

2. Globalization and Labour Market Reform: Issues of Governance, Accountability and Equity

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1. Introduction

The term “globalization” appears to have been given currency by Theodore Levitt in the 1985 OECD publication – The Globalization of Markets – and served to heighten awareness of reconfiguration of the international economy, including increasing mobility and diversity of world capital, investment, production and consumption, especially when compared with the preceding decade and a half. Since the 1970’s, with rare exceptions, there had been slow growth in output and productivity in both Developed Countries (DCs) and Lesser Developed Countries (LDCs), along with the disappearance of jobs, especially in the manufacturing (blue collar workers) sector. In spite of macro-economic growth and stabilization policies, and structural adjustment programmes (SAPs) imposed on both DCs and LDCs by the Bretton Woods Institutions (IMF & World Bank) as part of the conditionalities for obtaining stand-by loans to ease balance of payments and fiscal crises, both DC’s and LDC’s had ended up more people being than ever being unemployed and the persistence of relatively high levels of unemployment into the 1990’s gave rise to the euphemism of “jobless recovery”. When the deflationary models with their emphasis on austerity measures and resultant high costs in terms of unemployment and mass impoverishment failed to restore economic vibrancy, the quest for explanation of the persistent levels of relatively high levels unemployment led to exploration of the proposition that the offending cause might be the inability of countries and economies to quickly adapt and adjust to rapidly changing product and market conditions. The result was a shift to, and policy concern about, the workings of labour markets and obstacles which might be impairing labour market operations. The preoccupation with labour market reform or so-called “labour market flexibility” was consistent not only with the resurgent and prevailing ideological preference for market oriented or supply side economics, but also with other economic and social transformations that were, and still are, visibly taking place in economies and product and labour markets of countries of the world, developed as well as less developed.

This paper will look generally at some of the changes and transformations

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which have come to be associated with globalization of production and internationalisation of capital and show the force of their pervasiveness by drawing on the experience of an LDC – Jamaica – which embarked on liberalization, deregulation, and labour market reform during the 1990's, ostensibly to meet the challenges of the new international economic and trading environment.

2. The Scope of Global Integration

Globalization of production, technological change and continually falling communication and transportation costs all combined to make cross-border transport and trade much more feasible and easier in the closing decades of the 20th Century. This process was given added momentum by the removal of political barriers and the result has been a growing interaction - spatially and otherwise - between countries in various parts of the world - seeking to take advantage of new opportunities for trade, which also have been enhanced by the lowering, if not removal, of tariff and non-tariff barriers resulting from international negotiations under the auspices of GATT. Incidentally, GATT's mandate and mantle has been assumed by its successor, the World Trade Organization (WTO), which has found itself the target of protest and confrontation organized by a transnational coalition of anti-globalization activists in a way that GATT never was.

The transition to a Global economy has been taking place at the same time that groups of national economies have been merging and amalgamating into economic unions and trade blocs. Unfortunately, developing and less developed countries (LDCs), and particularly small countries, could find themselves facing residual protectionist barriers in one form or another, and be excluded from major export markets, particularly if fierce rivalry were to develop between the existing and emerging mega trade blocs.

In these changed circumstances, LDCs like Jamaica, also face the prospect of erosion of the marketing advantages they currently enjoy under preferential arrangements. For one thing, under new geopolitical realities, they have much less or very little strategic importance. For another, developments in biotechnology and genetic engineering will accelerate the process of replacement of old products by new synthetic ones and further de-link primary products from traditional industrial production. Increasing liberalization of trade and increasing competitiveness in trade has, therefore, raised the stakes for countries in terms of being winners and losers. It is easy to understand, therefore, why "increased competitiveness" has become the new economic battle cry.

3. Internationalization of Capital

Increasing mobility of capital also has given impetus to a new international division of labour and shared production. Capital flows and foreign direct investment in particular, can now respond rapidly to new profit opportunities by shifting production to places where wages are low, relative to potential productivity. The whole world can be conceived and progressively organized as a global assembly line with several countries being involved in the manufacture of as small a commodity as a wrist watch or as large as a motor vehicle. National economies, in effect, therefore, become production stations for transnational corporations and transnational corporate confederations. Admittedly, in this reorganization of the world economy, the high technology and knowledge industries will be concentrated in the developed (world) centres and the rest of the countries relegated to the status of low technology, low wage production centres, but there may be the consolation that LDC's who never were able to achieve industrialization on the model of the first industrial revolution may be able to participate more meaningfully in the second information/industrial revolution.

For instance, shared production makes very high demands on design, marketing and quality control, and even greater demands on the skills of management - planning, organizing, integrating and coordinating - and these are functions and skills in which the developed countries already have a strong comparative advantage.

On the other hand, for many LDCs, the availability of younger and relatively skilled labour forces to undertake traditional (materials-based) manufacturing may be the one advantage that they have. Paradoxically, therefore, the ability of developed countries to maintain their living standards may well depend upon the mobilization of the human resources of the LDCs, and if this is indeed the case, the LDCs could become more important than ever to multi-national/transnational corporations. By the same token, the transnational enterprises can be expected to become more important to LDCs as channels to markets, both of the developed countries and internationally. To take advantage of these opportunities, LDCs must, however, strengthen and/or develop niche markets in which they have comparative advantages.

The mobility of capital also has been greatly enhanced by electronic information devices which transcend spatial distance, time zones and national boundaries and the real economy of goods and services and the "symbol" (or paper) economy of money, credit and capital appear to be diverging and operating more independently of each other, rather than being tightly bound together as they were in the past. What is more, there is now a real danger, as far as the world economy stability is concerned, that the "symbol" economy could replace the "real" economy as the "flywheel". It is symptomatic that exchange rates between major currencies are now treated as a "comparative advantage" factor and exchange rates may decide how labour

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costs in Country "A" compare to labour costs in Country "B". Managers must now, not only manage physical production, but currency arbitrage as well.

Capital markets, especially those that trade currencies appear to be the most developed part of the global economy and trade in enormous sums of money which pay for trade and investment and related hedging, to say nothing of speculation but operate virtually unregulated.

4. The Impact of Globalization of Production and Internationalization of Capital on Labour Markets

If there is one response or consequence which has become characteristic of increased globalization of production (shared production) and internationalization of capital (mobility of capital), it is the so-called *restructuring* of economies and of business and governmental units. In terms of economies, it is been reflected in trends in employment (and unemployment), in the composition of employment, structural changes and job creation, and in changes in the structure of earnings.

In the corporate sector, it is reflected in seemingly contradictory tendencies, with, on the one hand, a new mercantilism of corporate concentration and integration - nationally and internationally - through amalgamations and mergers, take-overs and strategic alliances, and on the other hand, decentralizing and downsizing (retrenchment) as these mega corporations reconstitute themselves for operational purposes into networks of smaller and often autonomous units.

In the public sector, restructuring has been evidenced by privatization (and commercialization) of public enterprises and some public services, as well as streamlining of central government operations and retrenchment of public servants and government paid employees.

5. Employment Trends

With rare exceptions, a common feature in both developed and LDCs has been a slow growth in both output and productivity in the decades since the 1970's and a disappearance of jobs, especially in the manufacturing (blue collar workers) sector. The already high levels of unemployment in the materials based sectors are likely to be exacerbated in the short to medium term by continuing downsizing as a means of increasing profits and enhancing share values, and if not, to meet the challenge of increasing competition at regional and international levels.

