

Productivity, Growth and Labour Market Dynamics in Italy (1960-2023)

Paolo Angelone¹

University of Naples “Parthenope”, Department of Business and Economic Studies,
Naples, Italy. ORCID: <https://orcid.org/0009-0002-6687-4379>

Rosaria Rita Canale²

University of Naples “Parthenope”, Department of Business and Economic Studies,
Naples, Italy. ORCID: <https://orcid.org/0000-0003-4375-3881>

Jesus Ferreiro³

University of the Basque Country UPV/EHU, Faculty of Economics and Business,
Department of Public Policies and Economic History, Bilbao, Spain. ORCID:
<https://orcid.org/0000-0002-5732-7966>

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Summary: This article aims to examine the evolution of the Italian economy from the 1960s to the present focusing on wage and labour productivity dynamics. Throughout this period, the issue of containing labour costs emerged. On one hand, it provided a competitive advantage, but on the other exerted downward pressure on employment, aggregate demand, productivity, and economic growth. These contradictions and vulnerabilities began to emerge clearly since the 1980s with the intensification of the processes of economic tertiarization, international market integration and a general reduction in workers' bargaining power, further aggravated by the lack of policy manoeuvrability due to European constraints and austerity. Within a context characterized by small businesses, factors such as outsourcing, the adoption of a two-tier bargaining system, and increasing labour flexibility have been discouraging investments and productivity, thus locking Italy into a development model that risks further decline.

Key words: Wages, Labour productivity, Labour Market, Italy.

JEL: E02, E24, N34, O40.

The Italian economy has been experiencing an unprecedented slowdown in the last 20 years. According to annual macro-economic database of the European Commission's Directorate General for Economic and Financial Affairs (AMECO) referring to 2023,

¹ paolo.angelone001@studenti.uniparthenope.it

² rorita.canale@uniparthenope.it

³ jesus.ferreiro@ehu.eus

real GDP has not yet returned to the 2007 level, the year the subprime crisis began; real labour productivity records a stagnation since 2001, and real gross wages are declining since the 1990s.⁴

The most influential international institutions consider low productivity a key factor in the Italian economic slowdown. This issue is mainly attributed to inefficiencies in public administration and excessive regulation that discourage investments and competition, so they recommend that the country pursue reforms aimed at liberalization, privatization, and labour market flexibilization.

This article aims to trace the evolution of the Italian production structure and labour dynamics since 1960s until present times. Alternative dynamics, in respect to those highlighted by these institutions, emerge. The paper concentrates on the issue of containing labour costs, that has been since the beginning at the centre stage of the economic debate: the main conclusion is that, although it provided a competitive advantage in the first stages of development, however it affected negatively to employment, aggregate demand and productivity, leading to a lower economic growth. These contradictions and vulnerabilities have emerged with increasing clarity since the 1980s.

The paper is divided into 5 sections. The first section provides a review of the literature about wages, productivity and growth. Section 2 focuses on the development of the production structure in relation to the needs and dynamics connected to the international market. Section 3 focuses on the labour institutional dynamics. Section 4 reconstructs the dynamics of the macroeconomic components of growth in order to make explicit how the strategy of containing labour costs and the institutional changes occurred at international level have been influencing Italy's growth dynamics. The last section provides concluding remarks.

1. The connection between wages and productivity in the literature

The most influent international institutions, such as Organization for Economic Co-operation and Development (OECD), International Monetary Fund (IMF) and European Commission (EC), consider excessive low productivity a key factor in the Italian economic slowdown. This issue is mainly attributed to inefficiencies in public administration, an excessive regulation, and a high public debt that increase the tax burden and discourage investments and competition. It is recommended therefore, to reduce market entry barriers, to liberalize sectors still under public control or regulation (IMF 2020, OECD 2021, EC 2023), and to curb public spending and fiscal deficits (OECD 2021, EC 2023, IMF 2023). But, above all, in order to encourage private investments, it is necessary to make wages flexible, to reduce dismissal costs (OECD 2021) and to favour decentralized bargaining in the labour market (IMF 2020).

⁴ https://dashboard.tech.ec.europa.eu/qs_digit_dashboard_mt/public/sense/app/667e9fba-eea7-4d17-abf0-ef20f6994336/sheet/2f9f3ab7-09e9-4665-92d1-de9ead91fac7/state/analysis (accessed on 25/07/2024).

These arguments are in line with the neoclassical paradigm supporting neoliberal policy interventions, such as labour market flexibilization and labour costs reduction, to reduce unemployment and boost the economy (Milton Friedman 1977, Richard Layard and Stephen Nickell 1986, OECD 1994, Robert M. Solow 1995, Edmund S. Phelps and Gylfi Zoega 1998). These recipes have been absorbed by the major labour market reforms occurred in Western Europe since the 1990s.

Labour market flexibilization supporters argue that the reduction of rigidities not only contributes to reduce unemployment rates but also help to relocate workers from less to more productive and dynamic sectors thus rising productivity (John P. Martin and Stefano Scarpetta 2012, John Haltiwanger, Stefano Scarpetta and Helena Schweiger 2014, Pierre Cahuc and Marco Palladino 2024). Furthermore, excessive rigidity in firing workers would make labour-saving innovations less attractive (Stefano Scarpetta and Thierry Tresselt 2004, Cahuc and Palladino 2024).

In stark contrast, some scholars argue that the flexibilization of the labour market reduces the need to save on labour costs. This, in turn, pushes entrepreneurs to invest less in innovation, ultimately leading to a decline in productivity (Paolo Sylos Labini 1984, Giulio Guarini 2007, Leonello Tronti 2009, Robert Vergeer and Alfred Kleinknecht 2010, 2014, Servaas Storm and C.W.M. Naastepad 2011, Alfred Kleinknecht, Flore N. van Schaik, and Haibo Zhou 2014, Domenico Lisi and Miguel A. Malo 2017, Valeria Cirillo and Andrea Ricci 2019, Cem Oyvat 2023, Nauro F. Campos, Paul De Grauwe and Yuemei Ji 2025). As will be discussed more in-depth in the following sections, the issue of reducing labour costs is central for Italian economic history (Augusto Graziani 1992, 2000, Walter Paternesi Meloni and Antonella Stirati 2023). Many authors link this necessity to the development model focused on exports of low value-added manufactured products gaining wide markets through competitive price advantages (Charles P. Kindleberger 1967, Robert Mitchell Stern 1967, Graziani 1992, 2000, Andrea Boltho 2011, Augusto Ninni 2021, Paternesi Meloni and Stirati 2023). The high level of unemployment was a necessary tool to assure wage restraint (Michał Kalecki 1943, Michele Salvati 1975, Graziani 1992, 2000). In turn, low wages together with high unemployment - as argued by the so-called wage-led growth theories - exerted negative effects on aggregate demand and economic growth, (Storm and C.W.M. Naastepad 2011, Oyvat 2023). Moreover, the Kaldor-Verdoorn law posits that the growth of aggregate demand leads to productivity growth due to specialization and economies of scale in the manufacturing sector (Nicholas Kaldor 1966, Guglielmo Forges Davanzati, Rosario Patalano and Guido Traficante 2019), so that lower aggregate demand would have a negative impact on productivity growth.

For the OECD the main reason behind the decline of labour productivity is that labour market flexibilization and labour costs reduction have increased the number of jobs that would not have been viable in a situation of excessive rigidity. Thus, the observed reduction in productivity would be a side effect of the increase in employment not compromising economic growth (OECD 2003). In the same vein, it can be argued that the reduction of labour costs allows low-productivity firms to survive, which would otherwise fail (Yılmaz Kılıçaslan and Erol Taymaz 2008). These effects may benefit

employment in the short term, but they would make the production system less dynamic in the long term (Vergeer and Kleinknecht 2014).

Further factors contributing to the decline in productivity are the phenomena of tertiarization and financialization of economies. Regarding tertiarization, the so-called Baumol's law states that the shift of workers from the secondary sector to the tertiary sector – occurred in all advanced economies - lead to a drop in productivity since the former is inherently less productive than the latter (Vergeer and Kleinknecht 2010, 2014, Ivan D. Trofimov 2023). As for financialization, it diverts resources from the real economy, thereby reducing investments and productivity (Ricardo Barradas 2019, Riccardo Pariboni and Pasquale Tridico 2019).

