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The consequences of the Russian-Ukrainian war on the Italian economy and the need for a 'full and good employment' strategy

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Abstract:

This article examines the consequences of the Russian-Ukrainian war on the Italian economy, especially on inflation, wages and employment. The study shows that Italy, which in the pre-war period had not yet reabsorbed all the consequences of the 2008 crisis, with the structural weaknesses of its economy, came under renewed pressure due to the COVID-19 crisis and, afterwards, to inflation and the war. The paper indicates the need for an economic policy based on the 'full and good employment' strategy.

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The current period is characterised by several concomitant economic and non-economic shocks that could be called a *polycrisis* (Tooze, 2022). It is now more than a year and a half since the military invasion of Ukraine by the Russian Federation on 24 February 2022. The invasion represents the second exogenous shock that came on top of the previous one, the COVID-19 pandemic. Indeed, the social and economic consequences of the current conflict merged in the international arena with those of the pandemic, from which there had not yet been a full recovery.

The war is certainly something new for the European continent in the 21st century and its effects have become more profound during the last year, producing copious new literature (Lampa and Garbellini, 2022; Pennacchi, 2022; Trentini, 2023). Indeed, the conflict triggered different effects not only on the two countries involved, but also on the rest of the world, with serious consequences especially for the European Union (EU) due to its strong dependence on

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Russian raw materials (Cucignatto and Garbellini, 2022) and also to the pressure of refugees on the EU's eastern borders. Moreover, the war has had asymmetrical repercussions for the EU economies and exposed them to a different degree of vulnerability, especially high in the case of its main manufacturing countries, such as Germany and Italy (Halevi, 2022; Celi et al., 2022).

In this paper we examine the consequences of the Russian-Ukrainian war on the Italian economy, analysing mainly inflation, wages and employment. It is worth mentioning that, at the time of writing, the evolution of the war is still unpredictable and this increases the macroeconomic uncertainty. For this reason, our analysis is based only on official consolidated data.

The paper is structured as follows: in section 1, we briefly describe the recent pre-war context, focusing on the main macroeconomic indicators; in section 2, we analyse the economic consequences of conflict between Russia and Ukraine; in section 3, we discuss the impact on inflation, wages and employment in Italy; finally, in section 4, we present some final considerations about an economic policy based on the *full and good employment* strategy (CGIL, 2013, 2022a).

1. The pre-war context

The different structural problems that historically characterise the Italian economy have worsened since the Great Crisis of 2008 and the pandemic crisis of 2020. The difficulties of the Italian economic system and labour market are reflected in the low gross domestic product (GDP) growth, the slow recovery of employment levels, and the failure to recover the hours worked in the upturns of the economic cycle, as well as in the strong increase of involuntary part-time work and occupational distress (Birindelli, 2019; Ferrucci and Giangrande, 2022).

Italian economic growth was stagnant for more than a quarter-century: before the pandemic crisis, it was characterised by a growth constantly below 2% per year, except in 2000 (+3.8% compared to the previous year), and by two recessions (2008-2009 and 2012-2013). In 2020 the production system was profoundly affected as never before: indeed, in the first year of the pandemic there was an unprecedented GDP contraction (-9.0% compared to 2019). The following years saw economic recovery: +8.3% in 2021 and +3.7% in 2022 (always compared to the previous year). According to the Italian National Institute of Statistics (ISTAT) data, both increases were driven mainly by domestic demand (ISTAT, 2023a).

In 2020 there was a massive drop in hours worked by employees (−10.4%) and a smaller reduction in the number of employees (−1.8%). The drop of hours worked by employees observed in 2020 did not fully translate into a reduction of employees because it was largely contained by the freeze on layoffs and, as shown below, by the job retention schemes. These measures were strongly requested by the Italian trade union confederations and implemented by the national government during the pandemic emergency, something that had not been done in the previous economic crises (2008 and 2011). In the following years (2021 and 2022), there was a recovery both in hours worked and in employment but not in its quality.

The pandemic crisis rapidly caused deep changes in the Italian macroeconomic framework: mainly the drop of annual wages and the growth of consumer prices. In 2020 there was a decrease in the average gross annual wage that was more than halved due to the intervention of the two main job retention schemes (Ferrucci and Giangrande, 2021), in particular through the Wages Guarantee Fund and the Solidarity Funds (CIG and FdS in Italian).

