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BRINGING MOONLIGHTING INTO THE OPEN : THE NAPLES EXPERIENCE

by

Luca MELDOLESI

Professor, Economic policy

President, National Committee for the investigation of unregulated work

Nicola CAMPOLI

Director, National Confederation of the Craft Industry, Naples

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Report by Élisabeth Bourguinat

Translation by Rachel Marlin

Overview

In 1997, the Prodi government decided to "expose moonlighting" to bring it in line with the law. For tax reasons, this action was in the interest of the State, but it was also in the interest of employers for security and pension reasons. The employers were sceptical and therefore appropriate incentives had to be devised to win them round. A national committee, directly supervised by the Prime Minister, was created to organise activities which were as close as possible to what was going on in practice. Luca Meldolesi, its president, and Nicola Campoli, director of the Confederation of the Neapolitan craft industry, describe the surprising results of this initiative.

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TALK : Luca MELDOLESI

I grew up in Catania in southern Italy and I am currently Professor of Economic Policy in Naples. I worked abroad a great deal, in England, France and particularly in the United States with Professor Albert Hirschman. My knowledge of southern Italy over a number of years on the one hand, and my work with Albert Hirschman on the other, inspired me to create the concept of an economy which fits somewhere between a micro-and a macro-economy.

The actual job situation

When one adopts too much of an overview of the economy (the “macro” approach) or when one considers only the companies (the “micro” approach), one may overlook whole sectors of the economy such as the moonlighting sector i.e. the « black » economy. And yet, this sector involves a significant number of people and yields a considerable production volume.

I started to write articles about moonlighting in 1995 and 1996, which created a stir in my country, because it was the norm for these practices to be acceptable in the sector of social marginality and to be regarded as the traditional answer to the job shortage. This was the customary way of dealing with this situation.

I showed that this situation could not be explained by job shortages because those involved worked very hard, as much as twelve hours a day, and were successful. For example, I discovered that this moonlighting sector accounts for a large proportion of the production of the famous Florentine wallets or Venetian glasses.

However, people employed in this sector, as far as the State was concerned, did not formally exist since they were not included in official statistics and were beyond the law. I thought that the initial reaction of politicians was relatively sound : « *Instead of moaning about unemployment, we should be delighted since this at least proves that all these people have a job !* » From that moment, the problem was not about creating jobs but trying to bring moonlighting out into the open. As far as the politicians from different regions in southern Italy were concerned, this awareness opened up new perspectives.

A network of PhD students

The Italian government, which was then Centre-Left, decided to create a national committee which came under the direct authority of the Prime Minister in order to develop projects which were close to the grass roots. The government changed and the one which followed was Centre-Right and was also interested in this approach, all the more so because this committee received backing from both entrepreneurs and trade unions.

I established an extensive operating system whereby the State paid about fifty PhD students who were sent out to different areas, principally in southern Italy, to carry out research, identify good techniques and help to disseminate them. In theory, local administrations could have carried out this work, but they are so constrained in their actions and so slow to get moving and to innovate, that it was much more efficient to use these young, dynamic students.

Regional advice centres

Initially these students established regional advice centres whose aim was to help small companies which in general lack legal competence and organisational *savoir-faire*. These companies are often managed by people who have lost their jobs and create their own companies in order to survive. Since these companies are not able to cope on their own, they look for help from so-called ‘commercialists’, who do not necessarily have a very favourable

impact on their development. If one could find consultants who knew the company intimately and were prepared to help and give advice it would be a very precious asset.

Furthermore, the special qualities of these consultants is that they go to see companies in a modest or even unpretentious way, rather than waiting in their offices for the companies to come to them. For small Neapolitan entrepreneurs, it was a surprise to learn that young university graduates, government representatives and even the President of Italy were interested in them...

The consortia

The second measure which we developed was the creation of consortia according to the sector of activity. Traditionally, these small companies have a distinct individualistic, or even anarchistic, culture and to attempt to regroup and to organise them collectively must have seemed impossible. This was undoubtedly because intellectuals had never really seriously considered this possibility. Nicola Campoli will talk to you about the fifteen or so consortia which he created and which work very well.

