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Minimum Wage for Italy: From Social Justice to Productive Efficiency

This article discusses the case of the minimimum wage for Italy as a policy instrument to foster both social justice and productive efficiency. After briefly reviewing the empirical evidence on the effects of minimum wages upon employment, wage distribution and firm-level reallocation, it presents a series of channels, from the micro to the macro level that can represent transmission mechanisms able to trigger positive feedback loops in the macroeconomic system.

During the summer of 2023, Italy was facing high inflation, record-low tourism and climate change-related wildfires devastating entire regions of the country. Discussion in institutional circles and in parliament during this period revolved around the implementation of a minimum wage. Opposition parties, presenting various legislative proposals, concur on the necessity of enacting a legal minimum wage. Proposals vary in terms of the amount, yet converge at the introduction of a minimum wage aimed at serving as a safeguard against poverty in employment, affecting at least four million workers in Italy.

The conservative right-wing government (Dosi & Roventini, 2022), which aligns with the interests of the Italian corporate elite and favours those deemed productive contributors while demonising poverty, feigned openness to discussion on the minimum wage. However, it then effectively halted the legislative process by deferring the matter to the National Council for Economics and Labour. What is surprising is not the rejection itself of the minimum wage proposal but rather the deceptive pretext of safeguarding the role of unions in the negotiation process.

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Politically, it appears almost farcical to witness right-wing parties united in their endeavour to prevent the weakening of union bargaining power following the introduction of a minimum wage. However, from an empirical standpoint, there is a lack of studies that support the claim that a minimum wage weakens union bargaining power. On the contrary, it tends to enhance negotiating capacity. Recent studies, such as Ress and Spohr (2022), empirically examine the effect of the introduction of the minimum wage in Germany on union coverage. Their research did not find any effect on the entry into or exit from unions (German Trade Union Confederation) for low-wage workers benefiting from the policy. Rather, the introduction of the minimum wage had an overall positive impact on union membership, strengthening unions' power. Similarly, Clemens and Strain (2023) in their study of the US labour market found higher net positive effects for union membership due to rising minimum wages, even if at the margins direct minimum-wage beneficiaries exit unions.

It should be noted that all legislative proposals maintain the preservation and application of sectoral minimum wage agreements unless they fall below the statutory minimum wage. This would imply that sectoral minimum wage agreements must be legally equal to or higher than the statutory minimum wage, preventing unscrupulous unions from signing contracts with hourly rates as low as €4. While some argue that a minimum wage would encourage the informal economy, it is worth recalling that opposing a measure aimed at ensuring dignity and social justice is not justifiable in light of potential violations. And to those who claim that it would disadvantage employment opportunities for the affected segment of the workforce, there is a great deal of empirical evidence that found no negative effects of the minimum wage on employment.

Moving forward, let us delve into the theoretical foundations of the economic orthodoxy that views the minimum wage as a threat to free competition and examine empirical evidence regarding its effects to dispel any prevailing myths.

The liberalisation of the labour market

The statutory minimum wage, along with other provisions aimed at regulating the labour market, such as protection against layoffs and centralised bargaining, has been subject to particular hostility from international institutions ("unified theory" or "transatlantic consensus" or "OECD-IMF orthodoxy"; Howell, 2005). It has also endured scrutiny during the wave of liberalisation that began in the 1980s in Anglo-Saxon countries and spread in the 1990s throughout the rest of Europe. Minimum wage has been considered one of the institutions behind the "rigidity" of the labour market, whose erosion in real terms began in the United States as early as the 1970s.

The rigidity of the labour market has been viewed as the cause of all evils: in the 1980s, of the so-called Eurosclerosis (unemployment rates higher than those in the United States), leading to the theory of hysteresis in the unemployment rate (Blanchard & Summers, 1986); in the 1990s, as a cause of excessive inflation due to the linkage between productivity and wages; and finally, starting in the 2000s, it has been considered the cause of loss in international competitiveness. The dominant ideology of the need to liberalise the labour market has widely permeated European countries, including liberal market economies (such as the United Kingdom and Netherlands), coordinated market economies (Germany and Sweden) and hybrid forms like Mediterranean countries (France and Italy). The underlying idea is that labour markets should be competitive and fluid, allowing for:

- elastic adjustments of changes in labour demand to wages, eliminating the downward rigidity problem;
- allocation of the best workers to the best firms and vice versa.

Competition and fluidity, it is argued in the theory of competitive labour markets, allow for higher growth rates. Wherever there are obstacles of any form and nature to competition and optimal allocation, they should be removed.