According to Italian National Institute for Social Security (INPS) data, in 2020 there were 4.3 billion authorised hours of the Wages Guarantee Fund (+1,467% compared to 2019) and there were more than 6.7 million employees who received at least one day of CIG (INPS, 2021).[1]

The massive recourse to redundancy funds, urged to combat the dramatic impact of the pandemic on the economic and social system, constituted only one part of the huge public intervention[2] in 2020. However, the overall economic recovery mentioned above, supported by a strong public intervention, did not fully translate into a growth in quality of employment. In 2022, the contribution of temporary employees to the increase of total employees was 55.6% compared to 2020 and 79.7% compared to 2008. This shows that in Italy temporary employment has been used as a *locomotive* during economic growth and as the *last carriage* to be easily disposed of during recession.[3]

Our analysis of the Organisation for Economic Co-operation and Development data (OECD, 2022a) on the average annual gross wage of a full-time equivalent employee (at 2021 constant prices) in the four largest Eurozone economies highlights two diverging wage dynamics over the period 2000-2021: (i) Germany and France recorded a sustained growth over the period (+17.7% and +21.5%, respectively), which was more pronounced in France in the early 2010s and in Germany in the following decade; (ii) Italy and Spain, which had lower average wages as early as 2000, were characterised by a long-term stagnation that resulted in a very small cumulative change (+0.5% and +0.7%, respectively). As an outcome of these trends, the wage gap between Italy, on the one hand, and Germany and France, on the other, has widened further.

The stagnation of real wages that has afflicted Italy for decades is determined by very modest production dynamics, affected by an economic development model based on sectors with low added value and a production structure based on micro and small enterprises: on this basis, the labour demand covers less qualified and, therefore, lower paid jobs (Giangrande, 2021b). In Italy, the share of GDP for the compensation of employees was just 50.9% in 2000, the lowest among the four Eurozone countries analysed. The wage share in Italy grew until 2003, and once again in 2008-2009, when it reached its highest level in the last 20 years (54.1%), which was still 3.6 percentage points below the average of Spain, France and Germany. Since then, the Italian wage share declined steadily until 2017, to rise again in the following three years and stand at 52.9% in 2022 (still –2.4 p.p. below Spain, –4.7 p.p. compared to Germany, and –4.9 p.p. compared to France).[4]

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[1] In 2020, INPS spent 18.7 billion euros to support these two job retention schemes.

[2] It was a turning point in the Italian and European economic policies that, at least during the long pandemic period, were in sharp contrast to the restrictive policies implemented in response to the 2008 and 2011 crises. At the time of writing, there is much unknown about the Stability and Growth Pact (SGP) reform, which may or may not restore the pre-pandemic discipline *(infra)*.

[3] The employees most affected within the private sector by the drop of annual wages in 2020 were young, women, southern, temporary and blue-collar workers, which means those who already had an average wage markedly lower than the average wage in the whole private sector (Giangrande, 2021a). Indeed, during the pandemic, lower occupations and non-standard jobs showed their vulnerability (Di Nunzio et al., 2020; Filippi et al., 2020) and this has contributed to a reopening of the debate on the reform of the social security net.

[4] It is worth mentioning that, in 1960, the first year of the EU's AMECO series (2023), Italy had the highest level of wage share (67.5%) compared to the other countries (France 62.3%, Spain 61.3%, and West Germany 58.8%), while in 2022 it had the lowest (52.9%). To delve into the reasons that contribute to this significant decrease, see Gallino (2003), among others.

The dynamics of the annual hours worked per employee,[5] read together with the compensation of employees *(supra)*, highlights how, in Italy, although employees work comparatively much more than in Germany and France, the share of income destined to remunerate work is considerably lower (even than in Spain). This can be ascribed to the Italian development model, which is based on a production system with a low propensity for overall innovation and oriented to gain competitiveness through wage moderation (Forges Davanzati, 2022), in particular in the micro and small firms in lower value-added sectors.

According to EUROSTAT data (2023a),[6] Italy has the lowest share of managers (1.4%) and professionals (13.8%) of all the countries taken into consideration in 2022; on the other hand, the percentage for elementary occupations is 12.8%, well above the same share recorded in Germany and France and just below that in Spain.