Finally, it is widely accepted that a high number of small-size firms, a typical feature of the Italian industrial landscape, negatively impacts productivity. Smaller firms generally have lower economies of scale and reduced profit margins as well as less access to credit, which in turn allow for fewer investments in innovation (Alessandro Arrighetti and Gilberto Seravalli 1997, Pinuccia Calia and Silvia Pacei 2017, Andrea Garnero 2018). The increase of the number of small size enterprises and the progressive decentralization of production that occurred in Italy during the 70s are interpreted by many authors as the wrong reply to the increasing conflict in the labour market. (Fabrizio Barca and Marco Magnani 1989, Graziani 1992, 2000, Forges Davanzati, Patalano and Traficante 2019, Pier Giorgio Ardeni and Mauro Gallegati 2024).

2. International Markets and the Production Structure

Since the end of World War II, the Italian economy experienced a progressive and intense process of integration with the international market, and the industrial production structure began to shape accordingly. The lack of energy resources made necessary to increase exports to allow for their import without compromising the balance of payments. Furthermore, there was a political will to integrate, following liberal principles, with the Western European economies as an anti-Soviet strategy (Augusto Graziani 1992).

The birth of the European Coal and Steel Community (ECSC) in 1952, - composed of France, Luxembourg, Belgium, Netherlands, West Germany, and Italy - which in 1957 evolved into the European Economic Community (EEC), was a crucial factor in this regard: Italy was integrated into a free trade area, with easy access to the rich European markets while enjoying a competitive advantage in terms of wages and labour costs (Boltho 2011).⁵

According to a widespread historiographical interpretation, this dynamic and the consequent take-off of exports - driven by concentrated industry in the northwest of the country - represent one of the pillars on which the Italian economic miracle rests, approximately identifiable in the decade starting from 1955 (Kindleberger 1967, Stern 1967, Graziani 2000).

⁵ It is specified that in this paper, wages and compensations per employee are used as synonyms and refer to total gross wages, including employer social security contributions.

Given the comparative advantage in terms of wage levels, and, because Italy simultaneously lacked an industry with technological levels on par with other European partners, Italian exports focused on durable manufactured goods with medium/low value-added (Graziani 1992, Paternesi Meloni and Stirati 2023). This model is still alive, as in 2023, both imports and exports amount to approximately one-third of GDP, respectively.⁶ In terms of value with reference to 2022, over 60% of both exports and imports are destined to and originate from European countries. The main destinations for exports are Germany (12%), USA (10%), and France (10%), while the main origins of imports are Germany (13%), France (8%), and China (8%). Regarding products, the main categories are machinery (23%) for exports and energy resources (22%) for imports.⁷

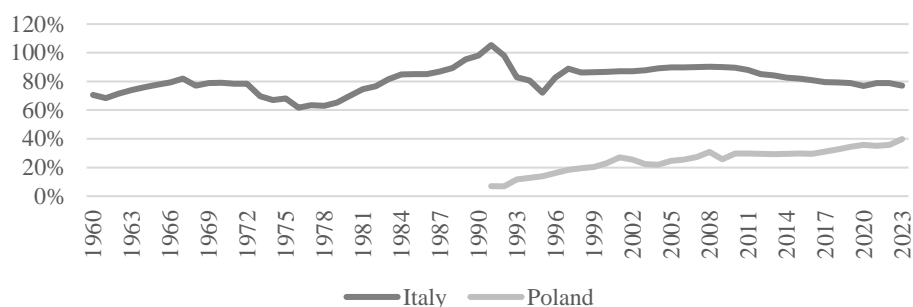
The necessity to keep wages lower than those of the European partners to ensure the competitiveness of this kind of exports is a structural element in the country's history (Graziani 2000). This type of production system has proven particularly vulnerable to globalization and the enlargement of the European Union to the Eastern countries (Dario Judzik and Hector Sala 2013). In 1990s, the neoliberal process of dismantling controls, constraints, regulations, and protectionist market mechanisms globally integrated the production of goods and capital movements. In 1992, neoliberal principles were adopted by the Maastricht Treaty on which the European Union and the European Monetary Union are based (Özgün Sarimehmet Duman 2019). New actors entered the single European market competing on prices with a model leveraging significantly lower wages (Boltho 2011, Paternesi Meloni and Stirati 2023). Companies had the opportunity to relocate production processes where wages were lower (OECD 2012, Alexander Guschanski and Özlem Onaran 2022). Furthermore, offshoring posed a threat to workers, especially in the medium-to-low value-added manufacturing sector, which is more vulnerable to this type of competition (Paternesi Meloni and Stirati 2023). Figure 1 shows the average nominal labour cost in Italy as a ratio of its historically major economic partners, namely the average between Germany and France. It is evident that the Italian value has been chronically lower. To illustrate how the eastward expansion of the European Union posed a challenge for the Italian production system, the value of this variable for Poland is also shown.

⁶ AMECO data.

https://dashboard.tech.ec.europa.eu/qs_digit_dashboard_mt/public/sense/app/667e9fba-eea7-4d17-abf0-ef20f6994336/sheet/f38b3b42-402c-44a8-9264-9d422233add2/state/analysis (accessed on 27/06/2024)

⁷ Observatory of Economic Complexity (OEC) data,

<https://oec.world/en/profile/country/ita?yearlyTradeFlowSelector=flow0&subnationalTimeSelector=timeYear> (accessed on 27/06/2024)

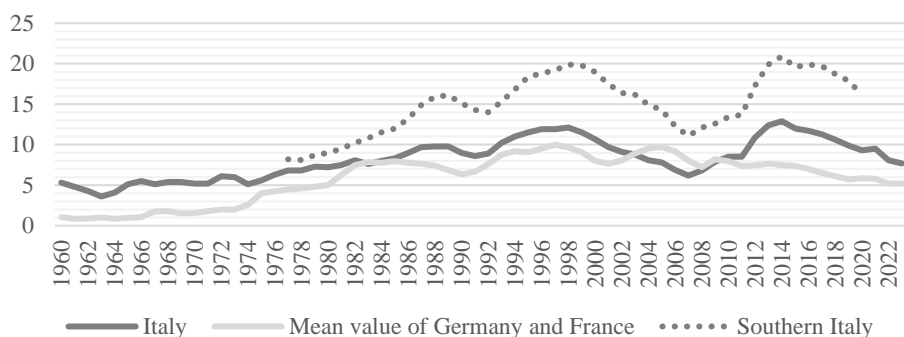


Notes: German data before 1991 refers to West Germany.

Source: own elaboration on AMECO data.

Figure 1 Nominal compensation per employee in Euro as a ratio of the mean value of Germany and France.

To maintain low wages, the Italian productive system had the structural need to counter wage claims and reduce workers' bargaining power through high levels of unemployment⁸ (Figure 2). Therefore, unemployment on one hand represented a longstanding issue undermining growth and, sometimes, the stability of the country, while on the other hand, it was an indispensable tool for this development model to keep wages low. (Kalecki 1943, Salvati 1975, Graziani 1992). Although the industries were concentrated in the North of the country, the role of the South was functional: the extremely high unemployment despite a huge phenomenon of emigration assured low cost of labour and dampened wage claims.



⁸ The Unemployment rate in Italy is not stationary according to Augmented Dickey-Fuller (ADF) (David A. Dickey and Wayne A. Fuller 1979) stationarity tests (data available upon request).

Notes: Before 1991, German data refers to West Germany. Southern Italy includes the following regions: Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sicilia and Sardegna.

Source: Istat data for Southern Italy, own elaboration on AMECO data for others data

Figure 2 Unemployment rate

However unemployment rate rose sharply with the end of the negative migratory balance abroad, namely in 1972.

