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Ezio Tarantelli - Economic Theory and Industrial Relations



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Foreword

I had the privilege of working with Ezio Tarantelli during the last few years of his life and, of course, greatly admired his enthusiasm and his ideas. The Italian political economy is richer for having had his analyses and proposals for many years, and poorer for his passing on in early 1985. So, when I heard about Michelagnoli's project, I thought the book constituted a tribute to him. I was wondering if this effort was well addressed. Why to write a book like this? Is it worth it, today, to study Tarantelli ideas? Looking at the project with attention, my own motivation lies in the conviction that this is a viable and respectable analysis of the events, the ideas, the agents' expectations and their behavior which have characterized the economy in the last and crucial decades of the twentieth century. This book is not simply a collection of largely discussed events, but represents a fine historical reconstruction and a critical analysis capable of describing the evolution of contrasts and the institutional and socio-economic settings which have characterized that crucial and perhaps the most dramatic, period. Thinking about Tarantelli proposals again means thinking about the Italian economic history of the last 40 years again. At the beginning of the 1970s, the economy was undergoing a profound transformation in all its markets, behavior, expectations and strategies. International relations and the political economy were also calling for a change. Industrial relations, inevitably suffered this transformation, but also affected dynamics and outcomes of this transformations. Moreover, the changing model for analyzing and predicting the economic system was remarkably affected by the first big oil shocks, generating new prospective structures. The dramatic surge in oil prices since the economic boom, has disrupted the traditional models to interpret and predict the economy. Stagflation brought about the great struggle among the economic agents (firms and workers) to secure income and development. We watched the first major structural break since the Second World War, which required a different way of thinking and acting. The analysis of this peculiar period is also useful to study the reaction of agents and the economic institutions to shocks and events not predicted as well as to proposal and solutions. They have inevitably affected the process that led to our economic situation. The market is sometimes

viewed as a Leviathan who treats an economy like a single person in capital letters. Trade Unions and employers Unions do the same for their memberships and pursuing their goals envisage a status quo as being a “war of all against all”. An economy in a democratic society is not a monolithic coalition that pursues its goals with the same single-minded determination as its individual citizens. The decisions it makes reflect a whole raft of compromises that are necessary to achieve a consensus among people, firms and workers with aspirations that will often be very different. All this brings us to think of the economy like a Prisoners Dilemma, and although Ezio Tarantelli did not use theorems and concepts of game theory, his purpose was to solve this “dreadful” Dilemma to bring the economy towards the unique Pareto efficient solution. He was perfectly aware that the market solution, with the social parts (unions and employers) in a dangerously strong opposition led to the inefficient solution (the typical dominant solution in the prisoner’s dilemma) or (even worse) to others possible inefficient solutions characterized by a free rider behavior. The possible outcomes, were an impoverishment of workers in one case, and a drop in profits with a slowdown of investment in the other. As shown by the Folk Theorem, there must be another solution, based on cooperation between the social partners and conducted by appropriate “trigger strategies”. This is the framework of analysis of Tarantelli, and it is important because it is one of the first applications of the cooperative solution in Europe whose essential ingredients were concept as “agreement as a commitment”, “reputation of the economic institutions and social actors”, “credible announcement”. This pattern of analysis was important both because it was able to show a different solution to the standard proposed by many, and because on that occasion the scheme proved to be the most effective solution, while maintaining the real incomes and showing the way for an agreement that could get the economy out of stagflation. Indeed, such a compromise was hard to envisage. The problems were how find a median position between those who address their attention on the wrong problem, those who do not see that a problem exists and those who try to benefit from this situation. The “power of ideas” is therefore intended to be interpreted literally. It is intended to serve as a basis for making judgments about the real economy and the models to interpret it. To this end, the punitive “trigger strategies” (Tit for Tat or whatever) are not enough: in fact, often the players involved are very myopic. To this end, “cheap talk” is, again, not enough: cheap talk will never persuade rational players to act contrary to their own interests, it may help to coordinate their endeavors, but a commitment is required and a guarantor that controls and ensures compliance with this commitment is also necessary. The role of trade unions in a cooperative game, their help in coordinating actions against inflation and the “political exchange” with the Government which, along with the Central Bank, announce the rules of the game (and therefore are credible to unions and employers) should be read in this scheme. The intricacy of the Italian system is well known; it is determined by a complex interactions between social, institutional, political and economic actors. This is the history reconstructed in this book, without being overwhelming by the foundations of game theory, but reporting schemes, discussions, theories, economic and political facts, agents’ strategies which emphasizes the peculiarity of the Italian

situation and the importance of Tarantelli's ideas and suggestions. I hope it will appeal to students who want to learn a little about the history of the Italian and European economy and the crucial period of the 1970s and 1980s. The book helps to expand the discussion on these issues beyond the confines of a journal article on one hand, and develops the political economy analysis beyond the confines of newspaper articles on the other hand.

