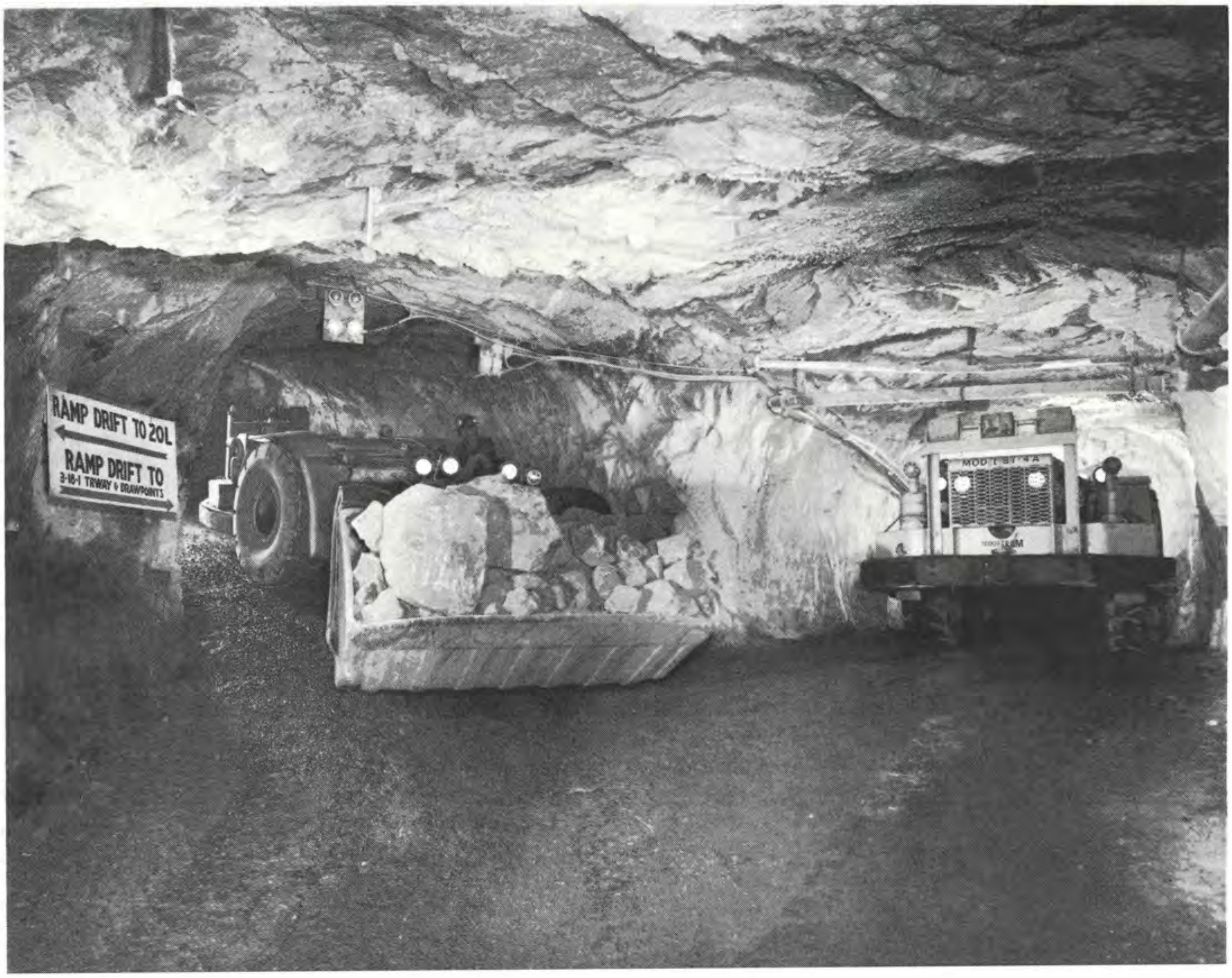

RAMP DRIFT TO 20L
RAMP DRIFT TO
3-18-1 TRWAY & DRAWPOINTS

"The most important thing is to get the mines working again."
Left.

AREA REPORT

The labour response to the recession

By Peter Warrian

The Canadian economy is in a deep crisis with massive layoffs in all sectors of the economy. What alternatives have been put forward by the Canadian labour movement and in what way will they influence the future of the Canadian resource industries?
These are some of the questions analyzed in this second article by Peter Warrian.

