THE SERVICE SECTOR TO THE FORE:
THE POLITICS OF 'CHEAP JOBS' IN GERMANY AND ITALY

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ABSTRACT

'Cheap' forms of labor have constituted the most prominent case of dualization during the 2000s especially in highly-regulated Continental and Southern European labor markets. Cheap jobs can be broadly defined as those contractual forms that share statutory exemption from collectively agreed wage, diminished social insurance obligations, and low employment protection. To explain the development of dual labor market arrangements, the existing literature tends to give utmost importance to cross-class coalitions between manufacturing employers and unions. This paper argues that too scarce attention has been paid to service actors as crucial agents of dualization. By comparing the cases of marginal employment in Germany and independent contracting work in Italy, the paper finds that service employers have been key actors for the diffusion of cheap jobs at the micro-level in a first stage, and subsequently for the institutionalization of cheap arrangements at the political level. While employers have succeeded to build a wide political consensus in support of their demands, service unions have lacked the power resources to withstand employers’ pressures. The paper concludes that the literature should take service actors and the power relations between them more seriously to assess the political determinants of dualization and more generally of labor market policy.

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INTRODUCTION

Political economists have devoted increasing efforts to explain the emergence and consolidation of ‘dual’ labor market arrangements especially in Continental and Southern Europe under post-industrialism. In most of these countries institutions such as dismissal protection, collective wage bargaining, and insurance-based social protection have been maintained by and large intact for workers on typical open-ended, full-time work contracts, whereas the liberalization of various forms of atypical work has progressively allowed firms to deviate partially or in full from such standards (Emmenegger et al. 2012, Berton et al. 2012, Eichhorst and Marx 2011).

This paper focuses on the most prominent case of such dualistic differentiation of labor and social rights provided to typical and atypical workers (Emmenegger et al. 2012: 10), that is, what we may call ‘cheap jobs’ opportunities. Building on King and Rueda (2008: 280), we intend cheap jobs as those forms of atypical work that share three main statutory characteristics: low pay levels; diminished or no access to social insurance programs; low to no employment protection. High conceptual abstraction is necessary because of the cross-country variety of contractual forms that serve the similar objective of allowing firms to achieve neat savings on wage, non-wage and labor turnover costs vis-à-vis standard jobs (cf. Eichhorst and Marx 2012). To be sure, the object of the paper is not to analyze the contractual specificity of cheap jobs but rather that of observing the political dynamics associated with their institutionalization in the transition to mature post-industrial service economies. In other words, this paper researches more closely the political determinants of dualization.

The main argument is that the institutionalization of cheap jobs in Continental and Southern European countries with highly regulated labor market regimes and Bismarckian welfare states represents an emblematic reflection of the increasing relevance of services in these political economies. The structural shift of labor demand towards the predominance of low-productivity services has augmented pressures against traditional employment and social protection institutions because the political relevance of service actors has grown. Most crucially, the institutionalization of
cheap jobs can be accounted on the superior political capacities of service employers to push through their policy demands for labor cost reduction and higher manpower flexibility vis-à-vis scarcely organized service sector unions.

None of these factors is unknown to the existing political economic literature. In particular, the ‘political coalitional’ approach offers an articulated theoretical framework linking postindustrial economic-structural change to its political consequences with a view to explaining dual reform outputs on employment regulation (Thelen 2012; Palier and Thelen 2010; cf. also Häusermann 2010). Among other things, this theory has the clear merit to make a compelling synthesis between the strengths of the main approaches (power resources, varieties of capitalism, and partisan theories) developed thus far (Thelen 2012: 155). However, by explaining dualization as the residual output of cross-class coalitions in the core manufacturing, it tends to downplay the distinguished role of service actors in shaping reform processes. In contrast, this paper provides empirical evidence to argue that service actors (employers and unions) should be explicitly regarded as agents of dualization in their own right and not only as co-starring partners of more important manufacturing actors.

The paper is structured as a pairwise comparison between two countries – Germany and Italy – in which two different types of employment have represented the predominant type of cheap jobs in the national contexts: marginal part-time work (mini jobs) in Germany and independent contracting work (project work contracts) in Italy. Notwithstanding formal differences, these contracts have stood out for the equally stark diminution of labor costs and regulatory constraints offered to firms: exemption from collectively agreed wage levels, diminished social contribution levels, and – in the case of Italian project work contracts - no job security regulation. Due to these characteristics, mini-jobs and project contracts have diffused most notably in low-productivity service sectors, such as retail trade, touristic and business services. Therefore, they seem to be ideal case studies to analyze actors’ actual behavior in the policy-making processes that have led to the institutionalization of cheap jobs in Continental and Southern Europe over the last two decades.

The remainder is structured as follows: section I discusses the articulations of the political
coalition theory; section II provides an overview of the formal and developmental characteristics of cheap jobs in Germany and Italy in conjunction with the tertiarization of domestic economies; section III and IV process trace the single cases of mini jobs in Germany and project work contracts in Italy through qualitative evidence extracted from parliamentary hearings, policy documents, specialized press articles, and original author’s interviews. Section V concludes.

