

Feature Address by Hon Sir K Dwight Venner

National Workers Union (Saint Lucia) Annual Congress of Delegates 2014

Calabash Conference Suite, St James' Club Morgan Bay,

Choc Bay, Gros Islet, Saint Lucia, 20 June 2014

“Labour Relations and Labour Markets - Their Importance in the Socioeconomic Transformation of the OECS”

The countries of the OECS have reached a crossroads in their economic, social and political history which require an urgent review of, and reflection on the current situation and the way forward. This calls for the involvement of all of the organized institutions in our societies. They must be consulted and must themselves consult with their members on the policies, programmes and strategies that will lead to the successful socioeconomic development of our countries.

The challenges we face are unprecedented and cannot be addressed by quick fixes. They will also not be overcome by rhetoric or intransigence. They will only yield to:

- principled and collective action;
- a rigorous and objective analysis of the facts at hand, particularly statistical information;
- the willingness to experiment with sometimes unorthodox policies;
- the discipline and persistence to carry on through difficulties; and
- the decisiveness to take the opportunities which present themselves.

The global economic and financial crisis, the deepest since the Great Depression of 1929 to 1933, has exposed and exacerbated the structural weaknesses of our economies and led to a significant slowdown in our economic growth.

These weaknesses can be identified as:

1. Small size, openness and vulnerability to external shocks and natural disasters;

2. The close linkages to the business cycles in our main trading partners, the United States, the European Union, the United Kingdom and Canada, with the result that when their economies decline ours also decline.
3. Dependence of our economies on sectors which are seasonal, namely, tourism and agriculture, which means that the countries experience reduced activity for significant periods of the year.

The situation which now confronts us is critical and requires a level of realism, which most of us have not had to contemplate before.

The capacity of our economies to produce an improved standard of living and quality of life is based on certain very obvious factors, namely:

- the number of people who live within our physical and political boundaries, and the limits of those boundaries;
- the number of those people who are economically active and their levels of productivity;
- the fertility of the land and the competitiveness of the crops which are produced for domestic consumption or exports;
- the quality and variety of the services, financial and tourism, that we offer to external parties;
- the production technology and management capabilities of the owners of businesses and their ability to raise funding on terms which lead to the profitability and success of their businesses.

The global crisis has resulted in significant declines in economic growth, increases in unemployment and underemployment, a rise in the poverty level, larger sovereign debt, and a fragile financial system. These circumstances have increased pressures on governments and businesses and by extension, those they employ, namely, the workers in the labour force.

One could say that we have arrived at a crossroads in our economic history and circumstances which will require a clear vision of where and how we want to move forward as countries and as a region.

To go back to an old economics formulation, one can identify the factors of production as: land, labour, capital and entrepreneurship, and the respective returns to each one as: rent, wages, interest and profits. Any enterprise requires all of these factors. The issue then becomes the distribution of these returns to the various factors. History shows that as economies advanced from feudalism to mercantilism and then capitalism, the returns to labour increased but those to the other factors rose in greater proportion. This forced labour to organize itself in order to secure its fair share of the “proverbial pie”.

In the Caribbean, our history of slavery and colonialism has placed our labour force in a disadvantaged situation because of race and class. It was the cause of the major uprising in the 1930s which led to the legalization of the trade union movement and the progress towards adult suffrage. The Caribbean Congress of Labour was one of the first Pan Caribbean organizations to advocate unity and better working conditions across the region. The Caribbean Union of Teachers was also in the vanguard of this movement.

The workers were first organized on the plantations and then on the seaports which were critical to the export/import trade. As utilities like electricity became more modernized with large and skilled labour forces they also became unionized. The new manufacturing industries which came into existence through the “Industrialisation by Invitation” programs of the 1950s, 1960s and 1970s, provided new sources of members for the trade unions. The penetration of the two critical elements of the economic structure, governments and banks, occurred later, but were to have a tremendous impact on the economic fortunes of these countries.

We have now reached the stage where there must be a pause to examine the current state of our economies and societies and the tradeoffs which we must make to ensure our survival and future progress. There are clearly three sections of the economy which must make common cause if there is going to be progress:

1. The government,
2. The private sector, and
3. The trade unions.

Each of them has penetrated the economies to the extent that economic progress cannot proceed without the fullest participation of any one of them.

The issue of role definition and deep reflection on current and future circumstances is therefore going to be a major item on the national agenda. The fundamental issue to be taken up will be the growth of the economy, which is what confronts us at this moment in time. The questions then become: What action or actions taken at this moment can increase or retard growth both now and in the future? What tradeoffs are necessary to ensure a smooth transition to the new arrangements that can lead to sustained growth and development?

