

## WAGE REGULATION AND PERFORMANCE-RELATED PAY IN ITALIAN PUBLIC SECTOR

Cesare Vignocchi\*

### ABSTRACT

*Attempts to reform the Italian civil service in the last 30 years have been mainly done mimicking private sector practices. The results have been quite disappointing. Useful hints can be obtained from a principal-agent model, with regard to the difficulty of measuring output and – even more – outcome. More convincing is an alternative collusive equilibrium model, which clarifies the distance between private and public employers. Useful indications for the future can be drawn from these failures.*

*Keywords:* Performance-related, Collusive equilibrium, New public management.

*JEL Classification:* D73, J50, M52.

*ISSN:* 0035-676X (print); 1827-7918 (digital)

*DOI:* 10.26350/000518\_000045

### 1. INTRODUCTION

This article is inspired by a series of collective works born on the initiative of Carlo Dell’Aringa, mainly collected in volumes edited on behalf of Arel and Aran, focused on public wage and covering a period from 1993 until today.

This was a period of intense experimentation with a lot of reforming attempts, many of which were inspired by the ideas of New Public Management (NPM) that were circulating at that time but even more by the idea that the practices used in the private sectors were quite immediately exportable to public sectors. It was the time of wage regulation based on planned inflation (TIP) and of giving large autonomy to single administrations in wage negotiations. A decentralised bargaining level was added, which enriched the payroll with bonuses, merit increments, performance pay, allowances and so on.

None of this really worked, mainly because private and public sectors obviously face different incentive setting. The civil service easily metabolized these

---

A first acknowledgment must go to Carlo Dell’Aringa. Without his drive, this work would not even have been conceivable. A second acknowledgment goes to Giuseppe Della Rocca co-editor of many of the collective works mentioned here. Finally, I cannot forget the fruitful exchange over these long years with many friends and colleagues in Aran and REF Ricerche. Usual disclaimers apply.

\* Cesare Vignocchi, REF Ricerche, Milan. Email: cvignocchi@refricerche.it.

attempts mainly inspired by rhetoric and rarely grounded on robust economics. Changes were more formal than real, at most with short-term effects above underlying trends that reproduced long-term regularities. On the other hand, it cannot be forgotten that privatization took place through bargaining, that is assigning a major role to trade unions. This constitutes a typical aspect of the Italian experience.

Wages have risen well beyond the macro-economic target and have slowed down only in the two great crises of this 30-year period, namely the EMS crisis of 1993 and the Great Recession which started in 2008. Attempts to link wages to productivity gains, as well as greater accountability, ended up with widespread increases in public wages. With regard to this last aspect, however, the evidence is much more anecdotal than structural.

What is striking is also the extraordinary persistence of the same rhetoric in the economic policy debate of the different eras<sup>1</sup>. Hood (1998) developed this kind of approach.

One aspect of sure improvement is that today overall transparency has definitely increased. It would be a waste not to take advantage of lessons learned from the past. Conclusions of this work try to address these aspects, to draw some clear suggestions for the future.

## 2. THE MACRO REGULATION OF PUBLIC WAGE GROWTH

Since the 1992-93 reform, wage regulation in the public sector has been managed using a highly articulated system, stemming from the income policy season of those initial years. At that time, the main goal was to balance the macroeconomic stability with the idea of “guaranteeing the purchasing power of wages” in a framework of inflation that proceeded at an annual rate of 5%.

In this long period two different mechanisms applied. Until 2009, a system based on TIP (planned inflation rate) prevailed, dating back to the Interconfederal Agreement of 1993. According to this system, wage agreement renewals were targeted on a predetermined rate, set by law and valid both for private sectors and for public ones. It was therefore not a forecast of future price growth but a “desired” value, for the achievement of which a series of economic policy measures were usually implemented.

It was the era in which it was necessary to drive down inflation dynamics and any gap (almost always of a positive sign) with respect to the targeted values gave rise to a complex payback mechanism. The amount of payback had to be adjusted, taking into account the variation in the terms of trade, in order to sterilize the effect of imported inflation. From a theoretical point of view, this was a big innovation, because it was recognized that protecting the purchasing power of wages against a higher cost of imported goods would only have put the economy in an inflationary spiral.

---

<sup>1</sup> For a much longer perspective, see on this Melis (1988).

At the time, the impression was that economic policy had gained a powerful tool to curb wage pressures by unions that still had a great influence in the public sector. This macroeconomic rule was accompanied by a regulatory system that introduced sector committees and a negotiating agency, i.e. ARAN, to represent government during the negotiations. Sector committees' role was to set guidelines for the negotiation agency, whose outcome consisted (and consists) of a renewal draft, according to a specific amount of resources allocated in the Budget Law. At the end, the draft of renewal has to be examined by the sector committees, the government and the Court of Auditors, and only at the end of this procedure do the new agreements become effective.

With the Inter-Confederal Agreement of January 2009, a new system based on the net HICP (Harmonized Index of Consumer Price, net of imported energy products) was invoked. The old system based on a target rate was then replaced by a forecast value, issued by the Italian Institute of Statistics (Istat). This second system could not find concrete application in the public sector until 2016, due to the long period of pay freeze imposed by the severe public budget constraints in 2010.

### *2.1. The three Budget Laws regularity*

Once the resources had been allocated in the Budget Law, the procedure worked well, producing wage agreements within right times. And this is true both for the period prior to the pay freeze of 2010 and in the recent renewals for the 2016-2018 round, as shown in Figure 1.