THE POLITICS OF CHEAP JOBS: THE SERVICE SECTOR TO THE FORE

Almost unanimously now, the literature assigns to postindustrial transition of European countries to mature service-based economies a crucial economic-structural role in spurring institutional change. Particular emphasis is placed on the effect of the profound shift in labor demand towards the predominance of services in the face of declining manufacturing demand over the last decades. Between 1995-2011 the share of service employment on the total has grown from 65.7 to 75.9% in Western Europe, whereas manufacturing fell from 26.9 to 22.5% (Eurostat data). However beneficial to job creation, Fernandez and Palazuelos (2012: 231) find, ‘most service branches […] record very weak, or even negative, productivity gains. Employment [tends] to be increasingly concentrated on those branches in which labor productivity is less dynamic’. This is the case for instance of labor-intensive business and personal services as well as retail and wholesale trade.

Inherently lower productivity of services vis-à-vis manufacturing has crucial implications for employment regulation. Since high unit labor costs render service jobs economically unsustainable, as economic theory predicts (Baumol 1967), an incommensurable tension arises with traditional institutions devised on the model of manufacturing employment (Iversen and Wren 1998; D’Agostino et al. 2006). By favoring cross-sectoral wage compression, centralized wage bargaining structures preclude the option for service firms to fine-tune wage levels with real labor productivity and thus tend to crowd out service jobs. Similarly, high social insurance contributions appreciate non-wage labor costs to an extent that service firms are unlikely to compensate through productivity gains (Scharpf 2000: 197). By setting a tax on labor turnover, finally, strict employment protection
negatively affects service firms facing higher volatility of product demand and consequently higher labor mobility than manufacturing. In short, traditional labor market institutions are at odds with employment expansion in the service sector.

The expectation has followed that service employers will develop particularly strong motives to advice the institutional arrangements attached to the standard employment relationship. They will be thus at the forefront of demands for the liberalization of collective bargaining and employment protection legislation as well as of welfare state retrenchment (Thelen 2012: 149), or more in brief for ‘cheaper jobs’. This also implies that at the micro-level service firms may exploit available institutional opportunities to lower labor costs by defecting from standard jobs via increasing use of existing forms of non-standard work in their hiring practices (Marx, forthcoming; Eichhorst and Marx 2012).

Given these shared bases, the political coalition theory has provided a strong yet emendable argument to explain the institutionalization of dual labor market arrangements from a political perspective. Economic-structural change is expected to carve important cross-sectoral divides within interest group politics. Manufacturing employers are assumed to have genuine and strategic motives not to abandon traditional institutions in order both to encourage investment in asset-specific skills (Estevez-Abe et al. 2001) and to preserve peaceful industrial relations in their sectors. In turn, relatively strong labor organization in manufacturing will make unions more sensible to the interest of industrial workers and confer them enough power resources to withstand liberalization pressures in their sector. The key claim ensues that cross-class coalitions have emerged in the core manufacturing to defend existing institutions in their sector while allowing deregulation to take hold in services during postindustrial reform processes (Palier and Thelen 2010: 120). As Thelen (2012: 154) puts it, more broadly:

where organized interests and producer-group politics continue to be dominated by manufacturing, and where public policy continues to be organized strongly around the specific interests of industry, the dominant trajectory of change is often toward increasing dualism.
While offering a compelling argument to understand the general dynamics of reform processes in employment regulation, this approach fundamentally treats service actors as residuals in the industrial relation and political arenas. Dualization is thus explained as the by-product of high interest politics in the manufacturing sector. From business perspective, labor market liberalization is presented as a sort of useful concession by manufacturing-based peak associations to their ‘vocal neighbors’ in order to preserve business organizational unity and reap the additional benefits of lower service prices and labor taxes (Thelen 2012: 154; cf. also Paster 2012). It is instead the main contention of this paper that the progressive institutionalization of ‘cheap jobs’ in Continental and Southern Europe – exempted from the application of the bulk of wage-setting, social insurance and employment protection rules applying to standard employment contracts - provides a strong case for the increasing relevance of service employers to labor market reform processes.

In short, the key hypothesis of this paper is that the institutionalization and consolidation of dual arrangements for ‘cheap jobs’ depends on the progressive empowerment of service employers within domestic political economies, also but not necessarily facing the contextual weakness of organized labor in this sector.

There are good reasons to believe that service employers have augmented their power resources under post-industrialism. First, service employers (also grouped as small firms) may not have equaled the organizational density of manufacturing producers but their associations have become increasingly successful in getting employers associations leaderships’ more sensitive to their specific demands (cf. Streeck and Visser 2006: 251). Second, unions have demonstrated lower recruiting organizational capacity in services than in manufacturing (Ebbinghaus et al. 2011: 111). We may thus agree with Thelen (2012: 514) that scarcer workers’ unionization in services has made labor poorly placed to counter the diffusion of cheap jobs in their sector. Finally, the importance of boosting service employment for governments engaged in combatting unemployment has been likely to make political parties utmost attentive to respond to these employers’ demands for labor cost reduction. In this view, favoring the diffusion of cheap jobs in services has become a ‘necessary evil’ vis-à-vis political resistance to more radical liberalization policies, in the case of conservative
parties, or reform inertia for Social Democrats.

