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West Europe Report

(FOUO 4/82)

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ECONOMIC   .   ITALY

RESEARCH STUDY ON SEVERANCE PAY SYSTEM

Milan MICROS in Italian Nov 81 pp 39-51

[Study conducted by Giovanni Zanetti, professor of corporate economics,
member of the Economics and Trade Faculty, Turin University; and
Giovanni Fraquelli, research scholar, CERIS-CNR. This study and the
elaboration contained in it are the fruit of research done at CERIS,
the National Research Center's institute for research into business
and development, as part of a broader program of analysis of the pro-
ductive system's efficiency.]

[Text]   Severance pay: what to do about it? Some empirical
          findings and suggestions.

Premise

After nearly 2 years during which interest in the severance pay machi-
nery seemed to be declining, the issue has over the past several months
become one of keen concern. This is the result of the solicitation
of signatures on the petition for a referendum for repeal of the spe-
cific provisions in PL-91 which would render meaningless the stops on
the economic barometer in the process of bringing the fund up to re-
quired levels; it is also an index to the desire to let go of a situa-
tion of stalemate which, in the wake of renewed discussion and sugges-
tions for changes in this instiute over the course of 1975, 1976, and
1977, would tend to leave the situation unchanged for years to come.
The fact is that the provision of PL-91 has eased the impact of annual
payments into the fund on corporate bankrolls, as well as its burden on
the structure of the tax position: however, it has clearly not healed
the anomaly of an institution born way back in 1919 (DLL 9 Feb, n° 1112)
designed to soften the dire consequences to the hired worker of sudden
and unexpected loss of his job, but which has in the intervening years
been so distorted as to become a kind of deferred payment whose pallia-
tive effects have been outdistanced de facto by existing pension sys-
tems or by more up-to-date and adequate wage structures.

There are still sound and valid reasons for reconsidering the existence
and operation of this kind of welfare which gives the worker a greater
level of security at the moment he ceases to be employed (a de facto
cushion added to other forms thus far available) by denying him imme-

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diate access to a portion of his earnings, letting the company control the quality and size of its own financial potential while weighing it down quite seriously with commitments and burdens of a special kind.

The spark provided by the current challenge to PL-91 can thus open the door to challenge on a far broader issue. To deal with the latter, however, it seems essential to develop some interpretive clarity, particularly in relation to the real nature of the link which, through severance pay, is established between the company-employer and the worker. It is equally necessary to have adequate measurements in relation to the real scope of the phenomenon and to the nature of its consequences.

1. A Two-Way Relationship

As we know, the worker receives as a consideration for the work he has performed a remuneration which has a number of aspects and partakes only partially of the nature of real disposable income. The severance pay share is in this sense an integral part of his overall compensation which establishes the labor relationship on a contractual basis. Once the worker has acquired the right to that quota and, under current regulations, cannot have immediate access to it but rather leaves it wholly in the hands of corporate management, it takes on the nature of real financial backing for that management. The worker, in other words, becomes the nominal owner of forced savings of a portion of his own earnings, which he must leave in the possession of the company with which it has accumulated. This is a very special financing operation: by reason of the uncertainty of its term, dependent roughly speaking on the duration of the job relationship; by reason of the type of repayment, which is not easy of access and stability apart from the autonomous and individual decisions of the company and the worker-financier; and by reason of its non-spontaneous character. There cannot, nevertheless, be any doubt as to the fact that, for whatever portion he cannot have immediate access to, the worker becomes a real moneylender to the company for which he works.

In line with this concept, we can recognize what might be properly interpreted as a cost of financial assets thus acquired from production or as repayment of financial advances. The laws and regulations governing the severance pay institution establish a de facto distinction between the act of setting aside in the fund, relating to each year (the relevant quota determined as to its varying size according to whether the worker is unskilled, an office-worker, or an executive), and the act of setting aside in order to bring the existing fund up to the requisite level on the basis of new wage scales (a portion of previous set-aside, resulting from the variation in the entitlement share resulting from changes in wage scales multiplied by the employee's years of service to the company). E. Filippi [2] very cogently point out that one can say, as a good ballpark estimate, that the amount the company must come up with each year to bring the existing funds up to the mark is, to all intents and purposes, the cost it must bear to keep such sums of money available. The annual burden on the corporate economy for managing the severance pay fund should thus be split into

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two parts: one, relating to the share of entitlement, and hence part of labor costs; and the other, relating to re-evaluation of previous severance settlements, becoming part of the financial costs for the capital thus obtained. Because he leaves the fund at the company's disposal, the worker earns the right to its regular increase on the basis of the (upward) variation in the compensation he receives: the amount of the fund increase constitutes, in practical terms, a form of interest coming due on the resources he is compelled to lend to the company for the entire duration of his employment there. That sum will in turn be left once more available to the company and will form an integral part of the machinery for further increases. Looking at the whole thing through the worker's eyes, we clearly see the pattern of what is nothing more or less than a loan of money under a compound capitalization scheme based on a variable rate pegged to the changes in contract wages.

It would seem wise to remember this approach as we seek to formulate some hypothesis that would solve the currently hot question of the effects stemming from the application of PL-91. Born in response to the need to contain the spiralling costs of labor, that law in fact affected the variability of the rate on the basis of which capitalization occurs. Not to make allowance, in computing variations in pay scales to determine the sums required to bring the fund up to par with the entitlements accumulated in previous years, or with the increases stemming from further economy-triggered raises, would be tantamount in fact to lowering the overall total of the potential growth in the severance pay fund and thereby reducing the sampling level on the basis of which that increase is calculated. Since the escalator also reflects the rise in the national inflation rate, the criterion that prevailed prior to the advent of PL-91 brought about, in practice, the pegging of the last recorded interest rate and tied it directly in with the cost of living, which makes this practically a unique case in the whole range of financing open to corporations. The subsequent exclusion of the economic trigger-points has, on the contrary, certainly changed if not altogether cancelled the indexing criterion for that form of financing by pegging its repayment to the ups and downs of the bargaining strength of the parties.

2. A Little Quantifying

In order to provide some practical underpinnings for the hypothesis stated here and to evaluate its consequences, it is helpful to determine, if we can, the amount of financing that has flowed into corporate coffers along this route and the cost curve for this kind of resource. It is not an easy subject to analyze, in view of the marked absence of hard data and, even were such data available, given the extreme variability among the individual situations to which we needs must refer. In the hope of essaying a satisfactory response to this need for data, we followed the criterion of proceding to evaluations separated according to level: we lumped the whole industrial sector of the economy together; we left out a large group of companies picked out from the list made available yearly by the Banca di

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Credito Finanziaria (Mediobanca); we separated out some major corporations active in several sectors of industry. From the whole corpus of estimates were were able to arrive at in this way it is possible to subsume the factors of distortion and of harmony, so as to arrive at overall judgments and, perhaps, some suggestions.

a. Aggregate Level

For an assessment of the "aggregate" dimension of the phenomenon, the national statistics offer a limited contribution. They are confined to supplying "flow magnitudes," referring to annual set-asides and payments, on the basis of which it is not practically feasible to arrive at a satisfactory assessment of the overall dimensions of the severance pay fund. Furthermore, there is no way to ascertain the breakdowns of annual set-asides as between job compensation and up-grading of previous compensation, while, finally, the national statistical estimates cover the entire private system (hence including agriculture and the services as well) with data gathered from big and small businesses, most of them operating in the industrial processing sector. Since between one area of production and the other there are regulatory differences as well as differences in actual practices (average seniority, average compensation, etc.), such an extrapolation will perforce lead to results that are very largely approximations.