In addition, the high incidence of temporary and part-time contracts is a burden on the Italian dependent employment. In 2022, Italy recorded a temporary rate of 16.9% (lower only than the Spanish rate) and an involuntary part-time rate of 57.9% (the highest among the countries) (EUROSTAT, 2023b, 2023c). Therefore, in Italy, employment discontinuity and underemployment affect the overall wage bill, thus contributing to lower the average annual wage.

It is worth highlighting that the economic debate during and after the pandemic emergency was focused initially on recession and deflation, later on economic growth and pandemic inflation, and lastly on war stagflation. The various economists who participated in the debate on inflation could be divided into two large groups: on one side, there were those who considered the phenomenon as *transitory* and, on the other side, those who considered it as *permanent* (Krugman, 2021; Weber, 2021).

In this heated debate, however, the global uncertainty due to the pandemic was not properly taken into account and this led to rough comparisons with other inflationary periods. The contrived comparison with the oil shock in the 1970s diverted attention from the need to focus on the nature of the recent inflation, which was a new and intricate phenomenon to decipher, also because it was developing within an unprecedented scenario. All of this showed how the dominant economic theory had no useful indication to offer, except the usual mainstream recipe based on the rise of interest rates proposed at every rise of prices (Palumbo, 2022). In this debate there has clearly emerged the so-called "strategy of economic alarmism" (Caffè, 1972), which is based on the alteration of the economic situation and dramatisation of the negative aspects, with the double purpose of preparing restrictive fiscal and monetary measures and of blocking any kind of social claims (Giangrande, 2021c; Pianta, 2021; Sanna, 2021).

Regardless of the different points of view, the debate reopened a public discussion on inflation that for too long had been an issue relegated only to European Central Bank (ECB) meetings and to macroeconomics textbooks. Certainly, the main macroeconomic topic from 2021 to today has been the accelerating consumer prices: indeed, this period is characterised by an increase in the overall inflation rate driven, firstly, by the upturn in international trade previously limited due to the pandemic blockade and, secondly, by the rise in energy costs.[7]

[5] In 2021, according to the OECD data (2022b), the average number of hours actually worked annually in Italy by employees was 1,535, which is slightly lower than in Spain (–29 hours) but significantly higher than in Germany (+230 hours) and France (+130 hours).

[6] Our elaboration does not include either armed forces occupations or 'no response'.

[7] The vulnerability of the Italian production system was evident due to its import dependency, in particular regarding natural gas (Banca d'Italia, 2022; Celi et al., 2022).

Moreover, there is an interesting discussion ongoing that revolves around the origin of the current inflation and which kind of spiral could be triggered: profit-price versus wage-price (Arce et al., 2023; Colonna et al., 2023; Cucignatto et al., 2023a; Müller et al., 2023).

2. The economic consequences of the war

The Russian military invasion of Ukraine has led to a sudden, abrupt change, which has negatively shaken a framework still severely exhausted by the pandemic. For the Italian context, which is characterised by a fragile economic recovery, rising inflation and a precarious employment recovery, the war's impact has led to an overall worsening of the macroeconomic framework.

The current economic and social framework is still marked by numerous difficulties, and the objectives of the National Recovery and Resilience Plan (NRRP), whose impact on GDP and employment was already mediocre (Canelli et al., 2021; Maranzano et al., 2021), are at risk, as declared by the Italian government (Fitto, 2023). Italy, which had not yet reabsorbed all the consequences of the 2008 crisis, came under pressure again due to the COVID-19 crisis and, afterwards, to inflation and, later, to the war. Moreover, the wages – already marked by a long period of stagnation – were under further pressure in the last year from the sudden increase in the cost of living and the long time-lag in renewing the National Collective Bargaining Agreements (NCBAs).

The Italian structural weaknesses were clearly emerging, especially those related to imports. Indeed, Italy is highly dependent on energy and food commodities from the two warring countries: more than one-fifth of Italian imports of energy goods come from Russia, and imports are even more relevant in the case of natural gas (Banca d'Italia, 2022). The Italian energy dependence is a historical fragility that the current war has further exacerbated, exposing the country to price increases determined not by resource scarcity but by geopolitical and speculation issues. The current state of war, on the one hand, pointed out Italy's need to reduce imports by increasing the share of energy produced from renewable sources and, on the other, triggered calls for a unified EU response on the energy issue as was done for the pandemic. For this reason, the European Commission (EC) drafted the REPowerEU plan (EC, 2022), which outlines a series of measures aimed at reducing EU demand for Russian gas by two-thirds by diversifying gas supply sources, increasing renewable energies, reducing the use of fossil fuels in various sectors, improving energy efficiency and, finally, overcoming infrastructure bottlenecks. The potential technical and geopolitical limits of this European strategy have become clear during the meetings of the EU institutions throughout the year (Comito, 2022).

