Governo italiano
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Regulating wages and collective bargaining in the public sector during and after the crisis. The Italian experience

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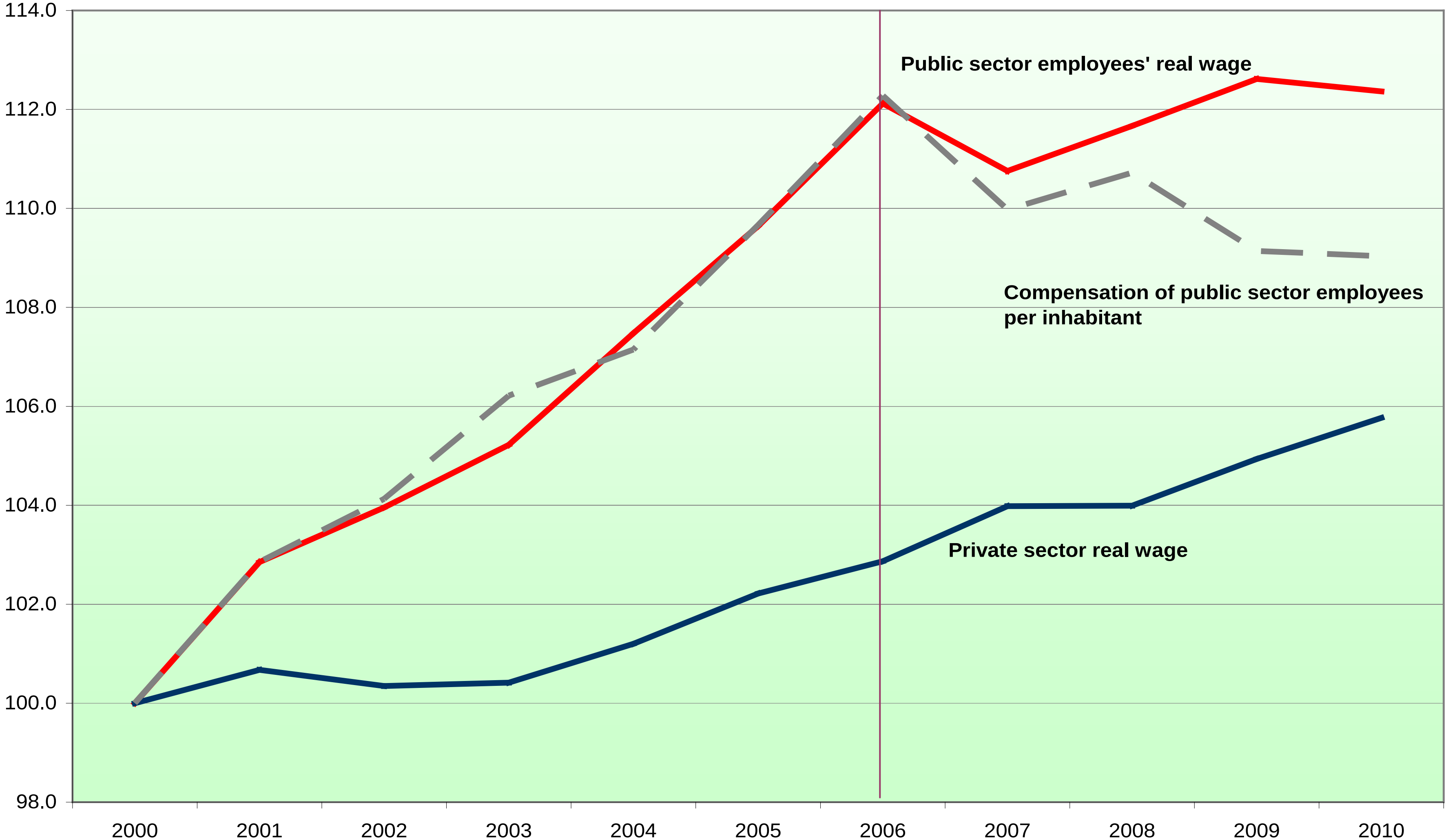
Wages in the private and the public sector, 2000-2010

- From 2000 to 2006 the rate of growth of civil servants' wages has far exceeded that of the private sector:
  - While the 2000-2006 average yearly rate of growth of real unit wages has been 1.8 per cent for public sector employees, that of private sector wage earners has been 0.4 per cent (Chart).
- The public employees' wage push has determined a corresponding increase in the cost of public sector labour to Italian inhabitants.

