The Demand for a Workers Bailout: A Case Study of the Giardini del Sole Strike

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Abstract:

The paper is a study of the first workers' strike against mass retrenchments in the wake of the global economic crisis. The workers of the furniture factory of Giardini del Sole in Mandaue City went on strike in February 2009 after the company laid off more than half of the workforce. In the months after the Giardini strike, labor militancy ratcheted up among Cebu workers. Using the perspective of labor economics, the paper focuses specifically on the workers' demand for a bailout (a higher package of separation benefits than mandated by law) in the face of job losses and loss of income.

The paper starts with a survey of the impact of the crisis on Cebu's economy in general and then on the furniture industry in particular. Then, it delves into the call for a bailout of the workers. After which, it reviews the basis for a workers bailout in Keynesian economic theory. The paper concludes by posing the question whether the so-

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called "Great Recession" will see a revival of institutional economics that was born out of the Great Depression some 80 years ago. The topic of the paper continues to be relevant given the threat of a second round of the "Great Recession" or what is called the double dip recession.

The research primarily depended upon an analysis of documents concerning the nature and impact of the global crisis, and the facts and circumstances concerning the Giardini strike. Secondarily, the study employed interviews with key leaders of the Giardini strike and with advocates of a workers bailout.

Introduction

In March 2009, news stories came out quoting various government officials who gave differing, and curiously escalating figures on the impact of the global crisis on workers. In an interview on March 24 while in Sto. Tomas, Pangasinan, one high-ranking official said that 41,000 workers had been affected by the crisis. Then in a story that came out on March 27, a labor functionary declared that 11,000 workers were laid off and 40,000 had their working hours reduced, for a total of 51,000 workers. And finally on March 29, another labor official announced that 121,000 workers were hit by the crisis. Of these, 11,000 were permanently retrenched, 39,000 were temporarily laid off and 59,000 were put on flexible work arrangements.

It was former President Gloria Macapagal-Arroyo who quoted the 41,000 figure. It was then Assistant Labor Secretary Reydeluz Conferido who released the higher number of 51,000. And finally it was then Labor Undersecretary, now Labor Secretary Rosalinda Baldoz who revealed data that showed twice the number of affected.

To add mystery to the story, since it was already a weekend between the interviews of Conferido and Baldoz, no government clerk or researcher could have just suddenly updated the database to come up with a much larger figure.

This unfortunate series of events hints at a possible cover up of the real impact of the crisis. By however hiding the effect of the man-made calamity on the workers, government was hampering the implementation of emergency relief operations.

In fact, government's attitude at the onset of the crisis in late 2008 was to assert that the Philippine economy is insulated from the crisis and to take comfort in the supposed "good macroeconomic fundamentals". It had to take thousands of workers in the export zones losing their jobs and hundreds of OFW's coming home for the Arroyo administration to own up to the truth.

If it were not tragic, the confusion on the number of workers affected by job layoffs and work rotations would be comical. What seems beyond dispute is that Calabarzon (stands for the contiguous provinces of Cavite, Laguna, Batangas, Rizal, and Quezon) was worst hit by the economic storm. Calabarzon, the symbol of export-led industrialization and an icon of globalization in the country, hemorrhaged profusely. In fact, it is Laguna which is ground zero as far as the damage done by the global recession is concerned.

After Calabarzon, Cebu takes the distinction or discredit of being next hardest hit. The province of Cebu produces three of the top five commodity exports of the Philippines. As of September 2008, the leading Philippine export was electronics with revenues of $2.6 billion. A far second was apparel and clothing accessories worth $181 million. The other top exports were cathodes and sections of cathodes of refined copper ($178 million), petroleum products ($155 million) and then woodcrafts and furniture ($101 million).

As far as Cebu is concerned, electronic products and clothing are principally produced inside the export processing zone on Lapu-Lapu City. The furniture factories meanwhile are concentrated in the nearby Mandaue City.

It is no wonder then that Cebu's export industry and its thousands of workers staggered from the shock of the global economic crisis. What is surprising is the fact that the first workers' strike against mass retrenchments erupted in Cebu instead of Calabarzon.

The workers of the furniture factory of Giardini del Sole in Mandaue City went on strike in February 2009 after the company laid off more than half of the workforce.

