

## Effect of Enforcing Privatization Rules on the Rights of Labor Union in Iran: A Review

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### ABSTRACT

The relation between political, corporate issues and the public demands of a corporation or a group of workers in a sector has always been discussed and it might be said that this issue goes back to the formation of the first labor unions which have mainly originated in Europe. The first labor union in Iran originated in 1879. A labor union's duty is to represent the workers in a corporation or a special institution to the government as an employer or the capitalists so as to protect them in their interests and express their demands about work. In the past few years we have been witnessing the enforcement of privatization rules on the labor union in Iran. Economic emancipation has been the most important component of privatization policy and the legal basis of making such policy in our country has been the 32nd amendment of the First Development Plan. Here the question arises as to what the effect of enforcing privatization rules on the labor union in Iran will be. The answer is that it decreases the role of the labor union due to its existing rules. This study tries to explain the effect of enforcing privatization rules on the labor union in Iran, the purposes and reasons of privatization as well as its effect on the work force.

**KEYWORDS:** Privatization, Labor union, Labor force, Economic emancipation, Government as an employer

### 1. INTRODUCTION

Labor union is an independent voluntary organization of workers with the same profession regardless of their religious and political differences. What the demand range of a union or a corporation is and whether it includes extra wages and social demands of all workers or not, have always been questioned. As we know in a class society the workers' demands are not restricted to extra wages and they may include housing, sanitation, education as well as political and social freedom thanks to inflation, constant fall in the work force value, lack of job security and in brief capitalism's constant profit-seeking [1].

Labor union is defined as an independent voluntary organization of workers with the same profession regardless of their religious and political differences. The first labor unions originated in Europe in the 18<sup>th</sup> century when the unions were formed as spontaneous organizations with mutual cooperation among workers. Although the unions were first formed based on the job cycle, later tend for concentrating on them developed, as they helped to build the society and its economy. Concentration on the organization of labor unions also seemed to be necessary since there was a growing focus on the industrial and financial capital. Furthermore the emergence of the concentric organizations of employers developed the necessity for unity among the professional organizations of workers with different jobs. Without the organizational unity, the industrial labor class was not able to resist against the state or employers' organized power. Consequently the necessity of forming unions was multiplied [2].

The internal purpose of the labor union was to improve its members' economic position, satisfy their subsistence needs, increase their wages, prevent their being unemployed and provide them with aid if necessary. Securing political freedom and participating in party activities have been among the main purposes of the unions. Privatization means granting state institutions (except military, judicial and political ones) to private companies in order to increase their output. Here the question arises as to what should we do to better exert privatization on the labor union in Iran? It should be said as an answer that in order to better exert privatization on the labor union in Iran and witness its effects, the rights of the private ownership should be developed and the structure of the companies should be changed. Also the enacted laws, the financial structure and the labor force market should be reformed.

The effect of enforcing privatization rules on the labor union in Iran suggests that the government has always had an important role in the country's economy. Government interference in the economic enterprises has been remarkable before the Islamic revolution. There was also a rise in the government share of the added value of the factory products after the revolution, since a great number of industries had been nationalized [3].

Then the question is that: Will privatization of the labor union rights be in any worker's interest? The answer is that it will not be in any worker's interest, since workers will be changed when companies are changed.

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However if privatization is properly exerted on the rules of the labor union, the company owners will not need to change their staff.

### **Research background**

Privatization on the labor unions and its effect on the rules of the union were first experienced in England and its only purpose was to get rid of the pressure that the labor unions put on the English government as an employer.

Privatization is an executive, financial and judicial process which is performed by the governments of many countries in the world to make reforms in their economy and office system. The term "privatization" refers to the change in the balance between the government and the market which is of course in the market's interest. It is also a means of increasing (financial and social) efficiency of an economic enterprise. Thus privatization is not the mere transferring of the state ownership to the private sector and decreasing the role of the government. But the supervising and prevailing role of the government in this field has got even more important since it has to look for the suitable ways so as to reach the optimal exploitation of the outcomes of material and human resources. As a result the supervising role of the government in the enforcement of the policies has even increased [4].

