

# Labor Market Institutions and the Structure of Work Compensation

The Impact of Collective Bargaining on Wages and Amenities in Brazil

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### **Abstract**

Labor market institutions—including unions—affect the structure of work compensation. While there is an extensive literature on the effects of unionization on wages, both the role of collective bargaining and the amenity component of work compensation have often been overlooked. This paper studies how an institutional shift that effectively increased the relative value of amenities to wages impacted these two features of work compensation through collective bargaining. Specifically, the introduction of automatic extensions in Brazil placed downward rigidities (already present for wages) on amenities by restricting employers' ability to phase out negotiated benefits upon the expiration of collective bargaining agreements (CBAs). I find that mean wages fall at establishments with extended CBAs. Considering that workers also value non-pay job characteristics, I build a model where unions trade-off bargaining over wages versus amenities. The model predicts that automatic extensions incentivize unions to focus on amenities, especially among those strong enough to overcome employer push-back. I find that bargaining units with strong unions secure additional amenities valued above the decrease in wages. Focusing on worker flows, I find increasing hiring rates that bring an influx of low-skill workers to affected establishments. These results are rationalized as changes in worker and employer selection driven by compression in the value of jobs within firms, suggesting that unions fight for a structure of work compensation that is highly valued by low-skill workers.

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