Bruno Chiarini

Preface

The European left wing, in particular the Italian and the French, is the only social force able to put on the ropes the conservative block in Germany and in England through the strengthening, in the name of the shield of the unemployed, of the opposition, that in these countries still exists. The contrast to unemployment is a goal as meritorious for such a left wing, as it is stodgy for those governments which today are slowing down the recovery and the pro-Europe instances. This is the reason why the contrast to unemployment [...] does not represent only the first step towards the European Union, but also, maybe, a political guideline aiming at joining all the left wing parties in Europe. Is this just Utopia? The Utopia of the weak is not, maybe, the strong ones' fear¹?

This is what Ezio Tarantelli wrote a few weeks before being murdered by two red brigades killers when he was 44, on 27th March 1985. This book aims at reconstructing his contribution to economic analysis and the economic and sociological theories which inspired his economic policy proposals.

The content is organized in five chapters, the Appendix includes Tarantelli's scientific writings bibliography.

The first chapter aims at providing a historical framework to describe the social, political and economic setting for Tarantelli's analysis.

The second chapter offers a short profile of Tarantelli's intellectual biography. In this context, Joan Robinson's analytical contribution to the scheme of analysis of Tarantelli will be firstly examined. It is, in fact, mainly thanks to Robinson's approach that Tarantelli was able to formulate his cyclic version of the mark up principle. As it will be seen later on, it is based on the notion of "subjective normal price" which she expounded in the *Accumulation of capital*. We will then concentrate on Tarantelli's intellectual connection with Modigliani. Though they wrote

¹Tarantelli (1985 [7], pp. 576–577). The number in the squared brackets refers to the appendix of Tarantelli's scientific writings bibliography.

several remarkable essays together, concerning analytical refinements of Phillips curve, this connection has been very fruitful, not only from the analytical point of view. Also Tarantelli's methodological revision of his "four cards" Post Keynesian labour market model can be largely traced back to Modigliani's influence.

The third chapter will focus on Tarantelli's analytical refinements and generalizations to the Post Keynesian labour market, moving from his criticism to the new labour microeconomics approach.

The fourth chapter will deal with Tarantelli's reformulation of the Post Keynesian model in a conflictual scenery. Within this context, Tarantelli's social conflict theory will be examined. As is known, it rested on the generation leap hypothesis, i.e. the emergence at the end of the sixties of a more cultivated labour force, which could not be structured in a hierarchical and authoritative organization model inherited from the past. Such a phenomenon would cause a short circuit between the two "collective brains", that is the conflict.

The fifth chapter will be dedicated to a survey of the main economic policy measures elaborated by Tarantelli, i.e. the OPEC surplus recycling, the inflation recovery proposal and the shield of the unemployed and to a brief exam of economists' attitudes towards them.

Florence

Giovanni Michelagnoli

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Chapter 1

Macroeconomic Sceneries and Industrial Relations in Italy (1970–1985)

1.1 The Hot Autumn

The two year period of 1969–1970 represented a phase of intense social collision.¹ Whilst some big industrial groups, as Fiat and Pirelli, sensibly re-dimensioned the number of employed, the vast majority of the industry and agricultural categories began the season of contractual renewals. The lengthening of working hours, the persistence of significant wage differences, as well as housing and social services insufficiency, pushed the union organizations to claim social reforms, remarkable wage increases and the reform of work organization. On the base of L. 300/1970, better known as “workers statute”, which also foresaw the mobility of labour between plants and departments and the elimination of wage cages, the workers began to refuse piecework systems and incentive pays. The development of schooling and the re-dimensioning of female employment, furthermore reduced the possibilities for the firms to rely upon marginal skilled workers employable in the lowest categories. On the industrial relations level, some sort of “bilateral monopoly” was being consolidated, which saw trade unions on one side and Confindustria (the organization of industrial entrepreneurs) on the other. The trade unions, because of the fast growth of their status and their grade of representation, ended up taking charge of social demand. The management of big firms committed themselves to give force and prestige to the Confindustria’s organisms again, with a strategy aiming to credit the industrial *elite* as guarantor of the nation’s modernization in contraposition to immobilism or client procedure of the political class.

¹ These schematic sketches aim at furnishing a synthetic summary of the historical framework. For an extended historical reconstruction of the Italian economy in the 1970s compare Ciocca (2007, pp. 285–315), Valli (1980) and Nardozzi (1980).