Small schools

I borrowed the idea of creating small management schools from a well-known Italian-American manager, Lee Iacocca, who managed Ford and Chrysler and who vigorously denounced the system of business schools whose teaching, according to him, was both costly and poor. In his system, the traditional relationship between the professor and the students creates a basis for a series of meetings with people who are directly interested in company problems, and who enter into a factual and practical relationship with young entrepreneurs. This is a new way of teaching and learning which takes into account the intellectual and practical demand of those involved.

The legal context

Another part of my activity consisted of working with unions and management on a local and national level to try to change the laws. The Italian system is a bit absurd : we make laws for companies which are above board but no-one makes sure that these laws are honoured. Even companies which are illegal may benefit from financial assistance. We concentrated our efforts in the construction industry and the agricultural sector where the black economy is rife. We obtained an agreement between unions and management to develop new laws and also to control their implementation.

The essence of the operation is that unions and management become jointly responsible for the development of the law and for the controls which are carried out subsequently. The construction industry employs an enormous number of people who moonlight, not just in Italy but in all the European countries, such as France or Germany. If the professionals themselves explain to us how to develop legislation which will effectively penalise those involved in this practice, in other words, a system which will reserve benefits only for legal companies, we will have made a great step forward.

Better management of job applications

We also changed the way in which job centres work. In Naples, there are five hundred thousand people registered as looking for work. In Calabria, there are two hundred thousand, however, in reality, they are not all looking for work since many of them work in the black economy. We are currently creating more efficient job centres and suggesting alternatives. These include offering jobs in the same region, offering training, suggesting conditions for self-employment and also offering job exchanges which allow us to suggest jobs in other towns, such as Florence or Milan, to real or allegedly unemployed people. If they refuse all these suggestions, they are struck off the unemployment list.

Dealing with the question on a European level

We have also tried to discuss this question on a European level. This is not easy since some countries, such as Spain or Germany, are faced with serious employment problems in various regions and fear having to deal with this moonlighting sector. However, France and Italy were courageous enough to confront this problem and obtained a resolution from the European Council which emphasizes the need to reduce the number of workers in the black economy.

Now we want to go further in order to make people recognise that the problem is not only that work fails to be declared, but also that it is declared incorrectly. For example, a Czech engineer may come to moonlight *de facto* in France, but may still declare that he is employed in Czechoslovakia, while benefiting from the French social security system. In southern Italy, people sometimes declare only half their salary and therefore pay only a part of the welfare costs and taxes. Some cheat by using the double status of employee and self-employed. Declarations which are incorrectly made are extremely varied.

If Europe was to consider seriously this state of affairs and put in place systems to improve it, it could have important effects on the world economy, since all countries are involved. It is estimated that moonlighting (both non and incorrectly declared) represents approximately between 25 % and 30 % of jobs in Italy. In Russia, according to certain calculations, the proportion is 45 %, and in some African countries, 80 %. No developed country is exempt. In the United States, for example, the proportion of the workforce which is not in conventional employment (in other words, those who moonlight, or are in prison or are unemployed, etc.) is of the order of 20 %. Nevertheless, this is a difficult cause to promote, notably for Anglo-Saxon countries whose culture would hope that this, like any other sort of problem, would be settled simply by market forces.

The originality of our approach is that we originated it in the field by investigating very small, family-run Neapolitan companies. Nicola Campoli will now talk to you about these companies.

TALK : Nicola CAMPOLI (translation from Italian : Floridea Di CIOMMO)

I am the director of the National Confederation of the Craft Industry (CNA) in Naples, with different regional scales of organisation. This confederation includes three hundred and fifty thousand Italian companies.

The informal or “hidden” economy

In southern Italy, there is a basis of very fragmented companies which nevertheless manage to produce good quality products, notably in the textile and leather industries. The vast majority (98 %) of leather glove manufacture in Italy is carried out by the black economy.

