

Spring School
Political economy of production and labour

LABOUR MARKET AND WAGES

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References

Elgar Encyclopedia of Labour Studies, Tor Eriksson ed., 2023

This book is available electronically in the ElgarOnline - Economics subject collection (<http://dx.doi.org/10.4337/9781800377547>)

- Employment protection legislation impacts ch 11
- Job insecurity ch. 21
- Monopsonistic labour markets ch. 31
- Temporary jobs ch. 51

For those who
read Italian:



Labour market

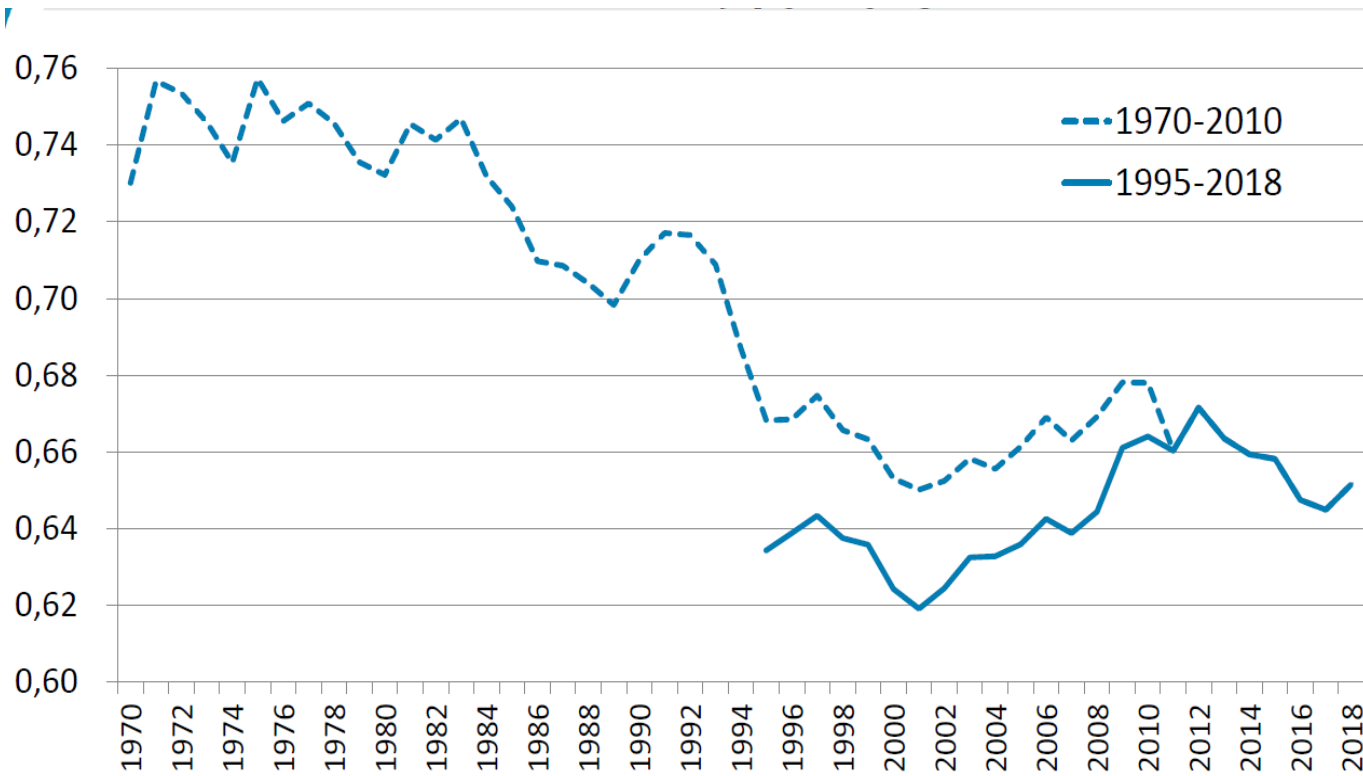
- Work relationships based on imbalance of power,
- shaped by LM institutions, laws, unions
- within the dominant economic and cultural paradigm

- Focus on continental EU countries and on Italy in particular
 - Why focussing so much on Italy? We usually anticipate or exacerbate trends common to other countries