The growth of real wages for civil servants and for private sector wage earners – 2000-2006 and 2007-2010 (2000=100)



Source: Civil Service Department on Istat data

Wage freezing since 2007

- Conscious of these problems and willing to provide new, sustainable rules for public servants' compensation, the Italian Government has enacted since 2007 various cost-containment measures.

- Such measures have succeeded in slowing down the civil servants' real wage growth in 2008-2010 to 0.1 per cent per year, as opposed to the 0.7 per cent of private sector wage workers (Chart).

- In the meantime, however, the international financial crisis strongly affected income growth, impairing the financial sustainability of civil servants' labour cost.

- New measures have then been launched more recently by the Italian Government, aimed at further containing the cost of civil servants' labour in the present and future years.

A three-step roadmap

- In particular, since 2008, the Italian Government has moved in three different directions:
  1. Closing as soon all open wage agreements for 2006-2007 and 2008-2009;
  2. Establishing a closer link between wage increases and the performance of each Administration;
  3. Enacting a structural reform of the collective bargaining model for the whole economy and launching a new model for public sector employees.

Step One: Closing pending wage agreements

- In 2008, the Government defined the closure of pending collective wage agreements through a Protocol signed by five civil servants trade unions (Cisl, Uil, Confsal, Ugl, Usae), but not by the major and more militant union (Cgil). The five signing unions represented however the majority of civil servants.
  - The protocol has implied a growth of real wages (including arrears for the 2006-2007 period) by 0.8% in 2008 and 0.8% in 2009.
  - However, due to cuts in employment turnover, the growth of total compensation for public employees (labour cost), in real terms, has slowed down to 0.3% in 2008 and has been cut by 2.0% in 2009.

Step two: Cutting local pay and linking it to actual performance

- In 2009, local wage bargaining funds have been cut by 190 million euro.
  - As a compensation, a new fund was created, partially earmarked for local wage bargaining, to be financed locally through *savings deriving from cuts in consultancies and contracts* to civil servants and other management savings (the so-called "efficiency dividend").

- In 2009 were also suspended all "complementary wage items" based on laws rather than collective agreements. These covered approximately 330,000 employees (9% of total public sector).
  - The cut, initially intended to reach approximately 510 million euro, was finally reduced to about 110 million euro.
  - However, starting from 2010, a great part of the funds not cut have been allocated to the fund for local wage bargaining,
    - so as to reward civil service through collective bargaining *based on merits and actual achievements*, instead of *ad hoc* laws benefiting specific groups of employees.

Step three: Reforming the bargaining model

- The Government also signed, together with all the Italian employers' organisations and all trade unions (again except Cgil) a framework agreement on a new collective bargaining model (the 22 January 2009 "Framework Agreement on the Reform of Bargaining Arrangements"), updating the previous model (Protocol '93).

- The new model:
  - Abandons the inflation target for national basic wages and substitutes it with a consumption price forecasting (HICP net of imported energy products),
  - implements a three-year national basic wage agreement (instead of the previous two-year),
  - ensures incentives for a timely renewal of agreements,
  - assures a stricter link of wages to local and personal performance,
  - enhances the role of additional local wages with respect to the national basic wage.

- Although the Agreement contains special provisions for civil servants, later on (30 April 2009), the Government signed with all the unions (again with the exception of Cgil) a further "specific agreement" for implementing the general framework agreement in the public sector.

The new bargaining model

- Under local bargaining, wage items additional to the basic ones, that are defined by national collective agreements, will be based on actual achievements in implementing agreed programmes to increase:
  - productivity, quality, effectiveness, innovation, and/or organisational efficiency,
  - and any other elements improving the Administration performance in terms of customer satisfaction and outlay savings due to better management.
- To ensure a more coherent accountability on the performance of every Administration and every inner structure, the new model foresees the establishment of a new central body,
  - That is entrusted with the task of directing, coordinating and supervising the exercise of independent performance assessments in every Administration.
- This provision has been implemented by the Civil Service Reform (decree law no. 150 of 2009) through:
  - the creation of the National Performance Assessment System,
  - and new rules on compulsory transparency and disclosure.