In the months after the Giardini del Sol strike, workers militancy ratcheted up. Labor unrest smoldered as jobs, wages and working conditions were sacrificed at the height of the crisis. The workers of Cebu were refusing to pay the price of a crisis that is not of their own making.

After the Giardini strike, a second one was launched by the union at the R and Y Agousti Inc., another furniture factory in Mandaue City. A third strike broke out at the huge Keppel shipyard in Cebu after months of a labor dispute that smoldered over redundancies and layoffs.

In April 2009 the first ever rally was held inside the Mactan Export Processing Zone in its decades' long existence. Around 70 workers of Sauna World Inc., a Finnish-owned firm producing sauna and spa heaters for export, marched from their factory to the gates of the export zone.

Then in June 2009 the first picketline was setup on the gates of the Mactan zone by the workers of Paul Yu Industrial Corp., one of the biggest factories in the zone. The workers went on a three-week work stoppage in protest of the suspension of seven leaders of their association. Some 300 workers participated.

The labor unrest tentatively peaked with the three-month long picketline at the export zone gates by the workers of Alta Mode Inc., which makes clothes under world-famous brands like Adidas, Reebok and Abercrombie & Fitch. The Alta Mode dispute ended only in early June 2010 with workers accepting another separation package that was above that mandated by law.

This paper seeks to study the Giardini del Sole strike from the perspective of labor economics. Specifically, it focuses on the workers' demand for a bailout in the face of job losses and loss of income. Bailout, as used in this paper, means a package of separation benefits higher than that which is mandated by the Labor Code.

The paper starts with a survey of the impact of the crisis on Cebu's economy in general and then on the furniture industry in particular. Then it delves into the call for a bailout of the workers. After which it reviews the basis for a workers bailout in Keynesian economic theory. The paper concludes by posing the question whether the so-called "Great Recession" will see a revival of institutional economics that was born out of the Great Depression some 80 years ago.

The Impact of the Global Recession on Cebu

A survey of the Mactan Export Processing Zone, which hosts two complexes called MEZ I and MEZ II, demonstrates the gravity of the impact of the crisis. Shipments in electronics, semi-conductor and automotives products suffered 30-40 per cent reduction during the first quarter of 2009.

Among the 105 locators inside MEZ I, 68 were hit by the global crisis. Six firms laid off workers while 20 temporarily suspended their operations; another 42 companies went on temporary work adjustments. The latter means companies either compressed work operations from six days to three or four days, or declared a vacation from one week to a maximum of three months.

According to news reports, subcontractors or contractual workers, not regular employees were the ones who were retrenched. Their employment contracts were not renewed due to low orders from foreign buyers such as those from the United States and Japan. Most of the companies that laid off workers were said to be Japanese-owned firms.

As regards the furniture industry in Cebu, 11,800 workers were displaced from January 2008 to January 2009. According to the Cebu Furniture Industry Foundation (CFIF), 42 of the 188 CFIF member companies either shut down or temporarily closed their factories.

The Mandaue Chamber of Commerce and Industry meanwhile reported an excess in inventories and a lack of demand for export products. The CFIF announced a 20 per cent drop in container shipments among member companies from January to August 2008 compared to the same period last year. The Philippine Exporters Confederation Inc.-Cebu said that exports dropped by some 40 per cent in the first two months of 2009.

The operations of Giardini del Sole reached its height around 2005, when it had a workforce of around 700. The company was then spending US$ 40,000 a week for labor and operating expenses. Orders were worth from a low of US$ 100,000 to a high of US$ 150,000 a week.

But with start of the crisis, sales went down to US$ 15,000 to US$ 30,000 per week. It was also reported that domestic sales of Giardini del Sole went down in late 2008. At one point during the crisis, the factory offered 30 per cent discount in prices.

The company laid off workers' as expected. Unexpectedly, the workers went on strike. They paralyzed operations of the company, won a partial victory through a bailout package and became a model for struggle for Cebu workers.

The Demand to Bailout the Workers

To put the Giardini del Sole workers strike against layoffs and their demand for a bailout in the proper context, some background information about the furniture factory is necessary. The Giardini del Sole is one of the biggest furniture export factories in the Philippines. It manufactures and trades wooden furniture. About 80 to 90 per cent of its products are for export mainly to the US. The rest are sold in Italy and other European countries like Norway.