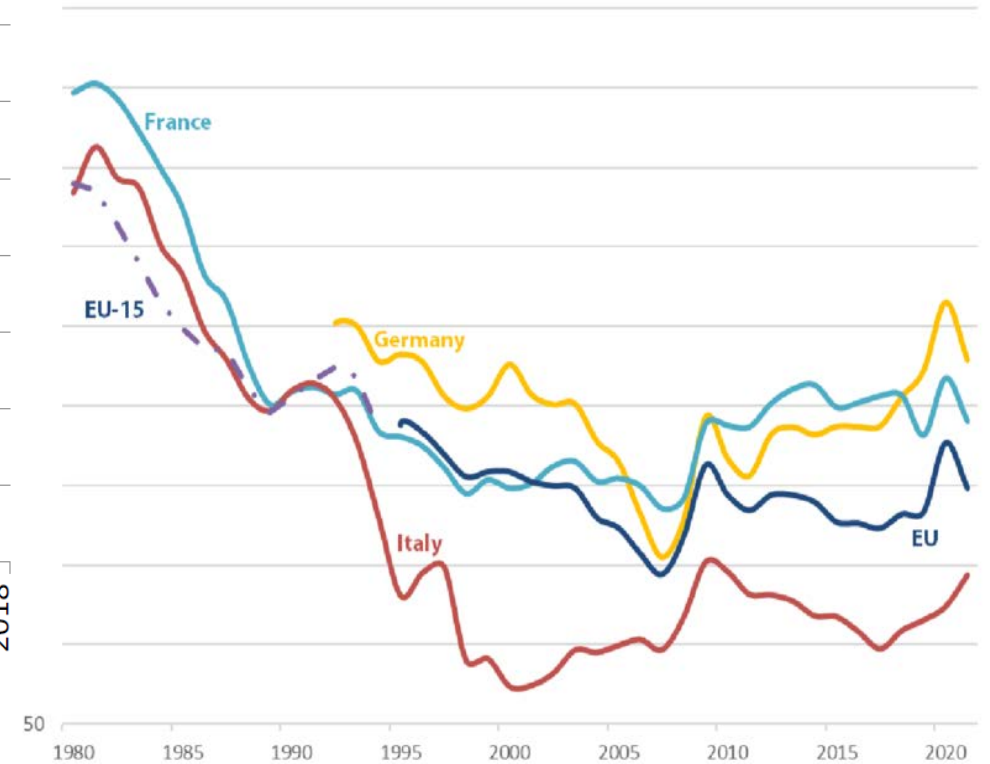
Some stylized facts

GDP shares: from labour to capital

Italy



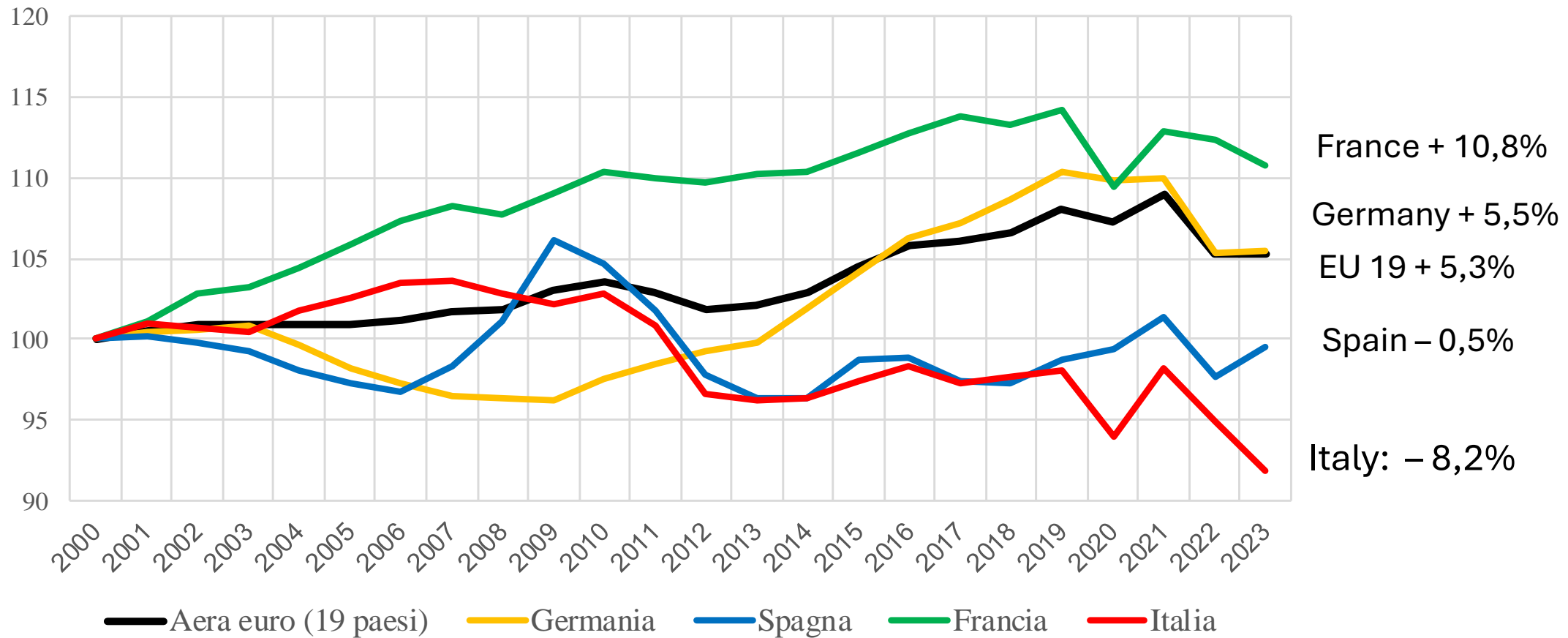
EU15, Ger, Fra, Ita



Source: [European Commission, Ameco database](#).

Annual real gross total income of workers, per head average

Anni 2000-2023 (indice 2000=100)

