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Social Partnerships in Economic Development: Lessons from the Barbados Experience

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Introduction

Between 1990 and 1992 the Barbadian economy experienced a serious economic crisis, with real gross domestic product (GDP) falling on average by 4 per cent per annum. In 1991, foreign exchange holdings dropped to record low levels and the local currency was threatened with devaluation. Liquidity in the banking sector declined significantly, as economic agents' deposits contracted, both in order to meet commitments in the face of reduced access to foreign exchange inflows and to accelerate consumption and remittances as a hedge against possible devaluation. The fiscal deficit for the year ending March 31, 1991, reached just over 7 per cent of nominal GDP at market prices, well above the internationally-accepted yardstick of 2 to 3 per cent.

The Government dealt with the problem within the context of a stabilisation programme with the International Monetary Fund (IMF). Since devaluation was not considered as an option, the stabilisation package focused on monetary and fiscal policies. Fiscal measures included an 8 per cent cut in public sector wages, as well as lay-offs, increased taxation, reduced transfers to statutory corporations, cuts in capital outlays, lower benefits for severance and unemployment and a set of export-enhancing incentives. With respect to monetary policy, interest rates were raised, temporary limits placed on lending by commercial banks, and these institutions were required to hold additional reserves with the Central Bank.

Hire-purchase regulations were also abolished and the Bank gave up its right to fix the interest rate on residential mortgages.

While these stabilisation policies were intended to alleviate the short-term balance of payments problem, it was generally agreed that there was a more fundamental economic disequilibrium. The export sectors were deemed to be uncompetitive, partly a result of a high-wage structure, costly non-labour inputs such as energy and rigidities in the labour market. Several parastatals were inefficiently-run, thereby incurring large deficits that placed severe strain on the public coffers. The system of taxation did not encourage entrepreneurship and domestic savings and financial sector legislation were weak in important areas. These fundamental deficiencies were to be addressed as part of a long-term structural adjustment programme supported by the IMF and the Inter-American Development Bank (IADB).

One of the features that was present during both the stabilisation and structural adjustment segments of the recovery was the entrenched positions of various interest groups. This was inevitable in difficult economic circumstances, as various groups attempted to maintain their relative strength. Accordingly, an important part of the recovery has been a realisation on the part of all entities that it would be advantageous to work together to achieve the desired goal of stable, non-inflationary growth and a viable balance of payments.

This led, in 1993, to the implementation of a Protocol for a Prices and Incomes Policy which was signed by the major social partners: Government, the workers' representatives and the private sector. The 1993 Protocol has been followed by successor agreements in 1995, 1998 and 2002, which have sought to build on the original provisions. The objectives of these Protocols were to safeguard the fixed exchange rate; improve price competitiveness; increase employment opportunities; promote a commitment to improve productivity and efficiency; enable workers to contribute to planning and policy-making; maintain a stable industrial relations climate; restructure the

economy; and achieve a fair balance between prices and incomes.

There is general agreement that the new spirit of cooperation between social groups helped in the achievement of most of these goals and the economic recovery of Barbados. Between 1993 and 2000, the economy expanded on average by about 3 per cent yearly and unemployment fell from a peak of 24.3 per cent to 9.2 per cent. The fiscal deficit averaged around 1.6 per cent of GDP and holdings of foreign reserves were equivalent to about three months of imports at the end of 2000. Indeed, Haynes (1997) writing about the social partnership, points out that it "provides compelling evidence of the benefits of collaboration" (p.187).

The kinds of initiatives that the social compact has facilitated are even more appropriate as Barbados and other small, vulnerable economies move into an era of economic globalisation. Consensus rather than confrontation is a *sine qua non* of any attempts by developing countries to deal with the fundamental change at the global level. It is in this vein that this paper provides an appraisal of social partnerships. The following section makes a case for social consensus in macroeconomic planning and policy-making. Next, the theory of social partnership is explored by analysing various typologies for cooperation among social groups. Thereafter, drawing on the Barbados experience, some ground rules are laid down for a successful partnership.

