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Editorial

Italy's "Charter of Workers' Rights" turns fifty

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Abstract:

This short editorial introduces the contributions to a special issue celebrating the fiftieth anniversary of the Italian Statuto dei lavoratori (Charter of Workers' Rights). Such anniversary both reaffirms how crucial workers' movements have been for the design and implementation of progressive policies in Europe, and—by contrast—highlights current difficulties.

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The debate on the inequity of income and wealth (mal-)distribution is increasingly intertwined with those on secular stagnation and the prospects for a quick recovery after the Covid-crisis, and that on who has had (and is going) to carry the burden for the current crisis. This context marks the fiftieth anniversary of the Charter of Workers' Rights in Italy, a founding pillar of the regulation of industrial relations and labor market policy in the country. Our *Review* (jointly with *Moneta e Credito*[1]) devotes a special issue to this anniversary, both to reaffirm how crucial workers' movements have been for the design and implementation of progressive policies in Europe, and—by contrast—to highlight current difficulties.

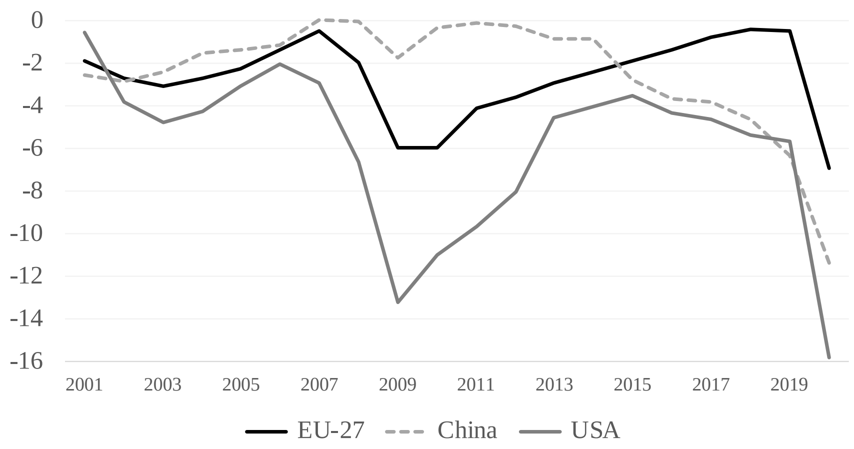
On the one hand, workers' unionization has historically contributed to a reduction of inequality, and then its decline has led to an increase in inequality in the past few decades (Farber et al., 2021); and better paying, stable employment has been shown to positively contribute to productivity growth (Sylos Labini, 1983; for the case of Italy: Lucidi and Kleinknecht, 2010; see also Alencar et al., 2021, in this issue). On the other hand, as the essays in this collection discuss (Roncaglia, 2021; Pasquino, 2021; and Simonazzi, 2021), periods of tighter labor markets have often been conducive to more progressive economic policies both in terms of macroeconomic policy and of market regulation.

Yet, before the pandemic hit, the generalized trend was of dwindling bargaining power for workers, and of an unbalanced macroeconomic policy mix in both the USA and Europe, and an

[1] See vol. 74, n. 293, available at www.monetaecredito.info.

ambiguous situation among low income and emerging economies. All major currency areas were already carrying on the very expansionary monetary policies they had launched in the aftermath of the 2007-2008 crisis (when they used to be referred to as "unconventional" policies). Fiscal policy was more differentiated, as shown in figure 1. While the USA has always exhibited a more expansionary fiscal policy stance than the EU, under the Trump administration it started again enlarging its public sector deficit as a share of GDP, again with an important role for tax cuts in particular. In contrast the EU, starting from a lower deficit than the USA, kept on reducing it even further. Given the public debt and the net international investment positions of the two areas, these trends imply a renewed trend towards the growth of global macroeconomic imbalances. Only China, a major current account surplus and net creditor country, had started to correct its position before the pandemic, and continued to do so thereafter.

Figure 1. *Fiscal policy up to the pandemic: general government deficit*

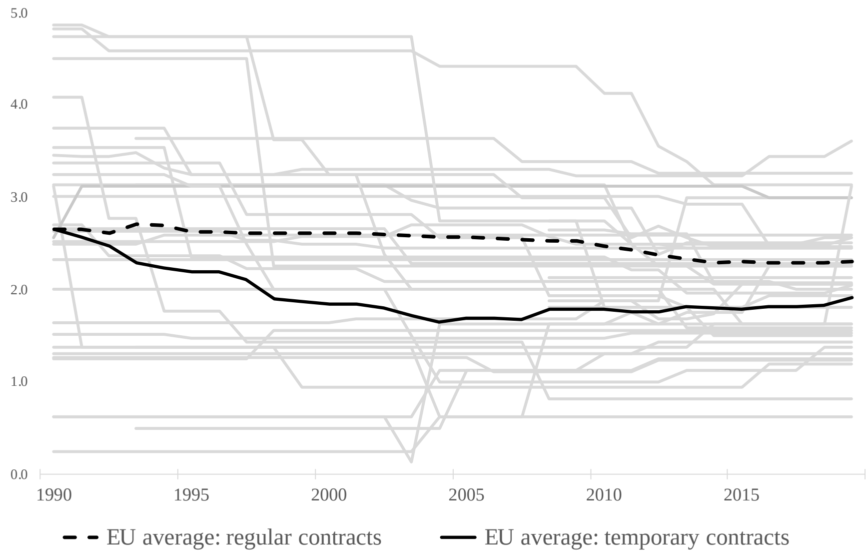


Source: Eurostat.

