Employment relations under external pressure: Italian and Spanish reforms in 2010-12

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Introduction

Despite pervasive debates around globalisation, the effect of international organisation and of foreign governments on labour relations has received little attention in industrial relations and in labour process theory: the former has long focussed on national institutions, while the latter has focussed on the company level or on capitalism in general. The drastic reforms passed in Southern Europe since 2010 under direct pressure from the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF), and indirect pressure from the German government, raise therefore interesting questions: the issue of 'external pressure' require a more sophisticated analysis of the multiple links between national and supranational actors and of intra-class divisions.

The paper discusses the cases of Spain and Italy, which (as from March 2012) have not needed rescue from the IMF and are not yet under direct supervision, but which have been forced by the sovereign debt crisis to comply with unprecedented requirements from the European Commission and the European Central Bank. The paper will reconstruct the reform paths of these two countries, in connection with both changing EU policy tools (before and after the crisis) and the state of the so-called 'Mediterranean model' of capitalism and of labour relations. The analysis is based on documents, secondary literature, press, documents and interviews with social partners and with European Commission representatives. Conclusions will be drawn on emerging tensions between 'disembedded' or 'disconnected' and embedded forms of capitalism.

Labour relations under EU pressure

Employment relations and the labour process have been long analysed as an essentially closed system, between employers, employees and possibly other local institutions such as the state. More recently, attention has been paid to external forces such as foreign investors and international financial organisations, with growing debates on 'globalisation'. In contrast with popular discourses overstating 'globalisation', industrial relations and labour process studies have only rarely seen external forces as determinant (Giles 2000). They have tended, instead, to either dispel the idea of globalisation as a homogenising force, or reduce it to the intensification, but not qualitative change, of capitalism.

In particular, institutional approaches to industrial relations have kept stressing the path dependency of national industrial relations despite global and international pressures (e.g. Traxler et al. 2001). Institutional rejection of supranational forces reaches its apex in the case of the 'Varieties of Capitalism' (VoC) approach (Hall and Soskice 2001), which has gained a nearly dominant position in comparative industrial relations during the last decade. The VoC theory claims that economic internationalisation, far from leading to convergence, reinforces, through the 'institutional arbitrage' of international investors, national specialisation and therefore differences. However, other, more dynamic and analytical institutional approaches have rejected the idea of uniform national models of capitalism (e.g. Crouch 2005) and argued that in particular financial globalisation undermines supposed national 'models' like the German one (Streeck 2009).

The labour process perspective, with its focus on managerial strategies, has been less fascinated by national institutions and its reference to the political economy context tends to limit itself to the broader concept of 'capitalism':

> 'such institutional logics have limited explanatory power with respect to labour process dynamics, which are increasingly embedded within international production networks where the ability to coordinate and standardize work organization and control systems constitutes a decisive competitive advantage. Such strategies and outcomes cannot be contained within national models that spend too much time on the variety and not enough on the capitalism.' (Thompson 2010, 12)

While the capitalist labour process has been effectively contrasted with non-capitalist ones, and in particular state socialist (e.g. Smith and Thompson 1992; Burawoy 1985), this research orientation is less sensitive to national variations within capitalism, and more to micro-variations among workplaces. As a result, debates on globalisation and global forces are less crucial for labour process theory than for institutional approaches: the theory did not have strong assumption on national institutions to start with, and therefore their decline or reinforcement is a second-order consideration. Scepticism towards globalisation, when it emerges, is specifically channelled towards its instrumental emphasis in managerial and neoliberal propaganda – but the idea of global capitalist logics reducing the scope for institutional 'compromises' between labour and capital is perfectly congruent with labour process analysis in its materialist and Marxist versions – as well as with sociological neo-Marxist theory (e.g. Wright 2000) – and is endorsed for instance by Thompson and McHugh (2009). An analytical tool elaborated by labour process theory to deal with the international level is the 'system, society and dominance' model (Smith and Meiskens 1995; Smith 2005), but it still gives the priority to system-level capitalism and secondarily to national models that reach a 'dominant' position such as the United States or Japanese ones.

Overall, interest in the role of supranational actors has been focussed on more peripheral, economically dependent countries, such as in postcommunist countries (e.g. Upchurch and Weltman 2008), but rarely in the most industrialised countries.

This is the case for the EU, whose role in the social sphere has been generally dismissed, by industrial relations and labour process researchers, as window dressing: despite much more talk of a social dimension than in any other international economic organisation, and a remarkable legislative and institutional activity (European Works Councils, European Social Dialogue, Charter of Fundamental Rights of the European Union, Directive on Information and Consultation of Employees etc), direct EU influence on industrial relations has remained occasional and marginal. Its weakness has been contrasted with national state traditions, which, as theorised by Crouch (1993), have produced different national industrial relations patterns and different nation-specific class compromises. Around the time of the Maastricht Treaty, Crouch dismissed the hypothesis that the European Community could force them to convergence:

> Will the 1992 project for a single internal market within the European Community have a more profound effect? It reaches deeper into the political process, and the EC tends to prefer neo-corporatist patterns since these give it a range of *interlocuteurs* who help remedy its popular deficit. But to date there is little sign that systematic differences of approach to the occupancy of political space are even perceived by policy-makers, let alone have become an object of harmonization. (Crouch 1993, 350)

At most, EU-level industrial relations have been seen as an emerging (but not yet accomplished) 'multi-level governance' system (Marginson and Sisson 2004). Institutional scholars have long highlighted the limits to supranational institutions in industrial relations: EU integration has been mostly 'negative' and 'market-making' than 'positive' and 'market-correcting' (Streeck 1995). A striking example is provided by the very humble transfer of social regulations to the new member states after 2004 (Meardi 2012). EU-level social dialogue is still very far from producing anything reminiscent of collective bargaining. There have been occasional positive evaluations of European social policies (e.g. Weltz 2008), and others have detected bottom-up responses to EU pressure (Erne 2008), but the striking failure to extend any form of 'social dialogue' to the new member states, as declared by the so-called 'European Social Model' confirm that the EU positive integration power is very limited. A wave of concern occurred in 2008 after some controversial rulings by the European Court of Justice (cases Laval, Viking, Rüffert and Luxembourg), which appeared to undermine national institutions of collective bargaining and industrial action rights, but even in that case alarm withered away soon, as the issues involved were relatively isolated and countries appeared able to find some safeguards or adjustments (e.g. minimum wages, legal changes). Broader concern had been raised in Germany by scholars like Scharpf, of an emerging 'post-Ricardian' EU which, in line with Van Hayek's thought, removes economic governance from the national democratic level to ring-fence it in international treaties and technocratic governance (e.g. Höpner and Schäfer 2007).

The period of economic crisis that started in 2007 makes the issue even more topical, given that periods of crisis are often periods of profound change in industrial relations (Brandl and Traxler 2011). In relation to the debate on convergence of industrial relations, crisis could lead to a 'model' acquiring dominance and hegemony. This does not seem to be immediately likely in the current crisis, which has actually seriously questioned the model that previously looked as the strongest, i.e. the neo-liberal one. However, some have argued that neo-liberalism, far from dying, has actually been simply revamped by the crisis (Crouch 2011). The crisis can even be seen as a step in the intensification of financial globalisation, especially because of the transfer of private debt to national states, that makes the latter more vulnerable financially, but also because of calls for more international financial governance, especially within the EU. Germany seems to emerge as a model of reference in debates (e.g. in the French election campaign of 2012) thanks to its stronger economic and especially employment resilience, but in a very inconsistent way given that Right and Left refer to very different aspects of a supposed German 'model'.

