

# The Sliding Scale System in Italy

by

RUGGERO SPESSO

In this study we shall examine, first of all, the features and development of the sliding scale system in Italy (Sec. I); we shall then consider the more characteristic effects produced by the introduction of this system on the real income of labour and on the monetary situation (Sec. II).

To understand the working of the sliding scale it must be borne in mind that the pay of the workers in Italy is divided in two parts, subject to different regulations. The first part, the « *basic wage* » (*salario base*), is fixed by trade agreements and varies in function of locality, and with the sex, age, and *qualifications* of the workers.

The second part, the « *contingency quota* » (*indennità di contingenza*), was originally fixed on a highly uniform basis, the only differences made being those of locality, sex and age; but in the course of time (as will be pointed out in par. 2) important additional discriminations have been made according to qualification and specialisation of the work. Wage variations arising from the sliding scale are related to the pay of the worker as a whole; but they affect, and are incorporated in, the « *contingency quota* » only (1).

The « *contingency quota* » arose when the several allowances introduced during the war years as additions to wages, were unified; it thus acquired a definitely provisional character. At the time of the agreements for the intro-

duction of the sliding scale this provisional character was stressed by drawing a distinction between the « *contingency* » and the « *basic wage* ». Negotiations are now going on for the unification of the two wage-sections thus eliminating the previous — and now unjustified — temporary nature of the « *contingency quota* ».

Table I shows the variations of the incidence of the « *contingency* » on the contractual wage; it shows the total contractual wage of a skilled worker in the engineering trades in Milan, the monthly « *contingency quota* » he receives, and its percentage ratio to total wage.

TABLE I

« *CONTINGENCY QUOTA* » AS A PERCENTAGE OF TOTAL WAGE

Period	Total monthly contractual wage	Monthly contingency quota	% ratio of the « <i>contingency</i> » to the total wage
1	2	3	$4 = \frac{3}{2} \cdot 100$
( Lire )			
June 1946	7,982	4,108	51.5
» 1947	20,672	11,310	54.7
» 1948	27,827	17,394	62.5
» 1949	27,967	17,238	61.6
» 1950	28,581	17,238	60.3
» 1951	31,789	19,292	60.7
» 1952	32,374	20,189	62.4

The high ratio of the « *contingency* » as from 1947 onwards should be noted. In view of the relative uniformity of the « *contingency* » this fact has accentuated that narrowing of wage-differentials of which we shall speak further on.

(1) The distribution of the total pay between the « *basic wage* » and the « *contingency quota* » has special importance for pensions and dismissal allowances, in so far as these are calculated on the basis of the « *basic wage* » only. At present, however, account is also taken of the « *contingency quota* » for many groups of workers, e.g. bank-employees, various branches of industry, etc.

## Sec. I. - The Evolution of the Sliding Scale System for the Several Groups of Workers.

### Industry.

1. — Several stages can be noted in the history of the application of the sliding-scale to the wages of Italian industrial workers (2).

The first agreement (3) was signed on May 23, 1946, and the first application of the sliding-scale was made in North Italy in the first quarter of 1946. The agreement of May 23, 1946 extended it to the Central and Southern provinces.

The first stage of the introduction of the sliding-scale came to a close in September 1946 and negotiations were opened to unify and revise the system.

The second stage started with the agreement of October 27, 1946. The new basis for calculating the variations of the «contingency quota» was agreed on in October-November 1946. The new period witnessed the growth of inflation, and closed towards the end of 1947 when disinflation started, giving rise to new problems.

On October 4, 1947 an agreement was signed for regulating the downward variations of the «contingency»; setting up a series of protective zones for pay reductions related to a fall in the cost of living. This third stage began in some areas in October-November 1947 and in others in December-January 1948.

As disinflation proceeded, the workers' organisations considered that in view of the low average real wages there was no possibility of curtailing them. The action of the sliding-scale was thus blocked. This *de facto* situation was sanctioned by the agreement of July 5, 1949, under which the «contingency» ruling in June-July 1949, was made unalterable. The block of the sliding-scale was moreover accompanied by the recognition of the need of adjusting the whole system to the new economic situation. Negotiations were thus opened for the purpose of agreeing on a new

«family budget» more in keeping with the new situation and with the real cost of living trend, and for introducing a new national cost of living index.

Under the pressure of the new wave of price rises that set in during the summer of 1950, the negotiations led to the agreement of March 21, 1951, which modified substantially the previous sliding-scale system. Thus in April-May 1951 the stage now in force, opened.

2. — Under the agreements of October 27, 1946, the principles regulating the application of the sliding-scale were as follows:

(a) the average amount of the «contingency» used as the basis for calculating the future variations, was fixed at lire 185 per day (arithmetical average of the data accepted as average for labourers and skilled workers). This amount then varied from one area to another in conformity with coefficients of correction, these coefficients being equal to the ratio between the local cost of living figure (*i.e.* that for the province) and the cost of living figure based on the average for eight standard provinces (4);

(b) the variations in time of the «contingency quota» were tied to the price trend of a standard family budget. Special joint committees on which representatives of the workers and the employers sat in equal numbers were responsible for obtaining the data needed for compiling the local cost of living index numbers (5);

(c) October-November 1946 were selected as the basis on which to calculate the cost of living index numbers;

(4) Milan, Turin, Mantua, Rovigo, Rome, Naples, Macerata and Cagliari. It should also be remembered that the provincial «contingency», obtained by the introduction of the coefficients of correction above described, could not exceed the maximum and minimum limits of Lire 200 and 160.