We decided, therefore, to go ahead independently, without using the data contained in the national statistics, with a new assessment based on a narrower observed reality (covering only the industrial processing area), but at the same time analyzing it more completely and in greater depth. It makes it possible to arrive at both the basic estimate and the annual set-aside in the two portions that constitute it (job entitlement and increase of previous entitlement) and thus, on the basis of the foregoing, at the calculation of the rate of increase in the existing fund and, de facto, at the cost of these financial resources.

The computations were based on the data in the General Report on the National Economy, on actual findings released periodically by ISTAT, and on data published by the EEC up to 1973. Where the data were inadequate we resorted to controlled estimates on narrower real bases or to experience derived from actual cases. The methodological approach chosen involved finding the data and running the calculations starting with the size of the labor force split into its three components -- executives, office-workers, and in-plant workers -- as of December of each year from 1970 to 1980. For each of the three categories of employees we found or estimated in some cases the data shown in Table 1:

number of employees;
average monthly wages, including all elements (and hence the 13th-month bonus) except family allotments;

average seniority of the company's employees;

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TABLE I. Basic data for calculations on the severance pay fund
for the industrial processing system as a whole.

	(1)	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
(2) N. OCCUPATI DIPENDENTI (migliaia)	dirigenti	42	45	48	52	56	62	67	72	76	80
	impiegati	758	795	852	908	944	958	1.053	1.088	1.124	1.170
	operai	5.700	5.660	5.600	5.540	5.500	5.480	5.380	5.340	5.300	5.250
	totale	6.500	6.500	6.500	6.500	6.500	6.500	6.500	6.500	6.500	6.500
(3) RETRIBUZIONE MENSILE MEDIA A FINE ANNO (compr. rateo 13ª) (migliaia di lire) meno: contingenza	dirigenti	535	618	753	898	1.098	1.333	1.565	1.783	2.085	2.455
	impiegati	214	247	301	359	439	533	626	713	834	982
	operai	122	141	172	211	258	323	391	460	556	677
								—62	—114	—186	—285
(4) ANZIANITÀ MEDIA (anni)	dirigenti	15	15	15	15	15	15	15	15	15	15
	impiegati	7,9	8,0	8,1	8,2	8,3	8,4	8,5	8,6	8,7	8,8
	operai	6,2	6,3	6,4	6,5	6,6	6,7	6,8	6,9	7,0	7,1
(5) N. MENSILITÀ ANNO (in parentesi il marginale se diverso dal medio)	dirigenti	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,45 (1)	1,4 (1)
	impiegati	1	1	1	1	1	1	1	1	1	1
	operai	0,51 (0,56)	0,52 (0,57)	0,53 (0,58)	0,54 (0,59)	0,55 (0,60)	0,56 (0,61)	0,57 (0,62)	0,58 (0,63)	0,59 (0,64)	0,60 (0,65)

KEY:

1. Executives
    Clerical staff
    Plant workers
    Total

2. Number of full-time employees (in thousands)

3. Average monthly earnings as of year-end (including the 13th-
    month bonus) (in thousands of lire) minus cost-of-living
    increases

4. Average seniority (in years

5. Number of monthly payments per year (marginal payments shown
    in parentheses where different from the average)

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the average number or fraction of monthly earnings payable for each year of seniority.

With particular reference to the annual set-aside, we also found or estimated:

the number or fraction of the monthly wage payable for the additional year of seniority: this is a marginal value, different from the average value for the unskilled workers in many sectors and, as of 1978, for executives (on the basis of the agreement of 18 July 1978, for every year of seniority completed since 31 January 1979 the entitlement drops from 1.5 to 1 month's wages);

the rate of increase in individual compensation as compared with the mean (this rate was used to quantify the updating of entitlement reached in years prior to the date considered as a result of the improvements in the employees' position by comparison with the mean due to increased seniority, transfers from one category to another, merit raises, promotions, etc.).

The payout for each year t was obtained by means of the difference between the set-aside for the year t and the growth experienced by the fund between the end of year T-1 and the end of year t.

On the basis of these assumptions we determined the size of yearly set-asides based on the job and for updating previously earned entitlement, the percentage rate of such updating, the total payout and the size of the fund at year's end, using both the assumption of real total count of the wage variations (hypothetical increase) and that of ignoring the economic trigger-points so as to upgrade previously earned entitlement (actual upgrading). The results are shown in Table 2.

The sum total of the complex of financing made available to the corporate system through the severance pay mechanism for 1980 comes to about 2 trillion lire. Had the trigger points not been ignored the total of this sort of financing would have come close to 3.2 trillion. It can be said that, by way of preliminary approximation (the payouts were in fact underestimated because the only figures available were those for actual payouts, meaning those calculated on the basis of the "sterilized" contingency points) by comparison with the 1975 year-end when there was no need to distinguish between the hypothetical and the actual size of the fund, there was a growth shortage of 96.9 percent.

Another observation has to do with the rate expressing the cost of capital made available to companies, arrived at with approximate reckoning on the basis of the ratio between the annual set-aside for upgrading previous entitlement levels and the fund as it was at the end of the preceding year. One can see at a glance that up to 1976 the rate showed particularly high values which would decline somewhat although remaining at high levels in the subsequent years where the fund was enlarged to keep pace with the overall increase in wage levels. Vice versa, when the contingency points were sterilized after

TABLE 2.   The Industrial Processing Sector (billions of lire)

	(1) Accantonamenti								(2) Erogazioni	(3) Fondo a fine anno	
	(4) COMPETENZA		(5) ADEGUAMENTO PREGRESSE				(6) TOTALE				
(7)	Ipotetica	Effettiva	Ipotetico	(*)	Effettivo	(*)	Ipotetico	Effettivo		Ipotetico	Effettivo
1971	585	585								3.986	3.986
1972	693	693	686	17,2	686	17,2	1.379	1.379	554	4.811	4.811
1973	869	869	1.137	23,6	1.137	23,6	2.006	2.006	660	6.157	6.157
1974	1.086	1.086	1.404	22,8	1.404	22,8	2.490	2.490	820	7.827	7.827
1975	1.358	1.358	1.880	24,0	1.880	24,0	3.238	3.238	1.090	9.975	9.975
1976	1.714	1.714	2.506	25,1	2.506	?5,1	4.220	4.220	1.405	12.790	12.790
1977	2.120	1.842	2.697	21,1	837	6,5	4.817	2.679	1.294	16.313	14.175
1978	2.516	1.996	2.834	17,4	1.178	8,3	5.350	3.174	1.646	20.017	15.703
1979	2.982	2.128	4.020	20,1	1.038	10,4	7.002	3.766	1.894	25.125	17.575
1980	3.656	2.327	5.130	20,4	1.742	9,9	8.786	4.069	2.055	31.856	19.589

(*)   The value shown in the columns with an asterisk expresses the percentage rate at which the fund is brought up to statutory level, calculated as the ratio between the input for that purpose for year t and the fund existing at the close of year t-1.   It indicates the cost level for financial resources made available to the corporate industrial system through the mechanism of the severance pay fund.