1.2 The International Monetary Crisis

In 1971, a deep crisis in the International monetary system occurred. The following year, the countries of the European Community, with the intent of getting around the consequences of the crisis, instituted the “European currency snake”, which was an agreement between the various European countries which binds their currencies with an oscillation of 2.25%.

Public and private interventions livened up and a recovery of industrial production took place. Productive re-organization strategies of big firms began to take shape. Fiat introduced the first robots in the assembly lines. The main objective was that of subtracting productive processes to the bounds of high labour cost and union conflicts.

In July 1972, the unitary Federation of trade unions, made up of CGIL (Italian general confederation of labour), CISL (Italian confederation of trade unions) and UIL (Italian union of labour) was founded. The round of national contracts renewals led to remarkable conquests on the stability of the employment level and on the wage guarantees level. Conflicts however continued to be high. The entrepreneurs reacted by limiting investments and maintaining, sometimes, reduced dimensions of firms (less than 15 employees) to avoid the application of the workers Statute.

At the beginning of 1973, Italy came out of the “European currency snake”. On the International market a first big shake up was sensed with the abandoning of the fixed parity between gold and dollar, which led to a competitive devaluation of the American currency and to a diffused uncertainty in regard to monetary value with which International transactions were regulated. The Bank of Italy adopted beggar thy neighbour policies, with the aim of sustaining domestic exportations.

At the end of the year, the OPEC countries decided for a gradual reduction of the crude oil production and an increase in the price of petroleum. The Government approved an austerity plan which foresaw a series of measures destined to confront the petroleum emergency. However, it did not result influential on the consumption containment. Industrial production and investments rapidly grew and the total production increased (even if mainly thanks to the tertiary sector expansion). Anyway, the phase of inflation take off began. The devaluation of the Lira affected the prices level. To slow down the inflation spiral, the Government introduced a block for the prices of 21 consumer goods and products of the big firms. Against the growing inflation tensions, the Bank of Italy passed a moderately restrictive policy and introduced the so called “portfolio bound”, which obliged banks to destine a fixed quota of investments in government bonds.

1.3 The Agreement on the Sliding Scale

The trade unions conventions of 1973 strengthened the unification process. The VI convention of UIL passed the incompatibility principle between union posts and political posts. The CISL convention signed the definitive victory of Storti who was

supported by Macario and Carniti, against Scalia's anti-unitary line. CIGL's convention was centered on the reject of the social pact proposal of Confindustria. Lama, supported by Trentin, put the so called "global proposal" forward. It consisted of intensive reform policies to be integrated with the strenuous defense of wage and sliding scale and with the extension to the tertiary sector of those benefits acquired in the secondary one.²

In April 1974, Agnelli was elected president of Confindustria and the fundamental lines of his actions were exposed in the speech which he held on 30th May. He intended to pursue the actuation of three poles industrial relations in the framework of a pact which would give centrality to the industry again. During Agnelli's presidency, the industrial relations system was characterized by two particularly significant moments. The first one was the FIAT-FLM (federation of metal workers) agreement (1974), which contemplated the opening of a permanent informative channel by the firm towards the trade union with regard to a group of economic and organizational subjects. The second one was the subscription with the unitary trade union federation, on 25th January 1975, of the agreement which concluded the long dispute on the integrative indemnity, introducing the unique superior point and the quarterly based sliding scale. Passing a similar agreement meant introducing acceleration factors of inflation, which levered the possibility for entrepreneurs of shifting the constantly increasing labour costs on prices. Whilst such an agreement could reply to the cooling of the conflict in big firms, it implied more costs than benefits to medium and small industries, as in this context conflicts were significantly more contained. Andreotti's Government passed an austerity plan which foresaw the increase of indirect taxes burden, the block of prices and tariffs and the partial block of the sliding scale for higher incomes. Next to the restrictive monetary policy, the Government placed a more efficient control on the public expenditure dynamics, which reflected in an improvement of public accounts. In July 1976, Carli succeeded Agnelli in the presidency of Confindustria.

² As it has been noted, the sliding scale "was introduced in Italy soon after the Second World War. A substantial reform was carried out in 1951 and set rules that remained basically unchanged until 1975. In the 1951 system, each percentage of the trade union cost-of-living index [...] caused contractual wages to rise, with a lag, by predetermined fixed amounts which differed by occupation, sex, age and geographical area [...]. At the beginning of 1975, trade unions and employers' organizations agreed to radically change the system, with the declared objective to reduce wage differentials. After a transition period, the differentiated fixed amounts were to be replaced by a single amount equal across all employees [unique superior point] of value substantially higher than before" Brandolini et al. (2007, p. 33). Compare also Filosa-Visco (1980).