The Civil Service Reform (Law 150/2009)

- In a nutshell, the so-called “Brunetta Reform” identifies some *functional equivalents of market competition* in order to:
  - make public managers more accountable,
  - achieve more responsible collective agreements,
  - and spur public sector employees to engage into a continuous improvement of productive processes and services.

- The functional equivalents that give “voice” to the relevant stakeholders or improve the “loyalty” of civil servants to their mission (Hirshman, 1970) are:

  a) information disclosure to the general public,

  b) customer satisfaction,

  c) performance planning and assessment,

  d) individual rewarding and meritocracy.

- The Reform states binding rules regarding these four items, to be followed by each Administration, and connects local wage bargaining to the performance attained in complying with them.

The Reform and the Maneuver

- In 2010, however, the international crisis and the domestic problems of public finance exerted significant effects on civil servants’ collective bargaining, forcing the Government to launch a corrective financial maneuver that limits considerably the availability of resources for increasing public sector wages.

- Decree-Law no. 78/2010 stipulates, among the measures to curb spending:
  a) the suspension without recovery of national basic wage bargaining procedures for the years 2010-2012,
  b) the freezing until 2013 to the 2010 amount of individual remuneration for all public sector employees,
  c) a reduction in civil service managers' pay by 5 percent for the range of pay between 90,000 and 150,000 euro per year and 10 percent over 150,000.

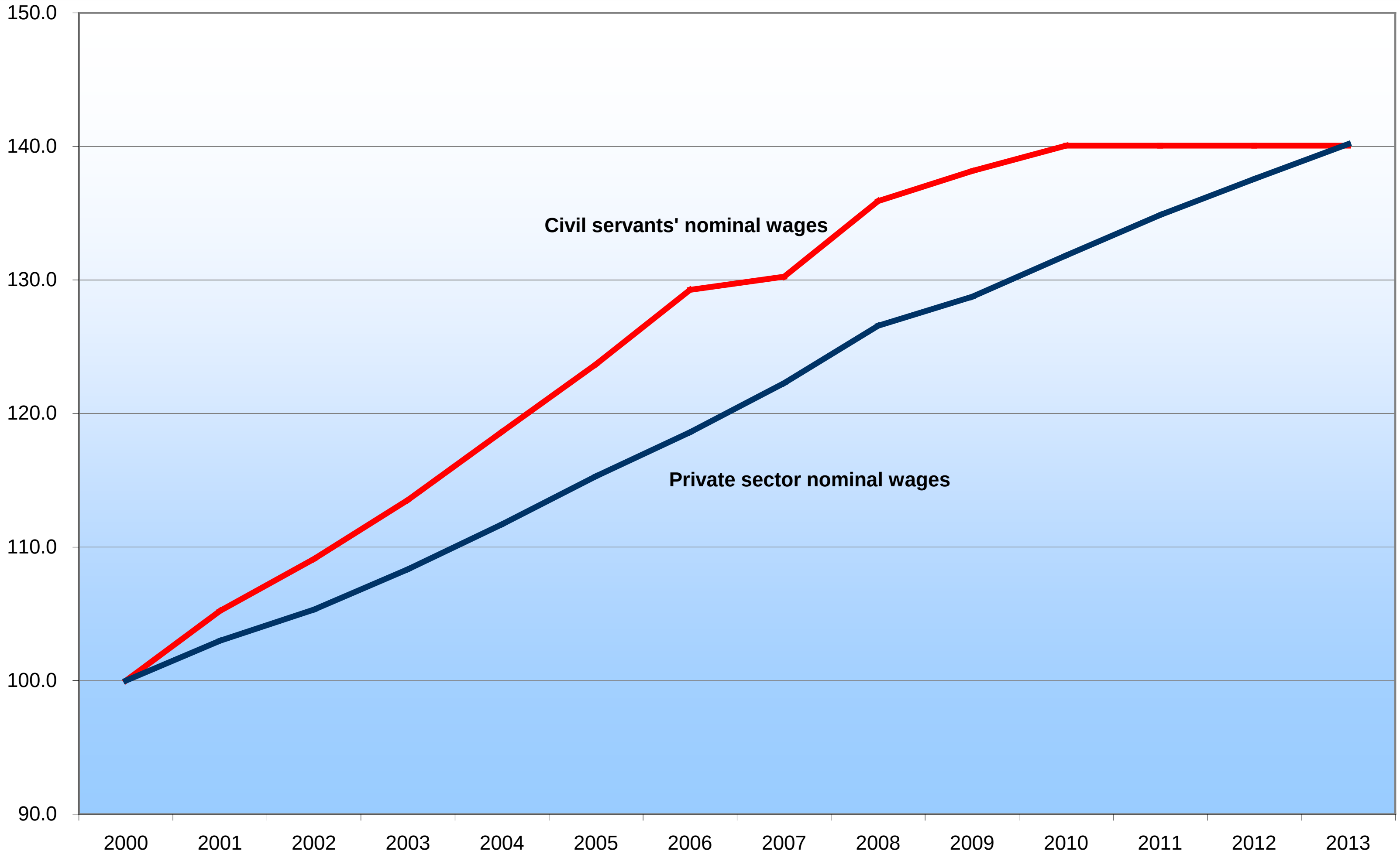
- The new collective bargaining model is therefore suspended as to national, basic wages bargaining.