As well as the earnings which these workers do not declare, the informal or “hidden” economy also comprises a turnover, part of which is not declared, and includes even whole companies which do not formally exist. In the leather glove sector, the main feature is the failure to declare part of the turnover, and also the people who work from home and who do not want to declare themselves, for example women who work at home and who do not want to lose part of the unemployment benefit paid to their husbands.

The creation of consortia

As the director of the CNA and in my capacity as an expert on the National Committee of which Luca Meldolesi is president, I have tried to use new methods, and also the networks which have been established as a result of this committee, in order to encourage small and medium-sized enterprises (SMEs) from different craft industries to regroup themselves into consortia. I have relied on those entrepreneurs who have declared that they wish to legalise their activities. This entire approach was only made possible by listening to these entrepreneurs for long periods of time in order to understand their difficulties, and to create bonds of trust both with their trade union representatives and with public institutions.

The first strategy which was put forward was to develop and promote the product. In particular, members of the same consortium were able to compare their pricing policies and agree on a minimum price when they presented their products in trade fairs. This mutual transparency has another advantage : those who display lower prices are instantly suspected of not declaring everything.

Gradually, other advantages appeared, such as obtaining credit more easily or even to become 'international' by exporting. One of the most spectacular achievements was the creation of a show room in China in the region where competition for the production of leather gloves was greatest. Companies in the same consortium can also save money by using the same suppliers, or even by sharing the same logistics for their exports.

We have also set up specific professional training programmes. This was made possible by companies which wanted to become legitimate and, despite relative prosperity, whose existence up until then had been unknown to local public institutions.

The results

In Naples, in the leather sector, there are twenty-two companies of which sixteen today are grouped into a consortium. Over the last three years, fifteen employees have decided to declare their earnings, and the amount of turnover declared has increased by 30 %. Exports have also increased by 30 %.

These results might seem trivial but in fact they serve as a very strong example for other craft industries, and other companies in their turn have started to group themselves into consortia. Today, there are ten in Naples, the most recent one amalgamating companies which manufacture fireworks. This movement was helped by the arrival of a new generation of entrepreneurs who are more amenable to the idea of working together. Today, consortia are spreading like wildfire in the Apulia region, Sicily and Calabria.

Communication with local public institutions has greatly increased. These institutions no longer hesitate to ask these entrepreneurs, who have knowledge of local markets, to accompany them by whenever they go abroad.

Gradually, bonds of trust created between the companies and the institutions help entrepreneurs realise that making their activity legal represents a development opportunity for them.

It has been a long, hard process to arrive at this outcome. It also required a great deal of energy, as is always the case when one goes into the field, but the result was worth it. Undoubtedly it would have been more spectacular had the economic situation been more favourable.

DISCUSSION

Does honesty really pay ?

Question : *What is interesting is that your story has a moral : honesty pays. But is the outcome as favourable as you suggest ? The entrepreneurs who have become legitimate have had to pay more welfare costs and taxes.*

Luca Meldolesi : It is true that our aim is to demonstrate that honesty pays. The first important issue is the question of development. The only prospect for the small entrepreneurs in question is to continue to maintain their current production. They realise that this situation does not give them any openings for development. Furthermore, together with union and management, we are currently developing a policy to prioritise certain sectors (such as the construction industry, agriculture, commerce, etc.) which will make it increasingly profitable to declare one's activity. Another very important issue is training : Naples is known as the Italian centre for traditional crafts, but in these modern times, young people only agree to take on craft industries if they are well paid. This leads to increases in the cost of production and therefore it is necessary that these young people are well trained in order to be operational more quickly. As far as training is concerned, public authorities could give it more encouragement.

Q. : *You mentioned the case of a woman moonlighting at home : I cannot see how it would be to her advantage to declare her earnings.*

Nicola Campoli : The main advantage is to have better social security cover. Recently a dramatic accident highlighted this aspect : a fireworks factory which was producing the fireworks for the Olympic Games' ceremonies in Athens was destroyed by an explosion and five workers were killed. Since this company became legal two years ago, insurance was in place and was paid to the bereaved families who received a large amount of compensation. We made a number of statements in the press concerning this, and I think that this accident served as a powerful lesson to companies in Naples.