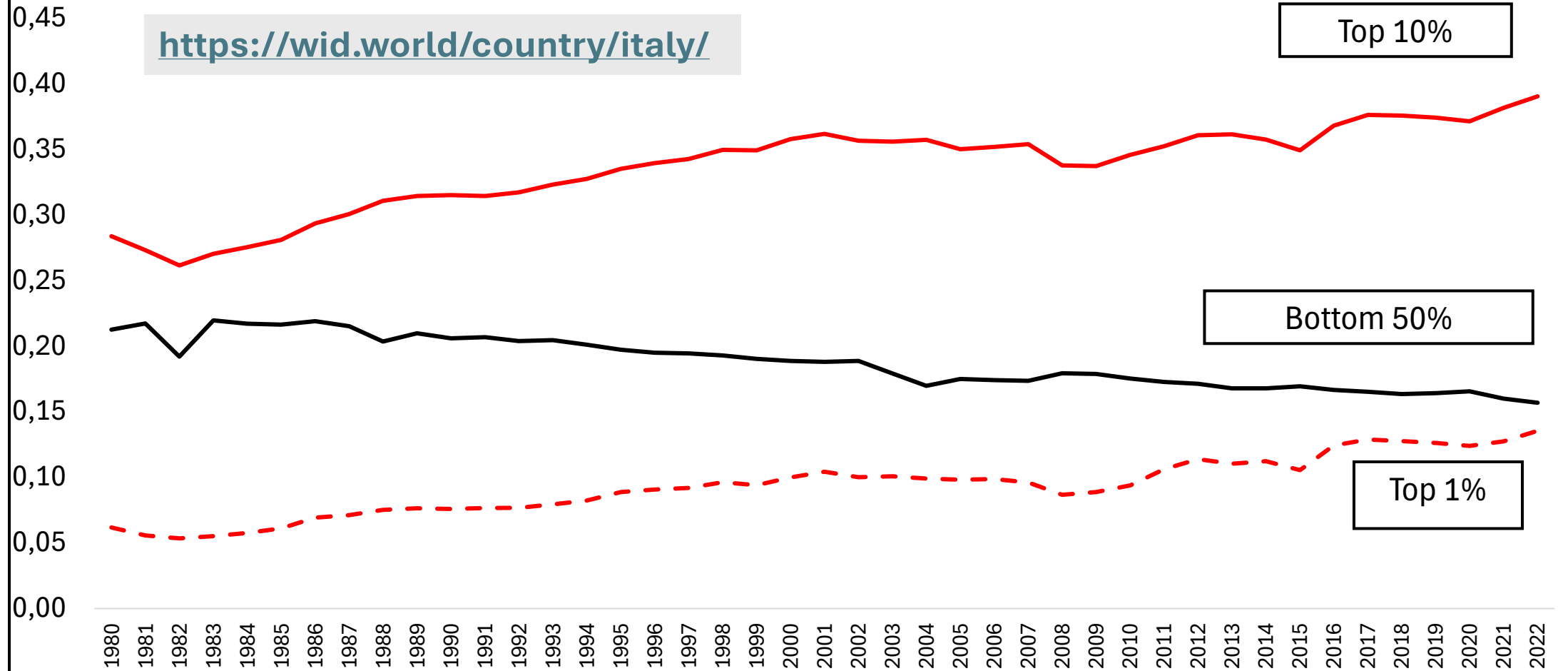


Either slow growth or decline

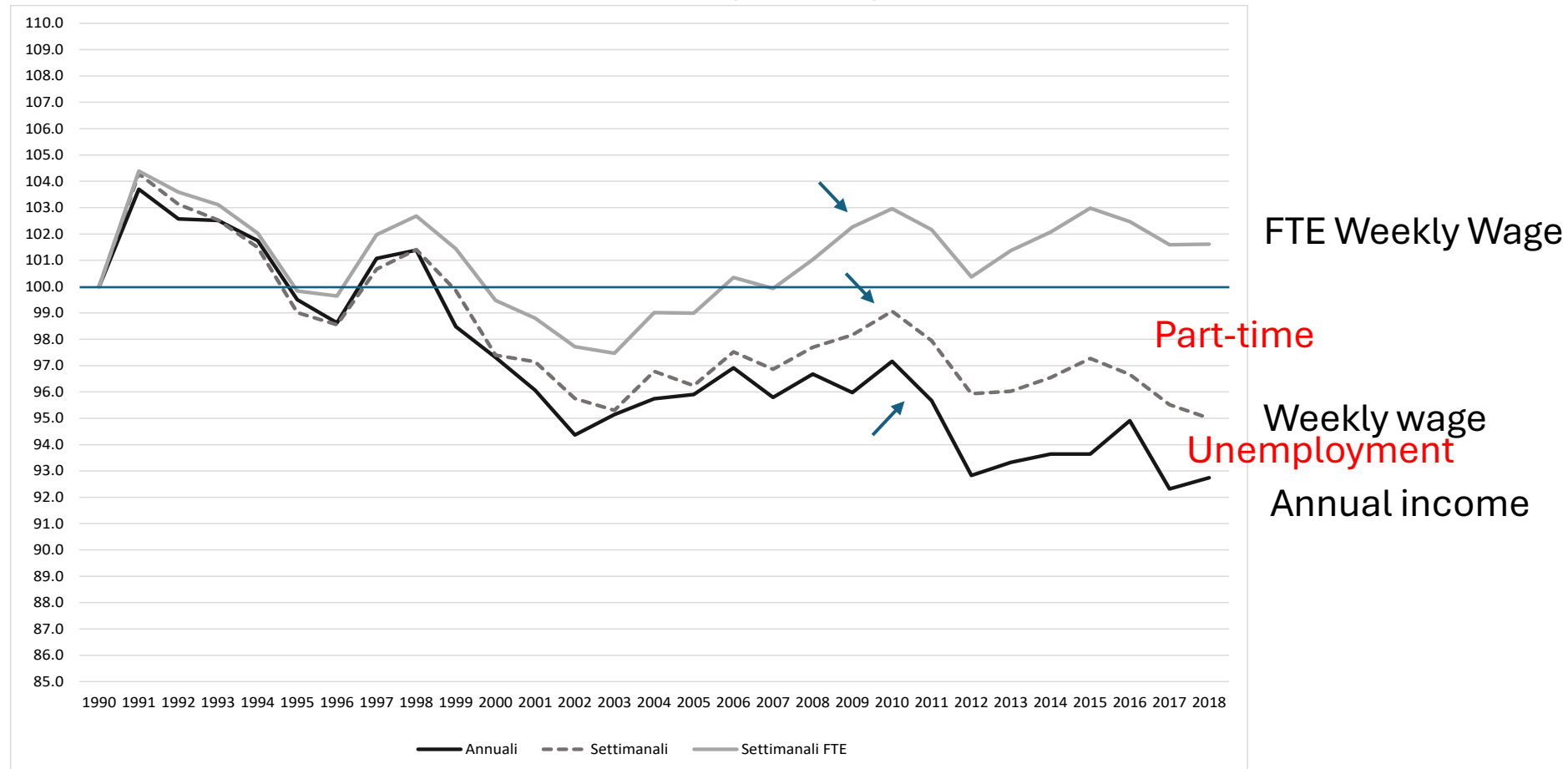
Inequality - Italy

Share of national income before taxes and transfers (WID) - Italy

<https://wid.world/country/italy/>



Unit and total (real) wages - Italy