6. Men, Women and the Service Economy

Where employment has grown, it has been fastest in the collective Service Economy - retail, hospitality, tourism, entertainment, health care, community and personal services, and most notably, in the financial services sector. Information and electronic technology are rapidly transforming the structure and methods of operation of commerce and trade, and the division between retailing and wholesaling is becoming blurred, as retailing operates on the basis of economy of scale. In the decade of the 1990's, the service economy accounted for 2 out of 3 jobs in the OECD area (i.e. Eleven EC countries, Five EFTA countries, Japan, Canada and the U.S.A., Australia, New Zealand and Turkey).

Whether or not it will prove to be transitional, one of the most striking of the trends in employment is the very rapid growth in non-standard jobs - part-timers, self-employed, dependent and independent contractors. If part-time employment is involuntary, then it may be considered a form of underemployment or disguised unemployment. In the OECD area in the early 1990's, between 20% and 30% of all part-timers declared themselves to be working part-time involuntarily, that is to say, they would work full-time if such work was available. Part-time employment tends to be dominated by women, who historically have been the most vulnerable segment of the labour force and thus expansion of part-time employment is likely to perpetuate that vulnerability. This is the segment of the labour force is not readily susceptible to unionization and typically, average hourly wages in the traditional service sector are substantially less than the all-industry standard.

The increase in non-standard jobs also has been accompanied by increased polarization of working time, that is to say, a significant increase in both long hours and short hours of work. As far as polarization of working hours is concerned, long working hours are increasingly the consequence of "downsizing" as those who remain are expected to do more and often feel less secure. Short working hours are primarily a reflection of part-time employment, that is, those who average 30 or less hours per week and certainly in the industrially advanced countries, are growing faster than the full-time work force.

Polarization of working hours is also tending to be associated with polarization of income. Those with adequate or high incomes, concentrated in the resource industries - manufacturing, information/communications, financial services - are working longer hours to stay where they are, while those with low incomes are trapped in jobs that are not full-time or that may not last very long. It is not surprising, therefore, to find that considerations of *equity and amelioration of poverty* have emerged as central concerns in reports on Labour Market Reforms recently released by the international development agencies.

7. Changes in the Work Force and in Skill Composition

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While the shrinkage of employment in manufacturing and the materials based economy and the increase in low paid service sector jobs have led to "de-skilling" of the labour force, technological change has been biased in favour of more skilled workers, and therefore unemployment and skill shortages often exist concurrently, hence the apparent paradox of "de-skilling" along with the concurrent need for "up-skilling" due to the fact that the new jobs may be substantially different from those being lost.

To illustrate, information technology appears to be radically transforming the structure of economies and producing new industry engines of growth -computers and semi-conductors, health and medical services, communications and telecommunications and instrumentation and E-commerce(financial services and retail and wholesale trade) These engines of growth industries/sectors are creating and placing "knowledge" workers (rather than traditional blue collar workers) at the centre of the labour force. Rapid changes in skill requirements may therefore lead to higher unemployment because of a mismatch between jobs and job-seekers.

8. Work Places are Changing

The conventional wisdom of the economics of production is that economies of scale are likely to accrue, certainly in the materials-based economy, from increasing size of the production unit. Reference has already been made, however, to the paradoxical situation of increasing size and integration on the part of transnational corporations in response to globalization of production, along with decentralization and downsizing to provide adaptability and responsiveness to customer needs in particular markets. Technology, itself, is making small scale production not only more viable but profitable and in both developed countries and LDCs, it is smaller work places - increasing in numbers - which are responsible for much of new job creation.

9. Changing Labour Market Structures and Conditions

The changes taking place in the International (global) economy and the International Trade environment and their impact on labour markets which have been outlined above, have given rise to new lexicon of "increased competitiveness", "increased productivity", "increased flexibility" and "increased cooperation" between the social partners - labour, capital and the Government.

The combination of increased competitiveness and increased mobility of investment capital, undoubtedly have served to exert strong pressures on employers to lower costs but cost reduction ends up being directed at variable costs, the most important of which is labour. Hence, the cry on the employer side for less costly

separation benefits as employers focus on core operations or leaner organizational structures and downsizing.

The rapid introduction of technology encompassing product technology, equipment technology and process technology, also has fuelled management demand for "flexibility" to alter either output and/or work processes associated with existing production. In the plant environment, technology or machines have evolved from the capability to perform single tasks to performing multiple tasks - again with consequences for traditional occupational or task specialization of workers.

To cope with short and medium term fluctuations in demand, suppliers want to hire people who will work variable hours on demand.

Flexibility is often achieved, not only by reducing the number of permanent full-time workers to a minimum - but by making the regular hours of work more variable or increasing reliance on people whose work can be changed easily - namely temporary workers, part-time workers and so-called self-employed contractors including home workers who by definition usually do not participate in private pension and benefit plans. Everywhere, the once standard 8-hour-day, five-day work week, is increasingly being pushed to the margin and there is a constant ratcheting effect as enterprises and individuals operating on non-standard hours, demand goods and services from those who have not yet made the shift.

10. Pressures on Families and Individuals

The dramatic increase in the labour force participation rate of women may be considered the social revolution of the post-World-War-II era. They are concentrated in the broad service sector, now the predominant sector, which also has the highest concentration of part-time workers, the majority of whom again are women.

As women try to balance paid work with work in the home, pressures are generated on families and individuals because of :

- a) the need to care for children - especially pre-schoolers;
- b) the need to care for aging parents and/or the extended family, and
- c) the need to maintain household income which often require that two persons (dual family earners) have paid work.

It is illustrative that in an economically advanced country such as Canada, in 1993, 63 per cent of women in the labour force had young children, giving rise to both the need and the demand for parental or family related leaves-of-absence and more flexible work hours. In regard to dual family earners, again in Canada, a wife's (spouse's) earnings account for more than 40 per cent of the family's total income.

It is not without irony that the fully employed, the over-employed (those working unusually long hours), the precariously employed and the under-employed,

along with the unemployed, are all united in the era of structural adjustment by anxiety and stress.

11. Changing attitudes to work

The predominance of the Service Sector and the shift towards more educated and professionally oriented knowledge workers also has the potential to affect employer-employee relations and efficiency and productivity in that employees are asking for, and expecting greater participation in, decision-making at both policy and operational levels in the work place, and this appears to be true whether they are unionized or not.

12. Trade Unions and the New Environment

Can trade unions meet the challenges presented by changes in the distribution and skill composition of the labour force by making collective bargaining a vehicle for achieving more effective employee participation in work place decision-making?

In the developed countries, trade unions have been reeling from the loss of traditional blue collar membership as a result of restructuring of the manufacturing sector and trying to adapt to an expanding service sector characterized, increasingly, by knowledge workers and by part-time and temporary employees, predominantly women, who are not as readily susceptible to unionization. Moreover, employers are becoming sufficiently emboldened to question even the relevance of trade unions in the spatially decentralized and self-directed work environment made possible by information technology.