In sum, service employers and unions and power relations in former peripheral services should be treated as agents of dualization in their own right. In turn, the following sections show, the expansion of cheap jobs should be portrayed less as the collateral damage of coordination failures across sectors but rather as an inherent, permanent feature of employment regulation in the currently predominant source of labor demand in advanced political economies, i.e. low-productivity services.

**CHEAP JOBS IN GERMANY AND ITALY: A CONTEXTUAL ANALYSIS**

From a legal perspective, marginal part-time work in Germany and independent contracting work in Italy constitute two different forms of atypical employment. Nevertheless, they exhibit three striking commonalities in comparative perspective. First, they constitute the most prominent ‘cheap job’ opportunities in the two national contexts. Both contracts allow firms to achieve considerable cost savings in terms of wage and social contribution levels, and, in the case of independent contracting work, dismissal protection. Second, their diffusion has been intrinsically associated with the transformation of the German and Italian economies into service-based economies. While having been in place since longer, it was only in the 1990s that especially service firms started using these contracts on a massive scale in order to take advantage of more favorable employment conditions than standard jobs. Third, both contracts made up a crucial part of large-scale labor market reforms implemented in Germany (the Hartz laws) and in Italy (so called Biagi law) in the year 2003. Though also intended to offset some of the sharpest security gaps for workers, legislation in both countries confirmed differentiated protection levels vis-à-vis standard work, thereby

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1 In Germany, marginal part-time work was instituted as such in 1977 building on an earlier possibility of exemption from social insurance targeted at workers with irregular or short-time work schedules and (Council of Economic Experts 2008: 424, Eichhorst and Marx 2011: 77). In Italy, so called ‘coordinated and continuative collaborations’ were introduced in civil law as early as 1975 mainly for fiscal reasons, whereas compulsory inclusion in old-age pension insurance was decided in 1995 as false self-employment was virtually unknown phenomenon to the public debate (Aliieri 2006).
institutionalizing dual arrangements. Since then, only marginal regulatory adjustments have been introduced in both countries.

The following paragraphs summarize the main institutional traits of cheap jobs in Germany and Italy, and analyze the empirical trends of their diffusion.

INSTITUTIONAL FEATURES

In Germany, marginal employment (\textit{geringfügige Beschäftigung}) is chiefly characterized by a fixed maximum wage ceiling of € 400 per month. Up to this limit, workers’ earnings are tax and contribution-free, whereas employers pay their share of social contributions plus a lump-sum tax amounting to a total of 30% of the gross monthly wage.\textsuperscript{2} Within the wage scale between € 400-800, workers may progressively pay their share of contributions up to the full rate (so called \textit{midi-jobs}). Remarkably, until marginal employees were not included in social insurance schemes in 1999 employers paid a mere lump-sum tax of 20%. The 2003 Hartz II reform abolished a previously distinctive feature of marginal employment, namely the statutory work hour limit set at 15 hour per week. No formal differentiation exists instead between mini-jobs and standard contracts with respect to dismissal protection and labor law (cf. Ebbinghaus and Eichhorst 2006: 15).

In Italy, project work contracts (\textit{contratti a progetto}) represent a form of independent contracting (or freelance) work which the 2003 Biagi law regulated in labor law by creating the specific legal type of ‘semi-employees’ (\textit{parasubordinati}). Contractors are formally independent workers who work on a temporary basis - albeit with no statutory maximum duration - for a principal within the framework of a work project at a firm. Because of their self-employment status, these workers enjoy a formal autonomy in work organization with respect e.g. to working time and place of work. However, project contracts fall out of the scope of both dismissal protection and collective bargaining, whereas they are included in a separate social insurance regime from dependent employees with lower benefits. Most notably, contractors are not covered by unemployment insurance. Employers

\textsuperscript{2} Private households employing marginal employees pay a diminished contribution rate of 13.7% of the wage.
pay a reduced contribution rate (27.72% of the monthly wage, as of 2012), which has nevertheless increased since 1996, as it amounted to a mere 10%.

Table 1 provides a comparative glance of the main institutional features of the German mini-jobs and Italian project contracts and assesses their regulatory and cost advantages for employers vis-à-vis standard jobs. German employers achieve noticeable labor cost savings primarily from the low and fixed wage ceiling. Although higher contribution rates charged on employers are supposed to disincentivize abuses, the exiguous wage basis contributes to keeping non-wage costs low for firms. Only a minority share of contractors in Italy earns up to € 500 per month. However, project contracts provide Italian employers with full external flexibility, as neither employment protection nor any functional equivalent apply, unlike for mini-jobs. Moreover, the primacy of individual bargaining endows employers with considerable discretion in pay levels, as sector-wide collective agreements that set the minimum wage in Italy apply only to dependent workers. Thereby, employers may also shift otherwise low social contribution costs on workers’ wages.