Peter Warrian is Research Director of the United Steelworkers of America (USWA), Canadian Division.

Address: USWA National Office, 55 Eglington Ave. East, Toronto, M4P 1B5, Ontario, Canada.

This is a slightly abriged version of a paper presented for a symposium at York University, June 8, 1982.

Labour has shared some of the disillusionment of economist and business people over the declining effectiveness of Keynesian demand management policies in the 1970s to deal with employment, inflation and growth. However, we have come to entirely different conclusions. A majority of academic economists have fallen in step with monetarism, or some other theoretical fetish, all concluding with a policy of less public intervention, a declining public sector and a 'freer' role for market forces. Labour has responded to scepticism over demand management and reliance on passive tax expenditures, by arguing for greater public intervention, not less, and an expansion of the public sector.

The application of Keynesianism in Canada has from the beginning been limited by structural factors. The original commitment by the Federal government to a policy goal of high and stable levels of employment and income in the famous *White Paper on Employment and Income* in 1945 was conditioned on Canada's traditional export trade in resource commodities to achieve this end.[1] From the beginning there was an assumption that an open trading economy such as Canada's could only effectively apply Keynesian prescriptions in the environment of a more liberalized trading regime that would facilitate the expansion of Canada's export trade and maintain a stable balance of payments. The Liberal strategy of resource development brought significant growth in jobs and income during the period from the late 1940s to the mid 60s, not least of all to our members. However, it made Canada extremely vulnerable to inflationary developments in the world economy. Surges in international demand for resource commodities joined the push of inflationary price increases in our growing deficit in manufactured imports. As a Conference Board study revealed, the 40 per cent of our inflation in the 1970s originated outside the country.[2] This seriously undercut efforts at domestic stabilization policy.

In our view, the structural problems in the economy, rather than an inherent flaw in the theory, led to the abandonment of Keynesian demand management policies in 1975. In effect, the government announced that the extent of Canada's reliance on foreign trade imposed an external constraint on the scope of domestic economic policy-making. The Federal government abandoned Keynesian demand management policies in favour of more conservative alternatives. The first of these was the introduction of the Anti-Inflation Programme ('AIB') on October 14, 1975 and the second was the announcement by the Governor of the Bank of Canada of the Bank's conversion to a strategy of gradualism to bring inflation under control through steady decreases in the rate of growth of the money supply.

Since the government's abandonment of Keynesian policies in 1975, the Canadian economy has persisted in a rut, with ever growing pessimism about getting out. The rate of growth in the GNP has been substantially lower that the historical levels achieved through most of the post-war years. The unemployment rate has consistently remained above 7 per cent every year since 1975, with the current level reaching 10.2 per cent (over 15 per cent counting the hidden unemployed). Wage and salary levels have fallen. Our balance of payments position has continued to deteriorate. And, above all, any domestic control over interest rate and economic policy has been abandoned. We are still wallowing in the on-going economic 'crisis' dating from the mid-1970s.

In the words of the Canadian Labour Congress (CLC):

> "The heart of the problem is in the structure of the Canadian economy. In 1981, our trade deficit in manufactured goods reached 21 GUSD. In the last six months of 1981, 200 000 jobs went down the drain. Another 200 000 are expected to go in the first half of 1982. Massive layoffs have spread from manufacturing to

the resource industries of forest products, mining and fishing.

This is now the conclusive failure of the economic development strategy of Liberal governments since the Second World War. That strategy has been to sell off our natural resources cheap and unprocessed, and to promote unrestricted foreign investment in our resource and manufacturing sectors. It has failed miserably to develop the full, stable manufacturing base which the country needs."[3]

In Labour's view, this structural weakness is pivotal to the current economic malaise. Our own brand of monetarism with a vengeance, in which Canada has been using more conservative money supply targets than either the US Federal Reserve or the Bank of England, even undershooting these levels, is linked to this structural weakness. The desperate game of one-up-manship over the US prime rate to attract capital or induce it to stay has resulted in the interest rates presently strangling us and producing our record unemployment rates.