What certainly did not work was the process to define the resources to allocate in the Budget Law. No law deadlines were established for this part of the process, nor for the consultation procedure with trade unions. It was only established that the resources had to be allocated in the Budget Law and not in some ad hoc legislative provision, as happened previously.

The most critical aspect of the renewal procedures consists of the fact that usually was fulfilled after, or in the last part, of the validity period of collective agreement, with the paradox that the agreement itself was born already expired.

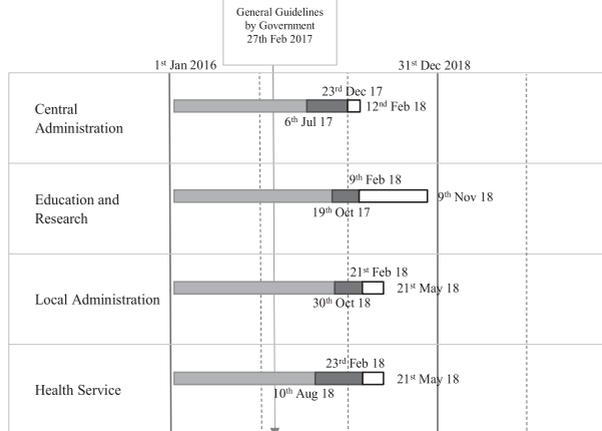
While all the procedural timing downstream of the financial allocation is subject to a highly regulated system, there is no upstream time constraint. Given a period of contractual validity, within what time do the available resources have to be set? That is to say, until when can the Budget Law continue to allocate resources?

The negotiating exchange was characterized by the fact that the delaying of time usually brings about a better pay-off for the trade unions. In fact, the resources made available can only increase and at the same time there is no countervailing element that can stop the lengthening of the negotiation.

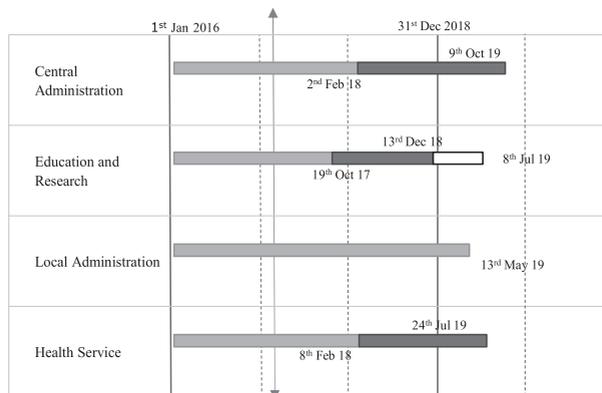
In fact, in any case, the provision of arrears is guaranteed and is not subject, as in the private sectors, to a bargaining between the employers' representative and trade union. Which negotiator would close a deal knowing that as the time goes by its pay-off could only improve?

FIGURE 1 – *Timing of wage collective agreements*

Staff: 2016–18 Round



Managers: 2016–18 Round



Legend

- Step I - Preparation by Sectoral Committees and Government of Guidelines Act to Agency
- Step II - Negotiation by Agency and Unions of Draft of Wage Collective Agreement
- Step III - Approval by Sectoral Committee, Government and Audit Office.

Source: Author Elaborations on ARAN Statistics

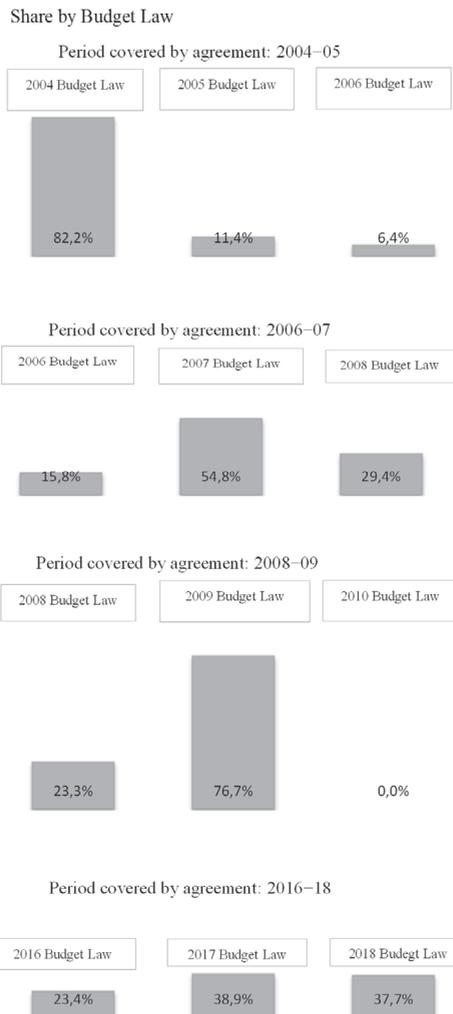
At the end of the story, even for the Treasury this result is not so negative as it allows to finance the first years of the renewal with a few resources, gaining considerable cash advantages and postponing the heaviest tranches to the end of the regulated period.

Here a thesis begins to appear, advanced by Beato and Zucaro (2015), of a collusive equilibrium among the different players at stake. This kind of equilibrium inevitably produces a time mismatch between stipulation and validity of the collective wage agreements. In general, one should expect that the Budget Law, which opens the regulated period, would contain all the necessary resources. In reality, the pathology that has arisen is that three Budget Laws were usually required. This

constant lengthening of the upstream part of the procedure is the natural outcome of the balance of incentives of the entire system.

