ECONOMY & FINANCE

RE-THINKING THE ECONOMIC GROWTH STRATEGY

BEHIND THE IMF AGREEMENT AND PUBLIC SECTOR WAGES

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Danny Roberts

Public sector trade unions, represented by the umbrella body, the Jamaica Confederation of Trade Unions (JCTU) and the Government, through the Ministry of Finance and the Public Service, have not formally commenced wage negotiations on behalf of public sector workers although we are six months into the 2017/18 wage cycle. And there are early indications from the responses by the Government to the teachers and the police that the public sector wage bill can only accommodate a six percent adjustment over a two year period.

Under the IMF agreement public sector wage bill as a percentage of GDP should be brought down from its present 9.6 percent to 9 percent by fiscal year 2018/19, that is next April, just about six months away. More than that, the 9 percent wage bill has found its way into law, under the Fiscal Responsibility Framework, which effectively ties the hands of both parties and removes any notion that negotiations will be based on the principle of free collective bargaining.

Were such a law even to be contemplated 20 years ago, the entire trade union movement would have been up in arms to resist the assault on one of the most scared principles in collective bargaining, its 'freedom'. Not so this time, although the opportunity existed for the Jamaican trade unions to make a bold statement about the insertion of this clause when the Bill was first introduced.

The principle of free collective bargaining is enshrined in one of the conventions of the International Labour Organisation (ILO). Indeed, Article 8 of the Convention expressly states that any measure affecting collective bargaining should "not be so conceived or applied as to hamper the freedom of collective bargaining." But this is exactly what the legislators did, introduced a law which hampers the freedom to bargaining collectively on behalf of public sector workers.

Furthermore, the very principles established in Jamaica's Labour Relations Code to encourage and facilitate good industrial relations practices, and to promote an environment that is conducive to economic growth and development, include "the principle of collective bargaining freely conducted on behalf of workers and their employers with due regard to the interest of the public."

The Code further recognises industrial relations as dynamic, and that the nature of industrial relations goes beyond procedural confinement to the greater imperative of human relations. But it adds an important phrase as well in that same sentence, and that is "the greater responsibilities of all the parties to the society in general."

Since ILO Conventions have no force of law, and because governments of Jamaica since 1981, have, in their wisdom, not sought to ratify Convention No. 154, and the unions so far seem content with the restrictions placed on their ability to engage in free collective bargaining, then the current wage negotiations have to be conducted with the cards placed on the table.

STRAIT JACKET OF THE FISCAL RESPONSIBILITY LAW

There is little doubt that the legislators who debated the Fiscal Responsibility Law would have argued that the restriction of the public sector wage bill to 9 percent is not only a responsibility measure but they would have taken 'due regard to the interest of the public', not only public sector workers, and that the unions should embrace such a measure as part of their responsibility to the society in general, and not just their members. The principle of free collective bargaining is therefore trumped by the greater good to society.

This is a classical age-old argument that, in the current dispensation, we have to examine and subject to Socratic reasoning. A 2013 ILO publication on an equitable strategy for economic recovery reminds us that "the current global crisis, known as the Great Recession, is challenging much of the 'conventional wisdom' which has dominated economic thinking and policies." The need to restrict public sector wage growth is rooted in the 'conventional wisdom' that argues for wage moderation as a necessary precondition for economic growth, particularly in the early stages of a country's development.

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Its economic model can be found in the trickle-down theory which postulates the need for tax cut for businesses so that resources can be freed up to be re-invested in economic activities to spur economic growth. Like all theories this is based on the assumption that with expanded businesses, banks will offer more lending, owners will invest in their operations and hire more workers, who will in turn spend their income on consumption goods and services.

The United States under presidents Ronald Reagan and George W. Bush relied on 'trickle-down economics' as a means of igniting the economy. Reagan's tax cuts for the wealthy and for big businesses was accompanied by massive government spending, leaving us to wonder which of the two may have been responsible for ending the recession, even although the income gap widened during the period. President Bush used tax cuts for the wealthy to address the 2001 recession but ended up with a 6 percent unemployment rate, and a heavy use of monetary policy. The question of course remains which of the two policy initiatives staged some sort of recovery. ▸▸

Here in Jamaica the global financial and economic crisis of 2007 may have catalysed the economy back into the clutches of the International Monetary Fund (IMF). The truth is after five or six years of IMF medicine, the prognosis has not changed, and even where there are positive economic indicators, and the IMF's own assessment that the country has made good progress under their watch, the public sector workers among whom the 'progress' is intended to satisfy would not express such optimism.