The Role of the Public Sector

The recent economic policy statements of such labour bodies as the International Confederation of Free Trade Unions (ICFTU), International Metalworkers' Federation (IMF), the British Trades Union Congress (TUC) and the Canadian Labour Congress (CLC) express a concensus around a programme of public sector-led initiatives to get us out of the recession and back on a path of growth. The major points in the labour programme call for:

- restimulation of the economy, increased budgetary expenditures and a restoration of social service cutbacks;
- lowering of interest rates on a domestic and international basis;
- selective use of exchange and import controls;
- major new programmes of public investments and public works;
- greater public accountability and control over the investment process.

Domestically, the economic policy documents of the recently-concluded 1982 Convention of the Canadian Labour Congress follow these general lines.

The CLC economic programme calls for:

1. A major reduction of interest rates, with resort to selective exchange controls if there is a flight of capital.
2. A new budget to stimulate the economy and tax reform, to raise taxes for corporations and the rich, not reduce them.
3. A public investment program, particularly in rail, marine, transportation and housing; and, replacement of current non-accountable investment incentives for private firms by a system of grants in which the public would receive an equity position in return for its contribution.
4. The Canadian government must commence bargaining for greater Canadian content in imported manufactured goods sold in Canada, beginning with an 85 per cent content rule for cars, and subsequent extension to mining and forestry machinery and equipment.
5. A comprehensive national manpower training program, on a levy-grant basis, with trade unions as full partners.
6. Greater public control of investment through nationalization of the major chartered banks and creation of a Canada Investment Fund, comprising 15 per cent of pre-tax profits, to be used for publicly-decided development projects.
7. The CLC opposes the reduction in transfer payments to the provinces by the Federal government. Social programmes must be expanded not reduced.[4]

Wage Control and Concessions – the Labour View

In addition, there was much attention given by the delegates to the CLC Convention and the media commentary to the hard line the CLC has taken on the issues of wage controls and so-called 'concessions'.

a. Wage controls

The arguments for wage controls are usually made on the basis of: 1) trade union wage demands are the cause of inflation, or 2) Canadian wage bargaining has undermined our international competitiveness. Trade union wage demands are not the cause of inflation, in general terms or in specific Canadian terms.[5] Canadian wages have been trailing inflation for the last five years. The average wage in manufacturing is now 1 USD per hour behind where it was in 1976, when offset for inflation. The growth in compensation per unit of output trailed behind one or both of the increase in the CPI and the movement of the GNE Implicit Price Index, in all but one year during the 1970s. Among the OECD countries, Canada had the lowest increase in manufacturing compensation from 1971 to 1981. When wage, benefit, social security taxes and the exchange rate are all taken into account and applied to consistent job classifications and comparable bargaining units, there is no case to be made that Canadian wage rates exceed the corresponding rates in the US.

According to a recent Conference Board, inspite of fears about rising wage settlements, Canadian workers will still earn about 10 per cent less than their US counterparts this year and will not catch up until 1985.[6] The Board was concerned with the long-term question of Canada's manufacturing base, but concluded wage and price controls are not warranted. Further, in more recent times we witness the cant and threat of public sector wage controls. This needs to be recognized for what it is, that is, political posturing, if not deceit. Public sector settlements have trailed behind private sector settlements since 1977. If anything, the public sector is underpaid, particularly women workers who are not even given the justice implied in the politicians apparent commitment to equal pay for work of equal value legislation. The famous Department of Finance memo leaked last June clearly pointed out the reality. Under the government's own "equal pay for equal value" legislation, they owe about 42 per cent their female employees large increases. Conversely, under the in-famous 'average compensation comparability' criteria, based on a comparison with similar work in the private sector, they owe them even more.

On these two criteria, the Department of Finance analysts themselves concluded that public sector settlements would have to be double-digit, just to catch up, without even considering future inflation. If public sector workers are not even well paid, let alone paid above the private sector, what is the basis of the argument for public sector controls? In labour's view sector wage controls have nothing to do with controlling inflation. They are not an anti-inflation policy, they are a re-distributive policy. That is, they are a direct part of the strategy of cutting the size of the public sector and re-distributing income to private capital. As such, they are an adjunct of monetarism, which reveals itself as anything but a non-interventionist philosophy.