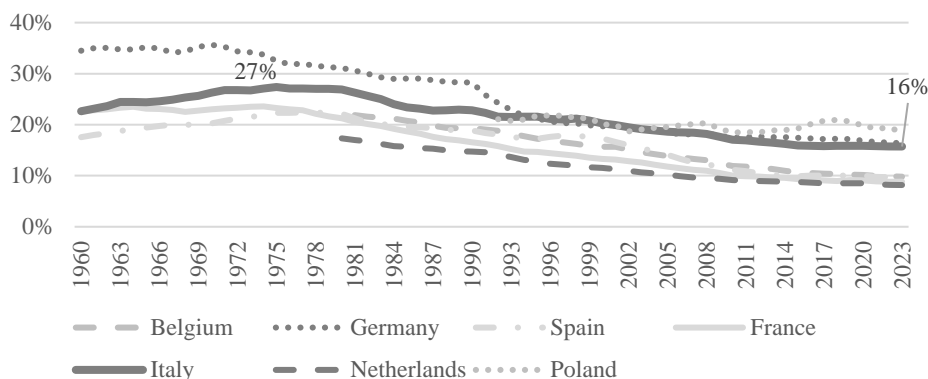
The migration phenomenon had enormous territorial differences. Between 1951 and 1961, about 2 million people from the South and half a million from the Northeast emigrated, about half of them to the Northwest and half abroad, while the balance in the Centre of Italy remained neutral. In the decade from 1961 to 1971, the national migratory balance continued to be negative but only due to the emigration from the South, where another 2 million citizens emigrated, with three-quarters of whom moving to Centre-North and one-quarter abroad (Graziani 1992). Starting in 1972, the national migratory balance became neutral, with entries and exits balancing each other out for about two decades. Starting from the 1990s, the balance became positive, reaching a peak in 2007.⁹ Throughout this period, however, migrations from the South to the North remain significant. In the last decade, from 2014 to 2023, about half a million southerners have moved to the Center-North (Istat 2024).

The Italian production system has been characterized by a large manufacturing sector, generally larger than that of other Western European countries. In the 1960s, the sector was expanding, and by the early 1970s, it reached a peak, employing 27% of total workforce. In the 1970s, the phase of outsourcing began, and the sector remained stable overall (Barca and Magnani 1989, Forges Davanzati, Patalano and Traficante 2019, Ardeni and Gallegati 2024). From the early 1980s onwards, the phenomenon of economic tertiarization, globalization and offshoring have been occurring.

Figure 3 illustrates the significance and the decline of the Italian manufacturing sector¹⁰. In the same graphs, it can be observed that Poland, which records significantly lower nominal wages compared to other countries in the sample, is the only country with a proportion of workers in the manufacturing sector higher than Italy. Moreover, Poland is the only country where this proportion has not declined over the last 20 years.

⁹ Istat data, <https://www.istat.it/60annidieuropa/popolazione.html> (accessed on 09/07/2024)

¹⁰ The share of manufacturing employment on total employment in Italy is not stationary according ADF stationarity tests. Data available upon request



Notes:.

Source: Own elaboration on Ameco data

Figure 3 Percentage of manufacturing employment on total employment.

This decline in the manufacturing sector comes with a growth of the tertiary sector that currently employs approximately three-quarters of the workforce.

Summing up, this model of production, which formed the basis of Italy's most robust economic growth, contains elements, contradictions, dualisms, and vulnerabilities that have been characterizing the Italian production structure up to the present day. Firstly, it resulted in a strong dualism in the Italian production structure and labour market: on one side, large-scale industries concentrated in the North with higher productivity competing in international markets, where unionized workers with higher wages were concentrated; on the other side, a vast network of small, often family-run enterprises with low productivity, non-unionized workers, low wages, and widespread use of irregular labour, focusing on the local market (Vera Lutz 1962, Arrighetti and Seravalli 1997, Graziani 2000). Secondly, the political willingness to support this model meant that public efforts and investments in the first two decades after World War II were concentrated where the industry was already present and competitive in international markets, thus contributing to enlarge the existing development gap between the North and the South of Italy (Graziani 2000). Finally, this model was based on an international competitiveness plan that has proven highly vulnerable to the integration of new global market players (Paternesi Meloni and Stirati 2023) and structurally determined the necessity of wage containment with negative repercussions on unemployment and domestic demand (Kalecki 1943, Salvati 1975, Graziani 1992).

3. Wages and conflicts in the labour market

The manufacturing sector has been leading the Italian worker's movement since its birth. Because of its size, culture, high unionization rate, company dimensions, productivity, and wage levels, this sector was better organized and more impactful (Enrico Sergio Levrero and Antonella Stirati 2004, Paternesi Meloni and Stirati 2023).

Nowadays, the main metalworking sector collective agreement involves the largest number of workers, about 11% of the total in private sector, following the main one of tertiary and distribution sectors.¹¹

Since the late 1950s, labour organizations have been strengthening, but the pivotal year was 1962 (Figure 4). That year marked virtually full employment and saw a significant mobilization that initiated a period of major labour strikes lasting about two decades. The changing atmosphere was also reflected politically with the era of large-scale nationalizations (Graziani 2000).



Source: Istat data

Figure 4 Thousands of hours of work lost due to strikes in Italy

Under the pressure from the labour movement, significant wage and regulatory achievements were recorded: purely instrumental outsourcing was prohibited, and the principle of the employer's actual responsibility was established; the indiscriminate use of fixed-term contracts was banned, and defined cases where they were admitted were strictly listed; the national metalworking collective agreement signed in 1963 recognized the 40-hour workweek, setting a precedent for other sectors (Stefano Musso 2019).

In 1969 there was an absolute peak of labour conflicts. Following this new wave of strikes, there were numerous regulatory and wage achievements. In 1969 an inter-confederation agreement abolished the “Gabbie salariali” system, a mechanism whereby the contractual wage was differentiated by geographical area (wages in the South were lower than in the North. In 1970 the Workers’ Statute recognized a wide range of workplace rights (Musso 2019).

¹¹Consiglio Nazionale Economia e Lavoro (CNEL) data <https://www.cnel.it/Archivio-Contratti-Collettivi/Archivio-Nazionale-dei-contratti-e-degli-accordi-collettivi-di-lavoro> (accessed on 27/06/2024)

Conflict remained high throughout the following decade. In 1975 a general agreement between the parties recognized a mechanism known as “Scala Mobile” for full and automatic wage indexation to inflation.

In response to wage claims during the 1962/1963 biennium, employers faced difficulties. Wage increases could partly be offset by higher prices in the expanding domestic market, absorbing them without severe repercussions on sales. However, competition in international markets, especially in sectors where Italian production was specialized, did not tolerate price increases without significant sales reductions. Thus, unable to adjust prices abroad, this dynamic inevitably eroded profits (Graziani 2000).

Concerns about rising inflation due to wage and domestic demand increases, pressure from employers to counteract the workers' claims, and deteriorating balance of payments dynamics pushed authorities to implement monetary austerity measures. Tightening credit led to a collapse in investments that in 1964 and 1965 declined 20% annually, this led to a rapid increase in unemployment and emigration which reduced labour conflicts for a few years (Graziani 2000, Ninni 2021).

The reaction of the entrepreneurial class to the worker's mobilization in subsequent period was different. The significant outflow of migrants that absorbed unemployment and ensured social stability in 1962 was diminishing. It became clear that this phenomenon was not merely temporary, as labour markets in Europe began to saturate, exacerbated by immigrants from other countries (Graziani 2000). Furthermore, the social stability of the country was already severely tested by the increase in violence following the Piazza Fontana bombing in 1969, marking the beginning of the "Years of Lead" and the strategy of tension.

In this context, the primary strategy implemented by firms from 1969 through the 1970s to break the unity of the labour movement and make the production process more flexible, was the outsourcing. It kept central or final phases in the main factory while shifted other phases to third-party companies, which were either controlled to varying degrees or completely autonomous (Barca and Magnani 1989, Forges Davanzati, Patalano and Traficante 2019, Ardeni and Gallegati 2024).