One can go back to a fundamental issue. Why is growth necessary? The answer is simple. In the absence of growth we enter into a zero sum game, one side can gain only at the expense of another. So we then ask: What are the tradeoffs which can be entered into? The answer is: An agreement which stretches over an established time frame during which one side is compensated earlier than another and the other catches up. This allows time for the entire system to generate additional output and for both sides to share it. This system will depend on trust and good policies and implies the creation of a social compact and an institutionalised forum in which to settle matters of this kind. The Tripartite Arrangement is one such forum which has been tried both in the region and elsewhere. From our vantage point, it requires the government, private sector, and trade unions to establish an institutionalized arrangement for meetings between the three parties to discuss issues of wages, prices, employment and productivity.

Let us take both the agencies and the issues in turn for a brief examination. The government plays the pivotal role of calling this arrangement into being because of its convening power and its overriding responsibility to govern in the interest of all its citizens. The government is responsible for providing the basic and skilled education and training for the labour force. It is also responsible for addressing the health status of the population, and to pass and administer laws to provide for the safety of workers in their place of employment. The general and specific laws which govern labour relations and conditions in the country fall under the purview of the government. The government is also responsible for providing the physical infrastructure on which the platform for development is laid. In small developing countries desirous of rapid growth and starting from a limited base, the government is called upon to do so much that

invariably and inevitably it becomes overstretched. This is evident in the case of the OECS countries by simply looking at their fiscal and debt situations.

The private sector, comprised of enterprises which produce for domestic consumption or for export, must produce goods and services which are competitive in both the domestic economy and externally. The private sector, in so doing, creates jobs which provide incomes and an improved standard of living and quality of life for citizens. The private sector in our countries is not however the private sector that exists in most advanced countries. For historical and other reasons, it is concentrated in wholesale, retail, real estate, and construction activities which we refer to as non-tradeables. The private sector is also mainly informal and a census of businesses in Saint Lucia shows that the informal segment accounts for two-thirds of the private sector with the formal segment accounting for the other one-third. We have in our countries a system which is driven by foreign exchange inflows; however the private sector is more involved in consumption activities which use foreign exchange, rather than activities which earn foreign exchange. There is therefore a clear need for a private sector development program which reverses the structure of this sector.

The trade unions' responsibility is to provide for the protection of workers at their place of employment and to ensure that they derive a fair return for their efforts, given the capacity of the enterprise to provide this. They must also see themselves as supporters of the drive towards higher levels of productivity. A few trade unions in the region however are caught up in what can only be described as historical battles, in a political, social and economic environment that has changed tremendously over the last three decades.

All three agencies have to reassess their roles and functions in economies which have not been transformed into dynamic self-sustaining entities, and in which growth has been stagnant because of the decline in productivity at the local level, and the fact that globalization has increased the level of competition between governments and business firms on an international basis. One has to repeat that in an economy which is not growing, the gains of any one sector will have to be at the expense of another, and that can and will result in social and political instability. Since this zero sum game is arithmetically binding, we will all have to face this reality and look for reasonable and binding tradeoffs to ensure that there is future growth and

development. It is clear from this that government, the private sector and trade unions have the potential to play critical roles in the growth and development of a country. This is particularly so for countries like ours, which are striving to develop in very challenging circumstances and environments and which lack the more mature institutional arrangements of advanced countries.

The need for social contracts between these three agencies has been emphasized and given concrete expression in many societies either formally or informally. The Dutch Polder model and, closer to home, the arrangements in Barbados stand out as successful examples. The International Labour Organization has also been an advocate of such arrangements.

The four elements wages, prices, employment and productivity are critical to the development process in our countries. Wages should represent what is calculated to be a living wage that, as a start, provides the basic requirements for maintaining a socially acceptable standard of living. The World Bank has established benchmarks for poverty which puts extreme poverty as income of less than US\$1.25 per day. The other important aspect of wages is its relationship to competitiveness. Sir Arthur Lewis had identified the major monetary cost of production in the Caribbean which lies within our control as the wage cost per unit of output. To be internationally competitive, this factor would have to be brought in line with international prices. Lewis further pointed out that to be able to do this four areas required positive action, namely

- (i) the exchange rate
- (ii) trade policy
- (iii) productivity, and
- (iv) an incomes policy

The exchange rate is one of the anchors of our stability in the region and any negative change in its value could lead to an increase in prices and other manifestations of economic instability. We have managed to keep the exchange rate fixed at 2.7 EC dollars to 1 US dollar since July 1976, thus providing a stable platform on which the growth of the economy could take place. This however needs to be backed up by appropriate fiscal policies and a dynamic export- oriented private sector. Productivity in both the public and private sectors is also critical to support our strong dollar policy.

With respect to trade policy we need to look at both sides of our trading arrangements. We must deal with our import bill by identifying the most appropriately priced goods and services, as well as their utility, and examine to what extent some of them can be substituted for by local production.

