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WAGE REGULATION AND PERFORMANCE-RELATED PAY IN ITALIAN PUBLIC SECTOR

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ABSTRACT

Attempts to reform the Italian civil service in the last 30 years have been mainly done mimicking private sector practices. The results have been quite disappointing. Useful hints can be obtained from a principal-agent model, with regard to the difficulty of measuring output and – even more – outcome. More convincing is an alternative collusive equilibrium model, which clarifies the distance between private and public employers. Useful indications for the future can be drawn from these failures.

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1. INTRODUCTION

This article is inspired by a series of collective works born on the initiative of Carlo Dell'Aringa, mainly collected in volumes edited on behalf of Arel and Aran, focused on public wage and covering a period from 1993 until today.

This was a period of intense experimentation with a lot of reforming attempts, many of which were inspired by the ideas of New Public Management (NPM) that were circulating at that time but even more by the idea that the practices used in the private sectors were quite immediately exportable to public sectors. It was the time of wage regulation based on planned inflation (TIP) and of giving large autonomy to single administrations in wage negotiations. A decentralised bargaining level was added, which enriched the payroll with bonuses, merit increments, performance pay, allowances and so on.

None of this really worked, mainly because private and public sectors obviously face different incentive setting. The civil service easily metabolized these

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attempts mainly inspired by rhetoric and rarely grounded on robust economics. Changes were more formal than real, at most with short-term effects above underlying trends that reproduced long-term regularities. On the other hand, it cannot be forgotten that privatization took place through bargaining, that is assigning a major role to trade unions. This constitutes a typical aspect of the Italian experience.

Wages have risen well beyond the macro-economic target and have slowed down only in the two great crises of this 30-year period, namely the EMS crisis of 1993 and the Great Recession which started in 2008. Attempts to link wages to productivity gains, as well as greater accountability, ended up with widespread increases in public wages. With regard to this last aspect, however, the evidence is much more anecdotal than structural.

What is striking is also the extraordinary persistence of the same rhetoric in the economic policy debate of the different eras[1]. Hood (1998) developed this kind of approach.

One aspect of sure improvement is that today overall transparency has definitely increased. It would be a waste not to take advantage of lessons learned from the past. Conclusions of this work try to address these aspects, to draw some clear suggestions for the future.

2. THE MACRO REGULATION OF PUBLIC WAGE GROWTH

Since the 1992-93 reform, wage regulation in the public sector has been managed using a highly articulated system, stemming from the income policy season of those initial years. At that time, the main goal was to balance the macroeconomic stability with the idea of ''guaranteeing the purchasing power of wages'' in a framework of inflation that proceeded at an annual rate of 5%.

In this long period two different mechanisms applied. Until 2009, a system based on TIP (planned inflation rate) prevailed, dating back to the Interconfederal Agreement of 1993. According to this system, wage agreement renewals were targeted on a predeterminated rate, set by law and valid both for private sectors and for public ones. It was therefore not a forecast of future price growth but a ''desired'' value, for the achievement of which a series of economic policy measures were usually implemented.

It was the era in which it was necessary to drive down inflation dynamics and any gap (almost always of a positive sign) with respect to the targeted values gave rise to a complex payback mechanism. The amount of payback had to be adjusted, taking into account the variation in the terms of trade, in order to sterilize the effect of imported inflation. From a theoretical point of view, this was a big innovation, because it was recognized that protecting the purchasing power of wages against a higher cost of imported goods would only have put the economy in an inflationary spiral.

[1] For a much longer perspective, see on this Melis (1988).