

The Decline of an Institution
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For most of the twentieth century, unions have been a central part of the working life of many employees. From 1914 until 1990, at least two in five workers were members of a union. Unions experienced a few fluctuations - membership grew rapidly in the roaring '20s, the postwar decade and the Whitlam era, and waned during the Depression and the swinging '60s. But for the greater part of the twentieth century, unions were the dominant force on the Australian industrial scene.

How times have changed. Twenty years ago, 50 percent of all workers were members of a union. Today, the unionisation rate is just 23 percent. Even in the public sector, once a bastion of union strength, union members are now in the minority. In an era of casualisation, computerisation and feminisation, deunionisation is probably the most significant change to have hit labour market over the past generation. A marker of the decline in union power is how rare strikes have become. The number of days lost to industrial disputes today is just one-quarter of its level in the early-1980s.

In this, Australia is not alone. Declining unionisation is a common pattern across the developed world. With the exception of Denmark, Norway and Sweden, union membership has fallen in most rich countries over the last two decades. But the collapse of the union movement has been more rapid in Australia than in any other country, save perhaps New Zealand.

What has driven these changes? To understand the transformation, it is useful to briefly dismiss two common explanations for union decline. The first is that unions declined because workers' became more sceptical about them. In fact, attitudes tend to be a mirror image of union strength. When union membership swelled during the 1970s, Australians became more likely to tell pollsters that they thought unions had "too much power", and less likely to agree that unions had been "a good thing for Australia". Correspondingly, as unions waned during the 1990s, the fraction of people who thought that unions had "too much power" or that "Australian would be better off without unions" steadily decreased.

Another argument that is sometimes made is that deunionisation was a result of the decline in real wages that took place under the Accord. Yet as David Peetz points out in his book *Unions in a Contrary World*, this explanation implies that unionisation should have declined more during the 1980s (when real wages fell) than the 1990s (when real wages rose). In fact, the reverse is true – the biggest fall in unionisation occurred during the 1990s.

If not attitudes and the Accord, then what? The decline of Australian unions comes down to four factors: changes to the laws governing unions, more product market competition, rising inequality, and structural change in the labour market.

The most significant factor in Australian deunionisation has been changes to the legal regime governing unions. Peetz points out that between 1990 and 1995, conservative governments in five out of six states introduced legislation aimed at prohibiting compulsory unionisation (banning “closed shops”), encouraging individual bargaining, and making the transition to non-award coverage easier. (Ironically, this mirrored the process that occurred in the 1920s, when a succession of state Labor governments put in place legislation favouring compulsory unionism and wage arbitration, leading to a surge in union membership.)

In the late-1980s, more than half of all union members were required to be a union member as a condition of their employment. In the 1990s, freed from the requirement to belong, large numbers chose to opt out. Unsurprisingly, the unions hit hardest were the ones that were most reliant on compulsory unionism laws. The new regime was locked in place in 1996, when the newly-elected Howard Government virtually abolished compulsory unionism nationwide, and made it more difficult for unions to recruit and strike.

The next most important driver of deunionisation has been rising competition. Spurred by microeconomic reforms, tariff cuts, and a revitalised Australian Competition and Consumer Commission, the markets for buying most products and services are now substantially more competitive than they were in the 1970s. When firms enjoy a monopoly or oligopoly position, it is easier for them to pay higher wages to their employees. Prices are higher in non-competitive markets, and in the jargon of economics, this generates “rents”. These rents are then shared between employers (who enjoy higher profits than they would in a competitive market) and workers (who earn more than in a competitive market). When monopolies are broken down, and markets become more competitive, management has to start cutting costs. This places pressure on management to adopt stronger anti-union tactics in order to reduce the wage bill.

The third explanation for falling union density is the growth in earnings inequality. To understand how this works, it is important to recognise that unions do not just aim for higher wages, but also for greater pay compression. This occurs through standardised pay schedules, and claims which request the same increase for all workers (eg. \$10 per week). Less pay dispersion within a company also makes it easier for unions to organise, as workers are more likely to make common cause with those who earn similar wages.