1. The Case for Consensus

The consensus approach to macroeconomic management, which has been around for sometime, is gaining in popularity worldwide. Prime examples exist in Ireland, New Zealand and Australia, and it is a partnership between government and the corporate sector that facilitated the economic transformation of countries like Indonesia, the Philippines and Malaysia. The World Bank is now advocating

coalition-building and collective action as part of its agenda for institutional reform in Latin America and the Caribbean (see Burki and Perry, 1998). In addition, the Commonwealth Partnership for Technical Management Ltd., a creation of the Anglophone Commonwealth Heads of Government, has, since 1995, been promoting economic empowerment through the concept of smart partnerships between the public and private sectors.

During the last decade, the social partnership phenomenon has caught the attention of countries in the Caribbean. There are reasons why the consensus approach is appropriate for Caribbean economies. Macroeconomic policy in the small, resource-deficient territories is dedicated to maintaining a viable balance of payments. International trade dominates the national economy and foreign exchange inflows constitute a large part of gross investment. With most of the currencies fixed to the United States (US) dollar, economic development and the well-being of these countries depend heavily on the adequacy of foreign exchange reserves. In such an environment, the entire national effort must be dedicated to the accumulation of foreign reserves. But this can only be achieved if there is some consensus on this goal and its implementation.

The late Nobel laureate Sir Arthur Lewis and former Central Bank Governor, Sir Courtney Blackman, long advocated the implementation of a prices and incomes policy as the approach to improving export competitiveness, thereby protecting the balance of payments and the external value of regional currencies. Attempts to control or restrain prices or wages in the Caribbean have never been popular and most wage-price policies have floundered. This failure may have resulted from the fact that very often these attempts were not "consensus-driven", but prescribed unilaterally by Government, usually as part of an IMF stabilisation programme. Recently, however, there has been more support in the Caribbean for the view that consensus-building is crucial to successful economic management. Robinson (1994, pp. 111) commenting on the

history of structural adjustment in Jamaica, concludes that an adequate response to macroeconomic disequilibrium "requires a large measure of social-political consensus." Initiatives in this regard have included the signing of a memorandum of understanding in Grenada, the formulation of "Compact 2002" in Trinidad and Tobago and draft protocols for social partnership in Guyana and Jamaica. But despite these expressed commitments none of the countries in question has gone much further (for a detailed discussion, see Fashoyin, 2001, pp. 55-59).

That the social compact in Barbados is the first attempt to operationalise the concept of social partnership in the Caribbean region comes as no surprise. Ross-Brewster (1996), in explaining why Jamaica's economic development has lagged that of Barbados, writes:

The picture one has of Barbados is of a rather cohesive, orderly and pragmatic society; of a people conscious of the fragility of their economy, pulling together, for the most part, to ensure their continued prosperity; of a community wary of rash and extreme views and policies; and of one in which each individual feel(s) he has a stake (pp. 74).

The conclusion which can be drawn is that Barbados has amassed a considerable amount of social capital which facilitates the implementation of a social compact. Indeed, the current experiment is not the first in this regard, inasmuch as tripartite consultations predated the signing of the First Protocol in 1993. The establishment of a broad-based *ad hoc* committee in 1986 under the aegis of the Ministry of Labour and the formulation of the National Economic Consultative Committee in 1990, are examples of this process. However, according to Fashoyin (2001) the Protocols of the 1990s "...constitute a fundamental development in industrial relations in Barbados" and ... can be described as a significant evolution of an institutional framework for social partnership..." (p.21)

2. A Theory of Social Partnership

The idea that competing groups within society could somehow unite for the common good is as old as economics itself. Some writers point out that in Adam Smith's work, "The Theory of Moral Sentiments", published in 1759, there are notions of a social consensus that works to the benefit of individuals and society. Of course, in his famous "The Wealth of Nations" almost two decades later, Smith strongly promoted the idea of the self-adjusting market, which, on the face of it, appears inimical to a social partnership since it supports the natural tendencies towards self-interest and ascribes a minimum role for government. But there may be room in Smith's "market" theory to accommodate a social partnership. If it is the desire to derive the maximum benefits which determines the behaviour of individuals and groups, then it must be possible that the attainment of maximum benefits may necessitate forming strategic coalitions or partnerships.

Inter-group relationships are important to economic development in any society since they form part of the infrastructure on which the economy functions. Relations may, however, go through many forms prior to achieving full social partnership. In the following schema, let government (G), labour (L) and the private sector (P) denote three social groups.

