PN-AAV-838 47618

INTERNATIONAL CONFERENCE ON

THE FUTURE OF WORK IN A CHANGING WORLD

THE AGENCY FOR INTERNATIONAL DEVELOPMENT

LABOR, EMPLOYMENT, AND ECONOMIC GROWTH

Conducted by: THE SEQUOIA INSTITUTE

A G E N D A

Sunday, October 5, 1986

Registration (12:00 p.m.-8:00 p.m.)

Monday, October 6, 1986

Late Registration—East Lobby (7:30 a.m.-9:30 a.m.)
Coffee—Hampton Room (9:00 a.m.-9:30 a.m.)

Session One—Plenary—Hampton Room (9:30 a.m.-10:15 a.m.)
- Call to order
  Robert B. Hawkins, Jr.
  President, The Sequoia Institute
- Welcome Address
  M. Peter McPherson, Administrator, A.I.D.
- Challenge Address
  Manuel Ayau, Francisco Marroquin University
- Keynote Address
  The Honorable William E. Brock
  Secretary, U.S. Department of Labor

Session Two—Workshops (10:30 a.m.-12:00 p.m.)
1. Labor, Growth, and U.S. Foreign Policy—Senate Room
   James E. Leader; Elliot Morss; Alan Rufus Waters
2. Labor Policy and Economic Development—Cabinet Room
   Juan Buttari; Gary Fields; Harold K. Phillips
3. Strategy for Employment Integration—Capitol Room
   Uma Lele; Peter Ferrara; William Doherty

Luncheon—Blue Room (12:30 p.m.-2:00 p.m.)
- Luncheon Address

Session Three—Workshops (2:15 p.m.-3:30 p.m.)
1. Employment and Enterprise—Capitol Room
   Manuel Tanoira; Stephen Schwartz; Steve Hanke
2. Employment and Growth Potential in Latin America—Cabinet Room
   Jayant Kalotra; Don Bowles
3. Labor and the Uncertain World—Senate Room
   Elliot Morss; Alan Rufus Waters; James E. Leader

Coffee Break—Hampton Room (3:30 p.m.-3:45 p.m.)

Session Four—Workshops (3:45 p.m.-5:00 p.m.)
1. Influence of Non-Labor Policies on Employment and Growth—Cabinet Room
   Gary Fields; Harold K. Phillips; Juan Buttari
2. Successful Strategies of Integrating Employment Policies and Practices—Senate Room
   Peter Ferrara; William Doherty; Uma Lele
3. Facing the Market: Product Quality and Production Efficiency—Capitol Room
   Steve Hanke; Manuel Tanoira; Stephen Schwartz

Reception—Blue Room (6:00 p.m.-8:00 p.m.)

Tuesday, October 7, 1986

Coffee—Hampton Room (8:30 a.m.-9:00 a.m.)

Session One—Workshops (9:00 a.m.-10:15 a.m.)
1. Employment and Growth Potential in Asia/Near East—Calvert Room
   Jayant Kalotra; Don Bowles
2. Role of Work in Economic Progress—Capitol Room
   Alan Rufus Waters; James Leader; Elliot Morss
3. Constraints on Labor-Management Relations in LDCs—Embassy Room
   Harold K. Phillips; Juan Buttari; Gary Fields

Session Two—Workshops (10:30 a.m.-11:45 a.m.)
1. Strategies of Building Democratic Values Through Labor Relations—Embassy Room
   William Doherty; Peter Ferrara; Uma Lele
2. Labor and Politics: Systems of Political Bargaining—Capitol Room
   Stephen Schwartz; Steve Hanke; Manuel Tanoira
3. Employment and Growth Potential in Africa—Calvert Room
   Jayant Kalotra; Don Bowles

Luncheon—Hampton Room (12:00 p.m.-3:00 p.m.)
- Open Forum with Panelists
- Closing Remarks
  Jay F. Morris, Deputy Administrator, A.I.D.

October 6 and 7, 1986 • Omni Shoreham Hotel • Washington, DC

PN-AAV-838

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THE AGENCY FOR INTERNATIONAL DEVELOPMENT

INTERNATIONAL CONFERENCE ON

THE FUTURE OF WORK IN A CHANGING WORLD

LABOR, EMPLOYMENT, AND ECONOMIC GROWTH

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AGENDA

SUNDAY, OCTOBER 5, 1986

Registration (12:00 p.m. - 8:00 p.m.)

MONDAY, OCTOBER 6, 1986

Late Registration - East Lobby (7:30 a.m. - 9:30 a.m.)
Coffee - Hampton Room (9:00 a.m. - 9:30 a.m.)

SESSION ONE - PLENARY - Hampton Room (9:30 a.m. - 10:15 a.m.)

* Call to order
  Robert B. Hawkins, Jr. - President, Sequoia Institute

* Welcome Address
  The Honorable M. Peter McPherson - Administrator, A.I.D.

* Keynote Address
  The Honorable William E. Brock
  Secretary, U.S. Department of Labor

* Challenge Address
  Manuel Ayau - Francisco Marroquin University

SESSION TWO - WORKSHOPS (10:30 a.m. - 12:00 p.m.)

1. Labor, Growth, and U.S. Foreign Policy - Senate Room
   James E. Leader; Elliot Morss

2. Labor Policy and Economic Development - Cabinet Room
   Juan Buttari; Gary Fields

3. Strategy for Employment Integration - Capitol Room
   Jerry Jenkins; Larry Hunter

LUNCHEON - Blue Room (12:30 p.m. - 2:00 p.m.)

* Luncheon Address
  The Honorable Kay McMurray
  Director, Federal Mediation and Conciliation Service

7

SESSION THREE - WORKSHOPS (2:15 p.m. - 3:30 p.m.)

* 1. Employment and Enterprise - Capitol Room
  Manuel Tanoira; Stephen Schwartz; Steve Hanke

2. Employment and Growth Potential in Latin America - Cabinet Room
   Jayant Kalotra; Don Bowles

3. Labor and the Uncertain World - Senate Room
   Elliot Morss; James E. Leader

COFFEE BREAK - Hampton Room (3:30 p.m. - 3:45 p.m.)

SESSION FOUR - WORKSHOPS (3:45 p.m. - 5:00 p.m.)

+ 1. Influence of Non-Labor Policies on Employment and Growth - Cabinet Room
  Gary Fields; Harold K. Phillips

2. Successful Strategies of Integrating Employment Policies and Practices - Senate Room
   Peter Ferrara; Larry Hunter

3. Facing the Market: Product Quality and Production Efficiency - Capitol Room
   Steve Hanke; Stephen Schwartz

RECEPTION - Blue Room (6:00 p.m. - 8:00 p.m.)

TUESDAY, OCTOBER 7, 1986

COFFEE - Hampton Room (8:30 a.m. - 9:00 a.m.)

SESSION ONE - WORKSHOPS (9:00 a.m. - 10:15 a.m.)

+ 1. Employment and Growth Potential in Asia/Near East - Calvert Room
  Jayant Kalotra; Don Bowles

2. Role of Work and Economic Progress - Capitol Room
   Alan Rufus Waters; Elliot Morss

3. Constraints on Labor-Management Relations in LDCs - Embassy Room
   Harold K. Phillips; Juan Buttari

SESSION TWO - WORKSHOPS (10:30 a.m. - 11:45 a.m.)

1. Strategies of Building Democratic Values Through Labor Relations - Embassy Room
   William Doherty; Peter Ferrara

2. Labor and Politics: Systems of Political Bargaining - Capitol Room
   Stephen Schwartz; Manuel Tanoira

3. Employment and Growth Potential in Africa - Calvert Room
   Jayant Kalotra; Don Bowles

LUNCHEON - Hampton Room (12:00 p.m. - 3:00 p.m.)

* Luncheon Address
  Dr. Walter E. Williams
  Professor of Economics - George Mason University

* Open Forum with Panelists

* Closing Remarks
  Richard Bissell - Assistant Administrator Designate, A.I.D.

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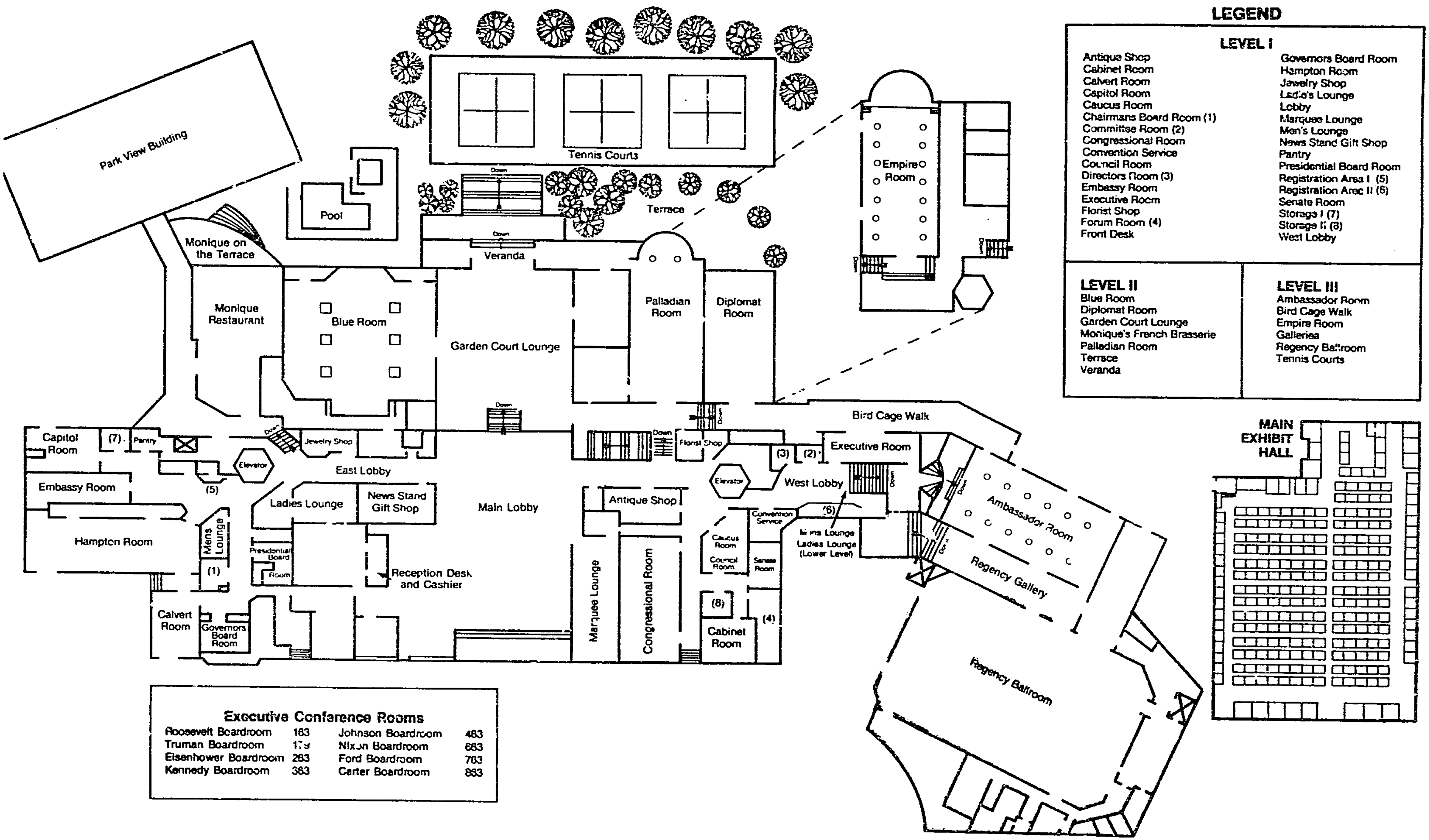

LEGEND

LEVEL I

Antique Shop
Cabinet Room
Calvert Room
Capitol Room
Caucus Room
Chairmans Board Room (1)
Committee Room (2)
Congressional Room
Convention Service
Council Room
Directors Room (3)
Embassy Room
Executive Room
Florist Shop
Forum Room (4)
Front Desk
Governors Board Room
Hampton Room
Jewelry Shop
Ladie's Lounge
Lobby
Marquee Lounge
Men's Lounge
News Stand Gift Shop
Pantry
Presidential Board Room
Registration Area I (5)
Registration Area II (6)
Senate Room
Storage I (7)
Storage II (8)
West Lobby

LEVEL II

Blue Room
Diplomat Room
Garden Court Lounge
Monique's French Brasserie
Palladian Room
Terrace
Veranda

LEVEL III

Ambassador Room
Bird Cage Walk
Empire Room
Galleriea
Regency Ballroom
Tennis Courts

Executive Conference Rooms

Roosevelt Boardroom	163	Johnson Boardroom	483
Truman Boardroom	173	Nixon Boardroom	683
Eisenhower Boardroom	263	Ford Boardroom	763
Kennedy Boardroom	363	Carter Boardroom	863

AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

INTERNATIONAL CONFERENCE ON
LABOR, EMPLOYMENT, AND ECONOMIC GROWTH
October 6 - 7, 1986

BRIEFING BOOK
TABLE OF CONTENTS

h

TAB A

I. <u>Introductory Materials</u>

A. Welcome to the Delegates

Q

WELCOMING ADDRESS BY M. PETER MCPHERSON ADMINISTRATOR
AGENCY FOR INTERNATIONAL DEVELOPMENT
October 6, 1986

Good morning - on behalf of the Agency for International Development I welcome you to this international conference on labor, employment and economic growth - to examine "The future of work in a changing World".

We are all familiar with work. For we have all been "over worked", our families say we "work too much - or too late", sometimes we think our "work" is in vain, or not fully appreciated. Yes, we are all familiar with work.

Yet, the conditions that I just characterized illustrate that work is the expression of our hopes, desires, our intellect, our concerns for others, the future, as well as for ourselves. For the future is what we make it, and the way we make it is through our work.

In America, work has become the foundation of our society. The liberties we enjoy, the freedoms we know so well are based on the individual's ability to prosper from the energies of labor. Opportunity and hard work have made this country great. This model is not proprietary to the U.S. - it can work equally as well in any country, if we give it a chance.

Adam Smith, 200 years ago, spoke of the "Wealth of Nations" and in so doing he spoke of this wealth springing forth from the energies and talents of its people - not from some valued commodity, or precious gems. For the only true and lasting wealth comes from the people. Time and time again we have seen great strides made by countries with very little material wealth. Tawain - has no oil supplies, nor mineral deposits yet they have built a strong viberant economy, based on the creative work of their people. Likewise, Singapore and Hong Kong have grown to international prominence because of their economic growth. The only asset there countries had was their people. They were given the opportunity to work, and work they did. They have prospered, the country has prospered - and the world is better for their work.

I truly wish that we could say the same situation exists in other countries throughout the world, but it is not so. For most of the people in the third world, work is an unrelenting process of survival, where every member of the family must toil just to put food on the table and a roof over their heads. For these poor people, the future is the grim reality that the work gets harder and they get weaker. To them opportunity is only a dream not a reality, only a word not a challenge, a way without the means.

But this does not have to be - what has worked in countries such as Taiwan, or Korea, can work elsewhere. If the governments of there countries set the right policies, if they give their people the opportunity to prosper, the un-dying spirit of the worker will prevail. They will prosper, they will succeed, the country will grow - if they give them a chance.

In the next two days you will be discussing the ways and means of giving the worker a chance. It will not be easy, nor will there be a simple answer - for the question you will be addressing will be some of the most difficult ever faced by developing nations. But what you do here will have meaning: it will help policy maker find ways to create the opprotunity for workers to help them see a future, to help them contribute to the "wealth of <u>their</u> nations".

I thank you for taking the time to be with us, and for sharing with us your considerable experiences and knowledge. The task is a great one and the collective wisdom in this room is capable of handling it.

SEQUOIA INSTITUTE

Robert B. Hawkins, Jr.
President

October 2, 1986

Dear Friends:

It is my pleasure to welcome you to this conference on The Future of Work in a Changing World. Its purpose is to understand the many effects of the technology revolution on individuals and their work. The conference is based on the belief that we are witnessing a revolution like none before -- a revolution without end. Change itself has been accelerated. As a result, values are increasingly unstable. Because work is a fundamental human activity, the values surrounding it can change dramatically.

Specifically, it is clear that the values surrounding work can dramatically change for the worse, and that individuals in less-developed countries are more susceptible than those in developed countries. With its emphasis on private enterprise and institutional development, the Agency for International Development is keenly interested in these issues, especially as they concern those countries that host the Agency's missions. Now more than ever, society's institutions -- including governments and their agencies -- must enable individuals to effect change, rather than merely suffer it.

Any plan for the future, be that of an individual or a government, is less likely to be fulfilled in a rapidly changing world than in a world of great predictability. This uncertainty warrants a diversity of plans, because the consequences of any single failed plan will be more limited in scope and magnitude. Therefore, each individual should be planning for as many aspects of life as possible. This is one of the most important ideas the Agency pursues in the policy dialogue with other countries.

The Agency's private enterprise initiative, for example, is far more than a reiteration of the moral principles regarding individual rights and responsibilities developed in the United States. It is an essential response to the new and increased urgency of a rapidly changing world. Changes of behavior, necessitated by an uncertain world, may become the driving force of changes in principles, rather than the other way around. The revolution we are observing may extend from technology to human organization and development.

With best wishes for a rewarding conference.

Sincerely,

Robert B. Hawkins, Jr.
President

1622 - 21st Street, Suite 200 ☐ Sacramento, California 95814 ☐ (916) 454-4505

WORKSHOP DESCRIPTIONS

The conference was designed to stimulate discussion and share experiences of both experts and practitioners in the field of employment generation and economic growth. To make the best use of the time available the workshops will be conducted simultaneously in three breakout rooms. A total of five workshop sessions will be held with fifteen different discussion topics. Each workshop session will have three panelists: a speaker, who will give the background on the topics; a moderator who will direct the discussion; and, a resource panelist who will provide balance to the discussion. The fifteen topics are grouped into five areas ranging from policy to regional projects. The grouping of the topics by panels is described below.

Panel A: The first panel will discuss the rationale behind U.S. concern with labor, employment and economic growth in developing countries. Dr. James Leader, from the Center for the Study of Foreign Affairs will start the discussion with Labor and U.S. Foreign Policy. Dr. Elliot Morss from Boston University will address the economic problems that the LDCs' labor force will be facing during the next decade in his discussion Labor and the Uncertain World. Dr. Rufus Waters from Fresno State University will complete the panel discussion with a discussion of the developmental concern of the worker in his paper, The Role of Work in Economic Progress.

Panel B: This panel will address the policy plays in the process of generating employment and economic growth. Juan Buttari who spearheaded AID's employment policy work will discuss Labor Policies and Economic Development. Dr. Gary Fields from Cornell University will complement the labor policy discussion with an examination of the Influence of Non-Labor Policies on Employment and Growth, focusing on trade, exchange roles, interest rates, etc. Hal Phillips of the Inter-American Foundation will round out this panel with a discussion of The Constraints on Labor-Management Relations in LDCs.

Panel C: This panel will focus on the ways in which policies can be implemented to achieve employment and growth. The first paper, will address Successful Strategies for Labor Integration, specifically the problem of integrating the various components of the populace into the labor force. The discussion will address such issues as women, minorities, races or ethnic groups. Of particular attention will be ways in which the "informal sector" can be incorporated into the labor force. The second paper, Strategies for Integrating Employment Policies and Practices, represented by Peter Ferrara will deal with ways of merging labor and non-labor policies to facilitate economic growth. The final topic in this panel will be presented by Bill Doherty of the American Institute for Free Labor Development, who will address Strategies for Building Democratic Value through Labor Relations.

Panel D: Consideration of employment and growth will be discussed in this panel. Manuel Tanoira, formerly the Director of Argentina's Office of Growth and Development, will address the problem of generating employment and growth through the private sector in his paper on Employment and Enterprise. Dr. Steve Hanke of Johns Hopkins University will complement this discussion by addressing the problem LDCs will be facing in the world market place in Facing the Market: The Problems of Product Quality and Production Efficiency. Labor is a political force as well as an economic force, and it uses this strength in the process of bargaining. Steve Schwartz of the Institute for Contemporary Studies will address this issue in his paper on Labor and Politics: The Process of Conflict Resolution.

Panel E: The last panel will look at how employment projects are implemented under various country conditions. Three regional workshops dealing with Employment and Growth Opportunities will allow the conference participants to share their experience from different countries. Dr. Donald Bowles of American University will provide the foundation for the discussion with his assessment of employment generation project sponsored by AID. Jay Kalotra of ERR Technologies Corp. will complement Dr. Bowles' comments with his paper on private sector employment generation projects.

WORKSHOP PAPERS

TAB B

"Labor, Growth, and U.S. Foreign Policy"

by James E. Leader

16

DEMOCRATIC LABOR IDEOLOGY

by James E. Leader

PREFACE

This paper is an excerpt from the author's draft study on American Labor Diplomacy being conducted under the auspices of the Center for the Study of Foreign Affairs. The Center is part of the Foreign Service Institute of the U.S. Department of State. This paper is submitted for the consideration of the "International Conference on the Future of Work in a Changing World" sponsored by the U.S. Agency for International Development on October 6-7, 1986.

In the following pages I try to describe parallels between American political democracy and our industrial relations system which is a derivative of that democracy. The paper draws on conversations I have had over the years as a diplomat trying to explain to foreigners the esoteric American democratic system. I have been a labor officer in three different Embassies. In that capacity I have found that analysis of the American industrial relations system can offer foreigners a practical and focussed insight into how democracy influences our social and economic institutions. This paper tries to distill and systemize some of those conversations into an analysis of the American labor ideology.

My colleagues at the Center for the Study of Foreign Affairs and participants in a symposium on American Labor Diplomacy sponsored by the Center in April 1986 have contributed immensely to the development of this paper and the broader study of which it is a part. The symposium drew together experts in labor-management cooperation. Their discussion helped form this paper's analysis of such cooperation as a function of the concept of the small "covenant society" in the American tradition. (A short summary of the symposium is available in the Center's "Fresh Look" series of publications). The Symposium discussion also reinforced the importance of a sound collective bargaining system conducted by committed and responsible management and union agents as a foundation for cooperation. That feature figures in the paper's analysis of the the transactional basis of American conflict resolution and political accomodation.

<u>NOTE</u>: THE VIEWS IN THIS PAPER ARE SOLELY THOSE OF THE AUTHOR AND ARE NOT PRESENTED AS A REPRESENTATION OF U.S. POLICY. SINCE THIS PAPER IS AN ADVANCE DRAFT EXCERPT OF A STUDY TO BE PUBLISHED IN THE NEAR FUTURE, PLEASE OBTAIN THE AUTHOR'S PERMISSION FOR ANY QUOTATION FROM IT. Address: James Leader; Regional Labor Adviser, Bureau of Inter-American Affairs; ARA/RPP, Room 5911; U.S. Department of State, Washington, D.C. 20520. Phone: (202)647-9362.

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DEMOCRATIC LABOR IDEOLOGY
by James E. Leader

IDEOLOGY AND DEVELOPMENT

Development Toward What?; The Ideological Question: A discussion of development policy requires clarity on the objective of that development and the social principles by which it is pursued. Without such philosophic and indeed ideological definition, development policy becomes circular. It is an endless soap opera rather than a social program. We find ourselves building sand castles which are washed away on the next tide of fad or theory. Fundamental questions of individual and social purpose inevitably intrude on issues of development policy. Does the world belong to this generation: maximum material welfare now for the maximum possible percentage of our population? (Thus a consumption policy). Or are we seeking a more perfect society of the future for which we will sacrifice this generation's welfare (a savings policy). Or do we want a mixture. Do we believe decision-making on development is best done by an enlightened leadership (an elitist political system) or with involvement of the people (an egalitarian process). Are there fundamental moral and spiritual principles in economic policy or is GNP the sole measure of the success of policy? Finally, from whence come the social and political controls for the successful implementation of our development strategy: from voluntary participation? from the political party? from the state?

Because we live in a world increasingly classified as industrial it is appropriate that this conference consider work and employment as important issues in development. Those become the critical moral issues in a society where the majority of citizens are (or are seeking to become) wage and salary earners. The industrial revolution generated requirements for new systems of thought and new ideologies as the human race moved from small, closed tribal and agricultural societies of barter to complex, monetized systems of trade and production. While much of the world's population remains in agriculture, the stamp of the industrial revolution reaches everywhere. The worker is replacing the peasant as the basic producer of goods. In feudal society the peasant relies for his livlihood on his subordination to an established authority who in turn returns him a share of the community product. An accepted system of mutual obligation (noblesse oblige) and religious control (the unjust lord will roast in hell) enforces the relationship. The worker in industrial society on the other hand relies for his livelihood on wages or salary exchanged for work without the built-in guarantees of the closed, small society of the feudal system.

We do not profit from a nostalgic excursion into the superiority of the idyllic rural life of the noble peasant (or the noble savage of tribal society either). Most peasants and tribals have lived a rotten existence most of the time. Their lives, families and societies are regularly torn by uncontrollable war, pestilence and famine. And most surviving peasants will willingly trade their village life for a good wage-earning job. But we do need to find new definitions of human and social relationships to replace the support and value systems lost in the passage to industrial society. Otherwise we merely create new authoritarian and even totalitarian structures which treat workers either as commodities or as instruments of revolution rather than as human spirits.

The trauma of industrialization generated new autonomous ideologies designed to create cultures adapted to the industrial age. The most notable is Marxism with its deterministic view of history and its creation of new institutions of control over social and political relationships. A second is fascism with its return to primeval tribal (and thus rascist) definitions of society. But these spontaneous ideologies designed for industrial society have proven woefully inadequate for the approaching 21st Century. Industrial corporatism which gains fashion periodically despite the collapse of the leading fascist powers in World War II has succeeded only where accompanied by a militarist policy. Some latter day religious ideologies, such as in contemporary Iran, seek to superimpose ancient belief and practice developed in tribal and agricultural society on a changed world and use the past to impose social control. Marxism with its central theory of class conflict may continue to provide an exciting, unitary ideology for revolutionaries. But it has proven woefully unable to compete with the efficient, flexible production systems of capitalism. Nations which have adopted Marxist as State theology have either stagnated economically or have had to depart radically from classic theory. Most important, both fascism and Marxism have lacked a value system which allows the individual to transcend his material needs and to pursue his spritual quest for ultimate meaning and purpose in life. In the absence of such an autonomous spiritual gyroscope these ideologies have had to substitute totalitarian controls in their social and political structures for the industrial age.

<u>The Democratic Alternative</u>: This paper argues that democracy offers a coherent, integrated system for industrial, society. It provides both material sustenance and the internal spiritual control which obviates totalitarian political control. But we need to integrate a labor theory which deals with the role and welfare of the worker as the central figure of industrial society and therefore of the modern democratic society. Failure to incorporate labor into the democratic ideology risks political discontent and worker alienation. This deterioration carries not only the familiar political threat of instability but retards the development process.

We have considerable empirical evidence in recent years that democratic principles applied to the workplace not only solve political problems but contribute subtantially to productivity and technological innovation. This paper examines democratic labor philosophy as it deals with strategic and moral issues of development. It argues that democratic theory offers a seminal viewpoint on the critical issues of society and its organization. It locates the individual in the universe. It establishes a social and political structure for his/her interaction with others. It provides for the visionary society, leading man and his society to increasing fulfillment.

This paper will focus on American democratic ideology and its application to labor and the industrial society. I choose the American experience not because it is superior to other democratic expressions but because it is the one with which I am most familiar. I do think the American experience is an instructive model on several counts: (1) The U.S. represents a polycultural, continental experience; in our increasingly interdependent world the kind of macro-social experience in a complex society is becoming the norm rather than the exception. (2) The American founding fathers had the unique responsibility of forming the first large modern democracy by intellectual process. Swiss democracy was older but reflected the peculiar geograpahic advantages of compactness and location at the point of equilibrium of European geopolitics. Britain's democratic theory evolved as part of its political process rather than in one conscious statement of theory. (3) The American Revolution, culminating in the written American Constitution in 1787, took place at a critical intellectual moment in history. The ideas of the Renaissance and Enlightment were coalescing. The printing press brought these ideas into the public political domain. The eclipse of feudal society in Europe and its political assumptions demanded new theory. The American founding fathers therefore encountered a rare coincidence of history in which a rich body of profound new political theory could be married to the requirements of building a new nation.

20

THE AMERICAN EXPRESSION OF DEMOCRATIC THEORY

The Setting: The American "founding fathers" enjoyed many shared experience and beliefs. They truly were products of a New World. They wished to turn their backs on what they considered a politically corrupt Europe, struggling ineffecutally to escape its feudal past. But there were formidable political conflicts to be reconciled in the establishment of the new nation. Historical circumstance provided a convenient respite between the statement of ideal in the Declaration of Independence (1776) and the establishment of a permanent structure for the new nation in the Constitution of 1787. The Declaration was an act of revolution with the idealistic license which that permits. It produced the enduring spiritual nucleus of the American democratic ethic: "All men are created equal and are endowed by their creator with certain inalienable rights; among these are life, liberty and the pursuit of happiness." The writing of the Constitution 11 years later set a more limited and structural goal for the new Government, "to form a more perfect union, establish justice and insure domestic tranquility provide for the common defense, promote the general welfare, and secure the blessings of liberty...."

The Constitution: A Negotiated Settlement: Constitution making proved even more challenging than the Declaration of Independence. In the Constitutional forum the simple 1776 polarization of pro-Crown Tories and pro-Independence nationalists fractured into a thousand desparite political and economic interests. First the competing realistic and idealistic impulses merged in the Revolution had to be accomodated. But more practical decisions on political power and principle also arose: States rights vs. Central Government rights; individual rights vs. Government's right to maintain public order; the value system of the small community of church, local village, utopian commune vs. the values of the large society represented by the Government; the slavery abolitionist vs. the slaveholder; the wage earner vs. the property owner.

The founders were men of commerce who valued negotation, the sanctity of contract and an orderly envirnoment. This experience contributed to the durability of the Constitutional system they established. It forced focus on necessary structural features of Government which provided a framework for the future resolution of conflict between interest groups and between ultimate ideal and immediate political reality. The result was the establishment of a creative tension in the large society of the nation which permitted a constant political and social negotiation among its citizens and the "small society" groups in which they associated. The Constitution thus permitted the evolution of a democratic concept of the individual and his rights, the value of the small society as a conduit for man's social and ethical aspirations and the role of Government as arbiter and preserver of the process of political and social negotiation. A brief discussion of each of these features is necessary as preface to the discussion of democratic labor ideology.

