

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—unions in particular—affect the structure of work compensation. While there has been considerable work 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 a collective bargaining institution affects workers' wages and amenities. The particular institution of interest is automatic extensions, which dictate that negotiated benefits cannot be phased out except through new collective bargaining agreements (CBAs). The introduction of automatic extensions in Brazil shocked the collective bargaining process by 1) allowing unions to holdout during negotiations; 2) expanding the time horizons over what is negotiated; and 3) increasing the relative value of amenities to wages. 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 allocate bargaining effort between wages and amenities. The model predicts that automatic extensions incentivize unions to focus on amenities, especially when the union is strong enough to overcome push-back from employers. As predicted by the model, I find that bargaining units with strong unions secure additional amenities valued above the decrease in wages. Focusing on worker flows, I find that an increase in hiring rates brings an influx of low-skill workers to affected establishments. These results are rationalized as compression in the value of jobs within firms.

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