Figure 2 compares the recent time structure of the allocations for the 2016-18 round, with those relating to three other previous rounds, namely 2004-05, 2006-07 and 2008-09, an era in which the economic validity was two years. The size represented in the histograms is the share of resources allocated in every Budget Law, compared to the total amount of the renewal allocation.

FIGURE 2 – Resources and Budget Laws



Source: Author Elaborations on ARAN Statistics

In the first two renewals documented in Figure 2, the negotiations between the government and trade unions continued till the final year of period, through one or more agreements that would find economic coverage in the subsequent Budget Law<sup>2</sup>.

With the renewal of the 2016-18 even if the financing regarded a three-year period, the old habit re-emerged. First of all, a significant share of resources, not far from 40%, was allocated in the latest Budget Law. On the other hand, as has regularly happened in the past, in the contractual round of the 2016-2018, many of the new agreements received the final approval at the end or beyond the three-year period.

This is especially true for public managers' agreements. For this group of agreements, shown in Figure 1, therefore, a period ending in 2018 was backward regulated. Again, the much blamed mismatch between signing and validity of the wage collective agreement happened as in the past, before the pay freeze period.

The graphical representation of Figure 1 summarizes this evidence, showing the different steps of the procedural process that characterizes the collective bargaining of the public employees.

For the 2019-2021 round, the outcome will not be very different. A year has already passed and the allocation set so far would allow increases higher than the 3.48% granted in the previous round. This could be compared to an HICP forecast by ISTAT last May, which in the three-year period will not cumulate price increases over 3%. Despite this picture, resources are judged to be not satisfactory by trade unions and there are another two years to obtain further resources that in this time will be passed off as the need for career reorganization.

## 2.2. *Excessive wage growth and pay freeze*

The regularity of three Budget Laws, which has characterized almost 30 years of recent history, constitutes a first stylized fact of the entire process. A second stylized fact concerns the nature of wage dynamics, characterized by long periods of excessive growth, ending with episodes of total freeze.

This phenomenon was substantially produced with the version of the regulatory system based on planned inflation. And this despite the fact that the planned inflation, having had a goal to moderate the actual inflation dynamics, recorded a constant downward bias.

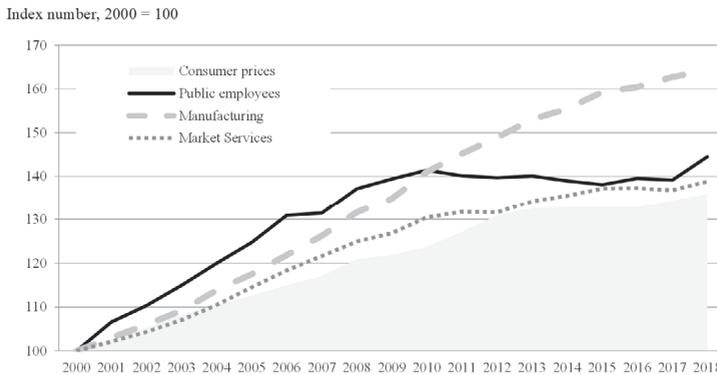
In fact, as shown in Figure 3, the actual wage dynamics have constantly outweighed actual inflation. Although macroeconomic regulation involved linking wage dynamics to planned inflation, this actually worked as a floor to which add much more by negotiations between government and unions. Depending on the

---

<sup>2</sup> In the various issues of the *Six-Monthly ARAN Report*, agreements between government and unions are regularly traced year after year.

moment, the rhetoric to justify this surplus reads as: rearranging careers; recognizing specific competences; realigning uneven treatments; guaranteeing sector allowances; rewarding merits and efforts.

FIGURE 3 – *Per capita actual wages*



Source: Author Elaborations on ARAN Statistics

Here there emerges a first important conclusion of the present work. In the case of the private sector, the wage management mechanism through planned inflation has worked as an effective regulatory element. In the case of public employment, it was only an initial floor from which to start the negotiation activity.

There has been only one fact able to break the collusive equilibrium that has constantly produced the abnormal lengthening of the negotiation process and the wage dynamics well above inflation, that is to say the onset of a macroeconomic crisis. In the history of the last 30 years there have been two phenomena of this type, one following the dramatic devaluation of 1992, and one more recent, that is the Great Recession, which started in 2008.

In fact, as shown in Figure 2 in the renewal for 2008-09, this time delaying was interrupted and two Budget Laws were sufficient to complete the process. In the presence of a deep change in the overall macroeconomic balances, a sudden break intervened in the climate of industrial relations of the public sector.

Trade unions had clearly perceived that the government wanted to build a security barrier to public finances and that the initial allocation would not be exceeded, as the 2009 Budget confirmed. In the following years, an overall freeze of the public wage dynamics was decided. This was obtained by blocking the three channels that in the experience of the preceding years had produced wage growth: national collective bargaining; the provision of funds to finance the second-tier bargaining; career promotion guaranteed as a regular phenomenon every year. The channels through which out-of-control wage dynamics took place were well known, it was only a matter of giving the Ministry of Treasury the opportunity to close them.