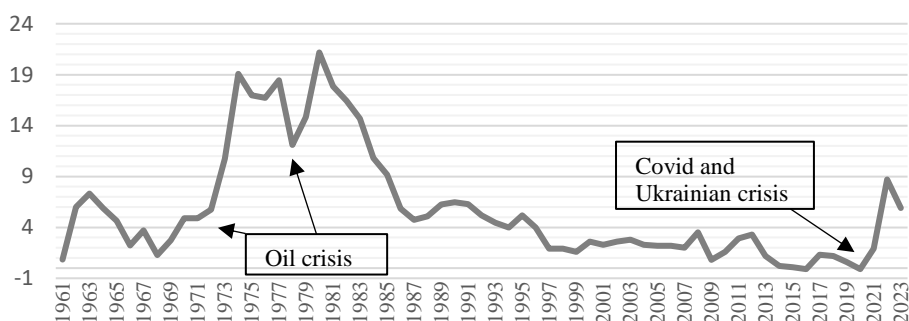
This process exacerbated another significant weakness inherent in the Italian industrial structure: the small size of companies, particularly in the manufacturing sector, where returns to scale play a crucial role. Smaller companies generally have lower returns to scale and productivity levels, less access to credit, lower profit margins that restrict substantial investments in production or in R&D. Additionally, smaller firms tend to be less regulated, more prone to tax evasion and irregular labour practices, and often pay lower wages (Arrighetti and Seravalli 1997, Calia and Pacei 2017, Garnero 2018).

Currently, the size of Italian enterprises is smaller than in other European countries, with two-thirds of workers being employed in companies with fewer than 50 employees, and nearly half in micro-enterprises with fewer than 10 employees. The same dynamic occurs in the manufacturing sector: 54% of workers are employed in firms with fewer than 50 employees, whereas in other countries with strong

manufacturing sectors like Germany and Poland, these figures are 21% and 29%, respectively.¹²

Another strategy implemented by political authorities during the 1970s to counteract wage increases and boost exports was competitive devaluation. Until 1971, an international fixed exchange rate agreement known as the Bretton Woods system existed. Only after its collapse in 1973 the Lira was allowed to float freely. Therefore, prior to 1973, it was not possible to offset wage increases leading to a increase in prices with a devaluation of the currency to maintain price competitiveness in other currencies and thus safeguard exports. Competitive devaluations began only from 1973 onwards (Graziani 2000).

Competitive devaluations, together with wage increases driven by labour mobilizations and by the mechanism of indexation, coupled with the oil crises that characterized the 1970s, led to significant inflationary pressures (see Figure 5). The rise in prices became increasingly concerning and central for the political debate (Leonello Tronti 2009).



Source: Istat data till 1995, Since 1996 Eurostat data

Figure 5 Annual inflation rate in Italy

In 1979 Italy adhered to the European Monetary System (EMS). This system established that European currencies maintained stability within a narrow fluctuation band. It represents, therefore, the end of competitive devaluations, placing greater importance on limiting monetary financing of public deficits and trying to moderate wage claims (Lucio Baccaro and Massimo D'Antoni 2022). During this phase, major trade unions chose a conciliatory approach and did not oppose restructuring efforts to overcome the crisis period (Musso 2019, Matteo Deleidi, Davide Romaniello and Luigi Salvati 2022).

¹² Eurostat data

https://ec.europa.eu/eurostat/databrowser/view/sbs_sc_sca_r2/default/table?lang=en&category=bsd.sbs.sbs_h.sbs_na_h. (accessed on 27/06/2024).

From the late 1970s through the 1980s, the widespread phenomenon of stagflation (simultaneous stagnation and inflation) challenged Keynesian economic theory. Monetarist theories began to gain prominence, laying the theoretical groundwork for the spread of neoliberalism. These theories viewed markets as capable of self-regulation and considered state intervention as a source of distortions and inefficiencies (Robert Chernomas and Ian Hudson 2017, Sarimehmet Duman 2019).

The paradigm shift was also marked by the separation of the Treasury and the Bank of Italy in 1981. To safeguard against inflation and increasing debt, the Bank of Italy was no longer obliged to purchase unsold government bonds on the market. Market mechanisms were expected to absorb these bonds through adjustments in interest rates, which saw a significant increase during the 1980s (Rosaria Rita Canale and Rita De Siano. 2024).

The "scala mobile", which triggered wage-price spirals, was unanimously considered one of the main causes of inflation. This, combined with the rise of neoliberal ideology, the collapse of the Soviet Union, and the general weakening of the labour front, led to a restructuring of industrial relations.

Indexation under the "scala mobile" was gradually reduced starting from 1983-84, with the Lodo Scotti (Agreement between Government and social parties signed on 22/01/1983) and the San Valentino Decree under the Craxi Government (D.L. 10/1984). The mechanism was completely abolished in 1992. The financial crisis within the EMS in that year forced Italy to temporarily abandon the system and devalue the Lira. The inflationary pressures during that period began to erode real wages, for the first time without any automatic protection mechanism.

The general agreements between government, employers' organizations, and trade unions in 1992/1993 (Agreements on 31/07/1992 and 23/07/1993) established a new collective bargaining mechanism oriented towards decentralization and wage flexibilization. The system was designed with two levels: a national bargaining that aimed to maintain workers' purchasing power by linking wages to the expected inflation rate for the following three years, and a decentralized bargaining at the company or territorial level that related wage increases to productivity gains. However, currently the decentralized bargaining has not fully taken off, especially in smaller enterprises (Tronti 2009). This marked the beginning of the so-called "decoupling" phenomenon: wages and labour productivity, having followed the same growth path before the 1980s, began to diverge.

From Figure 6, it is evident that before the 1980s average real gross wages and labour productivity - measured by GDP per person employed - grew steadily¹³. Since the 1980s, productivity maintained its pace while wage growth slowed down, nearly halting around 1992 and remaining stagnant for over 30 years. In contrast, productivity continued to increase steadily until 2001, after which it entered a contraction phase (Paternesi Meloni and Stirati 2022).

¹³ Hourly values, derivable from AMECO dataset since 1970, follow similar trends.



Source: own elaboration on AMECO data

Figure 6 Real gross annual average wage and real labour annual average productivity in Italy in thousands of Euro of 2015.

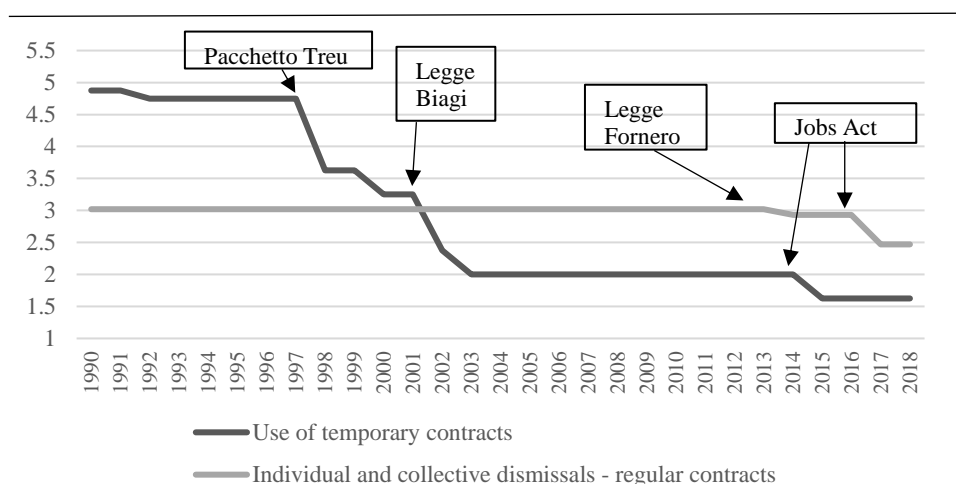
Neoliberalism in the labour market translated into a process of flexibilization. The underlying thesis, inherent in neoclassical economic theories, is that excessive regulation, rigidity, and labour costs discourage entrepreneurs from hiring. In contrast, a flexible market, where wage amounts are determined solely by "individual" bargaining, would allow for the setting of equilibrium wages that would ensure employment even for less productive workers and the total absorption of involuntary unemployment (Friedman 1977, Solow 1995, Antonella Stirati 2020).