The evolving international economic and trading environment described above, would suggest that a country's ability to create wealth and new jobs and to compete successfully, could depend, to a considerable extent, on improved labour-management relationships and on increased cooperation between labour, management and the Government. But does not this improved cooperation also depend upon a nation's ability to depart from some of the more adversarial aspects of organizing, certification, and collective bargaining including contract administration?

As will become apparent later in this Paper, the problem with developing new strategies and institutional practices to alter labour relations practices and procedures, and employer-employee attitudes and perceptions conducive to improving performance and productivity (however defined), is that they come up against entrenched attitudes towards *the exercise of authority and power*.

13. The New International Economic and Trading Environment and The Jamaican Economy: Structural changes and their Labour Market Implications

Many of the changes which have been identified above as being both cause and effect of the new International Economic and International Trade Environment, also impacted upon the Jamaican economy at both macro and sector levels, during the period 1980-1994.

14. The Shift towards a Market or Private Sector driven Economy

Over the period 1980-1994 the shift from a state-led, if not state-dominated, economy to a private-sector-dominated economy, was dramatic in terms of both the scope of the changes and the rapidity with which they were effected. Government consumption in total output (GDP) declined with a corresponding rise in the private sector share. These shifts were the direct outcome of public sector policy reform aimed at reducing the Government's direct involvement in production activities and stimulating market-oriented and private sector-led growth.

Among other things, the reduced role of government in the economy was reflected in the deregulation of the transportation system and the privatization of nearly all state-owned enterprises.

Conditionalities of IMF/World Bank-inspired SAPS, from 1976-1994, along with the divestment of public enterprises also, resulted in periodic retrenchment of civil servants within the Central administration as well as a reduction in the number of government-paid employees in the parastatal or public enterprise sub-sector. As a result, at the aggregate labour market level, there was a decline in the size of the public sector labour force and a rise in the size of the private sector work force.

Little information is available concerning the reabsorption of public sector employees into the private sector, and the extent to which, if at all, significant reorientation and training were required or provided to enable these employees to adapt to private sector norms and standards. Over the period 1980-1994, "own account" employment also registered a marginal increase during the initial period of public sector downsizing, suggesting that the drop in public sector employment could have led to an incremental increase in the informal sector.

15. Growth of the Service Sector

The growth of the Service Sector over the period 1980-1994 was notable in two respects.

First was the rather marked increase in its share in GDP relative to the growth of the goods-producing share in GDP.

The second was the decline of the share of government services in GDP and a corresponding increase in non-government services. Whereas government services accounted for an average of 15 per cent from 1980-1989, it averaged only 7 per cent between 1988-1994. On the other hand, non-government services, which accounted for an average of 50 per cent in 1980-1987, rose to an average of 58 per cent between 1988-1994.

The growth in non-governmental services was largely the result of an increase in the distributive trade and financial services, both of which grew at a slightly faster rate than manufacturing. It also implied that there had been at least some replacement of production of goods with the production of services.

The expansion and emerging dominance of the Service Sector/Services Economy, had reaching labour-market implications at both sectoral and macro levels. Over the period 1980-1994, there was a marked increase in employment from 40 per cent of total employment in 1980 to 57 per cent in 1994 accompanied by a simultaneous reduction in the goods-producing sectors overall. The growth in employment was most evident in wholesale, retail, tourism and hospitality services (hotels and restaurants).

16. The Financial Services Sub-Sector

Both within the broader Service Sector and within the economy as a whole, the financial services sub-sector became the fastest growing. This explosive growth was prompted by financial reforms including deregulation which removed impediments to competition and encouraged diversification of product mix and cross-ownership.

Commercial banks were allowed to move into non-financial areas, offering a range of banking and non-banking services, directly and through near-bank subsidiaries. The number of near-bank institutions increased from 8 in 1985 to 23 in 1993. Integration of the sub-sector was permitted to the point where insurance companies, merchant banks and other near-bank institutions could own, and indeed, acquired chartered commercial banks and there has been a rapid growth of financial conglomerates consisting of mergers of commercial banks, near-banks, building societies and insurance companies.

As a result of this deepening and rapid expansion of the financial services sub-sector, total assets (including commercial banks, merchant banks, development banks, trust companies, finance houses, building societies, credit unions and insurance companies) rose from \$7.2-billion at the end of 1983 to \$100.7-billion in 1993. The sub-sector's contribution to GDP at constant prices likewise increased from 6.8% in 1987, to 15.8% in 1994.

By 1995, however, it had become apparent to informed observers, including this writer, that this rapid expansion and growth could not be sustained. To begin with, the sector had been "fashionably" deregulated without the government first putting into place the necessary regulatory framework, including basic requirements such as deposit insurance. The commercial and merchant banks, other near banks and insurance companies had been engaging, for some time, in consortium loans and substantial investments in expensive real estate and non-banking enterprises, during a period of high inflation in which loan and mortgage interest rates reached 40% and more. Commercial banks, in particular, had diversified into ownership of hotels, office towers, agricultural and other non-banking related enterprises, and thus, were vulnerable to market corrections and ensuing asset write-downs, revaluations, forced sales and losses. The same held true for the entire financial services sub sector because of interlocking ownership and control. Within months, the failure of a respectable bank and forced closure of a near-bank, as well as major losses suffered by the largest commercial bank and powerful insurance companies led to a serious "shake-down" and liquidity crisis in the entire financial services sub-sector. Public confidence eroded to the point where rumours of distress led to depositor runs on otherwise stable banks. By mid 1997, the Government intervened by announcing a blanket guarantee of all deposits, pension funds, insurance policies and other related financial investment instruments. By mid 1998 had committed itself to the huge bail-out of US\$1.9 billion by way of acquisitions and soft loans and through its holding company created for this purpose acquired 158 companies and held investments in nearly all domestically owned financial institutions, making it the largest holding company in the country. The government support of US\$1.9 billion (J\$ 73.5 billion) equalled 60% of that years budget of J\$130 billion. Thus, after having triumphantly claimed to be in the forefront of LDC's in the divestment and privatization of public enterprises, the GOJ found itself in ownership and control of most of the financial services sector, (60% of banking assets and roughly 90% of the life insurance industry) and more interventionist than ever. Belatedly, six Legislative Bills were introduced to create the regulatory framework and guidelines that should have been a precondition for deregulation. Here the Jamaican experience serves as a reminder that there is no single or ideologically ordained path or solution to economic development and progress and that public institutions and efficacious regulation do matter.

17. The Service Sector and Labour Market Flexibility

Amenable as it is to the application of information processing technology by virtue of the nature of its operations and the quality of its workforce, the Service Sector had spearheaded the call for greater labour market flexibility which would permit employers

the freedom of operating with a mix of standard jobs and non-standard jobs. This, exponents said, would make it possible to have a work force with a judicious mix of permanent full-time employees, and temporary and part-time workers, of "dependent" contractors and independent contractors, and as a corollary, allow for combination of standard hours with flex-time and compressed work weeks, with rest-days no longer being statutorily defined or prescribed, but being left to mutual determination by employers and employees.

The call for more flexible contractual work arrangements and more adaptive work practices to allow enterprises to respond appropriately to competitive pressures, both external and internal, also had been echoed by the manufacturing and agricultural sectors.