It is owned by Giovanni Boschi, an Italian national residing in the country. He established the company in 1999 with an initial starting workforce of around 100. The factory is located at Barangay Alang-alang, Mandaue City. Boschi previously owned a rattan furniture business built in 1986.

The types of furniture produced in Giardini del Sole are simple and high-end tables, chairs, cabinets, windows and beds. Almost all the workers are highly skilled except those in sanding. They are sample makers, machine operators, assemblers and finishers.

There are six stages in the production process:

- Sample making
- Parts preparation
- Final machining
- Assembly
- Sanding
- Finishing

The main export client of Giardini del Sole is a California-based company called Marge Carson. Marge Carson scouts direct buyers from the US then outsources its orders to Giardini del Sole. Other clients are Cosonsa and Ferguson. Cosonsa is a neighboring factory which outsources part of its production to Giardini del Sole. Ferguson was a former customer but it has now transferred its job-out to Vietnam. Mobilarte and Meliaro are two Italian companies that are direct buyers of Giardini del Sole. Giardini del Sole then is part of a global commodity chain that is the new type of production system in the era of globalization.

Most of the workers are paid the minimum wage, which in Cebu comes up to just P267 a day. A few workers receive just above the minimum wage. But it was not so much cheap wages as bad working conditions that motivated the workers to organize. They were critical of arbitrary management decisions on suspensions; non-remittance of salary deductions for social security and health care; and the company's refusal to compensate workers who met accidents at work. Several union members had fingers cut off in accidents at work.

The workers effort at self-organization then more or less coincided with the economic troubles of the Giardini del Sole factory. To make a long story short, the workers were able to form a union despite the dismissal of three union officers including the president. And to make an even longer story shorter, the union itself was busted when some 300 out of 400 regular workers were retrenched early in 2009.

Thus started the labor dispute that ended in the first strike against mass layoffs in the country. Since this paper focuses on the Giardini del Sole dispute from the prism of labor economics, it will concentrate on the workers demands in the face of the mass layoffs.

In the protests that ensued after the temporary layoffs, the union offered a work rotation scheme instead. The work rotation formula had the advantage of saving jobs but with a pay cut corresponding to the reduced working hours as the workers share the remaining production load.

For example, if the demand had shrunk by half then production should be reduced also by 50 per cent. In the simplest proposal for work rotation, none of the workers would be laid off but every worker would have work only for half the time or half the week as before. Accordingly, their wage would be cut in half though nobody would remain without work.

In the actual case of the Giardini del Sole dispute, a joint evaluation team composed of the union, management and the labor department was set up to plan the work rotation to cover as many of the workers as possible. The joint evaluation team would also monitor the company's performance and recall the workers when demand picks up.

As a means to save jobs, work rotation made sense. In fact, the government appealed to employers to implement job rotation instead of mass layoffs. Of course, the government could only plead to employers since the law allowed management to fire workers due to business losses.

To the union, the work rotation scheme had an impeccable logic since it would not just save jobs but the union itself. If the union accepted the temporary layoffs which are a step towards permanent dismissal, then workers organization would be busted even before it took off.

Giardini's owner, Boschi, however vehemently refused to consider the work rotation proposal. Or to be exact, he initially agreed to it in the face of workers' protests and pleadings from labor officials who were wary of provoking a strike. But he refused to honor the agreement, thus precipitating the train of events that escalated into the strike. That was the reason why the workers alleged that the labor dispute was not simply due to business losses but more so about violation of workers' rights.

Up to the tense moments before the strike, the demand for work rotation was the negotiating position of the workers. The maximum demand of work rotation to save jobs was however not achieved due to intransigence by Giardini's owner.

Thus, the workers retreated to their minimum demand for a bailout. By this, they meant the provision of assistance by the employer and the government to displaced workers so they could cope with the economic blow of losing their jobs and income. They managed to win this demand.

At the conclusion of the strike, the workers received a bailout package that was above that required by law and more than what their employer was initially willing to give. Concretely this meant that aside from the separation pay of 13 days per year of service (as per law), each worker was given financial assistance worth P 5,000 which was equivalent to an additional 5 days. Thus, the total package was effectively 18 days.