21

The Individual: Democracy's spiritual nucleus: The sanctity of the individual is implicit in the definition of democracy -- rule by the people. The American Declaration of Independence amplified that imprecise concept with definition of the central place of the individual in a political society ruled by "the people", a collection of individuals. It acknowledged that the individual possessed sovereign, "inalienable rights" deriving from "the Creator", an authority external and above human Government. This revolutionary concept prompted bitter debate among the Constitution-makers, resolved with the "inalienable" Bill of Rights included as the first ten amendments to the Constitution. The enfranchisement of individual rights gave a spiritual core to democracy. It affirmed the infinite pursuit of individual fulfilment as the fundamental objective of society. This grand objective transcends the finite and transitory task of politics and government which is to sustain a suitable environment for that fulfillment. The clear assumption of democracy then is that the individual has an identity and purpose apart from society and therefore is not subordinate to society's will and program.

The founders' concept of man, the individual was not, however, a romantic one which would support an anarchic vision of society. The founders in fact had a skeptical view of man's nature which in the European tradition derived from the doctrine of Original Sin but which in Hinduism or Buddhism might be defined in terms of karma. Thus a major effort in the Constitution was the circumscription of the citizen's right to impose his will on his neighbor. Or as Chief Justice Oliver Wendall Holmes so bluntly described it later, "The individual's rights end at the other man's nose." The ideal of democratic society was individual fulfillment but the structure of the democracy was designed to assure he used his inalienable rights only for that noble purpose, not to victimize his fellow.

The Small Society of Covenant: In the intellectual and social ferment of the 17th and 18th Centuries, Hobbes, Lock and others had championed individualism. But the American founders were influenced by another product of the period, the dissenting sects and utopian communities. The Massachusettes Colony, the first permanent European settlement in the original 13 Colonies, was founded by such. John Winthrop, the Governor had pronounced the vision of the Pilgrim settlement even before the Mayflower's arrival in his sermon "The City on the Hill". While Winthrop's lofty ideals were quickly overtaken by dissension, the Pilgrim settlement established a precendent for the visionary community in America. Some were home grown but most were founded of sects which immigrated to America from Europe to live out their dream of a community bound by covenant and creed. Many of the founding fathers had roots in denominations dissenting from the established church.

The influx of the dissenting sects pluralized the American body politic and made imperative the compromise and toleration reflected in the Constitution. No sect was powerful enough in intellectual and political influence to impose its peculiar vision on the general society. Thus, aside from the tacit acceptance of egalitarianism and individualism as a spiritual and ethical basis for American society, it was not possible for the founders to enunciate a global vision of the society they were creating. But the often successful and generally peaceful growth of the visionary "covenant societies" was generally welcomed in America. The First Amendment of the Constitution protected religion from Governmental interference thereby explicitly protecting at least the religion-based covenant communities. While the national vision was perforce vaguely defined, American democracy was enriched by the vision, cohesion and practical contribution of the small covenant community bound together in the trust and common doctrine of the members.

<u>The Transactional Society</u>: American's intuitive impulse was to have as little Government as possible but the weakness of the post-Independence Confederation Congress demanded some stronger governmental stewardship. The founders' suspicion of human avarice, of tyranny and of each other made the forming of the Constitution an excerise in negotiation, compromise and written contract. The method of its writing was reflected in the government it created. The Constitution writers not only decided to <u>permit</u> a continuing process of negotiation and contract in society, they <u>promoted</u> it at every possible turn. The foundation of the transactional society is the democratic electoral process itself which permits the electorate to periodicly review and renegotiate the terms and conduct of Government. Beyond this the founders promoted continuous negotiation <u>within</u> the elected Government through their construction of the now-famous system of checks and balances. The power of government was assiduously divided among the three branches in a way that none could act arbitrarily but instead was forced to negotiate each major decion. The legislature was divided into two co-equal houses. Institutions competitive to the Government including the press, religion and other assemblies were protected from Government intereference and control. Powers of Government were divided between the national and state governments and each given a check on the other. The Constitution was vague on the kind of economy it anticipated although it protected private property. But the omission leaves the assumption that the existing market economy clearly was blessed. Moreover the concept of buyer and seller negotiating quality and price, free from governmental intereference, was parallel to the political society of negotiation and contract embodied in the Constitution.

The Result: The Constitution laid the foundation for transactional democracy undergirded by a safeguarded commitment to the liberty of the individual and the small voluntary societies in which he associated. But the full realization of the egalitarian, fully participative society was left only partly fulfilled, subject to an open-ended process of social and political negotiation. Advocates of the egalitarian democratic ethic were bitter over some of the political compromises in the Constitution such as the retention of slavery and property qualifications for electors. Other future features of democracy such as franchise for women and the right to organize unions apparently were not even perceived as issues by the founders. The critical accomplishment was the establishment of a structure which permitted correction through the transactional process of both the perceived and the unperceived shortcomings in realization of the democractic ideal which blessed both individual liberty and freedom of association. The open-ended process forced by the necessity to leave some highly contentious issues unresolved became an instrument of social and political creativity. It was this opportunity for open-ended negotiation which has given democracy its resilience and adaptability in a world transformed in the next two centuries by industrialization and technological revolution. The transactional process established by the Constitution permitted the subsequent empowerment in the national negotiating process of four major disenfranchised groups: non-property owners, women, blacks and organized labor. This discussion is restricted to the latter.

LABOR IDEOLOGY IN A PLURAL DEMOCRACY

Labor's Entry into the Transactional Society: The Constitution was written before America's industrial revolution was truly underway so the industrial worker was not a known factor in the debate. A few trade unions had emerged before 1776 but true industrial establishments with large work forces were not widespread until the middle of the 19th Century. Workers did join forces to press for entitlements such as universal male franchise (largely realized by the time Andrew Jackson was elected President in 1828) and free schools. But the right of workers to associate in unions to negotiate with organized capital over wages and conditions evolved slowly. In the first half of the 19th Century courts widely invalidated collective labor contracts as "conspiracies against trade". In this period unions were weak and usually failed in the periodic downturns of the business cycle. The American Civil War won by the North through its industrial strength marked the advent of America as an industrial society. Large unions evolved including the Knights of Labor with its vision of an industrial society based on worker coopratives. But the large-scale immigration of displaced European peasants created a large pool of unskilled industrial labor and made union organization difficult. Strike-breakers were plentiful.

<u>Labor as A Party in Transactional Democracy</u>: The Sherman Anti-Trust Act of 1890 curtailed monopoly practices and thus concentration of corporate power. This represented a major reaffirmation of the Constitutional concept of the transactional society which required diffusion of power among the participants in the national political, social and economic negotiation process. At about the same time, in 1886, the American Federation of Labor was founded by Samuel Gompers who put an indelible print on American labor ideology. Although an immigrant from England, Gompers firmly grasped the transactional basis of the American democratic culture. The ideology of transactional democracy did not reflect the prevailing labor sentiment of that era which followed a half century of often-bitter labor-management confrontation. The once-powerful but dying Knights of Labor had worked for labor-oriented society reformed into a network of workers' cooperatives. The Marxists also sought a labor-based society wrought by class struggle and revolution. Gompers on the other hand clearly believed that the union's task was to promote labor's power and influence as a negotiating force in the pluralistic society. The AFL unlike many other contemporary labor movements did not try to remake society in its own image but rather to influence the rules and functioning of society in a direction beneficial to workers. This acceptance of the role of labor as negotiating agent in a pluralistic and transactional democratic society was reflected in Gompers' famous 1893 speech to the International Labor Congress in Chicago. Gomper's stressed labor's incremental quest for "more" of the benefits of society.

> "...What does labor want? It wants the earth and the fullness thereof. There is nothing too precious, there is nothing too beautiful, too lofty, too ennobling, unless it is within the scope in comprehension of labor's aspirations and wants....We want more school houses and less greed; more justice and less revenge; in fact, more of the opportunities to cultivate our better natures."*

Gompers had a vision for worker happiness. But organized labor's pursuit of it would be as a partner in the democratic process, not as proletarian dictator.

*<u>American Federationist</u>, AFL-CIO, January 1981

Labor Becomes a Negotiating Partner: Collective bargaining and the collective contract between management and the union, representing the workers, was common for craftsmen and building trades by the end of the 19th century. Semi-skilled industrial labor would have to wait until the 1930's for strong, permanent unions under the leadership of the Congress of Industrial Organization. The AFL craft unions, however, proved that unions could operate rationally and productively in the transactional process. Enlightened management realized that the labor-management negotiation process provided an orderly channel for resolution of worker demands and grievences. The idea of labor's entry into the democratic transactional structure was gaining legitimacy. The AFL advanced this claim to legitimacy at least temporarily through its cooperation with the Government in World War I. President Woodrow Wilson created a National War Labor Board with tripartite representation (labor, management and government to mediate work stoppages and promote labor-managment cooperation through newly created "Shop Councils" in factories.

The National Labor Relations Act: Labor's Enfranchisement: The Great Depression led many citizens including businessmen to believe the capitalistic economic system had failed. The silver lining was the National Labor Relations Act of 1935. It reaffirmed the founding fathers' faith in the transactional society in a setting they could not even have dreamed: the issues of equity and relatioships between giant industries and single factories with thousands of workers. The NLRA required negotiation over conditions and terms of employment between duly constituted management and duly elected trade union representatives. It did not create or even anticipate utopias of perfect managements or perfect trade unions or a perfect, pacific relationship between the two. But it borrowed the same concepts of negotiation, contract and binding contract which the founders had established for the nation's political system. Incorporation of labor into the transactional society brought democracy into the workplace.

The Covenant Society in the Workplace

As discussed earlier the second creative feature of the American democratic ideology was the system's endorsement of the coexistence of the small society within the larger national society. The Constitution set the rules for macrosocial issues but assumed that citizens would establish their personal value system, aspirations and ethical context in the small society of family, church, club and association. The peculiarly American outlook and ethic was being built in these many small societies communities long before the Constitution-writers set about their task. Many of these followed John Winthrop's vision of the small society with members associating unselfishly for the common good in a covenant of trust with each other. In religious communities the covenant had a deeply mystical aspect of covenant together under God in the mold of Israel's covenant with Jehovah. (See Robert Bellah's The Broken Covenant for a deeply thoughtful discussion of community covenant in American history.)

Work and work relationships were an important part of the covenant in many of the early religious and utopian societies in America. The Shaker workshops produced some of the most prized early American furniture. The Ephrata, Pennsylvania, community produced some of the most eloquent printing and engraving in America. The Amish have remained leaders in sound, conservationist agriculture, the religious communistic Amana community not only converted Iowa's rich prarie soil into a bread-basket, it produced some of the country's most beautiful hand-made furniture and woolens. Many such communities established a reputation for excellence and superb quality derivative of the community trust, cooperation and integrity which lay behind the product. In many of these communities the small society was egalitarian and unspecialized. But differentiation of function developed in some. The Moravians in Wachovia, North Carolina and Bethlehem, Pennsylvania had master and journeyman craftsmen. But their sense of community enabled them to join together for early labor-management cooperation ventures.

Most Americans are unaware of the early and long American tradition of labor-management cooperation. It generally thrived only in the small workplace and establishment where the lines between labor and management were not sharply drawn. In the giant industrial firms of the late 19th and early 20th Century there was little room for trust and covenant between labor and management. Communication was often by confrontation. Henry P. Guzda, a U.S.

27

Labor Department historian, has provided a very useful outline of labor-management cooperation ventures in a May 1984 Monthly Labor Review article titled "Industrial democracy: made in the U.S.A." He describes a fascinating example of turn-of-the-century articulation between political and industrial relations concepts in labor management cooperation in the Nelson Valve Co. of Philadelphia. Mirroring the successful American political structure, Nelson Valve established a shop committee system of cooperation. At the apex the company had a House (of Representatives) comprising workers and a Senate of managers to debate company policy. Guzda also cites a 1904 shop council progam in the Nernst Lamp Co. of Pittsburg which produced an 800 percent increase in sales over an 18 month period.

Work Place Covenants Today: Now labor management cooperation has come of age in the United States. Some of the largest and most successful corporations including GM and Ford, Xerox, General Electric are establishing labor-managment cooperation as part of strategic planning. Perhaps the most sophisticated application is in GM's Saturn auto assembly plant, still on the drawing boards. Management and the union have cooperated in designing a workplace society which will make them partners in a "quality of worklife" enivronment for high productivity and worker comfort and satisfaction.

A common feature of contemporary labor-managment cooperation programs is a written agreement on the goals and objectives of the workplace. These are stated not in cold terms of profit-line and productivity increments. Rather they define the value system of the workplace which acknowledges the worker's family and community commitments as well as those of the workplace. They talk of quality and creativity and pride of product. The assumption is that a person whose work is part of his total creative life will bring that creativity to the job. The leading companies no longer see the open communications and supportive climate of a cooperative workplace as a welfare measure. Rather it is the creation of a new work society which will permit the company to meet, accomodate and lead the technological revolution. The practitioners of labor-management cooperation from both the unions and the companies talk of shared commitment and trust. In a very real sense they are in a process of building covenant societies in the workplace.

28

CONCLUSION
The Creative Tension of Democracy
Transaction and Covenant

The democratic ideal is not easy to define. It is a process rather than a goal and therefore less susceptible to grandiose and romantic articulation than more deterministic ideologies. It considers the human spirit ambiguous: the ego harnesses the power at its command both to create and to destroy. Democracy accepts as axiomatic Lord Acton's injunction that power corrupts and absolute power corrupts absolutely. The democratic response which this paper has tried to describe is to establish structures which maximize the creative expressions of the human spirit and minimize those destructive to others. American democracy has handled this ambiguity through application of its peculiar traditions. It has sought to minimize the destructive misuse of power by pluralizing as much as possible the centers of power in the nation. In the industrial relations sphere this has meant a steady process of institution building to permit negotiation between the parties, including the Labor Department, the National Labor Relations Board and the Federal Mediation and Conciliation Service.

At the same time American democracy has sought to eliminate obstructions in the flow from the wellsprings of creativity from the individuals and small societies which comprise it. In the industrial relations sector this has meant a flexibility which will permit the creative exchange of trust and ideas between labor and management. And so the industrial relations system of this country represents a microcosm of the large democratic society. It has evolved and perfected negotiating mechanisms for the basically competitive and adversarial issues between labor and management, for example the central issue of compensation. At the same time it encourages the creative nourishment of trust and covenant in common goals of productivity, technological development and work satisfaction.

The most successful industrial relations experiments suggest that the two features of transactional structure and covenant must operate together in a creative tension. The transactional framework of collective bargaining involving responsible, well-informed and tough-minded union and management negotiators is the guarantee that power is shared between these two critical parties in our national economic welfare. At the same time the covenantal climate in labor-management cooperation can assure the wellspring of technological and productive creativity in the economy. The issue of who holds power is the fundamental political issue in any society. The democratic concept that it should be shared broadly remains the most revolutionary and difficult ideology of all. But it also has proven the most productive economically and in terms of human welfare.

20

TAB C

"Labor Policy and Economic Development"

by Juan Buttari

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LABOR POLICY AND ECONOMIC DEVELOPMENT

Prepared by Juan J. Buttari
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LABOR POLICIES FOR EMPLOYMENT IN DEVELOPING COUNTRIES

Juan J. Buttari, (USAID/Honduras)

Our interest on labor markets in developing countries revolves around two key issues: labor incomes and the employment/unemployment situation. Our goal is to contribute to the attainment of higher real wages for all workers. In order to attain such objectives the peoples in those countries have to meet the challenge of adopting adequate policy approaches. In this seminar we want to review policies open to them.

As I understand it, rather than attempting to present an all encompassing analysis of the different issues, or even, an exhaustive treatment of any of the possible policy measures, my role is one of suggesting or introducing areas for our discussion. In such light, what I will attempt to do is to point to a topic and raise questions, sometimes with brief comments, that might help us organize our discussions.

The topic assigned to me is labor policies and employment in economic development. I will take that topic to mean policies that directly relate to labor market agents (workers, firms or organizations, for example) or to labor market variables (wages and jobs, for instance). The common thread is that all are aspects of what one may call the labor market.

Such tack immediately raises a first issue. What is the relative importance of labor versus nonlabor policies vis-a-vis the goal of improving labor market conditions--i.e., wages and employment--in developing countries? In other words, if a government wishes to improve employment conditions in its country should it rely primarily on labor policies or on nonlabor policies?

My own sense is that both labor and nonlabor policies are of basic importance and that posing the questions as I have just done probably is an unfair simplification of the issue. Nonetheless it helps me drive the point that from this paper's perspective labor policies will be an effective tool only to the extent that they contribute to an overall policy setting which is favorable for the generation of productive employment. I will characterize a favorable policy setting as one which stimulates investment and the efficient allocation of productive resources. Accordingly, I submit that in assessing the adequacy for employment of a labor policy, it is a sound practice to question how it would affect investment and whether it would lead to using productive resources in activities where their marginal productivity is highest.

The above principles relating to the assessment of the soundness of labor policies for employment highlight the importance that in my view adopting a correct development strategy has for the employment situation. While jobs and wages, hiring and layoffs, occur--almost by definition--in the labor market, their long term trends will be fundamentally determined by society's decisions vis-a-vis such issues as the relative roles of the private and public sectors, the scope given to market forces in the determination of decisions as to how, what, when and for whom to produce, the degree of openness or protectionism in an economy, and so on. As policies relating to these aspects are by and large the subject of the panel dealing with nonlabor policies for employment I will not elaborate on them.

I hasten to reiterate that, while I see the overall economic policy setting as being fundamental for the employment situation in developing countries, this does not mean that labor policies are of marginal importance. They of course are not. Through them the overall level of costs is affected, and so are investment levels and growth potential. The relative price of factors is affected as well as and, consequently, the proportions in which productive factors are to be combined. It is becoming commonplace to mention that part of the problem is that some policies have the unwanted result of biasing relative factors prices against the use of labor.

Let me move now to the other policy issues I would like to raise. I will classify the policies in two groups. In the first one, which I will refer to as the wide policy areas, I will group issues of fundamental interest about which one can suggest basic principles but whose solution challenge policymakers in almost any country. The second group relates to narrower issues. (In the following comments I will freely borrow from the works of other authors.)

Wide Policy Areas

Industrial Relations

(a). Introduction. What is the importance of labor management relations for economic development? On what principles should industrial relations rest? What are the right specific policies?

(b). Discussion. Clearly this is a key issue for development and employment generation. The challenge is how to create a setting for peaceful relations between labor and management in a context of freedom, growth and development. What should the role of government be? What legal institutions should be supported?

Tense industrial relations discourage investment thus negatively affecting growth; on the other hand, a genealized feeling by labor that it is not remunerated in proportion to its contribution to production, nurtures social alienation and low productivity.

In democratic contexts, where, in addition, the government's direct intervention plays a decisive role in concluding industrial relations conflicts the issues are sometimes solved on the basis of political pressure. In such instances economic objectives tend to suffer. As governments will try to balance political interests they will tend to compensate the party which losses one issue by favorable decisions in other areas. For example, a decision favoring unionized labor might be compensated by fiscal concessions favoring management; analogously, decisions favoring management might be compensated by changes in minimum wages. The result is that measures which have important economic consequences are adopted on the basis of noneconomic considerations.

(c). Policy implications and issues. It seems to me then that a key issue is how to minimize or exclude the government's direct intervention in the bargaining processes. The objective should be to reinforce the movement toward freedom of negotiations and competitive labor markets. This raises the following issues:

-- What are the relative advantages and disadvantages of allowing negotiations on a firm level relative to industry wide negotiations?

-- What other rights can strikers have in addition to the right of their withdrawal from the production process?

-- What should the scope of a bargaining process be? Should it extend beyond wages and conditions affecting workers in the bargaining union? Should there be restrictions regarding the use of nonunion labor, size of the labor force in the production process, investment decisions, etc.?

-- What are the right bases for grievance procedures?

-- Should the law allow more than a single union in a firm?

-- A frequent recommendation to smooth out relations between management and labor is the creation of boards where representatives of management, labor and government meet periodically to exchange views about matters of national interest. What has the experience of these bodies been?

-- What is the proper role of mediators and labor tribunals? What conditions should these entities meet?

Labor Legislation

(a). Introduction. The main point relates to the true impact of labor legislation in some developing countries. While in most cases such legislation attempts to benefit labor by setting favorable employment terms, it is felt by many analysts that, in some countries, legislation that covers the conditions of hiring and dismissal has had an unfavorable impact for the generation of employment.

(b). Discussion. For example, a key problem is that labor market legislation in some developing countries contributes to the creation of labor market barriers. Some common problems are:

* Restrictions to the right of employers to hire or dismiss workers. It is argued that in instances where this is a problem, the cost of hiring and dismissing is so high that, if investment takes place at all, firms prefer to apply capital - not labor - using techniques. Such result would of course be the opposite of what we would want for countries in which unskilled labor is an abundant resource. On the other hand, how can the policymaker prevent abuses by employers who enjoy monopsinistic advantages?

* Small enterprises that attempt to meet regulations are frequently especially hit. In fact, it would seem that much of the existing regulations that relate to business is a major factor for the expansion of the informal sector, i.e., the sector that so to speak lives on the fringes of the law in developing countries.

* Specific labor force groups are sometimes placed at a disadvantage. For example, maternity protection laws and other regulations whose purpose is to protect women, may have an adverse effect on the number of women hired.

(c). Policy implications. Accepting that there is valid role for protective legislation of the type we are referring to the issue becomes where does one draw the line? The two approaches we might want to discuss involve either attempting to make changes on an economy-wide basis or reducing or eliminating distortions within especially delimited areas, for example, in free zones.

Training and Education

It is very likely that we will all agree that training and education activities can make important contributions to development processes, to higher incomes and to the creation of productive employment. The issues relate to the definition of what are relevant education and training programs for employment and what are the best mechanisms for implementing them. Specifically in the area of training, one important issue relates to the relative emphasis that should be placed on in-plant on the job training compared to training in ad hoc institutions. There is also the question of how to link formal training programs with the labor market. One answer involves encouraring an active participation by the private sector in the setting of formal training schemes. Another issue relates to the targeting of specific training programs on the long-term unemployed or on workers whose skills have become obsolete, so as raise their employability.

Placement and Job Counselling Services

Cost effective services can contribute to a more efficient and fuller utilization of human resources. In order to be effective, employment placement institutions must forge close ties with the business community. Although this is a key aspect, it is also where many of the institutions have failed. It is important that the private sector be encouraged to take an active role in the design of training programs and in helping identify activities and skill requirements for which the supply of jobs is likely to expand.

While the unemployment situation in developing countries is primarily not a result of labor market inefficiencies—and thus better employment services will have only a small impact on overall unemployment—the distributional potential of employment services should not be neglected. Employment services are one resource traditionally open to unexperienced low-income workers and to the long-term unemployed. As employment information and channels are frequently heavily influenced by relatives and friends, low-income workers are at a disadvantage. Accordingly, the neglect of employment and related labor-market orientation services would tend to adversely affect income distribution conditions.

It is also important to note that in some countries the operation of private for-profit placement institutions is forbidden by law. This is a mistake as the services of such institutions help add to the allocative efficiency of the labor market.

The Narrower Policies

Selected Wage Subsidies

No evaluation of how effective they have been and opinions differ. Frequently used in developed countries. Generally have been recommended as a way to reach particular population groups, youngsters for example. The objective has been to increase the employment opportunities available to the target group without raising general wages. It would seem to me that, to the extent is is feasible, a better approach is to do away with the constraints that tend to price those population groups out of the market; such alternative approach has the advantage of not distorting values as set by the market.

Job Sharing

Its essence consists in reducing the workweek per worker so as to make it possible that more than one person share a full time job. It promotes a wider distribution of employment and a lower concentration of unemployment. Other advantages attributed to it are that its greater flexibility in work schedule may reduce worker absenteeism and enhance quality work. Moreover, to the extent it succeeds in reaching otherwise unemployed youngsters, it enhances their future employability through work experience. Nonetheless, its economic minuses probably make job sharing not that attractive. As it involves dealing with a larger number of workers it raises managerial and supervisory costs; furthermore, it raises average labor costs because of the higher fixed costs of labor involved in hiring, social allowances and costs which rise proportionally with the number of workers hired rather than with the number of hours worked. It is likely to result in an increase in production costs adversely affecting those firms which have to bear them.

Industrial and Trade Policies

Involves the allocation of public resources in favor of selected sectors or industries which are said to have a promising potential or face transitory difficulties (sometimes the difficulties are alleged to be the result of practices in other countries). When resources are not directly allocated, through some type of subsidy for example, the policy may involve a high degree of protection against outside competition.

Clearly this approach has been practiced extensively in developing countries as the long tradition of protectionist practices reveals. What may seem relatively novel (but isn't) it its justification in terms of saving jobs or protecting the welfare of workers in the target industries by arguing in favor of a smoother transition. In my view the predominant effect of protectionism is to reduce jobs in the long run through the fostering of uncompetitive production structures.

Additional labor shifts

The idea is to raise labor capital ratios through the use of second and third labor shifts. The notion is that there is ample underutilized capital resources, machinery for example, which could support extra shifts. To make such extra shifts feasible it has been argued that what is required is the elimination of legislation which raises the cost of hiring labor for shift work or which impedes the access to such work of specific types of workers. While the concept of the extra shifts attracted substantial attention some ten years ago, its use never became widespread. It is apparent that there are important obstacles to its generalized use. Some of those obstacles may consist of an overestimation of the extent of underutilized capital resources, unwillingness of many persons to work at odd hours, managerial and supervisory personnel and uncertain demand. In any case, the elimination of shift wage premiums and institutional obstacles to the hiring of women after certain hours might make extra labor shifts attractive in some industries.

Use of public works projects

It is occasionally argued that infrastructure works can absorb substantial amounts of unskilled labor and that they are a useful way of generating employment. Moreover, it is also pointed out that they are a useful source of training. The record, however, is not encouraring overall. Not all infrastructure works can be efficiently carried out through the intensive use of unskilled labor. The capacity for an objective economic evaluation of such projects is frequently lacking. Administrative and supervisory personnel are often scarce. Labor costs sometimes are so high that the projects become uneconomic.

Subsidies to small enterprises

Clearly in many countries (including the U.S.) small enterprises are a dynamic source of productive employment. In many instances such firms do have a competitive potential and, furthermore, are an excellent channel for entrepreneurial drives. The problem is that subsidies don't make inefficient enterprises efficient. A better approach to such enterprises is: (1) to eliminate cumbersome regulation or red tape which, as indicated previously, forces many enterprises out of business or out of the formal market; (2) allow factor and product prices to reflect their real scarcity value.

Housing

As housing can be very labor intensive occasionally one hears arguments that favor investment in housing for its employment creating effects. The problem is that, as with any other investment, the economic evaluation of a housing project should rely on the conventional cost-benefit criteria used to assess investment projects. Partial criteria (such as the number of jobs, type of beneficiary, etc.) should take second place to efficiency criteria in the economic evaluation of projects. Moreover, not all housing is highly employment creating and the employment created through housing is largely transitory. In contrast, a factory or an irrigation project are sources of permanent employment.

A Final Point

The need for timely labor market statistics

Unfortunately, in spite of frequent lip service to the need to address what are presumed to be terrible labor market conditions, in many developing countries available labor market data are incomplete, too limited in coverage, not collected on a regular basis, obsolete, and of doubtful reliability. Moreover, on occasions, the information that is more or less systematically collected is vitiated by errors on definition. Data on labor incomes are almost always unavailable; statistics on unemployment often reflect arbitrary and faulty specifications.

Granted that the production of statistics lacks the glamour of the "pure" policy approaches. Nonetheless, solid policy requires a reliable information system on which to build. There is need for policy commitments to improve statistical systems for labor market analysis.

Drafted by: JJButtari/trm
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TAB D

"Strategy for Employment Integration"
by Jerry Jenkins

STRATEGY FOR EMPLOYMENT INTEGRATION

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Introduction

"Employment integration," exists to the extent that race, sex, religion, and other non-performance characteristics are not criteria affecting the employment of individuals. A strategy for employment integration, therefore, begins with the moral premise that the non-performance attributes of individuals should not be relevant to their employment and work.

More extensively, in order for employment integration to be accomplished, a strategy must be devised that will:

1. provide any individual with opportunities and benefits that are a function of the individual's performance and productivity, and

2. decrease the distribution among individuals of rewards that are a function of privilege, protection and/or prejudice, rather than performance and productivity.

The more this second component is fulfilled, the greater will be the value to individuals, and society, of the first.

Opponents of employment integration and of a strategy for accomplishing it comprise much, if not most, of the world's population. But apart from racists, sexists and other intolerants, it is quite possible that many, perhaps even a majority, of those in opposition are not consciously foes.

Indeed, opponents include people who intend to be friends of employment integration. But their emphasis on quotas, comparable worth and other quantitative objectives imagines equality of results to be either identical or complementary to equity, or fairness of process. Thus do friendly opponents confuse means with ends, and causes with consequences. Should this confusion in principle be realized in practice, the ensuing equality of minimal opportunity among individuals assures but one other equality -- poverty among all individuals.

Fortunately, an increasing number of friends by intent are becoming friends in fact. They encourage the judgment of individuals on their merits, leaving behind a confused world which fosters protection, privilege and prejudice, a world based upon privilege, regardless of performance...and upon protection, regardless of productivity. Hence employment integration has an expanding constituency, and the future of work in this rapidly changing world is so much the brighter.

Until employment integration is accomplished, however, recognition of the wide range of intentions on the part of its opponents -- from foe to friend -- recommends that a strategy for employment integration should focus on actions and their effects, rather than on the intentions which produced them. And, since "opponent" suggests intent, the term "exclusionary" will be employed for referring to actions and effects that are contrary to employment integration. This usage should become clearer in the following.

Including the Excluded: Strategy for Strategy

Identifying how individuals are excluded by privilege, protection and prejudice is the first step to be taken in devising a strategy for employment integration.

The second step is to determine what inclusionary elements would

5D

obviate the <u>effects</u> of exclusionary attitudes and practices.

The concluding step involves encouraging and implementing the inclusionary elements determined to be essential to employment integration. This step reflects a belief that the most useful strategy is one which anticipates its own application.

Among these three steps, the first two -- identification of exclusions and determination of inclusionary elements -- are intended to yield the basic elements in a strategy for employment integration. Completion of the first two steps in assessing employment integration in any two countries is apt to produce two sets of somewhat different elements. Thus, implementation will almost certainly be different in the two countries.

