

# **The theoretical basis of the CGIL'S analysis of the Italian economic decline**

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# **The theoretical basis of the CGIL'S analysis of the Italian economic decline**

**Abstract:** This paper deals with the Italian economic decline from a double perspective. First, it provides a reconstruction of the main Post Keynesian arguments explaining the bad macroeconomic performance of the Italian economy, starting from the end of the “economic miracle”. Second, it proposes a re-reading of the CGIL's view, showing that it is consistent with a theoretical approach based on the fundamental assumptions and policy prescriptions of the Post Keynesian framework.

**Keywords:** E6, J5

**JEL classifications:** Italian economic decline, labour market, unions

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## 1. Introduction

The Italian General Confederation of Labour (hereafter referred as “CGIL”, according to its initials in Italian) is the most representative and largest trade union confederation in Italy with 5.4 million of members (CGIL, 2016). It has contributed significantly to the analysis of the Italian economy, and its policy prescriptions have been widely debated in Italian academia and, of course, in the political arena. Quite surprisingly, very little attention has been devoted to this issue and, more specifically, to the CGIL’s analysis of the so-called Italian economic decline.

This paper deals with the Italian economic decline from a double perspective. First, it provides a reconstruction of the main Post Keynesian arguments explaining the bad macroeconomic performance of the Italian economy, starting from the end of the “economic miracle”. Second, it proposes a re-reading of the CGIL’s view, showing that it is consistent with a theoretical approach based on the fundamental assumptions and policy prescriptions of the Post Keynesian stream.

In particular, it will be stressed that:

1. the CGIL assumes that the Italian economic crisis, in the form of increasing unemployment, was (and is) due to a lack of aggregate demand, consequent to the reduction of social spending;
2. the reduction of the rate of growth of labour productivity and of aggregate demand is conceived as a consequence of the massive reduction of public investment;
3. policies of labour market flexibility are presumed to reduce domestic demand and, at the same time, to negatively affect the path of labour productivity.

The period under consideration is 2003-2013. The rationale for this choice is the following. On 18<sup>th</sup> October 2002 the CGIL organised a general strike against the Berlusconi government, in order to attract attention to the need to make radical changes in economic and social policies. This can be considered the starting point of our study to understand how the CGIL interpreted the causes and effects of the Italian economic decline and to identify the main union proposals to deal with it. Most of the proposals made in this decade (2003-2013) were merged in 2013 in the Program for Jobs, that is an overall economic plan set by the CGIL for the recovery of the Italian economy.

This paper is organised as follows. Section 2 proposes an interpretation of the causes of the Italian crisis. Section 3 discusses the CGIL’s analysis of this problem and the policy prescriptions. Particular attention will be devoted to the Italian labour market through the data provided by ISTAT and the unemployment trend. The study the CGIL’s analysis and proposals on how to deal with the Italian economic decline will rely on *Rassegna Sindacale* (weekly union publications), and the *Piano del Lavoro* (hereafter referred as “Program for Jobs”) launched in 2013. Section 4 concludes.

## 2 – The Italian economic decline

After the so-called Italian economic miracle of the 1960s, mainly driven by exports, the 1970s marked a significant reduction of the rate of growth of the Italian economy. Most historians and economists imputed this to the marked increase in workers’ bargaining power, not only in the labour market but also in the political arena (cf. Bellofiore, 2011). The extraordinary increase in the price of oil also helped to generate strong inflationary pressures. The combination of wage increases and imported inflation made it even more difficult for the Italian firms to continue exporting via price competition. The mechanism at the basis of the high rates of growth of the 1960s was interrupted.

In the 1970s both the social conflict and the wage share were particularly high. As regards to the first issue, one can consider the path of the Italian union density rate, as described in Figure 1:

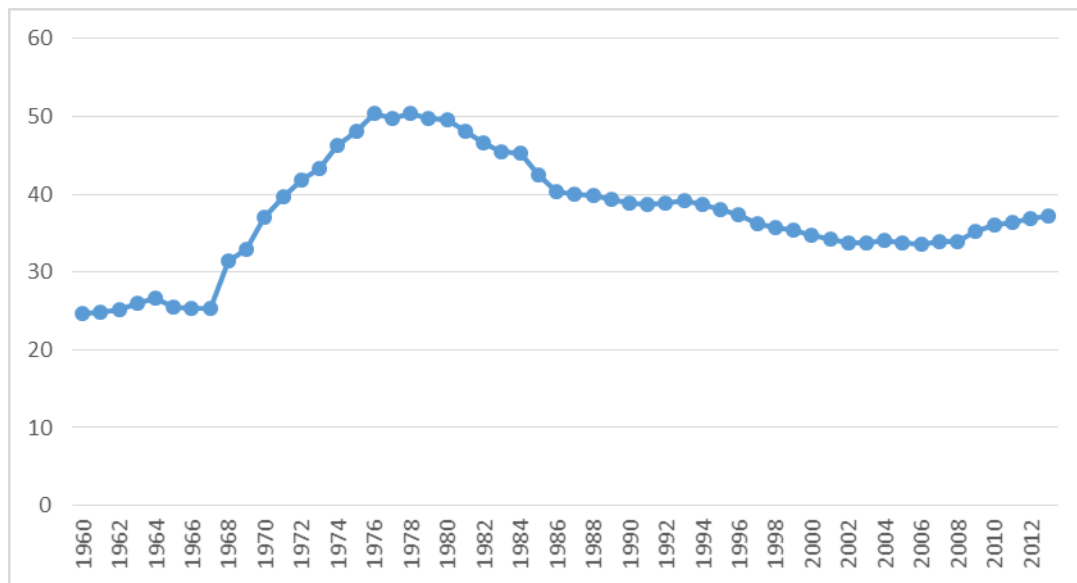


Figure 1: Union Density Rate in Italy (1960-2013). Source: Visser (2016).