(5) In Italy, the national cost of living index number, compiled by the Central Institute of Statistics is based on a representative budget (the so-called «basket») covering the expenses of a family of 5 (2 adults and 3 children). When the sliding-scale system was unified, the family budget adopted by the Central Institute of Statistics was rejected as it did not meet the necessary requirements, which called for a very sensitive cost of living index. Under the agreement of October 26, 1946 a family budget was drawn up representing the expenses of a family of 4 (2 adults and 2 children). The essential feature of this budget was that it assured an average of 2666 calories for each unit of consumption (the ISTAT budget provided 2600), food accounting for 76% of the total average expenditure of the eight «pilot» provinces (the ratio was lower in the ISTAT budget).

Nevertheless, the question of the representative character of the family budget so far used for the purposes of the sliding-scale is far from being settled. And this is precisely one of the fundamental elements for judging of the validity of a given sliding-scale system.

(2) Cfr. «Notiziario della C.G.I.L.» (Italian General Confederation of Labour), 1950, No. 4, p. 100; «Quaderni della Rassegna di Statistiche del Lavoro», 1952, No. VII.

(3) Between the Italian General Confederation of Labour (C.G.I.L.), the workers' organisation, and the Italian General Confederation of Industry (C.G.I.I.), the employers' organisation.

(d) the variations were to be made every two months;

(e) the amount of the variation in total pay resulting from the sliding-scale was to be determined by the use of a so-called «fixed ratio».

To understand the working of this «fixed ratio» we should remember that when the sliding-scale was first applied, the average daily pay of an adult male worker was defined at 425 lire. This sum was divided into lire 240 «basic wage», and a «contingency quota» of L. 185. The ratio between the total daily

pay and the «contingency» ( $\frac{425}{185} = 2.3$ ) was the «fixed ratio», so-called because it remained «fixed» for the whole period of a stage in the application of the sliding-scale, whereas the real ratio between total pay and «contingency quota» was constantly varying (See Table I).

Now, if an adult male worker was really earning, as a matter of fact, L. 500 a day, and the «contingency» he really received amounted to L. 200, the real ratio between the whole wage and the «contingency»

was equal to 2.5 ( $\frac{500}{200}$ ). But the actual variation of

the total wage was determined not by this actual ratio, but by the «fixed» one. Therefore if, for instance, the cost of living varied by 2% this percentage was multiplied by the «fixed ratio» (2.3), and the result (4.6%) was in its turn multiplied by the «contingency» (200 × 4.6% = L. 9.2). The «contingency», consequent on the 2% rise in the cost of living, attained the new level of L. 209.2 (200 + 9.2) and therefore the total wage amounted to L. 509.2 (*i.e.* the unaltered «basic wage» was majored by the new level of the «contingency»: 300 + 209.2 = 509.2).

It should be noted that had the rise in the cost of living reacted on the whole pay (L. 500), the variation would have been of L. 10 and the new wage would have stood at L. 510; but this would have implied the adoption of the actual ratio of 2.5.

The «fixed ratio» of 2.3 refers to an adult male worker; for women and minors the respective ratios adopted were first 2 and 1 and later on 2.1 and 1.

But the principle of applying the sliding-scale to a part of the wage only, a part which varied in a fairly uniform way for all workers, and the fixing of the provincial «contingency» on the basis of local index numbers, soon led to serious drawbacks.

In the first place, the ratio of the «contingency» to the whole pay kept increasing, to the detriment of the basic wage (see Table I). Consequently, as the «contingency» was — as we have stated — fixed with fewer discriminations than was the case for the basic wage, the wage-differentials for sex, age, and above all

for specialisation were always narrowing (6).

At first, an attempt was made to correct these deformations by transferring to the «basic wage» a part of the «contingency», but the rise in the cost of living soon wiped out the results secured, and the specialised groups were steadily losing large quotas of real income. Therefore it was decided to revise the «basic wages» of the more skilled groups and to find some means of guaranteeing this new discrimination by introducing special rules in the sliding-scale system.

In the second place, the use of local index numbers for calculating the variations in the «contingency» led to a fan-shaped spread between the pays current in the several zones (7). A series of factors, chief among which the different movement of price trends, the partial application of the agreements in certain areas, the defects in the methods of making the returns, etc., contributed to bring about this situation.

The agreement reached between the Trade Unions and the Confederation of Industry on March 21, 1951 entirely modified the sliding-scale system, stressing the trend towards greater automatism so as to reduce territorial divergencies, and attenuating the distinctive features between the two parts of the global wage (differences in the discriminations made for qualifications, areas, etc.).

The fundamental principles underlying the new system may be summed up as follows:

(a) in view of the greater price stability, the better standardization of commodities, and the disappearance of such abnormalities as the black market, the first purpose of the reform was to lay down new lines on which to draw up the family budget. The

(6) In January 1948 the wage of the specialised worker, of the skilled worker, of the ordinary worker and of women differed respectively by +15%, +8%, +4%, — 25% from the wage of the «common laborer», whereas in 1938 the differences had been respectively of +53%, +32%, +10%, — 47%. Again in January 1948 the differences between average salaries and average wages stood at +42%, as against +90% in 1938. For further particulars on this matter see C. VANNUPELLI, *Cause ed effetti dell'appiattimento salariale*, in «Rivista di politica economica», May 1949, p. 559; *Analisi statistica dell'appiattimento salariale*, in «Rassegna di statistiche del lavoro», January-February, 1951, p. 43; *La scala mobile dei salari*, in «Rivista di politica economica», April, 1948, p. 329.