KEY:
1. Set-asides
2. Payouts
3. Fund at year-end
4. Wage-based
5. Input to cover previously earned entitlement
6. Total
7. Hypothetical
8. Actual

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January 1977, the size of the portion for upgrading previous entitle-
ment drops spectacularly, and along with it the money-cost rate which
expresses it, with a net advantage to the companies. You will note
as well, however, that the sharpest decline occurs in 1977, the year
immediately following the change in implementation of severance pay,
after which the rate turns upward again to reach a peak in 1979, the
year labor contracts come up for negotiation.

Non-Aggregate Level: A Calculation Using Mediobanca Data

We may try to find confirmation for these initial conclusions by means
of a different "estimating" procedure based on information found in
the report prepared by Mediobanca which, in 1980, covered a total of
924 businesses. This was a methodological approach which did not
reach out to the entire Italian economic system and contains its share
of approximations, made for the purpose of compensating for the lack
of solid data on a great many of the aspects under consideration.

Notwithstanding these shortcomings it can be helpful in providing an
overall picture of a decidedly broad segment of the Italian industrial
system, based on reliable, although not quite exhaustive sets of data.

It was deemed advisable to separate from the whole group of Mediobanca
companies those in the transport construction sector. These companies,
and most particularly FIAT, the bellwether company in that division,
were central figures in major operations modifying their structural
stance, particularly in the wake of mergers and divestments. This
might have made conclusions drawn from them particularly shaky and
potentially distorted, as for that matter we found from several early
experiments. The FIAT data will be taken into consideration, further-
more, at the next level of non-aggregation, which deals with indivi-
dual corporations.

For purposes of the preliminary processing needed here, the Medio-
banca data are insufficient, in that they relate the overall amount
of set-asides to the fund without making any distinction between the
amounts set aside each year on the basis of jobs and the amounts set
aside for upgrading previous entitlement. We therefore had to concen-
trate our major effort on performing this division operation with a
reasonable margin of safety. To do this we first proceded to estab-
lish the total labor costs recorded for purposes of determining the
severance pay, so as to arrive at something close enough to the total
of the annual wage-related set-aside. After that, by subtraction from
the total set-aside as reported by Mediobanca in the total economic
cost, we proceded to estimate, with what we think is adequate approx-
imation, the amount of previous entitlement and the consequent level
of the rate at which the existing severance pay fund is added to.

We can say, summarily, that the amount of the annual set-aside to co-
ver previous entitlement is obtained by subtraction, reckoning the
amount of wage-based set-aside for each fiscal year and subtracting
it from the total set-aside. We arrived at the wage-based set-aside
figure by starting with the overall cost of labor and then, through

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through a gradual process of elimination, arriving at a determination of accountable compensation to define the annual quota for severance pay.

The analytical process can be followed on Table 3. To make it more readily understandable, we offer the following explanatory notes:

the social costs percentage (line D) was found through a process of reading and comparing a great many corporate balance sheets from companies, large and medium, which provide such information. That percentage, which varies slightly from year to year, was used as a base for reckoning the amount of social costs (line E) to be separated from total labor costs in order to find the gross amount of compensation to be entered as severance pay (line F);

the size of the frozen cost-of-living cushion (line G) we found by counting c.o.l. points accumulated annually and cumulatively since January 1977, then translating them into their actual monetary equivalent, including the 13th-month bonus, taking into account the average number of employees on the payroll over the course of each year at each company studied. The calculations involved are shown below:

(1) Anno	(2) Punti con- tingenza	(3) Mesi di applicaz.	(4) Punti da contegg.	(5) Totale	x	(6) Valore del punto	=	(7) Importo annuo complessivo (000)	(8) Importi cumulati (000)
1977	9 x	11	= 99						
	6 x	8	= 48						
	5 x	5	= 25						
	4 x	2	= 8						
			180	204	x	2.389	=	487	487
	(9)+ tredicesima		24						
1978	4 x	11	= 44						
	5 x	8	= 40						
	6 x	5	= 30						
	5 x	2	= 10						
			124	144	x	2.389	=	344 + 24 x 13 x 2.389 =	1089
	+ tredicesima		20						
1979	6 x	11	= 66						
	8 x	8	= 64						
	6 x	5	= 30						
	8 x	2	= 16						
			176	204	x	2.389	=	487 + (24 + 20) x 13 x 2389 =	1853
	+ tredicesima		28						

KEY:

1. Year
2. Cost-of-living points
3. Months applied
4. Points to be counted

5. Total
6. Value per point
7. Overall annual sum (000)
8. Cumulative totals (000)

9. 13th-month bonus

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Portion of the contingency (c.o.l.) fund to subtract from Mediobanca after separating the transport divisions:

		1977	1978	1979
a.	Average number of employees	1,387,293	1,372,017	1,375,658
b.	Annual c.o.l. per employee (000)	487	993	1,853
	Absolute size (000,000) (a x b)	675,612	1,362,419	2,549,094

For all employees of the companies studied we had to establish the average fraction of compensation (expressed in man-hours)[4] on the basis of which we could determine the share of set-aside to the fund (line I).

The basic hypothesis took 1.4 months' salary from executives, 1 month from white-collar employees, and a number of days/month for workers which varied according to the sector to which they belonged. Since we were using real data for Mediobanca's set-asides, which already included both holiday pay as well as the thirteenth-month bonus, we did not have to estimate any compensatory additions for them. It was necessary, however, to pinpoint both the probable sectoral makeup of Mediobanca corporations, as well as the probable structure of the labor force employed by them in terms of executives, plant workers, and white-collar workers. What we actually did was this:

Shares credited to:

Executives: 1.4 months' base salary. In hours, this would be h = 173 x 1.4 = 242 hours

Clerical: 1 month's base pay. In hours: 173

Plant workers: these will vary from sector to sector and acto the worker's own seniority. The average number of hours for plant workers at Mediobanca companies is derived from the assumption of predominant presence of four typical sectors, each with a different weight in terms of occupation:

Metalworkers	Food Industry	Textiles	Chemicals	== Total
66	7.4	7.7	18.9	100

The average hours per month that can be witheld on the basis of contracts and of average seniority assumed for Mediobanca were established for set-aside:

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Metalworkers		Food Industry		Textiles		Chemicals
138 hours	+	90 hours	+	86 hours	+	70 hours

The overall average for the four sectors can be seen in the following summary:

METALWORKERS	=	138 hours x 66	=	9,108.0
FOOD INDUSTRY	=	90 hours x 7.4	=	666.0
TEXTILE WORKERS	=	86 hours x 7.7	=	662.2
CHEMICALS	=	70 hours x 18.9	=	1,323.0

Average hours for the entire Mediobanca worker population:

$$h \frac{11,759.2}{100} = h\ 117.6 \text{ (rounded to 118)}$$

On the basis of these assumptions we performed a summary count of the fraction of monthly earnings to be counted for the sample under observation.

To do this, we formulated a hypothesis as to the distribution of the working population at Mediobanca for the major categories of workers and at the same time we established the proportion within which pay-scales could be set in relation to the different levels of employment. For each year we performed the following counts on the basis of which we found that, for all Mediobanca companies, the plausible fraction of a month is about 25 days; it drops to 22 days when workers are assumed to have worked a minimum of 90 hours.