On top of this, the workers got a generous set of assistance from the local and national government. The local government of Mandaue and the Department of Labor and Employment contributed to a P 360,000 fund for emergency employment assistance. Giardini workers who were residents of Mandaue became priority beneficiaries of the emergency employment program of the city government. The labor department also opened a facility through the so-called WIN-AP (Workers Income Augmentation Program) to infuse capital for a worker-owned and managed furniture-making cooperative by the displaced Giardini workers.

Other than the emergency relief provided by the separation pay and employment assistance, a significant aspect of the bailout package was substantial capital to start up a worker-owned and managed furniture-making cooperative.

Can retrenched workers manage to cope with the shock of job loss by regaining gainful work through running their own enterprise? This goes beyond the usual government prescription of job retraining. And while the funding for the workers-owned and managed cooperative will be sourced through what is called income augmentation, it is more than that actually since the furniture enterprise will provide full time work.

Can the workers learn the organizational and technical skills necessary to maintain and develop an undoubtedly capitalist enterprise? This question will remain unanswered for now pending the experience of the Giardini del Sole workers cooperative.

However the application of the displaced Giardini workers for WIN-AP funding remains pending to this day. Their first proposal was rejected since the P1.9 million requested was ostensibly too big. A second proposal amounting to P 900,000 has yet to be approved.

The demand by the Giardini del Sole workers for a bailout was a reflection of the campaign of the Partido ng Manggagawa for what it calls a "5-point bailout of the workers and the poor". The Partido ng Manggagawa was instrumental in formulating the demands of the Giardini workers through its Cebu chapter.

The 5-Point Bailout proposed by the Partido ng Manggagawa includes:

- Government subsidy for displaced workers
- Tax refund for all wage earners
- Expansion and reform of the public employment program for the unemployed
- Extension of health care coverage for displaced workers
- Moratorium on demolitions and evictions of poor and worker households

In a pamphlet, the Partido ng Manggagawa elaborates on the bailout package as follows:

> "*First,* government must subsidize all workers who will be retrenched because of the ongoing crisis. The Social Security System (SSS), Government Service Insurance System (GSIS) and the Overseas Workers Welfare Authority (OWWA) must use its funds to subsidize private sector workers, government employees and overseas contract workers respectively until they can find work up to a maximum of six months. The measure can be implemented immediately given the absence of an unemployment insurance scheme that may be not feasible for the meantime.
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> "*Second,* the stimulus package can take the form of a tax rebate for all workers equivalent to two months of their salary. This effectively means giving workers a 14th and 15th month wage. The last thing that industries need is to be squeezed by the tightening of commercial credit on the one hand and on the other by a contraction in consumer spending.
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> "*Third,* it is imperative to give jobs to the millions who were unemployed even before the crisis struck. Since the private sector apparently is not interested in hiring them, then it is the responsibility of the state to establish an emergency employment program. In form, this program can be similar

to the present 'Patrabaho ni Gloria'. Although of course the name must be changed to 'Patrabaho ng Gobyerno' right away. But more than this cosmetic change, the state employment program must be radically reformed. The patronage system must be exorcised from it by putting the employment program under the co-ownership if not control of people's organizations. Also minimum labor standards at the very least must be guaranteed instead of the present setup where the 'kamineros' and 'oysters' are hired on a contractual basis for below minimum wages. No matter that it is a dirty job as long as it is decent work. The public employment program should not be limited to street cleaning and whitewashing walls but must include restoring the environment and building housing for the poor aside from the usual public works projects. Given the sorry state of the environment and the backlog in public housing, just these two sectors are significant enough to provide millions of jobs for a start.

"*Fourth,* health insurance thru PhilHealth must be extended to displaced workers, either domestic or abroad, for at least six months or until they can find a new job. This need is validated by research on displaced workers that show a substantial number fall victim to serious illnesses given that the stress of joblessness aggravate their health condition. The state must shoulder the expense of extending their PhilHealth coverage after their retrenchment.

"*And lastly,* a moratorium on demolitions and evictions, and a condonation of penalties and interests on low-cost and socialized homeowners must be declared. The very least that the government could do in a time of crisis is to abstain from destroying the houses and livelihood of the poor. The only exception to the moratorium on demolitions is when relocation is provided for and agreed upon by the affected communities through an honest-to-goodness negotiation. These Filipino 'subprime homeowners' must be bailed out similar to Barack Obama's plan to rescue poor Americans who are burdened with mortgages and threatened with foreclosure.