(7) See the interesting discussion on the problem by CESARE VANNUPELLI, in *Analisi statistica dell'appiattimento salariale*, loc. cit., p. 51.

qualitative and quantitative structure of the former «basket» used to measure variations in the «contingency» from October-November 1946 till March 1951, was thus thoroughly overhauled (8);

(b) to avoid contrasts and special territorial disparities, a single national cost of living index has been introduced, obtained from the average of the weighted indexes of 16 typical provinces;

(c) to avoid the narrowing of wage differentials, wage variations are no longer made, as formerly, by multiplying the «contingency quota» by a «fixed ratio» which leaves out of account vocational qualifications, but the so-called «points» system has been adopted which provides for different values for the various categories of workers according to their degree of skill. The «contingency quota» is thus majored by a number of «points» corresponding to the units of variation of the cost of living index number; and the value of the «point» — in terms of lire — has been fixed by agreement with reference to the «average remuneration for each category» (inclusive of the basic wage, the «contingency», the so-called «bread allowance», and a 12% increase for taking into account the other factors of which the actual pay received is composed, such as bonuses, encouragement premiums, etc.). Moreover, «the average pay for each skill» has been differentiated for two territorial zones only, so as to reduce the fan-shaped spread between pay rates in different areas. Thus, for instance, in the A territorial area (inclusive of North Italy and some of the large cities of Central and South Italy) the value of the «point» in the case of an ordinary industrial labourer, whose daily wage amounts to L. 1,000, has been fixed at L. 10. In this case, the rise in the daily «contingency quota» will be 10 lire if the rise in the cost of living stands at 1%, at 20 lire if the said rise amount to 2%, and so on. In the case of group B (Central and South Italy) the value of the «point» has been fixed at 8 lire for an ordinary industrial labourer; and so, the amount of the average daily wage standing at 800 lire, the increases in the «contingency quota» will amount to L. 8, 16, 24, etc., depending on whether the rise in the cost of living amounts to 1%, 2%, 3% and so on.

Of course the value of the «points», of which we have given an example in the case of an ordinary industrial labourer, and for two different territorial areas, differs according to the average rate of pay for each separate group of vocational qualifications of the workers;

(d) the variations are made every two months;

(e) the average of the period November-December, 1950, reduced by agreement by 2%, has been chosen as the base used for calculating the cost of living index number;

(8) The budget has been considerably enlarged for all its items. Though expenditure on food is now based on 3,000 calories per head, the ratio of that chapter to the total has been reduced.

(f) experience has led to a fundamental change in the rules regulating the downward adjustment of the sliding-scale. The «protective zones» have been changed. Art. 4 of the agreement provides that «should the cost of living index decline, a reduction of 1 point will be made when the variation reaches the level of 4.01 points; a further reduction of 1 point will be made for each echelon at the levels 6.01, 8.01 and 10.1, thus securing a total reduction of 2, 3, or 4 points. Should the index number fall to the level of 11 points, the full reduction will be made in accordance with the usual echelons or rounding off systems...».

As has been noted, under the new system, the «contingency quota» is being gradually brought into line with the basic wage. This process has now reached an advanced stage. Indeed, on the occasion of the latest agreement (of June 14, 1952) about raising family allowances, it was decided to defer the study of the question of unifying the «basic wage» and the «contingency quota» to a special committee (9).

#### Transports.

3. — The agreements signed for applying the sliding-scale to the wages of industrial workers hold good as a rule for workers in the transport industries.

#### Agriculture.

4. — Although the wages of agricultural labourers (10) were already divided in many areas as «basic wage» and «contingency quota», a real sliding-scale system was only introduced in November 1947. The «contingency» varied only under specific agreements, or in the provinces where the trade unions were very strong; but anyhow it was rarely tied to the price trend.

(9) The problem of unification is, however, a very complicated one, as it involves the controversial matters of the regulation of piece work, regional wage discriminations, the disparities between the wages of men and women, etc.

(10) Under the system regulating labour contracts in Italian agriculture wage-workers are classified as permanent, semi-permanent, and casual. Permanent wage-workers are engaged under an annual agreement, the semi-permanent are assured employment for a certain number of days, the casual labourers are engaged by the day without any stability.

After the great strike in the Valley of the Po in 1947, the sliding-scale was introduced for the wages of agricultural workers in North Italy. But as a result both of initial uncertainties and of the opposition of the farmers and also because the operation of the sliding-scale was almost immediately blocked by the advent of the disinflationary period, the introduction of the new system did little for the agricultural workers.

When the new agreements of March 1951 were drawn up for industrial workers, the rules for applying the sliding-scale to agriculture were also revised. Farm workers thus benefited by the application of the system in the provinces of Novara, Vercelli, Venetia, Trent, and Bari, and in all the provinces of Lombardy, Emilia and Tuscany (11). A little later the employers in the Provinces of Venetia and Bari gave notice of withdrawal from the agreements. The principal rules regulating the variations of the «contingency» were similar under these agreements to those in force for industrial wages in most of the provinces, and the value of the «point» fluctuated around an average of L. 10 a day. But in some provinces, the sliding-scale was applied under independent local agreements.