Table 1. Main institutional traits of mini-jobs and project work contracts, stand 2012

<table>
<thead>
<tr>
<th>Marginal employment</th>
<th>Project Work Contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Germany</strong></td>
<td><strong>Italy</strong></td>
</tr>
<tr>
<td>Employment Protection</td>
<td>Equal as standard employees</td>
</tr>
<tr>
<td>Collective Wage Setting</td>
<td>None, fixed wage ceiling (monthly € 400 - 800)</td>
</tr>
<tr>
<td>Non-wage costs</td>
<td>Total contribution rate (employer only) + tax: 30%. Employees, contribution free up to €400.</td>
</tr>
<tr>
<td>Advantages for Employers</td>
<td>✓ fixed, low wages ✓ higher contribution rates for employers, yet very low wage basis † similar formal employment protection rights</td>
</tr>
</tbody>
</table>

In sum, mini-jobs and project work contracts provide German and Italian employers with an
institutional opportunity for cheap jobs through lower wage and non-wage labor costs and, in the Italian case, full external flexibility.

EMPIRICAL DEVELOPMENT

The noticeable cost and flexibility advantage of cheap jobs has been key to their expansion during the transition of Germany and Italy towards service economies. Labor cost differentials vis-à-vis standard work have resulted particularly appealing to low-productivity service firms willing to minimize labor costs. This is witnessed by the fact that both mini-jobs in Germany and project work contracts in Italy have predominantly diffused among firms in these service branches.

Marginal employment has grown to a dramatic extent since the 1990s: whereas estimates counted some 2 million mini-jobs in 1991 (Ebbinghaus and Eichhorst 1999: 15), figures for workers employed exclusively on mini-jobs doubled to 4 million in 2000 and increased up to 4.9 million by December 2011 (Bundesagentur für Arbeit data). If we additionally include individuals working on mini-jobs as a secondary job, figures have raised from ca. 5.7 million in 2003 to 7.5 million in 2011. As table 2 shows, marginal employment remains predominantly anchored to low-productivity services, both in absolute terms and as a percentage share of sectorial employment, although the share of mini-jobs in manufacturing employment has increased up to 9.6% in 2010. Business services (e.g. cleaning, catering), retail trade and the touristic sector (hotels and restaurants) make up the lion’s part of its diffusion (cf. Wagner 2010: 51). Mini-jobs are not necessarily characterized by short job spells: whereas 23% of total mini-jobs lasted less than six months and 48.5% up to one year, one quarter lasted more than 3.5 years in 2009 (ibidem, 52). It is instead low wages the critical feature of mini-jobs: in 2008, these workers gained on average monthly € 264 in the West and €207 in the East (ibidem, 53).
Table 2. Mini-job distribution, absolute numbers and percentage share of total employees, breakdown by selected sector, years 2003 and 2010.

<table>
<thead>
<tr>
<th>Sector</th>
<th>2003 Abs. n. (.000)</th>
<th>% on total sectoral employment</th>
<th>2010 Abs. n. (.000)</th>
<th>% on total sectoral employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Services</td>
<td>1,137.3</td>
<td>30.0</td>
<td>1,211.5</td>
<td>32.7</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>1,142.8</td>
<td>21.4</td>
<td>1,360.9</td>
<td>33.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>673.1</td>
<td>7.3</td>
<td>606.5</td>
<td>9.6</td>
</tr>
<tr>
<td>Hotels, Restaurants</td>
<td>507.4</td>
<td>37.9</td>
<td>771.1</td>
<td>50.8</td>
</tr>
<tr>
<td>Health Services</td>
<td>514.3</td>
<td>14.5</td>
<td>686.9</td>
<td>19.3</td>
</tr>
<tr>
<td>Constructions</td>
<td>194.3</td>
<td>10.2</td>
<td>276.9</td>
<td>17.5</td>
</tr>
<tr>
<td>Education</td>
<td>123.3</td>
<td>5.8</td>
<td>208.9</td>
<td>18.6</td>
</tr>
<tr>
<td>Private Households</td>
<td>5.8</td>
<td>0.9</td>
<td>8.4</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>5296.4</td>
<td>20.5</td>
<td>6826.2</td>
<td>24.3</td>
</tr>
</tbody>
</table>

Source: own calculations on the basis of Minijobzentrale data, various years, EU Klems and Bundesagentur für Arbeit. The ratio is calculated as the % of minijobs over insured employees in the sector.

The picture does not look much different for project work contracts in Italy. If measured by the number of social insurance positions, semi-employees have grown from 800,000 in 1996 to a peak of 1.9 million in 2007 to fall by -200 thousands units in 2011 as a consequence of the employment crisis (INPS data). Independent contracting work represents the exclusive occupation for approximately two thirds of total contractors. Due to high turnover, however, survey data estimate the annual stock of contractors to be much lower, about 402 thousands during 2004-2007 (Ministero del Lavoro 2008: 129-30), and 466.8 thousands in the year 2008 (Berton et al. 2012: 9).

The absence of a statutory minimum wage strongly impinges on contractors’ income, as wages are about one quarter lower than those of standard workers (Berton et al. 2012: 86). In 2007, the average annual income of contractors amounted to € 14,500 vis-à-vis standard employees’ average of € 20,992. It is however to be remarked that in that year 57.1% of contractors earned up to € 10,000 per year, this signaling marked internal differentials among these workers (INPS 2009: 15).