The strong impression is that the entire system is not prone to be run, guaranteeing wage growth coherent to the economic phase that it is going through, but possesses only two ‘states of nature’. The first is that of wage pressure that can not be curbed by any offsetting force. This situation has often been masked by the illusory idea of possessing a powerful macroeconomic mechanism. Although with different intensity, this has happened for over a decade from 1995 until 2007, and before during the 1980s.

The second state of nature is that induced by a crisis event. In times of extreme difficulty in the public finances, a different criterion inevitably applies, which consists of an overall freeze of each renewal of wage collective agreement. This is what happened in the 2010-15 period and something quite similar, albeit less rigorous, occurred almost 20 years earlier, in the 1992-93 period, following the experience of the 1980s.

Ultimately, only the onset of a deep financial crisis was able to unlock the collusive equilibrium that produces the phenomena described above. With regard to this, one must remember Dixit’s analysis (2000). A similar diagnosis, addressed to the Italian case, was supported 30 years ago by Biagioli, Salvati and Santi (1989), right at the end of the 80s.

It is difficult to avoid the idea that the need for a great crisis to re-equilibrate public employees’ wages represents a deeply rooted characteristic in the system. Probably, the attempt to rule the system granting an acceptable wage dynamics will remain a wish. In the end, the market mechanisms seem to be more able to ensure the re-equilibrium, a market that in the case of public employees is the arena of public finance.

### 2.3. *Open questions of macro regulation*

The way through which the macro-regulation has developed is completely clear. The same applies to the results that have been produced, particularly the way in which the huge wage increase has been brought about. We are able to quantify the resources granted at the national level of collective bargaining, then the additional resources delegated to the second level, and finally the resources that the second level has found autonomously. The same also applies to the use of these resources, i.e.: increase in base pay; career promotions; variable compensation system; performance agreements and merit increment; fixed sector allowances.

On this macroeconomic side, there is nothing yet to discover. This is undoubtedly a well-established and highly significant result, linked largely to the fact that the degree of transparency has definitely improved compared to what was known at the beginning of the 1990s. We have a robust statistical source, such as the Annual Account by RGS, and every six months the Aran gives an account of what has happened and what is happening in the field of wage negotiation.

Is there any suggestion that can be drawn for the future from this kind of knowledge?

At present there is still no inter-confederal regulation system, as the previous one signed in January 2009 expired in December 2013, without producing significant effects. For the 2016-18 renewal, the so-called “85 euro agreement” resolved upstream the whole question. Certainly at the time, the hope was expressed that for the following three-year period, the 2019-21 round, a new regulatory framework would be available, which would contain the principles to use in the renewal of the wage collective agreements. As seen before, in the past, the central pivot was constituted by some *ex ante* inflation target.

In devising a new regulatory system, the example that can be drawn from the practice in the private sector is not of any help. Since the strong heterogeneity of the models adopted in the different private sectors, the only common feature is the reference to the net HICP.

Now it would seem natural to turn to the approach used many times in recent years, trying to find a new complex mechanism to use the net HICP in public wage negotiation. Along this line one could resume the *ex ante* determination of inflation based on the forecast elaborated by Istat, perhaps better qualifying how to manage the possible differences between forecast and realization. Otherwise one could prefer a simple method, recognizing *ex post* what happened to the inflation dynamics. This is what chosen, for example, in the metalworking and wood sectors. There is also the road taken in the utilities sectors, where a trade-off mechanism was built between adjusting the base pay and recognizing productivity gains.

The impression is that once again we would enter a system that only waits to be constantly overwhelmed by the various agreements between the government and trade unions. Remember that with an inflation now stable at 1%, the leverage offered to readjust base pay is so modest that it can hardly justify the entire renewal procedure of the collective agreement.

What happened in the 2016-18 round and the start of the new 2019-21 one seems to confirm that a new, much more flexible, regulatory method has started, which does not refer to planned or expected inflation rates. This new practice seems to indicate that we are moving towards a model in which the government and trade unions negotiate directly a value of wage increase, free from explicit references to macroeconomic figures, but rather aimed with what was recognized in the previous round and with what was guaranteed in private agreements.

At first glance, a criterion that is implicitly inspired by what is guaranteed in private contracts and that keeps the memory of what was negotiated in the previous session is not without some economic rationality. In fact, it seems to definitively archive the idea that it is possible to adopt complex economics-based mechanisms, such as that adopted until the pay freeze of 2010, a mechanism that was usually overcome by the force of political negotiations between the government and trade unions.

The simplicity of the new possible mechanism makes explicit its inevitable political value. After the rhetoric of planning wage increases or of making them consistent with expected inflation, it seems that a simpler rule of thumb has been reached, a kind of ‘imitative memory’: public wage agreements cannot move too far from what was previously guaranteed and from what is insured to the private sector.

It remains to be noted that the contractual heterogeneity that is also going through the private sectors makes it very difficult to extract a clear signal to be used in public negotiation. Think that the wage agreement for the food sector workers has guaranteed around 105 euros until the end of 2019 and that for the metalworkers the figure is 32 euros.

Then the most promising path would be to recognize this reality and therefore to direct efforts to ensure that the process takes place within a legally defined procedural structure. At the same time, it must be forgotten that all this can mimic what is happening in the private sector, if only because, as in any negotiation, a party – the government in the Budget Law – cannot declare what it will spend without breaking up the sense of the negotiation itself.