Negotiations were opened in December 1951 for drafting a national agreement which would regulate on uniform lines the application of the sliding-scale to the wages of agricultural workers in all the provinces of Italy. An agreement was reached and the text drafted on September 10, 1952 (12), extending the sliding-scale to all workers employed in agriculture, with the exception of salaried workers. The cost of living index used for calculating the variations of the «contingency» is that of the Central Institute of Statistics, whose base is fixed on the period 1st January-30th April 1952 = 100. The variation period is bi-monthly (13). Each variation point of the index re-

(11) It is believed that in the Spring of 1951 only one third of the agricultural workers benefited by the sliding-scale.

(12) «Notiziario della C.G.I.L.», No. 16/17, 1952, p. 443.

(13) As happens in the case of industrial occupations, the difference between the index-numbers of the two months in question and those for the previous two, supplies the index of variation that is applied to the «contingency». The change is made one month after the expiry of the two-month period.

acts on the allowance in a measure equal to 1% of the wage of the labourers engaged on ordinary kinds of work. The starting point supplied by the average wage also varies from one group of provinces to another. The other rules for the use of the sliding-scale are modelled more or less on those laid down for industry.

#### Commerce.

5. — The application of the sliding-scale in this field was approved on August 10, 1946, under the agreement stipulated between the Italian Confederation of Merchants and the Italian Federation of Workers in Commerce. It was agreed that, beginning on October 1, 1946, the payment of the «contingency», should be in accordance with the procedure established for industrial workers. Later on it was agreed that, as from the 1st December 1946, the whole sliding-scale system should be amended in conformity with the agreements reached in the case of industry. In October 1947 the sliding-scale system was again amended on the same lines as in the case of industry. The two economic branches have marched together, and so the latest agreement on the sliding-scale for industrial wages has been applied also to those for commercial workers as from 1st April, 1951. Although the procedure followed in applying the sliding-scale is the same, the size of the basis selected for calculating the value of the «point» differs of course in the two branches.

#### Banking and Insurance.

6. — It was arranged under the agreement of December 7, 1945, to divide the remuneration of the workers in three parts: the «basic salary», the «contingency quota» uniformly applied, the only differences being territorial ones (according to the population of the place of residence); the «supplementary contingency quota» that varied with seniority and category. In addition to these quotas, other items of the remuneration were taken into consideration such as family allowances, allowance for bus fares, allowance for special assignments, etc.).

Two subsequent agreements (July 14 and November 7, 1946) brought about percentage increases of the three parts of the remuneration (the chief increase being for the « contingency quota »). Under the agreement of November 7, 1946, a sliding-scale system was applied both to the « contingency » and « supplementary contingency » (as well as to the other minor allowances), but on a plan differing from the system set up for industry (14).

Subsequent agreements introduced minor amendments into these conditions (15) until, as in the case of industry, the whole system was blocked owing to the price fall.

Under the agreement of December 20, 1950, the sliding-scale was reintroduced, after the method of application had been completely altered. Almost the whole of the remuneration (16) was related to the cost of living index number of the Commune of Milan, compiled by the Central Institute of Statistics, whose family budget has however been partially modified (17).

Variations are made every two months. The value of the variation « point » has been fixed at 1% of the remuneration affected by the sliding-scale, which, as above stated, now accounts practically for the whole pay.

(14) The variations in the « contingency » were linked to a rise of a national index number obtained from the arithmetical average of the cost of living indexes of certain cities (family budgets agreed on for industry); the cities were Milan, Turin, Genoa, Venice, Florence, Rome, Bari, Palermo, Cagliari. A coefficient of correction equal to 0.80 units was then applied to this average. Sliding-scale variations were for bi-monthly periods. It should be noted that while the variations were applied to the « contingency quota » and to the « supplementary contingency quota », in calculating the amount of the variation the basic salary also was taken into consideration.

(15) Under the agreement of May 22, 1947, the coefficient of correction was abolished and the application of the sliding-scale was extended to some items of the salary until then excluded, such as the allowance for the larger number of family dependents, etc. On October 4, 1947, an agreement was reached which set aside the calculation of the simple arithmetical average of the cost of living and introduced in its place the weighted arithmetical average [weighted by the number of bank employees in the cities mentioned in the footnote (14)].

(16) The only portions still excluded are the family allowances assigned by the I.N.P.S. (National Institute of Social Insurances), and some minor allowances such as that for the cashier's risks, for work in underground premises, etc.

(17) The incidence of the several chapters on the family budget has been thus fixed: food 56%, clothing 18% lodging 6%, heating 6%, sundries 14%.

### Employees of the Government, and of semi-government and assimilated Agencies.

7. — The sliding-scale was introduced for all these groups of workers since October 1, 1945, but on lines differing fundamentally from those above described. Thus, although the global remuneration is divided, as above, in two parts which for the civil servants are described as « basic salary » and « cost of living allowance » (*indennità di carovita*), the sliding-scale was calculated on, and applied only to, the « cost of living allowance » (which varied in its initial amount according to age and the number of dependents) (18). The « cost of living allowance » was subject to quarterly variations, based on the index number of the food price as calculated by the Central Institute of Statistics. As from January 1, 1947, the « cost of living allowance » was raised, and the system used in calculating the family budget was modified. When the inflationary movement was brought to a standstill, the working of the sliding-scale was discontinued, and since then it has not been reintroduced, in spite of the pressure of the workers concerned.