In the case of exports we need to identify the sectors in which we have a competitive advantage or a comparative advantage which can be turned into a competitive one. This will not happen by osmosis but will require the organization of the private sector to do this backed up by a skilled labour force.

Productivity is the most critical factor and this is related to efficient and effective management, the appropriate use of technology, the training and skills of the labour force, and the cost of such essential inputs as energy.

An incomes policy brings us back to tripartite arrangements and the tradeoffs that all parties must necessarily make to ensure that the economy grows. For example, if wages rise faster than productivity, then the economy would not be competitive and the level of unemployment could rise. If prices increase at an accelerated pace, then the cost of living will go up putting pressure on wages. If employment increases without adding to output, then wage rates will go down in an economy that is not growing.

Our economies must confront several undeniable factors which are our reality

1. That these economies are driven by external factors which provide the foreign exchange for both consumption and investment activities;
2. That government expenditure is linked to taxation;
3. That banks can only lend what is deposited by the public, that is, by individuals, businesses and the government.

Let us then link these three factors. If there is no inward flow of foreign exchange through exports, remittances, direct foreign investment, or foreign loans and grants, the economy will not grow and government will collect less revenue. If government collects less revenue, then they

will not be able to finance infrastructure or, in extreme cases, pay civil servants. Borrowing is necessary, but not necessarily the way out.

In such a slowdown, businesses are affected and make losses which impact the government's collection of taxes. They too may have to lay off workers, which means less income taxes and a reduction of the government's ability to spend. With businesses not being profitable, the loans which banks have made to the private sector go into arrears and the banks tighten up on credit extension, thus further adding to the problem. This will affect the labour force, as workers are laid off or asked to take pay cuts.

What is the way out of this dilemma? We have to identify the situations or circumstances which are under our control and those which are not. For sure we have no control over developments in the economies of our main trading partners, nor of course, the international economy as a whole. What we do have some control over is our own domestic circumstances in several critical areas.

The first is our pattern of consumption which is affected by our geography, history and political systems. With respect to geography we live in the new world in close proximity to the richest country in the world which has reached the economic status of a mass consumption economy.

The United States spends approximately 70 per cent of its GDP on consumption which drives the growth of its economy. In the region we aspire to this level of consumption but do not have the resource base and clearly have not reached that level of economic development to afford such a high level of consumption. The aspirations of our citizens for such a standard of living and the inability of the current economic system and circumstances to deliver have led to higher levels of out migration, as people have literally voted with their feet.

Another complicating factor is our competitive multiparty electoral system in which sometimes extravagant promises are made by parties in their quest to get elected, against the backdrop of an economic and fiscal system which cannot deliver.

Our history, particularly the impact of plantation systems of agriculture, has tied us into an import export arrangement in which we import almost everything we consume and have a very limited range of exports.

As I said earlier, we are now at the crossroads of our development and face to face with the reality of our situation compounded by the global crisis. We will face other crises from various sources and directions but these may simply be manifestations of a deeper problem which must be addressed frontally if there is to be a lasting and sustainable resolution of the flash points which arise from time to time.

The fundamental resolution lies in sustainable economic growth which has continued to elude us. It is clear that this requires the collective efforts of the tripartite partners because the tradeoffs we face are so dangerous. The actions we choose can put us on a path to continued economic decline or send a signal that we are ready to shoulder our responsibilities in order to lead us in a positive direction. The question is, do we have the discipline for the long and persistent effort that is required for socioeconomic development?

The tripartite arrangement is not for the faint of heart. It is not about meeting only when there is a crisis but requires the constant attention to small issues which blow up if unattended. It is about collective visioning so that tradeoffs can be made between trusting partners who see long run success and not necessarily immediate gains or losses. It is about the constant gathering of statistics and data on wages, prices, employment and productivity so that decisions can be taken which are based on facts and not speculation. It is about keeping a close watch on the regional and international environment and being able to adjust quickly to changing circumstances to avoid falling behind in the race for development. All these actions are within our abilities but for some unknown reason we have chosen to ignore the structural realities of our economies, for instance, lack of critical mass. We seem to blame everyone except ourselves for not making progress, forgetting conveniently that we live in an increasingly globalized world in which we have to be productive and competitive if we are to succeed. Further we refuse to believe that collective action, strategically and consistently applied, is superior to episodically brilliant efforts.

I commend the comrades of the NWU for their efforts over the years to advance the labour movement in Saint Lucia. You must however, be very mindful of your legacy, as the labour movement needs to once again, as it did at its inception, step up to meet the challenge which, not unlike the 1930s, is at its core an economic one, but which in today's world requires a completely different approach if our countries are to achieve sustainable development in this global village.