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THE DETERMINANTS OF
TRADE UNION MEMBERSHIP
GROWTH IN MALAYSIA

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Abstract

A new model of trade union membership growth in Malaysia for the period 1970-2000 is proposed. In the model we incorporate not only the economics factors but also the political factors as the explanatory variables. We find that increases in prices, rate of growth of gross domestic products and union density enhance union growth, while future increases in the unemployment rate and unfavorable political climate tend to inhibit membership growth

1. Introduction

The growth and fluctuation in the membership of labor organization has attracted many economists in the field of industrial relations to investigate the determinants of trade union growth. An understanding of the factors that influence union growth is important because it has implications on the economic and political strength of unions. Interest in this area has led to the development of various econometric models seeking to explain variations in union membership growth. Ashenfelter and Pencavel developed one of the earliest models of trade union growth in 1969 (Ashenfelter and Pencavel, 1969). They related union membership growth in the United States during 1900–1960 to various economics, social and political variables. They included the percentage rate of change of prices, the lagged change in employment in the unionized sectors, the amount of unemployment in the preceding trough of the business cycle, the lagged union density and the proportion of Democrats in the House of Representatives as the independent variables.

The research initiated by Ashenfelter and Pencavel has motivated other researchers to further improve and evaluate the existing trade union model (Fiorito, 1982; Anderson, O'Reilly and Busman, 1980; Moore, 1978; Elsheikh and Bain, 1978; Bain and Elsheikh, 1976; Moore and Pearce, 1976; Adams and Krislov, 1974; Mancke, 1971). In 1976 Bain and Elsheikh developed an alternative model for union growth in Britain (Bain and Elsheikh, 1976). The model was applied to the United States economy over the period 1897-1970 (Elsheikh and Bain, 1978). The rate of change of prices lagged one year, the inverse level of union density lagged one year, the rate of money wages and the government legislation dummy were taken as the independent variables. Also included were the positive and negative changes in the rate of unemployment in order to allow for asymmetric effects.

The studies produced consistent results. Increases in prices, wages, prior downturns and a favorable political climate enhanced union growth, while increases in unemployment rates and saturation effects tend to inhibit membership growth. The Ashenfelter–Pencavel (1969) and the Bain–Elsheikh (1976) models have been regarded as two of the leading models of union growth in the twentieth century (Sheflin, Troy and Koeller, 1981). Both of these models have proven to be quite successful in explaining variations in union membership growth in the industrialized countries (Sharma, 1989; Moore and Pearce, 1976; Adams and Krislov, 1974).

However, these models have not been tested to the less developed countries. Sharma (1989) has taken the opportunity to apply these standard Western-based models to Malaysia and Singapore for the period 1965-1983. Basically, Sharma used the rate of change of union membership as the dependent variable and the rate of change of prices, the rate of unemployment, the level of unionization lagged one year and the rate of growth of gross domestic product (proxy for the wage variable) as the independent variables. He found that price change and lagged union density significantly increased union membership growth in Malaysia, whereas economic growth and lagged union density had significant positive influenced on unionization in Singapore. Even though he recognized that the legislative framework for industrial relations do heavily influenced union growth in the less developed economies, he did not unfortunately try to include any legislative variable in his study.

This gap motivates us to develop an alternative trade union growth model that could explain variations in union membership growth in Malaysia. We will incorporate not only the economic factors but also the political factors. The political climate is vital in explaining the growth of organizations, such as unions, in a developing world since it is well known how distorted the resource movement is in such an economy due to government intervention. Thus, realizing the importance of government's role as a regulator of industrial relations in the country, we therefore advanced a new model by incorporating legislative dummy

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variables to capture its potential impact on Malaysian trade union growth for the period 1970 – 2000.

Trade union has been operating in the Malaysian economy since before independence. The existence of unions has dated back as early as 1920s, with an emergence of organizations functioning as unions in the estates and tin mines (Maimunah, 1999). However, Sharma (1996) argued that the functioning of those unions before 1945 are questionable in the sense that they did not function as proper unions although he admitted that underground labor organizations did exist before World War 2. He therefore argued that trade unionism in the Malaysian economy is a post-war phenomenon. The history of union started off with the establishment of a communist-controlled organization the General Labour Union in September 1945. This was followed by the establishment of its branches in every state in 1946. The union movements grew rapidly and by the end of 1947, there were a total 195 113 union membership recorded in 298 trade unions (Sharma, 1996).