Figure 2 shows the path of the wage share in Italy from 1970 to 1980. It is significant that, after the peak of union density in 1976, the wage share began to fall, with a significant acceleration in the ensuing decades.

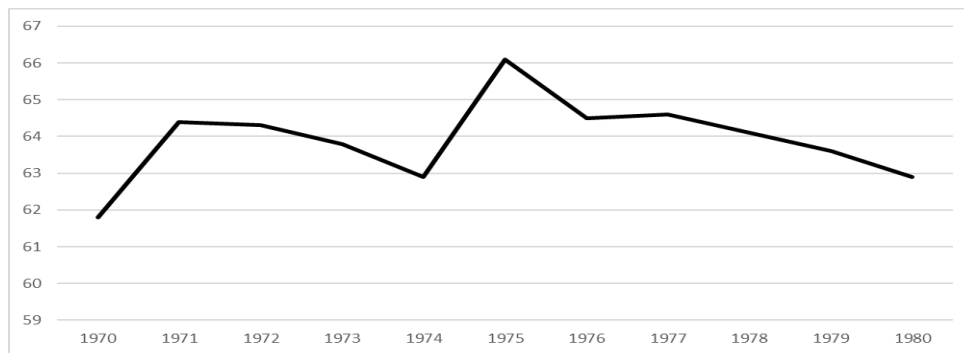


Figure 2: Labour share in Italy (1970-1980). Source: ILO.

Figure 3 shows the dynamics of investment (both private and public) in Italy during the 1970-1980 period. In general terms investments were 25% of GDP on average. The highest investments were recorded in 1974 (26.8% of GDP) – above all in their public components - while the lowest were registered in 1978 (23.85% of GDP).



Figure 3: The dynamics of investments in Italy: (1970-1980). Source: OECD<sup>1</sup>

Notice also that during the 1975-1978 period, investments and the wage share both dropped. This can be imputed to the fall of the growth rate and to the increase in the inflation rate following the rise in the price of oil. Accordingly, Italian stagflation dates back to the mid-1970s.

Italian firms reacted to the increased wage share and the workers' growing political power in two ways. First, they decentralized production in order to prevent social conflict (Graziani, 2000; Moro, 2015). This gave rise to the birth of small firms, which, starting from that period, was the main specificity of Italian capitalism: i.e. the small average size of firms ('nanismo imprenditoriale' or 'entrepreneurial dwarfism'). Second, big Italian companies began trying to increase their profit margins, which had been reduced by the wage rises of the previous decade, via speculative activities. In this respect, as Arrighi (2007) pointed out, financialization is a response to the decline of industrial profits.

The combination of these dynamics generates two outcomes: the decline of private investment as a result of the increasing financial accumulation and the decline of private consumption due to the reduction of the wage share, with the consequent reduction of internal demand<sup>2</sup>. In a long-run dynamics, Italy followed a recessive path which is particularly evident in the current crisis.

Importantly, the decline of effective demand and the consequent rise of unemployment weakened workers' bargaining power in the political arena, allowing the Government to implement 'pro-firm' economic policies: i.e. tax cuts on profits, restrictive fiscal policies and precarious employment. These measures mainly matched the interests of big companies. In fact, for big firms, it is not profitable for the Government to expand domestic demand, particularly if it is designed to improve workers' conditions. Big firms can obtain profits by selling abroad and/or by means of increasing monopolization<sup>3</sup>. By contrast, small firms which produce for the domestic market are interested in keeping net public expenditure high. The resulting scenario of intercapitalist conflicts is at the basis of political choices relating to public expenditure and the tax system.

<sup>1</sup> See OECD.Stat, National accounts at a glance.

<sup>2</sup> Most studies show – both on the theoretical and empirical ground – that rentiers' propensity to consume is low, implying that the wealth effect can be considered negligible (cf., among others, Hein 2008).

<sup>3</sup> This latter effect is made possible by the falling profits of small firms (and even their bankruptcy) owing to the reduction of public spending, and the consequent increase in the market shares of big firms and/or the processes of mergers and acquisitions.

Evidence also shows that among advanced economies, Italy has undoubtedly been one of the worst performers in the last two decades. In particular, starting from the 1990s, Italy has been experiencing a constant decline of aggregate demand and a continuous drop in labour productivity. The fall of aggregate demand is to be imputed to the reduction of private consumption deriving from the reduction of the wage share, the reduction of private investment connected with the increasing financial accumulation of the Italian firms and the austerity measures implemented starting from the early 1990s (in particular, with the restrictive fiscal policies of 1992 and 1993). The restrictive fiscal policies were officially implemented to reduce public debt and reduce aggregate demand, and they evidently failed to reach this goal, insofar as Italian public debt constantly increased in relation to GDP, and it is still increasing. The reduction of labour productivity, in turn, mainly depends on the slowdown of capital accumulation, with reference to the dynamics of both private and public investment. OECD (2015) reports that the growth rate of labour productivity in Italy in the period 2001-2010 is about 0%, while, on average, EU27 countries experienced a growth rate of about 2% in the same period. Importantly, policies of labour market deregulation, introduced by what is called the Treu Act in 1997 (and subsequently by the Biagi Act in 2003), contributed to the acceleration of this dynamics, negatively affecting wages and private consumption. OECD (2015) reports that, in Italy, the Employment protection legislation index fell from 3.57 at the beginning of the mid-1990s to about 1.5 in 2014 and that the labour share significantly declined in that period. Labour market deregulation contributed to the reduction of the growth rate for two main reasons. First, it discouraged innovation, insofar as firms can stay competitive by cutting wages following the decline of workers' bargaining power (Pini, 2013). Second, labour flexibility negatively affects aggregate demand via the reduction of the propensity to consume. The rationale for this is based on the assumptions that *i*) workers aim at maintaining their consumption constant over time; *ii*) flexible labour contract are expected to increase workers' effort (the so-called discipline effect); *iii*) flexible labour contracts increase workers' uncertainty<sup>4</sup>. On these bases, a lack of composition effect occurs. On the microeconomic level, the individual firm finds it profitable to hire with flexible labour contracts, insofar as, due to the 'discipline effect', it expects that workers will increase their effort, with the consequent increase in labour productivity and profits. By contrast, on the macroeconomic level flexible labour contracts, insofar as they increase workers' uncertainty, push workers to increase their precautionary savings (cf. Pacella, 2009). Furthermore, labour precariousness produces a vicious circle at the expense of workers: since the unemployment rate tends to rise, this reduces workers' bargaining power both in the labour market and in the political arena, allowing the Government to implement further measures of labour market deregulation<sup>5</sup>.

