Labor Market Institutions and the Composition of Firm Compensation:

Evidence from Brazilian Collective Bargaining

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Abstract

This paper studies how collective bargaining—a widespread labor market institution—affects firm compensation, i.e., the wages and job characteristics that are valuable to workers (henceforth amenities). Specifically, I leverage a reform that automatically extended all existing collective bargaining agreements (CBAs) in Brazil to analyze the impact of restricting employers' ability to phase out negotiated benefits on both wages and amenities. To quantify the value workers place on amenities secured by unions, I measure how textual elements in CBAs influence an establishment's ability to poach workers from other employers, conditional on wages, using data on the universe of CBAs merged with an administrative linked employer-employee dataset. The causal effects of the reform are estimated using a matched difference-in-difference design comparing establishments with extended CBAs to establishment belonging to firms that do not negotiate directly with unions. I find that automatic extensions reduce mean wages and pay premiums at affected establishments. However, strong unions secure additional amenities whose value more than offsets the decline in wages, resulting in higher overall compensation equivalent to a 1.6-3.8% wage increase. These results are consistent with the predictions of a model in which unions trade-off bargaining over wages and amenities, as well as the fact that the reform effectively only extended amenities due to preexisting wage rigidity. Finally, these changes in firm compensation lead to an increase in hiring concentrated among low-skill workers, implying an elasticity of labor supply to firms with strong unions between 1 and 2. Further evidence indicates that the resulting wage and amenity distributions are compressed, suggesting that unions reduce compensation inequality within establishments.

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