

## **Best Practices in Social Dialogue**

# **BEST PRACTICES IN SOCIAL DIALOGUE**

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Organization (ILO)  
Subregional Office for South Asia  
New Delhi**

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# Foreword

One of the main challenges that South Asian countries are facing and will continue to face in the coming years is that of need to adjust their economic and social systems in view of the process of globalization. This process cannot be managed equitably and efficiently without social dialogue among the main stakeholders. Despite its proven worth, social dialogue is far from fully utilized in South Asia. In some countries, freedom of association is still not fully guaranteed and in many others, trade union density has decreased and industrial relations institutions have weakened. In some enterprises, social dialogue has been weakened by developments that have tended to favour individual over collective action. The emerging pattern of more complex and flexible types of employment has loosened many social ties and widened the disparities between the formal and informal economies.

From the ILO perspective, tripartism and social dialogue are integral components of decent work and essential channels for achieving it. As stated by the ILO Director General, “Cohesive tripartism is the ILO’s bedrock”. The main goal of social dialogue is to promote consensus building and democratic involvement among the main stakeholders in key aspects relating to the world of work. Successful social dialogue structures and processes have the potential to resolve important economic and social issues, encourage good governance, advance social and industrial peace and stability and boost economic progress. One of the key rewards of social dialogue is mutually rewarding relationships between partners which in turn lead to decent working environments, job satisfaction, and good enterprise performance and, in general, generate beneficial outcomes and rewards for all.

In recent years, there have been positive developments in South Asia where social partners have renewed their efforts to build sound institutions with a growing recognition of the important role of social dialogue in social and economic policy areas. The ILO’s South Asia and Vietnam (SAVPOT) Project documents successful cases of social dialogue at the enterprise level. In a number of countries social dialogue is beginning to play an important role in influence the substantive content of the main development policy instrument. These include, notably the involvement of social partners in the poverty reduction strategy programmes (for example in Sri Lanka and Nepal).

To discuss these and other emerging issues, the ILO Subregional Office for South Asia in New Delhi in collaboration with InFocus Programme (IFP/DIALOGUE), Geneva organized a Subregional Meeting on Showcasing Best Practices of Social Dialogue in Puri, India from 24 to 26 September 2003. The articles in this volume have been selected from the presentations made at this workshop. I wish to thank all contributors, particularly my colleague A. Sivananthiran and Professor C.S. Venkata Ratnam for their valuable assistance in editing and publishing this volume for wider dissemination of the ideas and experiences.

30 November 2003

**Herman van der Laan**  
Director, Subregional Office for South Asia and  
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# Preface

Social dialogue at the national level has become an important component of good governance in many countries. Tripartite social dialogue in economic and social policy meetings has a fundamental role to play in furthering democracy, social justice and a productive and competitive economy. The association of all three parties in the design and implementation of economic and social policies facilitates consensus building and balances demand and economic development, which leads to social cohesion. Tripartite dialogue also provides the best possible scenario for the effective and sustainable implementation of the policies concerned, and minimizes the risk of industrial and social conflict.

Economic prosperity and social progress cannot be achieved by governments, employers or workers acting in isolation. Social dialogue provides social partners and other stakeholders with the opportunity to participate in deciding their future. The aim of this participation and cooperation is to facilitate agreements on a socially acceptable combination of economic and social progress, wealth creation, social security, stability and equity.

Social dialogue is primarily a means of achieving these goals. It is an effective tool for meeting collective challenges by creating a structure and environment suitable for more efficient problem solving. In other words, it is a forum that enables constructive interaction in order to arrive at social consensus/compromise among the stakeholders in society.

Social dialogue as defined by the ILO includes all types of negotiations and consultations or simply exchange of information between or among representatives of government, employers and workers on issues of common interest relating to economic and social policies. However, the definition and concept of social dialogue varies across countries and regions.

Social dialogue requires strong independent workers' and employers' organization with technical capacity and access to relevant information. It also requires political will and commitment and a respect for the fundamental rights of freedom of association and collective bargaining. The state has an important role here in creating stable policies and a climate conducive for employers' and workers' organizations to operate freely, without fear or reprisal.



The primary goal of social dialogue is to promote consensus building and democratic involvement among main stakeholders in the world of work. Successful social dialogue structures and processes have the potential to resolve important economic and social issues, encourage good governance, advance social and industrial peace and stability, and boost economic progress.

Successful social dialogue can be a key to forging consensus and commitment to common objectives while providing the means of accommodating competing roles and managing conflicts. According to the ILO Director General, cohesive tripartism is ILO's bedrock and social dialogue is a means to achieve all ILO's strategic objectives — Rights, Employment and Social Protection.

Despite its proven worth social dialogue is far from being effectively utilized. For social dialogue to be successful, we need to link the process to tangible outcomes so that social dialogue is not merely seen as a European phenomenon but rather, as a process capable of addressing complex social and economic issues. There is a need to document and analyse the processes of social dialogue so as to deepen the knowledge base on what is happening therein. There is also a need to strengthen the capacity of the key players in social dialogue, namely, the workers' and employers' organizations as well as that of the labour ministry so that it can play a catalytic role at the national level.

The Poverty Reduction Strategy Programme (PRSP) in Sri Lanka and Nepal provided an opportunity for the subregional ILO office at New Delhi to ensure that the social partners are able to participate at national policy formulation. In Sri Lanka, the tripartite National Labour Advisory Council has been revamped to deal with policy issues in industrial restructuring, in EPZs and labour law reforms. The case of successful restructuring in Sri Lanka Telecom through social dialogue is documented in this volume. In Pakistan the Workers and Employers Bilateral Council (WEBCOP) has helped the government reach consensus on national minimum wages and labour law reforms. In Europe, social dialogue at the national level complemented the macro-economic policy and labour market policy and considerable reforms in the social protection system were brought about. In Japan, social dialogue took the form of high-level consultations to create a contextual awareness of the unemployment situation and the trade unions have accepted flexible working arrangements. In the state of Kerala in India, the social dialogue process has been able to reach informal sector workers, otherwise unprotected via welfare schemes. In Ireland, the economic and social council has been given the responsibility for wage setting and it has successfully negotiated four rounds of incomes policy thus spurring growth of the economy. In Singapore, tripartite interactions take place both at formal and informal levels on a variety of wage and non-wage issues. This volume contains eleven papers, including a synthesis paper that gives an overview of the ten contributions from Asia and Europe. The papers provide outstanding examples

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of high-level consultations that have helped create the ideal climate for tripartism and bipartism, the link between tripartism and bipartism and the outstanding results achieved in several countries in resolving issues related to job creation, restructuring, promotion of wage flexibility, strengthening bipartism and addressing the special issues concerning informal sector and export processing zones.

Past experience of social dialogue in different countries presents a mixed picture. The future holds new opportunities and challenges. Globalization has created the need for wider and deeper social dialogue involving different interests, specially the young, women and minority groups. Poverty reduction has become a major challenge for social partners. Furthermore, there is a growing recognition of the role of social dialogue in promoting good governance. Social dialogue is a flexible tool in the hands of the government and the social partners giving a competitive advantage to country's committed to balanced economic and social development.

Renowned social scientist Alwin Gouldner has observed that respect for norms depends on the manner of their formulation. Norms evolved on the basis of consensus have a greater chance of better and effective compliance than norms imposed from above or through third parties. Several papers in this volume strongly reflect the positive role that social dialogue can play.

New Delhi  
25 November 2003

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# Overview

***R. Thamarajakshi***

Social Dialogue as defined by ILO includes all types of negotiation, consultation or simply exchange of information between or among representatives of governments, employers and workers on issues of common interest relating to economic and social policy. In the context of labour relations, social dialogue refers to interactions and interrelationships among social partners that surpass, improve upon or enhance the traditional framework of classical collective bargaining and the central role of collective agreement in labour relations. Social dialogue for dealing with conflicts between capital and labour may be traced back to the late 19th and early 20th century ideological currents in Europe which resulted in the recognition of workers' rights including the right to trade union organisation.

Social dialogue institutions can be bipartite, tripartite or "tripartite plus". Tripartism, an important means of establishing social dialogue, refers to labour relations in which the State, employers and workers are autonomous yet interdependent partners with common interests. Bi-partism is a process of determination of a network of rules and regulations concerning terms and conditions of employment, etc., through consultation, negotiation, bargaining or other consensual processes. When bi-partite dialogue does not lead to dispute avoidance or settlement, tripartite interventions like conciliation/ mediation and arbitration/adjudication become necessary.

In Scandinavian countries, the highly centralized structure of national federations of both the labour and the employers' organisations and their attitude to come to terms without any mediation by a third party make it possible to reach bipartite agreements at the national level. However, in several developing countries including South Asia, both the unions and the employers depend on the government and its interventionist tendency; as a result, what could as well be a voluntary bi-partite arrangement would usually need the involvement and support of the government. In rare cases, like in Cyprus, the Industrial Relations Code which is essentially a bi-partite agreement, is countersigned by the Minister of Labour and Social Insurance. Centralized tripartite consultations are usually more influenced by political considerations. Bi-partite arrangements, particularly in the

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context of current trend towards decentralized firm/plant level bargaining, structural adjustment and economic crisis are influenced more by economic considerations. Industrial relations climate is undergoing a change and traditional adversarialism is giving place to cooperative approaches which phenomenon is reflected in several concession bargaining agreements. A direct and active role for tripartite consultation at macro level can be reinforced by bi-partite consultations, collective bargaining, communication, and employee participation at industry and firm/plant level. Bi-partism facilitates consensus-building when macro-level tripartite consultations fail to yield positive results. In periods of flux as most countries in Asia and elsewhere are now experiencing, state support and public resources may not become available for new tripartite initiatives. It is then better to focus on bipartite social dialogue based on cooperative efforts at the grass root level, build on success experiences and move to industrial and macro levels. This emphasis on bi-partism should not result in overstressing corporatist interests to the detriment of social and democratic values.

The Tripartite Consultation (International Labour Standards) Convention, 1976 (No.144) requires consultation between representatives of government, employers and workers on ILO standards - related activities. The spirit of this convention requires that representatives of employers and workers freely choose their representative organisations. Depending on specific national contexts, the tripartite partners may open the dialogue to other relevant actors in society in order to gain a wider perspective.

Tripartite system is generally successful if there is political support. In countries with a strong corporatist tradition, there is hardly any role for tripartite mechanism in the formulation and administration of active labour market policies, while it plays a major role in countries with weak corporatist traditions. Where the social partners are weak and fragmented, tripartite institutions play only a marginal role. Also employers' organizations may not adequately represent the perspective of SMEs or micro-enterprises, and trade unions may not adequately represent the interests of unorganized workers. The number and diversity of the actors represented may make decision-making more cumbersome and may result in politicization. While internal conflicts may be detrimental to the tripartite mechanism, a working policy consensus between employer, employee, and government representatives may be sufficient. In countries with a large unorganised/informal sector, tripartite discussions cannot reflect the wishes of the large majority of the working population. Further, in societies marked by rigid (and, often politicized) polarisation among social partners, consultation processes are not usually constructive. In such situations, a bottom-up approach through bi-partite dialogue at enterprise level can be a better option.

The enabling conditions for social dialogue are (i) strong, independent workers' and employers' organisations which are broad-based and representative and have the technical capacity and access to the relevant information to participate in social dialogue,

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(ii) political will and commitment to engage in social dialogue on the part of all the parties, (iii) respect for the fundamental rights of freedom of association and collective bargaining and (iv) appropriate institutional support. However in many countries, these conditions do not simply exist with the result that they cannot aspire to get the full benefits of social dialogue.

Social dialogue is grounded in the constitution of ILO and is an integral part of its 'Decent Work Agenda' covering rights at work, employment and social protection. The InFocus Programme of ILO plays an important role in the promotion and development of effective institutions and processes of social dialogue in the ILO member states. The IFP / DIALOGUE has a role in ensuring that social dialogue is mainstreamed into all the activities of the ILO and is used to promote employment policies, social protection policies, fundamental rights at work and progress in other employment conditions.

In what follows, summaries of case studies of countries where social dialogue has been used as an instrument for building harmonious industrial relations are presented.\* Countries covered are Austria, Denmark, Ireland and the Netherlands (Europe), Japan, Kerala (India), Pakistan, Singapore and Sri Lanka. Further, measures being taken in Bangladesh and Sri Lanka to comply with freedom of association and labour legislation in EPZs are gone into.

## **CASE STUDIES**

### **Austria, Denmark, Ireland and the Netherlands (Europe)**

During the decade ending 2001, some of the smaller European countries (Austria, Denmark, Ireland and the Netherlands) achieved economic growth and employment growth above the European average rates and managed to reduce their unemployment rates considerably; together this group of countries had even higher employment growth rates than USA. In these countries, there is a wide range of economic and political institutions for facilitating an ongoing social dialogue. In the 1970s and early 1980s, an insufficiently developed dialogue due to ideological stresses could not cope with the employment crisis, triggered by the two oil crises and the resulting financial and macroeconomic shocks. Employment and unemployment was then identified as the major problem, and social dialogue became more pragmatic and focused contributing importantly to subsequent employment success.

These countries experimented with differing models of social pacts aimed at collectively managing aggregate macroeconomic and labour market variables in the 1990s. These pacts are not without conflicts. In these countries with the exception of Austria, a concerted effort at social dialogue led to the conclusion of formal social pacts with a

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\*The conceptual papers (Chapter 2, 5 and 6) are not summarised here.

national dimension. In order to solve the problems facing the economy, the approach was one of cooperation among partners based on wage moderation to boost competitiveness, while maintaining but reforming the welfare state. As for Austria, the above approach was already in vogue and hence no new social pact was concluded.

Social dialogue had to contend with new challenges and problems. In Austria, the pension system reform adopted by government without the usual consultation of the social partners led to a general strike and put the employer side under strain because of their clear links with the conservative coalition government. In Ireland, discussions to conclude a new national agreement had to overcome a series of obstacles before it could be signed by the main Irish social partners. The above shows that willingness for conciliatory agreements is alive and that they are flexibly adapting to new circumstances even in a less favourable economic climate and despite some problems on the wage/inflation front. In Denmark, the new conservative government presented a set of employment related measures, which included a bill enabling free access to part-time work and gave the law precedence over collective bargaining arrangement that restricted this access. Although the bill was adopted with some amendments, it still faces trade union opposition resulting in unusually high unofficial strikes and work stoppages. A conservative coalition government formed in the Netherlands announced a number of cutbacks in the area of social welfare, to restrict access to the unemployment compensation system and occupational disability scheme, and also called for wage restraint, which are opposed by the main Dutch unions. It is believed that unions will only continue with wage restraint, if the government softens its stance on social policy. These developments show that conservative party coalitions are usually a tougher partner for the social partners than social democratic led governments.

In increasingly tight labour markets, wage pressures mount and wage discussions tend to become more difficult. In Netherlands and Ireland, growth rates of both nominal and real wages is more than EU averages, but this has not occurred in Denmark and Austria. Unions in these countries saw, in general, a decline in their density rates, reflecting sectoral shifts from manufacturing and the public sector to less-unionised sectors such as private services. However, they fared rather better in comparison to others in the OECD.

Despite the emergence of new demands and problems, social dialogue has been an important pillar of economic and labour market recovery and an effective alternative to the unconstrained working of market forces in these countries. This has enabled them to come out of the crisis of weak competitiveness and deteriorating labour markets, with their welfare State changed but not dismantled. While social partnership might not always prevent sudden changes in government policies affecting the labour market and conditions of workers, it offers some guarantee for negotiated change for flexibly adapting

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diverging interests to new challenges. However, social dialogue alone is only a necessary, but not a sufficient factor for success. Other policies viz., macroeconomic policy and labour market policy are of critical importance. A broadly stability-oriented macro economic policy, labour market policy and social dialogue besides some country specific factors can contribute to success. In general, countries which have instituted social dialogue, which have comprehensive social protection system and which have an interventionist State can do well in a time of globalisation and technological change, contrary to the stance that the institution of labour market has to be abolished or reduced to the minimum to fully unleash market forces.

## Japan

In Japan, employers determine the working conditions of their employees through consultations with enterprise based labour unions. The Japanese Trade Union Confederation (Rengo) is the primary organisation at the national level comprising the labour unions. The Japan Business Federation (Nippon Keidanren) is the main organisation of employers. Tripartite dialogue takes place between Rengo, Nippon Keidanren and the Ministry of Health, Labour and Welfare.

Channels for social dialogue can be classified as government-labour-management dialogue, government-labour dialogue, labour-management dialogue and government-employer dialogue. The industry-labour consultation body (Sanrokon) is the oldest of the government - labour - management dialogue channels. It is not established under law and is not a formal decision - making body on social dialogue. It is a forum for free discussion and information-sharing among top representatives of the three partners and academicians, and is an advisory body for the Ministries of Health, Labour and Welfare. The Prime Minister usually attended the meeting once a year, explained government policies and sought the cooperation of both labour and management. The Sanrokon has three main roles viz., (i) as a forum of mutual understanding among the government, labour, management and public utilities, (ii) to make requests and proposals to government and (iii) to listen to government's explanations about economic policies. Earlier, the Sanrokon had met almost every month but the frequency decreased since the middle of 1990s. Subsequent to October 1999, it did not meet due to some problem between Rengo and the ruling party; it held its 228<sup>th</sup> meeting in November 2002. Notwithstanding the decline in its role, Sanrokon reflects the history of social dialogue between government, labour and management in the past three decades.

Besides the Sanrokon, there are (i) Government - Labour - Management Employment Council set up by the government as proposed by labour and endorsed by management to tackle the problem of unemployment (ii) the labour Policy Council and the Minimum wages Council consisting of equal number of members representing labour and management as also public utilities. (iii) Labour Relations commission established under

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the Labour Union Law. Councils are very important channels for social dialogue among labour, management and public utilities. Labour commissions are tripartite bodies that adjudicate labour disputes, conduct investigations into unfair labour practices and examine labour union's qualifications. Besides the Central Labour Commission, there are regional commissions.

Government - labour dialogue takes the form of meetings between the Rengo president or some other labour leaders and government leaders such as the Prime Minister and members of the Cabinet. At these meetings, the labour side makes various requests for improvements in policies and systems while government explains the policies and seeks their cooperation. As for labour - management dialogue, summits are being held annually since 1971. A noteworthy outcome has been a declaration to carry out "the social agreement on employment" between Rengo and the Japan Federation of Employers Association announced in October 1999. This agreement stipulated that labour and management would perform their respective social roles to stabilise the employment picture and create new job opportunities. Also, Rengo and Nippon Keidanren have established a joint project study team for problems that affect workers such as employment and social security, and submit the results of the studies to government and political parties. There are no periodic government-management summit talks. However, President of the Nippon Keidanren, is a member of the Council on Economy and Fiscal Policy (CEFP), an advisory body for the Prime Minister and confers with him many times a year. Although he attends the meetings in his capacity as the Chairman of Toyota Motor corporation, he is believed to be speaking for the entire business community. The CEFP can be considered to be an informal government-management summit.

Two important issues which are subjects for social dialogue are work - sharing and employment problems. According to a government-labour-management agreement reached in March, 2000, work sharing is a reduction in working hours and income for regular employees to maintain employment and generate jobs for more number of people including women and elderly people. It was an epochal event that the labour side accepted an income cut alongwith a reduction in working hours. In December 2002, government, labour and management agreed on three points to solve the acute unemployment problem. Firstly, management promised to make even greater endeavors to maintain employment and secure jobs than in the past, and labor agreed to cooperate in the diversification of the modes of working including work sharing and strengthening of managerial base through a productivity increase and cost cuts. Labor also agreed that it would accept flexible working conditions when personnel costs have to be cut for the maintenance of employment. Secondly, to help unemployed people find jobs, government will develop a system which facilitates reemployment, create job opportunities and reform the unemployment insurance system. The third is a labor market reform. Government will carry out deregulation and reexamine labor laws to cope with the bleak employment

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picture. In addition, government will reconsider the labor practices to facilitate reemployment of middle-aged and elderly people. Government's fiscal 2003 budget captured the above and started work on revising various laws accordingly. These revisions were aimed at extending the upper limit on employment contracts, finalising regulations relating to dismissals, relaxing the requirements and procedures relating to the discretionary labor system, streamlining job placement agency service, extending the employment period of temporary workers and expanding the hiring of such workers on production lines.

An appraisal of the several channels for high-level social dialogue shows that they have made a significant contribution to the stabilization of labor-management relations. Government, labor and management averted labor - management disputes by shaping through Sanrokon, a common appreciation as to how the economy and society ought to be. Labour unions refrained from making unreasonable demands for major wage increases and this helped to reduce the number of labour disputes. They contributed to the stabilization of prices and the enhancement of Japan's international competitiveness.

The channels for dialogue among the three partners have, however, several problems. Sanrokon, the government - labor - management Employment Council and government - labour meetings have no legal sanctity to enforce the agreements reached. Moreover, if any of these parties refuses to take part in social dialogue, they fail to function. In fact, Sanrokon remained dormant for about two years from 1999 to 2001. It is a major task to ensure an uninterrupted social dialogue and the effectiveness of agreements. Further, agreements reached among the three partners except laws, minimum wages and decisions by labor commissions are not binding on either labor or management. Therefore, it is difficult to predict how far the agreements will be implemented. By and large, the political parties supported by labor unions have no visible presence. Labor and management have never agreed in setting minimum wages.

Labor unions in Japan are company-based and labor - management relations are managed at the company level. There is a strong preference for Japanese companies to settle labor problems in - house on the basis of labor -management autonomy. Japan will serve as a model to countries that have similar labor - management relations. Tripartite agreements about work sharing and employment problems are not forced upon labor and management of individual companies. Hence government, labor and management can easily make mutual concessions. Many social dialogues rest on discretionary judgment, mutual trust and cooperation. Countries with similar understanding among the partners can learn from the Japanese experience.

### **Kerala (India)**

Trade unions emerged as a powerful labour institution in Kerala over a long period of time. Early proletarianisation of a large segment of the traditional labour force, social

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reform movements for attaining social dignity for the poor and the socially backward, nationalist politics accompanied by a radical political movement which explicitly incorporated all sections of the labouring poor and organised them in trade unions played an important role in this development. However, only a small segment of the Kerala economy could approximate to capitalist enterprises. Given the strong anti-capitalist ideology and the strategy of peasant-worker alliance, all situations characterised by relations of labour exploitation were considered appropriate for unionisation. Thus, an overwhelming proportion of workers in the informal/unorganised sector was organised in unions.

However, trade unions could not approximate the situation in the unorganised sector to that of the modern industrial sector. In order to improve the 'labour status' and income, focus had to shift from vulnerability to stability in employment. In this process, the conventional differences between organised and unorganised or formal and informal sectors gave way to another 'labour market phenomenon' of insiders vs outsiders, where insiders represent primary union members with or without stable employment. A number of labour institutions borrowed from the 'industrial relations model' were transplanted into the realm of informal sector workers. viz., Wage (Minimum) Committees and Industrial Relations Committees. What was not in the 'industrial relations model' but introduced for the informal sector workers were the labour co-operatives and collective care arrangements in the form of Welfare Funds.

In labour intensive manufacturing and agriculture, when the demand for higher wages led to adoption of technological changes, political unions opposed the same in their eagerness to protect current employment. This resulted in migration of industries to other regions in India and shifting of land to less labour intensive cultivation. It was then that political parties realised the need for some institutionalised form of welfare arrangement. The earliest welfare fund for toddy tappers was set up with the active intervention of the government. In subsequent years, more welfare funds were instituted covering diverse group of workers in the informal sector, a rare phenomenon in contemporary developing countries. This was an institutional innovation by bringing in the participation and contribution of employers and the organisational support (sometimes financial contributions) of the government. Thus these Welfare Funds offer some form of social security at the end of the working life, social insurance in the event of sickness, accident and/or death and a measure of welfare arrangements in the form of assistance for housing, education of children and marriage of daughters. In certain cases where the Welfare Funds were not in a position to provide old age pension, the State came out directly to provide the same from the budget.

Given the emergence of party-affiliated trade unions in almost all occupations, all political parties have come to see the Welfare Funds as an opportunity to extend their political patronage for the workers. The legislative discussion on setting up a Welfare Fund

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would often centre on the details of the constitution, definition of workers, financial contribution by workers, employers and government and related aspects. After enactment, government would set up a tripartite body consisting of representatives of workers, employers and government. Workers' representation is usually in the form of nomination of leaders of the main unions active in a particular occupational group, irrespective of their political affiliation. Employers' representation is also through nominations either of employers' organisations or prominent employers in a given occupation. Having accepted collective bargaining and care arrangements through Welfare Funds, their participation is more out of necessity than out of a conscious policy. Officials of the Labour and Finance Departments besides others belonging to the concerned departments are nominated by government. Members to the Boards of Directors are nominated by government and the representation is more or less equal from all three sides. Although the Boards are the ultimate body for deciding the policies and functioning of the Funds, the concerned government department wields considerable power of veto through a system of 'sanctions'. Given that the Chief Executive Officer is a government employee, the day-to-day effective control also rests with the government.

During the legislative process, one of the most debated aspects of the Welfare Funds was the definition of 'worker' who will be covered by the arrangement. Through systematic union intervention, the labour market for the informal sector in Kerala gives very little scope for a worker to practice multiple jobs once he/she becomes a union member. In fact, this is one of the strategies of the unions to create a closed shop model and a strict occupational identity. However, often workers in one occupation may find eligible for more than one Welfare Fund. On the whole, about 30 per cent of workers in the informal sector are estimated to have been covered under welfare funds. Out of the 19 Funds for which data are available (18 implemented by the Government of Kerala and one for Beedi and Cigar workers by the Government of India), three Funds show coverage of above ninety percent, one having cent per cent coverage and another five between fifty and ninety percent. The benefits provided are social security in the form of provident fund, monthly pension, payment of gratuity, and financial assistance for education, sickness, marriage and housing.

There is no underlying principle to fix the contributions of the workers, employers and in some cases of the government itself to the Fund. Contributions vary widely as between occupations and groups of workers. Government contributes directly to 15 of the 19 funds. In some cases where there is no contribution, government pays a state pension (old age) for such workers as agricultural labourers. In most cases, employers have been contributing to the different Welfare Funds due to statutory compulsion. In some cases, employers have contested it in the court of law. Wherever the product market allows the employer to shift the burden to the consumer, there has been less resistance in paying their contributions. In product markets where employers are price takers such as in the marine export market, rice market, etc. the unwillingness has been open and

the policy challenged legally. In some Welfare Funds, the contribution by government as well as employers has been stipulated as a function of and provisional to employees' contribution, which has compromised the very financial viability of the scheme; where the employee's contribution is set at a low level, the contribution by the other two stakeholders too has been relatively small. Around 70 per cent of the Funds mobilise resources that exceed their total expenditure. However, there are wide variations in the proportion of the contribution spent on distributing benefits to the members. The establishment expenses are borne out of the income of the respective Funds.

Kerala is a pioneer in implementing social security for the poor in the informal sector. The welfare funds cover workers in the informal sector both in the agricultural and nonagricultural occupations cutting across rural-urban and gender differences. The ever-increasing demand for welfare funds for each and every sub-sector of the informal sector reflects a desperate reaction of the workers for a measure of social security in an unprotected labour market. Given a long history of mobilisation and organisation and pro-poor policies of the governments in power, the working and living conditions of an average worker in the informal/unorganised sector in Kerala is perceptibly better than that two/three decades ago.

There have been some favourable factors which helped the social dialogue process in the informal sector viz. (i) the literacy of the labouring poor and high degree of their social and political consciousness of their rights. (ii) readiness of political parties to take up their legitimate demands as part of their political agenda and (iii) the early mobilization and organization of workers engaged in a number of informal sector activities in rural and as well as in urban areas. These factors provided a congenial climate for the state to intervene within the context of a social dialogue process and create the needed organizational structures.

At the all India level, there is considerable experience in implementing a Welfare Fund for beedi workers; this has been made possible by the initiatives of labour unions and political parties at the national level. A few States have introduced Welfare Fund schemes for workers in a limited number of informal sector activities. The compulsions of parliamentary democracy and the need to tackle the problems of the labouring poor are to be reckoned as favourable conditions. The basic capability building activities such as literacy and education and organization of the labouring poor will have to be addressed. Here again, the State can play a proactive role as demonstrated in the literacy campaigns of the nineties.

### **Pakistan**

In Pakistan, two institutions at the national level viz., Pakistan Labour Conference (PTLC) and Standing Labour Committee (SLC) have been set up through government

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resolutions; the former gives advice on matters referred to it by the government while the latter deliberates either on its own or on matters referred to it by the PTLC. PTLC is a larger and more representative body than SLC and meetings of PTLC are given more importance by the government. The objectives of these organizations are to bring about uniformity and remove lacunae in labour legislation, lay down procedures for settlement of labour disputes and discuss all issues between employers and employees. Besides, there are other tripartite fora at national and provincial levels for consultation between employers and workers. Out of the three parties, government has been the major player in influencing wages directly through specification of pay scales for government employees and indirectly through labour laws that may impact on the power of trade unions which act as a party to wage decisions.

Around the late 1980's, some enlightened industrialists and a few moderate trade union leaders floated the idea of a joint forum where they take decisions that help in harmonising the industrial relationships. In July 2000, employers, union leaders and a few professionals signed a memorandum of understanding leading to the establishment of a Workers and Employers Bilateral Council (WEBCOP) as a forum for resolution of industrial disputes. Employer - employee relationship based on trust and partnership was expected to go a long way in improving the productivity. At the WEBCOP, bilateral discussion between the employers and the trade unions can result in agreements which may then be legislated by the government and which have the potential of effective implementation. The WEBCOP is on various committees including the Tripartite Labour Standing Committee, Tripartite Labour Advisory Board, Tripartite Productivity Council, Tripartite National and Provincial Training board, Tripartite Minimum Wage Council, Tripartite Health and Safety Councils and various Tripartite Welfare Authorities including Workers Welfare Fund, Education Cess, Workers Participation Fund, EOBI and Social Security.

The scope of WEBCOP includes almost all aspects that come under the purview of industrial relations. As an advisory body on industrial relations and labour laws to the ministry of labour, it helps in the mediation, conciliation and arbitration of industrial disputes, without polarizing and politicizing the issue. WEBCOP will make efforts for wage productivity linkages with due regard to the cost of living index and for augmenting training, educational and research facilities for upgrading the skill and knowledge of workers and managers. It is expected to achieve the minimum mutually acceptable reforms in the existing labour laws and lend full support and assistance to their simplification, rationalization and codification. It would also devise a code of conduct, keeping in view the existing National and International norms and obligations. The employers and workers will (a) jointly work for improving efficiency and productivity of the enterprise and develop a system benefiting both the partners of the productivity gains, (b) respect the right of association and collective bargaining and (c) demonstrate mutual respect to obligations and rights of each other.

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Implementation of labour laws leaves much to be desired; for instance, where trade unions have been strong, workers (unskilled and others) were able to get the minimum wages fixed by the Minimum Wages Board but nonunionised workers hardly got the benefit. As pointed out by the All Pakistan Federation of Labour, workers believe strongly that the forum will work for unity between themselves and producers which in turn will result in increase in productivity, exports, and employment opportunities. Although WEBCOP has no formal structure, it has significantly contributed to issues such as minimum wages, labour policy and child labour having long term implications for industrial relations. However, it has made very little contribution to skill development or promotion of science and technology.

Labour policy 2002 aims at fostering this dialogue through bilateral mechanism for negotiations and mutual cooperation. The policy accords full support to the WEBCOP initiative, and the government is to facilitate bilateral codes of conduct at the level of enterprise and industry. If WEBCOP has to be successful, members of the council must be fully representative of workers and producers, and have government patronage but not control, to ensure that the agreements reached by WEBCOP are accepted by the government.

With the advent of globalization, Pakistani products have to improve their competitiveness for which harmonious relations between producers and workers are absolutely essential. Whereas tripartite mechanism exists in Pakistan and the stakeholders participate on various committees, it has not resulted in better harmonious relations.

## **Singapore**

Singapore's industrial development was promoted through tripartism to resolve industrial relations issues. More specifically, social dialogue has played a basic role in wage setting in the economy. Before independence, the economy was largely entrapment; it was a typical low-wage, surplus labor, developing economy with high unemployment. The second half of the 1960's saw a switch from import-substitution to export-oriented, labour intensive industrialization deploying a relatively low-skilled, low-waged work force. The economy attained high economic growth and low unemployment. Buoyancy in growth rates and uncontrolled wage rise led to industrial disputes. Tough legislation was introduced to control labour costs and rationalise labour movement. viz., Industrial Relations Ordinance, 1960, Industrial Relations Act, 1968 and Employment Act 1968. In 1972, the Tripartite National Wages Council (NWC), a tripartite advisory body was established for orderly wage regulation.

The NWC is the chief plank of social dialogue and wage determination in contemporary Singapore. Under a neutral chairmanship, it has 30 members with 10 each representing employers, government and trade unions. The principle of equal representation is followed

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throughout even for ad hoc committees such as the subcommittee for flexible wage system. The NWC has been making recommendations not only on wage adjustments but also on work related issues such as job hopping, CPF changes and skill development for workers. The Council's guidelines have generally provided the basis for negotiations, and final settlements have tended not to deviate much. The NWC played a crucial role in restabilising the Singapore economy during several rounds of restructuring since 1972. NWC's deliberations took into account Singapore's priority for full employment and were carried out with a view that wage increase should not be delinked from growth in productivity. The establishment of the Skill Development Fund for a general and continuous system of education for workers was in line with this focus on productivity. The first recession in Singapore during the 1984 global downturn exposed the weakness of the tripartite edifice. The NWC then undertook an in-depth study to assess how companies can quickly respond to the sudden occurrence of economic crisis by adjusting wages rather than downsizing or retrenchment. High wage costs and rigidities in the wage system were found to be important causes for the loss of Singapore's competitiveness and the economic recession. In 1986, the NWC set up a subcommittee on Wage Reform (NWCWR) which recommended the adoption of a Flexible Wage System (FWS); the aim was to minimise retrenchment of workers during downturn by adjusting wages downwards while encouraging companies to reward workers during upturn of the economy.

Under the FWS, the wage structure consisted of (i) a basic wage reflecting the value of the job subject to cut to stave off closure, (ii) variable wage component (VWC) - the first target for cost cutting because of its obvious link to company's profitability, (iii) an Annual Wage Supplement (AWS) - the second target and (iv) an annual wage increment - small service increment of 2 percent of basic wage subject to reduction depending on the severity of the downturn and the financial position of the company. A five-year period was allowed for implementation of FWS. A tripartite Review committee appointed in 1993 found that more than three-fourths of firms had shifted to some kind of flexible system; 85 percent of unionised companies and 71 percent of nonunionised companies had changed over to FWS.

NWC's recommendations serve as useful reference points for negotiating wage settlements and as tripartite wage guidelines to help resolve disputes brought for arbitration before the Ministry of Labour. The nonadoption of unanimity principle in the NWC, the nonmandatory aspect of its recommendations and flexibility of implementation which depends on the ability of employers to pay, help to enhance the acceptability of its recommendations. The idea of tripartite consensus has served to bind the parties into implementing the recommendations, which are transparent and based on a thorough audit of the state of the economy. The rapid expansion of the economy over the past four decades has been reflected in real wage increases. Maintenance of industrial harmony seems to have brought beneficial results for the majority of population and

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there was almost full employment in the economy. Inflation has been in check, and the high growth of the economy has led to a high savings rate. Regulation of wages was supported by the policy towards skill development especially in consideration of rapid restructuring of firms in the last five years. Joint tripartite efforts played a part in mobilising older workers to retrain so that their employability can be enhanced in a market characterised by high rates of skill obsolescence.

Historically endowed with a simple class-structure somewhat free from strong cross, class pressures and geographically with a small physical size, Singapore was fortunate to have a relatively corrupt - free state apparatus that helped beckon foreign investment; also, the harsh anti-communist stance taken in the early post-independence period drew the attention of US who was at that time looking around for countries with similar views on communism, and led to gain easy access to US domestic market and US investments in Singapore. Singapore's successful system of social dialogue and tripartite arrangements had evolved thus from a set of factors unique to that country. Hence, it would be difficult to expect a replication of this in other countries.

### **Sri Lanka**

The privatization of Sri Lanka Telecom (SLT) is a unique experience where the importance of labour - management dialogue had been explicitly recognised. Initially, a Telecom cell was to manage the process of transfer and liase with trade union leaders to create awareness on the process. For this purpose, some union leaders were sent on study tours to countries that had privatised telecommunication services. Besides, media campaigns were launched emphasising the need for restructuring. The most difficult issue was that of pension rights; government had to make heavy financial commitment in this regard.

The transfer of ownership was not accompanied by corresponding changes in the mind-set and behavior patterns of employees who continued to live with the past legacies. Although the new management developed organisational vision and mission statements, it did not appear that the average telecom employee had internalised this vision. A strategic misfit between the business needs of the new company and the prevailing employee workethics was noticed. At this stage, the Social Dialogue and Workplace Cooperation Project of the ILO was found suitable for transforming the industrial relations atmosphere at the SLT. A joint group of management and trade union representatives who participated in the first ILO national workshop on social dialogue initiated a dialogue on future challenges of the company and action plan to address them. Among the concrete actions proposed were conducting awareness programmes on sound industrial relations with workplace cooperation through social dialogue, employee training on communication and attitude change, setting up guidelines on internal and external customer relations and introducing a grievance handling procedure with the involvement

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of line managers. A labour relations task force comprising senior managers and union representatives was set up to review progress of the action plan and identify new themes and issues for the dialogue. However, the culture change programme moved at a slow pace due to the large size of the organisation, large number of occupational categories and different subcultures based on parochial factors reflecting a fragmented culture. There was a felt need for official recognition to the task force since telecom employees were tuned to respond to formal messages from the top. To meet this, the Chief Executive Officer announced the decision to grant official recognition to it. By 2003, SLT went further by making a commitment to institutionalise the workplace programme. Thus, workplace co-operation has become a major item in the business planning process at the SLT.

The experience of SLT shows the crucial role of dialogue in building consensus on strategically important themes among different parties, sometimes having conflicting ideologies. It also points to the limitation of top-down approach to culture change in the system. The taskforce launched an intervention programme to disseminate workplace co-operation through dialogue in the regional offices as well as in the functional groups of the head office. Workplace co-operation through dialogue has become a key component of the company's human resource development policy. The SLT has placed greater emphasis than in the past on training of staff in team building, interpersonal cooperation, communication skills and attitude development. The company's human resource policy also attempts to integrate the workplace cooperation programme with other human resource interventions such as kaizen and 5S practices, management tools developed by the Japanese and popular in many Sri Lankan organisations.

Since the implementation of the workplace cooperation programme, relations between managers and other employees and also among employees themselves have improved. This is evident from the absence of strikes and other forms of serious industrial disputes. A new literature on workplace culture has emerged; almost every issue of the house journal-Emathuma- has carried features and news items on workplace cooperation. Awareness seminars and action oriented workshops have resulted in an increasing desire for learning, and more requests have been made by the staff in the regions and in the head office to conduct similar training. Another impact is the readiness of trade union leaders to respect diverse/dissenting views, a phenomenon absent prior to the introduction of the programme.

The most tangible outcomes have been improvements in interpersonal relations among the employees and customer relations, both internal and external. Employees themselves saw that the workplace programme has injected a new spirit into them to perceive their role as service providers to other groups, divisions and sections of the company. The Human Resources Group continues to play a lead role in disseminating it to other wings

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of the company. The programme has reportedly resulted in a number of behavioural changes; executive staff have developed a tendency to give greater attention to human resource issue than in the past, and the staff has learned to give speedy and positive responses to requests and queries of internal customers.

The Regional Telecommunication Officer (RTO), Avissavala which serves 8200 telephone subscribers was earlier operating in watertight compartments and was lacking in group cohesiveness among the staff. The Director of RTO found social dialogue as a useful mechanism to foster team spirit and cohesiveness among the staff. A committee was formed for creating awareness on the importance of workplace cooperation. Internal transfers have been arranged to give employees wider exposure to operations in different work units of the office, which was virtually impossible earlier due to resistance from unions. Yet another achievement has been the implementation of 5S practices leading to creation of a congenial working environment. All these have resulted in positive developments in customer relations.

The human resource intervention at SLT has paid some dividends but any lasting impact has to be considered against several contextual factors. For social dialogue to be an effective instrument of culture change, it must be entrenched in the top management values; the signals in this regard are so far salutary as workplace cooperation has been explicitly recognized as a means to foster an organizational climate that can support higher productivity. Compared to change strategy which was transformational in the privatization process, that in culture change programme is incremental, spreading the message of workplace cooperation among wider audience through the house journal and training of staff on relevant themes. Whereas the strategy in the management restructuring process is a cascading one starting from the top and covering the entire organisation, culture change involves a unit by unit strategy which in a large and complex organisation with different pressure groups can be very time-consuming. Although the taskforce has served as a transitional management structure to monitor and coordinate this large scale change intervention and has made considerable progress in laying the ground work for the culture change, much remains to be done. Further, experience elsewhere in organisational culture change has shown the need for aligning human resource management practices to support desired changes. This is required in SLT too. Proper supportive mechanisms should be the focus of human resource strategy in the organisation.

The success stories of SLT have become marketable products in the services sector. The Bank of Ceylon, the largest commercial bank in Sri Lanka, invited the SLT to share its experience at an in-house seminar. While it may take some time to assess the outcome of such attempts, they should be seen as significant land marks in the effort to cultivate cooperative atmosphere among employers and employees.

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## **Social Dialogue in EPZs : Experience of Bangladesh and Sri Lanka**

EPZs have become one of the major features of the labour market in Bangladesh and Sri Lanka and provide access for more workers to formal sector employment. While EPZs have been an important source of employment creation, in particular for women, working conditions, labour relations and human resource development are areas which require further improvement. Legal restrictions on trade union rights in a few EPZ-operating countries, lack of enforcement of labour legislation and absence of representation of workers' organizations and effective structures of labour-management relations in a number of countries undermine the ability of zones to upgrade skills and improve working conditions and productivity; these constraints prevent them from becoming dynamic and internationally competitive platforms.

The key issues in industrial relations in EPZ in Bangladesh and Sri Lanka are: (i) Denial of right to organise including the right to establish and join unions of their choice (C.87); (ii) In Sri Lanka, there are no legislative barriers but unions have great difficulty in gaining access to zones and meet with workers employed; (iii) Lack of proper social dialogue mechanisms for consultations or even exchange of information; (iv) Gender discrimination in wages, benefits and career development. In both Sri Lanka and Bangladesh, there are difficulties regarding hours of work, overtime, wages, occupational safety and health, leave, provision of transport, social security and special needs of women workers. Both these countries have permitted labour-management committees at enterprise level to deal with these issues, although unions see some of these committees as undermining workers' representation.

Since 1998, ILO has been active in these countries in assisting them through advisory services and technical cooperation activities specially to improve labour and social conditions and foster respect for fundamental rights. In Sri Lanka, a meeting between the Board of Investment (BOI) and the Ministry of Employment and Labour was held in early 1998. As a follow up, ILO organised in January 2001, a National Seminar in Colombo, on ILO Conventions 87 and 98 with special reference to EPZs. Also a tripartite study team from Sri Lanka visited the EPZs in the Philippines. To maintain the momentum, ILO organised a meeting on Freedom of Association in Colombo in May 2002. The main recommendations of this follow up meeting chaired by the Minister for Labour were (i) ILO Conventions 87 and 98 be respected in the EPZs and a circular to the effect be sent to all enterprises in EPZs; (ii) The existing guidelines of the Employee Councils of BOI be revised to allow the Employee Council to collectively bargain and settle disputes at the enterprise level and the Employee Councils should consist of elected representatives of workers. At the National Labour Advisory Council (NLAC) in Colombo, the Labour Minister directed it to develop a training plan for investors, workers and employers on "Sound and responsible labour relations."

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As a result of ILO's follow up work in Sri Lanka, the amendment to the Industrial Disputes Act on 8 December 1999 outlawed anti union discrimination and made it mandatory for employers to recognize a representative union and this had significant impact. Government also discussed proposals for amending the Factories Act to increase hours of overtime mainly for EPZs. The Free Trade Zone workers union (FTZWU) and the Progress Union were formed in 1999 and branches in eight garment factories were established. Though all the branches are yet to be registered, the NLAC is seized with the problem.

In general, sound labour-management relations are essential to the success of EPZs. Free, strong and representative workers' organizations have a major role to play in building workplace relations conducive to improvements in working conditions and increases in productivity and competitiveness. Government and employers' and workers' organisations should respect, promote and realize in good faith and in accordance with the Constitution, the principles contained in the ILO Declaration on Fundamental Principles and Rights at Work, 1998, and in particular those concerning the fundamental right which are the subject of the Conventions pertaining to freedom of association and the effective recognition of the right to collective bargaining in the EPZs. The principles set out in the Tripartite Declaration concerning Multinational Enterprises and Social Policy, 1977, can provide useful guidance. National labour legislation should be complied with in EPZs.

Better compliance with international and national labour standards should be promoted. Government should encourage tripartite consultations as an effective means of developing sound labour relations policies and practices in EPZs. Participation of representatives from workers' and employers' organizations on the boards of investment promotion and zone management bodies could be useful in this regard. Education and training programmes can play a valuable role. Enterprises should establish ongoing mechanisms for labour-management consultation using structures such as labour-management councils or workers' councils, taking into account levels of development and the characteristics of each country. The establishment of tripartite mechanisms for minimum wage fixing should be encouraged, and where national minimum wages already exist, they should be applied to the EPZs. Remuneration packages, including non-wage benefits, should be determined through collective bargaining. Labour-management consultations could yield improvements in working conditions and work organization. Legislation regarding hours of work should be respected in EPZs.

Appropriate social infrastructure is essential if workers and managers are to deliver high performance at work. Although government bears primary responsibility for the provision of social infrastructure, incentives may be offered to enterprises who provide social services such as housing, transport and childcare. Tripartite labour welfare funds based on contribution from government, employers and workers could support initiatives for improving the quality of life of workers.

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In view of the high proportion of women employed in EPZs, the enterprises therein should make the following special efforts : (a) women workers are not discriminated against and, in particular, they receive equal wages for equal work; (b) they enjoy maternity protection and benefits; (c) measures to help workers combine work and family responsibilities; (d) education, policies and procedures to prevent sexual harassment and to deal with it and (e) measures to encourage promotion of women workers to technical and managerial positions.

### **Social Dialogue and Macro Economic Issues**

Social dialogue has a positive role not only in industrial relations but also in macro economic issues such as poverty reduction, crisis management and economic and social development.

International discussion on poverty reduction is opening up new vistas for social dialogue. The ILO is working in a number of Poverty Reduction Strategy (PRSP) countries, (Nepal, Tanzania, Mali, Honduras, Cambodia, Sri Lanka, Vietnam, Ghana, Ethiopia), with employers' and workers' organizations and labour ministries to influence the substantive content of PRSPs and also to create a wider and more participatory dialogue. However, in many of the PRSP eligible countries, social partners are very weak. This calls for efforts to build the capacity of the social partners in these countries.

Social dialogue can be helpful in managing financial and economic crises. In the late 1980s, Ireland successfully addressed its disastrous economic situation of rising unemployment, spiraling public debt, negative growth and rapidly falling living standards through a process of social dialogue; the dialogue transformed the Irish economy in a period of 5 to 10 years from being one of the poorest countries in the European Union to being one of the most successful in terms of economic growth and employment levels. In Barbados, in early 1990s, the IMF prescription of devaluation was avoided based on a series of social partnership agreements which focused on improving competitiveness and productivity; wage freezes were accepted till corresponding productivity gains accrued. Similarly, in the Republic of Korea, the social partners and government reached a compromise on the IMF programme and agreed on an extensive social pact for managing the Asian financial crisis of 1997. However, if after the crisis, social dialogue is viewed by governments as only a crisis management tool and discontinued as in Korea, this can lead to a deep sense of mistrust, particularly on the part of workers and their organisations and adversely affect industrial relations. Social dialogue must be sustained in good times as well as in times of crises.

Further, social dialogue has been used most effectively in promoting and managing change in countries with relatively mature systems of industrial relations and strong, representative social partners. A number of European countries e.g. Italy, Spain, Portugal,

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Finland and the Netherlands entered into a series of social pacts during the 1990s to prepare for the introduction of the European single currency, by building a consensus between the government and the social partners on a range of macroeconomic and labour market reforms, including institutional reforms. When the single currency finally came into effect in 2002, all these economies had fully complied with the criteria for its membership without any major economic crisis or industrial conflict.

Also, since the early 1990s, most of the countries in Central and Eastern Europe created national social dialogue bodies to help the transition from centrally planned economies to market economies; in the Czech Republic and in Hungary, national tripartite councils of economic and social cooperation were established to overcome the most challenging period of economic reform and to avoid major social crises. Most of these countries embarked on a wide ranging programme of labour law reform through a tripartite consultative process that the ILO facilitated. South Africa is another example where social dialogue played a critical role in the peaceful transition to democracy. The social partners committed themselves to developing a consensus with government over substantive issues including the promotion of investment, decent work and reduction of poverty. The National Economic Development Council (NEDLAC) brought together all key stakeholders, including the civil society.

The South Asia and Vietnam project (SAVPOT) covering India, Pakistan, Sri Lanka, Nepal, Bangladesh and Vietnam aims to develop and profile innovative work practices at the enterprise level. The project has proved to be useful for productivity increases, quality improvement and awareness of collective bargaining, workers' rights and gender issues.

From the country experiences, it is evident that social dialogue is a dynamic and flexible tool in the hands of governments and the social partners giving a competitive advantage to countries committed to balanced economic and social development.

### **Summing Up**

The ILO's primary objective is to promote opportunities for women and men to obtain decent and productive work in conditions of freedom, equality, security and human dignity. Through its tripartite structure, ILO provides a forum for a global social dialogue for representatives of workers' and employers' organizations and governments from member countries. International labour standards and global policies and strategies on issues such as employment, social protection, equality, elimination of child labour and forced labour are agreed upon and put into action. The tripartite structure of ILO gives it a legitimacy, a mandate and the capacity to identify and promote practical solutions to the challenges of globalization. Through social dialogue, ILO works towards building a wide consensus around the key goals of strengthening democracy and

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social justice, reducing poverty and promoting balanced social and economic development.

Social dialogue can take a variety of forms, ranging from simple exchange of information to the more developed forms of information-sharing, exchange of views which in turn can lead to more in-depth dialogue and collective bargaining, an integral and one of the most widespread forms of social dialogue. There is a rich diversity in institutional arrangements, legal frameworks and traditions and practices of social dialogue throughout the world. The institutions and mechanisms of social dialogue must be able to adapt and change over time so that they can facilitate the dialogue and respond to new challenges as they emerge.

In many developed and developing countries, tripartite system is in vogue. Whether it is the arrangements for the avoidance / settlement of disputes, procedures for recognition of unions, grievance redressal, consultation and cooperation at work place, collective bargaining on a host of matters relating to industrial relations and human resources, tripartite initiatives play a perceptible role in setting up international labour standards, enactment of national legislations and conclusion of national agreements.

The country studies have shown how social dialogue takes into account each country's cultural, historical, economic and political context. There is no "one size fits all" model of social dialogue for all countries, but the common denominator is freedom of association and the right to collective bargaining. Adapting social dialogue to the national situation is key to ensuring local ownership of the process. Labour market recovery in some small countries in Europe in the nineties was due partly to country specific factors and partly because of social dialogue complemented by macroeconomic policy and labour market policy. Wage moderation contributed to a climate of confidence and considerable reforms in social protection systems were enacted. They have not only given income to those without work but also enabled firms to adjust their labourforce without paying all the economic and social costs. In Japan, social dialogue took the form of high level national consultations to create a climate of contextual awareness; to meet the unemployment situation, labour side accepted flexible working conditions and worksharing arrangements. In Pakistan, the WEBCOP has played a significant role by helping the government for consensus on issues such as national minimum wage and labour law reforms. In Singapore, industrial development was promoted through the instrument of tripartism to resolve industrial relations issues. Singapore's National Wages Council (with its orientation to a non-partisan culture) and Skills Development fund are showcase examples of building institutions to promote social dialogue. In Sri Lanka, workplace cooperation based on employer-employee dialogue is not only a core industrial relations theme in the business planning process at the SLT but also a key component of the company's human resource development. Since the implementation of the workplace co-operation programme, relations between managers and other employees

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and also among employees have become less adversarial. Kerala is a unique example of social dialogue process involving the State, employers and organisations representing the informal sector workers. These funds have sought to address the concerns of social security, insurance and welfare. While the Welfare Fund Model of collective care arrangements showed considerable innovation in its design and organisation, its functioning is embedded in the bureaucratic system giving rise to a number of problems. Even then the Model offers a minimum of social security to the informal sector workers who are otherwise unprotected. In Bangladesh and Sri Lanka, EPZs constitute a major feature of labour market with more than 80 percent of workforce comprising women. There is a widespread lack of adequate industrial relations institutions, and the use of social dialogue in resolving differences between management and labour is not satisfactory. Measures are underway in these countries to comply with provisions of freedom of association and labour legislation. ILO has been assisting these countries through advisory services and technical cooperation activities specially to improve labour and social conditions and respect for fundamental rights.

