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

Unions shape the compensation structure of millions of workers worldwide by negotiating collective bargaining agreements (CBAs) that set conditions for wages and broadly defined amenities during some time horizon. Merging the full registry of CBAs from Brazil to matched employer-employee data, this paper estimates the effects of perpetuating negotiated conditions through automatic extensions—and the resulting increase in the relative duration of amenities to wages due to preexisting nominal wage rigidity—on the structure of work compensation and workforce composition. To compare wages and amenities, I construct a wage-equivalent measure of amenity value based on the predictive power that text in a CBA has on an establishment’s ability to poach workers from other employers conditional on wages. Causal effects are estimated using a matched difference-in-difference design comparing establishments with extended CBAs, before and after the introduction of automatic extensions, to workplaces not negotiating with unions at the firm level. Consistent with a simple model where unions trade-off bargaining over wages and amenities, I find that strong unions give up some wage gains in favor of substantial amenity improvements, leading to a higher aggregate value of work compensation equivalent to a 1.4-3.8% wage increase. Hence, rent-sharing can account for behaviors often attributed to hedonic balancing. Interestingly, this change in the structure of work compensation leads to an influx of low-skill workers into affected establishments. Extending the model to allow for two-sided selection, the empirical evidence suggests that less skilled individuals adversely select into these establishments due to compressed wage and amenity profiles.

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