NEWS FEATURES

ITALY

Social Pact gives significant boost to tripartite economic policy consultation

The signature of a new Social Pact in Italy took place on 24 July 1993 following a series of local and enterprise-level referendums. Over two-thirds of those polled voted in favour of the Pact. The agreement was concluded despite efforts by the road haulage union to torpedo the Pact with a wildcat strike. But with the support of the general labour unions the Government stood its ground and the strike action was withdrawn.

The Social Pact, concluded after months of negotiations (see *ILR* 1993/3, p. 281), covers incomes policy; industrial relations; job creation; the absorption into the labour market of certain target groups (youth, long-term unemployed, women); company restructuring; redundancies; unemployment benefits; and cost-of-living adjustments.

Incomes policy

Tripartite incomes policy sessions will be held twice a year, in May-June and in September, so that the Government and the social partners can agree on the medium-term prospects for the main macro-economic variables (GDP growth, prices, utility rates) and on other key factors affecting economic policy.

National collective agreements

There will be two distinct elements in national, sector-level collective agreements, namely, sections dealing with labour standards, to last four years, and sections dealing with the remuneration package, which will last for two years. The terms of the remuneration package will have to respect the parameters of national incomes policy and the planned inflation rate. Upon the expiry of the two-year pay agreement, employers and unions will take account of the differences between planned and actual inflation and determine the appropriate action to be taken.

Three months after the expiry of the old agreement, during the renegotiation period, an automatic adjustment equivalent to 30 per cent of the actual rate of inflation will be applied to wages and salaries. After six months this will increase to 50 per cent of inflation. The history of past sectoral agreements shows that renegotiation tends to drag on for an unconscionable amount of time.

Company-level collective agreements

Company agreements will be concluded for a four-year term, but will not deal with matters already covered by sector-level agreements. Remuneration provisions will be based on specific targets concerning such areas as productivity, quality control and competitiveness. Where possible, profit-sharing agreements will be encouraged. Small and medium enterprises are to be specifically targeted where company-level agreements are concerned. The accounts of any firm wishing to conclude such an agreement will have first to show a profit.

The taxation and administration of social contributions for retirement, health, housing and other benefits covered by company-level agreements will be the subject of legislation to be drafted by the Government for future parliamentary approval.

Representation within individual firms will operate through workers' representatives, two-thirds of whom must be elected by all of the company's workers with the remainder made up of members of trade unions having the power to sign national collective agreements.

Redundancies

To assist companies in restructuring, the procedures associated with Italy's compulsory layoff fund (the *cassa integrazione guadagni*) will be speeded up so that benefits will in future be available within 40 days of an application to the Ministry of Labour. Public finance permitting, unemployment benefit will gradually be increased from 20 per cent to 40 per cent of basic pay (as per national collective agreement) with special provisions for certain categories such as agricultural and part-time workers.

Labour market and training

Apprenticeship contracts are to be strengthened by increasing their training content. "Work and training contracts" are now to be made available to any worker under 32 years of age. These contracts provide a number of incentives to employers, including special exemptions from social security contributions and payment of lower wages than those specified under national collective agreements. However, firms which have failed to convert at least 60 per cent of their previous work and training contracts into employment contracts without limit of time will not be entitled to conclude new ones.

Private temporary employment agencies, previously illegal, will be now be allowed to set up under the supervision of the Ministry of Labour. They will be permitted to provide staff to firms at rates of pay conforming to those set out in collective agreements. The mark-up fee for their services may not exceed 30 per cent.

Under certain circumstances special re-entry wages may be envisaged to help absorb the long-term unemployed. A special insertion wage may be established to help direct employment opportunities towards young people seeking their first job. Additional positive action is to be used to encourage the employment of women.

Supporting strategies

A number of supporting strategies are also envisaged in the Pact. These will need to be implemented by means of ministerial decrees, orders-in-council, or single-member bills. The measures to be implemented will be decided upon following further tripartite consultation, but may cover such areas as: improvements in labour administration; strengthening the operation of the Regional Employment Agencies; increased investment in technological improvements; and development of private social security and pension funds.

A new approach

This new Social Pact marks a significant change in the way Italy sets about the process of economic policy formulation. The country's economic and structural adjustment programme was launched just over a year ago with an order-in-council on public finance on 19 July 1992 and an Interim Income Policy Agreement on 31 July 1992 (see *SLB* 4/92, p. 439). Most of the measures carried out over the past 12 months have been implemented by means of orders-in-council which have often been difficult to push through Parliament, and then only after extensive amendment. The new approach, essential if the allegiance of Italy's trade unions is to be retained for the restructuring of the welfare state and the reform of industry and services, is based on strong tripartite principles.

The philosophy of Italy's structural adjustment programme has come under heated discussion over the past year. Much emphasis has been placed on labour market flexibility, but the focus has shifted from "defensive flexibility" (in which companies are enabled to defend themselves against changes in the market for their products or services by relaxing certain labour rules and standards) to "aggressive flexibility", which emphasizes improvements in production technology, training and simplified administrative procedures, without so much emphasis on shedding labour.