Employment protection legislation - certainly as it relates to constraints imposed on the employer's freedom to hire and dismiss workers, thus had become, and still is, a central issue in labour market reform in Jamaica, just as it has in the developed countries and in developing countries now in transition to market-oriented economies.

On the grounds that it is a strategy for constraining unionization and collective bargaining, trade unions in Jamaica have expressed grave concern at the growing incidence of "contracts for employment" under which wage earners who legally qualify as employees are being hired or rehired as dependent contractors under fixed term contracts which may be successively renewed at the pleasure of the employer. In these circumstances, fear on non-renewal of the fixed term contract may deter an employee from joining a union.

18. The Manufacturing Sector

The shift towards a market-sensitive economy capable of responding to the threats and opportunities presented by the global integration and increased competitiveness in international trade, also had been reflected in structural changes in the manufacturing sector. Here, the general direction of public policy required moving away from protection of local manufactures and import-substitution to deregulation and a reorientation of production for export markets. Accordingly, there was a phased elimination of quantitative restrictions, export incentive schemes, the removal of price and foreign exchange controls, reform of the import duty and tax structures and of course divestment of public enterprises already alluded to.

The value of manufacturing rose from U.S.\$207.6-million in 1983 to U.S.\$474-million in 1994, with growth being concentrated in the sub-sectors with relatively high local value added and which were able to respond positively to incentives provided under SAPS. These were processed foods, beverages and tobacco, apparel and sewn products.

Expansion of the export market had been accompanied by diversification of the range of products and the overall landscape of the manufacturing sector had changed from the production of primary to secondary commodities.

Liberalization of trade also brought an influx of cheaper imports, putting pressure on producers to become more competitive by, among other things, introducing new technology and otherwise modernizing plant and operations.

As noted earlier in the discussion of the growth of the Service Sector, the call for downsizing of the labour force, upgrading of existing levels of skills and the recruitment of more appropriately qualified workers; task-work incentive schemes; lower separation (redundancy) costs; contract workers (dependent contractors); sub-contracting of work (independent contractors), also surfaced as labour market reform issues in the manufacturing sector, and as potentially thorny collective bargaining issues.

19. The Agricultural Sector

Structural changes in this sector also were influenced by the divestment of state enterprises, deregulation of marketing agencies and more general liberalization of the economy.

The two main structural changes were a change in land ownership and distribution, reflected in a shift from large to small farms, as a result of divestment and privatization, and reorientation in production from import substitution to export production and a more diversified product mix. The shift towards export-oriented production led to a diversion of domestic crop production to international markets, and gave rise to a significant volume and value of what has been labelled "non-traditional" export crops (vegetables, tubers, fruits and ornamentals). It appears that small farmers were able to respond quickly to the demands of the international market for niche products.

20. Increased Openness of the Economy and its Impact on the Labour Market

Between 1980 and 1994, the value of exports in GDP increased from J\$1708.34-million to J\$40658.13-million, while imports over the same period moved from J\$2088.4-million to J\$72587.8-million. The proportion of total trade in goods and services in GDP increased by 30 per cent over the period 1980-1994. The increase in the flow of the goods and services with the rest of the world, attested to the increased openness of trade which in turn was a direct result of trade liberalization.

21. The New Economic Environment, the Industrial Relations System and Labour market reform

In November 1994 the GOJ announced that “in the transition to (a) a more market-oriented economy domestically, in tandem with what is going on in the rest of the world; and (b) an international economy that is becoming increasingly global, it is necessary to ensure that the important component, the labour market, is reformed, so as to better **equip** itself to deal with these developments in the interest of labour and the economy as a whole”. Accordingly a national Committee for Labour Market Reform was being appointed to review the industrial relations system; health and welfare regulations and practices; job market requirements and human resources development and training needs; enhancing labour market flexibility; improving productivity including the impact of social legislation and social infrastructure extending worker participation and ownership through employee share ownership. There was general agreement that in the decades of the 1970's and 1980's, coincidentally the years during which the Jamaican economy was subjected to and under the trusteeship of IMF and World Bank-inspired structural adjustment programmes, Jamaica's national productivity declined by about 30 per cent, while high levels of inflation reduced workers' living standards.

On the Employers' side, there was a range of views as to cause and effect and remedies. There was, however, general agreement that the industrial relations climate has been one of a number of factors which had contributed to Jamaica's poor economic performance since the 1970's. The other factors included; very poor and inadequate physical and social infrastructure; macro-economic policies; private and public investment decisions; and uneven (poor) management in the private sector. But, said employers, to improve productivity, there was an undeniable need to establish a more rational industrial relations system and climate. However, existing labour laws and otherwise legitimate but now outmoded labour-relations practices stood in the way of meeting the challenges posed by the new international economic and trade environment, including the ability to respond quickly to ever changing conditions in labour and product markets.

The prescriptions offered by employers ranged from:

a) abandoning the system of political unionism which has prevailed since the 1940's, under which there are close linkages and overlapping of leadership personnel between the two party/union blocs which have alternated as parliamentary "Government" and "Loyal Opposition". While it may have served to bring organized labour and the working classes into the political and economic mainstreams, political unionism also has served to aggravate inter-union rivalry; to politicization of labour disputes; to enhancement of competitive wage bidding and a heightening of the propensity to strike, often in violation of established legal and collective bargaining

procedures. In turn, political administrations have been loathe to pursue legal remedies available to enforce provisions of labour-relations legislation, especially those prohibiting strikes in essential services which are being flouted with impunity by workers and their unions;

b) revamping employee protection legislation to enable plant reorganization, process re-engineering and downsizing without the burden of separation (redundancy) costs; completely flexible working hours without statutorily prescribed fixed rest days, and recourse to part-time and contract workers, again without the necessity of paying employment benefits generally accorded to full-time workers;

c) allocation of adequate levels of resources by the state to facilitate restructuring of the educational and training systems so as to provide closer linkages between educational output and existing and future manpower/human resources needs, especially in the light of the growing dominance of the Services Sectors and the corresponding demand for "knowledge workers" and a multi-skilled multi-task-oriented production workers;

d) giving employees an appropriate stake in the economy (a goal shared with trade unions) through the promotion of employee share ownership programmes (ESOPs) and compulsory public and private sector administered national pension/savings schemes which provide for portability, thereby enhancing labour mobility.

On the trade union side, there was a broad consensus concerning labour market reforms, but not surprisingly, differing perspectives as to diagnoses and prescriptions.

They included the assertions:

a) that while there was need for further overhaul of the industrial relations system (the Institutional Labour Market) it must be dealt with as part of a holistic approach to labour market reform inclusive of macro-economic stabilization policies; prices and incomes policies; rehabilitation of social infrastructure - Health, Housing, Security and Transportation - all of which currently impose unnecessary economic costs on both employers and employees; social welfare provisions such as statutory minimum wages, pension plans and above all, taxation, and other related factors which impinge directly on labour market adjustment and productivity such as human resources development, employee protection, job creation incentives, employee participation and work place governance;

b) that labour market reform likewise, cannot be divorced from considerations of Equity and Fairness. Workers are painfully aware that they have borne the brunt of SAPs and inflation by way of reduction, in real terms, of living standards during the past 18 years. This enforced restraint on the part of employees, had not been matched by restraint on managerial compensation or on the share of income going to capital.