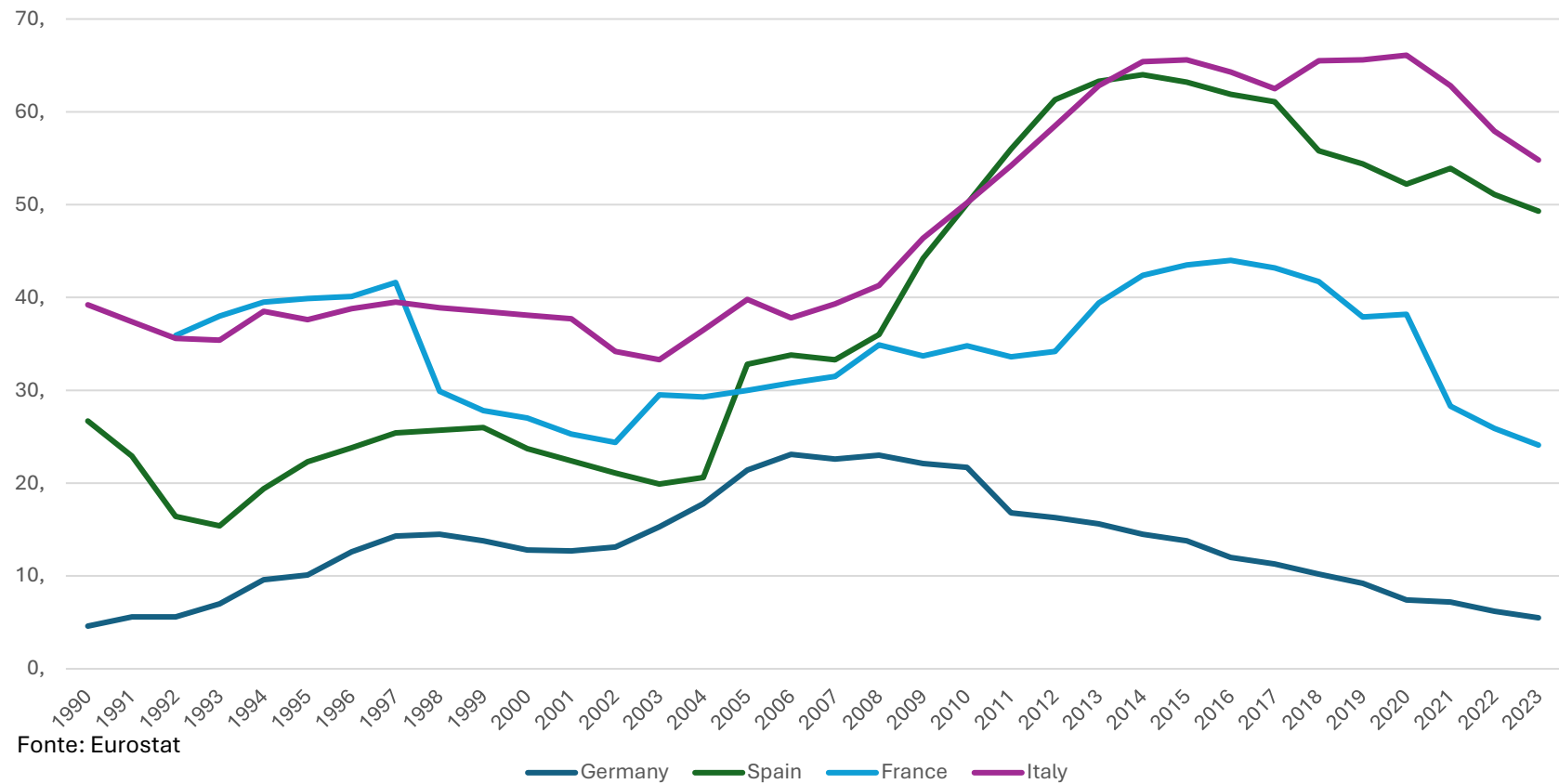
Fonte: elaborazioni di Bavaro e Raitano (2024) su dati INPS-LOSAI

Half unemployed

Percentage of **involuntary** part-time workers, out of the total part-time (2023)

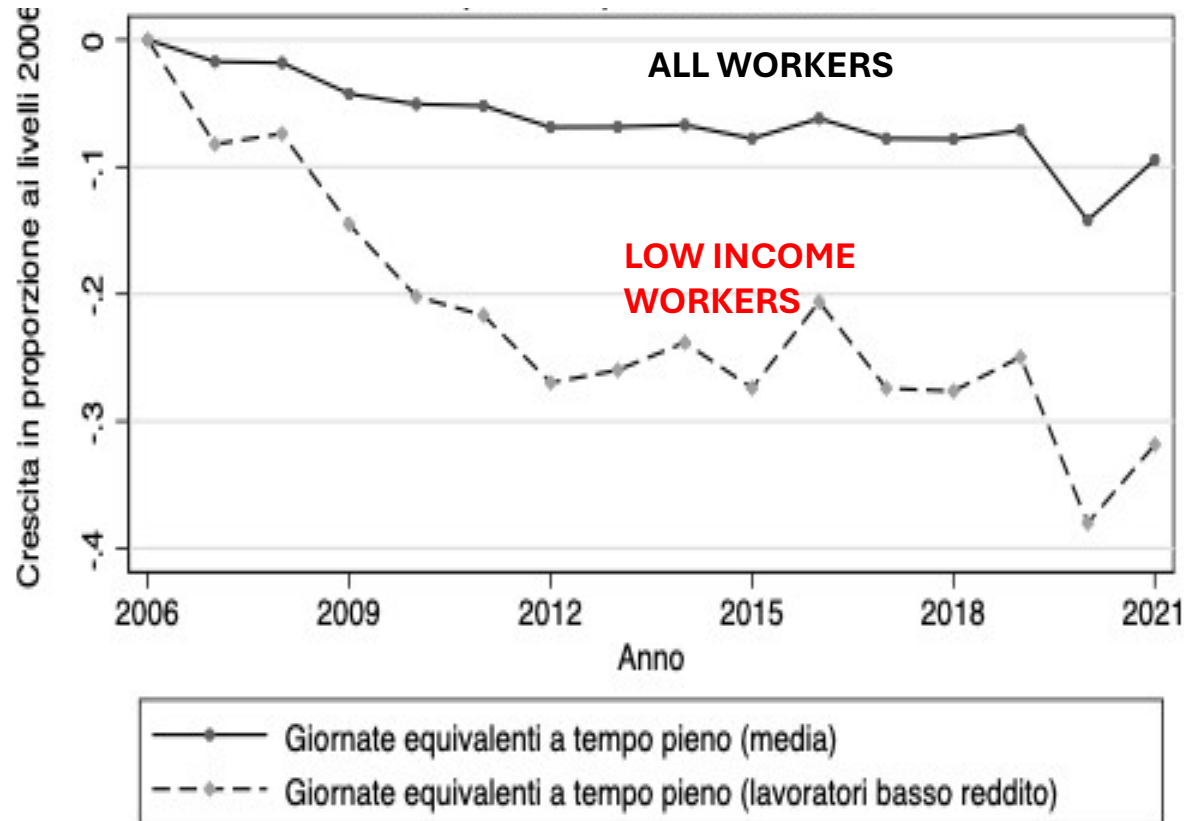
% total PT:

- GER: 28.7%
- SPA: 13.1%
- FRA: 16.6%
- ITA: 17.6%



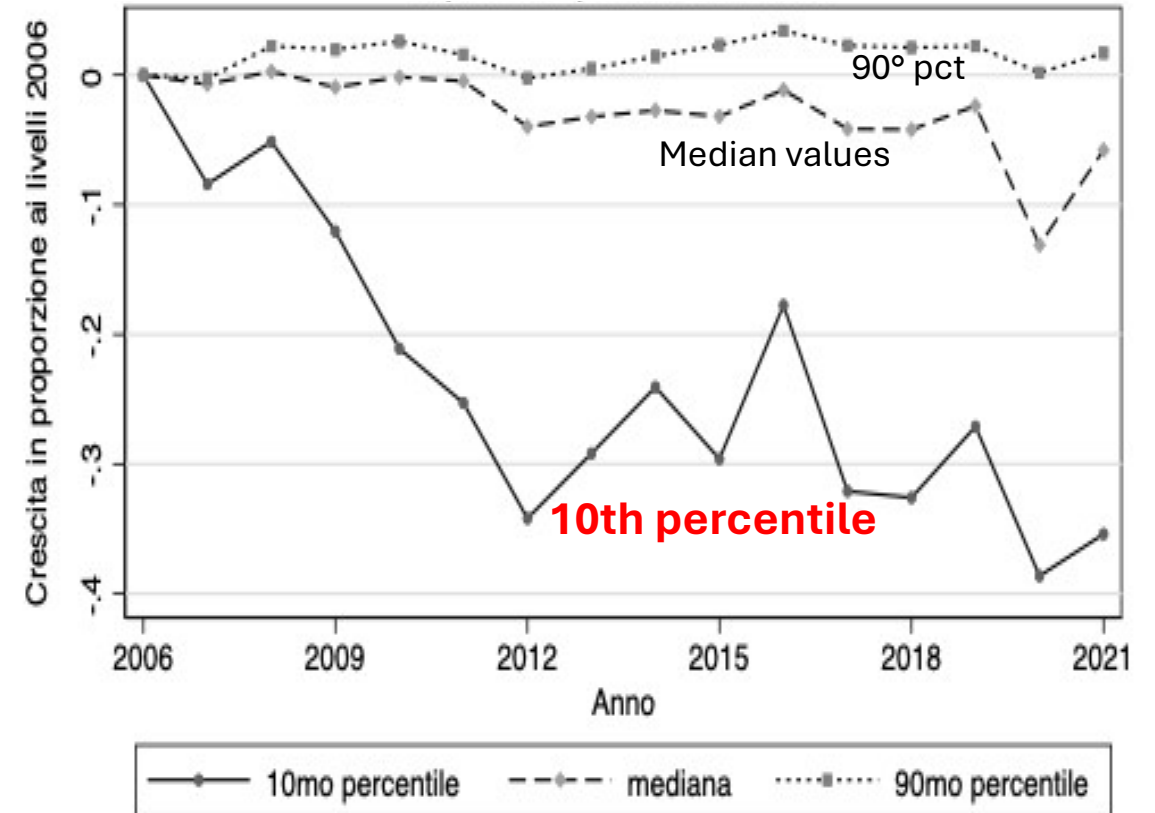
Inequality of working time, not only of wages

Changes in the number of days worked during the year (Private sector workers, 2006-2021)



Dati Uniemens INPS

Changes in annual income (Private sector workers, 2006-2021)



Dati Uniemens INPS

How could all this happen?

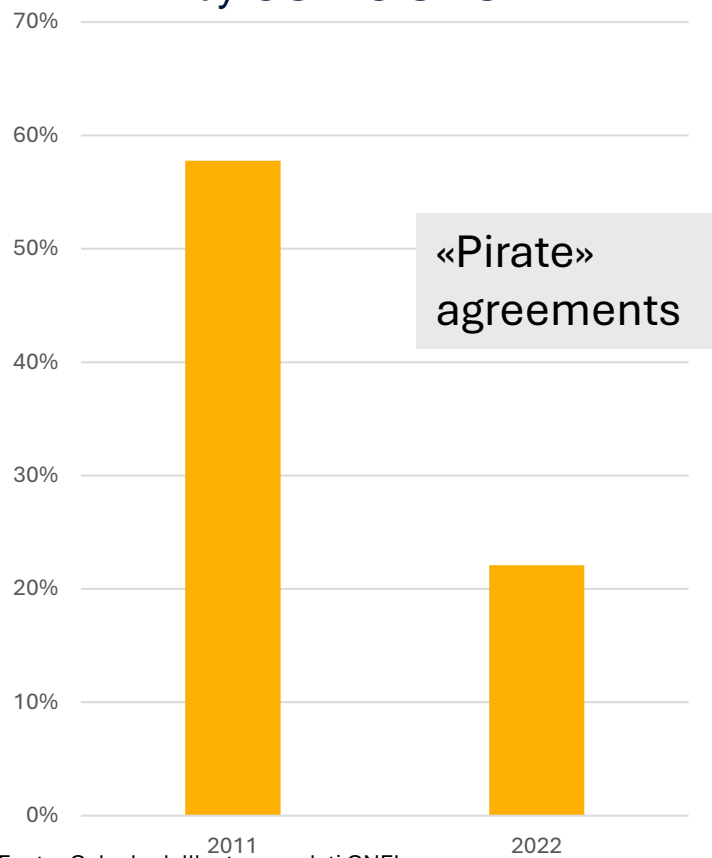
Deregulation of the labour market and fragmentation of the workforce

Since mid '90s:

- Different contracts: open ended, fixed term, temporary work agencies workers, self-employees ...
 - Different employers: main contractor, subcontractors, outsourced firms, TWA, self-employees ...
 - Fragmented workforce on the same production site – difficult union representation
- Those who are “protected” by collective contracts are a continuously shrinking group