The framework for public sector wage negotiations should therefore recognise some connecting dots: the optimistic prognostication by the Economic Growth Council of achieving 5 percent economic growth in 4 years; the public sector transformation process, a harbinger to the perceived public sector lay-offs and wage freeze; a staggering murder rate; the constant threat of a hurricane; the wide income disparity which continues to plague the society; and the social discontent from the failure of the economic model to deliver, which the IMF sees as the main downside risk to the country's economic programme. Nevertheless, our economic model remains guided by 'conventional wisdom', which does not favour public sector workers.

SIGNS OF A CHALLENGE TO THE CONVENTIONAL WISDOM

At the global level, we are beginning to see signs of a challenge to that conventional wisdom. A 2015 Report provides hope, if it can trickle down by way of policies fast enough- to developing countries like Jamaica. The views formed part of the 'IMF Staff Discussion Notes' and presumably prepared by staff members, but with the usual disclaimer that those views do not necessarily represent the views or policies of the IMF or its Executive Board. The report acknowledges that the poor and middle class are the real engines of growth, and that income inequality matters for growth and its sustainability. This means that governments must begin to adopt policies that increase the income share of the bottom 20 percent of income earners as this is associated with higher growth rate when compared to the top 20 percent.

This would fit squarely into a negotiating framework developed by noted industrial relations scholar, John Budd who defined a set of objectives around the primacy of industrial relations praxis, driven by efficiency, equity and voice, and hinged it on the development of modern democracies. He articulated it around an intellectual framework for analysing industrial relations institutions and practices, which would provide the connection between what matters, on the one hand, to public sector workers in terms of their moods, thought processes and actions or inactions, and on the other hand, to a set of phenomena outside of the workplace that undoubtedly impacts the terms and conditions of their employment.

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The current wage negotiations are entangled in this matrix and the outcome of this process still remains the main downside risk to the IMF programme. That is to say, what matters most under the current agreement is where the distributive side of the growth agenda can be seen to be more equitable in order to ensure that the growth is sustainable. In other words, complementarities between economic growth and income equality objectives suggest a departure from the current model of wage stagnation and trickle-down economics to one that focuses on the poor and the middle class (in the context of the current public sector workers wage negotiations) to ensure inclusive prosperity.

AUSTERITY MEASURES NOT WORKING

We have long introduced policies that advocate cuts in government expenditures and fiscal austerity measures with the hope that they magically lead to an increase in economic activities. But we are increasingly facing the danger that the impatience of public sector workers in particular, and the public in general, at the long delay in the 'trickle down' benefits could lead to social instability and ultimately affect the prospects for economic growth. None of us wants to see that happening, and in fact the IMF has been warning about the dangers if the benefits from the economic progress do not become evident.

Perhaps we now need to seriously consider the relation between distribution and growth as the centre-piece of macroeconomic strategy going forward. It would be interesting to hear the views of the Executive Board of the Fund on the 2015 position paper emanating from its staff and to see whether they would reconsider the validity of pro-capitalist distributional policies in favour of pro-labour distributional policies. Other international agencies like UNCTAD have joined the debate on this issue. In its 2017 Report on Trade and Development UNCTAD pointed to those developing countries which "opted for limited fiscal stimulus, [and] reverted to severe austerity programmes to restore financial credibility", resulting in cuts in social protection and public sector jobs, which have seen a worsening of inequality and a restriction on employment generation.

The current public sector wage negotiations provide the framework for the commencement of the kind of policy recommendations which seeks to "influence primary income distribution in order to contain the rising share of profits in national income and its translation into unequal financial wealth...through pro-active labour and employment

policies, including the introduction of minimum wages tied to acceptable living standards, along with aggregate wage increases linked to average productivity growth."

Industrial relations, in its widest sense, is multi-faceted and multi-disciplinary and has grown quite complex in some areas. The present model of collective bargaining in the public sector is distributive at best and provides no opportunity for a win-win solution. The entrenched parameters are virtually impossible to change during this round of negotiations, and perhaps they have been reinforced by macroeconomic benchmarks and fiscal constraints, those exogenous factors that have so far impacted the terms and conditions of employment within the public sector.

But at last, there is global support for a paradigm shift and a refocussing on a development strategy that puts workers at the centre. It is a conversation we should have and an opportunity for the unions to once again be in the forefront of the national development. ■

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