The present structural adjustment programme differs from those of the late 1980s when the burden of adjustment was mainly placed on tax revenue by means of special measures such as tax surcharges. The burden has now been shifted to the trimming of public expenditure. This process, begun in July 1992 and affirmed in the September 1992 budget for the 1993 financial year, is to be accentuated in the 1994 tax year. While the 1993 tax year placed one-third of the burden of adjustment on the tax revenue side and two-thirds on expenditure reduction, the 1994 budget is likely to place as much as nine-tenths of the burden on expenditure reduction. Indeed, with a very high tax burden (47 per cent of GDP in 1993) there have been threats of a tax revolt in some northern regions and, if anything, personal income tax rates are likely to fall.

Trade unions and employers

In July trade unions and employers were heavily involved in resolving the issues surrounding the negotiation of the Social Pact, including the threatened road haulage strike. The issue of trade union finance also came to a head as the left-wing CGIL confederation reported the likelihood of a 2 billion lire ($1.25 million) deficit on an annual budget of 35 billion lire ($21.9 million). The predominantly Christian-Democrat CISL confederation is likely to show a small deficit on its 25 billion lire ($15.63 million) budget. The Socialist UIL may also be unable to balance its 12 billion lire ($7.5 million) budget.

For all three confederations, the problem is that expenditure is increasing by at least the prevailing rate of inflation (4.2 per cent in the year to May 1993) whereas revenues are increasing only by 1-3 per cent a year. Automatic seniority increases and pay increases on transfer from one grade to another are an expensive fact of corporate life in Italy. Both the CGIL and the CISL have begun natural wastage programmes and are providing incentives for early retirement. The CGIL has a staff of almost 12,000 and the CISL, 10,000.

New legislation on worker representation at shop-floor level also threatens the unions' hegemony. The legislation now being drafted following the signature of the Social Pact, whereby one-third of worker representatives must be made up of those belonging to unions entitled to sign national collective agreements, favours the main trade union confederations, but there is strong parliamentary opposition to their triopoly. If the three main trade unions lose their privileged position they will face tough competition from other trade unions with a trade or local basis.

Political reforms

Legislation on electoral reform is currently being debated in Parliament to change the present proportional representation system to a "first-past-the-post" system with 25 per cent proportional correction. But despite broad agreement on the main outlines of the proposals, politicians are a long way from consensus on the details. It is therefore by no means certain that 1994 elections will be able to take place under the new system. Following the July 28 terrorist bombings in Milan and Rome, those who favour an early election under the old rules are beginning to prevail. If they do, political elections will take place in November-December 1993, coinciding with local elections in a number of urban centres, rather than in March-April 1994.

It has been a traumatic year for Italy. With the exposure of widespread industrial and political corruption and the financial crisis of the

European monetary system, the country needed to achieve a solid success. Few can doubt that the signature of the Social Pact – described as a miracle by Prime Minister Carlo Ciampi – represents such a success. Building on the foundations doggedly put in place by the Amato Government in July 1992, the Social Pact represents a true opportunity to move forward on a more stable basis than has been possible during the last chaotic twelvemonth.

Sources: Information supplied by Mr. G. Pennisi of the ILO Rome Branch Office. *Financial Times* (London), 29 June 1993. *International Herald Tribune* (Zurich), 26-27 June 1993. *Wall Street Journal Europe* (Brussels), 24 June 1993. *Libération* (Paris), 5 July 1993.

PERU

Employment Promotion Act, pensions privatization and constitutional reform: A busy year of social legislation

The first half of 1993 was marked by the publication of the Employment Promotion Act *(Ley de fomento del empleo)* and by the start of operations by private pension funds, the AFP *(Administradoras Privadas de Fondos de Pensiones)*. These are the most important reforms in the extensive series of measures introduced in the form of legislative decrees by President Fujimori in November 1991. Their enforcement was delayed owing to the political unrest which rocked Peru both before and after the President's civilian coup d'état of April 1992. Two other important enactments from the same package of legislative decrees are worthy of mention. The first, which came into effect in 1992, is concerned with collective labour relations (No. 25595 of 26 June), and the second, with the privatization of health insurance, although the latter's implementation appears to have been deferred *sine die*. But a whole new field of constitutional reform has thus been opened up and is likely to occupy the latter part of this year. The proposed constitutional articles devoted to employment and social security, still in draft form, should make it possible to harmonize constitutional law with the principles underlying the new legislation on these issues. Lastly, the Government is seeking international funding for programmes designed to assist the poorest sections of the population and thereby alleviate the enormous social cost of restructuring the Peruvian economy.

Pension privatization

The pensions branch (old age, disability and survivors' benefits) of the Peruvian Institute of Social Security (IPSS) is in a bad way because of negative real interest rates, the enormous national debt, late payment and systematic evasion on the part of employers, and excessive management costs. This has led to decapitalization in real terms, especially in the 1980s.