While traditional EU policies in the area of employment (whether 'hard' in the form of Directives, or 'soft' in terms of co-ordination) may have had little effect, the recent sovereign debt crisis has immensely increased the interference of supranational institutions over national industrial relations on the countries that needed either bailouts, or European Central Bank intervention on sovereign bonds' secondary market. In a few months, Southern European countries passed deeper reforms than over the previous twenty years, with very little debate and social negotiations. If implemented, by decentralising collective bargaining, liberalising employment protection and raising the retirement age the reforms would produce a systemic change in the so-called 'Mediterranean' employment and social model.

In addition, the EU, and more specifically, the Eurozone, has introduced stronger economic governance tools, with industrial relations implications, since the beginning of the crisis (Erne 2012). In 2010, the 'European semester' system was introducing, whereby national budgets are scrutinised by European institutions before going to national parliaments. In Autumn 2011, the so-called 'Six-Pack' of regulations was passed by the European Council, introducing a direct reference to unit labour costs criteria and to wage setting reforms in case of 'macroeconomic imbalances' in trade between countries, and in March 2012 a European Fiscal Pact was signed, creating a tougher system of budgetary discipline. Both structural reforms and 'Six-Pack' imply a triple departure from EU traditions. Firstly, they depart from EU Treaties, in so far as these explicitly exclude wage setting and collective bargaining from the realm of EU policies (Art. 153 of the Lisbon Treaty). Secondly, they break away from the idea of 'social Europe' as a concern with a minimum floor of rights: what the new wave of reforms implies is, rather, a subordination of social rights to competitiveness priorities. Finally. while the European economic policy guidelines, and even more the European employment guidelines, could be considered as forms of 'soft laws', the 'Six-Pack' includes the possibility of putting countries under EU 'multilateral surveillance procedure' (as it happened already for Spain in March 2012, after the country announced that it would miss its deficit reduction target) and inflicting fines, while the structural reforms requested from countries with debt financing problems, even if not legally binding, offer no alternatives except state bankruptcy.

Two policy proposals have been particular important for the EC and the ECB since 2010: the approaching of collective bargaining to the company and to productivity, and the liberalisation of employment protection through a flexible ‘single open-ended contract’ that would overcome labour market segmentation. Interestingly, there is little or no evidence that such proposals may help the economy or the labour market, especially at a time of recession (Esping-Andersen and Regini 2000; Traxler et al. 2001). Moreover, they contradict many of the previous Commission’s DG Employment and Social Affairs own elaboration, expressed in particularly in 2006 in both the *Employment in Europe* and the *Industrial Relations in Europe* reports, which acknowledged some advantages of employment protection legislation for human capital investment, and of co-ordinate collective bargaining to increase productivity and stabilise wage developments. The shift of decision power from DG Employment and Social Affairs to the EcoFin Council and the ECB has coincided with the abandonment of expertise on the social side of labour market, and the adoption of simplistic targets of flexibility and decentralisation.

From a labour process perspective, the puzzling issue is that the content of the reforms has been dictated by supranational institutions (especially the ECB), and does not coincide with the demands of employers at the national level. Even if the enacted reforms can be defined as pro-employers, the total decentralisation of collective bargaining and the flexibilisation of permanent employment were not on the agenda of local employer associations, who are actually attached to some degree of co-ordinated wage setting (in order to avoid company-level bargaining and related transaction costs) and to labour market dualism between core and peripheral workforce as indispensable tools to keep control of the workplace. On the other side, trade unions have been looking for national political compromises, given that their industrial relations weapons appear ineffective to fight against external pressures. The resulting unstable situation, therefore, rather than radicalisation of class conflict has produced some attempts at national social dialogue in defence of some national arrangements, and a tendency to informal arrangements that minimise the actual implementation of reforms that on paper would be radical.

There are some alternative relevant standpoints, in particular the neo-Gramscian view of EU as a form of ‘neoliberal hegemony’ (e.g. Van Apeldoorn et al. 2009). This view converges with the socio-economic analysis by Fligstein (2008) of EU integration as a class-based process of creating a European society, which largely excludes the lower classes. Both neo-Gramscian and Fligstein’s views, despite attention to trade unions, have however remained focussed mostly on international relations and detached from the workplace. Workplace studies throughout Europe have never detected anything similar to a EU hegemony, and while it is true that hegemony operates in a latent way, we still lack any sort of evidence that it operates in labour relations. Moreover, despite some real effects of EU discourse on national policies (as it will be shown below), it is difficult to talk of EU hegemony at a time where this organisation reaches its record level of unpopularity.

This paper will address the issue of supranational institutions’ role in the regulation of labour relation through the analysis of an unprecedented case of the Italian and Spanish cases in 2010 and 2011, when the EU impact has suddenly become very overt, by demanding radical immediate reforms. The analysis is based on documents, labour markets data and interviews conducted between May 2011 and February 2012 with the main national actors: politicians, union and employer representatives in Spain, Italy and at EU level, and the European Commission.

Mediterranean labour relations and EU reforms

Spain and Italy present a puzzle for institutional economic sociology: they do not fit with neat 'Varieties of Capitalism', and therefore, according to Hall and Soskice's argument, they do not have any institutional comparative advantage that would make them competitive. As 'hybrid' cases that can rely neither on co-ordination nor on liberal markets, they are condemned to under-performance. Yet for much of the 1990s (Italy) and 2000s (Spain), their economic performance was impressive, attracting considerable international attention, especially on the model of 'industrial districts' of Italian small and medium enterprises (SME), and on Spanish successful and apparently painless attraction of immigration and foreign investment.

As a response to VoC's disapproval of these apparently deviant cases, Schmidt (2002) had focussed on the role of the state in enforcing a different from of co-ordination that the one reached spontaneously by more corporatist countries like Germany. The possibly positive role of the state was also stressed by Crouch (2005), who also stresses that countries tend include 'mixes' of forms of capitalism, rather than adhere to pure ideal types.

The more multidimensional typology of capitalisms elaborated by Amable (2003) provides a description of Mediterranean capitalism (covering Italy, Spain, Portugal and Greece) as combinations of regulated product markets, regulated (or 'rigid') labour markets, bank-based finance, and weak education systems. However, even Amable, for the purpose of taxonomy, reduced the complexity of each variable (constructed on a number of indicators) to one-dimensional axes that do not correspond to the more ambiguous nature of economic regulation. In particular, 'high' or 'low' regulations means little if we do not specify what the regulations are. This is particularly true in the case of labour markets. According to Amable, the two forms of high regulations that characterise Mediterranean capitalism are 'limits to temporary work' and 'conflictual manager-employee relations' – yet this is in striking contrast with the fact that Spain held for a long time the European record for temporary work, which was liberalised in 1984 and has since oscillated between 25 and 35% of the workforce, more than twice the European average (Portugal also has a very high fixed-term employment rate, while Italy and Greece are slightly below EU average). 'Conflictual' management-employee relations (measured simply on the basis of the *World Competitiveness Forum Yearbooks*) appears to be an excessive generalisation of what are more specifically (according to industrial action statistics) conflictual union-management and union-government relations. The 'conflictual' definition does not correspond to the more paternalistic relations that exist in SMEs, exemplified by the fact that in parts of Italy, it is common for workers to call unionists by surname, but the employer by first name. Amable converges with Hall and Soskice in not being impressed by Mediterrenean capitalism's performance, but at least recognises in it some strength in traditional sciences (physics and mathematics) and in low-tech industries.