The record of IMF/World Bank-inspired SAPs since the 1970's was one of

dismal failure, even where countries like Jamaica, had faithfully observed all the conditionalities and suffered all the prescribed austerity measures. Workers and then Unions had reason, therefore, to suspect the shift in focus by those same institutions to supply side economics directed specifically at labour market reform and so-called labour market flexibility as the new panacea for so-called jobless economic recovery. It is instructive that all studies on Labour Market Reform in an era of adjustment recently undertaken by the World Bank and other regional institutions (OECD/IADB) in both DCs and LDCs, have been constrained to acknowledge that equity must a fundamental consideration, if the desired objectives of labour market reform (removal of obstacles to efficient operation) are to be achieved and sustained.

On the issue of trade union representational rivalry and possible negative consequences, the Unions pointed out that they had taken steps to promote collaboration and by the same token to contain rivalry and competition by creating in 1993, a Jamaica Confederation of Trade Unions and putting into effect a Code of Ethics to govern membership-raiding or take-over.

The Trade Unions also have called for a new Industrial Relations Order which would go beyond overhaul of collective bargaining accreditation and bargaining procedures and contract administration, to include a more genuine partnership between labour and capital as social partners embracing worker/employee participation in work place operations and government; transparency in labour-management relations, including bargaining and personnel management disclosure norms and practices; ESOP, and more meaningful, national pension schemes.

Analysis of labour disputes statistics undertaken by the Jamaica Labour Market Reforms Committee (LMRC) for the period 1989-1994, indicated that while there had been a downward trend in the number of reported disputes, the number of strikes had increased, with the number of strikes in 1994 (95) being the highest since 1982. While 59 per cent of the strikes resulted from disputes involving wages and conditions of employment, the relatively high proportion of strikes (41%) due to grievance or rights disputes, clearly indicated a failure to make effective use of grievance procedures.

The Services Sector and the Public Service in particular, appeared to be the flash points of industrial unrest, bringing into question the efficacy of existing bargaining and dispute resolution arrangements, certainly in the public service and designated essential services, for which compulsory arbitration is legally prescribed.

The LMRC in an Interim Report issued in March 1996, recommended extensive revisions to the Trade Union and Labour Relations and Industrial Disputes Acts, as well as the Labour Relations Code, intended to modernize and correct deficiencies in the existing legal and institutional arrangements and procedures as well as to establish an industrial relations system which matches power with responsibility.

The revisions encompassed the registration and internal governance of

unions, the right to unionization, compulsory arbitration, accreditation and decertification of trade unions for collective bargaining purposes, bargaining in good faith, the right to strike and restrictions thereon in both grievance and interest disputes, strengthening of third party intervention machinery, including conciliation, mediation and arbitration (both compulsory and voluntary), legal enforceability of the Labour Relations Code as well as collective agreements and awards of the statutory Industrial Disputes Tribunal (IDT), access of individual non-unionized and contract-workers to the IDT and the requirement of consultation provisions in Collective Agreements, especially to deal with technological change and restructuring which may entail retrenchment of the work force.

A bill to amend the Labour Relations and Industrial Disputes Act to give effect to changes recommended in the Report of the Labour Market Reform Committee (1996) was still languishing in Parliament in June, 2000, in spite of having been the subject of discussions and hearings by a Joint Select Committee of Parliament. The Government delayed tabling of the bill in the hope that representatives of the trade unions and employers would reach a consensus on two controversial issues—the definition of worker under the Act and the right to strike. The trade unions have strongly resisted the suggestion of employers that the definition of “worker”, for the purpose of union representation, should exclude persons employed on a purely contractual basis. The employers, on the other hand, are as adamantly opposed to the union favoured amendment that strike action should be regarded as a suspension of the contract of employment and not, as the courts have ruled, a repudiation at common law of the said contract.

22. Bases for a new Industrial Relations Order in Jamaica and in Post-Industrial Stakeholder Capitalist Societies

It is apparent in Jamaica, as elsewhere, that the building of a new industrial relations order, compatible with the changing international and domestic economic environments of the new century, will not be possible without some consensus being achieved between labour and management and government and the society at large, about the equitable distribution of income. Without such a consensus, labour market reform, rather than contributing to a more effective allocation and utilization of resources, will exacerbate class conflict and labour protest as has already overtaken industrially advanced countries such as France and Germany, in Western Europe, the U.S.A., Canada and Mexico in the Americas, and many other countries, developed as well as less developed.

The changes in labour market structures and operations brought about by globalization of production and increased mobility of labour have also led to another periodic revival of interest in employee participation in the running of enterprises.

23. Employee Participation in Historical Perspective

Two things can be said about the quest for worker or employee participation or work place governance. It has been around for a long time, and it has proved to be just as elusive. In the 18th Century, the industrial revolution and industrial capitalism completed the process of differentiating between those, who by virtue of ownership of the means of production (capitalists) claimed the right of direction of industrial operations and those, who by virtue of their status as wage-earners (workers) were obliged to carry out instructions and detailed execution of work. It was this separation between direction and execution or divorce of capital from labour which brought trade unions into existence, and ever since, workers/employees have had the notion that they should participate in the management of organizations which employ them, a notion and expectation which became encapsulated in the term "industrial democracy". As a generic term, "industrial democracy" has, since the 18th Century, come to subsume at various times and various parts of the world, labour-management structures ranging from co-determination, self-management, co-management, worker control, humanization of the work place, worker participation or participative management, work place democracy and more recently, quality of work life (QWL) and employee participation.

Between 1919 and the collapse of communism in Eastern Europe at the end of the 1980's, these various concepts had given rise to three models of formal participation:

- i) Joint Consultation associated with Works Councils or Works Committees, which perform largely advisory roles;
- ii) Joint Decision-Making, with worker representatives being admitted as full members on supervisory or management boards with representatives of owners, with the most advanced model being exemplified by Co-determination in West Germany (now Germany), and Joint Management in Israel, and -
- iii) Workers' Control - a full-fledged system of workers self-management, exemplified by communist Yugoslavia, in which final authority rested with elected representatives of the work force.

In the 1970's and early 1980's, there was a revival of interest in Worker Participation (again variously defined) in Canada, the U.S.A., Jamaica (and the Caribbean), due in part to the achievement by Japan of economic super power status which aroused curiosity in the Japanese style of management and employee consultation.

In Jamaica, the appointment of an Advisory Committee on Worker Participation

under the chairmanship of Professor Rex Nettleford, produced a thoughtful Report in which he explored the various concepts and approaches to worker participation and what it might mean and be translated into in the Jamaican context. It sought to bridge the gap which still exists, between management's perspective which generally, has tended to view participative management forms and structures as alternatives to trade unionism and collective bargaining allowing for greater managerial and operational flexibility, and that of the trade unions, moreso in Great Britain and the American hemisphere, that worker participation arrangements constitute a threat to the very existence of the trade union movement and their traditional *modus operandi*. Incidentally, one of the policies recommended in that Report - employee work incentives and share ownership acquisition - has been resurrected and given legislative endorsement by the Employees Share Ownership Plan (ESOP) Act of 1994 and the Employees Share Ownership Plan Regulations, 1994.