In Malaysia, even though workers have the right to form and join trade unions (Section 5 of the Industrial Relations Act, 1967), their movements are carefully monitored and controlled under various labor legislations. Besides legislation, the growth of trade union in Malaysia is also influenced by other economic factors. Favorable legislative framework and business conditions in the middle of 1970s provided the most fertile period for union growth. As a result,

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there was a remarkable rise in trade union growth at the average of 15 percent between 1974 and 1975 as the gross domestic product rose at the average of 10 percent. Severe recessions in the middle of 1980s and at the end of 1990s posed difficulties for the expansion of labor movement. Even though there were short run fluctuations in the union growth rate, the union membership growth, on the average revealed a decreasing trend over the past 25 years (Figure 1).

Figure 1: Trade Union Membership and Its Annual Growth Rate, Malaysia ,1970-2000

This paper is divided into four parts. Part 1 gives the introduction and brief description of trade union movement in the Malaysian economy. Part 2 discusses some of the determinants of union growth, their measurements and the proposed model of union growth. Part 3 contains our empirical results and finally Part 4 presents our conclusions and implications for the future growth and development of Malaysian trade union.

2.   Determinants of Union Growth

In this study, we adhere to the statement made by Ashenfelter and Pencavel (1969) that.... "*economic forces may serve as a base from which to begin an analysis of union growth, but the impact of social and political forces must be incorporated to complete it*". Therefore, the model of studying trade

union growth in Malaysia presented in this paper is made up of two components: the economic and political factors.

2.1   Economic Factors

Most of the previous studies included two common variables, price and unemployment, as the independent variables. Although the measurement used may differ, they nonetheless share the same rationale for incorporating these two factors. Both are closely associated with the cost-benefit analysis of joining a union.

As argued by Ashenfelter and Pencavel (1969), workers' decision to join a union will depend upon the expected benefit to be obtained from unionization against the expected costs of membership. Higher wages, greater employment security and better working condition are the major benefits, whereas fees, possible retaliation from employers and subsequent job loss and trouble and inconvenience of becoming a union member are the major costs.

To capture the movement of relative benefits and costs of union membership, we therefore include the rate of change in prices and unemployment as the independent variables. The percentage rate of change in prices measures the relative benefits of joining a union. The higher the increase in prices, the greater is the difference between workers' real wages and their money wages. Since increase in money wages tends to lag behind price rises,

workers may decide to join unions in an attempt to maintain their living standard. Thus in this case, unions have been regarded as defensive organization to preserve a standard already enjoyed by workers (Mason and Bain, 1993; Davis, 1964). In this study, we use the annual percentage rate of change in consumer price index (CPI) lagged one period (ΔP_{t-1}) to measure price changes. This variable is expected to have positive influence on unionization.

The annual rate of change of unemployment is a signal to workers about the conditions of labor market. Labor market is very tight in periods of low unemployment rates and the expected costs to workers of employers' retaliation for joining union is less. This is because it is hard or costly for employers to find replacements for workers should they be fired or decided to quit. On the contrary, in periods when unemployment rates are high, workers are more careful in organizing any movement against the employers. This is due to the fact that they realized the higher risk of losing their jobs in face of employers' retaliation. In addition, the bleaker prospect of findings new job elsewhere forces them to accept what the employer currently offers rather than having nothing.

We measure the unemployment variable in the manner of Bain-Elsheikh (1976) model by separating the unemployment changes into positive (ΔU^+) and negative (ΔU^-) components to see whether there is any asymmetric effects of the change in unemployment on trade union growth. The unemployment data is manipulated in such a way that, (ΔU^+) takes their own values in the years in

which the level of unemployment is increasing and zero elsewhere. Similarly, (ΔU^-) takes their own values in the years in which the level of unemployment is decreasing and zero elsewhere.

Efforts are also taken to examine whether there exist lead-lag relationship between the rate of union membership and the rate of change of unemployment. Having experimented with the data, we decided that the positive changes in the level of unemployment with a lead, (ΔU^+_{t+1}), and the negative changes in the level of unemployment with a lag, (ΔU^-_{t-1}), are the appropriate variables to be included in the model. This is because by assuming the lead-lag relationship, we obtained the best - fitted trade union growth model for the Malaysian economy.