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<sup>4</sup> As Stockhammer and Ramskogler (2007) point out *i*) in a capitalist economy, uncertainty is not evenly distributed among social classes and *ii*) workers, in particular, suffer from higher levels of uncertainty, due to job insecurity.

<sup>5</sup> This argument is consistent with Kalecki's view that unemployment is a *discipline device* that capitalists use in order to impede workers (and unions) from controlling economic policy. As Kalecki (1943, p.326) wrote: "... under the pressure of the masses the maintenance of full employment would cause social and political changes which would give a new impetus to the opposition of the business leaders. Indeed, under a regime of permanent full employment, " the sack " would cease to play its role as a disciplinary measure. The social position of the boss would be undermined and the self assurance and class consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tension, It is true that profits would be higher under a regime of full employment than they are on the average under *laissez-faire* ; and even the rise in wage rates resulting from the stronger bargaining power of the workers is less likely to reduce profits than to increase prices, and thus affects adversely only the *rentier interests*. But 'discipline in the factories' and 'political stability' are more appreciated by the business leaders than profits. Their class instinct tells them that lasting full employment is unsound from their point of view and that unemployment is an integral part of the 'normal' capitalist system". While Kalecki referred to the possibility, on

Relying on the presumed idea that “small is beautiful”, during the 1980s, Italy did not implement industrial policies, reducing public spending with the aim of reducing public debt and systematic deficits in the balance of trade (Graziani, 2000).

The outcome of these decisions has been twofold, and counterproductive for economic growth. First, cutting public spending (and raising tax) has not been a successful strategy in reducing the ratio of public debt/GDP, which has kept growing. Secondly, the drop in internal demand has reduced firms’ profits, leading to further shrinkage in their average size and to a drop of investment. This, in turn, has been followed by increased unemployment – especially among the young and among highly educated individuals<sup>6</sup> – reduction of profit margins and/or bankruptcies, lower investments and consequently a lower rate of growth in labour productivity. Moreover, the decline of aggregate demand reduced firms’ solvency and, as a result, made it less profitable for the banking sector to accommodate firms’ demand for credit (Forges Davanzati, 2016). This effect has been particularly intense for small firms (and for firms located in Southern Italy), which operate in domestic market. By contrast, big companies involved in speculative activities benefited from the reduction of internal demand in Italy, insofar as low demand presupposes low public spending, which, in turn, presuppose a low supply of State bonds in the financial markets, allowing them to sell their bonds more easily. Moreover, as Graziani (2003, p.137) stresses: “for finance to increase its weight as compared to production ... [it is necessary] that agents in debt towards banks be prepared to obtain loans from agents endowed with liquidity holdings, thus replacing bank debt by debt towards other agents”. In the theoretical context of the monetary theory of production, where Graziani elaborated this view, “this can easily happen whenever a credit squeeze occurs and firms have financial problems, and unable to get the required credit from a bank, try to take advantage of liquidity holding existing in the non-banking sector”<sup>7</sup>.

Finally, it is also worth noting that Italy is also the country in the Eurozone which experiences the highest increase in taxation on labour<sup>8</sup>.

### 3 – The CGIL’s interpretation

The CGIL, the largest Italian trade union organisation, called for a general strike in 2002 to draw attention to Italy’s so-called economic decline. We can say that the CGIL has actively

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the part of capitalists, to fully manage economic policy by disciplining workers with unemployment, an extension of this argument is proposed here: i.e. capitalists – via their influence on policy-makers – can use labour precariousness to generate further labour precariousness. For a reconstruction of the recent debate on the effects of labour flexibility on the path of employment in Italy, cf, among others, Forges Davanzati and Giangrande (2017).

<sup>6</sup> Cingano et al. (2010) report that Italian firms react to the decrease of demand by limiting firing and not hiring. This may depend on two phenomena: first, labour hoarding, normally in the cases of innovative firms; second, disguised unemployment for firms (extremely numerous in Italy, particularly in the South) which employ relatives, involving a psychological cost in firing.

<sup>7</sup> In a Marxist theoretical framework, Fine (2014) finds a relation between recession and financialization in these terms. As demand decreases, this involves the increase in the firms’ demand for credit from the banking sector, because “meeting payments becomes vital for survival” (p.53), with the consequent increase in interest rates and “interest bearing capital”. Accordingly, the processes of financialization should become more and more intense in recessive phases.