Privatization includes any measures which can increase the role of the private sector in organizing the economic activities and decrease the role of the public sector instead. These measures generally include granting the ownership and management of the public enterprises to the private sector and are often known as "decentralization", "prioritization", "domestic capitalism", "selling stock to the public" and "democratization" [5].

### **History of privatization in Iran**

This part deals with the history of privatization both in Iran and in the world. The related theories are also discussed. Studying the privatization status in Iran suggests that the government has always had an important role in the country's economy. Government interference in the economic enterprises has been remarkable before the Islamic revolution. There was also a rise in the government share of the added value of the factory products after the revolution, since a great number of industries had been nationalized. The rate of the added value of the state enterprises has been estimated over 75% of the total added value of the country's big industrial enterprises. All these factors along with other factors including ending the imposed war, starting the economic rebuilding period and the international changes made the subject of privatization and granting stock of the state companies place in the agenda of the first economic, social and cultural five-year Development Plan. However factors like explicit statement of privatization, lack of clear laws about it, starting granting operations by various organizations with no existence of a harmonizing role in the country, lack of literature and lack of study about privatization by the related organizations, forced the national resources organization of Iran (as the executive of the process of granting stocks) to make enough study about the theoretical principles of privatization and other countries' experiences in this field.

The first Development Plan can be considered as the beginning point of the privatization policy, since it has assigned the government to develop and grant the national state industries to the private sector so that it can carry out its executive and preparatory measures in this field [6]. Privatization organization has been formed based on the 15<sup>th</sup> article of the third economic, social and cultural Development Plan of the Islamic Republic of Iran ratified in 2000 with a change in the articles of associations of the finance organization for development of the ownership of the former production plants. Its article of association was ratified by the cabinet members on April 18, 2001 and being approved by the Guardian Council, it was announced on May 6, 2001.

Privatization organization has practically begun its activity since June, 2001. It is a state joint-stock company dependent on the finance ministry. It has a legal personality and enjoys financial independence. Its managing director is the assistant of the minister of finance. Since the issue of the decree ratified by the cabinet members in 2001, privatization organization has been performing its assignments. At the same time it has been determined as a professional mother company so that it can deal with supplying and selling its own stock to the subsidiaries based on the rules [7].

### **History of privatization in the world**

Privatization in the world is mostly attributed to the conservative administration of Margaret Thatcher which came to power in 1979. While the first privatization plan with an ideological purpose goes back to the administration of Conrad Adnare in Western Germany after World War II. In 1961 the German government granted a great part of Foley Wagon Company to small investors through stock sale. Four years later (1965) it sold VEBA stock too. Despite of the government's good intention, the stock market faced recession and the government was forced to guarantee many small stockholders.

After 1980s, many countries started privatization plans as some part of structural adjustment plans or public sector reform plans. In most countries, privatization has required a revision to the structure of the enterprises and a change in their management and behavior. Assigning services and production activities to the private sector after collapsing the sociological system in the Soviet Union and Eastern European countries in the late 1980's and early 1990's, was stated as a way of decentralizing the government's political and economic power in such countries [8].

### **First labor union in Iran**

First labor union in Iran goes back to 1910, when a newspaper entitled "alliance of Tehran Press workers" was published. But most labor unions of that time were influenced by sociological thoughts.

The first recorded labor strike started some months before the Constitutional Revolution in 1906, and it was active until the foundation of the communist party in 1941. Forming and developing country-wide labor movements were among the purposes of the socio-democratic party and Toode party.