Contractors have also typically short job spells, as 67% of their work contracts expire within the first
year (Berton et al. 2012: 63). Similarly as marginal employment, service firms represent an overwhelming share of contractors' employers: as of 2007, 83% of total contractors was employed in the service sector, with particular peaks in business services and personal services such as education and health (20%), plus a noticeable share employed within the public administration. In turn, manufacturing firms account for 12% of total employed contractors (figure 2).

Figure 2. Sectoral distribution of project work contracts, year 2007

![Sectoral distribution of project work contracts, year 2007](image)

Source: Ministero del Lavoro 2008: 131, on Istat survey data

Tables 3 and 4 provide an illustrative view of the fact that the same service branches that have made extensive use of cheap jobs have also become increasingly important in structuring the labor demand landscape in Germany and Italy, respectively. Between 1991-2007, decline in manufacturing employment in both countries was absorbed by the main service branches. In Germany, the larger increases in employment can be recorded in finance and business services as well as in personal services, such as health and education. Distribution services (e.g. retail trade, hotels and restaurants) and personal services seemed particularly important in Italy. Indicators for work productivity (measured as change in value added per hour worked) and wage growth (measured as change in compensation per employee) emphasize that, in line with Palazuelos and Fernandez (2012), especially business and personal services recorded negative productivity over the two decades, while distribution services remained well below the manufacturing levels. By the same
token, labor compensation grew noticeably slower in services than in manufacturing in all branches, most notably in Germany.


<table>
<thead>
<tr>
<th>Years</th>
<th>MANUFACTURING</th>
<th>DISTRIBUTION</th>
<th>FINANCE AND BUSINESS SERVICES</th>
<th>PERSONAL SERVICES</th>
<th>TOTAL INDUSTRY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employment share (%) share of total employment</td>
<td>GVA per hour worked (%) change</td>
<td>Compensation per Employee (%) change</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>24.8</td>
<td>18.6</td>
<td>8.7</td>
<td>7.7</td>
<td>35,101*</td>
</tr>
<tr>
<td>2007</td>
<td>17.7</td>
<td>19</td>
<td>15.4</td>
<td>10.9</td>
<td>35,288*</td>
</tr>
<tr>
<td>1991-2007</td>
<td>46.6</td>
<td>38.4</td>
<td>-12</td>
<td>-9.1</td>
<td>31.8</td>
</tr>
<tr>
<td>1991 - 2007</td>
<td>66.0</td>
<td>34.9</td>
<td>29.7</td>
<td>15.5</td>
<td>38.9</td>
</tr>
</tbody>
</table>

Source: own calculations on EU KLEMS data; * data in thousands.

Table 4. Italy: employment, productivity and employees’ compensation in manufacturing and services (1991 – 2007)

<table>
<thead>
<tr>
<th>Years</th>
<th>MANUFACTURING</th>
<th>DISTRIBUTION</th>
<th>FINANCE AND BUSINESS SERVICES</th>
<th>PERSONAL SERVICES</th>
<th>TOTAL INDUSTRY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employment share (%) on total economy</td>
<td>GVA per hour worked (%) change</td>
<td>Compensation per employee (%) change</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>24.8</td>
<td>13.5</td>
<td>8.7</td>
<td>11.7</td>
<td>16,707*</td>
</tr>
<tr>
<td>2007</td>
<td>20.1</td>
<td>19.1</td>
<td>12.7</td>
<td>15.9</td>
<td>19,115*</td>
</tr>
<tr>
<td>1991-2007</td>
<td>23.6</td>
<td>14.2</td>
<td>-14.3</td>
<td>-7.7</td>
<td>14.8</td>
</tr>
<tr>
<td>1991 - 2007</td>
<td>73</td>
<td>54.8</td>
<td>42.0</td>
<td>50.7</td>
<td>60.5</td>
</tr>
</tbody>
</table>

Source: own calculations on EU KLEMS data; *data in thousands.

In sum, the expansion of cheap jobs in Germany and Italy has marched hand in hand with the employment shift towards low-productivity services. Similarly as in Germany, the diffusion of project work contracts has marched hand in hand with the increase of low-productivity services. It is thus the chief hypothesis of this work that low work productivity and business insecurity have pushed firms in these sectors to search for opportunities to achieve wider labor costs savings. They have thus made use of existing availability of cheap jobs opportunities at the micro-level while seeking to
institutionalize cheap contractual arrangements at the macro political level.

The following sections verify whether this storyline holds with respect to the two cases of marginal employment contracts in Germany and project work contracts in Italy.

**GERMANY: THE ‘MINI-JOB’ REPUBLIK**

As figures of mini-job contract holders trespassed 7 million individuals in 2010, the influential weekly newspaper Der Spiegel emphasized the saliency of the cheap job issue by dubbing Germany a ‘mini-jobber’ republic (Der Spiegel 26.4.2011).