Molina and Rhodes (2007) have paid more specific attention to Spain and Italy as 'mixed market economies', underlining not only the role of the state, but also employer fragmentation, union political divisions and class conflicts as barriers to reform. In terms of labour relations, they identify the problem of Mediterranean countries in 'fragmentation' rather than in 'conflict', stressing that in fact Spain and Italy have undertaken various forms of social dialogue, notably through tripartite 'social pacts' in the 1990s. Analytically, they focus on an important distinction between micro- and macro levels and forms of co-ordination. Already Regini (1995) had underlined how in Italy not only the local and the national levels of industrial relations were not mutually consistent, but they even appeared to compensate one another: during the 1970s and 1980s, when conflict prevailed nationally, co-operation took place locally, and vice versa. Moreover, Molina and Rhodes identify a number of important differences between the two Mediterranean countries: in Italy, the power balance between unions and employer associations is more advantageous for labour, and the more proportional parliamentary system involves more 'veto players' and therefore more resistance to reforms. As a result, marketization since the 1980s is deemed to have been stronger in Spain, pushing it towards a 'liberal market economy' (see also Banyuls et al. 2009).

A further specificity of Mediterranean capitalism, especially in Italy, is regional differentiation. This has been highlighted in particular by Trigilia and Burroni (2009), drawing on Italian research on the industrial districts (e.g. Beccattini 2001) and on the distinction between 'three Italies' (Bagnasco 1977). The major implication is that even if no performing institutional complementarities are apparent at the national level, there may well be some at the local level, combining both formal and informal institutions. Informal relations that reduce transaction costs and allow SMEs to achieve, through co-operation, some economies of scale while maintaining the flexibility and direct control of the labour process that is characteristic of small size organisations, in particular, would explain the enduring performance of some industrial districts, that operate as 'local production systems', despite increased global competition. More recent research indicates that globalisation had, until the financial crisis that started in 2008, a differential effects on Italian industrial districts: while the low-skill, low-added value ones, especially in sectors such as textiles suffered from strong competition and have been affected by major relocation processes (especially to the Balkans), the most high-added value ones, especially if linked to the Germany economy, had been growing, restructuring and modernising – although the process of technological upgrade and investment came to an abrupt halt with the credit crunch (Simonazzi 2012).

Both countries have been severely affected by the global economic crisis, with a similar GDP contraction in 2009 (-3.7% in Spain, -5.2% in Italy), but the labour market effects have been radically divergent: Spain witnessed the most spectacular explosion of unemployment across the EU (from 7% to 20% between 2007 and 2009), while Italy, very much like Germany, engaged in 'labour hoarding', reducing working time but only slightly employment (unemployment rose from 6% to 7.5% in the same period). During 2010 and especially 2011, both countries were affected by the sovereign debt crisis, although for different reasons. On one side, Italy had been actually running a primary surplus (before interest payments) and even after the crisis it managed to keep the deficit within around 5% of GDP, but pays the high price of a large accumulated debt (118% of GDP in 2010). On the other, Spain has a relatively low public debt (61% of GDP in 2010, as against a Eurozone average of 85%), but after a period of surplus it fell into very high deficits (11.2% in 2009) due to the collapse of the economy and increase in unemployment, and is made vulnerable by higher household debt. In both cases, the weak financial situation has led to government change in 2011 and very strong pressure from European institutions, and especially the ECB, to enact both public finance and labour market reforms.

The next sections reconstruct the trends in labour market regulations and industrial relations in the two countries under EU pressure, comparing the period since the start of the European Employment Strategy until the economic crisis (1997-2007) and the one afterwards (2008-12).

The Italian case

Before the crisis

The European Commission's *Employment in Europe Report* of 2006 (European Commission 2006) contained, within a long analysis of flexicurity, a cluster analysis of EU countries that portrayed five clear models along the two flexibility and security axes: an 'Anglo-Saxon' system (high flexibility, low security); a continental system (medium flexibility and security); a Mediterranean system (low flexibility, rather low security), an Eastern European system (high flexibility and low security), and a Scandinavian system (flexicurity). These clusters appear to be very neat and to confirm industrial relations typologies: they are very close to the five industrial relations regimes that would be identified in the *Industrial Relations Report* two years later (European Commission 2008). However, the analysis includes one exception: Italy does not appear in its traditional 'Mediterranean group', but in the 'Eastern European' one. In fact, it is a clear case of distorted, or selective, effects of EU pressures: while flexibility has increased massively in the last few years (with the labour market reforms of 1997 and 2003), security has clearly declined. As a result, far from catching up with Denmark, Italy has fallen to Eastern European levels.

Italy has been considered as particularly affected by the EU in its socio-economic institutions and even 'rescued by Europe' (Ferrera and Gualmini 2004). The role of the EU in the Italian labour market until the crisis is important but may have been overestimated. In particular, EU pressure had the direct effect of forcing Italy to liberalise part-time employment (in 2000) and temporary employment (in 2001), as well as to reform employment services. But the path of reform was still very national. The 1997 labour market reforms (known as 'Treu package' from the name of the then labour minister) were enacted before the first Italian National Action Plan (in 1998) and had been drafted under the Dini government in 1995 They were influenced by the 'Danish model': labour minister Treu had travelled to that country for inspiration (Ichino 2011). However, this occurred *before* the launch of the European Employment Strategy (EES) in 1997, the subsequent EU adoption of Denmark as a model to follow and its labelling as 'flexicurity'.

National politics were still decisive for the Italian reforms of the 1990s and 2000s. The 1997 reforms followed the policy mechanism of *concertazione* that was rooted in a specific Italian tradition, that of national tripartite agreements, which had started in the 1970s in relation to wage inflation. The part-time and temporary employment reforms of 2000 and 2001, while both induced by the need to transpose EU Directives, were of different political sign: the first, passed by a centre-left government, was agreed by the trade unions, while the latter, passed by a new right-wing government, was opposed by the largest trade union, CGIL. The later reform of 2003 (Act no.30/2003) also responded to very specific national political developments: the election victory of Berlusconi; the *Libro Bianco sul Mercato del Lavoro in Italia* (White Paper on the Labour Market in Italy) prepared for the Ministry of Labour on the same year; and the assassination of the *Libro Bianco*'s lead author, Marco Biagi, on 19 March 2002. On that occasion, the largest Italian union CGIL achieved a success in resisting, through strikes and a large 3-million demonstration in Rome in 2002 and a general strike in 2003, the partial liberalisation of dismissals (the reform of article 18 of the *Satuto dei Lavoratori* of 1968), which was eventually dropped from the reform.