### **Salient Points**

1. Social dialogue and industrial relations, whether in traditional areas or new ones are complex by themselves and more so when the dialogue is on wages and to some extent on social benefits. The original constitution of ILO referred to the provision of an adequate living wage as a requirement for the promotion of universal peace, combating social unrest and mitigating hardship and privation affecting large number of people.
  2. The process of globalization has underlined the need for greater participation in policy and decision - making at all levels, including at the international level. Workers' and employers' organisations can bring together young people, women and minority groups and also NGOs in a constructive dialogue. But this may imply change in their structures so as to facilitate the participation and sharing of power with such groups. In countries where the social partners have included such groups in the national dialogue (e.g. South Africa), it has led to a wider consensus in society on the changes needed and enhanced the role of the social partners as they are seen to represent broader interests in society.
  3. Two major concerns in the context of globalisation are loss of employment especially in the formal sector as a result of restructuring or relocation and informalisation of work - employment becoming atypical like part-time, casual, intermittent etc. Though unions are seen as the main defenders of the traditional practices, their power to resist decentralisation and deregulation is weakened by unemployment. Globalisation has shifted the scales in favour of employers disturbing the power balance in industrial relations.
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4. Economic pressures seem to produce two trends in opposite directions. On the one hand, there is a tendency for conflictual relations to make way for co-operative, collaborative relations underlying the need to accept wage adjustments for maintaining job security and on the other hand, a combination of factors seem to minimise, and in several instances, marginalise unions. Also, making decisions quickly and secretly due to intensified competition may not permit information sharing, consultation and other forms of employee participation / involvement.
  5. The institutional framework for industrial relations influences substantially, the relative role of tripartism and bi-partism in responding to economic changes/policies at macro level. The response to adjustment and economic crisis in several industrialized market economies in the wake of the oil price shocks of the 1970's was shaped more by the tripartite initiatives at the economy level upto early 1980s. In the late 1980s and early 1990s, collective bargaining is able to achieve adjustment in individual enterprises and industries in economies where tripartite initiatives have either been lacking or inadequate to meet the emerging challenges. Labour unions are faced with the difficult choice between flexibility of wages and downsizing, and have to focus on productivity to ensure competitiveness in their work units.
  6. New technologies have increased labour market heterogeneity and budget deficits have weakened the role of the State as a factor of social integration. But for social dialogue to be effective, the State cannot be a passive spectator. The important role of government is to create an enabling environment for employers' and workers' organisations to operate freely. The State has the capacity to create a stable political / civil climate for social dialogue to be the more attractive option for parties in settling their conflicting interests. Even when the dominant relations are formally bipartite, the State has to guarantee the legal and institutional framework to ensure that agreements can be carried out.
  7. Whether it is developed or developing country, social dialogue is influenced by the form of government. In the developed world, for example in Europe, conservative party coalition governments proved to be a tougher partner for the social partners than social democratic led governments, although some changes proposed by conservative governments were carried forward by the social democratic governments. In Japan, political parties supported by unions were not in power except for a short period. As a result, the activities of labour unions for policy changes are relatively weak. In Kerala in the context of competitive populism, when in the sixties and seventies political parties had to contest fiercely for gaining political power through elections, a 'model' came into place where an overwhelming proportion of workers in the informal / unorganised sectors was organised in unions.
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8. Social dialogue can be a significant factor in promoting good governance. In relation to governance of the labour market and the workplace, social dialogue ensures that those who are most directly affected by the decisions - enterprises, managers and workers - have a voice in the formulation and implementation of these decisions. This realization is leading to innovative partnership at workplace level and participation by the social partners in many national labour market institutions. This trend should continue to grow to meet the complex challenges of globalization.
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# Social Dialogue : Trends and Issues

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## INTRODUCTION

Identifying common trends and issues in social dialogue across countries and regions is a challenging task. Social dialogue developments and activities take place at many different levels and in many different ways. Most social dialogue happens without much fanfare on a day-to-day basis in myriads of workplaces, and in a wide range of bipartite and tripartite bodies. Unfortunately, it is usually the failures of social dialogue that grab the headlines rather than the success stories. This meeting provides a valuable and welcome opportunity to focus on some of the success stories and best practices of social dialogue that have contributed in a very concrete way to economic and social development in so many countries around the world.

Through its tripartite structure, the ILO has unique access to the world of social dialogue. It provides a forum for a **global social dialogue** for representatives of workers' and employers' organizations and governments from 176 countries. International labour standards are prepared and adopted through a process of tripartite dialogue. Global policies and strategies on issues such as employment, social protection, equality, the elimination of child labour and forced labour are agreed upon and put into action. The tripartite structure of the ILO gives it a legitimacy, a mandate and the capacity to identify and promote practical solutions to the challenges of globalization. Through social dialogue, the ILO works towards building a wide consensus around the key goals of strengthening democracy and social justice, reducing poverty and promoting balanced social and economic development.

Before addressing some of the main trends and issues in social dialogue, let me take the opportunity to clarify a number of key underlying points which inform and govern the ILO's approach to social dialogue. First, there is no universally agreed definition of the term social dialogue. The ILO has adopted a broad definition reflecting the wide range of

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practices and traditions that are found in different countries. This **working definition** defines social dialogue as all types of negotiation, consultation or simply exchange of information between representatives of governments, employers and workers, on issues of common interest relating to economic and social policy. Second, the ILO does not promote any particular **model of social dialogue** as we recognise that it is critical that it is rooted in the specific industrial relations tradition and culture of a country. Indeed, we advise against trying to transplant from one country to another specific institutional, legal and other aspects of social dialogue as the 'fit' is rarely right. There is no 'one size fits all' in the field of social dialogue even though there are many similarities in social dialogue practices and processes across countries and regions. The ILO actively promotes exchange of experiences and mutual learning between countries. Third, while there are no fixed pre-conditions for social dialogue, the ILO believes that certain **basic enabling conditions** are essential to the development of a constructive and effective social dialogue. These include respect for freedom of association and the right to bargain collectively, the existence of independent and representative employers' and workers' organisations and political will and commitment to engage in social dialogue by all the parties. There are many other factors which contribute to successful social dialogue but without these basic enabling conditions in place, social dialogue is not sustainable and cannot lead to meaningful outcomes.

Apart from being grounded in the Constitution of the ILO, social dialogue is an integral part of the ILO's **Decent Work Agenda**. It is promoted by the ILO not just as a value or an end in itself but also as a means of implementing the other three components of decent work i.e. rights at work, employment and social protection. One of the main tasks of IFP/DIALOGUE within the ILO is to ensure that the potential of social dialogue is fully understood and utilized across the organization.<sup>1</sup>

## TRENDS AND ISSUES IN SOCIAL DIALOGUE

I would now like to highlight some trends and issues in social dialogue which have emerged in different countries and regions over the last decade or so which I believe demonstrate the important role which social dialogue can play in economic and social development. This is not an exhaustive or scientifically-based review of trends but rather a selection of examples designed to illustrate the significant role which social dialogue can play in a number of key policy areas.<sup>2</sup>

### Poverty reduction and social dialogue

Let me start with the issue of poverty reduction which has rapidly moved up the international policy agenda in recent years. The importance of the poverty reduction discussion at international level follows growing recognition and acceptance that the policies of structural adjustment pursued by the international financial institutions during

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the 1980s and 1990s had failed to tackle poverty. In 1999, the World Bank and the International Monetary Fund agreed that nationally-owned poverty reduction strategies should provide the basis for all their concessional lending and debt relief. Approximately 80 low income countries are covered by this initiative. To participate in it, countries are required to prepare a Poverty Reduction Strategy Paper (PRSP). This should describe the country's social, economic and political policies and programmes over a three year or longer period, identify who the poor are and propose strategies for overcoming poverty. One of the main features which distinguishes this approach from previous approaches of the World Bank and the IMF is that the PRSP is supposed to be owned and developed by each country through a wide participatory dialogue.

When the ILO started working with some countries during 2001 and 2002 on the preparation of their PRSPs, it became clear that the social partners and the labour ministries were more or less excluded from this process. The finance and/or the economic planning ministries were usually in the driver's seat and the wider participatory dialogue, where it took place, was primarily with NGOs. Employers' and workers' organizations were either not aware of the process or were only marginally involved. This inevitably meant that the issue of employment and reducing poverty through decent work were not mainstreamed into the PRSPs. Indeed, some draft PRSPs barely mentioned employment as part of the strategy to reduce poverty! The ILO is working in a number of PRSP countries (**Nepal, Tanzania, Mali, Honduras, Cambodia, Sri Lanka, Vietnam, Ghana, Ethiopia**), with employers' and workers' organizations and labour ministries. Through a process of social dialogue, elements of the decent work agenda are being incorporated into the development and poverty reduction process in these countries. In addition, the ILO has encouraged the formal involvement of the social partners and the labour ministries not just in the preparatory stage of PRSPs but also in the monitoring and implementation stages. Another important outcome of this work is the growing recognition by the World Bank and the IMF that social partners have a key role to play in creating a genuine sense of national ownership. In return, the World Bank and the IMF must accept that the social partners should have an opportunity to influence the poverty reduction agenda. These institutions are also learning that the social partners can contribute not just to identifying the problems but also to solving them. So, here we find the process of social dialogue being used in a number of developing countries to influence the substantive content of PRSPs and also to create a wider and more participatory dialogue.

I put this forward as a good example of social dialogue being used in a strategic way to influence the substantive content of the main policy instrument available to low income countries. PRSPs have now become the key policy instruments in relations between low income countries and the wider donor community. For example, the OECD countries base their respective aid programmes on the results of the PRSP process. In many of these countries, even though the social partners are relatively weak, they have been

able to contribute, thorough social dialogue, in a constructive way to the poverty reduction policies and strategies of their countries.

### **Managing crises**

Another trend which can be observed is the use of social dialogue to manage financial and economic crises. My own country, **Ireland**, successfully used a process of social dialogue in the late 1980s to address its disastrous economic situation of rising unemployment (the highest in the EU), spiraling public debt, negative growth and rapidly falling living standards. I will not dwell too much on this example because it will be looked at in greater detail in a later session. Suffice it to say that the Irish economy was transformed over a period of 5 to 10 years from being one of the poorest countries in the European Union to being one of the most successful in terms of economic growth, employment levels and income growth. Social dialogue played a key role in this transformation. A similar strategy was pursued by **Barbados** in the early 1990s following the introduction of the IMF structural adjustment programme in 1991. Based on a series of social partnership agreements, the IMF prescription of devaluation was avoided, and the parties focused on improving competitiveness and productivity and accepted wage freezes until the corresponding productivity gains were achieved. Social dialogue facilitated implementation of difficult economic decisions in this country and achieved stabilization and economic growth. Another interesting example of using social dialogue to manage a crisis comes from Asia. I am of course referring to the case of the **Republic of Korea** and the Asian financial crisis of 1997. The social partners and government reached a compromise on the IMF programme and agreed a social pact in 1998 which was extensive covering all the national reform agenda and putting in place a number of programmes for managing the crisis. This compromise, reached through a process of social dialogue in the middle of a deep economic crisis, marked the turning point towards economic recovery of the country.

But there is an important issue which the case of Korea raises in relation to using social dialogue to deal with crises. After the crisis period in Korea, social dialogue was not continued which led to a deep sense of mistrust, particularly on the part of workers and their organisations. Industrial relations reverted to the old adversarial approach and this continues to the present time. If social dialogue is used to deal with a crisis by governments, and workers and employers are required to make sacrifices and share the burden of adjustment, then it is reasonable that the social partners should expect to be equally involved in the good times and have an opportunity to share in the benefits of economic recovery. A crisis situation can create the conditions for the social partners to work constructively with their government and we have seen that happen in many countries. However, the real test comes after the crisis. When governments chose to walk away from social dialogue because they see it only as a crisis management tool, then this can seriously damage and undermine the basic trust between the partners

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which is so essential to social dialogue. It takes a long time to restore that and in some cases, this negative experience fuels support for those who want to go back to a more adversarial approach to industrial relations. Social dialogue must be sustained in good times as well as times of crises.

### **Promoting and managing change**

The role of social dialogue in promoting and managing change is closely related to the previous topic of crisis management. Indeed, if social dialogue were used more often to manage change in a planned and balanced manner, then this would reduce the need to rely on it as a tool for crisis management. The ILO believes that promoting and managing change is one of the ways in which social dialogue can contribute most effectively to meeting the shared interests of employers, workers and governments – in other words, a win-win situation for all the parties. Social dialogue has been used most effectively in this way in countries with relatively mature systems of industrial relations and where there are strong, representative social partners. But this more innovative and challenging role for social dialogue seems to be greatly undervalued and under-used in many developed and developing countries either because the tripartite actors themselves are not prepared to move in this direction, do not have the capacity to do so or are hampered by poor institutional arrangements and inadequate or outdated legal frameworks. Using social dialogue to promote and manage change also creates a need for different types of skills, particularly among the leadership of the social partners, who are required to move away from more traditional methods of bargaining to a more consensus-based approach with a focus on problem-solving.

Let me give some examples of how social dialogue has been effectively used to manage and promote change at different levels. At the national level, this is best illustrated by the example of a number of European countries e.g. **Italy, Spain, Portugal, Finland and the Netherlands** that entered into a series of social pacts during the 1990s to prepare for the introduction of the European single currency. While the economic and social circumstances were quite different in each country, the overall approach was the same i.e. to build a consensus between the government and the social partners on a range of macroeconomic and labour market reforms, including institutional reforms, designed to transform their economic and labour market environments. When the single currency finally came into effect in 2002, all these economies had fully complied with the strict criteria for membership of the single currency relating to debt, public expenditure, inflation etc. and had done so without any major economic crisis or industrial conflict.

Since the early 1990s, there has been a growing trend in countries going through transition – be it economic and/or political – to use social dialogue to facilitate the transition. That was the case in most of the countries in **Central and Eastern Europe** that created national social dialogue bodies to help to make the transition from centrally

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planned economies to market economies. For example, in the **Czech Republic** and in **Hungary**, national tripartite councils of economic and social cooperation were established in the early 1990s to overcome the most challenging period of economic reform and to avoid major social crises. Most of the Central and Eastern European countries embarked on a wide-ranging programme of labour law reform during the 1990s that was undertaken through a tripartite consultative process that the ILO facilitated. Another successful example of the role of social dialogue in facilitating transition is the case of **South Africa** where social dialogue played a critical role in the peaceful transition to democracy. The social partners committed themselves to developing a consensus with government over substantive issues including the promotion of investment, decent work and the reduction of poverty. The National Economic Development Council (NEDLAC) successfully brought together all key stakeholders, including civil society.

Turning to the role of social dialogue at enterprise level, we find many innovations. Through the establishment of works councils, partnership committees or some other form of participatory structure, social dialogue is being used to manage workplace change and increase productivity and competitiveness in a way that avoids industrial conflict. One of the objectives of the South Asia and Vietnam project (SAVPOT)<sup>3</sup> covering **India, Pakistan, Sri Lanka, Nepal, Bangladesh and Vietnam** was to develop and profile innovative work practices at the enterprise level. In the final evaluation of the project undertaken earlier this year, the independent evaluation team concluded as follows:

The project has demonstrated its usefulness in addressing a variety of important issues both for newly established enterprises, for multinationals operating in the region and for state-owned companies that have been newly privatised. The approach has proved to be useful for productivity increases, quality improvement, and awareness of collective bargaining, workers' rights and gender issues. It can contribute to improving the work environment, social welfare in enterprises and also the communities where enterprises are operating. Social dialogue can operate independent of, or as a supplement to, current management approaches such as lean production, just-in-time production and total quality management.

Later during this meeting, we will hear a more detailed presentation on some of the successful pilot projects undertaken at enterprise level by SAVPOT.

If I may refer again to an example from my own country, **Ireland**, which illustrates how the potential of social dialogue at workplace level is being developed in new ways. When I was preparing this paper, I received a copy of a consultation paper which has just been issued entitled **Modernising our Workplaces to Deliver Ireland's Competitive and Social Vision**. This paper was issued by the National Centre for Partnership and Performance.<sup>4</sup> The Centre has been requested by the Prime Minister to establish a **Forum on the Workplace of the Future** with a view to fostering in-depth dialogue on

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how workplaces can best adapt to competitive pressures, improve the delivery of services and respond to the changing needs of employees. In the introduction to the consultation paper, the Prime Minister makes the following statement:

The introduction of successful and sustainable change depends largely on the intelligence and creative commitment of employees and managers. There is no one set of responses to the challenges and opportunities for modernising our workplaces. These should be worked out through a process of dialogue, problem-solving and shared learning.

### **SOME CONCLUDING REMARKS**

I have referred in this paper to some of the main trends and issues in social dialogue that, in my view, serve to highlight some of the strengths and weaknesses of what is happening in the world of social dialogue. It is a mixed picture. I have focused mainly on the bright side of the picture – the success stories and the best practices, the innovations and interesting developments in many countries. But the reality is that there are many countries in the world where the basic enabling conditions for social dialogue, which I referred to at the beginning of my paper, simply do not exist. This does not mean that there is not a role for social dialogue in these countries – on the contrary, social dialogue can provide an important impetus for democratic change leading to greater awareness of the need for respect for the fundamental rights of freedom of association and collective bargaining. But unfortunately, such countries cannot aspire to reap the full benefits of social dialogue and this contributes to economic stagnation as well as political and social unrest.

Looking to the future, I see new opportunities and challenges for social dialogue. The process of globalization has drawn attention to the need to take account of the views of different interests and to make room for greater participation in policy and decision-making at all levels, including at the international level. There is a tangible sense of alienation – particularly among young people, many women and minority groups – which needs to be channelled into a constructive dialogue. Workers' and employers' organisations at national level have the potential to play a key role here. But this may imply change for them too as their structures are often seen to be too traditional and too rigid and not open to facilitating the participation and sharing of power with such groups. It is also important to build alliances with NGOs and other community groups who share the same goals of decent work and social justice. In countries where the social partners have included such groups in the national dialogue (e.g. South Africa), it has led to a wider consensus in society on the changes needed and enhanced the role of the social partners as they are seen to represent broader interests in society.

The international discussion around poverty reduction is also opening up new opportunities for social dialogue. I have described how the social partners in a number

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of countries are now participating in the PRSP process. But there is still a long way to go. In too many of the PRSP eligible countries, the social partners are very weak and are often operating under difficult conditions, including lack of freedom of association. Effective participation in the PRSP process places enormous demands on their resources. Therefore, there is an on-going challenge to build the capacity of the social partners in these countries so that they can play a role in this important work.

There is also growing recognition of the role social dialogue can play in promoting good governance. It has the capacity to improve transparency and accountability in national policy and decision-making and through its participatory approach, widens understanding and increases awareness of the importance of public policy processes. In relation to governance of the labour market and the workplace, social dialogue ensures that those who are most directly affected by the decisions – enterprises, managers and workers – have a voice in the formulation and implementation of these decisions. This realization is leading to innovative partnerships at workplace level and participation by the social partners in many national labour market institutions such as training bodies, productivity and competitiveness councils. This trend should continue to grow to meet the complex challenges of globalization.

Finally, I have discussed social dialogue not so much in terms of its institutions and mechanisms but more in terms of its impact and outcomes. I believe that this is what is most important in order to convince governments that it is a worthwhile investment and worth the time and effort. But it also helps to convince the social partners to move beyond the traditional adversarial approaches to industrial relations which can no longer deliver. In relation to the institutions and the mechanisms of social dialogue, they are of course essential to enable the dialogue to take place but they must be able to adapt and change over time so that they can **facilitate** the dialogue and respond to new challenges as they arise. In this scenario, social dialogue is a dynamic and flexible tool in the hands of governments and the social partners giving a competitive advantage to countries committed to balanced economic and social development.

## REFERENCES

1. For further information on the role of IFP/DIALOGUE, see [www.ilo.org/ifpdial](http://www.ilo.org/ifpdial)
  2. Many of the national examples referred to in this paper can be found in a forthcoming publication entitled *Key Features of National Social Dialogue: a Social Dialogue Resource Book* by Junko Ishikawa, IFP/DIALOGUE, Geneva: ILO (2003)
  3. SAVPOT is an ILO technical cooperation project funded by the Norwegian government 1999-2002.
  4. The National Centre for Partnership and Performance (NCPPE) is a government-funded tripartite agency established in 2001 to promote workplace innovation and new models of workplace partnerships. A copy of the consultation paper can be found on the Centre's website [www.ncppe.ie](http://www.ncppe.ie).
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# Labour Market Success in Four Smaller European Countries: The Role of Social Dialogue

*Peter Auer*

This paper is an updated summary of an ILO study published in 2000.\* The study analysed—for the 1990s—the reasons why some smaller European countries (Austria, Denmark, Ireland, the Netherlands) had experienced labour market recovery, in opposition to most of the bigger European economies such as Germany, France, Italy and Spain. Among these reasons was a broadly stability-oriented macroeconomic policy, which however allowed for some fiscal expansion, labour market policy and social dialogue. This paper highlights the contribution of social dialogue in particular.

During the period considered here (1991-2001), the European Union still had high unemployment rates, which only after 1998 began to fall below the 10 per cent mark. However, some of the smaller European countries have in fact had a much better labour market record to begin with or experienced a remarkable recovery. For this study four smaller European countries—Austria, Denmark, Ireland and the Netherlands—were chosen for a variety of reasons: they all were experiencing economic and employment growth rates above the European average and had all—in the period under consideration—managed to reduce their unemployment rates considerably. Taken as a group, they also had high employment to population rates and showed strongly increasing trends in labour force participation. The four countries together had even higher employment growth rates than the US and similar employment to population rates.

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\* Auer, P. (2000) Employment recovery in Europe, ILO, Geneva. For updates, information from the EIRO network and from the European Commission has been used.

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<b>Gross domestic product and employment growth rates, 1991-2001</b>				
<b>Employment-to-population and unemployment rates 2001</b>				
	<b>GDP</b>	<b>EMP</b>	<b>EMP-to-POP</b>	<b>UNEMP</b>
EU15	2.0	1.0	63.9	7.4
EU04	3.2	1.6	71.1	3.5
US	3.1	1.3*	71.9	4.0

\*1990-99

Source: *Employment in Europe 2002*

The four countries under review have succeeded in curbing unemployment and the reduction was particularly strong in Ireland, the Netherlands and Denmark, which more than halved the unemployment rate in the late 1990s. Austria always had maintained comparatively low unemployment rates. There was also a remarkable decline in youth and long-term unemployment. In March 2001, the four countries were among the six countries with the lowest rates in Europe. While unemployment has indeed increased since, the four still lead the European low unemployment league in June 2003 with a combined rate of 4.5 per cent (US 6.4 per cent; EU 8.1 per cent).

As the table indicates, the four success cases have shown dramatic increases in their labour market performance, surpassing other EU countries and also the US in several dimensions.

This is an encouraging sign for Europe, which for a long time was said to be too rigid, to create jobs and to solve its endemic unemployment problem, while remaining very competitive. But foremost it shows that countries, that have instituted social dialogue and a rather encompassing social protection system and also have an important and at times interventionist state, can do well in this time of globalization and technological change, contrary to those countries that pretend that institutions of the labour market have to be abolished or reduced to a minimum to fully unleash market forces.

## EXPLANATORY FACTORS

How can this remarkable comeback of the countries which, with the exception of Austria, all had very high unemployment rates in the 1980s and up to the mid 1990s, be explained? The ILO study found several reasons for this turnaround, some of them country specific, others common to all of them. Among the country-specific factors we were high foreign direct investment in both Ireland and the Netherlands; high European structural funds investment in Ireland; the explosion of part-time shares in the Netherlands; the opening up of the Eastern markets in Austria; training investments in the high-skilled IT technology

in Ireland; and childcare provisions in Denmark, which allow for high participation rates for women.

The ILO study found three common explanations for the relative success of the four countries: social dialogue, the macroeconomic policy and the labour market policy. While all these factors are important, even as stand-alone factors, it is their combination that has finally triggered success.

### **Social dialogue**

Each of the four countries considered in this paper possesses an extensive range of economic and political institutions aimed at facilitating an ongoing “social dialogue” among the various partners (including government, employers, and organized labour). However, it seems that even when the institutions are in place, the partners strong and collective bargaining is an important policy tool, dialogue can fail or not adapt to new situations. An insufficiently developed dialogue could not cope with the employment crisis in the 1970s and early 1980s triggered by the two oil crises and resulting financial and macroeconomic shocks. At that time social dialogue between the different stakeholders experienced severe stresses; the approach was often adversarial and ideologically charged. However, once social dialogue became more pragmatic and oriented towards problem solving and employment and unemployment was singled out as the major problem affecting these societies, the dialogue, subsequently contributed significantly to employment success. Each of the four countries considered here experimented with different models of “social pacts” aimed at collectively managing aggregate macroeconomic and labour market variables in the 1990s.

For social dialogue to be successful also requires a common understanding that something has to be changed, and a willingness to do this through partnership rather than adversity. These social pacts are seen by some simply as sophisticated mechanisms for accommodating capital and constraining labour. But there are others who view them as essential for turning around troubled economies. In any event, social pacts should not be regarded as a purely peaceful process without conflicts. Tough bargains have to be made, as well as concessions, and the pacts need strong unions and representative employer organizations in order to implement them meaningfully and hence have an impact on the wider economy and society.

In three of the countries under review, a concerted effort at social dialogue led to the conclusion of formal social pacts with a national dimension. The first of these was concluded in 1982 in the Netherlands (the Wassenaar Agreement), followed by the Declaration of Intent in Denmark and the Programme for National Recovery in Ireland (both of which were signed in 1987). These pacts expressed the desire of the partners to cooperate in solving the problems facing the economy, through a concerted approach

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based on wage moderation to boost competitiveness, alongside reforming the welfare state. Typical trade-offs to offset the commitment to moderate wage increases included tax cuts, working time reductions, additional labour market policy measures (such as measures to cushion employment adjustment). Concerted action jointly by the social partners and the government having been the traditional form of governance in Austria, no new social pact was concluded there, but the Austrian social partnership system nevertheless confronted new challenges over the 1991-2001 decade—such as privatization of nationalized industries and reform in social security.

In general, unions in each of the four countries could not prevent declining union density rates, reflected in sectoral shifts from manufacturing and the public sector to less unionized sectors such as private services. However, all these countries fared rather better in comparison to others in the OECD: Denmark even registered a slight increase in its already high union density, while Dutch density rates fell by about 10 per cent and Irish rates by about 13 per cent. Austria registered the biggest decline in unionization over the period 1985 to 1995 with unionization falling by almost 20 per cent.

This seems to confirm that, for example, the more cooperative stance that the Irish unions took after 1987 has not been negative in terms of decline in union membership. The fall in union density in the four countries has been less severe than that experienced in some other systems with more adversarial industrial relations—such as France (where unionization plunged by 37 per cent) or the UK (28 per cent) (ILO 1997).

There is an ongoing debate about the extent to which union members will demand to be compensated for earlier wage concessions offered as part of the social dialogue process. It is obvious that in increasingly tight labour markets wage pressures mount and wage discussions hence tend to become more difficult. For example, in 1998 in Denmark, after the rejection of a contract settlement by the union rank and file, the government eventually settled the bargaining round; in the Netherlands there are growing demands for a new general agreement, in the spirit of the initial Wassenaar Agreement; and recently the Fifth Irish national social pact (the Programme for Prosperity and Fairness) had to adjust its wage bargaining settlement because of inflation, surpassing increases initially granted for 2001. In these two countries, both nominal and real wage growth is accelerating to rates above EU averages, but this has not occurred in Denmark and Austria.

Social dialogue had to cope with some new demands as well. In Austria, the pension system reform, proposed by the government without the usual consultation with the social partners and rushed through parliament, even led to a general strike in the country, a form of industrial action that occurs extremely rarely. It has also put employers under strain as they have clear links with the conservative coalition government, but are nonetheless opposed to reform without consensus. While other issues have been settled

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by agreement and later cast in law (a new severance pay system and part-time work for older workers, for example) by the old (and new) government, the latest developments could endanger the up-to-know very peaceful negotiation system.

In Ireland, discussions to conclude a new national agreement had to overcome a series of obstacles, but in March 2003 the main Irish social partners signed the agreement called “Sustaining Progress”, the sixth successive accord since the partners signed the first in 1987 (Programme for National Recovery). Departing from former agreements, the wage increases agreed upon (7 per cent in total) run only for 18 months, while the framework agreement runs for 36 months. There will be a renegotiation between the social partners and the government before the mid-term of the agreement. Other provisions include increases in statutory redundancy payments (lay-offs during 2002) and an increase in the minimum wage as well as some provisions on compliance and dispute resolution. All this shows that there is a willingness to reach conciliatory agreements, and that these are flexible about adapting to new circumstances even in a less favourable economic climate and despite problems of wage/inflation.

In Denmark too, the social dialogue faced some fresh problems. The new conservative government presented, after taking up office in November 2001, a set of employment-related measures, named “the freedom package of the labour market”. Besides a proposition to establish public cross-sector unemployment insurance funds (in addition to trade union-run sectoral funds)—that was subsequently put on halt—it included a bill amending the current one on part-time work. The new bill aimed at free access to part-time work and gave the law precedence over collective bargaining arrangement that restricted this access. Unions and some employers protested against the bill as it was seen as a threat to collective bargaining. In fact, a complaint was placed with the ILO’s freedom of association committee which subsequently criticized the government and asked that consultation with the social partners be resumed. However, with some amendments the bill was adopted by parliament, but still faces trade union opposition. The incidence of politically motivated unofficial strikes and work stoppages was unusually high in Denmark in 2002, although there was no renewal of major collective bargaining agreements that year, which often also results in more strike activity.

A conservative coalition government was formed in the Netherlands as well. It announced a number of cutbacks in the area of social welfare which were opposed by the major Dutch unions: for example, the government’s proposal to restrict access to both the unemployment compensation system (by lengthening qualifying periods) and the occupational disability scheme. The proposal also call for wage restraint. Observers believe that unions will continue with wage restraint only if the government softens its stance on social policy.

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These developments show that politics matters and that conservative party coalitions are usually a tougher partner for the social partners than social democratic-led governments, although changes similar to those proposed by conservative governments have been put forward by some social democratic governments too, for example in Germany. However, there are also union attempts to loosen ties with politics as is evident from the decision of the Danish union confederation LO to withdraw financial support to the Social Democratic Party, its long-time ally.

Although social dialogue faces new challenges and has not been without problems, it has been an important pillar of the economic and labour market recovery of the four countries. It demonstrates that bargained solutions based on mutual acceptance of unions and employers are an effective alternative to the unconstrained working of market forces. In some other countries (such as the UK and New Zealand), the pressures resulting from globalization and technological change led to the dismantling of previous institutions of social dialogue. In the four countries reviewed here, however, the siren song of deregulation (Alan 1997) actually had the effect of reinvigorating social dialogue. A concerted effort by the social partners and governments to tackle the problems, that afflicted Europe in the 1980s and early 1990s, including weak competitiveness and deteriorating labour markets, permitted these countries to emerge from the crisis with their welfare state changed but not dismantled.

While social partnership might not always prevent governments from making sudden policy changes that affect the labour market and the living and working conditions of workers, it does offer some guarantee for stabilizing policies and recur to negotiated change that can flexibly adapt diverging interests to new challenges.

As noted earlier, social dialogue alone is only a necessary, but not a sufficient factor, for success. There are other areas—sometimes integrated with the social dialogue—that are of critical importance too. We will shortly discuss the contribution of two of them, macroeconomic policy and labour market policy.

### **Macroeconomic policy**

The macroeconomic environment in Europe in general is today much more stable than in the 1970s and 1980s; low inflation, low interest rates, moderate wage growth and consolidated government budgets have restored confidence in the economies. This is also an outcome of the process of European integration and the Maastricht treaty and the stability and growth pact. It seems to be accepted that fairly tight monetary policies have helped create this environment, as has moderate wage growth as an essential result of social dialogue. Economic growth has been driven by foreign and domestic demand, the share of the former tending to increase over the 1990s, but the latter staging a temporary comeback as foreign demand weakened in the wake of the Asian

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crisis. Also, domestic and foreign investments have boosted growth and employment. Last but not least, government consumption is also part of this favourable situation. Despite claims that government expenses tend to crowd out private demand and investments, it appears that the expenditure elements of GDP are mutually supportive. While structural elements of the budget have become more important, in some countries (for example Denmark) government expenditure has been used in a targeted and short-term manner and has supported upswings without creating inflationary pressures. The Netherlands has experienced a de facto devaluation (by moderate wage policies) against some of their major (European) trade partners and this has also spurred their economies.

Tax policies have been changed, resulting lately in a reduction of social contributions for the low-wage sector and (in some countries) a decrease in the highest rates in the tax progression. Corporate taxes have also been lowered and this has stimulated investments. Tax revenues have risen in absolute figures but declined as a share of GDP in Ireland and the Netherlands. But in Denmark and Austria, revenue increases have also been used to create additional public jobs, and in Denmark, to trigger a general improvement of its economy and the labour market. There are, however, still many differences in tax structures and these might distort competition in Europe. Implementing the EMU will increase pressures for harmonization not only of monetary, fiscal and wage policies, but also of tax policies, and this will further reduce the room for strictly national policies.

### **Labour Market Policy**

Both active and passive labour market policies are important tools for regulating employment and unemployment. The study has found some evidence that unemployment benefit systems and other passive labour market policy instruments, such as early retirements, are not only mechanisms to protect workers but also allow flexible employment adjustment. Unemployment systems, that are used de jure or de facto as lay-off systems provide an important flexibility buffer, in particular for smaller firms. For bigger firms, an important labour force adjustment tool has been early retirement; invalidity pension schemes too have been used for labour market purposes.

Many smaller (administrative) reforms have been undertaken in the unemployment protection systems in almost all the countries under review, some of which have also produced the intended effect. In Denmark, for example, restriction on the access of poorly educated youth to benefits by linking benefit payment to obligatory participation in education had a tangible effect on youth unemployment. In general, with the growing importance of the European Employment Strategy, policies of activation (in other words, welfare to work policies) have been rephrased. Access has also been restricted to early retirement and invalidity schemes.

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In all countries, but to very different degrees, active labour market policies have played an increasingly significant role in the recovery. In three of the four countries—the exception is being Austria, which maintained low unemployment levels throughout the period—measures such as labour market training have been used quite substantially. There are, however, considerable differences across these countries in terms of the distribution between active and passive policies. As evaluation research has shown, the impact of an active labour market policy has been reduced by the effects of deadweight, substitution or displacement. But the impact of active labour market measures is bound to increase because of the European Employment Strategy with its goal to increase the employability and the employment rates.

## **CONCLUSION**

In conclusion, the relative success of the labour market of the three countries is due partly to country-specific factors and partly to social dialogue and the macroeconomic policy and labour market policy, as also to specific combinations of these and other policies. Social dialogue achieved a climate of confidence among the major social actors and contributed to negotiated and flexible solutions. Wage moderation contributed to this confidence and considerable reforms in the social protection systems were enacted, mostly, but not always, in a climate of negotiation and consensus. Labour market policies and social protection schemes have not only given income to those without work, but also acted as a sort of “buffer” zone around regular labour markets, enabling firms to adjust their labour force without paying all the economic and social costs. Early retirement schemes, which have contributed to the success, are—with lay-off and training systems—good examples of this. However, in the face of workforce ageing, the first signs of labour shortages and high costs, the social protection system has recently been reformed in all the countries under review. Early retirement possibilities have been restricted and labour market policies activated.

Social dialogue itself faces many new challenges. The temptation, particularly of new conservative governments and then neo-liberal ideologues, to see social dialogue as a part of the problem rather than as a part of the solution might lead to conflicts that will constrain growth and employment. Conditions in boom times (as over the 1990s) and bust times (as now) differ and the room for distributing the fruits of growth is today smaller than before. But this should not lead to the disruption of a system that has proved to be a factor of progress over many years now. Much remains to be done, but these countries have shown that employment success is also feasible in Europe’s welfare states which maintain a balance between economic efficiency and social equity.

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# High-Level Consultations in Japan and Social Dialogue

*Oh, Hak Soo*

## INTRODUCTION

After the bubble economy in the latter half of the 1980s, the Japanese economy entered the so-called prolonged stagnation in the late 1990s. The real GDP (Gross National Product) growth rate remained low, a little over 5 per cent from 1988 to 1990, but gradually declined to less than 1 per cent from 1992 to 1994. Thereafter, it improved slightly from 1995 to 1996 and the economic growth rate reached 3.4 per cent in 1996, but again decelerated after 1997, recording -1.1 per cent in 1998, and -0.7 per cent in 2001.

The full unemployment rate has been on the rise, from 2.1 per cent in 1989 to 4.1 per cent in 1998, and to 5.4 per cent in 2002. The rise in both unemployment rate and the number of unemployed persons an indication that the period of unemployment will be long. Of late, the unemployment rate of young people too has been increasing, rising from 7.7 per cent in 1977 to 9.9 per cent in 2002. “Freeters” or those who seek part-time work rather than regular occupation after graduating high school or college, pose serious problems. In 2000, the estimated number of “freeters” was 1,930,000. An important policy target of the Japanese government is to decrease the number of “freeters” and enhance vocational capability.

In Japan, too, the number of atypical workers, such as part-time and temporary workers, has steadily increased since the 1970s. From the second half of the 1990s, businesses that were unable to make profits started employing atypical workers in order to cut or freeze personnel costs. According to the survey on Diversification of Forms of Employment made by the Ministry of Health, Labour and Welfare in 1999, the rate of atypical workers to all workers was 26.2 per cent, up 4.7 per cent from the 1994 survey.

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The Japanese Trade Union Confederation (Rengo), set up in November 1989, is the primary union organization at the national level. In the 2002 annual spring labour offensive, Rengo took up assured employment as a priority; it failed for the first time in its history to show any substantial figures in its unified demand for pay increases. Increasingly, unions ceased to demand a raise in the basic wage rate, and big businesses set the pay raise rate at 1 per cent mark—another first time of the annual spring labour offensive. In the 2003 annual spring labour offensive, more industry-specific labour organizations abandoned their demand than in the previous year, and unions adopted assurance of regular pay raises as their final defence line. On the other hand, the finding it difficult to further raise wage increases employers decided to review the regular pay raises and revise the wage system.

For Japan, to recover economic growth and decrease its high unemployment rate, cooperation among the social partners is needed. Work sharing is emerging as one of important methods of decreasing unemployment and maintaining the present employee-employed ratio. Towards this end, an agreement was made among the government, labour and management on work sharing in March 2002. The labour side, especially, wants to cooperate with the other social partners to maintain or increase real wage levels in view of the difficult if raising nominal wages.

This paper discusses social dialogue as it exists in Japan, with a focus on the high-level channels for such dialogue. However, we will first examine the basic framework of labour-management relations in Japan.

In Japan, dialogue between labour and management is held at the enterprise level in cases where practical issues are discussed. The reason for this is that most labour unions in are enterprise based. Thus, the three basic rights of workers (the right to organize, the right of collective bargaining and the right of collective action) are exercised at each enterprise separately. The abilities and funds necessary for the exercise of these three rights are obtained primarily at the company (enterprise) level.

In order to maintain and improve the living standards and living conditions of wage earners, enterprise-based labour unions in Japan are engaged in three lines of activities: negotiations with management, such as for wage raises; activities within the union, such as services for union members; and external activities, such as campaigns and lobbying of the government and administration and in regional communities. External activities extend beyond individual companies. In order to stage such activities, labor unions must combine their strength at the industry and national levels.

Under current labour-management relations, employers in Japan determine the working conditions of their employees, such as wages and working hours, through consultations with the enterprise-based labour unions. Employers must comply with the laws related to personnel administration and labour management. To tighten business management

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practices or alter personnel and labour administration policies, they may want existing laws amended or new ones instituted. Therefore, they must wage a campaign directed towards the Diet and the administration by holding nationwide rallies, transcending the framework of an individual enterprise. The main organization of employers in Japan is Nippon Keidanren (the Japan Business Federation). Nippon Keidanren came into being with merger of the Japan Federation of Economic Organizations (Keidanren) and the Japan Federation of Employers Associations (Nikkeiren) in May 2002.

Rengo and Nippon Keidanren endeavour to solve problems relating to company management, personnel administration and labour management, labour-management relations, etc., respecting the independence of labour and management at the company level. The Japanese government formulates and implements policies regarding labour and management issues and invites the cooperation of Rengo and Nippon Keidanren for the purpose.

Since dialogue among the government, labour and management primarily implies dialogue among Rengo, Nippon Keidanren and the ministries of health, labour and welfare, the subjects of study in this paper are these three organizations.

## **CHANNELS FOR SOCIAL DIALOGUE IN JAPAN**

Channels for social dialogue in Japan can be broadly classified as follows: government-labour-management, government-labour, labour-management, and government-employer.

### **Government-labour-management**

Among government, labour and management channels for social dialogue, Sanrokan, the Industry-Labour Consultation Body, is the oldest. Representatives of the government, labour, management and academics attend its meetings family regularly. Sanrokan, however, is not a body established under the law. Though there are councils, subcommittees, groups and labour commissions established under related law, government, labour and management representatives rarely attend their meetings. Rather, these are bodies for consultation at a working level. Established in 1998, the Council of the Government, Labour and Management for Employment (Seiroshi Koyo Taisaku Kaigi) has served to combat the bleak job scenario and high unemployment rates in recent years. Top government, labour and management leaders attend its meetings.

### **Sanrokan**

Sanrokan held its first meeting in January 1970. Still active,<sup>1</sup> the purpose of this body is to provide a forum for discussion and information-sharing among government

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representatives, leaders of labour and business, as well as academics. Here, all partners voice then opinions about industrial labour policies from a wide perspective, engender cooperation and deepen mutual understanding.<sup>2</sup> In the beginning, it held a closed-door meeting once a month. The agenda of these meetings was labour problems in general and related industry problems. Sanrokon as an advisory body for the minister of Health, Labour and Welfare is a forum of free discussion. Earlier, it also made proposals to the government.

#### Composition of Sanrokon

Sanrokon consists of approximately 25 members. According to its Articles of Inauguration, it does not have the form of a tripartite body. To be specific, the members representing labour and those representing management are top officers of their respective national organizations. At present, the members representing labour are the president and vice-president of Rengo, the latter doubling as the chairman of industry-by-industry labor bodies, while the members representing management are the president of Nippon Keidanren and the presidents and chairmen of leading companies. The members representing public utilities are scholars and media leaders.<sup>3</sup> Government representation except for the Minister of Health, Labour and Welfare, at every meeting is according to the subject on the agenda. The 48th meeting of Sanrokon, held on 19 February, 1975, was the first meeting attended by a prime minister. Thereafter, the prime minister usually attended a meeting once a year, till the 215th meeting on 21 April, 1998. From that point to the present, the prime minister has not attended a Sanrokon meeting.

#### Subjects on the agenda

The subjects on the agenda are diverse. In Sanrokon's early days, the management side asserted that wage problems should be discussed in earnest, while the labour side said that other problems including environmental pollution, traffic and housing should also be debated because they feared that management would exploit the wage issue from the perspective of income policy.<sup>4</sup> Labor representatives were alarmed that Sanrokon could be used as a tool to curb wages. Thus, there was a struggle over subjects on the agenda in the early days of Sanrokon. After that, however, no major problem arose.

In the beginning, before holding a regular meeting, Sanrokon would select a subject considered necessary by labour and management, invite a speaker competent to speak on the subject, and then discuss the different viewpoints based on the presentation. The speakers were mainly members of the cabinet or high government officials. Except for the Minister of Labour, who presided at every meeting, the director-general of the Economic Planning Agency (EPA) was the cabinet member who attended Sanrokon

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meetings as a lecturer most often. From 1976, the director of the EPA's Coordination Bureau, Research Bureau or Planning Bureau would attend almost every meeting and explain the monthly economic report, which would be followed by a question-and-answer session. That became the customary format of Sanrokon meetings.

At the 48th meeting of Sanrokon in February 1975 the prime minister Miki asked the labour representatives to be moderate in wage negotiations so that the spring labour offensive would not perpetrate an inflationary mood. After that, the prime minister attended a Sanrokon meeting about once a year wherein he explained government policies such as the budget compilation policy and reiterated the importance of understanding and cooperation on the part of both labour and management.

#### Sanrokon's roles

Sanrokon is a forum for free discussion and is not a formal decision-making body on social dialogue. Also, its meetings are not open to the public. Therefore, it is difficult to delineate all of its roles accurately. Roughly speaking, however, it has three main roles: (1) as a forum for mutual understanding among the government, labour, management and public utilities, (2) to make requests and proposals to the government, and (3) hearing the government's explanations about policies, such as the budget policy, and trends in the economy.

##### *(1) Mutual understanding among the government, labour, management and public utilities*

First, let us examine the meaning of mutual understanding among the government, labour, management and public utilities.

Through the exchange of views on the economy, society, government policies, etc. at Sanrokon's meetings, the four parties have been fostering and deepening their mutual understanding. In this respect, Yasuichi Ogawa, ex-chairman of the Japan Federation of Employers Association (Nikkeiren), commented: "By holding harsh and frank exchanges of views about basic problems in the economic situation, I have come to understand the opinions of Rengo [the labour side]. It is highly meaningful that we have fostered a common recognition about basic trends in the economy and the basic policies of the government."<sup>5</sup>

Needless to say, it is not that the government, labour, management and public utilities have developed a common understanding about all problems. At the 111th meeting, on 20 January, 1982, attended by Prime Minister Zenko Suzuki, the labour side, with the spring labour offensive round the corner, strongly demanded a tax cut of one trillion yen. The prime minister replied, "When it comes to such a big tax cut as to stimulate consumer spending, a problem is where to find the revenue source. It's difficult." Thus, Suzuki did

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not yield to labour's demand. The management side expressed expectations of a tax cut while considering the condition of public finance, but at the same time criticized the government's attitude that indicated the possibility a wage hike in the private sector. A debate over a tax cut from beginning to end, Prime Minister Suzuki, who was in the position to fulfil the demand, adhered to the position of refusing a tax cut throughout.<sup>6</sup>

Despite such an occasional difference in recognition, however, Sanrokon has served as a scene for breeding mutual understanding and common recognition from a long-range viewpoint.

## *(2) Requests and proposals to the government*

### *a. Requests to the government*

#### **Requests based on consensus among the members**

At the meeting in September 1971, Sanrokon asked the government (1) to strengthen the employment stabilization plans and consider establishment of a government fund for that, (2) to cut tax with emphasis on workers' income tax and inhabitant tax, and (3) to improve and expand social overhead capital to stimulate the economy, with large-scale construction of workers' housing as the focus.<sup>7</sup> At the meeting in December 1971, Sanrokon unanimously concluded that it was necessary to upgrade vocational training, improve unemployment insurance measures and to take other steps to cope with changes in the situation, and strongly requested the Minister of Labour to take these steps.<sup>8</sup>

Sanrokon also asked for a quick enactment of laws. At the 45th meeting, on 20 November, 1974, Sanrokon asked the minister of labour to report to the cabinet that Sanrokon had unanimously concluded it was necessary to have an employment insurance bill quickly pass the Diet.<sup>9</sup>

Requests based on consensus were made until the 1970s, but subsequently they were rare.

#### **Requests based on the opinions of individuals**

At the meeting on 16 November, 1977, attended by Prime Minister Takeo Fukuda, Yoshiji Miyata, chairman of the Japanese Federation of Iron and Steel Workers Unions, requested the prime minister to revise the price curbing target downward and resolve the deviation between wholesale prices and consumer prices. The prime minister assured Miyata that he would consider the downward revision and try to resolve the deviation issue as well.<sup>10</sup> This shows that even opinions of individuals were considered by the government in formulating policies. However, such requests were made only until the 1970s.

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## b. Proposals to the government

Sanrokon made proposals to the government only twice. The first proposal was made on prices at the meeting on 10 March, 1980. The minister of labour presented the proposal to the cabinet the following day and requested the cooperation of ministries and agencies. The proposal asked that every endeavour be made to restrict the rate of consumer price rises in fiscal 1980 within the government estimate of 6.4 per cent, that public utility charges be checked as much as possible, and that simultaneous price rises be prevented.<sup>11</sup>

However, the rate of consumer price rises proved to be higher than the government's expectations. The labour representatives of Sanrokon complained that due to inflations, workers' real wages in January 1981 were down 1.1 per cent in a year-to-year comparison.<sup>12</sup> This complaint led to the second proposal.

At the meeting on 28 January, 1981, a member representing labour suggested that Sanrokon make a proposal to the government about upgrading the measures to combat inflation. Sanrokon's board of directors studied the problem, and at the 103rd meeting, on 26 February, Sanrokon decided to submit "a proposal for stronger measures on prices," stating that the rate of inflation being higher than the government's forecast was regrettable and increased efforts were required, to combat this trend.<sup>13</sup> The proposal that the government should do its utmost to until the rise in consumer prices in fiscal 1981 within the government's revised forecast of about 5.5 per cent. Prime Minister Suzuki responded by saying, "We agreed to handle the price problem as the top priority item at meetings of the Cabinet and of the ministers concerned, but in fiscal 1980 we had to revise the government's forecast partly because of unforeseen developments. I regret this. The proposal by Sanrokon is quite legitimate, and I hope that the ministers concerned will do their utmost to stabilize prices."<sup>14</sup>

Formulated on March 17, a package of measures was announced by the government. Titled "The economic situation and the management of the economy for the time being," The package consisted of two parts: (1) maintenance and expansion of economic activities and (2) price stabilization. Concerning prices, the package contained measures to ensure a stable supply of daily necessities and price stabilization. To be specific, it said that the government would try to ensure systematic production and shipment of vegetables and fruits, and in regard to vegetables in particular, it would guide growers about planting sufficient numbers of crops to ensure adequate supply. Regarding public utility charges, the package said that the government would maintain the current rates unchanged as long as possible and endeavor to stabilize them. Thus, the package reflected the opinion of Sanrokon.<sup>15</sup> The endeavors by the government succeeded, and the consumer price rise in 1981 was a moderate 4.9 per cent.

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Thus, Sanrokon's resolutions were reflected in government policies. This means that what Prime Minister Zenko Suzuki had promised was realized by the government. Mr. Suzuki attended the Sanrokon meeting on October 23, 1980, and made a speech greatly praising labor-management relations in Japan, saying that the sound labor-management relations backed by trust and cooperation were the valuable driving force for the growth of the Japanese economy. He also emphasized the meaning of Sanrokon and said that the government would sufficiently respect the outcome of the talks and try to make sure they were reflected in the management of the economy.<sup>16</sup> Regarding Sanrokon's role, Sanrokon members representing management proactively suggested, that Sanrokon's meetings be made open to the public as its importance was being recognized.<sup>17</sup>

(3) *Hearings by Sanrokon about government policies, such as the budget, and economic trends*

The director-general or a bureau chief of the EPA attended Sanrokon meetings to explain such issues as trends in the economy. The prime minister explained the substance of government policies, such as the budget. For example, Prime Minister Masayoshi Ohira attended the meeting on 22 January, 1980, held in the midst of the second oil crisis, and explained that "In real terms, the budget for fiscal 1980 shows a 5 per cent growth over the preceding year. There will be no tax increase, and the redemption of government bonds totaling one trillion yen is included. It is a budget aimed at placing public finance on a sound basis in a flight in a storm."<sup>18</sup>

From 1970, tothmid-1990s Sanrokon met almost every month. Thereafter, the frequency of its meetings gradually decreased, to two or three times a year. For about 10 months after October 1999, it did not meet at all because Rengo had antagonized the Liberal Democratic Party, the ruling party, by supporting the opposition Democratic Party of Japan and the ruling party urged the government to boycott Sankoron's meetings. On 17 November, 2002, Sanrokon held its 228th meeting. Of late, the meetings are not given much coverage by media, and when they are, they are treated lightly.

As already said, Sanrokon is a forum of free discussion among the government, labor, management and public utilities about problems that have close connections with workers' daily life, such as wages and prices. From its start until the early 1980s, Sanrokon actively made requests and proposals to the government, going beyond its original character as a forum of free discussions, and its role was significant. As will be mentioned later, however, various other channels for discussions among the government, labor and management or between the government and labor or between the government and management were established, and Sanrokon returned to what it was in the beginning, a forum of free discussion. Recently, Sanrokon's meetings have been little covered by the media. Even when they are covered, they are treated lightly. This fact

symbolically tells the decline in Sanrokon's role. It is no exaggeration to say, however, that the history of Sanrokon, which has met 228 times in more than 30 years since the first meeting in 1970, mirrors the history of social dialogue among the government, labor and management in Japan.

### **The Government-Labor-Management Employment Council**

Rengo set up a council comprising the government, labour and management to discuss the unemployment problem at a meeting with government officials on 7 September, 1998. The labour minister showed a positive response, saying that he would consider a proposal if both labour and management made it.<sup>19</sup> Rengo therefore proposed to the Japan Federation of Employers' Associations (Nikkeiren) that a council consisting of the government, labour and employers be established to study the unemployment problem and asked Nikkeiren to persuade the government to do so. Jiro Nemoto, chairman of Nikkeiren, and Etsuya Washio, ex-president of Rengo, called on Minister of Labour Amari on September 16, and told him that concerted endeavours by the government and the people were necessary to combat the harsh unemployment situation handed a request in writing to the effect that the Government-Labor-Management Employment Council (tentative and unofficial English name) be established quickly. They also asked the minister to hold a meeting of the council at the earliest.<sup>20</sup>

The request was accepted and the Government-Labour-Management Employment Council held its first meeting on 25 September, 1998. At that meeting, the council confirmed the decision to establish a working group consisting of from Nikkeiren, and Rengo to deliberate on a few selected subjects. They demanded that the council focus on working out a programme to create jobs for more than one million workers in areas that promise growth, such as nursing, welfare, information and telecommunications.