In general, economists have focused on the way in which deunionisation affects inequality. Studies in Britain, Canada and the US have identified deunionisation as an important factor in the growth of inequality in those countries. In Australia, Jeff Borland has found that 30 percent of the increase in earnings inequality among full-time males between 1986 and 1994 can be explained by declining unionisation. But the reverse could also be true. If inequality rises (because of technological change, globalisation or some other factor), unions will probably find it harder to forge a successful coalition between low-paid and highly-paid workers. Two workers both earning \$25 per hour are more likely to join the union than if one makes \$15 and the other \$35.

The final factor is structural labour market change. Across the developed world, unions have a better time recruiting in the manufacturing sector, public sector, among full-time workers, and in large firms. The rise of the service sector, downsizing of government, casualisation of the workforce and rise of smaller firms are all changes that disadvantage unions.

To test the impact of these factors, Peetz uses a technique known as “shift-share analysis”, and concludes that they accounted for about half of the decline over the decade 1982-92, but do not explain much of the drop since then. Since the fall in unionisation has been more rapid in the 1990s than the 1980s, this relegates structural change to a fairly minor role in explaining the overall slump in unionisation in the past 25 years. This is consistent with US research, which finds that structural changes were much less important than legal change in the decline of US unions.

Where does this leave unions today? Looking back over the past century, unions can proudly say that they played a substantial role in the two big transformations of the labour market since Federation: the virtual elimination of child labour and the widespread participation of women.

In the current environment, they may point to the higher earnings of workers in union workplaces. Research by Mark Wooden shows that in workplaces with at least one collective agreement in place, the net union wage effect is in the order of 12-13 percent. Unions can serve as a bulwark against rising inequality (though as noted above, inequality may also be eroding unions). Trade unions can also claim to provide important advantages to employers – by creating an environment in which firms have a stronger incentive to train their workers. They may even help create social capital, building bonds of trust and reciprocity in the workplace.

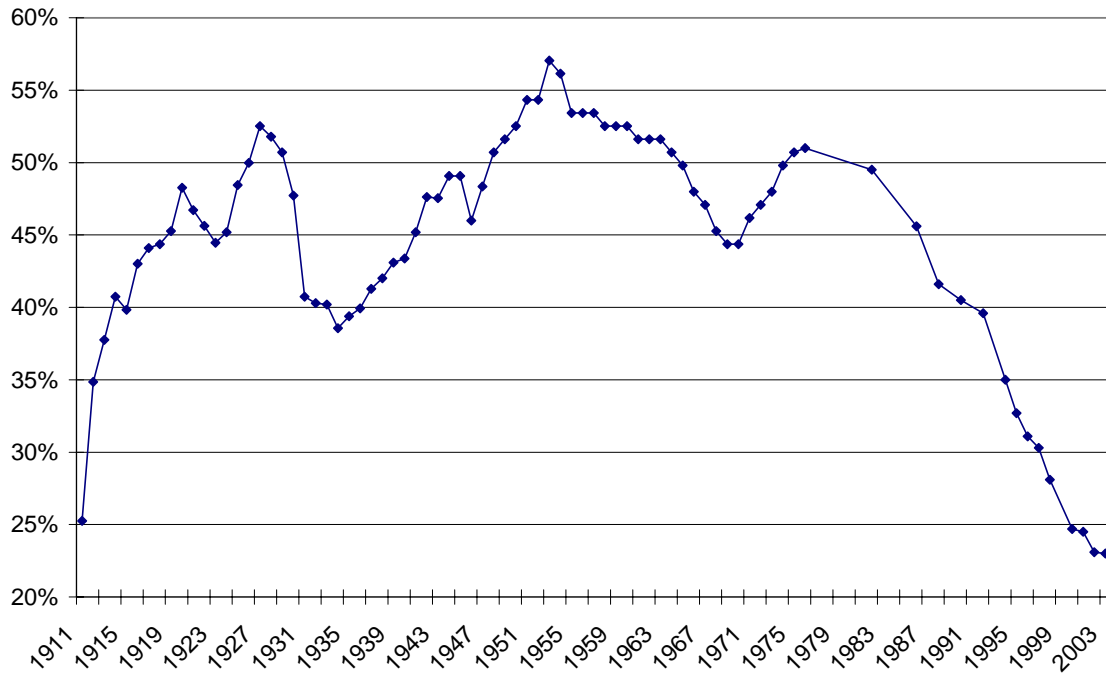
Yet the evidence suggests that union members are voting with their feet, and that other structures are springing up to take their place. The fraction of workplaces with joint consultative committees more than doubled between 1990 and 1995, and the fraction of workplaces with ad hoc employer-employee committees also grew substantially. Needs that were once met only by unions are now handled by new organisations.