With regard to the content of labour market reforms, the input of EES guidelines on the *Libro Bianco* and the reforms was merely indirect. Even if Act no. 30, in its preamble, mentions the need to 'fully adapt current regulations to the community rules' (Art.1), this is a statement devoid of content as no specific Directive is transposed into Act no. 30, and the link between Act no.30 and European law is at least ambiguous (Rocella 2004).

At the time of the reforms of 1997-2003, flexicurity had not yet become an important catchphrase, and in any case the debate in Italy was only centred on flexibility, not on security. A reform of social benefits in the direction of the Danish model was discussed under the centre-left governments of 1996-2001 and 2006-08, but with only a minor improvement to unemployment benefits in 2007 (Act no. 247/07), achieved again through a tripartite social pact. The architecture of unemployment benefits remains that of the original, post-war regulations (1947), with the addition of a selective Wage Guarantee Fund for large companies, in its main features dating from 1968. If there has been a direct effect of the EU on Italian labour market policies in this period, it has not been through its ‘social dimension’ and the EES, but through its ‘market-making’ nature (e.g. the rejection of subsidised contractual flexibility for young workers through the *Contratti di Formazione e Lavoro*, following a European Court of Justice ruling in 2002), and through Eurozone budget discipline: social expenditure has become more and more competence of the Finance minister rather than of the Ministry of social and employment affairs, hampering any plan of expanding it to a modern form of universal unemployment insurance. Overall, Italy’s implementation of flexibility without significant improvement and change in social security has led to a system deserving the definition of ‘Flex-insecurity’ (Berton et al. 2009).

The major improvement of the Italian labour market in the first half of the 2000s (employment rate increased from 51.3% in 1997 to 58.7% in 2007) is not in direct relation to flexibility reforms as advocated by the EES, and it is to a large extent a statistical artefact. The employment increase by around 750,000 people in 2003 corresponds almost exactly to the number of 650,000 undocumented immigrants regularised by a concomitant immigration reform (Barbagli et al. 2004). It can be deduced that a significant proportion of employment growth was the mere registration of jobs that already existed in the shadow economy, performed by hitherto undocumented immigrants outside official employment statistics.

After the crisis

Italy’s economic and labour market performance in the crisis shows some apparent similarities with Germany’s: a strong GDP fall without employment fall, largely thanks to the state-subsidised working time reduction. Italy did not need to introduce a new working time reduction scheme as it already had such mechanisms, through the *Cassa Integrazione* wage fund for restructuring and the *contratti di solidarietà* for defensive working time reduction.

Until the crisis, Italy seemed, even more than Germany, a case of relatively enduring strength of collective bargaining and trade unionism. Union density and collective bargaining coverage both remained virtually unchanged since the 1980s, were actually revamped through *concertazione* and union referenda in the 1990s, and maintained their functions with more continuity than even Sweden (Oliver 2011). However, Italy entered the crisis with two major economic problems: high public debt inherited from the 1980s made the country very vulnerable at a time of crisis, while a productivity decline since the introduction of the Euro in 1999 had worsened competitiveness especially in sectors with important new entrants such as Eastern Europe and China. In fact, while Germany employment started increasing in 2010, in Italy it stagnated and unemployment reached 9.5% by February 2012.

The crisis initially delegitimized the liberalisation agenda, with Finance Minister Tremonti even acknowledging, in 2009, that ‘flexibility was a mistake’ (a reference to the ‘Biagi’ reforms) and that permanent employment suits the Italian family-based model much better. However over time pressures arrived from both within and without.

In January 2009, employers and the unions CISL and UIL agreed a reform of collective bargaining, reducing wage indexation guarantees. The largest union CGIL did not sign and its opposition limited the implementability of the reform: in some sectors, given its strength, CGIL could force the other unions to negotiate on the basis of the previous system, introduced by a tripartite agreement in 1993. In metalworking, FIOM-CGIL not signing a new agreement meant that the sector was governed by two agreements: the new one signed by CISL and UIL for most workers, and the old one for FIOM-CGIL members.

More drastic changes were introduced in 2010-11 by the largest Italian industrial company Fiat, now controlling Chrysler and managed by an Italo-American CEO, Sergio Marchionne. By threatening relocation to Poland, Marchionne could obtain the consent of CISL and UIL, and of a majority of employees in referenda, to new plant agreements outside the sectoral metalworking agreement, introducing notably more working time flexibility and a peace clause. The agreements were first signed at the plant level, starting from the plants most directly threatened by relocation (Pomigliano and later Mirafiori), while another small plant (Termoli Imerese) was being closed, and were then extended, with small modifications, to the whole of the Fiat group at the end of 2011.

The Fiat agreements were of historic relevance because Italy had lived since 1948 under the illusion of an *erga omnes* system of sectoral agreements. While not legally binding technically, sectoral agreements were routinely used by the courts as reference for setting the constitutional rights to fair wage and fair working time. As a result, employers knew that not respecting a sectoral collective agreement involved serious legal risks. The industrial relations implications of the Fiat agreements were particularly strong because they affected union recognition: by abandoning multi-employer agreements, Fiat also withdrew from the one of 1993 on the system of workplace union representation, which had established the hybrid works-council system of *Rappresentanze Sindacali Unitarie* (RSU). Now, Fiat was only bound by the law, i.e. the *Statuto dei Lavoratori* (Law 300 of 1970), which only protects unions that are signatory of collective agreements. As a result, FIOM-CGIL, by refusing to sign the new Fiat company agreement, found itself expelled from the factories despite being by far the largest trade union in the Italian Fiat plants and in the metalworking sector.

By exiting the Italian collective bargaining system, Fiat clashed not just with CGIL, which challenged the new agreements in the courts, but also with the employer federation Confindustria, which defends sectoral agreements while asking for more flexibility.

On the 28th of June 2011 a new tripartite agreement was signed to reform sectoral collective agreements. This time, it was also signed by CGIL, while still being opposed by its influential metalworking federation, FIOM, which had been on the front line in the Fiat case. The reform introduced long-awaited criteria for union representativeness, establishing that company-level agreements could depart from sectoral ones if signed by unions representing more than 50% of employees. While allowing further decentralisation, the agreement ‘saved’ sectoral agreements, meeting the need of small and medium enterprises to avoid company-level negotiations (due to transaction costs and in particular to the paternalistic attitude of most small and medium employers). However, the agreement was unsatisfactory for Fiat, as it was not retroactive. On the 18th July, the first court ruling on the first Fiat plant agreement (in Pomigliano) sentenced that the agreement was legal, but the resulting exclusion of FIOM was not. This increased the situation of legal uncertainty. If FIOM-CGIL could re-enter the factories, it could also call strikes, making the peace clause signed by the other unions ineffective. Fiat started asking explicitly for a law to legalise its position, but collective bargaining in Italy had never been subject to legal intervention except the generic principles in the Constitution of 1948. The only attempt at a law on collective bargaining, in 1961, was actually ruled unconstitutional for interfering with trade union freedom.