As it was established that only the Budget Law could contain the resources for the renewals of the public wage collective agreements, it could be decided – and this would be no small thing – that only the Budget Law before the period to which the renewal refers can contain the resources themselves. Similarly, it can be established that a reasonable timing balance must be respected in the allocation of resources in various years, avoiding a major share being allocated at the end of the period. On this path, the fruitful regulatory arrangements that can be introduced are many, finally giving up all the rhetoric of privatization.

### 3. PERFORMANCE-RELATED PAY: A GREAT SWINDLE?

Consensus on the performance-related pay (PRP) system in the public sector experienced a sudden change that rarely applies to other cases in the recent history of economic analysis. After a period of great enthusiasm for many NPM-inspired practices, the second decade of the new century started to show the drawbacks of the system. PRP systems, strong individualization of compensation, the push towards contractual decentralization have lost much of their initial attraction.

But what is even more striking is that this change took place within the same intellectual circle. This is the case of the OECD which in its 2007 report (OECD, 2007) encouraged the use of this type of wage regulation, while in 2015 (OECD, 2015) it raised serious doubts about an indiscriminate application of PRP. The central idea is that the transaction costs of these systems should not be underestimated but rather carefully considered. The trade-off between uncertain outcomes and a strong overestimation of potential benefits was then taken into account. Bordogna's analysis (2017) is useful on this issue. These concerns could have been brought into focus simply by analysing the issue within a typical principal-agent model.

The suggestion by Pollit and Bouckaert (2017) that two typical, almost opposite, attitudes underlie the introduction of PRP systems, is illuminating.

...the economic principal-and-agent way of thinking, which is essentially low-trust and the more managerial way of thinking which is more concerned with leadership and innovation – and more trusting of the inherent creativity of staff, if only they are properly led and moti-

vated. The former stream emphasizes the construction of rational systems of incentives and penalties “to make the managers to manage”. The latter emphasizes the need “to let the managers to manage” by facilitating creative leadership, entrepreneurship, and cultural change<sup>3</sup>.

A classic example of the first approach is the one in Marsden and Momigliano (1996). The authors highlighted with clarity a crucial aspect of the model. The argument was recently taken up again by Sestito (2017). He recalls that among the various conditions that make a PRP contract optimal, only the possibility of workers choosing their effort and commitment is assured. All other conditions are really doubtful.

First of all, it is very difficult to produce credible measurements of the output and even less of the outcome. This is not a technical detail but rather an intrinsic feature of the public sector, in the absence of quantities that naturally come about in the market (Mastrogioseppe, Peiti and Vignocchi, 2012). It is difficult to produce an indicator that can be compared to the production or, even worse, to the profit of a private operator. In this context, a system of PRP becomes a source of great conflict.

In this regard, bad incentive for individuals can trigger harmful behaviours for the overall performance of an administration. It is a result easily obtained from the economic analysis. In the principal-agent model it is sufficient to consider that the effort of the individual agents also depends on an assessment of overall fairness. Or that the production outcome usually does not depend on the behaviour of an individual but on the joint contributions from all individuals involved.

Taking all these observations into account, which are common wisdom today, the impression is that the main difficulties lie even deeper. The principal-agent model assumes that the principal is really interested in maximizing its utility, that is, its profit against the disutility of the agent linked to the effort it must make. Is this idea plausible in the public sector? Does the principal reward the agent because his/her effort really changes the overall return? Is the public manager interested in rewarding employees since his/her own reward depends on some measurement of overall performance? This representation is very unconvincing.

Salvati (1989) had also clearly seen the need for the trade unions to face an antagonist (employer) as a way to play their role with effectiveness. But what was not understood then is that a “public boss” cannot be made up simply by saying that someone is formally attributed prerogatives that echo those available to private employers.

---

<sup>3</sup> Marsden in an OECD Report of 2005 (OCSE, 2005) recognized this ambiguity and offers a suggestive way out: “When performance pay is introduced there is a window of opportunity for wider managerial and organisational changes... Introducing PRP can be the catalyst that allows these changes to occur and at the same time facilitates a renegotiation of ‘effort bargain’... PRP can contribute to improving performance... rather through *its secondary effects*” (italics not in the original).

More suggestive is how the issue is illustrated by Beato and Zucaro (2015) and Zucaro (2000) in terms of the collusive equilibrium of the three actors, where the principal-agent model is enriched by a third term consisting of political leaders. According to this representation, politicians trade the absence of a true assessment towards managers in exchange for substantial obedience. At the same time, the absence of evaluation of staff offers social peace and electoral consensus. Managers support this double exchange, avoiding significant pay differentiation towards staff whose efforts anyway would not affect the returns for managers themselves.

It is also clear that adopting a representation of collusive equilibrium undermines the alternative principal-agent model.

### 3.1. *Some suggestions for the future*

At the end of the story reality came into play, bypassing the various reforms and correctly “maximizing” a non-existent agency contract. The difficulty in identifying a strong measurement of the output, the absence of a clear return for the public managers by the effort made by staff personnel, the risk of serious negative externalities caused by a perception of unfairness of the reward policy, lead to a solution of not differentiating altogether among employees. This basically means not to implement a reward policy based on PRP at all.

The writer’s opinion is that it is necessary to start again, keeping in mind that the underlying misunderstanding at the basis of the repeated reform failures consists of the idea that it is easily possible to import into the Civil Service practices used in private sectors. The constant upheaval of the planned inflation regulatory system and the absence of a true application of PRP systems are proof of this.