The need to arrive at a convincing figure for the fund set-aside quota on the basis of wage levels in effect at the end of each year led us to find the rate reflecting the increase in the cost of labor at a point about midway through each year.

The per capita cost of labor derived from the Mediobanca data refers to the total of pay received over the entire year, and therefore can be used as the basis for a rough estimate of the average earnings at midyear, or, if you will, as of 30 June. Since that per capita labor cost is used to figure the wage-based set-aside quota, it seems wise to try harder for a tighter fix on it, using for the purpose earnings accruing between 30 June and 31 December of each year.

This was done by finding the arithmetical mean between the per capita labor cost for 2 successive years referred as we said to 30 June, and thus arriving at what is probably a reliable figure for the 31 December that falls between them. The increment in this datum with respect to per capita labor cost for the previous 30 June gives us the percentage shown on line N. It is used as the basis for calculating the datum on line O.

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Anni (1)	Struttura per tipo lavoro (2)	Struttura per tipo lavoro (a)(3)	Rapporto tra livelli retribut. (b)(4)	(c) (a x b)	Strutt. % % di (c) (5)	Ore di accanton. (d) (6)	(e) (c x d) / 100	Ipotesi minima 90 h. per operaio (f) (7)		
(8)	Dirigenti	1	100	100,0	3,8	242	9,196		9,196	
1974	Impiegati	28,8	33	950,4	36,1	173	62,453		62,453	
	Operai	70,2	22,5	1.579,5	60,1	118	70,918		54,090	
	TOTALE	100,0		2.629,9	100,0		142,567	gg. 24,7	125,739	gg. 21,8
	Dirigenti	1	100	100,0	3,7	242	8,954		8,954	
1975	Impiegati	29,7	33	980.1	36,6	173	63,318		63,318	
	Operai	69,3	23,1	1.600,8	59,7	118	70,446		53,730	
	TOTALE	100,0		2.680,9	100,0		142,718	gg. 24,7	126,002	gg. 21,9
	Dirigenti	1	100	100,0	3,6	242	8,712		8,712	
1976	Impiegati	30,1	33	993,3	35,8	173	61,934		61,934	
	Operai	68,9	24,4	1.681,1	60,6	118	71,508		54,540	
	TOTALE	100,0		2.774,4	100,0		142,154	gg. 24,7	125,186	gg. 21,7
	Dirigenti	1	100	100,0	3,6	242	8,712		8,712	
1977	Impiegati	30,7	33	1.013,1	35,8	173	61,934		61,934	
	Operai	68,3	25,1	1.714,3	60,6	118	71,508		54,540	
	TOTALE	100,0		2.827,4	100,0		142,154	gg. 24,7	125,186	gg. 21,7
	Dirigenti	1	100	100,0	3,5	242	8.470		8.470	
1978	Impiegati	30,9	33	1.019,7	35,5	173	61,415		61,415	
	Operai	68,1	25,7	1.750,2	61,0	118	71,980		54,900	
	TOTALE	100,1		2.869,9	100,0		141,865	gg. 24,6	124,785	gg. 21,6
	Dirigenti	1	100	100,0	3,5	242	8.470		8.470	
1979	Impiegati	31,3	33	1.032,9	35,7	173	61,761		61,761	
	Operai	67,7	26	1.760,2	60,8	118	71,744		54,720	
	TOTALE	100,0		2.893,1	100,0		141,975	gg. 24,6	124,951	gg. 21,7
								≃ gg. 25		≃ gg. 22

KEY:

(1) Years
(2) Structure for type of work
(3) Structure for type of work (a)
(4) Relation between earnings levels (b)
(5) Structural percentage as % of (c)
(6) Set-aside hours (d)
(7) Low hypothesis -- 90 hours per worker (f)
(8) Executives
Clerical workers
Plant workers
TOTAL

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The total of the severance pay fund (line Q) is derived directly from the data given in the Mediobanca publication, most particularly from the cumulative holdings statement. It was used to calculate the cost rate of this type of financing. To this end, however, we had to take into account the fact that the sum of money actually available to the company is known only approximately. It can in fact be argued that it is represented by the fund existing as of the close of the year for which we calculate additions to it apart from the year's set-asides (line R): in this case it is underestimated since the resulting fig- ure is net, without the payouts made and falling due in that year. These occur gradually and are included in the overall yearly set-aside. The fund at year's end, however, is net, not including the fractions of quotas set aside and paid out to those who have left the company. Subtracting from the fund all yearly set-asides and hence such frac- tions as well means that you will wind up with an estimate that is too low. Since the fund is the denominator in the ratio that expresses the cost of capital, that cost is implicitly raised. That effect can be avoided by assuming the value of the fund as of the end of the pre- vious year. In this case, again, you get a too-high estimate and a subsequent undue lowering of the measurement of the cost of money ob- tained in this way, since the fund winds up including the sum owed to those who have quit the company in that fiscal year.

Bearing in mind the points made thus far, the reader may consider Table 3, on which we show the amount of wage-based set-asides, those for upgrading previous entitlements and for the severance pay fund for the years from 1974 to 1979.

On the basis of these data and others calculated in the same way but using the hypothesis of a mean fraction of earnings accumulatable as 22 days instead of 25, we established various configurations of the cost of capital obtained through the severance pay system shown in Table 4, integrated with the annual rates of increase in the per capita cost of labor or expressing some configurations of the cost of money in Italy taken from the Bank of Italy Report or derived from it.

In the first place they confirm the behavior already observed at the general level, whatever assumption is taken with regard to the frac- tion of monthly earnings to be counted in determining the set-asides. Since 1977 we note a clear decline in the cost of financing companies obtain through the severance pay system. This is not, however, a de- cline destined to last, since in 1978 there is another upturn which will peak in 1979: it is quite likely that when contracts are renego- tiated there will be a "de facto recovery" of what had been lost by sterilization of the cost-of-living trigger points for counting pur- poses in settlements. In 1979 the phenomenon occurs with particular clarity because when the new contracts were negotiated there was a change, in favor of the workers, in the fractions of months to be counted in the definition of the value of the point. Though nothing has been decided as yet on this score it is likely that, given the sharp rise in cost-of-living points as a result of the current rate of inflation, in future rounds of contract bargaining some portion of the

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TABLE 3. SET-ASIDES AND SEVERANCE PAY FUND ESTIMATED FROM
MEDIOBANCA DATA. (000) All group companies in-
cluded except transport makers.)