<sup>8</sup> This also reflects the decline of workers’ bargaining power in the political arena and, at the same time, can be considered the outcome of more intense austerity policies (compared to the other European countries) that the Italian governments implemented starting from the beginning of the 1990s, with a significant acceleration in 2011-2012.

participated in the wider discussion mentioned above on the economic decline that started in 2003. Although there were previous union actions, the general strike called by the CGIL on 18<sup>th</sup> October 2002 to draw the Berlusconi Government's attention to the need to make radical changes in economic and social policies (Epifani, 2002) can be considered the starting point of our study to understand how the CGIL interpreted the causes and the effects of the Italian economic decline and what were the main union proposals to deal with it. The following sections will deal with i] a preliminary analysis of the Italian labour market (motivated by the CGIL's obvious interest in the path of unemployment and wages); ii] the CGIL's interpretation of the Italian economic decline and its policy prescriptions

### 3. 1- The Italian labour market: focus on unemployment

Since in the CGIL's analysis the labour market has a great importance - along with economic policies, of course - this section provides a description of the path of employment, unemployment and inactivity. In this way, it is possible to understand the prior labour market conditions and the subsequent CGIL proposals designed to deal with the unemployment drama (Giangrande 2016). All the following charts have been elaborated starting from the data extracted from the ISTAT data warehouse in May 2017. In Italy, from 2003 to 2013 the number of people employed (aged 15+) fell by 54 thousand units. This is the result of a drastic drop in the male component (-611 thousand units) and an increase in the female component (+558 thousand units). In the 2003-2007 period employment had a total increase of +650 thousand units, of which women were responsible for a bigger slice than men (+364 and +286 thousand units, respectively). It was concentrated only in Northern and Central Italy, respectively +403 and +220 thousand units, while in the *Mezzogiorno* a minimal growth of +26 thousand units was recorded. After the global crisis that hit Italy in 2008, people employed shifted from 23 million to almost 22.1 million. This drastic reduction (-900 thousand) was mostly caused by the male component (-906 thousand units), while the female component remained reasonably stable (+6 thousand). Since 2008, employment has fallen in the whole country, but with different territorial intensity: while in the *Mezzogiorno* it has fallen by -531 thousand units, in the Northern it has dropped by -331 thousand, and in the Central it has only decreased -38 thousand.

**Chart n. 1 - Employed (15+) by gender and macro regions (absolute value in thousands)**

|              | 2003          | 2004          | 2005          | 2006          | 2007          | 2008          | 2009          | 2010          | 2011          | 2012          | 2013          | 03-07      | 08-13       |
|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------------|-------------|
| Males        | 13.526        | 13.553        | 13.601        | 13.755        | 13.812        | 13.820        | 13.541        | 13.375        | 13.340        | 13.194        | 12.914        | 286        | -906        |
| Females      | 8.719         | 8.809         | 8.806         | 9.002         | 9.083         | 9.270         | 9.158         | 9.152         | 9.258         | 9.372         | 9.276         | 364        | 6           |
| <b>Total</b> | <b>22.244</b> | <b>22.363</b> | <b>22.407</b> | <b>22.758</b> | <b>22.894</b> | <b>23.090</b> | <b>22.699</b> | <b>22.527</b> | <b>22.598</b> | <b>22.566</b> | <b>22.191</b> | <b>650</b> | <b>-900</b> |
| Northern     | 11.351        | 11.402        | 11.485        | 11.659        | 11.754        | 11.896        | 11.709        | 11.633        | 11.696        | 11.668        | 11.565        | 403        | -331        |
| Central      | 4.453         | 4.535         | 4.555         | 4.634         | 4.674         | 4.763         | 4.740         | 4.731         | 4.723         | 4.742         | 4.724         | 220        | -38         |
| Mezzogiorno  | 6.440         | 6.426         | 6.367         | 6.465         | 6.466         | 6.432         | 6.250         | 6.163         | 6.179         | 6.156         | 5.901         | 26         | -531        |
| <b>Total</b> | <b>22.244</b> | <b>22.363</b> | <b>22.407</b> | <b>22.758</b> | <b>22.894</b> | <b>23.090</b> | <b>22.699</b> | <b>22.527</b> | <b>22.598</b> | <b>22.566</b> | <b>22.191</b> | <b>650</b> | <b>-900</b> |

Source: my own elaboration on ISTAT data



The number of unemployed in the 2003-2007 period is characterized by a total drop of 562 thousand units, in which the female component decreased more than the male one (-338 and -224 thousand units, respectively).

In 2003, the total stock of unemployed people aged 15+ (2 million) was concentrated mainly in the *Mezzogiorno* (1.2 million, equal to 60%). In the Northern and Central areas, instead, the unemployed corresponded to 478 and 333 thousand units, equal to 24% and 16%, respectively.

In the 2003-2007 period, the drop in unemployment was concentrated almost exclusively in the *Mezzogiorno* (-437 thousand units) in relation to the Northern and Central Italy, which presented a more contained reduction (-53 and -72 thousand units, respectively).

Starting from 2008, unemployment was on the rise, shifting from 1.6 million in 2008 to just over 3 million in 2013, with a total increase of +1.4 million, most of them concentrated in the North of Italy (+579 thousand, equal to 41,23%) and in the *Mezzogiorno* (+570 thousand, equal to 40,59%), and the rest in the Center (+255, equal to more than 18,16%). This increase was composed of more men (+871 thousand units) than women (+534 thousand units).

In 2013, approximately half of all the unemployed in the country were in the *Mezzogiorno* (more than 1.4 million). The remainder was mostly concentrated in the North (1 million) with the Central Italy having the smallest concentration (564 thousand units).