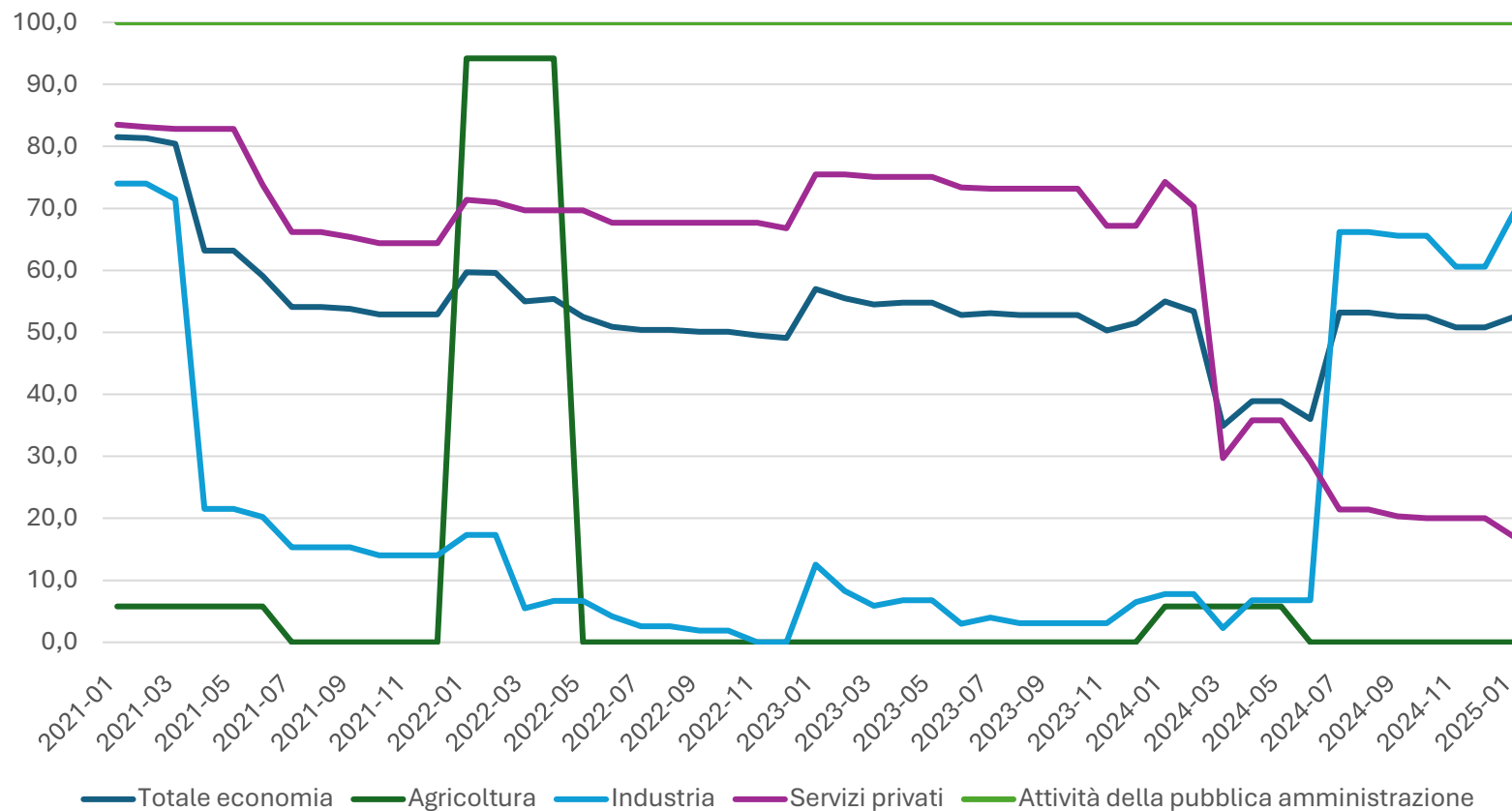
National collective contracts

% of agreements signed by CGIL-CISL-UIL



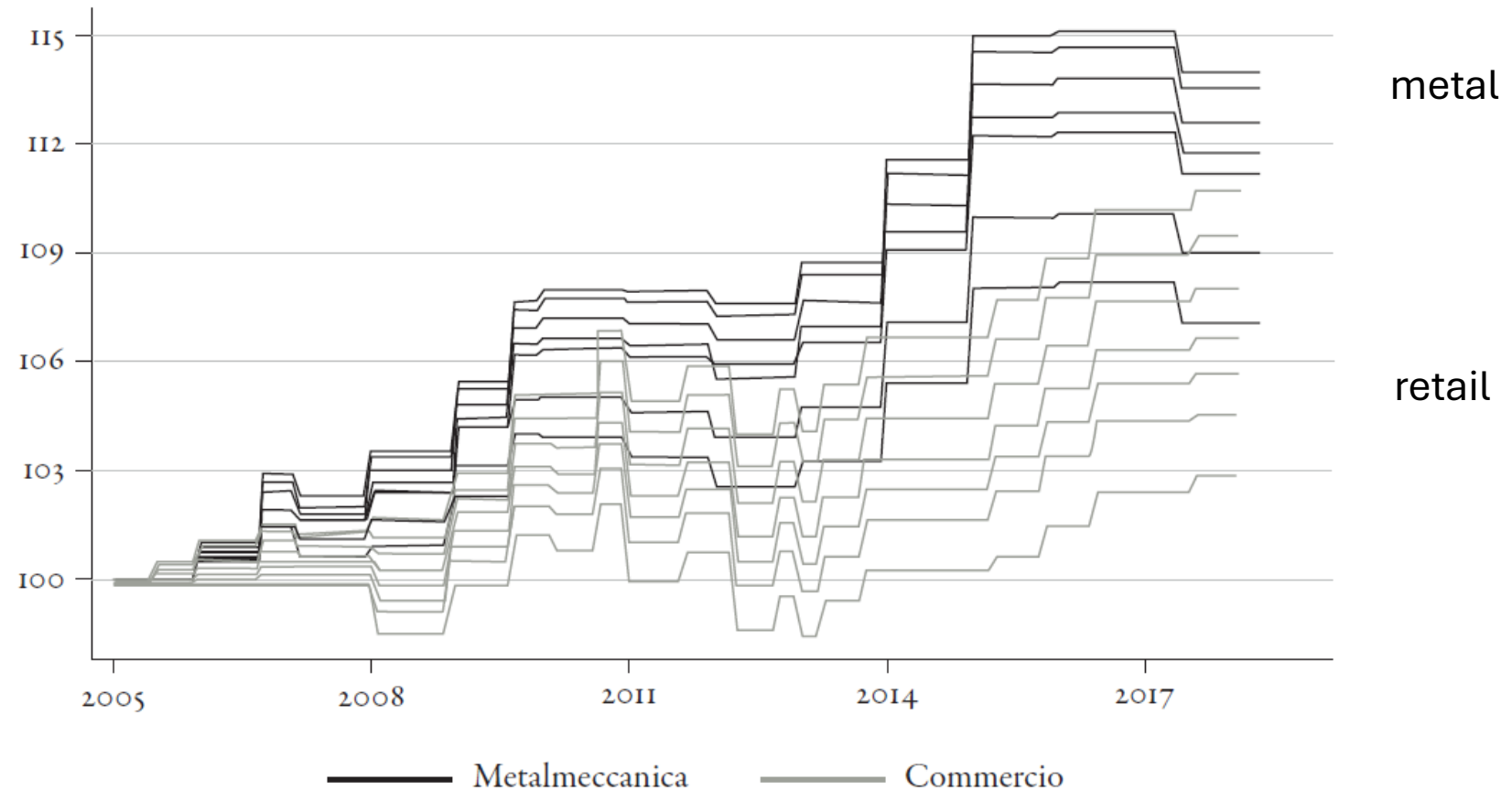
Fonte: Calcolo dell'autore su dati CNEL

Employees awaiting renewal, percentage of total (2021-2025)