Thirty years of liberalisation, however, have produced effects far different from those promoted by the theory of flexible labour markets. Instead of fostering sustained growth, these policies have materialised in alarming trends affecting both the macroeconomic and microeconomic spheres, such as:

- a decline in the wage share of national income, contravening what Kaldor (1961) argued was one of the stylised facts of contemporary capitalism, namely a balanced functional distribution of income;
- precariousness and casualisation of employment relationships, with an explosion of temporary contracts, involuntary part-time work, agency contracts and overall weakening of collective contractual forms in the regulation of labour relations;
- weakening of the centralised bargaining role of unions, with the "doctrine of union responsibility" in the 1990s, the emergence of decentralised bargaining, derogations from national sectoral contracts and the lack of union coverage for precarious work;
- slowing of output growth and stagnation of productivity, with the explosion of neo-dual configurations in which a few large firms exhibit high productivity and growth while the rest of the productive fabric stagnates;
- increase in dispersion in productivity and wages, resulting in stagnation of both macroeconomic aggregates; an increase in income inequality among workers employed in firms in the same sector; and heterogeneity in the market performance of otherwise similar firms.

Given these trends, which are characterised by an exacerbation of inequality, a slowdown in growth and a deterioration in working conditions, the legal minimum wage would represent a measure of equity, support for growth and stimulus for efficiency.

Myths about the minimum wage[1]

The minimum wage has been considered one of those labour market regulation tools to weaken or, better yet, remove. The economic debate on the role of the minimum wage in relation to employment dates back to the late 1970s. The Minimum Wage Study Commission established in the United States in 1977 with the aim of studying the impact of indexing the minimum wage to inflation, agreed that the impact of the minimum wage on employment is negligible. This distinguishes between effects on teenagers, young adults and adults. In general, where there is an impact, it seems to be on seasonal jobs or related to restaurant jobs among teenagers. Card and

1 See also the discussion in Schmitt (2013).

Krueger (1994), conducting an experimental study, confirmed the absence of an impact of minimum wage on the employment rate of workers in the fast food sector in New Jersey. In their book *Myth and Measurement: The New Economics of the Minimum Wage*, Card and Krueger (1995) conclude that the impact of the minimum wage is reflected in wage increases for low-wage workers but not in a reduction in employment. This line of research, defined as "new minimum-wage research", has faced opposition from another research group, led by Neumark and Wascher (2008), who in their 2008 book *Minimum Wage* argue that there is a negative impact.

Meta analyses conducted by Doucouliagos and Stanley (2009), containing more than a thousand empirical estimations from 1972 to 2007, agree that minimum wage does not impact the employment of low-wage workers. An important recent advancement regarding the impact of the minimum wage in the United States is the contribution of Dube et al. (2010), who, generalising the analysis of Card and Krueger (1994), study the effect of minimum wage by comparing different counties over sixteen years. The greater spatial and temporal variability certainly makes the contribution an advancement over previous studies. Once again, the authors conclude that there are no employment impacts while wage increases are observed. Furthermore, they identify the trend in the employment rate as the variable that most influences the employment of the low-income worker segment: variations in the employment rates of this segment, whether increasing or decreasing, are largely attributable to the state of the regional economy – not solely to minimum wage. Therefore, controlling for local labour market trends is crucial to isolating the pure effects of the minimum wage and to avoiding giving it undue significance.

A recent experiment with the introduction of minimum wage in Europe was conducted in Germany following the 2008 crisis. Germany was one of the few countries, along with Italy, Austria and the Scandinavian countries at the time, that did not have a minimum wage. The introduction of the minimum wage was set at €8.50 starting from 2015 with biennial review (Dustmann et al., 2022). The measure affected about four million workers, largely employed in mini-jobs (defined as monthly salary of around €450 euros) and located in East Germany (Bruttel et al., 2022). A recent contribution emphasises how the overall effects on the number of employed workers were negligible and, in any case, largely lower than the initial pessimistic expectations; instead, a reduction in working hours in mini-jobs is observed, an effect that in itself is not necessarily negative (Caliendo et al., 2019). One of the most interesting elements is the wage reallocation effect of minimum wage. Dustmann et al. (2022) find that the minimum wage increases the likelihood that a low-wage worker moves to a larger company with higher wages. At the same time, the geographical areas most affected by minimum wage recorded an increase in firm size. A similar result, in terms of cleansing the market of low-productivity firms, is also observed in China following the introduction of the minimum wage in 2004 (Mayneris et al., 2018).

Given the empirical evidence, one wonders why the impact of the minimum wage is so different from what was predicted by the competitive labour market model.

Debunked myths, urgent measures[2]

The micro and macroeconomic mechanisms through which the minimum wage can have positive effects are manifold.

Reduction of inequalities. The introduction of the minimum wage represents, first and foremost, a measure of fairness and dignity for workers at the margins of the production system. In addition to impacting marginalised workers, this measure would strengthen the bargaining power of workers and increase median wages. Italy has experienced a long stagnation in real wage dynamics, positioning itself among the countries with the lowest average wages in Europe. It is noteworthy how the segment of so-called marginal workers has increased since the 2008 crisis and how entry-level wages, even for skilled workers, are extremely low. The so-called race to the bottom with the spiral of low wages/de-skilling jobs could be cracked. This will also have an impact on reducing the gender wage gap and gender inequalities, as marginalised workers are mostly female.