In fact, the spreading use of marginal employment became a political issue in Germany as late as 1994, as the Social Democrats (SPD) advanced a first law proposal for the ‘removal of the misuse of the marginal wage limit (Geringfügigkeitsgrenze)’ (Bundestag 1994). The proposal was reiterated in 1997. Due to the contrariety by the then ruling coalition between the Christian Democrats (CDU) and the Liberal Party (FDP), however, it was only in 1999 that the new government between the SPD and the Greens passed a ‘new regulation of marginal employment’ that introduced compulsory pension and health care insurance for these workers, thereby raising non-wage costs for employers to 22%. Facing a peak in unemployment rates, however, the red-green coalition rethought its regulatory strategy in 2003. The Hartz II act liberalized what were now called ‘mini-jobs’ by abolishing the statutory 15-weekly hour limit and making secondary mini-jobs tax-free. Yet, it elevated the marginal wage threshold from previously € 325 to 400; increased social contributions due by employers to 25% of the wage (further raised to 30% by the grand coalition government in 2006); and introduced so called ‘midi-jobs’ allowing workers to progressively achieve full social insurance. The remarkable contribution of mini-jobs in boosting job creation in low-productivity services has been one of the main reasons for little policy changes since 2003.

What political forces drove the institutionalization of marginal employment throughout this period?

In line with expectations, service employers represented a constant source of pressure to defend
low regulatory constraints and the cheap character of marginal jobs. During all mentioned policy-making events, the associations of employers in retail trade (HDE), hotels and restaurants (Dehoga), and cleaning services led the negotiating position of the Confederation of German Employers (BDA). As a high-level officer at the BDA recalls about the bargaining process towards the Hartz II act:

manufacturing associations did not consider mini-jobs a big issue for themselves.

Service associations did, instead. So we let them free hand to run the negotiating game (BDA, interview).

The position of service employers was motivated by three main arguments. First, high labor costs on standard full- and part-time jobs rendered marginal employment of paramount importance for job creation in sectors exclusively relying on the domestic market:

services do not have the option of outsourcing production abroad as the industry.

We are stuck here under an employment regime that allows us no further increase of labor costs for our personnel (Dehoga, Bundestag 1997: 20).

By acknowledging the fact that marginal employment was ‘home’ particularly in small firms, employers contended that the diffusion of mini-jobs in labor-intensive branches signaled that high labor costs on standard contracts represented the primary policy problem for these firms (ZDH, Bundestag 1997: 31). Therefore, they not only opposed all legislative initiatives aimed at increasing contributory costs on mini-jobs, but also advocated that the marginal wage threshold be lifted up to €600 (ZDH 2003: 68, Dehoga 2002) in order to augment the appeal and expand the supply of marginal jobs. Second, mini-jobs were motivated by changes in work organization associated with liberalization of shop opening time and ‘just-in-time’ distribution, that is, the adaptation of workers’ work hours to actual activity peaks (cf. Wagner 2010: 54):

‘when hotels or restaurants need workers in holiday resorts, to strengthen the bar team or to cater during trade fairs, they cannot employ permanent full- or part-time workers.

The work hour volume does not permit such extension. For such occasional peaks,
minijobs are indispensable’ (Dehoga 2010).

Work division between core employees and mini-jobs would also allow retail trade employers to diminish costs by assigning the latter with ‘unattractive tasks’ for core employees, such as filling shelves before shop opening or cashiering during lunchtime or bank holidays (HDE 2005, interview). Therefore, employers supported the elimination of statutory limits to weekly work time. Finally, employers emphasized that labor taxes on standard part-time work caused employees’ own voluntariness of being employed on marginal contracts in order to gain higher net wages.

In turn, labor unions positions only limitedly confirm expectations of a neat divide between manufacturing and service federations. In fact, the German Trade Union Confederation (DGB) decisively opposed dual arrangements for marginal employment. Backing service federations’ instances, DGB (1999: 8) primarily advocated for lowering the marginal wage threshold in order to avoid downward wage competition with and substitution of regular part-time employees. 3 Moreover, it demanded full social insurance inclusion for mini-job holders. DGB argued that equal contribution rates would not only favor outsiders by granting them adequate future benefits but also prevent resource drain in the budget of social insurance funds following the increase of marginal employment (ibidem, 9-13). While only moderately supportive of SPD’s early regulatory proposals, unions strongly opposed laxer regulation of mini-jobs in the private economy during the negotiation of the Hartz II act, and only consented to controlled experimentation for household services (DGB 2002, Verdi 2002). It should be noticed, however, that until the mid-2000s the unions confederation’s position essentially rejected the very existance of marginal employment by advocating a full equalization of rights with normal part-time work. They did not campaign for specific policies in favor of low-wage earners until 2006, as manufacturing federations sided earlier claims of service unions favoring the introduction of a statutory minimum wage to uphold low-wage workers’ earnings (Binspick and Schulten 2011: 39). Such crucial reorientation of the DGB’s strategy

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3 Especially the union for Foodstuff, Hotel and Catering (NGG) campaigned against the raise of the marginal wage threshold. Expected increases in marginal employment e.g. in the low-wage food branch would render it ‘convenient for part-time working women to renounce to social insurance obligation and rather rely on tax-free minor jobs in order to get ‘more net from gross wage’ (NGG 1999: 1).
towards cheap labor also arguably reflects greater internal influence of service unions vis-à-vis traditionally dominating manufacturing federations after the formation of the confederation of service unions (Vereinigten Dienstleistung, Verdi) in 2002.

