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FM ROME 251030Z JAN 83

TO IMMEDIATE FCO
TELEGRAM NO. 045 OF 25 JAN 83
SAVING FOR INFO EC POSTS: WASHINGTON; UKDEL OECD; UKDEL NATO;
AND CONSULATES IN ITALY, HOLY SEE

MY TELEGRAM NO. 021 : FANFANI'S ECONOMIC PROGRAMME : AGREEMENT
ON PAY
SUMMARY

1. AGREEMENT HAS BEEN REACHED BETWEEN THE GOVERNMENT, EMPLOYERS
AND UNIONS ON THE LEVEL OF PAY SETTLEMENTS FOR 1982 AND 1983,
INCLUDING A REDUCTION IN WAGE INDEXATION (THE SCALA MOBILE SYSTEM).
THIS SHOULD LESSEN THE SOCIAL TENSION WHICH HAS GIVEN RISE TO
STRIKES AND DEMONSTRATIONS THROUGHOUT ITALY. IT GIVES FANFANI'S
GOVERNMENT A BADLY NEEDED BOOST.

2. TO SECURE AGREEMENT, HOWEVER, THE GOVERNMENT HAD TO PROMISE
CONCESSIONS ON PUBLIC UTILITY TARIFFS, EXPENDITURE CUTS, ETC.,
WHICH WILL MAKE IT HARDER TO ACHIEVE THE PLANNED PSBR CEILING OF
71,000 BILLION LIRE. THERE WILL STILL BE DIFFICULTIES IN GETTING
THE 1983 ECONOMIC PROGRAMME THROUGH PARLIAMENT.
DETAIL

3. ON 22 JANUARY, TWO DAYS AFTER THE GOVERNMENT'S ORIGINAL DEAD-
LINE, SCOTTI (MINISTER OF LABOUR) PUT FORWARD A TAKE IT OR
LEAVE IT PROPOSAL TO EMPLOYERS AND UNIONS. IT AIMED TO BRING DOWN
THE AVERAGE RISE IN PAY IN THE NEXT TWO YEARS TO WITHIN THE GOVERN-
MENT'S TARGETS FOR INFLATION IN 1983 (13 PC) AND 1984 (10 PC). ITS
MAIN FEATURE IS A REDUCTION OF AT LEAST 15 PC IN THE SCALA MOBILE
SYSTEM OF WAGE INDEXATION, WITH SOME REVISION OF THE WAY THE SYSTEM
OPERATES. THIS PROPOSAL BRIDGED WHAT HAD APPEARED TO BE A WIDE GAP
BETWEEN THE UNIONS (ORIGINALLY UNWILLING TO CONCEDE MORE THAN 10 PC)
AND THE EMPLOYERS (WHO LAST WEEK WERE STILL MAKING 30 PC THEIR NIN-
TIUM DEMAND). AGREEMENT HAS ALSO BEEN REACHED ON A CEILING FOR
SECTORAL CONTRACTS OVER THE NEXT THREE YEARS.

4. NEITHER SIDE FOUND IT EASY TO ACCEPT SCOTTI'S COMPROMISE SOLU-
TION. THE COMMUNIST MAJORITY IN CGIL, APPARENTLY WITH PCI SUP-
PORT, WERE INTRANSIGENT AT FIRST: FEAR OF SPLITTING THE TRADE UNION
MOVEMENT MAY IN THE END HAVE BEEN A RESTRAINING FACTOR.
CONFINDUSTRIA (THE MAIN EMPLOYERS FEDERATION) ALSO HAD TO MOVE A
LONG WAY: ITS PRESIDENT, MERLONI, AT ONE STAGE THREATENED RESIGNA-
TION AND IS STILL CALLING FOR CLARIFICATION OF ANOTHER ASPECT OF
THE SCOTTI COMPROMISE (REDUCTION OF WORKING HOURS). NEVERTHELESS,
FOR EMPLOYERS IT IS A RELIEF NOT TO FACE INDUSTRIAL CHAOS IN
FEBRUARY, AND EVEN A MODEST REDUCTION OF THE SCALA MOBILE ESTABLISHES
THE IMPORTANT PRINCIPLE THAT WAGES CANNOT BE AUTOMATICALLY INFLATION-
PROOF. IT IS NOT CLEAR, HOWEVER, WHETHER THIS REDUCTION IS ENOUGH
TO BRING PAY RISES TO WITHIN THE INFLATION TARGETS.

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5. FOR THE MOMENT, NO COALITION PARTY IS PREPARED TO CRITICISE THE AGREEMENT THAT HAS BEEN REACHED. THE PCI REACTION HAS BEEN MUTED. FOR SCOTTI IT HAS PROVED SOMETHING OF A PERSONAL TRIUMPH, AND FANFANI IS OBVIOUSLY RELIEVED. ONLY THE REPUBLICANS, FOR ELECTORAL REASONS, HAVE DESCRIBED THE AGREEMENT AS INADEQUATE.
6. TO SECURE THE AGREEMENT, THE GOVERNMENT HAS MADE CONCESSIONS IN PLANNED PUBLIC EXPENDITURE CUTS AND TARIFF SUBSIDIES, WHICH WILL NOT HELP ITS EFFORT TO LIMIT THE 1983 PSEB TO 71,000 BILLION LIRE. THESE CONCESSIONS, WHICH DID MUCH TO SWEETEN THE PILL FOR THE UNIONS, WILL NEED TO BE BALANCED BY NEW CUTS AND SAVINGS IN THE 1983 BUDGET WHICH, LIKE THE DECEMBER/JANUARY ECONOMIC PACKAGE (NY TELEGRAM NO. SAVING 001), IS STILL WENDING ITS WAY THROUGH PARLIAMENT. THE PASSAGE OF THESE MEASURES REPRESENTS THE NEXT SERIOUS ECONOMIC HURDLE FOR GOVERNMENT.
7. FURTHER REPORT FOLLOWS.
- FCO PLEASE PASS SAVING ADDRESSEES EXCEPT CONSULATES IN ITALY AND HOLY SEE.

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