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Union control of super funds a magnet for sleaze

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CRAIG Thomson and Bill Ludwig are merely the tip of the iceberg. Beneath that tip lie far deeper issues of union governance. Simply put, the Industrial Relations Club is back in control. That is the system and culture that produced these characters. And that is the system and culture the Gillard government is doing all it can to entrench.

The paradox is that while government is making unions ever more powerful, they have become ever less relevant to ordinary Australians. At their peak in the late 1950s, 60 per cent of employees belonged to a union.

This year, despite the Fair Work Act, barely 20 per cent of full-time employees, and only 14 per cent of part-time employees, are union members. That is a lower share than in 1911, before Australian unionism entered its growth phase.

It is a myth that that collapse is due to the decline in manufacturing. In fact, less than a 10th of the fall in union membership since the early 90s reflects reductions in manufacturing's share of total employment. If anything, the changing structure of employment has favoured unionism, as growth in the public sector has swollen education and health, which now account for 40 per cent of all union members.

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And it is also a myth that many non-members would like to join a union. In fact, 80 per cent of non-members say they prefer not being in a union. Rather, unionism's problem is that it faces a crisis of declining demand, as social and economic change makes its services less attractive to potential consumers.

Rising education levels and more efficient labour markets mean fewer employees are locked in to their present employer, eroding unions' role as protection against unfair treatment. And even where those protections are needed, they are increasingly provided by statutory and common law rights, for example, against unfair dismissal.

Nor are unions still needed to give employees a voice in setting working conditions. Rather, that function is met through human resource management, albeit more effectively in some workplaces than others.

Finally, unions are no longer able to secure for their members wages durably above competitive levels. Rather, with firms exposed to ever greater competition, the monopoly rents in which unions once shared are largely a thing of the past. And as they have gone, so has union membership as an entry ticket into the benefits of a price-raising cartel.

But monopolists never opt for euthanasia. Rather, faced with collapsing market demand, they invariably seek government protection. And few monopolists are as well placed to do so as the unions. Their block votes grant them a controlling ownership stake in the ALP. And as well as giving Labor's factions crucial votes, the unions provide jobs that are springboards for tomorrow's faction leaders and refuges for yesterday's men.

Nor is that on a small scale. In 1975, when the unions had nearly three million members, they employed barely 2000 officials. Now, with only 1.8 million members, they employ more than 4000. In no other activity has productivity declined so sharply, reaching a ratio of officials to members five times that in Britain. Even more importantly, the composition of that employment has changed dramatically.

In the early 70s, union officials were overwhelmingly drawn from their members' ranks. As a study found, "the typical leader of a manual union worked as a labourer from the age of 14". In contrast, today's officials are twice as likely as their members to be university educated, with an even greater gap in the unions whose members are in the private sector. And it is in those unions too that officials are least likely to have worked on the shop floor.

Rather, with amalgamations making their membership more diverse and fragmented, and hence poorly placed to monitor union decisions, union leadership has become a co-option game, marred only by turf wars between rival factions.

It is those sinecures that unionism's decline threatens. But Julia Gillard's agenda goes far beyond protecting factional fiefdoms. Rather, she has sought to give Labor a renewed union power base, with unique access to coercive and financial resources.

The coercive powers centre on Fair Work Australia: of the 11 full-time appointments Gillard made to FWA as workplace relations minister, nine have a union background. And those nine have performed to script, not merely in re-regulating the labour market but in failing in their statutory duty to hold unions such as Thomson's to account.

As for the financial resources, they centre on the industry super funds. Under the Fair Work Act, the funds have become default recipients of two-thirds of the compulsory savings collected by the super guarantee.

And they will be the largest beneficiaries of that guarantee's increase. With those moneys flowing in, by 2025 the industry funds will control some \$1.5 trillion dollars in assets, exceeding Australia's present national income.

That wealth brings patronage opportunities on an unprecedented scale. True, they may have to be shared with those other relics, the employers' associations, who split the directorships with the unions.

But whatever their disagreements, unions and employers have united in opposing moves to fully align the funds' governance and disclosure standards, and those for unions and employers' associations more broadly, with those for public companies.

The predictable result is scandals such as that enveloping Bernie Riordan, Labor power-broker and national secretary of the Electrical Trades Union, over claims (that Riordan will vigorously defend) that he received \$1.8 million in fees for serving on four boards connected with members' super funds, despite those funds' shockingly poor performance. And while government and unions could barely contain their outrage about executive remuneration, they have had nothing to say about making these directors, who manage their members' forced savings, as accountable as directors regulated under the corporations law.

This then is the Gillard vision: ever more powerful unions controlling ever larger shares of national savings, but subject to fewer disclosure and governance requirements than the smallest listed entity.

What a resource for Labor to draw on in the future. And what a magnet for the sleaze buckets it could drag in its wake.

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