The prime minister, Keizo Obuchi, said that he would ensure that the proposal was reflected in policies as much as possible. The ministers of International Trade and Industry and the labour minister promised that the government would try to resolve the credit crunch (due to banks' refusal to lend), encourage launching of new growth ventures, and institute new comprehensive legislation, if necessary, to create jobs through the establishment of new companies and encourage small firms to diversify their operations.<sup>21</sup>

One of the most notable accomplishments of the council was an agreement reached among the government, labour and management at the 11th meeting on 4 December, 2002 regarding employment.<sup>22</sup> The agreement contained three plans: maintenance and ensuring of employment, promotion of recruitment, and reform of the labour market. Subsequently, the agreement has come to be reflected in government policies.

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For about one year and a half, from the sixth meeting in November 1999 to the seventh meeting in June 2001, the meeting of the council were suspended because of strained relations between the Liberal Democratic Party and Rengo over a political issue. By June 2003, the council had met 11 times.

## **Councils and labor commissions**

### **Councils**

In Japan, when a new law is devised or an existing one revised, councils are usually consulted beforehand and their approval obtained. All ministries and agencies have a large number of councils as their consultative bodies. For balanced representation, councils have an equal number of representatives of labour, employers and public utilities. Councils relating to labour policies are the Labor Policy Council and the Minimum Wage Council. In Japan, councils are very important channels for social dialogue among labour, management and public utilities.

#### **(1) The Labor Policy Council**

The process of planning and enforcement of labor-related laws can be roughly divided into four stages. The first stage is the compilation of a report based on the results of theoretical and empirical studies by scholars and researchers. In the second stage recommendations are compiled on the basis of the research report at a tripartite council consisting of labour, management and academics. In the third stage the Minister of Health, Labour and Welfare refers to the Labor Policy Council the outline of a bill based on the report or recommendations. On its approval by the Cabinet, the minister submits the bill to Diet. Finally, once Diet passes the bill the minister Welfare refers it to the Labor Policy Council for its approval.<sup>23</sup>

The Labour Policy Council set up in 2001 under the Law for the Establishment of the Ministry of Health, Labour and Welfare, which provides that a labour policy council shall be established at the Ministry of Health, Labour and Welfare to deliberate on important items relating to labor policies in response to an inquiry by the Minister of Health, Labour and Welfare.<sup>24</sup>

The Labour Policy Council has 15 subcommittees and working groups. The members of the council are appointed by the Minister of Health, Labour and Welfare in equal numbers to represent labour, management and public utilities.<sup>25</sup> The council cannot hold a meeting and vote unless at least two-thirds of all the members and at least one-third of the members of each group are present. All decisions are taken by a majority vote of the members, and in the case of a tie, the chairperson casts the decisive vote. The council consists of 30 members, and their term of office is two years. Even

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after the expiration of the term, the member concerned must remain in office until a successor is appointed.

In theory, the members of the council are supposed to be appointed by the Minister of Health, Labour and Welfare, but in fact the labour representative are named by Rengo, and management representatives by Nippon Keidanren, and the minister only gives approval to the appointments. The representatives of public utilities are appointed by the Minister of Health, Labour and Welfare from among those he considers competent.<sup>26</sup>

The subcommittees and working groups in the Labor Policy Council also consist of representatives of labour, management and public utilities and their roles are about the same as those of the Labor Policy Council's members.<sup>27</sup>

The Labour Policy Council often functions as a venue for reaching a consensus between labour and management. In cases where a consensus is not reached, a report is submitted to the Minister of Health, Labour and Welfare, detailing the issue and its resolution is entrusted to Diet. The revision of the Temporary Staffing Services Law in 1999 was one such instance. In that case, the labour representatives opposed the hiring of temporary workers for the assembly lines of manufacturing companies, while the management representatives were in favour of it. Provisionally, the hiring of temporary workers for the assembly lines of manufacturing companies was banned. The ban was lifted, however, when the Temporary Staffing Services Law was amended in 2003.

Even though labor and management fail to reach an accord at times, the Labor Policy Council, where the representatives of labor and management express their opinions and are given an opportunity to have them reflected in bills, is an important channel for a social dialogue between labor and management.<sup>28</sup>

As on 31 March, 2003, Rengo had a total of about 150 members at the councils of the subcommittees, working groups and panels of experts in relation to the Ministry of Health, Labour, and Welfare.<sup>29</sup> Because at such councils, the number of members representing management and the number of members representing public utilities must be the same as a rule, the management side has about the same number of members as Rengo.

Rengo is represented at almost all government councils (22) in addition to the Labour Policy Council.

## (2) The Minimum Wage Council

The Minimum Wages Law was promulgated in Japan in 1959 and subsequently underwent several amendments over the years. At present, minimum wages in Japan are set separately in each district and for specified industries.<sup>30</sup> Here we will examine

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social dialogue among the government, labour, management and public utilities with a focus on how minimum wages are determined in each district, and, in particular, the role played by the Labour Policy Council therein.

The Minister of Health, Labour and Welfare determines the minimum wages on the basis of the living cost of the workers concerned, the wages of workers in similar positions and the employer's ability to pay, but in doing so, the minister must consult the Minimum Wage Council beforehand.

The Minimum Wage Council consists of the same number of representatives each of labour, management and public utilities. The representatives are appointed by the Minister of Health, Labour and Welfare from among the candidates recommended by the organizations representing labour and management respectively. Currently, there are eighteen. At present, the representatives, with Rengo organization that representing labour and Nippon Keidanren representing management. The minister appoints representatives of public utilities from among people he considers competent. At present, five of the six members representing public utilities are university professors.

The Minimum Wage Council establishes district-wise criteria for minimum wages and submits them to the district minimum wage councils. This has been the role of the Minimum Wage Council since 1978. In theory, minimum wages at the district level are determined by the prefectural governors in consultation with the district minimum wage councils, but the fact is that the criteria established by the Minimum Wage Council for amendment to the minimum wages in each district are often adopted as the minimum wage in the district concerned. Therefore, we will examine here the social dialogue held in determining the minimum wage in 2001 with a focus on the Minimum Wage Council's role.

### **[Process of deliberations at the Minimum Wage Council in 2001]**

31 January, 2001: At its first meeting of the year, the Minimum Wage Council elected a chairman and deputy chairman, introduced members, and explained the rules for the management of the council.

11 May, 2001: At its second meeting, the council held deliberations on the minimum wages in each district at the request by the Minister of Health, Labour and Welfare. The minister, the council set up a central minimum wage criteria subcommittee consisting of nine members, that is, three members each for — labour, management and public utilities, and set a timetable for deliberations.

28 June, 2001: The central minimum wage criteria subcommittee held its first meeting and heard a report by the secretariat about reference materials (GDP, capacity utilization rates at manufacturing industries, the number of bankruptcies, the

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unemployment rate, the opening-to-application ratio, consumer prices, wholesale prices, wages, etc.).<sup>31</sup> Labour, management and public utilities' representatives exchanged their opinions on the report.

11 July, 2001: The subcommittee held its second meeting at which a report was presented on the results of recent wage amendments the level of business confidence among companies, and so on. This was followed by an exchange of opinions on the report among the three parties.

19 July, 2001: The subcommittee held its third meeting. The labour representative demanded a 0.8 per cent wage increase, the same rate as in the preceding year, asserting that minimum wages are a critical prop for workers' lives in view of the "three anxieties" (anxiety about social security, anxiety about employment and anxiety about income). The employers' representing opposed the demand saying that when economic prospects are bleak, minimum wages should be pegged or even be lowered, depending on the developments. The two parties failed to reach an accord. After that, the representatives of public utilities heard the opinions of labour and the opinion of management separately, and stated what they believed to be the proper minimum wage. This was approximately the same as the minimum wage proposed by the Ministry of Health, Labour and Welfare on the basis of its investigations.

26 July, 2001: At the third meeting of the Minimum Wage Council, the central minimum wage criteria subcommittee proposed a benchmark for amending the minimum wages based on the previous three rounds of deliberations. The council members exchanged views on the issue and subsequently approved the benchmark proposed by the subcommittee, and submitted a report to the Minister of Health, Labour and Welfare.

Prefectural minimum wage councils, each of which consists of an equal number of representative of labour, management and public utilities, determine the minimum wages at the prefectural level on the basis of the report by the Minimum Wage Council, and submit these to the directors-general of the prefectural labor bureaus. The directors-general thus determine the minimum wages in their respective prefectures.

The minimum wages determined by this process in 2001 scarcely differed from the amount set by the Minimum Wage Council. In 35 of the 47 prefectures in Japan, the minimum wages were the same as the prefectural benchmark. This means that about 75% of the prefectures determined their minimum wages at the same level as the amount set by the Minimum Wage Council. In the remaining 25%, the minimum wages differed from the benchmark, but only to the extent of about 3%.<sup>32</sup> Thus, the amount set by the Minimum Wage Council served as the minimum wage level at the prefectural level.

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As already noted, there is equal representation of labour, management and public utilities at the Minimum Wage Council. Since the system of determining criteria was launched to the present, labour and management have never reached an accord.<sup>33</sup> Only the benchmark proposed by the representatives of public utilities was mentioned in the reports to the Minister of Health, Labour and Welfare. Evidently, the representative of public utilities play an important role and their proposals are based on diverse data. It is believed, that their decision on the level of minimum wages is based on the results of the investigations conducted by the Ministry of Health, Labour and Welfare.

### ***Labour relations commissions***

Labour relations commissions were established in Japan in 1946 under the Labour Union Law. These commissions are tripartite bodies that help labor unions and companies settle labor disputes. There is a labour relations commission at the national level, called the Central Labor Relations Commission, and there are regional labour relations commissions at the prefectural level.

The Central Labor Relations Commission consists of 45 members, equally divided among labor, management and public utilities. The members representing labour are recommended by Rengo, and the members representing management are recommended by Nippon Keidanren. Representative of public utilities are appointed by the prime minister approval by the House of Representatives and the House of Councillors from among candidates suggested by the Minister of Health, Labour and Welfare with consent of the labour and management representatives. The members of the Central Labor Relations Commission serve on a part-time basis, and their term of office is two years.<sup>34</sup>

The Central Labor Relations Commission (1) adjudicates labour disputes (conciliation, mediation and arbitration), (2) conducts investigations into unfair labour practices, and (3) examines labour unions' qualifications.

### **Bilateral social dialogues**

#### ***Dialogue between government and labor***

Meetings between government and labor

Meetings between the government and labour are held between the Rengo president or other labour leaders and such government leaders as the prime minister and members of the cabinet. Annual meetings in April and December, a meeting before the G8 summit, and a meeting in July between a labour leader and the chief cabinet secretary are almost regular events.

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At the meeting held in April 2002, Rengo requested the government for such things as “a policy change for economic recovery”, “implementation of emergency measures to create jobs”, “emergency financial assistance for work sharing” and “ensuring an adequate wage level and establishing basic labour rights in the public sector”. The prime minister (Junichiro Koizumi) responded that the form of employment had changed and there are areas where deregulation increases jobs. The deputy president of Rengo struck back saying, “Now that workers are dead tired, it could be a problem to raise deregulation as an issue for labour-management relations. Over half of all workers are uneasy about the future as they don’t know whether they can continue working.”<sup>35</sup> He asked the prime minister to be cautious in using deregulation as a way to deal with employment problems.

On 27 November, 2001, the Rengo president met with top government leaders, including the prime minister, and exchanged views over such issues as the government budget for fiscal year 2002. Rengo asked the government to compile a budget that addressed the unemployment problem and to discuss this problem with government officials and labour leaders. An agreement was reached to hold such a meeting. Regarding the ongoing debate between labour and management, over work sharing Koizumi indicated that there would be a tripartite discussion among the government, labour and management by the end of the year.<sup>36</sup>

On 16 December, 2002, the Rengo and other top union officials met government leaders and asked for measures to create jobs in to be part of the 2003 budget. The cabinet secretary said that the government would appropriate 530 billion yen for job-creation measures in the supplementary budget and give special consideration to the problem of unemployment budget.<sup>37</sup>

Such meetings among the government, labour and management began in 1964. In that year, the General Council of Trade Unions of Japan (Sohyo) planned a strike on April 17 to demand a wage increase for workers in the public sector, such as the National Railway Workers Union and the Japan Postal Workers Union. On April 16, talks were hurriedly arranged between the prime minister and the Sohyo president to avert the strike. As a result of the talks, the government agreed to adopt the “decision based on the private sector” formula in setting the wages of workers in the public sector, and the strike was averted.

After that, meetings between labour leaders and the prime minister were held but did not become a regular event. In 1972, four labour organizations<sup>38</sup> asked the then prime minister to hold regular meetings with labour leaders, but he replied that he wanted to meet with labour leaders as often as possible instead of adopting a strict schedule.<sup>39</sup> Subsequently, however, a meeting between the government and labour was held about once a year or more. The subject on the agenda differed every time as the problem to

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be settled differed. Roughly speaking, in the 1970s, the main subject was price stabilization; in the 1980s, postponement of the mandatory retirement age and a shorter work week; and in the 1990s measures to bolster economic activities, solving the unemployment problem and creating jobs.

Due to strained relations between the Liberal Democratic Party and Rengo, not a single meeting between the government and labor was held until 27 August, 2001, after the July 1999 meeting at which Rengo asked the government to consider “the requests and proposals about policies and systems for fiscal 1999 and fiscal 2000” and reflect the same in the fiscal 2000 budget and execute the supplementary budget for fiscal 1999.<sup>40</sup>

#### Activities for improvement of policies and systems

It was after the Congress of Labour Unions for Policy Promotion was organized in 1976 that labour unions in Japan started full-scale activities to influence policies and systems.<sup>41</sup> The Congress of Labor Unions for Policy Promotion was organized by 16 industrial unions (with a total of 3,155,000 members), including the Japanese Federation of Iron and Steel Workers Unions, the Confederation of Japan Automobile Workers Unions, the All Japan Federation of Electric Machine Workers Unions and the Japanese Federation of Textile, Garment, Chemical, Mercantile and Allied Industry Workers Unions.<sup>42</sup> The Congress of Labor Unions for Policy Promotion became the All Japan Federation of Private Labor Unions (Zenminrokyo) in 1982, Zenminrokyo became the Japanese Private Sector Trade Union Confederation (Minkanrengo) in 1987, and Minkanrengo became Rengo in November 1989.

Next, let us examine Rengo’s activities for the improvement of policies and systems on a one-year-cycle basis in 2001 and 2002. To enhance the effect of activities for the improvement of policies and systems, Rengo holds negotiations with ministries and agencies while the budget is being prepared by the government. The process of the government’s compilation of the budget in Japan can be broadly divided into six stages. In the first stage (May and June), the divisions of ministries and agencies compile their draft budget requests for the next fiscal year. In the second stage (June and July), the bureaus of ministries and agencies prepare documentary budget demands. In the third stage (August), ministries and agencies submit their skeleton budget demands to the Ministry of Finance. In the fourth stage (September to December), the Ministry of Finance assesses each item in the skeleton budget demands, keeping in contact with the ministries and agencies, prepares its original budget and presents it to the ministries and agencies. In the fifth stage (December), the government’s budget, based on the original budget of the Ministry of Finance, is referred to the Cabinet for approval. In the sixth stage (January to March of the next year), the government’s budget is discussed in Diet and finalized.

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Rengo holds negotiations with ministries and agencies before their budgets are finalized so that it can work towards having its demands about policies and systems reflected in them. This activity is concentrated in July. In addition, Rengo also arranges a meeting with the government and in particular with the Chief Cabinet Secretary to ensure that its demands are reflected in the budget. These meetings are held in November and December. If a new problem arises in connection with any ministry or agency, Rengo approaches the ministry or agency concerned and conveys its request.

The priority items in Rengo's demands about policies and systems in fiscal years 2001 and 2002 included (1) economic affairs, tax systems and industrial organizations, (2) employment and labour, (3) welfare, social security and gender equality, (4) environment and education, and (5) politics, administration, judiciary and foreign affairs. In the labour and employment context, the major items are stabilization of the living standards of retirees and dismissed workers and increased rehiring of such workers, raising the upper limit on the government's payment of unpaid wages to defaulting employers,<sup>43</sup> enforcement of fair labour standards, elimination of legal violations (loopholes), and abolition of discrimination against part-time workers. Relatively high priority has been given to raising the upper limit on the payment of unpaid wages to defaulting employers on the grounds that the request was complied with. The limit has been raised by 57%, from ¥ 700,000 to ¥ 1,100,000 for workers under the age of 30; by 69%, from ¥ 1,300,000 to ¥ 2,200,000 for workers aged 30 to less than 45; and by 118%, from ¥ 1,700,000 to ¥ 3,700,000 for workers aged 45 and above. The revised limit came into force in January 2002.

In fiscal years 2001 and 2002 Rengo's activities aimed at improvement of policies and systems were as follows: (The meetings between the government and labor mentioned above are included in the activities for the improvement of policies and systems.)

June-September 2001: Negotiations on a priority basis with ministries and agencies targeted at the compilation of the next fiscal year's budget<sup>44</sup>

27 August, 2001: At a government-labor meeting, Rengo requested the implementation of an emergency employment stabilization policy.

27 November, 2001: At a government-labor meeting, Rengo requested compilation of a budget with stress on employment stabilization and consumer spending recovery.

5 December, 2001: Rengo sent a request about the budget compilation, tax reform, etc., for fiscal year 2002 to the Minister of Finance.

7 December, 2001: Rengo sent a request for tax reform for fiscal 2003 to the Taxation Bureau of the Ministry of Finance and the Ministry of Health, Labour and Welfare.

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21 December, 2001: Rengo sent a request to the Chief Cabinet Secretary for reform of the civil service system.

22 March, 2002: Rengo sent a request to mitigate financial jitters to the Financial Services Agency institute measures.

3 April, 2002: At a government-labor meeting, Rengo requested implementation of an emergency economic and employment stabilization policy for emergency and measures to ensure civil servants' rights.

24 May, 2002: Rengo made a request for a tax reform to the minister of state in charge of financial services.

14 June, 2002: Rengo requested for a government-labor summit and stronger endeavours to fight unemployment.

### ***Labor-management dialogue***

#### **Labor-management summit**

Top-level talks between labour and management in Japan can be traced back to 1971, when Sohyo president Makoto Ichikawa and other labour leaders met with the top officer of the Japan Federation of Employers Associations (Nikkeiren), who on that occasion represented four economic organizations, for the first time. The labour-side requests included: (1) a pay raise of about ¥15,000, stated as absolutely necessary, (2) establishment of a nationwide uniform minimum wage in view of the ILO convention, and (3) business leaders focus attention on such problems as housing and social security. The Nikkeiren side replied that (1) a pay raise of about ¥15,000 was absolutely impossible, (2) if a minimum wage system was introduced, companies would have to observe it, but in the present situation, a uniform implementation for all industries was difficult, (3) deliberations would continue to be held on such problems as housing and social security as common issues, and (4) Nikkeiren had already announced an income policy and the productivity principle and hoped that the labor side would consider them well. Though they failed to reach an accord on the foregoing issues, both sides agreed to hold meetings again because they felt it was worthwhile to deepen their mutual understanding despite a difference of views and standpoints.<sup>45</sup> Thereafter, annual labor-management talks were held before the spring labor offensive began and continue to take place to date.

Before Nippon Keidanren was formed in May 2002 through the merger of Nikkeiren and the Japan Federation of Economic Organizations (Keidanren), a labor-management summit was held twice a year between Nikkeiren — the business community's contact organ for labor-management relations — and Rengo.<sup>46</sup> On September 12 of that year,

the first summit between Rengo and the newly formed Nippon Keidanren was held. It was attended by 16 people from Nippon Keidanren's side — including its president, Hiroshi Okuda and deputy president, Hiroshi Hamada — and by 17 from the Rengo's side, including its president Kiyoshi Sasamori and acting president Nagakazu Sakakibara. At this meeting, the two sides agreed to hold the regular summit three times a year, up from twice during the Nikkeiren period. They also agreed to have a free exchange of views in August-September, discuss policies and systems in November-December, and talk over the spring labor offensive<sup>47</sup> in January.

On 16 January, 2003, a labor-management summit to discuss the spring labor offensive was held as agreed. The Rengo president said in an apparent attempt at forestalling management's contention: "Management says that the total personnel cost should be curbed, but it is too easy going to depend on cheap labour. Management should pay attention to the widening [wage] gap between regular and non-regular workers. Equal treatment is indispensable to materializing work sharing." He also said that there the Japanese economy could not recover unless the unemployment and post-retirement issues were resolved.

The Nippon president on the other hand said that neither could the economy recover employment not be maintained or expanded unless management took an aggressive stance.

Rengo said, "The widening gap between companies of different scales is breeding uneasiness. The diversity of the 'mode of work' (advocated by management) sounds good but is widening the gap and breeding discrimination. Resolving the uneasiness is the first thing to be done. What to do with many young jobless people is an urgent problem."<sup>48</sup>

Nippon Keidanren voiced the view that, "The decline in Japan's international competitiveness is the problem. Various things should be re-examined from this viewpoint. The job picture and the wage level are among them. We do not deny the importance of defending employment. But what each company can do to create jobs is limited. A broader system is necessary."

The labor-management summits have so far produced diverse results, the most noteworthy being the declaration to carry out "the social agreement on employment" between Rengo and the Japan Federation of Employers Associations announced in October 1999. The agreement said that labour and management would do their utmost to resolve the serious employment situation and they would perform their respective social roles to stabilize the employment picture and create new job opportunities. The concrete substance of the social agreement on employment is as follows:

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**[The social agreement on employment]****1. Promotion of the social agreement on maintenance and creation of employment**

In order to resolve the present employment situation, which is becoming more and more serious, the Japan Federation of Employers Associations and Rengo hereby agree to do their utmost about the following:

- (i) As the measures for the time being, management shall maintain and create employment, and curb unemployment, and labour shall cooperate with management in strengthening managerial foundations by improving productivity and cutting costs and taking a flexible stance in regard to wage raises.
- (ii) In order to maintain and generate jobs, the Japan Federation of Employers Associations and Rengo shall endeavour to create a consensus about diverse modes of work and work sharing. Labour and management shall make a proper distribution of jobs, wages and working hours.
- (iii) Labor and management shall endeavour to properly evaluate workers and provide fair treatment based on jobs, make improvements in working ability, make the management of hours worked fairer and improve the working methods.

**2. Requests to the government and promotion of the formation of a consensus among the government, labour and management**

In the formulation and implementation of measures relating to greater employment, close cooperation among the government, labour and management is indispensable. Labour and management shall request the government to further expand the comprehensive employment-related measures announced earlier, support labour and management in the materialization of the agreement and take the following measures to defend and generate jobs:

- (i) As the measures for the time being, further expand the safety net for employment using revenues from the budget's general account;
  - (ii) Re-examine the vocational training and expand job placement service in order to ensure that service leads to actual re-employment;
  - (iii) Support the growth of new enterprises in such areas as housing, information and telecommunications, environment, welfare and medicine, and create new job opportunities by reforming the tax system and regulations; Back up job-creating regional plans with cooperation between labour and management, and among government, labour and management;
  - (iv) Re-examine the tax and social security systems to expand the range of options about modes of work, and prepare the environment for that.<sup>49</sup>
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The declaration of such a labor-management agreement seems to have led to “the agreement among the government, labor and management” at the Government-Labor-Management Employment Council mentioned before. Therefore, the labor-management summit talks are performing an important role in resolving the present harsh unemployment conditions.

#### Joint labor-management projects and requests

Rengo and Nippon Keidanren have jointly established a project team to study the problems that vitally affect workers’ lives, such as employment and social security, and to make requests or declarations based on the findings of studies to the government and political parties. From 1995 through 2000, they made requests about 20 projects.<sup>50</sup>

Rengo and Nippon Keidanren recently held meetings at the secretariat level to study work sharing and employment problems.

#### ***Government-management dialogue***

There are no periodic government-management summit talks like the government-labor summit<sup>51</sup>. However, being a member of the Council on Economy and Fiscal Policy (CEFP),<sup>52</sup> an advisory body for the prime minister, the Nippon Keidanren president meets with the prime minister and several times a year.

Established in the Cabinet Office on 6 January, 2001, the CEFP’s role is to review the basic policies regarding management of the national economy, public finance and budget compilation and other important affairs such as a national comprehensive development plan and submit reports and recommendations to the prime minister. Its reports and recommendations are adopted by the cabinet in its basic policies.<sup>53</sup>

The President of Nippon Keidanren attends the CEFP meetings in the capacity of chairman of the board of Toyota Motor Corporation but is believed to be speaking for the whole business community, not only for Toyota. Among the members of the CEFP, are cabinet members concerned with economic affairs two business community representatives and the governor of the Bank of Japan. Therefore, the CEFP can be considered to be an informal government-management summit. During the two and a half years or so since it was launched until 30 June, 2003, the CEFP met fifteen times.

### **3. RELATIONS AMONG THE REPRESENTATIVES IN THE SOCIAL DIALOGUE**

As the subject of the dialogue, I would like to take up work sharing.

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### **1) Different perceptions of labour and management on work sharing**

Nikkeiren used “The report by the labour problems study committee” as its guideline for negotiations with labour before the spring labor offensive every year.<sup>54</sup> In the report of 2000, the committee placed employment stabilization as the top priority and stressed the need to curb total labour costs. Towards this end, it proposed, as one option, work sharing in which the wages are cut in proportion to a cutback in working hours.<sup>55</sup> It also proposed diversification of modes of hiring, such as part-time workers, employees hired for a short period, and temporary workers.

Rengo criticized Nikkeiren’s work-sharing proposal, saying that it was a wage cut in proportion to a reduction in working hours was wage sharing, not work sharing: “Work sharing is a cutback on the specified number of working days or working hours to prevent dismissals and create jobs and sharing work among employees and is not necessarily accompanied by a wage cut.” Regarding flexible work sharing through the diversification of the mode of employment, Rengo said, “Curbs on personnel expenditures by switching manpower to part-timers, workers hired for a short period and temporary workers should be distinguished from work sharing in a clear-cut manner.”

### **2) Agreement to set up a joint study group reached at labor-management meeting**

As already said, there was a wide difference in understanding between Rengo and Nikkeiren about work sharing. At the labor-management summit held on 19 January, 2001, however, the two parties agreed to set up a joint study group in order to resolve the difference in their perceptions of work sharing and create a social consensus on a work-sharing system.<sup>56</sup>

Under this agreement, in April 2001 Rengo and Nikkeiren set up a joint group to study the “diverse modes of working and work sharing”. On 18 October, 2001, they made “a declaration to promote the social agreement concerning employment”. They agreed to strive for and reach an accord on diverse modes of working and work sharing and make efforts to facilitate a proper distribution of jobs, wages and working hours. Both parties stated in the declaration that they would endeavor to build a consensus among the government, labour and management on such scenes as the Council of the Government, Labor and Management for Employment for the purpose of taking various measures to fight unemployment, including work sharing.

### **3) A request for government cooperation in work sharing at a government-labor meeting and an agreement to launch a government-labor-management study group**

At a meeting between the government and labour on 27 November, 2001, the Rengo president asked the government to go a step further towards a tripartite agreement

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among the government, labour and management for the creation of a social consensus on work sharing, based on “the declaration to promote the social agreement concerning employment”. The prime minister responded that the government would seek the best way to cooperate in concrete terms. Rengo and the government agreed to start a forum of discussion in December.<sup>57</sup>

#### **4) An exchange of views on work sharing at the Industry-Labor Consultation Body (Sanrokon)**

At Sanrokon’s meeting on 28 November, 2001, Health, Labour and Welfare minister, Chikara Sakaguchi, said, “The prime minister said yesterday that the government should actively come to grips with the work-sharing problem. We want to have a scene for discussion among the government, labor and management and ask their opinions about how to deal with this problem. As a first step, we must boil down the problem of what type of scenario we want to see happen in our talks.” Both labour and management sides said they wanted to hold official talks. During a press conference after the meeting, a Ministry of Health, Labour and Welfare official said that separate from the study meetings of Nikkeiren and Rengo and the Government-Labour-Management Employment Council, the ministry would create a new framework that would include not only top officials but also lower-echelon officials and that the ministry would do this through consultations on what the relationship among the three parties should be. He added that he wanted to start the new framework by the end of the year if possible.<sup>58</sup>

In line with the agreement reached at the meeting between the government and labour on 27 November, 2001, and the discussion at the Sanrokon meeting on 28 November, 2001, the Government-Labor-Management Work Sharing Study Council was launched on 14 December, 2001. On 29 March, 2002, this council held its second meeting. At this meeting, top-level representatives of the government, labour and management reached an accord about the fundamental ideas on work sharing.<sup>59</sup>

#### **5) An exchange of opinions at Sanrokon over the direction of work sharing**

At the meeting of Sanrokon on 22 July, 2002, the minister of Health, Labour and Welfare said that promotion of diverse modes of working was an important issue from a medium- and long-range viewpoint and asked Sanrokon to debate the advisability of expanding the range of options for modes of working, and the problems to be handled by the whole society. A management representatives said that management had compiled a manual for introduction of work sharing in response to the agreement reached among the government, labour and management in March 2002 and was endeavouring to make it widely known. He said that a point to be discussed among the government, labour and management was how the diverse modes of working would affect the declining birthrate,

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the ageing of the population and the decrease in the working population. Regarding work sharing of the emergency type, a labour representative said that steps should be taken by studying the problems in each company. Regarding work sharing based on diverse modes of working, he said that sufficient debate should be held and fair and equitable treatment (of employees) was an important point.<sup>60</sup>

On 26 December, 2002, the government, labour and management announced an agreement concerning the diverse modes of working and work sharing.

For examination of the moves of various sides in the social dialogue on work sharing, reveals that labour and management first presented their respective interpretations, and the difference in their views was significant. Labour and management held talks, and agreed to launch a joint study group to reach an accord. Thus, a way was opened for the two parties to reach an accord on work sharing. At a government-labour meeting, Rengo asked for government cooperation in the study of work sharing and obtained the government's commitment to the setting up of a tripartite study council comprising the government, labor and management. At Sanrokon's meeting in November 2001, government, labor and management representatives agreed to cooperate in the study of work sharing. A tripartite council to study work sharing was set up, and the three parties reached a basic accord on the interpretation of work sharing. In December of the same year, the tripartite council held its third meeting and announced "a government-labor-management agreement about diverse modes of working and work sharing", which revealed in concrete terms what the three parties were endeavouring to accomplish.

Thus, the tripartite study council was set up, two agreements among the government, labor and management were reached and progress was made toward work sharing after the series of labor-management summits, government-labor meetings and Sanrokon meetings. The wide gap that existed between labor and management about the interpretation of work sharing in the beginning was resolved, and concrete endeavors started. In terms of the roles performed by the sides in the social dialogues in the course of this process, labor and management at their summit agreed that they must ask the government to take part in the discussion on work sharing and also agreed to set up a labor-management study group. At the government-labor meeting, Rengo asked the government to take part in the discussion on work sharing. At a Sanrokon meeting, talks among the government, labor, management and public utilities over work sharing were held, and cooperation among the government, labor and management was confirmed.

Thus, the organs of social dialogue tackled the problem of work sharing in their respective frameworks and succeeded in shaping an agreement among the government, labour and management.

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#### **4. SOCIAL DIALOGUE AND THE PROCESS OF DIALOGUE AND DEBATE: RECENT ISSUES**

In this section, the organs of social dialogue and the issues they deal with will be examined. The major issues here too are work sharing and employment problems.

##### **1) Endeavors towards work sharing**

Here I would like to review the process of debate between the partners with a focus on the substance of work sharing.

By their “declaration to promote the social agreement concerning employment” declaration, Rengo and Nikkeiren (the present Nippon Keidanren) reconfirmed that they would endeavour to build a consensus about diverse modes of working and work sharing in order to maintain employment and generate jobs. They set up a committee to discuss work sharing. In December of the same year, the government joined in, and the debate to build a consensus for the introduction of work sharing became brisk. As a result, the three parties reached “a government-labor-management agreement concerning work sharing” on 29 March, 2002. In this agreement it was said that work sharing is a reduction in working hours to maintain employment and generating jobs for the purpose of ensuring a proper allocation of jobs, wages and working hours. It was also clarified that in the coming two or three years, if individual companies faced the problem of surplus workforce as a result of such developments as a temporary reduction in industrial production, work sharing of the emergency type would be one of the options before them. In this type of work sharing, the specified working hours are reduced and the income cut accordingly. It is highly noteworthy that the labour side accepted an income cut as an accompaniment to a reduction in working hours.

Work sharing through diverse modes of working means diversifying the mode of working by such steps as introducing shorter working hours for regular employees and thereby giving job opportunities to a greater number of people including women and elderly people. At individual companies, work sharing is done on the independent judgement by labor and management and on the basis of an agreement between them. In order to prepare an environment for work sharing based on diverse modes of work, the government decided to further explore the way to fair and equitable treatment of part-time workers. In addition, the government has been financially supporting emergency work sharing at each company since June 2002.

On 26 December, 2002, the government, labour and management announced an agreement reached between the parties concerning the diverse modes of working and work sharing and clarified that they would proceed to realize work sharing. The announcement stated that labour and management would develop an environment that

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would foster the growth of talent and develop workers' capabilities for the purpose of promoting diversification of the modes of working, meting out fair and equitable treatment of employees to matches each employee's job, and properly managing working hours. Also, the government would promote the spread of work sharing and extend financial support for the same to such endeavours of labour and management. Towards this end, the Ministry of Health, Labour and Welfare requested an appropriation of 360 million yen in the fiscal 2003 budget to develop a model of work sharing based on diverse modes of working.

At the prefectural level, tripartite endeavors to materialize work sharing are being made in response to the national-level agreement on work sharing. Hyogo Prefecture is the leader in this effort. At Hyogo Prefecture, work sharing began even before the national-level agreement was reached. In December 1999, the prefectural government, labour and management reached an accord on "work sharing in Hyogo Prefecture". In May 2000, labour and management established "work-sharing guidelines". In July 2001, the prefectural government sent questionnaires to companies and labor unions to elicit the problems that accompany work sharing, analyze the progress in its introduction and find solutions to the problems. Answers were obtained from 3,201 companies and labour unions. The study revealed that 25.4% of companies in Hyogo Prefecture had already introduced work sharing.

In Kanagawa Prefecture, a work sharing study council comprising of the prefectural government, labour and management was set up in January 2003. According to a survey of the realities of work sharing conducted in September of the preceding year, 21.3% of companies and 29.6% of labor unions said they knew about "the fundamental ideas on work sharing" agreed upon among the government, labour and management in March 2002. However, only 3.3% and 9.3% of companies in the prefecture were practising any emergency work sharing policy and work sharing of working modes' diversification type respectively. Many companies mentioned that the difficulty of reaching an accord with the unions on a wage cut had hampered the introduction of work sharing.<sup>61</sup>

It is expected that action to introduce work sharing will be taken in various districts hereafter.

## **2) Agreement among the government, labour and management concerning employment**

On 4 December, 2002, government, labour and management agreed on three points to resolve the employment problem in the harsh unemployment situation in Japan. Here I will mainly describe the substance of the agreement.

The first is the maintenance of employment and securing of jobs. Management promised to step up its efforts to maintain employment and secure jobs while labor

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agreed to cooperate with management in the diversification of the modes of working, including work sharing, and strengthening of the managerial base through productivity increase and cost cuts. Labour also agreed to accept flexible working conditions in the event that personnel costs needed to be cut for maintaining employment.

In response to this agreement, the government will make the labor insurance system more effective, and strengthen its support to endeavours by companies to maintain employment and secure jobs.

The second is to help unemployed people find jobs. For this purpose, the government will develop a system that facilitates re-employment, create job opportunities and reform the unemployment insurance system via a comprehensive employment promotion system tailored to the needs of individuals, particularly those eager to work. Government will increase its staff to support employment with the help of able individuals in the private sector, tap the labour market, furnish such services as career consulting and job placement in a comprehensive way, reform the functions of public employment security offices, as well as utilize private job placement agencies. In addition, the government will actively develop a system of trial employment, impart custom-made vocational training, and step up support for measures taken by management to hire new graduates and quickly rehire unemployed people. It will carry out structural reforms that lead to the improvement and expansion of the industrial base, such as fostering the growth of sophisticated manufacturing industries, reviving the banking system and completing the bases for distribution of goods, and at the same time will make active efforts to generate jobs, particularly in the service sector.

To encourage the launching of new companies and new projects and generate sustainable job opportunities, the government will ensure smooth application of the law to help small companies embarking on challenging projects, such as a law with an exception to the minimum initial capital requirement for new ventures. The government will also ensure a smooth supply of funds for the setting up of new companies and launching of new projects, train personnel to contribute to such ventures through the development of new technologies, extend support for commercialization of new technologies and revival of enterprises, conduct entrepreneurial training for students, etc., and strengthen the set-up to support new businesses and the system of appraisal.

In order to respond appropriately to structural changes in the economy and society and contribute to stable management of the unemployment insurance system in the harsh employment scenario, the government will (1) accelerate rehiring, (2) cope with diverse modes of working, and (3) prioritize taking of steps to meet the difficulty of rehiring, as well as revising the unemployment insurance system which calls for a minimum raise in unemployment premiums, considering the sharp rise in the burden on both labour and management.

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The third is labour market reform. The government will undertake deregulation and re-examine labour laws in light of the cement bleak employment picture, expand job opportunities and ensure economic progress. In addition, the government will re-examine the present labour practices to facilitate re-employment of middle-aged and elderly people.

The forgoing is the substance of the agreement reached among the government, labour and management. The government loaded the fiscal 2003 budget with various projects and started work on revising various laws in order to honour the commitment made in the agreement. These revisions are aimed at extending the upper limit on employment contracts, completing regulations relating to dismissals, easing the requirements and procedures relating to the discretionary labour system, streamlining job placement agency service, extending the employment period of temporary workers and expanding the hiring of such workers on production lines. Diet began its deliberations on the bills to revise the laws in January 2003 and passed them in June 2003.

## **5. MEANING AND PROBLEMS OF SOCIAL DIALOGUE IN JAPAN**

### **1) Meaning**

As already stated, there are several channels for high-level social dialogue: among the government, labor and management; between government and labor; and between labor and management. It is difficult to accurately appraise them, however, I would like to identify their meanings by comparing them.

First, or social dialogue has made a big contribution to the stabilization of labor-management relations. In the course of government-labor dialogue which began in 1964, the system of basing public sector wages on wages in the private sector was established. Under this system, which is still in effect, public sector wage disputes have virtually ceased to exist, and wage raises in the public sector have stopped affecting wages in the private sector. It may be said that wage disputes in the private sector have also decreased. It may be said that at that point, Labour unions of private companies became a trendsetter for the labour movement in Japan. Moreover, the government, labour and management in Japan precluded labor-management disputes by shaping a common recognition through Sanrokon of the economy and society as they ought to be. For example, labour unions refrained from making such unreasonable demands as a major wage increase; by cooperating with such a stance of unions managements reduced the number of labor disputes. The labour-management summit held before the annual labour offensive served to deepen the common recognition of such working conditions as wages and hiring because it provided a platform for labour and management to clarify their respective stands and understand each other's positions.

Second, they contributed to the stabilization of prices and the enhancement of the country's international competitiveness. Japan was applauded for overcoming the oil

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crisis of 1973 most successfully among advanced countries. In the spring labour offensive of 1974, the average wage raise at principal Japanese companies was a high 32.9%, but the corresponding average in 1975 was 13.1% and that in 1976 was of a single-digit rate. Sanrokon's contribution to the stabilization of wages cannot be ignored. At a Sanrokon meeting, government promised to take various measures to stabilize prices; and labour declared that they would refrain from demanding a wage hike; management said that they would not increase product prices that would lead to higher prices of goods. Thanks to the tripartite endeavours, the rate of inflation in terms of consumer prices, which rose to 23.2% in 1974, declined to 11.7% in 1975 and was kept within a single-digit rise after that.<sup>62</sup> There is no doubt that the stabilization of wages and prices made a great contribution to the enhancement of Japan's international competitiveness.

Third, social dialogue has enhanced the partnership among the government, labour and management and stabilized the political situation. Accompanying the expansion of labour unions' national centre into the Congress of Labour Unions for Policy Promotion in 1976, into the All Japan Federation of Private Labor Unions (Zenminrokyo) in 1982 and further into Rengo in 1989, labor participated in the formulation of government policies and decisions with the slogan of "the maintenance and elevation of real wages" in order to improve policies and systems and strengthened their influence through the above various organs for social dialogue. The social partnership among the government, labor and management was formed on such scenes. When a new law relating to labour policies is made or an existing one amended, a council comprising an equal number of representatives each of government, labour and public utilities holds deliberations, and the bill takes shape. Therefore, when Diet deliberates on such bills, there is no harsh confrontation among parties as is often seen in the case of other legislations. Tripartite dialogue has indirectly contributed to the stability of the political situation.

## **2) Problems**

First, Sanrokon, the Government-Labor-Management Employment Council and government-labor meetings are not based on any law but are managed on independent decisions by the government, labour and management. For this reason, it is not clear how much power they have or how much effect the agreements reached at these meetings have. Moreover, if any one or more of these parties refuses to take part in social dialogue, the channel fails to function. In fact, there was period of inactivity from 1999 to 2001. It is a major task to ensure uninterrupted social dialogue and the effectiveness of agreements therein.

Second, agreements reached among the parties except laws, minimum wages and decisions by labour commissions are not binding on either labour or management. Whether or not to observe them is left to the discretion of labour and management. Therefore, it is difficult to predict how far the agreements will be followed.

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Third, except in a certain period, the political parties supported by labour unions have never been in power.<sup>63</sup> The Liberal Democratic Party, which is not supported by them, has been ruling the nation since it was launched in 1955. As a result, the activities of labor unions for policy changes are relatively weak.

Fourth, as said in connection with the Minimum Central Wage Council, labour and management have never reached an accord on minimum wages. Both should strive towards a common recognition to ensure agreement.

Fifth, as mentioned, industrial relations in Japan are fundamentally established at the company level. Therefore, conclusions reached at high level tripartite do not control industrial relations of each company directly. Stronger linkages between industrial relations players at the company level and those at the high level are needed to enhance the execution of agreements concluded at high levels. But this is not easy now, for the management side strongly opposes the infringement of the discretions of industrial relations at the company level.

## **6. CONCLUSIONS: APPLICABILITY TO OTHER COUNTRIES**

What is the applicability of social dialogue in Japan to other countries? The answer to this question is in the status of government-labor-management relations in the given country. No sweeping answer is possible. Here I would like to clarify the background to social dialogue in Japan and list some points that other countries can incorporate in their social dialogue.

First, labor-management relations in Japan are based and managed at the company level. Labor unions in Japan are company based. Thus Japanese companies tend to want to settle labour problems in-house. Japan will serve as a model to countries that have similar labour-management relations.

Second, agreements among the government, labor and management about work sharing and employment problems are not forced upon the labor and management of individual companies. For this reason, the government, labour and management can make mutual concessions without difficulty. When the government, labour and management choose an issue to be resolved, a satisfactory result can be obtained if they focus on one where a unifying, centripetal force works on the three parties.

Third, many social dialogues among the government, labor and management in Japan rest on the discretionary judgement of each party, and this is supported by mutual trust and cooperation among them. Countries where there is mutual trust and cooperation among the government, labour and management can certainly learn much from Japan. For example, labour and management in Japan held New Year summit talks this year and discussed problems of Japan of tomorrow, such as labor-management relations

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and the employment problem. This summit symbolizes the mutual trust between labour and management in Japan. During the talks, the President of Nippon Keidanren said that labour and management should always work together with “mutual consideration and trust,” president of and Rengo said that the most important thing is “labor-management cooperation for symbiosis”.<sup>64</sup>

Fourth, Japan can be an example for a country where the political party supported by labour unions cannot seize power. In Japan, a political party supported by labor unions never seized power except for a short time.<sup>65</sup> The Liberal Democratic Party, not supported by labor unions, has been in power since it was formed by a merger of two conservative parties in 1955. For this reason, it is difficult for labour unions to make their demands materialize through a political party as in a political democracy. For labour unions in Japan, a more effective choice has been to resort to industrial democracy, making their representatives directly take part in policy formulation by various organs of the administration.<sup>66</sup> When importance began to be attached to real wages, the materialization of labor unions’ demands through industrial democracy began to be made after the first oil crisis of 1973, the Congress of Labor Unions for Policy Promotion was organized. This organization later became the All Japan Federation of Private Labour Unions (Zenminrokyo), then Zenminrokyo became the Japanese Private-Sector Trade Union Confederation (Minkanrengo), and Minkanrengo subsequently became Rengo. Activities for the improvement of policies and systems by these organizations serve as valuable examples to countries where political parties supported by labor unions have not seized power.

Fifth, for a country like Japan where bills submitted to the national assembly are mostly sponsored by the government and legislation by Diet members is rare, the actions taken for improvement of policies and systems by labor unions and councils can give exemplary lessons, in legislation by ministries and agencies from the stage of for instance, their participation in government policy formulation right from the stage of drafting.

Sixth, it is important to improve the substance of social dialogue. As already said, mutual trust and cooperation among the government, labour and management is the most important thing to improve the substance of dialogue. Here too other countries can emulate Japan.

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## Notes

1. There is an interesting episode attending the start of Sanroken inception. Yoshiji Miyata, former chairman of the Japanese Federation of Iron and Steel Workers Unions, met Ichiro Nakayama, chairman of the Japan Institute of Labor, following advice by Ashimura, editor in chief of the weekly magazine *Shukan Rodo News*. One day, Miyata said to Nakayama: "We don't understand prices well. Will you hold a study meeting for economic affairs for us?" Nakayama readily consented and replied: "It's good to study a wide range of problems, not limited to economic affairs." That led to the launching of Sanroken as a body consisting of four parties: the government, labour, business, and public utilities. Nakayama and Miyata were Sanroken members from the beginning. Miyata served Sanroken as chairman for until he passed away nine years later. *Shukan Rodo News*, 17 February, 2003.
  2. *The Thirty Years' History of Labor Administration* (1977), Ministry of Labour, published by Rodo Shimbunsha.
  3. The number of members increased from four to seven at the 77th meeting on 17 May, 1978. *Shukan Rodo News*, 22 May, 1978.
  4. *Shukan Rodo News*, 16 March, 1970.
  5. *Shukan Rodo News*, 13 December, 1993.
  6. *Shukan Rodo News*, January 25, 1982.
  7. *Shukan Rodo News*, 27 September, 1971.
  8. *Shukan Rodo News*, 20 December, 1971.
  9. *Shukan Rodo News*, 25 November, 1974.
  10. *Shukan Rodo News*, 21 November, 1977.
  11. *Shukan Rodo News*, 17 March, 1980.
  12. *Shukan Rodo News*, 2 March, 1981.
  13. The substance of the proposal was as follows: (1) In order to stabilize prices, such as the prices of daily necessities, the government should continue to pay the closest attention to the trends in prices and flexibly take necessary measures. In particular, the government should do its utmost to stabilize the prices of perishables. (2) In revising public utility charges, the government should demand thoroughgoing streamlining of management, fully consider the effects on prices and people's living standards and adjust, as much as possible, the time of implementation and the percentage of raises. (3) Regarding the so-called profits from the yen's appreciation, the government should endeavor to comprehend the realities and take proper measures to contribute to price stability. (4) In implementing price stabilization measures, the government should endeavor to have people's opinions fully reflected in them. In managing the price stabilization council, the government should consider people's opinions even more. Minister of Labour Takao Fujinami explained the substance of this proposal at a Cabinet meeting on February 27 and requested the cooperation by the prime minister and the member of the Cabinet concerned with economic affairs. *Shukan Rodo News*, 2 March, 1981.
  14. *Shukan Rodo News*, 2 March, 1981.
  15. *Shukan Rodo News*, 30 March, 1981.
  16. *Shukan Rodo News*, 27 October, 1980.
  17. *Shukan Rodo News*, 28 September, 1981.
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18. *Shukan Rodo News*, 28 January, 1980.
  19. *Shukan Rodo News*, 14 September, 1998.
  20. *Nikkeiren Times*, 24 September, 1998. A request in writing addressed to Prime Minister Keizo Obuchi, said (1) the Government-Labour-Management Council (tentative name) consisting of representatives of the government, labour and management should be established and operated until the current unemployment situation was overcome, (2) the council should consist of the Chief Cabinet Secretary, the Minister of Labour, the Minister of International Trade and Industry, other ministers concerned (when necessary), the president of Nikkeiren, and of ex-president Rengo, and (3) the council should deliberate on concrete measures for improving the environment for the labour market to stabilize the job picture and create jobs and employability, and on the respective roles of the government, labour and management, to quickly reflect the decisions in government measures.
  21. *Nikkeiren Times*, 1 October, 1998.
  22. Details will be described later.
  23. Akira Takanashi, "Proposal: Process for Formulation of Labor Policies," *Japan Labor Bulletin*, No. 475, January 2000, Japan Institute of Labour (JIL).
  24. In January 2001, ten councils at the old Ministry of Labour were combined into one in an administrative reform.
  25. Cabinet Order No. 284, "Order Concerning the Labor Policy Council".
  26. There are many university professors among the members representing public utilities.
  27. Article 9 of the regulations for the management of the Labor Policy Council has a provision that says: "Decisions made through voting by a subcommittee or a working group about an affair in its charge shall be considered decisions by the Labor Policy Council except in the case of an affair about which it is stipulated beforehand that voting by the Labor Policy Council is necessary."
  28. Regarding the weakening of the council's functions in recent years, refer to Mari Miura (2000).
  29. "Rengo's participation in various councils for the government", document by Rengo, 2003.
  30. The industries whose minimum wages are set are printing, iron and steel, general industrial machinery and equipment, electrical machinery and tools, motor vehicle and motor vehicle parts production, and retail trades for various goods.
  31. The Working Hours Division, Labor Standards Bureau, Ministry of Health, Labour and Welfare
  32. Announcement made by the Ministry of Health, Labour and Welfare on 3 September, 2001.
  33. According to an official of the Working Hours Division, Labour Standards Bureau, Ministry of Health, Labour and Welfare teleconference, 30 June, 2003.
  34. <http://www2.mhlw.go.jp/churoi/profile.htm#03>
  35. *Shukan Rodo News*, 2 June, 2003.
  36. The promise by Koizumi led to talks and agreement among the government, labor and management over work sharing. *Shukan Rodo News*, 3 December, 2001.
  37. *Shukan Rodo News*, 1 January, 2003.
  38. Before Rengo was organized, there were four national centers of labour, organized as confederations. Sohyo ranked top in the number of members (4,360,000 members in 1985),
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followed by the Japanese Confederation of Labour (Domei, with 2,160,000 members), the Federation of Independent Unions (Churitsuroren, with 1,560,000 members) and the National Federation of Industrial Organizations (Shinsanbetsu, with 60,000 members).

39. *The History of Labor Movements*, p. 290, Ministry of Labour (1972).
  40. That meeting was attended by eight people from the Rengo side, including Policy Committee chairman Teruhito Tokumoto, Labour Movement Committee for Small and Medium-sized Enterprises chairman Mitsuro Hattori, Labour Policy Committee chairman Katsutoshi Suzuki and Secretary General Kiyoshi Sasamori, and nine from the government side, including Chief Cabinet Secretary Hiromu Nonaka and Minister of Labour Akira Amari. *Weekly Rengo*, 9 July, 1999.
  41. The four major labour organizations, including Sohyo, attached importance to policy demands but did not go so far as to get their demands reflected in the government budgets. When a budget or a bill was submitted to Diet, the four labour organizations opposed it or demanded an amendment through a political party they supported, but it can hardly be said that they attained their objectives. The Congress of Labour Unions for Policy Promotion, All Japan Federation of Private Labor Unions (Zenminrokyo) and Rengo are endeavoring to have their policy demands reflected in budget requests of ministries and agencies. In this respect, their activities differ from those of the four defunct major labour organizations and they excel in effect. After the launching of the Congress of Labor Unions for Policy Promotion, policy demands of labour unions were united in this body. *The History of the Ministry of Labour*, Ministry of Health, Labour and Welfare (2001), p. 429; *Overview of Labor-Management Relations in the Age of Rengo*, Naoto Omi (1989).
  42. *The History of Campaigns by the Congress of Labor Unions for Policy Promotion*, Congress of Labor Unions for Policy Promotion.
  43. This is a system under which the government pays the unpaid wages of employees of companies considered virtually bankrupt for the defaulting employers. This benefit is available to employees of small companies only.
  44. During that period, Rengo held negotiations with 18 ministries and agencies. *Conclusions of and Trends in Requests and Proposals about Policies and Systems in Fiscal 2002 to Fiscal 2003*, Rengo, p. 81.
  45. *The History of Labor Movements*, Ministry of Labour, 1971.
  46. Summit talks between Rengo and Keidanren were held once a year.
  47. *Shukan Rodo News*, 16 September, 2002.
  48. *Shukan Rodo News*, 20 January, 2003.
  49. *Weekly Rengo*, 19 October, 2001.
  50. *A list of joint research projects of Nikkeiren and Rengo*, Nippon Keidanren, July 2000
  51. According to a hearing at the Labor Policy Headquarters of Nippon Keidanren on 10 July, 2003.
  52. The CEFPP is a council established under the Law for the Establishment of the Cabinet Office and is the most important council concerned with the conduct of state affairs.
  53. <http://www.kantei.go.jp/jp/singi/keizai/>
  54. In connection with the merger between Nikkeiren and Keidanren in May 2002, this report was renamed "A report by the management-labor policy committee".
  55. *Shukan Rodo News*, 7 January, 2000.
  56. *Shukan Rodo News*, 22 January, 2001.
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57. *Weekly Rengo*, 7 December, 2001.
  58. *Shukan Rodo News*, 3 December, 2001.
  59. Five principles in the attitude towards the problem (in outline)
    1. Work sharing is a reduction in working hours for the purpose of maintaining employment and generating jobs.
    2. Work sharing should be done on the independent judgement of labour and management and on the basis of a labour-management agreement.
    3. Promotion of diverse modes of work should furnish an important opportunity to re-examine the ways of working and lifestyles.
    4. In promoting diverse modes of work, labour and management should endeavour to prepare an environment that accepts diverse modes of work.
    5. In implementing the emergency work-sharing policy, management should endeavour to maintain employment and workers should take a flexible stance towards a reduction in the specified working hours.