24. The Framework for Pursuit of a New Industrial Relations Order

If a new and constructive Industrial Relations Order is to be established in Jamaica and elsewhere, it is necessary to go beyond opportunism of self-interest and sectional interests and gain, a thoughtful appreciation of the changes which have been taking place during the last decade and a half, and their longer-run implications for Jamaica.

To begin with, the conventional adversarial model of collective bargaining and the role of the State in the setting and enforcement of protective labour standards has been forcefully called into question in the 1990's, largely in response to economic and social considerations, rather than human relations considerations. Under the banner of "new competitiveness" and the need for "restructuring" of governmental and business organizations, the call still is being made - principally by international development agencies, employers and governments - for an industrial relations policy and framework based on greater cooperation between unions and management that will link productivity and competitiveness to certain strategies that seek comparative advantage through effective use of technology and human resources.

Three broad types of union-management cooperation are of concern:

- i) Programmes or strategies to change the conventional bargaining process;
- ii) Programmes or strategies to change management and labour attitudes and perceptions, and -
- iii) Programmes and strategies to increase productivity. Productivity, it may be noted, encompasses problem-solving groups (i.e. quality circles, quality teams, worker circles, employee participation or employee involvement teams) as well as ESOPs. But apart from the new catch phrases, what is the fundamental or structural justification for

a new Industrial Relations Order based on meaningful union-management and employer-employee cooperation?

25. Post-Industrial Capitalist and Post-Industrial Service Economy

The closing decades of the 20th Century has given a push to the evolution of the "Employee Society" which has been in the making for some time. In every developed country at the beginning of the 1980's, between 85 to 90 per cent of GNP was being paid in the form of wages and salaries and even the self-employed (especially medical practitioners, lawyers, engineers and so on) were being compensated for labour services rendered. In the U.S.A. by 1980, employees, through pension funds, owned almost one-third of the equity capital of publicly owned businesses, in effect, of all the large American businesses. The self-employed accounted for another 5 to 10 per cent. Altogether, employees, through their pension funds, owned between one-third to two-fifths of the equity capital of American industry.

In the industrially advanced countries and especially in Canada and the U.S.A., employee pension funds, corporate and public, have become the most influential of the institutional investors and players (including additionally, mutual funds, banks and near-banks, insurance companies, and public and private endowments) in the stock market and financial services market. In 1992, in the USA, corporate and public pension funds held 90 per cent of the one trillion dollars invested in, and representing 53 per cent of, the Equity Market (up from 23% in 1956). In June 1995, it was estimated that U.S. corporate pension funds had over 56 per cent of total assets invested in equity. In Canada in 1993, the financial assets of institutional investors collectively represented 35 per cent of total equity, with mutual and pension funds accounting for 25 per cent of that amount. In effect, employees, through their pension funds are now becoming the new capitalists, (Pension Plan Capitalism), with businesses being socialized without being nationalized. Collectively, in the industrially advanced countries, they are now the only source for the enormous amount of capital that is needed for investment purposes, both nationally and internationally. In the USA in 1993 the largest pension funds (those with assets over 1 billion dollars) were the major holders of international holdings of foreign stocks.

The suggestion put forward by leading business executives in Jamaica that the Government should provide leadership in encouraging a national pensions or savings scheme along the lines of the model apparently successfully developed in Chile to mobilize internal financial resources to facilitate investment and job creation, has much to commend it and should be accorded high priority on the social agenda. So too is the issue of portability of pensions which is again strongly supported by employer representative groups and the trade unions.

The paradox posed by the emergent employee society is that, so far, there has been no employee responsibility commensurate with employee investment power. Whereas mutual funds are controlled by fund managers, workers/employees, as institutional investors have little direct control over the financial resources they invest in pension funds. They are also more vulnerable than investors in mutual funds (pooled financial resources) in that while these funds are controlled by fund managers, exit from pension schemes is costly, if not impossible, for workers.

In a speech defending the Canadian banking industry's record C\$5.2-billion profit during 1995 (rose to over Cdn \$7 billion in 1997) even while continuing to downsize during a period of economic depression and high unemployment, the Chief Executive Officer of one of the country's five largest chartered banks who earned C\$3.1-million as the highest paid banker in the country, reminded the public that members of pension plans, indirectly, were his bank's biggest shareholders and thus the bank's profits were really theirs, and that the protection of profit levels must take precedence over job creation. The irony of this situation, therefore, is that while the management of pension (and mutual) funds, on the one hand, are to be found pressuring corporate executives for shorter term improvements in returns on investment, corporate executives, on the other hand, find reduction of variable costs, and labour costs in particular, much easier to achieve than the alternative of longer-run growth and job creation hence the continuing recourse to retrenchment. Thus workers are being made poorer in terms of gainful employment and income security from pensions.

In this context, it has been argued that management generally, can no longer claim legitimacy on the traditional capitalist grounds of ownership, and it is because employee-owners have not yet been given institutionalized power - either through Boards of Directors or other participative mechanisms - that professional managers have been able to lay claim to compensation levels which have led to a significant widening of the gap between those at the top and those at the bottom of the organizational hierarchy.

It has been one of the truisms of economic theory, that increases in real output (productivity) are the source of economic growth and development and of higher standards of living for workers to the extent that the wages bear some relationship to productivity.

However, a study undertaken in Canada in 1995 by the Conference Board of Canada, an influential independent but business-oriented research body, has reported that structural changes in the economy are severing the link between profits, productivity and income growth. Although non-unionized employees and unionized employees were projected to get at best 2.3 per cent and 1.8 per cent raises, respectively in 1996, based on a projected 2.8 per cent inflation rate, profits were increasing dramatically - in some industries as much as four times what they were in 1994 - and

managerial compensation, likewise, was escalating. In fact, CEO's of the 255 largest companies listed with the Toronto Stock Exchange received in 1996 an 11 percent increase in compensation over 1995, whereas the average employee earned a 2.8 percent increase. In the United States in 1997, the average raise of the blue collar worker was 2.6 percent. CEO compensation was 13 times higher. Whereas the average raise of white collar workers for the same year was 3.8 percent, that of CEO's was over 9 times higher. The average CEO or boss earned 326 times what a factory worker did.

A major contributory factor is that companies are now able to move production to, or import labour from, low wage countries, thereby putting downward pressure on wages. Another is that, faced also with alternate strategies for growth of either taking a bigger share of the market from competitors or cutting labour costs, management tends to opt for the easier of the two—cutting labour costs.

In spite, therefore, of the evolution of industrial capitalist society into an employees (or peoples capitalist) society, institutionalizing the economic interest of employees has proved to be a much more difficult proposition. Part of the explanation may lie in the fact that the issue of governance of mutual and pension funds have not been properly addressed and, until this is done, the issue of voice representation at the corporate level likewise cannot be dealt with more effectively. Nevertheless, three distinctive employee-oriented labour market arrangements have emerged as models - the Japanese, the Western European and the British/North American.

The Japanese attempt to institutionalize the employee society is represented by lifelong employment, which rests on the premise that ownership (property) is in effect a relationship of mutual obligations rather than of right. Ownership and its obligation encompass employees, assured of rights in jobs (lifelong employment); banks, which have preferential rights in the event of insolvency; and nominal shareholders, with claims to investment returns.

