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THE COST AND BENEFITS MODEL OF UNION MEMBERSHIP

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This paper argues that, where workers can free-ride to enjoy union benefits without becoming members of trade unions, the labour movement must use non-collective bargaining benefits to entice workers to join unions. Specifically, the paper uses non-collective bargaining benefits as a prize to entice workers to join unions and also examines the supply of non-collective bargaining benefits of the labour movement. Based on the demand and supply curves, the number of workers joining the unions can then be determined and policy recommendations will also be discussed.

Background

When workers of a company want to form a union to have collective bargaining with the management, they must determine the objective of the union. There are two extreme cases. At one extreme, the union aims to raise wages above what it otherwise would have been. In other words, the formation of the union is based on the existence of a wage premium for union members. This may be referred to as wage-driven trade unionism. However, given the downward-sloping demand curve for labour, a higher wage rate implies that the level of employment would fall. Thus, when a worker decides whether to support the formation of a union at his work place under wage-driven trade unionism, he has to take into account the risk of being retrenched. Indeed, Booth's (1984) model of trade union behaviour is cast in the framework of wage-driven trade unionism, where wage rate and union membership are endogenously determined.

At the other extreme, trade unions work closely with the government to attain the objective of full employment. Thus, such unions will set wages at the level that maximizes employment. This may be referred to as employment-driven trade unionism. In this case, there is no wage premium for union members. Moreover, management is likely to extend collective bargaining benefits such as retrenchment benefits to non-union members (with is the practice of enlightened management in the present era). Hence, under such circumstances, workers will not be enticed either by a wage premium or collective bargaining benefits to join the union, neither would they face the risk of retrenchment when they support the formation of unions. The purpose of this paper is to present a model of union membership under employment-driven trade unionism.

Demand for Union Membership under Employment-driven Trade Unionism

Singapore is one of very few countries where the labour movement is employment-driven. The labour movement, represented by the National Trades Union Congress (NTUC), has a symbiotic relationship with the ruling party, the People's Action Party (PAP). NTUC's strategy is to pursue the policy of full employment. In the 1985 recession and during the recent currency crisis, NTUC consistently supported the government's policy of reducing wages in order to minimize retrenchment. Thus, nationally and at the plant level, NTUC does not seek to attain wages at the expense of employment. This means that there is no wage premium for union members. Moreover, management in Singapore would extend the collective bargaining benefits

to non-union members. This effectively means that workers in Singapore do not have to join the labour movement in order to enjoy the benefits of having a responsible union. The free ridership of union benefits has resulted in many workers not wanting to join the labour movement.

A typical worker might analyse the costs and benefits of the decision to join unions for a typical worker may be characterised in the following model:

The cost of union membership may be represented as:

$$C = R + \sum_{i=0}^T \frac{U_i}{(1+r)^i} \quad (1)$$

where C = cost of union membership,

R = registration fee,

U = union dues,

T = expected length of time of employment with the existing firm,

and r = rate of time preference.

Notice that there is no risk of retrenchment as a result of joining the union. The risk of retrenchment only exists under the wage-driven unionism. Generally, under employment-driven unionism, the costs of being a union member are rather insignificant. This is because the registration fee, R , is a one-time payment, which usually constitutes a mere fraction of a worker's monthly pay. Union dues, U_i , are at most two per cent of the monthly salary. It should be noted that, while union leaders may face victimization, ordinary union members are seldom victimized. Thus, the principal cost of joining the union is U_i .

The benefits for the worker of joining the union may be expressed as

$$B = \sum_{i=0}^T \frac{(B_{ni} + B_{pi})}{(1+r)^i} \quad (2)$$

where B = benefits of joining a union,

B_{ni} = non-collective bargaining benefits provided by the union such as scholarships for members' children, retrenchment benefits, discounts for union members at various departmental stores, recreational centres, etc.,

And B_{pi} = the monetary equivalent of the psychic benefits of the worker's ideology regarding the labour movement in general.