(18) The incidence of the « cost of living allowance » from September 1946 until now is clearly shown in the following Table which reflects the movement of the several component parts of the monthly remuneration of a civil servant of grade XII of the permanent staff (a clerk with at least 12 years seniority):

		(Lire)				
	% ratio of cost of living allowance to salary	Basic salary	Other allowances	Total	Cost of living allowance	Total Pay
I. IX. 1946	33.45	8,666	1,092	9,758	4,750	14,508
I. I. 1947	38.46	8,666	1,092	9,758	6,100	15,858
I. IV. 1947	43.37	8,666	1,092	9,758	7,450	17,208
I. VII. 1947	41.71	11,333	1,430	12,763	9,138	21,900
I. I. 1948	48.13	11,333	1,430	12,763	11,870	24,603
I. XI. 1948	43.67	13,583	1,690	15,273	11,840	27,113
I. VII. 1949	41.38	14,941	1,872	17,613	12,435(a)	30,048
			800			
I. VII. 1951	38.56	16,000	1,200	19,809	12,435(a)	32,244
			1,700			

(a) With the addition of the « high cost of bread allowance ».

### Pensions.

8. — Pensions are not tied to any sliding-scale system, with the exception of some marginal groups whose labor contracts contain clauses providing for a rough adjustment of pensions to the cost of living index.

### Sec. II - Economic Effects of the Sliding Scale.

9. — The growth of wages in Italy has been affected not only by the application of the sliding-scale, but also by the wage rises obtained under local or general agreements. In any case, the study of the trend of the cost of living and of money wages during the critical periods of the inflationary movement, shows that in the postwar years in Italy the price movement has always been caused by facts foreign to the wage movement.

If we consider the initial phase of the inflationary movement, we can see that the rise in the cost of living preceded that of money wages. A clear proof is afforded by the marked time-lag between the two curves in 1944, i.e. a year after the beginning of open inflation in Italy (see graph A). This time-lag became more marked in the course of the following years, and was slightly curtailed in 1947, when the beginning of the downward price trend, in the second half of 1947, and the then widespread adoption of the sliding-scale, had con-

tributed to arrest the steady erosion of the real wages (19).

It was only in the Autumn of 1947, as a result of « Einaudi's policy » for currency stabilisation, that prices began to fall, whereas during that same period wages continued to trend upwards (see graph B).

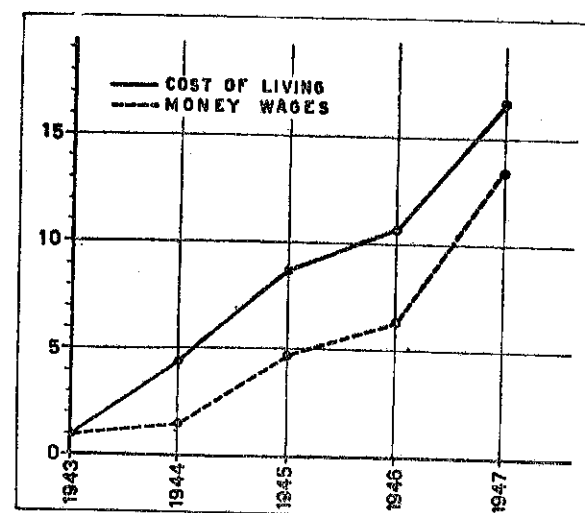
Later on, at the beginning of the new upward price movement caused by the Korean War, a survey of the facts shows that the movements in the cost of living did not depend on the wage movement, but were dependent on other factors of an international nature. In any case, here again the rise in prices preceded that of wages (see graph C).

These simple observations seem to us a decisive answer to some too hasty assertions, according to which the sliding-scale has been an important factor in Italy in causing price rises — a thesis which is now refuted even in the review published by the General Confederation of Industry (20).

10. — Let us now examine how and to what extent the sliding-scale system was really able to resist the normal consequences of an inflationary movement: higher profits and a fall in real wages. The decline in real wages can, indeed, be avoided if a variety of conditions, inherent in the sliding-scale system, are allowed to develop in full.

(a) In the first place the sliding-scale should be extended to cover the whole of the remuneration of each working unit and all groups of workers. Otherwise some part of

Graph A



(19) In graph A the movement of the cost of living is based on the index number compiled by the Central Institute of Statistics (ISTAT), 1938=100 (cf. « *Annuario di Statistiche del Lavoro* », 1949, p. 219); while the index number for money wages has been compiled on the basis of the average of the two synthetic index numbers of the remuneration paid in some groups of industry to labourers and skilled workers, calculated for North Italy by the Montecatini Co. (Cfr. I.S.E., « *Annuario della Congiuntura Economica Italiana* », 1938-1947, Tab. 20, p. 136).