Freezing unit wages

- The financial impact of all the listed measures is around 9.5 billion euro between 2010 and 2012.
  – Of these, approximately 7.5 billion are related to the one freezing of national collective bargaining for the contract period 2010-2012 (a wage reduction about 55 euro per capita per month with respect to programmed wage growth).

- As a result of the freeze,
  – if per capita wages in the private sector grow over the three years 2011-2013 with the rules of the 2009 bargaining model,
  – while civil servants' ones remain freezed to 2010,
- in 2013 there will be a substantial realignment of the two sectors level of nominal growth with respect to 2000.

The growth of nominal wages for civil servants and private sector wage earners – 2000-2013 (indices, 2000=100)



Source: Civil Service Department on Istat data

Local performance bargaining

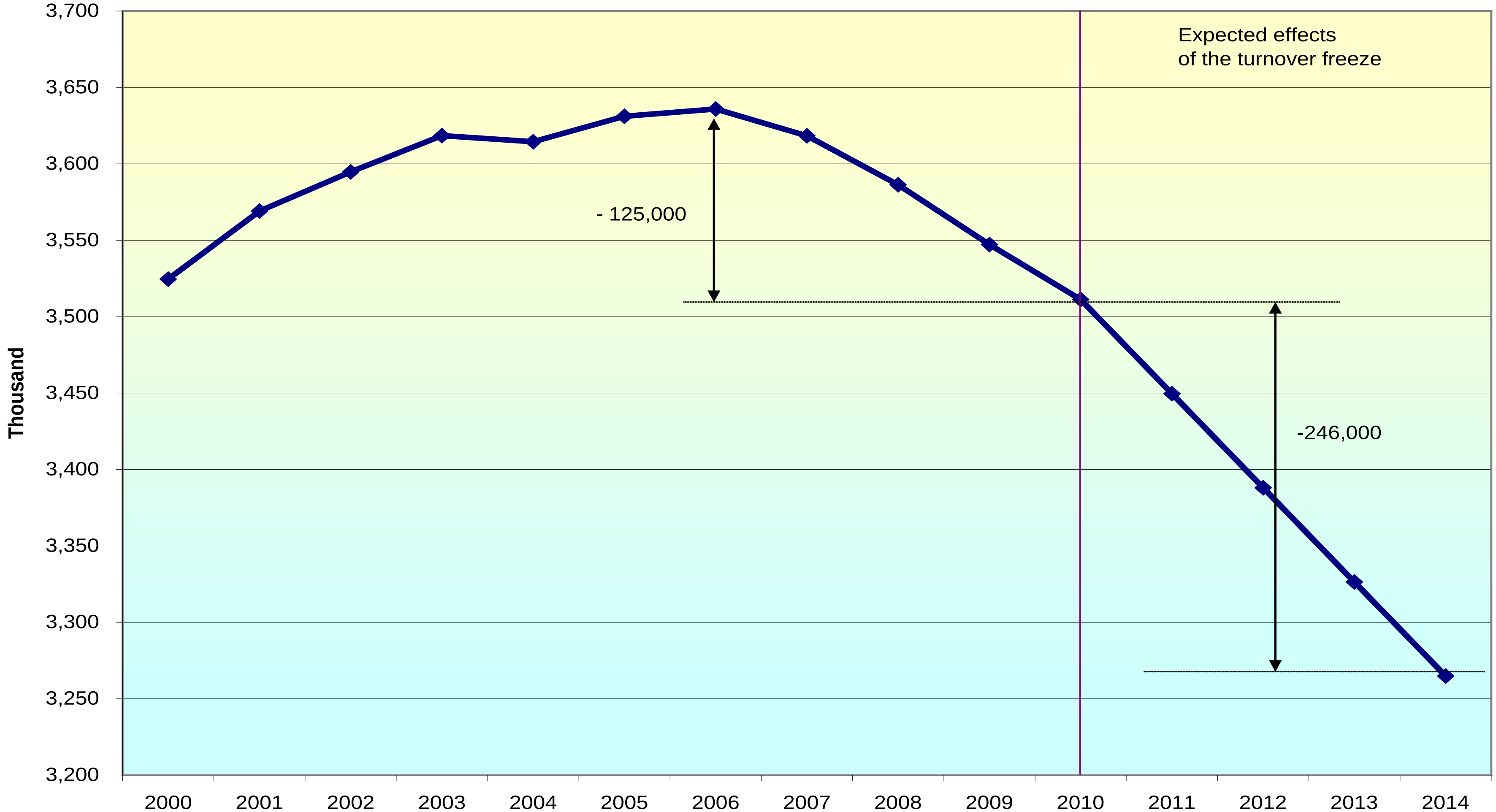
- On February 2011, the Minister Brunetta has signed with the unions (always without Cgil) a further agreement aimed at identifying ways to reinforce the performance related pay component of remuneration, within the limits imposed by the wage freeze established by Maneuver.
  - The productivity bonuses defined by the Reform could be financed only with (part of) the resources stemming from operational cost savings, in accordance with Law 133/2008 (the so-called 'efficiency dividend').
  - The agreement indicates that ARAN, the Civil Service Bargaining Agent, will be given by the Minister the task of negotiating a new, general framework agreement, aimed at taking care of the Reform application shortfalls caused by the Maneuver.