The purpose of incorporating the two values of the unemployment rates is to determine whether there is significant differences in workers' decision to join labor movement when the future unemployment rate is expected to rise or when the past unemployment rate was falling. It is hypothesized that the expectation of high and rapidly rising level of unemployment in the future is likely to have significant negative impact on union membership, whereas low and relatively decreasing level of unemployment to have positive effect on union growth.

Another equally important explanatory variable included in the trade union growth model by Bain and Elsheikh (1976) was the change in money wages. This variable has been included to capture a "credit effect" whereby the workers

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may credit unions for the rise in money wages received and thus may decide to join unions. Unlike Bain and Elsheikh, in order to capture this credit effect Sharma (1989) used the rate of change of gross domestic product (GDP) as a proxy for the wage change variable. His justification for this substitution is that the data on wages in developing countries are highly distorted. According to him, the rationality for using the growth variable is that in periods of prosperity, workers would also like to assert their claim for their share in term of higher wages. This would motivate them to join unions as they may find it is easier for them to voice out their claims through an organization rather than on their own. Thus, this variable is expected to have a positive influence on union growth. The difficulties of getting the wages data forced us to similarly use the rate of growth of GDP lagged one period (GDP_{t-1}) as a proxy for wage changes.

Following Ashenfelter and Pencavel (1969), the proportion of employed labors, which is unionized, or union density, is added to our model. The reason for including this variable is to take into consideration the saturation effect of union growth. The saturation effect predicts that the higher the number of workers unionized, the more difficult it is to recruit new membership, therefore it hampered further union growth. Hines (1964) claimed that, "…as *membership increases, there is a diminishing response to a given intensity of recruiting effort*". On the other hand, Ashenfelter and Pencavel (1969) argued that the relationship might be nonlinear so that… *"the difficulty of further organization increases more than proportionately with increases in the level of unionization".* Hence,

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Ashenfelter and Pencavel introduced two alternative variables to test these hypotheses. First, the proportion of employment in union sectors which is organized $[(T/E)_{t-1}]$ (the linear variant) and is expected to correlate negatively with union membership growth. Second, its reciprocal $[(T/E)_t^{-1}]$ (the nonlinear variant) and is expected to be positively related with union growth. In this study we have chosen to use the union density lagged one period $[(T/E)_{t-1}]$ because our model performs better with the linear variant hypothesis.

2.2   Political Factor

Besides economics factors, the growth of Malaysian trade unions has largely been influenced by legislation and government policies (Maimunah, 1999; Anantaraman, 1997; Jomo and Todd, 1994;). Currently there are three major pieces of labor legislation - the Employment Act, 1955; the Trade Unions Act, 1959 and the Industrial Relations Act, 1967- which control and regulate the activities of trade unions in Malaysia. These regulations have been amended a number of times in response to current economics and political changes with the primary objectives of encouraging harmonious industrial relations and achieving the status of industrialized country by the year 2020.

The first legislation relating to unions' activities in Malaysia was introduced in 1940, but the laws could not be enforced due to Japanese occupation. When the Communist Party of Malaya successful organized unskilled workers to form labor movement and went on strike several times in 1930s, the government decided to introduce Trade Union Enactment in 1946. The legislation introduced

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was mainly intended to curb the Communist Party involvement in the trade unions, restrict their size and power by disallowing general workers unions, and controlled and supervised their movements through compulsory registration of trade unions (Maimunah, 1999).

Trade union movement in Malaysia was revived in 1950s. This was the period when the British government was promoting a more compliant trade union movement and a number of major national labor unions were established. These included the Malayan Trades Union Council (now known as the Malaysian Trades Union Congress, MTUC) and the Labour Party of Malaya. However, the less hostile political environment towards trade unions gave rise to the formation of several new militant unions in the early 1960s. They upheld strike and took other industrial actions to support their claims. As a result, from the mid-1960s onwards, the government took drastic action by deregistering the radical unions and detaining the unions' officials and activists under the Internal Security Act (ISA).