The above is a quote from *Weekly Rengo*, 9 April, 2002.
  60. *Keiei Times*, 25 July, 2002.
  61. *Shukan Rodo News*, 12 May, 2003.
  62. Regarding the praise given to Sanrokon for its contribution to the quick decline in the rate of inflation, see *The History of the Ministry of Labour* Ministry of Health, Labour and Welfare (2001), p. 428.
  63. The Japan Socialist Party and the Democratic Socialist Party, supported by labour unions, never took power except in the following cases: the Japan Socialist Party and the Democratic Socialist Party took part in the Hosokawa Cabinet from 6 August, 1993, to 24 April, 1994, the Democratic Party took part in the Hata Cabinet from 25 April to 28 June, 1994, and the Japan Socialist Party and the Democratic Socialist Party took part in a coalition cabinet (the Murayama Cabinet) with other parties from 29 June, 1994, to 11 January, 1996. But their participation was always short-lived. The Murayama Cabinet was a coalition cabinet with the Liberal Democratic Party, which is a conservative party.
  64. *Keiei Times*, 1 January, 2003.
  65. The Japan Socialist Party and the Democratic Socialist Party, supported by the labor unions, never took power except in the following cases: As the exceptions, the Japan Socialist Party and the Democratic Socialist Party took part in the Hosokawa Cabinet from 6 August, 1993 to 24 April, 1994, the Democratic Socialist Party took part in the Hata Cabinet from 25 April to 28 June, 1994, and the Japan Socialist Party and the Democratic Socialist Party took part in a coalition cabinet (the Murayama Cabinet) with other parties from 29 June, 1994 to 11 January, 1996. But their participation was always short-lived. The Murayama Cabinet was a coalition cabinet with the Liberal Democratic Party, which is a conservative party.
  66. Regarding the definitions of “political democracy” and “industrial democracy,” see Takeshi Inagami *“Participation by Workers and Social Policies”* (1980).
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# Social Dialogue in the Prevention and Settlement of Disputes

*P.D. Shenoy*

समानो मन्त्रः समितिः समानी समानं मनः सहः चित्तमेषाम्

*“Let our thoughts be same, let our meeting place be same  
and let our hearts be together for attaining common goal.”*

The ILO has defined social dialogue to include all types of negotiations, consultations or simply exchange of information between, or among, representatives of governments, employers, or workers, on issues of common interest relating to economic and social policy. Having first found expression in the ILO's Constitution in 1919, the relevance of tripartism and social dialogue has continued to grow in response to the challenges of the globalized world, in particular in seeking to reconcile the imperatives of social justice with those of enterprise competitiveness and economic development. It can, of course, take various forms. Information sharing, consultation and exchange of views, tripartite or bipartite negotiations and resultant conclusion of agreements are all various forms of social dialogue. It can be a tripartite process where the government consults workers and employers on official policy affecting all stakeholders. Or, it may only be a bipartite discussion between workers and employers or their respective organizations, with or without government involvement. It may be informal or institutionalized or a judicious combination of both. There need not be any particular or fixed level for holding a social dialogue for discussing an important issue which has tended to elude solution for a long time. Depending on the importance and significance of the issue and urgency of the situation and the level of the parties involved, the social dialogue may be organized at the international, national, regional, sectoral or individual enterprise levels. It can also be a fine blend of all or some of these.

Within the wider canvas of social dialogue, the definitions and concept of social dialogue may vary from country to country and region to region depending on the political philosophy, social conditions and economic growth of that region or country. Social dialogue is one

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of the strategic objectives of the ILO through which it aims to promote decent and productive working conditions of freedom, equality, security and human dignity.

All dialogue has a purpose. The primary goal of social dialogue is to promote consensus building through representative and democratic involvement, based on mutual respect, among the main stakeholders. As we all know, successful and fruitful social dialogue structures and processes have the potential to resolve important and knotty economic and social issues. It is one of the acknowledged means of encouraging good governance as well as advancing and accelerating social and industrial peace. It is a powerful instrument, capable of securing industrial stability and helping to boost and promote economic progress.

As congenial conditions are a prerequisite for the healthy growth of a plant or tree to produce better fruit, so also certain favourable and enabling conditions are a must for the healthy evolution of social dialogue. These include:

- (i) Strong, independent workers' and employers' organizations with technical capacity and access to the relevant information to participate in social dialogue.
- (ii) Political will and commitment to engage in social dialogue on the part of all the parties.
- (iii) Respect for the fundamental rights of freedom of association and collective bargaining.
- (iv) Appropriate institutional support.

The state, of course, has a definite and explicit role cut out for it in this process. The social partners look to the government with hope and expectation in this regard. An ideal state is responsible for creating an enabling political and civil climate for autonomous and independent organizations of workers and employers to operate freely and also for providing adequate legal, institutional and other frameworks to enable these partners to act effectively without fear of any kind of retribution.

Although the institution of social dialogue is generally perceived as a three-cornered tripartite structure, it can be bipartite or even "tripartite plus". Although the key tripartite actors are representatives of the Government, workers and employers, it at times helps (depending on the nature of the issue involved) to seek and secure the involvement of the other relevant and affected actors in society, as well. The consensus thus arrived at will be substantially enriched via a wider perspective and diverse views.

As stated earlier, the nature, content and form of social dialogue depends on the respective country's historical, cultural, economic and political context. Here again, there is no "one-size-fits-all" model ready for adoption by any and every country. The striking diversities that mark the social, political and economic conditions of each country are

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reflected in the form and nature of the social dialogue conducted in each country. It is, however, to be noted that the overriding principles of freedom of association and the right to collective bargaining, as already enshrined in the relevant ILO Conventions (Nos. 87 and 98), apply to each country. The success of any model of social dialogue in a given country depends on that country adapting the manifold and divergent institutional arrangements, legal frameworks as well as evolved traditions and practices in different countries and local ownership of the model by all stakeholders.

It is worth noting that in the efforts to cope with the Asian financial crisis and its aftermath, tripartite social dialogue has gained renewed acceptance among the social partners in this region. Democratization has further helped the resurgence of social dialogue in these countries. Economic reforms in transition countries have led to reforms in labour market institutions such as collective bargaining and dispute settlement mechanisms at the workplace. These developments highlight the fact that the process of social dialogue should be a dynamic, powerful and vigorous process geared towards meeting the complex challenges of building economic competitiveness and social equity. It should also be ensured that social dialogue operates as a democratic process geared towards reaching out not only to workers in the formal sector, but also to the far more vulnerable, unprotected and weak workforce in order to mitigate the abominable phenomenon of social and economic exclusion.

Now, to enumerate the rewards and gains of social dialogue. One of the key functions of social dialogue is the building of mutually satisfactory and rewarding relationships between the social partners, which leads to decent working environments, job satisfaction and good enterprise performance and, in general, outcomes with rewards for all. Both tripartite and bipartite dialogue with greater transparency and mutual respect for each other's views and needs, especially on a voluntary basis, engenders greater trust and cooperation. Effective workers' and employers' organizations can certainly help build good relationships. An important issue that requires careful attention by all the social partners is how to make social dialogue a more powerful instrument of consensus building within the tripartite mechanism.

A fine-tuned social dialogue process adopted with the consensus of all stakeholders plays a key role in achieving the objective of promoting opportunities for all to obtain productive and decent work. As indicated by the 'InFocus Programme on Social Dialogue', social dialogue is a means of achieving decent work and is an end in itself. A judicious, skilful and enlightened use of the social dialogue mechanism can work wonders in promoting employment policies, aiding and assisting social protection policies, encouraging and fundamental rights at work, in addition to enhancing other employment conditions.

With more and more countries, regimes and organizations embracing the democratization process, it is imperative to define more clearly the respective roles of

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social dialogue and participatory democracy. And what better location than the largest democracy in the world to discuss an issue like this? India had apex national dialogue forums set up decades back to discuss, and debate and deliberate upon important issues crying for the attention of the different social partners. The Indian Labour Conference, popularly known as the Labour Parliament of India, and the Standing Labour Committee are two vibrant, permanent bodies at the national level, which annually discuss critical and current issues with active participation of all the tripartite social partners. The social partners also meet and, as far as possible, arrive at a consensus on issues that come up for discussion in the International Labour Conference at Geneva in June every year. Experience shows that social dialogue and exchange of views among the social partners have helped the country resolve a number of issues of national importance and thus removed the barriers to a consensus approach and overall progress.

### **Social Dialogue in India**

- Tripartite consultations among social partners, namely, the government, workers and employers on major labour and labour-related issues have been a tradition in the history of labour in India.
- Tripartite consultation forms an integral part of the Constitution of India.
- All committees and commissions under the Ministry of Labour are tripartite in structure.

### **Social Partners**

#### **Employers' Organizations**

- Council of Indian Employers (CIE)
- Employers' Federation of India (EFI)
- All India Organisation of Employers (AIOE)
- Standing Conference of Public Enterprises (SCOPE)
- All India Manufacturers' Organisation (AIMO)
- Confederation of Indian Industry (CII)
- Associated Chambers of Commerce & Industry of India (ASSOCHAM)
- Federation of Indian Chamber of Commerce & Industry (FICCI)
- Laghu Udyog Bharati (LUB)

#### **Central Trade Union Organizations**

- Bhartiya Mazdoor Sangh (BMS)
  - Indian National Trade Union Congress (INTUC)
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- Centre of Indian Trade Unions (CITU)
- Hind Mazdoor Sabha (HMS)
- All India Trade Union Congress (AITUC)
- United Trade Union Congress (LS) (UTUC-LS)
- United Trade Union Congress (UTUC)
- National Front of Indian Trade Unions (NFITU)

### **Means of Social Dialogue**

- Legislations
- Tripartite consultations
- Collective bargaining
- Workers' participation
- Conciliation
- Arbitration

### **Legislative Measures**

- Many labour legislations have incorporated tripartism in the provisions relating to the composition of various statutory committees/boards.

### **Tripartite Statutory Committees/Boards**

- The Central Board of Trustees (Employees Provident Fund Organisation) under EPF and MP Act, 1952
  - Central Apprenticeship Council (CAC) under the Apprenticeship Act, 1961
  - Central Advisory Contract Labour Board under the Contract Labour (Regulation and Abolition) Act, 1970
  - Central Advisory Committee under the Bidi Workers' Welfare Fund Act, 1976
  - Central Advisory Committee under the Limestone and Dolomite Mines Labour Welfare Fund Act, 1972
  - Central Advisory Committee under the Iron Ore Mines, Manganese Ore Mines and Chrome Ore Mines Labour Welfare Fund Act, 1976
  - Central Advisory Committee on Cine Workers' Welfare Fund under the Cine Workers' Welfare Fund Act, 1981
  - Dock Workers' Advisory Committee under the Dock Workers' (Safety, Health and Welfare) Act, 1986
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**Non-statutory Committees**

- Industrial Tripartite Committee on the Sugar Industry
- Industrial Tripartite Committee on the Cotton Textile Industry
- Industrial Tripartite Committee on the Jute Industry
- Industrial Tripartite Committee on the Engineering Industry
- Industrial Tripartite Committee on the Chemical Industry
- Industrial Tripartite Committee on the Electricity Generation and Distribution Industry
- Industrial Tripartite Committee on the Road Transport Industry
- National Committee on Safety

**ILO Convention No.144** “A ratifying country shall undertake to operate procedures which ensure effective consultations with different stakeholders concerning ILO matters.” India ratified ILO Convention No.144 on 27 February 1978.

- The Tripartite Committee on Conventions was constituted in the Ministry of Labour consequent to the ratification of ILO Convention No. 144 concerning Tripartite Consultation (International Labour Standards) which reviews the unratified conventions and other ILO activities.

**Tripartite Consultations**

- Indian Labour Conference
- Standing Labour Committee
- Industrial Tripartite Committees
- Committee on Conventions
- Child Labour Technical Advisory Committee
- Central Board for Workers' Education
- National Council for Vocational Training

Dialogue is the first crucial step towards solving any problem or dispute. Social dialogue between labour, management and government takes many forms around the world. Effective social dialogue can come only from strong social partners. The importance of effective social dialogue in the design and implementation of critical economic and social policies cannot be over-emphasized. The tripartite structure of the ILO itself reflects the conviction that the best solutions arise through social dialogue and tripartite cooperation. Social dialogue has a fundamental role to play as an instrument of democracy. Therefore, the capacities and services of the parties to the social dialogue

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have to be enhanced through means like workers' education. Strengthening and consolidation of trade union structures and enhancement of workers' education have, therefore, to be given prime importance.

Preventing disputes altogether may be a tall order. The attempt therefore, has to be to reduce or minimize them. In the process of dispute resolution, social dialogue plays the most important role. It assists the concerned parties to settle their grievances and disputes peacefully and in an orderly way through an agreed-upon machinery with minimum disruption of work. Different perceptions are likely to lead to disagreements at time. Social dialogue is one of the potential instruments for effective prevention and settlement of labour disputes and for creating an atmosphere conducive to efficiency, economic growth and development.

Disputes vary in nature. A dispute may arise over implementation or interpretation of right incorporated in law or in a collective agreement of contract; or it may be an individual dispute or a collective one involving a group of workers.

The procedures for settlement of disputes are laid down in the national legislation incorporating voluntary procedures reached by the parties themselves. Since a key objective of the settlement procedure is to promote collective bargaining, wherever possible, bipartite settlement is preferred. The procedures of settlement fall into four categories. These are:

- (i) Collective bargaining
- (ii) Conciliation and mediation
- (iii) Arbitration,
- (iv) Adjudication through a tribunal or labour court

Another practice outside the conventional frameworks, "alternative dispute resolution" prefers a type of workplace justice to the legislative approach. The overall aim of dispute prevention and resolution is to deepen democratic governance, and promote social, economic and political stability.

## **FORMS OF SOCIAL DIALOGUE AND HOW THEY ARE APPLIED**

### **Collective bargaining**

Collective bargaining is a rational and democratic exercise wherein the representatives of workers and management meet on an equal footing to discuss, negotiate and to bargain all bargainable issues pertaining to all bargainable employees.

Since adjudication was found to be inadequate as a means of promoting healthy industrial relations, collective bargaining was sought to be encouraged by adoption of the Code of

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Discipline in 1958 and supplementing it by the Inter- Union Code of Conduct the same year.

In India a good number of disputes are being settled through collective bargaining. Most of the agreements are at the plant level. However, there are industry-level agreements also reached in the plantation industry in Assam and south India and in major ports and docks.

Collective bargaining as a form of dispute settlement is being used in major industries like banking, coal, plantations, airlines, oil, cotton textiles etc.

Collective bargaining has come to stay in most of the organized industries. For instance, it formed the bedrock of the industrial relations system in Brooke Bond some years back. Hardly any matter went to the forum of conciliation. The management was convinced that bipartite negotiations would help settle issues faster and more in tune with the requirements of the company. Brook Bond can serve as a model for private sector companies.

### **Negotiations**

Negotiations always start with a charter of demands. Managements try to start discussions on the increase in emoluments linked to an increase in productivity.

### **Conciliation**

Conciliation is considered as an extension of collective bargaining. It is also a policy of gentle persuasion. Conciliation and compulsion are contradictory terms. In the process of conciliation, the final decision is taken by the parties themselves.

It is thus evident that social dialogue in various forms has been highly popular in the prevention as well as settlement of industrial disputes be these matters affecting the workers or the management.

Several disputes pertaining to ports and docks, railways, the banking, coal and cement industries, etc. have been settled through conciliation and mediation in the central sphere in the recent past.

### **Voluntary arbitration**

Conflict between the social partners is inevitable in an industrial society, though its incidence and impact may be contained by the sound personal and industrial relations policies followed by employers and the existence of a mature and constructive trade union movement. Industrial conflicts and disputes are best solved by the social partners themselves through social dialogue in the nature of collective bargaining,

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failing which by conciliation or arbitration. The cement industry is the best example of successful arbitration in India.

Arbitration is a judicial process by which differences over issues between the labour and management are sought to be settled by the binding decisions of an impartial outsider who has no direct interest in the affairs of either party. Arbitration is voluntary when the process is initiated within the context of the parties as to the issues to be arbitrated upon and the persons who will arbitrate. It is compulsory when the government makes a reference without the consent of the parties.

Voluntary arbitration leads to a final and binding decision, which the parties are expected to abide by. This method of social dialogue is suited to all types of disputes, including those involving the basic terms of employment, interpretation of existing agreements and interunion controversies.

Voluntary arbitration can be resorted to by the parties either as an alternative to conciliation or as a consequential procedure. Only when conciliation fails, the parties may agree to submit the dispute for decision by a mutually agreed upon party.

### **Labour courts / tribunals**

Labour courts/tribunals were set up in 1947 under the Industrial Disputes Act, to prevent prolonged strikes and lockouts. These are set up either by the central governments or the state governments. If a dispute cannot be resolved bilaterally, the appropriate government may, in its discretion, refer it for compulsory adjudication to a labour court or tribunal. The types of disputes heard by these courts/tribunals relate mainly to dismissal of workers, suspension, non-payment of wages, etc. Although the Industrial Disputes Act, 1947 provides for settlement of disputes through collective bargaining, conciliation and voluntary arbitration, in practice, compulsory adjudication, after reference of the dispute by the appropriate government, has come to stay as the most important means of dispute settlement after failure of conciliation.

However, history and experience show that voluntary arbitration has not been popular. This is borne out by the fact that the number of industrial disputes referred to voluntary arbitration in the central sphere in India has been comparatively much less. The position in the states has also not been different.

### **OUTCOME OF EFFECTIVE SOCIAL DIALOGUE**

The number of strikes and lockouts has declined. This has been more prominent in the public sector. Man-days lost on account of strikes and lock-outs in the central sector and public sector declined by 8.85 million and 8.66 million between 2000 and 2001.

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The following are some examples of major, successful and significant social dialogue in our neighbouring countries:

- (i) The Workers' and Employers' Bipartite Council of Pakistan (WEBCOP). This body has played a unique role in helping the government build on consensus proposals for the labour reforms programme. The WEBCOP reportedly constitutes a group of enlightened employers and eminent leaders from almost all national-level workers' organizations in Pakistan.
- (ii) The Employers' Federation of Ceylon has set up the Employment Mediation Services Centre for settling disputes arising out of employment. Any employer, worker or employers' or workers' organization may seek mediation through the Mediation Centre. The centre strives to promote the use of mediation to facilitate expeditious settlement of employment-related disputes to the satisfaction of all the parties concerned.
- (iii) In October 2000, the ILO organized, in collaboration with the Arab Labour Organization (ALO), an Arab International Meeting for the Arab countries on the promotion of Tripartism and Social Dialogue in Beirut. This meeting brought together all the ILO tripartite constituents and other concerned parties in the Arab region to discuss for the first time the issue of social dialogue. This meeting resolved to uphold the principle of tripartite dialogue and consultations and to promote all mechanisms, activities and channels for such dialogue.
- (iv) Bangladesh has also been organizing tripartite workshops and seminars with the objective of promotion of sound labour-management relations, effective running of labour courts, fine-tuning of the techniques for dispute settlement, etc.

In conclusion, I would like to say that for social dialogue to be successful, the social partners should avoid five A's

- A1 - Anger
- A2 - Anxiety
- A3 - Argument
- A4 - Annoyance
- A5 - Arrogance

and practise, stress on 3 H's

- H1 - Honesty
- H2 - Health
- H3 - Helpfulness

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# The Link between Bipartism and Tripartism

***C.S. Venkata Ratnam***

Tripartism is a system of labour relations in which the state, employers and workers are autonomous yet interdependent partners, pursuing common interests, participating in decisions affecting them in a binding spirit of mutuality and reciprocity (also see ILO, 1992). Bipartism in the context of industrial relations refers to a process of determination of a network of rules and regulations concerning terms and conditions of employment, etc., through consultation, negotiation, bargaining or other consensual processes.

Bipartism is complementary to tripartism at national and other levels. Bipartism and tripartism should be seen as the two sides of the same coin. Both mutually reinforce each other. The prerequisites for the success of both bipartism and tripartism — notions about equality among partners, freedom of association, the right to collective bargaining and democratic decision-making, among others — are similar.

The framework agreements setting substantive norms, procedures or other principles, codes of conduct/practice and social accords could be bipartite — as in the Scandinavian countries, for instance, where the highly centralized structure of national federations of both labour and employers' organizations make it possible to reach agreements at the national level without mediation by a third party. The desire to avoid government intervention also may induces employers' and workers' organizations to resolve differences and arrive at agreements through bi-partite consultation and cooperation. In several developing countries — including South Asia — given the dependence of both unions and employers on the government and the latter's interventionist tendency, what could well be a voluntary bipartite arrangement usually needs the involvement and support of the government. Therefore, it is rather unusual to find bipartite agreements at the national or, often, even at the industry level in most parts of Asia, Africa and Latin America. In rare cases, like in Cyprus, the Industrial Relations Code, essentially a bipartite agreement, was countersigned by the Minister of Labour and Social Insurance. The

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Code itself reduced the need for legislation on the areas covered in the Code and set the normative direction for industrial relations practices and some aspects of collective bargaining at the enterprise level.

National, centralized, tripartite consultations are usually more influenced by political considerations and state support. Bipartite arrangements, particularly in the context of the current trend towards decentralized firm/plant-level bargaining, adjustment to structural and other changes, and economic crisis, are influenced more by economic considerations. The institutional framework for industrial relations substantially influences, the relative role of tripartism and bipartism in responding to economic changes/policies at the macro level. The response to adjustment and economic crisis in several industrialized market economies in the wake of the oil price shocks of the 1970s was shaped more by the tripartite initiatives at the economy level up to the early 1980s. In the late 1980s and early 1990s, collective bargaining was able to achieve adjustment in individual enterprises and industries in economies where tripartite initiatives had either been lacking or inadequate to meet the emerging challenges. There is a certain transformation in the industrial relations climate: from traditional adversarialism to a cooperative approach, which is reflected in several concession bargaining agreements, etc. Such agreements, where unions have to bargain retrograde settlements for labour, reflect the increasing vulnerability of unions in the face of economic crisis (ILO, 1984). But, labour-management pacts in these situations symbolize the collective will and effort to survive the crisis, sacrificing some jobs and incomes to save several jobs and a substantial part of the incomes. It is not clear, though, whether such cooperation pacts will become the trend.

### **RULE MAKING AND THE LINK BETWEEN BIPARTISM AND TRIPARTISM**

John Dunlop observed that industrial relations is a process of interaction among actors (social partners) in certain contexts (social, economic, cultural, political, legal and technological) to formulate rules that govern the relationships between workers and managers at the workplace.

Kochan modified the framework to suggest that industrial relations interactions take place at three levels and the role of the third party — the government: legislature, judiciary and executive — is more at the national/international level in terms of norm setting and legislation and macro policy on social and labour matters. At the industry and enterprise and shop-floor levels, interactions are usually between workers/trade unions and management. Where there is a lack of balance of power and/or agreement between the two parties, the third party steps in. Third-party intervention — government or courts or legislature — becomes necessary in the case of, say, public utilities, where disruption of work/services due to conflict between workers and management can cause immense and avoidable public inconvenience or even endanger public life and safety.

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Rule making takes place in industrial relations through one or more of the following mechanisms:

- (a) unilateral: when the employer unilaterally imposes his/her will on the workers and determines the wages and working conditions
- (b) bilateral: when the rules are jointly agreed upon through consultation and negotiation between trade union and management
- (c) tripartism: when the government intervenes to conciliate or mediate the dispute
- (d) arbitration/adjudication: when an arbitrator or labour court is approached for resolving the disputes
- (e) judiciary: when the judiciary interprets or makes law/rules
- (f) legislature: when parliament or the state assembly legislates rules and regulations.

The significance of tripartism is best realized when bipartite consultations are deadlocked or when there is a need for legal sanctity of bipartite agreements. Conciliation and mediation are third-party mechanisms to assist the parties during the process of negotiation, particularly when there is a deadlock. In conciliation the conciliator, who is a third party, brings the parties together, encourages them to discuss their differences and assists them in developing their own proposed solutions. In mediation, the mediator plays a more active role in assisting the parties to find an acceptable solution, and may even submit his/her own proposals to them. Of course, the parties are free to reject the proposals. Conciliation is voluntary when parties can make use of it if they wish to. It is compulsory when they are required to participate in the conciliation process. But This is so only in terms of participation in the process, not for accepting the proposals, if any, of the conciliator.

The Industrial Disputes Act, 1947 assigns the conciliation machinery the role of mediation and settlement of industrial disputes. Under the act, the appropriate government appoints the conciliation officers (they are not independent authorities), makes reference of industrial disputes for adjudication, receives and publishes the awards of the adjudicatory bodies and enforces such awards as also the settlements entered into bilaterally [Section 2(p),18] or through the efforts of the conciliation officer [Section 12(3)] or a board of conciliation [Section 13(2)]. The government has the power to prosecute any person who breaches any term or settlement or an award (Section 29).

### **TRIPARTISM'S CONTRIBUTION TO BIPARTISM**

Tripartite consultations and agreements can, and indeed have, exercised profound influence in directing and shaping collective bargaining and industrial relations. The three-tier framework of industrial relations proposed by Kochan et al. (1987) suggests a direct and active role for tripartite consultation at the macro level, to be reinforced by

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bi-partite consultations, collective bargaining, communication, information sharing, employee participation and involvement at the industry and firm/plant levels. Freedom of association and the right to collective bargaining are slowly gaining wider support in many countries, the world over, thanks to the conventions/recommendations and technical cooperation of the ILO. Convention No. 154 and Recommendation No. 163 on collective bargaining provide guidelines on how the social partners can initiate and foster social dialogue. Whether it is the arrangements for the avoidance/settlement of disputes, the procedures for recognition of unions, grievance redressal, consultation and cooperation at the workplace, collective bargaining on a host of matters relating to industrial relations and human resources, tripartite initiatives have played a substantial role in setting up international labour standards, enactment of national legislations and conclusion of national agreements.

The vulnerability of unions in the current turbulent times, the distancing or deregulation of the role of the state, and the ascendancy in managerial prerogatives show a shift in the balance of power, at least for the time being, in employers' favour, disturbing the power balance in industrial relations. Economic pressures are producing two conflicting trends: on the one hand, there is a tendency for conflictual relations to make way for cooperative, collaborative relations; on the other, a combination of factors seem to be minimizing, and in several instances, marginalizing, unions. Also, the stress on speedier decision-making and a concern for secrecy in the face of intensified competition may produce pressures that are not conducive for promoting information sharing, consultation and other forms of employee participation/involvement. These are some of the aspects tripartism needs to address.

Adherence to tripartism and its correlate bipartism reflects a belief in a pluralistic value system based on the independence and interdependence of the social partners and their capacity to contribute meaningfully to organizational processes and the evolution of a network of rules and regulations, voluntarily, to determine the elements of corporate and workplace governance.

In the Indian context, for instance, the following tripartite declarations have played a useful role, at least for a number of years, in influencing bipartite relations and agreements relating to union recognition, automation and modernization.

- Code of Discipline
- Code of Conduct
- Automation without Tears

If some of the tripartite declarations of the past are now inadequate or less relevant, it is either because – as in the case of Code of Discipline, for instance — their moral influence on the social partners has waned or, as in the case of the declaration on 'Automation without Tears', these instruments do not reflect the dynamic changes of the current-day content.

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A more recent example concerns the second phase of the project on Tripartism, called the South Asia and Vietnam Project on Tripartism implemented by ILO, South Asia Regional Office with assistance from NORAD. The project was implemented in four South Asian countries — Bangladesh, India, Nepal and Sri Lanka — and Vietnam. The project essentially emphasized the creation of a culture of cooperation and collaboration between workers and their unions and the management for enhancing productivity and competitiveness of the enterprise and the quality of working life of workers through greater worker and union involvement. The key emphasis was on building trust and understanding through open, two-way transparent communication. In India the following companies were selected for participation in the project: Balmer Lawrie, Mahindra & Mahindra, Telco, Titan, and Universal Luggage. These companies have built up a tremendous rapport between workers and the union and management, jointly addressed problems facing the industry, and helped build a strong and positive work culture. This has resulted in greater involvement and empowerment of workers and led to the enhancement of the efficiency and effectiveness of the enterprise. For instance, when Universal Luggage, was faced with multinational competition in the domestic market, the union submitted a charter to the management which did not contain any demand for increasing workers' wages. Instead, it exhorted the management to take the necessary steps to overcome the competition and extended its full cooperation. Though Pakistan could not fully participate in the project, when the project was being executed in South Asia, the Employers Federation of Pakistan took the initiative to establish a bipartite Workers and Employers Bipartite Council of Pakistan (WEB COP).<sup>1</sup>

### **TRIPARTISM PLUS**

The later half of 20th century saw most of the developing countries come out of colonial rule. Growing democratic aspirations, rising levels of literacy and the influence of communication and information technologies and the neoliberal market policies often rendered the traditional tripartite often inadequate. Social dialogue or tripartite consultation between and among the traditional actors in industrial relations — government, employers and workers and their organizations, who, often and in many cases represented the interest of organized sector which constitutes a small proportion of the total labour force and whose size is shrinking in the wake of globalization — often take place on a narrow social base, thus leading to wider social exclusion. The emergence of civil society institutions including non-governmental organizations, and the assertion of rights by consumer groups and the community have also begun to make a dent in the power and influence base of social partners making it necessary to widen the social base — as has been done, for instance, in South Africa through the establishment of the National Economic Development and Labour Advisory Council (NEDLAC).

## **BIPARTISM'S CONTRIBUTION TO TRIPARTISM**

Bipartism, more importantly collective bargaining which is a key instrument of bipartism, can reduce the need for tripartite interventions. There is a view that tripartism enters where bipartism fails or is proved inadequate. For instance, when bipartite dialogue does not result in dispute avoidance or settlement, tripartite interventions like conciliation/mediation and arbitration/adjudication become imperative. In others, bipartite dialogue facilitates consensus-building on aspects where macro-level tripartite consultations fail to yield similar positive results.

When the locus of control shifts from labour and management to a third party, say, government, the power to decide also shifts to government. Therefore, it is in the interest of labour and management to resolve issues bilaterally.

Bipartite arrangements can contribute to and facilitate meaningful and effective tripartite social dialogue at industry and national levels in several ways:

1. In countries where the representative character of the social partners is limited due to characteristics of the economy (large unorganized, informal sector economy), the outcomes of tripartite discussions do not necessarily reflect the wishes of the large majority of the working population, not to speak of society at large. Also, in societal contexts marked by rigid (and, often politicized) polarization among social partners, consultation processes are usually protracted, resulting in arguments rather than agreements. In such and other similar situations it is better to adopt a bottom-up approach through bipartite dialogue at the enterprise level. Here, both unions and managements are more likely to experience the consequences of their approaches and actions and therefore require less external persuasion and influence to bridge the differences, reinforcing the need for mutuality and reciprocity in the relationship.
2. As a project statement on "Social Coherence: The Tripartite Contribution" prepared by the ILS (1993) warns, "...the globalization of markets has both linked and alienated elements within society and between geographical regions; new technologies have increased labour market heterogeneity; and budget deficits everywhere have weakened the role of the state as a factor of social integration. These changes have shaken the foundations of established social structures which preserved coherence and stability in the post-war years by synchronizing social participation with economic change... The three pillars of the classical paradigm which ensured complementarity between production systems and social structures have been eroded: Keynesian policies which maintained effective demand; collective bargaining which determined the relative shares of profits and wages within a framework of labour market integration; and the welfare state which provided a safety net for income maintenance, health and old age.



The result is a breakdown of political consensus on a system of social organization based on complementarity and countervailing power.” In periods of flux, as most countries in Asia and elsewhere are now experiencing, new tripartite initiatives require considerable state support and public resources. Given the diminishing possibility of both state support and public resources in debt-ridden countries, the major option is cooperative efforts at the firm/plant level in an adjust-or-perish spirit. Where there is a certain balance of power between unions and managements, the outcomes of bipartite consultations/negotiations could be more voluntary than otherwise. In other cases, bipartite cooperative, concessional bargaining pacts may well be “suicide pacts” aimed at bearing short-term pain for anticipated long-term gains.

3. The interests of employers and workers are also affected by government policies in areas other than industrial relations such as fiscal, monetary, trade, taxation, licensing. The effects of these aspects are more closely and effectively reckoned and evaluated in bi-partite consultations — particularly collective agreements — than in tripartite dialogue. Therefore, it is possible for idealism to guide tripartite deliberations — particularly when moral principles and social aspects — while collective agreements may be tempered more by pragmatic, economic considerations. By implication, bipartism promotes, generally speaking, corporatist values while tripartism emphasizes social and democratic values. Little wonder, then, that, in a period of structural changes and economic crisis, a shift to bipartism and decentralized bargaining reflects a corporatist orientation.
4. Consensual approaches are best developed by parties at the grassroots level, i.e., plant level. As a well-known industrial sociologist observed, respect for and acceptance of norms depends upon the manner of their evolution. The parties/persons directly affected should be involved in consensus-building social dialogue. Externally imposed consensus through tripartite declarations may not always work effectively at the industry/enterprise level. In such situations, if approaches and models at other levels are based on experienced successes at the enterprise level, they stand a better chance of wider acceptance.
5. Unions and managements can make “best practices” possible at the enterprise level through collective agreements or other voluntary arrangements, extending them beyond the enterprise to the industry and the economy at large. This will be particularly useful in the context of structural changes, enterprise restructuring, introduction of planned technological and other concomitant changes of modernization.

## **CONCLUDING REMARKS**

Both tripartism and bipartism survive under conditions of freedom of association, the right to collective bargaining and democratic decision-making, whether or not these are

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expressly recognized in the national legislation, and whether or not the concerned national governments have ratified the relevant conventions/recommendations. Additionally, the effectiveness of tripartism is contingent upon a broad based representation of the social partners and representation of interest groups other than the “three” social partners. Also, public policy in fields other than industrial relations — such as financial, monetary and trade policies — affects the outcomes of social dialogue, “the need and scope for involving these parties also in the elaboration and evaluation of such policies, extending tripartism beyond purely industrial relations to these boarder fields of common concern” (ILO, 1985).

Technological and other changes, the oil and debt crisis and the inadequate representative character of social partners limit the scope and potential for tripartite political bargaining and the required state support and public resources to strengthen tripartism. Given this state of flux in several countries in Asia and elsewhere, the best way to promote tripartism is to focus on bipartite social dialogue at the grassroots level, i.e., plant/firm level, build on success experiences and move to the industry and economy levels. There is need for caution, however, that the emphasis on bipartism does not result in overstressing corporatist values to the exclusion of social and democratic values.

The changed environment point to changes in the roles, relations, dynamics and power relations of the social partners. The changes per se are not deterministic. An understanding of the evolving dynamics should result in strengthening the capacity of social actors to shape the future pattern of corporate and workplace governance and industrial relations.

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## NOTE

1. A case study on WEBCOP was presented at the conference and is included in this volume.

# Workers and Employers Bilateral Council (WEBCOP) in Pakistan

*A.R. Kemal*

## INTRODUCTION

The ultimate objective of economic development is to ensure decent living standards for everyone in a nation. The level of output and per capita incomes of a country are determined by its physical and human capital, labour and its skill composition and their optimal utilization. The interrelationships between producers and workers are major determinants of the productivity levels of any enterprise and aggregate national output.

Equilibrium in the labour market implies equality between wage rates and the marginal productivity of labour. When productivity is low, wages are also low and because wages are low workers are not motivated and productivity levels are low. This vicious circle in the economy can be broken if producers increase wages in anticipation of higher productivity levels and establish an equilibrium at higher level of wages and productivity. Unfortunately, producers rarely raise wages on their own and unless the labour market is tight they are reluctant to provide fair wages and a decent work environment. When unions agitate for improvement in wage rates and work environment, producers allege that they are disruptive, antagonistic, hostile and opposed to employers.<sup>1</sup> This is usually not the case, because trade unions' interests lie in the growth, development and prosperity of the enterprise with which they are associated [see APFOL (2003) and Kemal (1982)].

The ILO promotes not only higher employment levels but decent work as well. The overall growth and intensity of labour govern the demand for labour, and in the absence of distortions in the market determine fair wage rates. However, it has been observed that it is the labour policy of a country that protects the right of workers and ensures fair

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wages and a decent work environment. For this, however, the labour policy of a must adjust to different stages of economic development.

Together, Social forces, government, and employers' and workers' representatives and their respective associations and unions determine the growth strategy, employment levels, wage rates and work environment. This tripartite mechanism has been the main instrument for bringing industrial harmony though both workers and producers are generally not satisfied with the outcome.

Labour legislations make it binding on employers to provide workers with decent wages and a decent work environment, which facilitates production without disruption. However, the implementation of these laws leaves much to be desired. Employers and workers in Pakistan have established the Workers and Employers Bilateral Council (WEBCOP) with a view to resolving the major issues between them. WEBCOP provides a "platform to meet the challenges of change to ensure industrial growth, employment, prosperity, joy and happiness with equal opportunities to all, respecting each others' needs and move together towards a prosperous Pakistan for all of us and our future generations" (WEBCOP, 2000). WEBCOP provides a forum for resolution of industrial disputes, and for social dialogue between producers and employers aimed at the promotion of educational and vocational training, better industrial relations, determination of minimum wage rates, industrial legislations and their implementation, workers' participation in decision-making, and for achieving higher levels of profitability and wage rates. This will not only strengthen trade union movements but serve the interests of both workers and producers.

Plan of the study is as follows. After this introductory section, rationale, context, and scope of WEBCOP are examined in section II. The evolution of tripartite mechanism and the social dialogue between workers and producers in Pakistan is examined in section III. The structure and objectives of the WEBCOP are presented in section IV. The issues discussed in the WEBCOP and the outcomes are analysed in section V. The factors that may result in the success of the WEBCOP are examined in section VI. A preliminary evaluation of the success of the organisation and desirability and possibility of replicating in other countries is examined in section VII. The main conclusions of the study are summarized in the concluding section of the study.

## **RATIONALE, CONTEXT AND SCOPE OF SOCIAL DIALOGUE**

Social dialogue as a means of dealing with social conflicts between capital and labour is not a new concept. It can be traced back to the late nineteenth and early twentieth century ideological currents in Europe which resulted in the recognition of workers' rights, including the right to trade union organization. Cooperative industrial relations in collaboration with workers' representatives were the main elements of this ideology<sup>2</sup> (See Mosley, Keller and Speckesser 1998).

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There is a mistaken belief that the gains of labour are at the expense of capital and that resolution of conflict between labour and capital is a zero-sum game. In fact, higher wages motivate workers and productivity levels increase, so this cooperative solution is a positive-sum game and a win-win situation. However, if they do not cooperate, both workers and producers stand to lose. Thus, their objectives ought to be to attain higher levels of national welfare and bring about an equilibrium at higher levels between wage rates and marginal productivity of labour.

Social dialogue may be tripartite, with the government as an official party to the dialogue, or bipartite between labour and management with or without government involvement; informal or institutionalized or a combination of the two; at the national, regional or enterprise level; or inter-professional, sectoral or a combination of both.

Whatever the mechanism, the main goal of social dialogue is to build a consensus and ensure democratic involvement of the main stakeholders in the world of work. Successful social dialogue structures and processes have the potential to resolve important economic and social issues, encourage good governance, advance social and industrial peace and stability, and boost economic progress. An important premise of the social partnership is the right of employees to form unions to represent their interests and of producers to expect higher levels of productivity.

The role of government in social dialogue, even in the bilateral process, is quite important. Government must create an enabling environment for employers' and workers' organizations to operate freely, without fear of reprisal. Though the state's role may be passive, it would bring the social partners together and provide legal and institutional support so that both parties act effectively.

There are factors that influence industrial relations:

- The neo-corporatist approach that stresses the importance of organized interests, especially the role of employers' organizations and trade unions in regulating industrial relations and in policy-making (see Marks *et al.* 1997)<sup>3</sup>;
- An institutionalized direct participation in the formulation and implementation of labour market policies, especially in tripartite labour market authorities;
- The participation of social partners in active labour market policies as sponsors of various programmes; and
- Pursuit of labour market policy goals through collective agreements.

The tripartite system is in vogue in many developed and developing countries including Pakistan. The various ways in which this system influences the decision-making process include<sup>4</sup>:

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- Tripartite labour market authorities give the social partners' real influence on labour market policy beyond general forms of participation in the political process or merely an advisory role;
- The legitimizing and lobbying function in the tripartite system can increase public support for active measures because it is indicative of a broad consensus and represents a long-term and formalized commitment on the part of the powerful social groups;
- The inclusion of representatives of the social partners and other public organizations can facilitate cooperation and induce other actors to coordinate their own activities;
- The number and diversity of the actors represented on the governing bodies can make decision-making more cumbersome, or, even result in politicization; and
- A classical problem of the devolution of responsibility of government functions to private actors is that the social partners — like other organized interests — may not adequately reflect public interest or even that of all their members.

A formal role for the social partners in tripartite institutions, however, does not necessarily mean real influence; it depends on the extent to which the tripartite mechanism can exercise real autonomy vis-à-vis the state and its capability in influencing the social partners. The tripartite system is generally successful if there is political support. Political support varies from country to country and within a country over different time periods. For example, in countries with a strong corporatist tradition, the tripartite mechanism has hardly any role in the formulation and administration of active labour market policies. However, tripartite labour administrations play a major role in countries with weak corporatist traditions. Tripartite institutions are quite successful countries where the social partners are important because of linkages to collective bargaining, and are program sponsors, but where the social partners are weak and fragmented, such institutions play only a minor role. Moreover, tripartitism can have a negative impact on organizational cohesion and efficiency and the internal conflict of the social partners; employers' organizations may not adequately represent the perspective of SMEs or micro enterprises, and trade unions not adequately represent the interests of unorganized workers. The number and diversity of the actors represented may make decision-making more cumbersome, and may even result in politicization. While internal conflicts may be detrimental to the tripartite mechanism, a working policy consensus between employer, employee, and government representatives may be sufficient.

The most important prerequisite of effective social dialogue is that trade unions and employers' organizations be broadly based and representative and there be consensus on the measures and the government be supportive and base its policy on their

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recommendations. This is an important condition if they are to function effectively and avoid a number of possible negative effects including internal conflicts.

## **SOCIAL DIALOGUE IN PAKISTAN**

At the time of independence, the Labour Act of 1926 governed labour relations in Pakistan. This was replaced by the Labour Ordinance of 1969, which led to employers' recognition of trade unions and added a new clause against unfair labour practices. It protected workers from victimization by employers because of their involvement in trade union activities. Since then, various measures have been taken for protection of workers.

Tripartite consultation between representatives of government, employers' and workers' organizations takes place at both the national and provincial levels. The main purpose of tripartite meetings is to bring together government, employers' and workers' representatives to discuss their problems and understand and appreciate the point of view of the other parties and come to a decision acceptable to all the parties. Joint consultation between social partners has been instrumental in promoting better understanding among stakeholders on various issues and has played a significant role in evolving principles and policies that have helped in shaping industrial relations in the country. While governments are not enthusiastic about sharing the decision-making functions, past experience has shown the futility of issuing directions without prior consultation.

ILO Convention No. 144 on tripartite consultation requires that representatives of employers and workers freely choose their representative organizations. This assumes the existence of independent and active organizations of workers and employers enjoying the right of freedom of association so that they can contribute to promulgation of socio-economic policy decisions. Administrative support for tripartite consultation is to be provided by the government and consultation is to be undertaken at the appropriate intervals.

In the Indo-Pakistan subcontinent, the Royal Commission on Labour in India, 1931 recommended tripartite consultation on labour matters on the pattern set by ILO. It envisaged a statutory organization sufficiently large to ensure adequate representation of the various interests involved. The commission's recommendation was implemented in 1942 and the Indian Labour Conference and Standing Labour Committee were instituted. After independence, institutions were set up at the national level, namely, Pakistan Tripartite Labour Conference (PTLC) and Standing Labour Committee (SLC). The first meeting of PTLC was held in February 1949 and that of SLC in November 1949. The meetings of both SLC and PTLC were held at regular intervals annually or in alternate years during the 1950s and 1960s. Between 1949 and 1969, as many as 17 PTLCs were arranged by the government. While four such conferences were held over

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the period 1972-78, since then only three such meetings have been held — in 1980, 1988 and 2001.

The SLC and the PTLC are not statutory bodies and have been set up through government resolutions. The PTLC has been constituted to advise on matters referred to it by the government, while the SLC deliberates either on its own or on matters referred to it by PTLC. It may be noted that the PTLC is a larger and more representative body than the SLC, and PTLC meetings are given due importance by the government and inaugurated either by the prime minister or the labour minister. The objective of the two organizations are to:

- Bring about uniformity and remove lacunas in labour legislation;
- Lay down procedures for settlement of labour disputes; and
- Discuss all issues between employers and employees.

In addition to the PTLC and SLC there are other national-level fora as well, where representatives of employers and workers are invited along with other representative groups for consultation. These for a include a tripartite board of trustees to manage the affairs of employees Old Age Benefits Institution and a board of governors to look after the working of the Workers Welfare Fund. Similarly, tripartite institutions exist at the provincial level to manage the affairs of Provincial Workers Welfare Boards and the Provincial Social Security Institutions and Minimum Wage Boards.<sup>5</sup>

Of the three parties, government has been the major player in wage determination in Pakistan. It has been influencing wages directly through specification of pay scales for government employees and indirectly through labour laws that enhance or circumscribe the power of trade unions which are a party in wage decisions (see Irfan, 1989). One major intervention of the government has been the specification of minimum wages. The Minimum Wage Ordinance promulgated in 1961 provides for the establishment of Minimum Wage Boards which included workers' and employers' representatives. The ordinance seems to have been in response to the recommendations of the Karachi Board of 1957 and the ILO mission to Pakistan both of which stressed the need for a subsistence wage in "sweated industries" (see Irfan, 1989).

The board fixes the minimum wages for unskilled and other workers for the economy as a whole or for a specific industry. While giving minimum wages the board is expected to take into account the minimum needs of workers, profitability, capacity of the industry to pay and the comparative wages elsewhere in the economy. However, the minimum wages fixed over time, reflect only changes in the cost of living on the basis of subsistence wages. While minimum wages have been fixed since 1961, their implementation leaves much to be desired. Only where trade unions were strong, were workers able to get minimum wages specified, while non-unionized labour hardly benefited from the legislation.

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Pakistan has an elaborate bilateral mechanism for resolution of industrial disputes. Failing a bilateral resolution, a notice of strike or lockout can be served and during the 14 day period of notice, the government machinery undertakes conciliation proceedings. If this too fails, the aggrieved party can go to the labour court for adjudication.

Despite all the conciliation mechanisms, there have been a large number of work stoppages and mandays lost resulting in heavy loss of output. The maximum number of stoppages and mandays lost were in 1991: 94 stoppages involving 116,306 workers and 582,694 mandays lost. Though this reduced considerably, the number of mandays lost was still 188,453 in 1998-99 (see *Pakistan Labour Gazette*, 2002). Nevertheless, over the last couple of years, the number has declined significantly.

The core component of the 2002 labour policy is bilateralism. The policy's principles, objectives and action programme focus on a relationship of trust and cooperation between employer and employees under the strategy of least intervention by the state (see Labour Policy, 2002). It points out that the traditional environment of mutual antagonism and mistrust between employers and labour has adversely affected investment, business profitability and growth, without which security of jobs, decent wages and social protection of workers cannot be ensured; thus a employer-employee relationship based on trust and partnership would go a long way in improving productivity. Towards this end, the labour policy 2002 aims at enhancing the required social dialogue between labour and employer by facilitating and nurturing bilateral mechanism for negotiations and mutual cooperation. The policy accords full support to WEBCOP and lays down that the regulatory authority of the government will be exercised only when bilateral mechanisms are unable to resolve conflicts. The government is to facilitate in evolving bilateral codes of conduct at the levels of enterprise and industry. It emphasizes:

- (a) Reciprocal rights and obligations of both the parties;
- (b) Communication between management and CBA; and
- (c) Here foster willingness to play a positive role in enhancing organizational performance.

Social dialogue is based on the premise that it can fully protect workers' rights. At the same time with the advent of globalization, Pakistani products have to improve their competitiveness and for that, harmonious relations between producers and workers are absolutely essential. Though there are tripartite mechanisms in Pakistan and the government, producers and workers participate on various committees, as noted above, this has not resulted in improved relations between the parties. Bilateral dialogue between workers and producers culminating in an agreement which may then be legislated by the government has a better chance of implementation.

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WEBCOP is an organization where bilateral discussion between employers and trade unions can result in agreements that have the potential of effective implementation. Such agreements would help in the early resolution of issues and, most importantly, in the implementation of government laws and regulations reached through mutual consultations. WEBCOP is on various committees including the Tripartite Labour Standing Committee, Tripartite Labour Advisory Board, Tripartite Productivity Council, Tripartite National and Provincial Training Board, Tripartite Minimum Wage Council, Tripartite Health and Safety Councils, and various Tripartite Welfare Authorities including the Workers Welfare Fund, Education Cess, Workers Participation Fund, EOBI and Social Security.

Obviously, if WEBCOP has to be successful the members of the council must be fully representative of workers and producers. So far it has been represented by like-minded persons and a very large number of producers have not been represented on WEBCOP. For example, there is no formal representations of various chambers or the federation of commerce and industries. Also, while some of the most influential labour leaders are part of WEBCOP, some others are not. Most importantly, WEBCOP must have government patronage but not control to ensure that the agreements reached by the council are accepted by the government. It needs to be noted here that the draft Industrial Relations Ordinance approved by the council was not endorsed by the government and that workers do not approve of the ordinance issued by the government as amended by the cabinet.

The scope of WEBCOP includes almost all aspects of industrial relations. As a matter of fact, the council can act as an advisory body to the ministry of labour on industrial relations and help in the formulation and implementation of labour and industrial policies. It can provide an institutional framework for voluntary mediation, conciliation and arbitration of industrial disputes, without polarizing and politicizing the issue, in a practical and conducive environment.

### **THE STRUCTURE AND OBJECTIVES OF WEBCOP**

WEBCOP still has to come out with a formal structure though in the near future its structure is expected to be approved. It was also believed that the government by itself cannot bring about good industrial relations but an agreement reached through a social dialogue between the producers and workers has better prospects of implementation.

Around the late 1980s some enlightened industrialists and a few moderate trade union leaders floated the idea of a joint forum where they could take decisions that help in harmonizing industrial relations. In July 2000, producers, union leaders and a few professionals signed a memorandum of understanding (MoU) leading to formation of

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WEBCOP. These like-minded producers and labour union leaders believe that good industrial relations will help bring improvements in the levels of productivity. In the process, production levels and quality of products would improve and both producers and workers will benefit.

There is no formal structure of WEBCOP at present and the Sindh Skill Council<sup>6</sup> has provided the secretariat. The head of the Skill Council is the convener and the working of WEBCOP is governed by the MoU signed in 2000. The signatories to the MoU are the Employers' Federation of Pakistan, all major labour federations and labour confederations of Pakistan, and independent experts.<sup>7</sup> WEBCOP has four office bearers: a convener from the employers and a co-convener from the workers, a secretary from the workers and a joint secretary from the employers. Headquartered in Karachi, WEBCOP has five chapters, one each located in the four provinces and one in the federal capital. These chapters are expected to form a network and spread the benefits of WEBCOP throughout the country.

It is expected that in August 2003 the WEBCOP structure will be formalized and a Memorandum of Association will be signed. It shall comprise mainly nominated members from organizations of workers and employers besides experts and professionals of high repute in the area of industrial relations and human resource development. The 40 founding members of WEBCOP will initially serve as the General Council but new members will be nominated by organizations and associations of both employers as well as labour. The independent experts will be invited by the governing board; these experts will be just advisory members and will not have the right to vote. The board will comprise not more than 22 members: the chairperson, vice-chairperson, secretary-general, additional secretary-general, and 18 other members. It will be elected by the General Council and shall hold office for two years.

A meeting of the General Council will be held once a year, though an extraordinary meeting can be called any time ten days' notice. The management and control of WEBCOP shall rest with the governing board which will meet at least once every quarter. The board will have the following functions:

- (a) to manage the affairs of the society for the attainment of the objectives as set out in the MoA;
  - (b) to decide all matters relating to the affairs of the society and do all such acts, deeds, matters and things as may be conducive or incidental to the functioning of the society for the attainment of the objectives set out in the MoA;
  - (c) to frame rules and regulations; and
  - (d) to form chapters of the society in all provinces, while the provincial chapters in turn will form sub-chapters in districts, towns and the cities, as the case may
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be, and frame rules for their powers, duties and functions with the approval of the board.

There will be four office bearers: the chairperson, vice-chairperson, secretary-general and additional secretary-general. The chairperson would be eligible to serve for a maximum of two consecutive terms of two years each and thereafter with a break of not less than one term. The chairperson shall also provide the secretariat to WEBCOP and have the overall responsibility for the effective functioning of the society. The chairperson shall preside over the meetings of both the Governing Board and the General Council. The vice-chairperson shall have the same powers in the absence of the chairman.