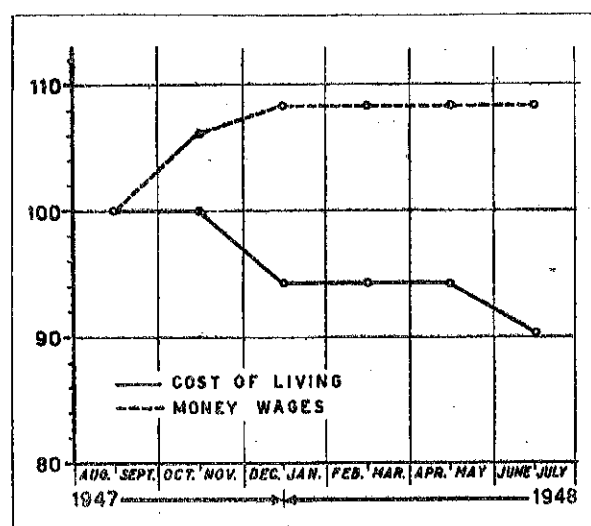
The graphs B and C show the growth of the cost of living as reflected in the index number compiled by the ISTAT (1938=100), and of money wages in industry in the special index number (1938=100) also compiled by the ISTAT.

(20) Cfr. CESARE VANNUTELLI, *Le nuove norme per la rilevazione degli indici del costo della vita ed il sistema di scala mobile dei salari*, in « *Rivista di Politica Economica* », May, 1952, p. 528.

the labour income may be curtailed by the price rise and there will therefore always be erosion of real wages.

(b) In the second place measures should be taken to assure a full adjustment of the variations in the sliding-scale to the real movement in the cost of living. To assure this, the measurement of the cost living should be very accurate and sensitive. But this requirement is not easily attained because the index is, generally speaking, more related to price changes

Graph B



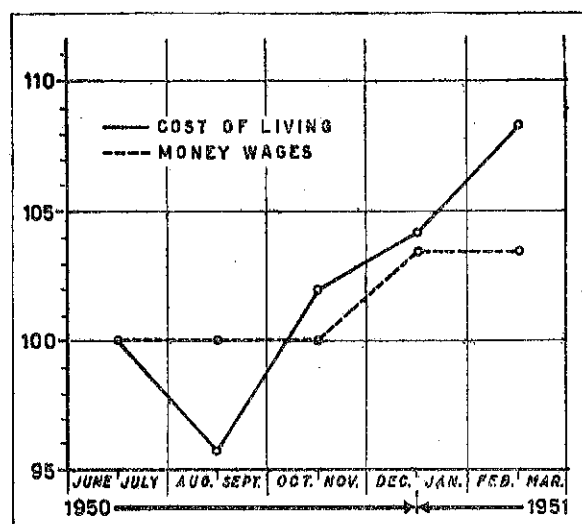
than to changes in expenditure pattern, whereas the evolution of the business situation may cause a change in incomes and other relevant factors, and thus affect the consumers choices. Indeed a « family budget » may be modified not only by price variations but also by the quantitative and qualitative variations in the « basket » selected to calculate the variations in the sliding-scale. And this apart from the difficulty in compiling a « basket » which represents as fully as possible the real expenditure of a typical family, even at the time when the application of the sliding-scale is first made.

(c) Moreover, if the adjustment is to be satisfactory, no time-lag should occur between the variations in the cost of living and the wage changes consequent on the sliding-scale operation.

To what extent has this variety of conditions, necessary for preventing a reduction of real wages, been present, in the Italian experience?

(a) We may conclude from the examination made in Sec. I, that not all groups of workers or of ex-workers (pensioners) have benefited by the application of the sliding-scale system. It did not apply: (1) until September 1947 to the agricultural laborers in North Italy; (2) over the whole period to the

Graph C



agricultural laborers of Central and South Italy (during a later stage to the latter only), to domestic servants, to civil service pensioners, to war pensioners and to the social insurance pensioners; (3) since 1947 to the civil servants and the employees of semi-official bodies.

In studying the effects of the introduction of the sliding-scale it would be valuable to know the volume, expressed in terms of income, of the branches to whom the sliding-scale has not applied during the most relevant periods; unfortunately the statistical material available is scanty and fragmentary. Nevertheless, as in such an enquiry the comparative weight of income branches is more important than their actual amount, we have tried to give an idea, even if only an approximate one, of the situation in Table II.

LABOUR INCOME COVERED BY THE SLIDING SCALE

TABLE II

Business Branch	1947			1951 (a)		
	Labour income		Labour income covered by the sliding scale %	Labour income		Labour income covered by the sliding scale %
	milliards of lire	%		milliards of lire	%	
I	2	3	4	5	6	7
1) Industry and Transports . . . . .	700	39.7	39.7	1,100	40.4	40.4
2) Agriculture . . . . .	180	10.2	1.5	210	7.7	7.7
3) Commerce . . . . .	110	6.2	6.2	175	6.4	6.4
4) Credit and Insurance . . . . .	70	4.0	3.9	120	4.4	4.3
5) Civil servants . . . . .	635	36.0	16.0	925	33.9	—
6) State pensioners . . . . .	15	0.8	—	45	1.7	—
7) I. N. P. S. pensioners . . . . .	20	1.1	—	95	3.5	—
8) Labourers . . . . .	35	2.0	—	55	2.0	—
Total . . . . .	1,765	100.0	67.3	2,725	100.0	58.8

(a) Annual rate calculated on the basis of the first four months.