After the race riot in May 1969 Tun Abdul Razak, who took over the government in 1970, introduced restrictive labor legislation with the aim of maintaining stable and manageable industrial peace. In 1971 several amendments were made to the Industrial Relations Act and the Trade Unions Act. The unions were no longer allowed to bargain on issues designated as "managerial prerogatives" [Industrial Relations Act, Section 13(3)]. This includes

matters regarding the rights of employers to recruit, promote, transfer, retrench, dismiss or reinstate the worker and to allocate work duties. With the aim of reducing the influence of political parties over trade unions, provision was included in the Trade Unions Act to disqualify officers or employees of political parties from holding office. The provision, which allows the creation of political funds in the trade unions, was also removed.

Despite these restrictive amendments, the Razak government was also adopting more *accommodative* or *corporatist policies* towards trade unions (Jomo and Todd, 1994). For example, the government declared May Day as public holidays, encouraged unions to venture into various economics activities and promoted the concept of tripartism between government, employers and unions. In 1973, the government also amended the Trade Unions Act to allow unions to invest their surplus fund in business activities. As a result of strong government support, the MTUC successfully established the workers bank, known as Bank Buruh in 1975.

However, the accommodative policies towards trade union were not continued after the death of Tun Abdul Razak in January 1976. The post-Razak government tended to adopt *uncompromising, intolerant* and *unaccommodating attitudes* towards trade unions (Jomo and Todd, 1994). In their analysis on Malaysian trade unions, Jomo and Todd said that, " *by the late 1970s, the corporatist honeymoon vis- a- vis labor was clearly over as symbolized by the*

historic Malaysian Airlines System (MAS) and the Airlines Employees Union (AEU) dispute and its aftermath ". Dato' Hussein Onn, who took over the office from 1976 to 1981, warned trade unions not to use pressure to support their fight or take any action which might deter investors or threaten the country security. The 1979 dispute between MAS and AEU showed that the government did not hesitate to use all its power to end the dispute and suppress union industrial action by deregistering the union and detaining some union activists under the ISA.

The government also took this opportunity to make further amendment to the already restrictive labor laws in 1980. Among the amendments made was to increase the power of the Registrar of the Trade Unions. For example, the registrar was allowed to search trade unions' offices and premises and inspect any accounts and documents regarding unions' investment. The registrar also has the power to suspend any trade union and direct the union not to take any illegal proposed strike or lockout. The definition of strike was also expanded to include unauthorized reduction in work such as go-slow. Union in essential services was required to give 3, instead of 2 weeks notice of their intention to strike and the definition of essential services was also expanded to include banking.

The restrictive policies towards labor movements continued even after the new prime minister, Dr. Mahathir Mohamad, assumed office in mid - 1981. He

announced his Look East Policy, mainly to encourage Malaysian workers to adopt the Japanese-style work ethics–namely work harder, increase productivity and quality, wage flexibility, loyalty to the company and in-house union. To ensure the success of his Look East Policy, and as a response to the 1985-1986 recession, Dr. Mahathir introduced new amendments to the existing labor legislation in 1989.

The 1989 amendments to the Trade Unions Act were mainly designed to facilitate the formation of in-house union. The government believes that in-house unions are good alternative to national unions as leaders of such unions would be more loyal, cooperative and sensitive to the companies' needs. But the policy of encouraging the growth of in-house unions tends to further fragment the unions and eroded their bargaining strength (Jomo and Todd, 1994).

The definition of trade unions was also extended to emphasis on the need to raise productivity and enhance good industrial relations. With the objective of reducing labor costs the amendment were also made to the Employment Act by redefining wages and reducing overtime payments. The amendment, which excluded all forms of bonus from the definition of wages, had received strong protest from trade unions (Anantaraman, 1997).

In this study the potential impact of the labor legislation and government policies on trade union growth is captured by the dummy variable, D_t. Since

most of dramatic changes to tighten labor laws occurred after the end of Razak government, we therefore take 1975 as cut-off point between periods of lenient and strict labor legislation. A dummy variable taking the value of zero (to represent period of lenient labor laws) for each year from 1970 to 1975 and the value of one (to represent period of strict labor laws) elsewhere is included to measure the negative impact of legislation on unions growth.