**Chart n. 2 - Unemployed (15+) by gender and macro regions (absolute value in thousands)**

|              | 2003         | 2004         | 2005         | 2006         | 2007         | 2008         | 2009         | 2010         | 2011         | 2012         | 2013         | 03-07       | 08-13        |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|--------------|
| Males        | 932          | 913          | 894          | 788          | 708          | 804          | 976          | 1.084        | 1.084        | 1.434        | 1.674        | -224        | 871          |
| Females      | 1.111        | 1.031        | 983          | 866          | 773          | 861          | 930          | 972          | 977          | 1.257        | 1.394        | -338        | 534          |
| <b>Total</b> | <b>2.043</b> | <b>1.944</b> | <b>1.877</b> | <b>1.654</b> | <b>1.481</b> | <b>1.664</b> | <b>1.907</b> | <b>2.056</b> | <b>2.061</b> | <b>2.691</b> | <b>3.069</b> | <b>-562</b> | <b>1.404</b> |
| Northern     | 478          | 512          | 510          | 460          | 424          | 478          | 652          | 725          | 709          | 927          | 1.057        | -53         | 579          |
| Central      | 333          | 316          | 313          | 299          | 261          | 309          | 366          | 384          | 384          | 493          | 564          | -72         | 255          |
| Mezzogiorno  | 1.233        | 1.116        | 1.054        | 896          | 796          | 877          | 889          | 946          | 968          | 1.271        | 1.447        | -437        | 570          |
| <b>Total</b> | <b>2.043</b> | <b>1.944</b> | <b>1.877</b> | <b>1.654</b> | <b>1.481</b> | <b>1.664</b> | <b>1.907</b> | <b>2.056</b> | <b>2.061</b> | <b>2.691</b> | <b>3.069</b> | <b>-562</b> | <b>1.404</b> |

Source: my own elaboration on ISTAT data

In 2003, inactive people (aged 15-64) represented a pool of 14.1 million people. From 2003 to 2007, it increased by +319 thousand units, in which the male component grew more (+168 thousand units) than the female one (+151 thousand units).

In 2013, after the crisis started in 2008, inactive people fell to -1 thousand units, because the greater participation of men (+252 thousand units) was counterbalanced by almost the same reduction of women's numbers (-253 thousand units).

The number of inactive people was already growing from 2003 to 2007 especially in the *Mezzogiorno* (+463 thousand), while they had decreased in the North of Italy (-134 thousand units) and in the Central Italy (-10 thousand units).

During the crisis, however, the growth of inactive numbers (+1 thousand) was mainly due to the Central (+26 thousand) and *Mezzogiorno* (+4 thousand) while they decreased in the Northern (-31 thousand units).

**Chart n. 3 – Inactive (15-64) by gender and macro regions (absolute value in thousands)**

|              | 2003          | 2004          | 2005          | 2006          | 2007          | 2008          | 2009          | 2010          | 2011          | 2012          | 2013          | 03-07      | 08-13     |
|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------------|-----------|
| Males        | 4.760         | 4.849         | 4.899         | 4.870         | 4.928         | 4.951         | 5.119         | 5.213         | 5.272         | 5.099         | 5.203         | 168        | 252       |
| Females      | 9.377         | 9.449         | 9.538         | 9.469         | 9.528         | 9.405         | 9.566         | 9.612         | 9.570         | 9.176         | 9.152         | 151        | -253      |
| <b>Total</b> | <b>14.137</b> | <b>14.298</b> | <b>14.438</b> | <b>14.339</b> | <b>14.456</b> | <b>14.357</b> | <b>14.685</b> | <b>14.825</b> | <b>14.843</b> | <b>14.275</b> | <b>14.355</b> | <b>319</b> | <b>-1</b> |
| Northern     | 5.507         | 5.515         | 5.510         | 5.402         | 5.373         | 5.307         | 5.405         | 5.446         | 5.444         | 5.262         | 5.276         | -134       | -31       |
| Central      | 2.535         | 2.524         | 2.542         | 2.493         | 2.524         | 2.466         | 2.496         | 2.530         | 2.572         | 2.474         | 2.492         | -10        | 26        |
| Mezzogiorno  | 6.095         | 6.259         | 6.386         | 6.444         | 6.559         | 6.583         | 6.784         | 6.849         | 6.827         | 6.539         | 6.587         | 463        | 4         |
| <b>Total</b> | <b>14.137</b> | <b>14.298</b> | <b>14.438</b> | <b>14.339</b> | <b>14.456</b> | <b>14.357</b> | <b>14.685</b> | <b>14.825</b> | <b>14.843</b> | <b>14.275</b> | <b>14.355</b> | <b>319</b> | <b>-1</b> |

Source: my own elaboration on ISTAT data

It is interesting to see that in the 2003-2007 period the decline of unemployment in the *Mezzogiorno* (-437 thousand units) was not due to an increase in the number of employees (which, in fact, grew by just +26 thousand units), but mostly to an increase in the number of the inactive (+463 thousand units). In addition, in the successive period (2008-2013), the drop in the number of employees (-531 thousand units) in the *Mezzogiorno* corresponded to an increase in the unemployed (+570 thousand units) and inactive (+4 thousand units).

After this overview on the labour market, we would like to focus on unemployment through an analysis of its distribution in age class, education level, status and, finally, duration.