We should expect, for example, that somewhat different exclusions will be identified when assessing a minority Indian population in Uganda and a majority population in the Union of South Africa. An assessment of the latter might be found more comparable in its elements to the exclusion of native indians from the formal markets of much of Latin America by the mercantile (as opposed to market) capitalist exclusionaries who are European descendants. This contrast of exclusionary groups who dominate the formal economies of their respective nations emphasizes the fact that critical exclusions need not be formalized by the State, as in apartheid, to have comparable effects.

Indeed, in any country, the role of the state vis-a-vis exclusionary practices and consequences is best approached with open questions: Does it, by its activities (legislation, administration, etc.), formalize market exclusions, or does it counteract informal exclusions? Does it by its <u>in</u>activity (failure to develop and provide impartial adjudication of property and contract law, for example), thwart more inclusive markets, and allow, in the void, *de facto* exclusionary markets, or does it provide for these essential elements of an inclusionary market?

Adam Smith's admonitions against "private purchases of public power" addressed situations in which market exclusions could not be accomplished by private individuals and enterprises in the absence of state action. The warning against excessive statism is fine, but its applicability may be limited to but a small proportion of our planet. It is most appropriate to circumstances in which relatively competitive and non-exclusionary markets are already established.

Thus, inclusionary markets may be thwarted by (1) cultural factors (including race, religion and class) that intervene in country economies, independent from the state, and which yield *multiple* exclusionary markets; (2) state-created entry barriers (Adam Smith's focus); (3) mere formalization by the state of extant exclusionary markets; and/or (4) by state inactivity which allows *de facto* exclusionary markets. The fourth possibility may be the most prevalent obstacle to market and economic development in the world. In such circumstances, the other face of Smith's admonition prescribes the purchase, through a *more* active state, of private power (the guarantee of individual property rights being most essential). In any of these cases, however, "anti-capitalist capitalists," or mercantile capitalists, who would work to retain the fruits of their successes by denying to others the very same means that they employed in their own rise above subsistence, pose the most serious threat to those institutions which were essential to their own success. Hayek gets to the heart of the matter in

The Constitution of Liberty:

> the less possible it becomes...to acquire a new fortune, the more must existing fortunes appear as privileges for which there is no justification...A system based on private property and control of the means of production presupposes that such property and control can be acquired by any successful [person]. If this is made impossible, even [those] who otherwise would have become the most eminent capitalists of the new generation are bound to become the enemies of the established rich.

Marx seems to have had in mind the mercantile capitalist when he coined the word "capitalist." Perhaps Marx was never opposed to free enterprise; perhaps he merely believed it could not last -- that it could not survive those "successes" of free enterprise who would deny the possibility to others. And just maybe most people in the so-called Third World share Marx's conception. If whatever exists that is not communist is, by that fact alone, deemed "capitalist," then the prima facie case against capitalism is substantial. Worse, yet, there would be no apparent proponent for market capitalism. And, with that, the prospects for employment integration would be placed in dire jeopardy.

In the remainder of this paper, attention is focused, first, on the exclusions formalized by government, and, then, on the exclusions allowed by government inactivity. Resulting from the latter, however, we see evidence of the informal development of institutional elements that are both required by an inclusionary market and required for employment integration. Indeed, the burgeoning underground economies of the world are seen filling the void created by inactive government. As such, the development of what can only be common law and informal governance of individuals in underground economies shines new light on the essentials which too many formal governments are failing to provide their citizens. At the same time, the world's informal economies would not exist but for the exclusionary effects of overly active governments. It is to the policies of the latter that we now turn.

Exclusionary Effects, hence, Anti-Development Policies

The policies of governments which effectively exclude most of their citizens from the opportunities that would otherwise be available are so numerous that a complete accounting would require a substantially longer paper. The attention here -- to what are usually termed, "macroeconomic policies" -- is adopted for the reason that the weight of the burdens imposed by all of these governmental interventions are inversely related to the wealth of those upon whom they fall. Because excluded minorities, and majorities, are disproportionately represented among the Third World's poor, this means that all of these burdens fall more heavily upon them. These burdens are the effects of exclusion.

Any itemization of exclusionary, and, hence, anti-development macroeconomic policies should include the following:

1. Parastatals and government participation in ownership. Not only are parastatals an inefficient way of doing business, they typically preclude private citizens from the opportunity to produce for themselves and others, and enable governments to exclude individuals from employment in the absence of formal exclusionary legislation.

2. Protectionism. Import quotas, tariffs, and other barriers to open international trade restrict both the import and export of goods. Though some producers and their employees may experience short-term benefits from these practices, all consumers experience increased costs, and they are disproportionately borne, relative to benefits, by the excluded poor.

3. Barriers to market access. An overload of bureaucratic requirements expands the time and effort involved to such a degree that the complex procedures

54

become a deterrent to the acquisition of business licenses. Add to this the high price of business licenses, and it is clear that the entry of individuals who are now excluded from the formal economy is being discouraged by its occupants, and that those occupants have purchased public power to effect the exclusions.

4. Prices. Government price-setting decreases the incentives for individuals to produce those goods and services for which maximum prices are fixed at artificially low levels. The proclivity among Third World governments for this form of economic control is frequently linked to a desire for controlling urban unrest; hence, low farm gate prices in order for food to be "cheap" in the cities. However, the discriminatory tax which this imposes on farmers decreases their incentive to produce above subsistence and/or what they can barter or sell in the informal economy. Thus, cheap food frequently means less food, and urban unrest joins that in the rural areas, anyway. Price-fixing policies also reinforce the maintenance of parastatals, for these can ensure enforcement of the policies.

5. Credit and interest rates. As with prices, government-mandated rates of interest are typically below those which reflect the supply of, and demand for, capital. Saving is thereby discouraged, while capital outflow is encouraged. The very poorest of a country's residents do not benefit since individuals with collateral will absorb all available scarce capital at the below-market rates.

6. Exchange rates. Governments frequently overvalue their currencies relative to others. This joins below-market interest rates in encouraging the flight of scarce capital. Overvaluation also subsidizes imports, while decreasing the external demand for those goods produced in the country. Thus, production of what could be exported is discouraged, and the ability of domestic producers--most especially, small producers--to survive the onslaught of "cheap" imports is jeopardized.

7. Rent controls. These discourage the production of housing, and the employment for its production, thereby "succeeding" two-fold leaving more people--disproportionately the poor--in need of both jobs and adequate shelter.

8. Wage controls. Wages that are mandated above the value which the demand for, and supply of, labor warrants has the same effects on domestic production and employment as does the other significant overvaluation which governments employ--currency

overvaluation. And, like the latter, it also discourages exports and employment by its effect on prices of produced goods.

9. Foreign investment restrictions. Discouragement of foreign investment is a virtual equivalent of the capital outflow that is encouraged by other government policies, e.g., undervalued interest rates and overvalued exchange rates. It retards technology transfer as well as the income which increased employment of labor generates. The existence of parastatals tends to encourage both these restrictions and those which limit the amounts of domestic investment in what would be, or are, competing firms, and their greater propensity for employment integration.

Though not exhaustive of the exclusionary policies of Third World governments, these are foremost among their prescriptions which preclude employment integration, and, hence, development. In recognizing these policies, we at one and the same time identify how individuals are excluded from a process whereby their opportunities and benefits may be commensurate with their performance and productivity.

In these cases, the required components of a strategy for employment integration are fairly obvious: (1) the means by which individuals are excluded by privilege, protection and prejudice are identified; (2) the determination of inclusionary elements for effecting employment integration yields, at least, private property rights, contract law, impartial adjudication, competition and choice, and unrestricted interplay between supply and demand; and (3) the implementation of these inclusionary elements can be largely effected by simply eliminating the exclusionary policies.

However, as all of us know, simply eliminating exclusionary policies is never simple. Wherever they exist, there are vested interests in their retention. Building alternative constituencies in favor of inclusionary policies is likely to be necessary for the political life of any government which seeks to implement them. This is entailed by policy dialogue, both within and between countries.

A testimony to the effects of exclusionary policies is the accelerating growth of underground economies. Indeed, their very existence cannot be accounted for in the absence of formal government policies. Fortunately, these informal economies demonstrate that inclusionary elements for obviating the effects of exclusionary attitudes and practices do not require extra-ordinary effort and expense on the part of formal governments. They demonstrate that inclusionary practices and employment integration are created as a natural outcome of the interdependence of individuals acting on their aspirations.

Inclusive Undergrounds: Shedding Light on Employment Integration

The liveliest food markets in many parts of Africa are "black markets" for food along border areas between countries. Not a great deal else is available when the principal market within countries is comprised of marketing boards and parastatals which are the principal enforcers of their own cheap food policies.

Efforts by excluded farmers, principally women, to escape from the tentacles of government planning and enforcement, evident in illicit food markets, is certainly not confined either to African countries or to rural areas. All of the macroeconomic policies identified in the preceding section contribute to the burgeoning underground economies of Third World cities.

Ranging up to 70 percent of the potential labor force in some countries, informal economies comprise a substantial part of Third World economic activities. The growth and stability of the informal sector defies explanation in the absence of the formal policies of governments which retard growth of, and, hence, employment in, the formal economy. And, as in Hirschman's Exit, Voice and Loyalty, those citizens with least access to either the formal economy or formal government deliberately exit. It is not surprising that women are predominant in the informal sector of Third World economies; for them, gender is but one more non-performance characteristic, in combination with others, to be employed by exclusionaries as a criterion of employment. But their predominance in the underground is testimony to the employment integration of informal economies. Indeed, judging from Jason Brown's summary of his field notes collected in many different settings in the contemporary Third World, they appear to be more than that:

> It is women who are the forefront of small business activity worldwide. Interviews suggest that through business they obtain a sense of self-worth and independence which might not otherwise be available to them. When these businesswomen have been organized by voluntary organizations in such countries as India and the Philippines, they have developed leadership and other skills of great value to their families and their communities. In the search for social and economic equity it may well be these organized businesswomen who will be the impetus for change.

Third World governments appear to be increasingly appreciative of the value of their informal economies, but seem unable to act upon their lessons. Thus the importance for employment of the "informal sector" has been acknowledged, and governments have proposed to strengthen it by an increased availability of credit and technical resources. It is not surprising that such efforts are typically unsuccessful. After all, there is a built-in Catch-22. By accepting assistance from formal governments, participants in underground economies reintroduce themselves to that from which they have fled.

The direction of assistance needs to be inverted -- transferring policies from the informal sector to the formal, and saving the money that might have been provided as formal inputs into the informal economy. This year, for the first time, public statements by a member in good standing of a formal government have acknowledged the true importance of the lessons to be learned from underground economies. In the words of an Ecuadoran official in the Febres Cordero administration, "we are legalizing the illegal." In doing so, of course, they were substituting the underground's inclusionary policies for such exclusionary policies as were addressed in the preceding section. There is evidence, then, that governments are beginning to appreciate how much they can learn from their citizens.

Since the majorities of Third World populations are actively engaged in informal economies, and since women predominate in those economies -- both as entrepreneurs and as heads or principals of households -- the institutional framework is being established for societies in which basic human rights are honored, regardless of sex, and in which the correlative responsibilities of individual rights are honored in practice. The fulfillment of employment integration in informal economies is consonant with the fact that no development worthy of individuals can occur in the absence of these basic institutional elements.

The validity of this observation is embodied within the operation of the closest thing to "free economies" that most Third World countries enjoy. The institutional development taking place in informal economies appears to be replicating what occurs in any country whose citizens are blessed with genuine constitutional liberties. Nowhere is this development being recorded more assiduously than in Lima, where, for the past three years, the Institute for Liberty and Democracy (ILD) has enlisted fifty-five researchers -- anthropologists, students, lawyers, economists and off-duty policemen -- in compiling over 20,000 documents regarding Lima's informal economy.

> With this large volume of informal business, an underground legal code has developed that ignores the inefficient laws that drive people into the underground in the first place. This code is so powerful and pervasive that underground businessmen can dependably make deals with each other and the legal sector that could never be enforced in a government court. In Lima, for example, street vendors command prices of up to $750 for sale of their business locations, although they hold no legal titles to the spots.
>
> (Rosett: 31)

In fact, participants in the informal economy may have better fortune with judges from the formal sector than does the rest of the society:

> ....Informal contractors sometimes hire off-duty judges to arbitrate disputes. While some of these judges take bribes when working for the state, they cannot afford to do so when working for the underground. If word gets out that they are crooked, they will not be hired again.
>
> (Rosett: 31)

Abundant evidence, from a wide variety of underground settings, indicates what <u>would</u> be experienced in the above-ground economies of less developed countries were it not precluded by government policies. While "planning" the operations of formal economies, these policies establish only the <u>boundaries</u> of informal economies. The latter are governed by their participants, providing self-governance in the Third World with perhaps its strongest testimonial. In the process, most people in the Third World are building the institutional structures which are best able to make the most of whatever positive changes might occur in the macroeconomic policies of governments. Furthermore, this success may have as much effect for bringing about change in formal exclusionary policies, as it has for responding to those changes whenever they might come.

This possibility is suggested by the fact that, just as government policies impose on citizens opportunity costs which result in underground economies, so too does expanded growth and wealth of those informal economies create opportunity costs for the corresponding governments. The greater is the wealth that is moving into and being generated by the informal economy, relative to the rest of the economy, the heavier must be the burden of government revenue-raising on the formal economy. A rising tax burden, in turn, increases the incentives for additional exiting from the formal to the informal economy. And so, a vicious circle of escalating opportunity costs for government can bring it to do later what should be done now.

The impetus to implementation of inclusionary policies and employment integration that is provided by underground economies brings us to ask a concluding question. What can any of us do to assist this process, and how might we be most likely to succeed? A strategy for employment integration asks us to participate in change, rather than merely experience its consequences. Our answers might positively contribute to changes of greater inclusion in countries and the world. If they do, the quantity and quality of future work will be far brighter.

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62

TAB E

"Employment and Enterprise"

by Manuel Tanoira

63

EMPLOYMENT AND ENTERPRISE

Manuel Tanoira

Former Argentine Secretary for Growth Promotion

Summary

- More than ever before, integration of individual economies in the world economy is essential to the survival, let alone prosperity, of their respective countries.
- Food and raw materials production, as well as manufacturing, require less employment, for the same tasks, than ever before.
- Industrialization is a must, even for non-developed nations.
- Efficiency can be achieved only through free enterprise and the reduction of both the size and intervention of the state in the economy.
- Privatization is a most important tool for increasing the efficiency and, hence, employment of national economies.
- Actions designed by governments for the protection and expansion of employment often only succeed in reducing its quantity and quality.

Trends in the World Economy: Countries in Context

The world economy has changed; not cyclically, but irreversibly. No longer can the economies of individual countries be isolated from the rest of the world and avoid stagnation. The interrelationships among countries are now, more than ever, paramount to the prosperity of each. Countries ignoring these facts are condemned to falling behind. Examples like West Germany and Japan show that countries accommodating their economies to global trends have prospered, while those most closed to the world economy have suffered.

The human, material, and capital resources of each country should be concentrated in those areas where they have the greatest comparative advantage. Without being open to the world economy, and competition, a country may fail to discover which of its products or services would be most successful abroad, and, hence, provide greatest employment at home.

Expanding Food Production; Declining Employment

Contrary to predictions, in the last decade food supply grew much faster than demand, rising by 1/3 between 1972 and 1985. This growth was relatively higher in the less developed countries. Traditional food importers in the non-communist world are fast approaching self-sufficiency, and will probably become exporters in the near future. China is expected to become a net-exporter around the year 2000.

Over-supply of food translates into declining agricultural employment. Compounding the problem for developing countries is the continuing subsidization of overproduction by governments in the "developed" countries (especially the U.S. and European Community). This leaves the traditional food exporters with a grim future regarding prices for their commodities.

The trend in productive capacity is irreversible, since farm machinery, biotechnology and fertilizers will keep raising yields and opening new lands to agriculture. As a result, more food will be produced around the world by fewer people.

Third world countries can anticipate reduced farm populations because of declining prices for producers. In order for the farmers who remain in business to stay in business, and in order for them to sell their surpluses, the price declines must be a function of increases in producer efficiency comparable to those in the rest of the world. Even then, the surpluses themselves must be reduced, for the market will be shrinking as competition is intensifying.

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Raw Materials: Increased Supply; Decreased Employment

Supply of raw materials and forest products has increased by 20 to 30% in the last decade. But demand has not risen accordingly. Today, 100 pounds of fiber optics transmit as many communications as a ton of copper. And glass fibers are manufactured using only one-eighth the energy needed for copper. In a microchip, materials and labor represent less than 3% of its total cost. These factors have caused a general decline in prices for raw materials, which in April of 1986 were at their lowest levels in recorded history; lower, even, than those during the Great Depression.

The global economic equation where countries exported raw materials in exchange for manufactured goods is being rapidly altered. Third world countries must diversify their exports, with manufactures and services having a greater weight. Much can be learned from the recent history of developed countries in which once-central raw materials sectors have become marginal.

In the late 1920's, for example, one-third of the U.S. population was in farming, producing 25% of GNP. Today, 5% of the population remains in farming with an even smaller proportion of the GNP. Between 1972 and 1985, industrial production measured in dollars rose by 40%, but manufacturing lost 5 million blue-collar jobs. Total employment rose from 82 to 110 million, mainly in non-manufacturing, non-blue collar jobs. These changes are not unique to the U.S.; they are reflections of a changing world.

Industrialization: Avoiding the Past in Our Future

In the past, the process of industrialization involved large investments in steel mills, chemicals, and the corresponding infrastructure of energy and transportation. When this process is introduced into a country with no industrial tradition, inefficiency is the frequent result. Being uncompetitive in the world market, the new industries must run at low production volumes for long periods of time in order to amortize their investment. Moreover, it is usually difficult to keep the large investments of traditional infant industries updated technologically, so even longer production runs are required by obsolete equipment.

Typically, these inefficiencies are coumpounded by government subsidies and other protections which are intended to enable the new enterprises to survive. Tariff barriers erected to protect inefficient domestic industries mean that a country's consumers must pay for their goods at prices above international levels, and have less money for the purchase other goods which are efficiently produced. Thus do protectionist policies yield perverse success. They succeed in denying the economic justification for producers to retool, change models, and invest for innovation -- those things most likely to expand exports, production and employment.

The inefficiency which protectionism encourages has an inexorable price, which is eventually paid by the whole population, but is disproportionately borne by those who have less and are closer to the subsistence level. Protective policies result in underemployment, and the discouragement of individual development. In general, it is better for individuals to have inefficient jobs disappear, so that new, more efficient ones can emerge. The more efficient is a job, the more it can pay, and provide opportunities for growth, to workers. Featherbedding is as bad for a national economy as it is for an individual company. The policies which encourage it typically end up causing more harm than good for those whom they purport protect.

Putting all of these considerations together, it is not difficult to understand why industrialization has frequently become more a burden than an asset to a country's economy.

At the same time, industrialization is obviously possible in less developed countries. Otherwise, there would be no countries known as NICs (Newly Industrialized Countries). These include, at least, Singapore, South Korea, Taiwan and Hong Kong. The governments of these countries have been generally less prone than have other LDC governments to protect their businesses from either internal or external competition.

Furthermore, other dimensions of this changing world make new industrialization <u>easier</u> for LDCs than ever before, but by new <u>modes</u> of industrialization.

<u>New and "Exposed" Industrialization for a Changing World</u>

World industrial trends point to smaller plants, placed strategically close to the markets. No longer do automobile plants have to be near iron mines. Transportation of knowledge replaces freighting goods. Better communications, planning and control allow the proliferation of subcontractors. Production is atomized and the self-sufficient industry has virtually disappeared.

The same tools have made possible improved management. You don't have to be General Motors to have the best possible management. On the contrary, once certain company dimensions are exceeded, the advantages of size begin to work against efficiency. The trend is now to divide into smaller units in order to better manage an

68

enterprise. This is go news for countries which need to industrialize. It allows them to produce efficiently at relatively lower volumes, without large capital investment and using state of the art technology which can be more easily updated.

A country becomes part of the global economy as its industry produces those things which they can most efficiently produce and imports those which others can most efficiently produce. As an example of this relationship, IBM in Argentina produces almost 40% of the computer printers sold by the company throughout the world. It exports over 100 million dollars a year. A group of local subcontractors was taught to make the cases, special electric motors, etc. They are using the acquired know-how and large production volumes to export to other printer manufacturers around the world, at competitive prices. IBM imports other computer components to sell complete installations locally. The trade balance is positive for Argentina and local users purchase equipment at international prices. This exemplifies the means by which the economies of individual countries can be combined to achieve overall efficiency.

Thus did the Argentine government deny those whose short-term benefits invariably translate into demands for "protected industrialization." Such an approach would have restricted imports in an effort to produce the whole computer system locally. Due to small local volumes, Argentine consumers would be condemned to higher prices. And producers would benefit, if at all, in the very short-term. Because the time required for obsolesence is shorter than ever, those attempting to protect themselves are more likely than ever to succeed only in penalizing themselves.

Between "exposed" and "protected" industrialization, the differences in initial employment might be slight, but they widen rapidly, with increased protection resulting in decreased enterprise, productivity and employment. Any job within a declining, protected industry is said by proponents of protection to be a job "saved" by the protection. This is obviously a self-fulfilling proposition which neglects the jobs "lost" to producers in other countries.

Public Enterprise and Employment "Saved"

The ultimate in "protected" industrialization is exemplified in Argentina and other countries by "public" enterprise. Many state-owned corporations were, in fact, once private businesses which were failing due, at least in part, to the "protection" they received. The "answer," in these cases, seems to have been that if a little protection yields bankruptcies, then surely a lot of protection will generate profits.

The "protections" of public enterprises are substantially more difficult to eradicate than are those provided private enterprises. This is due, in large part, to the fact that public enterprise puts the State into the direct position of "saving" jobs, rather than that of encouraging the creation of work by the increased enterprise of its citizens. Thus by its ownership of businesses, the State is even more inclined toward preserving employment and salaries by avoiding competition than it otherwise would be. As with protectionism, more generally, such government involvement tends to increase capital, salaries and employment in other countries -- those which foster competition and allow market-determined prices.

Argentina, since 1943, when Peron came to power, serves as a textbook example of protectionism's negative effects for a political economy. Entire industries -- transports, communications, energy -- were "nationalized" with full monopoly status. Many other companies, in diverse sectors of the economy, were subsequently transferred to the State. If these companies can be said to "save" jobs, it is clearly at the expense of other jobs, for they uniformly fail to generate profits -- thus those jobs are "saved" only as all other Argentinians finance their losses. Other jobs which could have been financed by the money and credit transferred to public enterprises are thereby sacrificed in order to perpetuate employment which costs all Argentinians more than they benefit. In short, inefficiency preempts efficiency. And the perpetuation of inefficiency prevents the discovery of efficiency and the creation of new employment.

Some examples might help: (1) National railroads lose about $3 million per day; maintenance is very poor and service is disastrous; (2) the national airline loses $900,000 per day and has twice as many employees per plane as do private companies; (3) even though 25% of the country's gas production is vented due to a lack of facilities, the officials of Gas del Estado, the state-owned gas distribution company, succeeded in legally preventing private enterprise (even cooperatives of users) from installing, financing and managing their own networks; (4) YPF has the dubious distinction of being the only oil company in the world to lose millions of dollars per day; (5) 7% of Latin America's telephones are in Argentina, down from 45% in 1945, when the national phone company's monopoly was established.

The most apparent cost of all this is the combined deficit of the state-owned enterprises. In 1985, it was the equivalent of 2.7% of GNP, or 75% of the total budget deficit. This would have been enough to pay for over half the service of the country's $50 billion external debt.

Unfortunately, the losses in dollars of public enterprise pales in comparison with the social and economic harm which people must endure as a consequence of this ultimate form of their protection.

Public and other protected enterprises do not encourage the growth of either enterprise or employment because they discourage efficiency by preserving the inefficient. A case in point. Though fares were fixed by the government, a private local airline succeeded in taking away passengers from the national airline by the only means it could -- providing better service at less cost. And the government's response to this benefit to consumers? A law prohibiting private companies from carrying more than 50% of the traffic. Worse yet, the law forbade private companies from serving neighboring countries, and those routes were eventually taken over by foreign airlines, resulting, as protectionism does, in increased employment for unprotected others.

Public enterprises expand the social and economic harm of protectionism, but assume a position of ultimate threat to the stability, let alone the well-being, of a society when those enterprises adopt a monopoly position -- protecting themselves, and presumably everyone else, from competition. More than the money which government thereby costs citizens is the loss of respect by citizens for government itself.

If democracy requires respect for governmental institutions, what are the consequences when a monthly "protection fee" must be paid to telephone company employees in order for phones (installed at fees of $1,000 for homes and $3,000 for businesses) to regularly work? Monopoly begets corruption. And along with the respect of people, it also diminishes their prospects for useful employment. After all, when Argentinians have to wait up to 25 years to get a phone installed, which then does not work properly, we are obviously looking at a market in which demand far exceeds supply. And the response to this perfect opportunity for expanding employment? Well, the phone company's officials oppose letting cooperatives or other private companies install their own networks.

Real Enterprise and Employment Growth

The preceding should enable others to understand my belief that real enterprise is private enterprise. It should also assist in explaining the importance which I attribute to privatization for the growth of both enterprise and employment. Finally, though present space constraints prevent me from itemizing the many means for accomplishing privatization, it will surely be understood when I assert that de-monopolization is the single-most powerful tool for realizing privatization.

State monopolies should be abolished. This would not require the dismantling of the companies, but only their exposure to the rest of the world. Removing protection is the principal route to privatization with expanded enterprise and employment. Though this paper has concentrated upon the more extreme forms of protection, other deregulatory efforts would directly contribute to privatization and its positive consequences. Thus de-monopolization should be accompanied by deregulation of prices, tariffs, exchange rates, wage rates, severance requirements, and many other factors which inhibit efficient enterprise and employment.

I recall some figures published by the Soviet government which vividly illustrate the real growth of economies and employment to be anticipated from private enterprise unburdened by "protection." Russian farmers working in communes were individually provided small plots of land from which they could grow food for their own consumption and freely sell any surplus. These lots comprised only 3% of the cultivated land in the Soviet Union, yet produced 27% of the food. Free enterprise here was 9 times more efficient than socialism! This explains why among the developed countries, only the communists are net food importers.

Recipes for Improvement

Integration with the global economy has always been the best means for improving the standard of living of a country's population. Today, the dynamics of a rapidly changing world make such integration imperative for economic survival. In order to avoid decline, or demise, in today's world, certain conditions are required of all countries:

1) Be efficient relative to the rest of the world. Allow, by both internal and external competition, the concentration of resources in those areas of greatest comparative advantage.

2) Promote the accumulation of capital in private hands, where it is more efficient. Without capital, efficiency cannot keep up with the rest of the world's.

3) Educate and retrain human resources. As proved by Japan's success, these resources are far more important than raw materials.

4) Do not try to protect jobs. As history has shown, the effects are usually contrary to what is intended.

Change is both inherent in and essential to these prescriptions. Though human nature resists change, human well-being requires it. Institutions must enable individuals' to both succeed and fail, for where failure is not tolerated, success is impossible. Efficiency cannot be realized if inefficiency is tolerated, and, worse, consciously perpetuated.

We often hear that it is better to have a badly paid job than none at all. Although this may be true in the short term, no system can remain alive without letting its components -- entrepreneurs and employees, alike -- prosper. If allowed to work, the laws of capitalism, as a system, naturally contribute to an economy's health, including its capacity to perpetually respond to constant change. Resources are automatically allocated according to efficiency. The inefficient disappear from the market and new products, companies, methods, and jobs replace them.

Economies waste resources in artificially maintaining the inefficient. We should accept the processes of bankruptcy, absorption, mergers, new businesses, and free competition, as we accept life and death. They are essential to the best work of people and economies that work best. Wherever they are not allowed to occur, enterprise, employment and the general welfare are placed in mortal jeopardy.

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15

TAB F

"Employment and Growth Potential in Latin America"

"Employment and Growth Potential in Asia/Near East"

"Employment and Growth Potential in Africa"

by Jayant Kalotra and Donald Bowles

EMPLOYMENT GENERATION EXPERIENCES

LATIN AMERICA, ASIA AND THE NEAR EAST & AFRICA

by

Jayant S. Kalotra

EMPLOYMENT GENERATION EXPERIENCES

LATIN AMERICA, ASIA AND THE NEAR EAST & AFRICA

Points for Discussion

I Objectives of these sessions:

- o Analyze problems related to employment generation in Latin America, Asia, the Near East and Africa by:
  - Organized and unorganized sectors (including parallel economics),
  - Self employed, tiny and cottage sectors vs. medium/large sectors,
  - Uneducated and semi-literate/educated,
  - Ownership - private and public.
- o Analyze direction of aid/loans by multilateral and bi-lateral funding agencies by sectors as per first objective above.
- o Review a few representative employment generation projects.
- o Sharing of experiences on employment generation by delegates.
- o Issues for Consideration:
  - Policy makers
  - Academicians, thinkers and consultants
  - Aid/funding agencies

II Limitations of the study:

- o In addition to the unorganized sector, inadequate and imperfect statistical and case study data, even in the organized sector.
- o Significant differences in circumstances and experiences of countries within the regions.
- o Each country desires to maximize a number of policy objectives (growth, employment, income distribution, self reliance etc.) and therefore simple guidelines to increase employment potential cannot be considered in isolation from government policies.

III The scope of the problem:

- o Substantial open unemployment - mostly measured by the employment rate.

- Under-utilization of labor - difficulty in finding jobs, acceptance of part time/seasonal employment, high turnover rates and very low productivity.

Employment generation and income distribution are related since there are substantial and increasing numbers of people available for work who are unable to maintain an adequate standard of living based on the employment opportunities open to them.

IV Profile of labor force that cannot meet the basic human needs and thus must be a priority for employment generation:

- A part of unorganized/parallel economy. Labor in the "modern" sector does have problems, but they are in no way, the poorest of the poor.

- Belongs to self-employed, cottage and household industries (1-9 employees) or small scale industry (10-49 employees). In most developing countries, businesses employing 5 to 49 persons account for nearly 90 percent of all manufacturing firms with 5 or more persons. Over 95% of total economic activity.

- More likely to be in agricultural and rural sector. 70% of labor Force was in agricultural sector in 1980 in rural low-income economics.

- At most, would have some form of primary education (31% of school/college age-group enrolled in secondary schools in low income countries and only 4% of those entered for higher education in 1983).

- Belongs to privately owned businesses as Governments and Government institutions (including public enterprises) do not generally employ labor force with such a profile except in construction, surface transportation and utilities sectors.