In August the situation precipitated because of financial turmoil in the Eurozone. Following unsustainable increase in the spread of government bonds, Parliament had to convene in the middle of the summer holiday. A first declaration by Berlusconi on the 3rd of August, stating that the Italian economy was in a good shape and previous reforms (including an austerity budget passed only one month before) were sufficient, had the opposite effect than calming the markets. Italy was now facing the real risk of following Greece, Ireland and Portugal. The social partners (Confindustria and the three main unions), to face the emergency, called for a six-point plan, including, crucially, vague references to labour market liberalisation and collective bargaining reform. On the 5th of August, the European Central Bank’s incumbent and elect presidents, Jean-Claude Trichet and Mario Draghi, wrote letters to the Italian and Spanish governments, asking for austerity budget measures, structural and constitutional reforms as implicit conditions for intervening, from the following week, on the secondary markets and purchase Italian (and Spanish) bonds. The letters were not made public and the content would be revealed only at the end of September by the Italian daily *Corriere della Sera*. The one to Italy included very important labour market ‘essential measures’, adding that they had to be passed as decree-laws as soon as possible, with parliamentary ratification by the end of September (Trichet and Draghi 2011). The two crucial measures (beside public services reforms) were the following:

> ‘b) There is also a need to further reform the collective wage bargaining system allowing firm-level agreements to tailor wages and working conditions to firms’ specific needs and increasing their relevance with respect to other layers of negotiations. The June 28 agreement between the main trade unions and the industrial businesses associations moves in this direction.
>
> c) A thorough review of the rules regulating the hiring and dismissal of employees should be adopted in conjunction with the establishment of an unemployment insurance system and a set of active labour market policies capable of easing the reallocation of resources towards the more competitive firms and sectors.’ (Trichet and Draghi 2011)

A further request from the ECB was the amendment of the Constitution to introduce, on the recent German example, a commitment to budget balance. The wording of the ECB letter was less strong than on the other measures: ‘a constitutional reform tightening fiscal rules would also be appropriate’ (Trichet and Draghi 2011): constitutional reform is however a long process in the Italian legal system, requiring a minimum of four months and the possibility of a referendum. The initiative would then be taken by a new government at the beginning of 2012.

In response to this, then still unpublished, letter, the government prepared an austerity budget and reform draft bill on Saturday the 13th of August, and the following Monday the ECB started to buy Italian and Spanish bonds (the 15th of August is bank holiday in Italy and for most of August workplaces are closed for summer holidays, so no union protest was possible). On the 18th of August, Berlusconi presented to Parliament emergency measures that met all ECB requirements: a new austerity budget, a labour market reforms and a draft constitutional reform.

While the austerity budget went then through political negotiations within the ruling coalitions and its final version may not have satisfied the ECB (it notably did not include a cut in state pensions, except the postponement of retiring age for women), the labour market reforms were kept in the final bill, and they were arguably more drastic than all the policies that had been triggered by the EES in the previous fourteen years. They included a collective bargaining reform, which was made explicitly retroactive in order to satisfy Fiat. In addition to incorporating the tripartite agreement of the 28th of June, the new law also allows company agreements to derogate not simply from sectoral agreements, but also from legislation on dismissals. That article 18 of the *Statuto dei Lavoratori*, which had survived since 1970 and had been successfully defended by CGIL in 2002-03, was now potentially emptied of content. Trade unions reacted angrily and committed never to sign company agreements derogating from the art. 18. On the 21st of September, on CGIL initiative, they reached a new bipartite agreement with Confindustria, reaffirming the agreement of the 28th and adding the commitment to include in company negotiations only matters previously agreed by the confederations at national level – that is, for the time being, excluding dismissal protection. As a reaction, Fiat announced to definitely leave Confindustria from the 1st of January 2012, which causes political as well as financial (given the size of Fiat’s fee) problems for the employers’ association. In general, however, no case has been registered of negotiations on company-level derogation from employment protection legislation: the bipartite agreement of 21st September 2011 appeared to hold.

The sovereign debt crisis of Italy and of the Eurozone continued, however, and in November 2011, following new urgent requests for further reforms from the European Commission and the European Central Bank, and faced with strong mistrust from the financial markets, Prime Minister Berlusconi had to resign and was swiftly replaced by Mario Monti, former European Commissioner for the Internal Market, who formed a technicians' government with a very broad parliamentary majority. This government was similar to those that had passed crucial reforms of wage bargaining and the pension system in 1993-94 and 1995-96 to allow Italy to meet the Maastricht criteria and enter the Euro. The Monti government passed immediately a drastic austerity budget for €30bn, including the postponement of retirement age, against which the trade unions called a general strike of three hours on the 12th of December, with however little following and no impact.

On the 20th of March 2012 the government moved to the following step of announcing a labour market reform. This was preceded by consultations of the social partners, but unlike in the 'concertation' process of the centre-left government of the 1990s and of 2006-08, these were not real negotiations and were not concluded by an agreement to be signed. In fact, CGIL opposed the reform plan and announced 16 hours of general strike, hoping to affect the parliamentary approval process.

Despite Labour Minister Elsa Fornero stating, in the press conference that announced the reform plan, that the measures 'had not been dictated by the EU', the speed and content can only be understood with reference to the recommendations coming from Brussels and Frankfurt. The economic stagnation meant that jobs would not be created in the short term regardless of legal changes, and if anything, flexibilisation could lead to more job losses. In fact, the employer associations themselves had showed no enthusiasm for a reform, notably with the bipartite agreement of the 21st of September. The art.18 covers only companies above 15 employees, fitting with a segmented labour market and combining with the availability of a number of atypical flexible contracts. In our interviews, both representatives of Assolombarda (Milan's region employer association, the strongest component of Confindustria) and the American Chamber of Commerce relegated the art.18 to a side issue, in comparison for instance to the complex variety of employment contracts and to the notorious slowness of labour court cases (up to eight years for a dismissal case). In particular, Assolombarda representatives denied that the art. 18 is a barrier to SME's growth, identifying the real obstacle in their personalised, family-based management culture that could not cope with larger organisations and more formal relations. The day after the reform announcement, Confindustria elected a new president, choosing the moderate Squinzi over a more radical candidate: even the employers are not convinced by the idea of radical reform. In addition, strong criticism of the reform was expressed by a traditional institution that is still important in Italian society (more than in Spain): the Catholic Church.

The Fornero reform plan focuses on both flexibility and security and was explicitly inspired by the Danish model. One of the long-term reform promoters of reforms, lawyer and centre-left MP Pietro Ichino has just written a book and, in a chapter under the title 'How to replace the art. 18 with Denmark', had relabelled 'flexicurity' as 'flex-security' in order to overcome strong union resistance and to stress that security would be improved (Ichino 2011, 97ff). Yet the Fornero reforms went even further, by applying to all employees and not only to new appointments. CGIL felt that on the security side the Monti proposal of a new unemployment insurance (ASPI) was not sufficiently funded and that by eliminating or downsizing the previous schemes of *indennità di mobilità* and *Cassa Integrazione* (reserved to larger companies) the reform would be detrimental to the core union membership. The main reason for union opposition (CISL and UIL also expressed objections) was the reform of the art.18 on protection against dismissal. The law draft replaces, in the case of dismissal for economic reasons, the previous right to be reinstated into the job with financial compensation of up to

27 months of salary, even in the case when the economic reason is found to be inexistent by the court: the burden to prove unfair dismissal on disciplinary or discriminatory grounds would now be on the employee. Confindustria expressed moderate satisfaction and a concern that the new unemployment insurance, as well as new social contributions for typical contracts, would constitute a financial burden for enterprises.