In the 1990s, international institutions, such as the IMF and the OECD, began making recommendations in this direction. These guidelines were incorporated into European directives and national regulations of European Union countries (Brancaccio, Emiliano, Nadia Garbellini and Raffaele Giammetti 2018, Rosaria Rita Canale, Giorgio Liotti and Marco Musella 2022, Ferreiro and Gomez 2023).

In Italy, this process occurred in two phases. Initially, atypical employment contracts – such as part-time or fixed-term - were flexibilized by removing constraints on their use, allowing and facilitating intermediary phenomena and outsourcing of production processes. Only later, after the Subprime Crisis, standard forms of work also were involved in the process through regulations that eased dismissal procedures and costs. This resulted in further dualism in the Italian labour market: on one side, workers with standard contracts, greater protections, and higher wages, not involved in the process until 2011, and on the other side, atypical workers with lower wages and

protections (Tito Boeri 2011, Francesco Stolfi and Oliver Fritsch 2023, Michele Bavaro and Michele Raitano 2024).

Figure 7 shows the Employment Protection Legislation (EPL) indexes elaborated by the OECD, which, based on an analysis of the regulations, indicates how rigid they are on a scale from 0 to 6—the higher the index, the greater the rigidity. Constraints on the use of fixed-term contracts (the EPT index) are represented in dark grey, and the costs and constraints regarding dismissal procedures for standard contracts are represented in light grey (the EPRC index). In the figure, we also show the main labour markets reforms.



Source: OECD data

Figure 7 OECD EPL index, Version 1

The EPL indexes indicate that the process of labour flexibilization has generally affected all Western European countries. As of 2018, the Italian data for regular contracts (2.47) is in line with that of Germany (2.60) and France (2.56), while for temporary contracts (1.63), it is slightly higher than Germany (1.38) and lower than France (3.00).

In the initial phase characterized by labour market flexibilization in Italy, there was a reduction in unemployment (Figure 2), although this often involved atypical and discontinuous work, it should be noted that according to international definitions, a person is considered employed if has worked even just one hour during the reference week. However. After the 2007 crisis, the unemployment rate started to rise again. Overall, after about 30 years of labour market flexibilization in all Western countries, no increase in employment has been observed (Philip Arestis, Jesus Ferreiro and Carmen Gomez 2020, 2023, Ferreiro and Gomez 2020, 2021, Paternesi Meloni and

Stirati 2021). Even major international proponents, such as the IMF and the OECD have admitted that there is no empirical evidence of the success of these policies (IMF 2016, OECD 2016). A 2020 study on various research addressing the topic concludes that out of 53 empirical analyses published between 1990 and 2019, only 28% found an increase in employment following flexibilization (Emiliano Brancaccio, Fabiana De Cristofaro and Raffaele Giammetti 2020). Overall, several studies show that the process of flexibility has led to an increase in profit levels and to a decrease in wages (Liotti and Canale 2020, Canale, Liotti and Musella 2022, Diego Daruich, Sabrina Di Addario and Raffaele Saggio 2023).

As a result of this process, atypical workers have obviously increased. In 1986, fixed-term and part-time workers each accounted for about 4.5% of the total number of employees. Currently, the value is 17% for fixed-term workers and 19% for part-time workers.¹⁴

In a document referring to the year 2022, Istat reports that 17% of workers are in a vulnerable state because they have a fixed-term contract or involuntary part-time work, while 3.5% experience double vulnerability due to the combination of both elements (Istat 2023).

In addition to formally regular atypical workers, there is a vast grey area of more or less irregular workers where levels of flexibility are obviously even higher but the quantification is extremely complex. Nevertheless, there are studies on the issue. Firstly, according to Istat data, in 2021, about 3 million workers, equal to 11% of the total employed, had no type of contract and performed their work completely irregularly, in the informal economy.¹⁵

Regarding the phenomenon of false part-time, workers who are formally contracted but actually work more hours than reported, a study from 2011 concluded that 23% of part-time contracts actually concealed a full-time working relationship. False part-time workers earn a net income 20% lower and have a taxable income about half than their counterparts with regular contracts (Carlo De Gregorio and Annalisa Giordano 2014).

Another phenomenon is false self-employment or para-subordinate work, where workers have a formally self-employed or para-subordinate working relationship but are effectively dependent on an employer who benefits from tax and contribution advantages. According to a study, between 15% and 33% of self-employees are actually employees (Emiliano Mandrone and Manuel Marocco 2012).

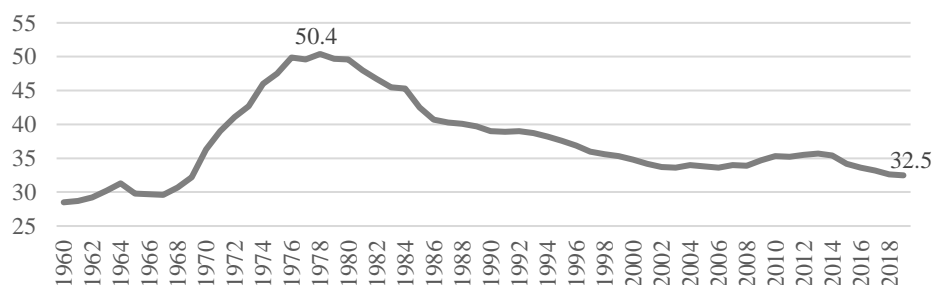
Another issue in this grey area is the application of improper or pirate contracts. An improper contract is the use of a formally regular contract, signed by the main trade union organizations, applied to workers who should be entitled to a more advantageous

¹⁴ OECD data: [https://data-explorer.oecd.org/vis?fs\[0\]=Topic%2C1%7CEmployment%23JOB%23%7CEmployment%20indicators%23JOB_EMP%23&pg=0&fc=Topic&bp=true&snb=37&df\[ds\]=dsDisseminateFinalDMZ&df\[id\]=DSD_TEMP%40DF_TEMP_D&df\[ag\]=OECD.ELS.SAE&df\[vs\]=1.0&dq=... T. T.ICSE93_1%2BICSE93_1_U%2B_U.A&pd=2015%2C&to\[TIME_PERIOD\]=false](https://data-explorer.oecd.org/vis?fs[0]=Topic%2C1%7CEmployment%23JOB%23%7CEmployment%20indicators%23JOB_EMP%23&pg=0&fc=Topic&bp=true&snb=37&df[ds]=dsDisseminateFinalDMZ&df[id]=DSD_TEMP%40DF_TEMP_D&df[ag]=OECD.ELS.SAE&df[vs]=1.0&dq=... T. T.ICSE93_1%2BICSE93_1_U%2B_U.A&pd=2015%2C&to[TIME_PERIOD]=false) (accessed on 27/06/2024).

¹⁵ Istat data <http://dati.istat.it/Index.aspx?QueryId=11881#> (accessed on 27/06/2024).

contract or classification. A pirate contract is one signed by a convenient union created by the employer to gain economic or organizational advantages. This phenomenon has literally exploded in the last twenty years: in 2005 there were about 300 national collective bargaining agreements, currently there are almost 1000. According to a 2014 study, about 25% of workers have an improper contract, while the phenomenon of pirate contracts, despite the large number of national contracts, involves only 1.3% of workers (Claudio Lucifora and Dario Vigani 2021). Due to these mechanisms, a study estimates that in 2015, 12% of workers earned less than the minimum wage stipulated in the most representative contract for their category, the phenomenon reaching 19% in micro-enterprises (Garnero 2018).

Traditional trade unions have proven incapable of reaching these new atypical figures emerging in the labour market. Flexibilization is one of the elements that has most contributed to reducing workers' bargaining power (Brancaccio, Garbellini and Giammetti 2018, Pariboni and Tridico 2019, Walter Paternesi Meloni and Riccardo Pariboni 2022). This is one of the factors that has led to the sharp decline in the union density, which had reached a peak of 50% in 1978, but had fallen to 33% by 2019 (Figure 8).



Source: OECD data

Figure 8 Trade Union density in Italy, percentage value of total employees.