**Chart n. 4 - Unemployed (15+) by age class, education level, status and duration (absolute value in thousands)**

|              | 2003             | 2004         | 2005         | 2006         | 2007         | 2008         | 2009         | 2010         | 2011         | 2012         | 2013         | 03-07             | 08-13        |
|--------------|------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------------|--------------|
| 15-24        | 548              | 509          | 486          | 419          | 372          | 388          | 437          | 469          | 473          | 604          | 652          | -176              | 263          |
| 25-34        | 695              | 686          | 664          | 582          | 507          | 536          | 612          | 661          | 627          | 792          | 906          | -187              | 370          |
| 35-44        | 446              | 424          | 421          | 377          | 353          | 419          | 478          | 499          | 506          | 652          | 736          | -93               | 318          |
| 45-54        | 250              | 226          | 223          | 205          | 187          | 236          | 284          | 322          | 338          | 467          | 571          | -63               | 335          |
| 55-64        | 97               | 93           | 80           | 68           | 59           | 79           | 91           | 100          | 113          | 168          | 196          | -38               | 117          |
| 65+          | 7                | 6            | 4            | 5            | 3            | 6            | 4            | 4            | 4            | 8            | 8            | -5                | 1            |
| <b>Total</b> | <b>2.043</b>     | <b>1.944</b> | <b>1.877</b> | <b>1.654</b> | <b>1.481</b> | <b>1.664</b> | <b>1.907</b> | <b>2.056</b> | <b>2.061</b> | <b>2.691</b> | <b>3.069</b> | <b>-562</b>       | <b>1.404</b> |
| Primary      | n.a <sup>+</sup> | 233          | 196          | 163          | 132          | 148          | 151          | 156          | 156          | 195          | 221          | -101 <sup>°</sup> | 72           |

<sup>+</sup> Data not available

<sup>°</sup> Variation 2004-2007

|                 |                  |              |              |              |              |              |              |              |              |              |              |              |              |
|-----------------|------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Lower           | n.a <sup>+</sup> | 776          | 739          | 639          | 580          | 659          | 729          | 773          | 786          | 1.031        | 1.177        | -196°        | 519          |
| Upper           | n.a <sup>+</sup> | 756          | 730          | 663          | 600          | 671          | 804          | 888          | 891          | 1.164        | 1.329        | -155°        | 659          |
| Tertiary        | n.a <sup>+</sup> | 179          | 213          | 189          | 168          | 187          | 224          | 238          | 228          | 301          | 341          | -11°         | 154          |
| <b>Total</b>    |                  | <b>1.944</b> | <b>1.877</b> | <b>1.654</b> | <b>1.481</b> | <b>1.664</b> | <b>1.907</b> | <b>2.056</b> | <b>2.061</b> | <b>2.691</b> | <b>3.069</b> | <b>-463°</b> | <b>1.404</b> |
| Former-Empl.    | n.a <sup>+</sup> | 787          | 738          | 650          | 623          | 729          | 943          | 1.025        | 992          | 1.349        | 1.638        | -164°        | 909          |
| Former-Inactive | n.a <sup>+</sup> | 531          | 512          | 445          | 396          | 441          | 452          | 499          | 482          | 609          | 623          | -135°        | 182          |
| W/o work exp.   | n.a <sup>+</sup> | 627          | 627          | 560          | 462          | 494          | 511          | 531          | 587          | 733          | 808          | -164°        | 313          |
| <b>Total</b>    |                  | <b>1.944</b> | <b>1.877</b> | <b>1.654</b> | <b>1.481</b> | <b>1.664</b> | <b>1.907</b> | <b>2.056</b> | <b>2.061</b> | <b>2.691</b> | <b>3.069</b> | <b>-463°</b> | <b>1.404</b> |
| Short-term      | 1.033            | 1.020        | 974          | 853          | 786          | 912          | 1.063        | 1.069        | 1.002        | 1.276        | 1.339        | -247         | 427          |
| Long-term       | 1.010            | 924          | 903          | 801          | 695          | 752          | 844          | 986          | 1.059        | 1.415        | 1.730        | -315         | 977          |
| <b>Total</b>    | <b>2.043</b>     | <b>1.944</b> | <b>1.877</b> | <b>1.654</b> | <b>1.481</b> | <b>1.664</b> | <b>1.907</b> | <b>2.056</b> | <b>2.061</b> | <b>2.691</b> | <b>3.069</b> | <b>-562</b>  | <b>1.404</b> |

Source: my own elaboration on ISTAT data

In the first period (2003-2007), among those aged between 15-24 years, unemployment decreased by -176 thousand units while in the of 25-34 age class there was a drop of -187 thousand units. In the second period (2008-2013) the drastic increase of +1.4 million unemployed affected all age classes, particularly those between 25-34 (+370 thousand).

In the 2004-2007 period, the number of unemployed decreased among all the classes: the less educated, i.e. people with primary schooling (-101 thousand units) or lower secondary level (-196 thousand) and for those with upper secondary education (-155 thousand units), whereas for graduates it decreased slightly (-11 thousand units). Since the 2008 crisis, the total increase in unemployment (+1.4 million) has affected all segments: primary level (+72 thousand units), lower secondary (+519 thousand), upper secondary (+659 thousand units), and tertiary education (+154 thousand units).

In 2004, 40.48% of the unemployed were former-employees, while the former-inactive and people who were looking for work for the first time made up 27.29% and 32.23%, respectively. In 2013, the composition of the unemployed became very different: while former-employees increased noticeably (53.39%), both former-inactive (20.29%) and people without work experience (26.32%) decreased.