The secretariat provided by the chairperson shall be headed by the secretary-general who will be appointed by the Governing Board on the recommendation of the chairperson for the period the chairperson holds the position. The secretary-general shall direct and supervise the work of the secretariat, including finance, and shall coordinate the work of the society. The secretary-general shall submit a report of the activities of the society to the Governing Board and the General Council. The additional secretary-general will perform all the duties delegated by the secretary-general and in the absence of the secretary-general will perform all the duties of the secretary-general.<sup>8</sup>

The society shall confine its activities only to the objectives of the society as set forth in the MoA and the income and property of the society from whatever sources shall be utilized/applied solely towards promoting the objectives of the society and no portion shall be paid by way of dividend, profit, bonus to any member/office bearer of the society or otherwise. The only exception is the expenditure that may be incurred for administrative purposes prescribed by the society.

## **Objectives**

The overall objective of the council is to promote harmonious industrial relations so that there is an improvement in productivity that serves the nation. Higher levels of output result in higher levels of profitability for producers and higher levels of wages for workers. The specific objectives that WEBCOP would pursue include the following:

- (a) Promoting employment opportunities and enhancing the employability of the available workforce;
  - (b) Removing impediments in the way of speedy industrialization;
  - (c) Fostering sound industrial relations at the enterprise/industry as well as at the provincial and national levels;
  - (d) Achieving a balance between the rights and obligations of industrial partners;
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- (e) Developing a basis for determination of wages without interfering in the process of collective bargaining and to help in creating wage productivity linkages with due regard to the cost of living index in order to keep an enterprise viable and thriving;
  - (f) Promoting productivity and quality improvement efforts at the enterprise/industry level in order to meet the challenges of globalization and other environmental changes;
  - (g) Improving quality of life for the working class by establishing a linkage between the pace of economic development and quantum of social benefits;
  - (h) Developing an effective participative culture at the enterprise level through bilateral consultation and dialogue on matters relating to industrial relations, productivity, safety, health, environment, investment, employment and socio-economic benefits;
  - (i) Promoting agro-based industries with the purpose of obtaining prosperity for rural workers and improving the quality of their life;
  - (j) Activating and extending full support to tripartite bodies for accomplishing their task efficiently and in the best national interests, particularly in;
    - Tripartite Labour Standing Committee at the federal level
    - Tripartite Labour Advisory Boards at the provincial level
    - National Minimum Wages Council
    - National Productivity Council
    - National Health and Safety Council
    - National Training Board/Provincial Training Board
    - Workers Welfare Fund/Board
    - Employees Old Age Benefit Institution
    - Sindh Employees Social Security institution (SESSI)
    - Skill Development Councils
    - Workers Management Board
    - Overseas Pakistanis Foundation
  - (k) Providing a bipartite institutional framework for voluntary mediation, conciliation and arbitration of industrial disputes, in a practical and conducive environment without polarizing and politicizing the issue;
  - (l) Providing the necessary guidance and assistance in matters relating to industrial relations and labour laws;
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- (m) Augmenting training, educational and research facilities with a view to upgrading the skills and knowledge of workers, managers and employers;
- (n) Devising a code of conduct, keeping in view the existing national and international norms and obligations, to enable employers and workers to working jointly for improving efficiency and productivity of the enterprise and develop a system benefiting both partners; respecting the right of association and collective bargaining with due appreciation of their rights and obligations; and demonstrating mutual respect for the obligations and rights of each other;
- (o) Achieving mutually acceptable reforms in the existing labour laws and lending full support and assistance to their improvement, simplification, rationalization, codification and implementation;
- (p) Creating an environment of trust, harmony and understanding among workers and employers; and
- (q) Securing, receiving, accepting and managing and/or investing funds, donations, grants, endowments and any other property or properties from lawful sources within and outside the country and to utilize them for furthering and promoting the aims and objectives of the society.

## **ISSUES DISCUSSED AT WEBCOP AND THE RESULTS SO FAR**

WEBCOP by bringing the two parties of production closer helps in promoting greater understanding by dispelling the misunderstanding between the workers and producers. As pointed out in APFOL (2003), workers strongly believe that the forum will help in forging unity between workers and producers and this will help in raising productivity and consequently leading to an increase in exports, generating more employment opportunities, checking the flight of capital and brain drain, and bring about all-round prosperity in the country to the mutual benefit of employers, workers and the nation at large. Besides harmonization of industrial relations, WEBCOP is expected to take all the measures that will improve productivity levels and wage rates. This section examines what WEBCOP has accomplished over the last three years.

Even though WEBCOP still has no formal structure, it has made significant contributions with long-run implications for the economy. The areas in which WEBCOP has made interventions so far include skill development, child labour issues, minimum wages of workers, and revision of the Industrial Relations Ordinance and labour policy.

### **Skill Development**

While the productivity, quality and competitiveness of any industry depend on the availability of the requisite skilled workforce, hi-tech industries and sophisticated service activities simply cannot exist in their absence. Unfortunately, not only are skilled workers

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in short supply in Pakistan even the requisite skills for the new industries are generally not available. This is despite the fact that there are various polytechnic and vocational institutes that impart training. Also, it is generally felt that the training is of poor quality and mostly in redundant fields.

Since the secretariat of WEBCOP has been the Sindh Skill Council, its major stress has been on the development skills of that accord with the demands of producers. The institutionalization and recognition of skill development councils has been one of the primary concerns of WEBCOP. In fact, President of Pakistan has agreed to be a Patron of Training in Pakistan and the National Training Ordinance has also been promulgated. WEBCOP envisages annual national skill competition with cash awards to persons with knowledge and skill in their respective fields. While these are important developments, much more needs to be done. With a view to increasing the demand for acquisition of skills, skilled workers in short supply need to be well remunerated. WEBCOP should guide the skill councils on which skills should be imparted by the various institutions in Pakistan.

### **Improvement in Science and Technology**

Whereas skills are important for better-quality products, science and technology is crucial in better designs of products. Besides other industries, science and technology plays a rather important role in the development of engineering industries. However, it was relegated to low priority especially in the 1990s when the focus on primary education was at the cost of higher education.

Research and development activities (R&D) in Pakistan have been quite limited. Not only have the resources for R&D been small, even the resources available have not been optimally used. Duplication of work in various organizations and the absence of interaction across the industrial sector has been the major problem in the development of science and technology. WEBCOP hopes to coordinate the work of the ministries of labour, education, science and technology, and industries and avoid duplication. This help promotion of science and technology. Though a very important intervention, it is rather ambitious.

### **Advice on Industrial Policy**

In its preamble WEBCOP clearly states that it will help in meeting the challenges of globalization and the New World Order to the national economy through mechanism of consultation. Accelerating industrial development and economic growth through bilateral partnership of workers is the objective of both the producers as well as workers. While globalization will help the working class because labour-intensive countries have a comparative advantage in the products that use more labour, because of reduction in the protection rates the profitability of producers would be squeezed. Through better

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industrial relations, producers can raise productivity levels, competitiveness and profitability. Moreover, if producers are convinced that employing regular workers instead of contract workers results in higher levels of productivity, the quality of products will improve, leading to further enhancement of their competitiveness. However, since the country does not have comparative disadvantage here, a large number of firms would close down, resulting in a sharp growth in unemployment. These redundant workers need to be retrained and WEBCOP can play a major role in this direction.

With globalization and the consequent reduction in import duties, WEBCOP recognizes the significance of tariff rationalization and calls for a cascading tariff structure and minimum difference between the rates of import duty on inputs and finished goods. WEBCOP has also been giving advice on various economic policy issues.<sup>9</sup> Since Pakistan is pursuing privatization policy and this entails rightsizing and downsizing of workforce WEBCOP has suggested that such measures must be accompanied with rehabilitation of the affected employees through training, retraining, self-employment and counselling.

### **Elimination of Child Labour**

Over the last few years, Pakistan's exports have suffered because a number of Western countries have alleged that child labour is being used in the carpet and football industries in Pakistan and thus imposed restrictions on imports of these products from the country. Though Pakistan has legislated against child labour, neither just legislation nor restrictions on exports is the solution to the problem. The basic cause of child labour is poverty and the poor send their children to factories to supplement incomes. Therefore, unless the poor are compensated for the loss in earnings they will not withdraw child workers from factories. In view of these considerations, WEBCOP, the relevant department of the Ministry of Labour along with ILO have taken three initiatives. First, child workers are educated after working hours to ensure that workers are not deprived of human capital. Second, child workers are not allowed in hazardous industries. Third, it is required to be certified through a credible system that no child labour has been used in the manufacturing of that export product.

### **Minimum Wage Legislation**

Pakistan has an extensive system of industrial labour legislation to ensure fair wages. Since these legislations apply only to those firms that employ more than 10 workers and are registered, instead of hiring permanent workers producers opt for contract workers, who are not covered by the labour legislation. Employees in the informal sector are also not covered by the labour legislation and work long hours for low wages.

The minimum wage legislation protects workers as it gives floor wage rates. Minimum wage of Rs 1500 per month was fixed nine years back and with an ad hoc relief it was

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increased to Rs 1920. On the basis of increase in the cost of living, workers expected this it would increase to Rs 3000. However, such wage increases would have been applicable only to workers in the formal sector. Considering that workers do not benefit from the minimum wage legislation because producers hire contract workers, to whom the legislation is not applicable, workers agreed in WEBCOP to a restriction of the minimum wage rates to Rs 2500, and this has been extended to all workers, including in the informal sector.

### **Revision of Industrial Relations Ordinance**

The Industrialization Relations Ordinance (IRO) governs industrial relations. The 1969 IRO has become obsolete producers and workers agreed on a draft ordinance which met the concerns of both parties. Under the auspices of WEBCOP, since WEBCOP did not have government backing, the draft IRO was amended in such a way by the cabinet that the workers have lot of reservation about it. Had the government accepted the recommendations of WEBCOP, there would have been no problems with the IRO.

### **Formulation of The Labour Policy**

The delay announcing the labour policy impacted badly on industrial relations and productivity levels in Pakistan. The two contentious issues have been the hire-and-fire powers of entrepreneurs and the right of strike of workers. With help of the WEBCOP a consensus was reached on the labour policy, which has finally it has been issued.

### **A PRELIMINARY EVALUATION OF WEBCOP AND POSSIBILITIES OF ITS REPLICATION ELSEWHERE**

It is rather premature to evaluate the performance of WEBCOP because so far it does not have a permanent structure and all associations and unions of workers and producers are not represented in the council. It needs to be underscored that the council is not going to be just an industrial relations body. It has gone beyond that by advising the government on industrial policy, skill development and other such activities.

In skill development, besides having the President of Pakistan as its patron and having awards instituted for skilled workers, WEBCOP has not been able to do much. Similarly, the advice on industrial policy has not been well examined in light of the long-run welfare of the country. Moreover, though WEBCOP has an ambitious programme for improvement in science and technology whether it will be able to deliver is doubtful. On the other hand, its initiatives in child labour and minimum wage issues and the announcement of the labour policy show that WEBCOP can be an important instrument of social dialogue and resolution of the problems between producers and workers. It is

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imperative for the success of WEBCOP that government provides support to the council as envisaged in the 2002 labour policy. So that the decisions taken by it are respected by both workers and producers. Because the government did not accept the recommendations of the council the IRO is not acceptable to workers.

Other countries can follow the example of Pakistan. However, it needs to be noted that WEBCOP has emerged from the desire of both producers and workers for cooperation. The government has played a rather passive role.

## CONCLUSIONS

Social dialogue for resolution of conflicts between capital and labour is not a new concept and as a matter of fact it can be traced back to the late 19th and early 20th century ideological currents in Europe which resulted in the recognition of workers' rights, including the right to trade union organization. It includes all types of negotiation, consultation or simply exchange of information between, or among, representatives of governments, employers and workers, on issues of common interest relating to economic and social policy. Through the dialogue increase in wages and marginal productivity would create a win-win situation.

Social dialogue would have greater chances of success if trade unions and employers' organizations have the necessary technical capacity, and access to relevant information and there is political will and commitment to engage in social dialogue on the part of all the parties. Social dialogue may be tripartite or bipartite with or without government involvement; informal or institutionalized and at national, regional or at enterprise level. The government must create an enabling environment for employers' and workers' organizations to operate freely, without fear of reprisal. Even though the role of state in bilateral mechanism is passive it does bring the social partners together and provide legal and institutional support and enables both the parties to act effectively. The main goal of social dialogue is to forge a consensus among the main stakeholders on important economic and social issues, encourage good governance, advance social and industrial peace and stability and boost economic progress. Tripartite system is generally successful with high and more stable levels of political support but it can disrupt organizational cohesion and efficiency and internal conflict that may result from the incorporation of the social partners.

The Indian Labour Conference and Standing Labour Committee were instituted in 1942 and soon after independence institutions at national level Pakistan Tripartite Labour Conference (PTLC) and Standing Labour Committee (SLC) were created in Pakistan. Between 1949 and 1969, as many as 17 PTLCs were held, and four such conferences were held over 1972-78 period but there has been only three such meetings since then in 1980, 1988 and 2001. Besides PTLC and SLC representatives of employers and

workers are invited along with other representative groups for consultation including tripartite Board of Trustees to manage the affairs of Employees Old-Age Benefits Institution and a Board of Governors to look after the working of Workers Welfare Fund at national level and Provincial Worker Welfare Boards and the Provincial Social Security Institutions and Minimum Wage Boards.

Government has been influencing the wages directly through specification of pay scales for government employees and indirectly through labour laws that may enhance or circumscribe the power of trade unions which act as a party in wage decisions. The major intervention has been the specification of minimum wages but their implementation leaves much to be desired.

There is an elaborate mechanism for resolution of industrial conflicts bilaterally. In case it is not resolved bilaterally, a 14 day notice of strike or lockout can be served, during which government machinery makes conciliatory efforts and if that also fails, the aggrieved party can go to the Labour Court for adjudication. However, despite that there have been a large number of stoppages and days lost resulting in heavy loss of output. The maximum number of stoppages and the mandays lost has been in 1991; 94 stoppages involving 116,306 workers and 582,694 mandays were lost. Since then, the number of stoppages and days lost have considerably reduced, but the number of mandays lost was still 188,453 in 1998-99.

In the 2002 labour policy bilateralism is the core element and calls for removing the environment of mutual antagonism and mistrust between employers and labour as it affects adversely investment, business profitability and growth. In WEBCOP there is bilateral discussion between the employers and the trade unions. At present there is no formal structure of WEBCOP though all major labour federations and labour confederations of Pakistan and the independent experts are associated with it. The formal structure of WEBCOP to be approved shortly will have nominated members from organizations of workers and employers besides the experts and professionals of high repute in the area of industrial relations and human resource development. It would participate in various committees including Tripartite Labour Standing Committee; Tripartite Labour Advisory Board; Tripartite Productivity Council; Tripartite National and Provincial Training Board; Tripartite Minimum Wage Council; Tripartite Health and Safety Councils; and various Tripartite Welfare Authorities including Workers Welfare Fund, Education Cess, Workers Participation Fund, EOBI and the Social Security.

Obviously if WEBCOP has to be successful the members of the council must be representatives of the workers and producers associations. Similarly all trade unions must be associated with it. Most importantly the council must have government patronage not with a view to controlling WEBCOP but to ensure that the agreements reached by the WEBCOP are accepted by the government.

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WEBCOP has contributed significantly towards various issues that will have long run implications for industrial relations including the minimum wages of the workers, drafting of Labour Policy and resolution of child labour issues. However because of the lack of patronage by the government its draft on Industrial Relations Ordinance was not approved. However, it has so far contributed very little to skill development or the promotion of science and technology.

The other countries can follow the example of Pakistan. However, it depends whether the producers and the workers themselves want to establish such an organisation. The successful experience of WEBCOP may create an interest in the workers and producers in the other countries for cooperation that result in win-win situation. It is important that such an organisation shall have to be developed without involvement of the government, though the government support would be vital for the growth of such a Council.

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## **NOTES**

1. This impression may not be right, because if the establishment to which a worker belongs is in trouble and closes down, the worker is the loser. If the firm continues operation and increases profitability, both producers as well as workers are gainers.
  2. This has been quite at variance with the Marxists who emphasize class conflict and revolutionary change.
  3. Corporatist patterns in wage bargaining and their impact on economic performance are well documented in studies on industrial relations and in the general economics theory. See, for example, Appelbaum and Schettkat (1997).
  4. For details see Mosley, Keller and Speckesser (1998).
  5. For details, see APFOL 2003.
  6. It is expected that in August 2003 a Memorandum of Association (MoA) will be signed which will formally give the structure, objectives, laws and by-laws of WEBCOP.
  7. The forty signatories include four independent experts (proposed by both employers and trade union leaders), 18 employers and 18 trade union leaders.
  8. No member of the society including its office bearers shall hold any office of profit or accept employment for remuneration in the society. All such services shall be in a honorary capacity.
  9. It is important to note that even though the producers in WEBCOP belong to the formal sector, they also call for promotion of the informal sector.
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# Social Dialogue and The Flexible Wage System in Singapore

*Hing Ai Yun*

## INTRODUCTION

This paper proposes to examine the viability of social dialogue, more specifically tripartism, as a satisfactory and fair means of determining wage levels. As wage levels establish the way life is lived for workers, wage determination is a crucial problem, especially in capitalist economies where the interests of capital differ radically from the interests of labour. Singapore is a good example where tripartism and social dialogue have been practised since the inception of industrialization. While authoritarianism was responsible for the initiation of the system, the relative success of Singapore's industrialization has prompted others to look at how the system has delivered a relatively high standard of living for its workers besides establishing a stable and rational society able to withstand crisis and erratic turns of capitalist business cycles. While it cannot be said that the relative success of Singapore is all due to the nature of its industrial system, it can be said that the tripartite character of its industrial system does play a major role in providing a comparatively predictable investment site for MNC-led development and long-term political and social stability.

Here, a specific aspect of Singapore's industrial relations system will be considered. The role of social dialogue in wage setting can be considered basic to the well-being of the national and household economy in Singapore. Singapore's peculiar conjunction of forces in history and subsequent development which accounts for its present political economy cannot be emulated in toto. Nonetheless, an investigation into how its tripartite system of industrial relations emerged and developed, more specifically, how social dialogue established and shaped its wage structure and guided the process of wage determination can provide lessons on how to negotiate the contrary interests of labour and capital to settle for a sustainable level of wages for the long term.

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## ILO AND WAGE DETERMINATION

Wages have the most direct impact on the everyday life of workers. “Since its early days, the question of decent wage levels and fair labour and remuneration practices has been at the centre of ILO’s action and the ILO has advocated labour standards seeking to guarantee and protect workers’ right in respect of wages” (ILO website on wages). The original Constitution of the ILO, which was established in 1919, referred to the “provision of an adequate living wage” as one of the improvements urgently required for the promotion of universal peace, and to combat social unrest, and the hardship and privation affecting large numbers of people. The origins of Convention No. 95 are to be found in ILO’s report on the “Future Policy, Programme and Status of the International Labour Organization” presented at the 1944 conference in which it was pointed out that “wage policy lies at the core of the preoccupations of the International Labour organization”.

The ILO’s stand on wages is consonant with the idea that the provision of an adequate living wage is a basic requirement for the building of world peace, harmonious societal relations and social stability. This is one area of improvement urgently required if we want to promote universal peace and ameliorate social unrest. The ILO has always stressed that its policies in regard to wages and earnings, hours and other conditions of work that ensure a just share of the fruits of progress to all and a minimum living wage to all employed and in need of such protection.

Additionally, one of the ILO principles adopted in 1944 by the International Labour Confederation held in Philadelphia says that “Labour is not a commodity”, for the simple reason that serious social conflicts will arise if market forces were allowed to completely take over the determination of wages. Implied herein is the reasoning that labour has to be removed from the market and that wages need to be regulated through long-term collective agreements endorsed by the state.

Unfortunately, we still see conventional theories on wages extolling the market as a useful mechanism for the efficient allocation of labour, and for directing labour to its most productive use (Polachek & Siebert, 1993). This approach ignores the different implications wages have for employers and workers. Whereas wages are a cost to employers and a tool for motivating workers to higher productivity, to employees wages represent their standard of living, self-fulfillment and an incentive to acquire skills for the market. The recognition of the contradiction in the interests of employers and workers with respect to wages is the first step to handling the question of wages in a sensitive and balanced manner.

Unfortunately, the price allocation approach tends to be normative. It overstresses coherence and underplays the role of conflict and scope for discretionary/amelioratory actions. Ignoring the contrasting interests of employers and employees is to

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depoliticize changes in wage distribution by attributing fundamental wage movements to changes in productivity trends and not to changes in the balance of power within the labour market. There is a converging trend in globalization studies (Kurzer 1993, Katz & Darbishire 1999) that has argued that “globalization” — frequently understood in terms of capital mobility or the threat of exit — has shifted the balance of power decisively toward employers. Unions are seen as the main defenders of traditional practices, but their power to resist decentralization and deregulation is sapped by ongoing struggles with employers and, in many countries, also undermined by high unemployment” (Thelen & Kume 1999, 478). More importantly, the market approach discourages state intervention to mediate the harshness of market forces.

Recent evidence indicates that market-driven globalization has generated greater instability in wage structures as they are subject to a more diverse and unpredictable array of forces. Crucially, the disciplining effect of the changing external environment — the power of financial capital and the threat of withholding cross-border investments — has caused an epochal shift in the relative bargaining power of labour, capital and the state. One result is that pay determination is no longer constrained by social norms or accepted notions of a going rate or a living wage. The expanding power of international capital has also pushed for a particular pattern of deregulation which has in turn boosted the power of institutions such as the large multinational firm with a global reach. This could explain the higher volatility seen in recent wage movements as companies move to contingent practices such as part-time work, contract work and temporary work (Smith 1998). Compensation issues have figured prominently in research/debates relating to economic restructuring and unemployment.

A range of scholars hold that globalization threatens workers’ rights because it erodes the state’s inclination and capacity to guarantee them (Tilly 1995). However, this paper will argue with others (Regini 2000, Anderson-Connolly et al. 2002) that states should not be characterized as unitary nor self-evident determinate structures with fixed parameters of authority. Structures are emergent and inherently dual in that they both shape and are shaped by human agency. Besides, the multi-layered structures comprising local arenas of social action, culture and custom can all be claimed to be both uncertain and potentially transformative, apart from contributing to the reproduction of social life. Building strong institutions such as the state and international establishments such as the ILO will help empower workers’ demand for decent living and working conditions.

One way of living with capitalism is to use social dialogue to enhance accommodation and tolerance when diverse parties have to live and work with each other. The primary goal of social dialogue is to promote consensus building and democratic participation among the major parties involved. Once successfully established as a custom, social dialogue has the potential to amicably resolve major problems of production and

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distribution and thus ensuring political/social stability and smooth functioning of the social and economic system despite batterings from both domestic and exogenous sources.

Social dialogue as defined by the ILO includes “all types of negotiation, consultation or simply exchange of information between, among, representatives of governments, employers and workers, on issues of common interest relating to economic and social policy” (ILO website). Social dialogue can be bipartite and confined only to employers and employees without government intervention. “Concertation can be informal and institutionalized”, taking place at the enterprise, national or regional level.

According to the ILO, the conditions that facilitate social dialogue include the presence of strong independent unions and employers’ organizations, the political will to engage in social dialogue on the part of all parties, and respect for freedom of association and collective bargaining. ILO standards concerning social dialogue include basic ILO conventions such as Freedom of Association and Promotion of the Right to Organize Convention, 1948 (No. 87) and Right to Organize and Collective Bargaining Convention, 1948 (No. 98) which are aimed to strengthen representation, capacity and services of the parties to social dialogue.

The role of the state, however, is crucial to the success of social dialogue even when the state does not play a dominant role, as in the case of Singapore. The state has the capacity to create a stable political/civil climate that will make social dialogue, and not conflict, could become the more attractive option for parties when manoeuvring their contrary interests. The state also guarantees the legal and institutional framework to ensure that agreements can be carried out.

The ILO has listed a variety of modes for implementing social dialogue. Amongst them are information sharing, consultation and in-depth exchange of views, tripartite negotiation, and collective bargaining (ILO website).

Tripartism is an important means of establishing social dialogue. Tripartite cooperation is defined refers “to all dealings between government and workers’ and employers’ organizations concerning the formulation and implementation of economic social policy”. The Tripartite Consultation(International Labour Standards) Convention, 1976 (No. 144) especially requires effective consultation between government, and employers’ and workers’ representatives at each stage of ILO standards-related activities. A number of other conventions such as those regarding minimum-wage fixing, and the worst forms of child labour also foresee consultation between government, and labour and employers’ organizations.

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## **HISTORICAL BACKGROUND OF SOCIAL DIALOGUE IN SINGAPORE'S INDUSTRIAL RELATIONS SYSTEM**

This paper argues that the accumulation of state power in Singapore stems from the conjunction of unique historical forces at the point of political independence in 1965. The capacity of the state to preserve its power lies in its long history of incorporating/engaging employers and labour in a broad-based alliance. Deploying an array of tools over time, the state has been able to maintain its dominance in this alliance to establish a stable investment climate resulting in more than four decades of high growth and improved lives for workers. During the initial phase of industrialization, the state's strategies had originally included massive coercive measures to build a disciplined and rational workforce. A switch to policies manufacturing consent was enforced when Singapore's competitive edge of low-waged labour was eroded. Singapore then urgently needed to extend education to the masses in order to cope with globalization and the transition to a knowledge-based economy. In this ongoing process of give and take, the state has unintentionally empowered labour for more critical feedback, whereas a more matured and rational workforce has accepted the need for subdued wages for long-term accommodation with capitalism.

The following is an analysis of a particular state initiative — a flexible wage system and the tripartite mechanism for its implementation — established with the aim of preserving wage stability and the long-term goal of full employment. The shift is not aimed to weaken labour but to preserve existing tripartite agreements of full employment in exchange for industrial peace and stability.

As part of British Malaya, Singapore shares with India a history of colonial rule and protracted struggle for political independence. The Malayan Communist Party was at the forefront of this struggle which culminated in the declaration of emergency rule in 1948. The Internal Security Ordinance was the most powerful deterrent under emergency regulations because it allowed detention without trial. It was the detention of left-wing trade unionists that threw the first prime minister of Singapore, Lee Kuan Yew, into contact with these militants in his role as legal adviser. With other British-trained elites who sought indigenization of the civil service, Lee Kuan Yew formed a group of social democrats willing to work with pro-communists to seize power from the colonial government.

The scene was set for an elite-trade union alliance as a form of post-independence rule, which was established in 1965. However, a contemporary state-labour alliance was realized only after a long-drawn-out process of wranglings and manoeuvrings, and not before the pro-communist unionists had been ousted from the alliance. The mass backing of left-wing trade unions had to be replaced by an alternative trade union structure organized by the state. Early acceptance of the rule of the newly created state-labour

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alliance can be attributed to the combination of dire circumstances facing the nation that made it conducive for legitimating authoritarian centralized rule.

The first traumatic event was the expulsion of Singapore from Malaysia and the proclamation of its independence as a sovereign republic in August 1965. On top of this was the announcement in January 1968 that the British would pull out their military force by 1971. Faced with an unemployment rate of nearly 15 per cent, no natural resources and no domestic market to speak of, Singapore was confronted with a dismal economic situation and the urgent need to build a livelihood for its people. The time was ripe for rule by a strong leader. With a relatively uneducated population and a weak bourgeois class comprising mainly apolitical transient merchants, the British-educated elites led by Lee Kuan Yew easily filled the political vacuum left by the British.

The lack of a domestic market constrained Singapore's choice of development strategies. Despite the unpopularity of foreign direct investments and the adoption of English as the medium of business communication, Singapore had to opt for what was at that time considered politically incorrect strategies. Fortunately, as it turned out, staying different from others in the region proved to be advantageous for Singapore's economic development. Its anti-communist stance at the time when the US was bent on cultivating frontline states in East Asia also helped Singapore gain easy access to the US domestic market and US investments. Today, it can be said that nearly three-quarters of industrial assets are owned by foreigners.

Apart from the strong state apparatus left by the British, the labour movement was the only developed institution left at that time. The elimination of pro-communist forces from the politics of Singapore set the stage for the forging of an alliance between reformed labour and the state powerfully backed by the Internal Security Act (providing for detention without trial) inherited from the British. Injection of government personnel and funds into the labour movement thereafter ensured a less than equal labour-state alliance. Nonetheless, even under these circumstances of rapid growth, labour did enjoy one of the highest standards of living in Asia

## **NATIONAL POLICIES AND WAGE FIXATION IN SINGAPORE**

Prior to the establishment of the tripartite body, the National Wage Council (NWC), wage negotiations in Singapore were often conducted in an atmosphere of relative freedom and in a rather haphazard manner. The long tradition of state-working class violence (Stenson 1970) was made worse by rivalry between union federations. Table 2 reflects Singapore's early history of turbulence in its industrial relations set-up. Even though labour at that time was surplus levels of unemployment were high, trade unions could continue pressing for better wages and fringe benefits for their members. Wage

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increases were either ad hoc or largely determined by the bargaining strength of unions and management. Wage disputes and strikes were common, resulting in many lost man-days (see Table 2).

Prior to gaining political independence in the 1960s, Singapore's economy was largely based on entreport trade. It was a typical low-wage-surplus-labour developing economy with unemployment averaging 14 per cent and annual growth rates of 5 per cent between 1960 and 1964.

From 1965, with the switch from import substitution to export-oriented labour-intensive industrialization, a relatively low-skilled low-waged workforce came to be deployed in labour-intensive industries. Singapore was competing globally in terms of costs because of its situation of surplus labour. Nonetheless, this growth strategy was able to achieve annual growth rates averaging 9 per cent per annum which reduced unemployment to 8 per cent in 1967 and to 4.8 per cent by 1971. Concern that the high economic growth rates might lead to uncontrolled wage rise as industrial disputes became rampant, tough legislations were introduced in an attempt to control labour costs and rationalize the labour movement.

Regulating labour was not an easy task and there was a peaking of industrial unrest during this period in response to the introduction of strict labour legislations from 1959 to 1979. These legislative moves had the effect of:

1. Making it almost impossible for trade unions to go on strike The Industrial Relations Ordinance, 1960 was instituted to set out collective bargaining procedures through compulsory conciliation and arbitration. Strikes and lockouts were prohibited once an industrial dispute was referred to the industrial arbitration court;
2. Excluding from collective bargaining personnel issues such as transfer, promotion, termination of service due to reorganization, assignment of duties. The Industrial Relations [Amendment] Act, 1968 gave greater discretion to employers in the deployment of their workforce: decisions on promotions, internal transfer of employees, hiring and dismissals were left completely in the hands of the employer.
3. Limiting the sums payable on bonuses, annual paid leave, retrenchment and retirement benefits, and overtime (Employment Act of 1968);
4. Establishing the Tripartite National Wages Council in 1972 to ensure the establishment of 'orderly' wage regulation.

All these measures combined to serve as a deal for wage restraint packaged together to help make Singapore an attractive investment site. In the larger scheme of things, this can be said to be part of the initial attempts to rationalize the trade union

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movement starting in 1968 (NTUC 1970) and made in parallel with the shift to rationalize the whole of Singapore society. The trade union movement was to subordinate its sectoral interests to the advancement of national interest. It was to be a party to consultation and not confrontation. It was envisaged that the educative and socializing role of trade unions would be rapidly expanded.

Moves to rationalize the economy were a preparation for the next investment-driven phase of Singapore's industrialization (1980s–1990s). By 1979, unemployment had declined to 3.3 per cent. Continuous and rapid expansion of the economy following economic recovery in 1976 had led to acute shortage while productivity remained low. This necessitated a shift from the existing labour-intensive growth to capital-intensive development. Thus, the high wage period of 1979–1981 reflected in part a new strategy of discouraging intensive use of labour and instead going in for higher levels of automation and mechanization to achieve higher value-added activity in capital-intensive production. With this in mind, a generalized skills development fund was set up to promote skills upgrading. Besides, the productivity movement was launched in 1981 to introduce the concept of productivity and to disseminate productivity techniques through cooperative efforts of tripartism.

Despite the efforts by the NWC to moderate wage increase, labour shortage continued to lead to high wage growth and increasing cost of doing business all round. The recession of 1985 led to the realization that a reassessment of the whole process of wage fixing and a change in the wage structure was called for in an era of fast-changing global competition. The NWC started by imposing severe wage restraint between 1986 and 1987. In examining the question of wage rigidity, it was decided that wages and performance must be closely linked if Singapore was to sustain long-term economic development and a stable income for its people. Towards this end, the idea of flexible wages was introduced and a subcommittee was set up to study the whole question of wage fixing for the next phase of growth which was to be based on innovation.

For innovation-led growth, Singapore had to be much more efficient in the use of its capital and human resources. It began emphasizing the use of total factor productivity (TFP) growth (changes in output generated per unit of input) figures which were employed by advanced industrialized economies as a major growth indicator during the innovation-driven phase of development. In the meantime, cost consciousness via the productivity-wage linkage continued to be focus upon and monitored constantly. The NWC used this two-pronged approach to ensure tripartite consensus in the orderly development of wages with a view to advancing economic growth.

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## **SOCIAL DIALOGUE AS A MECHANISM FOR PROMOTING SINGAPORE'S INDUSTRIAL DEVELOPMENT**

Government initiatives to rationalize the economy after the first recession of 1973 were timely. For, by 1970, Southeast Asia had become an attractive location for investment capital fleeing the restructuring of the American economy. While this led to a fall in Singapore's unemployment rate (to 4.8 per cent by 1971) it also meant that if business costs were not moderated, other countries in the region would become more attractive as investment sites. Despite the government's many attempts to increase domestic sources of labour supply by encouraging women to work and by increasing the flow of migrant labour, the increasingly tight labour market conditions continued to drive wages upwards. It was then that the minister of finance came up with the NWC as a solution to the erratic movements of wages which could discourage the inflow of foreign investments rushing into the region at that time.

With hindsight, the careful and sustained cultivation of Singapore as an attractive profit centre and the fact that at that time it was generating the highest returns on investment worldwide for US manufacturing investment must have combined to encourage employer cooperation in early initiatives to institute tripartism as a major means of resolving industrial relations issues. The Association of Risk Analysts, New York (ST 9 April 1983) listed Singapore among the top five countries as a safe haven for investment because of its political stability. Such accolades have become normal characterizations of Singapore's political economy given by eminent ranking institutions such as the World Economic Forum (in the World Competitiveness Reports). Over the years, the Singapore government has built for itself a credible reputation as a trusted friend of international capital. Thus, its capacity to draw the cooperation of capital in policy crafting and implementation.

### **National Wages Council**

Formed in February 1972, NWC is the chief plank of social dialogue and wage determination in contemporary Singapore. As a tripartite advisory body, it reviews wage rates and wage trends regularly (usually annually but more frequently during times of economic crisis) within the context of Singapore's economic performance cognizant of prospects for economic growth and the international competitiveness of Singapore's economy. It then submits its recommendations to the prime minister and the cabinet for approval. On acceptance, these recommendations become gazetted under Section 49 of the Employment Act (Chapter 91 of the 1985 revised edition). These recommendations serve as guidelines to both employers and workers in their wage settlements.

More specifically, the original terms of reference for the NWC included:

- Formulation of general guidelines on wage policy
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- Adjustments to wage structure with a view to developing a coherent wage system consistent with long-term economic development
- Advice on incentive system that promotes productivity and efficiency

From 1972, the Singapore economy underwent several rounds of restructuring and the NWC played a crucial role in helping to restabilize the economy. During the inflationary period of 1973-74, the NWC recommended for high wages but it also came up with a mechanism to ensure that the wage increase proposed would not erode the purchasing power of workers. Via this mechanism part of the wage increase was channelled into the compulsory pension fund to which both employers and employees contribute, the Central Provident Fund (CPF) (Lim and Chew 1998). The latter fund has been responsible for the over 80 per cent of home ownership in Singapore. The CPF can now also be drawn on for payment of medical expenses. Thus wage changes were carried out in an equitable and orderly manner.

Apart from ensuring that wages do not contribute to inflation, the NWC's deliberations took into account Singapore's priority for full employment. As a small and open economy, Singapore had to perforce keep a watchful eye on the threat of imported inflation. Guidelines for wage adjustments were therefore intentionally cognizant of "the need to maintain full employment" (Lim and Chew 1998, 6).

Deliberations of the NWC were carried out with a view that wage increase should not be delinked from growth in productivity. Towards this end, the NWC proposed the establishment of the Skills Development Fund, a payroll-based contribution, for a general and continuous system of education for workers.

The NWC diligently came up with recommendations, not only on wage adjustment, but also on a broad range of work-related issues such as job-hopping, CPF changes, and skills development for workers. By 1980, it was estimated that NWC recommendations had benefited more than 90 per cent of eligible employees. Since its establishment in 1972, nearly all recommendations of the NWC had been increases until the onset of the downturn with the 1997 financial crisis. The NWC guidelines have generally provided the basis for negotiations between labour and management and final settlements have tended not to differ much from the guidelines set.

Under a "neutral" chairmanship, the NWC now has 30 members with 10 each representing employers, the government and trade unions. Of the 10 employers' representatives, two each represent Japanese, German and American MNCs. The principle of equal representation is followed throughout, even for ad hoc committees such as the 13-member Subcommittee for the Flexible Wage System (FWC), with four members each representing the three interest groups (state, labour, capital) party to the social dialogue/industrial relations system. (See Table 1 for the make-up of the FWC).

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According to Professor Lim CY, till recently the chairman of the NWC, "None of us associated with it expected it to have a life-span of more than two or three years. Disagreements and disputes among ourselves on contentious issues would have terminated the life of the Council in the interim" (NWC 1992, v). The unanimity principle and the Chatham House principle of non-attribution on deliberations, according to Professor Lim, could have contributed to the general acceptance of the recommendations of the council. "NWC would have broken down, had it started off without the adoption of this tough and time-consuming unanimity principle" (1992, v), As deliberations remain confidential, there is less danger of their becoming politicized.

The non-mandatory nature of NWC recommendations and the fact that flexibility of implementation (given more emphasis during the later stages of its development), which depends much more on the ability of employers to pay, also helps enhance their acceptability.

Despite strict adherence to these principles, there were times when the deadlock between the parties looked set to end in discord. Lim describes vividly how on one occasion he had to physically move between the rooms occupied by the two major proponents (labour and capital), desperately hoping to effect a conciliation. He expressed his great sense of relief when he went to the room occupied by the trade union for the ninth time and their spokesman said: "Professor Lim, actually we have found it impossible to agree with the employers, particularly on the inclusion of that clause. But out of sheer respect for you, since you have encouraged us to accept their amendments, we would give way, so that you can have a consensus" (Lim and Chew 1998, 17).

Even though one would generally think of tripartism as incorporating three chief parties, in reality one can also find a diversity of interests within each of the three main groups. For instance, the employers' group in Singapore is segmented along industry and nationality lines (60 per cent of Fortune 100 companies have operations here). Each of the smaller interest groups would tend to push for preferential treatment for their particular interest. Different ministries within the state sector have their own particular objectives; for example, the Ministry of Finance would be more concerned with the financial implications of the NWC recommendations as a public sector employer; while the Economic Development Board would be watching over how wage adjustment guidelines would affect the inflow of FDI; and the Ministry of Labour's interest lies in the impact of NWC recommendations on the maintenance of industrial harmony.

Hence, the first step in consensus building is the cementing of internal disagreements within each of the three major parties. This can only be achieved gradually because the majority view will act as a pressure for the others to fall in line. Sometimes the whole process of arriving at a decision regarding a particular issue can take years.

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The chairman does not have a casting vote. Though the toughest part of implementation is the insistence on consensus, it is the persistence to achieve consensus that contributes to the success of implementation. Tripartite consensus itself serves to tie the parties into implementing the recommendations.

The NWC meets during the first half of each calendar year so its recommendations are applicable from July to June of the following year. As public sector pay increases are normally announced one or two months after the publication of the NWC guidelines, employers and unions do take public sector salary adjustment into consideration in their own wage settlement. Between 1988 and 1996, as the NWC moved towards more qualitative guidelines, public sector wage adjustments were made to become the quantitative guidelines for the private sector.

While the NWC recommendations are not mandatory, they serve as useful reference points for negotiating wage settlements. Besides, the recommendations are also used as tripartite wage guidelines to help dissolve disputes brought for arbitration before the Ministry of Labour. When wage disputes arise, they are first sent to the Ministry of Labour for mediation/conciliation and finally channelled to the Arbitration Court.

Currently, union density in Singapore hovers in the 17-23 per cent range, depending on the definition of what is a union. Wages are determined by collective bargaining for about 60 per cent of unionized workers. Wages are basically enterprise based, even for industrial unions. This is because, though branches are given some general guidelines by headquarters, they still do their own bargaining at the enterprise level. However, amendments to the law in October 2003 will gradually increase the number of workers covered by general unions as these unions can now negotiate with companies to represent workers on limited matters.

For non-unionized workers, employers are the sole authority in the determining of wages.

## **SOCIAL DIALOGUE UNDER MATURING CAPITALISM**

Tripartism had actually worked quite well in Singapore, under normal circumstances. What saved the credibility of the NTUC was the rapid diffusion of development benefits to workers. As of today, more than 90 per cent of the population are staying (long-term lease) in public housing with 93 per cent ownership. The 2.5 infant mortality rate is more than comparable to that of the advanced developed economies. The continuous expansion of the economy has allowed for a high rate of upward social mobility. The past four decades have seen the Singapore economy maintaining almost full employment. It appears that the maintenance of industrial harmony has brought beneficial results for the majority of the population. Full employment has been the most crucial protective shield for workers.

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However, capitalist cycles of boom and bust have often put the system under strain. During periods of high growth, employer federations were often hard put to restrain individual companies from following the wage guidelines set by the NWC, whereas state-NTUC appointees pushed for wage expansion to compensate wage cuts instituted during previous downturns. However, due to years of cumulative goodwill, some kind of negotiated settlements emerged after social dialogue.

Below is a summarized highlight of past NWC recommendations for wage adjustment until its own review of 21 years of its establishment in 1992:

- Moderate wage increase 1972-1978
- High wage increase 1979-1984
- Wage restraint 1985-1987
- Qualitative wage increase 1988-1992

In its own review after 21 years of its operation, the NWC's summary of its performance indicated successful handling of wage regulation over the years (National Wages Council 1972). Early wage increase of 6-9 per cent were given to ensure steady wage increase and to share in and maintain economic growth. Singapore's manufacturing wages were three to five times lower than those in the industrialized economies. From 1979 to 1984, a high wage policy was followed to facilitate restructuring to more high-tech production. Part of this high wage was channelled into the CPF to avoid inflationary effects. A skills development fund was proposed to support the shift to a higher level of mechanization and automation. But due to rapid expansion of the economy, wages rose way beyond productivity due to acute labour shortage. The ultimate consequence was that Singapore's labour cost shot up to about 50 per cent above that of its Asean neighbours by 1985. The recession of 1985 was followed by a phase of wage restraint. The first recession that hit Singapore during the 1984 global downturn showed up the weakness of the tripartite edifice which appeared to have worked so smoothly up until then. It was in this context that the NWC undertook an in-depth study to see how companies could quickly respond to sudden economic crises by adjusting wages rather than downsizing or resorting to retrenchment.

## **WAGE SYSTEM IN SINGAPORE**

Prior to the implementation of the Flexible Wage System (FWS), the basic features of the wage system were as follows:

1. Wages in the unionized private sector, governed by collective agreements (which last for two-three years) comprised:
    - Salary ranges/salary scales with predetermined end points and annual increments given automatically. Rates of increments were set out in the
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collective agreement. Between the late 1980s and the 1986 recession, most annual increments fell within 6–8 per cent range (NWCWR 1986, 4).

- Annual NWC wage adjustments. The NWC's guidelines were for wage increase every year.
  - Annual wage supplements (AWS) or bonus. The AWS was fixed by legislation and ranged from one to three months' basic wage. Most companies would pay an equivalent of one month's basic wage.
  - In addition to normal annual increments, merit increments may be granted to outstanding workers.
  - The annual increments, merit increments and NWC wage adjustments, once given, were regarded as part of the basic salary and continued to be given in subsequent years.
2. The salary ranges of the non-unionized private sector included annual increments which were not predetermined. Wage increases were decided annually, depending on market forces, NWC guidelines and norms set by the unionized sector. Seventy-five per cent of companies surveyed in 1986 April were paying AWS (NWCWR 1986, 6).
  3. In the public sector
    - Public officers (except those in the superscale category) were appointed to salary scales with preset annual increments, normally averaging 4 per cent of the basic wage. These were almost automatic. Salary scales could range from 8 to 15 point differences (for 48.2 per cent of the scales). The civil service at that time had 151 scales.
    - NWC recommendations were generally applied across the board.
    - Only one month's annual wage supplement was paid to all.
    - Since 1982, an incentive of about half month's salary was paid in July every year.
  4. Non-bargainable employees did not enjoy automatic annual increments which were decided annually, depending on the performance of the individual and the company and on market conditions. They could also be given a variable bonus payment (one-time payment).

## RECESSION AND THE 1986 WAGE REFORM

The success of Singapore's foreign investment industrialization was able to support four decades of growth averaging 8 per cent per annum. Rapid expansion of the economy allowed the orderly yearly increase of wages which helped sustain industrial peace during that period.

However, the onset of the recession 1986 brought a realization that the rapid growth of the past decades would gradually slow down as Singapore transited from a manufacturing to a more service-oriented economy. The automatic wage increments built into long wage scales could no longer be supported by an ageing workforce, showing the limits of capitalist development. As a result of the declining rate of economic expansion, a way had to be devised to distribute the pie whose growth would now be in slow decline.

This logic was labelled as the problem of “rigidity”, meaning that the economy could no longer afford the steady improved living it had been giving to the people. In particular, specific features of the existing wage structure were highlighted by the NWC’s Subcommittee on Wage Reform for attention and improvement:

- High annual predetermined increments tied in by collective agreements that lasted for two-three years. While this provided for stability and security of income, it presented companies with formidable hurdles for readjustment when their performance deteriorated or when the economy was on a downturn.
- NWC guidelines were too broadsweeping, with too little attention to company/individual performance.
- Increments once granted, became permanent additions to basic salary.
- AWS based on quantum was frozen by law on 1 July 1972.
- The seniority system of the salary scale had a wide range of two-three times whereas in Japan and Europe it was around 1.8 and 1.3 respectively for male manual worker’s in the manufacturing sector.
- The above often resulted in retrenchment when companies made losses. Longer service workers were often the first to be retrenched.

### **FLEXIBLE WAGE SYSTEM (FWS)**

In 1985, the Economic Committee identified high wage costs and the rigidities in the wage system as important causes for the loss of Singapore’s competitiveness and the 1985 economic recession. As a consequence, reform in the wage system became a major plank in the regulation of economic change for future stability. In 1986, Subcommittee on Wage Reform examined how wages should be regulated (NWCWR 1986) and recommended the flexible wage system.

A variable wage system was proposed which would link rewards with the company’s and the individual’s performance. The aim was to minimize retrenchment of workers during the downturn by adjusting wages downwards, while companies could reward workers during the good years.

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## Features of the FWS

### *The Wage Structure*

1. *Basic wage* This reflects the value of the job and is a necessary component that serves to give some stability to the income of workers. In the extreme situation where further wage cuts are justified — for example, to stave off closure — a wage freeze may be instituted. The worse-case scenario is a wage cut.
2. *Variable wage component (VWC)* Based on company and individual performance of about two months' basic wage (can be paid annually or half-yearly), VWC represents the first target for cost cutting because of its obvious link to company profitability.
3. *Annual wage supplement (AWS)* One month's basic wage which forms the second target for cost cutting when business conditions worsens, AWS varies from one to three months.
4. *Annual wage increment* This is the small service increment of 2 per cent of basic wage which is included as part of flexi-wage to reflect a worker's service duration, loyalty and experience. The extent of reduction of this component depended on the severity of the downturn and the financial position of the company.
5. The two end points of a salary scheme for the same kind of job should be about 1.5.
6. Wage negotiations should be on the principle that wage increases lag behind productivity.
7. Wage review should be at not more than three years' interval preferably coinciding with renewal of collective agreements.
8. The AWS and VWC should constitute about 20 per cent of basic wage.
9. The profit-sharing model and the variable productivity payment model are specific examples of wage payment systems that satisfy the parameters of the flexible wage system envisaged.

### *Two Models for Basing the Variable Component of FWS*

Two models of FWS were offered that could effectively link productivity with wages. That is, on top of the basic wage and the AWS of one month's wage, the variable component comes in two models as explained below:

1. *Profit sharing*, where the variable wage component (variable performance bonus) would be determined by a profit-sharing formula agreed upon by management and their union and spelt out in the collective agreement. For instance, the formula

could be x per cent of company profit, or, x per cent of company profit above a certain minimum.

2. *Variable productivity payment*, where total wage increase for the year minus the service increment is paid out as a variable wage component (the variable productivity payment) which could eventually build up to two months' basic wage. Wage increase for the year should lag behind company productivity (taking into consideration profitability). Where company productivity figures are not readily available, industry/national productivity/growth indicators could be used instead for determining the quantum of wage adjustment for the year. Where productivity figures varied too much from year to year, an average from three years could be used.

Preferably, the company and union should have a prior agreement on the formula to be used for settling the productivity payments.

### ***Wage Determination Process***

The wage determination process under the flexi-wage system should comprise the following features:

1. To make for greater flexibility in the wage system, wage negotiations should be conducted annually between companies and unions as this would allow for timely adjustment to the company's economic situation and fluctuations in the economy, both national and global. This is to ensure that total annual wage increase did not overtake increments in productivity. Such annual negotiations make sense as product cycles have shortened considerably and global economic conditions have become much more volatile.
  2. A system should be established that links the variable wage component to changes in company profit or productivity to obviate the need for protracted negotiations when the need for wage adjustments arises.
  3. Salary levels should be reviewed periodically in terms of changes in labour market conditions, wage competitiveness, and the age profile of workers.
  4. Wage payments should be closely linked to individual performance. While large companies have established systems of performance appraisal, others are lacking in this area. There are many appraisal systems that could be adapted to local and company conditions.
  5. Smooth implementation of the new system is possible only if management willingly shares information with unions.
  6. A fair performance appraisal system is also needed to ensure a closer correspondence of individual productivity with reward.
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As the change envisaged was considered radical, a five-year period was allowed for implementation of the FWS. To assist small and medium enterprises (SMEs) to implement the system, various workshops, clinics and seminars were conducted.

For instance, the National Productivity Board (NPB) conducted seminar for SMEs (Small and Medium Sized Enterprises) together with the Association of Small and Medium Enterprises on 15 April 1987. The idea of flexible wages is not unfamiliar to SMEs because they are liable to pay wages that correspond to company profitability while keeping an eye on what their competitors are paying. SMEs also do not systematically take into account the productivity of their company or vary wages according to the performance of workers. With this haphazard way of wage payment, SMEs are not effectively tapping the potential of the FWS as both a motivational tool for maximizing worker productivity as well as a strategic tool for maintaining company competitiveness.

Besides these familiarizing workshops, the NPB Management Guidance Clinics have consultants available to help advise local companies on the practical side of setting up the various components of the FWS eg performance appraisal system. Value added workshops are also available to help companies measure productivity and performance.

### **Review of the Implementation of the Flexible Wage System**

In March 1993, the NWC appointed a tripartite review committee to look into the implementation of the FWS and recommend further refinements to the system. The changeover to a more flexible wage system was deemed successful as more than three-quarters of firms have switched to some kind of flexible system. Generally, the variable parts (VC and AWS) were then found to constitute 15.3 per cent of a worker's total wages. "Our workers now have a variable component to serve as a buffer against a business downturn (FWSR 1993, 8)" even though the recommended 20 per cent threshold for variable component of wages had yet to be achieved.

The committee reported that (by 1992), about 85 per cent of unionized companies had adopted the FWS. Though the non-unionized sector was slower to make the changeover, the overall rate of adoption was 71 per cent. Besides, the FWS was also found distributed across sectors of the economy with finance and commerce sectors taking the lead. Seventy-five per cent of firms in these sectors had already implemented the system. A far higher proportion of unionized firms had changed over compared to non-unionized firms. For instance, 92 per cent of unionized firms and 73 per cent of non-unionized firms in the finance sector were practising the FWS (FWSR 1993). (See Table 5 for a detailed picture of the progress made in implementation of the FWS during the initial years.)

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## **Teething Problems**

### ***Moderation of Built-in Wage Increase Needed***

Prior to implementation of the FWS in 1986, when wages were based primarily on seniority, the wage differential between the maximum and minimum points for workers doing the same job was about three times. The ratio was even higher in certain sectors. Conscious efforts by employers and unions to cap the maximum salary had some effect in reducing this ratio. The tight labour market of that time also helped as employers tended to pay higher salaries to entice younger recruits. (Table 6 shows the reduced maximum-minimum ratio of salaries in collective agreements for various jobs compared to the ratio of three prior to wage reform.)

Between 1981 and 1985, there was a nearly 11 per cent built-in wage increase whereas the comparative figure from 1987 to 1992 was 7 per cent. But the committee also noted that the decline of built-in wage increase was not good enough because it still exceeded the national productivity growth rate for the five years 1988 to 1992. This could spell trouble further down the road because “we could be in danger of losing our competitiveness” (FWSR 1993, 11). The committee reiterated that a reasonable ratio between starting and maximum wage should be between 1.5 and 2 times.