Despite the general precariousness of the labour market, union conflict is at historic lows (see Figure 4). A significant exception is the logistics sector, where in recent years there has been a general increase in active conflict aimed at achieving wage and regulatory improvements. The mobilizations, driven by new grassroots unions, have seen the active participation of immigrant workers. Moreover, the logistics sector is generally growing due to globalization and the development of e-commerce. Given its characteristics, strikes and blockades can seriously cause difficulties to companies operating in the sector (Rossana Cillo and Lucia Pradella 2018). As of today, the national

logistics contract is the fifth most widespread in Italian private sector, covering 3.6% of employees.¹⁶

Various studies have shown that flexibilization (Canale, Liotti and Musella. 2022) and the spread of atypical contracts is one of the main reasons for low work intensity and the existence of working poor, that is, individuals who, despite being employed, live in economic difficulty and remain below the poverty line (Michele Bavaro 2022, Bavaro and Raitano 2024).

The economic literature primarily addresses the topic through two indicators: In-Work Poverty (IWP), which refers to the proportion of workers belonging to a household that earns less than the relative poverty threshold, defined as 60% of the national equivalent median household income; and Low-Wage Workers (LWW), which denotes the proportion of employees earning less than two-thirds of the national gross median hourly wage for each hour worked.

Despite their differences, both indicators show that these phenomena are more prevalent among certain groups: atypical workers, women, youth, immigrants, residents of southern Italy, workers in smaller enterprises, and those in specific sectors such as hospitality and less qualified services (Claudio Lucifora 1998, Bavaro 2022, Bavaro and Raitano 2024). Regarding IWP, according to Eurostat data, the Italian value has been increasing since the first year of observation, namely 2004. In 2019, the percentage of workers in poverty had reached 11.8%, higher than the European average of 9.2%.¹⁷ For workers with temporary contracts, the rate was 22.5%.¹⁸ Regarding the LWW, although there are no continuous official data for Italy, the issue has been treated by a recent study analysing the trend of the phenomenon from 1990 to 2017 using INPS data and considering workers who annually receive less than 60% of the median wage to be underpaid. According to the study, the share rises from 26% in 1990 to 32% in 2017, in the last year the threshold was almost 11,000 euros gross per year (Bavaro 2022).

Most studies point out that working poverty, measured in annual terms, is more related to low annual labour intensity than to a particularly low hourly wage (Raitano et al. 2019, Bavaro and Raitano 2024). According to Istat data referring to 2021 the median hourly wage for a fixed term worker was 10.44 Euros, while for a permanent worker was 12.61 Euros.¹⁹ Nevertheless, the spread of atypical and poorly unionized workers has prompted national political debate to address the issue of introducing a legal minimum wage. In fact, Italy is among the few European countries lacking one, and the various minimum wages are treated in the category bargaining and have categorical value.

¹⁶CNEL data <https://www.cnel.it/Archivio-Contratti-Collettivi/Archivio-Nazionale-dei-contratti-e-degli-accordi-collettivi-di-lavoro> (accessed on 27/06/2024).

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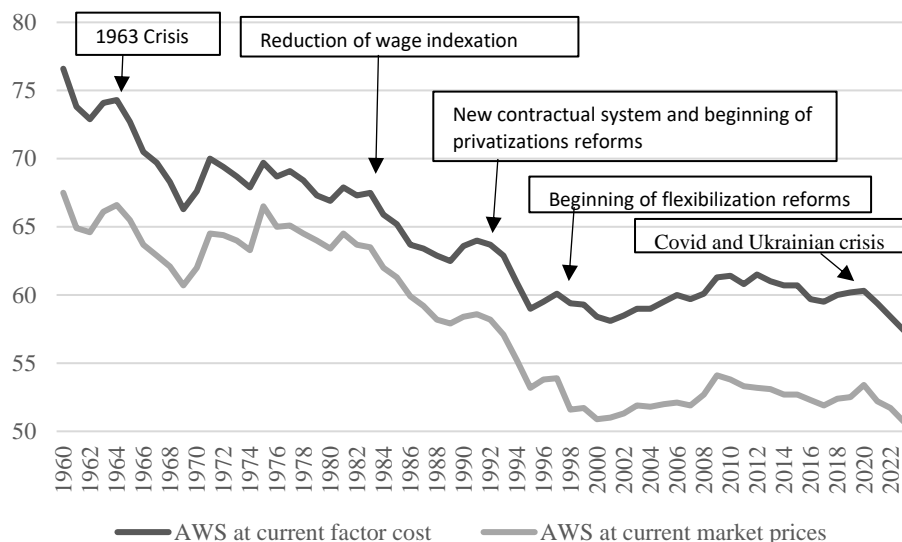
https://ec.europa.eu/eurostat/databrowser/view/ilc_iw01/default/table?lang=en&category=livcon.ilc.ilc_ip.ilc_iw (accessed on 27/06/2024).

¹⁸

https://ec.europa.eu/eurostat/databrowser/view/ilc_iw05/default/table?lang=en&category=livcon.ilc.ilc_ip.ilc_iw (accessed on 27/06/2024).

¹⁹Istat data <http://dati.istat.it/Index.aspx?QueryId=11881#> (accessed on 09/07/2024).

The reduction of workers' bargaining power through all these historical phases is reflected in the dynamics of the distribution of value added between capital and labour (Engelbert Stockhammer 2011, Wyatt J. Brooks et al. 2021, Paternesi Meloni and Stirati 2022). The share absorbed by profits surged between the 1980s and 1990s, reaching 32.5% of gross value added (GVA) in 1983 and increasing to 42% by 2001. The profit share (APS) is complementary to the wage share (AWS).



Notes: Market prices indicate the total volume of GDP. Factor prices indicate the value of GDP without taxes on production - mainly IVA - net of subsidies, this value substantially corresponds to the GVA. In this second definition, the rate is complementary to 100 with the adjusted profit rate.

It is specified that the wage share "adjusted" correctly accounts for self-employment income adding to the wage share an amount for each self-employed person equal to the average wage, otherwise, the historical trend, which has seen a constant reduction in the share of self-employed workers since 1984, risks artificially inflating the value of the wage share. Since 1984, in fact, according to ILO data, the share of self-employed is constantly decreasing, in that year it was 25% of the employed today is 17%, a share that however remains much higher than that of all the other countries of Western Europe.²⁰

Source: AMECO data

Figure 9 Adjusted wage share (AWS) in Italy (%)

As figure 9 shows, during the final years of the economic miracle the wage share at current factor cost was around 75%. Following the crisis in 1963/64, there was a sharp reduction until 1969. Starting from 1969, coinciding with renewed large-scale labour movements, the wage share increased and remained stable between 67% and 70%. From

²⁰ILO data https://rshiny.ilo.org/dataexplorer58/?lang=en&id=SDG_0111_SEX_AGE_RT_A (accessed on 27/06/2024).

1983 to 2001, this share experienced a collapse, dropping to 58%. During this period, there was the reduction and subsequent elimination of wage indexation, the introduction between 1992 and 1993 of the new two-tier bargaining model and the privatization of major state-owned enterprises that were not profit-oriented when public (OECD 2012, Paternesi Meloni and Stirati 2023). Subsequently, the wage share continued to decrease in the first period of flexibility (Brancaccio, Garbellini and Giammetti 2018) till records an increase due to labour productivity slowdown till the Subprime crisis, thereafter remains roughly stable with slight decreasing tendencies for about a decade, until another reduction was recorded following the return of inflation in 2022.

The structural change in AWS in the early 1980s is also confirmed by the econometric tests. Implementing an autoregressive model for AWS, the Bai-Perron test (Jushan Bai and Pierre Perron 1998) rejects the hypothesis of no structural break at a 5% significance level and identifies the presence of a structural break in 1983²¹.

