rosy as it looks like at glance? According to a number of experts, it is not. Let's see why

- 1) The very high CB coverage represents a national cross-sector average, without considering the differences, even remarkable, which exist between a sector and another.
- 2) That percentage includes the so-called "pirate" agreements; they are almost 800, out of a total of 1000 archived, signed by small and un-representative social actors, and making wage dumping to the "leader" ones. Although their coverage can be very often ridiculous, they influence indirectly the wage bargaining in the arena of the main collective agreements
- 3) Legal obligations and controls about the effective respect of the main agreements are weak and absolutely inadequate. It's not uncommon that workers who are hired and paid for short part-time contracts are instead employed for longer working hours. This is especially common in low-pay sectors, like the HORECA or domestic work.
- 4) While minimum wages might appear to be adequate for a full-time and open-end employee, it isn't in fact so. If you look at the entire annual pay of individual workers, approximately 24% of Italian workers (around 5 million) are low-paid, under the threshold of 60% of the national median wage.
- 5) When compared with the other four Member States with collectively agreed minimum wages, the average levels of the low-pay jobs are in Italy much lower (Eurofound, 2022). This is a far cry from the Constitutional principle of "sufficiency" to live a free and dignified existence, for the workers and his/her family.
- 6) All the average wages in Italy are low and stagnant for decades now (OECD; ILO). And this explains the very high ratio of the Kaitz index. In spite of the high coverage, the quality of the outcomes is very much disappointing. For instance, from the viewpoint of the wages' indexation and agreements renewals, with long delays – 2 years and half in average – the sectoral agreements of about 55% of wage earners have expired.

3. Action plans, debates and projects: which transposition process?

Because of all these criticalities, a wide block of actors and forces think now that the current system doesn't work well and it must be overcome.

In Summer 2023, all the opposition parties (PD; M5S; left and greens) found an agreement, precisely in claiming a law on the minimum wage, entitled "*Provisions for the establishment of the minimum wage*". Its key point, and the most problematic and harshly debated, is that: "*The minimum hourly wage is that set by the comparatively most representative industry-wide agreements, but it cannot be less than €9 gross*".

Among the main trade unions, CGIL is very favorable, UIL quite favorable, CISL unfavorable, still opting for the exclusive role of the collective autonomy.

Are they too much or too little? Public institutes (INPS) and agencies (INAPP) have calculated one worker out of four (around 4,3mln.) earns less than that today. It very much depends on what we do consider in the calculation. Which is a problem also in international comparisons.

- If we consider the very basic pay floor at the lowest level of each sectoral pay-scale, what is called the “economic minimum treatment”, only 15% of the main agreements (“leaders”) pay more than 9 euros per hour. 85% do not reach that threshold.
- If instead we consider the “overall economic minimum treatment”, including the various deferred and severance pay, 2/3 of them are above that bar, with the rest a little bit under and only a handful under 8€.

Yet, with adopting a SMW at 9 euros gross, the Kaitz index would be similar to the current one (approx. 80%) but on different legal status. That would mean 20 points beyond what the Directive aims and just two or three Members States hardly reach.

Quite paradoxically, the literal guidelines of the Directive could impact negatively on the Italian situation, since the objective of the 60% would mean a minimum wage at around 7 euros gross, which is significantly lower than almost all the current minima. A consequence of this would be a law which is useless at the best (too low threshold to impact positively), but detrimental at worst, due to the risk that a number of SMEs could be tempted to adopt the new SMW as it would be less expensive than the ones set by the main national agreements.

However, the Meloni government has already expressly rejected that project in any case. In August, the Premier asked the National Council of Economics and Labor (CNEL) – a constitutional advisory and tripartite body, usually little used – to discuss and express a qualified opinion on this entire issue, keeping in mind the EMWD and the action plan for its transposition. The final statement, approved by a majority of the members of the Council, was against the opportunity to adopt a SMW, suggesting instead a better enforcement of collectively agreed minimum wage.

On 7th December – during a very lively debate in the Chamber of Deputies – the right-wing rejected the opposition project of 9 euros, giving the Government a mandate to legislate within six months on the whole subject. The delegation is aimed at achieving the following objectives:

- a) ensuring fair and equitable remuneration for workers;
- b) combat underpaid work;
- c) stimulate the renewal of collective agreements;
- d) combat phenomena of unfair competition and contractual dumping.

The Government will have to define, for each sector, the most widely applied collective agreements, in order to ensure that the overall economic treatment applied constitutes the minimum economic condition to be recognized for workers belonging to the same sector.

Unions, in this process, complain about marginalization, while the opposition parties promise a new wave of mobilization, relaunching a petition for a bill of people’s initiative.

4. Concluding remarks

In Italy, high levels of bargaining coverage, minimum/median and average wage ratio, trade union membership and density, are quite strangely matched with a collective bargaining system more and more affected by opacity, uncertainty, fragmentation, weak enforceability, non-compliance, “pirate agreements” and wage dumping. But, first and foremost, low and even very low wages, at the risk of poverty, in a growing number of sectors and jobs.

There’s a wide, cross-cutting consensus that the whole system needs an urgent rationalization, with reducing and selecting the true representative actors, recognized as signatory of binding and enforceable agreements. Cutting out the “pirate agreements”, and their wage dumping.

Aware that a SMW and collectively-agreed wages are not alternative each other (see Spain, France, Germany and the Netherlands), a wide block supports the idea of a law, according to which no one in the country can be paid less than a given amount for a single hour of his/her work. 9 hours gross is

considered a good starting point, also in an experimental perspective, to be tested in the most at-risk poverty jobs. A choice of “selective extension”, evoked by some individual expert.

Last but not least; a law on the minimum wage, even when opportune, is never enough if not accompanied by other measures, like to strengthen the labor inspectorates and drastically reduce the incidence of the job precariousness (short and involuntary part-time, fixed-term job and bogus self-employment). Otherwise, it can be almost useless to fix at 9, 12, 14 euros per hour, if the employer can easily manipulate on the real duration and typology of the performed job. In Spain, the socialist Government moved that way, quite successfully, as far as I know. That’s a possible pattern and a pathway to follow, in order to make of a reform an effective way to really improve the employees’ life and working conditions.