The dependent variable that will be used to measure trade union growth is the annual percentage change in trade union membership (ΔT_t). We have chosen this variable since this is the one commonly used in previous studies. Besides, "….*the strength and power of trade unions cannot be judged by the number of registered unions. The size and density of membership* and *the financial status of the unions are very significant factors,*" (Maimunah, 1999). Since we do not have access to financial data on union movements, we resorted to growth in union membership as representative of the union growth.

Based on the above discussion, we therefore propose a new model of trade union growth for the Malaysian economy:

$$\Delta T_t = \alpha_0 + \alpha_1 \Delta P_{t-1} + \alpha_2 GDP_{t-1} + \alpha_3 \Delta U^+_{t+1} + \alpha_4 \Delta U^-_{t-1} + \alpha_5 (T/E)_{t-1} + \alpha_6 D_t \qquad (1)$$

where :

ΔT_t = annual percentage change in trade union membership at time *t*.

ΔP_{t-1} = annual percentage rate of change in CPI lagged one year.

GDP_{t-1} = annual rate of growth of GDP lagged one year.

ΔU^{+}_{t+1} = positive changes in the annual unemployment rate leaded one year.

ΔU^{-}_{t-1} = negative changes in the annual unemployment rate lagged one year.

$(T/E)_{t-1}$ = percentage of union density lagged one year, and

D_t = legislative dummy variable.

Data on union membership used in this study are taken from various reports published by the Ministry of Human Resources (formally known as the Ministry of Labor), namely the *Annual Reports*, the *Labor and Manpower Report* and the *Labor and Human Resources Statistics*. Since this study is focus mainly on workers' unions in Malaysia, therefore we have excluded employers' unions from the membership data. The remainder of the data required is taken from the *Economic Report* published by the Ministry of Finance.

3.   Empirical Results

The annual Malaysian time-series data for the period 1970-2000 were utilised to estimate the parameters in equation (1) by ordinary least squares method. The result is presented in Table 1.

Table 1:   Regression result of Equation (1)

The R-squared statistic indicates that the explanatory variables included in the model explained about 75 percent of the variation in trade union growth in Malaysia. The low standard error of regression and the relatively large F-statistic value indicate the significance of the regression as a whole. The Durbin-Watson statistic fell within the accepted region of no autocorrelation in the model at 95 percent confidence interval.

The result shows that all the explanatory variables are significant and possess the expected signs except the negative change in unemployment and union density. Last year price changes is highly significant and positively related with current union membership growth. Its magnitude suggests that a one-percentage point increase in consumer prices is associated with 0.821 percentage point increase in union membership, ceteris paribus. Hence, the result supports our theoretical hypothesis that workers joining trade union, is to some extent, as a defensive against inflation. This finding is not only consistent with the findings in other industrialized countries, but also similar to the earlier result obtained for Malaysia (Sharma, 1989).

The effect of wage-related variable, which is proxied by lagged GDP, is small but significant– a one percent growth of GDP increases the current rate of change of union membership by about 0.261 percent. This result provides support for both the prosperity theory and the credit effect of unionization. A growing economy gives the opportunity for union to demand higher wage. The

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success of unions in securing wage increases would induce workers to response favorably to a membership campaign. This result is contrary to what was obtained by Sharma (1989) who found no empirical support for the prosperity effect on the Malaysian trade union growth. The contradictory results could be attributed to the differences in sample period and model specification.

The result also indicates the existence of asymmetric effects of the change in unemployment rate on the trade union growth. The positive change in the future unemployment rate registers a strong significant negative effect, while the past negative change, though possesses the expected sign, is not significant. This is a normal phenomenon because workers would be more cautious in joining unions if they foresee a future uncertainty and the possibility of employers' retaliation. Reported cases of employers victimization, such as unfair dismissal, refusal to renew the employment contract, purposely closing down the division of unionized workers, transferred or promoted union leaders to a level where they were no longer eligible to be union members would severely discourage workers from actively involve in trade unions activities (Maimunah, 1999).

On the other hand, past declining unemployment rate does not appear to be an important determining factor of union membership growth. Since being unemployed might bring heavy psychological impact and other human cost of unemployment, potential workers would be reluctant to joint union immediately. Therefore, the decline in unemployment rate does not register an immediate and

strong impact on trade union growth, as compared to the expectation of increasing unemployment in the future.