		1974	1975	1976	1977	1978	1979
A)	Costo del lavoro complessivo	8.665.625	10.553.437	12.646.371	14.244.544	16.097.235	19.032.381
B)	Accant. globale al Fondo indennità	1.081.600	1.265.205	1.615.458	1.205.542	1.479.078	1.952.118
C)	Costo del lavoro - Accant. (A — B)	7.584.025	9.288.232	11.030.913	13.039.002	14.618.157	17.080.263
D)	% Oneri sociali (desunta da bilanci di numerose imprese medio grandi)	26%	27%	27%	25,5%	24,5%	25%
E)	Oneri sociali in valore assoluto	1.971.846	2.507.823	2.978.346	3.324.946	3.581.448	4.270.066
F)	Retribuz. lorda conteggiabile nell'indennità licenziamento (C—E)	5.612.179	6.780.409	8.052.567	9.714.056	11.036.709	12.810.197
G)	Entità contingenza congelata per legge 91	—	—	—	675.612	1.362.419	2.549.094
H)	Retribuz. conteggiabile dopo legge 91 (F—G)	5.612.179	6.780.409	8.052.567	9.038.444	9.674.290	10.261.103
I)	Quota accanton. al fondo su base di 143 h. $(H \times \frac{143}{2.076})$	386.580	467.051	554.680	622.589	666.388	706.809
L)	Numero medio annuo dipend.	1.409.340	1.417.693	1.406.666	1.387.293	1.372.017	1.375.658
M)	Costo del lavoro pro capite $(\frac{C}{L})$ (000)	5.381	6.552	7.842	9.399	10.655	12.416
N)	Incremento % stimato del costo del lavoro pro-capite nella seconda parte dell'anno	10.9%	9.8%	9.9%	6,7%	8,3%	10.0%
O)	Quota accanton. al fondo rettifica con il tasso N $I (1 + \frac{N}{100})$	428.717	512.822	609.593	664.302	721.698	777.490
P)	Stima delle indenn. pregresse (adeg.to) (B—O)	652.883	752.383	1.005.865	541.240	757.380	1.174.628
Q)	Entità del fondo Indenn. al 31/12 ('73 = 2.963.208)	3.821.711	4.844.840	5.949.173	6.533.062	7.233.714	8.464.460
R)	Entità del fondo Indenn. ante accantonamento	2.740.111	3.579.635	4.333.715	5.327.520	5.754.636	6.512.342

KEY TO TABLE 3: Set-asides and severance pay fund estimated
on the basis of Mediobanca data. (000).
(All companies included except transport makers.)

A. Overall cost of labor

B. Total set-aside for severance pay fund

C. Cost of labor minus set-aside (A - B)

D. % of social costs (compiled from annual reports of many
large and medium companies)

E. Social costs in absolute terms

F. Gross earnings counting toward entitlement in
severance pay settlements (C - E)

G. Total cost-of-living increases frozen by PL 90

H. Earnings counting toward entitlement since passage
of PL 91 (F - G)

I. Set-aside for the fund on a 143-hour base: $(H \times \frac{143}{1.076})$

L. Average number of employees on the payroll per year

M. Per capita cost of labor $(\frac{C}{L})$ (000)

N. Estimated percentage increase in per capita labor costs
in the second half of each year.

O. Share set aside for the fund, corrected by rate N

P. Estimated previously earned entitlement (covered by input_
(B - O)

Q. Size of the severance pay fund as of 31 December 1973:
2,963.208 lire

R. Size of the severance pay fund prior to set-aside

trigger-points passed since January 1977 may wind up in the pay en-
velope: in that event the cost rates of this type of financing would
simply take off. If for no other reason, the phenomenon should occur
simply in response to the rise in wage levels. On the methodological
level the obvious consequence would be, in order to arrive at a correct
assessment of the cost of such financing and, along with it, the re-
turn for those who provided it, the best bet would be a mean of the
rate values for the entire period between one round of collective
bargaining and the next. On the likely assumption that the true cost
of this type of financing will be somewhere within those shown in
Table 4 and that it can be approximated by an arithmetical mean of the
four values shown here for each year, we should see the following
pattern:

Cost of financing through the severance pay system	1974	1975	1976	1977	1978	1979
Mediobanca data (from Table 4)	23.8	21.2	22.8	10.3	13.1	17.8
The system in industrial processing (from Table 2)	22.8	24.0	25.1	6.5	8.3	10.4

Translated into graphic form (Figure 1) these clearly confirm the
performance described.

With respect to the data to be obtained by examining data referring
to the entire economic system, those having to do with the Mediobanca
group alone, particularly for 1977, 1978, and 1979, seem to be visi-
bly higher in the quantitative dimension.

Generally speaking, it would be well to emphasize the fact that this
is a group of companies that can be described as "large" or at least
"medium," even given the uncertainty of available dimensional para-
meters to quantify them. In relation to the sum total, which will
obviously include smaller companies as well, the mean earnings levels
in Mediobanca companies will assuredly be higher. This is an asser-
tion based on the greater impact of organized labor activity and on
the practical impossibility of getting away from the many aspects of
the regulatory restrictions on labor in a large company, or from the
qualitative composition of the employee group which, again for a big
company, generally shows a markedly higher proportion than the mean
for executives and clerical staff. Because of this situation the an-
nual wage-based set-asides and the upgrading of previously earned en-
titlement are particularly high.

TABLE 4. COST OF FINANCING THROUGH SEVERANCE PAY FUND

(1)	(2)	1974	1975	1976	1977	1978	1979
IPOTESI: 25 gg.	Accant. pregresse, / F. indenn., - Accant,	23,8	21,0	23,2	10,2	13,2	18,0
	(3) Accant. pregresse, / F. indennità ,-,	22,0	19,7	20,8	9,1	11,6	16,2
(4) IPOTESI: 22 gg.	(5) Accant. pregresse, / F. indenn., - Accant.,	25,7	22,7	24,9	11,6	14,7	19,5
	(6) F. indennità , , / F. indennità , ,	23,8	21,3	22,3	10,4	12,9	17,5
(7)	Variazione % annua del costo del lavoro pro-cap. al netto accant. F. indennità.	24,3	21,8	19,7	19,9	13,4	16,5
(8)	Tassi attivi bancari per imprese non finanziarie	14,3	15,0	17,3	18,6	16,0	15,4
(9)	Rendimento effettivo obbligazioni (dicembre)	11,7	11,2	14,1	14,1	13,5	14,4

KEY:

1. 25-day hypothesis

2. Previous set-asides / Severance pay fund t - set-aside

3. Previous set-asides / Severance pay fund t - 1

4. 22-day hypothesis

5. Previous set-asides / Severance pay fund t - set-aside

6. Severance pay fund (t - 1) / Severance pay fund (t - 1)

7. Annual percentage variation in per capita labor cost, not including set-aside for the severance pay fund.

8. Bank interest rates for non-financial companies

9. Actual yield on securities (December)

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FIGURE 1. COST CURVES FOR FINANCING THROUGH THE SEVERANCE PAY FUND
VS BEHAVIOR OF OTHER FINANCIAL PARAMETERS
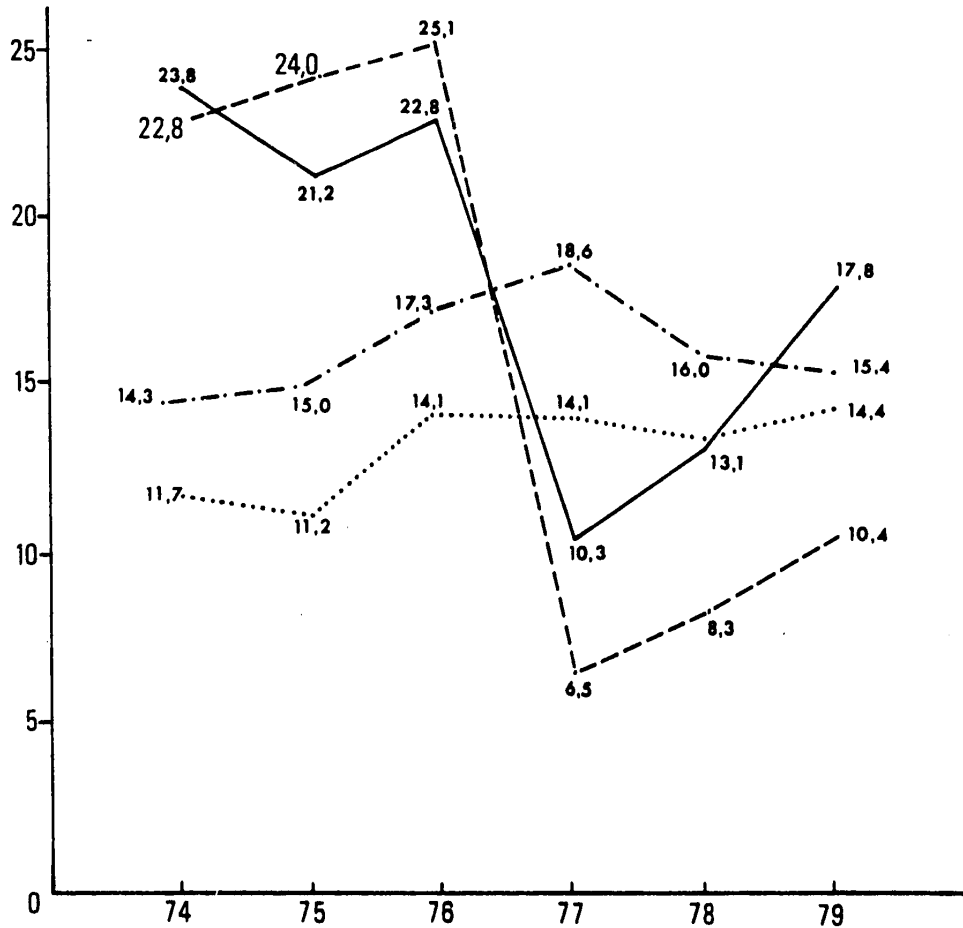
Legend:

——————— Cost of financing via severance pay fund. Mediobanca est.
———————— Cost of financing via SPF. Estimate for the industrial
         processing system.
—·—·—·— Bank interest rates for non-finaı .1 companies.
········ Average actual yield on securitie ᴺecember)

FIAT HOLDING (millions of lire)

		1974	1975	1976	1977	1978	1979	1980
(1)	Accant. ind. competenza	45.901	52.836	62.792	65.998	71.687	75.618	76.213
(2)	Accant. adeg. pregresse	84.353	92.907	125.797	60.499	64.396	123.481	43.787
(3)	Accant. globale al fondo	130.254	145.743	188.589	126.497	136.083	199.099	120.000
(4)	Fondo Indennità al 31/12	463.300	575.785	666.112	744.924	863.645	944.038	1.010.000
(5)	Fondo Indennità ante accantonamento	333.046	430.042	477.523	618.427	727.562	744.939	890.000
(6)	Indennità pregresse	25,3%	21,6%	26,3%	9,8%	8,9%	16,6%	4,9%
(7)	F Indenn.,-Accant.							
(8)	Indennità pregresse	23,2%	20,1%	21,8%	9,1%	8,6%	14,3%	4,6%
(9)	F. Indennità , ,							
(10)	N. medio dipendenti	191.029	185.791	177.814	171.200	169.645	172.790	172.931
(11)	Costo medio lavoro pro-cap. (000)	4.838	5.616	6.975	8.317	9.960	11.901	13.106
(12)	Incr. % costo lavoro medio pro-capite al netto accanton.	15,8%	16,1%	24,2%	19,2%	19,8%	19,5%	10,1%

KEY:

1. Job-based set-aside
2. Set-aside for previous entitlement
3. Total set-aside for severance pay fund (SPF)
4. SPF as of 31 Dec
5. SPF prior to set-aside
6. Previously earned entitlement
7. SPF at t minus set-aside
8. Previously earned entitlement
9. SPF at t-1
10. Average number on payroll
11. Mean per-capita labor cost (000)
12. % increase in per-capita labor cost before set-aside.

OLIVETTI

		1974	1975	1976	1977	1978	1979
(1)	Accant. ind. compet.	9.637	13.054	16.447	15.250	18.865	18.562
(2)	Accant. adeg. pregresse	17.705	16.917	27.256	7.686	9.148	20.124
(3)	Accant. globale al fondo	27.342	29.971	43.703	22.936	28.013	54.945 (3)
(4)	Fondo Indennità al 31/12	98.687	124.280	157.875	168.152	170.307	167.297
(5)	Fondo Indenn. ante accantonam.	71.345	94.309	114.172	145.216	142.294	128.611
(6)	Indennità pregresse	24,8%	17,9%	23,9%	5,3%	6,4%	15,6%
(7)	F. Indenn., - Accant.						
(8)	Indennità pregresse	23,5%	17,1%	21,9%	4,9%	5,4%	13,2% (1)
(9)	F. Indennità , ,						
(10)	N. medio dipendenti	31.161	31.007	30.405	29.569	28.748 (2)	25.806 (2)
(11)	Costo medio lavoro pro-cap. (000)	5.401	6.290	7.494	8.767	10.140	11.711
(12)	Incr. % costo lavoro medio pro-capite al netto accantonam.	24,9%	16,5%	19,1%	17,0%	15,7%	15,5%

Key:
1. Job-based set-aside
2. Set-aside for previous entitlement
3. Total set-aside for SPF
4. SPF as of 31 Dec
5. SPF prior to set-aside
6. Previously earned entitlement

7. SPF at t - 1
8. Previously earned entitlement
9. SPF at t - 1
10. Average number on payroll
11. Mean per-capita labor cost (000)
12. % increase in per-capita labor cost before set-aside

(1) This percentage was deduced by correcting the SPF as denominator in the ratio for the effect of the many workers leaving Olivetti. In this year (1979) the phenomenon was so massive as to distort the calculations of the cost of financing. We proceded more or less this way:

$$\frac{SPF \; '78}{C} \quad \frac{Aver. \; N^o \; on}{payroll \; '78} = \frac{Per \; capita}{share \; SPF} \quad \frac{Decline \; in}{N^o \; on \; payroll} \quad \frac{Share \; paid}{out \; by \; SPF}$$

170,307 : 28,748 = 5,924 x 2,924 = 17,428

170,307 - 17,428 = 152,879 (base on which cost was calculated).

(2) Includes employees leaving the company at year-end.

(3) In 1979 the total set-aside for the SPF also allows for one-time settlements for employees laid off.