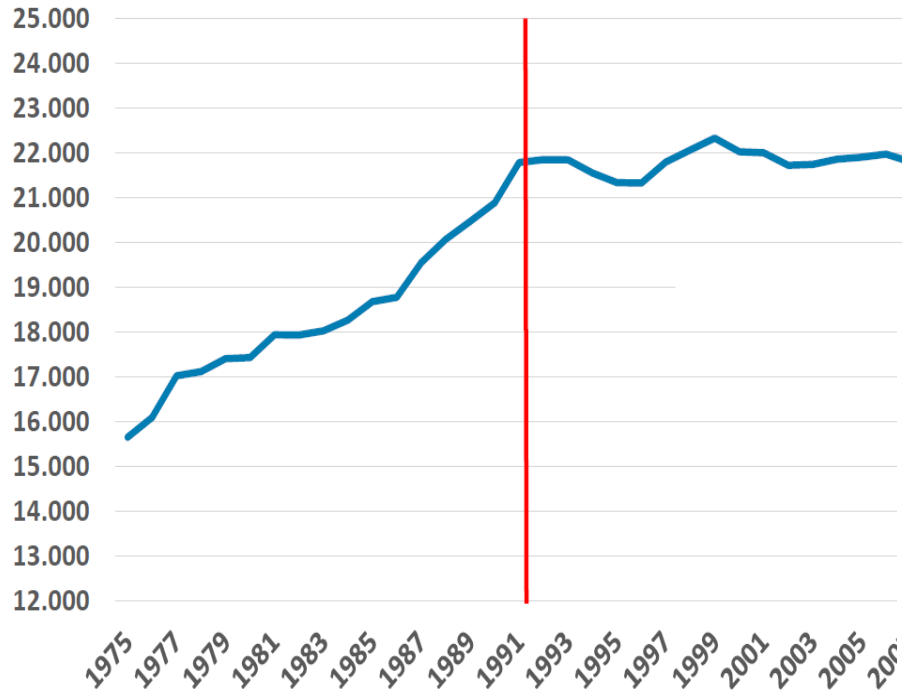
Fonte: Istat

Dynamics of collective contract wage levels



Consequences on productivity?

Yearly labour income



What if wages were influencing productivity?