The new scenario – characterised by the pandemic, inflation and war – has led to a change in the economic forecasts of the main international, European and Italian economic and monetary institutions. The International Monetary Fund (IMF) initially estimated that the conflict would lead to a slowdown in economic growth and an increase in inflation that would have an impact on the entire global economy, although differing from region to region according to proximity and economic ties with the two warring countries. According to the IMF, there were three main transmission channels: (i) rising energy and food prices; (ii) increased tensions in trade, supply chains and refugee flows; and (iii) declining business confidence and increased investor uncertainty (Kammer et al., 2022). Subsequently, the IMF revised its Eurozone growth forecast downwards, highlighting the most marked declines in Germany and Italy driven by the fact that both economies have a higher share of the manufacturing sector and a high dependence on Russia for imported energy products (IMF, 2022).

The OECD pointed out that Russia and Ukraine, despite their very limited weight in the global economy, were nevertheless the largest exporters of numerous raw materials – wheat, corn, mineral fertilisers, natural gas, oil, metals, inert gas – and that the prices of these products had risen suddenly since the beginning of the war, even without any interruption in production or exports (OECD, 2022c).

The ECB pointed out that the impact on economic activity and inflation would depend on the progress of the war and the impact of the sanctions against the Russian Federation. Initially, the ECB revised its economic projections and the inflation outlook for the Eurozone and left the interest rates unchanged, waiting to assess the movement of inflation. Later, in July 2022, the ECB decided to tackle Eurozone inflation by raising interest rates for the first time since 2011 (ECB, 2022).

The Bank of Italy warned that the Italian economy had lost dynamism due, on the one hand, to the stagnation of consumption and, on the other, to the negative contribution of net foreign demand, in a context characterised by the resumption of COVID-19 infections, the increase in energy prices, and the uncertainty caused by the war in Ukraine (Banca d'Italia, 2022). The Bank of Italy also pointed out that industrial production, household spending and business investment had fallen and, finally, outlined three hypothetical scenarios relating to the effects of the war on GDP and inflation in Italy.

Essentially, all the main economic and monetary institutions at global, continental and national levels agreed that the conflict was generating a high degree of uncertainty at international, European and Italian levels. All of them forecast a slowdown in growth and an increase in inflation, albeit with different estimates, not always accurate. It seems that their analysis did not take into account the different cause of the current inflation (Canepa, 2023) and the main issues in implementing the sanctions against the Russian Federation (Lampa, 2022; Lenzi, 2023). For this reason, since the beginning of the war, we deemed that the impact of the war was difficult to measure and we suggested that the forecasts should be considered only as indicative (De Benedictis, 2022); we therefore proposed to evaluate the war's economic impact through the official and consolidated data made available from time to time.

3. The economic impact in Italy

This situation of profound uncertainty generated by the pandemic, inflation and the war caused enormous concern because it was reflected in various aspects of the Italian economy. Indeed, the Italian economy grew strongly in 2022, even if less than in 2021, but the GDP growth was mainly driven by domestic demand, while the foreign demand was negative, as shown previously.

Every month ISTAT releases three indicators of consumer prices (ISTAT, 2023b): (i) the consumer price index for the whole nation (NIC), which is used as a measure of headline inflation; (ii) the harmonised index of consumer prices (HICP), calculated according to the EU regulations, which is used to compare inflation between member states and is also a key indicator for the monetary policy of the ECB; and (iii) an index referring to the consumption of the whole household headed by an employed worker (FOI). In this section, we will focus on the HICP because it allows a quick comparison with inflation rates in other EU countries and because it is the baseline for the renewal of the NCBAs in Italy *(infra)*.

In Italy, the annual rate of change of the HICP was -0.1% in 2020, +1.9% in 2021 and +8.7% in 2022 (always compared to the previous year). Except for the first pandemic year, which was characterised by deflation, the subsequent extraordinary increase (the biggest since the 80s) was also due to the prices of energy products. Moreover, in 2022, inflation had a stronger impact on households with less purchasing power (+12.1%) than those with greater purchasing power (+7.2%) (ISTAT, 2023c).

