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 economic 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

JEL classification:

Key words: Trade union growth, labor economics, Industrial relations

1. INTRODUCTION

The growth and fluctuations in the membership of labor organizations have 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 economic, 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; and 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; and Adams and Krislov, 1974).

However, these models have not been tested on the 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 a significant positive influence on unionization in Singapore. Even though he recognized that the legislative framework for industrial relations heavily influences union growth in less developed economies, he, unfortunately, did not 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 considered 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 the government's role as a regulator of industrial relations in the country, we therefore advanced a new model by incorporating legislative dummy variables to capture their potential impact on Malaysian trade union growth for the period 1970–2000.

Trade unions have been operating in the Malaysian economy since before independence. The existence of unions dates back to the 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 is questionable in the sense that they did not function as proper unions although he admitted that underground labor organizations did exist before World War II. He, therefore, argued that trade unionism in the Malaysian economy is a post-war phenomenon. The history of unions 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 movement grew rapidly and by the end of 1947, there were a total 195,113 union members 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 unions in Malaysia is also influenced by other economic factors. Favorable legislative and business conditions in the mid-1970s provided the most fertile period for union growth. As a result, there was a remarkable rise in

trade union growth at an average of 15 percent between 1974 and 1975 as the gross domestic product rose at an average of 10 percent. Severe recessions in the middle of the 1980s and at the end of the 1990s posed difficulties for the expansion of labor movement. Even though there were short run fluctuations in the union growth rate, 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
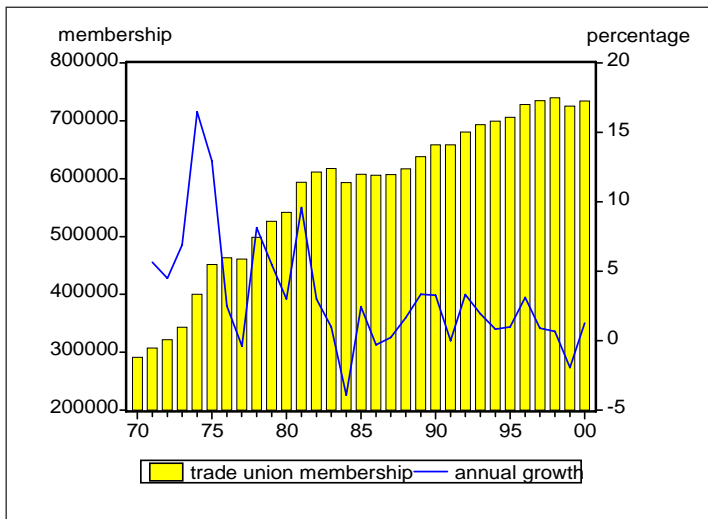
This paper is divided into four parts. Part 1 gives the introduction and brief description of the trade union movement in the Malaysian economy. Part 2 discusses some of the determinants of union growth, their measurements and the proposed model of union growth. Part 3 contains our empirical results and, finally, part 4 presents our conclusions and implications for the future growth and development of Malaysian trade unions.

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 for 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 conditions 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 organizations to preserve a standard already enjoyed by workers (Mason and Bain, 1993; and 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 a positive influence on unionization.

The annual rate of change of unemployment is a signal to workers about the conditions of the labor market. The labor market is very tight in periods of low unemployment rates and the expected costs to workers of employers' retaliation for joining a union is less. This is because it is hard or costly for employers to find replacements for workers should they be fired or decide 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 realize the higher risk of losing their jobs in the face of employers' retaliation. In addition, the bleaker prospect of finding new jobs elsewhere forces them to accept what the employer currently offers rather than having nothing.

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

Efforts are also taken to examine whether a lead-lag relationship exists between the growth of union membership and the change in unemployment. This is based on the economic argument that governs the relationship of the two variables. The expected recession that is associated with increasing unemployment through retrenchment and dismissal, provides a strong motivation for workers to join unions as a means of job protection. Hence, the inclusion of a positive change in unemployment with a lead (ΔU^+_{t+1}) would have a positive impact on union membership growth as workers seek to find employment security through union representation. On the other hand, increased tightness of the labor market, that is reflected through the negative change in past unemployment (ΔU^-_{t-1}), is generally felt by workers who are already in the market. Hence, the impact on union participation is either contemporaneous or with a lag.