Wage and productivity dynamics

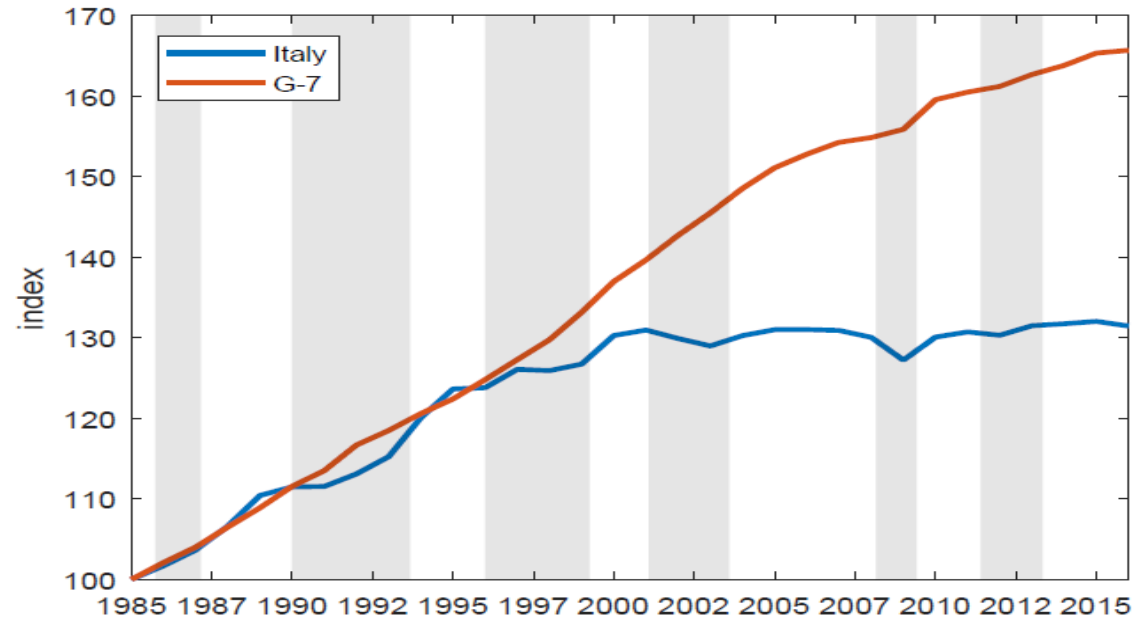


Figure 1: Labor productivity growth, Italy vs. G7 average

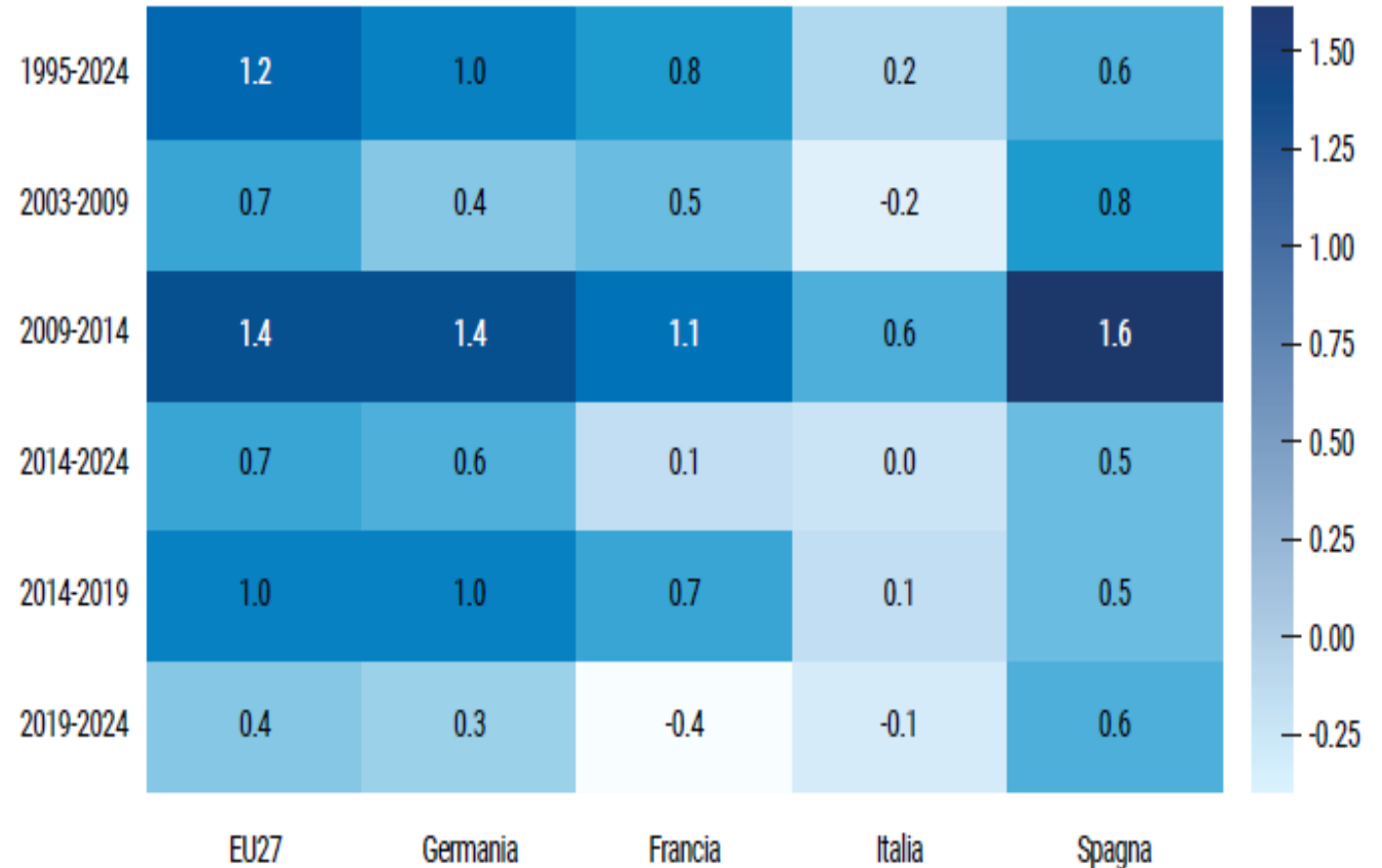
Labour productivity trends (average yearly growth rate)

Quite a slow growth everywhere

What if wages were influencing productivity?

Usual suspects ...

- Efficiency wages
- Incentive to invest in (better) K if L is costly
- Higher domestic demand for goods and services



Labour flexibility: the *picklock* that allowed internal deflation. But productivity is also harmed

Literature – causal effects on productivity - **micro**

- ❖ **Profits** have increased, particularly in the short term thanks to the decrease in labour costs, especially for companies that do not export or operate in non-innovative sectors
- ❖ In large innovative companies, and in companies that use high skills, as the number of precarious contracts increases, **productivity** decreases and patents decrease
- ❖ Why?
 - ❖ Precarious contracts are accompanied by less training and less growth in company-specific human capital
 - ❖ Fewer risky projects with an uncertain outcome are pursued – such as the most innovative ones – if employment relationships are not long-term and protected and a sense of belonging between workers and the company is not developed
- ❖ On the contrary, greater rigidity and protection of employment is accompanied by greater **investment** in physical capital and in the hiring of skilled labor (which are complementary)

Labour flexibility: the *picklock* that allowed internal deflation. But productivity is also harmed

Literature – causal effects on productivity - **macro**

- ❖ All this has slowed down the **reallocation** of production from the most traditional to the most technologically advanced sectors, slowing down an already low average productivity growth
- ❖ In 2015, IMF staff estimated the short- and medium-term impact of labour market deregulation on **total factor productivity growth**, resulting in a negative effect, i.e. a decrease in productivity in the short run (three years) and zero effect after five years. No positive effect emerges
- ❖ A 1% increase in real **wage growth** translates into an additional 0.46% growth in labour productivity.
- ❖ A 1% increase in the **share of national income** that goes to labour accelerates productivity growth by about 0.2% (the share in the OECD area has declined by about 7% on average since the 1970s)

Way out?

Breaking the vicious circle of precariousness – cost competition – stagnant productivity

- The most recent considerations in the field of industrial policies can be summarized in "an industrial policy for good jobs". In recent decades in Italy, paraphrasing, we have instead made "a labor policy for a bad industry"
- In short, we have favoured less productive companies and sectors that create worse jobs, distorting competition between companies in their favour, and protecting unjustifiable rent positions.
 - Spain is tightening its labor market and has not gone bankrupt, quite the contrary!
- It is crucial to rise wages and redistribute the outcomes of increased productivity,
- to protect everyone in the transition phases
- and to preserve social cohesion

Thank you

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