It should be noted that, although similar historical dynamics are recorded in most Western countries (OECD 2012), currently Italy records one of the lowest values in Western Europe. In 2023 this value at factor cost was 57.4%, while in Germany it was 62.6% and in France 67.4%.²²

4. Macroeconomic dynamics

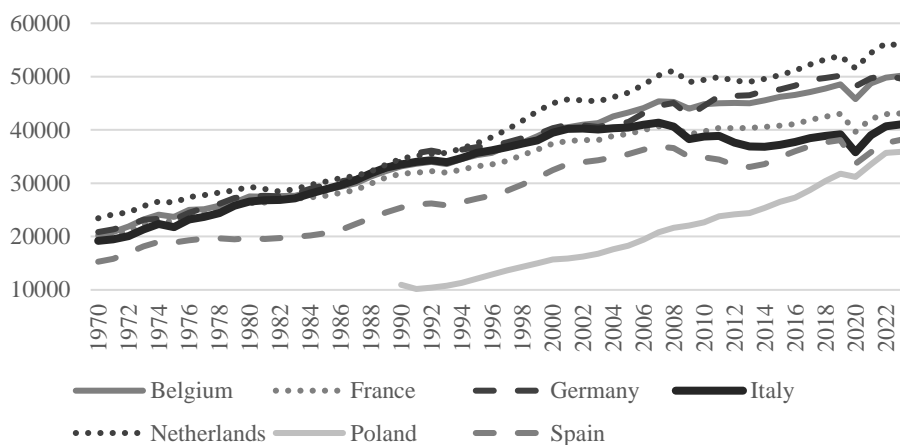
The dynamics of wage bargaining and labour market trends are lens allowing to understand the macroeconomic transformations occurred in Italy since the decade of the 60s. The real GDP at purchasing power parity (Figure 10), was at least until the end of the 80s, among the highest in Europe and almost equal to the German one, but 30 years later, in 2019, it was 20% lower. Since 2001, growth began to decline, and the Subprime crisis gave further impetus to this trend. Only in recent years, and after the pandemic, the process slightly inverted.

The growth slowdown is deeply related to the process of labour market liberalization, privatization and the austerity measures implemented since the beginning of the 1990s. (Baccaro and D'Antoni 2022, Oscar Afonso, Paulo Alves and Natércia Fortuna 2024, Miloš Žarković, Jasmina Četković and Jelena Cvijović 2024). These transformations were the result of globalization supported at international level by the major international institutions such as the IMF, World Bank, and OECD. They pushed for reforms in the direction of a widespread deregulation, privatizations, tax and government expenditure reductions, and flexibility in the labour market (OECD 1994, Dani Rodrik 2006).

²¹ Data available upon request.

²² AMECO data

https://dashboard.tech.ec.europa.eu/qs_digit_dashboard_mt/public/sense/app/667e9fba-eea7-4d17-abf0-ef20f6994336/sheet/2f9f3ab7-09e9-4665-92d1-de9ead91fac7/state/analysis (accessed on 27/06/2024).



Source: OECD data

Figure 10 Real GDP per capita PPP in 2015 US Dollars

This new paradigm was absorbed and codified in the Maastricht Treaty (1992), establishing the birth of the European Monetary Union and the free movements of goods and capital (Sarimehmet Duman 2019, Baccaro and D’Antoni 2022). Signatory countries renounced to intervene actively in the economy in favour of market efficiency, bound by strict financial constraints to limit fiscal deficits and public debt. National monetary sovereignty was initially constrained by these limits and then completely removed with the introduction of the Euro in 1999 for participating countries (Mariangela Bonasia et al. 2020, Canale and Liotti 2021).

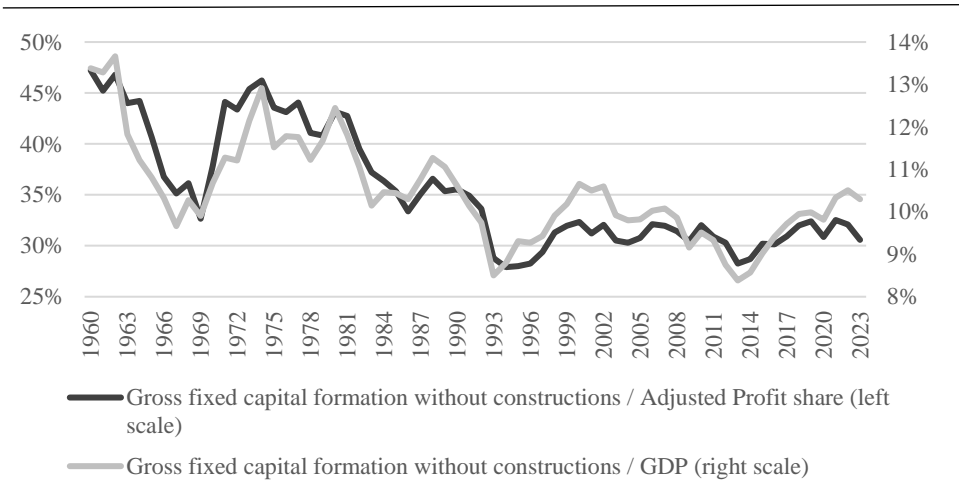
In Italy, the neoliberal restructuring began in the early 1990s with privatizations, liberalizations, and a reduction in public spending. (Baccaro and D’Antoni 2022). From this period to the present day, with few exceptions, the government budget has recorded a primary surplus, meaning taxes exceed expenditures net of interest payments. Nevertheless, the state continues to run deficits, and the debt keeps increasing due to high interest rates that weigh heavily on the debt burden (Canale and Liotti 2021, Canale and De Siano 2024). Privatizations and the reduction of public spending led to a decrease in public sector workers, dropping from 26% in 1995 to 19% in 2022.²³

The dismantling of public regulation and the increase in global financial integration have led to another phenomenon: the financialization of the economy, which refers to the substantial increase in investments in financial operations, often for speculative and short-term purposes rather than in sectors of the real economy with negative effects on productivity and economic growth (Barradas 2019, Pariboni and

²³ ILO data: https://rshiny.ilo.org/dataexplorer59/?lang=en&id=SDG_0111_SEX_AGE_RT_A (accessed on 27/06/2024).

Tridico 2019). In Italy in 1992 the value of traded stocks amounted to just 2% of GDP then there was an exponential growth, by the eve of the 2007 crisis, the share of traded stocks reached 100% of GDP. In the United States, considered the epicentre of global finance, this phenomenon began in the 1980s, and in the year of the subprime mortgage crisis, the value of annually traded stocks reached 320% of GDP.²⁴

Observing gross investments from a different perspective, namely in relation to GDP and gross profits (Figure 11), a progressive decline is noticeable from the early 1980s until 1994, followed by an increase in the second half of the 1990s, and finally a period of relative stability. In the 1970s, almost half of the profits were reinvested directly into production; today, this share has decreased to less than one-third.



Notes: Gross fixed capital formation refers to the total acquisition or production of machinery, metal products, transport equipment, software, and other assets, both private and public. Therefore, investments in residential and non-residential buildings and civil engineering works are excluded. Gross adjusted surplus means the surplus excluding the wage share of the self-employed.

Source: own elaboration on AMECO data

Figure 11 Investments in Italy in relation to GDP and profits

This trend in investments, similarly to the wage share, is also due to labour cost reduction and flexibility, which discourage organizational and technological improvements in favour of labour-intensive production (Tronti 2009, Lisi and Malo 2017, Cirillo and Ricci 2019). Indeed, since the late 1990s, unemployment entered a decreasing phase until the 2008 crisis (see Figure 2), and labour productivity began to decline severely from 2001 onward (see Figure 6).

²⁴ World bank
 data:<https://databank.worldbank.org/reports.aspx?source=2&series=CM.MKT.TRAD.GD.ZS&country=> (accessed on 27/06/2024).

This interpretation essentially supports the theory that Paolo Sylos Labini termed the "Ricardian effect." According to this view, productivity is positively related to labour costs because the desire to save on labour costs is crucial in the decision to introduce more efficient production methods and systems. Therefore, the decline in real labour costs and real wages would be discouraging technological investments (Labini 1984, Vergeer and Kleinknecht 2010, 2014, Oyvat 2023).

With the aim of providing a general interpretation, the dynamics of labour productivity, total gross wages, total gross investments excluding construction, and per capita GDP are presented in Figure 12.