### ***More to be done for AWS and VWC***

As to AWS, the picture was not too encouraging. Although labour legislation was amended to allow for greater flexibility — for example, the Employment Act was amended allowing for downward adjustment of AWS when companies faced losses; or to allow companies paying more than one month’s AWS to incorporate the excess into basic wage so that the variable wage component was more closely linked to company performance — few companies actually took advantage of these revisions. Highly profitable sectors in the finance and petroleum sectors tended to give out large quantum of AWS.

For an effective FWS, there should be a close connection between the variable wage component and company performance. This will ensure that when companies are doing well, they reward workers with a one-off variable payment and not a high built-in wage increment, which, when given on a permanent basis, it may not be sustainable in the long term due to unpredictable fluctuations of business cycles. The committee recommended that the guideline of 20 per cent for the variable payment (variable component and AWS) initially given by the NWC was still valid.

### ***Defining Productivity and Profit: A Problem for Negotiation***

The review committee also found that 91 per cent of unionized companies that had adopted the FWS had opted for the profit-sharing model. However, only 33 per cent of

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these worked out a profit-sharing formula with their unions. Others chose some performance indicators to decide on the quantum of bonus to be paid.

Differences over the definition of “profit” had emerged between employers and their workers. Should bonus payment be computed on profit before or after tax? Should extraordinary profit — for example, sale of assets — or loss be included in the computation? Profit reduction may be deemed as loss for employers but not for workers.

In the case of MNCs where transfer pricing is a regular practice, profitability model would be grossly inappropriate because profits are more or less guaranteed (Lee 1987).

### ***Attend more to Individual Performance***

The committee found that while companies were successful in linking bonus payment to enterprise performance, they had not paid sufficient attention to the results of teamwork and individual performance. The committee drew recommended that companies set up systematic appraisal systems for this aspect of performance measurement.

### ***Employers Hesitant to Share Information***

The Review Committee pointed to the need for companies to be more forthcoming in disclosing and sharing relevant information with unions to facilitate wage negotiations to lend credibility to the FWS.

Assistant Secretary-General of the National Trade Union Congress (NTUC) Lim B H, during a seminar on wage reform alleged that “for a flexible wage system to work, employees need to be assured that they are being treated fairly. To do this, they need access to information, particularly of their company’s performance” (1987, 5). In fact, the Singapore National Employers’ Federation (SNEF) even published a model for financial information sharing. Its editorial reinforced the view that information was necessary for the building of trust in the FWS: “As wage increases are linked to a company’s productivity and/or profitability, the necessity to share information, especially financial information, is magnified. Indeed, the success of wage reform could hinge on this issue.”

### ***Scope for Wage Negotiation Enlarged***

Since the linking of wage increase with performance constituted the core of the FWS, the scope of wage negotiation of necessity had to be enlarged. Negotiations could no longer be centred only on the narrow concern about the quantum of wage increase but had also to institute measures to improve productivity at the individual and

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company levels. Properly implemented, the FWS, would actually focus attention on individual, team and enterprise performance alongside have the effect of enhancing the competitiveness of the national economy. In this respect, the FWS can be said to be a tool for thorough rationalization of the national production apparatus.

Unions and companies could now work on enhancing the skills of their labour force; pay more attention to investment in productivity-enhancing technology, improved use of human resources and tapping unused labour such as women and older workers.

### **Fine Tuning the Flexible Wage System**

By 1998 October, more than 90 per cent of unionized companies and 70 per cent of non-unionized companies had implemented some form of a flexi-wage system comprising the basic wage, service increments (annual wage supplement and variable bonus) constituting some 16 per cent of total annual wages (Ministry of Manpower 1998). In the unionized sector, the variable component even reached the “ideal” of 20 per cent. However, during the Asian financial crisis up to the current economic recession, it was found that while the wage system was flexible in linking performance with rewards, it was not flexible enough to allow firms to make quick wage adjustments when faced with a sudden dip in markets or sharp business downturn. “To further enhance the flexibility of our wage system, the NWC recommended that a monthly variable component be introduced” (Ministry of Manpower Procedure and Guidelines).

### **Monthly Variable Component**

The MVC, mooted in 1998, is a mechanism that allows companies to reduce wage costs quickly during economic downturns so that they can remain viable and jobs can be saved. The MVC should come from part of the future wage increase. The percentage to be set aside should be mutually agreed upon between employers and unions. It was hoped that the MVC could be built up progressively to form about 10 per cent of total wages in the private sector. Over time, the current 80:20 flexible wage structure could evolve into a wage structure of 70:10:20 representing basic wage, monthly variable and annual variable components respectively (*Manpower News*, 5 October 1998).

In its guidelines, the Ministry of Manpower cited that an effective MVC scheme should be cognizant of the following principles:

- *Buffer of adequate size*

As far as possible, the MVC should constitute a significant part of the monthly wage for it to contribute to the flexibility of the annual variable component. Companies should try to work towards the recommended wage ratio of 70:10:20 unless the nature of jobs makes it difficult for the MVC to be implemented.

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To date, some 300 companies have implemented the MVC. The average amount set aside is about 2 per cent of the monthly wages

- *Simple to administer*

Ideally, it would be better to build up the MVC for all employees at the same time. In this way, companies could make an across-the-board reduction in wage costs whilst also providing a sense of equity to its employees. The MVC would then not further complicate the existing wage structure

- *Responsive*

The criteria for the MVC should be predetermined so that adjustments can be quickly carried out during a crisis.

- *Applies to all employees*

For its acceptance and in the interest of fairness, the MVC should apply to all levels of employees — management, executives and rank and file whether unionized or not.

- *Not to add to wage costs and erode competitiveness*

The MVC should be built up from wage increases affordable by companies in terms to their performance and productivity.

- *Management leads by example*

This could mean earlier or bigger cuts in their MVC/basic wage. In the 1998 recession, where it was found that management had led by example, it was far easier for companies to implement a wage reduction.

The *Manpower News* reported that 34 per cent of firms in the unionized sector had implemented the MVC in 2001. However, implementation has been more gradual in the non-unionized sector with only 3.4 per cent having implemented the MVC during the same period. The take-up rate was also patchy. The financial sector had more firms adopting the MVC followed by firms in the manufacturing sector. Firms which gave 3 per cent of basic wage increase had set aside 1.21 per cent as the MVC while firms with more than 3 per cent basic wage increase had set aside 2.5 percent, much below the 10 per cent target set by the NWC. Lack of wage increase was therefore one important barrier to implementation of the MVC.

Though 85 per cent of companies have adopted some form of flexible wages and the wage gap has narrowed to 1.7 today, Acting Manpower Minister Ng E H in his 2003 May Day speech said that more can be done to change wage structures so companies can stay viable and jobs can be saved. During the current downturn which was prolonged by the SARS outbreak, it was found that adoption of the new flexible wage system was

far from satisfactory. The NWC in its most recent recommendation (July 2003 to June 30, 2004) has bemoaned that Singaporean wages are still not competitive enough in view of growing competition from regional economies such as China (See Table 3 for competitive position of Singaporean wages). The NWC has even called for more than 2 per cent of workers' basic salary to be put in the MVC (*Straits Times* 22 May, 2003 1). It has also recommended that the minimum-maximum ratio of salary scales should average 1.5 or less.

In fact, remuneration expert Lee P (managing consultant at Remuneration Data Specialist) said that in this storm, "the labour landscape will be changed and wage systems will have to be fine-tuned to be linked to productivity" (23 May, 2003). The current downturn has been seen as the a stimulant for companies and workers to bite the bullet and change over to a new wage system. Since retrenchment figures are expected to inch upwards to a historic high of 5.5 per cent, workers are ready to accept the harsh reality implied by wage reform. The problem has been seen as serious enough for the NWC to set up a tripartite task force to report in six months on measures to drive wage reform.

Realizing the difficulty workers will face in accepting the need to recalibrate expectations of growing affluence from the capitalist economy, top management has to lead by example. In the last two years, 400 top-level officers of the civil service were served pay cuts of up to 24-29 per cent — albeit their salaries are one of the highest worldwide.

On the ground level, however, there is still ambivalence about redesigning expectations built up over years of growing affluence. For instance, 48-year-old clerical worker Tay from RHB Bank alleged that with the old seniority wage system, he would be now earning over \$3000 per month (US\$1 = S\$1.74) . Unfortunately, with the switchover, his pay has remained frozen at \$1960 over the past three years only because it is the maximum point in his pay scale and not due to any other factor:

"I am told that this maximum cap helps narrow the pay difference between senior employees like myself and the younger ones who do the same work . . . . This maximum cap is supposed to help save my job. Yes, I know that, but sometimes it seems unfair. I feel caught between the devil and the deep blue sea — no pay increment and the fear of being retrenched. . . . but as an older worker, I am realistic. Having a job is better than no job, and I don't think I'll be able to find a job elsewhere that will pay me the same salary. . . . .

A long time ago, in my earlier years at the bank, the difference between the maximum and the minimum salary for the job was 3.3 times. This means, based on the minimum salary of \$950, my maximum ceiling was \$3,135. So under this old system, my pay would have been going up to reach that amount eventually. But now, the ratio has been trimmed to about 1.7 because the maximum pay is frozen, while the minimum pay has been gradually going up. . . . At times, you

feel that the company doesn't seem to appreciate your loyalty and hard work for the past 28 years, but I prefer not to dwell on it. . .

My motto is to continually upgrade my skills and make myself more relevant to the company. But it's very difficult for me to move to the next grade because it's an executive's job. This is why I will keep on wishing the cap on my basic pay can still be moved upwards. Who doesn't need more money. (*Straits Times*, 23 May 2003)

### **Tripartism, the Flexible Wage System and its Transferability**

The tripartite body, the National Wage Council, was established with the objective of ordering wage movements and related issues with the view of maintaining full employment, credible savings rate, low domestic inflation, steady exchange rate and international competitiveness. The FWS was introduced by the NWC after the traumatic experience of the 1987 crisis, primarily to save jobs and to maintain Singapore's competitiveness in the global market.

The NWC guidelines have helped reduce wage disputes which in the past were a constant source of discord between labour and employers. Now, the Ministry of Labour and the Arbitration Court can use the NWC guidelines in decision-making. Lim C Y, the academician who until recently chaired the NWC, cited the frequent assurances given him by Director Ong Y H of the Labour Relations Department that the NWC had indeed helped to reduce wage disputes (Lim and Chew 1998, 28). In the absence of the NWC guidelines which are published for everyone to see (thus ensuring transparency), the Ministry of Labour, the Arbitration Court, unions and employers will have to come up with their own guidelines for negotiation which may not be acceptable to all the parties to a dispute. The stable industrial relations climate since Singapore's industrialization is definitely a plus in Singapore's successful drive to attract foreign investments.

NWC guidelines very wisely include a certain flexibility to cope with the complexity of the needs of major parties and their sub-constituents. Recommendations have changed according to economic circumstances in view of the need to maintain the coherence of the economy as a whole. Yet, because NWC recommendations are non-mandatory, companies are not locked into following these recommendations exactly, especially when the recommendations are not the best practical thing given their individual circumstances. Studies show that the association between performance and HR practices is often complicated. For instance, studies on wage structures have shown that the link between wage structures and performance is indeed a contingent one (Beaumont and Harris 2003). A one-size fits-all solution can only bring grief.

Other evidence against the one-size-fits-all solution comes from Singaporean firms' responses to recent recommendations (July 2003-30 June 2004) the NWC. The NWC

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called on SARS-affected companies (comprising 12 per cent of the workforce who work primarily in the tourism and transport-related sectors) to trim their wages to save jobs. Employers in the two sectors (including eight hotels and the National Association of Travel Agents Singapore[Natas]) responded that they had already done so during the peak of the SARS outbreak so there was no need for further cuts. Chief Executive R Khoo of Natas clarified that since early last month when salaries were cut by 20-50 per cent, the situation had stabilized. "Whatever the agencies need to do, they have done. At the beginning of this month [May 2003], business travel is already picking up." Travel agencies like Chan Brothers which earlier retrenched some workers, had all their counter staff back and working full hours to cope with rising sales. Larger hoteliers said they had avoided and were likely to avoid layoffs as the room discounts they had given to Singaporeans were paying off. General manager A. Ross of the Sentosa Resort and Spa responded that with the upturn in mind, "we need happy, motivated, and fairly rewarded employees to deliver the guest experience".

In this instance, then, does it then appear that the NWC recommendations are redundant? The view of companies, as expressed by general manager D. Puri of Holiday Inn Park View, is that it is good that the NWC has given the nod to wage cuts if they save jobs "what's encouraging is that the NWC is preparing people for the worst".

Transparency of NWC recommendations makes its logic easy to follow. Since the NWC's guidelines are based on a thorough audit of the state of the economy, the recommendations on wages parallel the development of the economy. Thus, the rapid expansion of the Singapore economy over the past four decades has indeed been faithfully reflected in real wage increases for workers. According to Lim (Lim and Chew 1998, 31), "that Singapore worker can have each year an average compound rate of real wage increase of 4.9 per cent per year for 25 years is thus a remarkable achievement". This has enhanced to the credibility of the NWC recommendations, especially when compared to income growth in countries like the US where real wages went down by 2 per cent per year in the last two decades (Bergsten 1996), a trend confirmed in Thurow (1966,6) where the US was shown to have experienced "a less than 1 per cent year decline in the real wages of non-supervisory workers for more than 20 years".

Important to emphasize too is the fact that, despite these decades of continuous wage improvements, the economy remains sound and stable. Other than imported inflation from the global oil and food crisis in 1973-74, in other years Singapore has witnessed relatively low rates of inflation. For instance, during the period 1987-1996, the inflation rate was a global low of 2.2 per cent. Unemployment averaging 2.5 per cent prior to the Asian financial crisis was almost non-existent (Lim and Chew 1998, 33). Additionally, due to its high growth rate, Singapore has experienced a high savings rate, which reached 49.7 per cent of the GDP in 1996 from only 24.5 per cent in 1972.

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Wages regulation could not have succeeded without a slew of other measures to support it. Significant is Singapore's policy towards skills development, especially in consideration of the rapid restructuring of firms over the past five years. Overall investment in employees' training by companies came up to 3 per cent of payroll (Ministry of Manpower 1998). Today, one in eight older workers has received training compared to one in 25 in 1988. Joint tripartite efforts have played a part in mobilizing older workers to retrain so that their employability can be enhanced in a market characterized by high rates of skill obsolescence. The Skills Redevelopment Programme (SRP) run by the NTUC since 1996 reached 5,000 workers in 76 companies. The government has given a grant of \$50 million to expand the SRP.

### **Transferability of Systems**

Tripartism in Singapore cannot be totally transferred to another social context as the inception, evolution and subsequent success of tripartism there came about through the historical conjunction of a multiple diversity of forces.

As a small society without a rural economy, Singapore is characterized by a simple class structure relatively free from strong cross-class pressures. Thus bureaucrats who built up its system of governance were also relatively free from having to contend with the backward class of the traditional bourgeoisie. About three-quarters of the land in Singapore being state held, state elites had to deal only with the strong pro-communist unions which were disarmed through alliance and other historical circumstances difficult to repeat.

The important lesson learnt here is that for any system of tripartism to work, it has to be credible to both employers and labour. The rapid and sustained expansion of the Singapore economy over the past decades has seen the visible expansion of the middle classes which provided the upward thrust underlining aspirations and hopes that the fruits of economic development to trickle down to the rest of the working population. Despite attaining one of the highest salaries worldwide for civil servants, Singapore's state elites cannot be compared to predatory elite classes of surrounding countries who control over national resources.

Additionally, Singapore embarked on the building up of a relatively non-corrupt state apparatus from the early inception of the civil service. Up until today, this aspect of Singapore's economy has been a plus in terms of attracting investment draw legitimation for authoritarian rule. The Asia Pacific Management Forum and Transparency International have both rated Singapore as the least corrupt among Asian countries (Asia Pacific Management News, 1999 online). On top of that, Singapore has consistently attained high scores in the World Competitiveness Report. The World Economic Forum ranked Singapore fourth in the Growth Competitiveness Index Ranking (Global Competitiveness Report 2001-2002, online).

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Since respect and trust are important for tripartism to work, schemes must be implemented with patience, sincerity and openness. Employers themselves recognize this. How A, a senior consultant with the Hay Group (US compensation consultancy), observed that, "Communication to employees is critical in order to ensure buy in and understanding the MVC." Comments the managing director of Systron Power Systems, workers will have to get used to the MVC concept (*Streets* 23 May 2003, 2). That firms have not gone immediately and enthusiastically into the flexi-wage system attests to the resilience of traditional institutions built up over years. But, more importantly (often unrecognized), it is employers' heightened reliance on predictable relations with labour at the enterprise level in view of JIT practices and networks (Streeck 1987) that makes them hesitate to make wholesale changes. Time must be given to iron out the glitches.

The nature of the NWC itself is important. Principles of consensus, confidentiality in discussions, acceptance by the government: all these add to the credibility and general acceptance of its recommendations. Even though the recommendations do not have the force of law, they are generally followed by major parties in the industrial system. That the recommendations are not mandatory actually provide the necessary flexibility for initiatives suited to individual firms.

## CONCLUSION

Wages are fundamental to the well-being of workers and their families. As employees constitute a substantial majority of any society (wages comprise about 45 per cent of Singapore's GDP), the manner in which wages are set is crucial for social stability and harmonious living.

While societies have to grapple with intensified market forces to ensure that their workforce are not treated as mere commodities, it is not easy to tread the fine line between market and social justice. Social dialogue and tripartism are significant modes of accommodation that have been devised to cope with the harshness of living with capitalism. As a result of devising the NWC as a mode of accommodation of the contrary interests of labour, capital and the state, Singapore has up till now succeeded in avoiding the instability of capitalist economies. Lim and Chew (1998, 5) quote a consultant to the Asian Development Bank and the International Bank for Reconstruction and Developments, Root H. "The tripartism fostered by the NWC has allowed Singapore to become a showcase of successful human resource management. . . . The success of the Council is a strong argument for more direct involvement of governments and donors in the process of institutional innovation."

However, as Singapore's system of social dialogue and tripartite arrangements for settling wage and other employment issues has arisen from a set of unique historical circumstances, its transferability is not direct and simple. First, due to the simplicity of

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Singapore's class structure and its small physical size, the pioneers of Singapore's system of tripartism could enforce accommodation amongst the three major parties in industrial relations with relative ease.

Nonetheless, that the system could be sustained by general acceptance is on account of several important factors. Workers have learnt that, while authoritarian, the system delivers continuous improvements in their standard of living. If its elites have also rewarded themselves handsomely, they cannot be compared to predatory leaders from the surrounding region. Professor Lim, chairman of the NWC since its inception until 2001, in rebutting the labour market as a fish or cattle market, commented that, "It is a labour market, where fellow human beings are directly involved. If the stock market can have regulators in order to ensure fair and orderly trading, should a market dealing with human beings and our fellow citizens be completely laissez-faire and Darwinian, with survival of the strongest as its only mission and aim?" (Lim and Chew 1998, 45)

The flexi-wage system was implemented with the base-up system (which attempts to reduce the minimum/maximum points of a salary range) which has tended to erode the hope and aspirations for a better future. Studies have also found that while payment by results is "positively associated with good establishment performance, both as measured by labour productivity increases and as measured by financial performance" (Heywood et al. 1997, 19), good industrial relations and consultation can also contribute to productivity and financial performance of firms in the absence of payment by incentive schemes.

At the time of writing, ravaged by threats of job loss as unemployment figures head for the historic high of 5 per cent, workers may be pushed to accept the MVC rather than lose their jobs. The immediate reason for acquiescence, the current serious downturn, is the push needed to get reform the wage structure to the norm. The Ministry of Manpower's survey (3,500 companies) in early 2002 found that close to two-thirds had no wish to implement the MVC. The three reasons given were that the wage structure would become too complex, employees may not be receptive, and difficulty of knowing when the MVC might be restored or cut (*Straits Times*, 13 December 2002). The challenge to the flexible wage system is to remain transparent and fair in its implementation: cuts during bad times and restoration during good times. More crucial is the fact that tripartism as a system cannot be taken for granted. The trials and tribulations brought on by capitalist cycles will put it under constant stress. If the principles of fairness and tolerance are observed, the system will be strengthened with each negotiation which can be turned into an opportunity for building rather than a chance for the exercise of power.

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**Table 1a: Flexible Wage System Review Committee**

Members	Institutional Affiliation
Chair	Economics Professor
Employers' Representatives 4	Singapore National Employers' Federation 2 American Business Council 1 1 Pte Ltd
Workers' Representatives 4	National Trade Union Congress 3 1 Sector Workers' Union
Government Representatives 4 Ministry of Finance 1 Ministry of Trade & Industry 1	Ministry of Labour 2
Secretary	Ministry of Labour 1

**Table 1b: National Wages Council 2003-2004**

<b>Members</b>	<b>Institutional Affiliation</b>
Chairman	University Professor
Employers' Group 5	<p>Singapore Business Federation, Chair</p> <p>Singapore National Employers Federation, President 1</p> <p>Singapore Business Federation, Vice Chair 1</p> <p>Japanese Chamber of Commerce &amp; Industry, Singapore, Councillor 1</p> <p>German Business Association. Vice President, 1</p> <p>The American Chamber of Commerce in Singapore, Chair 1</p>
Employees Group 5	<p>National Trade Union Congress (NTUC), Chair, Central Committee1 (also SG from Singapore Manual &amp; Mercantile Workers' Union) 1</p> <p>NTUC Central Committee (also President Health Corporation Singapore Staff Union) 1</p> <p>Amalgamated Union of Public Employees, GS 1</p> <p>Singapore Industrial &amp; Services Employees' Union GS 1</p>
Government 4	<p>Prime Minister's Office (Public Service Division), Permanent Secretary 1</p> <p>Ministry of Trade &amp; Industry, Permanent Secretary 1</p> <p>Ministry of Manpower, Permanent Secretary 1</p> <p>Economic Development Board, Managing Director 1</p>

Source: Ministry of Manpower

**Table 2: No of Stoppages (Strikes and/or Lockouts), Workers Involved and Man-Days Lost**

<b>Year</b>	<b>No. of stoppages</b>	<b>Workers involved</b>	<b>Man-days lost</b>
1946	47	50,325	845,637
1947	45	24,561	492,708
1948	21	20,586	128,657
1949	3	935	6,618
1950	1	87	4,692
1951	4	1,185	20,640
1952	5	10,067	40,105
1953	4	8,870	47,361
1954	8	11,191	135,206
1955	275	57,433	946,354
1956	29	12,373	454,455
1957	27	8,233	109,349
1958	22	2,679	78,166
1959	40	1,939	26,587
1960	45	5,9939	152,005
1961	116	43,584	410,889
1962	88	6,647	165,124
1963*	47	33,004	388,219
1964	30	2,535	35,908
1965	30	3,374	45,800
1966	14	1,288	44,762
1967	10	4,491	41,322
1968	4	172	11,447
1969	—	—	8,512
1970	5	1,749	2,514
1971	2	1,380	5,449
1972	10	3,168	18,233
1973	5	1,312	2,295
1974	10	1,901	5,380

1975	7	1,865	4,853
1976	4	1,576	3,193
1977	1	406	1,011
1978	—	—	—
1979	—	—	—
1980	—	—	—
to	—	—	—
1986	—	61	122
1987	1	—	—

\*Two-day general strike in October involving approximately 19,700 workers and 34,300 man-days lost

Source: Ministry of Labour

**Table 3: Selective Inter-Country Comparisons of Productivity Level and Hourly Compensation Cost for Manufacturing Workers, 1998**

Country	Productivity (va per worker) US\$	Compensation (cost per worker) US\$	Productivity (va per worker)	Compensation (cost per hour)
Norway	83,595	22.28	165	304
Switzerland	82,336	24.22	162	331
USA	70,357	18.24	139	249
Japan	69,315	20.66	137	282
Hong Kong	67,197	5.42	132	74
Singapore	50,722	7.32	100	100
Taiwan	25,306	5.07	50	69
South Korea	24,155	4.89	48	67
Malaysia	15,234	2.59	30	35
Thailand*	9,211	0.76	18	10
Indonesia	5,447	0.09	11	1
China	2,866	2.11	6	29

Source: *The World Competitiveness Yearbook 1999*

\* Compensation cost is for 1997

**Table 4: Companies Practising Flexible Wage System by Union Status**

Union Status	1988	1989	1990	1991
Unionized	58.1	73.4	76.4	81.7
Non-Unionized	22.7	35.9	66.0	69.1

Source: Ministry of Labour

**Table 5: Basic Wage Increase, Productivity Growth and Inflation 1986–1992**

Wage/Year	1986	1987	1988	1989	1990	1991	1992
Total wage increase	1.6	4.1	8.2	9.8	9.8	8.1	8.1
Basic wage increase	1.7	3.0	6.4	8.0	9.3	8.6	7.7
Inflation rate	-1.4	0.5	1.5	2.4	3.4	3.4	2.3
Real basic wage increase	3.1	2.5	4.9	5.6	5.9	5.2	5.4
Productivity growth	6.3	4.8	4.5	4.8	3.5	1.5	3.1
Gap: Basic wage increase and productivity growth	3.2	2.3	-0.4	-0.8	-2.4	-3.7	-2.3

**Table 6: Maximum/Minimum Salary Ratio of Selected Occupations in Collective Agreements**

Occupation	Maximum/Minimum salary ratio
Production operators	1.5:1.7
Machine operators	1.5:1.6
Technicians and related occupations	1.7:2.0
Room stewards/Chambermaids	2.0
Waiters/Waitresses	2.0
Office clerks and other clerical workers	2.1
Sales assistants	1.7
Foremen/Supervisors	1.7:2.0

## 2.1 Summary of NWC Wage Increase Guidelines, 1991-2001

Year	Guidelines
1991	<ul style="list-style-type: none"> <li>• Total wage increase should be lower than that in 1990, in line with the expected slower economic growth; and</li> <li>• Built-in wage increase should lag behind productivity growth. Companies performing well should, however, reward employees with higher variable bonus.</li> </ul>
1992	<ul style="list-style-type: none"> <li>• Total wage increase should be moderated in line with the expected slower economic growth; and</li> <li>• Built-in wage increase should lag behind productivity growth. Companies should pay as much of the wage increase as possible in the form of variable component.</li> </ul>
1993	<ul style="list-style-type: none"> <li>• Built-in basic wage increase should lag behind productivity growth. Total wage increase can, however, reflect the expected improved economic and business performance; and</li> <li>• Companies should pay as much of the total wage increase in the form of variable component. Those companies that have done exceptionally well should pay special bonus.</li> </ul>
1994	<ul style="list-style-type: none"> <li>• Built-in wage increase should lag behind productivity growth rates. Total wage increase should reflect the favourable performance of the economy;</li> <li>• Variable payment should reflect closely the performance of the company. For companies that have done exceptionally well, their variable bonus need not be rigidly capped at the existing agreed quantum. They should consider paying a one-off special bonus; and</li> <li>• Companies may wish to consider, in the payment of their wage increase, the inclusion of a dollar quantum instead of increase purely on a percentage basis.</li> </ul>
1995-1997	<ul style="list-style-type: none"> <li>• Total wage increase should reflect the performance of the economy;</li> <li>• Built-in wage increase should lag behind productivity growth rates;</li> <li>• Companies should pay as much as possible of their wage increase in the form of variable component;</li> <li>• Variable component should reflect the performance of the company; and</li> <li>• Companies should consider, in the payment of their wage increase, the inclusion of a dollar quantum instead of increase purely on a percentage basis.</li> </ul>





Year	Guidelines
May 2001	<ul style="list-style-type: none"> <li>As most companies are likely to grant wage increases to their workers in view of the economic recovery, the NWC strongly recommends the immediate implementation of the MVC, specifically that:               <ol style="list-style-type: none"> <li>Companies that grant wage increases of more than 3 per cent should set aside at least 3 per cent of wages as the MVC.</li> <li>Companies that grant wage increases of up to 3 per cent should set aside the entire wage increase as MVC.</li> </ol> </li> <li>As the economy picks up, the NWC recommends speedier restoration of CPF cuts.</li> <li>A cautious approach should be adopted in dealing with the issue of wage cost in 2001. Companies should also take into consideration the restoration of the 4 percentage points in employers' CPF contribution in January 2001 when determining wage increase for 2001.</li> <li>Companies, particularly those in the non-unionized sector, are strongly urged to implement the MVC as soon as possible.</li> <li>Companies granting wage increase this year should set aside a substantial part or entire wage increase as MVC.</li> <li>The NWC strongly urges employers to take advantage of the training programmes and schemes the government has introduced and invest more in human capital as their competitive advantage.</li> </ul>
December 2001 (Revised Guidelines—Wage Reduction)	<ul style="list-style-type: none"> <li>The NWC notes that some companies have found it necessary to retrench their workers. However, the NWC is of the view that companies should consider retrenchment only as a last resort.</li> <li>The NWC recommends that for the majority of companies whose business profitability or prospects are adversely affected by the severe economic downturn, they may, in consultation with their unions/workers, implement a wage freeze or cut commensurate with their performance and prospects.</li> <li>Where companies have to freeze or cut wages, the NWC urges the management to lead by example in wage freeze/cuts.</li> <li>Companies that continue to perform well should reward their workers with appropriate wage increase. Such wage increase should preferably be in the form of MVC or as special payments.</li> <li>To achieve constructive wage negotiations, companies should share relevant information on company performance and business prospects with employees and their representatives.</li> </ul>

# Social Dialogue in Action

## Experience of Sri Lanka Telecom

*K.L. Chandratilleke*

### EVOLUTION OF INDUSTRIAL RELATIONS IN SRI LANKA

In a technical sense employer-employee relations in Sri Lanka owes their origin to the plantation economy introduced by the British colonial rulers in the mid-nineteenth century. The development of the plantation economy also saw the emergence of a new group of British and Sri Lankan planters, a large immigrant workforce for south India to work on the plantations, an English-speaking administrative elite and an urban-based working class employed mainly in railways, harbour, public works and engineering workshops (Jayawardane 1971). The system of labour management prevailing on the plantations at that time was semi-feudal and based on a strict pyramid of hierarchy that left no room for labour management dialogue (Jayawardane 1972; Kurian 1989). However, there was limited intervention by the colonial state to regulate the employment relations of Indian immigrant workers. In contrast to this, employer-employee relationship in urban-based workplaces was based on the principle of “hire and fire” and the colonial state followed a laissez-faire policy, which continued until the 1930s (Jayawardane 1971). The trade union movement, which originated on a low key from the urban-based working class at the dawn of the twentieth century, later became more militant by resorting to strike action in several Colombo-based establishments. The first collective agreement entered into between the Employers’ Federation of Ceylon and the All Ceylon Trade Union Congress in 1929 signified the initial effort in establishing employer-employee dialogue as well as pluralism as a labour relations ideology in Sri Lanka (Chandratilleke 1997). Since then collective bargaining has become an established practice mostly at the enterprise level.

By 1935, tripartism had been firmly established in Sri Lanka. Introduction of legislation on minimum wages and disputes settlement, establishment of the labour department and the enactment of the Trade Union Ordinance for the formal recognition of trade unions were important landmarks in this development (Ondaatje and Kaluaratchi 1982).

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More recently, the establishment of the National Labour Advisory Committee, comprising employer, employee and government representatives has reaffirmed the commitment of the Sri Lankan state to uphold tripartism in managing the employment relationship.

In addition to the bargaining mechanism, Sri Lanka has a long record of experimenting with joint consultation and worker participation schemes in public enterprises. It was given legal recognition with the enactment of the Employee Councils Act in 1979, but with the privatization of public enterprises the act itself has become redundant. Nevertheless, in some private sector enterprises manager-led initiatives in the form of quality circles and work improvement teams especially at the shop-floor level are in place to deal with quality and productivity issues through labour-management dialogue.

Promotion of labour management cooperation through dialogue at all levels, commencing at the enterprise level, with less reliance on the legal apparatus is one of the key strategic initiatives incorporated in the Draft National Employment Policy for Sri Lanka (Ministry of Employment and Labour 2002). Therefore it is very clear that the subject has received explicit recognition at the policy-making level. It is against this background that the experience at Sri Lanka Telecom assumes special significance as a concrete example of trying to promote labour-management cooperation through a dialogue process without relying on legal mechanisms.

## **SRI LANKA TELECOM**

Sri Lanka Telecom (SLT), which has a customer base of approximately 87 per cent of the fixed line subscribers, is at present the market leader in telecommunications in Sri Lanka. Having started as a government institution, it functioned as one of the two wings of the Department of Posts and Telecommunications for several decades. In 1981, the telecommunications wing was reconstituted as a separate government department. It was converted to a public corporation in 1991 and thereafter privatized in 1996. In 1997 Nippon Telegraph and Telephone (NTT) Corporation of Japan became a strategic partner of Sri Lanka Telecom. Under this partnership arrangement the NTT bought 35 per cent of the company's shares and took over the management of SLT for a period of five years. The old management structure was replaced with a new one based on the organizational structuring practices in Japanese enterprises. Some of the main features of the new structure are the creation of functional "Groups" comprising "Divisions" and "Sections" and the redesignation of managerial positions similar to those found in Japanese enterprises. Following Japanese management practices the respective heads were designated as Head of Group (*Bucho*), Head of Division (*Kacho*) and Head of Section (*Kakaricho*).

After the management takeover, the company tripled its network from 250,000 to 750,000 connections without increasing the employee strength. This is regarded as one of the

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significant contributions of the new management to increasing service productivity at SLT. The management contract ended in August 2002, but a Japanese representative from NTT continued as the CEO. With the termination of the management contract, shares of the company were offered to the public in November 2002. As a result, the ownership structure of SLT has undergone a major change with the Government of Sri Lanka owning 49.5 per cent, NTT Communications Corporation of Japan 35.2 per cent and the public 15.3 per cent of the company's shares. With this change, SLT became the largest listed company in the Colombo Stock Exchange. At the end of 2002 the company had recorded an annual turnover of Rs 22 billion and a profit of Rs 2.6 billion after tax. This was a 28 per cent growth over the previous year (Sri Lanka Telecom 2003).

The company has a workforce of 8200. Of this number, 27 per cent are female employees. Around 95 per cent of the employees are unionized and they are covered by 31 unions. Eighteen unions are industry specific and craft based while four are affiliated to political parties. The Joint Organization of Telecommunication Trade Unions (JOTTU), the largest union, is the apex body representing 19 unions and it has a total membership of over 6100 employees.

## **ISSUES IN PRIVATIZATION AND THE ROLE OF SOCIAL DIALOGUE**

The privatization process at SLT is considered a unique experience where the importance of labour-management dialogue was explicitly recognized. No workers were retrenched, but there was considerable bargaining on some critical issues relating to pension rights of those who had been employed from the time Telecom functioned as a government department. The transition process was a smooth one, as various phased out strategies were adopted during this period to strengthen labour-management dialogue and to solicit worker co-operation. Initially, a telecom cell was established at the Public Enterprise Reforms Commission (PERC) — a statutory body established in 1995 by the government to undertake all privatization programmes and to manage the process of transfer. Among other things, the cell had to liaise with trade union leaders to create awareness and obtain their support to the very idea of privatization. To create awareness about the process and benefits of privatization, some union leaders were sent on study tours to countries that had privatized telecommunication services. In a bid to solicit the support of rank-and-file employees, the cell established a direct communication link with union members and sometimes with their families through formal channels such as the in-house letter and other print media. In addition, SLT with assistance from the Ministry of Posts and Telecommunications, PERC and a Sri Lankan management consultancy firm conducted awareness programmes at the regional level on the subject. Along with this, media campaigns were also launched emphasizing the need for restructuring through privatization. All these efforts were made to overcome possible employee resistance to privatization. The most challenging task of privatization was

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handling the issue of pension rights. After extensive bargaining between the government and unions a settlement was reached to relax various provisions regarding pension rights, but the government had to make a heavy financial commitment to pay pension dues to several hundred telecom employees in the years to come (Salih 2000).

### **Recognizing the Need for Changing the Employee Mindset**

The transfer of ownership was not accompanied by corresponding changes in the mindset and behaviour patterns of employees who continued to live with the past legacies of government bureaucratic administration. Although the new management developed an organizational vision and mission statements and 21 corporate objectives which were incorporated in a document known as “Vision 21”, there were serious doubts whether the average telecom employee had internalized or shared this vision and the mission. Indeed, there was little scope for such internalization as the company culture, as seen by the labour relations task force (See below), was characterized by enforced commitment, a lack of belongingness, passive employee behaviour, unsettled grievances, struggles between power groups, interunion conflict, poor teamwork, mistrust and suspicion, and a gap between managers and other employees. In most respects the organizational culture at SLT resembled a “fragmented culture” with low solidarity and sociability. (For details of a fragmented culture, see Goffee and Jones 1998.) This culture had its own lineage in the industrial relations system of the past. The main features of this system, as seen by the task force, were trade union multiplicity and political affiliations, both of which had led to inter-union rivalry and overdependence on outside fora; tension and mistrust; adversarial relations between management and unions; and constant “trade union actions” as against dialogue.

Some managers as well as some trade union leaders gradually began to realize that there was a strategic misfit between the business needs of the new company and the prevailing employee work ethics, which were products of a bygone era. It was against this backdrop that the company found the Social Dialogue and Workplace Cooperation Project of the ILO a suitable launching pad to initiate a process of change aimed at transforming the culture and the industrial relations atmosphere at SLT.

### **Setting the Agenda for Culture Change at SLT: Role of Social Dialogue**

The need for culture change as a major challenge of the company was identified by a joint group of management and trade union representatives who participated in the first ILO national workshop on social dialogue held in March 2000. The workshop opened an arena for both groups to initiate a dialogue in a spirit of cooperation rather than confrontation. The dialogue centred on two interrelated themes: identifying future challenges of the company and formulating action plans to address them. The joint management-union group identified the following as the major challenges:

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- Facing competition and sustaining market leadership in an aggressive and ultra-modern market
- Introducing new technology
- Improving productivity and quality
- Changing the existing organizational culture and work ethics
- Creating a sense of belongingness among employees.

Of these challenges, the issue of culture change was given top-most priority in formulating the action plans. Among the concrete actions proposed in this plan were conducting awareness programmes on sound industrial relations with workplace cooperation through social dialogue as the main theme, employee training on communication and attitude change, setting up guidelines on internal and external customer relations and introducing a grievance-handling procedure with the involvement of line managers. However, unlike conventional business or corporate plans it had no binding effect on either party. In keeping with the very nature of dialogue the plan was kept open for possible revisions in the future.

Following the workshop deliberations, two separate sessions, first with a wider group of trade union leaders and thereafter with several senior managers, were held to secure their cooperation to expand the dialogue to a wider constituency. Both were organized by the Head of Industrial Relations who participated in the original workshop. The national coordinator of the Social Dialogue Project in Sri Lanka facilitated both sessions. The session with trade union leaders turned out to be a very stormy one at the outset with overt manifestations of interunion rivalry, but it gradually turned into a constructive dialogue when some trade union representatives, while agreeing with the challenges identified by the joint management-union group, stressed the need to address them through a concrete action programme. The session ended on a positive note when they agreed to “experiment” with the project and establish a “task force” for this purpose. Having reached this agreement, they even nominated their representatives to the task force. Subsequently, managers also reciprocated by making their own nominations. Finally, a “labour relations task force” comprising five senior managers and five trade union representatives was established in July 2000.

The task force met at various intervals to review progress of the action plan as well as to identify new themes and issues for the dialogue. A fresh initiative was taken to change the mindset of employees towards a customer-oriented culture. As a result, several categories of employees were given training in communication and interpersonal skills. The presentation style of the house journal *Emathuma* (Calling) was modified to publish articles and news items promoting the vision and the value system of a customer-oriented culture.

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Despite these modest achievements, the culture change programme envisaged in the action plan and subsequently endorsed by the task force moved only at a slow pace. The task force saw the following as factors impeding the anticipated progress:

- Large size of the organization that had made effective dissemination of information somewhat problematic
- The existence of a large number of occupational categories, which in the past had led to multiple unionism with different and sometimes conflicting objectives
- The existence of different subcultures based on parochial factors, which was reminiscent of a fragmented culture

There was also the issue of official recognition of the task force as it operated more as a voluntary body formed through dialogue among the unions on the one hand and between unions and management on the other and not as one officially appointed by the top management. Although this issue did not discourage the task force members from proceeding with their work, they realized the importance of gaining official recognition especially since Telecom employees had been tuned to respond to formal messages in the form of circulars coming from the top. Understandably, this was a residue of the departmental style of administration, which had not disappeared even after privatization. The efforts of the task force materialized when the chief executive officer (CEO) issued a circular to all employees announcing the decision to grant official recognition to it. The circular made specific reference to:

- Challenges previously identified by the joint union-management group
- The need to change the work culture of SLT to face them
- Objectives and functions of the task force and
- The broad strategies to achieve those objectives.

Among the main strategies of the task force were the following:

- Conducting workshops and seminars on workplace cooperation and attitude change for SLT employees with the cooperation of trade unions
  - Encouraging creative ideas of employees
  - Introducing self-managed teams
  - Creating a customer-oriented workforce
  - Removing communication restrictions between managers and the subordinate staff
  - Establishing labour relations committees/task forces at the regional level.
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The “green light” given by the CEO not only empowered the task force to carry out its mission but it also reiterated the top management’s commitment to involve in the culture change process through dialogue. This commitment provided a major impetus to the culture change programme at SLT. The task force gathered further strength to carry out its mission when the top management decided to incorporate workplace cooperation as a core industrial relations theme in the company’s annual business plan. Section 6.3.1. of the Business Plan for 2002 read as follows:

SLT believes that Workplace Cooperation is very necessary to win the willing cooperation and total commitment of our workforce. . . . Furthermore SLT believes that participatory management system, where managers, trade unions and employees get together and solve problems and matters of mutual concern is also necessary for effective workplace cooperation. (Sri Lanka Telecom 2001)

As of 2003, SLT has marched a step further by making a commitment to institutionalize the workplace programme throughout the organization. This is stated in Section 7.3 of the SLT Business Plan for 2003 in the following terms:

The workplace cooperation committee has initiated action to change the traditional way of handling industrial relations and has established a new way of labour relations management through workplace cooperation. Awareness and activities carried out by the committee have been successfully implemented last year, and the International Labour Organization and the representatives of the Norwegian government have appreciated the initiatives taken by the SLT. Our intention is to further institutionalise the workplace co-operation programme throughout the organization. (Sri Lanka Telecom 2002)

It is therefore evident that workplace cooperation has become a major item in the business planning process at SLT.

From a learning point of view, the experience during the start-up and initial phases illustrates four important lessons. First, it lends further support to the limitation of the “culture engineering approach” to culture change (Palmer and Handy 2000), which is top down and which assumes that the top management of an organization has full knowledge of the desired values, norms and the behaviour expected of all organizational members to achieve success. This was evident from senior managers’ own admission of the little impact of the “Vision 21” on the average SLT employee. Thus the telecom experience raises serious doubts about the validity of the assertion that managers alone have both the ability and the right to create, maintain and change an organizational culture (Palmer and Handy 2000; Thornhill et al., 2000).

Second, the experience also shows the crucial role of dialogue in building consensus on strategically important themes among different parties, sometimes having conflicting

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ideologies. This was best exemplified by the consent of the enterprise trade union representatives to work on a common agenda in spite of their ideological differences. Third, the experience provides some insight into the debate on the effectiveness of creating institutional structures to facilitate labour-management cooperation. The evolution of in-house mechanisms such as team briefings, chairman's fora, semi-autonomous work groups, suggestion schemes and counselling, all of which have been designed to promote employee commitment through workplace dialogue as an alternative to conventional methods of employee participation has triggered off this debate (Cotton 1993; Hyman and Mason 1995). One of the recurring issues here is whether such structures should precede or follow the dialogue. In the past the Sri Lankan experience in general has demonstrated that establishing institutional structures either legally or through an administrative decree of a superordinate authority before commencing the dialogue has often been short-lived (Chandratilleke 1997). On the other hand, the SLT experience illustrates the emergence of an appropriate structure through the dialogue. The voluntarism of managers and trade union representatives to operate it and the subsequent decision of the top management to grant legitimacy to it further justifies the efficacy of this approach over the traditional approach of creating structures as a pre-requisite for dialogue.

Fourth, the experience also demonstrates that when initiating a dialogue among parties who are reluctant to communicate with each other due to adversarial relations, the external facilitator has to play a variety of roles including information sharing, awareness creation through training, trust building among the parties and even resolving potential conflict through the establishment of superordinate goals. For example, during the initial meetings with the two groups, the facilitator served mainly as a conduit for the exchange of information between the reluctant parties. At a later stage he shifted his role to awareness creation by active involvement in training the SLT staff on the paradigm shift in employer-employee relations deriving from workplace cooperation principles. In some of the training sessions, during which the more militant trade union leaders questioned the viability of the workplace cooperation programme in view of the hierarchical and even polarized relationship between management and workers, the facilitator had to draw their attention to reflect on the challenges that had been jointly identified by managers and the trade union representatives. This was an example of using superordinate goals to manage a possible conflict between the two groups. Had the facilitator failed in seizing such opportunities the dialogue between the two parties would have ended in a deadlock.

### **Dialogue in Action: The Dissemination Phase**

The empowered task force launched an intervention programme to disseminate the concept of workplace cooperation through dialogue in the regional offices as well as in the functional groups of the head office. The major activities in the intervention programme were the following:

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- Conducting awareness-creation seminars on workplace cooperation for managers and trade union leaders of the company
- Conducting action-oriented workshops to strengthen workplace co-operation in the regions and in different functional divisions in the head office
- Establishing subcommittees to monitor the progress of workplace co-operation programmes in the head office and in the regions
- Developing selected regional telecommunication offices as model projects on workplace cooperation
- Strengthening the grievance-handling mechanism
- Strengthening relations with trade unions through better dialogue.

The seminars and workshops have been and continue to be the dominant strategy in expanding social dialogue to a wider segment of the SLT staff. Initially, awareness-building seminars were organized for managers at the senior, middle and junior levels as well as for trade union leaders. These were followed by more focused workshops for the staff in the regions and in the head office.

The workshops have provided a forum for both managers and other employees to initiate a dialogue on the desired attributes of the SLT culture. Some of the key attributes of the desired culture identified at these workshops are:

- Tolerance of diversity
- Sense of belongingness
- Self-discipline
- Empowerment
- Winning/willing cooperation
- Continuous learning
- Willingness to change
- Empathy in interpersonal relations
- Mutual trust and respect
- Improved customer relations
- Open communication and social dialogue

As discussed later in this paper, some of these attributes have become “desired outcomes” of the human resource policy of the company. This achievement, which was a major deviation from the culture engineering approach, was perhaps the major breakthrough in planning the intervention programme.

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Eight workshops on workplace cooperation covering senior managers, middle and junior managers, trade union leaders, employees of the finance and human resource groups and staff of two provinces were conducted during 2000-01. The workshops culminated in the formulation of action plans to promote workplace cooperation and initiate the desired cultural changes.

In addition, seven regional subcommittees on workplace cooperation have been established in the regional telecommunication offices, which are the main service delivery centres for telephone subscribers. The subcommittees serve as a conduit for the flow of information on matters relating to workplace cooperation between the main labour relations task force and the different regional offices and the groups. In order to maintain flexibility, which is much required for an effective dialogue, the functions of these subcommittees are being reviewed at various stages. For example, since of late the subcommittees have been empowered to function as grievance committees on an experimental basis for one year. Based on the positive learning experience gained through sub-committees at the regional level, three more sub-committees comprising management and trade union representatives have been formed at the head office to deal with three specific subjects: business development, human resource development and grievance handling.

A new grievance procedure was formulated by the Labour Relations Task Force with the active involvement of the Head of Industrial Relations and implemented on an experimental basis in one of the model offices. As the experiment has yielded positive results, the management plans to extend it to all the other divisions and offices.

The development of selected regional telecommunication offices in the Uva and Sabaragamuwa provinces as model projects of workplace cooperation was yet another innovative step in the culture change programme. These offices have become the experimental units for testing the effectiveness of new patterns of workplace relations based on the values and norms of the desired culture. As shown in the case material presented in this paper, the Regional Telecommunications Office in the provincial town of Avissawella in the Sabaragamuwa province in particular has become a model for possible replication in other regions.

### **Facilitating Social Dialogue: Role of Human Resource Development**

Workplace cooperation based on employer-employee dialogue is not only a core industrial relations theme in the business planning process at SLT but also a key component of the company's human resource development policy. The policy envisages the achievement of several human resource outcomes including the following:

- Creating a new work culture in the organization based on mutual understanding and cooperation and creating win-win situations for both management and employees

- Fostering an organizational climate which supports higher productivity through improved workplace cooperation (Sri Lanka Telecom 2003).

Both outcomes are firmly anchored in workplace dialogue. In pursuance of this policy, SLT has placed greater emphasis than in the past on training of staff in team building, interpersonal cooperation, communication skills and attitude development. These training programmes are intended to reinforce the learning outcomes of workplace cooperation workshops which have served as the main forum to identify the desired organizational culture.

Another significant feature of the company's human resource policy is the attempt to integrate the workplace cooperation programme with other human resource interventions such as *kaizen* and 5S practices.<sup>1</sup> Developed by the Japanese, these have become popular management tools in many Sri Lankan business organizations, but there is also some scepticism over their sustainability mainly due the absence of mechanisms to secure employee involvement and commitment in the implementation process. However, at SLT these programmes have complemented each other thereby showing high prospects for sustainability.

In 2002 the company won an award as the second runner-up (large-scale service category) at the Annual Human Resource Management Competition jointly organized by three Sri Lankan institutions.<sup>2</sup> One of the principal objectives of this competition was to recognize best human resource management practices such as information sharing with employees, recognition of employee organizations, joint consultation and promotion of teamwork culture. Both management and trade union representatives firmly believe that this achievement was due partly to the social dialogue programme, which made a substantial contribution to promote such practices in the company.

### **The Outcome of Dialogue**

As the transformation process at SLT is going on, it is somewhat pre-mature to evaluate the outcome of the intervention using rigid criteria such as those suggested by Bate (1994).<sup>3</sup> During this transition period there is also resistance from some managers as well as some unions who do not appear to have much faith in employer-employee dialogue. For example, allegations continue against trade union representatives of the task force for being involved with the management to weaken trade union agitation. On the other hand, some managers who continue to adopt an anti-union stance due to adversarial relations with unions in the past, have shown little interest in the workplace cooperation programme and have even opted out of the workshops. The large size of the organization with an islandwide network and multiple unionism, which in itself is an outcome of the existence of a large number of occupational categories, has further retarded the achievement of the desired cultural changes. Thus in the present context,

it is more meaningful to capture any emerging trends in the general climate of industrial relations than to search for precise indicators of culture change.

Since the implementation of the workplace cooperation programme, relations between managers and other employees and also among employees themselves have become less adversarial. This has been clearly evident from the absence of strikes and other forms of serious industrial disputes, and a drastic decrease in agitational posters and scurrilous pamphlets. In the past all these were prominent features of the “fragmented culture”.

A new literature on workplace cooperation has emerged. Since the introduction of the programme, almost every issue of SLTs the house journal *Emathuma* has carried feature articles and other news items on workplace cooperation. Trade union leaders have seen this as a major deviation from the past when no space was provided in the house journal to for any news items to depict the importance of employer-employee dialogue.

The change programme has resulted in an increasing demand for further training in workplace cooperation and other themes relating to human resource management. At the initial stage of the change intervention there was only a lukewarm response to seminars and workshops on this theme and sections of managers and union leaders showed scepticism and even open resistance. However, the few awareness seminars and the action-oriented workshops have created a snowball effect with more requests being made by the staff in the regions and in the head office to conduct similar training. Due to increasing demand, 15 more workshops, 10 in 2002 and five in the first four months of 2003 were conducted covering nearly 1000 employees in several regional offices as well as functional groups and divisions of the head office. This in itself is a clear reflection of the emergence of one of the attributes of the desired culture — *increasing desire for learning*.

Another positive impact has been the readiness of trade union leaders to tolerate diverse views. According to some union leaders, the ability to tolerate such diversity was totally lacking before the introduction of the workplace co-operation programme. After two years of active experimentation most trade union leaders have disciplined themselves to listen to and respect others’ views even if they are of a dissenting nature. This should be considered a significant achievement as *tolerance of diversity and respect for each other* have also been attributes of the desired culture.

Perhaps the most tangible outcomes of the programme have been visible improvements in interpersonal relations among the employees on the one hand and customer relations, both internal and external, on the other. In the following section this is illustrated with concrete examples taken from the finance and human resource groups in the head office and the Avissawella Regional Telecommunication Office (RTO).

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### **Finance Group**

The Finance Group, which is responsible for local and foreign payments, treasury management, budget preparation and control and maintenance of accounting systems, has a staff strength of 154 including managers, clerical staff members and support staff. Most of the transactions of the Finance Group are with internal customers, that is, other groups and units of the company. However, like in most government establishments, those in the Finance Group had a tendency to conform to established procedures with a general lack of concern for the needs of the internal customers. This had resulted in consistent delays in responding to queries and requests coming from other sections and units. As identified by the workplace cooperation subcommittee of the Finance Group, the working relationships between superiors and the subordinate staff had been strictly hierarchical and there had been too much of compartmentalization among the different divisions and sections within the group. Despite physical proximity, most employees remained aloof from each other and rarely did they engage in face-to-face communication and greet their own colleagues in the morning. According to conservative estimates of the subcommittee, 40 per cent of the employees in the group did not know each other by name. It was against this background that a representative group of the finance staff including several managers participated in a workshop on workplace cooperation.