> "As to the billion peso question, where will the government get the money to spend on this bailout and stimulus package for the workers and the poor, the straight answer is for the state to save that part of the budget that is automatically appropriated for debt payment (interest alone is equivalent to 30% of the national appropriations and together with the principal amounts to 70%) and instead use it to finance this vastly expanded social program. Not paying the banks for the debt, legitimate or otherwise, that we ostensibly owe them is a light punishment for the high crime of sparking the crisis."

In a statement, the chairperson of Partido ng Manggagawa, Renato Magtubo asserted that, *"a bailout plan only responds to the immediate impact of the crisis. A program to restructure the Philippine economy is necessary to sustain the long-term development. The weaknesses of the present liberalized and deregulated economy are being exposed by the hammer blows of the global crisis. The dependence on export orientation and overseas employment is being revealed as unsustainable. It is high time that a new economic policy strengthens the domestic market, develops local industry and modernizes agriculture based on agrarian reform. In this vision, labor can unite with other sectors of Philippine society".*

He further added that, *"the Giardini workers struggle can serve as a model of the 'pro-labor bailout scheme'. The Giardini model of militant struggle and workers assistance can be replicated wherever workers are victims of retrenchment and rotations".*

Looking back at their struggle, two leaders of the Giardini del Sole workers summed up its lessons as follows. According to Primitivo Ginoo, Jr., union president of Nagkahiusang Puwersa nga Mamumuo sa Giardini (NPMG), *"if we had not launched a strike that paralyzed the company, then we would have been without jobs and would have been lucky to receive a separation pay after six months. But because we fought for our rights, we got from management and the government a 'bailout package' that is more than what they were initially willing to give".*

Meanwhile, NPMG vice president Eulito Fin Jr. argued that, *"in times of crisis, the workers will have to fight for every cent that we deserve in wages, benefits and assistance. Workers should learn the lessons of our struggle. We will be treated like disposable rags and worn out machines by capitalists bent on passing the burden of the crisis on workers. Instead of meekly receiving what little they offer us, workers should fight with their heads up high for jobs and rights".*

The difference between the 5-point bailout of the Partido ng Manggagawa and the bailout package at the Giardini del Sole is their scope. Both however basically flow from the same idea of putting money in the hands of the workers and raising the purchasing power of consumers. The bailout concept is partially based on the Keynesian formula of counter-cyclical spending.

The Keynesian Argument for a Workers Bailout

The Partido ng Manggagawa usually argued for its set of demands on the basis of social justice. But with the inception of the economic crisis in 2008, the group buttressed its demand for a bailout on the premise that it will offset the recession.

Putting money in the hands of the workers stimulates consumer spending. Spending will spur production. With the wheels of production going, there will be less of an impact on the domestic economy and hopefully a foundation can be created for economic recovery.

The crucial premise of the bailout demand therefore is taken from the key idea of John Maynard Keynes. In his *General Theory of Employment, Interest and Money*, the famous economist put forward the then radical concept that the state would have to intervene in the market to revive economic production. He wrote his path-breaking work in 1936, in the midst of the Great Depression that laid to waste about a third of the labor force of the industrialized countries.

The quintessential mathematical equation of Keynesian macroeconomic theory is expressed as:

$$Y = C + G + I + (X - M)$$

where Y is the national income, C is private consumption, G is government expenditure, I is private investments, X is exports and M is imports.

In the event of an economic crisis, private investments I will collapse, private consumption C will shrink and even net exports (X – M) will fall. So that the national income Y does not decrease, or decreases only moderately, then the government expenditure G must increase.

In fact to reverse the contraction in the economy, the rise in G must match the fall in the other factors:

$$\Delta G = - \Delta (C + I + (X - M))$$

Further, government can spend more than the decrease in private investment and consumption in a bid to increase national income:

$$\Delta G > - \Delta (C + I + (X - M))$$

If government sits through the crisis then the economy will spiral into a recession as employers layoff workers, consumption thereby collapses, demand is further restricted and a feedback loop thus ensues. It is government that must take the initiative since in the beginning of the crisis, banks will freeze credit which is the lifeblood of industry, and business will refrain from investments due to the economic troubles.

