

## Collective Bargaining, Labour Market Institutions and Market Inequality

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### Abstract

How collective bargaining and labour market institutions have influenced market inequality in Italy? This problem, recently addressed for the entire world by international agencies as the ILO and IMF, is tackled for the Italian case by exploring the effects on wage growth of the very incomplete working of the Italian collective bargaining model (1993 reform and following), and the parallel liberalisation (from 1997 onward) of fixed-term employment contracts. The limited coverage and weakness of local, decentralised bargaining (the only tier institutionally deputed to real wage growth) has been imposing a *de facto* real wage cap on collective bargaining, keeping real wage below the albeit modest productivity growth, at least up to the 2008 crisis. Thus, the labour share in income has been automatically compressed by a malfunctioning labour market institution, generating income inequality between labour and capital. A further driver of wage compression and inequality among workers has been the progressive liberalisation of fixed-term labour contracts. The paper provides an econometric exploration of both the relationship between fixed-term contracts and the existence of local productivity wage bargaining, as well as that between fixed-term contracts and inequality in productivity wages in the firms that negotiate local collective agreements. The intensity in the use of fixed-term contracts exerts a negative impact on the probability of signing a local collective agreement, and this effect focuses on local productivity wage agreements, those regulating the growth of workers' purchasing power, significantly reducing their impact. The paper then provides a counterfactual estimate of the very large extent of pre-distributive flows (from labour to capital) generated by the containment of decentralized bargaining as well as, where it is present, by its wage irrelevance. The concluding remarks highlight the crucial economic role of the functional distribution of income, and therefore of industrial relations, for both equality and growth.

Keywords: labour market institutions, collective bargaining model, labour share in income, decentralised bargaining, productivity wage, real wage growth, fixed-term labour contracts, pre-distributive flows.