Figure 8.1

Non-cooperation

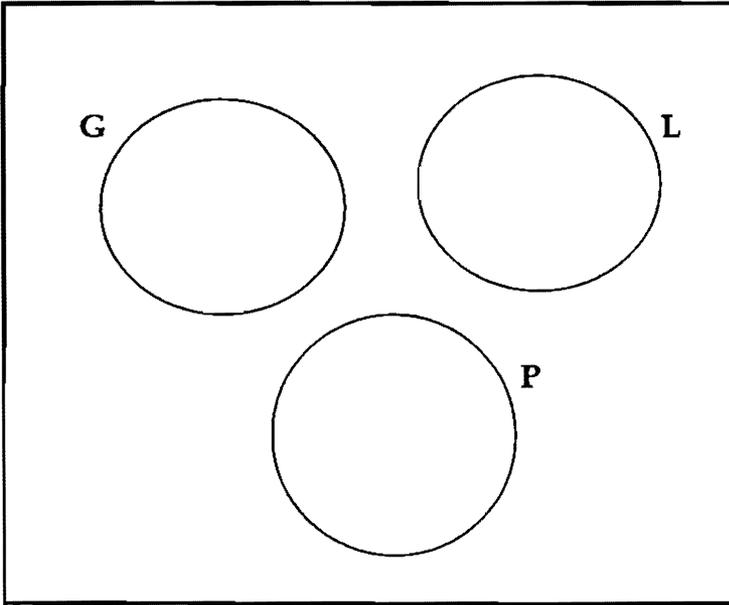


Figure 8.1 depicts a model in which there is no cooperation among the various groups, since each one has a distinct agenda that makes no allowance for compromise. This can occur when the groups are divided along political, ideological, religious, or ethnic lines. The non-cooperation model is not traditional to Caribbean societies.

Figure 8.2

Strategic Alliance

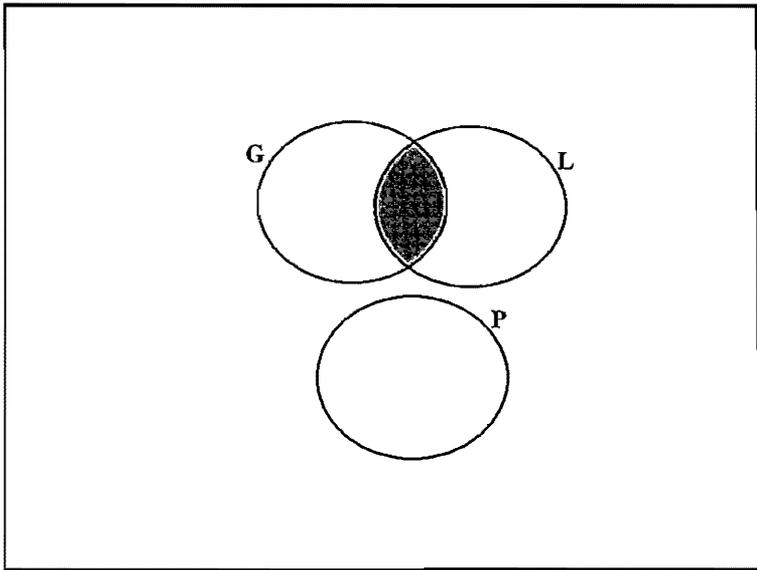
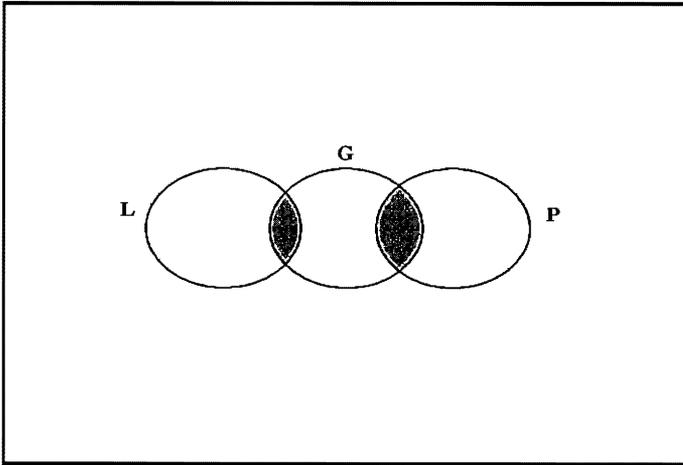


Figure 8.2 describes a situation in which there is cooperation or some form of strategic alliance between two of the groups. This is possible where the trade union movement is closely aligned to the ruling political party to the exclusion of others. This model is well-known in the Anglophone Caribbean, where political parties that evolved from trade unions have gone on to capture the reins of government while maintaining strong links with organised labour.