Very recently, the argument is made that public sector controls are necessary and/or desirable for their 'demonstration effect'. A demonstration for whom? In the negative, they may serve as a thinly disguised threat to industrial unions. More realistically, they would be a 'demonstration' to private industry and investors that the Federal Liberals are *really* on their side in the Politico-Business Strategy. This is, presumably, to restore "investor confidence". If there is no empirical justification for them then public sector wage controls must inevitably be seen a cheap political device to endear the politicians to the business community. Ironically, while all the media attention has been directed at the possibility of a CLC General Strike over wage controls, and that prospect is a real one, what we actually have before us is a general strike of capital that is well underway. Since the 1972 Turner budget (we should not forget the man's name *and* his record) there has been a consistent reduction of the effective tax rate on corporate incomes and an acceleration of giveaways (tax expenditures in polite language) to companies to invest and create jobs. The business community has not delivered the goods. More recently, we have the obscene spectacle of petroleum companies saying that a guaranteed 20 per cent per annum rate of return, 50 per cent government financing, and a government loan guarantee on 68 per cent of the remainder isn't enough! These characters are taken seriously in the media. By contrast, if workers rejected a 20 per cent annual increase, government no-interest loans on their houses, cars, boats, trailers, stereos (with a telidon thrown in to promote Canadian content), they would be castigated and/or sent for a psychiatric examination. If public sector wage controls have a demonstration effect, it is a demonstration of the lunacy of current government economic policy.

b. "Concessions"

From another direction, we have the campaign for so-called "concessions". This should be called for what it is: a cross border raid to steal Canadian workers wages and benefits.

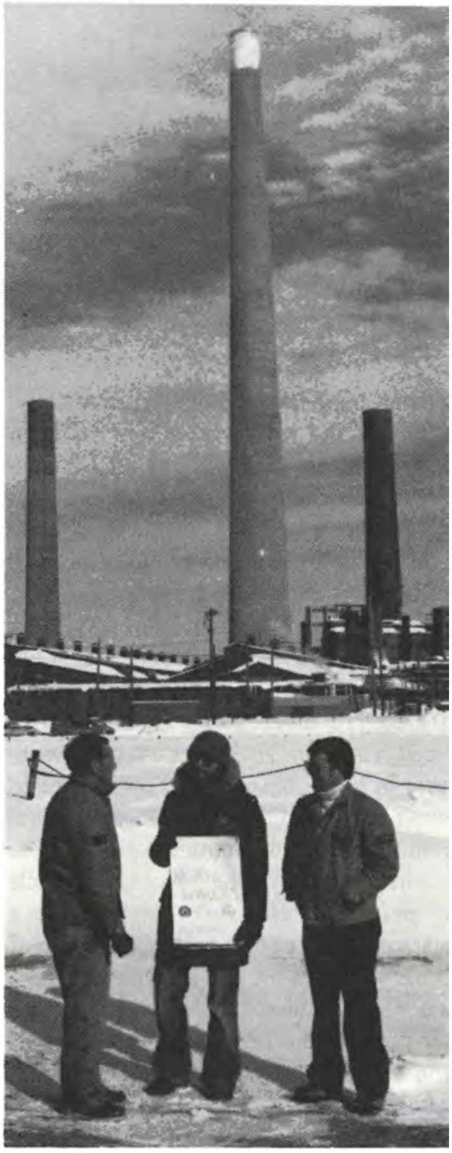
In the words of the CLC Convention document:

> "The demand for concession is much more than an economic question. It is a direct attack on unions. Workers do not need a union to make concessions for them. This is what individual workers did all the time before they were able to organize: compete with each other to see who would work for less; in exchange the worker got no security of job or income, to his or her detriment and to the detriment of society as a whole.
>
> A union which agrees to concessions is bargaining something for nothing. The union cannot, in exchange, ensure its members the job security which the employer has promised, nor can the employer guarantee it. The job depends on the general level of activity in the economy and on the employer's agility and ability to respond to changing economic conditions. If after the concession is made the job security does not materialize, the union is seen by its members to have been the fool. If, on the other hand, the concession is not made, the employer, particularly if it is a multi-plant or a multi-national company, has the option to shift production elsewhere or close down entirely. The union is then set up as the villain.
>
> Unions are seldom asked to share economic decision-making with their corporate employers and government when times are good. When times are starting to get bad, they are sometimes invited in to take a small piece of the action. When times are really bad, they are asked to be partners in a no-win game of concessions."[7]