But unlike what has been observed with regard to macro aspects, the evidence about the reward policy is scarce and anecdotal, more based on impressions than on robust empirical investigations. And this despite the accumulation of databases which could have led to a clear and shared knowledge.

However, a number of converging indications have emerged from a series of concrete management experiences. The first suggestion is that it is promising to apply PRP policies only to those few sectors where it is credible to obtain robust performance measurements. The impression is also that the success or the failure of what has been attempted so far is strongly connected to the type of administration where the attempt was made. In this sense a unique approach to all public administrations has to be avoided, as Sestito (2015, 2017) has shown.

Secondly, the design of reward policies should not be addressed to the entire staff. On this, the suggestions of Pastorello (2015, 2017) are precious. One of the central ideas is that the assessment should be done “by tails”, addressing efforts on excellent and unsatisfactory performance and therefore not dealing with the wide middle range.

Addressing the assessment only towards the managers could also be good advice, and this constitutes one of the central conclusions of this contribution. It is

necessary to break the collusive equilibrium aforementioned several times and this could be done by linking the remuneration of the manager to the overall performance of its public administration, thus creating the conditions for which a principal-agent representation is more binding.

It is true that the assessment of management must include other dimensions, although overall performance is to be considered as a central item (Department of Public Administration, 2019). At the same time, it should be kept in mind that the only measure that guarantees not to fall into the usual self-reference pattern is that of benchmarking between similar public administrations (Mastrogioseppe, Peiti and Vignocchi, 2017).

It would be optimal to start again from the subsector of public administrations, where this measurement is possible. Remember, therefore, the following catchphrase: managers – overall performance – benchmarking.

To restrict the effort to managers also has other advantages. The first is that applying innovations to a limited area of personnel minimizes the risk that everything will be captured by collective bargaining again. At the same time, it makes possible to require only an acceptable amount of financial resources, although significant in relative terms. Finally, the process can be more easily monitored with constant observation of the evolution of the payrolls of the managers involved in the evaluation process.

#### 4. THE CONTRACTUAL DECENTRALIZATION

Also, on the side of contractual decentralization, the assumption of coupling autonomy with responsibility proved to be a further rhetorical construct of scarce enforceability. Responsibility had to hinge on accountability – another central mantra of the time, which, however broke down against the difficulty of measuring an outcome depending on a plurality of principals and agents. In other words, among different administrative levels, it is easy to attribute one's own responsibilities to others.

On this argument, the new conclusions reached by the OECD are even more disruptive. The initial confidence that the local administrators plan expenditures according to preferences of some median voter and on a coherent budget constraint has disappeared<sup>4</sup>.

A common agreement on the degree of effective contractual autonomy to be left to the local administrations has never been found, although local administrations were the ones in which the issue of decentralization should have found the most fruitful ground. It should be considered that the amount of financial resources that the local administrations could have allocated to the personnel beyond base pay has always been regulated by the collective agreement. From 1998 to 2004 this regulation system was loosened. The disruptive outcome on wage growth of

---

<sup>4</sup> See Dell'Aringa and Vignocchi (2002) for an example of this kind of modelling.

local administrations in this period of maximum confidence in self-regulation ability is illustrated in Vignocchi (2007).

Even in this area it seems possible to draw some indications. First of all, it is perhaps desirable that local administrations, by negotiating at a decentralized level, receive a budget constraint by some external authority in terms of overall personnel expenditure, leaving to their autonomy the option of how much to dedicate to increase wages or to adjust staff. This means having a budget for personnel expenditure under control but at the same time avoiding setting from the outset a maximum limit of what to devote to wage growth. Declaring by the beginning a ceiling implies that that will always be the final outcome of the negotiation (Dell'Aringa, 2017).

At the same time, a way must be found to differentiate resources allocation among the administrations of the same sector. Some criteria for measuring the overall performance of the entity could apply. Starting from the managers, the idea could be to guarantee wage flexibility in exchange for results in terms of overall benchmarked performance.

This proposal is not new and unfortunately it has never produced great results, but perhaps there is a way to relaunch it, reversing the roles. The sector committees, in an experimental perspective, could be required to produce credible comparative measurements of overall performance. The availability of real resources could be guaranteed in recognition of the documented results.

## 5. CONCLUSIONS

Analysing the various reform attempts that have interested the public employees of our country in the last 30 years, a key often used is that of a cyclical rebounding in one direction or another of the various dimensions. Typical is the case of the centralization-autonomy trade-off. In this contribution, the idea is preferred that these are short-term effects above long-term structures, present at least in the last 30 years.

There is also a fundamental cultural misunderstanding that has characterized this long period, which has also guided many of the innovations introduced in the various reforms and which is the basis of the repeated failures. It is the idea that it is possible to mimic and uncritically import into the Civil Service regulatory and management methods of human resources employed in private sectors.

On the macroeconomic side, it is clear that the system has metabolized these interventions by reproducing the same long-period result. In the case of the private sector, the wage management mechanism through programmed inflation (TIP) has worked as an effective regulatory element. In the case of public employment, this actually worked as a floor from which to start the negotiation between government and trade unions. Depending on the moment, the rhetoric to justify this surplus reads as: rearranging careers; recognizing specific competences; realigning uneven treatments; guaranteeing sector allowances; rewarding merits and efforts.

The salary growth of the public employees up to the wage freeze of 2010 has constantly moved well above the target indicated by the planned inflation but also above the actual inflation.