1.4 Trade Unions and the EUR Turn

From 1973 to 1976 the Italian balance of payments had accumulated considerable liabilities, which only partly would be compensated by the following 3 year period of relative stabilization.

In 1977, the Prime Minister Andreotti subscribed a *Letter of intents* with which he committed the Government to adopt severe deflationist measures and to reduce the financial requirement of the public sector. In the 3-year period 1977–1979 the Lira devalued in comparison to the Mark and, in smaller measure, to the French Franc, but it slightly re-evaluated in comparison to the dollar. On 26th January 1977, the Government had promoted an agreement between Confindustria and trade unions which it guaranteed to committing to adopt measures for the growth of employment, prices control and investments in the south. Trade unions accepted a slight diminishing of wages indexation, a revision of seniority increases and of the liquidation mechanism, a more restrictive control on absenteeism in firms and a higher labour mobility. The agreement represented a first embryonic attempt at political exchange between trade unions, firms and Government. The latter declared itself willing to facilitate firms in the reconstruction of profit margins through the social costs exemption, by charging the public balance with social security contributions originally due to firms.

On 13th February 1978, the unitary trade union federation in the EUR conference, had sanctioned a policy turn. The new strategy consisted in accepting a certain degree of wage moderation and a higher labour flexibility in return for structural reforms and increases of social services supply. The meaning of such a turn emerged by the words of Lama, the CGIL's leader. He had issued an interview to the director of the Italian daily "La Repubblica" Scalfari. His main thesis was that in an open economy, independent variables did not exist. This is the reason why, according to him, also the wage had to re-enter in the framework of economic compatibilities. Against the EUR turn, a contestation of the Federations exploded which interpreted the base's humor of rebellion. Also against it was the aversion of CISL and UIL which denounced its instrumentality.

1.5 The Constitution of EMS and the Second Petrol Crisis

In December 1978, the European monetary system (EMS) came into being with the adhesion of Belgium, Denmark, France, Germany, Ireland, Holland and Italy. A limited fluctuation exchange was introduced as regards the Lira and the other European currencies. This turn in the exchanges policy pursued by the Bank of Italy definitely interrupted the beggar thy neighbour policy, which was adopted to sustain domestic exportations between the first and second half of the 1970s. It was no longer possible for Italian firms, therefore, to shift the higher labour cost on prices.

The Khomeinist revolution in Iran (the second petroleum exporter in the world) moreover, influenced the global market, since petroleum supplies from Iran were wiped out. Despite the marginal impact on crude oil availability, the Government's reactions provoked a new hike in prices. In Italy, the economy's growth rhythm increased. Next to the recovery of demand, profits and productivity, a rapid increase in the industrial capacity utilization, which nourished persistent inflation expectations, occurred.

1.6 The Problems of Labour Cost and Inflation Control

The five year growth period of Italian economy ended in 1976. While GDP's real growth slowed down, the inflation rate began to accelerate again and so the differential in comparison to other European countries widened. The inflation expectations of entrepreneurs and the trade organization reaction to the *fiscal drag* caused by inflation gave rise to a rapid labour cost and prices increase. In 1980, the highest inflation peak (+21%) on annual basis of the entire after war period was reached.

Two further factors contributed to the necessity of controlling the labour cost trend. The first one derived from the high rates policy which the Bank of Italy began to apply and which was meant to make the subscription of Government's bonds desirable. On one hand, the drastic increase of the discount rate favoured the progressive internationalization of the Italian economy thanks to the entrance of capital flows. On the other hand, it also comported the growth of money cost for the firms as well as an accelerated increase of public debt. The second factor derived from the vital necessity for firms to face productive reorganizations which were functional to the utilization of new technologies. These events of economic and technologic nature brought mainly two social effects which contributed to the weakening of the trade union, i.e. the rapid growth of the unemployment rate and the decline of the worker-mass model, which contributed to subtract consensuses to the trade union culture of the hot autumn.

From 1971 to 1991, occurred an expulsion of 30% of the labour force from industry and agriculture, which was only partially compensated by the increase of employment in the tertiary sector. The corollary of this phenomenon was the reduction of the unionization rate. Within FIAT, a long controversy began straight after the announcement of lay-offs (78,000 employees were laid off and 14,000 were made redundant) which lasted from 10th September to 15th October 1980. The main actors of it were the managing director of FIAT Cesare Romiti, who aimed for a drastic reduction of staff in order to re-equilibrate the firm's accounts affected by a scary debt, and the trade union. The latter, for the first time after many years, saw itself attacked in a vital junction of its power and its credibility, i.e. the lay-offs control. The conflict led to the occupation of the factories by workers (known as the 35 days fight) and to a walk out of employees along with the firms management (the so called March of the 40,000). FIAT's qualified staff