As the Constitutional Movement developed in Iran, those deprived workers who moved to Russia and Caucasia to find jobs, as well as those who got political orientation as a result of communicating well-informed workers and newly-formed political groups, played an undeniable role in the Constitutional Movement through striking or joining political activities. In addition to the effect of the striking workers on the development of the Iranian Constitutional Movement, the political activists coming to Iran as the Russian and Caucasian combatants also had an effective role in returning Constitutionalism. That is why it is said that combatants have had an essential role in restarting Constitutionalism in Iran. However the political ups and downs were going on and even after the victory of the Constitutional Movement, the chaotic political and economic conditions in the country were not settled. The outbreak of the World War I in 1914 made the economic conditions even more critical [9].

A coup happened in 1921 and caused political conflicts which lasted for four years and led to the dethronement of AhmadShah and the end of the reign of Qajar dynasty. In Those days political activities had flourished to some extent. But workers were still living in very bad conditions due to the chaotic economic circumstances and lack of development in the industrial sector. Consequently labor movements were not recognized and their activity was declared to be unlawful and illegal.

The press depending on such unions was also banned. Therefore the labor unions were forced to keep on their activities secretly. After the outbreak of the World War II, occupying Iran by the Allies and removing RezaShah Pahlavi from power, the political space in Iran changed and there was more freedom in the society. As a result the labor unions which were not openly active between 1931 and 1941 got a new chance to start their activity and to develop. In 1991 several unions were formed, as the state capitalism and domestic industries in Iran had developed and the number of workers around the country had increased. Also the unions developed their activities after the overthrow of RezaShah Pahlavi. Three labor unions joined each other in 1944 and "The Central United Council of the Labor Unions in Iran" was founded. After a short while, the council managed to adopt a large number of the Iranian workers as its members [10].

### **Historical background of the labor union in the world**

While talking about the first steps taken to form Labor Movement, we are quickly referred to the beginning of the Industrial Revolution. That is because the history of the appearance of worker goes back to the commencement of factory production, migration of poor peasants to the cities, the fall of feudalism and to the Industrial Revolution in brief. We focus on Europe, because the intellectual-cultural Renaissance and the evolution of production devices which led to the industrial Revolution were originated there [11].

Based on historical priority, Italy has been the first country where capitalistic relations were formed. It is interesting to know that it has been the first country in which slavery replaced by feudalism. The commencement of capitalistic relations goes back to the 14<sup>th</sup> and 15<sup>th</sup> centuries. However it lasted until the middle of the 19<sup>th</sup> century when workers could identify themselves as a separate class with certain social and political rights. Before that, they had their legal activities, protests and claims in common with the civil unemployed poor class which Bourgeoisie has always used to absolutely overthrow the feudalist system. In other words, Bourgeoisie has always tried to use the rage of the civil labor class against feudalism.

Industrial Proletariat would not be formed unless the capitalist relations were evolved. Capitalism was interrelated with the evolution of production devices or machinery. Following the evolution of Bourgeois Revolution in England, France, the US, and then in Germany, Russia and other European countries, the number of workers increased greatly. Then Proletariat changed into an important social force with sympathy for each other, because they were all close to each other working under the same circumstances. A new class called labor class emerged in the structure of the society. Lack of the minimum sanitary facilities, long working hours, low wage, woman and child labor, dismissal and lack of job security were only some part of the workers' problems in that time [2].

Anyone would protest and resist against such critical circumstances in which there was a growing dissatisfaction. Such experiences and the existence of the labor assemblies before the Industrial Revolution resulted in the development of new and more perfect forms of labor assemblies or the so-called labor unions. Formation of the labor unions in its modern meaning was originated in England where the Industrial Revolution started.

### **The effect of enforcing privatization rules on the rights of the labor union in Iran**

Many countries around the world have performed some overreaching privatization plans in order to improve the efficiency of the state enterprises, emancipate the resources for offering social services and provide assets for development and rebuilding. The effect of privatization on the work force is a public concern. Many supervisors are concerned that privatization may cause wide unemployment, since new owners of the privatized

companies will expel their additional work force to enhance their efficiency. The governments will also decrease the work force in order to get prepared for privatization.