The most alarming data comes from the growth of the long-term unemployed, a group made up of those who have been looking for jobs for more than 12 months. This phenomena is worrisome because there is a hysteresis effect and, therefore, a loss of skills (Layard, Nickell and Jackman, 1991). Indeed, in 2003, the long-term unemployed were 49.42% of all the unemployed people in Italy, while in 2013 it reached 56.36%. In 2011, the number of long-term unemployed exceeded those of short-term duration. In the following years (2012-2013) this number was consolidated while, in 2013, short-term unemployment showed moderate growth. In Italy, long-term unemployment tended to react later even in the presence of improved labour market conditions (Reyneri, 1995), which means it would be difficult to reabsorb the whole pool.

The crisis hit the most vulnerable social groups such as temporary and precarious workers, young people and women, above all in the more fragile geographical areas where the social safety net was made up of their families. It had a negative effect on employment and intensified inactivity while unemployment was limited thanks to the *Cassa Integrazione Guadagni* (Altieri, 2010), that is the redundancy payment. Moreover, all this accentuated the traditional dualism of the Italian economy (Dota, 2010) and instability and insecurity became characteristics of the Italian labour market.

Unemployment has changed its composition and its dynamics give us a picture of one of the structural problems of the Italian economy. However, it cannot explain the entire labour market trend, indeed it is necessary to further examine the classes of inactive people called the “grey zone” (ISTAT, 2011) - which means “available but not seeking” and “seeking but not available” – and also all the segments that represent people on the dividing line between the state of worker and non-worker.

Carra (2010) believes inactive people constitute a part of the unemployment figure. For this reason, he believes that the traditional criteria for measuring unemployment is not adequate to represent the real situation and he proposed the adoption of new parameters (Carra, 2012).

In 2012, the CGIL’s Institute of Social and Economic Research (hereafter IRES-CGIL) elaborated another index called ‘Occupational Sufferance Area’ (*Area Sofferenza Occupazionale*) which takes into account the unemployed, discouraged people available to work, and workers that receive redundancy payment as explained by Ferrucci (IRES-CGIL, 2012). Later, the IRES-CGIL provided another index ‘Occupational Distress Area’ (*Area Disagio Occupazionale*), which includes people who have a temporary job because they could not find a permanent one, and those who have a part-time job because they could not find a full-time one (IRES-CGIL, 2013).

Thus, the CGIL tried to represent the occupational problems clearly, providing an assessment of the number of under 65-year-olds who are obliged to stay out of the labour market or those that have a different job from the one they wish for. This attempt deserves attention because it tries to outline a weighting situation that was not indicated by the official statistics.

### **3.2 – Low quality development and the need for a structural change**

The starting point of the CGIL’s analysis is a critique to the economic policy of Berlusconi’s Government. Indeed, at the beginning of the 2000s the second Berlusconi Cabinet (2001-2005) promoted some structural reforms with the purpose of boosting growth, with the strong backing of the CONFINDUSTRIA, the largest Italian industrial employers’ confederation led by then-president Antonio D’Amato (2000-2004). This development model was essentially based on: a) less fiscal pressure along with tax amnesties and shields; b) increased options for fixed-term labour contracts; c) the division of the three largest trade union organisations in order to isolate the CGIL; d) the transformation of the Public Administration according to business parameters; e) a foreign economic policy based on the support of exports of Italian goods.

The demand is for an economic policy able to bring the country out of the decline publically denounced only by the CGIL and which, meanwhile, has become a widely recognised issue (Camusso, Baseotto, Nicolosi and Vanacore 2003). According to Lapadula (2003) the decline is closely linked with the Italian specialisation focused on traditional industries and based on under-sized firms, while the second Berlusconi Cabinet pointed to China as being responsible for Italy’s crisis. Indeed, the solution in Lapadula’s view is neither duties nor protectionism but a new industrial model able to participate in international trade (Lapadula, 2003).

The seriousness of the Italian situation is continually denounced by the CGIL in labour, fiscal and environmental sectors (Agnello Modica, 2003) but also in the social field (Del Fattore, 2003), and in the institutional one (Troffa, 2004).

The CGIL's critique is on the government's choice of an economic development model based on labour cost and on reducing workers' rights. There are many reasons to continue the struggle against the decline (Guzzonato, 2003), above all because the financial and real estate rents – strongly supported by the Berlusconi Cabinets - led to wage cuts and penalised investment (Agnello Modica, 2004).

The CGIL proposals to tackle the economic decline are based on high quality development, extension of labour rights and on increasing the social safety net (Rassegna Sindacale, 2004), at the same time implementing an overall re-thinking of the social model (Rocchi, 2006).

Lapadula (2004) entered the general debate with his book in which he tracks the historic and economic path of Italian development from the *miracolo economico* until the early 2000s. He believes that it is necessary to face the repositioning of the Italian productive specialisation model in order to create value-added goods, given that the traditional Italian price competitiveness based on low wages and Lira devaluation would be impossible with the Euro. In Lapadula's analysis the main problem is not the Euro but the second Berlusconi Cabinet's economic policies, which did not deal with the structural problems of the Italian development model and led to stagnation. Indeed, that Cabinet applied a neoliberal economic recipe based on reduced taxation, increased labour precariousness, public spending cuts, and also on breaking trade union unity.

In contrast, Lapadula considers it necessary to follow a high-quality development model – in order not to be vulnerable to the international lower-quality competition – supported by: i) more investments in training, research and innovation which could lead to the growth of productivity, higher work activity rate, larger firm size and recovery of the share in international trade; ii) the completion of the liberalisation process blocked by corporative interests; iii) the safeguarding of the social model; iv) a strong role of the industrial sector and v) redirection of the largest firms to strengthen the smaller ones and vi) income policies designed to increase the real wage, raise productivity and distribute income (Lapadula, 2004). The Italian decline also needs to be tackled through the spread of knowledge (Saltini, 2006). In this way, it would be possible to create jobs, enhance social cohesion and support well-being at all ages. Fammoni (2006) believes that it is also fundamental to deal with unreported employment and underground economy, which are another Italian structural problems. This is strictly linked with illegality and with the dark side of the current development model which needs to be fought by the union (Cristilli, 2011).