For instance, if the worker feels strongly that the labour movement has a very important role to play, being a union member would give him a sense of psychical wellbeing. In this case, B_{pi} would be substantial for him. Conversely, if the worker hates the union, B_{pi} would be negative for him.

Thus, the benefits of joining unions can be classified into two groups: monetary benefits, which includes collective bargaining benefits as well as non-collective bargaining benefits; and psychic benefits from ideology.

It should be noted that all union members would be entitled to collective bargaining benefits, represented by B_{ci} . However, under employment-driven unionism in Singapore, B_{ci} is insignificant because there is an absence of a wage premium for union members, and at the same

time management nowadays tend to extend collective bargaining benefits to non-members as well.

Workers can therefore be enticed into joining the labour movement with B_{ni} , entitlement for which can be discriminatory, favouring only union members. Appendix 1 lists the non-collective bargaining benefits available in Singapore.

How much of B_{ni} would be sufficient to entice a worker to join the union? This will not be the same for everyone, because every worker will have a different value of B_{pi} . The level of B_{ni} needed is such that B would exceed C .

Take two extreme cases: John is deeply committed to the labour movement. He feels that it is the duty of every worker to join the union, as it plays an important social role. Association with the labour movement gives him enormous pleasure. Hence, for him, B_{pi} is very high. He will therefore join the union even if B_{ni} is zero. On the other hand, Mike hates the union. He thinks that the union does nothing but works with the government for private interest. In his case, B_{pi} is negative. Hence, for Mike to be induced to join the union, he would require a very large B_{ni} such that the total benefits, B , would be greater than the costs, C . Of course, most workers fall between these two categories. Basically, every worker can be persuaded to join the union; however, each worker will have a different value of B_{ni} .

By ranking workers according to the level of B_{ni} that would induce them to join the union in ascending order, we obtain the curve OR , as shown in Figure 1. For instance, J would be induced to join the labour movement if he can expect \$15 in non-collective bargaining benefits. However, K would be induced to join the union only if he can expect \$30 in non-collective bargaining benefits. The curve OR can therefore be regarded as the expected level of union membership for each level of B_{ni} . That is, OR in Figure 1 can be used to determine the level of B_{ni} that is required to obtain a given level of union membership. Thus, if K represents the 150,000th worker, then for union membership to reach 150,000, B_{ni} must be equal to \$30.

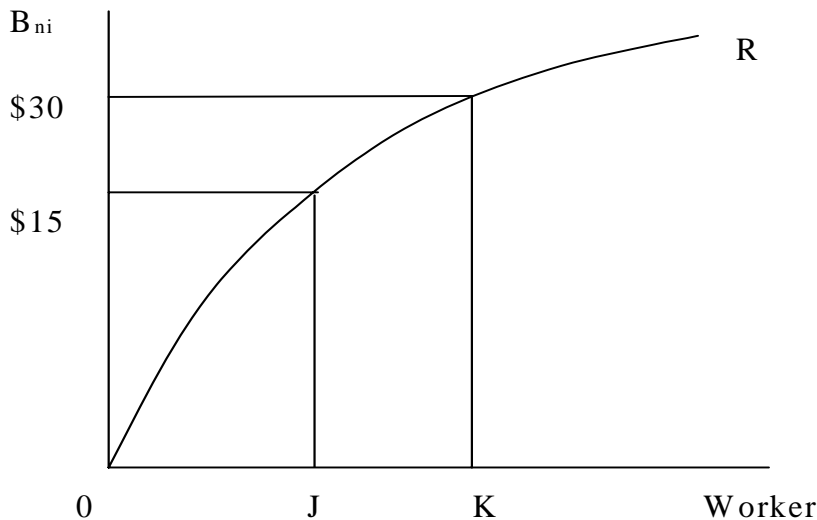


Figure 1: Non-collective Bargaining Benefits Required to Induce Union Membership

Therefore, if we can determine the level of B_{ni} that would be provided, we can determine how many workers would be induced to join the union and hence the level of union membership. OR in Figure 1 therefore can be regarded as the supply of union membership.