The staff of the state enterprises and unions are often considered as the most diehard and organized opponents of privatization, because they are afraid of being unemployed and losing their interests. As a result they will take any practical measures to postpone reforms or avoid them. In most countries these problems are intensified, since there are no social security institutions and active work markets. All this makes governments postpone privatization especially in the active big state enterprises of the infrastructural sectors and heavy industries which often need to widely adjust their staff. However privatization in such sectors can bring about the most interests for the public.

While work force is of high importance, it has received the least attention compared with all the other issues related to privatization. As a matter of fact, lack of information about the effects of privatization on employment has intensified both the government and the workers' concern and fear.

The effects of privatization on the work force depend on the initial conditions. Wide decrease in the staff will occur when the big state enterprises with poor performance get prepared for privatization; When the privatized departments are exposed to stiffer competitions and the government grants a larger number of these companies to the private sector so as to be exposed to more intensive competition, the decrease will be likely wider. Yet in many cases, the staff can benefit from privatization as they have already enjoyed it. A large number of enterprises for example were privatized while their staff did not change. That is because stiff competition had already adjusted their work force under the public ownership or the new private investors were prepared to keep a small number of the additional staff that could be recruited through new investments and dynamic development. What is more important is that privatization and its related investments especially in the sectors with big investment experiences have led to the creation of new jobs not only in enterprises but also in the related sectors. Those workers remaining in the companies granted to the private sector have enjoyed jobs with higher wages, the company's stock, more training and more job promotion. Lack of information about the existing strategies to cut the political social costs of the staff adjustment has intensified the concern about the effects of privatization on the workers. In the case improving efficiency requires a wide decrease in the work force, privatization will not make steady progress unless the governments take opportune measures so as to develop a strategy which can attract the staff support for privatization and create social security institutions. In other words, governments should:

- Inform workers and labor unions and get them involved in the reforms process.
- Make sure that workers have shared the privatization interests using strategies like projects which grant stock to the workers.
- Support jobless workers by paying them the severance or other kinds of income support.

Of course choosing the required facilities relies on the conditions of the country and that special enterprise. In countries with average income, highly growing economy and perfectly developed private sector, governments may not need to take any other action except paying severance and enforcing plans of granting stock to the staff. On the contrary in order to alleviate the staff structural reform and minimize its negative effects on the labor unions in countries with low income (and growing economy), the state enterprises dominating the work market and with no social security networks, making infrastructural reforms in the work market and macroeconomics are required. Such reforms aim at removing job-creation obstacles, improving the staff transfer and developing social security institutions [12].

The strategic key issue in making such endeavors is to know whether governments reform the structure of the work force before privatization or they assign it to the new private investors. In companies with little over manning, the structure reform can and must be assigned to the private investors. But in the case of wide decrease in the work force, the government had better perform it before the sale, so that the staff resistance will be minimized, the possibility of creating a social security institute can increase, as well as the company's value will grow. In such circumstances, paying generous severance to the workers in order to encourage them to leave the job voluntarily is a usual way to minimize the work force especially in countries where the staff severely resists against privatization.

Even though the short-term enforcement of such plans can cost a lot, it develops the social and political acceptability of the structural reform. In addition its economic and financial output will be great. In many cases not only are the workers paid the severance, but they are also retrained to be recruited again. The political and social conditions often require using such plans. However the accurate assessment of the wide retraining plans brings their being economical into question.

One of the main reasons of the slow progress in big privatizations and the delay in reaching their potential achievements is the concern about its effects on the labor force. Many supervisors are concerned that privatization may cause wide unemployment, since new owners of the privatized companies will expel their additional work force to enhance their efficiency. The governments will also decrease the work force in order to get prepared for privatization. The is why the staff of the state enterprises and unions are considered as the most diehard and organized opponents of privatization who will often take any practical measures to postpone reforms or avoid them. Many governments do not tend to persist with reforms or high political costs to resist against the opposition of such staff which is often considered as a base for political support [13].

