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The Political Economy of Labor

edited by Leonello Tronti

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by **Ezio Tarantelli**

The actor in the story I am going to tell in this volume is called the Political Economy of Labor. In this Economy, the script of the union, which has always played the role of an extra, has now almost completely disappeared along with that of institutions and, in particular, of industrial relations systems.

There are more trade unions in the works of Adam Smith and his immediate successors than in those of Milton Friedman or Lucas. Yet unions have much greater strength and importance today than at the time Adam Smith was writing.

We have inherited a neo-Keynesian paradigm that is pro-income policies without ever having analyzed the institutional context that can make them workable in different industrial relations systems.

On the other hand, we have a monetarist paradigm in which the only institution that matters is the central bank, and in which there is no consideration of the different institutional settings within which central banks are constrained in their operations.

This book proposes a theory of inflation and inflationary expectations, income and its distribution, in which there is a role for trade unions and, more generally, for industrial relations systems.

This theory is tested both through the analysis of economic policies and through econometric verification, for the sixteen largest industrialized countries, during what is known as the French May crisis and the two subsequent oil crises.

The structure of industrial relations systems in these sixteen countries is analyzed using a comparative methodology. This institutional approach is extended to a reconsideration of the theory of income distribution and inflation.

My aim is to propose a political economy of labor and industrial relations in which economic theory, on the one hand, and the structure of industrial relations systems, on the other, constitute two sides of the same coin.

A political economy in which the link between the two sides of the paradigm is no longer a character in search of an author. A political economy, finally,

whose genitive implied, but almost never made explicit, is not of capital but, precisely, of labor.

I attempted to apply the implications of the theory developed in this book to the Italian economy with a proposal on the “predetermination or scheduling of inflation and the sliding scale”¹ in April 1981 (see “La Repubblica”, April 8th, 1981). On this proposal the political line of the three major Italian trade unions unfortunately split into two sections. A few years later, the the Unitary Trade Union Federation also formally broke up.

The first attempt to implement my proposal (known as Labor Minister Scotti’s award, took place on November 22nd, 1983. On this occasion, for the first time, the social partners agreed to predetermine the inflation rate for the following year. My proposal was then turned into law on February 14th, 1984, by the first Italian government with a socialist presidency.

The law predetermined for 1984 the number of sliding scale points to be triggered each quarter, consistent with the predetermined inflation “ceiling”. The predetermination was remarkably successful in returning from inflation that year, despite rising domestic and international demand. The real pre-tax wage suffered no reduction, as an effect of the predetermination of the money wage (which also contained the losses that on the real wage would, otherwise, have come from fiscal drag).

This book is the result of research I have been conducting for more than a decade. The final version of this work owes much to the academic, trade union and political debate that this proposal of mine has stimulated in Italy for over three years, as well as to the suggestions that have been provided to me from a large number of critics, colleagues and friends.

In 1983 a version of my proposal was implemented in France, again by their first socialist government, limited to the predetermination of the sliding scale in the public sector. In 1984 an agreement between part of the unions and the government, closely reminiscent of the Italian income policy of February 14th, 1984, was signed in Spain. However, the examples of inflation caps, monetary wage, and price controls that the governments of the various countries analyzed here have adopted, more or less consciously, over the past twenty years are very numerous.

The volume compares the views and results of the monetarist, neo-Keynesian, and post-Keynesian paradigms (starting with the model I proposed in my 1974 study).

¹ The Italian wages “sliding scale” (scala mobile) was a mechanism for automatically adjusting Italian workers’ wages to inflation. It was launched in 1945 and remained in effect, with various modifications, until 1992.

In a nutshell, my results make it clear that, for the purpose of inflation recovery, the same economist ought to invoke monetarist policies in decentralized (and decomposed) industrial relations systems (such as the United States and the United Kingdom) and neo-Keynesian policies in centralized systems (such as Austria, Germany, Scandinavia and Japan).

This same economist, without any contradiction, can believe in the existence of a long-run Phillips curve that is vertical in the former type of system and negatively sloped in the latter.

In other words, the choice between monetarist and neo-Keynesian policies, like the possibility of having a long-run exchange between unemployment and inflation, does not depend on the theory itself, but rather on the degree of centralization of the industrial relations system and the functioning of its institutions.

If, as this volume shows, economic theory has progressively excluded labor unions and institutions from its field of specialization, the dangers of this should now be clear. Economists would do well to return to the study of institutions, including those outside the industrial relations system.