Q. : *You talk a lot about entrepreneurs, but is it not the employees (who are those most affected with respect to benefit) who are most likely to help you to change the situation ?*

N. C. : It is a fact that as there are many family-run businesses, the employees back the employers ! Having said this, the employees have weighed up all the advantages they would have if the company became legal, for example if there are layoffs : employees can only receive compensation in legal companies.

L. M. : There is not really any antagonism between entrepreneurs and employees. The overall aim is to develop the companies, both in the interests of the entrepreneurs and of the workers.

Consensus about a project

Q. : *I imagine that your task is made all the more difficult by the fact that in Italy the State plays a relatively minor role by comparison with local authorities. It cannot be very easy to promote a national policy. Where do you get your support ? For example, do you benefit from financial aid from the Confindustria, or does this trade union for entrepreneurs remain passive with regards to your initiative ?*

L. M. : It is certainly true that our work is much more difficult because there is an excess of administration in Italy and it does not work very well, irrespective of whether it is the State or the regional administration. In its job centres, the Calabria administration has as many as seven hundred civil servants "at work", as they say, making a subtle difference between "to be at work" and "to work"... However, the results of the activity of these seven hundred civil servants are negligible. Despite this, even in this context, one can always find people who are

ready to pitch in. We are like Diogenes who walked around the market with a lamp in his hand looking for a man : we will recruit anyone who wants to work ! And we find people at every level. We have benefited from the personal support of the President, Carlo Azeglio Ciampi, and also the entire political and social system including the Confindustria and even the left-wing and extreme left-wing trade unions. Really, everyone in Italy is in favour of this project.

What about the technological sectors ?

Q. : *I imagine that this phenomenon of moonlighting barely affects the technological sectors, both because the employees concerned are more highly trained and because in these industries, the need for finance is such that it necessitates a certain conformity with the rules.*

L. M. : When we approached the question of moonlighting in southern Italy, we obviously started with the traditional sectors such as agriculture or the craft industries. However, it is clear that moonlighting is widespread in more modern activities such as services for individuals as well as for companies. Companies afford many opportunities for illegal dealings, especially telecommuting which has developed spectacularly thanks to new technologies.

Legislation which we are currently putting in place should monitor all these types of dishonesty. New technologies should help us achieve this : IT now allows us access to extensive knowledge of all those who work, their civil status, financial aid for which they are eligible, etc. We should use these new possibilities : the fact that a family declares that it is poor should not be sufficient grounds to allow it access to aid from the State.

Blackmail threats to relocate abroad in the face of legalisation

Q. : *Does your initiative not run the risk of coming across companies who threaten to transfer their activity abroad rather than becoming legalised ?*

L. M. : It is true that many Italian companies have moved abroad. Italy has created about twenty thousand companies in Romania and also a great many in Poland, Tunisia, Albania, and Turkey. However, we are not opposed to relocation : it is advantageous for the development of the Mediterranean region and new European countries. If it were possible for our country to give work to the two-and-a-half-million extra people which it welcomed over the past ten years, it is a sign that Italy is dynamic, and that is a reason to rejoice. On the other hand, we do not accept that a company in Bologna claims that its Italian employees work in Romania.

Mobility of workers and engineers

Q. : *You mentioned the job exchanges which offer unemployed people from Naples jobs in Florence or Milan, and you explained that when they refuse these proposals, they are penalised. In light of the close links which Italians from the southern part of the country have for their region, how do you envisage that such proposals will convince them ?*

L. M. : We are opposed to exaggerated forms of sedentary life : we live in a modern world, we should all live together, and it does not seem normal that young Neapolitans do not want to go to see what is happening in the northern part of their country or abroad. Of course, if you ask someone to leave his family and friends behind, and to go to work in a town in northern Italy for a wage of one thousand Euros a month, and essentially make him feel like a foreigner there, it is unlikely that he will accept. But if you organise partnerships so that he will be welcomed, and if you increase his salary a little, then it is more likely that he will go. Currently, after several months attempting this, we have already succeeded in convincing a thousand young people from Naples to try out this experience.