NOTE: In compiling Table II the estimates given in the « Rivista di Politica Economica » (April 1951, pp. 432-434) have been taken as a base, after altering them critically on the lines further stated, and with reference to the first quarter of 1951. These estimates gave the following distribution of labour income in billions of lire:

Industry . . . . .	1,200
Agriculture . . . . .	650-700
Commerce . . . . .	170-180
Banking and Insurance . . . . .	130-140
Civil Service and semi-official bodies . . . . .	900-950
Government pensions . . . . .	40
INPS pensions . . . . .	90-100
Domestic service etc. . . . .	50-60
Total, about . . . . .	3,300 billion lire

These figures have been amended by a series of considerations:

(a) the figure given for industry must, generally speaking, be taken as approximate if we include in the remunerations those relating to industry proper, to craftsmen, industrial services, transports and home-workers, as also the family allowances;

(b) the figures for agriculture seem to be excessive. Indeed the compilation of the data relating to the persons registered in 1950 for the collection of the social insurance contributions (in the case of casual wage workers) shows a level of annual average employment which, when multiplied by the annual average of wages, allows us to calculate the following annual labour incomes:

North Italy . . . . .	55,371 million lire
Central Italy . . . . .	10,011 " "
South Italy and Islands . . . . .	59,013 " "
Total . . . . .	128,395 million lire

We should add to these assessments of income those of the permanent and the semi-permanent wage workers. By multiplying the level of occupation (here taken at an annual average of 180 days) by the average daily wage (of the casual labourer which generally speaking is lower than the average) the following results are obtained:

North Italy . . . . .	50,760 million lire
Central Italy . . . . .	6,617 " "
South Italy . . . . .	10,169 " "
Total . . . . .	67,546 " "

Thus the situation at the end of 1950 would have been:

	Wages (millions of lire)
Casual labourers . . . . .	128,395
Permanent and semi-permanent . . . . .	67,546
Total . . . . .	195,941

Allowing for some margin of error in the calculations, and bearing in mind that staff salaries are not included in the above figures, we may arrive at an estimate of some 210-220 billion lire;

(c) the figures given for the banking and insurance section are overall ones, and those supplied by the Ministry of the Treasury are probably nearer the truth. They estimate at about 1 million lire the average annual cost of a working unit in this branch of employment. The wage heap for this group would thus be reduced to about 120 billion;

(d) in the case of the other groups of labour income we may accept as roughly accurate the estimates given in the « Rivista di Politica Economica » and we have used them in compiling Table II as averages between the hypothetical minima and maxima.

It should also be noted that the calculation of the level of labour incomes for 1947 has been made, in the absence of direct compilations, as follows:

(a) in the case of industry, agriculture, commerce, banking and insurance, and the section of servants and labourers, by extending to 1947 the situation that existed in 1951, taking into account the movement of employment, and that of the average rates of remuneration for those groups;

(b) in the case of the other branches (apart from the pensions assigned by the National Institute of Social Insurances, INPS) the figures used are those given in the budgets, the average being calculated by taking the half amount of the years preceding and following that selected (1947), and weighting it by the coefficient of monetary depreciation for the several years.

The estimates given can only be accepted subject to many reservations, but in the absence of all data on this matter they may represent a step taken in the direction of a critical examination of the actual level of the labour incomes in the periods referred to.

We are justified in considering that in 1947 the quota of labour income not covered by the sliding-scale was a quite noticeable one; it cor-

October-November 1947 and March-April 1949, the budget compiled by the Central Institute of Statistics registered a decline of 6% only.

TABLE III

COST OF LIVING: CENTRAL INSTITUTE OF STATISTICS AND TRADE UNIONS CALCULATIONS  
(index numbers)

Calculation systems	P e r i o d					
	7-9-46 = 100	10-11-47	10-11-47 = 100	3-5-49	11-12-50 = 100	7
I	2	3	4	5	6	110,1
Institute of Statistics system . . . . .	100	200	100	94	100	110,1
Trade Unions first system (from 7-9-46)	100	212	100	89	—	—
Trade Unions second system (from 11-12-1950) . . . . .	—	—	—	—	100	109,4

responded to nearly 32.7% of all labour income. In the first quarter of 1951, this quota rose to 41.2% (even including the agricultural labourers for whom the sliding-scale was introduced in September 1952).

(b) The failure to adjust the variations in the sliding-scale to the real movement of the cost of living has also depended substantially on the degree of sensitiveness of the « basket » taken as the basis on which the calculation of the variations is made.

In this connection, we must bear in mind the cost of living trend as shown by the Institute of Statistics and by the trade unions (see *Tab. III*) (21). Now, Table III shows that the « syndical » budget which came into force in the period July-November 1946, was found to be more sensitive than that of the ISTAT. While the former had risen by 112% from September 1946 to November 1947, the latter showed an increase of 100%. Moreover, while the syndical budget registered a fall of 11% in the cost of living in the period elapsing between

(21) The cost of living index number compiled on the syndical budget which came into force in October-November 1947 was elaborated by the Italian General Confederation of Labour on the basis of a weighted average of the total outlay on the family budgets of the following cities: Turin, Milan, Trent, Venice, Genoa, Bologna, Florence, Terni, Ancona, Rome, Naples, Bari, Reggio Calabria, Palermo and Cagliari (the figures have been weighted by the number of persons employed in industry in the above cities).