Figure 8.3

Intermediary



In Figure 8.3, one group has an intermediary relationship with the others. This could occur if the Government finds itself as an honest broker in a situation where employers and workers traditionally do not cooperate. In the Caribbean, there are numerous instances when trade unions and employers have had fundamental and protracted differences of opinion on crucial labour market issues (minimum wages, severance benefits) which required on-going mediation by Government.

In the three scenarios depicted previously, each group is engaged in a game. In pursuit of its own goals, each group adopts strategies which depend on the behaviour of the other groups. Faced with asymmetric or incomplete information, each group expends a significant amount of resources in second-guessing or adapting to the strategies of other participants. There is therefore a limit on its own ability to contribute to overall economic development. Accordingly, the total available pay-off, which in this case is economic activity, does not grow.

In essence, the pre-partnership situation is a constant-sum game. If we assume, for simplicity, that there are two strategies (A and B) available to each group and that the total pay-off is 100, the pay-off matrices for the various groups could be as follows:

		<u>A</u>	<u>B</u>
G	=	[30	40]
L	=	[20	40]
P	=	[50	20]

Whether all groups employ Strategy A or Strategy B, the total pay-off is 100; Strategy A yields outcomes of 30+20+50 and Strategy B yields 40+40+20.

It is also possible that the relationship between the groups prior to social partnership is a zero-sum game. In this case, one group's gain is another's loss and the overall impact on the economic growth is zero. This could be a case in which government revenue rises because of higher taxation, but the result is lower profits for businesses as well as job losses. We can then redefine the pay-off matrices in terms of net gains as follows:

		<u>A</u>	<u>B</u>
G*	=	[-20	30]
L*	=	[10	-20]
P*	=	[10	-10]

G*, L* and P* add up to a zero-sum matrix

The adjusted pay-off matrices show that while the employment of Strategy B results in a gain of 30 for the government, there is a loss of 30 for the other two groups.

The social partnership is depicted in Figure 8.4. The groups have agreed on a set of parameters (shown by the heavily-shaded area) that governs the relations between all of them. Each group retains elements of its own agenda (indicated by the white areas), showing for example, that the government still has responsibility to set overall national objectives, the workers the right to withhold labour and the employers the right

to close their businesses. Groups may still form strategic alliances outside of the partnership (indicated by the lightly-shaded areas).

The aim of a social partnership should be to maximise the size of the heavily-shaded area over time. However, it is undesirable to destroy other inter-group relationships in an attempt to force a convergence of group interests, as indicated in Figure 8.5. This is also representative of dictatorship, the least desirable outcome. The maintenance of relationships outside of the social partnership allows each group negotiating space, a buffer zone or a safety valve.