From the latest data on the wage bill at current prices, domestic employment,[8] working time and inflation, we can assess the change in the real average annual gross wage for a full-time equivalent employee for 2021 and 2022 (EUROSTAT 2023d, 2023e, 2023f, 2023g). Compared to 2021, there was an increase of the nominal wage in 2022 in all of the four largest Eurozone economies – more marked in France, Italy and Germany (around 5%) and smaller in Spain (2.9%)[9] – but, deflating by the annual average change in HICP,[10] we can observe a drop of the real wage everywhere: more markedly in Spain (–5.0%) than in Germany and Italy (–3.6% and –3.5%) and much less so in France (–0.6%). This means that the increase in nominal wages did not fully compensate for the rise in the cost of living.

The increase in the prices of essential goods and services affects those with lower incomes to a greater extent and may lead to a further increase in the economic and social inequalities that already characterise Italy; it may also lead to an increase in the area of absolute poverty, which in 2021 counted 5.6 million people (ISTAT, 2022a). At the same time, high inflation and higher interest rates are, on the one hand, reducing the purchasing power of households and, on the other, making other forms of savings increasingly attractive (CER, 2023) for those higher-income earners able to increase their propensity to save while, in any case, taking additional shares of consumption out of demand.

At the end of the fourth quarter 2022, the NCBAs awaiting renewal involved 49.6% of employees (about 6.1 million), which corresponded to 48.8% of the total payroll. Also, in December 2022 the average waiting time for renewal involving employees with expired NCBAs was 24.8 months. In 2022, since the growth in contractual wages was +1.1% on average and the price dynamics was +8.7%, there was a gap of +7.6 percentage points, the highest level since 2001, which was the first year of application of the harmonised price indicator at the European level (ISTAT, 2023d).

The above facts emphasise a critical problem for workers. Indeed, neither the NCBAs renewed in 2021 nor those signed at the beginning of 2022 consider the inflation growth, which increased faster in the second half of 2021. This period was characterised by accelerating inflation, initially driven by imported energy goods, and by a very long waiting time to renew the NCBAs; wages were thus under a double pressure that immediately reduced their purchasing power. Moreover, the current index used for NCBA renewals is based on the

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[8] The wage bill is defined as the total amount of wages paid to employees during the year. The *domestic concept of employment* used in national accounts refers to the residence of the production unit while the *national concept*, which is closer to that used in labour market surveys, takes into account the residence of the employed.
[9] As an outcome of these changes, the gap in absolute terms between the Italian average nominal wage, on the one hand, and the German and French nominal average wages, on the other, increased.
[10] The inflation rate exceeded 8.0% in Germany, Italy and Spain, while in France it stood at 5.9%.

HICP net of imported energy products (HICP-NIE),[11] which is provided every June by ISTAT and which does not allow for the purchasing power of wages to be recouped because it is less than the overall inflation measured by the HICP. This index is, in fact, the outcome of two previous agreements signed by the trade union confederations and business organisations when inflation was very low (Confindustria et al., 2009, 2018).[12] In the past, alternative solutions had already been found for some NCBA renewals (D'Amuri and Nizzi, 2017; Faioli, 2022).

The sharp rise in inflation, together with an overall rise in the interest rate, caused an immediate loss of the purchasing power of wages and a deterioration in business confidence. This is already causing a contraction in demand, especially in consumption and investment, and a decrease in industrial production, which may soon lead to a reduction in employment levels.

For this reason, the fear of a price-wage spiral, which the Italian government and the Bank of Italy seem to share (MEF, 2022; Banca d'Italia, 2023), appears completely unfounded because the current high inflation is not determined by an increase in demand, or by wage growth, but by higher production costs and by the firms' profit growth.[13]

Against this backdrop of sharply accelerating inflation and an increase in the average waiting time for contract renewals, wages suffer a pincer effect that immediately reduces employee purchasing power. For this reason, it is essential to act quickly in order to adjust wages to inflation.

Indeed, to overcome this crisis it is necessary to support wages, increase employment, and strengthen the economic role of the State (CGIL, 2022b). To support employment – which is mainly characterised by an increase in fixed-term employment and growth in very short-term contracts – it is necessary to revise the economic policy.[14] The investments, including those in the NRRP, should be made conditional on the criterion of the highest multiplier effect on employment in Italy. At the same time, it is necessary to relaunch industrial policies for the highest value-added sectors and their supply chains, with the aims of a structural re-industrialisation of Italy and the production of goods that are currently imported.