V The true impact on employment of aid and developmental loans - an overall review:

- In my analysis, I am not contesting the basic economic truism. Inputs of capital into any sector of the economy would have multiplier effects on other sectors. For instance, growth of the organized sector, no doubt, increases demand for farm products, but the true uplifting of the poorest of the poor can only take place by generating employment of the labor force profiled in Point IV and by substantially increasing the productivity of such labor force.

- A review of the major multilateral and bilateral agencies indicates that a very large majority of aid/loans is to build the capabilities of government institutions, including the public sector with minimal direct and marginal multiplier impact on the poorest of the poor. Their assistance is mainly to organized/large sector predominantly in the government. It is generally contended that projects in agriculture and rural development, development finance companies, small scale enterprises and urban development generate employment for the needy. Experience has, however, shown that small farms, unorganized small industries and self-employed benefit little from such funds. These projects do, however, generate temporary employment during the construction stage - aiding the needy but without a longer term solution of their problem.

- Most major multilateral and bilateral agencies have tried to build the capabilities of government institutions to promote economic development, with only a few initiatives to stimulate the private sector. For instance, IMF, The World Bank, USAID, Inter American Bank, Asian/African development Banks mostly lend/aid the government, including public enterprises. Smaller agencies, e.g. IFC, Caribbean Basin Initiative, the recently created African Project Development Facility, with substantially lower budgetary allocations are specifically set up to assist the small and medium industries in the private sector.

- The constraints associated with development banks, understandably so, are the need for securing the loans, seeking government guarantees or verifiable end-use of aid. Thus the "bank" aspect of development banking becomes more important than the "development" aspect, itself. Aid is limited by the need for accounting and justifying the soundness of each project. Entrepreneurial, innovative and creative methods of aiding the true development to meet human needs, while extremely desirable, become difficult in implementation.

VI Public sector projects and employment generation:

A review of the projects approved by any of the leading multilateral and bilateral agencies would indicate that major outflows are to public sector enterprises. Moreover, these enterprises require large funds for which governments provide guarantees. As a result, on a first look, it can be argued that public sector enterprises generated more employment than the private sector and could be a good vehicle for uplifting the poorest of the poor. The following factors should, however, be borne in mind.

- Increase in employment resulting from improvements in industrial policies are likely to be small, relative to the labor force: if the rate of growth in industrial employment in the lower income countries more suddenly doubled, the industrial sector would still only absorb about a third of the annual increment in the labor force."

- As against the low employment percentage, gross fixed capital formation (GFCF) in the public sector is substantially higher. In India, the GFCF was 22.4% in 1982, compared to public sector employment of only 7.9% of the labor force.

- Moreover, employment generation through public enterprises is crippling the economies of Third World Countries, due to their dismal performance. For example, in India, public enterprises attracted 5.1% of GDP as investment with no savings, whilst the private sector absorbed only 8.1% of GDP out of 13.1% savings, the excess being diverted to public enterprises. In value terms, public enterprises drained nearly $2.9 billion in 1983 from the Exchequer, which should be added to the total labor cost of nearly $3.3 billion to evaluate the true cost of employment generation of 1.89 million employees.

- It appears that the massive investment in public enterprises - in India, $30 billion, at best solves a small part of the labor problem and that too at exorbitant costs.

VII Private Sector Project and employment generation:

There are only a few examples of private sector projects relating to our targeted work force. All are not success stories, because of the very difficult nature of financing and promoting employment and productivity of self-employed and cottage industries. The International Finance Corporation (IFC) has lead the success in this area, as evidenced by the fact that it has reached a major landmark in lending to the private sector. The creation of the Africa Project Development Facility and the Private Sector Division in ADB are further encouraging signs of the wisdom in boosting the role of private sectors in development.

<u>Latin American Examples</u>

- Guatemala - La Perla Plantation

  The La Perla Plantation, a showcase for worker stock ownership in Central America, not only drove impoverished farmers away from subsistence farming into more economically productive ventures, but also provided them with a stake in the democratic economic system that will diminish the appeal of Marxist rhetoric. These farmers, not only obviated the need for La Perla owners to sell their plantation when an approved loan was cancelled by the Central American Bank for Economic Regeneration (set up by the organization of American states with U.S. support) but also ensured continued employment for 500 laborers. The proof of the success of this experiment is that the laborers earn a slightly more than average per capita income in Guatemala, own a general store that sells food and clothes on the plantation, have exclusive rights over about one-tenth of the plantation where they can grow whatever crops they wish and collect the profits. The workers are paying for their shares in La Perla S.A. over a 10 year period through payroll deductions. They enjoy full voting rights and occupy nine of the 10 seats on the Board that manages the plantation. Moreover, they have formed a civil defense militia to fight the communist guerrillas.

It is worth considering as to the role AID can play in such ownership projects for donor support.

o Assisting Women Entrepreneurs

In 1980, the human Resources Section of AID's Program and Policy Coordination Branch awarded a contract to provide grants to women owned productive enterprises operating in the unorganized sector. The grant covered the cost of equipment, training and initial production. Five projects were selected in Brazil, Costa Rica, Honduras and Jamaica. The project benefited approximately 100 uneducated and semi-literate women, who were engaged in street vending, agricultural labor, sewing and domestic labor. In December, 1984, all the project were operating - three of them were generating income and sufficient working capital for cost-effective production.

Asia and Near East Example

o Models of Development - Taiwan and South Korea.

The examples of Taiwan and South Korea are most significant in the study of employment generation in the Third World Countries. Between 1965 and 1981, employment increased by 3.4% and 3.7% in Korea and Taiwan respectively, as compared to population growth of 1.9% and 2.3% respectively. Labor productivity improved by 5.2% and 5.4%, whereas real wages in manufacturing improved by 7.9% and 7.3%. These two countries, on the footsteps of Japan, are knocking on the door of developed country status, due to their increasing real GDP per capita.

While there are many social, political and cultural factors responsible for growth, equity and low employment rates, good economic policy has also played an important role. These two countries have followed Japan's example in taking up certain lines of light manufacturing and later upgrading to more sophisticated and heavier industry lines. Taiwan, the leader of the two in rate of progress, has relied more heavily upon open market forces. The Government does not have the strong ascendancy over private business it still has in Korea, and economic controls tend to be moderate and often make use of the market in selective and quite sophisticated ways. Taiwan's route of development was the much smaller size of private manufacturing enterprises. Not counting firms with less than five employees, the average Taiwanese firm in 1976 was only half as big as the Korean, with 34.6 employees compared to 68.8 in Korea. Both

82

the countries have adopted aggressive export policies, with substantial support from their governments. External aid, mostly U.S., has also played an important part.

These two countries demonstrate the ascendancy of small businesses, export orientation, rather than import substitution, and international competitiveness as cornerstones of economic growth in third world countries.

- Stimulating Sub Contracting Relationships

In order to stimulate the growth of cottage and small industries, many countries have adopted sub-contracting relationships. As the primary constraints of small-scale businesses are managerial, this arrangement shifts the responsibility for marketing, technology, quality control and in some cases, working capital to the parent organizations, leaving the small entrepreneur to concentrate on production and labor relations. Several examples abound in this model. In India, the diamond cutting industry has emerged as the principal foreign exchange earner through an extensive merchant-based subcontracting network. The industry employs nearly 300,000 workers and accounts for nearly 12 percent of the country's export earnings. In Bangladesh, the rapidly expanding garment export industry has begun sub-contracting to smaller firms, orders received form international marketing firms.

African Examples

- Small Farmer Production: Zimbabwe

In Africa, as in other low income developing countries, agriculture and mineral resources have been the main base for development. one of the few success stories is that of small farm production in Zimbabwe. At independence in 1980, the Government inherited a set of policies and institutions favorable to agriculture. Since then, efforts have been successfully made to maintain and expand the infrastructure serving the sector. After two consecutive years of drought, in 1984, Zimbabwe earned more than $500 million from agricultural exports. The key to this success is in large part in government policies, which include an efficient marketing system, reasonable prices and one of the best research and extension services on the continent. With the help of an AID grant, the country has improved the holdings of small scale African farmers, provided access to credit, extension services and research. New depots and distribution centers were providing seeds, fertilizers, pesticides and tools.

- o Malawi - experience in private sector development

  A World Bank survey of 31 countries listed Malawi's policy performance as the best in the sample. It is the only country in Africa deemed by IMF to be suitable for an Extended Farm Facility. The Government of Malawi followed a strategy of free enterprise development with strong reliance on foreign investors from the time of independence in 1964. However, economic performance in Malawi suffered a marked deterioration during the 1978 to 1981 period. The main reasons for the downturn are weaknesses in policies such as low producer prices to small farmers, extravagant public expenditures, disastrous results of public sector enterprises and failure to stimulate small and medium scale enterprises. The economic crises is in part a reflection of the political conditions in the country.

  The above and several other case studies underline the urgent need to stimulate the small and cottage industries in agriculture and industry for a sustained and equitable economic growth of third world countries.

ISSUES FOR CONSIDERATION

- o It is abundantly clear that true economic growth can only take place by employment generation and productivity of over 70% of the labor force in the category of the poorest of the poor. Projections of population growth confirm that major increases would take place in this segment, further aggravating the already explosive conditions.

- o Efforts to stimulate this segment have not met with much success due to its size, unorganized nature, many middle men and attitudes of governments' multilateral and bilateral agencies. A large portion of funds meant for the main populace have ended up with large corporations and in unauthorized hands, often in offshore accounts.

- o Expertise to stimulate this segment is limited - modern management and evaluation techniques are adopted to ascertain credit worthiness, manage and assess performance. It almost amounts to balancing an elephant on a living room stool.

- o Much needs to be done:

  - By the policy makers in the U.S. and third world countries to substantiate rhetoric of supporting private enterprise and uplifting the poor, by allocating time, effort and money in substantially larger quantities to aiding, supporting and guiding the development of this sector.

  - By the academicians, thinkers, consultants to develop management techniques suitable for the self-employed, family owned, cottage and small industries, typical of countries with the most dire need.

- By the multilateral and bilateral agencies to move a significant part of their portfolios and technical assistance from the safe government guaranteed loans and aid to innovative risk taking and creative inputs to encourage, establish, nurture and sustain the vast majority of privately owned small and cottage industries.

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AID EXPERIENCE WITH SELECTED EMPLOYMENT GENERATION PROJECTS

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Prepared for the International Conference on the Future of Work in a Changing World: Labor, Employment and Economic Growth, sponsored by the U.S. Agency for International Development and conducted by the Sequoia Institute, October 6 and 7, 1986, Washington, D.C.

This paper provides some highlights of a report prepared for AID in August 1986. The reader is referred to that report for more details on the projects covered, and for more detail on the programming implications of AID experience in this area, and on the "appropriate conditions" for such projects. Special thanks are due to my research assistant, Loretta Luhman, and to Daniel Westrick of AID's Center for Development Information and Evaluation who provided the project information that was available in AID's data base.

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Rapid population growth and policy distortions which weakened both the formal and informal sectors of the economies of less-developed countries have retarded a transformation in the sectoral structure of the labor force so that vast numbers of people remain in low productivity agricultural, off-farm, and urban activities. Employment is important because it is the major link between growth and equity. AID has initiated projects which were designed to increase employment.

This report is based on an examination of over thirty projects designated as "employment generation" in that many countries during the period from the early 1970s to 1982. The focus is on the policy environment of these projects, building on a World Bank study which highlights the positive relationship between growth, equity, and an economy relatively free of distortions in foreign exchange, factor and product pricing.

Employment generation projects work best in fast-growing economies free of policy distortions, but typically that is where they are least needed. In a sense, employment generation may be a somewhat misleading concept. Labor, for example, is not scarce, and the constraint is capital and associated inputs. The employment "problem," therefore, is more appropriately construed as one of scarcity or inappropriateness of inputs other than labor. Second, the data on labor forces in developing countries are grossly inadequate, so that whatever one says in the way of policy recommendation rests on a weak empirical base. Finally, measured unemployment as such may not be much of a problem compared to other problems developing countries face (weak data again), and especially compared to underemployment. The data here, however, are even worse than those on unemployment.

Under these circumstances a rule of prudence would seem to suggest that emphasis be placed on those policy constraints which reduce growth and the use of abundant resources. Growth is directly related to employment, and unless the technology of production changes sharply, or prices become rigged in favor of capital so that capital is substituted for labor, increased growth means increased employment.

At the most general level, a review of the policy environment in countries with AID projects in employment generation suggests that in most cases such environment was not impossibly hostile to the projects' success, although it was never optimal. Also, some policies were more important than others to given projects, so that the policy mix has to be examined in each case. We comment below on the five kinds of projects surveyed here, and on the policy contexts in which they were carried out.

Successful <u>vocational education</u> projects require a rising demand for labor, and this demand is most directly linked to the growth rate and to the relative cost of capital and labor. While Nigeria's growth rate was high, the capital market was highly distorted and labor itself tended to be overpriced. Ghana, of course, did not even have the benefit of a high growth rate. In contrast, high growth rates in Ecuador, the Dominican Republic, and Thailand were combined with relatively more favorable policies. Other things aside, one can conclude that employment generation projects had less economic merit in Kenya and Ghana, and more merit in the other three countries.

<u>Labor-intensive infrastructure</u> projects, if they are to have positive secondary and tertiary effects on production and employment, must occur in a reasonably well integrated economy. Backward and forward linkages (suppliers and purchasers) affect the income multiplier of a given expenditure. Generally, the higher the degree of industrialization, the greater the likelihood that the parts of the economy will be tied together in functional ways. Urbanization also reflects integration in terms of access to markets, and the economies of scale achieved through "clustering" of suppliers in various lines. Kenya, with its low level of integration, and medium levels of policy distortion,

seemed inhospitable to labor-intensive projects. Second and third round effects will be minimal under these circumstances. Both Indonesia and Jamaica had medium levels of integration, but Jamaica has policies designed to reduce employment and to weaken projects that would stimulate employment. Capital was very underpriced and labor was very overpriced.

Special note must be taken of the dependence on private contractors in labor-intensive projects. Unless there are specific contractual obligations to the contrary, in achieving a given task a contractor will tend to minimize cost of production. Thus, over-valued exchange rates, overpriced labor or underpriced capital will work to the disadvantage of employment in such projects.

Food-for-work projects are affected by a wide variety of factors so that it is not possible to isolate a single aspect of the policy environment which is more important than another to the success of projects. Special note can be taken, however, of the questionable extent to which food-for-work projects create permanent productive assets. Aside from the obvious case of poor maintenance, assets can be wasted if they are created in an economic environment in which they will not be used. A high rate of growth may be the single best test of whether such assets will be used productivity.

Export promotion projects depend heavily for success on appropriate exchange rates. Overvalued rates reduce exports and tend to increase imports. Only Kenya had low levels of distortion in this area (they were rather high in the 1970s but improved in the early 1980s), combined with medium levels of inflation. These were combined with medium levels of distortion in capital and labor markets. Uruguay had greatly over-valued rates, and these were combined with high levels of distortion in levels of agricultural taxation and in low capital costs. The Honduras picture is one of medium distortion in exchange rates and capital costs but high levels in labor costs. Thus, an increase in exports, other factors aside, would tend not to be associated with increases in employment. (Since the project in Honduras was based on a farmers' cooperative, this consideration is not applicable here.) The results of export promotion projects in these three countries were very mixed with Honduras marginally successful, Uruguay marketing about 40 percent of increased production internally, and the Kenya project failing to reach planned export levels.

Of the 11 sampled countries with small-scale credit and technical assistance projects, one had a high rate of inflation (Chile) and one a low rate (Ecuador), with the rest of medium levels. Inflation tends to decapitalize lending institutions under conditions where the price of credit is restrained. Effectiveness of credit programs is also highly dependent on the growth rate. Six of the countries experienced good growth of 2 percent or more in per capita GDP. Peru, Chile, Upper Volta, Niger, and Benin, had weak or negative growth rates, which would tend to retard growth and profits in the enterprises borrowing capital. In addition, most of those countries had low levels of integration (weak spread effects therefore from capital usage), medium to high levels of distortion in capital markets, and mixed levels of distortion in labor markets. In general, these appeared to be poor candidates for credit or technical assistance projects. At the same time, some of the projects in these countries succeeded rather well (Chile, for example).

In sum, direct action through AID projects in the past to provide employment has been of mixed success. One lesson suggested by this experience is that AID concentrate its efforts at the policy rather than the production level. Direct attempts to stimulate employment directly will often be seen as forced and of somewhat limited value. Such projects are management and sometimes resource intensive at a time when both are subject to increasing constraints.

We have discussed the policy environment as it relates mainly to distortions in foreign exchange, factor and product pricing. These are indeed large pieces of the economic environment affecting individual enterprises. It must be noted, however, that this approach needs to be supplemented by an equal emphasis on what might be called the "administrative environment." This would include, beginning with Adam Smith, "honest weights and measures," and would extend for example to ease of entering business, predictability of government actions, an enforceable system of contracts, a reputable system of public accountancy, a system of property rights, the adequate provision of what has been called social overhead capital, a broad based system of primary education, and a system of risk sharing. This partial list of important factors is a reminder that these institutional characteristics are as important in determining how effectively a country uses its resources as any configuration of policies. In many countries today these institutions are dysfunctional, discouraging enterprise before it even gets started, and inhibiting its growth once underway.

Historically, institutional change occurs: (i) when the possibilities of such change are known, and this, in turn rests on information flows; (ii) when the present discounted value of change exceeds the cost of such change; and (iii) when it is reasonably certain that the gains (point (ii) above) may be retained by the innovator, which suggests efforts to reduce risk and uncertainty, and to establish property rights. There is no apparent way to quantify the gains made through institutional change in the abstract. Nevertheless, it is not unreasonable to speculate that AID resources directed toward such change may have a quantitative and long lasting impact on employment equal to

95

that gained from direct employment generation projects.

Among the projects surveyed here, some in good policy environments failed, while some in hostile environments succeeded. As best we can tell (see below), the costs of job creation varied widely among projects, and in some cases were so high as to be economically indefensible (whether they were politically indefensible is different question). Without better knowledge, nevertheless, our review suggests the need for some special defense of projects in policy environments which would appear to doom them to failure. A purely political defense by itself is rather misleading to policy managers and programmers because it ignores the costs and benefits to be achieved politically through alternative projects which might be more productive.

Special note must be taken of two areas requiring continuing and rather urgent attention among all donors. First, given the extremely adverse debt position of developing countries, and their continuing and growing need for imports, export promotion will drive policy formulation for years to come in many countries. AID's efforts to date in attempting to stimulate exports merit special study. Second, the urban informal sector, with all its problems, will continue to be a major "employer" of new entrants to the labor force for decades to come. This sector has been hurt badly in the past by general policies which inhibit new enterprise, and by a policy cluster known as import substitution. As this latter strategy is now being rejected by increasing numbers of developing countries, or at least being balanced more rationally with other strategies, further attempts to understand the vitality of the informal sector may pay large dividends.

To sum up, in our review of employment generation projects we encountered no scandals, no wildly irrelevant projects. Some resources were indeed wasted in the economic sense, and an outside observer must assume that there were compelling non-economic reasons for the project. Vocational education programs as tools of employment generation had poor payoffs, suggesting their avoidance in the future. Labor infrastructure and food for work projects both seem promising on paper, yet are complicated by multiple problems, and typically affect relatively small numbers of workers. In both cases, but especially in food for work, economic analysis needs to be strengthened if such projects are to play a more effective role in development.

Export promotion is in its infancy within AID, and projects in this area are closely tied to exchange rates. A World Bank study suggests that such rates were the single variable most closely associated with relatively high economic growth rates. Given the growing importance of exports, employment generation efforts in the future might be focused more on exports. Credit and technical assistance projects to stimulate smallscale enterprise provided some employment, but sometimes at great cost per job.

It will surely be true that each reader of this report will remember an employment generation project that worked quite well. Yet, the question is not whether projects can generate employment. In most cases they can. Rather, the question needs to be stated in this way: Is a given project the <u>best</u> use of resources to achieve the employment goal?

The impression one derives from this small sample is that considerable effort and resources went into efforts to directly increase employment, and that in general the results were middling or disappointing. Women were usually not given special consideration, or it was given as an afterthought. Equity was not especially favored. Management was always difficult, and projects were always hostage to an economic and administrative environment beyond the control of project managers.

Thus, in a world of unlimited needs and constrained AID budgets, the question of what to do to promote employment becomes one of priorities. Limited budget allocations within AID directed toward employment generation suggest that the AID "system" has already decided the issue, concentrating on projects with longer-term growth payoffs rather than shortterm employment, and relying more on policy change to increase employment. And yet, emerging crises draw attention back to efforts to improve employment in the shortrun. This short- vs. longrun perspective may be one of the central management problems for AID in the years ahead. Policy makers will be helped in this circumstance by a strengthening of project and program evaluation so that experience becomes a better guide to practice.

On this note, one procedural problem encountered in this study merits highlighting. This was the problem of the empirical basis of the study. From the outset, we were hampered by the paucity of evaluations available, and by their highly variable quality.

For reasons that do not need recounting within the Agency, most evaluation resources are utilized by the regional bureaus for on-going and end-of-project evaluations. No common methodologies are used, even for given types of projects. Some evaluations reach the Washington office of the bureau, some do not. Some evaluations which reach Washington are deposited in a data file or library, some are not. This suggests that in the regional bureaus, where most evaluation is carried out, there is no <u>system</u> of evaluation which can at the same time serve the larger needs of the entire Agency.

Instead, ad hoc evaluations are carried out to satisfy various administrative and other requirements, and occasionally these are fed back into project design in the fortunate instance when a single individual is involved with both functions. Given the turnover of personnel, however, some unknown but apparently rather high level of knowledge concerning what worked and why in the case of a given project is lost forever. While such a system might be consistent with local Mission autonomy, and may fit in well with growing autonomy under present plans, it represents a rejection of the benefits of social science so widely sought in other lines of activity.

A modest beginning can be made toward systematization of evaluations and their results by coming to some agreement on the rudiments of evaluation in various areas. For example, the cost basis for calculation of the cost per job created can be examined and consensus reached on the appropriate basis to be used in evaluation. Similarly, ways of measuring the number of jobs created under various schemes can be outlined. Without some commonality in evaluation, systematic comparative examination of projects is not possible.

TAB G

"Labor and the Uncertain World"

by Elliot Morss

LABOR AND THE UNCERTAIN WORLD

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In recent weeks, I have discussed the international economic situation with a number of my colleagues in the economics profession. I generally have one of two reactions: the most common is to become "Major Barbara", behave as if nothing has changed and focus attention on increasingly sophisticated marginal analyses that somehow relate to comparative advantage and presume prices can be made "right." In contrast, my more enlightened colleagues appear to be drinking a bit more after which they either wax melancholy about the colonial and/or neo-colonial (early AID) days when things were "more stable" or they manifest stress with statements such as: "things have gotten so unpredictable and they happen so fast that I plan to try out for a job as an air traffic controller on the Northeast corridor."

Having just completed a book on the future of development assistance and having just re-joined the economics profession after twenty years, I am still in a daze. However, it does not bother me to admit I don't know what's going on, nor does it bother me to say we need to develop some new tools of analysis. In what follows, I will identify the new sources of uncertainty and the conditions that make the economist's traditional bag of tools of little use in either understanding or attempting to deal with the new realities. I will then piece together what we do know and try to say something sensible about its implications for AID's policies regarding labor. I warn the reader in advance that space limitations have forced me to be far briefer and more assertive on these matters than I should be.

Growing Uncertainty and Other Important Changes

I submit that the answers to the following questions have great bearing on what AID's employment policies should be. I further submit we can only guess at the answer.

- what will happen to oil prices?
- what will be the implications of the micro-electronics revolution?
- what other technological changes will have important implications for the competitive position of developing countries?
- what will happen to population growth rates in developing countries?
- what is the rationale for a continuation of aid?
- will high levels of world unemployment continue?
- will Western food surpluses continue to increase?
- how will the developing country debt problem be handled?
- will the massive disequilibrium in U.S. international trading activities continue, or what?
- does it make sense any longer to talk of world commodity prices?
- will there be more nuclear disasters with international implications?
- if the Red Sox win the pennant, will they make it to the World Series?

There are various ways I could illustrate the interrelationship of the above questions. Since I want to demonstrate why they should be considered in formulating AID's employment strategies, I will now offer an excerpt from recently-completed book that makes a plausible case that we will soon face a severe world unemployment crisis. For now, it is not important whether you agree or disagree with the arguments presented. However, it should convince you that the questions listed above are interrelated and that they should be considered in formulating an employment strategy.

The Micro-electronics Revolution

introduction of mass production technologies had in the nineteenth century. For developing countries, the revolution has a very clear and troubling significance: it will reduce the competitive advantage they derive from their low-cost, unskilled labor. The only developing countries likely to do well are those with a skilled labor force. And even for those countries, one sees some slackening in demand as plants in Third World countries are closing and moving back to the United States, Japan, and other technically advanced nations. One reason this is happening is automation destroyed their comparative advantage. Unfortunately for the developing world, micro-electronic technologies are being applied in labor-intensive industries such as the textile industry. Whereas in the past, these industries required a well-managed, inexpensive labor pool but little capital, the new industries will require large capital investments and highly skilled laborers. Other reasons factories are moving back to industrialized countries are to avoid trade barriers, transportation costs, and security problems.

It is still too early to accurately project the long-term effects of these technological innovations. It is also too early to predict how rapidly they will be adopted. But there can be little question that they will significantly displace a large number of low-skilled workers in developing countries.

<u>World Food Surpluses</u>

The world is now producing more food than most pundits ever imagined possible: numerous countries that were importing vast stocks of food staples just years ago are today self-sufficient. These remarkable increases in agricultural production are principally the result of misguided western agricultural policies and technological developments. There is every indication that western policies protecting national farmers and creating incentives for them to produce more than is demanded will continue. It seems equally certain that new applications of biogenetics and other technological innovations will continue and even accelerate. From a global standpoint, food adequacy is not a problem. It is more realistic to view the world as producing far more food than it needs largely because western farm policies are generating the wrong incentives. The current world food "glut" has troubling implications for rural employment in developing countries. Food prices are likely to continue to fall in real terms. In addition, it is likely that most of the technological advances will favor the high input production modes of the West, thereby worsening the competitive position of developing countries. This raises serious questions about the capacity of developing countries to be competitive in world food markets.

Non-Food Commodities

In 1976 the Club of Rome predicted a severe shortage in virtually all raw materials by 1985. Not only have these shortages failed to materialize, but raw materials are at their lowest levels in recorded history relative to the prices of manufactured goods and services. This fall in commodity prices stems from a reduction in demand. Since 1900, the use of raw materials per unit of economic output have fallen on average by 1.25 percent annually.

Can this reduction in demand be expected to continue? Ultimately, the supplies of certain raw materials are finite and that as a result, a point will be reached at which prices will escalate sharply as the supply of the material dries up. However, it appears that when raw material prices escalate, new technologies develop quite rapidly to reduce demand. Often, this does not happen in a smooth fashion - witness oil price fluctuations - but it seems to be happening in a sufficiently regular and pervasive fashion to suggest that employment prospects in raw material industries will continue to fall for the foreseeable future.

In short, primary products - agricultural, minerals and metals - are less and less important to the development of industrialized nations. A consequence for Third World countries is that the market for many primary goods is likely to be depressed. The direct effect on employment for some agricultural products such as sugar, oil seeds, and rice could be severe as new technologies almost eliminate the significance of inexpensive labor and land as inputs. For the production of mineral products such as copper, aluminum, and oil it is the indirect effect of declining foreign exchange earnings that matters. But both effects are already being felt in a number of developing countries: new technologies are already and will probably continue to significantly reduce the economic advantage of producing in many developing nations.

<u>The Debt Service Burden</u>

During the 'seventies, the leading international banks made a large number of foolish loans to developing countries. Repayment schedules are now being renegotiated. An element in virtually every renegotiation agreement is a promise by the borrowing government to take steps to improve its international merchandise trade account so as to be in a better position to make debt service payments in hard currencies. The primary means of doing this was to reduce domestic aggregate demand through such measures as tighter monetary and fiscal policies. An unfortunate by-product of these actions is a lessening of domestic economic activity, thereby increasing unemployment. In short, at a time when growing unemployment constitutes a serious problem, developing countries are being required by their creditors to take actions that will contribute further to unemployment levels. For most countries, it is unlikely that these requirements will be removed in the near future as a result of the lengthening of the debt payments schedule.

Population Growth

World population increased by about 80 million people in 1984; most of this increase was in Third World countries where two-thirds of the world's population live. Since World War II growth rates in developing nations have been averaging between 2 and 4 percent per year.

If a country has a population growth rate of between 2 and 4 percent per year, about 40 percent of the population will be under 15 years of age. Even if fertility rates decrease substantially population growth will continue well into the twenty-first century, requiring the creation of new jobs for an expanding labor force and additional food supplies. The working age population in Columbia, for example, will rise from 15 million in 1980 to 25 million in 2000; in Bangladesh it will almost double from 48 to 84 million over the same period.

In order to maintain current productivity and income in countries where there is a growing labor force, i.e., most Third World nations, capital investment should grow faster than the labor force. This means accelerated government investment in education, health systems, infrastructure, agricultural equipment and research, and industrial facilities. In many developing countries sufficient resources are simply not available or trade-offs are made in favor of additional short-term consumption. So despite rapid expansion of education systems and other capital investments, the number of illiterate and poorly educated workers is actually greater now in some countries than it was twenty years ago.

Reflections on This Global Unemployment Scenario

How seriously should this unemployment scenario be taken, and what are the implications for developing nations? It is certainly plausible enough to be taken seriously, but there are probably three or four alternative scenarios that also warrant careful scrutiny. The primary implication of the unemployment scenario for all nations is that they will be forced to compete for job-generating goods and service industries. Market access will continue to be the most important factor in the decision where to locate an industry or service, so countries with large domestic markets will not have to "bid" as much for job-generating activities as nations with smaller domestic markets. "Bids" will likely include various types of cost-reducing items, such as subsidized labor, tax holidays, lower-than-market rental space, and access to domestic markets. Countries with larger domestic markets can afford higher bids. In the immediate future this bidding activity will result in a transfer of resources from nations to organizations with employment opportunities to "sell." In other words, so long as unemployment rates are high, trans-national corporations will be in a position to negotiate advantageous terms with Third World countries prior to locating a plant there. This "sellers market" will continue until something approximating an equilibrium between supply and demand is achieved in world labor markets.

<u>Implications</u>

1. If the global unemployment rate does not come down, nothing looks very good. With its low interest rates, large government and balance of payments deficits, the United States is doing all it can do in this area. It should continue to press Japan, the EEC countries and the emerging developing nations to provide additional stimulus.