MONTEDISON (millions of lire)

	1974	1975	1976	1977	1978	1979
(1) Accant. ind. competenza	13.010,2	16.160,6	20.112,6	21.725,7	23.070,8	23.532,4
(2) Accant. adeg. pregresse	34.008,2	36.330,3	50.472,7	24.928,5	23.851,0	60.381,0
(3) Accant. globale al fondo	47.018,4	52.990,9	70.585,3	46.654,2	46.921,8	83.913,4
(4) Fondo Indennità al 31/12	179.527,9	230.059,0	275.217,7	302.286,9	332.307,1	361.924,7
(5) Fondo Indenn. ante accantonam.	132.509,5	177.068,1	204.632,4	255.614,7	285.385,3	278.011,3
(6) Indennità pregresse	25,7%	20,8%	24,7%	·9,8%	8,4%	21,7%
(7) F. Indenn., - Accant.						
(8) Indennità pregresse	23,4%	20,5%	22,0%	9,1%	7,9%	18,2%
(9) F. Indenn.,						

KEY:

1. Job-based set-aside
2. Set-aside for previous entitlement
3. Total SPF set-aside
4. SPF as of 31 Dec.
5. SPF prior to set-aside
6. Previously earned entitlement

7. SPF at t - set-aside
8. previously earned entitlement

9. SPF at t - 1

Somewhere along the line you must also take into account the average age which is generally older in big companies and, as a consequence, the probable presence of employees who have worked for their organization for long periods; a sector-specific makeup that is different with greater incidence of those areas of industry (metalworking, steel, chemicals) in which workers as a whole enjoy higher levels of entitlement for purposes of computing their severance pay.

Some perplexity may arise in connection with the data for the years 1974, 1975, and 1976 in which, according to which series you consider, you sometimes find a totally reversed situation: the bottom line for 1975, for instance, is lower for all the Mediobanca data. From the methodological point of view it would seem advisable to emphasize the fact that the calculating method can exert that kind of influence: since they are obtained by subtraction from the total set-asides, the shares for increasing previously earned entitlement come out smaller the higher the fraction of qualifying earnings chosen to determine

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the earnings-based shares. In the case of the Mediobanca data the phenomenon is markedly more evident when you take it as 22 days. One might hazard the notion that by adopting 22 days (which is not really arguable in this group of companies for the reasons set forth earlier) these discrepancies practically cancel one another out.

Probably this arithmetical effect can distort the conclusions only for the first part of the period considered, since in the second part the results of our work with the Mediobanca data come out higher in any case.

c. The Non-Aggregate Level: Cases of Individual Companies

As part of our acquisition of data on the microeconomic scale we decided to consider the cases of several major companies which agreed to provide us with their data on the whole area of set-asides for the severance pay system. From them we derived some specific observations of detail, which are very sound from the point of view of precision.

They provide substantial confirmation of the data for the Mediobanca group, and are therefore helpful to analyze. In addition to this confirmation which can offer, among other things, grounds for confidence as to the validity of the methodological approach taken, it seems important to call attention to the FIAT data for 1980. It actually declines following contract renewal in 1979 and clearly reveals the new drop in the cost of financing through management of the severance pay system when increases following passage of trigger points are not computed for severance pay purposes.

3. Concluding Remarks

The quantitative elements gathered enable us to find some points of departure for a reexamination of the problem we began with for this article, having to do with the advisability of reconsidering, and if so in what terms, the decision to drop from the computation of restoration of the severance pay fund of the entitlement variations pegged to rises in the cost of living index.

A return to the initial positions does not seem feasible: militating against it is the otherwise too sharp increase in labor costs, to offset which and to ward off its consequences PL 91 was drafted in the first place. No less cogent an argument for not agreeing to go back to the original system can be drawn, however, from consideration of the genuine nature of financing from the severance pay fund. In the years just prior to 1977 that form of loan was not only the sole form to benefit by full indexation to the cost of living, but to enjoy a level of return well above that afforded by the conventional

patterns of the use of savings. The data in Table 4 and the patterns in Figure 1 make it clear that, no matter how you figure it, the annual cost of money lent to companies through the /forced loan/ of monies from the severance pay fund is far higher than either the average interest rates for bank investments in non-financial companies or the mean actual yield on bonds, as shown in the Bank of Italy's reports. The worker's lack of access to those financial resources until such time as he left the company was thus more than amply compensated by the actual rates their capitalization reached.

It can be said just as confidently that after January 1977 the financial relationship was certainly no less fair for opposite reasons. The rate at which repayment of the money thus obtained is made by the companies, although corrected by the jumps it displays when labor contracts are negotiated and in any case in relation to wage increases, is far below the normal rates for repayment of borrowed money.

Once again, a look at Table 4 and Figure 1 is a helpful supporting element for this consideration: in the specific conditions of the years subsequent to 1977 in Italy the fully informed worker with freedom to choose would certainly not have agreed to lend the corporations the sums that were his by law just because of the regulations governing the severance pay system. For the companies, though, that loan was exceedingly advantageous, since they found that they could get money at a cost well below the going rate on the money market.

The proper objective of restoring equity to this steadily deteriorating relationship can find some objective elements to work with by considering its nature as financing for the corporations by the workers. Since this, in the final analysis, is what we are talking about, it would seem prudent to compare the cost of capital obtained in this way with some still undefined measurement which must be pegged to the going cost of loans on the money market, or at least to some fair approximation of it. The /forced/ nature of the loan might also suggest some corrective measures, particularly to take cognizance of the level of risk which financing for the company might display by comparison with completely reliable investments, and in the direction of some indexing system that would protect its purchasing power over the years. At the root of this kind of proposal lies the conviction that, once it has gone to swell the severance pay fund, the set-aside is no longer subject to the regulations governing a work relationship, but becomes a financial relationship, and a fundamental conviction, furthermore, as to the objectivity of a relationship with features like these. What is suggested here may help to restore a climate of greater serenity to a situation which, given current conditions and persistence of current rates of inflation, will inevitably tend to deteriorate to the detriment of the workers and, most particularly, of

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the weakest among them. A goal to be pursued, particularly in the short or at most the medium term, and which should not interfere with studying and working with a view to the total abolition of the archaic form of insurance that is the severance pay system, which is today an anachronism in all industrialized and socially advanced countries.

FOOTNOTES

1. The content of this study takes it for granted that the reader will be familiar with the way the severance pay fund works. for those who may not be so, we sum up herewith the main characteristics of the system.

For every year of work for the company or agency, severance pay is commensurate with a share of the latest monthly paycheck, which may vary from category to category (plant workers, office employees, executives) and from sector to sector. Particularly with reference to plant workers, the quotas may change from time to time according to collective bargaining contract stipulations, but almost invariably the change affects seniority accruing after such stipulation, leaving previous regulations in effect for entitlement accumulated prior to the latest agreement. In a good many contracts, provision is also made for levels of severance pay to be pegged to the worker's seniority.

Having said that, we can state that the accumulation, year after year, of increasing severance pay entitlement constitutes the so-called severance pay fund carried on company books as a liability. That fund grows each year as new quotas come due. Since it must, by law, be commensurate with the level of the latest wages paid, it also increases in response to the variations that may have occurred in that level, multiplied (to the extent stipulated in the contract) by the number of years of seniority of company employees. The dimensions of that growth will be affected by the removal of the cost-of-living trigger-points we are discussing in this study. The fund is diminished each year as severance settlements are made to those who, for whatever reason, cease to work for the company which has employed them.

More analysis in depth of the way the severance fund system operates can be found in the following sources:

L. RIVA SANSEVERINO: The problems of seniority raises as a labor cost, in AA VV.; Labor costs: juridical and economic aspects, Milan, F. Angeli, 1980, pp 117-118.

L. DI VEZZA: Seniority pay in labor contracts. Nuove Edizioni Operaie, Rome, 1977.

O. CASTELLINO: Some opinions on seniority pay, in MONETA E CREDITO, September 1973, n⁰ 103.

We also suggest consulting the legislation governing severance pay, from DLL 1112 of 9 February 1919 to PL 604 of 15 July 1966 and DL 12 of 7 February.