"Concession Bargaining" as it is called is not bargaining, it is intimidation, threat and theft. Workers are asked to roll back previously bargained contract provisions in exchange for what? Job security is the usual answer. However, there is no such security given. At the level of economic policy, such wage reductions simply constrict demand further. Its academic proponents want to return us to pre-Keynesian Depression economics. The conservative economics profession in the 1930s made wage reductions a central part of their remedy for the Depression, i e wage reductions would make firms more competitive and get the economy going. This was the position Keynes destroyed with his emphasis on demand management. Then, as now, unemployed and underpaid steelworkers and autoworkers cannot buy cars, houses and appliances no matter how efficient the companies become. Further, the process is a downward spiral of concession begetting further concession, job loss begetting job loss. We already have the evidence for it in the Teamsters, where the major employers are now going back for a second round of concessions, on the basis that the secondary employers got larger contract rollbacks than the majors did. Concessions will not guarantee any existing job, let alone creating new jobs. The employers coming to our union do not offer job or income guarantees in the form of contractual commitments in exchange for contract rollbacks. They simply say rollback or we'll lay you off. Economic threats should be regarded as such, not mistaken for economic theory.

What then is the argument for concession? It cannot be an argument about demand and growth, because if generalized it becomes yet another device to constrict demand and will result in fewer goods and services being purchased. It inherently does not and cannot create or guarantee jobs. It is not an argument about inflation except for those such as bankers with a vested interest who take monetarism to its logical conclusion by proposing the restriction of wage increases to the increases in the size of the money supply.[8] At a practical level, if one omits those industrial managers simply seeking temporary opportunistic advantage, the arguments we hear are that 'X' company needs relief or they will go out of business. However, in the Labour's view, the reasons they might go out of business do not include their freely negotiated labour costs. Usually it is because of:

- poor investment decisions such as Inco's ventures into batteries, Guatemala and Indonesia;



- business is down, because of the politically-induced recession; or
- the company's inventory or level of borrowing has undermined their operating budget due to high interest rates.

Through all of this, the business community has uncritically adopted monetarism as a creed and cheered on government policies of restraint and cutbacks. This reaches its most absurd conclusion now when Mr. Knudsen, Chairman of MacMillan-Bloedel actually calls for government intervention to restrict the right of unions to strike on the basis that companies faced with the economic downturn due to constricted demand, and the press of interest charges on loans and inventories, cannot afford to shutdown or take a strike!

> "Taking strikes has become too costly for companies as a means of backing up a form stand on wage restraint . . . Insufficient company strength at the bargaining table is being weakened further by the poor economy."[9]

"In Canada, the lines to the future are not clear, except we appear headed for a major confrontation."

Companies cannot have it both ways, they cannot call for government to practise monetarism in the name of freeing up the market, then complain that the market (recession and high interest rates) have so worked against them that labour's market power must be restricted.

The Canadian labour movement, through the CLC, rejects both wage controls and concessions. They are no answer to our economic problems and no substitute for sane economic policy.

The post-recession political economy

What then are the prospects for the post-recession economy?

In the United States, whose economy and policy so much effect us, Volcker's version of monetarism, Kemp-Roth's version of supply-side, Stockman's version of budget cutting, and Weinberger's version of defense spending, are clearly failing. There is a reasonable prospect that the underlying populist sentiment in the American electorate will express itself in a move to a new corporatist state, USA Inc.

Major periods of economic turmoil in the United States have not tended to throw up Tory or conservative politicians like Margret Thatcher. Instead they have produced politicians with nicknames like "Pitchfork Ben", "Sockless Jerry" and "The King Fish". I am inclined to agree with those American commentators who see a similar populism just below the surface of Reagan's conservatism, and which will break out if and when the economics of the 'invisible hand', 'deregulation' and 'reprivatization' fail to deliver the goods.[10]

In Europe, re-stimulation of the economy, with France and W Germany in the lead, will largely be a matter of pressures from the labour movement, socialist and social democratic parties. There has been a clear pattern evolving in recent years, with the European trade unions coalescing around policies of national economic stimulation, state co-ordinated industrial policies, and protection of jobs as its central focus. This would indicate a more centralized, collective corporate state, as contrasted to the US.