Figure 8.4

Strong Social Partnership

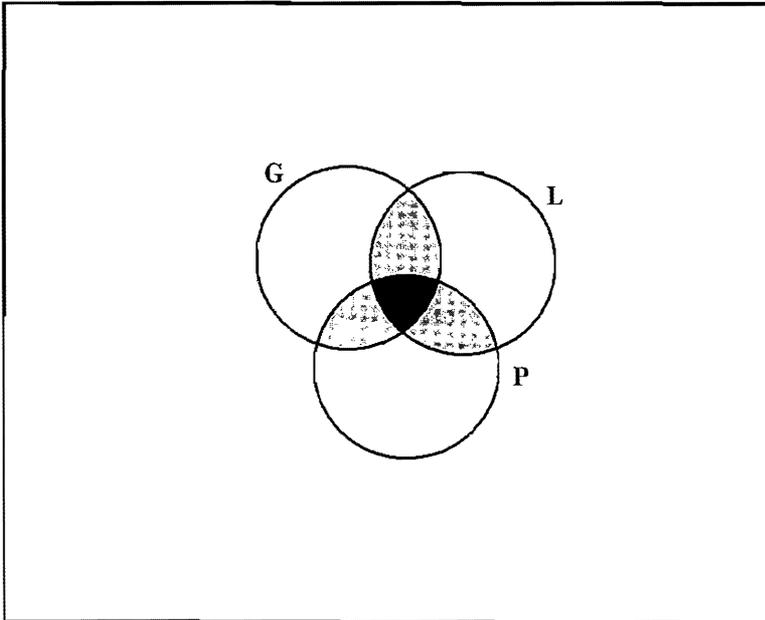
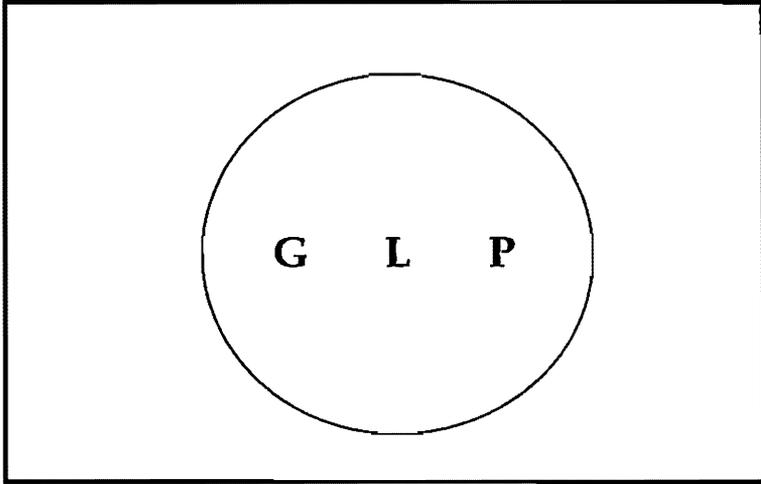


Figure 8.5

Social Partnership - Convergence or Dictatorship



There may be different types of social partnerships. The size of the heavily shaded area in Figure 8.4 increases or decreases with the level of cooperation between partners and the degree of their commitment. Figure 8.6 is an example of a weak social partnership. Due to tradition or expediency, there is strong cooperation between partners G and L, and perhaps as a consequence, little commitment from partner P. Like a chain, the social partnership is as strong as the commitment of its weakest unit. Therefore, the area of common ground is relatively small. In Figure 8.7, the partnership is weak because one partner (P) is very enthusiastic about consensus, while there is little commitment from other partners (G and L).

Figure 8.6

**Weak Social Partnership - One Partner
Unenthusiastic**

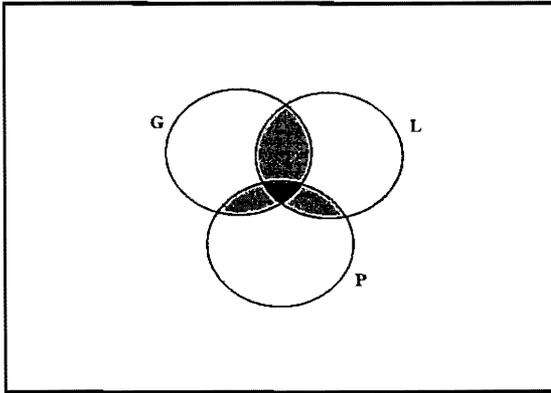
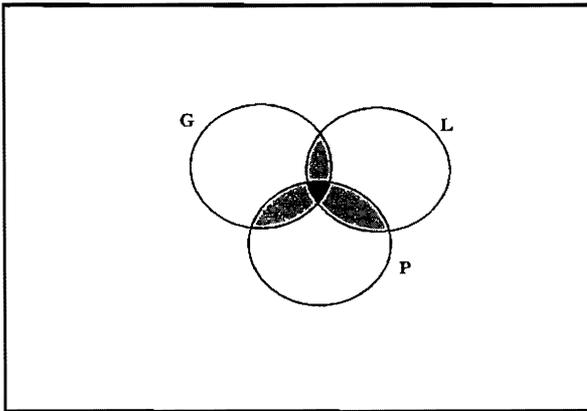


Figure 8.7

**Weak Social Partnership - Two Partners
Unenthusiastic**



Weak social partnership can also be the result of societal attitudes. For example, notwithstanding the contribution of the social partnership to economic development there may still be lingering doubts as to whether it is realistically possible to find common ground between traditional antagonists like organised labour and the corporate sector. These same attitudes tend to make workers inferior partners in a social partnership. For example, while the general public will normally support tough actions taken by government in support of macroeconomic stability or by the employers in search of greater profits, they will find it difficult to unreservedly support the workers when they withhold labour in their own interests. During a strike, workers are often accused of holding the country to ransom. These attitudes are well-known to all groups and it is possible that they can influence relations between social partners in a way which organised labour may consider inimical to its best interests.