The Spanish case

Before the crisis

As a new European Community member since 1986, Spain has been particularly susceptible to European influences. In the post-Franco situation, Europe had a symbolic dimension inspiring reform and internationalisation, and European policies and funding were particularly important. The Spanish social partners, in particular, profess a strong pro-European orientation, although it is disputable how effectively they have engaged with the European level organisationally.

Spain's history of labour market reforms dates back from before the European Employment Strategy, and it has been particularly turbulent and practically continuous since the transition to democracy in the early 1980s. As soon as it introduced new labour law legislation coherent with a democratic system with the Law nr 8 of 1980 (called *Estatudo de los Trabajadores* and inspired to the Italian *Statuto dei Lavoratori* of 1968), Spain was faced with mass unemployment, as a consequence of the major industrial and economic readjustment caused by the integration with the European economy. The first major reform in the direction of labour market liberalisation was in 1984, when unemployment had peaked at 24%, at the initiative of the new Socialist government and with the agreement of the trade union UGT. The most important measure, which marked the Spanish labour market ever since, was the deregulation of temporary employment, no longer subject to the requirement of explicit and objective justification: temporary contracts multiplied from half million in 1984 to over 8 million in 1996. More reforms were introduced in 1988, 1992 and 1994, still by the Socialist government, but with trade union opposition.

The following major reform took place in 1997, through a tripartite agreement between the conservative government, the employers' confederation and the trade unions. The aim was reducing the regulatory gap between temporary and permanent workers, in particular by facilitating the firing of permanent employees. Although the direction of that reform was similar to previous and later ones, the fact that it was approved through a 'tripartite' agreement may have affected its implementation. While its content was not very different from the reform of 1994, which was largely a failure, the 1997 one led to a decline in both unemployment and the share of temporary contracts: this has been defined as 'placebo effect' of social concertation, affecting not the content but the implementability of reforms through increased legitimacy and consent (Sala Franco 2007).

While the reform of 1997 coincided with the launch of the EES, there is clearly no cause-effect link between the two, as the former was negotiated earlier. All our interview partners agree that it was the effect of an internal Spanish path. Nonetheless, the EU was influential of Spanish employment policies, especially through the European Social Funds and through EMU requirements, which had been behind the 1992 and 1994 reforms. Also the EU stress on regionalisation coincides with the Spanish devolution of employment policies to the regional level, but again, the Spanish solution responded to internal pressures and developments much more than to external ones.

Reforms accelerated in the 2000s, with a new General Law on Employment in 2003 and, after the Socialist election victory of 2004, a number of tripartite agreements on the labour market. The EES has influenced Spanish debates and policies, especially through the catchwords of employability, adaptation and gender mainstreaming. However, the European engagement of the actors remains rather limited. An intriguing case is the debate on flexicurity. While the concept of flexicurity was strongly criticised by union experts who followed the EU debates, eventually the Spanish union leaders in the ETUC did not oppose it in Brussels, probably in order to maintain their 'good European' reputation. The employer side was ready to exploit this concession, by repeatedly reminding Spanish unions that they had now committed to flexicurity at European levels and should no longer oppose the liberalisation of dismissals.

The European Commission's recommendations for the National Action and then Reform Plans, however, have had little impact on Spain. The government only provided the social partners with its proposals few days before submitting them, making any social dialogue impossible. The leftwing trade union CCOO repeatedly registered its opposition to the National Action/Reform Plans, but to no effect. Overall, the government proposals were more exercises in 're-ordering' existing policies than real novelties. A Spanish expert defined the first Spanish National Action Plan as nothing more than 'old wine in new barrels' (Cachón 1998).

In the 2000s Spain witnessed a spectacular improvement in the employment figures. It is however dubious that such an improvement has been led by European policies, or even by the Spanish reforms. The sector that has driven the employment growth has been construction, accounting for a peak of 14% of total employment, twice the EU average. The decrease in the unemployment rate is partially due to demographic factors (smaller new cohorts), whereas the increase in employment, like in Italy, has been driven by immigration. The two years with the sharpest increase in the employment rate were 2001 and 2005, and both followed the largest regularisations of undeclared immigrants: regularised foreign workers accounted for around two thirds of the new jobs in both years. The employment rate of immigrants, before the crisis, was much higher than for Spanish nationals (77% vs 57%).

After the crisis

In Spain the crisis has been sharper than in the other two countries. While the GDP fall in 2009 has actually been slightly less than in Germany and Italy, unemployment quickly more than doubled from 9 to 21%, reaching 23.6% by February 2012. With a fast rising budget deficit, the country had to face financial market pressures already in Spring 2010, during the first Greek crisis, and the Socialist Prime Minister Zapatero had to operate a U-turn in economic and social policies to introduce, in May 2010, an austerity budget that, for the first time since democracy, involved wage cuts for public sector employees.

In particular the Bank of Spain, in association with the ECB, started exerting strong pressure for liberalisation. Certain reforms, including collective bargaining and labour market, were demanded as 'symbols' of recovery. In particular, the Bank of Spain has promoted the introduction of a flexible 'unique employment contract' to overcome the dualisation between permanent and temporary contracts, and the decentralisation of collective bargaining. There is little evidence that such reforms could help Spain: actually, the drastic fall in employment shows that the Spanish labour market is, if anything, excessively flexible numerically. Also, the derogation from multi-employer collective agreements' pay rates (the *discuelgue salarial)* had been possible since the reform of 1994. As a matter of fact, collective bargaining has also been responsive, if not immediately in 2008, certainly in 2009-10 (Martín 2010). Moreover, these requests for radical deregulation that come from the European Central bank through the Bank of Spain do not even correspond to the interests of Spanish employers. The employer federation CEOE does not support the 'single contract', which is also rejected, in the *Barómetro de Empresas* surveys, by nearly half of the employers themselves. The status of 'permanent employee' is a very important tool for the management of human resources in the structurally segmented Spanish labour market and Spanish companies, as proven by the lack of success, despite financial and legal incentives, of any intermediate contractual form such as the 'special contracts for the promotion of permanent employment' (*contratos de fomento de la contratación indefinida*), which tend to be rejected by employees as 'second-class' contracts. With regard to collective bargaining, Spanish SMEs, like their Italian counterparts, are not ready for company-level negotiations and therefore need the external reference of a multi-employer agreement, even if as flexible as possible.