There is also a great concern about the social costs of privatization. Losing income and benefits especially when there are no alternative job opportunities and social security institutions will make social

problems for the workers and their families. Many jobless workers will only suffer temporary losses which can be compensated after they are quickly transferred to the developing sectors, while others will suffer long-term losses or they will be transferred to jobs on lower incomes. While work force is of high importance, it has received the least attention compared with the other issues related to privatization. As a matter of fact, lack of information about the workers' destiny in the privatization process and the existing mechanisms for minimizing its political and social costs have intensified the staff and government's sensitivity and concern. That is why privatization has been postponed [14].

The analyses based on theoretical researches show that the outcomes of the effects of privatization on the state enterprises have been much more complicated and essential than what was expected. It is important to be stated that even after privatization, the Iranian government is still very far from retreating the secondary legal lines and still it plays an active role in the state enterprises as an important indirect investor and loaner. State enterprise is the most serious portrait of the Iranian society in which the government is related to the public interests [15].

As we know in a class society the workers' demands are not restricted to extra wages and they may include housing, sanitation, education as well as political and social freedom thanks to inflation, constant fall in the work force value, lack of job security and in brief capitalism's constant profit-seeking. The theory of strengthening the government so as to direct its economic system has been reinforced in Iran since 1921, specifically since 1960s. That is because the private sector suffered from an extreme weakness in the basic movement toward the economic development process. So the government created different wide monopolies and acted as a great monopolist in Iran's economic arena. The effect of enforcing privatization rules on the Iranian labor union suggests that the government has always had an important role in the country's economy. Government interference in the economic enterprises has been remarkable before the Islamic revolution. There was also a rise in the government share of the added value of the factory products after the revolution, since a great number of industries had been nationalized.

Privatization has had negative effects on the workers in Iran; those who kept on working with their former employers in corporations, private companies or free enterprises, greatly failed to carry out their new jobs due to lack of training. Also those working in small companies were under the pressure, because the work costs were to be cut. Therefore such workers were paid more so as to be encouraged to resign or leave the job. This way they did suffer as they had lost their self-esteem and respect [16].

## **2. DISCUSSION AND CONCLUSION**

In most countries where privatization has done well regarding the work force of the labor union, the government employees have enjoyed the same conditions as the employees in the private sector. However based on what we have already stated, it can be concluded that the Iranian state sector provides better conditions for the work force in comparison to the private sector. There are many reasons why the work force prefers to serve in the state sector rather than in the private one. The state sector provides wide employment with generous salary and benefits and keeps human force even though it is inefficient thanks to the state systems' focus on job creation and the government's social task in this field. However the private sector encounters probabilities and limitations and makes restricting job contracts because of the domination of specific rules and criteria on employment and dismissal. There are many other issues related to the work force which make the staff prefer to serve in the state sector. The most important one is being supported by the government rather than a private person. That is why governmental positions in Iran still enjoy more attention and security compared with the other ones.

In general it can be said that privatization has negative effects on the status of the labor unions and the work force in Iran, since it makes the workers give up all their demands and it also lessens their job security. That is why the staff of the state enterprises and unions is often considered as the most diehard and organized opponents of privatization and they will take any practical measures to postpone reforms or avoid them. As a result it is suggested that:

1-Since inefficient workers are more vulnerable to privatization, it is necessary for the state sector to concentrate on developing the proficiency, efficiency and ability of such staff. That is because the private sector does not tend to promote such workers, as it costs a lot.

2-In the case rebuilding and the work force structure reform are performed before the privatization process, not only does it help the government to remove the potential conflicts among the staff, but it also helps privatization to be accomplished with less decrease in the work force.

3-Also if privatization on the labor unions in Iran is institutionalized as a long-term process, the possibility of its positive effects on the workers' employment will increase. So the people's subjectivity about privatization as a threat to the workers' job security will also change.

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