

**THE IMPACT OF TRADE UNIONS ON WAGES AND
PRODUCTIVITY IN THE FOOD MANUFACTURING
INDUSTRY IN MALAYSIA**

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ABSTRACT

"There are essentially two schools of thought (on the impact of trade unions on industrial labour markets and industrialization). The first, and more influential, is that unions raise costs and represent a threat to management that deters multinational investment in developing countries.... The second school of thought depicts unions as a source of "dynamic efficiency" obliging enterprises to pay efficiency wages rather than "market clearing" wages and forcing management to raise productivity by inducing technological change and cost-saving practices rather than reliance on low cost labour" (Guy Standing, 1990).

Pencavel (1995) have also distinguished two types of postures adopted by governments worldwide towards trade unions: "the Patronage regime where the state nourishes unionism and collective bargaining.....the Obstructionist regime where the state undermines and subverts unionism and collective bargaining".

This study have used data on the food manufacturing industry for the period 1990 – 1994 and 1996 to determine which school of thought is relevant for trade unions in Malaysia and which stand should the Malaysian government adopt when dealing with trade union matters.

The results indicate that the second school of thought is relevant in the food manufacturing industry in Malaysia. On whether the government should adopt the

Patronage or Obstructionist stand, the author is of the opinion that a combination of both should be practised. Whilst there should be no repression on union formation, the right to strike which disrupts production should be contained. Various conditions need to be fulfilled before a strike can be carried out, for example if there is evidence that productivity have far exceeded wage growth, or other explicit evidence that workers have been mistreated. It is also proposed that the setting of minimum wages be linked to the unemployment rate, that is, minimum wages set at a time of high unemployment rate may be removed when the country operates at full employment. Legislation should be eased to enable these changes to take place as soon as they occur with reference to official publications, which need to be more transparent.