The renewals relating for the 2016-18 round and the start of the next one seem to indicate that we are going directly to political negotiation, with a rule of thumb of “imitative memory”. Public wage agreements cannot move too far from what was previously guaranteed and from what is insured to the private sector. On the other hand, historical evidence definitively discards the idea that it is possible to adopt highly technical mechanisms, rooted in economics, such as the one adopted until the wage freeze of 2010.

The dual aspect of this excessive wage growth is the timing necessary to negotiate public wage collective agreements. Usually they came into force at the end or beyond the period of validity of the agreements themselves, with the paradox that they were born already expired. Here too there is a long-term regularity. After the wage freeze of 2010, the new 2016-18 round reproduced the much blamed mismatch between signing and validity of the wage collective agreements. On average, three Budget Laws were needed to allocate the resources for each single round of renewal. On the other hand, which negotiator would close a deal knowing that as the time goes by its pay-off could only improve ?

The strong impression is that the entire system is not prone to be run guaranteeing wage dynamics coherent to the economic phase that it is going through, but possesses only two “states of nature”. The first is that of wage pressure that can not be curbed by any offsetting force. This situation has often been masked by the illusory idea of having a powerful macroeconomic mechanism. Although with different intensity, this has happened for over a decade from 1995 until 2007, and before during the 1980s.

The second state of nature is that induced by a crisis event. In times of extreme difficulty in public finances, a different criterion inevitably applies, which consists of an overall freeze of each renewal of wage collective agreement. This is what happened in the 2010-15 five-year period and something quite similar, albeit less rigorous, occurred almost 20 years earlier, in the two-year period 1992-93, following the experience of the 1980s.

In the future, the most promising path is to be aware of this fact and to focus efforts to ensure that the process takes place within a strictly legal procedure. For example, it would be a very important result to establish that only the last Budget Law before the period to which the renewal of the wage agreement refers can contain the resources allocated.

On the microeconomic side, the most important element imported from the private sectors is that of PRP systems. After a substantially unconditional acceptance of many practices, such as this inspired by the NPM, starting from the second decade of the new century there became evident the profound difficulties that the rhetorical construct was hiding. The PRP systems, the strong individualization of remuneration, the push towards contractual decentralization have lost much of their initial attraction.

The central idea is that the transaction costs of these systems should not be underestimated, but rather carefully considered. As usual, the trade-off is between sure costs and strongly overestimated potential benefits.

From the outset, using the usual principal-agent model, it would have been possible to realize that in the public sector one of the necessary conditions is missing for a PRP contract to be optimal. The reference goes to the extreme difficulty of producing credible measurements of the output and even less of the outcome. This is not a mere technical detail as such, but rather an intrinsic feature of the public sector, in the absence of economic quantities that naturally come about in the market.

Today this represents common wisdom, but the impression is that the most important difficulties lie even deeper. The principal-agent model assumes that the principal is really interested in maximizing its utility, that is, its profit against the disutility of the agent linked to the effort it must make. Is this idea plausible in the public sector? Does the principal reward the agent because his/her effort really changes the overall return? Is the public manager interested in rewarding employees since his/her own reward depends on some measurement of overall performance? This representation is very unconvincing.

More suggestive, however, is to think about the whole question in terms of the collusive equilibrium of three actors, where the principal agent model is enriched by a third term consisting of political leaders.

At the end of the story, reality came into play bypassing the various reforms and correctly “maximizing” a nonexistent agency contract. The difficulty in identifying a strong measurement of the output, the absence of a clear return for the manager through the effort made by staff personnel, the risk of serious negative externalities caused by a perception of unfairness of the reward policy, lead to a solution of not differentiating among employees. This basically means not to implement a reward policy based on PRP at all.

On this side, the indications that can be drawn arise from various concrete experiences. One of the central ideas is that the assessment should be done “by tails”, addressing efforts of excellent and unsatisfactory performance and therefore not dealing with the wide middle range.

Focusing efforts only towards the managers could also be good advice, and this constitutes one of the central conclusions of this contribution. It is necessary to break the aforementioned collusive equilibrium and this could be done by linking the remuneration of the managers to the overall performance of their administration thus creating the conditions for which a principal-agent representation is more binding.

On the other hand, the only way to produce this measurement without slipping into the usual self-reference pattern is to proceed by benchmarking among similar public administrations. It is precisely from the subsector where this measurement is possible that it would be optimal to start again. Therefore keep in mind the following catchphrase: managers – overall performance – benchmarking.

In addition, on the side of contractual decentralization, the assumption of cou-

pling autonomy with responsibility proved to be a further rhetorical construct of scarce enforceability. Responsibility had to hinge on accountability, another central mantra of the time, which however broke down against the difficulty of measuring an outcome depending on a plurality of principals and agents. In other words, among different administrative levels, it is easy to attribute one's own responsibilities to others

Also in this area it seems possible to draw some indications for the future. First of all, it is perhaps desirable that local administrations, by negotiating at a decentralized level, receive a budget constraint by some external authority in terms of overall personnel expenditure, leaving to their autonomy the option of how much to dedicate to increase wages or to adjust staff. This means having a budget for personnel expenditure under control but at the same time avoiding setting from the outset a maximum limit of what to devote to wage growth. Declaring a ceiling at the beginning implies that that will always be the final outcome of the negotiation.