Further, the participation motive differs in these two different states of the economy. Obviously, the motive of job security through union participation during an expected recession is a superior and urgent motive as compared to joining a union to fight for a fair share during economic prosperity. Based on the above explanation, we expect both (ΔU^+_{t+1}) and (ΔU^-_{t-1}) to exhibit a positive impact on unionization, but an increase in unemployment with a lead will register a relatively stronger and significant impact as compared to a negative change. Having experimented with the data, we found that the inclusion of the lead and lag values are also econometrically consistent. Besides the

economic rationale that governs the theory, the lead-lag relationship also produced the best-fitted trade union growth model for the Malaysian economy.

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 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 terms of higher wages. This would motivate them to join unions as they may find it easier 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 labor, 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 hampers 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, 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), i.e. the linear variant, is expected to correlate negatively with union membership growth. Second, its reciprocal $(T/E)^{-1}_t$ i.e., the nonlinear variant, 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 FACTORS

Besides economic factor, 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 economic and political changes with the primary objectives of encouraging harmonious industrial relations and achieving the status of an industrialized country by the year 2020.

The first legislation relating to union activities in Malaysia was introduced in 1940, but the laws could not be enforced due to the Japanese occupation. When the Communist Party of Malaya successfully organized unskilled workers to form a labor movement and went on strike several times in the 1930s, the government decided to introduce the Trade Union Enactment in 1946. The legislation introduced was mainly intended to curb the Communist Party involvement in the trade unions, restrict their size and power by disallowing general workers' unions, and control and supervise their movements through compulsory registration of trade unions (Maimunah, 1999).

Trade union movement in Malaysia was revived in the 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 Trade Union Council (now known as the Malaysian Trade 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 strikes 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 racial riots 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 included 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 allowed 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 a public holiday, encouraged unions to venture into various economic 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 unions 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 of Malaysian trade unions, Jomo and Todd said that, ". . . by the late 1970s, the corporatist honeymoon vis-‡-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 of Prime Minister 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's 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 amendments to the already restrictive labor laws in 1980. One of the amendments made was to increase the power of the Registrar of the

Trade Unions. For example, the registrar was allowed to search trade union offices and premises and inspect any account and document 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. Unions in essential services were 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 Japanese-style work ethics–namely work hard, increase productivity and quality, wage flexibility, loyalty to the company and in-house unions. 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 unions. The government believed that in-house unions were a 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 tended to further fragment the unions and eroded their bargaining strength (Jomo and Todd, 1994).

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

We hypothesized that stricter rules and regulations imposed on trade unions did hamper the growth of trade unions in the Malaysian economy. Table 1 reveals that at the end of the Razak government in 1975, which marked the end of the accommodative union policy, there was a significant decline in the union growth rates. The difference in attitude of various leaders towards trade unions is reflected in the pattern of union growth. From 1970 to 1975, the conducive political environment served as a good platform for trade unions' expansion and by the end

of 1975, there were a total of 451,751 union members with a remarkable average annual growth rate of 9 per cent. After the Razak government (1970 to 1975), there was a significant decline in the union growth rate. The average annual growth rate of trade union membership declined to 5 per cent during the Hussein Onn government (1976 to 1981) and further to 1per cent during the Mahathir government. Thus in general, the stricter the leader is towards the union, the more depressed the union is.

TABLE 1

Trade Union Membership Growth and Its Annual Growth Rate, Malaysia, 1970-2000.

Year	Membership	Annual Growth Rate (%)	Year	Membership	Annual Growth Rate (%)
1970	290,981	-	1986	605,824	-0.30
1971	307,382	5.64	1987	607,126	0.21
1972	321,213	4.49	1988	617,216	1.66
1973	343,315	6.68	1989	637,817	3.33
1974	399,920	16.48	1990	658,656	3.26
1975	451,751	12.96	1991	658,556	-0.01
1976	463,019	2.49	1992	680,453	3.32
1977	461,123	-0.40	1993	693,581	1.92
1978	498,587	8.12	1994	699,373	0.83
1979	525,975	5.49	1995	706,253	0.98
1980	541,713	2.99	1996	728,246	3.11
1981	593,687	9.59	1997	734,685	0.88
1982	611,484	2.99	1998	739,636	0.67
1983	617,531	0.98	1999	725,322	-1.93
1984	593,211	-3.93	2000	734,525	1.26
1985	607,687	2.44			

Source: *Ministry of Labor Annual Reports*, *Labor and Manpower Report*, *and Labor and Human Resources Statistics*, various years.