In Europe, all member states have agreed, and then they have been asked by the EU Commission and Council, to follow a same export-led growth strategy. Public sector austerity – in the loose sense of reduction and containment of general government deficits in all countries simultaneously and independently both of economic conditions and of the level and composition of revenues and expenditures – is the most visible and openly debated ingredient of this strategy (including on the pages of our journal). But not less relevant are what mainstream economists confoundingly call 'structural reforms,' by which they typically mean labor market reforms aimed at reducing workers' bargaining power and/or increasing labor supply, and privatizations and other reforms (e.g. of pension systems) aimed at increasing the reach of markets at the expense of the public provision of goods and services, in particular financial markets.

In terms of labor market policies, EU member states are slowly converging towards lower levels of employment protection, especially for workers on temporary contracts, as shown in figure 2. In some countries, these policies have had some relatively positive byproducts, mainly a reduction of external debt and/or an increase in employment (though this is mostly low-wage and precarious employment, stimulated by the reduction of labor costs rather than by an increase in the demand for goods and services).[2] However, these are side effects in the sense that they are not what these policies primarily aim at. Except for financialization and privatizations (which are more clearly neoliberal than ordoliberal policies), the common overarching goal of austerity and structural (counter-)reforms is consolidating the EU as a whole as an export-led economy.

Figure 2. *Labor market policy in the EU up to the pandemic: OECD Strictness of Employment Protection indexes*



Notes: single Member States in grey, simple EU average in black (unweighted, data only available for 20 EU countries).
Source: OECD.

Within this strategy, all MSs simultaneously are expected to grow by exporting more and importing less, copying the growth strategy that several of MSs had successfully implemented when they were small independent economies. Austerity works almost automatically to fix current accounts deficits, for its negative impact on imports. Structural reforms reduce labor costs in the hope of reducing (export) prices too, thus making Europe the "most competitive" region in the world. If austerity created some unemployment, and structural reforms increased unemployment by reducing inactivity, this was only thought by the proponents of this strategy as a bitter pill: a temporary evil that is necessary as a mean to an end, which again is to produce downward pressure on wages and therefore increase firms' cost competitiveness.

[2] This observation is perfectly compatible even with mainstream economic theory, which predicts a growth in employment and wages if there is an increase in firms' demand for labour, and an increase in employment but a decrease in wages if there is an increase in workers' supply of labour.

Conveniently, welfare state retrenchment is an example of how the two policies can go hand in hand.

There are other negative effects of this strategy – increasing inequality and in-work poverty, decreasing wage share of income, worsening public services, etc. – but from the point of view of the overall growth strategy, one is crucial. The EU as a whole is the largest economic bloc globally, and the rest of the world does not have the capacity to create all the additional aggregate demand required to drive growth both of the EU's economy and that of the rest of the world. This way, the EU is a drag on global growth and a threat for global financial stability (therefore tensions with the USA were bound to erupt independently of Trump's election); as well as the US is a low performer in its own terms, given that the growth that can be produced by its exports has proved to be feeble and erratic.

In conclusion, we can characterize the EU's policy stance in the runup to the 2020 economic crisis as based on a structurally lower fiscal deficit than the USA, slowly converging labor markets towards lower levels of employment protection, and a monetary policy that many perceived as having exhausted the levers at its disposal as well as, according to some observers, having exceeded its mandate in the quest to save the euro. What will happen next is the object of the current debate with, on the one hand, the discussion on reforming or reintroducing the Stability and Growth Pact, and on the other hand, the same old structural reforms now being pushed not with the stick of the European semester but with the carrot of the Next Generation EU funds.

On the other side of the Atlantic, under a new administration the USA now aims to found a newly expansionary fiscal policy on public investment and possibly social expenditure, while monetary policy is slowly moving toward a less expansionary and in prospect even a restrictive stance. This change risks creating currency and debt sustainability problems for lower income and emerging economies, and even in the EU it is unlikely to be ignored. In the very USA, a tight labor market is a prime ingredient of "Bidenomics", but there are warnings of risks for inflation. In all three areas – USA, EU, emerging economies – the prospects for addressing income inequality and laying the foundations of growth, as well as coping with global imbalances, will depend on the relative role and bargaining power of labor. That is why the historical discussion in the present issue still have high topicality.

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