At the same time, a way must be found to differentiate resources allocation among the administrations of the same sector. Some criteria for measuring the overall performance of the public administrations could apply. The proposal is not new and unfortunately it has never produced great results, but perhaps there is a way to relaunch it, reversing the roles. The sector committees, in an experimental perspective, could be requested to produce credible comparative measurements of overall performance. The availability of real resources should be guaranteed in recognition of the documented results.

## REFERENCES

- ARAN, *Rapporto semestrale sulle retribuzioni dei pubblici dipendenti*, various issues. <https://www.aranagenzia.it/statistiche-e-pubblicazioni/rapporti-sulle-retribuzioni.html>
- Beato G., Zucaro A. (2015). *Un approccio di sistema ai metodi della valutazione*. In C. Dell'Aringa, G. Della Rocca (Eds). *L'eccellenza nelle pubbliche amministrazioni. Valutare oltre gli adempimenti formali*. AREL, Roma
- Biagioli M., Salvati M., Santi P. (1989). *Occupazione, retribuzioni e spesa per il personale nella Pubblica Amministrazione*. In Ente Luigi Einaudi (Ed.). *Il disavanzo pubblico in Italia: natura strutturale e politiche di rientro*, Il Mulino, Bologna
- Bordogna L. (2017). *Il lavoro pubblico in Europa dopo la crisi. Una analisi comparata*. In C. Dell'Aringa, G. Della Rocca (Eds). *Lavoro pubblico fuori dal tunnel? Retribuzioni, produttività, organizzazione*. AREL, Roma
- Dell'Aringa C. (2017). *Contrattazione collettiva e ruolo dei dirigenti*. In C. Dell'Aringa, G. Della Rocca (Eds). *Lavoro pubblico fuori dal tunnel? Retribuzioni, produttività, organizzazione*. Arel, Roma
- Dell'Aringa C., Vignocchi C. (2002). *I ruoli del sindacato nei mercati locali del pubblico impiego*. In C. Dell'Aringa, C. Lucifora (Eds). *Salari, incentivi e mobilità nell'economia italiana*. Vita e Pensiero, Milano
- Dipartimento della Funzione Pubblica (2019). *Linee guida per la misurazione e la valutazione della performance individuale*, 5
- Dixit A. (2000). Incentives and organizations in the public sector: An interpretative review. *The Journal of Human Resources*, XXXVII, 4, 696-727
- Hood C. (1998). *The Art of the State*. Oxford University Press
- Marsden D., Momigliano S. (1996). L'utilizzo di sistemi di incentivazione individuale nel pubblico impiego: problemi e possibili soluzioni. *Lavoro e Relazioni Industriali*, 4, 35-69
- Mastrogiuseppe P., Peiti C., Vignocchi C. (2012). *Misurazioni di efficienza e sistemi premianti del personale nelle Amministrazioni Pubbliche*. Dipartimento Funzione Pubblica e ARAN, Roma
- Mastrogiuseppe P., Peiti C., Vignocchi C. (2017). *Modelli di analisi e di gestione dei Fabbisogni di personale nelle Amministrazioni pubbliche*. Dipartimento Funzione Pubblica e ARAN, Roma
- Melis G. (1988). *Due modelli di amministrazione tra liberalismo e fascismo. Burocrazie tradizionali e nuovi apparati*. Ministero per i Beni Culturali e Ambientali, Roma
- OECD (2005). *Performance-related Pay Policies for Government Employees*. OECD, Paris

OECD (2007). *Governance of Decentralised Pay Setting in Selected OECD Countries*. OECD, Paris

OECD (2015). *Building on Basics. Value for Money in Government*. OECD, Paris

Pastorello G. (2015). *La valutazione della performance individuale*. In C. Dell'Aringa, G. Della Rocca (Eds). *L'eccellenza nelle pubbliche amministrazioni. Valutare oltre gli adempimenti formali*. AREL, Roma

Pastorello G. (2017). *Ambivalenze della valutazione individuale. Vie di uscita*. In C. Dell'Aringa, G. Della Rocca (Eds). *Lavoro pubblico fuori dal tunnel? Retribuzioni, produttività, organizzazione*. AREL, Roma

Pollit C., Bouckaert G. (2017). *Public Management Reform. A Comparative Analysis: Into the Age of Austerity*. Oxford University Press, Oxford

Salvati M. (1989). *I limiti di un sindacato senza antagonismi*. In A. Lettieri (Ed.). *Ripensare il sindacato*, Franco Angeli, Milano

Sestito P. (2015). *Dalla retorica alla pratica della valutazione: riflessioni per una ripartenza*. In C. Dell'Aringa, G. Della Rocca (Eds). *L'eccellenza nelle pubbliche amministrazioni. Valutare oltre gli adempimenti formali*. AREL, Roma

Sestito P. (2017). *Carriera, incentivi e ruolo della contrattazione collettiva*. In C. Dell'Aringa, G. Della Rocca (Eds). *Lavoro pubblico fuori dal tunnel? Retribuzioni, produttività, organizzazione*. AREL, Roma

Vignocchi C. (2007). *Tre tornate di contrattazione negli enti locali: cosa salvare di una esperienza controversa*. In C. Dell'Aringa, G. Della Rocca (Eds). *Pubblici dipendenti. Una nuova riforma?* Rubbettino Editore, Soveria Mannelli

Zucaro A. (2000). *L'attuazione della riforma del pubblico impiego*. *Giornale di diritto amministrativo*. Quaderni, 2. IPSOA