2. Until world unemployment falls, one has to be extremely skeptical of "employment projects" having any sort of sustainable impact.

3. The future will not need many unskilled, low cost laborers.

4. With or without full employment, the development economist needs to "retool" because of the increasing uncertainty and complexity of international trade. I close with a long quote:

Consider the tools used to predict the consequences of an investment. Economists have traditionally used benefit/cost or some other form of rate of return technique to determine the attractiveness of alternative investments. In using these techniques, they make point estimates of various future prices and costs. For example, many important investment decisions were made on the basis of assumptions regarding future oil prices. In retrospect, most of these assumptions were incorrect. The difficulty of making accurate predictions is important information and should be factored into current analytical work.

There is considerable evidence that international prices deviate significantly from production costs. This is best documented in the agricultural field where western nations heavily subsidize the industry and developing countries exploit it. It is also obvious in the oil industry where the strength of the oil cartel has been a more important determinant of oil prices than anything having to do with production costs. Increasingly, international procurement involves some sort of countertrade agreement which brings into further question what prices actually reflect. And finally, the various preferential treatment agreements allow a wide variety of goods to be sold at different international prices.

More and more international markets are providing evidence of oligopolistic behavior. This provides further documentation that market prices do not reflect production costs. But in addition, oligopolistic behavior makes strategic decision making more complex. Specifically, it means that in addition to making the usual marketing and cost calculations, one must also anticipate how other sellers will react to any actions one takes. So, for example, if a sub-Saharan African nation is considering an effort to regain its market share in a particular crop, it must look not only at existing world prices and costs, but also, it must anticipate how other countries will react to its attempt to increase market share, e.g., how would Brazil react to a Ghanaian attempt to regain its share of the cocoa market? Of course, these considerations soon become exceedingly complex.

It used to be that a country could attempt to establish a new agricultural or industrial base at a leisurely pace. This is no longer the case. Improved information technologies plus an acceleration in the pace of technological advancement has changed this. The micro-electronics field is perhaps at one extreme, but it does emphasize some major trends: a micro-electronic "chip" has an expected market life of eighteen months and an initial investment requirement of $200 million. A decade ago, a number of American companies moved their production to Asia to take advantage of low cost, skilled labor. As indicated earlier, this production is now returning to the United States because the micro-electronics revolution is rapidly diminishing the importance of the labor input. The point is the rapidity with which change is taking place. One can't help wondering what chance a country not used to such a pace has of ever competing in international markets.

Most western models and analytic methods presume a world in which there is a tendency toward full employment and prices largely reflect the opportunity costs of production. As was discussed above, there are good reasons to question this presumption, certainly over the short- to medium-term. In the absence of a movement to full employment, comparative advantage provides little guidance as to what a country should produce. This is because in the absence of full employment, countries with an absolute advantage in the production of good X will not be willing to cede its production to another country just because the latter has the comparative advantage.

102

In short, there are numerous reasons to question the adequacy of the tools used by development economists to deal with issues of international trade and development in a western world system. Below, we offer a preliminary outline of what is needed to make the profession more useful and relevant.

Taking a global perspective, the development economists should continually emphasize how difficult things become when world economic activity is at a level significantly below full capacity utilization. They should urge western countries and emerging nations to adopt coordinated policies to achieve full capacity utilization. The United States is no longer large enough to effect this goal by itself. Indeed, with a merchandise trade deficit now approaching $200 billion, many would argue it is doing far more than it should to stimulate world demand.

They should also emphasize the importance of curbing population growth rates in those developing countries that have not "emerged". Effective steps to reduce population growth are probably more important for the development of these countries than are their other economic policies.

Development economists must also be willing to accept reality and incorporate uncertainty into their analysis. Precisely what needs to be done here will take more work. A start would be to engage in sensitivity testing on key variables, and from this develop loss and benefit functions for alternative scenarios. In this regard, finding a way to identify a complete plausible scenario is far more important than working out detailed policy recommendations for a particular scenario. When this has been done and uncertainty concerning the proper course remains "hedging" strategies should be developed to allow a country to keep its options open until more information is available.

When working on the development strategy for a particular country, the economist should be willing to put on "partial equilibrium blinders" and focus exclusively on what serves the interests of the country. While on the face of it, this might seem to be an exercise of limited intellectual interest, the reality is that given the growing complexity of the world situation, its uncertainty, and rapidity of change, this task, if properly done, should present a most significant intellectual challenge.

The development economist must be willing to get into far greater detail that was true in the past. If the job is being properly done, one soon moves beyond policy recommendations such as "liberalization," "labor intensive," and "outward looking." Based upon a limited number of artificial exercises of the sort being proposed here, it is likely that one will end up recommending to protect certain industries (more accurately, to protect jobs) from outside competition and to subsidize or protect other industries in hopes of breaking into certain export markets. In addition, there are likely to be special "deals" worth negotiating. For example, it was recently learned that a U.S. company sold fighter planes to Turkey and in exchange agreed to sell Turkish agricultural products to Eastern bloc countries.

New types of information will have to be assembled and analyzed: it is no longer adequate to talk in general terms about cost structures of industries. Now it is necessary to have detailed cost data by industry and to consider whether and/or how long potential or actual competitors would be willing to produce at a loss to prevent a country or firm from increasing its market share.

In sum, it would appear that the western development economist faces a formidable but challenging task. Western approaches do not appear to be so much to blame as the reluctance of their users to adapt their models and analytical techniques to a rapidly changing world.

TAB H

"Influence of Non-Labor Policies on Employment and Growth"

by Gary Fields

105

INFLUENCE OF NON-LABOR POLICIES ON EMPLOYMENT AND GROWTH

Gary S. Fields
Cornell University
October, 1986

I. Introduction

Last year, while conducting a research project in Costa Rica, a colleague and I were discussing the prospects for achieving economic development in Latin America by expanding exports. As we walked along the rim of the Irazú Volcano debating the pros and cons of development through export-led growth, we were startled suddenly to come across an automobile produced by Hyundai, a large Korean manufacturing concern. The appearance of a Korean-made Hyundai automobile at Irazú Volcano in Costa Rica encapsulates the essence of the approach to economic development pursued by Korea and other Asian countries. First, it shows that the Korean development strategy, based as it is on the export of manufactured goods, continues to succeed. Costa Rica is a new market for Korea. Second, it shows the openness of the world market to good products from wherever they originate. Korea has begun to penetrate the Costa Rican automobile market, not because of any special relationship between Costa Ricans and Koreans but because Korea is selling high quality merchandise at low cost. Hyundai has become the leading importer of automobiles in Canada, and has established a large network of dealerships in the United States. I predict that Hyundai automobiles will be commonplace on the streets of San José and New York within a few years' time.

Another example of successful export diversification is the changing situation in the world market for baseballs. A large proportion of the baseballs used in the United States are manufactured in Haiti, the reason being that American sporting goods companies have found it profitable to set up operations there. This example is important, because it shows that Haiti has started to follow a development strategy similar to that of Korea, and that Haiti has successfully penetrated a significant market, much as Korea has done on a much larger scale. The fact that the balls for America's national game are manufactured abroad (as are most of the fielders' mitts, batters' helmets, and other baseball equipment) says a great deal about the possibilities of world trade.

These export successes demonstrate a development path that the countries of Central America might pursue to their advantage -- growth led by export of manufactures. Of course, international trade is not enough; it is a means to an end, not an end in itself. The essence of economic development is the improvement in standards of living of the people. While it

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[1] This paper is abstracted from a longer study prepared for the Conference on Trade Policies for Economic Growth and Development in Central America, Instituto Centroamericano de Administración de Empresas, San José, Costa Rica, April, 1986.

may be that standards of living are affected significantly by such publicly-provided goods and services as public works, government housing, educational systems, public health facilities, and the like, it is nonetheless true that the basic determinant of a person's economic well-being is the amount of earnings obtained from his or her labor. Very simply, most families derive most if not all of their incomes from the work they do. And if they benefit from economic growth, it is because more job opportunities are created and/or wages increase in existing jobs.

Do such export expansion activities as manufacturing Hyundais in Korea for export to Costa Rica or manufacturing baseballs in Haiti for export to the United States bring about more jobs and higher wages? What are the conditions under which such export-led growth worked elsewhere? Could it work in Latin America? What would need to be done to make it happen? Those are the questions addressed in what follows.

II. Successful Export-Led Growth: the Asian Experience

As everyone at this conference undoubtedly knows, many Asian countries -- among them, Japan, Hong Kong, Singapore, Korea, and Taiwan -- have pursued economic growth by expanding exports. Of course, these economies grew very rapidly -- average real economic growth was at least 7% per capita in each of the four economies for more than two decades. In the 1970's, when these economies had fully embarked on outward-looking economic growth strategies, exports grew at annual rates ranging from 5% in Hong Kong to 29% in Korea. Furthermore, the East Asian economies adjusted to external events such as oil price shocks much better than did the economies of Latin America; see Balassa (1984), Hasan (1984), and Sachs (1985) for a comparison of the adjustment experiences of the different regions.

Many outsiders believe, mistakenly, that the policies followed by the newly-industrializing countries of East Asia were substantially similar. In reality, they sought to expand exports in quite different ways; see Galenson (1985), particularly the paper by Lawrence Krause, for an overview of some of these differences. In the terminology of Gustav Ranis (1981), Korea's was a policy of "export promotion" while Taiwan's was more a policy of "export substitution." Because this terminology is not widely familiar, nor is the distinction to which it refers, I shall elaborate upon the differences at some length.

"Export substitution" means that the country in question is trying to substitute production for the world market in place of domestic production, the former being more profitable for firms and/or more remunerative for workers than the latter. For instance, in the case of baseball manufacture in Haiti, the goal is to employ workers in the baseball factories at higher wages than they would otherwise earn if employed, say, in the urban services sector or if unemployed on the streets. The other term, "export promotion," means that the country seeks to increase exports by actively stimulating particular sectors through direct action (e.g., building an export processing zone) and/or targeted fiscal policy (e.g., tax credits, protection against foreign competition).

Export substitution is the less interventionist strategy of the two. Its essential elements are: (1) Relying heavily on the private sector, so that individual firms and entrepreneurs provide the driving creative force for economic growth; (2) Eliminating price distortions("getting the prices right"), so that (a) market prices of products reflect social profitability and (b) inputs in the productive process are valued in accordance with true economic scarcity; (3) Producing according to comparative advantage, which typically means the manufacture of labor-intensive products; and (4) Exporting to the world market, which will happen in a free and open market if and only if companies are able to compete on the basis of quality and cost.

Like export substitution, export promotion has similar elements: reliance on the private sector, price incentives, comparative advantage, and production for export. However, export promotion does not leave resource allocation decisions to the private sector alone. Rather, the defining characteristic of export promotion is the active targeting of export activities. One way of doing this is by direct government intervention -- for instance, by an industrial policy of "picking winners." Another mechanism of export promotion is to tamper with market prices -- for instance, through protective tariffs, input subsidies, or tax breaks for certain export activities.

Among the developing economies of Asia, Hong Kong is the one whose policies are closest to the export substitution regime. Taiwan is also largely of that type. By contrast, Japan, Singapore, and Korea engaged more in export promotion. All of these economies performed extremely well. Both export substitution and export promotion can succeed if the economic environment is appropriately oriented.

The orientation throughout East Asia is toward the world market. One shared attribute of those economies' successes with export-led growth is the unremitting drive of firms in those economies to penetrate foreign markets and earn profits thereby. Throughout those economies, the world market is viewed as an opportunity for profitable sales and not as a hostile force keeping those countries in perpetual dependency. Those countries welcome foreign companies and foreign capital as partners in the development process, seeking especially to benefit from foreigners' technologies, expertise, and managerial skills. The business environment is conducive to entrepreneurial activity; profit is not a dirty word. And political stability is maintained at considerable social cost, but with the favorable economic consequence that everyone knows the economic rules of the game.

Judging by the record, seizing the opportunity presented by the world market has had a very high development payoff indeed. Past research studies by myself (Fields, 1980, 1984) and others (e.g., Turnham, 1970; Squire, 1981) have established that for many developing countries in East Asia and elsewhere, economic growth has indeed resulted in improved job opportunities and consequently rising living standards. Sometimes, the improvements have been sensational. Data on the experiences of Hong Kong, Korea, Singapore, and Taiwan are presented in Table 1. Let us take Taiwan as a case in point. Full employment was attained, the unemployment rate reaching just 1.3%. Much of the employment growth that took place was in the manufacturing sector, the key source of export-led growth. Among

108

Table 1

Changes in Labour Market Conditions and Income Distribution in Four Newly-Industrializing Asian Countries

	Hong Kong	Korea	Singapore	Taiwan
I. Unemployment rate	1961: 1·7% 1971: 4·4% 1976: 4·3% 1980: 3·7%	1963: 8·2% 1967: 6·2% 1971: 4·5% 1976: 3·9% 1981: 4·1%	1957: 5·2% 1965: 9·1% 1969: 10·4% 1971: 7·0% 1977: 4·8% 1980: 3·5%	1955: 6·3% 1963: 4·3% 1970: 1·5% 1981: 1·3%
II. Employment composition				
A. Agriculture as a % of total employment	1961: 7·4% 1971: 4·0% 1976: 2·5% 1980: 1·4%	1963: 63·2% 1970: 50·4% 1980: 34·0%	1957: 6·9% 1970: 3·5% 1979: 1·5%	1964: 50·0% 1970: 36·8% 1979: 21·5%
B. Employees as % of economically active population	1961: 83·0% 1971: 87·3% 1980: 89·4%	1963: 31·5% 1971: 39·3% 1980: 47·3%	1957: 75·7% 1970: 76·5% 1979: 83·5%	1956: 56·8% 1964: 59·2% 1970: 50·7% 1979: 63·7%
C. Professional & tech., administrative & managerial, clerical, and sales occupations as % of economically active population	1961: 27·5% 1971: 26·8% 1976: 28·5% 1980: 32·5%	1963: 16·9% 1970: 22·9% 1980: 25·5%	1957: 36·8% 1970: 39·4% 1979: 42·5%	1964: 22·4% 1970: 26·9% 1979: 30·0%
D. % of employed workers with no schooling [% illiterate in brackets]	1961: 20·2% 1971: 16·2% 1976: 13·9% 1980: 10·4%	1960: 44·7% 1970: 23·8% 1980: 16·0%	1966: 54·1% 1972: 20·6% 1977: 35·2% 1980: 22·5%	1965: [26·0%] 1970: [20·7%] 1975: [15·9%] 1980: [9·0%]
III. Real wages or earnings	Index of avg. real manufacturing wage, 1948 = 100: 1960: 105 1965: 137 1970: 167 1975: 194 1980: 253	Index of real earnings, 1975 = 100: 1966: 52 1972: 88 1978: 154 1980: 159	Index of real income per worker, 1966 = 100: 1966: 100 1975: 106 Index of real weekly earnings, all industries, 1975 = 100: 1975: 100 1980: 120	Index of real manufacturing earnings, 1954 = 100: 1954: 100 1960: 100 1970: 183 1979: 400
IV. Poverty	% of households with annual income less than HK$3000, in constant 1966 HK$: 1966: 18% 1971: 11% 1976: 7%	% of households with incomes below a constant real poverty line: 1965: 41% 1970: 23% 1976: 15%	% of persons with incomes below S$200 per month in 1975 Prices: 1966: 37% 1975: 29% 1980: 18%	% of households with incomes below specified figure in specified year: NT$20,000 1964: 35% 1972: 10% NT$40,000 1964: 80% 1972: 35%
V. Inequality, as measured by Gini coefficient among households [Gini coefficient among individuals in brackets]	1966: 0·487 1971: 0·411 1976: 0·435 1981: 0·447	1964: 0·34 1970: 0·33 1976: 0·38	1966: [0·499] 1975: [0·452] 1980: [0·455]	Early 1950's: 0·5 1968–72: 0·3 1976–78: 0·27

n.a. Time series information not available.
Source: Fields (1984).

manufacturing workers in Taiwan, real wages increased four-fold in twenty years. The mix of jobs improved in other ways as well -- fewer workers were unpaid family workers and more were working as paid employees. The attainment of full employment, the rapid growth of real wages, and the improved mix of jobs led to a sharp decline in the rate of absolute poverty, the number poor falling by more than half in just eight years. And the income inequality picture that emerges is excellent. Taiwan has the lowest income inequality (as measured by the Gini coefficient) of any country in the world! Similar patterns of improvements in labor market conditions and reductions in poverty are recorded for Hong Kong, Korea, and Singapore as well.

The conjunction of rapid, export-led growth on the one hand and excellent labor market and income distribution performance on the other has led many observers to conclude that the experiences of the East Asian economies should be copied by other developing countries. On this view, which is expounded by such leading luminaries in the trade and development fields as Jagdish Bhagwati and T.N. Srinivasan (1978), Anne Krueger (1981), Bela Balassa (1982), and many others, the countries of Latin America and others like them could succeed similarly if they too were to try to produce for the world market.

How likely a scenario is this? It is clear that an appropriate policy package, such as the export substitution or export promotion policies described above, must be put into place in Latin America if any meaningful export drive is to take place. Countries cannot export profitably simply by declaring their intentions to do so. Some aspects of the appropriate policy package are discussed in what follows.

III. Wage Policy and Export-Led Growth

The fact is that wage policies in the newly-industrializing countries of East Asia differ from those in most other developing countries. Of greatest importance is their reliance on market wage determination, which means that wages in those economies are determined primarily by supply and demand.

Often, in the developing world, wages are not determined by supply and demand but rather by any or all of a number of non-market forces. These non-market forces often have potent influences in key sectors of those countries' labor markets. Minimum wage laws are common in many developing countries, at least in certain major sectors (e.g., large factories). When these laws are enforced, wages may be very much higher in the affected sectors than they might otherwise have been in the absence of minimum wage laws. Labor unions often are very strong, and are able to use their strength at the bargaining table to secure above-market wages for their members. Pay policy with respect to public sector employees frequently results in higher wages being paid to government workers than to comparable workers in the private sector. Multinational corporations sometimes are encouraged to pay high wages to local workers, lest those corporations be expelled from the country if they do not. Finally, labor codes and protective labor legislation may add substantially to the costs employers must pay when they hire workers. These institutional forces are found in varying degrees throughout Latin America, the Caribbean, Africa, and South Asia.

110

By contrast, wages and other labor costs have not been inflated artificially in East Asia. Economic development in those economies has depended on low labor costs. Policy makers in Hong Kong, Korea, Singapore, and Taiwan realized that if they were to gain and then maintain trade positions in world markets, the basis for doing so would be low price. They then pursued policies that had the effect of restraining wage growth to market levels. Of the five institutional forces causing higher-than-market-clearing wages elsewhere, the only significant one in East Asia has been the existence of an employer's provident fund in Singapore, to which employers are obligated to contribute more than 20% of payroll. Otherwise, market wage determination has predominated in East Asia. Minimum wages exist in some of the countries, but their levels are so low as to be meaningless. Trade unions bargain over wages, but only in Hong Kong does the bargaining take place free of government restraint. Public employees receive wages comparable to those in the private sector, but not higher. Multinational corporations also follow market forces. Though market wage determination has dominated in East Asia in the past, there are signs, however, that conditions may be changing. A year ago, Taiwan introduced a new labor law which sought to push wages up above market levels. Korea is actively considering introducing a minimum wage.

Market wage determination, prevalent in East Asia thus far, has had several fundamentally important implications for the success of export-led growth in the economies of East Asia. For one thing, market wage determination helped those countries avoid economic inefficiencies and misallocations of labor which might have arisen from distortions in wages; this in turn enabled them to avoid distortions in productivity between sectors. Market wage determination also naturally led employers to utilize the available labor force to the fullest extent possible, enabling those economies to pursue their inherent comparative advantages and produce goods intensive in labor. Another benefit of market wage determination is that it prevents substitution of capital in place of labor in the production process which, if it takes place, lessens employment. Yet another possible effect is that market wage determination diminishes the expected-income incentive in rural-urban migration; as I have shown in Fields (1984), the wage differential between manufacturing and agriculture is quite narrow in East Asia, much in contrast to most Latin American countries. Finally, market wage determination avoids unnecessarily high costs of production that might hamper a country's ability to sell their products profitability in world markets.

It is important to note that while the East Asian economies did not permit wages to be set well above market-clearing levels, it is also true that for the most part they did not hold wages artificially below market-clearing levels either.[2] The idea the East Asian economies had, and followed through on, was to proceed in two stages. At first, premature wage increases were to be avoided; this would permit economic growth to increase employment.

[2]One exception is Singapore in the late 1970s, through direct government involvement in the tripartite wages boards; this was later abandoned. It has been suggested that Korea has also repressed wages, though in more subtle fashion, but this claim has not received serious scholarly attention.

Then, in the second stage, once full employment was attained, the heightened competition for workers would lead employers to bid wages up. This indeed happened, as shown by the figures in Table 1. As it did, policies were introduced aimed at economizing on the use of increasingly scarce labor and enhancing labor productivity through investments in complementary physical and human capital.

Market wage determination contributed to the East Asian economies' successful development through export-led growth. Whether an export-oriented trade strategy is better or worse than an inward-oriented strategy may well depend on a country's choice of wage policy. Suppose an export-promoting country adopts a lenient wage policy which permits premature wage increases to be granted, and suppose further that because labor costs often constitute the largest share of total cost of a product, that the country's exports become unprofitable in world markets. In such a case, if the revenues earned by private companies fail to equal the social costs of exporting, an export-oriented development strategy subsidized by the government may cause the country to lose money.

Whether the policy environment in Latin America is conducive to export-led growth is the question to which we turn next, taking Costa Rica as a case study.

IV. Prospects and Policies for Export-Led Growth: the Case of Costa Rica

In some of the Central American countries, the prospects for economic development through export-led growth hinge critically on the resolution of political questions about which I as an economist have nothing special to say. In Costa Rica, however, these political issues have been resolved and it is economic policy that dominates discussion. Hence, I shall concentrate on the Costa Rican case in the remainder of this section.[3]

The key to successful export-led growth in Costa Rica is the private sector. This is partly because the private sector remains the primary employer, accounting for more than 80% of total employment, and partly because of the dynamism of local entrepreneurs and foreign investors. I see the most important task before the Costa Rican economic authorities as the upgrading of employment opportunities in the private sector as a means of achieving further economic development. Specific policies that might help achieve this objective are macroeconomic stabilization policy, sectoral policy with respect to export expansion, and labor market policy.

Macroeconomic Stabilization

A stable macroeconomic environment is essential to employment generation. In a mixed capitalistic system such as that of Costa Rica, the private sector must have confidence in the stability of the economic environment. Local entrepreneurs and foreign capitalists will invest in Costa Rica only if they are reasonably certain that they will receive at least a fair return on their money. They will believe just the opposite if external debts are not serviced, if real interest rates are negative, or if an overvalued currency is in imminent danger of devaluation -- all of which were the case in

[3] The following discussion is taken from Fields (1986).

112

Costa Rica in the economic crisis of the early 1980's. Under circumstances such as these, local investors will tend to place their money abroad and foreign investors will not enter Costa Rica at all. It is necessary that a stable macroeconomic environment be assured.

At the urging of the International Monetary Fund, the World Bank, and the U.S. Agency for International Development, and with their backing, the Costa Rican government brought about the necessary stability. The macroeconomic stabilization policy has led to an economic recovery since 1983 and has created a favorable climate for future economic expansion. In 1987, the World Bank's Vice President for Latin America and the Caribbean has held forth the Costa Rican experience as a model for successful adjustment (Husain, 1987). Macroeconomic policy can be the decisive factor in assuring economic stability, and in the case of Costa Rica indeed has been. Other countries in the region would do well to learn this lesson.

<u>Export Expansion</u>

Costa Rica's economic growth has been export-led. The two main categories of Costa Rica's exports are agricultural commodities and manufactured goods. The agricultural products include coffee, bananas, sugar, beef, and cocoa. These are sold in highly-competitive world markets. The other category is manufactured goods. Approximately 80% of exported manufactured goods and other "non-traditional exports" are sold within the protected Central American Common Market.

Conditions in Costa Rica are conducive to export expansion. Labor market outcomes in Costa Rica are on the whole quite reasonable. The labor force is well-educated and productive. Political stability makes Costa Rica attractive for foreign and local investors alike. Incentives for export are offered under the Caribbean Basin Initiative.

Looking ahead, two key policy decisions must be made: (1) Whether to seek primarily to expand traditional exports (coffee, bananas, etc.) or non-traditional exports (chiefly light manufactured products), and (2) How actively to promote exports through selective public expenditures, tax incentives to certain sectors, and the like ("export promotion") versus a more laissez faire approach ("export substitution").

On the first of these, most of the attention in Costa Rican policy circles is directed toward expanding non-traditional exports. If Costa Rica's comparative advantage in labor-intensive production is followed, exports of non-traditional exports could create a great many jobs. In the highly-competitive dynamic world economy of today, Costa Rica should be able to penetrate new markets. However, the expansion of non-traditional exports does not preclude the expansion of traditional exports. Yes, it is true that the world prices of coffee and bananas are volatile and that the terms of trade have been moving against these products. But it is also true that for geographical and climatic reasons, Costa Rica has a comparative advantage in land-based products, the exports of which generate badly-needed foreign exchange and rural employment. More attention should be given to the advantages of traditional exports as well as their disadvantages. To my mind, domestic circumstances and world market conditions do not obviously favor non-traditional exports.

The other strategic decision is how actively to promote exports. I suggest the following working rule. The only export activities that should be promoted by the expenditure of public resources are infant industries with excellent prospects of paying their own way in the very near term but which, for some good reason (e.g., lack of transport facilities), are not now under way. The best products are those that can be sold in the world market, but consideration should also be given to those that can be exported to what is left of the Central American Common Market. Otherwise, a hands-off policy is in order, and incentives should be structured so that they are neutral with respect to production for export vs. production for the national/regional market. Costa Rica should not spend scarce public resources just to generate foreign exchange, just to diversify into new areas, or just to generate jobs in the export sector. Before such resources are expended, it must be shown that the benefits to society of that particular type of export promotion outweigh the costs.

Labor Market Policy

In general, a great deal of competition prevails within the private sector labor market in Costa Rica. Wages are set largely in accordance with supply and demand. Unions are present, but they cover only a small fraction of the private sector labor force. Where unions are present, they do not raise wages much above the levels prevailing in the non-unionized sectors of their economies.[4] Minimum wages also exist in Costa Rica. The authorities seek to keep the minimum wage growing in line with productivity but not faster (Gregory, 1981; Naranjo, 1985; Pollack, 1985). In a comprehensive study of minimum wages throughout the world, Starr (1981, p. 50) says of minimum wages in Costa Rica: "the impact on wages actually paid, while significant, is far less extensive and apparent. . ." than in Colombia and Mexico. We may conclude that neither union wage-setting nor minimum wages has an important influence on market wage levels in Costa Rica.

The most important non-market force influencing wages in Costa Rica is public sector labor market policy.[5] Wages in the public sector are about twice as high as those in the private sector. These differentials remain even after standardizing for differences in the levels of education and experience of workers in the two sectors (Uthoff and Pollack, 1985). Because of the higher pay in the public sector, private sector workers throughout Costa Rica aspire to public sector jobs. In response to the pressure for government jobs both from private sector workers and from the unemployed, the government has expanded public sector employment (MIDEPLAN, 1984, p. 23). This has led to shortages in the private sector in certain occupations, especially those requiring the highest amounts of education. The growth of public sector employment at above-market wage rates has diverted

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[4]Says Gregory (1981, p. 400): "The omission of trade unions from considerations as a significant force stems from the wide consensus I found in Costa Rica that they are not particularly powerful and do not represent a significant independent influence on wage levels except perhaps in some of the semiautonomous public corporations."

[5]See, for instance, PREALC (1979).

funds from other uses and is not obviously the best use of those resources. Serious thought should be given to two aspects of policy concerning public sector labor markets in Costa Rica: whether to freeze the amount of total employment in that sector, as was agreed upon but apparently not effectuated; and whether to gradually bring public sector wage levels more into line with those in the private sector.

All in all, market forces have a large role to play in determining wages in Costa Rica; other than in the public sector, employment and wage levels are determined largely in accordance with supply and demand and hence with labor productivity. The general adherence to market wage determination in Costa Rica has favorable implications for that country's prospects for achieving economic development through export-led growth.

V. Looking Ahead

Latin Americans often distrust outward-looking trade policies. Critics of outward-looking trade policies say trade makes them vulnerable to the rest of the world. I say Latin America is vulnerable anyhow, and vulnerability is reduced if the goods produced are in high demand in the world market. (Witness, for instance, the resilience of the East Asian economies in the face of external shocks.) The critics say exports have only minimal effects on employment, citing such examples of capital-intensive export activities as copper mining in Chile and oil extraction and refining in Venezuela. I reply that non-mineral exports are very labor-intensive and point to export agriculture throughout Central America. The critics say that a drive to export means that jobs must be kept poor and wages kept low. I answer by citing the evidence presented above, which shows that the mix of job opportunities in the newly-industrializing economies of East Asia has improved substantially and wages in those countries have been pulled up many-fold. The critics say that even if I were right about all these other points, things are different now, and that in today's stagnating world economy, it is futile to try to export when world markets are not growing. I point out that the futility argument assumes (almost always implicitly) that importers will maintain their traditional supply sources no matter what. This is an assumption I do not share. I see fickleness, not loyalty, in world markets. In general, consumers and firms will buy elsewhere if it pays them to do so --- which is why a Hyundai automobile appeared at Irazú.

Hyundai has gained a foothold in the Costa Rican market, because it decided to pursue a potentially profitable opportunity. Despite difficult world economic conditions, the Costa Rican economy was open to Hyundai. Costa Rican consumers will choose Hyundais over Toyotas or Chevrolets if Hyundai's autos are better in quality and/or price. Believing this, entrepreneurs in the Asian countries are continually seeking out new products to produce, new markets to penetrate, and new ways to cut costs while maintaining quality. Hyundai employs hundreds of thousands of workers who produce manufactured goods for export around the world.

Let the countries of Latin America consider similar possibilities for enhancing employment by producing and selling in world markets. Every item you see might conceivably be produced in Latin America. If hundreds of Haitian workers can be employed making baseballs, receiving higher wages than they could have earned elsewhere in that impoverished economy, why can't one of the Latin American economies succeed in producing and selling footballs to the U.S.? Or lightbulbs to Mexico? Or luggage to Brazil? The possibilities are limitless -- just look around and think whether it's possible to produce the item in question at a lower cost than it is now being made. In many cases, the answer will be no, because the comparative advantage is to be found elsewhere -- televisions will probably go on being made in Japan, aircraft in the United States, and wines in France. But sometimes the answer will be yes. I am sure that there are ample opportunities for export diversification to lead to economic growth and improved standards of living throughout Latin America.