- On June 2011, the Minister has sent to ARAN the guidelines for negotiating a new framework agreement for collective bargaining, encompassing the four main areas of the public sector:
  - Local Government, Health Care, Central Government, and Education.
- These cover more than 90 per cent of all public sector employees.

Freezing employment turnover

- In the years 2007-2010 public sector employees had already been reduced by about 125,000 units.
- The laws already in force enact a selective freeze of staff turnover, flexible employment contracts and retirement that will lead, in 2014, to a further cut of more than 240,000 public sector employees, bringing their number under 3.3 million units.
  - In particular Decree Law no. 78/2010 provides a reinforcement of the previous staff turnover freeze by introducing the following ceilings for new entrants:
    - 20% of retired employees over 2011-2013,
    - 50% in 2014.
- In 2011 additional measures have been introduced in order to streamline jobs (*Piante organiche)* and promote job mobility within the public sector, while allowing the Ministry of Treasury and the Ministry for Public Administration and Innovation to adopt a Decree aimed at guaranteeing the planned savings also by a further reduction of the turnover ceiling in 2014.
- In the period 2007-2014, the measures taken will lead to an estimated reduction of more than 370,000 units (- 10%).

Public sector employees – 2000-2014 (Full-time equivalents)



Source: Civil Service Department on Istat data

Financial effect of the employment freeze

- The reduction of about 246,000 public sector employees between 2011 and 2013, due to the employment turnover freeze, will bring about further, very relevant savings.

- The public labour cost bill paid by the economy will experience a 7.0 per cent cut, corresponding to more than 9 billion euro.

Cutting the cost of politics

- Further results in the direction of assuring a leaner public sector are expected by measures presently proposed by the Italian Government, partially already approved and partially still debated by the Parliament:
  - A bold reduction of the Members of the Parliament;
  - The abolition of Provinces, the local government level intermediate between Regions and Municipalities;
  - The alignment to Euro Area averages of the compensations for:
    - Members of the Parliament and of other National Institutions, Members of Local Governments;
    - High-level Civil Service Managers;
    - Heads of Independent Authorities.