The Spanish government responded to the crisis by launching a series of labour market reforms. The first major reform, announced in June 2010, which significantly eased the preconditions and costs for lay-offs and for the *discuelgue salarial*, added incentives to the *contratos de fomento de la contratación indefinida* and liberalised temporary work agencies in sectors where they were banned, like construction. Trade unions opposed the reform but could do no more than calling a largely ritual general strike on the 29th of September, which had no perceivable impact. In February 2011, a tripartite agreement was passed to reduce pensions and to start negotiations on a collective bargaining reform. Negotiations on that reform proceeded well until May, and all parties were expecting an agreement. However, at the end of May they collapsed, after the most hard-line component of the employer confederation CEOE, the Madrid region's employer federation CEIM, withdrew from the concessions already made. The unions treated this as ill-will negotiating and talks collapsed. The immediate reasons for the negotiation failures were political. On one side, the local elections of the 22nd of May, with a Right's triumph of unexpected dimensions, strengthened employers' hard line, indicating that if they waited until the parliamentary elections, they could obtain a more employer-friendly reform. On the other side, the trade unions were faced by new competition from the Left, with the emergence of the spontaneous movements of the *indignados*, and could not allow themselves to make concessions while city squares were full of demonstrators. However, in a broader perspective the failure indicates that Spanish social dialogue was a 'fair weather' process, which could work when the state and the EU could provide economic incentives to both social partners, but was not strong enough for a time of recession.

In the lack of agreement, the government decided to legislate unilaterally. The proposed law actually went through 'arm-length negotiations' and was changed following criticism from the employers. The final bill downgraded provincial agreements (which are important in some sectors without national agreements, like construction) and limited the automatic prorogation of agreement, opening up the possibility for worsening employment conditions over time. At the last minute before the parliamentary vote, in order to obtain the crucial vote of the autonomist parties of Cataluña and the País Vasco, the government introduced the principle of superiority of regional collective agreements (*autonómicos*), which actually was an unpleasant surprise for both trade unions and employers. Overall, the reform still maintains a structure of multi-employer bargaining, while opening up more possibility for derogation, now also subject to arbitration in case of union opposition. Like in Italy, it is too early to know if the reform will lead to actual changes in collective bargaining practices.

Far from being a definitive reform, due to the financial pressure in August Spain had to make, like Italy, new crucial steps as requested by the ECB. It quickly amended the constitution to introduce the budget balance principle, which is particularly striking given that the Spanish Constitution of 1978 had only been amended once, in 1992, and was considered as close to untouchable. In relation to the labour market, on the 26th of August the government announced a further reform that facilitates temporary agreements, resulting in a U-turn from a reform of 2008 and the *flexicurity* principles of reducing labour market dualisation.

Facing increased unpopularity due to the crisis and the austerity measures, the Socialist government announced snap elections in November 2011, which were won by the rightwing *Partido Popular*. As in Italy, the new government moves swiftly to implement reforms, starting from austerity measures and then, in February 2012, to labour market and collective bargaining reforms. In the meanwhile, at the end of January, the trade unions signed a new national agreement on wages with the employer, demonstrating once again the responsiveness of Spanish collective bargaining to worsening economic conditions. However, the imperative of liberalising the labour market and collective bargaining remained. The reforms included a variety of points, especially on work organisation, employment protection and collective bargaining.

a) Employer unilateral prerogative to introduce 'internal flexibility' (changes in job tasks, location and timetables), without the need for union or works council consent.
b) A new employment contract form, '*contrato de apoyo a los empredadores*', foreseeing one year probation without employment security (similar to the *contrat nouvelles embauches* which the French government had tried to introduce in 2005, and which had been rejected to the ILO).
c) The reduction of compensation for dismissals, including for the easiest 'unexplained' dismissals (from 45 to 20 days per worked year), the removal of the 'bridge pay' which dismissed employees were entitled to while waiting for court ruling, and the removal of administrative permission for collective dismissals.
d) Absolute priority of company-level agreements over multi-employer ones, and employer prerogative to reduce wages without union consent, subject to arbitration.
e) Reduction of the time extension (*ultraactividad*) of collective agreements, until now indefinite, to a maximum of two years, after which all established rights from previous agreements terminate until a new agreement is signed (in Spain, some agreements have been extended for up to ten years).

The overall effect of the reform, against which the trade unions called a general strike for the 29th of March 2012, is a major increase of employer power. As in Italy, it is difficult to understand the economic urgency of these measures. Even the governor of the Bank of Spain, Miguel Ángel Fernández Ordóñez, admitted that in the short term the reform is likely to lead to further employment destruction, even if the Bank of Spain estimates that in the long term it would reduce unemployment by 4 percentage points. A socialist-allied think tank, on its side, foresees that the reform would lead to the loss of 800,000 jobs, adding to the social, economic and public finance crisis (Fundación Ideas 2012). Moreover, from various sides it has been noted that the reform, by reducing administrative and collective forms of establishing working conditions and setting disputes, is likely to lead to a significant increase of legal disputes at the company level. The decentralisation of collective bargaining would also make company-level industrial relations more 'distributive' than 'integrative', removing the embryonic co-determination potential of the Spanish dual channel of employee representation.

Conclusion

After the crisis, the European Employment Strategy has become largely irrelevant, while financial institutions have come to the forefront. In many countries, developments have followed traditional national paths, confirming Gourevitch's (1986) insight that at times of crisis governments go back to their well-established paths, such as social partnership in Ireland, or austerity combined with social dialogue on short working time in Germany, or deregulation and privatisation in the UK. Countries that represent the main 'Varieties of Capitalism', in this way, may be consolidating their 'institutional comparative advantages' and re-legitimise their dominant, traditional practices. By contrast, those countries whose comparative advantage has long expired due to the EMU and to globalisation, such as Italy and Spain (not to speak of Portugal and Greece), have come under unprecedented pressure for deregulation.

It is too early to say whether it will actually lead to systemic change: it remains to be seen if the actors will actually implement, at sector and company levels, the changes introduced centrally. These countries have a tradition of mismatch between higher formal levels and lower informal ones, as described particularly sharply by Regini (1995) in the case of the contrast between national-level conflict and local-level micro-corporatism in the 1980s Italy, and several liberalisation reforms of the last few years (many parts of the 2003 Italian reform, the *contrato de fomento del empleo* in Spain, the permission of company agreement derogation from dismissal protection introduced in Italy in August 2011) remained very little used. Yet the change enabled by recent reforms affect the core of Italian and Spanish labour market regulations: co-ordinated collective bargaining and employment security.

The process of reforms in Italy and Spain challenges some tenets of the Varieties of Capitalisms theory. Firstly, the recent developments described in this paper reveal, behind a certain parallelism, deep differences between the two countries, against stereotyped visions of an undifferentiated ‘Mediterranean model’: associational governance is still much stronger in Italy, while state influence and government power are more powerful in Spain. This explains two diverging trends: in Spain, unemployment has risen faster, and reforms have been more radical and unilateral, than in Italy.

The developments in Spain and Italy have also been more radical than their institutional path would have predicted, and have actually been actively promoted by the core economic powers of Europe, and especially the German government and the European Central Bank, heir of the *Bundesbank* as guarantor of monetary orthodoxy. As a main reform promoter had lamented (Ichino 2011, 98), in Italy both rightwing parties and employer associations had no appetite, in the late 2000s, for any legislative reform of labour market regulations, after the scar of the defeat against CGIL in 2002-03, and thanks to well-developed informal adaptation to the existing legal constraints. Similarly, in Spain the general strike of 2002 succeeded in amending the labour market reform of the rightwing party by Aznar.

In other words, the reforms of 2011-12 would not have been thinkable without direct institutional intervention from the EU. In few months, the European Commission and the ECB achieved what Spanish and Italian employers and rightwing government had not even dared to ask. Labour resistance, which had previously had some success, is now in a weaker position when fighting a more elusive opponent, uninterested in local political exchange and unaffected by general strikes.