The coefficient on lagged union density is significant, but of the wrong sign. Our empirical finding does not support the hypothesis that further union growth is hampered by its own size, suggesting that the saturation effect does not hold in Malaysia. This is not surprising since union density in Malaysia is still low which was at the average of 10 percent during the period of study as compared to 40 percent in major industrialized economies (Sharma, 1996). Hence, union density is not a major constraint for the future growth of trade unions in Malaysia.

Two plausible reasons could explain this phenomenon. The total union membership in Malaysia has not yet exceeded the critical level beyond which the capacity of unions to organize previously unorganized workers would be more difficult.   The other explanation lies within the Maslow Hierarchy theory (Maimunah, 1999). The theory states that the desired to belong to a group or an organization is one of the objectives that are sought for in life. Besides, peer group pressure might be the major motivation for workers to join unions. Therefore, the more workers that are unionized, the easier it is to influence the others to join unions.

Another important factor that is considered in this paper is the government policy and regulation towards trade union. As an organization where its movement is very much subjected to government regulation, union growth in Malaysia is very sensitive to policy changes. Thus, as expected we found that a change in labor policy from lenient to strict has a very strong and highly significant immediate impact of reducing trade union growth by about 9 percent. This finding is similar to what has been indicated by Ayadurai (1985) where the government policy and legislation towards unions are among the factors that are responsible for the existence of small size union in Malaysia.

4.   Conclusion and Policy Implications

This paper has utilized Malaysian time series data for the period of 1970-2000 to ascertain the influence of a number of variables that are commonly cited by previous researchers as important determinants of trade union growth. The model estimated here uses the union membership growth as the dependent variable and the price changes, the GDP growth rate, the unemployment rate, the union density and the legislative dummy as the independent variables.

In general, we found that increases in prices, GDP and union density enhanced union growth, while the expectation of future increases in the unemployment and unfavorable political climate tend to inhibit union growth.

Two implications could be drawn from this study. Firstly, the extent of trade unions growth in Malaysia is largely influence by the government regulation and policy. Our empirical result clearly suggests that the passage of restrictive labor laws is the main factor that hinders union growth. Since union is a medium for workers to fight for their rights and express their grievances, and as long as trade union activities do not threaten the national interests, the government should consider relaxing some of the restrictions and adopt more friendly attitudes towards trade unions.

Secondly, our result also reveals that the economic and labor market conditions also play an important role in determining union membership growth. The expectations of future unfavorable labor market condition would significantly hampered workers from joining unions. On the contrary, the impact of decreasing unemployment takes time to revive workers' confidence and to further motivate them to join unions. This implies that the unemployment or the costs of employers' retaliation is a major consideration to workers before deciding to be involved in labor movement.

Past price changes and GDP growth raise an interesting issue. Though significant, the magnitudes of their influences are relatively small. This suggests that dissatisfaction over the deterioration in real wages and the expected benefits from union membership are not the major appeals. We have also found no

empirical support for the hypothesis that as membership increases there is a diminishing response to the recruiting efforts.

Hence, our empirical results on the economic and labor market conditions could served as a good indicator for the future success of labor movement in Malaysia. Since union density is still low and the union growth has not reached its saturation point, unions should be more aggressive in launching an organizing drive. Successful membership drive requires union leaders to pay greater attention to many unorganized discontented labor force. They must be approached at the auspicious time, especially during recession, well informed about unions' roles and provided with good services. Information is important because according to a study about 61.7 percent of the respondents knew nothing about the role of unions before joining and 35.8 percent knew very little (Maimunah, 1999). Hence, information plays crucial role in determining the ability of unions' leaders to persuade and encourage workers to join union.

Even though our model provides an adequate basis for explaining variations in trade union growth in Malaysia, there are also other issues that should be taken into consideration. Leadership quality is one of factors that is worth considering since the incompetence of unions' leaders is one of the reasons that lead to small size unions (Ayadurai, 1985). The relative developmental stage of a country could also enhance an understanding of union membership growth (Sharma, 1989; Davis, 1964). Given the importance of

leadership and stages of industrialization, it is suggested that future research should incorporate these factors as additional independent variables in a trade union growth model.

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