Besides imparting new knowledge on the importance of workplace co-operation, the workshop provided ample opportunities for the staff who had hitherto remained aloof from each other to have close interactions. The workshop culminated not only in the formulation of an action plan but also in the melting of stiff interpersonal relationships among them. Summarizing this development, one of the senior members of the clerical staff stated thus:

Those days we knew that there was a staff working in the finance group. Perhaps they saw each other in the morning but never had the habit of greeting each other. In fact some of them never bothered to talk with others except on strictly official matters. Today we see a different situation. People talk to each other. At least they have learned to say good morning. Now we know most of them by their names.

Some employees, who are not members of the subcommittee, have also endorsed these views. Besides improving interpersonal relations, these employees saw that the programme injected a new spirit into them to look at their own role as service providers to other groups, divisions and sections of the company. In a very modest sense this perceptual change was an indicator of the changing attitude towards internal customers.

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At the time of this study, the subcommittee was planning an informal get-together as a relapse-prevention strategy. Nevertheless, some employees in the group were less optimistic about the sustainability of the change and their scepticism was mainly due to the lack of interest and involvement of their own executive staff. According to them, the impact of the programme had been marginal, particularly on the executive staff. They were of the view that the euphoria created by the workshop could be short-lived as most of the executive staff, who continue to be more directive than participative in their leadership style, were not willing to change. These concerns have been taken up for further discussion by the workplace cooperation task force which will have to play a key role in soliciting the support of the executive staff to prevent a possible relapse.

### ***Human Resource (HR) Group***

The Human Resource Group, which has a staff of 142 including both executives and non-executives, comprises three divisions: Human Resource Development, Human Resource Administration and Industrial Relations and Welfare. The group, which was largely instrumental in introducing the workplace cooperation programme at SLT, continues to play a lead role in disseminating it to other wings of the company. As in the case of the Finance Group, the relationships of the HR Group are mostly with internal customers.

The main features of the old culture and the work habits of employees in the HR Group as described by a sample of employees including some executives were:

- Wide gap between management and workers
- Poor listening ability of executives particularly in respect of employee grievances
- Lack of punctuality
- Poor records management
- Poor teamwork
- Reluctance to share responsibility
- Red tape

The intervention was led by the heads of the industrial relations and human resource development divisions of the HR Group with the active involvement of the workplace cooperation task force. Initially, an action-oriented workshop was held for a representative group of the HR staff. The workshop ended with the formulation of an elaborate action plan incorporating the following specific activities:

- Forming workplace cooperation subcommittees and teams within the group
  - Holding monthly meetings to review overall progress of the programme
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- Gaining a proper understanding of the functions of other groups, divisions and sections of the company
- Implementation of 5S practices for better housekeeping
- Increasing internal customer satisfaction through prompt attention to their needs
- Proper evaluation of staff performance within the group
- Organizing social functions such as “outings” for HR staff and their families to improve interpersonal relations.

A four-member subcommittee comprising three executives and an assistant administrative officer has been appointed to coordinate the change programme. The committee functions under the overall guidance of the heads of Human Resource Development and Industrial Relations. In comparison with the Finance Group the continued involvement of these senior managers in the programme has created more optimism among HR employees regarding its outcome.

As reported by several employees, a number of behavioural changes resulting from the programme have surfaced. Where the executive staff is concerned, a tendency to pay greater attention to human resource issues than in the past and the willingness to be more receptive to ideas and suggestions of the non-executive staff have been discernible. On the whole the staff has learned to give speedy and positive responses to requests and queries coming from their internal customers in a more courteous manner than in the past. In addition, employees have seen a definite improvement in interpersonal relations among all categories of staff in the HR Group.

Evidently, the behavioural changes have been accompanied by certain tangible outcomes. These outcomes along with their possible bearing on the specific attributes of the desired culture are shown in Table 1.

**Table 1: Tangible Outcomes and Their Relationship with the Desired Culture**

<b>Tangible Outcome</b>	<b>Relevant Cultural Attribute</b>
Speedy processing of papers connected with the payment of employees' provident fund (EPF) and the employees' trust fund (ETF)	Concern for customer relations
Greater personal attention in handling accident insurance claims	Empathy in interpersonal relations
Greater participation in social functions (attendance at funerals of employees' family and close relatives, visiting sick employees)	Sense of belongingness

either at home or in hospital, participation in birthday parties etc.,)	
Better maintenance of files and records	Self-discipline
A considerable reduction in the rate of no-pay leave taken by the employees due to internal counselling	Self-discipline
An improved layout for the HR Group	Willingness to change

### ***Regional Telecommunication Office (RTO) — Avissawella***

The RTO, which is located in the provincial town of Avissawella, is one of the three RT offices in the Sabaragamuwa province of Sri Lanka. It serves 8200 telephone subscribers living in a geographical area of 958 square kilometres. The main services offered by the office are providing new telephone connections and enhanced facilities such as international direct dialling (IDD), e-mail and internet connections, call forwarding and hunting facilities, line maintenance and revenue collection. It also has six remote exchanges located in different localities within the area. Being a service delivery point to the subscribers, managing external customer relations is one of the crucial functions of this office. The office has a staff of 125 personnel including the Regional Telecommunication Office Manager (RTOM), three District Inspectors of Telecommunication (DIT) and three Inspectors of Posts and Telecommunications (IPT). The RTOM, who is an engineer by profession, is the head of the office. He in turn reports to the Provincial Director.

The Avissawella RTO was no exception to the fragmented culture found in the rest of the organization. Employees in different work units of the office operated in watertight compartments. There was little group cohesiveness among the staff as they belonged to several “in-groups” who did not cooperate with “out-groups”. Lack of cooperation between the staff in the telex room and the telephone room was a case in point. Members of each “in- group” distanced themselves from others and rarely did the different “in-groups” found time to socialize with each other during lunch and rest breaks. The lack of belongingness among the staff had resulted in some degree of red tape causing inconvenience to the external customers. It was not unusual for the employees to strictly adhere to rules and procedures at the expense of customer relations. There was also a psychological inhibition among the employees as no mechanism was available to air their grievances. The physical atmosphere of the office was not conducive enough to create a sense of pride among the employees or to enhance their work motivation.

The initiative for introducing the workplace cooperation programme to the RTO staff came from the Provincial Director who had earlier participated in an awareness seminar on the subject organized by the workplace cooperation task force in the head office. The director found social dialogue as a useful mechanism to foster the much-needed team spirit and cohesiveness among the staff of the Avissawella RTO. Led by her initiative, 10 employees of the RTO including the RTOM participated in a two-day workshop on workplace cooperation held in October 2001. The final outcome of the workshop was an action plan which envisaged the following:

- Forming a workplace cooperation subcommittee
- Holding regular meetings with the staff to create awareness on the importance of workplace cooperation
- Developing leadership within each work unit in the office
- Reducing the incidence of no-pay leave of the staff
- Using the workplace cooperation programme as the main channel for upward and downward communication
- Designing a system to evaluate work performance of the different units in the office
- Improving the physical work environment through the application of the 5S method.

The committee, which was formed as envisaged in the action plan, held an initial meeting with other employees of the office to explain the need for, and objectives and the benefits of workplace cooperation. At this meeting a decision was also made to form 10 subcommittees, each led by a member of the main committee, to represent the different work units. The role of the sub-committees was to disseminate workplace cooperation in their respective work units.

The efforts of the workplace cooperation committee brought in some positive results. The different “in-groups” gradually began to meet in one place during lunch and tea breaks. Encouraged by this development, a *shramadana* campaign was organized to solicit the participation of every employee including those who showed resistance and a lukewarm response towards workplace cooperation. At the end of the day, an informal meeting was held with all those who had participated in the campaign. The meeting served as a brainstorming session for employees to discuss issues mostly relating to interpersonal relations and also to provide feedback to the RTOM. The meeting was substantially instrumental in building employees’ confidence in management’s commitment to workplace cooperation through dialogue. An immediate outcome of the meeting was the increase in the membership of the Staff Welfare Society from 56 per cent to 96 per cent. The RTOM and the members of the committee asserted that the meeting was a great leap forward in enlisting employee support to the workplace cooperation programme.

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Although hard indicators of the impact of the programme upon business performance of the RTO are yet to be developed, within a relatively shorter period the programme has made a positive impact upon the work culture of the office. First and foremost, employees who continued as members of several “in-groups” with different agendas, have increasingly begun to interact with each other by sitting together during the lunch and tea breaks. According to members of the workplace cooperation subcommittee, this has been a significant achievement. The dialogue opened during these breaks has led to a series of other social events, such as an office outing, and a get-together including a sports event open to employees and their families, all organized by the welfare society of the office. All these events have contributed to instill a sense of belongingness among the staff.

Through the dialogue it has been possible to arrange internal transfers to give employees wider exposure to operations in different work units of the office. Prior to the intervention this was virtually impossible due to resistance from unions. Such transfers are expected to minimize or eliminate boredom associated with job longevity thereby increasing the intrinsic satisfaction of the employees.

As per the decision of the Human Resource Group the workplace co-operation committee in the RTO acts as a grievance-redressal committee on an experimental basis. Following this decision there has been an increase in articulations of employee grievances. Contrary to the popular belief that human resource interventions should produce positive outcomes, management is of the view that the increase in grievances is a healthy symptom as the dialogue has opened channels for employees’ to vent pent-up feelings.

The creation a pleasant working environment both in the office and in the premises through implementing 5S practices has been yet another achievement of the workplace cooperation programme. The implementation of 5S at Avissawella has been so effective that a video documentary has been prepared as learning material for dissemination to other SLT offices. Employees feel that behind the success of 5S was the team spirit built up through the workplace cooperation programme.

These internal improvements have in turn led to positive developments in customer relations. For example, it has been noted that customers calling in at the office to make payments are given prompt attention even if the particular employee, who is responsible for accepting payments, is absent from work. In the past such practices were hardly seen. Evidently this was a direct result of improvement in teamwork. As reported by the RTOM, other impressive changes in customer relations are the reduction of fault rate from 16 per cent to 4 per cent and the time taken for reconnections to 30 minutes. The latter improvement in particular has been a result of short circuiting the established procedures through mutual understanding among the employees. To ensure the

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continuity of the programme, the committee has identified the importance of enhancing the leadership skills of second liners from the different work units in the office who will operate as a back-up team. This is one of the main items in the future agenda of the workplace cooperation programme at the Avissawella RTO.

### ***Some Issues and Challenges***

As a human resource intervention, SLT has embarked on a long-term venture to change a fragmented culture into a cohesive and integrated one with increased concern for customer relations and employee empowerment using social dialogue and workplace cooperation as the main strategy. Needless to say that within a short period the strategy has paid some dividends which would not have been possible through the conventional culture engineering approach. Nevertheless, this should not create an illusion of invulnerability, as any lasting impact of this programme has to be considered against several contextual factors.

First, for social dialogue to be an effective instrument of culture change, it must be entrenched in the top management values. In this regard, the signals so far have been salutary, as the company has explicitly recognized workplace cooperation as a means to foster an organizational climate that can support higher productivity. The top management's decision to institutionalize the workplace cooperation programme has further reinforced the company's HR philosophy on this issue.

Second, there remains a fundamental issue regarding the tempo and the focus of the change strategy relative to the one adopted in the privatization process. In the latter case, change was *transformational* involving a major re-structuring of ownership and management of the entire enterprise. The culture change programme, on the other hand, has been more *incremental* than transformational with emphasis being placed on introducing new employee grievance procedures, 5S practices for better housekeeping, social functions to promote team spirit among employees and spreading the message of workplace cooperation across a wider audience through the house journal and training of staff on different themes relevant to workplace cooperation. (for details of transformational and incremental change see Harigopal 2001; Mabey and Salaman 1995).<sup>4</sup>

Where the focus of change is concerned, the strategy used in the management restructuring process was essentially a *cascading* one starting from the top and thereafter covering the entire organization. The one that has been used for culture change is a *unit-by-unit* strategy in which the primary focus has been to develop different organizational units as models of the desired culture. (For details of the two strategies, see Martin 1993.) Despite all the reported achievements, the experience has shown that in a large and complex organization with different pressure groups such as SLT,

this strategy can be very time-consuming. Thus there has to be a continuing dialogue between the top management and the workplace cooperation task force to find out the best options to bridge the gap between the cascading strategy of the restructuring programme, and the unit-by-unit strategy of the culture change programme.

Third, while there has been too much of *unfreezing* at the commencement of the intervention, not much progress has been made in some instances to *refreeze* the change through the establishment of appropriate mechanisms. This was evident from the absence of a proper follow-up of workshop proceedings in some regions and divisions due to the lack of interest shown by those who were expected to lead the change. Advocates of organizational change have often pointed out the need for establishing transitional management structures to monitor and coordinate large-scale change interventions (See for example Nadler 1981; Beckhard and Pritchard 1992.) The establishment of the workplace cooperation task force with the support of the CEO was a major step in fulfilling this need. Although the task force, as a transitional management structure, has made considerable progress in laying the groundwork for the culture change programme, much remains to be done to create a cascading effect of its efforts throughout the entire organization.

Finally, experience in organizational culture change in other parts of the world has amply demonstrated the need to align human resource management practices to support desired changes. This may take several forms including the redesigning of performance appraisal systems and reward systems to reflect the values of the new culture and the redefinition of job roles to induce employees into accept the new behaviour expected from them in the new culture (Thornhill et al, 2000). SLT is no exception to this requirement. Indeed, it has initiated the process by introducing the new grievance procedure (which, as mentioned earlier, has been implemented on an experimental basis in selected regional offices) and by taking steps to revise the performance evaluation scheme. To promote open communication among the staff a new office layout based on the "open office concept" is being implemented in the head office. In addition, the business plans for 2002 and 2003 envisaged increased training opportunities for the staff particularly in customer orientation, team building, interpersonal relations and workplace cooperation (Sri Lanka Telecom 2001 and 2002). A critical assessment of the effectiveness of these support mechanisms to promote and stabilize the desired culture should be a central theme in future discussions on human resource strategies at SLT.

## IMPLICATIONS OF THE STUDY

The findings of this study can be used to generate further discussions among different stakeholders on the advantages and some issues in practising social dialogue at the workplace. For the Sri Lankan government, which has already proclaimed the promotion

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of labour-management dialogue as one of the strategic initiatives of the new employment policy (see Ministry of Employment and Labour 2002), the findings will be of special significance. To translate this strategy into concrete reality, the ministry could reflect on the finding of the case study in a forum like the National Labour Advisory Committee and thereafter decide on appropriate steps to incorporate lessons drawn from the Telecom experience into national-level policies and programmes on improving labour-management relations.

The Telecom case study can serve as insightful material for employer organization such as the Employers' Federation of Ceylon (EFC), Ceylong Chamber of Commerce, Federation of Chambers of Commerce and Industry and the National Exporters' Association, which have expressed concern over lackadaisical work attitudes and low labour productivity caused by certain labour laws that are overprotective for labour, but detrimental to capital. The Telecom experience has shown that, even within a "pro-labour legal framework", there is some scope for enterprise decision-makers to agree on a common agenda with trade unions to address enterprise-level issues such as productivity, competitiveness and quality, so long as the decision-makers are not paranoid about trade union power derived partly from "over-protective" labour laws. It will be of immense value if these organizations could obtain the services of SLT to convey this message to their own membership through appropriate communication channels such as newsletters, regular training programmes and seminars.

The EFC in particular may have to seriously consider the implications of promoting workplace dialogue on collective bargaining both in terms of content and process, areas of friction (if any), and advise its members to work out mechanisms to institutionalize social dialogue at the enterprise level without jeopardizing the bargaining process, to which it is firmly committed.

The Telecom experience poses a different challenge to Sri Lankan trade unions, which have been stereotyped as more "consumptionist" than "productionist" (Kearney 1971). Traditionally, the consumptionist role, oriented towards "employee well-being", has found its recognition through the collective bargaining process and the productionist role, oriented towards "enterprise well-being", in employee participation. By being active partners in the dialogue process, while maintaining the right to negotiate with the employer on terms and conditions (as seen during the privatization stage), the majority of unions including the JOTTU, have demonstrated the ability to manage both these roles. This in itself is a learning experience and its implication on the future role of trade unions under privatization should be critically evaluated in an expanded forum by the National Association for Trade Union Research and Education.

The success stories at SLT have become marketable products particularly among organizations in the service sector in Sri Lanka. One such organization is the Bank of

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Ceylon (BoC), the largest commercial bank in Sri Lanka, which has already obtained the services of the SLT Workplace Cooperation Team to share their experience with the BoC staff at in-house training programmes. These programmes are being conducted as part of a long-term strategy to implement major organization changes through workplace dialogue. Similarly, using the institutional links with the Institute of Personnel Management (IPM), the Human Resource Group of SLT has taken some initiative to create an awareness of the importance of workplace dialogue among other corporate customers who are also members of the IPM. While it may take some time to reap the full benefits of such attempts they should be seen as significant landmarks in the effort to cultivate cooperative as against adversarial employer-employee relations.

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## NOTES

1. 5S is a method introduced by the Japanese for better housekeeping and productivity enhancement. It consists of five practices: Seiri (Sort), Seiton (Set in order), Seiso (Shine), Seiketsu (Standardize) and Shitsuke (Train and maintain discipline).

*Kaizen* refers to continuous improvement.

2. The competition was organized by the Association of Human Resource Professionals and the Institute of Personnel Management of Sri Lanka in association with the Postgraduate Institute of Management, of the University of Sri Jayawardenepura. The competition was based on data obtained through questionnaires and subsequent company visits by "team of experts" in the field.
3. Bate (1994) has suggested five criteria to assess the effectiveness of culture change programmes:
 

Expressiveness	The extent to which the programme has a compelling vision
Commonality	The extent to which the programme generates a communion of purpose
Penetration	The extent to which the programme permeates through different levels
Adaptability	The capability of the programme to adjust to changing circumstances
Durability	The capability of the programme to create a lasting change in the culture
4. Mabey & Salaman (1995) have distinguished between three types of change: incremental, transitional and transformational. More recently, Harigopal (2001) has classified changes into eleven types: happened, reactive, anticipatory, planned, incremental, operational, strategic, directional, fundamental, total and transformational. However, some of the types identified by him are overlapping.

# Social Dialogue in the Informal Sector

## The Kerala Experience of Welfare Funds

*K.P. Kannan*

### THE IMPORTANCE OF PROMOTING SOCIAL DIALOGUE IN THE INFORMAL SECTOR

The importance of social dialogue in promoting decent work conditions has been emphasized by the International Labour Organization. In the context of labour relations, social dialogue refers to “interactions and interrelationships amongst the social partners that surpass, improve upon or enhance the traditional framework of classical collective bargaining and the central role of the collective agreement in labour relations.” The promotion of social dialogue has become all the more essential in the context of the perceived and felt fears about the adverse consequences of globalization on labour. Two major fears have come to the forefront of the discussion. One is the loss of employment, especially of those in the formal sector, as a result of restructuring or relocation. The other is the informalization of work that goes against the spirit of the concept of Decent Work.

For the developing countries, the informal sector is the dominant one in terms of employment. In India, employment is about 90 per cent if one includes agriculture. The percentage is the same for Kerala too. However, Kerala is well known for the organization of labour that cuts across the distinction between “organized-unorganized” sector or “formal-informal” sector. This has necessitated institutionalization of labour relations even in the informal sector. Such institutionalization has taken the form of tripartite bodies and minimum wage committees for discussions and dialogue before formal agreements are hammered out. However, such bodies were more for resolving disputes and arriving at collective agreements. The issue of social security has been a core concern of workers in the informal sector. This has given rise to the institution of welfare funds as a result of

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dialogue between labour unions and employers mediated by the state which is committed to the provision of social security as a matter of policy. Political parties have played a crucial role by supporting such initiatives. As such, a large number of welfare funds have come into being in Kerala to provide a modicum of social security to workers in the informal sector.

This paper examines the emergence and functioning of welfare funds in Kerala. The state offers a feasible model for workers in the informal sector not only in other states in India but in many other developing countries.

Kerala's welfare fund model is now more than 30 years old. It started with the formation of a welfare fund for toddy tappers in 1969. The Kerala approach reflects what informal sector workers could achieve in countries like India given the contemporary political context and the democratic political framework of the state. But it required sustained collective action on the part of workers. This precondition had already been achieved in Kerala, and collective care arrangements in the form of welfare funds constituted with the active participation of the state. In fact, the state played and continues to play the leading role in the initiation and management of welfare funds. Organized workers, through their unions, articulate their demands and exert pressure on the state government. Employers are, by and large, unwilling but cooperating partners since the larger political context and the political economy of power relations do not provide them with the choice to opt out of such arrangements. Their participation is therefore a pragmatic one within the framework of their economic rationality for accumulation.

## **STRATEGIES FOR LABOUR PROTECTION**

Trade unions emerged as a powerful labour institution in Kerala over a long period of time. Historical factors played an important role in this development. These were the early proletarianization of a large segment of the traditional labour force; the social reform movements for attaining social dignity for the poor and those considered socially backward; and nationalist politics accompanied by a radical political movement which explicitly incorporated all sections of the labouring poor and organized them in trade unions. The context has been referred to as a "historical conjuncture" (for details, see Kannan 1988), indeed a watershed in the evolution of labour markets as they exist today in Kerala. Within a short span of time what was instrumental in the erosion of traditional labour relations as embodied in patron-client relationships and the interlinkage between land, labour and credit markets. Labour relations increasingly became formal, impersonal and contractual. Yet they retained the basic characteristic of stratification and segmentation embedded in the traditional social order. The former relates to the hierarchy of occupations depending on the nature of the job, earnings and security, and the latter to the boundaries existing within a given stratum of the labour market. The

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main sources of these features seem to lie in the institution of caste (reflecting social stratification) and in the gender inequity manifested in the vulnerable position of women workers. In a situation of high unemployment, the strategies of labour unions, dictated by short-term interest, strengthened the segmentation characteristics by falling back on caste and/or gender considerations. This is related to their strategy of maximizing earnings of the “insiders” by controlling entry into the labour market. However, in Kerala there was only a small segment of the economy which could approximate to capitalist enterprises and therefore to classical type capital-labour relations. Given the strong anti-capitalist ideology and the strategy of peasant-worker alliance, all situations characterized by relations of labour exploitation were considered appropriate for unionization. This logic was further reinforced in the context of competitive populism when, in the 1960s and 1970s, political parties in Kerala had to contest fiercely for gaining political power through elections. What the Congress socialists and later communists initiated became the “model” for all political parties, most of them offshoots of either the Congress party or the Communist party. Thus an overwhelming proportion of workers in the informal/unorganized sector were organized in unions.

However, trade unions found it difficult to approximate the situation in the unorganized sector to that of the modern industrial sector. The historical experience of organization of workers was that of the industrial model. While the political ideology was to fight capitalism (in non-agricultural employment) and stress on socialism, the operational part of trade union functioning was to improve the conditions of work, earnings and economic security of workers. A close study of trade unions in Kerala suggests that the model before them was that of modern industrial employment characterized by higher wage rates, stable employment, better working conditions, non-wage benefits and long-term economic security. The objective was to improve “labour status” and income. This implied a movement away from vulnerability towards stability in employment and income, and a position equivalent to labour in the primary labour market. Relentlessly pursuing this model, unions have succeeded to a remarkable extent in breaking down the conventional differences between the organized and unorganized or formal and informal sectors, and introduced another labour market phenomenon: of “insiders” vs. “outsiders”. Here, insider denotes primarily union membership with or without stable employment. In the process a number of labour institutions, borrowed from the “industrial relations model”, were transplanted into the realm of informal sector workers. These were wage (minimum) committees and industrial relations committees. What was not in the industrial relations model were labour cooperatives and collective care arrangements in the form of welfare funds. However, the relative failure of the labour co-operatives in terms of economic viability (with a few honourable exceptions) to take care of employment and social security requirements of the workers gave rise to the setting up of Welfare Funds.

## THE EMERGENCE OF WELFARE FUNDS

It is in the foregoing context that we need to understand the emergence of welfare funds as a specific form of collective care arrangement for workers in the informal sector. The first-best solution in the context of radical political mobilization was, of course, a revolution in favour of the working class. That was the initial motivation for the mobilization of labour by Congress socialists and later by Communist party workers. With independence and the establishment of a parliamentary democracy, this initial objective gave way to protecting and enhancing workers' rights and their share of earnings, the second-best solution in terms of organizing workers for higher wages, non-wage benefits and improved working conditions.

In Kerala this also reached its limits quite early given the very slow pace of industrialization and concomitant expansion of the organized sector. In such labour-intensive manufacturing and related activities as coir processing and manufacturing, pushing for higher earnings led to its logical consequence of technological changes. However, political unions, in their eagerness to protect current employment, fiercely opposed technological changes, often in a Luddite fashion. This happened in one of the most labour-intensive activities in agriculture as well: rice cultivation. This led to migration of industries to other regions in India and to a shift from rice cultivation to less labour-intensive cultivation. By the mid-1970s, the militant political unionism began to clash with the developmental imperatives of a low-income agrarian economy. Thanks to the earlier four decades of political mobilization, political parties realized the need for institutionalized forms of welfare arrangements lest they lose the support of the labouring poor.

The chronology of the establishment of welfare funds lends credence to this argument. Only one welfare fund was established in the 1960s and that too in 1969 under special circumstances. This was for toddy tappers, one of the early radicalized sections of rural workers. The Welfare Fund was a consequence of the limitations of wage bargaining at the end of which employers chose to leave the business. A takeover of production and distribution of toddy through a workers' cooperative did not achieve much. It was in this background that the toddy Tappers Welfare Fund was set up with active intervention of the government, then led by one of the two communist parties, the Communist Party of India. There was no move to extend this form of collective care to other sections of workers in the informal sector for almost a decade. However, in 1977 another welfare fund, the Kerala Labour Welfare Fund, was set up for workers in small-scale factories, plantations, shops and cooperative institutions.

The 1970s witnessed a fierce contestation in unionizing the hitherto non-unionized informal sector workers as a result of the split in the All India Trade Union Congress (AITUC), the trade union led by the undivided Communist Party of India. This led to a proliferation of unions along party lines led by not only the three main parties — Communist Party of India, the breakaway Communist Party of India (Marxist) and the

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Indian National Congress (I) which also witnessed a split in 1969— but many regional parties as well. Thus during the 1980s nine welfare funds were set up covering workers in such diverse occupations as loading and unloading (known as head-load workers), motor transport, clerks working with legal advocates, artisans, fish workers and handloom workers. To this should also be added such groups as cashew and coir processing workers, dominantly women. Given the wide political acceptance of this form of collective care arrangement under the initiative of the state, the process continued in the 1990s with the setting up of seven more welfare funds. (The list of Welfare Funds so far set up is given in Table 1.) The list of welfare funds is impressive not only in its numbers but also in the coverage of diverse groups of workers in the informal sector, a phenomenon which is likely to be a rare one in the contemporary developing countries.

At the core of this form of collective care arrangement was the spirit of mutualism, that is, taking care of individual risks through collective contributions and providing some social security at the end of the working life. Unlike the historical experience of workers in the advanced industrial societies of today, this arrangement did not stop at mutualism among workers. The political nature of workers' mobilisation and the existence of a democratic state, made the arrangement an institutional innovation by bringing in the participation and contribution of employers, however defined, and organizational support (sometimes financial contributions) of the government. Thus these welfare funds offer some form of social security at the end of the working life, social insurance in the event of sickness, accident and/or death, and a measure of welfare arrangements in terms of assistance for housing, education of children and marriage of daughters. In certain cases where welfare funds were not in a position to provide old age pension, the state provided for it in the budget (Kannan 2001).

**Table 1: Welfare Funds, Beneficiaries and Source of Financing**

Name of the Fund/ Year of starting	Beneficiary Groups and Qualifying Conditions	Sources of Finance
(1) (KTWWF, 1969) Kerala Toddy Workers Welfare Fund (S)	Toddy workers are defined as any person who is directly or indirectly in the production (tapping), collection and distribution of toddy for his livelihood. All toddy shops/premises are covered under the act (fund).	Government: Nil Employer: 13 % of workers' wage Employee: 8 % of workers' wage
(2) (KLWF, 1977) Kerala Labour Welfare Fund (S)	Workers in factories, plantations employing 10 employees and above, shops and commercial establishments employing two and above, and co-operative institutions employing 20 workers and above are covered by the fund.	Government: Varies from year to year. So far Rs 40 lakh have been allotted Employer: Rs 8 per half year per worker Employee : Rs 4 per half year per worker

*Contd.*

Name of the Fund/ Year of starting	Beneficiary Groups and Qualifying Conditions	Sources of Finance
(3) (KHEDLWWF, 1983) Kerala Head Load Workers Welfare Fund (S)	A "head-load worker" is defined as an individual who works for an establishment either directly or through a contractor for wages, in loading, unloading, carrying on head or in a trolley, any article from any place. But this does not include a person engaged by an individual for domestic purposes.	Government: Nil Employer: 25% of the workers' wage (including gratuity 5%) Employee: * 10% of wage ** For general fund. Rs 10 per worker per month L.C. and the Fund also contributes Rs 10 each per month.
(4) (KMOTWWF, 1985) Kerala Motor Transport Workers Welfare Fund (S)	A person who is employed for wages in a motor transport undertaking directly or through an agency to work in a professional capacity on a transport vehicle, like driver, conductor, cleaner, station staff, checking staff, cash clerk, time keeper, watchman or attender. An employee becomes eligible for membership on completion of three months of service.	Government: Nil Employer: 13% of workers' wage Employee: 8% of workers' wage
(5) (KADCLWF, 1985) Kerala Advocate Clerk Welfare Fund (NS)	A person who functions as an advocate clerk, registered under the Kerala Advocate Clerk Welfare Act who is within the age limit of 20 to 70 is eligible for membership in this scheme.	Government: Rs 90 per year per member Employer: Nil Employee: Rs 60 per annum per member
(6) (KARSWWF, 1986) Kerala Artisans Skilled Workers Welfare Fund (NS)	Workers in the informal sector such as tree climbers, goldsmiths, carpenters, shoe-makers, beedi makers, potters, chakku oil extractors, cycle rickshaw workers, gunny bag collectors, cycle repairers, watch repairers, milk and Newspaper Distributors, ice makers, milk extractors, photographers, tailors, barbers, dhobis and also all other workers who are not covered by any of the welfare schemes in the state, within the age limit of 20 to 58 are eligible for membership in this scheme.	Government: Rs 2 per every Rs 10 contributed by the worker Employer: Nil Employee: Rs 10 per month per worker
(7) (KCSHWWF, 1988) Kerala Cashew Workers Relief and Welfare Fund (S)	A cashew worker is any person who is engaged in any form of employment in the processing of cashew. The scheme applies to cashew workers and their dependants (husband/wife, unmarried daughters and minor sons and parents,	Government: Twice the amount contributed by the employer Employer: Rs 1 per worker per working day Employee: 50 paise per worker per working day

Contd.

Name of the Fund/ Year of starting	Beneficiary Groups and Qualifying Conditions	Sources of Finance
	minor brothers and unmarried sisters, fully dependant on the beneficiaries). He/She is eligible for welfare benefits of the fund, provided he/she is a resident of the state, with a minimum of five years in the industry, annual income not exceeding Rs 3600 and is not covered by ESI/Maternity Benefit Scheme.	
(8) (KKHWWF, 1989) Kerala Khadi Workers Welfare Fund (S)	The workers who are employed for wages under employers, contractors, in cooperative or self-employed for subsistence in khadi industries are eligible to be members of the scheme.	Government: 10 % of workers' wage Employer: 10 % of workers' wage Employee: 10 % of workers' wage
(9) (KCORWWF, 1989) Kerala Coir Workers Welfare Fund (S)	A coir worker is any person who is employed for wages to do any work in connection with the various processes in the coir industry and who gets his wages directly or indirectly from the employer, dealer or producer of coir products. This will include contractors or agents and anyone who depends mainly on the coir industry for his livelihood and any person employed in the coir industry (self-employed). The scheme also covers their dependants.	Government: Grant which is twice the amount contributed by the workers Employer: * 1% of the turnover. * Co-operative society Re 1 per month per worker and others Rs 2 per month per worker Employee: Rs 1 per month per worker
(10) (KFMWF, 1989) Kerala Fishermen's Welfare Fund (S)	It covers all fishermen who are employed for wages in a fishing vessel or self-employed fishermen who are registered as members of the Fishermen's Welfare Society.	Government: Contribution for pension and group insurance premium Employer: * Dealer 1% of the turnover. * Vessel owner Rs 1 to Rs 7 per month for nine months * Net owner Rs 1 per month * Farm owners 2% of value of fish caught Employee: * 3% of value of fish caught or 3% of wage * Rs 30 per worker per year
(11) (KHNDLWWF, 1989) Kerala Handloom Workers Welfare Fund (S)	Any person who is engaged in any activity related to the handloom industry and who gets his/her wages directly or	Government: Twice the workers' and self-employers' contribution

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Name of the Fund/ Year of starting	Beneficiary Groups and Qualifying Conditions	Sources of Finance
	indirectly from the employer or contractor and all others who depend mainly on the handloom industry for his/her livelihood are included (self-employed). The scheme also covers their dependants.	Employer: * 1% of annual turnover and an amount equal to worker's contribution. Employee: * Re 1 per month * Rs 2 per month by self-employers
(12) (KABWWF, 1990) Kerala Abkari Workers Welfare Fund (S)	Abkari workers are arrack-foreign liquor workers who are not covered by the Toddy Workers Welfare Fund.	Government: Rs 1 lakh for pension purposes (1994-95) Employer: 15% of workers' wage (including 5% gratuity) Employee: 10% of the workers' wage
(13) (KCONWWF, 1990) Kerala Construction Workers Welfare Fund (S)	The scheme extends to two homogeneous categories of workers: (i) construction workers (workers employed in any construction such as masons, carpenters, bricklayers, excluding supervisory functionaries like engineers, etc) and (ii) quarry workers (workers engaged in quarrying including stone-crushing, but not including supervisors).	Government: 10 % of initial member's contribution per annum Employer: * 1% of the construction cost * Yearly contribution made by the contractors (Rs 100 to Rs 1000) Employee: Monthly contribution per member — slabs Rs 10, Rs 15 and Rs 25
(14) (KAGWWF, 1990) Kerala Agricultural Workers Welfare Fund (S)	All agricultural workers who are engaged in agricultural operations within the age limit of 18-60 years and are covered by the Kerala Agricultural Workers Act, 1974 are eligible to obtain welfare benefits of the fund.	Government: Nil Employer: Landowners' contributions are 0.5-1 hector: Rs 10 per year and others (>1h.) Rs 15 Employee: Rs 2 per month per worker
(15) (KLOTAWF, 1991) Kerala State Lottery Agents Welfare Fund (NS)	Lottery agent: A person who is a regular agent and holds a valid identity folder as mentioned in the Kerala State Lottery Rules, 1977.	Government: 20% of the members' contribution Employer: Nil Employee: Category A/B Rs 15/10 per month
(16) (KDSVWF, 1991) Kerala Document Writers, Scribes and Stamp Vendors Welfare Fund (NS)	A person who functions as a document writer or as a scribe or stamp vendor and is licensed under the Kerala Document Writer's (Licence Rules) or the Kerala Manufacture and Sale Stamp Rules 1960). Membership is open to any person holding a valid licence and aged below 60 years.	Government: 10% of the members' contribution Employer: Nil Employee: Category A/B Rs. 15 / 10 per month

Contd.

Name of the Fund/ Year of starting	Beneficiary Groups and Qualifying Conditions	Sources of Finance
(17) (KAURWWF, 1991) Kerala Auto Rickshaw Workers Welfare Fund (S)	An auto-rickshaw worker means a person employed directly or indirectly or by himself through ownership (self-employed) of the vehicle (auto-rickshaw) in a professional capacity (either a goods carrier or passenger carrier). The scheme is voluntary and the workers within the age group 28 to 58 are eligible to join the scheme.	Government: 10 % of workers' contribution Employer: Rs 10 per month per worker Employee: Rs 20 per month per worker
(18) (KAWHWF, 1991) Kerala Anganwadi Workers and Helpers Welfare Fund (NS)	Persons who are working in anganwadi (day care centre) like a health worker, teacher and helper are expected to be covered by this fund.	Government: 10% of the members' contribution Employer: Nil Employee: Worker Rs 20 per month and helper Rs 10 per month
(19) (KTAWWF, 1994) Kerala Tailors Welfare Fund (S)	Tailors are defined as any person who is directly or indirectly employed by employers, contractors, agents or by himself through ownership of tailoring shops.	Government: 10 % of workers' contribution Employer: Rs 5 per month per worker Employee: Rs 10 per worker and Rs 15 per self-employee per month

Note: S — statutory bodies

NS — non-statutory bodies

Although there is a similarity in the nature of benefits offered, there are some variations in the emphasis and magnitude of such assistance. These are not without importance or consequence and we will discuss them later in this paper.

## THE WELFARE FUND MODEL

As mentioned earlier, the welfare fund is modelled after the social security and insurance cover arrangements available to formal sector workers. Within the limited financial capacity, these funds have also conceived of some measure of welfare provisioning. The model has the following characteristics:

- (i) providing a measure of social security, insurance and welfare assistance to workers;
- (ii) creation of a tripartite body consisting of representatives of workers, employers and the government with veto powers for the government on policy issues;
- (iii) a bureaucratic organizational mode with the chief executive appointed by the government and staff drawn from government departments;

- (iv) mandatory financial contribution from workers and employers with the exception of a few “voluntary” funds; and
- (v) minimal financial contribution by the government except in cases where workers are directly under the government (i.e., government as employer) or where the paying capacity of workers is deemed very low.

A welfare fund is usually set up through a political process wherein the political parties and their unions make a public demand for it. Since labour relations have come to occupy centre stage in state politics and consequently in public policy, there is a remarkable degree of political consensus on the setting up of welfare funds, as in the case of collective bargaining. With the emergence of party-affiliated trade unions in almost all occupations, political parties, both big and small, have come to view welfare funds as an opportunity to extend their patronage and concern for workers. Political consensus has often taken the shape of competitive populism, given the enthusiasm with which political parties belonging to the two major coalitions have gone about setting up welfare funds for workers. Such political consensus has made it easy for the government to introduce legislation on the creation of a particular welfare fund. Such legislation takes into account details of the constitution, definition of workers, financial contribution by workers, employers and the government and related aspects.

Once the legislation is enacted, the government (in this case the Department of Labour) sets up a tripartite body consisting of representatives of workers, employers and the government. Workers’ representatives are usually leaders nominated from the main unions active in a particular occupational group and irrespective of their political affiliation. This is a remarkable feature of institutionalization of labour politics in Kerala where no particular party can have a dominating presence either in government or in trade unions. Over time, this system of nomination has taken the character of open political patronage to trade union leaders by their political bosses. Most of them are “professional union leaders” who may or may not have a background of work in the concerned occupation. If such nominations reflect “rent-seeking behaviour”, it has to be seen as part of the larger system of “political rent seeking” that has contributed much to the decline of ‘selfless’ politics of an earlier era compared to the “self-centred” and “sectional-interest-oriented” politics of recent times.

Employers’ representation is also through nominations either of employers’ organizations or prominent employers in a given occupation. Since employers as a group have accepted the institution of collective bargaining and care arrangements through welfare funds, their participation is more out of necessity than out of a conscious policy. They also ensure their participation to articulate their views and grievances.

Nomination of government representatives is often done with little concern for assessing the nominees’ expertise and interest. The concerned officials of the labour department

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and finance department are the usual nominees. Others can be from departments that look after the industry or occupation. The chief executive is usually a senior government official on deputation from a department. Employees from government departments staff the administrative support system of the welfare fund.

During the legislative process, one of the most debated aspects of the welfare funds is the definition of the “worker” to be covered by the arrangement. This is not only because of the diverse nature of the jobs performed by workers but also because of the overlap across some welfare funds. Through systematic union intervention, the informal sector labour market in Kerala gives very little scope for a worker to practise multiple jobs once he/she becomes a union member. In fact this is one of the strategies of the unions to create a closed-shop model and a strict occupational identity. However, often workers in one occupation may be found to be eligible for more than one welfare fund. For example, masons and carpenters come under the definition of construction workers but they are allowed to register under the Artisans and Skilled Workers Welfare Fund. Such anomalies are gradually getting eliminated as unions keep a watchful eye on the definition of ‘worker’ and the eligibility for registration in a particular welfare fund (see Table 1).

### **Contributions**

An important aspect of welfare funds is the fixing of contributions of the workers, employers and, in some cases, of the government itself (see Table 1). Though there does appear to be any underlying principle for the determination of their financial contributions, an argument encountered in informal discussions was that of differential capacity to pay; however, it is doubtful that this principle will stand the test of a careful scrutiny. The section on Critical Assessment will deal with the economic and political factors in the determination of the contributions. Suffice it to say here that contributions vary widely across occupations and groups of workers as also employers and the government. Of the 19 welfare funds set up so far, the government contributes directly to 15 of them. Here again there is no well-stated rationale underlying such a consideration. In some cases where there is no contribution, it should however be mentioned that government pays a state pension (old age) for such workers as agricultural labourers. The contribution of employers has run into certain legal difficulties. While in some cases the contributions are regularly collected, in some others employers are unwilling to pay the contribution and have questioned it in the court of law. Economic factors are a key to understanding this differential behaviour. Where product markets allow employers to shift the burden to the consumer, there has been less resistance in paying the contributions, but in product markets where employers are price takers — such as in the marine export market, rice market, etc. — the unwillingness has been open and the policy challenged legally.

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## **Administration**

Since administration of the funds is with the government, they are like government departments in their style of functioning. The innovative skills evident in the design and coverage of the funds are however not deployed in the administrative set-up. Therefore the set-up gives hardly any flexibility or room for innovation according to the requirements of each Fund. Members on the boards of directors are nominated by the government and representation of all three constituents i.e., unions, employers and government, is more or less equal. Although the boards of directors are the ultimate body for deciding the policies and functioning of the funds, the concerned government department wields considerable power of veto through a system of "sanctions". For example, annual reports and accounts have to be sent to the government for sanction (approval), and prior permission is required for revision of rates of contributions and benefits to workers. Given that the chief executive officer is a government employee, the day-to-day control also rests with the government.

Establishment expenses are met from the income of the respective funds. Here again the boards of directors do not seem to have any effective control. The fees and allowances payable to board members, salaries and other benefits of the administrative staff, routine administrative expenses including equipment, travel, etc., contribution to provident fund of the staff are all borne by the income of the fund. Thus, ironically, a part of the contributions of the informal sector workers go towards the cost of maintaining the jobs of government employees. We were given to understand that not more than 10 per cent of the total income of a given fund was to be spent on establishment (i.e., administrative costs). However, only seven of the 16 funds considered (as in 1992-93) were found to have conformed to this ceiling (see Table 2). It must, however be noted that the absolute amounts are on the higher side when compared to the amount disbursed as benefits to the members. This fact alone points to the strange fact that the savings of the informal sector workers are used to maintain the employment and income of the formal sector workers in government service. This crucial aspect of the working of welfare funds calls for closer scrutiny and periodic monitoring by the government to ensure that administrative expenses are kept to the minimum.

## **Coverage of Workers**

An important yardstick of the effectiveness of welfare funds is their coverage. However, estimating coverage poses some methodological problems as there are no reliable estimates of the number of workers in each occupational group. The estimates given in the census reports can be a reliable source but this applies to only a few categories of workers such as agricultural labourers, fish workers, construction workers who are in the informal sector and have been given separate occupational classifications. For a

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number of occupations, workers are clubbed in such broad categories as workers in food processing (which includes cashew workers and toddy tappers). The concerned government departments nonetheless have some estimates of total workers and these could be used to work out the coverage ratio on the basis of the members enrolled in each fund. Table 3 shows the estimated total workers and the workers enrolled in each welfare fund. Of the 19 funds for which data are available (18 funds implemented by the government of Kerala and the one for beedi and Cigar workers by the Government of India), three funds show 90 per cent coverage; above, one shows 100 per cent; five show between 50 and 90 per cent. If the welfare funds for khadi workers and agricultural labourers (close to 50 per cent coverage) are included, the average coverage of these 11 funds works out to 58 per cent. For the remaining eight, the coverage ranges from 6 to 32 per cent. That the lower coverage in some may be due to the very high estimates of the total number of workers. For example, the estimated number of workers in the “artisans and skilled workers” group is 40 lakh, which works out to nearly one-third of the total workers in Kerala! The fact that some of the artisans and skilled workers belong to other welfare funds might also have contributed to the reported low coverage. For example, handloom weavers might legitimately be treated as “artisans” and yet not belong to this fund, as there is a separate fund for them (KHNDLWF). Similarly, workers engaged in traditional fishing are treated as artisans but they too have a separate fund. The same is the case with such workers as carpenters and masons (who would belong to the fund for construction workers). The Kerala Labour Welfare Fund (KLWF) also comprises workers from a number of occupations and establishments such as those working in shops and other commercial establishments, small factories, plantations, motor repair workshops and co-operative societies. The definition of worker for this welfare fund is not only broad but also intended as a residual category for workers who do not belong to any of the other funds. Recent developments have shown that this fund is losing its importance since one of the main group of workers — tailors — were successful in getting a new welfare fund established for themselves in 1994. Similar overestimation is likely in the case of head-load workers as well. For these reasons, the reported coverage ratio is likely to be an underestimate.

Even keeping the above limitation in mind, it needs to be pointed out that the enrolment of workers in a given fund is a function of the attractiveness of the expected benefits. In that respect, some of the funds do not seem to attract workers. This are particularly so in the case of autorickshaw workers and handloom workers. In the case of head-load workers, the estimate refers to their total number in the state as a whole, whereas the welfare fund coverage is limited to urban markets only.

**Table 3: The Coverage Ratio (realised) by Various Welfare Funds**

SI No.	Name of Welfare Fund	Estimated Workers as on March 1994	Workers Covered as on March 1994	Coverage Ratio (%)
1	KAWHWF	20,000	20,000	100.0
2	KTWWF	45,000	44,991	99.9
3	KCSHWRWF	131,000	123,699	94.4
4	KABWWF	15,000	13,800	92.0
5	KFMWF	240,000	197,129	82.1
6	KDSWF	4,000	3255	81.4
7	KLWF	600,000	422,000	70.3
8	KCONWWF	500,000	285,000	57.0
9	KADCLWF	5000	2569	51.4
10	KAGWWF	2,000,000	961,000	48.1
11	KKHWWF	26,840	12,293	45.8
12	KLOTAWF	10,000	3242	32.4
13	KMOTWWF	126,474	31,329	24.8
14	KCORWWF	384,000	72,908	19.0
15	KHNDLWF	250,000	26,000	10.4
16	Beedi & Cigar	250,000	25,520	10.2
	Workers WF			
17	KAUTRWWF	77,875	5052	6.5
18	KHEDLWWF	200,000	11,077	5.5
19	<b>Total</b>	4,885,000	2,260,864	46.3
20	KARSWWF	4,000,000*	325,000	8.1

Note: \*This seems to be a highly inflated figure as it works out to one-third of the total workforce in Kerala. Many artisan groups have separate welfare funds and hence this estimate calls for closer scrutiny. We have therefore kept this fund out of our calculation of the coverage ratio.

Source: Various departments of the government of Kerala and the administrative reports of welfare funds.

## Benefits From the Funds

As stated earlier, welfare funds are meant to provide a measure of social security and insurance for workers who are vulnerable to risks and uncertainties and have no other institutional protection arising from their employment status. Along with this basic objective, almost all funds have provided a measure of welfare assistance to workers in which housing and education are the most prominent ones. (See Appendix 1 for a compilation of the social security, insurance and welfare benefits of individual funds.) Social security benefits are mainly in the form of a provident fund to be given to the worker on superannuation, a monthly pension (only eight funds), and payment of a gratuity (also in selected cases only). Social insurance is in the form of an ex-gratia payment in the event of disability or death and a modest payment for treatment of illness. Welfare assistance consists of financial assistance for housing, education of children, and marriage of daughters. Given the importance of education in Kerala and the premium attached to it even by the poorer households, educational assistance figures in the benefits of a number of funds. A notable provision in the funds which is neither an “insurance” nor a “welfare” is the financial assistance for meeting the funeral expenses of the worker. This may sound odd in a context where birth and death are usually a kinship/community responsibility. But, in the context of labour history, this is hardly so. For, in Europe, one of the most prominent assistance of mutual benefit societies was that of meeting funeral expenses. As van der Linden (1996) points out, although the worker often worked without dignity, the need to conduct his funeral with dignity was underlined by this form of assistance. The contemporary Kerala mutualism among workers closely resembles the western historical experience of mutualism with its core concerns of labour regarding human dignity.

The benefits of the various funds are briefly discussed below.

**Provident Fund:** Only three funds — toddy tappers, motor workers and abkari (workers in liquor shops) workers — provide for a provident fund. In the case of toddy tappers, both workers and employers contribute to the fund, whereas in the case of motor workers the contribution of workers are repaid with interest. For abkari workers, the net credit on retirement is used for financing a monthly pension. The workers in these three categories are all male, and hardly any female workers in the informal sector enjoy this benefit.

**Gratuity:** In the formal sector gratuity is in the form of a lump-sum final payment as a gratuitous reward, calculated as a share of the earnings of the workers by taking into account the number of years. This form of social security for old age has been incorporated in eight of the 19 funds set up so far. Toddy tappers, head-load workers, workers in liquor shops (called abkari workers), autorickshaw drivers, document (legal) writers, advocates’ clerks and agricultural workers are provided with this benefit. Here again one should note that with the exception of agricultural workers, who include women, all

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others comprise only male workers. The inclusion of agricultural labourers should be seen in the light of the inability of the government to implement the Agricultural Workers Act and hence as a relief to this section of workers. Moreover, the fund for agricultural labourers hardly provides for any other benefit. Taken together, the provision for a provident fund and gratuity covers only 10 of the 18 funds. Toddy tappers alone enjoy both benefits.

**Monthly Pension:** This is incorporated in eight funds. However, it should be kept in mind that agricultural labourers, who constitute the single largest group in the total workforce, receive an old age pension directly from the state.

**Disability and Accident Cover:** The concern for disability/death arising out of accidents is so strong that all the funds have provided for some cover. However, the relatively politically influential sections of workers have been provided with a monthly pension in the event of permanent disability. In all other cases it is a lump sum ex-gratia payment from the fund except in the case of fish workers who also have a group insurance cover. There is no uniformity in the payment of ex-gratia. What seems to be a determining factor is the political profile of workers and the status of the work performed. The lowest ex-gratia payment is agricultural labourers who, of course, contribute their labour to the basic productive sector of the economy but usually find themselves at the lower end of social security arrangements.

**Health Cover:** There is no formal insurance cover provided to workers. Usually, a part of the expenses incurred on medical treatment is reimbursed. Only 10 funds (out of 17) provide for some financial assistance in the event of treatment for illness and/or accident. Those who enjoy this benefit are toddy tappers, head-load workers, workers in small-scale factories and shops, motor workers, artisans and skilled workers, khadi workers, coir workers, fish workers, handloom workers and construction workers. Here again, agricultural labourers are excluded. Coir workers have an edge over others in that the cover is extended to all members of their family, whereas it is applicable to only the worker in other cases.

**Unemployment Relief:** Given the vulnerability of informal sector workers in terms of the absence of reliable and regular employment, one would have thought that assistance during periods of unemployment would have been a priority for the welfare funds. But this is not the case. Only four groups of workers enjoy this benefit. In the case of fish workers, the relief is provided in the form of thrift collected during the peak season and distributed during the lean season of fishing. The low priority attached to unemployment assistance reflects the low political priority attached to this problem in Kerala. Very high priority is assigned to the rights, entitlements and security of workers, whereas the unemployed have not received much political attention. This bias seems to have run through even while designing collective welfare schemes.

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**Educational Assistance:** The majority of funds provide for this assistance — 13 out of 17. These are usually for the education of children. A number of funds have instituted incentives for children who do well.

**Housing Assistance:** The relatively powerful groups of workers such as toddy tappers, head-load workers, workers in liquor shops and construction workers have this benefit. To this list can be added handloom weavers, who are not as economically strong as them but enjoy political backing. For the majority of workers there is no provision for housing assistance. However, there are several housing schemes for the poor in Kerala that address this aspect of social security as part of the state government's poverty alleviation programmes (Kannan 2001).

**Marriage Assistance:** Parents of daughters usually have to incur the marriage expenses. Since this is an important social custom entailing the obligation to spend on the wedding function, it is a responsibility involving lump-sum expenditure. Here again the coverage is only partial with nine out of 17 funds having this benefit.

**Funeral Expenses:** As mentioned earlier, funeral assistance figure in most of the welfare funds. There are five that do not have any provision for it.

## A CRITICAL ASSESSMENT

Before commenting critically on the functioning of the welfare funds it must be stated at the outset that this model of providing a modicum of social security for the workers in the informal sector has been a remarkable one. Kerala now has accumulated experience of implementing this model over more than three decades. In this respect, the state has been a pioneer in India in incorporating social security for the poor in public policy. The welfare fund model should be seen in this larger context as complementary to the basic social security provided by the state. The coverage of occupations in the informal sector has been quite wide, but coverage of workers shows a significant gap, if not a wide one. Given the nature of employment in the informal sector and its geographical spread, the coverage of workers should be reckoned as impressive, if not complete. The welfare funds now cover workers in the informal sector in both agricultural and non-agricultural occupations, cutting across rural-urban and gender differences. These funds have sought to address the concerns of social security, insurance and welfare albeit, in a minimalist sense. Along with the universalistic and basic social security programmes (such as food security, access to school education and primary healthcare), the state-assisted social security programmes in Kerala have imparted a sense of dignity and self-esteem to workers in the informal sector. The labour movement and pro-poor state policies laid the foundation for the evolution of such a broad-spectrum social security arrangement.