If the drive to achieve economic development through export-led growth is to succeed in Latin America, public policy must be appropriate. Export diversification will not happen unless a cost advantage exists and is maintained. Labor cost is a major cost of production, often the most important one. An important component of public policy is therefore wage policy. The countries of Latin America must be patient and allow wages to be pulled up by supply and demand. Premature increases in labor costs must be avoided. Not to export profitably is bad; to export unprofitably is worse.

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117

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TAB I

"Successful Strategies of Integrating Employment Policies and Practices"

by Peter Ferrara

119

SUCCESSFUL STRATEGIES FOR INTEGRATING
EMPLOYMENT POLICIES AND PRACTICES

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Policymakers can conceptually recognize that the impact of policies in one area can be strongly affected by policies in another, superficially unrelated area. But in practice it is easy to overlook such interactions, even more so as policymakers become increasingly specialized. Failing to account for such interactions, however, can mean that a well designed policy in one area can falter because of the detrimental effects of a facially unrelated policy working at cross purposes. Or, at the very least, a policymaker can miss an opportunity to enhance the effectiveness of an appropriate policy in one area, by overlooking the potential for adoption of complementary, reinforcing policies in other areas.

This paper will discuss an example of two, separately developed, facially unconnected, major structural reforms relatiang to the labor market, which had important, mutually reinforcing effects, making each more successful in achieving employment policy goals. In particular, the paper will focus on the example of Chile, which around the start of this decade adopted major structural reforms in trade union policy and Social Security. Each of these two separate reforms are themselves interesting as examples of policy changes that can substantially improve employment, income and economic growth performance. After describing the substance of each of these two reforms, the paper will discuss how each did improve such performance. The paper will then discuss how the two reforms interacted to strengthen the effect of each in achieving these policy goals.

<u>Trade Union Reform</u>

Before reform, the government was heavily intertwined in the activities of labor unions in Chile. The government regulated the elections, finances and other internal affairs of unions, and had authority to terminate their legal existence. The government also imposed one sided regulation on the collective bargaining process, particularly restricting the possible employer response to strikes while allowing wild cat strikes, closed shop requirements and multifirm, industry wide demands. Such regulation tended to encourage strikes and excessive union demands which the employer could neither resist nor satisfy without government assistance.

The government consequently usually had to intervene to settle labor disputes. The government had authority to order strikers back to work, but more often it chose to subsidize a settlement to make satisfaction of union demands economically viable for the employer. This subsidization could involve regulations enforcing higher prices for finished products, import tariffs to protect the employer from foreign competition, regulations increasing the cost of non-union labor to protect the

121

employer from domestic competition, or granting tax exemptions or outright cash subsidies to the employer.

Partly because of the heavy government role in subsidizing settlements and regulating internal union affairs, the unions became heavily politicized, eventually serving as extensions of political parties. Disruptive union activity was then often undertaken for politicalrather than economic reasons.

Under the new system, the employer is required to engage in collective bargaining with a properly designated union, but only for an individual firm or plant, rather than for a multifirm or industry wide agreement. The union is allowed a right to strike, which means only that workers have the right to withhold their labor and that the government cannot order an end to a strike. Otherwise, the employer has a broad range of discretion in deciding how to respond to a strike, including hiring temporary or replacement workers.

The law allows the bargaining process to address only wages and labor conditions for the bargaining union. Restrictions on the firm's investment decisions or other use of its capital, on the firm's discretion to use labor not belonging to the union, particularly young trainees and temporary workers, or on the overall size of an employer's labor force, are not allowed as proper subjects of negotiations. The closed shop and "wild cat" strikes are prohibited. No single union is ever given the exclusive right to represent workers, and more than one union in a

122

firm for different groups of workers is allowed if the workers prefer. In the case of public employee unions, when bargaining breaks down mandatory arbitration is required.

Other than enforcing these rules, the government does not intervene in the collective bargaining process, and it remains neutral towards the outcome. The government offers no subsidies, special tax exemptions, or restrictions on foreign or domestic competition, including regulation of nonunion labor, to allow employers to meet union demands. The government role in regulating the internal affairs of unions is minimized.

Social Security Reform

Before reform, Chile had a highly complicated Social Security system. Benefits were set legislatively and financed by a payroll tax, which averaged about 40% of wages. But different special interest groups were able to obtain a myriad of varying special advantages which applied only to themselves. These included special benefit provisions, earlier retirement and tax preferences or exemptions. The system experienced chronic deficits, which were financed either by regularly increased taxes or by real benefit cuts effected through inflation.

Under the new system, each worker is required to make a tax deductible contribution every month equal to 10% of his wages to an individual pension savings account. The worker can voluntarily make additional tax deductible contributions to his account up to another 20% of his monthly income. These funds are then invested over the years, with the returns tax free.

13

Workers are required to choose an administrator to manage their pension account investments, from among 12 government authorized private investment companies specially created for this purpose. Workers can choose to switch among authorized administrations on short notice. The investment companies are regulated to require that they invest pension account funds in a diversified portfolio of financial instruments of suitable risk. Each company is required to provide a minimum rate of return on pension account funds, set as a percentage of the average return earned by all 12 companies. The government guarantees the individual accounts against any losses which might result from management mistakes, but not against losses which may result from poor general economic performance, since one policy objection is to link each worker's fortune to the performance of the economy.

At retirement, the worker could choose to finance his benefits by periodic withdrawals from his account, leaving any remaining funds in his estate to be passed on to his children or other heirs. Or the worker could choose to use all of his funds to buy an annuity paying a specified annual income for life. The government guarantees a minimum pension benefit to all workers, supplementing the worker's private benefits to the extent necessary to achieve the minimum.

Workers are also required to contribute another 3% of wages for the purchase of private life and disability insurance from approved private insurance companies of their choice. In addition, workers must contribute an additional 6% of wages for a health insurance plan, which they can choose to have provided by special private health insurance companies or by the government health services. All government provided redistributive benefits, such as family income supplements, unemployment coverage, and minimum pension benefits, are financed separately through general revenues.

All new workers in Chile are required to participate in this new system. Those already in the work force at the time of reform had the option of choosing to remain in the old government Social Security system or opt for the new private system. For those who made the switch, the government issued special non-transferable bonds representing their past contributions to the old government system. These bonds would pay a sum equivalent to these past contributions plus interest at retirement. Over 90% of Chile's workers have now opted for the new private system.

Employment and Interaction Effects

Under the old trade union system, firms sought to minimize the use of all labor because of oppressive trade union demands and practices and the potential for even non-union labor to become organized by a union. Labor intensive industries were severely constrained and depressed by the trade union burdens. The government's anticompetitive policies designed to protect firms with labor agreements providing for above market wages and benefits involved heavy regulation of the non-union sector to stymie its ability to compete with such firms, which resulted in depression of the non-union sector as well. These policies also involved protection of such firms from international competition, but this left the economy unable to compete in world markets and maintain a labor intensive export sector.

Government policies restricting entry by new competitors into union dominated industries were combined with union power to create barriers to jobs in those protected industries in order to reduce labor supply and thereby increase wages. This was accomplished through the closed ship restrictions, work permit requirements, minimum wage regulations and other mechanisms, some of which were used to create barriers to jobs in potentially competitive non-union sectors as well. These problems were all excerbated in the case of state owned enterprises, where there were virtually no market restraints on union demands.

The old trade union policies consequently combined to restrict employment opportunities severely before the reform. This tended to reduce employment and increase unemployment. Widespread unemployment was avoided only by acceptance by the majority of employees in the non-union sector of the low wages that were necessary to absorb most of the labor otherwise foreclosed from employment opportunities. With constrained and depressed economic activity in both union and non-union sectors, and the loss of any viable labor-intensive export industry, these policies in general greatly retarded economic growth, which further reduced potential income sharply for most workers over the long run.

The new reforms reversed these effects. The reforms created independent, private, employee run trade unions, rather than state trade unions, and the new unions served as institutional mechanisms within the market process to match wage increases with productivity gains. Unions had legal protection to form, to strike and to negotiate. But they no longer had the power to impose economically unrealistic demands. The government would no longer provide protection to the employer to meet such demands, and the unions knew it. If a union persisted with unrealistic demands, the employer had alternative sources for labor. Government restrictions on these alternative sources had been removed. If an employer yielded to unrealistic demands, he would be submerged by domestic and international competiton. Government restraints on such competition had also been removed.

Since the government no longer intervened to subsidize settlements and stymie competition, the numerous subsidies and regulatory restrictions for such purpose could be and were terminated. The non-union sectors were consequently freed up as well as the organized sectors. Policies restricting employment by creating barriers to jobs in both union and non-union sectors were eliminated. The extra tool of arbitration helped ease the special difficulties in the case of state owned industries. As a result of all these changes, unions became less politicized and more economic.

The trade union burdens impacting both union and non-union sectors which were formerly depressing employment and growth were consequently lifted. The result was increased employment, improved growth for the entire economy, and more rapid income growth. The increased growth in turn created even more jobs and employment. The Chilean economy had to accommodate to world economic conditions, and consquently became more competitive and able to sustain export activity. The former employer practice of maximizing substitution of capital for labor to minimize union problems ceased, resulting in the creation of more jobs and further employment growth.

The Social Security reform reinforced all these beneficial economic effects. Most importantly, the payroll tax burden to finance the system was reduced from 40% under the old system to 19% under the new system. Indeed, even the 19% became perceived less as a tax and more as a savings contribution by the worker wich enhanced his own personal wealth directly and therefore was part of his employment compensation. The 40% payroll tax was simply a huge levy on the act of employment, and consequently tended to reduce employment sharply. Dramatically reducing the tax, and changing its nature so that it is perceived as less of a tax, lifted most of this depressing effect on employment, leading again to the creation of new jobs and increased employment, which in turn increased economic growth and income growth.

128

In addition, the new system operates on a fully funded basis, with each person's contributions saved for his own benefits. This replaced a system which relied heavily on continued income to finance benefits rather than savings, resulting in a substantial increase in savings. This increased savings meant additional capital investment, the creation of new jobs, increased employment and faster economic growth.

The reform also improved the quality and allocative efficiency of capital investment. Under the old system, government bureaucrats administered and invested different funds for different groups in the population. The investment managers were not subject to competition, and consequently failed to seek to maximize investment returns and quality. Investments often reflected political pressures or favoritism or even abuse for personal gain by the investment managers. Under the new system, with 12 private investment managers subject to total competition, this changed radically. The managers allocated capital investments according to market signals, seeking the highest return. Political pressure, favoritism or corruption were minimized or eliminated altogether. This improved the efficiency of the economy, leading again to increased economic growth, employment and income.

Besides these effects, the Social Security reform also directly helped the trade union reform itself to be more effective and successful. The sharp reduction in the heavy payroll tax

129

burden helped to quell excessive labor union demands during the transition to the new trade union system, as workers were able to enjoy an immediate, substantial improvement in income during this period as a result. The improved economic performance resulting from the Social Security reform also helped to produce sustained income growth which further served to preempt uneconomic union demands.

Moreover, through the new Social Security system workers developed a substantial direct ownership and investment stake in the nation's private business sector. The economic future of workers depended quite closely on the performance of the private economy. This had the effect of changing worker attitudes toward business in ways that helped the trade union policies to be more successful. Instead of maintaining a suspicious, confrontational, challenging attitude toward private business, workers began to see themselves as participants in the success of business enterprises, and as more direct beneficiaries of the overall success of the economy. Workers consequently became much less supportive of confrontational union practices and demands which might damage private enterprises, and began to favor efforts to increase cooperation with management and enhance the ultimate success of firms. The new attitudes also produced a new political climate more receptive towards government policies which would enhance overall economic performance, and consequently the new trade union policies which would do precisely this became more politically acceptable. Through the Social Security reform, workers had a stake leading them to be more concerned with the general interest in strong economic performance, than with a special interest in excessive union demands leading to short term benefits for a few.

The Social Security reform could have been structured to be compatible with union reform in other ways as well. Labor leaders have often seen development of union pension systems as valuable tools in attracting worker support and building worker loyalty to unions. They have consequently often favored systems where workers would contribute to such union pensions in the private sector rather than state Social Security systems to which workers contribute through taxes. In the U.S., unions actually opposed adoption of the Social Security system for many years because they wanted to maintain union responsibility for such pension benefits. In Great Britain in 1978, a union dominated labor government actually adopted a reform similar to Chile's, whereby workers in unions which had developed their own industry pensions could opt out of about half of the country's Social Security system in favor of such pensions.

A Social Security reform such as adopted in Chile could have allowed workers to invest their pension account funds through their unions, with a union investment manager, to help build a stronger independent union system. This option was not adopted perhaps because the problem in Chile had been too much power and

131

TAB J

"Facing the Market: Product Quality and Production Efficiency"

(Reference Materials)

TAB K

"Role of Work in Economic Progress"

by Alan Rufus Waters

137

THE ROLE OF WORK IN ECONOMIC PROGRESS

by

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134

strength by unions in the past. There had also been a history of abuse of Social Security investment funds, and policymakers may have feared further abuse of such funds by union managers. Experience with union pension funds in other countries suggests that this is a valid concern. But the opportunity for workers to invest in union pensions in place of public Social Security systems may be a helpful policy initiative in countries without significant union activity, where the development of viable, independent trade unions is a major policy goal. If developed under appropriate policies, such unions can be valuable in creating more stable political and economic climates.

Interestingly, the trade union reform in Chile was probably crucial to the success of the Social Security reform. The union reform created a much more rational and successful private economy for workers to invest in through their private accounts. Without such reform, the private economy might not have been sufficiently stable and might not have offered sufficient returns to allow the new, private, invested Social Security system to work. Where investment through union pension systems is allowed, independent, viable, employee-run unions can also provide reliable institutions to manage investments for workers through union pension pools. Such unions would have the resources to employ investment expertise operating in the interest of the workers.

It is interesting to note the interactions between trade unions and Social Security reform and a third major policy initiative in Chile - privatization - which began in earnest at about the same time as the other two. Chile had numerous state-owned enterprises which it sought to sell to the private sector. The new funds pouring into the private investment accounts under the Social Security reform provided ready capital available to buy stock in state enterprises being sold to the public. The privatization of these enterprises, in turn, also meant new good investment oportunities for the funds in the private investment accounts. The privatization of these state enterprises also reduced the trade union problems which had been most acute in the public sector where unions were free of market constraints. With a privatized firm, unions had to accommodate their demands to competitive market realities. The trade union reforms also made privatization more feasible, because the new private companies faced a manageable union environment which would allow them to maintain the ability to compete successfully.

Conclusion

The examples discussed in this paper illustrate the potential synergy in the adoption of consistent market oriented policies across the board. Adopting such a liberalizing, market approach in each policy area is likely to make each policy initiative and reform even more successful through beneficial, interacting, cross effects. In particular, policies to enhance employment and income performance can be made more effective and successful through market oriented reforms in other, superficially unrelated areas.

THE ROLE OF WORK IN ECONOMIC PROGRESS

I
Introduction

Why do people work? Certainly it is for some form of reward. Work should leave them or their loved ones feeling better off as a result. But why is it that people in some nations work harder and more productively? Why is it that in some nations people appear happier about work? Is the attitude toward work a factor in economic success? Does work have anything to do with the present institutional concept of "employment"?

This essay raises again some of the basic questions about work and its role in economic progress. First, we must set forth the two necessary assumptions which will underlie the discussion: One, the focus of interest in any study of human activity must be the individual; Two, the pattern of ownership is the key element determining the incentives perceived, and hence the nature of ownership rights is the basic factor differentiating economic systems.

II
The Ancient View of Work

Work was hated, painful, and even feared by those who worked in ancient times. It was admired and extolled only by ascetics and by the wealthy who could escape its rigors. Work was, however, easily measured by the number of hours worked or the number of tangible pieces produced. Therefore, the cost of monitoring and control was low.

III
The Introduction of Tools

Simple tools did not reduce the pain and effort of work: neither did they increase the scale or concentration of work nor change the cost of monitoring or control. Tools increased the productivity of work and thus the value of complementary productive assets. They did little to lower the cost of maintaining private property rights.

IV
Beyond Tools

Animals, water, wind, fire, steam, chemicals, electricity, etc., extended the scope of muscle power and gave it increased leverage. Each kind of power increased the productivity of work. Non-human power reduced the physical pain man associated with work but did little to relieve its drudgery. Work was still seen by many as an odious duty to be borne with stolid tenacity. The introduction of non-human power did, however, give rise to the concentration of work and to changes in the scope of monitoring and control.

V
The Age of Machinery

With increased supporting use of non-human power came reductions in the cost of factory-based production. Work became concentrated where it had previously been dispersed. For an ever growing group in society this reduced the pain of work, and it also gave rise to the new classes--managers, union bosses, administrative cadres, and a range of other new groups. The roles of these new classes were purely managerial and their functions were to monitor and direct the activities of others.

Work was still seen as moral duty to be borne stoically. To justify their own existence and their position in society, the new managerial classes redefined work to include activities not directly

138

related to physical effort, while they relegated the term "labor" to the activities of wage-receiving employees.

The expanding scope of control and the increasing complexity of machinery created new kinds of productive knowledge and hence new kinds of ownership problems. "Intangible assets" were recognized by accounting, but the definition excluded all of the knowledge and intellectual skills embodied in individual managers and staff.

As the distance increased between the application of knowledge or skill and the resulting output it was harder to measure the contribution of various parties. In other words, it became increasingly difficult to enforce private property rights--particularly rights derived from skill in coordinating and managing intellectual capital.

VI
The Limits of Power

Today the capacity and the cost of measuring and monitoring work is only one element in determining if a team activity is carried out

With increasing centralization of the sources of mechanical power, "monitoring" has become "management" and the range of control has increased. Diseconomies of managerial scale are inevitable as the significance of individual skills and knowledge grows. It is not possible to own the knowledge of the worker in the same way that one could have even temporary control over his presence at the work place or over other external factors. Individual workers in large organizations increasingly find alternative rewards beyond pecuniary income in diverting activity into channels yielding greater personal rewards but not contributing to the goals of the organization. As the capacity of monitoring and control systems declines, greater and greater degrees of coercion become necessary.

As the cost of external controls rise the search for alternatives proceed in competitive societies. The result, so far, is a new recognition that individuals working together for mutual benefit will monitor each other more effectively than any external overseer or manager. But the existence of mutual benefit depends upon clearly defined responsibility and allocation of rewards. Responsibility for the outcome and assurance of the rewards depends upon the existence of well defined and enforced private property rights.

As the mechanical age progressed and factories got bigger, so did the monitoring problems compound. Increasing numbers of individuals found comfortable and acceptable roles for themselves in growing layers of management. Today such managerial functions rely for their justification on communications and access to growing pools of information. The quantities of information increase with every innovation in management but their marginal value declines. The truly relevant information about work now resides with the skilled individual and the small group. Inappropriate structures of ownership and inadequate information flows speed up the rate at which engineering economies of scale are swallowed by managerial and administrative diseconomies.

Finally, frustration with a failing system must account for much of the horror of collective societies attempting with threats, fear, and brutality to enforce controls based upon an increasingly irrelevant concept of collective ownership. Where ownership, and therefore rewards, do not flow to a responsible and clearly identified individual no effective system of incentives can be designed.

VII
The Growth of Communications

Looking at the history of human communications we must be impressed by the possibilities for distortion. Communications can be visual or oral. Touch and smell may be vital for the individual's survival and pleasure, but the role of these two senses in work has been limited for most people. The introduction of power and equipment extended the range of communication and improved the integrity of transmission. Semaphore, the heliograph, telephones and radios, and improved transportation all increased the range, timing, and accuracy of communication. Nevertheless, it has only been in the past decade with the practical and widespread application of computers that processing of complex and interactive information has become possible on a wide scale.

Competition and technical advance brought about the decline in the cost of computer storage and capacity and computational ability, which in turn opened the door to the information revolution. This same pattern is evident in previous well-recorded economic revolutions. The progression in land ownership from public commons to private responsibility in England gave birth to the agricultural revolution. Those involved may have been unaware that they were in the midst of dramatic change, but it occurred nevertheless. Similarly the need for markets, in their prime role as providers of information to consumers and suppliers, arose to solve the information and communications problem--a problem inherent in the escape from collective ownership and the poverty it entailed.

The industrial revolution stemmed from the agricultural and commercial revolutions preceding it and occurred in much the same way. Changes in the pattern of ownership--the emergence of the corporation, etc.--allowed for a new possibility: an improved link between management and ownership. In this case the link was improved because the stock owner did not have to participate directly in management but could share in the rewards while going about some preferred activity. The management of the organization would be held responsible by the existence of stock markets and the threat of take-over or stock-holders revolt which such markets made possible. New markets and hence new ownership opportunities promoted new technologies, in turn requiring new forms of communication and making possible a sustained industrial revolution.

Not by coincidence did the trade revolution of the 19th century follow the same pattern. The new food markets in the industrial centers of the world, and the widespread private ownership of newly available land in the United States and elsewhere, gave rise to technical breakthroughs in transportation, the telegraph, and finance.

The food shortages created by many nations in other parts of the world today are the result of retrogression in this pattern. We have dismembered ownership and thus removed personal responsibility. We have erected barriers to trade, and we have distorted markets so that they fail in their key role of providing information. Furthermore, we have imposed artificial costs on transportation while placing political barriers to the free movement of food. Seeing each element of the tragedy in isolation may obscure the underlying cause but viewing it as a whole it is increasingly hard to avoid the conclusion that we have destroyed something fundamental to the structure of incentives which makes work worthwhile. Since incentives are based upon rights to own the result of one's activity, we cannot escape reference to those rights in seeking solutions.

VIII
The Information Age

Because capital is increasingly embodied in individuals, the production processes of the world can only grow more dependent upon the ability of human beings to communicate to each other complex and vast quantities of information. Technology and increasing knowledge about alternatives have brought us to what Julian Simon has called the "age of substitution." Inevitably we are in the age of the individual, with smaller production units and with much greater emphasis on communications. Where once the case for primacy of the individual rested on ethical and moral foundations, now it also has strong economic justification.

Where larger production entities must exist they will more often be coalitions and federations of individuals and small groups. Physical location will in many instances cease to be important as inexpensive personal computers allow people to work outside the traditional work place. This will be true for knowledge workers, and for those who will work by controlling robots. The only successful coordinating mechanism we presently know for such a world is the market. We have no operational alternative.

Cybernetics (feedback and control from a distance) make possible the widespread use of robots by individuals who may never have conceived their application before. They make possible the monitoring of equipment far beyond the scope of management and technology at any other time in history. Consider the example on a recent television show: A Japanese farmer is tilling his small and beautiful farm, dressed in traditional clothing and in the midst of his family. The scene changes. We discover that the family has rented a robot which is quietly working away in the barn making components for a manufacturer somewhere. This is possible because of the Japanese pattern of sub-contracting. It is also possible because the farmer knew about such an activity. The appeal to the farmer lay in the obvious rewards it would bring to the farmer and his family. But what has happened to work in the process?

What does the concept of individuals linked in networks permitting widespread coordination and mutual and flexible response to incentives mean for the traditional role of management? The management function may never disappear, but this will be the last great flowering of management as we know the profession. Management of work in the future will mean very different things.

Flexibility is the key to economic prosperity. The Austrian economists kept alive the idea of the entrepreneur at the center of economic activity, and the price system as a coordinating and information processing mechanism. The entrepreneur is above all a recognizable human being. He does not have to be the great magnate who mobilizes financial capital in vast amounts. He may be the small trader who seizes an opportunity not perceived by his competitors. As a result he creates a larger sphere for his activities.

Successful economies are those which can respond rapidly to changing opportunities. There will be a diminishing role for any institution which delays or forestalls the continuous process of pervasive change. Inevitably the decline of bureaucracy and the end of the high years of organized labor will not occur smoothly in many nations. But it is only with such a passage of redundant institutions that the new age of the individual can fully emerge.

If our understanding is correct, the success of the United States--the world's most attractive society to those ordinary people who leave their native homes to go elsewhere--stems from an approach to private and individual ownership which is more strongly rooted here than elsewhere. Those somber voices which talk of a decline in work and the work ethic are speaking only of older and outmoded concepts of work. They still adhere to the concept of work as labor and therefore measure only where such labor is found. They do not look at the rapidly growing smaller units and groups of individuals who work with joy, harder than did their parents or grandparents, and to greater purpose. Our society works. Others who envy it should emulate it.

For others to emulate our society requires that they recognize what differentiates it from their own. It is not our government, our Labor Unions, or our management style which make us unique, it is the degree to which we recognize and demand private ownership of things which matter. Private ownership of skills and other property permits great flexibility in a world where new opportunities and new threats arise with growing rapidity. Furthermore, not only is our tradition of private ownership significant in the modern sense of things pertaining to the intellect--such as professional skills, etc.--but it continues to be important where tangibles such as equipment or other posessions are concerned.

IX
Work as Pleasure

For a small and favored group in any society, work has always been a recognized and intense form of pleasure. Also, we have long been aware that individuals perform at their best when they enjoy what they are doing. Frequently that which is pleasurable is not even considered work. Now, in the information age, there is new potential for relief from clerical or manual drudgery for increasing numbers and an added potential for work becoming a pleasure to more participants.

In these circumstances, how do we define work? The old definitions--hours worked, or money wages paid, etc.--make little sense. We can continue to define work in terms of the value of output, but when we get to the point where the individual is the production unit and is a major consumer of his own output we have problems. Under these circumstances theoretical systems based upon such classical notions as the Labor Theory of Value become what they have long been suspected of being: blatant fraud.

What does it mean for our society and for economic systems in general? Except for purposes of control and taxation, why do we have to measure something called work? Fundamentally we are asking if macroeconomics is significant, let alone interesting! What happens if the answer is that we should not define work and we do not need macroeconomics for our survival and prosperity?

To go further, we might ask if there is anything of significance called capital? How do we differentiate between producer capital and the equally complex consumer capital which one must acquire to appreciate something as deep as avant garde music, for example? There is a degree of intellectual investment in every significant activity. Hence, is there any such thing as capital? Or, is everything really capital? And, finally, who would lose if we ceased even trying to measure these things?

X
Work and Economic Progress

We should think of economic progress in terms of creating a structure of ownership which will generate markets, contribute to communications, and permit flexibility. Such an approach will always liberate individuals from the state and the regulatory urge of the intellectual elite.

We should take advantage of the fact that human beings are known to perform at their best when striving for things they want and things which will be appreciated by those they love. But we should also remember that human beings are gregarious and cooperative organisms, craving specific and identifiable-responsibilities; responsibilities which only derive from some form of well defined ownership. Where we dissipate ownership in some amorphous and meaningless collectivist concept we not only obscure the real issue of work, we ensure perverse behavior on the part of individual human beings who must run collective economies <u>and</u> by those who must live within them.

XI
Conclusion

At this stage we have only raised some ideas for future research and subsequent discussion. In the process, however, we have suggested that an appropriate concept of work is vital to the nation which would escape from outmoded institutions and succeed in the economic progress stakes. The time spent trying to define and measure various forms of work may be an archaic exercise existing only to provide a ruling and predatory elite with the tools to exploit those they control. Furthermore, implicit in what we have discussed is the possibility that macroeconomics--and all the policy implications that emerge from macroeconomics--may be the great barrier to economic success.

As a beginning it must be recognized that work has little or nothing to do with the political concept of employment. Employment in the macroeconomic sense has become an institutional incantation by those who would retain their dying role and their privileges in the face of great and good social change.

148

TAB L

"Constraints on Labor-Management Relations in LDCs"

by Harold K. Phillips

CONSTRAINTS ON LABOR-MANAGEMENT RELATIONS IN LDCs

Harold Phillips
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For the entrepreneur there are many constraints on labor management relations in lessor developed countries. This paper will only highlight some of the broad types of constraints, discuss a unique way of coping with them called Solidarismo, and then suggest some ways that investor-managers may deal effectively with labor within the existing constraints.

Types of Constraints

Constraints exist in the form of laws, traditions and customs of the environment, and situation specific constraints. Legal, traditional, and specific constraints vary from region to region, country to country and frequently within countries. Despite the fact that it is obviously beyond the scope of this paper to deal with all of the sub sets of constraints it is useful to address some of the different types of constraints and how they interact with development.

Legal

First and perhaps least important are the legal constraints. They vary so much from situation to situation as to be difficult to generalize. However some laws provide requirements for payments to employees if the company terminates the employee, is dissolved or sold. This can be a week's salary for each year worked or some other payment scheme. It can also require year end payments sometimes as high as a month's compensation. Other requirements frequently prohibit a company from withdrawing a benefit once given. For example a annual company party, free transportation, scholarships etc.. may become a legal requirement once given.

Other areas include work hours, holidays, social security benefits, maternity leaves. contribution to a loan fund for employees etc.. Even when employee regulations are not applicable to an industry, ie milk cows on Sundays it may take special legal action to resolve the situation. It is essential that a business person have a through working understanding of the legal constraints of the country and how they apply to a specific business.

CONSTRAINTS ON LABOR MANAGEMENT RELATIONS

It very well may be that a high profile foreign owned business may need to comply with laws that are completely ignored by local business. Some places that can help with local laws include the Chambers of Commerce, the department of labor, the US embassy personnel, and the local attorneys.

Laws regulate how collective bargaining takes place, how issues are resolved. The government may have a conciliation service, binding arbitration, may prohibit strikes, may require union recognition when a certain number of employees sign a petition. In some instances when a union has once been certified it is extremely difficult to decertify the union. Union officers may be protected from dismissal. When a company is being sold too cheaply look for potential labor problems.

Other laws may constrain unions. It may be against the law to restrict entry of vehicles. Frequently it is against the law to require union membership as a condition of getting a job or keeping a job (right to work). Strikes may be against the law or carefully regulated. Specific procedures are usually required before unions can be certified bargaining agents. If the manager of a business is fully informed he can utilize the laws to buy time to implement effective management labor management relations. However in some LDCs illegal strikes are common and may not be acted against by government authority. In some cases illegal strikes can lead to violence, property destruction. and even injuries and murder.

Traditional

Traditional constraints can be more difficult to understand and to deal with then legal constraints. In one central american country a boss who does not get drunk with his employees at least twice a year is looked on with disfavor. In another such actions would be frowned upon. In some moslem countries failure to attend a funeral or a wedding may result in a work stoppage that is fully justified by tradition. Other traditions include involvement with sports activities, religious activities. community activities, and sharing management decision making with the workers. Management must carefully consult the workers before making changes in the work environment. These discussions can frequently be lengthy and frustrating for management.