From lower inequality to higher macroeconomic growth. The introduction of the minimum wage would represent, via Keynesian channels (positive feedback loops to macroeconomic growth), a boost to aggregate demand and therefore to the country's output. This would occur through an increase in the average wage rate, leading to higher consumption, given the higher propensity to spend of wage earners compared to high-income earners, profit earners and rent earners. Lower inequality would therefore lead to higher growth.

From lower inequality to greater efficiency and productivity. The introduction of the minimum wage would finally represent an efficiency measure: it would allow the implementation of "healthy" mechanisms of Schumpeterian competition where underperforming firms leverage low

2 See also Dosi et al. (2020) and Dosi et al. (2021) for companion evidence based on agent-based modelling results.

labour costs. Such firms would be forced, following the increase in labour costs, to either internally redistribute the share of profit margins, or to invest in new products/processes/machinery to increase productivity. Alternatively, they would have to exit the market (price increases would also be possible, although international competition, particularly in complex and high-technological intensive industries, does not easily allow passing on the increase in labour costs). In general, firms exposed to international competitions record higher size and average wages; therefore, minimum wage introduction would not impact the key strategic industrial players.

Reduction of the North-South divide and increase in tax revenue. The target audience, approximately four million Italian workers, would be largely concentrated in the southern regions of the country, and in small enterprises, similar to Germany before the minimum wage introduction. In fact, wages below contractual minimums are widely found in small-scale enterprises with fewer than ten employees, predominantly in seasonal sectors linked to catering and tourism, but also female-dominated occupations. Moreover, one should not underestimate the positive effect in terms of tax revenue resulting from the regularisation of undeclared work and from the fight against labour exploitation by intermediaries, which could potentially counterbalance the push to undeclared work due to violation of the minimum wage (see Heise & Pusch, 2020 for the German case).

Conclusion: Minimum wage and centralised bargaining[3]

The introduction of a minimum wage should be considered a complementary measure rather than a replacement for collective bargaining. Clearly, in the presence of centralised bargaining capable of setting a sectoral minimum wage *erga omnes*, the statutory minimum wage would be redundant. However, one cannot ignore the weakening of industrial relations, the effective absence of coverage of contractual minimums for numerous sectors (due to the lack of *erga omnes* coverage), the proliferation of national contracts (recorded to be more than 1,000 in 2023), of which only a third is signed by "authentic" and "representative" union organisations. This is coupled with the evasion of minimum contractual obligations in numerous enterprises and the emergence of pirate agreements.

Given the limited conditions of centralised bargaining capacity and its effects of increasing minimum wage and average wage overall, including the incapacity of the current wage indexation scheme to properly cope with inflation increases (Maccarrone, 2023), the introduction of the minimum wage must coexist with the role of trade unions. This could be achieved through the extention of the sectoral minimum wage *erga omnes*, defining the minimum wage solely as the starting point for bargaining, but extending it to the entire workforce without downward sectoral distinctions. On the other hand, the presence of a legal minimum threshold could strengthen rather than weaken sectoral bargaining, which could instead focus on defining higher wages vis-à-vis the minimum working conditions and hours. Finally, attention should be paid to the scope of what would be regulated by the minimum wage, whether simply the monetary minimum or also the extension of the thirteenth month pay, vacations, bonuses, and thus the entire comprehensive economic package.

The risks associated with the introduction of minimum wage would therefore essentially involve risks of non-compliance by employers, exiting from national contracts and thus weakening wage bargaining not due to a reduced role of unions but instead to a possible retreat of employers' associations. Monitoring and compliance checks, along with forms of guarantees and protections for workers reporting violations regarding wages, would clearly be the minimum necessary along with a renewed season of recognition of the dignity of work and fair compensation.

In general, the statutory minimum wage would be seen as a measure capable of increasing the bargaining power of the workforce, as a redistributive tool, but also as a means of efficiency enhancement. Its introduction would not entail the replacement of union bargaining but should be established as an indispensable legal minimum to protect about four million working poor individuals. The recent EU minimum wage Directive[4] defines this minimum floor as 60% of median and 50% of average wage, although in countries with a compressed wage structure such as Italy, the floor might not be sufficient to ensure a decent standard of living (Müller & Schulten, 2020). However, the Directive has recently been applied (November 2023) in a judicial statement of the Supreme Court as a reference parameter to set the adequate wage in a law dispute. Again, the German experience might represent a path to follow in order to define the minimum level, today proposed at €9 gross per hour in Italy, and the indexation mechanism. A multilateral commission, including all partners of the social dialogue, might represent the institution that is in charge of setting the level and is always guided by the constitutional principle, defined in Article 36 of the Charter, of the right of a decent pay to conduct life with dignity.

3 See also Garnero e Lucifora (2019).

4 https://www.consilium.europa.eu/en/policies/adequate-minimum-wages/.

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