Provision of B_{ni}

B_{ni} is provided by the union, which is dependent on the resources of the union, which in turn is determined by the donations, membership dues¹ and other income of the union, as expressed below:

$$B_{ni} = \frac{\text{Donations} + \text{Membership dues} + \text{Investment incomes from other sources}}{\text{Number of members}}$$

Donations are determined by the resourcefulness of the leaders of the labour movement, while investment income is determined by the accumulation of assets of the labour movement, and membership fees depends on the level of union membership. While membership dues will increase with union membership, donations and investment income do not increase proportionately with membership. Thus, the expected level of B_{ni} provided is likely to fall as membership increases. This relationship is represented by the curve AA in Figure 2.

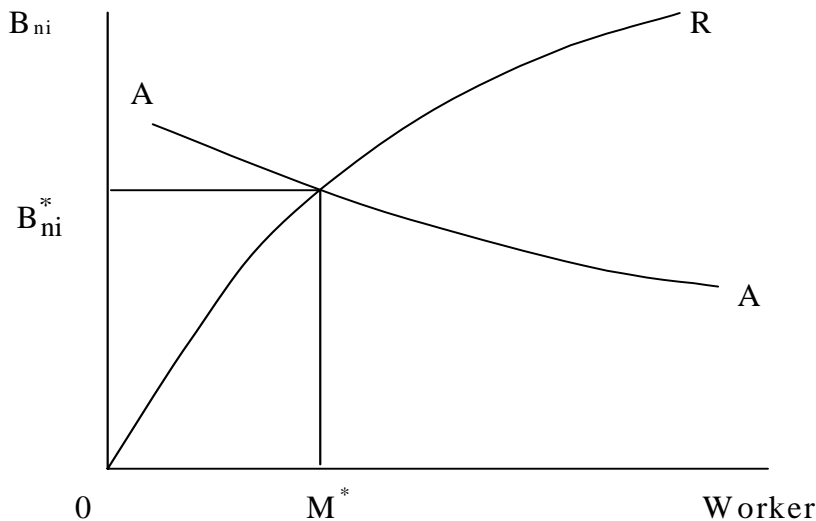


Figure 2: Provision of Non-collective bargaining benefits

Given the expected level of B_{ni} that would be provided at the various levels of union membership, it is therefore possible to determine the actual level of union membership that would result. In Figure 2, AA intersects OR to determine the level of union membership at M^* .

B_{ni}^* is therefore the expected level of non-collective bargaining benefits that each member would be entitled to.

Conclusion and Policy Implications

The labour movement can initiate many fund raising projects, which effectively can shift AA upwards independently of the level of union membership. In this case, given OR, it is obvious that the equilibrium level of union membership will rise.

Likewise, if the labour movement can provide better services and educate workers on the role of the labour movement such that B_{pi} rises, the required B_{ni} will fall for most workers. Hence, OR will shift down, leading to a higher equilibrium level of union membership. The labour movement should take into account the fact that B_{ni} would vary from individual to individual, depending on his/her respective needs and desires, and should therefore structure the type of B_{ni} provided according to the profile of the labour force.

The meaning of union membership for an employment-driven union differs from that for the conventional wage-driven trade union. In the case of the former, union membership does not necessarily lead to strength in collective bargaining power for two reasons: Firstly, collective bargaining benefits are not important because there is absence of wage premium for union members and workers can free-ride to enjoy the benefits of having a union. Secondly, many workers can have access to non-collective bargaining benefits if they have the option to join a general union where their workplace is not unionised. This is the case in Singapore, where workers have the option of joining the General Union, which is meant for workers of non-unionised firms. The union membership of the General Union rose from 7413 in 1992 to 65,071 in 1999 (see Appendix 2 for data on union membership).