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 the dramatic changes to tighten labor laws occurred after the end of the Razak government, we therefore take 1975 as a cut-off point between periods of lenient and strict labor legislation. A dummy

variable taking the value of zero (to represent the 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 impact of legislation on union growth.

The dependent variable that will be used to measure trade union growth is the annual percentage change in trade union membership (ΔT). 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 union growth.

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

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

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 focused mainly on workers' unions in Malaysia, we have therefore excluded employers' unions from the membership data. The remainder of the data is taken from the *Economic Report* published

annually by the Ministry of Finance.

3. EMPIRICAL RESULTS

The annual Malaysian time-series data for the period 1970-2000 were utilized to estimate the parameters in equation (1) by the ordinary least squares method. The result is presented in Table 2.

TABLE 2
Regression Result of Equation (1)

$$\Delta T_t = -4.280 + 0.821\Delta P_{t-1} + 0.261GDP_{t-1} - 3.283\Delta U^+_{t+1} + 1.196\Delta U^-_{t-1}$$

$$(-0.96) \quad (3.06)** \quad (2.01)* \quad\quad (-2.73)** \quad (1.00)$$

$$+1.136(T/E)_{t-1} - 9.019D_t$$

$$(2.80)** \quad\quad (-6.30)**$$

R-squared	=	0.75
Adjusted *R*-squared	=	0.67
Durbin-Watson statistic	=	2.15
Standard error of regression	=	2.49
F-statistic	=	10.25
Sum of squared residuals	=	130.21

Note: Figures in parentheses are *t*-statistics.
　　　 ** Significant at the 5% level
　　　 * Significant at the 10% level

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 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. Previous 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 a 0.821 percentage point increase in union membership, *ceteris paribus*. Hence, the result supports our theoretical hypothesis that workers join trade unions, to some extent, as a defense against inflation. This finding is not only consistent with the findings in other industrialized countries, but is also similar to the earlier result obtained for Malaysia (Sharma, 1989).

The effect of the 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 unions to demand higher wages. The success of unions in securing wage increases would induce workers to respond 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 positive change in the future unemployment rate registers a strong significant negative effect, which is contradictory to our expectation. This is a normal phenomenon because workers would be more cautious in joining unions if they foresee an uncertain future and the possibility of employers' retaliation. Reported cases of employer victimization, such as unfair dismissal, refusal to renew the employment contract, purposely closing down the division of unionized workers, transferring or promoting union leaders to a level where they were no longer eligible to be union members would severely discourage workers from being actively involved in trade union activities (Maimunah, 1999).

On the other hand, past declining unemployment rate does not appear to be an important determining factor of union membership growth. This is because workers generally do not need the protection of unions in good times. Furthermore, since being unemployed might bring a heavy psychological impact and other human costs of unemployment, potential workers would be reluctant to join unions immediately. Therefore, a decline in the unemployment rate does not register an immediate and strong impact on trade union growth, as compared to the expectation of a future increase in the unemployment rate.

The coefficient of 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 desire to belong to a group or an organization is one of the objectives that are sought 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 the unions.

Another important factor that is considered in this paper is the government policy and regulations on trade unions. 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 government policy and union legislation are among the factors that are responsible for the small size of unions 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 enhance union growth, while the expectation of future increases in

unemployment and unfavorable political climate tend to inhibit union growth. Two implications could be drawn from this study. Firstly, the extent of trade union growth in Malaysia is largely influenced by 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 unions are 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 a more friendly attitude 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 conditions would significantly hamper 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 for workers before deciding to be involved in a labor movement.

Past price changes and GDP growth raise an interesting issue. Though significant, the magnitude of their influence is 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 serve as a good indicator for the future success of the labor movement in Malaysia. Since union density is still low and union growth has not reached its saturation point, unions should be more aggressive in launching an organizing drive. A 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 a 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 a crucial role in determining the ability of union leaders to persuade and encourage

workers to join a 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 union leaders is one of the reasons that lead to small-sized 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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