151

CONSTRAINTS ON LABOR MANAGEMENT RELATIONS

Usually the American chamber of commerce, the U.S. embassy, and the local service clubs such as Lions, Rotary etc. can help the neophyte to learn the important traditions. In most developing countries a great deal of paternalism is expected from the company. Managers and owners who do not engage in paternalistic practices risk alienation from the work force. This alienation can quickly result in a hostile labor union. In the 19th century that eminent sociologist Karl Marx said that the worker who was not alienated from management would not develop the proper "class consciousness". He was right.

Traditions frequently are also very helpful to labor relations. The manager owner frequently is given a great deal of respect. Employees will usually inform the owner when unions are being formed, strikes planned, people are stealing, or taking drugs.

Different types of Unions exist in LDCs. Most LDCs have Communist labor organizations. They can be very troublesome and unpredictable. Other unions also have Communist members. Foreign owned companies are always targets for Communist unions. Other principle targets for Communist unions include port workers, transportation companies, large mines, government agencies and other large bureaucracies.

Sociological studies have indicated the most militant unions are formed by rural or isolated workers in a large company. Next most militant are workers in a large plant in an urban setting. Next the workers in a smaller plant in a urban setting and lastly the small plant in a rural setting. The rather tranquil environment of the large plant in a rural setting is potentially explosive. This situation should be avoided or the labor and community relations very carefully planed. The reasons that these situations exist have been thoroughly studied. Techniques for successfully reducing the alienation of the work force are not as clear but the approach used by some successful managers is outlined in the final section of this paper.

There are also political unions. Frequently these unions are part of the government political structure. These unions provide the government political support and frequently key government figures come from these unions. Dealing with this type of labor organization presents many problems, but sometimes this type of union can be influenced by friends in the government or by payoffs. (Be careful

152

with payoffs they can frequently be considered against the law.) Sometimes part of excessively high legal fees are used by experienced lawyers to handle problems.

In addition to political unions there are also Church related unions. These can be difficult or easy to work with depending on the situation. These unions may also have extensive political ties.

Theft is frequently a problem in LDCs just as in the U.S. Sometimes even when the employee is caught stealing and is fired government Labor Boards will require that he be reinstated. Don't panic! There are ways of getting rid of the thieves. Ask for help from your local staff. Do take action. A known thief can demoralize an entire work force.

There are also frequently provisions for company organizations of different types. One type is a credit union. Other organizations frequently part of local tradition include soccer clubs, social clubs, and company unions. Frequently company unions which are regulated by law may be a convenient way of fighting the Communist unions. In some countries company unions can include only currently active workers. It is much better to face only your own employees when you deal with the workers. All of these organizations offer the company management the opportunity to keep in close contact with the work force.

Specific Constraints

Each company has specific requirements. The mining companies, manufacturing companies, food processing companies, drawback companies etc. each have different work requirements. How to make the jobs needed conform to the laws and traditions of the environment and not alienate the worker is the difficult task of the manager.

In small and medium size companies, hostile unions can usually be avoided. If they can be they should be. If a union exists it can be worked with by establishing good communications with the employees.

In the case of a large union in one of the plants for sugar processing the union was certified due to the lack of good management policies. (Al Miley a Teamster union leader in the U.S. says good unions are created by bad management) After two years of effort on the part of management,

157

including excellent social programs the union was reduced to 68 members from 700 members.

Management made no attempt to decertify the union as it no longer posed a threat and became a very cooperative union. An interesting note to this is that the manager of labor relations became concerned that he would lose his job because things were too tranquil so he promoted the establishment of a strong labor union to replace the weak existing one. Management fired him as soon as they learned of this activity and he protested to the labor board but his protest was denied because he was in management. The weak union still is the legal representative but virtually all negotiation takes place directly with the workers.

Good and consistent labor policies work in LDCs. The additional constraints in these countries are usually more then offset by a respect for management, an appreciation of the work opportunity, and an easily developed sense of loyalty to the company. Misunderstandings are common in this work environment. Frequent meetings are an important part of labor relations. Managers direct involvement with the workers, knowing their names, their families and their aspiration is important. In some LDCs the company becomes an extended family and the workers protect their family from outside influences. But this loyalty is earned by constant attention. To achieve a good working relationship with the workers is always a challenge, to keep it is even more of a challenge. Do not neglect it or it will destroy your company.

The exception to the rule about good labor policies working in LDCs is when the union is either a Communist Union or heavily influenced by Communists. The Communists will offer sweetheart contracts and labor peace and discipline to the managers. This will frequently lull management into a false sense of security. In the meantime they will be working to develop a cadre of committed workers within the union. These workers will enforce Communist discipline on the work force usually through threats of violence and violent activities at the most inopportune time for management. A Communist union is very seldom representative of a majority of the workers attitudes. If you have a Communist union it will not guarantee labor peace even if you have all of the other elements of good labor relations.

If you have a Communist union develop a complete plan to eliminate the Communists from your work force. Actions should include 1). Establish close relations including social relations with the non-communist workers and their leaders and enlist their support, 2) develop a good relationship with the local police authorities, 3) secure community support, 4) make business preparations so that an interruption of supply will not ruin your future sales, 5) develop good relations with other businessmen in the area who might help, 6) develop contingency plans to deal with violence and intimidation, 7) fire all of the known or suspected Communists. Do not wait for them to pick the time. If you are not prepared to take this type of action against the Communists, sell the business and start elsewhere.

Solidarista Movement

In Costa Rica a rather unique organization has been developed called a Solidarista. In this section of the paper the actions attributed to soliderismo will first be examined and then the nature of the movement itself its philosophy and the details of how it works and how it interacts with other labor organizations.

The Impact of the Solidarista Movement

The most dramatic inroads of the solidaristas have been against Communist unions. Where solidarista organization have been formed, the communist unions have been voted out. This has been especially dramatic in the banana plantations. Where once the communist union CTCR controlled the plantations they have now almost disappeared. No doubt the disastrous strike of 1984 also contributed to this.

In Costa Rica where the solidarista movement started there are 815 functioning associations with 130,000 members and over four hundred new groups in organization as of the start of 1986. Virtually all of the major multinational corporations have solidarista associations. Solidaristas have not replaced free unions. It does not assume the role of collective bargaining but the basic concepts of solidarismo are incompatible with the Communist class struggle. The Costa Rican Airline (LACSA) and the Costa Rican National Insurance Corporation, and the Ministry of Agriculture have Solidaristas and free trade unions.

155

CONSTRAINTS ON LABOR MANAGEMENT RELATIONS

Although it is very costly in both money and time to for a business owner to start and maintain a solidarista, business leaders almost universally believe the investment is worth the cost. These businessmen believe with solidarista organizations come labor peace, greater productivity, and a greater spirit of cooperation between workers and management.

The Nature of the Movement

The solidarista association is a rather unique labor institution. For a brief history of the movement, refer to a paper by Dr. Curtin Winsor, Jr. "The Solidarista Movement: The Revolutionary Promise of Worker Ownership". The Solidarista association combines a credit union program, a program for property or stock ownership by the workers and a very functional vehicle for worker management communication.

A Solidarista organization can be formed by as few as 12 people all employed in the same enterprise. From a realistic viewpoint they are probably virtually all formed by the owners or managers of the company. The owners or one of the promoters explain the purpose of the solidarista movement and how the workers will benefit. The possibilities including low cost loans, opportunities to own stock etc. are just too good for most workers to pass up. They anticipate receiving earnings from the employer contribution and from their investment. They also have frequently heard success stories from other members of solidarista societies. The association is formed. The management convenes the meeting and usually assumes a minority role as a director on the board.

The workers elected to represent all the workers in a specific work force attend a training course at Escuella Social Jaun XXIII. At this five day school they are taught the principles of Solidarismo, proper administration of the funds available to them, how different types of labor organizations affect the worker, human relations, family relations, the basic principles of business, the legal rights of workers, and the social doctrine of the Catholic Church. The cost of this training is paid by the owner of the business as well as the attendees normal wages.

Perhaps in the setting of the Church school the message of the Church that Solidarismo should result in " the realization of the dignity of the working man within the workplace itself: the establishment of a climate of human

156

communication (rather than class struggle) within the work place or enterprise, which must be a meeting place of both workers and employers: recognition of the basic moral re-enforcement to the family from individual property ownership, and that the family, thus empowered, serves as the basic cell of social strength; the development of a social conscience compatible with property ownership, whose major aspiration is a dynamic peace founded on respect, justice and freedom for all.

The practice of maintaining a solidarismo is not free. It takes a great investment of time and money, Five percent of the workers wages are paid into the solidarista fund by the company matching the five percent contributed by the employees. Additionally once the school has been completed the worker representatives are supposed to meet with the managers once a week to discuss the solidarismo and worker management relations. The workers attend yearly schools paid for by management and promoters of the solidarismo organization frequently call upon the local organizations to review the books and discuss the future of the group.

The solidarista does not usually negotiate wages for the workers. This is handled by another organization or frequently by direct negotiations between the worker and management. It works to develop a sense of property ownership frequently of the workers' own enterprise, or stock in the company, as owners of a company these employees can develop very supportive attitudes and practices. It does take an investment of time and money for worker education. The primary problem experienced by solidarista groups is the workers tend to expect the total results of the solidarista group to come very rapidly. It takes years for the total benefits to accrue. Management must be prepared to deal with this frustration.

Management Guide to Labor Relations in LDCs

In summary management should be prepared to take the appropriate action to insure good labor relations in LDCs. The specific actions should be thoroughly researched, carefully planned and modified as experience dictates, and even more carefully implemented. The changes produced in a worker s life by a new job in a new environment can leave the worker with a sense of alienation. The only cure for that is a new sense of belonging and security. If you wish labor peace you must be prepared to deal with this problem.

Only by constant attention can you achieve an effective working partnership with your employees.

As a foreign owned company you will be a target. Do not think because you provide a far better standard of living, special housing, education opportunities, health programs and other benefits far above what any of the workers have receive in the past that you are immune from a communist oriented union. Many companies which have followed a very paternalistic policy have been infiltrated and destroyed by the communists. No matter how much you give the workers, communists will always promise more and claim that the workers are being exploited. They will say you are rich and should give more. Money and benefits will not keep the communists out. Direct action a sense of involvement, security, and dignity will help but you must be alert and act to prevent the actions of the Communists from destroying everything you are trying to accomplish.

Many local political figures will also accuse the foreign company of exploiting the workers or natural resources. The demagogues are very active in LDCs. Occasionally well meaning but ill informed local priests and educators will also join in the attack. If management does a good job of identifying and educating local opinion leaders this can be kept to a tolerable level.

The Central American banana companies were encouraged by the governments to accommodate the unions. These unions promised labor peace if management would turn over hiring and firing to them, would allow them to be the only conduit for the management to communicate with the workers and other significant tools were turned over to the mostly communist unions. Naturally the unions built the marxist "class consciousness" in the work force to the point where violent strikes could destroy the company. This in was in spite of the schools, housing, medical clinics, and other benefits that gave the banana workers the highest standard of living in the area.

But where management clearly is prepared to risk violence and will not tolerate a Communist union usually they can be defeated. Management in two large companies that had communist unions fired the union leaders, and called for a decertying election the unions were decertified. Management followed the practice of saying the communist unions were not acceptable and met with individual workers to explain why. In one case they formed a

48

solidarista unit in the other this option was not available. In both cases management successfully destroyed the communist union.

One very successful businessman said that he was in the people business, his workers were in the garment business. The experienced labor consultant so helpful to U.S. management is not yet become an institution in LDCs. You have to keep out the unions yourself. What follows is not a guide to keep the unions out but some of the techniques that businessmen have used to develop good worker management communications.

1) Once a year individual meetings. The owner of this company of over 200 workers meets with each employee for between 1/2 hr and one hour over a period close to the end of the year. The workers start by telling the owner about their families and usually they then tell him what is going on in the plant. The format is relaxed and the owner tells the workers of his plans for the new year. The workers look forward to this opportunity to meet with the boss.

2) Company management serves food to the soccer players spectators and families after the weekly soccer games a couple times a year. The workers and management have a party.

3) One manager of a 100 plus worker factory makes it a point to know all of the employees by their first name and knows their birth dates. He makes a special effort to wish the employee a happy birthday on his birthday.

4) The owner attends all weddings, funerals, and other special occasions where he has an opportunity to socialize with the workers.

5) The company has a special program for its middle managers on how to demonstrate respect for the workers. How to correct the workers, how to fire workers without creating unnecessary embarrassment, how to treat workers fairly. How to praise workers. The middle managers all learn through role reversal acting techniques.

6) The company does a through background check with all previous employers for each employee. They 5 to 7 hours this takes pays off very well according to the company managers. They have avoided hiring many potentially troublesome employees. They also check with the AmCham and

159

other organizations. Whenever as company will not give information they do a very through check or eliminate that candidate.

7) The local chamber of commerce organizes classes for employees who wish to progress. The employer pays for these classes.

8) The company has an annual Christmas party for the employees and their children. The owner personally gives a small gift to each child.

9) One manager makes a point of dropping by the home of at least one worker a week after dinner. After sharing a few beers the worker will normally tell him when someone is goofing off, stealing, or promoting a labor union.

10) One company sponsors a annual tour of their facilities. They enlist lower level managers to explain to local political leaders, journalists, religious leaders, and educators how the plant works. The managers at the luncheon point with pride to the company's contributions to the local community. He contrasts how the community would be without the company with how it works with the income produced by the wages paid by the company.

The list is endless. Good labor relations can be fun if you like people. Sometimes it is also very difficult and heartbreaking. But it is essential for human and economic development. Good Luck. If you are a government employee think about the benefits the individual and the LDCs receive from the jobs, investment, economic peace, and spirit of cooperation developed by good industrial relations. Isn't it your job to help the process?

\160

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TAB M

"Strategies of Building Democratic Values Through Labor Relations"

(Reference Materials)

164

The AMERICAN INSTITUTE for FREE LABOR DEVELOPMENT (AIFLD)

Founded in 1962, the American Institute for Free Labor Development (AIFLD) is an AFL-CIO sponsored non-profit organization with a Board of Directors composed of prominent labor leaders from the U.S., Latin America, and the Caribbean area. AIFLD seeks

- To strengthen free and democratic trade unionism in Latin America;
- To foster self-reliance and independence among hemispheric unions; and
- To make trade unionism a powerful force for democratic development and social change in Latin America.

The AIFLD program includes: union leadership training, housing projects, community development and related social projects, the development of credit institutions for low income workers, and assistance in farming co-operatives for marginal farmers in the production and marketing of crops.

The fundamental philosophy of the Institute is that strong and democratic unions are necessary to give voice to the legitimate demands of workers in Latin America and the Caribbean. In so doing, unions guarantee that a pluralistic society will be able to develop political democracy to the fullest extent possible. When workers are denied a voice through their unions in the political, social, and economic decisions which affect their lives, the principles of democracy have been compromised.

STRATEGIES FOR BUILDING DEMOCRATIC VALUES
THROUGH LABOR RELATIONS
(Background Paper)

Industrial democracy: made in the U.S.A.

Labor-management cooperation to improve the quality of products, worklife, and the effectiveness of companies can be traced to the early 19th century

HENRY P. GUZDA

According to industrial relations expert Milton Derber, participatory management programs, shop committee plans, works councils, and similar employer-employee cooperative efforts can be classified as "industrial democracy."[1] There was a proliferation of such programs in the 1970's, spawning a plethora of books, articles, and pamphlets which dissected the concepts and drew philosophical guidelines for their implementation and expected results. Some publications cite these experiments as unique or novel, but, as Sanford Jacoby of the University of California at Los Angeles management school noted, the common presumption that these are new solutions to lagging productivity is wrong.[2] "The hand of the past," said historian Richard B. Morris, "is still writ large in . . . the labor relations of this country, and the early concepts and procedures often forecast the shape of things to come."[3]

Assuming that quality-of-worklife programs have two common threads, the quality of employees' work experiences and the improvement of organizational effectiveness, one finds the roots of industrial democracy in the United States, not in Germany or Japan, with certain appendages of the idea grafted from Great Britain.[4]

'Mutual dependency'

The British mercantile system restricted manufacturing in the American colonies but that did not completely suffocate industrial experiences In two early 18th century manufacturing enterprises run by the Moravian religious order at Wachovia, N.C., and Bethlehem, Pa., groups of journeymen often cooperated with master craftsmen, suggesting improvements in product quality and proposing methods for increased output. These efforts, stated historian Carl Bridenbaugh, "were conducted on a wage earning economy, they were not communistic." It may have been the first American experiment in participatory management.[5]

But the true antecedents of our modern system of labor relations were formed in the 19th century, coinciding with rapid industrial growth. At one time, class distinctions between employers and journeymen were vague and ill-defined—most masters graduated from working ranks—until rapidly expanding economies of scale soon drew definable, if not bold, lines. An early report of the Department of the Interior claimed that by 1832 a distinction had arisen between "work-people" and employers.[6] John Commons, the dean of labor historians, focused on 1837 as the beginning of adversarial labor-management relations but noted that more than 200 strikes had occurred between 1820 and 1837.

Paradoxically, the period between 1820 and 1840 was marked by the "ascendancy of the common man," in the words of the French writer Alexis de Tocqueville. Developing political institutions tried to gain working-class support by emphasizing that workers and employers had a mutual dependency. The philosophical forebears of both the Republican and Democratic parties agreed on the concept of mutual dependency but disagreed on the means to achieve it.

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165

Philosophical mutual dependency developed because of declining economic conditions. Cheaper, inferior goods imported from Europe captured portions of the American market, adversely affecting both workers and domestic manufacturers. This, at times, created a common bond between highly skilled workers and their employers.

Among the woodworking trades, this mutual dependency led to the creation of the first labor-management committees. In 1828, a joint committee of employers and journeymen cabinet and chairmakers in Philadelphia published a list of prices so that each group "may become thoroughly acquainted with the principles upon which work is founded. . . ." The price book prescribed standards for quality work and furnished diagrams of the finished product. The joint committee concluded, "Two classes of men are each, in their several capacities, essential requisite to the well being of the other."[7]

Although not common, such cooperative efforts were not unique. A committee of seven journeymen and seven employers in the Cincinnati chairmaking industry also worked out price and standards lists. A similar price list "to promote uniform justice between carpenters and employers" was in effect in Washington, D.C., during the late 1820's. Other Washington area building trades unions compiled price lists in advance and submitted them to employers in an early collective bargaining procedure.[8]

In 1837, the Nation experienced one of the first economic depressions of its young history, temporarily derailing the progress of labor-management cooperation. The union movement had grown despite developing employer resistance, but the depression virtually destroyed it. As historians note, the growth of the factory system, although originally idyllic in Lowell and Waltham, Mass., evolved into a system of severe competition intent on reducing costs and increasing profits. This nurtured the ills of child and female labor exploitation, paternalism, company stores, hazards in the workplace, and labor-management conflict.[9]

Production cooperation

Between 1840 and 1860, the philosophies of employers and employees polarized. Many mill, mine, and factory owners extended social and economic distances by appearing to treat working people as chattel, paying the lowest wages possible, and blaming working class miseries on a lack of initiative. Among the alternatives to such a philosophy was worker control over the means of production, referred to as the cooperative movement or production cooperation.

Although it had converts in the United States, the cooperative movement developed on a broader scale in England. One of the most celebrated experiences, and the one most cited by historians, was in the town of Rochdale. In the so-called Rochdale Experiment, working class shareholders in jointly owned enterprises received fixed dividends on invested capital. Excess profits were reinvested in new ventures such as insurance companies, foundries, factories, and so forth. The objectives of this experiment were to: (1) manufacture articles the society deemed necessary to provide employment to members; (2) provide quality products for distribution in growing markets; and (3) promote a philosophy that working people were not inferior.[10]

Production cooperation spread throughout Great Britain. By 1865, Parliament had legalized "industrial partnerships" among workers and cooperative enterprises had sprouted in Scotland, Wales, and Ireland. Guild Socialists adopted the concept and promoted it well into the 1940's.[11]

Some workers in the United States established manufacturing cooperatives well before the Rochdale experiment. (New York Cordwainers had one as early as 1835 and several cooperative foundries were established in the early 1840's.) One of the most significant American labor leaders to embrace the tenets of the British experiment was William Sylvis, president of the Iron Molders Union and founder of the National Labor Union (1866–1868). Sylvis advocated the creation of industrial cooperatives so that workers could control the means of production for their own profit.[12]

The cooperative experiments in factory ownership almost exclusively resulted from input by organized labor. The Knights of Labor, for example, established more than 200 cooperatives during the 1880's. Most of these cooperative experiments began out of necessity. For example, when a particular garment manufacturer in Indianapolis relocated his operation in the South to escape unions and be closer to the textile mills of the Southeastern Piedmont region, the Knights purchased the factory. The Martha Washington Cooperative Association, formed by the women members of the local union, elected a managerial staff for the factory and planned to cooperate in the production of high quality goods. However, this experiment apparently failed during the recession of 1893; as historian Mary Beard said, "most of these cooperative enterprises failed for one reason or another."[13]

Shop councils emerge

Following the Civil War, an ever-widening rift between capital and labor alarmed moderates from labor, business, and the public. Violent railroad labor disputes in 1877 destroyed portions of Chicago, Pittsburgh, and several other cities. In 1886, the Chicago Haymarket Square riot outside the struck International Harvester Company intensified that fear. The 1894 Pullman Strike, led by socialist Eugene V. Debs, raised the possibility of class revolution. The Central Labor Union had informed a joint session of Congress as early as 1883 that unless capital-labor relations improved there would be "bloody revolution."[14] To compound matters, some employers believed that workers had little cause for complaint, as exemplified by this testament: "American laborers should be contented and manly in the sphere wherein God has placed them."[15]

There was never a scarcity of reformist ideas to solve capital-labor problems, but some struck familiar chords. In 1885, the well-known reformer, Washington Gladden, wrote that the future of such relations would be marked by "the principle of cooperation."[16] In 1889, economist Richard Ely called for the creation of "worker councils."[17] But, in 1886, J. C. Bayles, editor of *Iron Age* magazine, had devised a highly publicized plan calling for a return to the cooperation that had existed between masters and journeymen in the early years of the Republic.[18] He developed a model for electing shop workers' representatives to an industry- or plant-wide problem-solving body of managers and employees. Calling the representatives "shop councils," Bayles clearly specified that these entities were not to be new forms of arbitration or collective bargaining, but a means of real labor-management cooperation.

The first practical application of Bayles' "shop council" concept to improve product quality and output was in the industrial heartland of Pennsylvania. In 1904, the Nernst Lamp Co. of Pittsburgh established a representative shop council of workers and managers. The company, with a poor quality product, had been threatened by bankruptcy until implementation of shop council sugges ns improved marketing techniques and product quality, resulting in an 800-percent sales increase in only 18 months.[19]

The success of the Pittsburgh company spawned a similar experiment in Philadelphia. The Nelson Valve Co. established a plan of shop committee representation with an industrial congress composed of a senate for managers and a house for workers. Each body debated issues to improve product quality and working conditions separately before presenting them at joint sessions, with all results forwarded to the plant superintendent. Although the employees and foremen at both Pennsylvania plants liked the concept, changes in ownership eventually terminated the programs.[20]

Holbrook J. Porter, an industrial relations manager, was the architect of both Pennsylvania plans. As superintendent of the physical plant at Columbia University in the 1880's, Porter had instituted weekly meetings with his janitors and maintenance men to get their opinions and suggestions on improving operations. When the owners of the two Pennsylvania companies asked Porter to help them overcome financial difficulties, he adapted Bayles' theories to his own to set up the respective representation plans.[21]

The success of Porter's theories fostered a proliferation of employee representation plans. In 1911, the progressive garment manufacturer, Hart, Schaffner, and Marx, established probably the best known (and sometimes cited erroneously as the first) industrial democracy program. Two years later, the Packard Piano Co. implemented a "works plan of industrial representation." The Printz-Biederman Co. and the White Motor Co., both in Cleveland, introduced "departmental shop committee representation plans" in 1914. Between 1911 and 1917, more than 100 companies introduced employee representation plans.[22]

"Capital cannot move a wheel without labor, nor can labor advance beyond a more primitive existence without capital," said John D. Rockefeller, while inaugurating one of the most controversial industrial democracy programs in U.S. history. In 1914, an intense strike had crippled operations at Rockefeller's Colorado Fuel and Iron Co. mines. The strike degenerated into open industrial violence resulting in the deaths of two women and several children, and touching off a national outrage.

Rockefeller, described by historians as a dedicated "welfare capitalist," wanted to make amends and restore peace. He blamed "outside agitators" from the United Mine Workers for all problems and, in 1915, implemented an employee representation plan to give workers a voice in operations without having to deal with organized labor. The Colorado Fuel & Iron plan permeated every facet of life in the company town, including social and recreational concerns. Organized labor complained that this was not industrial democracy but "paternalism" and "company unionism." Many employers, however, praised Rockefeller for setting a progressive precedent in labor-management relations. The controversy over this kind of plan had even greater impact following World War I.[23]

Government steps in

Following the U.S. entry into World War I, President Woodrow Wilson's administration sought to prevent work stoppages in vital war production and related industries. Among the many ideas proposed was one calling for the creation of plant-level advisory committees of employees and managers to study and suggest ways of improving production outlays while maintaining industrial peace. Secretary of Labor William B. Wilson ardently promoted the plan, believing that the spirit of cooperation between labor and management would transcend the war and continue into peacetime. Largely through his efforts, government-sponsored labor adjustment agencies such as the Fuel Adjustment Agency, Shipbuilding Labor Adjustment Board, and National War Labor Board created employee representation plans for their jurisdictions.[24]

The benchmark for all war agencies was the labor board. A tripartite, quasi-judicial body of labor, management, and public representatives, the board, with jurisdiction over the majority of plants and factories involved in war production, promoted industrial equity to prevent strikes and increase productivity. It experimented with many progressive ideas, including maintaining "living wage standards," mandating overtime compensation, maintaining safety and health standards, and prohibiting discrimination in pay and employment because of race, creed, sex, or union affiliation.[25]

The War Labor Board also ordered industrialists to create "shop council" plans for their factories. The first were at the General Electric plant in Pittsfield, Mass., and the Bethlehem Steel works in Pennsylvania. The board issued administrative guidelines for the implementation of "shop councils" and ordered their creation in 88 major plants.

167

This gave workers, most for the first time, a definite voice in management. Following this example, the shipbuilding board ordered the creation of 31 councils and by the end of the war, Government boards had created more than 225 shop councils. Private firms sometimes voluntarily created employee representation plans, and one Labor Department official remarked, "There was a deluge of works councils."[26]

Whether called the "Bridgeport Plan" "General Electric Plan," or "Proctor & Gamble Employees Conference Plan," all works councils, shop committees, and employee representation plans were basically the same. Commissioner of Labor Statistics, Royal Meeker, commented that there was a "monotonous sameness" about these plans. They consisted of a representative body of employees, chosen from a variety of work stations (departments, floors, shops, and so forth), who met separately before meeting with managers or sat in joint session with them. These industrial congresses discussed and debated a wide range of topics, particularly: labor turnover and productivity; living and working conditions; terms of employment; and social and recreational needs of employees.[27]

In most cases, the employee representation plans set up by Government order were used to full advantage by organized labor. Although officially operating under the "open shop" principle, these plans soon became avenues for organized labor to meet with employers on an equitable level. When the Federal Government seized the railway lines in 1917, the Director General of the U.S. Railroad Administration, William Gibbs McAdoo, faced a maze of problems including low productivity and manpower shortages. In 1918, he issued two general orders directing the managers on all lines to establish committees of employers and employees to discuss and try to solve problems. W.S. Carter, former president of the Brotherhood of Locomotive Firemen and McAdoo's labor director, stated that these orders gave railroad union labor an aspect of equal participation with railroad officials and, consequently, a strategic position more advanced than any ever before enjoyed by organized workers. However, many railroad officials did not like sharing managerial decisions, and, once the Government returned the railroads to private ownership in 1920, management either abolished the employee representation plans or converted them into company unions.[28]

The end of the war affected other labor programs. Employers, generally, wanted a return to prewar normalcy. In many industries, especially those in which Government boards had ordered the creation of worker-manager councils, employers unilaterally disbanded the cooperative plans. Company officials at Bethlehem Steel's main plant abolished the shop council program and refused to honor the collective bargaining agreement negotiated with organized labor less than 1 month after the armistice. Another employer admitted that "we would not have started the employees' committee had we not been forced to do so."[29]

A determined Wilson administration tried to reverse the trend back toward prewar conditions. The National War Labor Board ruled that employees and employers had to continue to comply with the wartime orders because the emergency period existed even after the armistice. President Wilson supported the board's orders in a proclamation of December 2, 1918. Board Cochairmen William H. Taft and Basil Manley wrote to Bethlehem Steel President Eugene Grace, "This is a question of the good faith of your company . . . if the award of the board should now be repudiated, your workmen would have every right to feel they had been deceived and grossly imposed upon by your company."[30] Yet Bethlehem Steel, General Electric, and a host of other industrial giants rejected such pleas, and the postwar years witnessed the highest incidence of strikes in U.S. history until the years following World War II.