We are also working at the other end of the scale in trying to attract graduates and qualified people to southern Italy. Many people who live in the North are originally from the South.

Northern salaries are much better, but if you add a few financial benefits, some people would be very happy to return to the South. One of my friends who has a little company in the Apulia region went into politics for a few years. When the Left was defeated, he decided to concentrate again on developing his company and it really took off. Today, it has four hundred employees, one hundred and fifty of whom are engineers. « *How did you manage, in the space of a few years, to find one hundred and fifty engineers who were ready to go to work in Bari ?* », I asked him. He answered : « *It is very simple : I made it known that I was there and that I needed well paid engineers and they came out of nowhere* ».

Criminal organisations

Q. : *It is understandable that there are rules for workers in these small companies. However, when there is no official regulation, there is always the possibility of resorting to rules which themselves are “shady”, in other words, linked to the mafia. What role do criminal organisations play in the world of illegal work ?*

L. M. : It is true that in southern Italy, the State often seems very far away and many problems are resolved by ‘spontaneous’ rules or are assumed by local law. Having said this, criminal organisations do not really interfere with moonlighting companies, unless it is to exploit networks of workers from outside the Community who live in very difficult conditions. However, criminal organisations do not really affect the sector of traditional companies which we have been describing, because in this sector, people work too hard and earn too little.

On the contrary, since these companies need laundered money, these organisations often create companies which conform perfectly to the law, but in fact are criminal... For example, there is a system which allows people who have just come out of prison to have large social benefits if they are employed by a legitimate company. A legal company is thus created which allows these people to indulge in criminal activities and to have excellent social cover. Therefore, on the one hand, there are people who work but who are not legitimate, and on the other hand, people who are legitimate but do not work ... This is why we should draw up new laws with the greatest possible care !

A professor in the field

Q. : *For a university professor, it must be quite an unusual situation to find oneself in charge and at the head of an army of PhD students sent out into the field. Is this common in Italy ? Did your status of professor contribute to your legitimacy ?*

L. M. : I am not really in charge : the professors who are in charge are, for example, Mario Monti, the European Commissioner, or Romano Prodi. As far as I am concerned, my long collaboration with Albert Hirschman pushed me in another direction, namely of action *with people*. Often, the function of professors is to develop theories, and then to ask others to put them into practice. In practice, it does not work like this, especially if it is the Administration who does the work ! What gave me legitimacy was undoubtedly the fact that my work had a certain efficiency. My aim is not to suggest solutions which no-one understands. It is to find solutions which already exist, and which people have not really noticed, but which offer the chance of increasing their choice and their capacity for development.

Q. : *You explained that this whole story started from an ideal, but where did it come from ? What brought it about ?*

L. M. : It is a process which is too long to tell you here, but I should say that it was my students who found the solution and who created the trigger. I remember one particular evening in 1995 when I started a discussion with a small group of them and also several of their friends who were consultants for small companies. I had already started writing books and articles but I really did not understand the nature of the problem. It was this group who made me discover the world of the small company and who radically changed my way of

seeing things. This proves that the most important thing of all for a professor is to have the capacity to learn !

Presentation of the speakers :

Luca Meldolesi : Italian economist, professor of economic policy. He worked with Piero Sraffa, Joan Robinson, Fernand Braudel and Albert Hirschman. Luca Meldolesi has written or published about twenty works concerning economic policy, the history of economic thinking and development economics – of which six were focussed on Italy. He has been president of the National Committee for the investigation of unregulated work since the end of 1999.

Nicola Campoli : director, National Confederation of the Craft Industry (CNA) in Naples. Since 1997, he has been working on a census and the development of small and medium-sized companies (SMEs) and industries in the Naples area which operate in the informal economic sector, by defining organisational systems to encourage them to emerge from their illegal status. With this in mind, he has helped them to regroup into different *consortia*, of which he has become the main coordinator. Thanks to this experience, he was asked by the National Committee for the investigation of unregulated work to train other regional coordinators in areas in southern Italy such as Calabria and Apulia.

Translation by Rachel Marlin (marlin@wanadoo.fr)