In Western Europe, the employee society is reflected in the comprehensive and strict employee protection legislation with costly redundancy provisions being used to discourage retrenchment and unemployment. Employee claims also take precedence over creditors, even banks, in the event of bankruptcy. There are also additional forms of social protection accorded workers in the EU Social Charter. All these forms of employment protection are now being challenged in the name of "labour market reform" to meet increased competitiveness.

In Great Britain and the U.S.A., the employee society has been institutionalized only indirectly, as noted earlier, through financial intermediaries representing essentially the resources of employees through pension funds and insurance companies, which own minority and often majority business interests. At the work place level, direct stock ownership (ESOPs) has been pushed in both countries. However, in the U.S.A., ESOPs have featured more as a form of pension benefit. As such, ESOPs have been criticized

on the grounds that they tie employees to a particular company and thus might have the effect of impeding labour mobility in periods of rapid social, technological and economic changes. Related criticisms are that since businesses go through periodic ups and downs and may not sustain adequate levels of returns on investment, workers are likely to feel cheated. Questioned also is the wisdom of employees who already have a stake in the company by virtue of the investments in their jobs, exposing savings, which should be treated as a provision for a future outside the employing company, to the same financial risk associated with their continuing employment.

Jamaica has sought to meet such criticism by promoting ESOPs as risk investments. The aims of share ownership are to promote an ownership culture and a sense of participation of workers in the economic life of the country along with a sense of loyalty to the employing enterprise, that will be conducive to productivity and profitability. To this end, tax and other incentives are provided to corporate employers, workers, existing shareholders and financiers.

The ESOP Act requires an ESOP to start with, and maintain, a level of at least 50 per cent of the employees in an ESOP, and, to encourage employees to leave shares in the ESOP. The Act also imposes a compulsory two-year retention period. Dividends paid on shares left in the plan are also tax free. To ensure that ESOP does not impede labour mobility, employees are free to leave an ESOP company at any time, but depending on the financing option used to purchase the shares, may become liable for repayment of tax reliefs enjoyed during the first six-year period.

Legislative and administrative refinements to the Plan to allow for more flexible interpretation of the 50 per cent participation rule to accommodate multi-ESOPs within corporate groups and subsidiaries, as well as modifying caps on allocations with corresponding tax adjustments to allow for a broader based ownership, are now under consideration by the Government. The Ministry of Labour will have responsibility for investigation of complaints and monitoring of ESOP plans through an Investigative Unit to be established in due course.

26. Corporate Governance and Employee Participation in Decision-making in the 21st Century

The juxtaposition of full-blown Pension Plan capitalism and the universally disruptive effects of global integration outlined earlier in this paper can be counted upon to ensure that corporate governance and employee participation in decision-making will become, not just additional footnotes to age-old debates, but central concerns of the opening decade of the 21st Century.

More than ever before, it is now apparent that, in the course of making routine business decisions, mega corporations both national and transnational, have more

power than most national governments to determine where people will live; the character and location of work they will perform; and job skills preferred as well as the consumption patterns and life styles of current and successive generations. The on and off Multilateral Agreement on Investment (MAI) sought to extend even further the power of corporations by conferring upon them the right to exercise the same constitutional democratic rights guaranteed to individuals even though corporations do not function as democratic institutions. Of even greater concern however is the growing income inequality between social classes and occupational groups both within and between countries which is being exacerbated by globalization and increased competitiveness and the skewing of compensation in favour of virtually non-accountable corporate/executive management. As labour markets have become increasingly laissez-faire, income inequality has worsened. Universally, the top 20 percent income earners have increased their share of income at the expense of the lower income strata. Indeed, insecurity of employment, acceptance of relatively high unemployment rates to maintain an anti-inflation strategy which also forces trade unions to negotiate job security rather than wage increases and growing inequality of income which engenders heightened class tensions collectively now appear to be a greater threat to the stability of liberal democracy than anti-capitalist ideologies.

A strong case can be made therefore that in the same way that the preservation of liberal democratic society and government required a system of checks and balances, so too the stability of "employee society" or pension plan capitalism will require a system of checks and balances more reflective of the new system of financing and ownership of private enterprise. The quest for a new system of governance and accountability is also timely, since, with the repudiation of socialism, major industrialized as well as developing and less developed countries are struggling to articulate policies to guide their economic systems.

Institutional investors and the pension system in particular, logically are well placed to serve as the foundation for a new system of corporate governance and accountability. Employees, through their pension plans, constitute a new class of permanent and universal owners of private (and public) enterprise systems. They are long-term owners whose interests are congruent with those of society. Indeed, numerically, they are the society at large and as such may claim to be the only group capable of providing normative direction for corporate enterprise. The long-term perspective derives from the fact that, normally, employees contribute for 30 years on average before taking out a pension and by then a new generation of employees will have begun paying in. The governing principle that pension funds should be invested for the exclusive benefit of plan members and their beneficiaries also implies that all conflicts should be resolved in their favour. By the same token, plan fiduciaries (trustees and fund managers) should be guided, in terms of investment decisions and

their ramifications, by similar long-term considerations. It was insightful that as early as 1976, Peter Drucker could declare that "Pension Fund Socialism should make it possible for management to regain legitimacy precisely because it re-establishes a genuine socially conditioned ownership"). Accordingly, the Pension Plan System of Owners were entitled to be informed; to deal directly with management; to determine criteria for Board (of Directors) membership and to nominate and elect new board membersⁱ.

**27. Contradictions/challenges to be resolved:
Long-term owners but short-term perspectives**

Although employees collectively through their pension plans may constitute the new and long-term owners of the private enterprise system, the trustees who legally administer scheme assets on their behalf typically have little to do with management or determination of the corporate equity investments.

What is more, in discharging their fiduciary responsibilities - duty of loyalty (sole purpose doctrine) and of care (skill and deligence/prudence) trustees and/or competing professional managers retained by them, have sought to realize the best possible returns for plan participants by focussing on short-term considerations - especially last quarters fund results, and taking advantage of any premium opportunities. This short-term perspective has been reinforced by the growing presence among institutional investors of mutual fund trusts - which have been designed for total liquidity. By being geared to investors who come in and out of the money market on a daily basis, mutual funds have been dubbed "the one night stands of institutional investing". Although aggregate share holdings are large, they are dispersed over a large number of individual funds and thus mutual fund owners and managers act as passive participants rather than longer-term owners of the companies in which they put their money.

**28. Pension Capitalism and Employee Responsibility:
The American Experiment with Pension Shareholder Activism**

In the U.S.A., the California Public Employees' Retirement System (Cal Pers) has been acclaimed since the 1980's as the standard bearer of a shareholder activism movement aimed at increasing participation of shareholders to the mutual benefit of both interests. Cal Pers has interpreted its duty of loyalty and of care to include a duty of active monitoring of corporate performance which it considers inherent in the concept of prudence. With a view to enhancing the long-term value of shareholdings, Cal Pers has used shareholder proposals as a means of enacting general governance reforms

such as eliminating the poison-pill in the anti-takeover atmosphere of the mid-1980's; more representative and accountable Board of Directors, including greater shareholder freedom to elect Directors; increasing the number of independent (non-management nominated/appointed) Directors; determining criteria for director qualifications and for performance evaluation of both directors and executive management of targeted companies. The ouster of a number of CEO's of large corporations has served to dramatize the effectiveness of Cal Pers' strategy of exercising responsible ownership rights.