Writing on the decline of British unions, John Pencavel notes that unions are relegating themselves to their nineteenth century role as “friendly societies”, providing services such as insurance, adult learning, and legal advice. Such a shift also seems to be occurring in Australia.

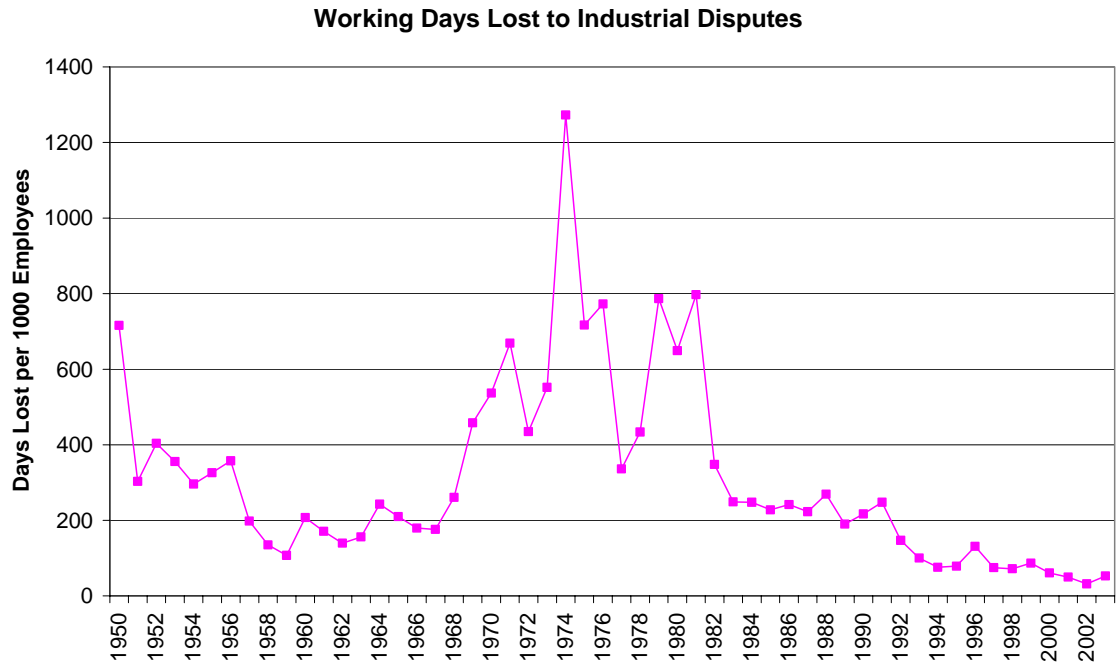
With unions on the wane, Australia's labour markets today are closer to the textbook models of competitive markets than they were in the 1970s. This is chiefly due to a series of legislative changes that have made it harder for unions to organise, but also to greater competition in product markets, rising wage inequality, and changes in the composition of the labour force. It is highly improbable that any of these changes will be reversed. Although the inexorable decline in membership has slowed a little in recent years, a resurgence of Australian unions seems unlikely.

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Union membership in Australia



Note: Union membership rates from 1976 onwards are derived from employee surveys – generally regarded as the most accurate source. For earlier years, we only have estimates from union surveys. These are invariably higher, since they include people who belong to multiple unions, and those who are no longer financial members. In 1976, the estimate in the employee surveys was 7.8% higher than the estimate in the union surveys. To make the two series comparable, I therefore scale down the union survey number for 1911-1975 by 7.8%. Sources: ABS 6323.0, 6325.0, 6310.0.



Source: ABS 6321.0