

Labor Market Institutions and the Composition of Firm Compensation: Evidence from Brazilian Collective Bargaining

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Abstract

This paper studies how a widespread labor market institution—collective bargaining agreements (CBAs) negotiated between unions and employers—affects firm compensation. I leverage a legal reform that automatically extended all existing CBAs in Brazil, and thus restricted employers’ ability to phase out negotiated benefits upon expiration, to analyze the impact of shocking the collective bargaining process on both wages and amenities. To do so, I combine linked employer-employee data with text analysis for the universe of CBAs. Causal effects are estimated using a matched difference-in-difference design comparing establishments with extended CBAs to workplaces not negotiating with unions at the firm level. Although automatic extensions are considered pro-union, I find that the reform lowers mean wages and firm pay premiums at affected establishments. However, due to preexisting wage rigidity, the reform effectively extended amenities only, thereby increasing unions’ incentive to secure gains in amenities relative to wages. To compare wages and amenities, I construct a revealed preference measure of workers’ value for amenities 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. Consistent with the predictions of a model in which unions trade-off bargaining over wages and amenities, I show that strong unions secure additional amenities valued above the foregone wage gains, resulting in higher overall compensation equivalent to a 1.4-3.8% wage increase. Finally, the changes in firm compensation arising from the reform leads to an increase in hiring concentrated among low-skill workers, suggesting that unions compress compensation inequality within firms. The elasticity of labor supply to the firm implied by my estimates is between 1.03 and 3.75.

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