Having recognized the importance and achievements of Kerala, one must also point out certain fundamental weaknesses. The low-income agrarian economy still operates

in Kerala as a constraint in enhancing the scope and benefits of the social security arrangements in general and the welfare funds in particular. Although the growth of the state in the 1990s recovered to around 6.5 per cent per annum, the low level of per capita income, as with the rest of the Indian economy, continues to be a fact of life. This constraint can be overcome only through a higher rate of investment and the structural transformation of the economy. In particular, low productivity in agriculture and industry has to be tackled. The prospect of enhancing investment is there — thanks to the continuing flow of remittances by Keralites working in the Gulf countries — but infrastructure bottlenecks as well as earlier negative image continue as major impediments (Kannan 2002). While the latter is being overcome with some success, the problem of inefficiency in the management of the infrastructure sector is proving to be a formidable one.

But, these larger constraints cannot be used as an excuse for some of the weaknesses in the functioning of the welfare funds. There are several issues of policy and performance that can be improved upon to enhance the benefits to the workers in informal sector. A select list of such issues, which we think are important, is discussed here.

***Differential Benefits and Ability to Pay:*** A perusal of the criteria for contributions as well as benefits shows wide variations across the different funds. While absolute amounts in contributions may vary, there is no reason why rates of contributions should vary from one to the other fund. Similarly, the benefits also show wide variations. The justification given for the latter is that the ability to pay differs from one occupation to another. This may well be so but there is need for some uniformity in the type of benefits. For example, social security could comprise provident fund, gratuity and a monthly pension (wherever the workers are not covered by a state pension); and social insurance should take care of compensation for ill-health, accident and death. These two types of benefits could have been incorporated in all welfare funds as common benefits. Welfare benefits could be according to the ability to pay. There is therefore a need to rethink this aspect of the design of welfare fund benefits. In those welfare funds where the ability to pay is the least, financial assistance from the state is required. This has been tacitly recognized by the Kerala government because the state contributes to those funds where the total contribution of employers and workers is insufficient to meet the stipulated benefits. Examples in this respect are the Fishermen's Welfare Fund, the Coir Workers Welfare Fund and the Handloom Workers Welfare Fund. There is, however, a case for evaluating the need for government contributions and the actual collection of contributions (efficiency criterion) as against the ability to pay of workers (equity criterion).

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Table 2: Mobilization and Use of Funds Under Various Welfare Funds (1992-93) (Rs lakh)

Sl No.	Name of Welfare Fund	Pension/ Gratuity/ Retirement Benefit	Other Social Insurance Programmes	Administrative/ Expenditure	Saving or Dis-saving (+ or -)	Employer- Worker Contribution	Government Contribution	Total Contribution	Investment as on 31 March 1995
1	KTWWF	598.20 (60)	163.10 (16.4)	108.20 (10.9)	+12.60 (+12.7)	996.12	-	996.16 (100)	15,656.84
2	KLWF	-	12.13 (49.8)	17.85 (73.3)	-5.98 (-23.1)	24.34	-	24.34 (100)	105.46
3	KHEDLWWF	16.21 (0.9)	160.72 (8.4)	122.12 (6.4)	+1607.40 (+84.4)	1906.47	-	1906.50 (100)	1448.26
4	KMOTWWF	23.50 (11.6)	0.29 (0.1)	36.42 (17.9)	+142.83 (+70.4)	203.02	-	203.02 (100)	1560.67
5	KADCLWF	0.46 (12.8)	0.28 (7.8)	0.63 (17.6)	+2.21 (+61.7)	1.43	2.15	3.58 (100)	NA
6	KARSWWF	3.54 (0.8)	28.96 (6.6)	10.69 (2.4)	+397.17 (+90.2)	366.96	73.40	440.36 (100)	1135.00
7	KCSHWWF	41.10 (18.6)	31.18 (14.1)	20.56 (9.3)	+128.23 (+58)	161.00	60.00	221.00 (100)	559.20
8	KKHWWF	0.06 (0.02)	-	12.00 (5.9)	+190.94 (+94)	124.14	79.00	203.14 (100)	175.30
9	KCORWWRF	70.70 (96.4)	8.59 (11.7)	11.69 (15.9)	-17.61 (-24)	58.40	15.00	73.40 (100)	554.74
10	KFMWF	278.90 (70.6)	36.79 (10.7)	50.12 (12.7)	+28.90 (+7)	97.43	297.32	394.75 (100)	134.50
11	KHNDLWWF	15.00 (70.3)	0.41 (1.9)	14.40 (67.4)	-8.46 (-39.6)	12.35	9.00	21.35 (100)	20.00
12	KABWWF	-	4.19 (0.15)	35.15 (4.3)	+786.20 (+95.2)	825.52	-	825.52 (100)	3852.00
13	KCONWWF	70.00 (0.3)	79.90 (16.4)	70.00 (14.3)	+335.00 (+69)	487.38	-	448.38	2135.00
14	KAGWWF	-	3.29 (1.8)	36.00 (19.6)	+144.75 (+78.6)	184.04	-	184.04 (100)	321.21
15	KLOTWWF	0.25	1.70	21.47	NA	9.91	NA	NA	NA
16	KDSWWF	-	0.60 (4.8)	15.44 (1.24)	-3.64 (-29.4)	9.90	2.50	12.40 (100)	NA
17	KAUTRWWF	-	0.40 (2.6)	1.53 (9.8)	-0.51 (-3.3)	14.21	1.42	15.63 (100)	65.00
	<b>Total</b>	1051.00 (17.4)	533.26 (8.8)	582.22 (9.7)	3854.56 (64)	5483.00	540.00	6023.00 (100)	27,733.18

Note: Figures in parentheses show the amount as a percentage of total contribution

NA — Not applicable

**Collecting Contributions from Employers:** Employers in Kerala have been contributing to the different welfare boards not out of philanthropy or concern for their workers, but because this has become a statutory requirement in most cases. The general hostility towards the working class is evident in the agricultural sector where the legislation for a welfare board has been challenged at each stage in civil courts since 1974. In the fisheries sector, exporters resorted to a two-week strike in the year 2000 against a 1 per cent levy on their turnover towards the welfare fund. There were some welfare funds (five out of 17) in 1992-93 (Table 2) that were struggling for economic viability due to the lack of cooperation from the employers.

**Coverage of Workers:** The fact that on the whole about half the workers in the informal sector of the state had been brought under one or another welfare fund till 1995 shows that a significant number of workers are now enrolled in welfare funds. This percentage however refers to the 18 welfare funds and the estimated total number of workers in those occupations. We have left out the Kerala Labour Welfare Fund because of its overestimation of workers.

The total number of workers enrolled in welfare funds comes to around 26 lakh in Kerala. This is quite impressive. But the other side of the picture, shows that the majority of workers in the informal sector of the economy as a whole are out of the welfare funds. As per the 1991 census, Kerala's Worker Participation Rate (WPR) was 38 per cent, which works out to a total of 120 lakh workers: around 12 lakh are in the organized sector and around 108 lakh in the informal sector. Leaving out the category of farmers (who are landed and classified as "cultivators" in the census), workers in the informal sector work out to around 90 lakh. Coverage of 26 lakh works out to a coverage ratio of around 29 per cent. The lower coverage ratio in some welfare funds is due to their non-statutory status and as such membership is on a voluntary basis. There is also a likelihood that some of the welfare funds' schemes and benefits are not attractive enough to canvas more workers, e.g., the Kerala Lottery Agents Welfare Fund and the Kerala Document Writers, Scribes and Stamp Vendors Welfare Fund.

**Mobilization of Funds and their Management:** On the basis of the available figures (for 1995) we around 70 per cent of the funds mobilize resources that exceed their total expenditure. However, there are wide variations in the proportion of the contribution spent on distributing benefits to fund members. This varies from less than 1 per cent in the case of khadi workers and abkari workers and about 2 per cent in the case of agricultural labourers and lottery agents to 108 per cent in the case of coir workers (see Table 2). It should be stressed that the low share is found among the most important section of informal sector workers, i.e., agricultural labourers. The others in this category are khadi workers, abkari workers (workers in country liquor shops), lottery agents, document writers and autorickshaw drivers. Given the high share of women among agricultural labourers, the least beneficial group (in terms of gender) is women workers.

Most funds have also accumulated significant amounts in investments. Leading is the Toddy Tappers Welfare Fund (which has been in existence since 1969), followed by the funds for liquor shop workers, construction workers, motor transport workers and head-load workers. As in 1995 the outstanding investment was around Rs 277 crore. There is need for evaluating the investment collections and disbursements of each fund. The fact that disbursements do not reflect either the contributions or the accumulated funds could put a question mark on the credibility of the funds in the long run. It also implies that the present generation of workers may be benefiting at the cost of past generations. Given that the proclaimed aim of the funds is to cater to the welfare of workers, the contributors may accuse the funds of not fulfilling their mandate.

**Cost of Administration:** Though it has been generally accepted that the administrative costs of each Fund should not exceed 10 per cent of the total income of the respective fund, nearly half the funds are operating above this stipulated amount. The main reason for this is that each of the 19 welfare boards in the state has its own separate and independent administrative bodies, which multiplies the total overhead costs. From Table 2 it becomes clear that some of the welfare boards are operating at such high administrative cost that it virtually defeats the purpose for running the funds. The share of administrative expenses in total income varies from 1.24 per cent in the case of KDSVWF to as much as 73.3 per cent in the case of KLWF and 67.4 per cent in KHNDLWWF.

Instead of calculating the administrative cost as a percentage of total income, a far more relevant ratio is to express it as a percentage of the total welfare payments — a sort of transaction cost of welfare distribution. If this cost exceeds the benefit transferred, the scheme involves undesirable implications (see Table 4 for 1992-93). Unfortunately, eight of the 17 welfare funds show that the administrative cost exceeds the total welfare payments (i.e. above 100 per cent). Some figures are ludicrous: for example, in the Khadi Workers Welfare Fund the administrative cost is 200 times (20,000 per cent) that of the welfare payment; in the Agricultural Workers Welfare Fund it is 11 times (1094 per cent); and in the Document Scribes and Vendors Welfare Fund it is 26 times (2573 per cent). In reality this means that there is very little by way of welfare payments despite collection of contributions from the stakeholders.

It is ironic that a system established to serve the interests of workers has ultimately turned out to be an exercise serving bureaucratic interests. However, a unified and common administrative body to cater to all the welfare funds need not necessarily be a solution to the problem. This is because of the possibility of the conflict of interests between different groups of workers with differential ability to pay on the one hand and employers with different occupational interests to protect on the other. There is also the danger of creating a monolithic bureaucracy not sensitive to the requirements of the worker members. This calls for a careful evaluation of the administrative arrangement

keeping in mind the need for participation by workers and employers and responding to their specific needs and problems. Periodic monitoring and performance evaluation of the welfare funds by independent agencies could be thought of as a possible answer to the current problems.

**Table 4: Administrative Expenses of the Welfare Funds as Percentage of Total Welfare Payments, 1992-93**

Name of the Welfare Fund	%
KKWWF	20,000
KDSVWF	2573
KLOTWWF	1101
KAGWWF	1094
KABWWF	839
KAUTRWWF	382
KMOTWWF	153
KLWF	147
KHNDLWWF	93
KADCLWF	85
KHEDLWWF	69
KCONWWF	45
All Schemes Average	37
KARSWWF	33
KCSHWWF	28
KFMWF	16
KCORWWF	15
KTWWF	14

Source: Calculated from Table 2.

**Gender Equity:** Notably, it is precisely the funds created for the relatively weaker sections of the workforce and sectors which are predominated by women that are still struggling for financial viability (e.g., cashew, handloom, coir), whereas the more powerful and vociferous male sections of workers seem to have ensured a better deal for themselves (e.g., toddy, head-load and autorickshaw workers funds). It is equally true that it is precisely for these more vociferous and militant sections that the more diverse schemes as well as higher economic benefits are provided for in the welfare funds. (e.g., Kerala Toddy

Workers Welfare Fund and Head Load Workers Welfare Fund — See Appendix 1). The fact is that women's issues are still not the focus of debate and policy even in Kerala when it comes to their participation and problems in the labour market. This is in sharp contrast to their achievements in social development as in literacy and schooling, life expectancy, controlling the birth rate, and so on. "Progressive" political parties that ought to begin this change also seem disinclined to encourage women to be leaders, prompting them or relegating them to being only among the many leaders the parties control.

### **MEASURES TO IMPROVE THE FUNCTIONING OF WELFARE FUNDS**

An important feature of the welfare scenario in Kerala is that the patronage relations that once existed have now been replaced by political patronage of the working class and the poor by major political parties. Though political parties favouring their vote banks is not a new phenomenon, the scale and brazenness of its manifestation in competitive populism is touching alarming proportions. This does not augur well either for the poor or for society at large. Given the "bandwagon" effect seen commonly in many other fields, almost all smaller political parties too emulate this kind of patronage relations.

It may also be noted that in some welfare funds the contribution by government as well as employers have been stipulated as a function of and provisional to employees' contribution, which has compromised the financial viability of the scheme. That is, since the employee's contribution is set at a low level the contribution by the other two stakeholders too has been relatively, small affecting the very viability of the scheme (e.g., Advocate Clerks Welfare Fund, Handloom Workers Welfare Fund, Artisans and Skilled Workers Welfare Fund).

Welfare funds being constituted on an occupational basis, the entry to and exit from the labour market tends to be controlled by unions, since recruitment of members is primarily routed through unions. A new entrant to the market implies additional economic burden to the employers, so employers collude with the existing employees to avoid this additional burden. In the case of some welfare funds the constitution of a welfare board in a particular segment has resulted in a segment of workers who are "unregistered" and hence do not obtain any benefits of the fund. This once again brings to the fore the irony of the "insider-outsider" problem in the functioning of trade unions.

It is also to be noted that those welfare funds that have been successful in ensuring the contribution of employers are the ones, that have ensured economic viability. For instances, the Construction Workers Welfare Fund ensured economic contribution from employers by stipulating that any construction activity would be sanctioned only if the employer or contractor paid 1 per cent of the total construction cost to the welfare fund in advance.

The ever-increasing demand for welfare funds for each subsector of the informal sector can only be viewed as a desperate reaction of workers for a measure of social security

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in an unprotected labour market. With a long history of mobilization and organization and pro-poor policies of the governments in power, the working and living conditions of an average worker in the informal/unorganized sector in Kerala are perceptibly better than those two/three decades ago. The abysmal subhuman poverty evident in most parts of India is thus a rare phenomenon in Kerala now. However, one of the biggest challenges namely, the problem of unemployment, continues in Kerala. Closely related to the nature and pace of growth and structural transformation of the state's economy, it throws up issues beyond the scope of this paper. Suffice it to say that the recent recovery in economic growth has not been adequate to alternate this problem. Further, reducing unemployment and enhancing the social security cover to the majority of the people are two crucial issues that the liberalized economy of the country will have to face. The welfare fund model of Kerala provides some useful pointers to alleviating the insecurity among workers in the informal sector.

### **Can the Experience be Extended to Other Contexts?**

There is no doubt that the Welfare Fund model, as designed and implemented in Kerala, provides a measure of social security to workers in the informal sector. While there is considerable scope for improvement in organization and functioning, the underlying message of the model should not be lost sight of: that is, informal sector workers need not necessarily be insecure workers. Given the nature of economic growth, driven increasingly by technological changes, the possibility of any rapid transformation of the informal sector into the formal sector is rather bleak. As such, the goal of Decent Work can be attained only by "levelling" the conditions of work of those in the informal sector.

What made possible the introduction of welfare funds in Kerala is the social dialogue process involving the state, "employers" (or beneficiaries of the work provided by informal sector workers) and the organizations representing the informal sector workers. It spanned a few decades to cover a good number of informal sector activities, but the important point to note is that it was a continuing process.

The welfare fund model can be extended both within India and other developing countries. In the case of Kerala, there were some favourable factors: first and foremost, the literacy of the labouring poor combined with a high degree of social and political consciousness with regard to their rights; second, the readiness of political parties to take up the legitimate demands of workers in the informal sector as part of their political agenda; third, the early mobilization and organization of workers spanning a number of informal sector activities, both in rural and urban areas. All these factors created a favourable ambience for the state to initiate the social dialogue process and set up organizational structures to address the demands for social security.

These factors are not present in several other parts of India. However, the state can design region-specific models. At the all-India level, there is a fair amount of experience in implementing a welfare fund for beedi workers; this has been made possible by the

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initiatives of labour unions and political parties at the national level. A few states have introduced welfare fund schemes for workers in a limited number of informal sector activities (e.g., Karnataka). Recently, a committee appointed by the government of Madhya Pradesh to examine the feasibility of introducing social security measures for informal sector workers recommended introduction of a welfare fund for informal sector workers in selected occupations. The compulsions of parliamentary democracy and the need to address the problems of the labouring poor in a context of economic growth are to be reckoned as favourable conditions. However, the basic capability-building activities such as literacy and education and organization of the labouring poor will have to be addressed. Here again, the state can play a proactive role as demonstrated in the literacy campaigns of the 1990s.

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Appendix 1: Welfare Fund Benefits

Name of the Fund	Pension	PF, Gratuity, etc	Disability, Death	Children's Education	Medical	Marriage & Maternity	Unemployment	Housing	Special Allowance
1	2	3	4	5	6	7	8	9	10
KTWWF	A pension scheme has recently evolved and it offers Rs. 100 per month to retirees who has up to ten years member-ship and also offers an additional amount of Rs. 10 per month of every year that comes after the 10th year at the Fund	Net credit to the account of the worker (provident fund a/c) and gratuity paid with interest (currently 11%) on superannuation, retirement or on his death. Gratuity is 50% of the monthly average of wages for each completed year of service subject to maximum of 20 months' wages.	Disability allowance Rs 125 per month. Funeral expense Rs 2000.	Non-refundable advance (deductible) from his contribution Rs 1200 or 50% of his contribution, whichever is lower.	Non-refundable advance of his three months' wage or 50% of his contribution, whichever is lower. For cancer treatment, Rs 3000 as grant (non-deductible).	Non-refundable advance from his contribution. But he should have at least Rs 500 at the Fund.	Non-refundable advance in case of unemployment, provided he has at least Rs 500 at the fund.	Refundable provided he has have at least three months' wage at the Fund.	Members can withdraw funds from their account in order to pay the insurance premium
KLWF	No provision	Since the fund is an insurance fund, there is no retirement benefit.	Ex-gratia Rs 1000, Permanent disabled Rs 2500, Funeral expense Rs 200.	Scholarship on the basis of merit. It varies from Rs 50 to Rs 1000 per year (primary to professional).	Medical grant (non-deductible) of Rs 1500 (maximum amount).	No provision	No provision	No provision	Tour subsidy 10 ps per km and subsidy for food and accommodation on holiday home, Kumali.
KHED-LWWF	pension scheme not yet evolved	Every member will be paid an amount at the rate of 10% of total wages earned during the	Ex-gratia benefit Rs 2000. Rs 100 per month to	Education grant Rs 100 per year per child Scholarship	Medical grant up to Rs 2000 under medical	Interest-free loan of Rs 3000 or three-months' wage, whichever is	Holiday allowance of Rs 30 per day for seven days and his	Rs 40,000 for the construction of a new house and Rs 10,000 for repairing, as	Bonus payment 11% of total wages earned by the

Name of the Fund	Pension	PF, Gratuity, etc	Disability, Death	Children's Education	Medical	Marriage & Maternity	Unemployment	Housing	Special Allowance
1	2	3	4	5	6	7	8	9	10
		entire period of service. This is their lump-sum retirement benefit or gratuity. If there is no much amount is Rs 10,000 as special superannuation assistance is disbursed, provided he has 100 days of work in each year.	permanently disabled members till his death or lump-sum amount of Rs 10,000. Under group insurance scheme Rs 20,000, if death occurs on account of an accident. Funeral expenses of Rs. 500.	varies from Rs 100 to Rs 2000.	reimbursement scheme.	lower, for marriage purposes.	average wage for two days. Also, financial assistance in connection with natural calamity.	refundable advance which should be repaid within 15 years with minimum interest.	member during each year in connection with Vishu or Onam festival. Also, provision for festival allowance (maximum Rs 2000)
KMOT-WWF	No provision	Net amount in the PF account and gratuity paid with interest (currently 9%) at the time of superannuation or on his death.	Ex-gratia benefit Rs 5000 and funeral assistance Rs 1000	Non-refundable advance for education which should not exceed Rs 1200. Provision for scholarship.	Non-refundable advance from his contribution.	An advance (deductible) of 50% of his contribution for marriage purpose.	Provision for unemployment allowance.	Non-refundable advance, which consists of 12 months' wages and DA or his own contribution with interest, provided he has at least Rs 750 at the fund. Also, there is provision for unemployment allowance.	No special schemes

Name of the Fund	Pension	PF, Gratuity, etc	Disability, Death	Children's Education	Medical	Marriage & Maternity	Unemployment	Housing	Special Allowance
1	2	3	4	5	6	7	8	9	10
KADC-LWF	No provision	At the time of retirement, he will be paid according to his service. If he has completed 30 years, he will be paid Rs 10,000.	Since there is special provision for an advance clerk who is aged between 35 and 70 years, ex-gratia varies from Rs 1000 (up to 60 years) to Rs 2500 (for 71-75 years) Funeral assistance Rs 500.	No provision	No provision	No provision	No provision	No provision	No special schemes
KARS-WWF	No provision	Since there is no provision of PF and gratuity, the net amount at the fund (only membership contribution) with interest is given back at the time of retirement or death. This amount varies from Rs 600 to Rs 50,000 depending on service.	Ex-gratia Rs 10,000, Disability allowance Rs. 100 per month, Funeral expenses Rs 500.	Scholarship ranges from Rs 300 to Rs 1500.	Medical aid up to Rs 500 (injuries in the course of work).	Marriage assistance of Rs 1000 to any person of members' family. Maternity benefit of Rs 500 at two times (members only)	No provision	No provision	Loans for purchasing tools subject to a maximum amount of Rs 2000 or 75% of his contribution.

Name of the Fund	Pension	PF, Gratuity, etc	Disability, Death	Children's Education	Medical	Marriage & Maternity	Unemployment	Housing	Special Allowance
1	2	3	4	5	6	7	8	9	10
KCSH-WRWF	Minimum two year membership 60 years, Rs 100 per month for ordinary worker and Rs 200 per month under staff category. Family pension in the event of death of the pensioner	Since the fund is an insurance fund, no provision for PF, gratuity and other lump-sum retirement benefit.	Ex-gratia Rs 2500 under special consideration in like death, illness or permanent disability-ent. Funeral expense of Rs 500 for a member and Rs 250 for pensioner, but it is deductible from his contribution.	Scholarship Rs 500 to Rs 2000 per annum. Cash award of Rs 1000 per student (Only for SSLC and pre-degree students).	No provision	Only maternity benefit at two times to those who are not covered under the ESI scheme (Rs 500).	Supply of free ration or payment of cash assistance during continuous unemployment subject to the availability of the fund.		No special schemes
KKH-WWF	Minimum 10 years as a member, 60 years, Rs 60 to Rs 180 per month depending on service. If his service is less than 10 years, he is eligible to get only his contribution. Family pension in the event of death of the pensioner at the same rate.	Since the fund is an Insurance Fund, No provision for PF, gratuity and other lump-sum retirement benefit.	Rs 5000 if permanent disability occurs. Funeral assistance Rs 350.	Non-refundable advance of Rs 1500 or 25% of contribution can be withdrawn for higher education. Education grant (non-deductible) Rs 250.	Up to 50% of his contribution for his or his dependant's medical treatment and also provision for maximum medical grant Rs 250.	50% of his contribution as marriage assistance to any member of his family. Maternity benefit of Rs 300 at two times.		Provision for non-refundable advance 25% of his contribution for purchasing land and 75% for construction of house.	Rs 8 or 50% of his contribution, whichever is lower, for paying the insurance premium.

Name of the Fund	Pension	PF, Gratuity, etc	Disability, Death	Children's Education	Medical	Marriage & Maternity	Unemployment	Housing	Special Allowance
1	2	3	4	5	6	7	8	9	10
KCOR-WWF	Minimum two year membership, 60 years , Rs 75 per month and family pension in the event of death of the pensioner.	Since the fund is an insurance fund, no provision for PF, gratuity and other lump-sum retirement benefit.	Ex-gratia benefit Rs 5000, if disability occurs, Rs 100 per month till retirement age (60 years) and funeral expense Rs 200.	Scholarship for higher education- Rs 500 to Rs 1500 per year on the basis of merit.	Medical grant of Rs 350 per year to any person in his family.	Grant of Rs 1000 in connection with marriage and Rs 300 as maternity benefit at two times to those who not covered under the ESI scheme.	No provision	No provision	No special schemes
KFMW-WF	Rs 100 per month	Since the fund is an insurance fund, no provision for PF, gratuity and other lump-sum retirement benefit.	Ex-gratia Rs 15,000. Group insurance covers accidental death (Rs 25,000) and partial disability (Rs 12,500). Funeral assistance (member) Rs 1000 and Rs 300, if he is a dependant.	District-wise cash award for SSLC students which ranges from Rs 3000 to Rs 1000	Medical grant up to Rs 500, if it is an accident case.	Interest-free loan of Rs 1200 along with Rs 300 (grant) as marriage assistance. Financial assistance for worker who goes in for sterilization.	Financial assistance in case of natural calamities like fish disease, fire, ban on trawling.		Provision for hut insurance with 50% subsidy in paying insurance premium. Therefore up to Rs 3000, risk premium is Rs 6.75 and up to Rs 5000, risk premium Rs 11.25. Under craft/cattamar insurance scheme, there is no subsidy

Name of the Fund	Pension	PF, Gratuity, etc	Disability, Death	Children's Education	Medical	Marriage & Maternity	Unemployment	Housing	Special Allowance
1	2	3	4	5	6	7	8	9	10
									and the risk premium is Rs 22 for every Rs 100
KHNDL-WWF	Rs 100 per month	Since the fund is an insurance fund, no provision for PF, gratuity and other lump-sum retirement benefit.	Ex-gratia Rs 5000	Non-refundable advance for workers' children's education (maximum advance Rs 1000)	Non-refundable advance not more than Rs 500.	Non-refundable advance of Rs 2000 for marriage purposes.	Provision for unemployment allowance	Non-refundable advance for housing loan of 12 months' salary or his total contribution, whichever is lower.	No special schemes
KABW-WF	Minimum three years, 60 years, Rs 200 to Rs 300 (maximum) per month	At the time of retirement a member is entitled to obtain only gratuity as retirement benefit and the net credit (balance) in the provident fund account is kept for financing their pension scheme.	Ex-gratia Rs 5000. Funeral expense Rs 500.	Scholarship for higher education (pre-degree to professional course).	So far no provision	No provision		Provision for housing loan (refundable) of 12 months' wage or his total contribution, whichever is lower provided he has at least Rs 750 at the fund.	No special schemes
KCON-WWF	Minimum one year membership, 60 years, Rs 75 per month to Rs 300 (maximum) per month (depending on service)	Since the fund is an insurance fund, no provision for PF, gratuity and other lump-sum retirement benefit.	Ex-gratia Rs 5000. Funeral expense Rs 500.	Non-refundable advance of Rs 1000 for education purposes. Scholarship Rs 300 to	Non-refundable advance up to Rs 500 for medical treatment.	Non-refundable advance of not more than Rs 2000 from his contribution. Grant of Rs 500 at two times as maternity		Provision for housing loan (refundable) provided he has three years membership.	Members can withdraw the required amount to pay insurance.



Name of the Fund	Pension	PF, Gratuity, etc	Disability, Death	Children's Education	Medical	Marriage & Maternity	Unemployment	Housing	Special Allowance
1	2	3	4	5	6	7	8	9	10
KAG-WWF	No provision	Only lump-sum retirement benefit. If a member completes of service 40 years, he is entitled to Rs 25,000. If it is three years (minimum), he will be paid Rs 5,000.	Ex-gratia benefit Rs 1000.	Scholarship ranging from Rs 500 to Rs 1500.	So far no provision	No provision	No provision	No provision	No special schemes
KLOTA-WF	No provision	Retirement age 60 years and above. Lump-sum retirement benefit depending on his service. If he has completed 40 years, he will be paid Rs 62,700.	Ex-gratia benefit for A-class members Rs 10,000 and B-class members Rs 7000.	No provision	So far no provision	No provision	No provision	No provision	No special schemes
KDSV-WF	No provision	Retirement age 60 years and above. Lump-sum retirement benefit depending on services. If he has completed 35 years, he will be paid Rs 37,749.	Ex-gratia benefit for A-class members Rs 10,000 and B-class members Rs 7,000.	No provision	So far no provision	No provision	No provision	No provision	No special schemes

Name of the Fund	Pension	PF, Gratuity, etc	Disability, Death	Children's Education	Medical	Marriage & Maternity	Unemployment	Housing	Special Allowance
1 KAUR- WWF	2 No provision	3 Retirement benefit depending on completed years of service. Retirement age 58. If he has completed 40 years of service, he will be paid Rs 125,000.	4 Ex-gratia Rs 10,000	5 Not yet disbursed.	6 Not yet disbursed.	7 Marriage assistance not yet disbursed.	8	9 Provision for non-refundable housing loan from his contribution.	10 Non-refundable loan for purchasing auto-rickshaw.

## Appendix 2

### Major Social Security and Pension Schemes in Kerala

Sl. No	Name of Scheme	Qualifying Conditions	Year of Starting	Present Rate of Assistance	Amount Spent (Rs Lakh) 1996-97	No. of persons
1	2	3	4	5	6	7
1	Kerala Destitute Pension Scheme	Above 65 years age. For widowed destitute no age limit. Monthly income not to exceed Rs 300.	1960	Rs 110 p.m.	59.00	142,500
2	Kerala Freedom Fighters Pension Scheme	Any person who on account of participation in the national movement.	1971	Rs 1500 p.m.	1134.27	106,50
3	Financial Assistance to Leprosy and Cancer Patients	Leprosy and cancer patients are covered and certificate from hospitals are to be produced. Income of the patient should not exceed Rs 200 p.m.	1976	Rs 200 p.m.	58.37	4235
4	Welfare Fund for Journalists/Dependents in Distress	Living journalists who are unemployed due to ill-health and overage.	1976	Rs 500 p.m.	9.66	230
5	Pension to Sportsmen	The income limit for pension with effect from 31.4.1994 is Rs 1100 per annum. Participation in sports at inter-district/state level.	1978	Below 60 years. Rs 200 p.m. 60 to 70 years Rs 300. 70 years and above Rs 400 p.m.	7.47	174
6	Agricultural Workers Pension Scheme	Eligible age is above 60 years. Annual family income should not exceed Rs 15,000.	1980	Rs 100 p.m.	3457.28	312,944
7	Welfare Fund for Cine Artists	Financial assistance is given to cine artists in distress. The annual family income should not exceed Rs 12,000.	1981	Rs. 400 p.m.	6.61	192

Sl. No	Name of Scheme	Qualifying Conditions	Year of Starting	Present Rate of Assistance	Amount Spent (Rs Lakh) 1996-97	No. of persons
8	Special Pension Scheme for the Physically Handicapped, Disabled and Mentally Retarded Persons	Disabled persons who have 40% disability. Medical certificate necessary. Beneficiaries' monthly income Rs 75 or family income not to exceed Rs 5000 per annum.	1982	Rs 110 p.m.	47.00	94,800
9	Unemployment Assistance	Financial assistance is given to those who have waited for employment in the live register of employment exchange for more than three years.	1982	Rs 90 p.m.	22.70	264,382
10	Kerala Fishermen's Welfare Scheme	Benefited fishermen who have completed 60 years of age.	1987	Rs 85 p.m.	279.32	26,967
11	Kerala Cashew Workers Relief and Welfare Schemes	Cashew workers above the age of 60 super-annuation at 58/60 years.	1989	Rs 125 to workers 200 to staff.	190.45	12,332
12	Kerala Coir Workers Welfare Fund Scheme	Coir workers above the age of 60.	1989	Rs 100 p.m.	342.01	28,501
13	Kerala Handloom Workers Welfare Scheme	Handloom workers above the age of 60 with at least three years' service.	1989	Rs 100 p.m.	30.44	2975
14	Kerala Construction Workers Welfare Scheme	1. Construction workers having one year of service and have attained 60 years of age. 2. Invalid pension	1990 1993	Rs 150 p.m. Rs 150 p.m.	144.75 0.64	8418 39
15	Kerala Khadi Workers Welfare Scheme	Khadi workers having ten years' service and 60 years of age.	1990	Rs 180 p.m.	0.64	50
16	Kerala Abkari Workers Welfare Fund Scheme	A worker shall be entitled to become a member under the	1990	Rs 200 p.m. Rs 10,000 in the case of	2.58	120

Sl. No	Name of Scheme	Qualifying Conditions	Year of Starting	Present Rate of Assistance	Amount Spent (Rs Lakh) 1996-97	No. of persons
		scheme from the date on which he has completed three months continuous service.		death of members. Rs. 5000 for permanent disability and incapable of continuing work.		
17	Working Journalists Pension Scheme		1993	Rs 1000 p.m.	5.04	61
18	National Old Age Pension Scheme	Above 65 years of age with family income below Rs 5000 in the case of rural areas and Rs 5500 in the case of urban areas.	1995	Rs 110 p.m.	1969.59	60,890

Source: Government of Kerala, *Economic Review*, various issues.

### Appendix 3

#### Administrative Agency and Investment Framework for the Welfare Funds

Statutory Funds		
Name of Funds	Administrative Agency	Investment Framework
Kerala Coir Workers Welfare Fund Scheme (Act 1987) 5 (1) 46789/B3/88	Industries Department and Board of Directors	As per Indian Trust Act (1882) funds accumulated as on 31.3.95 Rs 554.74 lakh.
Kerala Handloom Workers Welfare Fund Scheme (1989) (Kerala Handloom Workers' Welfare Fund Act)	Labour Department and Board of Directors	As per Indian Trust Act total funds accumulated as on 31.3.95 Rs 20 lakh.
Kerala Motor Transport Workers Welfare Fund Scheme (1986)	Labour (F) Department and Board of Directors	All money is to be deposited in any nationalized, scheduled or cooperative banks as may be approved by the Government from time to time.
Kerala Cashew Workers Relief and Welfare Fund Scheme (1988)	Labour and Rehabilitation Department and Board of Directors	As per Indian Trust Act total funds accumulated as on 31.3.95 Rs 559.2 lakh.
Kerala Toddy Workers Welfare Fund Scheme (1969) (President's Assent was obtained on 11 April, 1969)	Labour Department and Board of Directors	As per Indian Trust Act Investment Cooperative and other Bank Rs 42.8 crore, NSS Rs 105.4 crore, others Rs 1.8 crore.
Kerala Construction Workers Welfare Fund Scheme 1990 (Kerala Construction Workers Welfare Fund Act 1989)	Labour and Rehabilitation Department and Board of Directors	All money shall with the approval of Government be invested in nationalized or scheduled bank or in the securities according to India's Trust Act, 1982. Total funds accumulated as on 31.3.95 Rs 2142.25 lakh.
Kerala Fisheries Welfare Fund Scheme 1986. (Act of 1985 Received President's assent on 10.12.85)	Fisheries and Port (B) Department and Board of Directors	All money to be deposited as decided by the board in accordance with general policy of Government. The board has invested in treasury and banks. Total funds accumulated as on 31.3.95 Rs 145 lakh.
Kerala Khadi Workers' Welfare Fund Board (Kerala Khadi Workers' Welfare Fund Act [1990] SRO No. 527/90)	Industries (C.) Department and Board of Directors	Invest balance amount in FD in Government treasury.
Kerala Abkari Workers Welfare Fund (1990)	Labour and Rehabilitation Department and Board of Directors	As per Indian Trust Act, 1882. Rules are followed for investment. Fixed deposit and Kisan Vikas Patra. Total

Statutory Funds		
Name of Funds	Administrative Agency	Investment Framework
		funds accumulated as on 31.3.95 Rs 3852 lakh.
Kerala Head Load Workers Welfare Fund Scheme (Act of 1978 amended in 1981 and 1983)	Labour Department and Board. State has absolute power with regard to this act.	Investment according to the decisions of Government.
Kerala Agricultural Workers Welfare Fund (Kerala Agricultural Workers Act, 1974)	Labour Department and Board of Directors of Agricultural Workers Welfare Fund Board	Not available

Non-statutory Funds		
Name of Fund	Administrative Agency	Investment Framework
Kerala Document Writers' Scribes and Stamp Vendors' Welfare Fund (1991)	Taxes (B) of Department	1. Funds handled as per fund rules. 2. 50% of the funds to be kept in government treasury, savings banks. 3. Rest of the funds to be kept in liquid cash as per committee decision.
Kerala State Lottery Agents Welfare fund Scheme (1993)	Taxes (H) Department administered by Executive Committee	1. 50% of funds to be kept in Government treasury, savings bank. 2. Rest of the funds shall be kept in liquid cash as per the decision of Executive Committee.
Kerala Anganwadi Workers and Helpers Welfare Fund (ICDS & USNP Projects Welfare Fund 1991)	Social Welfare Department	Not available
Kerala Advocate Clerks' Welfare Fund Scheme (1998)	Finance (B) Department. Department of Insurance	Not available

Source: Government of Kerala (1996), *Social Security Initiatives in Kerala*, State Planning Board, Thiruvananthapuram.

# Organising Social Responsibility in Global Production Chains

*A. Sivananthiran*

## INTRODUCTION

Export processing zones (EPZs) have become one of the major features of labour markets in South Asia. The governments of Bangladesh, India, Pakistan and Sri Lanka are in the process of increasing the number of EPZs in their respective countries. Currently, there are 850,000 workers employed in the EPZs of these countries. Foreign investments have become a crucial component in these zones and the governments of the region are increasingly competing with each other in offering generous incentives and privileges to attract investments and entrepreneurs. These countries are hoping that EPZs will contribute to overall economic development and employment generation. However, in recent years, some South Asian countries have been encountering serious social and labour problems, particularly in situations where investors have been allowed to deviate from basic labour standards. In Bangladesh, for example, there have been strikes in the EPZs over wages and working conditions. Given the widespread lack of adequate industrial relations institutions and the use of social dialogue in resolving differences between management and labour, these social and labour issues can become matters of major concern. The question being asked is whether EPZs provide a sound strategy for the future, in the context of greater trade liberalization when looked at from the point of view of a decent work agenda (labour standards, employment, social protection and social dialogue). How will EPZs be able to accommodate the concerns of buyers who are concerned with issues such as respect for freedom of association and collective bargaining and compliance with labour law? The objective of this paper is to look at the practical measures that are being taken in Bangladesh and Sri Lanka to comply with freedom of association and compliance with labour legislation in EPZs where more than 80 per cent of the workforce are women.

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## THE DEVELOPMENT OF EXPORT PROCESSING ZONES

EPZs have evolved from assembly and simple processing activities to include high-tech and science zones, finance zones, logistics centres and even tourist resorts. Their physical form now includes not only enclave-type zones but also single-industry zones (such as the jewellery zone in Thailand or the leather zone in Turkey); single-commodity zones (like coffee in Zimbabwe); and single-factory zones (such as the export-oriented units in Sri Lanka). Malaysia, Sri Lanka, Mauritius and Hainan (China) allow factories anywhere on the respective islands to apply for zone status. While many public agencies are still establishing zones, there is a distinct trend towards private development of zones, often by foreign developers—for example, in Bangladesh where a Korean company is establishing an industrial zone.

Both the number of EPZs and the number of countries hosting them have expanded rapidly (see Table 1). Countries set up zones in the hope of attracting investment, boosting employment, increasing exports and generating foreign exchange. For many countries, exports from (or through) EPZs account for a sizeable portion of their export earnings, often amounting to over 80 per cent of merchandise exports (China, Czech Republic, Hungary, Kenya, Philippines, Malaysia, Mauritius, Mexico, Senegal, Tunisia, Vietnam), and EPZs have helped economies to move away from traditional primary commodity exports, for example, Mauritius (which is now targeting financial services) used the zone strategy to shift from sugar to manufactured exports, Malaysia from tin and rubber, Sri Lanka from rubber and tea to garments, and Costa Rica from coffee and bananas to garments and microprocessors. Special economic zones in China are designed not only to attract investment and generate jobs, they are the vehicle for opening up the Chinese economy to market forces and for developing new export industries to absorb idle labour.

**Table 1: Estimates of the Development of EPZs**

	1975	1986	1995	1997	2002
No. of countries with EPZs	25	47	73	93	116
No. of EPZs	79	176	500	845	3000
Employment (million)	n.a.	n.a.	n.a.	22.5	37
- of which China	n.a.	n.a.	n.a.	18	30
- other countries for which figures available	0.8	1.9	n.a.	4.5	7.0

Source: ILO GB 285/ESP/5 - November 2002

## WHAT DETERMINES THE SUCCESS OF EPZs

What then determines the success of the EPZs in some countries? First, it is clear that cheap labour is no longer the criterion for investments in EPZs. If this was so, North Korea and even Haiti which have a labour cost of less than US\$ 1 would be obvious targets. Instead investments are going towards Singapore where labour costs more than US\$ 3 per hour and Mexico which has a labour cost of US\$ 2.5 per hour.

Second, it will depend on the education system, labour management cooperation, healthy social dialogue and efficient management. Third, market access is important. It is quite clear that the European Union today has been working closely with Eastern European countries and North Africa in terms of quota and investments partly to stem the flow of illegal immigration and to create employment in these countries. Likewise, the US has given preference to the Caribbean basin in quotas and investments so as to provide a stable economy in the Caribbean. But the WTO regime will soon put an end to the quota regime. If core labour standards are not respected in EPZs, there is a danger that importers and consumers in developed countries may boycott the purchase of products from such EPZs. Initiatives such as social labelling, consumer boycotts and SA 8000 certification create non-tariff barriers.

Fourth, political stability and sound labour relations are critical, and prolonged strikes, which disrupt production, may not be conducive for the long-term growth of EPZs. As most of the investors form a global chain, disruption in one country will result in shifting production to other locations. South Asian countries which relied on the traditional EPZ package to attract investments are fast realizing that:

- competition for investment is intensifying, making it harder to attract and retain investors, and new technologies are impacting on previously labour-intensive production processes, with the result that many EPZ factories will employ less labour in future;
- changes in the international trade regime, and the rise of trading blocs like NAFTA and ASEAN are having a major influence on where investors decide to locate;
- the end of the Agreement on Textiles and Clothing (ATC) 2005 means that countries which relied on their quota to attract apparel companies will have to develop other attributes if they hope to retain that investment.

Investors are now looking beyond cheap labour when selecting a production platform because of fundamental changes in the way companies compete. These changes pertain to the growth of global production networks which companies to source goods and services from all over the world, and to reconfigure their production chains relatively quickly and easily. This means that a country or supplier can be cut out of the network if conditions change and it does not adapt quickly enough to the concerns of buyers who have to comply with fair labour standards.

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## INDUSTRIAL RELATIONS ISSUES

In November 2001, the ILO-organized a sub-regional meeting on industrial relations issues in EPZs in South Asia. This meeting highlighted the need to remove all legal restrictions on trade union rights in EPZ operating countries, the lack of enforcement of labour legislation, and the absence of worker organizations' representation in EPZs as some of the factors undermining the ability of EPZs to upgrade skills and improve working conditions and productivity and thereby to become more dynamic and internationally competitive platforms. Trade unions have for some time now maintained that some labour and social legislation is still excluded in EPZs in Bangladesh and Sri Lanka. The ILO Committee on Experts on the Application of Conventions and Recommendations (CEACR) has also noted that the strategy of employment generation in these countries (Bangladesh, Sri Lanka) requires that the government work hand in hand with workers' and employers' organizations to ensure maximum generation of decent work.

The key issues on industrial relations in EPZs in Bangladesh and Sri Lanka can be summarized as follows:

- Denial of right to organize including the right to establish and join unions of their own choosing (C. 87).
- In Sri Lanka there are no legislative barriers but unions have great difficulty in gaining access to zones and meeting workers.
- Lack of proper social dialogue mechanisms for consultations or even exchange of information.
- Gender discrimination in hiring, wages, benefits and career development. There is also the problem of lack of accommodation, transport facility and nurseries.

## SOCIAL PROTECTION AND WORKING CONDITIONS

In both Sri Lanka and Bangladesh there are difficulties regarding hours of work, overtime, wages, occupational safety and health, leave, provision of transport, social security and the special needs of women workers. However, employers have always stated that conditions prevailing in EPZs are often better than the conditions outside.

Studies in Sri Lanka and Bangladesh suggest that EPZs provide the much-needed employment, especially for women workers from rural areas. However, occupational safety and health remains a major issue—loss of lives due to fires, access to toilet facilities, lack of needle guards, etc. are all major issues.

EPZs themselves have often been characterized by the lack of social dialogue between employers and representatives of workers, some of whom are migrants or working in

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industry for the first time. In the absence of adequate mechanisms and processes for information-sharing, consultation, negotiation and dispute settlement, it is difficult for conflicts to be adequately addressed and channelled. This is further complicated by the management of many zone enterprises by foreigners unfamiliar with the country. But where at the zone level, through union pressure, employer or government initiative, social dialogue has taken place, it appears that zones have benefited from lower levels of industrial unrest and labour turnover. Both Sri Lanka and Bangladesh have promoted labour management committees at the enterprise level to deal with working conditions and occupational safety and health issues, though some of these committees are seen by unions as a phenomenon that undermines workers' representation. Alliances between trade unions, women's organizations and solidarity networks are also being forged to improve the working conditions of workers in EPZs.

The restrictions on organizational rights in EPZs in practice give rise to the questions of why zone managers are hostile to unions and what additional efforts are needed to ensure that workers in these zones are able to organize and engage in collective bargaining. Examples of anti-union acts on the part of employers in EPZs, including harassment, blacklisting and dismissals, are found in a number of cases in Bangladesh and Sri Lanka. This is because there is a need for greater control in determining workplace terms and conditions which are geared to production and competitiveness.

## **ILO ACTION**

Since 1998, the ILO has been actively assisting both Bangladesh and Sri Lanka through advisory services and technical cooperation activities in particular to improve labour and social conditions and engender respect for fundamental rights. In Sri Lanka, a meeting was held between the Board of Investment (BOI) and the Ministry of Employment and Labour in early 1998. This was an attempt to broker partnership between the labour department and the BOI for effective labour inspections and labour protection in EPZs. Following this meeting, the ILO organized a national seminar in Colombo on ILO Conventions 87 and 98 with special reference to EPZs in January 2001. Thereafter, a tripartite study tour from Sri Lanka was organized by the ILO to study EPZs in the Philippines. To keep the momentum going, the ILO arranged a follow-up meeting on Freedom of Association in May 2002 in Colombo. Chaired by the minister of labour, the main recommendations of this meeting were as follows:

- ILO Conventions 87 and 98 be respected in the EPZs and a circular to the effect be sent to all enterprises in EPZs.
  - The existing guidelines of the employee councils of the BOI be revised to allow the councils to collectively bargain and settle disputes at the enterprise level; The employee councils to consist of elected representatives of workers.
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- In Colombo in July 2001, the labour minister directed the National Labour Advisory Council (NLAC) to develop a training plan for investors, workers and employers on “Sound and responsible labour relations”.

## **IMPACT OF THE ILO’S FOLLOW-UP WORK IN SRI LANKA AND BANGLADESH**

In Sri Lanka the amendment to the Industrial Disputes Act in December 1999 outlawing anti-union discrimination and making it mandatory for employers to recognize a representation union had a significant impact. At the NLAC, the government also discussed proposals for amending the Factories Act to increase overtime (60 hours) mainly for EPZs.

The Free Trade Zone workers Union (FTZWU) and the Progress Union were formed in 1999 and their branches established in eight garment factories. Of these branches only two were recognized legally by the employer. The union claims that of the six branches awaiting recognition, four have been subjected to union victimization.

The Ministry of Labour (which is responsible for registration of branch unions) has been under pressure to register unions in EPZs. According to the trade unions, the labour department may have to hold a referendum to ascertain whether the seven unions have the 40 per cent membership required for recognition as a collective bargaining agent. In the meantime, the union has filed a writ application in the Court of Appeal to ensure that the Labour Commissioner takes steps to hold the referendum and abide by the amendment to the Industrial Disputes Act.

In December 2001, the new minister of employment and labour met with the FTZWU and Progress Union on the EPZ issue and since then, the NLAC has been meeting regularly and has discussed the EPZ issue on a number of occasions. It appears that the NLAC will now take the responsibility for developing guidelines for compliance with ILO standards and deal with any emerging issues in the EPZs. A number of employers in EPZs in Sri Lanka have also subscribed to Global Compact launched by UN Secretary General, Kofi Annan three years ago.

In Bangladesh, legal restrictions on the application of labour laws in EPZs and restrictions on trade union presence have posed challenges to Bangladesh. The Bangladesh Export Processing Zones Authority Act, 1980 contains provisions for establishment of the Bangladesh Export Processing Zones Authority (BEPZA) which governs the conduct of businesses in the zones. The Government of Bangladesh (GoB) was given the power to exempt, inter-alia, the Employment of Labour (Standing Orders) Act, 1965; the Industrial Relations Ordinance (IRO), 1969, and the Factories Act, 1965. Subsequently by separate notifications, the application of the latter three labour laws was exempted from the EPZs. As such, there are no legal procedures governing the formation and registration of trade unions in the EPZs. This void in the industrial relations process

leaves no way for workers in the EPZs to exercise their right to form and register trade unions and bargain collectively.

In January 2001, the GoB gave an undertaking to the US government that it was willing to accord freedom of association and collective bargaining in the EPZs in January 2004 after a transition phase in order to prepare the EPZ enterprises to switch over to the usual Industrial Relations system. In view of the above, BEPZA has instructed the EPZ enterprises to form unit-wise worker welfare committees (WWCs). As of now WWCs have been formed in most companies.

Officials of the department of industrial relations of BEZPA, and of the personnel/human resources development department of the enterprises are not familiar with the IRO, 1969, Factories Act, 1965, Shops and Establishment Act, 1965, the Employment of Labour (Standing Orders) Act 1965, Payment of Wages Act 1936, Workers Compensation Act, 1923 (amended up to date) and other laws and rules which will come into force at EPZ enterprises in January 2004. BEPZA has requested ILO's technical assistance for training and capacity-building of its officials and those of its stakeholders to handle industrial relation issues and face the challenges of 2004 and beyond. The government has also agreed to set up a labour tribunal to settle disputes which cannot be resolved through the BEPZA's existing system of dispute settlement. Finally, the government has also agreed to repeal all exemptions from labour laws with regard to freedom of association by 1 January 2004. Freedom of association and the right to organize and collectively bargain are fundamental human rights and respect for these principles is good for business and for workers and contributes to economic performance and equitable development.

In response to BEPZA's request for technical assistance, the ILO is implementing the project for provision of technical cooperation in the following areas:

- Sensitizing BEPZA and EPZ employers' and workers' on labour laws
- Phasing in freedom of association and collective bargaining
- Strengthening labour tribunals within EPZs
- Training in sound labour management relations

So far, 205 investors, 842 management staff, 125 labour relation committee members and 706 general workers in BEPZA have been trained under this project.

## **CONCLUDING REMARKS**

Sound labour-management relations are essential to the success of EPZs. Free, strong and representative workers' organizations have a major role to play in building workplace relations conducive to improvements in working conditions and increases in productivity and competitiveness. Government and employers' and workers' organizations should

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respect, promote and realize in good faith and in accordance with the Constitution, the principles contained in the ILO Declaration on Fundamental Principles and Rights at Work, 1998, and in particular those concerning to freedom of association and the effective recognition of the right to collective bargaining in EPZs. The principles set out in the Tripartite Declaration concerning Multinational Enterprises and Social Policy, 1977, can provide useful guidance. National labour legislation should be complied with in EPZs.

Better compliance with international and national labour standards should be promoted. Government should encourage tripartite consultations as an effective means of developing sound labour relations policies and practices in EPZs. Participation of representatives from workers' and employers' organizations on the boards of investment promotion and zone management bodies could be useful in this regard. Education and training programmes can also play a valuable role. Enterprises should establish ongoing mechanisms for labour-management consultation using structures such as labour-management councils or workers' councils, taking into account the levels of development and the characteristics of each country. The establishment of tripartite mechanisms for minimum wage fixing should be encouraged, and where national minimum wages already exist, they should be applied to EPZs as well. Remuneration packages, including non-wage benefits, should be determined through collective bargaining. Labour-management consultations can yield improvements in working conditions and work organization. Legislation regarding hours of work should be respected in EPZs.

Appropriate social infrastructure is essential if workers and managers are to deliver high performance at work. Although government bears the primary responsibility for provision of social infrastructure, incentives may be offered to enterprises which provide social services such as housing, transport and childcare. Tripartite labour welfare funds based on contribution from the government, employers and workers could support initiatives for improving the quality of life of workers.

In view of the high proportion of women employed in EPZs, the enterprises therein should make the following special efforts: (a) ensure that women workers are not discriminated against and, in particular, they receive equal wages for equal work; (b) provides maternity protection and benefits; (c) introduce measures to help workers combine work and family responsibilities; (d) raise awareness and institute, policies and procedures to prevent sexual harassment and to deal with it; and (e) encourage promotion of women workers to technical and managerial positions.

## REFERENCES

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