There are practical issues that reinforce this view. For example, in devising an incomes policy, it is easier to control wages and salaries, which accrue mainly to workers, than other forms of income like dividends, interest and profit that go predominantly to owners of capital. Therefore, the question arises as to whether organised labour brings to the table the same degree of negotiating strength as other partners and whether a social partnership leads to perverse income distribution.

Figure 8.8

Social Contract with Partner G Fully Accommodated

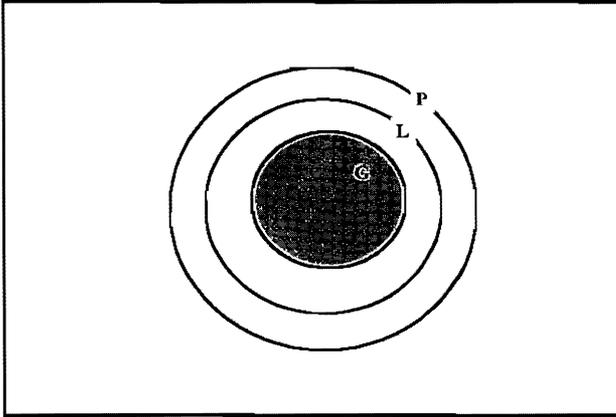


Figure 8.8 also shows another form of social partnership. In this model, the entire agenda of partner G is accommodated in the contract. This partner may be strongest and consequently able to impose its will on the others; it may also be the weakest group, whose agenda is assimilated through necessity or expediency. The very notion of a social partnership should disqualify any model that includes the entire agenda of one partner, while leaving other partners largely unfulfilled.

Since the social partnership brings additional and better information to bear on the negotiating process, it removes some uncertainty from the process. Where there is reduced uncertainty, fewer resources are required for bargaining and formulation of strategies and can be redirected towards problem-solving. The "win-win" nature of social partnership means that the game now becomes a non-constant sum since the pay-offs to the various partners increase through cooperation.

A cooperation approach allows for the use of strategies which maximise societal, and not, group benefits. For example, agreement on productivity-based compensation leads to more competitive exports, higher profits and increased foreign reserves.

The pay-off matrices under social partnership may be as follows:

		<u>A</u>	<u>B</u>	<u>C</u>
G	=	[30	50	70]
L	=	[20	40	60]
P	=	[50	80	100]

The utilisation of more consensus-driven strategies like B and C causes the total pay-off to increase from 100 to 170 to 230.

3. Ground Rules for Successful Social Partnerships

The social partnership in Barbados has now endured for almost a decade. Fashoyin points to a number of societal features which made the environment fertile for this kind of experiment. These include the monopsonistic nature of the labour movement, small size and homogeneity, political stability, as well as strong family and religious institutions. While these features apply specifically to Barbados, it is possible to draw on the Barbados experience to establish some ground rules that generally enhance the likelihood of successful social partnership.

The stakes are high for each group

The perceived benefits of joining must be greater than the benefits of taking an independent stand. In the case of Barbados in 1993, organised labour was troubled by the decrease in the status of workers; these included lay-offs, wage cuts, shortened work-weeks and reduced severance payment entitlements. Most business leaders were concerned about the

possibility of devaluation, and were critical of the high-wage structure, the burdensome tax system, the lack of adequate incentives to export manufacturing and low worker productivity. Government for its part was burdened, *inter alia*, by costly inefficiencies in its operations, wasteful transfers to parastatals and unproductive bureaucracy.

Government needed a stable economic environment to ensure the return of the confidence necessary for continued growth. The private sector knew that economic recovery would bring more business and profits. It was in the workers' interest to have a stable economy and expanding business opportunities in order to be assured of more jobs and rising incomes. In the circumstances, none of the groups could risk not playing its part in achieving the desired goals.