Since the mid-70s crisis, there has been a convergence of trade union economic programmes in Europe, particularly in France, Italy, Sweden and Britain.[11] Among the common elements are the view that each country's industrial structure has made their international economic position more vulnerable to unemployment, susceptible to inflation and the sacrifice of social needs. To bring about the changes required in those industrial structures, the microeconomic decisions shaping industrial structure must be subjected to state and union control. The state cannot be limited to macroeconomic intervention, for demand management, alone or with selective manpower policy, leaving investment to precisely the firms whose decisions based on private rather than social criteria, created the situation in the first place. The state therefore has to take over the functions of mobilizing and channelling capital to assure sufficient investment of the right kind, identified by planning at the national, sectoral and enterprise levels, through instruments such as public enterprises, financial intermediaries, incentives and controls. Similarly, the unions cannot confine themselves to traditional wage and working conditions issues. Nor can they agree to wage restraint without the power to assure that the released resources are used for needed investments. Unions must accordingly participate in planning at all levels, in a variety of ways including representation but primarily through collective bargaining.

Such an extension of state and union power to investment is conceived (as much by business opponents as by union advocates) as introducing a fundamental change in the mixed economy.

In Canada, the lines to the future are not clear, except we appear headed for a major confrontation. If the evolution of society was simply based on the shifts in socio-economic paradigms, then the Canadian labour movement has been clearly moving towards the European tradition. However the role of the intellect in politics is at best mediated, at worst muddled or forgotten. The CLC has put forth an economic programme and it has drawn the line on controls and concessions. Trade unions tend to have a collective bargaining concept of politics. The CLC has staked out a position and is prepared to organize a General Strike if need be. The present Trudeau Administration has become more a part of the problem than the solution. Joe Clark's conservatives are simply more vengeful competitors to see who can cut back the money supply and government spending more severely, or to give away more and quicker to the corporations. Any real talking will perhaps take place now, in the aftermath of the Versailles Conference.

Concluding on a self-critical note, even the most aggressive interventionist programmes of the European trade union movement, with their corporatist potential, are addressing the problems of recession, employment and growth on a national basis. At the same time, the economic system is being ever more intensely internationalized. In the midst of this recession, there has also been an accelerated process of restructuring of the world economy a shift in the international division of labour. The last decade in particular has seen the installation of major new industrial capacity in a select number of Third World countries. Industries such as steel, autos, ship-building and consumer goods-producers have been built in the so-called NIC's (Newly Industrialized Countries). The stark reality is that short of a social revolution and redistribution of income, those countries do not have the ability to absorb that industrial capacity. There is a real danger that they could become the bastions for an attack on the living standards and trade union rights of North American and European workers. As a practical necessity, in addition to an issue of principle, the fight for social equity democratic and trade union rights in the Third World will have to be taken up by the trade union movement. This is the aspect of the recession to which we have responded least well. At the same time economic and social justice, as well as our self-preservation, may depend on it.

Notes:

1 See David A. Wolfe, "The Demise of the Keynesian Era in Canada: Dilemmas of Federal Economic Policy, 1975–1980", paper presented to the Annual Meetings, of the Canadian Political Science Association, Dalhousie University, Halifax, Nova Scotia, 1981-05-29.

2 Reginald S. Letourneau, *Inflation: The Canadian Experience,* Ottawa The Conference Board of Canada, 1980.

3 "Labour's Battle to Protect our Economic Rights", Canadian Labour Congress, Ottawa, 1982.

4 See "Labour's Battle to Protect our Economic Rights" and "Economic Policy Statement", Documents 20 and 21, 1982 Convention of the Canadian Labour Congress.

5 See P. Warrian and D. Wolfe, *Trade Unions and Inflation,* Canadian Centre for Policy Alternatives, Ottawa, 1982.

6 Globe and Mail, 1982-05-27.

7 "Statement on Concessions", 1982 Convention of the Canadian Labour Congress.

8 See Rowland W. Frazee, Chairman, Royal Bank of Canada, "Wage Restraint Up to All of Us", Toronto Star, 1982-05-29.

9 Globe and Mail, 1982-05-29.

10 See Kevin Phillips, "Post-Conservative America", New York Review of Books, 1982-05-13.

11 See Andrew Martin and George Ross, "European Trade Unions and the Economic Crisis: Perceptions and Strategies", Western European Politics, Vol. 3, No. 1, January, 1980, 33–67. ■