Appendix 1: Non-collective Bargaining Benefits Provided by NTUC

1 Better Security

Employment Advice for General Branch Members
Discount on Training Courses
Training Grants and Skills Redevelopment Programmes
Free Insurance Coverage

The exact value in dollar terms in this category is not known. Item 1.4 alone is worth at least \$50 a year. If a worker participates in any one training programme, the discount is normally a few hundred dollars.

2 Better Leisure

8 NTUC Club Branches
Chalets at Pasir Ris and Sentosa Beach Resort
NTUC Lifestyle World - Downtown East Theme Park
Orchid Country Club and Aranda Country Club Facilities
SLF Holiday Facilities in Perth and Genting Highlands
Promotional rates at INCOME Fitness Centre

If a union member uses some of these facilities, the saving is at least a few hundred dollars.

3 Better Care

Rebates at NTUC Childcare
Members' rate at NTUC Denticare
Rebates at NTUC Eldercare
Special Health Screening Packages
Scholarships for Members' children

Not all workers can benefit from the provisions in the above category. However, if he is entitled to at least one benefit in this category, his saving can be about twenty dollars per item, except in the case of a scholarship, which is worth at least a few hundred dollars.

4 Better Value

Rebates at NTUC FairPrice Supermarkets
Free 100 FairPrice Shares with purchase of Income Life Policy with a Monthly Premium of at least \$60
NTUC Link Card Bonuses
Discounts at Retail Outlets

The saving here also depends on usage. The potential saving can exceed a hundred dollars.

Thus, based on a cost-and-benefits analysis, it does pay the worker to join NTUC, regardless of whether the workplace is unionised or not. As the cost of union membership is \$105 a year, any worker would be entitled to a total value of non-collective bargaining benefits which is a few times higher than the cost of the union membership.

Appendix 2: NTUC Membership in Singapore, 1964-99

Year	Total Membership	Percentage Change	General Union Membership	Percentage Change	Membership Excluding General Union Members
64	101,824		0	*	101824
65	112,635	10.62%	0	*	112635
66	104,626	-7.11%	0	*	104626
67	92,930	-11.18%	0	*	92930
68	88,401	-4.87%	0	*	88401
69	88,558	0.18%	0	*	88558
70	85,423	-3.54%	0	*	85423
71	96,227	12.65%	0	*	96227
72	142,162	47.74%	0	*	142162
73	168,090	18.24%	0	*	168090
74	189,214	12.57%	0	*	189214
75	196,622	3.92%	0	*	196622
76	211,956	7.80%	0	*	211956
77	216,890	2.33%	0	*	216890
78	226,306	4.34%	0	*	226306
79	236,628	4.56%	0	*	236628
80	232,895	-1.58%	0	*	232895
81	211,548	-9.17%	0	*	211548
82	203,077	-4.00%	0	*	203077
83	198,268	-2.37%	0	*	198268
84	186,111	-6.13%	0	*	186111
85	197,320	6.02%	0	*	197320
86	200,082	1.40%	0	*	200082
87	203,569	1.74%	0	*	203569
88	209,051	2.69%	0	*	209051
89	209,193	0.07%	0	*	209193
90	211,575	1.14%	0	*	211575
91	216,291	2.23%	0	*	216291
92	230,389	6.52%	7,413	*	222976
93	236,118	2.49%	9,125	23.09%	226993
94	234,363	-0.74%	8,461	-7.28%	225902
95	237,443	1.31%	11,248	32.94%	226195
96	257,815	8.58%	31,557	180.56%	226258

97	266,206	3.25%	36,085	14.35%	230121
98	283,497	6.50%	48,976	35.72%	234521
99	300,918	6.15%	65,071	32.86%	235847

Notes: All figures are as at Dec of the each year.

GB Membership started in May 1992.

Endnote

Membership fee is \$109 per annum, with a \$5 reduction per year for those who make monthly GIRO payment. (Note: Membership fee for Ordinary union member is \$6 to \$12 per month. On an annual basis, the cost is the same as that for the General Union. Payment method: GIRO with first month deduction of \$16 (membership fee plus an annual contribution of \$8 to SLF), followed by \$8 per month until annual renewal date.

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