In short, empirical evidence for Germany suggests that service actors have been crucial agents to the institutionalization of mini-jobs. Whereas service employers have soon gained an upper-hand on this issue within business, service unions had to try harder to orient their manufacturing-dominated confederation towards more effective strategies than ‘outright resistance’ in favor of mini-job holders.

Parties in government have proved decisively more responsive to the claims of service employers than of unions. Especially more business-friendly have been, as predictable, centre-right parties. Both the Christian Democrats and the Liberals opposed any restrictive intervention while in government during the 1990s. Most importantly, the CDU crucially steered the policy output of the Hartz II act: whereas the SPD had originally limited the new regulation of mini-jobs to private households only in line with the proposal of the Hartz commission, in the conciliation committee between the Bundestag and the Bundesrat the CDU/CSU-led Bavarian government imposed its own regulatory proposal which extended their application to the whole economy. Finally, the current CDU-FDP government has recently proposed to elevate the marginal wage threshold to monthly €450 in line with above mentioned employers’ demands (Die Welt, 9.7.2012).

In turn, the legislative initiatives of the 1990s prove Social Democrats’ initial reluctance to espouse service employers’ receipt for job creation, although they did not fully back unions’ claim to eliminate marginal employment either. Nevertheless, in the context of the early 2000s job crisis, the SPD had to acknowledge that mini-jobs would ‘unlock additional opportunities for regular employment in the growing service sector [with a view to] lasting unemployment reduction and the

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4 The creation of midi-job was also owed to the CDU/CSU proposal. Deutscher Bundesrat (2002): „Entwurf eines Gesetzes zur Aktivierung kleiner Jobs (Kleine-Jobs-Gesetz)“, Bundesratsdrucksache 803/02, 29.11.2002.
provision of employment perspectives for low-qualified workers’. Through the Hartz II act, the SPD had originally sought a controlled liberalization strategy, which exceeded its plans due to political compromises with the CDU, as noticed. More recently, the SPD has started backing service unions’ demands for the reintroduction of statutory limitation to working time for mini-jobs and of the statutory minimum wage to counteract wage dumping (Handelsblatt 6.4.2012). Whether it will keep up to its promise when in government is however for the future to see.

In conclusion, service employers have proved a key actor for the micro-level diffusion, institutionalization, and consolidation of cheap marginal jobs in Germany. Whereas they have been able to find political support for their labor cost reduction demands across all major parties, service unions essentially have not. In this light, service actors and the power relations between them have shaped an important piece of Germany’s dual labor market.

**PROJECT WORK CONTRACTS IN ITALY**

Independent contracting work owes its central regulation in Italy to the broad labor market reform passed by the center-right Berlusconi government in 2003 (Berton et al. 2012: 37-40). Previously, the center-left government in office between 1996-2001 had failed to pass a more labor-friendly regulatory plan to curb the spreading diffusion of collaboration contracts, mainly due to conflicts between the coalition parties. With the 2003 reform center-right parties replaced collaboration contracts of indefinite duration regulated by civil law with ‘project work contracts’ anchored in labor law: collaborative relationships were linked to temporarily limited work projects or programs by firms. Unlike the leftist reform plan, the Berlusconi act set few obligations on employers. Individual bargaining between principals and workers would freely establish both contract duration and pay levels with no statutory limit. Though it raised social contributions from 14 up to 18.2%, the center-right reform entitled contractors only minimum coverage in maternity and sickness leave while protracting their exclusion from unemployment insurance. Since 2003, only marginal adjustments

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were implemented, let alone further increases in contribution rates up to 26.7% in 2011 and the introduction of a minimum-level income protection scheme during the 2008 financial crisis. Even the 2012 labor market reform by the Monti government has not fundamentally modified the regulative framework, although it introduced stricter rules for contract stipulation and sharpened sanctions to prevent abuses.

Employers thoroughly supported differentiated arrangements with respect to standard employment. Before the 2003 reform, employers associations in all sectors pressed the Berlusconi government to refrain from introducing ‘excessive statutory rigidities’ (Confcommercio 2002), such as maximum duration of contracts, reference wage levels, and collective bargaining structures (Senate 2002). Likewise, in the making of the 2012 reform employers were united in demanding that the fight against abuses be conducted through ad-hoc inspective controls rather than through severe legal restrictions (Confindustria 2012: 9, Rete Imprese Italia 2012: 4). However, manufacturing and service employers have had different motives for the same policy stance. The former have conceived of project work contracts more as a strategic driver to a comprehensive modernization of Italian labor law than a direct interest to them (Confindustria interview). In turn, service employers have demonstrated a higher stake in sheltering the hiring practices among their firms. While acknowledging misuses of project contracts, they nevertheless emphasize that abuses stem from the difficulties by service firms to cope with standard employment regulation:

> policy adjustments are meaningless as long as they do not tackle the real knots for our [commercial] firms on standard labor: high non-wage labor costs and [lack of] external flexibility. These conditions being equal, we may well increase contribution rates and restrict regulation, but firms will always seek to circumvent unsustainable conditions' (Confcommercio, interview).