Secretary of Labor Wilson firmly believed in labor-management cooperation. In regard to works councils and similar experiments, he felt that "there were no preconceived ideas and fixed prejudices about the relationships that should exist between employer and employee." Wilson persuaded the President to arrange for two national industrial conferences in 1919, with representatives from labor, management, and the public attending. Intended to promote cooperation, the first conference fell apart when employers totally alienated the labor representatives. The second conference accomplished little more than to illustrate that some employers had found use for employee representation plans.[31]

The 1920's, called the "open shop era," were years when employers sought to reduce the power and influence that organized labor had attained during the war. Many employers enthusiastically adopted employee representation plans based on the paternalistic model of Rockefeller's Colorado Fuel & Iron Company. A union partisian, commenting on the plan set up by the Pennsylvania Railroad, said, "What sort of industrial democracy is that which supervises every action of the men, does not allow them to have department meetings as a rule, and initiates every step taken by them!"[32]

Experiments abroad

While the United States struggled with postwar labor relations, Great Britain scored better, especially in regard to industrial democracy. Prior to and during the war, strikes continuously plagued the country, particularly in the crucial munitions, shipyard, and railway industries. This forced Parliament to look for remedies. A subcommittee of the British Cabinet Reconstruction Committee, under the deputy speaker of the House of Commons, John H. Whitley, submitted five separate reports on industrial problems, basically advocating worker representation in the decision-making process of industry. The committee recommended the establishment of joint industrial councils (Whitley Councils) at three levels: factory, district, and total industry. The final report emphasized that workers should have equal standing with employers at all levels.[33]

The relationship between Whitley Committee findings and U.S. industrial democracy programs is not clear. Committee members knew about the U.S. programs and considered them in the process of study. Officials from the Bureau of Labor Statistics visited England before U.S. entry into the war (1915–16) to study that country's labor problems, and to exchange ideas with labor ministry officials. In 1919, Secretary Wilson sent a delegation of U.S. employers to monitor the Whitley Councils. Britain, however, had had employee representation plans in effect long before the war, plus the experience of "Rochdale" type cooperatives. Apparently, both nations borrowed from each other.[34]

Whitley Councils continued through the 1940's, but suffered resentment. One British employer commented, "Whitley Councils are a most expensive luxury with any advantage on one side only, that of labour."[35] The more militant trade unions, dedicated to abolishing all private ownership of industry, also opposed labor-management cooperation, although most unions approved and supported the concept. Some of the militants, particularly the railroad engineers, eventually dropped opposition to the councils and established joint committees with employer federations.[36]

Other nations, excited by the promises of democratic self-determination in Woodrow Wilson's peace plans, adopted works council programs. The Austrian government passed "works councils" legislation in 1919, and the new German government followed a year later. The grand duke of Luxemburg decreed the establishment of works councils in October 1920. In the same year, Sweden enacted a law stating, "works councils shall be instituted in industries with a view of giving workers a greater insight into production. . . ." Even Japan, emerging as a world power after World War I, copied the "works council" concept from the West; its plans, however, were more paternalistic than democratic. In October 1919, the first International Labor Conference of the League of Nations, held in Washington, D.C., and chaired by Secretary Wilson, encouraged the expansion of worker councils in all new democratic nations.[37]

A need for efficiency

Only a few industrial democracy programs remained in existence in the United States between 1920 and 1930, mostly in the hosiery, textile, railroad, and garment industries. However, many new representation plans appeared to be attempts to circumvent unionism by adopting the format of the Colorado Fuel & Iron plan.

One of the exceptions to the paternalistic plans, and probably the best plan introduced during the period, was at the Baltimore & Ohio Railroad. In 1923, industrial relations manager Otto Beyer and Machinists' Union President William Johnston coauthored a shop committee plan of representation acceptable to B&O President Danial Willard, who used it at the Glenwood Maintenance Plant in the Pittsburgh district—a particularly troublesome site with high labor unrest and low productivity. The committee representatives did not discuss issues traditionally reserved for collective bargaining, instead limiting themselves to methods to improve work and product quality. Otto Beyer commented, "The men became very active in observing opportunities for improvements, working out practical suggestions and presenting them at their local union meetings . . . for submission to shop management." By 1927, the B&O plan was working so well that management accepted 83 percent of all suggestions.[38]

In the 1920's, the quest for efficiency made two strange bedfellows: the American Federation of Labor (AFL) and the disciples of Frederick Taylor's scientific method of management. Work-rule changes based on Taylor's time and motion studies had sparked strikes during the war, and organized labor generally held them as anathema. Yet Taylor, before his death in 1915, began to actively solicit the cooperation of labor in the stewardship of efficient production techniques in industry. Taylor's disciples continued to promote cooperation and AFL President Samuel Gompers and his successor, William Green, appeared often as guest speakers before the Taylor Society. In 1927, Green said, "If given the opportunity we will earnestly and sincerely in all efforts promote efficiency in management with the high standard of American workmanship."[39]

Both American workers and employers needed to promote efficiency as the Nation slumped into the Great Depression of the 1930's. Poor economic conditions forced labor and management to experiment with new ideas. For example, by the late 1930's, when many small steel mills verged on bankruptcy, employers began to cooperate with the Steel Workers' Organizing Committee of the new Congress of Industrial Organizations (CIO) to solve problems. Two pioneers in this drive were Clinton Golden, Pittsburgh area director of the committee, and Joseph Scanlon, open hearth furnace operator, local union president, and father of the Scanlon joint-stock ownership plan. These men had approached several area steel plant superintendents and proposed to improve production, stabilize employment fluctuations, and participate in productivity research through union participation in the managerial process. Several plants in the upper Ohio Valley improved efficiency and attained solvency as a result of adopting the recommendations of labor-management committees.[40]

CIO President Philip Murray fully endorsed the concept. He coauthored a book on the Golden-Scanlon model with Morris Cooke (Frederick Taylor's prize student), setting standards for codetermination of production procedures and administrative policies to increase distribution and output of goods and services.[41] Known as the Murray plan, their concept called for cooperation at both the shop and factory level, and eventually at the "intra and inter industry levels." Murray and Cooke called their representative bodies "Industry Councils" and they would cause considerable controversy during World War II.[42]

The U.S. entry into the war, as in the previous conflict,

169

necessitated cooperation from management and labor. Only weeks after the Japanese attack on Pearl Harbor, President Franklin D. Roosevelt created a War Production Board to coordinate industrial output. The director of the board, Donald Nelson, adapted parts of the Murray plan to stimulate production; yet he never fully embraced it.

Nelson inherited basic strategies for his task from two predecessor agencies: the Defense Advisory Committee and Office of Production Management. Sidney Hillman, labor director of both of those agencies between 1940 and 1942, former president of the Amalgamated Clothing Workers, and contributor to the Hart, Schaffner, and Marx plan, advocated the Murray idea for industry. Actually, Hillman favored the "Reuther Corollary" to the Murray plan, which was based on the results of a 1942 study conducted for Murray by Walter Reuther of the United Auto Workers. The "Corollary" called for small groups of autoworkers to devise methods that would efficiently upgrade and retool auto assembly lines to produce airplanes. "If accepted," as one student of industrial democracy noted, "these industry councils proposed by Reuther and Murray guaranteed that management would cooperate with labor in making industrial decisions."[43]

Donald Nelson, however, knew that employers would not accept such an idea, and called for the creation of voluntary labor-management committees at plant levels as a compromise. Murray and Clinton Golden, vice chairman of the War Production Board, accepted this to prevent employers from abandoning the cooperative production program.

Thus, labor-management committees were formed, but workers did not participate in the decision-making process to any considerable degree, and there were no industrywide councils as proposed by Murray. Internal memoranda of the War Production Board emphasized that "the whole drive may succeed or fail depending on our ability to promote a give and take spirit between labor and management," but employers would not "give" in the area of labor encroachment on managerial prerogatives. Murray, nonetheless, supported the committees, and actually confused matters by claiming that they "were directly in line with our industry council proposals." This alarmed overcautious employers who accused Donald Nelson of "sabotaging" and "sovietizing" industry. Charles Wilson, President of General Motors, candidly stated, "There will be none of this equal voice bunk at GM."[44]

The refusal by many giant industries to fully cooperate set the tone for the overall program. When Theodore Quinn, director of the War Production Board's production drive, pleaded with some industry leaders to cooperate and involve labor in their decision-making process, the Ford Motor Co. responded: "We have not been able to find any examples where labor has run manufacturing plants as well as management."[45]

Yet, there were some success stories in the War Production Board's production drive. The Westinghouse Electric Co. in Springfield, Mass., established a quality improvement plan committee in 1942 to reduce rates of waste and scrap which had run as high as 15 percent. The Quality Improvement Committee of three representatives each from labor and management met with committees of foremen and employees from various shops, which submitted suggestions made by small work area subcommittees. Waste levels were reduced by more than 50 percent throughout the plant. Experiments such as this one, however, were rare.[46]

In 1945, the War Production Board estimated that more than 5,000 labor-management committees had been formed. About 2,000 of them existed only on paper, and only one-third of the actual committees had representation plans to solicit suggestions from employees. Only about 500 committees took active roles in production-related issues such as "work quality, material conservation, plant lighting and layout, tool and equipment care, and production. . . ."[47]

Other countries grasp the concept

The post-World War II period mirrored the first postwar period. Employers wanted to return to "normalcy," while workers, beneficiaries of government-induced industrial freedoms during the war, wanted to retain their advanced status. President Harry S. Truman, like Woodrow Wilson, tried to reduce tensions and promote industrial cooperation by calling a National Labor-Management Conference. Many employers at this 1945 meeting concurred with the opinion: "Management members cannot agree to joint management of enterprise. [It] has functions that must not and cannot be compromised."[48] In the wake of this failed conference, the United States witnessed the most intensive wave of strikes in its history. Although some forms of labor-management cooperation continued, most employee representation programs fell by the wayside.

Philip Murray did not forget. He warned as late as 1951 that "in the future, unless some comprehensive plan is undertaken within industry . . . we may find [foreign nations outproducing us and unemployed Americans walking the street]." His comments focused on European and Asian nations which had grasped the American concept of industrial democracy.[49]

On April 10, 1946, Germany, with a history of prewar codetermination, reintroduced the works council in industry under law No. 22, issued by the American Allied Control Commission. German employers resisted the reintroduction of worker participation into the managerial process, but the Allied command insisted that they cooperate with trade unions on works councils.[50]

The most surprising implementation of industrial democracy was in Japan. Except for a few isolated experiments after World War I, democracy had not been practiced in Japanese industry. Three million unskilled workers lived and toiled under a feudalistic "padrone system." After World War II, General Douglas MacArthur, the Supreme Commander of Allies in the Pacific, imposed industrial democracy on Japan. He stripped the huge industrial trust combine (the *Zaibatsu*) of power for a time, and abrogated all antilabor and anti-civil rights laws by his directive of October 4, 1945.[51]

The United States, according to several scholars, took pride in Japanese achievement and developed a sense of responsibility for its direction. Japanese growth, they claimed, stemmed from the U.S. policy and Japan's adoption of newly introduced techniques and methods of production. Several U.S. management experts, most notably William E Deming, lectured and worked with Japanese public and private leaders on quality control methods—from which came the quality circle program. As one expert noted, "Even Japanese critics of the former political and economic activities of Westerners . . . are keenly alive to and anxious to share in the benefits of Western technology and Western methods of economic organizations." Japan's postwar economic recovery and new production techniques (for example, labor-management cooperation) were products of American social, economic, and military influences.[52]

In a recent NBC News *White Paper*, "IF JAPAN CAN, WHY CAN'T WE?" it was suggested that copying Japan's methods might not work for U.S. industry. That may or may not be true because of cultural or other differences between the nations, but it does not explain why American ideologies lay dormant here while flourishing abroad. There are many theories, including those stating that economically ravaged and defeated nations were ripe for experimentation, especially when it was forced upon them.

The United States survived the war in relatively good shape, and industrial production soared after 1946. Trade unions, assisted by favorable New Deal legislation, grew in power to the point that Congress restrained them under the Taft-Hartley Act of 1947 and the Landrum-Griffin Act of 1959. Under these conditions and given the historical relationship between capital and labor, an adversarial, not cooperative, spirit has pervaded U.S. labor relations. And, during recent years, as inexpensive, high-quality manufactured products labeled "made in Japan" captured markets previously the domain of American firms, we looked overseas for answers to our problems of lagging productivity instead of within.

Today, as U.S. firms once again experiment with industrial democracy in the form of quality of worklife programs and similar efforts, our own past warrants a second look. Although most earlier attempts at labor-management cooperation did not endure, they were not necessarily undertaken in vain. One historian has described presidential labor-management committees as "productive failures,"[53] perhaps a fitting definition for the majority of participatory management committees in the past. They produced favorable results when they were needed most and only failed when social, economic, or political conditions changed. Industrial democracy does have a place in the American system of labor relations, for it was born here. □

FOOTNOTES

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[1] Milton Derber, *The American Idea of Industrial Democracy: 1865–1965* (Urbana, University of Illinois Press, 1970), pp 4–6.

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172

TAB N

"Labor and Politics: Systems of Political Bargaining"

by Stephen Schwartz

.13

LABOR AND POLITICS: SYSTEMS OF POLITICAL BARGAINING

Stephen Schwartz

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Since the 1930s, most countries have experienced labor bargaining that is preponderantly statist. Thus organized labor's benefits from bargaining have become concentrated in negotiations with governments rather than with the businesses which employ its members. Is this a by-product of businesses, themselves, negotiating with government before they deign to address their workers? If "yes" is the answer, then both labor and business are sacrificing their independence and their capacity for bargaining with one another. Regardless of its source, losses of independence by each reduces the value of bargaining with the other.

To say that the bargaining system of increasing proportions of organized labor is characterized by statism, is merely to acknowledge the historical record of those promoting an explicit goal of reconciling the conflicting interests of employers and workers through state imposed negotiations, state certification of labor representatives, and, in periods of heightened tension, direct state intervention in labor conflicts. Although none of the Western industrial democracies today features a governmental, official "labor front" of the type pioneered by the Soviets and imitated by various "right-wing" totalitarian regimes, such as those of Hitler, Mussolini, and Franco, the institutionalization of government-supervised labor unionism has become quite widespread.

At the same time, over the past half-century, union leaderships have increasingly viewed themselves as a "pillar of the establishment." In most Western nations, industrial agitation and bitter strikes of the old type have ceased to figure prominently in the arsenal of labor action. The strike today is almost exclusively a defensive, rather than offensive technique; strikes are called to protect the union's position rather than to gain improvement in wages or conditions. To a very great extent, unions have surrendered their bargaining power to state authorities. To some extent, bargaining as we would understand it has ceased to exist.

It comes as a surprise to many to learn that labor movements in the West were not always statist. During the early years of the Roosevelt New Deal, for example, the American Federation of Labor strongly criticized many elements in the Roosevelt program that the AFL considered too statist. Thus, while the AFL naturally supported efforts at relief during the industrial crisis of the depression, it tended to look askance at such concepts as guaranteed unemployment benefits, viewing them as governmental intrusions into the bargaining relationship between workers and employers. On numerous occasions, AFL representatives warned that excessive dependence on the state as a guarantor of labor's rights and privileges would blunt the spirit and the activities of the unions. The workers would cease, they said, to view the unions as their main means of improving their lives, and would arrive at a dependency relationship with the federal authorities. In many respects, this prediction has come true.

The "governmentalization of labor relations" has had wide effects. It has greatly contributed to the strengthening of links between unions and political parties; to paraphrase the French sociologist Alain Touraine, in countries like the U.S., West Germany, and France, the unions have in many respects ceased to be economic bargaining agencies and have become full-fledged political agencies. An obvious example of this is the present-day relationship between the AFL-CIO and the Democratic Party, an alliance that is much closer today than ever before in the history of either unions or parties in the United States.

The historical rise of statist unionism merits study. Beginning in 1934, the western industrial powers, chiefly the U.S. and France, underwent a profound crisis in industrial relations -- indeed, the last true crisis of the classes in this century. The now largely-unknown labor tactic of the sit-down strike or factory occupation was widely used, and millions of basic, "unskilled" workers poured into the unions. In the U.S., this crisis saw the rise of the CIO, a new union movement best known to historians for its emphasis on industrial rather than craft organizing, and for its early alliance with Communists in its organizing campaigns. However, in the labor context of the time, the CIO and the Communists were chiefly distinguished from the traditional elements in labor by the new organizations' extreme attachment to the National Labor Relations Board as the source of their legitimacy as representatives for workers. The NLRB, set up during the Roosevelt administration, was dominated for some time by personnel of an expressly leftist bent, who used their federally-ordained powers to install Communist-influenced CIO unions in the place of competing AFL units in many places around the U.S. Once this practice on the part of the CIO became widely accepted among unions, the transition from the earlier system of worker bargaining to that which centers itself in the state was perhaps inevitable.

Though many policies and practices of the so-called developed countries may have scant applicability to others, this is most definitely not the case with respect to the systems of political bargaining that have evolved among organized labor, business and government. Indeed, in many Latin American nations during the 1930s and 1940s, what I call the "CIO-NLRB" model of labor law and labor relations became institutionalized. There are three principal characteristics of this model:

- Strong dependence on the state as the guarantor of labor bargaining and as the certifier of bargaining representatives. In the past, unions depended on the strength and commitment of their members to secure their position as a bargaining agency; they called on the help of the state only indirectly, asking, for example, for police neutrality on picketing and other public order issues.

- A strong commitment to centralist, nationwide organizational structures that mirror the structure of the modern national state, and which reflect the "iron law of oligarchy" described by Roberto Michels in his seminal studies of mass organizations. In the past, most unions had functioned from the local level up; bargaining with employers and many important policy issues had been settled at the level of the union "local."

- Tendencies toward the substitution of political for economic pressure as a labor weapon. At one level, this may lead to no more than a close relationship with national political forces;

17

alternatively, it may involve an injection into the labor movement of an ideological commitment to collectivism in its most totalitarian and organizationally narrow forms, and the use of the labor movement and/or the governmental agencies associated with it as outright tools for the displacement of individual rights and responsibilities by collective authority. In the past, even where unions encouraged members to support, for example, socialist electoral parties, politics was considered a matter of the individual member's conscience; further, in Britain with the Liberals, and in the U.S. with the Republicans, there was a tendency to endorse local and even national candidates that "supported labor" although the national party structure did not.

It is highly characteristic of labor in the Western Hemisphere during the 1930s, for example, that the newly-born CIO maintained a very close relationship with the Mexican Confederation of Labor (CTM), a labor organization very strongly influenced by the Communists, and directly tied, then as today, to Mexico's very centralist governmental bureaucracy. It is no exaggeration to say that the Mexican unions have less of a sense of the concept of bargaining than almost any other unions in the hemisphere. A similar relationship existed with the Cuban Confederation of Labor (CTC), which, it should be noted, not only formed a close relationship with the Cuban government, but also with the dictator, Fulgencio Batista, who was for some time quite happy to have the Communists run the labor movement for him.

The functional relationship between centralist or centralizing governments, labor movements, and those who were committed to a

178

collectivist ideology, cued by the Roosevelt experience, became even stronger in Latin America during the Second World War. It was frequently under the aegis of unity among this triad that governments in the allied sphere of influence lined up with the U.S. During this period, for example, the government of Juan Jose Arevalo came to power in Guatemala, and a popular front type government, with the participation of Communists, was in office in Chile.

One of the most striking examples of this phenomenon occurred in Costa Rica, where, in 1943, the adoption of a new Labor Law became the basis for the establishment of an electoral alliance between an oligarchical president with dictatorial tendencies, Rafael Calderon Guardia, and the Communists, led by Manuel Mora, with the public support of the Catholic Church. The basis for the new Costa Rican labor law was a set of purely statist welfare principles, with all social progress to come from the good works of the presidential administration. Elements of autarkic and protectionist economic policy were also discernible in this social plan. Most importantly, however, the government of Calderon Guardia utilized this extensive system of "progressive social guarantees," as well as his alliance with the Communists, as a shield behind which to consolidate his own individual power. Indeed, Oscar Aguilar Bulgarelli, a supporter of Calderon, admits in his book, Costa Rica y sus Hechos Politicos de 1948, that Calderon's great mistake was to believe that the "social guarantees" would protect him from the rage of his fellow-citizens at the illegal practices he pursued during the next election, in 1944.

Still supported by the Communists, who joined him in a "Government of Victory," Calderon's party won the 1944 election by fraud. The Communists remained fiercely loyal to Calderon for some time to come; indeed, they became so respectable a part of the Costa Rican ruling establishment, at least temporarily, that they defended Somoza's dictatorship in neighboring Nicaragua. The Nicaraguan Communists imitated their Costa Rican brethren in attempting to utilize a statist government and statist labor movement to achieve an unequivocally totalitarian end.

The Costa Rican case exemplifies the "CIO-NLRB" model carried to its extremes. It came to dominate Latin America in the 1940s. To an extent, we can see the unoriginality of Peronism, a semifascist system of political domination based on a constituency of union organizations, and with social policies remarkably similar to those of Calderon in Costa Rica. An official statement of the Calderon government is important: the "social guarantees" and labor law he promulgated were based on legal concepts in effect "in the United States, Mexico, Cuba, Colombia, Chile, and Bolivia." Aside from the U.S and Chile, none of these countries could at that time be called democratic in substance. One of them, Cuba, was under Batista; in another, Mexico, the quality of elections was as questionable then as they are today.

What was, or is, the alternative? That is the question many, particularly those involved in labor, might ask. In the so-called "developed" countries, the principal disillusionment with statist unionism is found among those who are, or could be, its members. In the U. S., for example, most members have little faith in either unions monitored by government or government monitored by unions to secure any meaningful improvement in their lives.

This leads to one scenario on the future of unions -- their complete irrelevancy and their demise. But although this is a credible scenario for unions in the advanced industrial nations, in Latin America mass disillusionment with unions is not the dominant trend. In countries such as Brazil, unionism is far more vigorous than in, say, West Germany. This is undoubtedly a reflection of rising expectations in the Latin American workforce. But within that context, is a turn to a new statist unionism inevitable in Latin America? Are alternative forms of unionism -- decentralized, independent of the state, committed to genuine bargaining, and even, conceivably, open to an alliance with the private sector against expansive authority of the state -- possible, or desirable?

Whether such a non-statist unionism is desirable depends, of course, on one's ideals, objectives and expectations. Hopefully, our expectations about the future, and, in turn, our ideals and objectives, will be influenced by historical observation, and we will ask, "What have been the consequences for the vast majority of workers in the transition from independent, to statist, unionism?"

With respect to the possible, the question is whether organized labor can create a future that is not a replication of its past. There is likely to be no uniform answer to this question -- applicable to all countries. Ironically, independent, voluntary unionism, may be most likely where it is most discouraged by the apparatus of the state. In these instances, unions are in opposition to the denial of politics by government -- where planning _by_ government supersedes political influence _on_ government. The most impressive example of such a unionism is, of course, the Polish organization known as Solidarity which, although emerging in a Communist state, has many lessons to offer unions in the West, a point tacitly admitted by Lane Kirkland and many others.

In terms of resistance to totalitarianism -- to the denial by the few of politics for the many -- the Polish example is also relevant for Latin America: the independent Nicaraguan opposition unions today represent an undeniably important element of the national resistance to statist dictatorship in that country. The reasons for supporting Polish Solidarity or the Nicaraguan independent unions should have less to do with their opposition to the Soviets and the Sandinistas, respectively, than with their affirmation that ultimate decision-making authority should rest with people -- all people.

It is more difficult to say whether, in any country, independent unions will be significant in leadership, rather than in opposition. I see that possibility only where unions are opposed to the usurpation of individual authority by the state; where they appreciate Adam Smith more, and Karl Marx less. Adam Smith's admonitions against the "private purchase of public power," issued over two centuries ago, were directed at businessmen, not workers; he recognized that the interests of most -- both businessmen and workers -- would be denied by any government that could be coopted by the most affluent few.

An implication of this understanding is this: if independent unions do not work for more limited and decentralized government,

182

they will forever be either followers or in opposition (usually clandestine) to the status quo. The usual ideology and its labels are of little assistance in this.

For example, social democratic policies are an important component of the "transition" mix in many countries, and have traditionally been perceived as statist. But social democracy is not necessarily statist; the Spanish socialist government, the flagbearer of the "democratic transition", is pronouncedly antistatist in its economic policies. A non-statist unionism can conceivably contribute as well to the success of the "democratic transition" now taking place in Latin America.

It should be clear that I am pro-government, pro-business and pro-union, and positively disposed toward restricting the authority of each and all relative to the authority of individual citizens, businessmen and employees. With respect to my pro-union position, I consider some form of labor bargaining beyond the individual contract to be a necessity for both the stability and advance of social order. It is clear to me that decentralized, or federalistic, unions can encourage government policies that are more apt to reward performance than to provide perquisites. But it seems that organized labor, throughout the world, simply follows the lead of that segment of organized business for which increased purchases of public power seem to be of paramount interest.

Indeed, organized labor frequently seems monotonic in contrast with the variety of chords struck by business interests. In the United States, for example, the National Federation of Independent Business, typically takes a position against government

183

determination of both the decisions of individual businesses and of the consequences they experience. This organization reflects most businesses in the United States -- they are not, typically, national in scope; most do not export their products and services abroad; most are opposed to government protection of business from competition (whether by subsidies or tariffs); and these and like businesses provide at least 80% of the new annual employment in the United States. In stark contrast is the absence of a parallel within organized labor in the United States.

If organized labor is to represent employees of businesses whose own growth is not a diminishing proportion of employment in their respective economies, they require a new agenda. I am suggesting unions that are market-, not government-, oriented. The growth of economies, not governments, is in the interest of most people, and of the organizations which purport to represent them. An open question is whether unions will not only recognize, but act upon, this fact.

III. Biographies of Speakers, Moderators, and Authors

Manuel Ayau

Manuel Ayau is the internationally known President of the Universidad Francisco Marroquin of Guatemala. He is a strong advocate of the powers of the free market in a free society. In 1972, Mr. Ayau and a group of business associates gathered together a highly trained faculty to start the university. Its primary goal is for all students to demonstrate through their course work an understanding of how a free society works.

Richard E. Bissell

Richard E. Bissell is Assistant Administrator Designate for the Bureau of Policy and Program Coordination at the Agency for International Development. Dr. Bissell most recently served as Executive Editor of the Washington Quarterly published by Georgetown University Center for Strategic and International Studies. From 1982 through 1984, he was Director of Program Coordination and Development and then Director of Research for the United States Information Agency. From 1974-82, he was with the Foreign Policy Research Institute and was Managing Editor of ORBIS, a journal of world affairs. He has faculty positions at Princeton, Temple University, Johns Hopkins School of Advanced International Studies, and Georgetown University. He holds a Ph.D. from the Fletcher School of Law and Diplomacy at Tufts University and a bachelors degree from Stanford.

W. Donald Bowles

W. Donald Bowles is Professor of Economics at American University in Washington,D.C., where he also previously held appointments as Chairman of the Economics Department, Dean of the College of Arts and Sciences, and Vice President for Academic Affairs. Previously, Dr. Bowles a two-year appointment in the Center for Development Information and Evaluation at the Agency for International Development where he designed evaluation guidelines for project assistance under the DAC and among other projects, completed a study of A.I.D. experience with selected employment generation projects. His most recent field experiences were in South Korea to evaluate A.I.D.`s early projects in various agricultural inputs; in Kenya to evaluate A.I.D.`s construction and participant training programs at Egerton Agricultural College, and in Thailand to conduct a feasibility study for potential country-wide evaluation of A.I.D. programming. He has edited three books and published in such journals as International Economic Review, Soviet Studies, Slavic Review, Educational Record, World Politics, and Journal of Forestry. Dr. Bowles is currently engaged in a comparative study of Western and Soviet analyses of development in less-developed countries, with emphasis on the employment question.

William Emerson Brock

William E. Brock was sworn in as Secretary of Labor on April 29, 1985. In addition to being a member of the President's Cabinet, he serves on the Economic Policy Council. The Secretary also is a member of the President's Task Force on Regulatory Relief, the President's Advisory Council on Private Sector Initiatives, and many other senior governmental councils and committees. Prior to his Cabinet appointment, Brock was the United States Trade Representative. From 1963-70, Secretary Brock served as Congressman for Tennessee's Third District. In 1970, Brock was elected to the U.S. Senate, where he served on the Finance Committee, the Banking Committee and the Government Operations Committee. In 1977, the Republican Party elected Brock as its National Chairman.

Brock received a Bachelor of Science degree from Washington and Lee University. He has also served as an officer in the U.S. Navy.

Juan J. Buttari

Juan J. Buttari is a Senior Economist for the Agency for International Development. He is currently stationed at the U.S. A.I.D. Mission in Honduras. Dr. Buttari has written extensively on employment issues on developing countries. In the past he has served as Regional Advisor for the International Labor Office; Technical Coordinator for the United Nations Development Program; Research Associate for the Brookings Institution; Consultant for the World Bank Organization of the American States, the government of Jamaica, and the American Institute for Free Labor Development. Dr. Buttari earned his Ph.D. from Georgetown University and is currently an Adjunct Professor at Georgetown and American Universities.

William C. Doherty, Jr.

William C. Doherty, Jr. was appointed Executive Director of the American Institute for Free Labor Development (AIFLD) on October 1, 1965. Previously he had served for three years (1962-1965) as Director of the Institute's Social Projects Department. AIFLD carries on the AFL-CIO's program of technical assistance and trade union cooperation in Latin America. Doherty is a member of the U.S. Labor Delegation to the U.N.'s International Labor Organization and also has represented the AFL-CIO in many international conferences and meetings. Mr. Doherty began his trade union career at the local level in Washington, D.C. and in 1950 was President of the 1,000-member local Union of Government Employees (AFGE #32).

A member of the President's Labor Advisory Committee on Foreign Affairs, Mr. Doherty is also a member of the Council for Foreign Relations. He has written many articles for labor publications and has lectured at Harvard, Yale, Princeton, and many other universities and institutes. A graduate of Catholic University with a B.A. in Philosophy, he also attended the Georgetown School of Law and the Georgetown School of Foreign Service.

Peter J. Ferrara

Peter J. Ferrara is an associate in the Washington, D.C. law firm of Shaw, Pittman, Potts & Trowbridge. A graduate of Harvard College and Harvard Law School, Mr. Ferrara served as a domestic policy official in the Reagan Administration, from 1981 to 1983, and was the chief staff member of the Reagan Administration's Task Force on Enterprise Zones. He was appointed by the President to the Board of Directors of the Legal Services Corporation, and concluded his term in 1984. Mr. Ferrara is an acknowledged authority on Social Security reform, and is widely published on the subject.

Gary Fields

Gary Fields is a Professor and Chairman of the Labor Economics Department at Cornell University. The primary focus of his research is on labor markets and income distribution in developing countries. He has worked on Africa, Latin America, the Caribbean, and Asia. He is the author of two books and over fifty scholarly articles published in the American Economic Review, the Quarterly Journal of Economics, the Review of Economics and Statistics, the Economic Journal, and other leading academic journals. He is a consultant to AID, the World Bank, and the ILO. His degrees are in economics from the University of Michigan.

Steven Hanke

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Stephen Schwartz is senior editor of the Institute for Contemporary Studies, and program director of the ICS Center for Hemispheric Affairs. Educated at City College of San Francisco, the University of California at Berkeley, and the University of London, Mr. Schwartz was extremely active, for some ten years, in the American labor movement. His work on labor history and labor relations, particularly in the transportation industry, has been published extensively, in English, French, and Spanish. For three years he directed an official history project for the Sailors' Union of the Pacific, AFL-CIO. He is the author of Brotherhood of the Sea, a study of maritime unionism, published in 1986 by Transaction Books/Rutgers, and is currently finishing a book on independent labor movements in the Spanish Civil War (1936-39).

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