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2. See on this point E. Filippi, "Severance Pay Funds: problems and prospects raised by PL 91 of 31 March 1981," soon to be published in L'INDUSTRIA, RIVISTA DI ECONOMIA E POLITICA INDUSTRIALE.

3. The content of the aggregate level analysis is the topic of a report to appear shortly: "Severance pay. Economic and financial aspects and proposals for reform," by O. Castellino and G. Zanetti. Some excerpts from it appear in this study on aspects deemed important.

4. We would remind readers once again of the complexity of the task of estimating the fraction of wages to be set aside to constitute or restore the severance pay fund. The share for executives has in fact been reduced from 1.5 month's salary for each year up to 31 January 1979 to 1 month's salary for succeeding seniority entitlement.

    For plant workers the situation is extremely variable, since their positions may be widely disparate, and require singling out at the individual level. In the Mediobanca instance we therefore had to try an interpretive hypothesis in terms of distribution by category, by sector, and by differences in pay scales.

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CSO: 3104/72

POLITICAL   FRANCE

PSF SECRETARIAT MEMBER ON PCF, EUROPEAN REACTION TO POLAND

PM141603 Paris LE NOUVEL OBSERVATEUR in French 9-15 Jan 82 p 29

[Interview with PS National Secretariat Member Jean Poperen by Franz-Olivier
Giesbert: "Is the PCF Playing at Europe's Finlandization?"--date and place not
given]

[Text] LE NOUVEL OBSERVATEUR: Every day L'HUMANITE paints the Warsaw generals
in a favorable light. Is the French Communists' support for the repression not
in a way unprecedented?

Jean Poperen: Not entirely, since they approved of the crushing of the people's
uprising in Budapest in 1956. But in the historical perspective it is true that
what is happening now is more serious. This is because we have had meanwhile the
fairly clear "disapproval" of the Prague coup in 1968. The PCF's present support
for the Polish coup is, therefore, a regression. It can obviously be described
as an ideological and political regression.

LE NOUVEL OBSERVATEUR: How do you explain that?

Jean Poperen: For the past few years the PCF has gone back on the--cautious--bold
moves of Waldeck Rochet's era. Now in the policy of the communists at the end of
the sixties and beginning of the seventies the search for a real agreement with the
socialists went hand in hand with greater autonomy of behavior with regard to the
USSR. In my view the two approaches were indissolubly linked. And, moreover,
they were simultaneously called into question. Reservations on the union policy
emerged at the same time as the desire to stop differing from the USSR on the
essential issues. There is reason to wonder what the communists are doing in
following that line because at the very time when the workers in Poland are
suffering repression it is obvious that the strategy of regression is totally
disastrous on the political or electoral level.

LE NOUVEL OBSERVATEUR: Why then was that strategy adopted?

Jean Poperen: You have to wonder whether the only justification for such a policy
would ultimately be the idea that, in one way or another, a series of shifts will
eventually give the USSR an increasingly dominant position in Europe and that the
latter will finally topple. That is a major question. We can no longer avoid
asking it.

LE NOUVEL OBSERVATEUR: Some people are asking it in the CGT, which is at present in the throes of a great debate. What do you think of the threats made by Henri Krasucki against the socialists, who are accused of interference?

Jean Poperen: They merely inspire great serenity in me. We have received many threats over recent years and frankly we are none the worse for them. It is from the GCT's viewpoint that this affair is worrying. It worries me that a leader should reject the debate developing within his organization in this way. But that is the GCT trade unionists' business.

LE NOUVEL OBSERVATEUR: Is it not worrying that the majority parties should be in disagreement on such a serious problem as that of Poland?

Jean Poperen: There was complete solidarity within the government on this question. It seems fairly clear to me that this tragedy challenges a component of the majority, in this case the PCF. And the PCF will obviously have to explain such an attitude toward the first great workers revolution since the [Paris] commune [of 1789-1795].

LE NOUVEL OBSERVATEUR: Hitherto the PS has always been extremely cautious about its analysis of the USSR, whose leaders were, moreover, invited to the Valence Congress last year. What have you learned from the Polish tragedy?

Jean Poperen: First, it is a great first in the history of the communist movement: The army has been forced to take control of the country because the party was incapable of playing the role given to it in that type of society. It is important to understand that the party and state bureaucracy has gradually destroyed any real political life: But today that decline is working against it. It is now having to step down in favor of the only force in the system which is still standing, namely, military power. We have come full circle: The revolutionary movement which was born in 1917 has ended up yielding power, or, to be more precise, full powers to a handful of generals.

LE NOUVEL OBSERVATEUR: Do you mean that you believe in a kind of militarization of the USSR, as Cornelius Castoriadis does (note: author of "In Face of War")?

Jean Poperen: The ruling gerontocracy in Moscow is the last generation of those who were descendants of the revolutionary movement. And my feeling is that when the moment of truth comes in Moscow too the CPSU is likely to be seen as a politically and ideologically empty structure. It will therefore be the vital forces of the Soviet superstructure--and primarily the army--which will naturally have to play a leading role. If such a phenomenon were to be seen in the USSR, which I fear will be the case, it is clear that it would concern the whole world. That danger is no longer irrelevant. But it is not the only danger. The danger of the process known as Finlandization is not negligible.

LE NOUVEL OBSERVATEUR: Do you mean that Europe is already paralyzed by Soviet power?

Jean Poperen: No. But if you consider the worrying behavior of some European governments regarding the Polish portent, you cannot help wondering about possible

ulterior motives. Permit me to recall that in a pamphlet--"81: Changing Power"--written in 1980 I mentioned the hypothesis of a deal between the USSR and the FRG: Unification in exchange for neutralization. That would clearly mean Germany's Finlandization. We can see how that hypothesis now deserves to be taken seriously.

LE NOUVEL OBSERVATEUR: What do you propose in face of these threats?

Jean Poperen: The Polish crisis will have been a serious warning shot. It also shows us how to face the fact. It is only by European cohesion that we will be able to confront the danger. This cohesion is a more pressing political necessity than ever. And it seems to me that it involves obligations for all those in Europe who are aware of the facts. The French socialists are less alone in this affair than has been said. On our initiative the socialist international did react on Poland. It is true that it did so after highly dubious statements by some SPD leaders.... A political and ideological struggle is now necessary if we are not to resign ourselves to seeing a part of Europe slide into a neutralism which would be harmful for peace. But I am optimistic. The Polish tragedy has had a widespread influence on the European collective consciousness. Look at the PCI: Its stances show that the Italian Communists are drawing all the appropriate conclusions from what has happened. We will probably have to consider initiatives, with it and also with other organizations, which will pave the way for a new internationalism.

LE NOUVEL OBSERVATEUR: Aside from the ideological struggle, what do you advocate?

Jean Poperen: It is clear that the question of sanctions must now be considered. In any case the question of trade with the East can now be no longer regarded in the same way as before.

LE NOUVEL OBSERVATEUR: Would you be in favor of a European military force?

Jean Poperen: In view of the new situation which has been created the West's military structures will, of course, have to be reappraised. This is a question which cannot be avoided for long. It is true that Europe, as such, must start thinking about its own future.

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