A core influential actor, hitherto largely neglected by industrial relations and labour process studies, is now the European Central Bank, whose predicaments are not necessarily in line with the needs of employers at national level, in the real economy. Its recommendations are significantly different from the EES ones: if the Lisbon Agenda had nominally promoted ‘more and better jobs’ (European Council 2000), the combination of austerity measures and labour market deregulation (as for temporary contracts in Spain) results in practice in the promotion of ‘fewer and worse jobs’. The two main lines of reform promoted by EU institutions have been decentralisation of collective bargaining and the liberalisation of employee dismissals, and both pose risks to large parts of the Italian and Spanish production systems. The former, which many industrial relations studies (e.g. Traxler 2001) have shown not to be economically rational, runs the risk of increasing transaction costs in SMEs, where currently employers are very hostile to collective bargaining and prefer combining reference to sectoral wage agreements with internal unilateral, paternalistic management. The latter, while undermining the typical segmentation of the labour markets, has been opposed by large sections of the employers, as it disrupts an established way of managing human resources, through cultural loyalty for the core workforce and despotic threat for a flexible layer. The reduction of dualism means that employers will have to find more expensive ways to motivate their core workforce, while also having to pay more for compensating precarious employees for their unemployment risk. A similar rejection, by both employers and employees, of the proposed ‘single contract’ occurred in France in 2007-08 – and in our interviews in Brussels the European Commission expressed disappointment and puzzlement for Southern Europeans’ lack of enthusiasm for their proposal.

A discrepancy between a ‘disembedded’ (Polanyi 1944), externally-induced legislative level and an embedded, diversified labour process is emerging. The emergence of such a form of ‘disconnected capitalism’ (Thompson 2003), in the sense of governance detached from local economic organisations and associations, fact calls for the combination of two analytical tools, all too often treated separately: industrial relations institutional analysis and labour process analysis. The explanation of this discrepancy requires further theoretical work, but is clearly incompatible with simplistic visions of undistinguished capitalist conspiracies: the strategies of capital are, as always, contradictory (Hyman 1987), and can only be achieved if the labour process level is included.

The reforms then contrast not only with trade unions’ preferences and established employee rights. They also contrast with core features of production in many Spanish and Italian firms, and raise three problems for their labour process. Firstly, the decentralisation of collective bargaining increases transaction costs for SMEs, and hampers their collaboration in industrial districts by introducing competition on wages, while promoting collective bargaining within the enterprises – something employers of these countries have long disliked, preferring ‘arm-length’ bargaining. Secondly, changes in employment protection legislations, as well as the priority for company bargaining, challenges traditional paternalistic forms of managerial controls, which implied a dualisation between core loyal employees to be motivated through symbolic-cultural means, and marginal, flexible employees that could be managed in a despotic manner; the reforms risk jeopardising core employees’ loyalty and could also limit managerial despotism on temporary employees, and therefore may involve higher costs to motivate employees through higher pay. Thirdly, with their disruptive nature reforms undermine the core informal resources of local production systems such as the industrial districts, that is informal trust relations, which require a stable and predictable environment.

In Southern Europe, some have interpreted the new trends as a new form of ‘dependency’: richer European countries would force austerity and labour market reforms on peripheral ones (in the East and in the South), despite their apparent economic uselessness and even harmfulness, in order to poach skilled labour and to reduce potential competitors to the subordinate role of low-skill, low-added value producers (Neguerela 2012). The fact that the Italian companies most negatively affected by the crisis are those of the previously most successful industrial districts might be seen as evidence for such an interpretation: disruptions in legal institutions undermine the informal resources that at least some companies have developed, loading more problems rather than solving any. The variety of employers and of employment patterns in each country calls however for more sophisticated analysis than a mere geopolitical one seeing ‘Germany against Southern Europe’. It is more helpful to consider the diversity of managerial approaches and labour processes, as well as of the political economy context. In large part, the reforms correspond to the interests of financial capital to shift their losses on to employees and public budgets, even when this is harmful to productive capital. It also corresponds to the interests of some new or larger employers, which rely less on traditional informal relations and on paternalistic management control: this includes large multinational companies like Fiat and new economy companies like Vodafone, whose recent collective dismissals in Italy would be made easier by the reform.

What emerges is a pattern of reform that may suit some less embedded employers but destabilises many others, and while weakening traditional forms of resistance and compromise, is likely to result in new forms of widespread conflicts on many aspects of the labour process that will need to be renegotiated, or re-imposed, company by company. There is no doubt that the recent reforms are the most radical of the last thirty years for Italy and Spain and aim to radically modify the employment relationship in terms of representation and association rights, employment protection and social security. The outcome could be a convergence of Southern Europe towards social standards of Central Eastern Europe, with much weaker social partners, a more decentralised labour market, high levels of emigration, but on-going state interference and large areas of informality. However, there are two alternative scenarios that could stop this process of change, which appears to have already started for Portugal and Greece. Firstly, a local institutional resistance to change, not so much against the reforms, but against their implementation: trade unions, large parts of the employer associations, local authorities and the Church may combine in slowing change down, making sure that practice on the ground will not be disrupted too much despite major change on paper, possibly with some ‘benign neglect’ from the governments. Secondly, there could be an emergence of new forms of radical opposition, whether through new social movements like the *indignados*, or informal organisational misbehaviour such as a fall in organisational commitment and increased turn-over. Given the differences between the two countries, Italy is more likely to resist its radical change than Spain.

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Employers and employees are free to negotiate employment terms and conditions but must respect the minimum standards set out in Spanish and regional law, including standards established in any applicable collective bargaining agreements. Is there any general advice you would give in the employment area?Â Are there any noteworthy proposals for reform in your jurisdiction?Â Employment relations in Spain are governed by a large number of regulations, which derive from: the international community; the Spanish state (Parliament and government)Â Sick leave and pay Employees are entitled to up to 12 monthsâ€™ sick leave. Subject to obtaining a doctorâ€™s certificate, sick leave can be extended by up to a further six months. initiate structural reforms. Italy came under intense financial pressures in late 2011, as the euro. 700 700 10-year Government Bond Spread Against. area crisis pushed 10-year government bond yields 600.Â 12. Over the medium term, low trend productivity and an aging society are likely to constrain Italyâ€™s growth prospects. Growth is projected to average 1 percent over 2014â€"17, as the recovery in domestic demand closes the output gap.Â The authorities noted that Italy has relatively low external imbalances compared to other euro area countries and that exports have held up reasonably well in recent years. Nevertheless, Italy has experienced a loss in competitiveness, which if left unaddressed, will remain a drag on growth. International monetary fund 13. Critics claim the reforms would force Italy to restructure its debt in any future crisis. New clauses in debt contracts, they say, would make its bonds less attractive to investors. But the complaints ring hollow.Â By describing the reform as a danger to Italy, Mr Salvini may spy a chance to score political points. For its part, M5S might want to shore up its ebbing support. But by doing so it has created a rift with its current partner in government, the EU-friendly Democratic Party.Â This article appeared in the Finance & economics section of the print edition under the headline "Looking wobbly". Reuse this content The Trust Project. More from Finance & economics.