29. Pension Plan Capitalism and Models of the Corporation

Another approach to the issue of corporate governance and accountability in the post-industrial or employee centred society, has been to question the relevance of traditional legal and economic theories of the corporation. For example, in the U.K. and the Americas, the corporation tends to be viewed as a private agency defined by a set of relationships between the principals and agent. Though legally the owners, shareholders tended to be too numerous and too busy to undertake the responsibilities of ownership and entrepreneurship and hired salaried executives to run their affairs. The shareholder-agency model conforms more to the entrenched authoritarian political system of government, in that the governing elite tend to be self-perpetuating and are only nominally accountable to the shareholders/electors whether through Directors who have been chosen by and/or compliant to executive management or through Annual General Meetings, which are again manipulated by management and largely ritualistic. In contrast to the "Anglo-Saxon" model briefly touched upon above, the Continental European and Japanese model - the "social institution" model has been touted as more relevant and worthy of adaptation if not emulation in the Americasⁱⁱ.

In this model, the corporation is treated as "an institution" as distinct from an organization, with its own personality and character, its own objectives and aspirations and with obligations to a wide range of stakeholder groups - investors/shareholders, employees, suppliers, customers and the society at large represented by the public administration. A social system, in which the whole is greater than any of the parts, the corporation, as a social institution has social (public) responsibilities, including recognition of a public interest in governance. The Corporation is not governed or driven by the principal/agency contractual relationship and the goal of maximizing shareholder value as postulated by neo-classical economic theory of the firm. Rather, it is obligated, as part of the socio-economic structure, to sustain the interests of all stakeholder groups, without necessarily giving priority to any particular one. Executive management functions, therefore, as trustees seeking to serve and to be responsive to this broad range of vested interests or stakeholders.

It may be noted that the notion of corporate management being regarded as trustees was instrumental in altering traditional labour-relations approaches in the United States as a result of New Deal pro-labour legislation which created a charter of trade union rights including compulsory recognition and collective bargaining. The trusteeship concept of management emerged as the counterpoint to the residual or sovereignty thesis of management, which held that management enjoyed certain "prerogatives" derived from property rights and that management retained a residual or absolute prerogative right of discretion to deal with matters not ceded to unions within the framework of the collective agreement or labour contract. The trusteeship theory of management was increasingly espoused by professional corporate management who were concerned to achieve stable labour-management relations, derived its rationale from the fact that the traditional concept of ownership had undergone a number of changes. Firstly, share ownership represented an intangible asset rather than physical property. Secondly, the separation of ownership from management and the fact that operational control could be achieved with less than full ownership. It is instructive that the courts in Great Britain have determined that legally the corporation is not owned by shareholders. "The Company is at law a different person altogether from its subscribers". Indeed the British Companies Act of 1985 reversed a 1962 rule that shareholders had exclusive claim to the residual assets in the event of liquidation, by entrenching employees' interests and imposing on Directors a duty to strike a balance between employee interests and shareholder interests (The Guardian Stakeholder Debate already cited).

In these circumstances, executive management were seen as trustees rather than mere agents of owners, having a responsibility to temper the wealth maximizing presumption of liberal economic theory, by taking account of obligations to: (a) employees retaining a stable and productive work force (b) suppliers, a part of the supportive infrastructure (c) the consuming public (quality goods and services at competitive prices) (d) investors, entitled to a reasonable rate of return (e) public policy makers, concerned with growth and development, price stability, and equity.

The appeal of the Trusteeship model which generally prevails in Europe and Japan is that it is more compatible with Pension Fund (or Employee) Capitalism. It recognizes, to an extent that the principal/agency model does not, that businesses are not just groups of people expediently linked by contractual relationships (which may or may not be renewed on the basis of essentially short-term considerations), but by a nexus of long established trust relationships.

30. Linkage between Governance and the Industrial Relations System

Below are set out a number of propositions which combine elements of both governance and employee participation. Their acceptance by employees, trade unions, employers and investors/shareholders and the government, could make it possible to create an industrial relations order consistent with post-industrial or stakeholder capitalism.

The first proposition is that - to be competitive in today's economy, firms need a work force with a high degree of flexibility, skill, motivation and commitment to the competitive needs and strategies of the organization. The corollary, however, is that firms and organizations must be willing and able to integrate human considerations into their *long-term* business or competitive strategies and decision-making. Improved corporate performance, as measured and reflected in higher profits, ought not to result in disproportionately large payouts to controlling executives and shareholders at the expense of workers/employees.

The second proposition is that, to be successful in the labour market, workers will need a sound basic education (the responsibility of the State) and a willingness and ability to continue learning and adapting to new technologies and changing job requirements (on-the-job upgrading and institutionally provided continuing studies). The corollary is that workers will need a strong base of influence as individuals and as groups to achieve a voice in the decisions that affect both their short-term and long-term employment and income security and career opportunities. We have already alluded to the various models which have attempted to institutionalize within the workplace, the economic interests of workers but with varying degrees of success.

The third and perhaps the now most critical proposition in present circumstances in Jamaica, is the need for an Industrial Relations System and a related Human Resources Development System that achieve continuous productivity improvement, an adaptable and mobile work force and improvements in workers' standards of living. These results, however, must be achieved without major social conflicts or economic disruptions.

This requires, as the corollary, the creation of policies and strategies that facilitate economic adjustments to increasing technological change and global competition without *imposing deep reductions* in workers' living standards. It was noted in the introduction that the SAPS espoused by the Bretton Woods agencies (IMF, World Bank & IADB) not only exacted heavy tolls in human terms, but failed to restore economic vibrancy. The same ideological commitment has now inspired these same agencies to refocus on labour market reforms, ostensibly to remove obstacles to more efficient working of labour markets and more rapid adjustment to structural change. However, growing impoverishment of masses of workers throughout the world have constrained the same agencies to at least acknowledge that equity must be a

consideration in labour market reforms. But the dilemma remains that while deregulated or free markets may, presumptively, be conducive to growth and job creation, the market mechanism, by its very nature, is incapable of dealing with the inequities of market determined income distribution, with the growing pervasiveness of poverty, and the lowering of living standards of workers fortunate to be gainfully employed.

The fourth proposition is, that strategies to sustain and diffuse innovations also require business strategies that emphasize *long-run* paybacks. The corollary is that strategies that call for frequent buying and selling of assets of business (capital gains) and relocation of work in response to *short-run variations* or considerations, or to minimize employee input, will limit the diffusing of innovations or best practices.

Fifth and finally, trade union leaders must accept the principles that innovations embody, as part of their basic strategies (and responsibilities) of organizing and representing workers. The flip side is, that policy leaders and policy makers must accept that, to be institutionalized, new industrial relations approaches and practices will need to be integrated, as they have been in the past, in the development and political management of economies, and into trade, employment and labour policies.

Notes

1. There is a growing body of literature on this theme. The author has drawn for the USA on Robert A. G. Monks, “Corporate Governance in the 21st Century : A Preliminary Outline”; and “Corporate Governance and Pension Plans”, both Copyright © 1996.
2. John Kay & Aubrey Silberstone, Aug. 1993, Corporate Governance – The Guardian Stakeholder Debate, Guardian Media Group plc 1996.

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