What may have been the causes of this greater sensitiveness?

In the first place, the different method of obtaining returns on prices, which was essentially a « bureaucratic » one in the case of the ISTAT, while it was a « democratic » method in the case of the Syndical Committees whose data were checked and discussed.

In the second place, and above all, we should note the different weight of the item « food » on total expenditure. As is known, this item of consumption accounts very largely for the volume of consumption as a whole. When the real wages of labour are falling, that ratio tends to rise. On the other hand, foodstuff prices are subject to marked fluctuations. Now the syndical family budget, which came into force in July-November 1946, established a number of calories (about 2,600) for the item « food » which was much the same as that used by the ISTAT. But in the family budget of the latter institution the *total* expenditure taken into account was much wider (see *Table IV*), than that of the syndical budget; this entailed a lower ratio of the item « food », and therefore the index number was less sensitive to cost of living changes.

This remark may be extended to the new syndical « basket » which came into force in November-December 1950. Indeed, although this budget establishes a higher number of

calories (about 3,200) than that established for the ISTAT budget, yet the wider range of total expenditure considered reduces the ratio assigned to the item « food » as compared to that of the ISTAT budget, and therefore the ISTAT index number was found to be more sensitive than the syndical index number in the last period (see *Table III*).

the increase in the « contingency quota » which should have been made had the adjustment been perfect.

This shows that the working of the sliding-scale, even when devised on well conceived lines as it was in the period under consideration, still left labour incomes exposed to serious curtailment.

« FAMILY BUDGETS » IN MAIN CITIES AT RELEVANT PERIODS

TABLE IV

C i t y	P e r i o d					
	7 - 9 - 1 9 4 6		7 - 9 - 1 9 4 7		1 1 - 1 2 - 1 9 5 0	
	Family budget as calculated by Institute of Statistics	Family budget as calculated by Trade Unions	Family budget as calculated by Institute of Statistics	Family budget as calculated by Trade Unions	Family budget as calculated by Institute of Statistics	Family budget as calculated by Trade Unions
I	2	3	4	5	6	7
Milan . .	21,915	18,190	44,757	38,663	43,595	59,529
Rome . .	21,918	19,026	42,063	39,541	47,362	62,917
Naples . .	22,854	20,099	38,639	34,051	35,487	49,892
Palermo .	20,645	18,485	36,736	33,441	40,553	57,700

In conclusion, we may say that it is never certain that the volume and the distribution of expenditure established in the standard family budgets coincide with the situation of the real budgets of the working class family, both when that budget is first drawn up and as time goes forward.

(c) The adjustment of the sliding-scale variations to the real movement of the cost of living has never been perfect. The periods for which the adjustments have been agreed on have always been rather long. The details given above prove this point. It would be interesting to ascertain the size of the income that the workers have lost owing to these time-lags. In the case of industry, we may reckon at 25,000 lire the average amount lost by each worker in the period of the steepest price rises (which runs from the July-September quarter of 1946 to October-November 1947), as a result of the delay of two months in making the wage changes consequent on the variations in the cost of living. This sum has been calculated on the basis of the daily loss suffered during an average of two months, and corresponds to

11. — The enquiry so far made has enabled us to ascertain that the introduction of the sliding-scale for some groups of workers, even if it has not *fully* prevented, has nevertheless fairly satisfactorily limited the expansion of the entrepreneurial profits arising from inflation.

Yet the introduction of this system has not encountered very great opposition from the employers' organisations, apart from the agricultural and civil service sectors.

The fact is that a basis for agreement had been created by the objective conditions of the Italian post-war situation. On the eve of the introduction of the sliding-scale, the real wages of the workers had been curtailed in a striking degree, first by the vicissitudes of war economy, and then by inflation (22). The sliding-scale

(22) Cfr. ALESSANDRO MOLINARI, « Anatomia in cifre dell'Italia », in the Review « Ulisse », August 1947, Rome. Thus in industry the wages of the workers had risen 5-6 times above the prewar figure in 1945, while the prices of industrial products had risen about 30 times. In March 1947 the money wages had risen 30-35 times against a rise in the prices of industrial products of about 45-50 times.

On the subject of the income erosion of the middle classes cfr. GUGLIELMO TAGLIACARNE, *Cost of Living, Salaries, Consumption of the Middle Classes*, in No. 2 of this Review (1947).

had therefore become a vital instrument for the protection of the working-classes, and viewed from this angle it was seen to be a fundamental instrument for the maintenance of that « social peace » for which the employers' organisations were so anxious.

On the other hand, the sliding-scale could only act as a partial check on the erosion of real wages by inflation for the reasons we have already seen, and because the wage basis taken as a starting point for industrial workers in the last months of 1946, was at a level below the corresponding level of 1938, in real terms (23).

(23) See A. MOLINARI, *op. cit.*

In conclusion, while the introduction of the sliding-scale called a halt on runaway erosion of real labour income, it nevertheless allowed a mitigated erosion to proceed. The curtailment only ended when, during the disinflationary period, the workers succeeded in blocking the operation of the sliding-scale and increasing the real wage level. Wage adjustments, and the revision of family allowances furtherly improved this situation. Only in the section of civil service and semi-official and local government bodies, and of pensions this erosion has not ceased, evidently because of budget considerations, connected with the needs of the present economic situation.