The first two-year period of available data (1961-1962) register the economic boom, inflation and unemployment are low, the manufacturing sector is expanding, and all the 4 variables are growing significantly. During the crisis period (1963-1964), there is a collapse in investments, wage exceeds productivity growth, but both, as well as the economy in general, continue to grow at a sustained rate. Subsequently, until the resumption of workers' mobilizations (1965-1969), all variables resume growing at a sustained rate but, unlike before, unemployment and inflation slowly begin to increase.

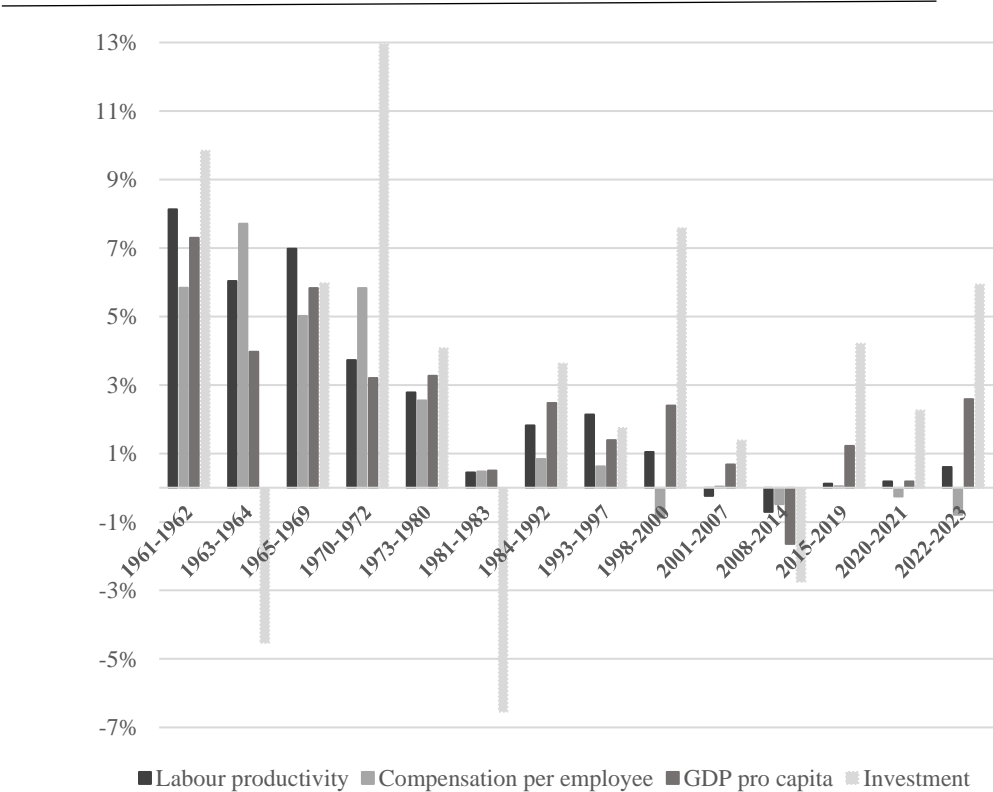
The early 1970s (1970-1972) are characterized by huge workers' mobilizations, the wage growth rate exceeds productivity growth, investments grow rapidly. In this period there is a halt in the growth of the manufacturing sector and the beginning of production outsourcing to make labour market more flexible and break the union front. The period 1973-1980 is characterized by a large increase in unemployment and inflationary crises. Nonetheless, during this period, all the variables continue to grow at a sustained rate.

The early 1980s (1981-1983) are marked by the birth of the EMS and the divorce between the Bank of Italy and the Treasury. Inflation begins to decrease, and the phenomenon of economic tertiarization starts. During this period, all variables enter a contraction phase. The period 1983-1992 is characterized by the end of the inflation crisis, the rapid reduction of union conflicts and wage share, and the progressive dismantling of the wage indexation mechanism to inflation until its total abolition in 1992. From this period onwards, wage growth compared to other variables drastically reduces.

The period 1993-1997 is marked by the birth of the European Union, the beginning of globalization and large-scale privatizations, and the adoption of the new two-level contract system. The wage share continues to decline. The period 1998-2000 is characterized by the beginning of the deep labour flexibilization process, wages growth begins to be negative, productivity declines but remains positive, and there is an increase in investments and employment. The wage share reaches the lower peak.

In the period leading up to the subprime crisis (2001-2007), characterized by the birth of the common currency and by the enlargement of the European Union toward east, all the variables are in a phase of stagnation despite the continuous decrease in unemployment. With the crisis and the subsequent period (2008-2014), the four variables under examination are in recession, and unemployment grows quickly. During the slow recovery phase, from 2015 onwards, wages and productivity continued to

stagnate while investments and employment increased. Only in 2023 the per capita GDP reached the level that preceded the subprime crisis.



Source: own elaboration on AMECO data

Figure 12 Wage, productivity, growth and investment. Average growth rates, real values

5. Concluding remarks

The main international institutions attribute the Italian economic difficulties to the excess of public debt and low productivity. In turn, low productivity depends on regulations and inefficiencies of public administration and labour market rigidity that discourage investment. However, historical dynamics suggest different underlying causes. In particular, the stagnation of wages appears to have been a significant factor in the decline of productivity and the economic slowdown. Since 1960s a consistent

theme of containing labour costs has emerged, resulting in slow growth lacking wide strategic vision that prioritized immediate gains over long-term capital accumulation and productivity growth.

The dependence on international trade and the specialization in exporting medium/low value-added manufactured goods paved the way to chronic wage containment in order to maintain competitiveness. Although this element provided a competitive advantage based on low labour costs, which was at the core of the economic boom, however, it exerted downward pressure on employment, productivity, and aggregate demand. These contradictions and vulnerabilities became clear with the integration into international markets of countries that could rely on lower wage levels.

Within the analysed period, several phases can be observed. In the 1960s there was a huge increase in both productivity and wages. This period was also characterised by low both inflation and unemployment, the latter also due to the large emigration.

In the 1970s and till the early 1980s, economic growth decreased but remained nonetheless sustained and wages grew in line with productivity. This period was characterized by strong union conflicts, monetary instability, and attempts by the entrepreneurial class to increase labour flexibility and break the workers' front through outsourcing and rising unemployment, moreover real wage increases were partly offset by currency devaluations.

In the 1980s and until 1993, wage growth slowed. This period was marked by high unemployment, wage moderation with the progressive reduction and later the elimination of the indexation mechanism, and the beginning of the tertiarization process. This phase ends with the adoption of a new industrial two-level bargaining system to counter inflation: a national bargaining that aimed to maintain workers' purchasing power by linking wages to the planned inflation rate, and decentralized bargaining at the company or territorial level that related wage increases to productivity gains. However, currently the decentralized bargaining has not fully taken off, especially in smaller enterprises.

From the 1990s onwards, wage growth stopped completely. This period saw privatization processes, downward wage pressures due to globalization and enlargement of the European Union to the East and a deep process of labour market flexibilization. This flexibilization included the removal of constraints on the use of atypical (fixed term and part-time) contracts, the allow and simplification of intermediary and outsourcing phenomena, and after the Subprime Crisis, the reduction of dismissal procedures and costs. The reduction of labour costs and the increase in flexibility have been pursued to make it easier for the entrepreneurs to hire and thus reduce unemployment. However, these measures generally led to increased profits and reduced wages.

Wage reductions led, in turn, to a decrease in aggregate demand that squeezed GDP and, through the Kaldor-Verdoorn law, productivity.

Declining wage dynamics exerted also a downward pressure on productivity through the reduction of labour costs, therefore discouraging productive investments and favouring diversion of resources toward the financial sector. These tendencies consolidated the Italian phenomenon of the high number of small and medium size

companies, generally having lower returns to scale, limited access to credit, insufficient profit margins, limited R&D investments and using low-paid irregular labour.

This historical dynamic leads to conclude that continuing to persevere with these short-term price competitiveness strategies, that prioritize immediate gains over long-term capital accumulation and productivity growth, implies the risk of throwing the country into further decline.

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