There is a history of consensus or dialogue

In any endeavour it is always better to have some kind of foundation on which to build, thereby allowing time, energy and other resources to be immediately directed towards consolidation. Moderation and the embracing of centrist political ideas in Barbados have always allowed for a rational and level-headed approach to the resolution of problems. During the 1990-92 economic crisis in Barbados, for instance, there was near universal support for preserving the existing exchange rate. This made it easier for the authorities to argue for this position with the IMF. Moreover, there is normally little disagreement on fundamental issues. It is difficult to see how this approach can be attempted in some other Caribbean territories. A racial and political divide in (Guyana and Trinidad and Tobago), militant trade unions (Jamaica, Guyana and Trinidad and Tobago) and large disparities in income (Jamaica) appear to work against social consensus in those countries.

There is a formal framework

All things being equal, social partnership is best implemented within a framework of written rules and regulations. Nobody denies the usefulness of a gentleman's agreement, which is best exemplified in the British Constitution, that has no written provisions. But those types of understandings evolve over a long period and it is uncertain whether they would suit the purposes at hand. A written document clearly sets out the aims and objectives of the partnership, the responsibility of each partner, administrative guidelines and speaks to the issue of dispute resolution. In addition, the tangibility of a document makes the agreement real rather than esoteric. In Barbados, earlier attempts at forging a prices and incomes policy never got past the purely academic debate, since there was no framework to give life to those intentions.

Successful social partnership also needs institutions to give it momentum. In Barbados, the National Productivity Council has helped to create and develop methodologies for measuring, managing and improving productivity. The various sub-committees, which sub-serve the social compact have also allowed for the exchange of views on technical issues and more timely and pointed dissemination of advice to policy-makers.

There is provision for flexibility

Any social document, while clearly stating motives and responsibilities, must also be flexible enough to accommodate societal changes. Understandings relating to partner responsibility, operations or sanctions must allow a partner room to manoeuvre, to respond to the demands of its own constituency. In the Barbados case, for example, pressure from the workers and employers led to the substitution of the term "price and wage freeze" by the term "price and wage restraint" in the later versions of the Protocol. The inclusion, in the Second Protocol, of an entire section on worker security also reflected

the anxiety of workers' representatives as right-sizing, down-sizing or other attempts at enterprise-restructuring led to significant job losses in the early days of the partnership.

Most goals are achievable

While the goals of the social partnership should be ambitious and forward-looking, they should, above all, be achievable. Unrealistic goals are difficult to attain and only serve to frustrate and weaken the resolve of the various partners. In Barbados, productivity-based compensation and price restraint have proven to be elusive goals. The former is difficult to achieve at best, but particularly so when production is predominantly in the form of services, as is the case in Barbados. It is not easy to restrain prices in an import-dependent country, where the majority of domestic inflation is determined externally.

There is a monitoring mechanism

Partners must be able to determine when things start to go wrong, that is, when a partner is losing enthusiasm. In this way, the remaining partners can move swiftly to bring the effort back on track. Indicators could include the number and frequency of departures by any partner from the basic provisions, persistent absence from meetings of the partners, or public statements that injure the partnership.

There is top-level sponsorship

An effort as important as a social partnership has to be accorded the highest level of priority and marketing. Consequently, it has to be spearheaded by the leaders of the various groups. It is they who should sign the Protocols, interact with the press and attend meetings of partners. Any delegation of responsibility at this level will appear to be a lack of commitment and public confidence in the experiment will falter.

In the Barbados model, the various Protocols bear the signature of the Prime Minister, the Head of the Private Sector Agency and the Head of the Confederation of Trade Unions.

Concluding Remarks

The social partnership is a fresh approach to the issue of macroeconomic management in Barbados. By identifying a set of common objectives, the social partners have committed themselves to cooperating in finding ways to solve problems and advance economic development. From all appearances there has been a degree of success to date in achieving the basic objectives of the contract, but there are still lingering areas of concern. A social partnership draws on economic theory and one can refer to the Barbados experience to establish certain conditions that can enhance the possibility of success. Indeed, under the right conditions, the Barbados experiment may help to inform socio-economic policy-making in countries with a paucity of resources that have to devise creative responses to the changes in international economic relations.

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