Bearing in mind that GDP growth in 2021 and in 2022 was mainly driven by domestic demand, the worsening of the macroeconomic framework should be addressed with an appropriate economic policy intervention that supports wages, collective bargaining, employment and investment. Otherwise, the risk is that high inflation and the climate of uncertainty will depress consumption and investment, generating recessionary effects on GDP and employment levels. In conclusion, it is necessary to put the *full and good employment* strategy at the centre of the economic policy agenda.

[11] In 2009, the elaboration of the HICP-NIE was entrusted to the Institute of Economic Studies and Analysis (ISAE in Italian) and in 2011, when the ISAE was abolished, its functions were transferred to ISTAT. For further details about the HICP-NIE history and methodology, see Barbieri (2023); for a critique on the index, see Garbellini (2023).

[12] The 2009 agreement on collective bargaining reform was signed by the General Confederation of Italian Industry (Confindustria), the Italian Confederation of Workers' Unions (CISL), and the Italian Union of Labour (UIL) but not by the Italian General Confederation of Labour (CGIL). The 2018 agreement, known as the "Factory Pact" (Patto della Fabbrica in Italian), was signed by all four organisations mentioned above. For more detail on the differences between the two agreements, see Giangrande and Leonardi (2023).

13 On profit inflation, see Cucignatto et al. (2023b), Janssen (2023), Storm (2023) and Weber and Wasner (2023), among others.

[14] On this issue, it is worth mentioning the labour market reform approved in Spain at the end of 2021, which has limited the use of temporary contracts, given centrality to permanent contracts, and given priority to collective bargaining. For further details, see CGIL (2022c) and Nogueira Guastavino (2023a, 2023b).

Finally, although this article is not aiming to discuss the rules of fiscal and monetary policies at the European level, it is worth pointing out some critical issues in this regard. Expansionary deficit-financed policies could become a problem for several European governments, including the Italian one. Indeed, at the time of writing, the Stability and Growth Pact (SGP) is only suspended and no final decision has been taken on its revision (EC, 2023). The Italian public debt increased during the pandemic precisely to counter the economic and social consequences, rising from 134.1% in relation to GDP in 2019, to 154.9% in 2020, 147.0% in 2021 and 141.6% in 2022 (ISTAT, 2023a), and currently government finance is burdened by the increase in public debt interest, the GDP slowdown, and the uncertainty about the EU framework for fiscal policies.[15]

Indeed, with the great unknown of whether or not there will be a return to pre-pandemic fiscal and monetary discipline, the paradox that could arise is that expansionary economic policies implemented in deficit with the aim of getting out of the pandemic could be followed by a request from European institutions to start reducing the stock of debt that has grown precisely because of the pandemic, thus leading to heavy fiscal consolidation (Tooze, 2021). For this reason, it is also imperative to discuss the economic policy decisions that will be determined in the EU and the Eurozone, with the objective of making the unconventional monetary policies and expansionary fiscal policies structural (CGIL, 2023).

4. The full and good employment strategy

In a period characterised by several crises, the current war represented a new exogenous shock that overlapped that of the pandemic. Italy, which in the pre-war period had not yet recovered from all the consequences of the 2008 and 2020 crises, came under renewed pressure due to inflation and the war, both of which generate high levels of uncertainty.

In this paper we have shown the disturbing worsening of the wage issue in Italy since the pandemic crisis. Indeed, in 2022 there was an increase in the differences between Italian wages and those in Germany and France, differences on which discontinuity of employment and underemployment weigh heavily, especially in less qualified jobs. These characteristics are the result of a production system with a low propensity to innovation and oriented to gaining competitiveness through wage moderation, especially in micro and small enterprises located in sectors with lower added value. An unequivocal signal of the structural weakness of the labour demand expressed by Italian firms is the strong growth of temporary employment and the high incidence of involuntary part-time work. The Italian economic development model and production structure, resulting in discontinuity and underemployment in the labour market, contribute to lowering the average wage.