Moreover, government policies composed of a mixture of liberalism and protectionism would increase the decline, in which the low quality of human capital blocks innovation and, in turn, the low propensity to innovate prevents investment in training and research (Dacrema, 2008). Indeed, the lack of growth is attributable to the economic thought that inspired the wrong economic policies implemented for many years and that did not solve the structural problems of the Italian economic decline (Beschi and Sanna, 2012).

The CGIL has always made its own ideas on the reforms needed for the country. In its national congress in 2006 it proposed a new kind of relationship between government and social partners, a different model of development, an innovative economic policy to avoid the so-called "*politica dei due tempi*" (CGIL, 2006), which means first rebalancing and then economic growth. In the following national congress in 2010 the CGIL – daily criticised by the fourth Berlusconi Cabinet (2008-2011) – called for the return to employer-union dialogue and launched several proposals on economic policies that were never take into account (CGIL, 2010).

In order to concentrate all the proposals in a strong document, the CGIL drafted its “Program for Jobs” during its national conference held in Rome on 25<sup>th</sup> and 26<sup>th</sup> of January 2013, on the eve of the 2013 general elections.

The Program for Jobs – to which different scholars contributed - aims to place the problem of “jobs” and “demand” at the centre of the political dispute. The CGIL believes that it is not possible to have a period of new growth and development without job creation, as it is the only thing that can address the deficiencies of Italian demand and structural weakness (Sanna, 2014).

The serious geographical and intergenerational imbalances, the contraction of employment, the increased inequalities and unemployment affecting the Italian economy were analysed by the CGIL in a *Keynesian* perspective (lack of aggregate demand, the need to re-establish state intervention in the economy, and full employment as the main goal) and some *Schumpeterian* aspects such as the constant call for innovation (Sateriale, 2013; Sanna, 2014).

The Program for Jobs, which starts by examining the shrinking aggregate demand and aims to achieve full employment, contains several proposals in different fields: from labour policies to fiscal ones, from the Welfare State to public investments (Sanna, 2013; CGIL, 2013). The CGIL harshly criticises the neoliberal agenda implemented in Italy over the past decades through “structural reforms” because they have been completely oriented to the supply side and to cost competition, making work appear irrelevant.

The result of the general election and the formation of the Letta Cabinet (2013-2014) based on a ‘*great coalition*’ made the implementation of the Program for Jobs impossible. It nevertheless remains a detailed plan deserving attention in view of the economic thought that inspired it, the concrete proposals drafted, the indication of where the necessary resources could be found, and the potential for positive impact on the Italian economy.

Indeed, there was also an econometric study made by CER on the Program for Jobs that brought to light how the impact of the measures envisaged by CGIL represent a strong impetus to anti-cyclical policies and, in particular, showed that only direct public intervention would reduce the debt with a simultaneous improvement of GDP growth in the three years considered (2013-2015).

**Table 1 - The economic and social impact of Program for Jobs**

|  | Basic Scenario |       |       | Impact of the Program for Jobs |       |       |
|--|----------------|-------|-------|--------------------------------|-------|-------|
|  | 2013           | 2014  | 2015  | 2013                           | 2014  | 2015  |
| Gross Domestic Product                       | -0.5           | 0.7   | 1     | 2.2                            | 0.8   | 0.1   |
| Imports                                      | 1.7            | 4.5   | 4.8   | 6.4                            | 0.2   | 1.3   |
| Households Consumption                       | -1             | 0.6   | 0.5   | 1.4                            | 0.3   | 0.5   |
| Gross Fixed Investments                      | -1.5           | 1.4   | 2.8   | 6.7                            | 2.5   | 1.1   |
| Exports                                      | 3.2            | 4     | 4.6   | 1.4                            | 0.4   | 0     |
| Inflation                                    | 2.4            | 2.1   | 2.2   | -0.3                           | -0.3  | -0.3  |
| Unit Labour Cost (ULC) of the Private Sector | 1.8            | 1.3   | 1.7   | -2                             | -0.2  | 0.3   |
| Employment                                   | -0.4           | 0.5   | 1     | 1.9                            | 0.6   | 0.4   |
| Unemployment Rate                            | 11.3           | 10.8  | 9.7   | 9.6                            | 8.5   | 7     |
| Real Available Income                        | -0.8           | -0.2  | 0.3   | 2.4                            | 0.3   | 0.7   |
| Public Debt (% of GDP)                       | 127.3          | 125.5 | 122.8 | 126.7                          | 125.9 | 124.8 |

Source: Program for Jobs (CGIL, 2013)

#### 4 - Concluding remarks

This paper dealt with the so-called Italian economic decline and the CGIL’s interpretation of it. It has been shown that the theoretical basis of the CGIL’s interpretation (as well as its

policy prescriptions) is Post Keynesian in essence. In particular, it has been stressed that. i) the CGIL maintained that the Italian crisis and the increase of unemployment in the period under consideration (2003-2013) is imputed to the reduction of public spending and the measures of labour flexibility; ii) the Italian crisis has been amplified by the massive decrease of public investment. This reconstruction has been based on documents produced by the CGIL in *Rassegna Sindacale*, its weekly publications, and in the Program for Jobs launched in 2013.

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