This is the rationale for a stimulus and a bailout in the face of global recession. The state must pump prime the economy by taking up the slack of the private sector. The government can invest in labor intensive infrastructure projects to create jobs and put workers back into gainful employment. Additionally, it can stimulate consumer spending by putting money in people's hands through tax rebate, direct subsidies, unemployment insurance and others.

In the Keynesian model, it is not taboo for the state to engage in deficit spending. In fact, it is an imperative that outweighs any disadvantages. Government must infuse money into the economy even to the point of printing new money.

Of course, deficit spending by the state is anathema in neoliberal economics. In neoliberal theory, controlling inflation rather than enhancing production is the primordial concern of the state policy. But in the course of an economic crisis, the logic of neoliberal macroeconomics evaporates in the face of the recessionary spiral.

The former Arroyo government implemented a so-called stimulus plan in response to the economic crisis. The stimulus plan was supposedly worth some P300 billion in the general appropriations of the government.

However, all if not most of the budget for the stimulus plan is old money that had already been allocated to national agencies. If any new money had been infused, it is only monies from SSS, PhilHealth and other state financial institutions. In fact, workers groups have slammed the channelling of their retirement money into the stimulus scheme.

The past administration was forced to solicit money from state financial institutions since it is banned from deficit spending through the Bangko Sentral ng Pilipinas (BSP). Under the dictates of the IMF and based on neoliberal precepts, the new BSP charter prohibits it from printing excess money.

Another weakness of the stimulus plan is that it is biased against direct subsidies to workers and tends towards indirect means of assistance. This indirect assistance is achieved through job creation via infrastructure projects.

The Return of Institutional Economics

There appears no sign that government has broken away from the stranglehold of neoliberal economics since no decisive change in policy has been announced or implemented. Nonetheless, initiatives are haltingly being pushed in directions off tangent to the mainstream economic policy. Whether these are a conscious paradigm shift in policy or exigent considerations in view of the impact of the crisis or even token reforms to avert labor unrest is a query that deserves a separate inquiry.

In fact, the Arroyo government's response paled in comparison to the radical moves applied in other countries. The leaders of the three main industrialized countries of Europe—Brown of the United Kingdom, Sarkozy of France and Merkel of Germany—boldly called for a "new capitalism" in 2009. While not explicitly saying so, it harks back to the welfare capitalism and state intervention that was the characteristic capitalist response to the Great Depression of the 1930's.

Obama meanwhile once stated that he wants to stop the race to the bottom in wage and working conditions that has been a hallmark of neoliberal globalization. That may be the reason why he has endorsed the US labor movement's push for an Employee Free Choice Act, although, it can be questioned if the emasculated form of the Congressional bill will indeed facilitate union organizing.

Despite Sarkozy's proclamations, it has not stopped the labor movement in France from leading general strikes against the government's handling of the economic crisis. Sporadic strikes and mass movements have broken out in different countries under the common theme of workers opposition to paying the price of the capitalist crisis.

So the various factors identified by Kaufman (2004) in his review of the evolution of industrial relations seem to be coming together once more. According to Kaufman, the rise of industrial relations as theory and practice owe to the convergence of the several features of capitalist society in the early 1900's.

First is the emergence of the "labor problem" or the "social question" as the foremost issue of the day then. The militancy and radicalism of the mass of workers came to a head in the first decades of the 20th century in the industrialized nations. The threat of worker rebellion reached its climax with the victory of the socialist revolution in Russia.

Second is the appearance of reformist groups and personalities that wanted to renovate capitalism and restrain its excesses in order to save the system from a workers revolution. Their call for reform and critique of liberal capitalism provided the justification for welfare capitalism and the New Deal in the US.

The alternative theory of institutional economics was born from the critique of liberal economics. Though not strictly and formally in the school of institutional economics, Keynesian theory was conceived in the same milieu of critically assessing liberal economics in the light of the evident failures of the "free market" and "unregulated capitalism".

The practice of industrial relations necessarily flowed from these trends. The dominant theme of labor-management relations reflected the fundamental concern then with resolving the conflict between organized workers and the capitalist class.

The events of today seem like a déjà vu of the issues of the past. While it is still too early to make definitive conclusions, the trends clearly point in the direction. In dialectics, what is apparently a return to the forms of the past is conceived as a spiral development to a higher level. It bears watching if the Great Recession leads to a revival and moreso renovation of institutional economics.

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