During COVID-19, emergency macroeconomic policies were implemented to safeguard employment and workers' income. After the peak of the pandemic crisis, the economic policy focus has returned to business as usual (namely wage moderation) and, in the recent period, wage purchasing power has been reduced by sharply accelerating inflation and the long time-lag in renewing NCBAs. For this reason, it is necessary to urgently address both employment quality and the wage issue by supporting wage increases beyond the full recovery of purchasing power. The concerns about a price-wage spiral appear completely unfounded

[15] On the lack of any economic theory behind the fiscal criteria set in the Maastricht Treaty – and included in the following EU pacts – and their so-called "*folly*", see, respectively, Abeille (2014) and Pasinetti (1998).

because the recent inflation growth was not determined by an increase in demand, or by wage growth, but by higher costs and by profits, as recently declared by the ECB (2023).

Furthermore, bearing in mind that GDP growth in 2021 and in 2022 was mainly driven by domestic demand, the worsening of the macroeconomic framework should be addressed with an appropriate economic policy to increase wages and the quality of work, support collective bargaining, and strengthen the economic role of the State.

Indeed, the war[16] has severely slowed economic growth and fuelled inflation. The ECB continues to raise interest rates, deeming that this is the only way to cancel out inflation. This kind of monetary policy, with the high uncertainty about the fiscal policies framework, is leading to a credit crunch for households and firms and a reduction of public spending, paving the way to recessive effects on production and employment. Instead, in this case, new programs should be financed through EU common debt in order to support the economic and social emergency produced by the pandemic, inflation and war and also to fund an innovative development model at the European level that is based on sustainability and inclusivity.

For all these reasons, it is necessary to urgently address the *full and good employment* strategy, which is a pro-employment macroeconomic policy based on wage growth and the creation of higher quality employment that can be implemented through four priority actions:

(i.) *The support of collective bargaining*. In Italy there is a very high rate of coverage of NCBAs signed by the largest trade union confederations (CGIL, CISL and UIL) and an anomalous proliferation of NCBAs which, although covering a very small number of workers, can exert a downward pressure on the wages and conditions set in the more well-established and representative NCBAs (Giangrande, 2022b). To support collective bargaining, it is necessary to establish mechanisms to discourage this practice that undermines the national collective bargaining system. Moreover, this issue reinforces the urgency of a law on trade union and business organisation representation.

(ii.) *The reduction of fixed-term contracts*. In order to decrease precarious jobs and in-work poverty, it is crucial to restore permanent and stable employment, reducing the number of non-standard contracts and limiting the use of temporary employment by firms. This would be useful also to incentivise firms to increase productivity through investment in innovation instead of competing by reducing production costs, especially wages. Indeed, in the capitalist economy, the wage has a double face: it is a cost for the individual firm but, in the meantime, it is also a component of aggregate demand through consumption (Bhaduri and Marglin, 1990; Hein, 2017; Kalecki, 1968, 1971).

(iii.) *The active role of the State in the economy*. The lack of industrial policies that amplified the problem of poor macroeconomic performance (Perri and Lampa, 2018) and the current crisis of firms faced at the Ministry of Enterprises and Made in Italy, in addition to the negative repercussions in terms of employment, represent the Italian economic decline. In the past decades, there were some industrial policies proposed by various Italian governments that were based on the belief that innovations are made possible by tax relief. This approach is fallacious on a theoretical level because it does not take into account that investments are driven by expectations; and on an empirical level its implementation has had almost no positive results. This requires a rethinking of the role of the State, which must steer economic development through public employment[17] and

[16] In addition to the war death toll, the effects on the economic and social conditions are multiple; for this reason, it is necessary to call on the government to repudiate war and to put an end to any rearmament policies.

[17] The size of the Italian public sector has been dramatically reduced in the last few decades through intense privatisation (Florio, 2014; Perri and Lampa, 2017), with an overall reduction of public employees (Bianco et al., 2018); this was particularly exacerbated due to austerity measures such as the block on staff turnover and the stop to contract renewals. According to EUROSTAT data, Italy is among the EU countries with the largest fall in the share

investments. For these reasons, it is fundamental to tie the investments, starting with the NRRP, to the highest multiplier effect on employment and to relaunch the industrial policies for those sectors with the highest added value and their supply chains. This would have the double objective of increasing the number of employed and the quality of employment through its direct and indirect creation and of structurally reindustrialising Italy in order to produce goods that are currently imported.

(iv.) *The reform of the social protection system*. The fragmentation of the temporary layoff support programmes that emerged during the pandemic emergency showed the structural weakness of the Italian social protection system. This can be corrected through a comprehensive welfare reform based on the principles of *universality, inclusivity and equity* (Pallara, 2021).

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