Similarly as in Germany, therefore, service employers have been protagonist of the diffusion and institutionalization of cheap jobs in Italy. Manufacturing producers have nevertheless provided a crucial support to their claims, though they acted as a reflection of broader politically strategic objectives rather than a self-regarding interest.
Among labor, sectoral divisions played a relevant role only at an early stage of the regulatory trajectory. Until the 2000s contract work constituted a largely unknown phenomenon to policymakers and manufacturing-dominated unions alike. In the 1990s, the first federations instituted within the main unions confederations (CGIL-CISL-UIL) to represent atypical workers met with noticeable internal resistances to devise ad hoc policy responses for independent contractors: most manufacturing federations held that contracting work was simply an abuse to be regulated. We should not have represented them, they maintained, but ensure their transition to normal dependent employment. There was only an internal minority arguing that contractors represented an intrinsic feature of post-fordism and that we’d better think of specific representation structures and policies for them (Cgil, interview).

Unions’ strategy of denial was soon abandoned. Especially the largest confederation CGIL led a forceful opposition to the differentiated treatment of contractors vis-à-vis standard workers. The individualization of wage-setting mechanisms, it argued, not only threatened the fundamental labor right to collective bargaining but also inhibited unions’ control power over outsourcing processes in large firms (Treves 2004: 816). CGIL also advocated the exclusion of low-skill job tasks from the scope of legislation application and the increase of social protection rights (ibidem). The hypothesis seems thus confirmed that unions opposed dualization but had no sufficient political influence to impede it. It can be noticed, however, that unions’ strict attachment to the principles of social partners’ autonomy in wage setting and insurance-based social protection have had the unintended effect of obstructing the introduction of more effective policies for contractors, such as statutory minimum wage and universalistic income protection schemes (cf. Treu 2008: 28-9).

Whereas the Italian case provides little evidence of cross-class coalitions favoring dualization, it emphasizes the decisive role of partisan government. Ruling coalitions advanced regulatory options that broadly reflected the interests of their core constituencies: self-employed professionals and small-firm employers for the center-right parties supporting the Berlusconi government, and unions for the center-left coalition governments. About the business-friendly orientation of the former the final policy output of the 2003 reform leaves us with few doubts. In contrast, center-left parties
advanced regulatory plans aiming to decrease the cheap cost advantages of independent contracting work while in government. The 1998 draft legislation advanced by the Left Democrats envisaged a work termination allowance, statutory minimum contract duration and reference wages, increased social contributions and social protection, and collective bargaining structures. Political failures at pushing through this and similar legislative proposals over the last decade lead us to wonder to what extent these arrangements would be viable in the conditions of a service economy.

This section shows that Italian employers has jointly backed the maintenance of the cheap character of independent contracting work as a means to deviate from standard labor costs. Similarly as in Germany, employers’ instances have obtained wider support than unions’ in the Italian political arena. Unions’ defeat can be explained, in turn, both through lower political influence on parties in government and through insufficient elaboration of alternative policy strategies than simple resistance.

**CONCLUSIONS**

In a world without manufacturing, cheap jobs would be probably the standard form of employment, the rule rather than the exception. A world without manufacturing would be mostly—not exclusively, of course—populated by low-productivity firms in branches such as retail trade, touristic services, personal services striving to squeeze labor costs as much as possible in order to ensure business survival and profitability. A world without manufacturing would be thus have structural difficulties to sustain those ‘thick’ labor market institutions grown around the industry, as witnessed by their incremental erosion in Continental and Southern Europe under post-industrialism.

The cases of cheap marginal part-time jobs in Germany and project work contracts in Italy analyzed in this paper provide first-cut evidence that the growing importance of labor demand in low-productivity services has increased the political relevance of service employers’ instances for stark labor cost diminution. To the extent that political resistances have impeded more
comprehensive reforms not discussed here, the provision of forms of cheap jobs has institutionalized opportunities mainly for service firms to deviate from the regulatory and financial obligations attached to standard work in these countries. Yet, unlike the existing literature tends to suggest, service actors have been key to shape the dual character of cheap jobs in both Germany and Italy.

Service employers stand out as clear winners of post-industrial reform processes. First, individual service firms have diffusely taken advantage of existing institutional opportunities to diminish labor costs. Then, their associations have managed to mobilize widespread support among producers and political forces to institutionalize cheap contractual arrangements to their advantage. Faced with the problem of absorbing falling labor demand in the manufacturing, parties in governments have not been willing or able to resist their demands. Instead, unions appear as political losers in these countries. While discounting a clear organizational gap between manufacturing and services, this paper emphasizes that unions’ political defeat on cheap jobs can be also accounted on poor elaboration of specific policy responses to uphold labor standards in low-productivity services. Demanding the simple extension of traditional institutions (e.g. collective bargaining and insurance-based protection) has demonstrated not only politically unviable a strategy for these but also patently inconclusive to counteract inequalities in service-based economies.

On the whole, acknowledging the crucial implications for employment regulation of economic-structural change towards the predominance of services in labor demand seems to constitute an essential step to understand how to eliminate the sharpest inequality contours associated to cheap jobs, from both theoretical and policy points of view.

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